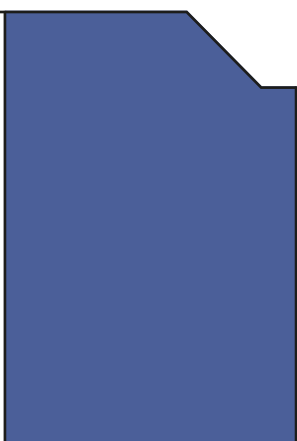
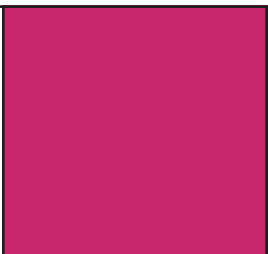
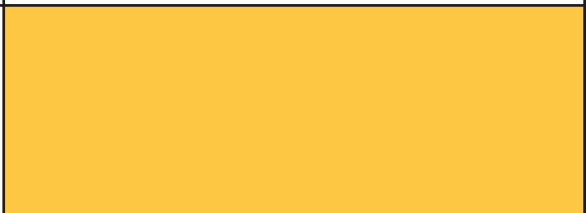
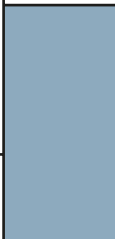
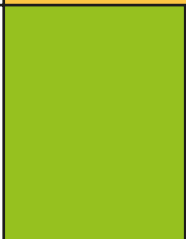




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OECD Journal on Budgeting

Volume 2018/1

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Foreword

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Budgeting in Austria

by

Ronnie Downes, Lisa von Trapp, Juliane Jansen

Over the past decade Austria has undertaken a carefully-considered and ambitious series of modern budgeting reforms. Evaluation of the budget reforms was purposely built into the reform process. The budget law provides for an external evaluation no later than 2017. To meet these obligations, Austria's Federal Ministry of Finance (Bundesministerium für Finanzen, BMF) set in place a comprehensive evaluation process in three parts during 2017. A first review conducted by the IMF focused on fiscal transparency. This second review, carried out by the OECD, covers budgetary management, performance budgeting and related issues. A third review by the Alpen-Adria University is focused on the financial management and reporting system including accrual accounting; as well as preparation of a synthesis report drawing upon the three stand-alone studies.

The external evaluation exercises come after an internal evaluation conducted by the BMF which has considered several of these topics; some reforms have already been implemented, or are now underway, on foot of that internal review.

JEL codes: H50, H61, H83

Keywords: Budget reforms, performance, impact assessment, financial management, transparency, cash and accruals financial reporting

This report was written by Ronnie Downes, Assistant Secretary responsible for Central Expenditure Policy at the Department of Public Expenditure and Reform of Ireland. He was Deputy Head of Division of the Budgeting and Public Expenditures Division at the OECD when this report was written; Lisa von Trapp (Senior Policy Analyst) and Juliane Jansen (Junior Policy Analyst), with contributions from Jón Blöndal (Head of Division) and Delphine Moretti (Senior Policy Analyst); of the Budgeting and Public Expenditures Division, Public Governance Directorate, OECD. The authors would like to express their gratitude to the officials of the BMF for their support.

Acronyms

Acronym	German name	English name
BFG	Bundesfinanzgesetz inkl. Anlagen	Annual Budgeting Act including Annexes
BFRG	Bundesfinanzrahmengesetz	Medium-term Budgeting Framework Act (MTEF)
BHG	Bundeshaushaltsgesetz	Organic Budget Law
BA	Bundeskanzleramt Österreich	Chancellery
BMASK	Bundesministerium für Arbeit, Soziales und Konsumentenschutz	Federal Ministry of Labour, Social Affairs & Consumer Protection
BMF	Bundesministerium für Finanzen	Ministry of Finance
BMGF	Ministerium für Gesundheit und Frauen	Federal Ministry of Health and Women's Affairs
BVA	Bundesvoranschlag	Draft Annual Budget
DBP	Übersicht über die Haushaltsplanung	Draft Budgetary Plan
FINA		Standing Committee on Finance (Canada)
FISK	Fiskalrat	Austrian fiscal council
FPMO	Wirkungscontrollingstelle des Bundes	Federal Performance Management Office
GFSM		Government Finance Statistics Manual
HIS	Haushaltssystem	Financial management information system (FMIS)
IPSAS		International Public Sector Accounting Standards
MN	Maßnahmen	Output statements
MTOs	Mittelfristige Budgetziele	Medium-Term Budgetary Objectives
NED		National Economic Dialogue (Ireland)
NRP	Nationales Reform Programm	National Reform Programme
OGD		Open government data
PBO	Budgetdienst	Parliamentary Budget Office
RH	Rechnungshof	Court of Audit
RIA	Wirkungsorientierte Folgeabschätzungen für Rechtsmaßnahmen	Regulatory Impact Assessment (RIA)
SDGs		United Nations Sustainable Development Goals
SPU	Stabilitätsprogramm	Stability Programme
UG	Untergliederungen	Budget chapters
WIFO	Österreichisches Institut für Wirtschaftsforschung Wien	Austrian Institute of Economic Research Vienna
WZ	Wirkungsziele	Outcome objectives

Executive summary

Arising from a carefully-considered and ambitious series of reforms introduced from 2009 to 2013, Austria has in place a balanced, inter-connected set of budgetary governance arrangements which are designed to achieve a number of objectives:

- promote an orderly, planned evolution of public finances and of public expenditures over the medium term
- incentivise a disciplined, flexible approach to financial management within line ministries
- promote a focus upon performance and results achieved with public funds, via an outcome-oriented approach to policy-making and budgeting
- promote gender equality in resource allocation and use
- improve transparency and rigour in public financial management through the use of accruals as well as cash accounting methodologies in both budgeting and reporting
- provide comprehensive and informative budget reports which can facilitate parliament's role in scrutinising and engaging with the fiscal, budgetary and performance information
- more generally, promote a co-ordinated government-wide approach to budgeting and policy-making in balance with a strong tradition of ministry autonomy.

In principle, the processes and tools in place in the Austrian budget system are in line with the spirit of the OECD Recommendation on Budgetary Governance, which sets out ten principles of modern budgeting.¹ In practice, budget practitioners and stakeholders in Austria report that much progress has been made, by reference to each of the objectives set out above, although the system is not fully living up to its initial aspirations in all respects. The OECD's view is that the fundamental rationale and ambition of the Austrian budget reform remain sound, although the system would benefit from a “re-set” which allows space for a focused, co-ordinated set of adjustments to the original reforms.

For annual budgeting to operate effectively within a normative medium-term framework, it is necessary for the budgeting system as a whole to operate in a ‘top down’ manner, starting from the fiscal policy goals, and progressing to more detailed budgetary allocations that are consistent with these goals. In recent years, the discussion of the detail of budget chapters in spring has shifted the focus away from what ideally should be a strategic debate on orientations of national fiscal policy. Consolidating these more detailed discussions of the medium-term framework to the October budget period, as recently decided, is consistent with a rational and streamlined approach to budget formation; provided that the spring period remains an active phase of the budget calendar for parliamentarians and policy-makers. The OECD suggests that national debate on Austria's macro-fiscal policy should take place in spring – aligned with, but supplementary to, the EU-related Stability Programme Update – helping also to frame realistic expectations for the resource-allocation phase. International models of pre-budget consultation and debate should be considered, allowing the government to hear a range of views from parliamentarians and from civil society, before the draft budget is prepared.

The multi-year expenditure ceilings have not yet become established as fixed and normative upper limits, to govern and safeguard the evolution of overall public expenditure.

To this extent, the potential of medium-term planning to effect a cultural change among ministries, balancing resource flexibility with reinforced budgetary discipline, has not been fully realised. In practice, ministries have continued to treat the expenditure ceilings more as “floors” and a starting point for negotiations. In part, the shortcomings in multi-annual planning are also due to a lack of resilience in the fiscal framework, leading to regular annual revisions of overall fiscal parameters and of the ceilings: it is accordingly proposed that a fiscal margin or “buffer” be gradually introduced to the overall framework to improve resilience. Introducing such a fiscal margin is not a trivial exercise and involves additional opportunity costs and trade-offs in resource allocation. In considering how to undertake this task, Austria could usefully build upon its own national models of spending review and outcome-oriented *ex post* programme evaluation, while also considering modern international practices.

Line ministries need to demonstrate a clearer commitment to manage within fixed expenditure ceilings. At the same time, the tools and incentives to facilitate line ministries in this regard should be reinforced. Austria’s system of line ministry reserves and carry-over is generous in international terms. The overhang of unused reserves has led to uncertainties about their potential macro-fiscal impact, and this partly explains why the reserve system has become frozen in recent years. Unfreezing the system should involve a co-ordinated package of measures including cancellation of large, technical and “unearned” reserves (e.g. relating to debt interest expenditure or export guarantees); differentiating more clearly among the types of expenditure that may give rise to reserves; setting clear rules to limit the accumulation of reserves; and linking the draw-down of reserves to the use of the “fiscal margin” in the medium term expenditure framework outlined above. Subject to such improvements, it is the view of the OECD that the carry-forward flexibility of ministry reserves, which arise from efficient and disciplined management within the fixed ceilings, can and should be maintained; and that on this basis, short-term budget management by the BMF can focus primarily on the expenditure ceilings, while medium-term budget management can ensure that the expenditure ceilings are consistent with the balance of expenditures and receipts (“top-down” budget management).

The reforms introduced a new budget structure with lump sum budgets that allow for more flexibility for line ministries around in-year reallocations², allowing managers to pay more attention to performance and results. The BMF still maintains a strong oversight role in budget execution, in particular for projects with substantial financial impacts. A newly introduced approval process for the reallocation of resources between global budgets provides additional checks. This process however has introduced some delays in the approval process. There should be clear deadlines for approvals on reallocations to ensure the effectiveness of the system. In case of refusal of requests, timely decisions can reinforce trust between line ministries and the ministry of finance, improve planning and avoid potential payment shortages at the end of the year. The revived flexibility and trust within budgetary management (as recommended above), and associated reduced requirements for detailed approval and oversight, will also create opportunities to improve the administrative cost-benefit ratio, while ensuring that statutory responsibilities regarding budget management continue to be met.

As the key policy tool of government, the budget system should promote implementation of national strategic objectives. Some stakeholders observe that higher-level goals of government could be expressed in a clearer and more focused way, which could serve to better anchor the system of outcome-oriented policy-making and inform the lower level performance targets and indicators. The OECD suggests that each Government Programme, as the definitive expression of political priorities to be pursued by the

executive, could usefully be prepared with this purpose in mind. The limited number of cross-government outcome goals expressed in this context would de facto sit at the apex of the performance hierarchy, and would directly transfer to the economic and budget priorities³ that are currently set out in the Strategy Statement and Budget Statement. The high-level outcome goals could usefully draw upon and reference national and international benchmarks, such as Europe 2020 objectives and UN Sustainable Development Goals.

Such a move would directly benefit Austria's system of performance budgeting. In principle this system is well-structured, using a hierarchy of performance indicators which benefit from quality-assurance input from the Federal Chancellery and the Federal Ministry of Finance. However, not all of the indicators are yet fully and uniformly aligned with the economic and budget priorities (although reforms underway aim to strengthen strategic co-ordination) and given the high level of ministerial autonomy, there is sometimes a lack of coherence. Parliament has also criticised the relevance of some of the indicators. The performance budgeting system is otherwise well-understood and applied systematically across government - also due to significant investments by the BMF and the FPMO in training civil servants in the concepts and applications of performance budgeting - which helps in comprehension and use of performance information.

Austria's distinctive system of gender budgeting is well integrated within the performance budgeting framework and rates highly in international comparison. Reflecting the OECD's more general findings, a clearer articulation of government-wide gender priorities would help improve the relevance and coherence of the gender budgeting indicators: in this context there is scope for closer alignment with the gender equality priorities advanced by the Ministry for Health and Women's Affairs. An annual Gender Budget Statement, building upon the composite report already included in the Federal Chancellery's annual report on outcome orientation, would help to make explicit such a co-ordinated and directional approach.

The performance information provided by the Federal Ministry of Finance and the Federal Chancellery provides the basis for an active and serious engagement by the parliament in the exercise of its functions. Members of sectoral committees currently play a role in the Budget Committee's discussions around performance, by substituting in for members of the Budget Committee during debates on the budget bill. Given the scale of budget and performance-related information already available, and the increasing volume which will be available in the near future – notably the performance-related reports and evaluations co-ordinated by the Federal Chancellery – there is scope to give sectoral committees an even greater role in discussion of performance information (e.g. as regards quality and relevance of proposed objectives and achievements, review of key evaluations) for the ministry that they cover. Such an approach should allow for the Budget Committee and the Subcommittee on Budgetary Performance and Execution to further benefit from each sectoral committee's specialised knowledge, while freeing them to focus more on their core mandate.

Austria's system of impact assessments is advanced practice in international terms and its standard use of outcome-oriented impact assessments, both *ex post* and *ex ante*, is a large potential asset for evidence-based policy-making and thus an important additional instrument to achieve better budgetary control, as they are for example as a basis for the negotiations of line ministries with the BMF on projects with substantial financial impacts. Used correctly, in tandem with performance budgeting and disciplined medium-term management within spending ceilings, this additional instrument can significantly streamline interactions and controls between line ministries and the BMF; although it was

not the intention of the reform (nor would it be desirable) that such interactions be completely reduced. To realise this objective, there is however a need for greater integration of the results of the impact assessments, and the large corpus of performance-related information, within the system of budgetary decision-making. One of the bottlenecks in using impact assessments may be related to challenges of developing a “performance culture” within the public administration as a whole, i.e. developing skills for seeking, generating and using performance and evaluative information as a routine tool of policy-making. In addition, impact assessments may benefit from more systematic stakeholder engagement and public consultation.

The outcome-oriented structuring of the budget has yielded benefits for accountability and transparency through clearer delineation of management responsibility at the level of line ministries. This new structure has also supported the quality of parliamentary budget debate, particularly within the Budget Committee, through facilitating a more outcome-focused discussion, and challenging the line ministries to provide meaningful qualitative information regarding their objectives. However, further work remains to be done to support this improved culture of performance-oriented scrutiny, in the directions outlined below.

The budget documentation supplied by the Federal Ministry of Finance is comprehensive and provides parliamentarians and other stakeholders with multiple avenues of obtaining relevant data. Building on improvements of the past year, it is suggested that the Federal Ministry of Finance further develop a distinct and recognisable “design language” for its documents, including summary notes, consistent nomenclature and colour-coding, to allow parliamentarians and other readers to quickly orient themselves within the overall corpus of information and quickly find the pertinent information they need. In similar vein the Budget Report could usefully be re-purposed as a summary “policy-maker’s handbook” presenting key budget proposals and performance goals. In parallel, the adoption of “open budget data by default” and production of a Citizen’s Budget could help streamline the printed budget documentation, while making the material accessible and useful for a wider range of societal stakeholders.

The parallel presentation of both cash and accruals information in budget reports is advanced practice internationally, facilitated by a well-integrated IT system. This important pillar of budgetary reform has the potential to improve the quality and reliability of data available for decision-making and accountability, to the extent that it provides policy-makers with fuller, objective and undistorted information regarding the financial context and implications of policy options. Both approaches, cash and accruals, have complementary strengths: in international terms, good practice is for the cash basis to serve as the primary reference for establishing fixed spending limits, while the accrual basis provides a definitive reference for forecasting and financial reporting. On the other hand, if the role and nature of accruals information is not generally understood, it has the potential to distract and confuse policy-makers. The BMF should clearly re-state the intended uses and benefits of cash and accruals accounting and incorporate this messaging into capacity-building and awareness initiatives. Currently cash and accruals information are not used to their full potential and stakeholders report some obstacles exist to making full use of the operating statement. There is some scope for streamlining accruals information. The OECD recommends that monthly budget execution reports should be presented on the basis of cash only, for which reliable information is available; and the corresponding accruals reports should be presented quarterly, along with explanation of how the figures correspond with planned in-year profiles. Both cash and accrual reports should be accompanied with an “interpretative note” as a guide to their use. In presenting accruals information both

retrospectively (in financial reports) and prospectively (budgets and the medium-term framework), a consistent and uniform approach should be adopted.

New reporting requirements have generated additional workload with an associated administrative cost. To mitigate this impact, streamlining of specific reports may be considered (e.g. moving accrual-based execution reports to a quarterly basis, and merging of the Budget and Strategy reports). However, with experience, as new reporting requirements become routine, perceptions of increased workload are diminishing. Additionally, innovative automatisisation processes (e.g. further development of the HIS) could be used to increase the cost-benefit ratio over time. To facilitate this process, knowledge-sharing across ministries should be supported to give the opportunity for mutual learning and adoption of best practices. The provision of freely available government data (open data) would furthermore reduce the pressure to provide supplementary and more technical data within the budget reports.

Summary of Key Recommendations

The following recommendations are organised according to the sections in which they appear in the review.

Section 2. Annual and multi-annual budgetary management

1. Redesign the spring phase of the budgetary cycle to present and hold a strategic debate on the government's fiscal policy strategy. This debate should be aligned with, but supplementary to, the EU-related Stability Programme Update presented in the same time-frame, grounded on issues such as how the economic outlook affects the available "fiscal space"; the broad principles and priorities that will inform the government's subsequent budgetary proposal; and the establishment of the aggregate expenditure ceiling for year four of the multi-year frame of reference. The discussion should be designed to provide an opportunity for a pre-budget phase of scrutiny and engagement by the National Council, and to promote parliamentary debate and input on high level policy priorities.
2. Develop a designated national document (e.g. a "Pre-Budget Fiscal Report") as a basis for the spring fiscal policy debate.
3. Introduce clear deadlines for approvals on reallocations between global budgets to ensure the effectiveness of the system. In case of refusal of requests, timely decisions can reinforce trust between line ministries and the ministry of finance, improve planning and avoid potential payment shortages at the end of the year.
4. Redesign the system of ministry reserves, setting clear rules to limit the accumulation of reserves. Clear guidelines should support the original objective of flexible, efficient and disciplined budget planning consistent with Austria's fiscal policy objectives and obligations. This can be done by amount (e.g. a cap on the level relative to the overall expenditure ceiling or a restriction on the annual level of carry-overs allowed), and/or time (e.g. a principle that carried-over amounts must be used within a specified time period).
5. Dissolve technical and "unearned" reserves. This should include reserves resulting from changes to interest rates, export guarantees and expired eligibility-defined programmes, to reduce the current stock of reserves to a reasonable level. The multi-year nature of major acquisitions and projects within the medium term

expenditure framework ceilings should be explicitly recognised and removed from the reserve system.

6. Maintain carry-forward flexibility of “earned” reserves. To restore trust on the part of ministries in the operation of the reserve system, and to improve planning, the carry-forward flexibility of “earned” reserves should be maintained. To facilitate this, reserves could be recognised in the baseline of expenditures and the medium term expenditure framework, and ministries could be allowed to earmark carry-forwards for projects.
7. In future, provide a clearer picture of the source of reserves in the reserves report (*Rücklagenbericht*) distinguishing between “unearned” and “earned” reserves. The current IT systems should be updated to enable the differentiation and tracking between “earned” reserves and “unearned” reserves.
8. Introduce an explicit and realistic “fiscal margin” into the medium term expenditure framework that can act as a buffer to absorb unexpected cost pressures, and allow for new policy priorities to be accommodated, where necessary, while still respecting public finance objectives and fiscal rules. The fiscal margin should be treated as a part of the expenditure baseline, rather than as a new initiative to be considered and debated each year.
9. In developing the “budgetary margin”, consider new mechanisms to identify fiscal space, including through building upon the existing focused spending review mechanism as developed by the BMF and drawing upon the existing corpus of outcome-oriented *ex post* programme evaluations.
10. Consider mechanisms to link the use of the fiscal margin embedded with the medium term expenditure allocations to the availability of reserves in the relevant ministry. This mechanism should be considered to ensure a balance between reserve withdrawals and the build-up of reserves (i.e. a sustainable “steady state” system), thus further incentivising line ministries to treat expenditure ceilings as effective and realistic binding limits within which resources need to be stewarded.
11. Design an additional “backstop” rule as a further safeguard to prevent large drawdowns of the accumulated reserves that could result in significant impact on the fiscal position. Such an additional rule may include early notification obligations for the drawdown of accumulated reserves to give the BMF the opportunity to assess the net fiscal impact of the proposed drawdowns. As a general principle, drawdowns may be allowed to the extent that their net fiscal impact can be accommodated within the fiscal margin for the budget year and future years of the BFRG. In the case where proposed drawdowns would collectively exceed the fiscal margin, a “decision rule” should be put in place whereby significant proposed drawdowns are curtailed to within sustainable limits.

Section 3. Performance aspects of budgeting

12. The Government Programme (or Coalition Agreement) should be designed with a view to its fundamental role as an “anchor” for outcome-orientation in policy-making and in budgeting. Particular attention should be given to articulating the high-level outcome goals for which the government and public administration will be accountable. High level priorities should in turn be reflected in the policy priorities in the new Budget Report (potentially merged with the Strategy Report), as well as the proposed fiscal policy document in spring.
13. Internationally comparable benchmark indicators should be considered first when developing the indicators for each budget chapter. This would bring Austria’s outcome objectives into fuller and more explicit alignment with the EU 2020 and UN Sustainable Development Goals, and would also support a streamlining of associated reporting requirements.
14. Adopt a more participative, inclusive approach to the setting and design of outcome objectives and indicators. Line ministries and the Federal Chancellery’s Federal Performance Management Office should seek to ensure the relevance of the objectives and indicators chosen, including on gender, to the parliamentary scrutiny process. This may be accomplished through a more targeted engagement of relevant sectoral committees on these specific topics and through a more systematic engagement with the parliamentary Sub-Committee on Execution and Performance.
15. Streamline the performance reports to make their key messages more visible and accessible to parliamentarians and the public.
16. In the medium term, develop the financial management IT system to allow tracking of the level of resources associated with the gender objectives and make this information available in the Gender Statement.
17. The Ministry which has overall responsibility for gender equality should be further engaged in the task of co-ordinating and articulating the whole-of-government approach to promoting gender equality. This joined-up approach should in turn be reflected in the gender objectives identified and prioritised by the line ministries.
18. Continue to develop a comprehensive set of gender disaggregated data to improve the body of evidence underpinning gender objectives and indicators and gender impact assessments. Over time, all data and statistics systems, including in the financial management IT system, should be designed to provide gender-disaggregated data.

Section 4. Budgetary documents and oversight

19. **Create a clear system to facilitate navigation across the various budgetary documents.** The Budget Report could be re-designed as a single overview document that serves as a “policy-maker’s handbook”, not only summarising the key information but functioning as an index document for all related supplementary documentation. Clearly established and visually highlighted links between the different budget documents are also advisable to allow the individual reader to find quickly the information of specific interest to them.
20. **Continue to develop a distinct and consistent “design language” to facilitate navigation across the various budgetary documents.** This should include uniform table and section headings; consistent nomenclature and colour-coding (in particular for cash and accrual data); and structuring of content. Such a uniform budgetary reporting framework should also be carried through, as appropriate, to the corresponding elements within the performance reports by the Federal Chancellery.
21. **Highlight key information in budgetary documents.** This may include highlights on the specification of the annual financial details, and on critical performance information linked to the identified political priorities. In particular in the context of the increasing number of impact assessments published, selected highlights should allow parliamentarians to easily identify evaluations of programmes with the greatest financial and/or societal impact.
22. **Support continued development of best IT practices for standardised reporting.** Innovative automation processes could be used to increase the cost-benefit ratio over time for reporting. Knowledge-sharing of IT tools across Ministries should be supported to identify best practices.
23. **Continue to provide monthly execution reports with official, reliable cash information.** Accrual information and analysis should be provided in quarterly reports including a narrative report explaining deviations from in-year profiled expenditures and revenues.
24. **Enhance the explanatory information in the supplementary budget documents.** The supplementary budget documents should provide the narrative for the more technical Chapters, including explanations for significant changes in allocations and performance goals, and highlighting links to the higher level objectives and measures.
25. **Expand the provision of open data.** In line with current government commitments Austria’s “Digital Roadmap” and the “Cooperation OGD Österreich” initiative, an “open by default” policy should be considered allowing users to compare, combine and follow the connections among; different data sets, including international comparisons. Data-visualisation tools provide added value for individual users and should be further developed and improved.
26. To promote budget transparency and inclusiveness, **consider international models of pre-budget debate and consultation**, allowing the budgetary formation phase within parliament and government to benefit also from a range of views on budgetary priorities before the draft budget is prepared (see also Recommendations 1 and 2); as well as enhancing the visibility of the impact assessment process to the wider public, for example by publishing a more comprehensive set of (final) impact

assessments – legislative, regulatory and spending-related – through a single public website. A “citizen’s budget” could also be produced with a view to fostering public understanding and engagement.

27. **Include accruals information in the medium term expenditure framework to correspond with the cash-based information.** Extending the “true and fair view” to this budget-related report would more consistently apply the “aims and principles” of budgetary management set out in Section 2 of the Federal Organic Budget Law.
28. **Ensure clarity and accessibility of accrual data.** The cash- and accrual-based tables in the budget reports should be more clearly distinguishable from one another, e.g. through colour-coding, formatting and applying other elements of the improved “design language” for budgetary documents. In addition, each table – both cash and accruals-based – should include a short interpretative note to guide non-technically-expert readers. This interpretative note should routinely include a factual explanatory comment regarding any significant discrepancies (or apparent discrepancies) between the two reports.

1. Reforming the Austrian budget process – Legal and administrative context

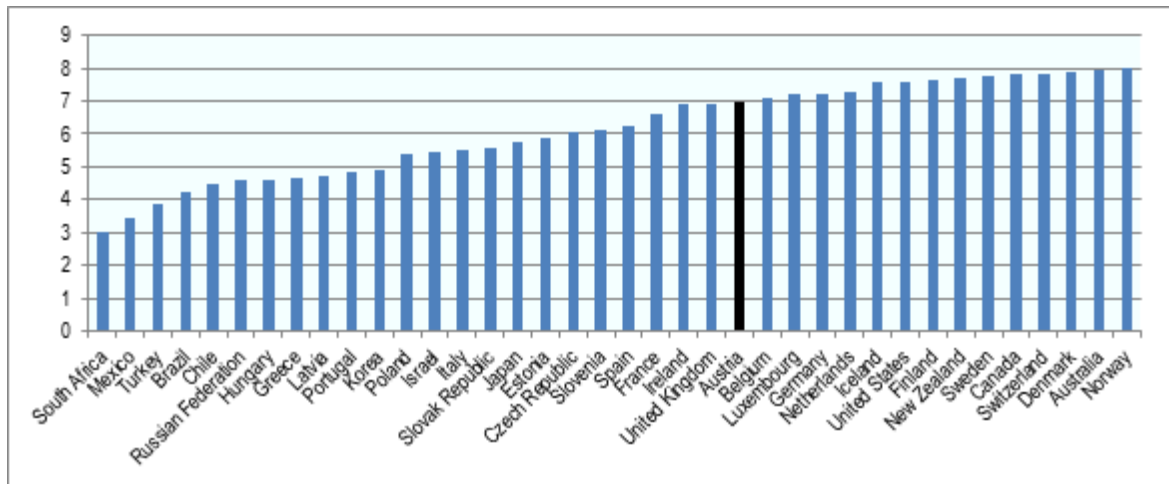
1.1. Austria general characteristics

Austria is a federal republic comprising nine States. Fiscal co-ordination between the different levels of government is laid out in the Austrian Stability Pact which implements EU fiscal rules for all levels of government, allocates shares of the budget balance and public debt to the levels of government, and defines the monitoring and enforcement mechanism. The federal and state governments and the Austrian Association of Cities and Municipalities agreed to this pact in mid-2012. The Austrian budget reform only covered the federal level however similar budget reforms are currently being implemented at the level of subnational governments (states and municipalities) and will enter into force as of 2019/2020.

A parliamentary representative democracy, Austria’s head of State is the President and head of government is the Federal Chancellor, although the position of chancellor is characterised as “first among equals” as the constitution does not vest the chancellor with the authority to issue directions to other cabinet ministers. Austria has a bicameral legislature. The National Council or lower house is comprised of 183 members directly elected through proportional representation for a five year term. The Federal Council, or upper house, is comprised of around 60 members indirectly elected through the provincial assemblies. According to the constitution the National Council has exclusive competence in budget matters.

A small country with a population of around 8.7 million, Austria enjoys favourable international rankings for jobs and earnings, income, and subjective life satisfaction (OECD, 2017a). Austria performs well in many measures of well-being in the OECD Better Life Index and Austrians are generally more satisfied with their lives than the OECD average Figure 1. However, Austria lags behind other high-income small European peer economies with respect to work/life balance, health, and housing, as discussed in recent OECD Economic Surveys, which focused on health in 2011, well-being more broadly in 2013 and gender inequality in 2015 (OECD, 2017a).

Figure 1. Austria performs well in many measures of well-being in the OECD Better Life Index

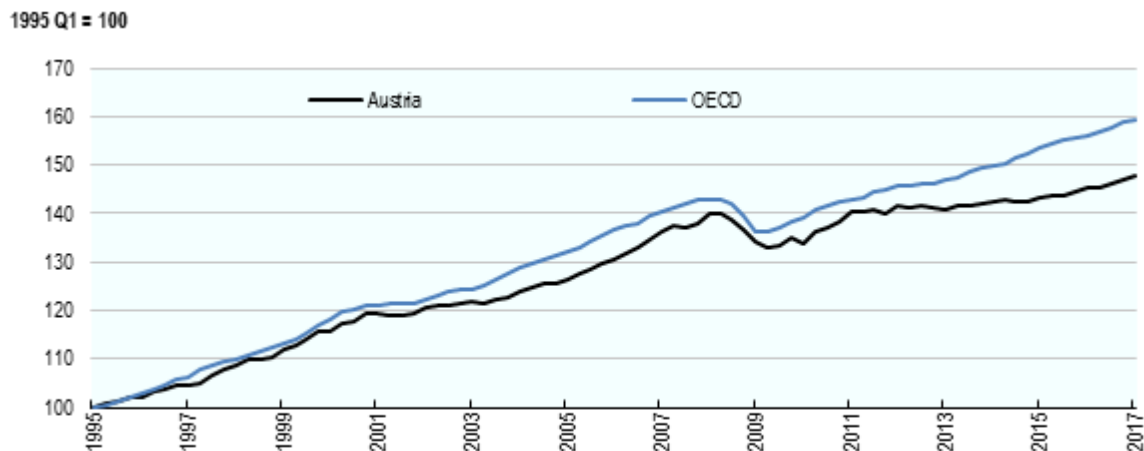


Note: These scores, and the resulting ranking, have been obtained setting all weights equal for each dimension of well-being. The OECD does not publish any official country ranking of the Better Life Index. *Source:* OECD Better Life Index 2016.

1.2. The Austrian economy

Austria is a stable and wealthy economy and Austria was one of the few countries in the euro area to emerge relatively unscathed from the financial and economic crisis, with the help of a generous rescue package for Austrian banks. Austria's economy is closely tied to that of other EU economies, especially Germany. Austria has one of the highest GDPs per capita in the EU and GDP per capita and the employment rate exceed the OECD average. Growth has picked up following the 2016 tax reform and the recovery of export demand, although like most OECD countries trend output growth has declined since the 1990s and there are concerns around labour force participation and slowing productivity (OECD, 2017a).

Figure 2. Growth is regaining momentum



Source: OECD Economic Survey 2017

Austria's public debt peaked at 85.5% cent of GDP in 2015, and fiscal consolidation is underway after the stimulus in 2016 (IMF, 2017). Although Austria's fiscal balances and the public debt ratio have improved, the foreseeable costs of ageing remain very high (OECD, 2017a). According to the IMF (2017) Austria will have to find efficiencies in health and education expenditure and subsidies and implement further pension reform measures to meet ageing-related costs in the medium to long term. This would require adjustments in fiscal relations between the federal and subnational governments. The OECD's 2017 Economic Survey of Austria also recommended an in-depth spending review in education, health, care and public administration.

Table 1. Debt as a percentage of GDP

	2014	2015	2016	2017	2018 (projected)
General government gross debt	106.8	106.2	106.1	102.7	100.9
General government debt, Maastricht definition	84.4	85.5	84.6	81.1	79.3

Note: See definition of general government gross debt according to the convergence criteria set out in the Maastricht Treaty here: <https://stats.oecd.org/glossary/detail.asp?ID=1161>

Source: OECD Economic Outlook 101 database

1.3. Overview of Austria's budget reform process

1.3.1. Austria's budget process before the reforms

Until the mid-1990s, Austria's budget process was traditional, cash-based, highly legalistic and input-oriented. Moreover, with no binding medium-term perspective in budgeting, the BMF and line ministries experienced difficulties in planning. A first critical reform in the mid-1990s introduced top-down budgeting. Then in 2000, several pilot projects (so-called 'Flexi-Clause') were undertaken with around 20 administrative offices in different line ministries that experimented with performance information and new forms of budget flexibility (a lump-sum appropriation with appropriations defined several years in advance, flexibility of *virements* within that lump sum, and the possibility to carry forward savings) (Steger, 2010). The positive experiences from these pilot projects helped build momentum for reform. At the same time the BMF began to collect good practice examples internationally, mainly from peer countries within the OECD.

1.3.2. Building consensus for the reforms

According to the Constitution and the Organic Budget Law, macro-fiscal policy competence is vested in the BMF, including overall-co-ordination (for federal government but also with lower levels of government), setting the fiscal stance, the federal budget and budget rules, taxes and fees, and economic policy assessments of laws. Given these competencies, the BMF was the natural leader of the budget reform process.

Such wide-ranging reforms had implications for actors in the budget process. Stakeholders needed to be convinced of the reforms merits and what they stood to gain. The reforms implied significant cultural change within the Austrian civil service and the major actors in the budget process such as the parliament and the Court of Audit. Moreover, the reforms needed cross party support and a broad political consensus. The BMF worked to build this consensus over several years. In 2004 an informal parliamentary reform committee was established bringing together experts and all parties represented in parliament. This allowed party representatives the opportunity to give their views and inputs from the ideas phase to the detailed legislative proposal phase. In particular, the process ensured that the role and

rights of parliament were well considered. Representatives from the Court of Audit were also integrated into the committee and were influential in strengthening political acceptance of the reforms (Steger, 2010). Ultimately the consensus the committee built led to parliament unanimously adopting amendments to the Constitution and to the budget law in December 2007 - effectively ensuring that the reform process had to move forward - and a New Organic Budget Law in December 2009. The amendments to the Constitution enshrined four new constitutional principles of budgeting in line with the reforms (see Figure 3).

Figure 3. Four new constitutional principles of budgeting



Source: Authors.

Among other key actors, the Chancellery supported the reform in exchange for a role in monitoring performance aspects of the reform, thus enriching their portfolio. The most difficult negotiations around the reforms took place with the line ministries. The intended benefits of the reform are listed below in Table 2. How did key stakeholders benefit from reforms?

Table 2. How did key stakeholders benefit from reforms?

Stakeholder	Benefits
Line Ministries	- Greater flexibility in budget preparation and execution (new budget structure, reallocation rules, reserve system), and increased budgetary responsibility - Performance information provides opportunity to communicate progress and success stories - Medium-term planning
Chancellery	New role in monitoring/providing quality control of output and outcome indicators and measures
Parliament/ Political Parties	- New more comprehensive reporting requirements of the administration to Parliament - Regular detailed performance information, accrual information - Parliamentary Budget Office (PBO, est. 2012) to support Budget Committee with technical budget expertise
Court of Audit	- New responsibility to evaluate performance - Additional reports from line ministries and BMF - Accrual information - Recommendations of Court of Audit now appear in budget documents with goal of creating greater awareness

Source: Authors.

1.3.3. Content and implementation of the reforms

With the legal basis established, the reforms were introduced in two phases in 2009 and 2013. During these implementation phases, the BMF made significant investments in training civil servants. Phase one introduced a medium term expenditure framework (*Bundesfinanzrahmengesetz*, BFRG) with legally binding expenditure ceilings covering four years ahead on a rolling basis, as well as more flexibility for the line ministries. The latter included the opportunity for line ministries to carry forward unused funds and to build reserves (every minister as their own finance minister). This opportunity was extended to

administrative units⁴ in the federal government during the second phase of the reform. Phase two included:

- Changes to the budget structure, the so called “global budgets” below the chapter level that replaced the more than 1 000 previous detailed appropriations (see section two for a more detailed description).
- Accrual budgeting and accounting, bringing Austria’s accounting system more in line with International Public Sector Accounting Standards (IPSAS).
- Performance and gender budgeting.

Austria also introduced long-term fiscal projections of up to 30 years to provide a long-term perspective for budget planning.

It is interesting to note, that at the same time that Austria was introducing its budget reforms, new European obligations came into force: the 'Two-Pack' (2011), 'Six Pack' (2011), and Fiscal Compact (2013), which introduced additional co-ordination and greater macroeconomic surveillance and surveillance of budgetary processes. Under the Fiscal Compact the national budget must be in balance or surplus according to the treaty's definition (a general budget deficit not exceeding 3.0% of GDP and a structural deficit not exceeding a country-specific medium-term budgetary objective) and countries must adopt an automatic correction mechanism to correct potential significant deviations. The Fiscal Compact also calls for a national independent monitoring institution - in Austria's case legislation was passed in 2013 which transformed the Government Debt Committee into a Fiscal Advisory Council (*Fiskalrat*) with an expanded mandate.

Today Austria’s budget system is internationally acknowledged as an example of a modern, streamlined and performance-oriented regime. Austria is seen as a leader internationally in areas such as gender budgeting. Subsequent sections of this review examine certain reforms listed above in more depth, highlighting the achievements to date and identifying areas where further progress should be considered to live up to the aspirations of the reform process.

2. Annual and multi-annual budgetary management

2.1. Introduction

The framing of the annual budget process within a clear multi-annual perspective is one of the hallmarks of the Austrian budget reform. To this end, the medium-term expenditure framework (*Bundesfinanzrahmengesetz*, BFRG) took effect from 1 January 2009 as part of the first stage of the budget reform. The BFRG is intended *inter alia* to allow for a distinction between the strategic elements of fiscal policy-making and the annual and operational practices. In line with the “semester” approach adopted in the context of the EU Stability and Growth Pact (SGP), the practice in recent years has been to split these key elements of budgetary management over two phases: the fiscal policy and strategic phase in the spring semester, with a specification of the annual budget in the autumn. From 2017 the system is being modified: to streamline and avoid duplication of multi-annual and annual budget discussions, the decision on the BFRG is moved to autumn for the temporary trial period of two years (for 2017⁵ and 2018).

The OECD *Recommendation on Budgetary Governance* calls on governments to “manage budgets within clear, credible and predictable limits for fiscal policy”. The first budget principle recommends to:

“apply top-down budgetary management, within these clear fiscal policy objectives, to align policies with resources for each year of a medium-term fiscal horizon; noting that in this context, [governments] should adopt overall budget targets for each year to ensure that all elements of revenue, expenditure and broader economic policy are consistent and are managed in line with the available resources.”

In principle Austria’s approach lends itself well to implementation of the OECD Recommendation. In practice, as outlined in this section, there would appear to be scope for a clearer delineation of the fiscal policy, strategic and budgetary functions over the course of the annual and multiannual cycle.

2.2. Austria's annual and multi-annual budget processes

2.2.1. Fiscal policy phase and multi-annual ceilings

In Austria, the BFRG aims to ensure an alignment between multi-year fiscal policy targets and the resourcing of high-level budget priorities, which are specified at the Chapter level. This “top-down” approach is intended to provide the advantage for ministries to have some degree of assurance regarding the resources available to achieve their policy goals, and thus to encourage policy planning within a fixed and sustainable budgetary envelope.

As in many euro area EU member states, the national fiscal policy process is closely aligned with the “European semester”. Under the Stability & Growth Pact, such countries present their National Reform Programme (NRP) and Stability Programme Update (SPU) by the 30th of April setting out the government’s plans to achieve medium-term economic and fiscal policy objectives. While the SPU deals primarily with fiscal policy and is handled by the Federal Ministry of Finance, the NRP is co-ordinated by the Federal Chancellery and reports *inter alia* on Austria’s progress towards *Europe 2020* targets at the federal, provincial and local government levels.

The BFRG provides legally binding expenditure ceilings for the upcoming budget year plus the three subsequent fiscal years on a rolling basis. The binding expenditure ceilings specified in the BFRG apply to high-level groupings of budget chapters referred to as “rubrics”. Within the BFRG, expenditure ceilings are also displayed at the level of budget chapters, but these ceilings have legal force only for the upcoming budget year. The multi-year expenditure ceilings have however not yet become established as fixed and normative upper limits (discussed in Section 2.3). The BFRG also defines an upper limit for the number of personnel that may be employed. Until 2017 the BFRG had to be submitted to National Council by the 30 April, concurring with the presentation of the Stability programme to the EU (Table 3).

Table 3. The Austrian budget calendar

	Until 2017	Planned (2017/2018)
Ministry of Finance drafts the BFRG		
Presentation of the Stability programme to the EU	by the 30 th of April	
Federal Government passed the BFRG for the next four years		
BFRG has to be submitted to National Council	by the 30 th of April	→ October
Court of Audit prepares federal financial statement		30 June
Parliament passes federal financial statement		September
Based on BFRG Line ministries and BMF prepare draft Annual Budgeting Act		
Draft Annual Budgeting Act is passed by the Federal Government presented to National Council	10 weeks before fiscal year (around October)	
Draft budgetary plan must also be submitted to the European Commission	15 October	
Adoption of the BFG (If necessary, amendment of BFRG on Chapter level for the current and upcoming budget.)	End of November	

Source: Authors, based on Austria BMF.

As an essential element of a top-down budgetary process, Austria's fiscal strategy is outlined in the Fiscal Strategy Report. Together with the BFRG, the Fiscal Strategy Report provides the high level background document for the debate on medium term budgeting planning and policy priorities. The report states the government's medium term objectives in terms of high-level targets, as well as more concrete challenges and output objectives related to the multi-year allocations for each of the 33 Chapters. The linkages between these objectives and the performance dimensions of the budgetary process are elaborated in Sections 3 and 4.

In practice, stakeholders report that the Chapter allocations in the Fiscal Strategy Report have become a *de facto* focus of political and public attention. Discussion on these allocations has some of the character of an annual budget-type debate, i.e. involving detailed discussions on specific and minor allocations, as distinct from a high-level debate about fiscal policy orientations. Partly to avoid duplication of budgetary discussions between the spring and autumn phases, the presentation of the BFRG and the Fiscal Strategy Report has been moved to October for a temporary period of two years, 2017 and 2018. In fact the conduct of federal elections in October 2017 has delayed this overall schedule.

For such a move to enhance, rather than diminish, parliamentary engagement with the budget process, the spring semester should not be left vacant (in budgetary terms) but should be used to present and debate the government's broad fiscal strategy. Second, to offset the concentration of additional information in the autumn phase, special attention needs to be given to the streamlining and presentation of budgetary information (see Section 4).

With regard to the use of the spring semester for a strategic discussion on fiscal policy, such a discussion should be framed as a key milestone in the annual budgetary cycle, rather than as an abstract macroeconomic discourse. A strategic discussion could usefully be grounded on such issues as how the economic outlook affects the available "fiscal space"; the broad principles and priorities that will inform the government's subsequent budgetary proposal; and the establishment of the aggregate expenditure ceiling for the incoming year 4 of the multi-year frame of reference. Each of these aspects would benefit from

parliamentary scrutiny and input; and would indeed help to inform a transition from the fiscal policy phase, through a pre-budget phase of scrutiny and engagement (as elaborated in Section 4) and on to the October budget phase.

The EU-related SPU document must still be published in April. While the SPU serves well as a legal anchor of national fiscal policy and provides extensive supporting material, in its current form the document does not lend itself well to a parliamentary discussion of Austria's fiscal policy at federal level. In fact the SPU presentation of economic and budgetary objectives has been broadened in 2017 relative to previous years, in line with views expressed by the Fiscal Council⁶. Some stakeholders, such as the Court of Audit and the Chamber of Commerce, have expressed concern about the limited fitness of the SPU for medium-term planning (WKO, 2017; RH, 2017). There would appear to be space for a new document, e.g. a "Pre-Budget Fiscal Report" - aligned with, but distinct from, the SPU - to serve the purposes of enhanced parliamentary and public engagement with the Austrian budget cycle in the first half of the year. Box 1. Swedish "whole of year" budgeting model below outlines how similar issues have been addressed in Sweden.

Box 1. Swedish "whole of year" budgeting model

Sweden's annual and multi-annual budget processes are of top-down character to budgeting, anchored within a sound, steady framework for fiscal policy. Accordingly, the annual budget is not a standalone event but is part of a multiannual chain of decisions which are designed to promote prudence and sustainability. Swedish "whole of year" budgeting model in Sweden is sequenced via a series of events over the course of the year, progressing from the presentation of high-level fiscal aggregates in spring through to the more detailed budgetary proposals in the autumn.

Spring Fiscal Policy Bill

The Spring Fiscal Policy Bill, which needs to be submitted by 15 April each year, allows the government to frame the context for the annual budgetary process in broad terms in the early part of the year. The Spring Bill includes comprehensive information on the fiscal policy outlook, perspectives on fiscal risks and long term sustainability, a follow up of budgetary policy targets, and extensive baseline information on all areas of public spending. It focuses clearly upon medium-term fiscal plans and omitting details on expenditure, which is reserved for the Budget Bill.

The Spring Bill provides for parliamentary debate on fiscal policy, in general terms. As the Bill does not generally deal with detailed budgetary matters, in practice it serves to introduce greater transparency to the budget process to the benefit of the Swedish Parliament and the public in general. A functional benefit of the Spring Bill for parliament is providing a channel for parliamentary engagement in matters of fiscal policy prior to the drafting of the detailed budget.

During the preparation of the Spring Bill (February-April), high-level working groups involving the Ministry of Finance and the Prime Minister's Office meet regularly to help identify political and policy priorities which ought to be reflected in the budget planning. These discussions are informal and help to structure thinking and planning processes; they do not lead to definitive policy conclusions at this early stage. However, when line ministries present their "budget request" in May, it is expected that they will reflect the discussions and orientations from the spring meetings.

Budget Bill

In autumn, the Budget Bill containing the Government's detailed proposals for the coming year is the focal point of the parliament's annual budget dialogue. It aligns with, but provides greater specificity to, the general guidance set out in the Spring Fiscal Policy Bill.

The Budget Bill is the legal vehicle whereby the parliament decides the ceiling for central government expenditure for the third year ahead. The expenditure ceiling for the current budget year is thus decided three years in advance. Within the aggregate expenditure ceiling, the Government proposes in the Budget Bill an allocation of expenditures among about 27 Expenditure Areas in the second and third budget years ahead. These Expenditure Area estimates, or indicative budget frames, are approved by the parliament and function as a guideline for medium-term policy planning.

Source: OECD (2016), Budgeting in Sweden

2.2.2 Annual budget phase

The Chapter expenditure ceilings of the BFRG for the current year are disaggregated into specific budget allocations ("global" and "detail budgets"), by a process involving dialogue between the line ministries and the corresponding "mirror units" in the Federal Ministry of Finance. Based on proposals from the Federal Ministry of Finance, the draft Annual Budgeting Act (*Bundesfinanzgesetz*, BFG) must be agreed unanimously by the government (i.e. the Ministerial council) before it can be presented to the lower house of parliament, the National Council, in October (Table 4. Decision process for the budget in the National Council (example 2016)). The draft BFG is accompanied with a substantial series of documents - informally the "budget brick" - which are outlined and discussed in Section 4.

In specifying the policy measures for the annual budget, some policies - including upward adjustments to the Chapter ceilings since the spring - will inevitably have implications for multi-year ceilings. However up to now, the remaining three years of the medium-term ceilings have not been adjusted in autumn; and as a result it is hard to identify a point in time when the ceilings are "fixed" at a realistic level. The regular adjustment of the ceilings each spring, with a possibility of revision to the budget-year ceiling in October, contributes to a sense that the expenditure ceilings lack a normative character (for further discussion on budgetary discipline see Section 2.3)

The recent decision to consolidate the annual and multi-annual aspects of budgetary management during the autumn season could potentially help to rectify this tendency. By making explicit from the outset the annual and multi-annual implications of policies, the expenditure ceilings should be fully aligned in October and could therefore be factored into the economic planning for the following spring semester. Moreover, ensuring that the Budget Chapters arrived at in this process have a definitive legal status for the full period of the multi-year framework, rather than mere technical projections or aspirations, would also be helpful. Setting the multi-year Budget Chapters as fixed in law is not in itself a solution to the problem of regular adjustment - especially in a context where the relevant law is revisited each year - but may nevertheless send a strong signal of the normative character Austria's medium-term framework. Other suggested reforms, set out below, are also aimed at improving the resilience of this framework.

The participation of the National Council in the process for the decision of the draft bill involves various stages of consultation and discussion (Table 4. Decision process for the

budget in the National Council (example 2016)). Based on Art. 51 of the Federal Constitutional Law, the draft Annual Budgeting Act is submitted to the National Council 10 weeks before the start of the fiscal year (which in Austria is the calendar year), giving the parliament slightly less time for debate than recommended in the *OECD Best Practices for Budget Transparency*. As EU rules require the submission of a “draft budgetary plan” by the 15th of October, in practice the draft Annual Budgeting Act is presented to parliament around this date. The procedure for the Annual Budget Act commences with a “first reading” before the National Council via the budget speech. About four weeks after the first reading, the bill passes on to the Budget Committee, where debates on the individual Chapters take place (around two hours each). The sessions in the budget committee start with short hearings of experts appointed by the various parties on the overall federal budget. For the individual debates line ministers are invited for questions and answer sessions. However, parliamentary stakeholders and civil society stakeholders interviewed raised concerns about the limited engagement from civil society (see Section 4). Finally, a second and third reading takes place in a plenary session before the final vote by the National Council (Table 4. Decision process for the budget in the National Council (example 2016)). While the National Council has the formal legal power to change the proposed allocations, the established practice - reflecting the political reality that the government tends to have a majority of votes in the National Council - is that no significant changes to the budget are made.

Table 4. Decision process for the budget in the National Council (example 2016)

National Council:	Annual Budgeting Act needs to be submitted to the National Council in National Council 10 weeks before the fiscal year
i. Budget speech	12 October
ii. First reading	13 October
iii. Budget Committee (including expert hearings)	15 – 18 November
iv. Second reading	22 November
v. Third reading	23 November
vi. Final vote	24 November

Source: Adapted from PBO (2017a), *Lesehilfe zu den Budgetunterlagen*.

2.3. Financial management and discipline within line ministries

One of the key aims of the Austrian budget reform was the more flexible use of resources within the current fiscal year as well as across fiscal years in exchange for greater exercise of budgetary responsibility. Such flexibility was aimed at supporting more efficient use of resources within the global budgets, including through adoption of the “true and fair view” of the financial position, and allowing for the savings from efficiencies to be retained through the building of reserves. In turn such a heightened focus on efficiency would underpin a disciplined approach to financial management strictly within the ceilings of each line ministry, and more closely in line with the outcome-oriented policy making (Steger, 2010). This section examines these questions from the perspective of:

- improved governance and efficiency in administration through consistent structures for the internal budgets, organisation and personnel (Section 2.3.1)
- greater flexibility for the line ministries in the retention and use of resources (Section 2.3.2 and 2.3.3)

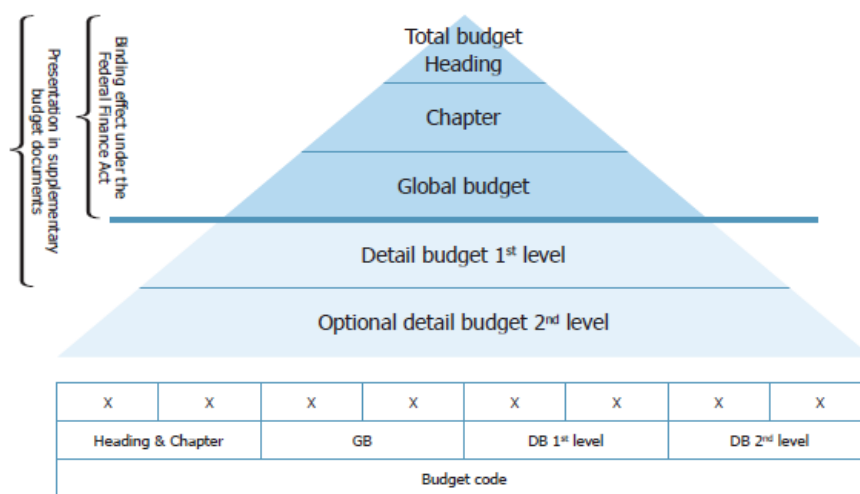
- greater transparency and accountability for the National Council and the public (see Section 4.2)

2.3.1. The streamlined budget structure

The reformation of the budget structure during the second stage of the Federal Budget Reform in 2013 was an ambitious, potentially far-reaching element of the overall vision for budgetary reform and its implementation. The reform of the budget structure simplified appropriations below chapter level. While the original frame of legally binding 5 rubrics (*Rubriken*) and about 33 chapters (*Untergliederung*) was preserved (Figure 4. The new budget structure), the reform significantly reduced the more than 1 000 detailed, legally binding appropriations to a total of 75 global budgets. Additionally, more specific budget information is available in the form of 387 “detail budgets”, although figures at this level are indicative rather than legally binding.

In principle, this streamlined approach to budget presentation allows for space – both physically (in the budget documentation) and cognitively – for the presentation and consideration of performance information, as discussed in Section 3. In practical terms, the freedom of line ministries to reallocate moneys within their global budgets gives them an important tool to manage for efficiency.

Figure 4. The new budget structure



Source: BMF

2.3.2. Improved governance and efficiency in the administration

In effect, however, the budget reform has not yet proven effective in increasing the perception of financial discipline within line ministries. As indicated earlier, the multi-year expenditure ceilings are not yet regarded as “fixed” due in part to *lacunae* in the continuity of annual and multi-annual phases, and in part to an established practice of continual adjustment. In fact, several stakeholders have expressed their concerns that a cultural change has not yet taken place and that expenditure ceilings are seen by line ministries as minimum and, essentially, as the basis for negotiations, rather than as an effective ceiling

within which resources will be stewarded. Table 5 below illustrates the effective lack of continuity in budget ceilings across the multi-year horizon. Addressing these issues will involve a strengthening of the binding character of the BFRG including through resilience mechanisms (see Section 2.4); as well as an improvement in institutional incentives, such as changes in the organisational structure, for ministries to manage within their ceilings.

Table 5. BFRG adjustments in Austria 2012-20

<i>in Mio. EUR</i>	2012	2013	2014	2015	2016	2017	2018	2019	2020	Summe
BFRG 2012-2015 BGBl. 40/2011	73.605,6	73.212,9	74.571,1	75.487,7						296.877,3
BFRG 2012-2015 Nov. BGBl. 25/2012	75.629,9	73.212,9	74.571,1	75.487,7						298.901,6
BFRG 2012-2015 Nov. BGBl. 62/2012	76.529,9	75.153,3	74.339,4	73.930,3						299.952,8
BFRG 2013-2016 BGBl. 25/2012		74.253,3	73.889,4	73.930,3	76.512,2					298.585,1
BFRG 2013-2016 Nov. BGBl. 62/2012		75.153,3	74.339,4	73.930,3	76.512,2					299.935,1
BFRG 2013-2016 Nov. BGBl. 102/2012		75.055,8	74.339,4	73.930,3	76.512,2					299.837,6
BFRG 2014-2017 BGBl. 88/2013			74.339,4	73.930,3	76.512,2	78.584,4				303.366,2
BFRG 2014-2017 Nov. BGBl. 7/2014			74.339,4	73.930,3	76.512,2	78.584,4				303.366,2
BFRG 2014-2017 Nov. BGBl. 37/2014			75.204,3	74.385,2	77.704,2	78.988,3				306.281,9
BFRG 2015-2018 BGBl. 37/2014				74.385,2	77.704,2	78.988,3	80.521,3			311.598,9
BFRG 2015-2018 Novelle BGBl. 140/2015				75.074,0	77.704,2	78.988,3	80.521,3			312.287,7
BFRG 2016-2019 BGBl. 63/2015					76.541,2	77.509,0	78.991,0	80.388,2		313.429,5
BFRG 2016-2019 1. Novelle BGBl. 140/2015					76.636,3	77.509,0	78.991,0	80.388,2		313.524,5
BFRG 2016-2019 2. Novelle Reg. VL 1096 d.B.					78.107,5	77.509,0	78.991,0	80.388,2		314.995,7
BFRG 2017-2020 Reg. VL 1096 d.B.						78.202,7	78.814,1	80.408,7	83.038,4	320.463,8
Erfolg laut BRA bzw. vorl. Erfolg	72.880,7	75.567,3	74.652,5	74.589,1						
Differenz zwischen Erfolgswert und letztgültigem Bundesfinanzrahmen	-3.649,2	511,5	-551,8	-484,9						

Source: PBO 2016, Analyse Bundesfinanzrahmen 2017 – 2020.

The new budgetary model led some ministries to adapt their internal organisational structure in order to realise internal efficiencies, effectiveness and financial discipline. Given the strong autonomy of line ministries, no single model of governance was propagated, and ministries evolved different approaches so that those responsible for certain goals would have the means and institutional incentives to steer the respective resources accordingly. The specification of distinct global budgets within certain line ministries gave rise to a process of management decentralisation, to increase budget responsibility within directorates, using performance as a management tool (see Box 2).

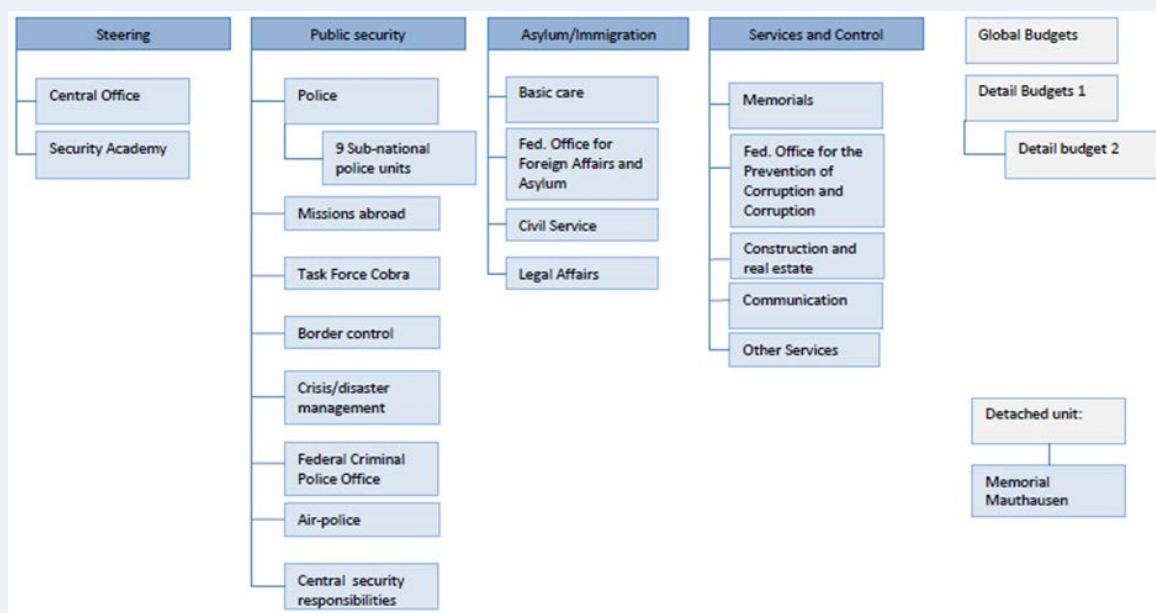
The reform furthermore prompted a positive change in thematic aspects of management within ministries. After the reform, the budget was thematically restructured, being grouped not by spending but by outcome. Each Chapter is assigned to one budgetary body and represents one clear budget area - such as labour, education and the environment - encompassing different areas of management responsibility. For instance, within the Federal Ministry of Labour, Social Affairs and Consumer Protection, the budget chapter “Social” covers the global budgets of “management and service”, “care”, “social provision and compensation” and “targeted measures aimed at disabled people” in contrast to a large number of legally binding titles. Through approaches such as this, line ministries have been enabled to establish close links between performance objectives, responsible administrative units and the respective budget structure (See Box 3).

In light of positive experiences from some line ministries, such approaches to decentralised and thematic management may be worth exploring further for other ministries.

Box 2. Ministry of Interior – Decentralisation of budget responsibilities

After initial scepticism¹ about the alignment of the organisational structure following the budget reform, the Ministry of Interior made significant changes to their structure to comply with the budget structure and support financial discipline. The single Chapter (UG 11, Inneres) that falls under the Ministry of Interior includes four global budgets (Public security; Asylum/Immigration; Services and Control; and Steering), each - as far as possible - responsible for their performance, budget and personnel, with the objective to incentivise budget responsibility in each directorate (global budget).

Organisation structure Chapter 11: Interior Affairs



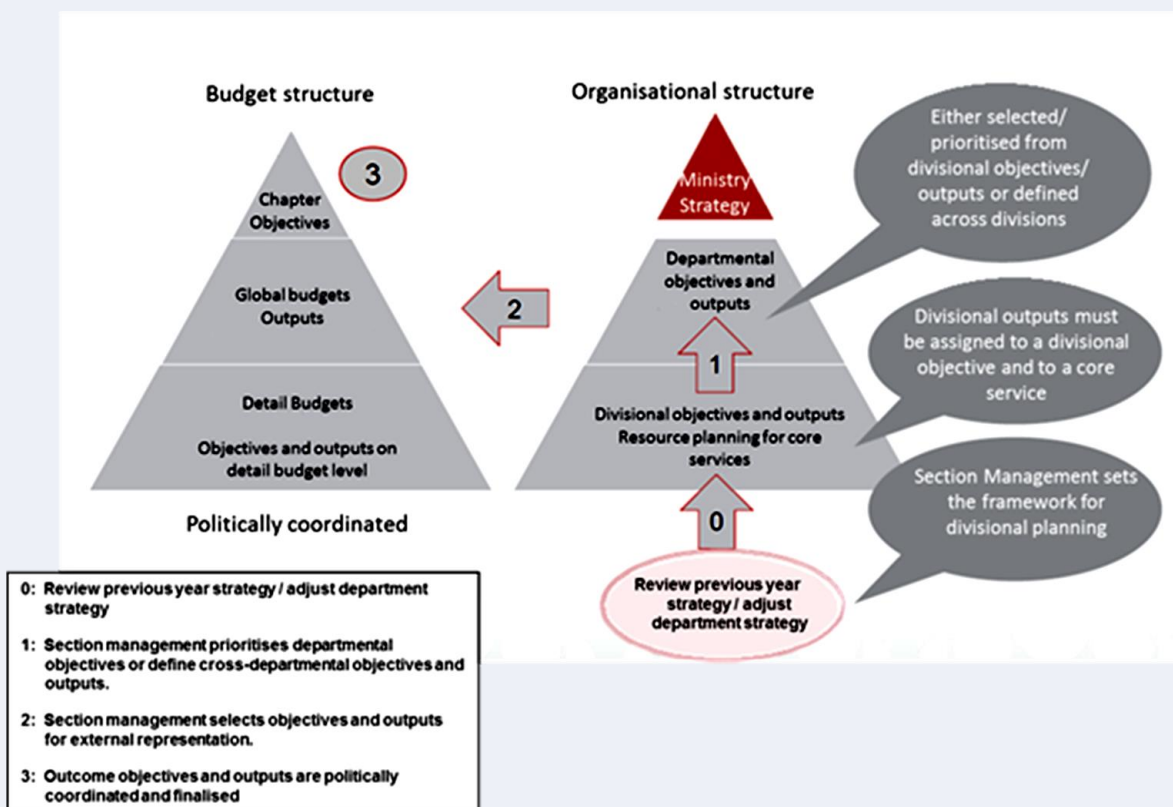
Note: ¹See Stellungnahme des Bundesministeriums für Inneres zum Bundeshaushaltsgesetz, GZ.: BMI-LR1423/0020-III/1/a/2009.

Source: Interviews, May 2017, Ministry of Interior.

Box 3. Outcome oriented planning and control in BMASK

Linking the organisational structure to the new budget structure, the Federal Ministry of Labour, Social Affairs & Consumer Protection (Bundesministerium für Arbeit, Soziales und Konsumentenschutz – BMASK) used outcome orientation performance as a uniform and comprehensive management tool. For effective and resource-saving control, planning and steering was organised according to the organisational structure - derived from the budget structure - leading to a clear allocation and definition of responsibility along the hierarchy of the organisational structure (Figure below).

Outcome oriented planning and control in the BMASK



Source: Adapted from "Die Ressourcen-, Ziel und Leistungsplanung, im Bundesministerium für Arbeit, Soziales, und Konsumentenschutz, Mag. Harald Vegh, Abt. I/A/5, Wien, am 18. Oktober 2012, <http://archiv.bundeskanzleramt.at/DocView.axd?CobId=49177>.

2.3.3. Financial management

The higher aggregated budget levels introduced more flexibility for the line ministries in their financial management operations. Similar to several OECD countries, Austria's consolidation and streamlining of line items reduce the need for approval for in-year re-allocations (*virements*) compared to the situation before the reform, allowing managers to pay more attention to non-financial information on performance and results. Within the new structure the budgetary bodies, such as line ministries, can reallocate funds between appropriations within the same global budget level without approval of the National

Council or the Ministry of Finance. Nevertheless, the BMF and the Court of Audit have to be informed. For reallocation between two global budgets of the same chapter the approval of BMF is still required.

Although the budget reform has reduced the BMF's power to intervene in the lower levels of the budget execution, the BMF still maintains its oversight role. The current provisions support the BMF role with regard to the federal budget execution. In general, mirror units within the BMF monitor the expenditure of the line ministries and act as single point of contact for the budgetary measures. Mechanisms open to the BMF during the budget execution include approval requirements for the draw-down of reserves, the reallocation between global budgets, the approval of costly projects exceeding certain thresholds (e.g. procurement activities, rentals, subsidies, bills)⁸ or projects that have a budgetary impact on upcoming financial years⁹. As part of the flexibility aspect of the budget reform, the level of the thresholds for the approval requirements were increased. Due to recent common concerns about the complexity of the current system of thresholds, the BMF aims at simplifying them, while however maintaining the threshold levels. Such a simpler, rationalised approach should yield benefits in terms of supporting flexible budget management within line ministries.

Reallocation rules in many OECD countries usually vary according to the kind of expenditure to which they relate. Line ministries/agencies are typically allowed to reallocate a percentage (2-5%) of current expenditure appropriations within programmes and a smaller percentage between programmes - a more restrictive approach when compared to Austria. Usually, the approval of both the Ministry of Finance and Parliament is required for larger reallocations or for reallocations across ministries. Appropriations for salaries can typically be reallocated to other operational spending but not the other way around. Countries have different regimes regarding capital spending. Since entitlement spending is sanctioned in law other than the budget, the amount appropriated is usually a non-binding estimate (Hawkesworth et al., 2013). Other countries however, such as Germany (Box 4), still maintain a closer oversight of budget execution.

Box 4. Approval mechanisms in Germany

Although Germany's budget system uses a large number of individual line items, budget managers within departments may transfer funds within administrative groupings of expenditure as designated in the budget document. These groupings relate to personnel expenditure, non-personnel administrative expenditure, and various categories of capital expenditure (viz. construction works, large-scale investment, and other capital expenditure). In practice, there is virtually unlimited scope for such *virements* within the same grouping, and there is a 20% leeway for *virements* across groupings provided all are within the same "chapter" of the departmental budget). Such *virements*, which are provided for under section 20 of the Federal Budget Code, do not as a rule require advance approval of the Federal Ministry of Finance, although unforeseen *virements* beyond these limitations and across different chapters are subject to advance approval.

Source: OECD (2014), Budget Review: Germany, OECD Journal on Budgeting, Volume 2014, Issue 2

In Austria, some inconsistencies in implementation, such as issues of timeliness in approval during budget execution can limit the effectiveness of this flexibility. The newly introduced lengthy approval process for the reallocation of resources between global budgets - with, albeit rare, cases of approvals delayed by up to six months - can severely restrict the cash liquidity of the line ministries. As reallocations often take place towards the end of the year, these long approval processes have led to payment shortages in some cases. While the delay can also be caused by insufficient information provided by the line ministries, timely decisions, clear deadlines - in case of refusal of requests, ensure the effectiveness of the system.

The BMF regularly monitors the expenditure of the line ministries. Each month, the BMF produces short reports that contain information on the budget execution (on cash and accrual basis) regarding the previous month and cumulated data for the ongoing fiscal year, among other key figures, which is submitted to the National Council. Furthermore, the Court of Audit is available to assist the National Council in its control of the execution of budget. It is responsible for preparing the federal financial statement (*Bundesrechnungsabschluss*), which, since 2016, is published by the end of June¹⁰. The basis for the final budgetary control of the National Council is the approval of the federal financial statement (September), which also coincides with the start of the budgetary consultations in National Council after the summer break. In 2017, the Budget Committee stressed the importance of the federal financial statement for the monitoring function of the National Council (PBO, 2017a).

An additional control and evaluation mechanism that was introduced with the second stage of the budgetary reform is the financial impact assessment of projects and new legislations on public budgets (regulated in §§ 17 and 18 of the Federal Budget Law (BHG, 2013)). For projects with substantial financial impacts for example, impact assessments form an important basis for the negotiations with the BMF. For a comprehensive discussion of impact assessments see Section 3.

2.3.4. *The role of reserves*

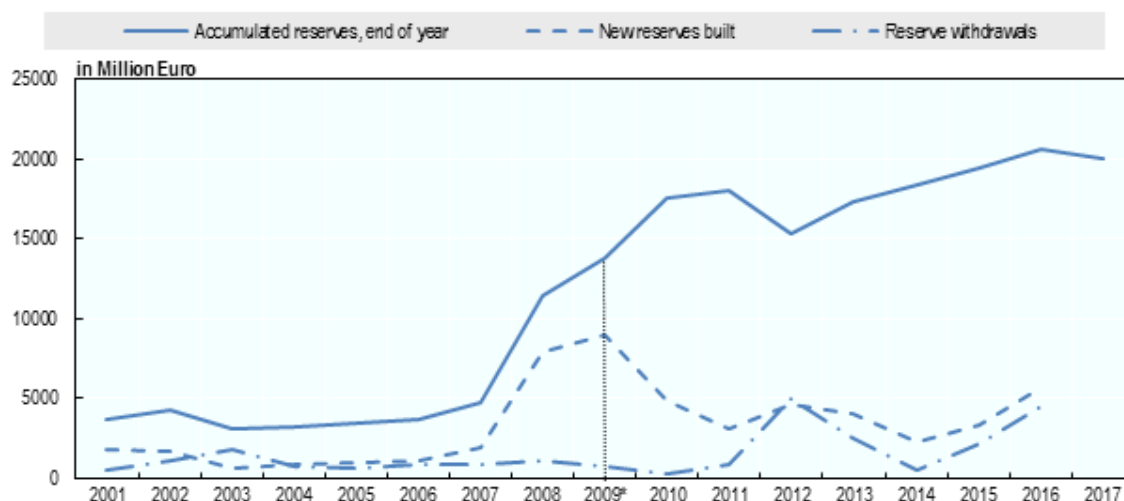
In Austria, the Federal Budget Reform also aimed to increase the flexibility to the budget planning and implementation by allowing Line Ministries to carry forward unused funds and additional revenues of the year to future periods. The new reserves system allowed federal ministers to transfer unused financial resources and additional revenue to the next fiscal years without any major restriction, either quantitative caps or time constraints.

As stated in the *OECD Recommendation on Budgetary Governance*, encouraging sufficient institutional incentives and flexibility helps to ensure that expenditure boundaries are respected. In most OECD countries, carrying over unused funds is permitted to promote such fiscal discipline, as well as allocative and operational efficiency (especially through the avoidance of rushed spending of remaining allocations at end-year, so-called “December fever”). The possibility of carry-overs can encourage the more cost effective use of budgeted resources and enables active management of the overall rather than annual cost of a project. Their use also avoids repeated revisions to the budget and can compensate for delays attributed to procurement procedures (OECD, 2014a¹¹).

In fact, the introduction of the new reserve system initially proved successful in providing a strong incentive for cost savings and active multi-annual management of the budget. Until 2008, reserves could only be built in exceptional circumstances and were earmarked for their original purpose. The introduction of the new rules in 2009 resulted in a significant increase of the ministries’ flexibility to use saved funds for their own multiannual priorities,

and led to an accumulation up to EUR 20.6 billion reserves across ministries by December 2016 (Figure 5). The new flexibility also mitigated the aforementioned phenomenon of “December fever”.

Figure 5. Reserves accumulation



Notes: Accumulation also includes liquidations of reserves and merges; *) New reserves build= accumulated reserves.

Source: BMF.

Austria’s liberal system of reserves and large accumulation of unused funds is without close international equivalent in the OECD (Box 5). In principle, a “steady state” balance of reserve accumulation and draw-down would have a net neutral effect of the fiscal position, while also yielding the management and performance efficiencies outlined above. However, against a background of severe fiscal consolidation, it has proven difficult over recent years to reconcile the need for rigorous control of fiscal aggregates with the potential for large and unplanned reserve withdrawals. In addition, the inability to differentiate between “earned” reserves (i.e. those reflecting genuine fiscal effort and efficiency / innovation on the part of ministries) and “unearned” reserves such as windfall profits or “savings” arising from overly accommodative budgets, accelerated the reserve accumulation such that the overall level reached more than 25% of the entire budget in 2016 (see Figure 5 above). The technical and “unearned” reserves, including reserves resulting from changes to interest rates, export guarantees and expired eligibility-defined programmes, now constitute about 70% of all reserves. Exclusion of these more technical funds (such as found in Budget Chapter 45, 46, 51, 58) would immediately reduce the reserves fund to EUR 6,700bn or about 9% of the budget. In addition, examples of expenditure areas with relatively high amounts of accumulated reserves are Chapters 41 “Transport, Innovation and Technology” and 43 “Environment” (See overview of reserves accumulation (2017) in the Figure A A.1 in the Annex).

Box 5. Carry over of unused appropriations in OECD countries

Most OECD countries permit the carry-over of unused funds, mostly subject to *ex ante* approval from the Central Budget Authority. Only four countries (Belgium, Chile, Greece and Mexico) do not permit carry-overs whatsoever and additional three countries (Ireland, Italy and Luxembourg) do not permit carry-overs for discretionary and operational expenditures, while another two countries (the Slovak Republic and Turkey) do not permit carry-overs for operating expenditures.

Similar to Austria, only two countries (Czech Republic and Denmark) do not require a threshold or approval for carry-over of any of the three types of expenditure. Two countries (Israel and the Slovak Republic) allow carry-over of discretionary expenditures and investment expenditures respectively without approval from the Executive or Legislature and without a threshold. In addition, three countries (Finland, Korea and the USA) do not require approval as carry over is only allowed when specified in the budget law. In Luxembourg most of the investment spending is managed via funds allowing unused resources to be transferred from one year to another (without approval). In the remaining countries some sort of approval is required from either the executive (Ministry of Finance, joint ministers or Cabinet), the legislature, or both. In addition numerical or other limits may apply (see table below for examples of restrictions and approval mechanism for carry-overs in OECD countries). Almost all approvals by the executive are according to *ex ante* procedures while three countries use an *ex post* approval from the legislature in a combination with an *ex ante* approval by the executive (Hungary, Italy and New Zealand). A few countries also require *ex ante* approvals from both the executive and the legislature (Australia, Canada, Ireland, Japan, Poland and for some part, Turkey).

Restrictions for ministers to carry over unused funds on discretionary, operational and investment spending, within their responsibility (2014)

Country	No, carry over not permitted	Yes without a threshold and without requiring any approval	Yes without a threshold but requiring approval	Yes up to a certain threshold without approval, but above this threshold approval is required	Yes up to a certain threshold and also requiring approval	Other	Approval of Ministry of Finance/ Economy	Approval of legislature	Other type of approval
Australia						D; O; I	●	●	○
Austria		D; O; I							
Belgium	D; O; I								
Canada				O; I	D		●	●	●
Chile	D; O; I								
Czech Republic		D; O; I							
Denmark		D; O; I							
Estonia			I		D; O		●	○	○
Finland						D; O; I	○	○	○
France				D; O; I			●	○	○
Germany						D; O; I	●	○	○
Greece	D; O; I								
Hungary			D; O; I				○	●	●
Iceland									

Country	No, carry over not permitted	Yes without a threshold and without requiring any approval	Yes without a threshold but requiring approval	Yes up to a certain threshold without approval, but above this threshold approval is required	Yes up to a certain threshold and also requiring approval	Other	Approval of Ministry of Finance/ Economy	Approval of legislature	Other type of approval
Ireland	D; O				I		●	●	○
Israel		D	O; I				●	○	○
Italy	D; O				I		●	●	○
Japan			D; O; I				●	●	○
Korea						D; O; I	○	○	○
Luxembourg	D; O					I	○	○	○
Mexico	D; O; I								
Netherlands				D; O; I			●	○	○
New Zealand				D; O; I			○	●	●
Norway				D; O; I			●	○	○
Poland						D; O; I	●	●	●
Portugal			D; O; I				●	○	○
Slovak Republic	O	I				D	●	○	●
Slovenia						D; O; I	○	○	●
Spain				D; O; I			●	○	○
Sweden				D; O; I			●	○	○
Switzerland			D; O; I				●	○	○
Turkey	O					D; I	●	●	●
United Kingdom				D; O; I			●	○	○
United States						D; O; I	○	○	○
Russian Federation				D; O; I			●	○	○
Total (countries)	9	5	6	3	9	10	26	26	26
● = Ex ante approval							19	6	7
● = Ex post approval							0	3	0
○ = No approval needed							7	17	19

Key: M = Mandatory, D = Discretionary, O = Operational, I = Investment
Source: OECD (2014a), Budgeting Practices and Procedures in OECD Countries, OECD Publishing, Paris.
<http://dx.doi.org/10.1787/9789264059696-en>; § 55 and § 56, Bundeshaushaltsgesetz 2013, (Version of 04.12.2017).

To tighten control over the fiscal aggregates, new restrictions to the use of reserves by the line ministries were introduced from 2014. The Federal Organic Budget Act 2013 only limits the use of reserves to the extent that all other outstanding liabilities had to be met¹² - requiring case-by-case approvals from the BMF. In the case of earmarked appropriations, additional funds and variable payments, reserves could be built, but the intended use had to be maintained for their use. To include more restrictive and explicit criteria for the use of reserves, the provisions in the Annual Budget Law were amended for the fiscal year of 2014 and subsequent fiscal years. The new restrictions *inter alia* require for example, that line ministries could in general only use their reserves for unforeseen events, and would not allow for funding of new projects.¹³

In practice, the new restrictions have led to a freeze in the accumulation of additional reserves. The change of the system has also had the effect of diminishing the level of assurance, on the part of the line ministries, that savings allocated to the reserve system will in fact be available for future draw-down. As a result, the former tendency towards “December fever” has re-established itself to some degree.

Clear rules and planning security are needed to restore trust between the BMF and the line ministry and to re-establish a system that supports the original objective of flexible, efficient and disciplined budget planning. Unlocking the potential of the reserves mechanism, in line with the original vision of Austria’s budget reform, will require a stronger assurance that the system can be used in a manner that is consistent with Austria’s fiscal policy objectives and obligations. Rather than have recourse to *ad hoc* approvals, this can be achieved through clearly defined rules about the build-up of such reserves, including qualitative and quantitative safeguards (see Box 6), as well as cancelling the carry-forward of unused funds under flexible ceilings and for technical and “unearned” reserves. As well as re-establishing assurance that the reserve system remains compatible with macro-fiscal planning, the more targeted system can place the focus more directly upon incentivising fiscal effort, efficiency and innovation within all ministries.

Box 6. Approval mechanisms and restrictions for carry-overs in OECD countries

In many OECD countries, carry-overs may be allowed after a qualitative evaluation and/or with quantitative restrictions (see Box 2.5). For example, as part of an evaluation, the Central Budget Authority would approve or reject requests by ministries or agencies to carry-over funds on predefined expenditures programmes.

Quantitative rules include:

- a limit on the amount of carry-over allowed in any given year (usually 2-5% of the budget appropriation);
- a ceiling on the amount of accumulated carry-overs;
- or limits on the draw-down of accumulated carry-overs.

For instance, in **Canada**, unused funds from operating and capital budgets can be carried over up to a 5% limit. Similar to **France and Sweden**, **Estonia** sets this limit for such carryovers at 3% of the total expenditure, with the exception of investment projects and co-financing of projects partly funded by the EU, for which all unused amounts can be transferred to the following year. In the Netherlands carry overs are also restricted to 1% of the budget appropriation.

In **Ireland**, subject to approval by Minister for Public Expenditure, departments are allowed to carry over savings in three different cases: 1) 100% of savings that represent up to 2% of the gross current allocation, 2) 2/3 of their savings from 2% to 6% of the gross current allocation (with the remainder accruing to the Exchequer), and 3) savings above 6% of the gross current allocation, after examination on a case by case basis. There is also a provision that - should the proposed carryover across all departments pose risk to respecting the overall government ceiling - there is a possibility to limit it. The carried-over funds can be spent on one-off projects and structural measures, but cannot create a new lasting liability.

In **Finland and Sweden**, most operating expenditures and investments may be carried over for a maximum of two years.

In the **United Kingdom**, unlimited carry-over of both operating and investment budgets were permitted, but the approval of the finance ministry is needed to draw down the funds.

In **Germany**, the Federal Budget Code allows for appropriated funds from one year to be carried over for use for the same purpose in the following year, subject to conditions. The main condition is that the carryover must be justified in each case by an objective requirement to do so (e.g. a legal or contractual obligation). A distinctive feature of Germany's approach to carry-over is that any such expenditure in the second year must be explicitly financed through savings in other areas of the departmental budget. This approach ensures that carry-over does not entail any adverse impact on budgetary plans and the public finances, and it requires departmental budget managers to prioritise within their overall allocations and to pay special attention to timely budget execution. On the other hand, the incentives for managers to realise savings and efficiencies in budget execution would appear limited under this model compared to the experience of other OECD countries which allow departments to retain the benefits of year-end savings for carry-over purposes, without the requirement to "cover the use" of such funds through offsetting revenue or savings measures.

Source: Hawkesworth et al. (2013); Sherwood (2015), Medium-Term Budgetary Frameworks in the EU Member States, Discussion Paper 021, December 2015; Lienert and Ljungman (2009), Carry-Over of Budget Authority, IMF PFM blog; Cangiano, M. (2017), Top-Down Budgeting and MTBFs, Presentation held at Public Resource Management Seminar, State General Accounting Department, Ministry of Finance, Rome, February 6-8, 2017, OECD (2014), Budget Review: Germany, OECD Journal on Budgeting, Volume 2014, Issue 2.

The "reserves report" (*Rücklagenbericht*) increases the transparency of reserve accumulation and use. The report published by the BMF provides detailed information about withdrawals and allocation by Ministries. Collating and presenting this information of reserves by source would make it easier to distinguish between "unearned" and "earned" reserves and outline clear rules for accumulation.

Furthermore, if they are to be compatible with a responsible fiscal management, reserves need be more clearly accommodated within the medium-term expenditure framework. The multi-year nature of certain programmes or capital expenditures should be reflected in the use of multi-annual appropriations within the BFRG ceilings and removed from the scope of the reserve system. Moreover, direct linkages to a budgetary margin can furthermore avoid the risk of over-budgeting and indeed enhance the incentives for new policy priorities and structural reforms (see next section).

On this basis, the BMF would be in a stronger position to focus its short-term budgetary management activities on the exercise of discipline with regard to the established expenditure ceilings; while applying medium-term budgetary management via the BFRG to ensure alignment of these ceilings with the requirements of prudent macro-fiscal management ("top down" budgetary management).

2.4. The role of medium-term fiscal margins

The Austrian BFRG does not integrate “fiscal buffers” or unallocated margins within the budgetary ceilings in an explicit manner, although variable ceilings act as stabilisers to some extent. The BFRG ceilings are divided into fixed and variable ceilings depending on their linkage to the business cycle. The variable ceilings include social benefits, but also payments related to the European Regional Fund and the European Stability Mechanisms and other payments that cannot be sufficiently predicted.¹⁴

Nevertheless, these margins are limited in scope and cannot accommodate new pressures that may arise over the course of the budget cycle, whether from new political priorities or demand-driven factors. As a result the established practice is for the ceilings to be adjusted to reflect emerging realities; and this in turn undermines the normative character of the ceilings in particular and of the BFRG in general.

In order to address this, consideration should be given to amend current rules in order to introduce an explicit and realistic “fiscal margin” into the BFRG rubric ceilings. Currently the very limited margin in place can only be used when it is no longer possible to reallocate funds between chapters. An amended approach would involve a far more substantial and flexible “fiscal margin” which would a) act as a buffer to absorb unexpected cost pressures, and b) allow for new policy priorities to be accommodated, where necessary, while still respecting public finance objectives and fiscal rules. International examples (Box 7) illustrate that fiscal margins can be used to promote resilience of the overall fiscal framework; provided that the high-level ceilings are then enforced rigorously as binding budget constraints.

Box 7. Fiscal margins in Sweden

The principle of compliance with the expenditure ceilings appears to be widely understood within Sweden’s public administration, and lends a strong, medium-term continuity to the budgeting and planning processes. The application of this principle is facilitated by the operation of the “fiscal margin” amounts, which are buffer amounts within the overall expenditure ceiling and which provide some measure of flexibility, from year to year, to respond to emerging pressures without re-opening the overall expenditure ceiling for that year.

The fiscal margin is a tool to balance the medium-term rigour of the Swedish framework with year-to-year flexibility. The margin is calculated according to the guiding principle that actual expenditures should be allowed some leeway to move automatically in response to macroeconomic developments, without jeopardising the overall expenditure ceiling. To achieve this, the government’s guidelines specify that the fiscal margin should amount to at least 1.5% of ceiling-restricted expenditure for the budget year (year y), 2% for the following year (year $y+1$) and 3% for each of the following two years (year $y+2$ and $y+3$). In practical terms, the fiscal margin is left unaccounted for (and unbudgeted for) within the annual budget allocations and multi-annual expenditure ceilings. The fiscal margins are not regarded as “contingency reserves” but rather as operational stabilisation mechanisms.

Source: OECD, 2016, Budgeting in Sweden

Introducing a fiscal margin is not a mere accounting exercise: it involves the administrative and political resolve to build up and set aside an explicit margin, and to include this margin in calculating compliance with fiscal rules; with the “opportunity cost” of allocating this amount towards identifiable areas. Given the tight fiscal position in Austria, generating such headroom within the multi-year budgetary ceilings would require a sustained, disciplined approach. In transitioning to such an arrangement, one possible approach would be as follows:

- formally adopt the ambition of incorporating such a margin within the budgetary framework
- identify from the outset the anticipated scale of the margin, when it has been fully implemented, and the length of the transition period during which it will be built up
- within the BFRG, set aside a specific budget line for the fiscal reserve and begin to apportion funds each year, on a gradual basis, so that by the end of the transition period the budgetary margin is fully in place
- in the context of annual budgetary cycle, the strategic fiscal policy discussion upon the availability, maximisation and use of “fiscal space” (see Section 2.2) should reckon the budgetary margin as a part of the expenditure baseline, rather than as a new initiative to be considered and debated each year.

In order to accelerate progress towards the new arrangement, Austria may consider building upon its own system of targeted spending reviews, as currently being developed within the BMF, as well as the existing (and growing) corpus of outcome-oriented *ex post* assessments of existing programmes. It may also be instructive to have regard to other international approaches which aim to maximise fiscal space (see e.g. Box 8).

Box 8. International approaches to maximising “Fiscal Space”

In a context of fiscal retrenchment or significant political re-prioritisation, many OECD countries have found it necessary to go beyond established processes of programme evaluation, in order to undertake a more systematic review of where “fiscal space” may be identified in the overall public finances.

In **Denmark** since the 1980s a system of targeted spending reviews known as “special studies” is integrated into the annual budget preparation process. These tend to focus on saving measures, although in principle they may recommend increases in funding for existing programmes. Since the crisis the annual number of special studies has increased and the focus has shifted from finding space for new expenditure priorities towards more aggregate expenditure reduction. Most special studies are agency reviews or programme reviews carried out by joint MOF/spending ministry taskforces, with formal terms of references approved by Cabinet. Taskforces present savings options to the Minister of Finance and the Economic Committee of Cabinet. These recommendations should in principle be based on consensus between the MOF and the spending ministry concerned, but if they are unable to reach consensus, separate recommendations may be put forward. The Economic Committee generally makes the final decision about which savings measures will be adopted in the budget.

Prompted by its fiscal crisis in the 1990s, **Canada's** “program review” process involved a methodical and rigorous re-appraisal of all baseline expenditures and led to major cutbacks. However the process came to be seen as unduly attritional and unsustainable in administrative terms; leading to an evolution towards a model of ongoing “strategic reviews”.

The **UK's** Comprehensive Spending Review model, also dating from the 1990s, was explicitly connected to administration-wide re-setting of multi-year fixed spending ceilings. The Comprehensive Spending Review tool remains in place in the UK and is deployed by HM Treasury at irregular intervals -generally from 2 to 4 years apart- depending on the needs of the political cycle and other factors.

In **Ireland**, the evolution of the budgetary framework illustrates the evolving role of spending review. Against a background of severe fiscal retrenchment and budgetary correction, an *ad hoc* comprehensive spending review was conducted in 2009 led by independent experts from the private and public sector, with a view to identifying major policy savings, efficiencies and associated reform options. In 2011, the new government introduced a series of reforms including a medium-term expenditure framework, performance budgeting and a commitment to periodic “Comprehensive Reviews of Expenditure”. These regular reviews were designed to support the medium-term expenditure framework by allowing for the examination of baseline expenditure alongside new policy proposals. In the 2014 comprehensive review, spending ministries were asked to identify a certain volume (5%) of savings. By 2016-2017, with budgetary correction essentially completed, the periodic spending review model has evolved in favour of more ongoing, annual evaluative exercises.

Source: 2016 OECD Performance Budgeting Survey; Kennedy F. and Howlin J., Spending Reviews in Ireland: Learning from Experience, OECD Journal on Budgeting Vol 2016/2 (2017).

An explicit fiscal margin would also provide opportunities for factoring the system of ministerial reserves into the multi-annual framework, in a way that assures compliance with overall fiscal rules. As indicated above, a smooth operation of fiscal reserves in a “steady state” should normally involve no (or marginal) net fiscal impact. On some occasions, however, it might happen that a number of ministries propose to draw down a large proportion of their accumulated reserves at the same time, and in such cases the impact of the overall fiscal position could be significant. As a safeguard or “backstop”, an additional rule could be designed with a number of features, outlined on an illustrative basis below:

- a requirement that all ministries notify the BMF during the spring semester of their intention to draw down a specified portion of their accumulated reserves for allocation in the autumn budget
- the net fiscal impact of the proposed drawdowns is assessed by the BMF over the summer, in the light also of proposed contributions / accumulation of reserves by the various ministries
- as a general principle, drawdowns could be allowed to the extent that their net fiscal impact can be accommodated within the fiscal margin for the budget year and future years of the BFRG

- in the case where proposed drawdowns would collectively exceed the fiscal margin, a “decision rule” is in place whereby significant proposed drawdowns are curtailed to within sustainable limits.

In more general terms, flexibility mechanisms such as the budgetary reserves (see Section 2.3.4) and the proposed budgetary margin should be supportive of quality and innovation within public spending in Austria, and should not be readily available or usable in ways that undermine fiscal discipline.

Box 9. Key Recommendations

1. Redesign the spring phase of the budgetary cycle to present and hold a strategic debate on the government’s fiscal policy strategy. This debate should be aligned with, but supplementary to, the EU-related Stability Programme Update presented in the same time-frame, grounded on issues such as how the economic outlook affects the available “fiscal space”; the broad principles and priorities that will inform the government’s subsequent budgetary proposal; and the establishment of the aggregate expenditure ceiling for year four of the multi-year frame of reference. The discussion should be designed to provide an opportunity for a pre-budget phase of scrutiny and engagement by the National Council, and to promote parliamentary debate and input on high level policy priorities.
2. Develop a designated national document (e.g. a “Pre-Budget Fiscal Report”) as a basis for the spring fiscal policy debate.
3. Introduce clear deadlines for approvals on reallocations between global budgets to ensure the effectiveness of the system. In case of refusal of requests, timely decisions can reinforce trust between line ministries and the ministry of finance, improve planning and avoid potential payment shortages at the end of the year.
4. Redesign the system of ministry reserves, setting clear rules to limit the accumulation of reserves. Clear guidelines should support the original objective of flexible, efficient and disciplined budget planning consistent with Austria’s fiscal policy objectives and obligations. This can be done by amount (e.g. a cap on the level relative to the overall expenditure ceiling or a restriction on the annual level of carry-overs allowed), and/or time (e.g. a principle that carried-over amounts must be used within a specified time period).
5. Dissolve technical and “unearned” reserves. This should include reserves resulting from changes to interest rates, export guarantees and expired eligibility-defined programmes, to reduce the current stock of reserves to a reasonable level. The multi-year nature of major acquisitions and projects within the medium term expenditure framework ceilings should be explicitly recognised and removed from the reserve system.
6. Maintain carry-forward flexibility of “earned” reserves. To restore trust on the part of ministries in the operation of the reserve system, and to improve planning, the carry-forward flexibility of “earned” reserves should be maintained. To facilitate this, reserves could be recognised in the baseline of expenditures and the medium term expenditure framework, and ministries could be allowed to earmark carry-forwards for projects.

7. In future, provide a clearer picture of the source of reserves in the reserves report (*Rücklagenbericht*) distinguishing between “unearned” and “earned” reserves. The current IT systems should be updated to enable the differentiation and tracking between “earned” reserves and “unearned” reserves.
8. Introduce an explicit and realistic “fiscal margin” into the medium term expenditure framework that can act as a buffer to absorb unexpected cost pressures, and allow for new policy priorities to be accommodated, where necessary, while still respecting public finance objectives and fiscal rules. The fiscal margin should be treated as a part of the expenditure baseline, rather than as a new initiative to be considered and debated each year.
9. In developing the “budgetary margin”, consider new mechanisms to identify fiscal space, including through building upon the existing focused spending review mechanism as developed by the BMF and drawing upon the existing corpus of outcome-oriented ex post programme evaluations.
10. Consider mechanisms to link the use of the fiscal margin embedded with the medium term expenditure allocations to the availability of reserves in the relevant ministry. This mechanism should be considered to ensure a balance between reserve withdrawals and the build-up of reserves (i.e. a sustainable “steady state” system), thus further incentivising line ministries to treat expenditure ceilings as effective and realistic binding limits within which resources need to be stewarded.
11. Design an additional “backstop” rule as a further safeguard to prevent large draw-downs of the accumulated reserves that could result in significant impact on the fiscal position. Such an additional rule may include early notification obligations for the drawdown of accumulated reserves to give the BMF the opportunity to assess the net fiscal impact of the proposed drawdowns. As a general principle, drawdowns may be allowed to the extent that their net fiscal impact can be accommodated within the fiscal margin for the budget year and future years of the BFRG. In the case where proposed drawdowns would collectively exceed the fiscal margin, a “decision rule” should be put in place whereby significant proposed drawdowns are curtailed to within sustainable limits.

3. Performance aspects of budgeting

3.1. Introduction

As outlined in Section 1, performance budgeting is an integral element of the Austrian federal budget reform. The Federal Constitution specifies that the federal budget system must be based upon principles of outcome orientation, transparency, efficiency and attaining a true picture of the financial situation. “Outcome orientation” includes the goal of equal treatment of men and women (this topic will be dealt with separately below).

In applying these principles, the Federal Organic Budget Law specifies that outcome orientation must be considered as “an integral element of budget management” including in medium-term and annual budget planning; monitoring / controlling of outcomes; conduct of Impact Assessments as a standard tool for assessing all policy interventions including for legislative proposals, procurement activities and new subsidies; management of agencies via performance mandates; and organisational structures for optimum budget management.

In practice, this systematic approach to performance budgeting manifests itself in the structuring of performance information in the annual budget and multi-annual strategy report; the co-ordination of performance goals with the priorities of government; the performance mandates¹⁵; and the systematic use of performance information in Impact Assessments. Each of these will be considered in turn.

3.2. Performance and the annual budget

3.2.1. Presentation of performance information in the budget documentation

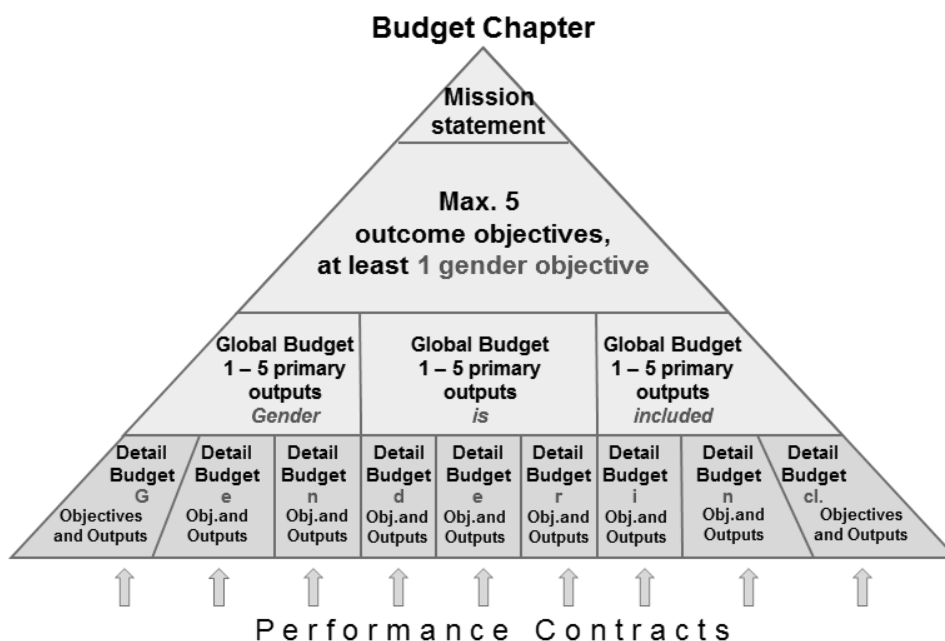
The annual budget documentation is structured so as to make clear the key, high-level performance objectives associated with budgeted funds. The structure follows a hierarchy from higher-level, outcome-based goals linked to the core mission of each ministry; to ever-more specific and output-focused information linked to the financial allocations within each area; with linkages also to the system of Impact Assessment for new programmes and laws/regulations. The performance system does not attempt to establish direct linkages between every item of spending and its associated outputs/outcomes, but aims at providing general information about key performance aims in each area. A notable feature of the Austrian performance system is how goals and objectives relating to gender equality are systematically included at every level of the ‘performance pyramid’ (see Figure 6. below).

Each of the 33 **Budget Chapters** fall under the responsibility of one federal ministry or agency. Each Budget Chapter is linked with the mission of that ministry, and must present a maximum of five “outcome objectives” (*Wirkungsziele*) that are key to delivering upon that mission. Each of these outcome objectives is accompanied with the following information:

- Why has this objective been chosen?
- How will this objective be achieved?
- How will successful accomplishment of this objective be recognised? (literally, “what does success look like?”)

Beneath this last heading, a figure shows the performance indicator chosen for this objective, along with its calculation method; data source; and the development of the indicator over a multi-year period (the previous three years, the current year, the forthcoming budget year and the subsequent years, depending on whether a medium-term or longer-term objective is being targeted).

Figure 6. The performance pyramid



Source: Adapted from Bundesministerium für Finanzen

Each Budget Chapter contains, on average, between one and three **global budgets** which are the financial allocations actually voted upon by the parliament, and are thus binding in nature. In each case, the linkage from the global budget back to the Chapter-specific outcome objectives is shown.

At the level below the “global budget”, the “**detailed budgets**” further specify the financial allocations and follow a similar approach to showing performance information: a limited number (no more than five) output targets (*Ziele*) are specified, with a tabular outline of the rationale, and quantitative success indicators for the budget year. The detailed budgets are not part of the core budget figures voted by parliament, but are presented in supplementary budget reports (*Teilhefte*) - one for each Chapter - as part of the package of budgetary documentation.

Below the detailed budgets, the performance dimension of organisational management is managed through “**performance mandates**” which are intended to link the budgetary performance objectives with the tasks of specific management units (using the system of “management by objectives”). These performance mandates are for internal use and are not publicly available; however the details in the performance mandates provide the basis for the objectives and activities that are presented in the *Teilhefte* (see Section 4).

3.2.2. *Ease of use of the performance information*

The OECD *Recommendation on Budgetary Governance* calls on governments to “routinely present performance information in a way which informs, and provides useful context for, the financial allocations in the budget report; noting that such information should clarify, and not obscure or impede, accountability and oversight” and goes on to recommend:

using performance information, therefore, which is i) limited to a small number of relevant indicators for each policy programme or area; (ii) clear and easily understood; (iii) allows for tracking of results against targets and for comparison with international and other benchmarks; (iv) makes clear the link with government-wide strategic objectives;

In principle, the Austrian approach conforms well to the Recommendation, requiring as it does a limitation on the amount of performance information generated, as well as a “cascading” approach that sets specific targets within the context of higher-level goals. The hierarchical performance model is carried through systematically within the budget documentation. By its nature, the budgetary information is very extensive: however a parliamentary or public reader, once they become familiar with the logic of this system, should be in a position to navigate their way through the core documents, supplementary materials and performance reports without undue difficulty.

The general nature and ease-of-use of the budgetary information is assessed in more detail in Section 4. To fully assess how effective this framework is for supporting an outcome-based approach to budgeting, it is necessary to consider in more depth how the various performance indicators are developed, how they are inter-related and how they are used.

3.2.3. *Strategic co-ordination of performance information*

The OECD *Recommendation on Budgetary Governance* calls on governments to “closely align budgets with the medium-term strategic priorities of government,” including through “organising and structuring the budget allocations in a way that corresponds readily with national objectives” and “nurturing a close working relationship between the Central Budget Authority (CBA) and the other institutions at the centre of government (e.g. prime minister’s office, cabinet office or planning ministry), given the inter-dependencies between the budget process and the achievement of government-wide policies”.

The Austrian system attempts to meet this objective through the close, complementary relationships and sharing of responsibilities between the Federal Chancellery, the Federal Ministry of Finance and the line ministries. The Federal Chancellery is assigned overall responsibility for co-ordination and quality-control on performance information, both for the higher-level outcome information that is associated with the “global budgets” and for the performance information in the Budget Chapters; the line ministries have authority to devise their own performance indicators, taking account of guidance from the Federal Chancellery; and the Federal Ministry of Finance incorporates the performance information into the budget documentation, while also exercising a further check that performance objectives can plausibly be attained with the financial allocations provided.

3.2.4. *The Performance Role of the Federal Chancellery*

Within the Federal Chancellery, work on promoting the performance orientation is led by the Federal Performance Management Office (FPMO), which is the source of guidance, standard-setting and quality-assurance on performance issues. The FPMO engages directly with line ministries on the quality and relevance of the performance information to be

included in their budgetary and performance-related reports. To help line ministries in developing performance indicators, guidance has been provided both by the BMF and the Federal Chancellery. The tool for preparing the budget, and showing performance information, is provided by the BMF. All policy proposals are subject to mandatory Regulatory Impact Assessment (RIA), in which ministries must make explicit the link (if applicable) to their high level outcome objectives and the key outputs measures outlined in the budget (see Section 3.4 below for separate discussion of Regulatory Impact Assessment).

As part of its role in promoting the performance orientation of the budget, the FPMO prepares the twice-yearly Performance Reports, mandated by section 68 of the Federal Organic Budget Act 2013 which concerns the controlling of outcomes. These reports are based on inputs received from the line ministries. In May, the Report on Impact Assessments (*Bericht über die wirkungsorientierte Folgenabschätzung*) presents results of *ex post* impact assessments and programme evaluations in various areas (see section 3.4 below). In October, the Annual Federal Performance Report (*Bericht zur Wirkungsorientierung*) is presented in parallel with the budget documentation, and provides a comprehensive narrative account of the performance information in each Budget Chapter, including an account of the achievement of the previous performance objectives and an explanation of any changes or refinements to these objectives.

In the Performance Reports, particular attention has been paid to how the performance achievements are presented. This information is colour-coded, to identify quickly whether specified targets have been met, partially met or not met. As a further aid, all of this information on performance monitoring is available in digital form on an interactive website maintained by the Federal Chancellery (www.wirkungsmonitoring.gv.at). An interactive tool on the website provides an overview of the linkages between all budgetary bodies and their corresponding chapters, outcome objectives, outputs and specific projects. Additionally, the website provides a “gender map” (*Gleichstellungslandkarte*), which gives an overview of all gender related outcome objectives and their corresponding outputs, organised by thematic clusters. These online tools are a good example of innovative presentation of performance data; future developments of the tool should focus upon further improvements to the overview, user-friendliness and easy accessibility.

Taken as a whole, parliamentarians in October can expect to have available to them a comprehensive set of information showing *a*) financial allocations together with associated outcome objectives within the core budget documents, and *b*) a full account from the Federal Chancellery regarding the performance information that is used. In addition, the Parliamentary Budget Office (PBO) plays a particular role in helping parliamentarians to engage constructively with this performance information¹⁶. Within the OECD system of classification of performance budgeting systems, the Austrian approach is a good example of “performance-informed budgeting” (see Box 10).

Box 10. Classification of Performance budgeting systems

Different models and approaches to performance budgeting are observed across the OECD. Even when countries have adopted similar models, they have taken diverse approaches to implementing these and they have adapted them to national capacities, cultures and priorities. In this context, the OECD has identified three broad categories of performance budgeting systems:

1. Presentational performance budgeting, which involves the provision of performance information in parallel with the annual budget, e.g. as a transparency exercise or for the background information of policy-makers, with no necessary expectation that the information will be taken into account in deciding upon the budget allocations;
2. Performance-informed budgeting, which presents performance information in a systematic manner alongside the financial allocations, in order to facilitate policy-makers in taking account of this information, to the extent that they may deem appropriate, when deciding upon with the budget allocations;
3. Direct performance budgeting (or performance-based budgeting), where performance information is provided with the financial information, and where there is the expectation that performance, relative to previously stated objectives, will have direct consequences for the budget allocations.

More recently the OECD has identified a fourth broad category:

4. Managerial performance budgeting, in which performance information is generated and used for internal managerial purposes and for organisational/managerial accountability, with a lesser focus upon the linkages with budget allocations.

Across OECD countries more generally, performance budgeting practices tend to fall into the first and second categories, with only a few in the third category (direct performance budgeting) for select types of expenditures (e.g. funding of higher education or hospitals).

3.4.5. Enhancing the strategic orientation of the performance information

In principle, the high-level engagement from the Federal Chancellery should allow for an alignment of the performance indicators with the higher-level strategic priorities of government as a whole, consistent with the spirit of the OECD Recommendation. In practice, however, stakeholders report that there is no clear sense of a single, coherent “strategic programme of government” which would form an effective “anchor” for the ministry-specific outcome objectives. The Government Programme embodies the political agreement between the parties of government, but is traditionally not designed to serve as the authoritative frame of reference for Austria’s system of outcome-oriented budgeting.

The different streams for managing performance and financial information also pose a challenge to the unity and coherence of performance-oriented budgeting. Due to involvement of several stakeholders (Line ministries, Court of Audit, Chancellery) the process for the preparation of the performance information is very comprehensive. For example, due to different timelines for producing documents, the requests to line ministries

for performance information are issued by the Federal Chancellery before the Federal Ministry of Finance has issued its budget circular concerning financial allocations. Discussions on performance and financial matters are handled separately by the respective institutions. More generally, government-wide co-ordination of policy matters is handled within the Federal Chancellery by DG-IV, whose structure allows it to mirror the line ministries (analogous in some respects to the mirroring of line ministries within the BMF). The FPMO, which is located within DG-III, does not have an analogous structure, and overall policy co-ordination appears to take place at a remove from performance co-ordination; and neither process can rely upon a single Government Strategy to help keep the respective approaches in alignment.

Some measures are currently in development which should help to address these apparent shortcomings. The FPMO issues recommendations to line ministries on how to improve the quality of their outcome objectives. Ultimately the line ministries make the final call on these objectives but if they choose not to adopt the recommendations from the Federal Chancellery, they must justify their decision. On the basis of this engagement, stakeholders seem satisfied that the overall quality of outcome objectives has been steadily improving over recent years, and indeed that the level of meaningful engagement in parliamentary debate is increasing. Moreover, from 2018 these “comply or explain” letters between ministries and the FPMO will be published, bringing greater transparency and public oversight to bear upon this issue.

Also relevant in this regard is the potential benefit of adapting a more open, participative and responsive approach - on the part of the line ministries and the FPMO in particular - to selecting the outcome objectives that are of most interest to parliamentarians and public. Some stakeholders pointed out that, while there is a wealth of performance information available, some “obvious” performance-relevant data - such as background information on the total number of students in the education system, or the total number of prisoners - is not readily available.

Against this background, it would be advisable for the Government to give particular attention, in the context of preparing the Government Programme, to articulating the high-level outcome goals for which the government and public administration will be accountable, and which will sit at the apex of Austria’s outcome-oriented system of policy-making and budgeting. A strengthened, whole-of-government approach to specifying outcome indicators may also be timely in the context of meeting Austria’s reporting obligations on the UN Sustainable Development Goals (SDGs); and could in principle allow for greater streamlining and efficiencies in various reporting streams - rather than run the risk of allowing completely parallel and unrelated reporting streams to develop, which would magnify the reporting burden upon ministries and agencies. There is an extensive body of work done by various international organisations in this area - ranging from Eurostat to the OECD - to facilitate the adoption of clear, more uniform and internationally-comparable outcome benchmarks. Starting in 2017, a first step has been taken into this direction by the FPMO and the BMF, enabling line ministries to highlight connections between outcomes/outputs and SDG goals/sub-goals during the *ex post* evaluation of performance information. This information is collected by the FPMO and the BMF and can be used for various reporting needs. The same procedure applies to the RIA *ex post* evaluation tool, where line ministries can point out whether a measure had a substantial impact on any SDG goal or sub-goals.

3.3. Impact assessment of budget measures

As a second pillar of Austria's "outcome orientation" approach, the performance budgeting system is complemented with a system of mandatory impact assessments (*Wirkungsorientierte Folgenabschätzung*) which applies to all new regulatory or spending proposals.

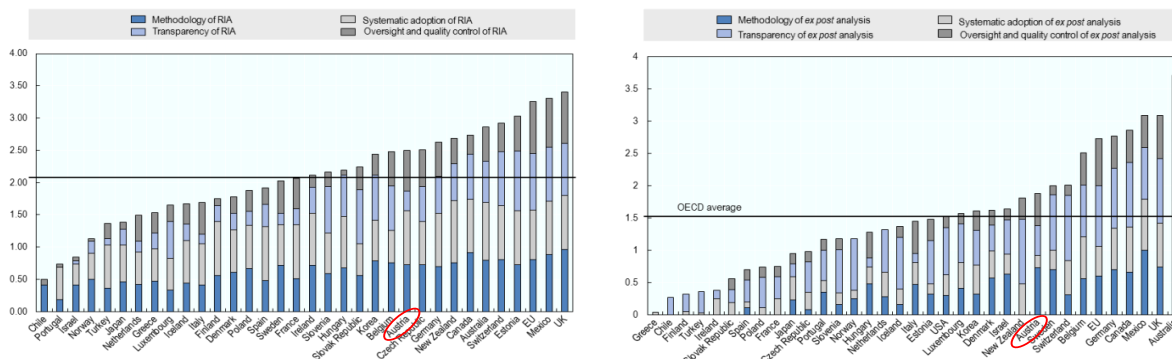
Impact assessments show expected impacts in various policy dimensions (e.g. environment, implementation costs¹⁷, bureaucratic burden, business, economic, social issues) and also include an explicit performance-orientated part, showing outcome objectives, outputs and corresponding indicators, which in turn are reflected in the performance parts of the budgetary documentation. The assessment of impacts on the equality of men and women is mandatory in all RIAs. Guidance for this assessment is provided in a separate chapter of the RIA handbook and the IT-tool. Areas to be screened for gender impacts include benefits granted by the government to citizens and businesses, education, employment, income, public revenues collected, health, and participation in decision-making (see Section 3.5 below for further details on the case of gender budgeting).

Each measure adopted in this way - whether in the expenditure or regulatory policy area - is also subject to a mandatory *ex post* evaluation after five years at the latest¹⁸ in order to feedback experience and results into the policy making process. The formal requirements that entered into force in 2013 for conducting *ex post* evaluations are quite extensive, asking *inter alia* for an assessment of the achievement of underlying policy goals, a comparison of actual and predicted impacts, and the identification and quantification of costs and benefits and unintended consequences. A summary report of these *ex post* evaluations is compiled by the Federal Chancellery and submitted to the parliament in May of each year. This Report on Impact Assessments (*Bericht über die wirkungsorientierte Folgenabschätzung*) is also published online.

Austria's system of impact assessments is advanced practice in international terms (Figure 3.2), to the extent that it applies on a mandatory basis across spending and regulatory policy areas, on both an *ex ante* and an *ex post* basis, with clear systematic links to the performance budgeting system, facilitated by an overall IT system and overseen in most cases by the "centre of government", the Federal Chancellery. This approach conforms closely with the OECD Recommendation on Budgetary Governance, which - in the context of Budgetary Governance Principle no. 8 on performance, evaluation and value-for-money - calls for

"evaluating and reviewing expenditure programmes [...] in a manner that is objective, routine and regular, to inform resource allocation and re-prioritisation both within line ministries and across government as a whole" and for the conduct of "routine and open ex ante evaluations of substantive new policy proposals to assess coherence with national priorities, clarity of objectives, and anticipated costs and benefits".

Figure 7. Composite indicator for regulatory impact assessment and *ex post* evaluation for developing primary laws



Notes: 1. The results apply exclusively to processes for developing primary laws initiated by the executive. The vertical axis represents the total aggregate score across the four separate categories of the composite indicators. The maximum score for each category is one, and the maximum aggregate score for the composite indicator is four. This figure excludes the United States where all primary laws are initiated by Congress. In the majority of countries, most primary laws are initiated by the executive, except for Mexico and Korea, where a higher share of primary laws are initiated by parliament/congress (respectively 90.6% and 84%). <http://oe.cd/israel-disclaimer>; 2. The vertical axis (2nd figure) represents the total aggregate score across the four separate categories of the composite indicators. The maximum score for each category is one, and the maximum aggregate score for the composite indicator is four

Source: OECD (2014b), Regulatory Indicators Survey results, www.oecd.org/gov/regulatory-policy/measuring-regulatory-performance.htm.

Since April 2015, the system of impact assessment system is applied in two tiers, with thresholds applying across various impact dimensions to determine the scale and scope of the assessment (BKA, 2016). If the threshold criteria are not surpassed, a “light” version of the impact assessment may be used, with fewer requirements for data as outcome indicators or *ex post* evaluations are not obligatory. In addition, impact assessments may be applied on a “bundled” basis to a series of initiatives which form part of a common policy initiative. This “bundling” also applies to spending programmes with similar aims.

The impact assessments are conducted directly by line ministries, although both the FPMO and the Federal Ministry of Finance can comment on the assessments at draft stage and suggest changes. Ministries in turn must either comply with the recommendation and adapt the impact assessment or explain why they are not complying. Nevertheless, there is a marked difference in procedures of quality control when it comes to different impact assessments. Although using the same methodology and IT-tools, procedures and responsibilities differ widely depending on the kind of assessment (legislative, spending, a full or light impact assessment or bundle). For example for spending programs that exceed EUR 20 million, the FPMO is responsible for quality assurance of the Impact Assessment, apart from financial assessments and assessments regarding any bureaucratic burden for citizens and businesses which are assessed by the BMF. For projects below EUR 20 million, all quality assurance is done by the BMF, even for elements that are normally assessed by the FPMO. However, in the case of legislative proposals, the quality assessment is always done by the FPMO (again apart from the financial impacts and assessments of the bureaucratic burden for businesses and citizens). *This separation of responsibilities may pose challenges for maintaining the Austrian system’s inherent uniformity and consistency of approach.*

3.3.1. Transparency, accessibility and use of Impact Assessments

While in its conception and execution the impact assessment system can be described as advanced, there are some issues that would help this instrument to live up to its full potential as a tool of consistently high-quality policy-making.

The introduction of “light” impact assessments is a move towards streamlining and reducing the internal administrative burden. This is important, as the growing number of impact assessments - particularly the *ex post* assessments reported in the Federal Chancellery’s May report - will challenge the parliament’s ability to assimilate key messages in the future. It may be advisable for the Federal Chancellery to adopt a proactive approach to distilling, from the extensive corpus of evaluative material, the key messages of relevance to policy-makers - including by reference to the government’s outcome goals, which (as proposed in the previous section) could be more clearly articulated as a reference for performance-oriented policy-making. This approach would allow for the performance reports to be significantly streamlined and would make their key messages more accessible to parliamentarians and the public (see Section 4). Care should also be taken that such light assessments remain subject to some level of external screening, e.g. on the basis of spot-checks, to ensure that basic quality requirements are maintained.

It is also notable that the uniform approach to impact assessment, as between spending and regulatory policy proposals, does not apply to the area of stakeholder engagement. In essence, impact assessments for primary legislation are transmitted to parliament and are open for consultation by the public and all interested stakeholders, including the FPMO. Spending proposals however are not routinely subject to public consultation: for example, the FPMO is only consulted when the proposed amount of funding surpasses the sum of EUR 20 million. After technical comments from the FPMO and the BMF, the impact assessments are officially transmitted from the line ministry to the BMF alongside the request for funding. In part, this approach reflects the distinctive character of budgetary policy-making, which in many countries has traditionally been viewed (especially by ministries of finance) as part of the internal deliberative process of government. Over recent years, however, countries around the world have begun to extend a more consultative approach to budget policy formulation also. In Austria’s case, there would appear to be scope to adopt a more transparent, participative approach, e.g. taking account of the principles outlined in the OECD’s Budget Transparency Toolkit (2017). Related to this, the degree of inter-ministerial pooling of information and expertise appears to be rather limited in the context of designing and conducting impact assessments, even on issues where the ministries would have common interests, despite a number of activities that intend to do so. Sweden provides an example of a highly collaborative approach to cross-government policy development (Box 11).

Furthermore, little attention has been given so far to the role of stakeholders in *ex post* evaluation. While this is not yet common practice in many OECD countries (OECD/Korea Development Institute, 2017), stakeholders engagement in *ex post* evaluation may help the policy makers analyse the impacts of regulatory changes and to explore alternative policy approaches.

Box 11. “Silo-busting” in Swedish policy-making: The practice of *gemensam beredning*

As in many countries, Sweden’s government operates on the basis of “collective cabinet responsibility”, a concept grounded in the constitution. In Sweden’s case, the rule is interpreted so that all ministers are collectively responsible for all acts and policies of government. Therefore decision-making and policy-formulation are conducted in a way that is in line with these shared responsibilities. The administrative practice that has been adopted to give effect to this principle is known as *gemensam beredning*, collective or joint preparation, and is applied for any policy issue which crosses more than one ministry or agency. In such a case, all relevant ministries - usually involving the Ministry of Finance - are involved collectively in discussions and decision-making, and the file is brought to cabinet for decision under the name of all relevant ministers. The strength of the Ministry of Finance is amplified by the fact that all proposals with economic, financial, budgetary or organisational consequences require an approval from the budget department, as otherwise the proposals may not be taken to the government for decision.

In practice, those officials working in areas of central relevance to policy-making - education, labour market, social insurance as well as the Ministry of Finance - will expect to be called upon regularly to comment and contribute views. Rather than view the process as inefficient or overly time-consuming, officials report that the process helps them to gain perspectives relevant to their own work area, and the approach seems to have overcome the problems of “silo culture” experienced in many other national administrations.

Source: OECD (2016), Budgeting in Sweden, OECD Journal on Budgeting, Volume 2016, Issue 2

In terms of making effective use of the impact assessments, the linkage to Outcome Objectives and Key Outputs of the Budget is facilitated through the IT tool. The FPMO has developed a website where, based on these connections, all *ex post* evaluation information both from impact assessments as well as from performance budgeting is connected and these linkages are visualized (www.wirkungsmonitoring.gv.at/).

In contrast, there is no single public website that publishes all (final) impact assessments, whether legislative/regulatory or spending-related in nature. Providing a single point of interaction for the public would help to raise awareness of the tool and would over time provide a valuable database of assessments and evaluations. The FPMO and the BMF have been starting a project to develop a web-based tool that would collect all *ex ante* impact assessments in a database and also digitise the relevant procedures.

This is a significant first step and is advanced international practice. Similar to many other OECD countries, the challenge for policy-makers in Austria is to put this extensive corpus of connected information to use in the analysis and design of policies. To reinforce the purpose of policy evaluation to seek policy effectiveness, evaluation results need be linked more directly to budgeting and planning. Accordingly the government evaluation system should be geared to identifying ineffective or low priority government programmes that could be de-prioritised or scaled back to assist either in reducing government expenditure or in creating additional budgetary space for high-priority new expenditures (see e.g. Boyle, 2014). Furthermore, political commitment to evaluation and evidence-based decision-making can be fostered through for example, organising opportunities for a dialogue between decision-makers and academics and others who can provide an interpretation of

the evidence arising from evaluation and research studies and key issues arising. Additionally, a more cohesive strategy for evidence-based decision-making may be adopted. One of the bottlenecks in using impact assessments may be also be related to challenges of developing a “performance culture” within the public administration as a whole, i.e. developing skills for seeking, generating and using performance and evaluative information as a routine tool of policy-making. During the initial years of introducing the outcome-oriented approach in Austria, the FPMO and the BMF have focused their efforts on training civil servants in the concept and practice of impact assessments.

Into the future, there will be a need for the development of in-depth analysis and evaluation as part of the general profile of skills within the public service - skills in using the full spectrum of data from performance budgeting, evaluations and spending reviews in a more integrated way to inform policy-making. This approach would also facilitate stronger inter-ministerial collaboration on cross-cutting issues.

3.4. The case of gender budgeting

Austria has a long tradition of attention to gender equality in the context of budgeting, with a gender mainstreaming group active in the BMF since 2002. Influenced by this tradition, Article 13(3)¹⁹ of the Federal Constitution now require all levels of government to aim at the equal status of women and men in their budgeting systems. At the federal level, this obligation is met via the outcome-orientation of the budget, as well as the impact assessments.

While outcome orientation is a general principle of budgeting in Austria, gender budgeting is implemented in a systematic manner as one distinct element of this overall approach. The outcome objectives specified for each Budget Chapter must include at least one objective related to gender equality; and in turn, each of the “global budgets” and “detailed budgets” must include at least one gender-related output target. In this way, each line ministry is obliged to consider how its activities relate to gender equality, and to design objectives and indicators to promote gender equality in the context of the budget. Moreover, as outlined in Section 3.3, gender equality is one of the dimensions of analysis that must routinely be included in Impact Assessments of new policies. Reporting on the gender-related objectives is covered in the Performance Reports prepared by the Federal Chancellery (see 3.2 and 3.3 above). Taken as a whole, therefore, the Austrian system of policy-making is designed to *a)* require all ministries to consider gender equality both in their high-level goal-setting and in more detailed specification of outputs and objectives, *b)* assess impacts on gender equality in the design of policies, using a standardised assessment template, and apply this assessment both *ex ante* and *ex post*, and *c)* account for their achievements in gender equality goals and objectives via the annual performance reports. This overall systematic approach is a leading international practice.

As regards co-ordination and concerted action in advancing Austria’s agenda of gender equality, matters are less clear-cut. Under Austria’s tradition of ministerial autonomy, the selection of gender-related objectives and indicators is a matter for each federal ministry. As outlined in Section 3.2, issues of co-ordination and quality-assurance in the setting of performance objectives and indicators are within the responsibility of the Federal Chancellery; and this responsibility includes co-ordination of gender equality in outcome-oriented policy making and budgeting. Beyond the domain of outcome-oriented policy-making, it is the task of the Federal Ministry of Health and Women’s Affairs (*Bundesministerium für Gesundheit und Frauen*, BMGF) to advance gender equality within society as a whole, and by government as a whole, in addition to achieving its own

important gender-related objectives. The BMGF thus co-ordinates government-wide implementation of gender mainstreaming - i.e. incorporating a gender equality perspective into the general policy-making and service-delivery functions of federal government - as well as promoting policy initiatives and analyses of specific relevance to equality of women and men. The BMGF is also authorised to check the information regarding the gender dimension in impact assessments.

3.4.1. Effectiveness and impact of gender budgeting

Gender budgeting in Austria is a special case of outcome-oriented policy-making and performance budgeting, and is thus subject to a similar range of strengths and potential weaknesses. To begin with, the requirement to specify gender equality objectives has in some cases catalysed a serious discussion about how public policies affect the equality agenda. For example, in the area of tax policy, specifying an objective relating to the fairer treatment of paid and unpaid work (encompassing also, therefore, unpaid work done in the home, disproportionately by women) generated a productive debate that influenced the development of tax reform.

Equally however, some perceived shortcomings of the general system of performance-oriented budgeting - especially in the area of inter-ministerial co-ordination and strategic alignment - also arise in the case of gender equality. As a case in point, the progress achieved in the tax treatment of paid and unpaid work did not automatically extend to the area of social security - which although highly relevant to the issue in question, was dealt with by another ministry. More generally, stakeholders involved in gender budgeting observe that the design of gender-related outcome objectives is left up to the line ministries, without any strong sense of an over-arching strategic agenda for how to measure progress towards, and achieve, gender equality in Austria.

While parliamentary stakeholders acknowledge the work done by some line ministries in formulating valuable gender equality objectives, it is also the case that the scrutiny of the gender-specific information is not a core area of focus within parliament at present. In some respects, the “mainstreaming” of gender objectives throughout the budget documentation makes it more difficult for parliamentarians to focus upon gender equality as a single over-arching theme of budgetary policy, when the annual budget is scrutinised and debated.

For a single overview of how ministries are achieving their gender-related objectives, it is necessary to look to the performance reports prepared by the Federal Chancellery. The October “Annual Report on Budget Orientation” not only collates the individual reports from line ministries, but also reconfigures them in order to present a single Gender Statement. This is a pragmatic and potentially very useful exercise, and is moreover complemented with sophisticated data visualisation tools which can be accessed by the general public²⁰. In practice however, the Gender Statement in its current form is subject to some limitations:

1. The statement is a factual re-presentation of the material submitted by the line ministries. It does not attempt to draw together messages about how the federal government as a whole is advancing the agenda of gender equality. The inclusion of cogent, politically salient messages of this nature would encourage a sustained parliamentary engagement on this topic.
2. In the context of elaborating its future work agenda, it would be advisable for the Subcommittee to allocate additional time in future meetings for a debate on the

range of issues that arise in relation to gender budgeting; and in this context to engage critically with the Gender Statement and the other related resources.

The Federal Chancellery faces formidable challenges in co-ordinating national actions and performance reporting on gender equality, in a context of strong line ministry autonomy in these matters, and in the absence of an over-arching strategy that is politically mandated. By law the Federal Chancellery is responsible for co-ordinating gender related objectives among line ministries. However, cross-ministry discussions on gender mainstreaming take place quite independently of the discussions between ministries and the Federal Chancellery on the selection and design of gender equality objectives. Both processes should be more clearly linked, for example by integrating the ministries' delegates from the gender mainstreaming task force into the team in the ministry that drafts objectives, outputs, and indicators.

On the other hand, the BMGF produces a very useful annual Gender Index, showing data in a wide range of fields that are relevant for an assessment of gender equality. BMGF also maintains a website portal (www.imag-gmb.at) and blog on gender budgeting²¹ which helps to spread knowledge and understanding of this issue, drawing also upon international expertise.

A more detailed elaboration of how gender budgeting interacts with gender mainstreaming in Austria's case, and specific recommendations for reform, is beyond the scope of this review. However, in considering ways of enhancing the effectiveness of the gender budgeting approach in Austria, it may be helpful to consider the OECD's multi-dimensional framework for designing effective gender budgeting strategies (OECD 2016, 2017) - see Box 12 for indicative approaches on this basis.

Box 12. OECD multi-dimensional framework for gender budgeting

There are several opportunities across the budget cycle in which the gender perspective can be brought to bear. Effective gender budgeting strategies will seek to use special processes and analytical tools to promoting gender-responsive policies at each key stage. In the budget preparation phase, a gender budget baseline analysis can assess how the baseline allocation of government expenditures and revenues impacts gender equality. In addition, gender needs assessments inform resource allocation decisions and *ex ante* impact assessments can identify the effect of proposed policy initiatives on gender equality. The effective use of these tools ensures gender-informed tax and spend decisions are put forward in the budget proposal.

In the budget approval phase, a gender budget statement provides an official assessment of the budget's impact in promoting gender equality. In addition, applying a gender perspective in performance setting enables the government to track progress towards gender equality targets. Both of these underpin effective scrutiny and accountability in the parliamentary debate. As spending occurs, programme managers should ensure that they apply a gender perspective to the allocation of budgeted resources so as to help close gender gaps.

Finally, after the budget has been executed, *ex post* gender impact assessments identify the impact that individual policies and programmes have had in bringing about gender equality. A gender audit or evaluation of the budget can also assess the extent to which gender equality is effectively promoted and/or attained through the collective policies set out in the overall annual budget. Gender should also be routinely included as a distinct dimension of any spending review analysis. This includes reviewing policies for their efficiency and effectiveness in delivering gender objectives and identifying ways to improve existing gender-related policies.

Source: OECD (2017).

Box 13. Key recommendations

12. The Government Programme (or Coalition Agreement) should be designed with a view to its fundamental role as an “anchor” for outcome-orientation in policy-making and in budgeting. Particular attention should be given to articulating the high-level outcome goals for which the government and public administration will be accountable. High level priorities should in turn be reflected in the policy priorities in the new Budget Report (potentially merged with the Strategy Report), as well as the proposed fiscal policy document in spring.
13. Internationally comparable benchmark indicators should be considered first when developing the indicators for each budget chapter. This would bring Austria’s outcome objectives into fuller and more explicit alignment with the EU 2020 and UN Sustainable Development Goals, and would also support a streamlining of associated reporting requirements.
14. Adopt a more participative, inclusive approach to the setting and design of outcome objectives and indicators. Line ministries and the Federal Chancellery’s Federal Performance Management Office should seek to ensure the relevance of the objectives and indicators chosen, including on gender, to the parliamentary scrutiny process. This may be accomplished through a more targeted engagement of relevant sectoral committees on these specific topics and through a more systematic engagement with the parliamentary Sub-Committee on Execution and Performance.
15. Streamline the performance reports to make their key messages more visible and accessible to parliamentarians and the public.
16. In the medium term, develop the financial management IT system to allow tracking of the level of resources associated with the gender objectives and make this information available in the Gender Statement.
17. The Ministry which has overall responsibility for gender equality should be further engaged in the task of co-ordinating and articulating the whole-of-government approach to promoting gender equality. This joined-up approach should in turn be reflected in the gender objectives identified and prioritised by the line ministries.
18. Continue to develop a comprehensive set of gender disaggregated data to improve the body of evidence underpinning gender objectives and indicators

and gender impact assessments. Over time, all data and statistics systems, including in the financial management IT system, should be designed to provide gender-disaggregated data.

4. Budgetary documents and oversight

4.1. Introduction

As an important part of its core functions, the Ministry of Finance provides a large volume of information regarding each of the budget chapters and supporting material. As mentioned in Section 2, the reform of the budget and particularly of the budget structure aimed at providing greater transparency and accountability for the National Council and the public, in order to balance the increased freedom of action available to line ministries arising from the more highly- aggregated budget structure. To maintain an effective oversight role of the National Council in the Budget Process, the reform design included detailed and regular reporting (Steger, 2010). In this spirit, key budget documentation is provided for the BFRG discussion in April²² and on the annual budget in October (the “budget brick”) including detailed performance information. Additional reports are provided at regular intervals including monthly execution reports during the course of the year. Moreover, the website of the BMF provides on-line access to all budgetary documents, and care is taken to ensure that the material made available in this way is introduced in a user-friendly manner. The level of budget transparency achieved is thus very high.

The wealth of information provided by the BMF is well in line with the OECD Recommendation on Budgetary Governance, budget principle no. 4, which requires governments to:

“Ensure that budget documents and data are open, transparent and accessible through the availability of clear, factual budget reports which should inform the key stages of policy formulation, consideration and debate, as well as implementation and review.”

By its nature, the sheer volume of information provided poses challenges for the institutions of government, both in terms of generating this material to a high standard of quality, and in terms of the assimilation and use of this information by parliamentarians. This section assesses how the presentation of budgetary information in Austria supports transparency and accountability as regards the National Council; and also the openness, transparency and inclusiveness of the budget process.

4.2. Overview of the budgetary documents and reports generated by the BMF

In principle the provision of exhaustive information should support an agenda of transparency and accountability. However, the greater the volume of information provided, the greater the need for this information to be properly structured, indexed and cross-referenced if it is to be usable. Parliamentary stakeholders have expressed appreciation for the volume and comprehensiveness of the budgetary material made available by the BMF; but some stakeholders have also expressed concern about the difficulty of using this material, and the lack of guiding overviews. From this perspective, concern is expressed that increased ‘transparency’ of budgetary material, as measured through the number of regularity of reports, is in fact outweighed by a countervailing decrease in ‘accessibility’, understood as the ability to identify the salient points of a budgetary document and thus use

it for policy scrutiny and accountability purposes. Furthermore, inconsistencies in the layout (such as headings, titles, styles, colour coding, content structure) of the different reports make it more difficult for Parliamentarians to become familiar with, and find their way through the provided information. The newly introduced cash and accrual budgeting poses further challenges in this regard (see also Section 4.4 below). The various different budget-related reports provided to the National Council are outlined in Table 6.

Table 6. Main reports presented to the National Council

Medium-term Framework April (October)	Annual Budget October	EU Documentation (EU semester approach)	Budget Execution Report (Continuous reporting)	Outcome Orientation (Chancellery)	Others
Draft Medium-term Budgeting Framework Act (BFRG)	Draft Annual Budgeting Act including Annexes	Stability Programme (April)	Monthly budget executions reports	Report on outcome orientation (October Report)	Report on the Financial Situation of the Natural Disaster Fund and the use of resources (March 31, every 2 years)
Fiscal Strategy Report	Supplementary budget documents on Chapter level	Draft Budgetary Plan (October)	Report on budget execution January-April & January-September incl. Budget Controlling (April 30 and September 30)	Report on Impact Assessments (Spring Report)	Guarantee report (December)
Fiscal Sustainability Report (every 3 years)	Supplementary reports to the draft Annual Budgeting Act	Report on measures taken within the framework of the European Stability Mechanism (quarterly)	Report on the preliminary budget outturn of the previous fiscal year (March 31) (including annual report on the reserves)		Report on Subsidies (December)
	Budget report		Report on the results of investment and financial controlling (April 30 and September 30)		Report of the Fiscal Advisory Council on Public Finances (May and December)
	Report on hived-off entities		Financial Statements of the Federal Government (RH) (June 30)		Report on financial debts and currency swaps (December)
					Report on budget allocations that exceed the appropriation level and Report on Future year commitments (quarterly)

Source: Authors, based on material provided by BMF.

In fact, the nature and presentation of budget documentation from the BMF has already been subject to significant analysis and attention over recent years. In 2015, on the basis of an internal evaluation of the budget reform process, the BMF set out a list of detailed recommendations for all relevant annual budget and documents (BMF, 2015). Building on this assessment and some additional issues identified by the budget spokespersons in the National Council, the Parliamentary Budget Office (*Parlamentarischer Budgetdienst*, PBO) also offered a set of recommendations in their evaluation of the reform (PBO, 2015). In general, recommendations for all budget documentation included: the provision of overviews; a need for emphasising political priorities; as well as detailed explanations for developments and changes from previous years. Most of these recommendation have been progressed, to a greater or lesser degree, by the BMF (see Annex Table A A.2) - an effort that was also acknowledged by various stakeholders during this review process.

Notwithstanding these improvements, several of the identified issues are still relevant or show further room for improvement. The extensive overall number of reports demands a clear system to facilitate navigation across the various documents. An overview document (such as the Budget Report), could usefully serve as a “policy-maker’s handbook”, not only summarising the key information but functioning as an index document for all related supplementary documentation. Clearly established and visually highlighted links between the different budget documents are also advisable to allow the individual reader to quickly find the information of specific interest to them.

A uniform budgetary reporting framework, together with a consistent and clear presentation, can help to increase user-friendliness and reduce the perception of “information overload”. While the significant improvement in the alignment of the budget structure (general design, inclusion of executive summaries, consistent reporting framework for Chapters, consistency between years including description of deviations) is an important step towards uniform budgetary reporting framework, there is room to enhance consistency in the “design language” used in the BMF documents. For example, this approach could include uniform table and section headings; consistent nomenclature²³ and colour-coding (in particular for cash and accrual data); and structuring of content (Chapters vs. Budgetary bodies²⁴). Such a uniform budgetary reporting framework should usefully be applied to all relevant documentation, and carried through as appropriate in the corresponding elements of the performance reports by the Federal Chancellery.

Furthermore, a focus on the most important information would help to streamline the budget information, making the documentation more attractive to the reader. The executive summaries, which have already been introduced in most documents, should highlight the most relevant information the reader may focus on in each document, including highlights on the specification of the annual financial details as well as on the main performance information, linking them to important developments and political priorities. Links (such as references to the individual Chapters) in the summary would likewise facilitate navigation in each document. Availability of additional background information and supplementary technical data for more technical transparency may be achieved by links to further sources (such as Ministries' websites) and by application of the open data concept (see Section 4.4).

Improvements of this nature would reduce the overall burden on the reader, including through obviating the perceived need for too many additional “translation documents” such as those produced by the PBO. Parliamentarians should come to expect that budget documents produced by the BMF are directly useful to, and usable by them for the purposes of their essential tasks of scrutiny and accountability.

Specific suggestions for the following documentation can be made:

1. The draft Medium Term Expenditure Framework MTEF (Entwurf zum Bundesfinanzrahmengesetz, BFRG)

Fiscal Strategy Report (Strategiebericht)

As background to the Draft Medium-term Budgeting Framework Act (Entwurf zum Bundesfinanzrahmengesetz, BFRG), the Fiscal Strategy Report outlines the fiscal strategy for the upcoming four fiscal years. The report explains the general budget priorities of the government and discusses budget allocation on chapter level for the next four years, including brief descriptions of current challenges, outcome objectives, expenditure priorities, as well as changes and correcting measures to the previous BFRG. Furthermore, it provides estimation of revenues, fiscal targets of the general government and comments on the plan of established posts.

While the Strategy Report gives a broad overview of the main budget priorities and basic information for the different Chapters, it is perceived to lack relevant detailed information on key developments. In particular, the Strategy report should more clearly highlight links between the presented budget priorities and higher level agendas, such as the relevant government programmes, the national reform programme to the EU, or international strategies (such as EU2020, Sustainable Development Goals (SDGs)) – see also section 3.2.5 above.

These important linkages should furthermore be reflected in the discussion on Chapter level. In general, the challenges and developments on Chapter level are not sufficiently explained. The Chapter description could usefully outline the relationship to the overall budget priorities; and expand their explanations of the changes in comparison to previous BFRG acts, including measures that will be taken to comply with the ceilings. A clear identification of the causes of non-compliance with the ceilings may also help to reinforce budget discipline. As this is directly linked to the specific BFRG ceilings these descriptions should be maintained in a potential merging with the Budget report (see below).

Arising from the move of the Strategy report to the annual budget phase (see Section 2), there is space for a national document which can serve as a basis for strategic debate on fiscal policy and budgetary priorities in spring. The SPU, which currently remains the only document considered for fiscal policy discussion in spring, provides extensive information on the fiscal position, but it is essentially an EU-related compliance document which uses the nation-wide “general government” frame of reference, and not designed as a vehicle for reflection and debate on fiscal strategy options for Austria’s federal government. It may therefore be advisable to present a standalone fiscal policy document - fully consistent with the SPU - in the spring semester to present the government’s proposed approach to federal fiscal management, including such issues as: the economic outlook and its implications for available “fiscal space”; preferred strategy for utilising the fiscal space (e.g. as between taxation and expenditure policy); and the high-level strategic priorities of government that will inform its deliberations in the build-up to the autumn budget semester. This document would also provide an opportunity to announce, or to report progress on, measures to expand the available fiscal space, as suggested in Section 2.

2. Federal Finance Act (*Entwurf zum Bundesfinanzgesetz, BFG*)

The Draft BFG, which provides the legal provisions and the draft budget for the Annual Budget is accompanied by a range of supplementary reports to provide complementary information:

Supplementary reports to the draft Annual Budgeting Act (*Beilagen*)

The presentation of the reports to the various subsections of the budget has improved significantly, moving from simple tables to providing complementary information and explanations, as well as supplementary, more technical information. The range of supplementary reports cover technical background information, such as i) Budgetary Indicators (ESA); ii) Public Debt; iii) the European Union; iv) Research and Development; v) Financial Relations between the different Levels of Government; vi) Federal Civil Service (established posts); as well as thematic overviews, such as vii) Environmental protection viii) Development cooperation; ix) Financial Contributions to International Organisations; and x) Infrastructure. The background data provided in the supplementary reports contribute to the clarification of underlying assumptions in other parts of the budget and so should be specifically cross-referenced where appropriate.

The more thematic supplementary reports and could serve as basis for discussion on potential cross-cutting issues. The short reports, available online, provide an overview of some of the main cross-cutting issues, including linkages to overarching programmes (such as the Paris climate goals 2013 for environmental protection) and references to the relevant Ministries and Chapter. Nevertheless, at present, the reports do not seem to be considered as the primarily basis for discussion on such cross-cutting issues. Considerations of relevant outcome objectives from various Budget Chapters would increase the documents' value to policy-makers. Direct references in a summary/ overview document, such as the Budget report, would also facilitate navigation to the supplementary documents and provide a more integrated approach to the budget information as a whole.

Supplementary budget documents for the detail budgets (*Teilhefte*)

Although the supplementary documents are not subject to parliamentary vote on the Annual Budget, a complete and accessible presentation of the documents can provide valuable information to the National Council and the interested public. Similar to the supplementary reports, the supplementary budget documents, which are published on the BMF's website, provide additional information for parliamentarians on the allocation of resources at the level of the detail budgets, representing a budget chapter each. However, stakeholders report that the supplementary budget documents are not widely used, as the lack of overviews and summaries make the documents somewhat difficult to access. Recent improvements in document design, and future advances in this direction as suggested in this section, should mitigate these difficulties.

The presentation of performance information would benefit from further improvements to coherence and accessibility. Since 2014 the supplementary budget documents include outcome orientation objectives and the corresponding indicators (identical to the budget statement of the Federal Finance Act) in order to provide a clearer policy overview. However, many Chapters still lack the linkages between the higher level outcome objectives (*Wirkungsziele, WZ*) and output statements (*Maßnahmen*), on the one hand, and the objectives and outputs on detail budget level, on the other hand. The absence of an overview of the output statements on global budget level exacerbates the difficulty of accessing and using the performance information. Furthermore, the fact that in some cases

outcome objectives at the detail budget level (*Ziele*) repeat outcome objectives at the Chapter level (WZ) (e.g. UG1), while in other cases ministries formulate new outcome objectives for the detail budget (e.g. UG42) makes it harder still to discern these linkages. Although such variances can be due to structural differences (e.g. Chapters with only one Global and Detail budget naturally reflect the responsibilities of the Ministry on Chapter level, and can hence mirror the WZ on higher level), the replication as well as direct connection in case of independent objectives should be made clear and comprehensible (for a broader discussion on performance and outcome orientation, see Section 3.)

A sharper focus upon the main programmes could furthermore facilitate the ease of use of the supplementary budget documents. The large number of objectives and outputs on detail budget level inhibits the focus on the most relevant information. In the case where objectives and outputs on detailed budget level mark the basis for internal implementation contracts, is also not highlighted as such.²⁵ To promote the accessibility and usefulness of the information, the BMF should consider including a highlighted section on expenditure priorities of special budgetary and planning relevance at detail budget level, including financial- and performance-related divergences from plan; and significant one-off effects. Increased narrative explanations of the major changes to the previous year and visual distinctions between cash and accruals tables - which is already a worthwhile design element of the new documentation - should further increase the documents' usefulness for the parliament and public.

Budget Report

The Budget report could usefully be re-purposed as a “policy-maker’s handbook” presenting key information as well as serving as an index document for the supplementary documentation. As discussed before, information provided by the BMF is extensive and budget transparency achieved is thus very high. However, the high quantity of documentation creates a bulk of information that is difficult to digest. Through re-designing the Budget report as a single overview document, the report can highlight the key priorities, budget proposals and performance goals, and offer links to the more detailed documentation (such as supplementary budget documents and reports) and underlying data (for example, links to open data sources, as provided on Chapter level in the Outcome Orientation reports) where necessary. These links should be made easy to identify for the reader (in small highlighted boxes for instance).

Currently, the report misses the opportunity to connect the budget to overarching strategies and cross-cutting issues. The budget report includes a discussion of budgetary priorities of the government, which also reflect the medium term priorities identified in the strategy report and include important cross-cutting issues, such as economic growth, social and integration measures. Linkages to explicit government programmes and other central strategies however are not established (see discussion on Strategy report). In fact, the potential merging of the Strategy Report and the Budget Report could reinforce the “top-down” approach to budget formation in the documentation, presenting the annual budget priorities, budget proposals and performance goals within the medium-term objectives, including the relevant connections to government and international programmes.

The Budget report could also be used to deal more clearly with cross-cutting topics. Detailed information on issues such as environmental sustainability, climate change and digitalisation is sufficiently available in the budget documentation, although it is not always brought together in a composite manner. An example of good practice is the reporting of Infrastructure and Investment: in addition to the specifics given in the single relevant

chapters (UG environment, infrastructure, etc.), Infrastructure and Investment is further discussed in a specific chapter of the Budget report (Section 7 of the Budget Report 2017), in line with the cross-cutting nature of the topic. Applying this composite reporting to other important cross-cutting themes would be advisable.

The quality of explanatory information of the budget report, which has already significantly improved, should be maintained. Following the BMF efforts to improve budget documentation, the budget report shows more clearly the evolution in comparison with the previous year, providing a better overview of the developments of the budget in general and at Chapter level. However, parts of the budget report are still perceived as too general and incomplete. For example, for most chapters the explanations for year-on-year changes often fail to provide details of policy substance, dealing instead with plain descriptions. Changes that go further back than the previous year are not assessed. To provide a comprehensive summary, explanations on underlying assumptions should be extended, including the discussion of uncertainty regarding to predicted revenues and expenditures (as for example provided for the variable expenditure ceilings in the Strategy report). For examples, for some Chapters, such as UG 20 Labour, underlying data is presented and taken into account; other Chapters on the other hand establish no or only loose links. Where underlying developments are assumed, corresponding data should be made traceable, with links to the supplementary reports and to statistical websites for the interested reader.

3. Execution and controlling reporting

As part of the additional reporting effort to offset the transparency loss induced by the reform of the budget structure, the BMF provides detailed information on budget execution on a regular basis.

The increased requirements for execution and controlling reports generated additional workload on the part of both line ministries and the BMF itself. To address this, modern automatisisation processes could be used to increase the cost benefit ratio over time. Knowledge-sharing across ministries should be supported to give the opportunity for mutual learning and adoption of best practices. This would also help to align the - currently very different - IT processes while promoting dissemination of innovative approaches within each ministry. For example, the introduction of the Controlling system “AUTORZL” of the Ministry of Interior²⁶ for example has facilitated the creation of controlling reports and has now been adopted by the Ministry of Science, Research and Economy and the Ministry of Health (with further Ministries expressing their interest). Other innovative approaches are being developed. However, a potential automatisisation of the processes should not reduce or weaken the explanatory and interpretative parts of the reports.

Monthly reports on budget execution (*Budgetvollzug*)

Following common OECD practice, the BMF produces short monthly execution reports which contain information on budget execution (on cash and accrual basis) based on budget execution data provided by the budget management system regarding the previous month and cumulated data for the ongoing fiscal year, among other key figures. In contrast to the purely quantitative presentation until 2016, the reports now include introductory remarks that give an overview on the most important developments and additional explanations.

Nevertheless, while the cash reports should be provided on a monthly basis to comply with international standards, adjustments of timing of accrual reports could improve the quality and informative value of the execution reporting. A change to quarterly reports on accrual

basis would align the publication of the reports with accounting periods and hence provide more exact and reliable information to the parliament. Quarterly reports would furthermore give room to further emphasise and analyse of budgetary developments, with a particular focus on *a)* the evolution of budget implementation relative to the anticipated/profiled levels for that stage of the year, and *b)* any significant discrepancies with the cash reports. The quarterly reports may also replace the half year report on budget execution (January-April & January-September, see below), as long as the quarterly reports provide for a comprehensive presentation of all relevant developments at budget Chapter level (cash and accrual basis).

Report on budget execution January-April & January-September (Gebarungsvollzug - Entwicklung des Bundeshaushaltes Jänner-April und Jänner-September, Bericht des Bundesministers für Finanzen)

The Minister of Finance reports twice each year (reporting for the periods to 30 April and 30 September) to the Federal Government, the line ministries and the National Council on the execution of the budget of the current fiscal year. The report gives an overview and describes budgetary developments (on cash and accrual basis) at budget chapter level as well as differences between the cash flow and the operating statement. A brief summary in the beginning gives a comprehensive overview of the main changes. Given the problematic timing for accrual information, a move to quarterly reports (see above), covering the same information, can be considered.

Report on the preliminary budget outturn of the previous fiscal year
(*Vorläufiger Gebarungserfolg*)

The Minister of Finance reports annually (by 31 March) the budget outturn of the previous fiscal year to the National Council. The report contains preliminary information on cash and accrual basis (the audited figures on the budget outturn are published by 30 June in the financial statements). It shows the outturn of the previous fiscal year in comparison to the budget statement. Significant deviations from the budget statement are explained at budget chapter level. The report includes to a large extent similar information as the December execution report (reported to Parliament in January), which should simplify its preparation.

Since 2015, the report also integrates the report on changes to reserves (*Rücklagenbericht*) which provides high transparency of reserve accumulation and use. However, while the report provides detailed information about withdrawals and allocation by Ministries, it reveals no information on the sources of the reserve accumulation. Such information, however, would be needed to distinguish between different categories of reserve, e.g. “unearned” and “earned”, which are proposed to be treated in different ways for accumulation purposes (see Section 2.3.4). While this information is not readily available at present, the integrated IT system for federal budget accounting should be further developed to allow the tracking of all reserves by resources.

4. Outcome orientation reports

Regular performance reports were introduced to allow for thorough evaluation of the outcome objectives. Since the introduction of performance budgeting in 2013, two reports for performance evaluation are presented to the Budget committee, on 30 April and 30 September. Both reports are based on inputs received from the line ministries and have a special focus on the goal of *de facto* equality of women and men which is implemented by *ex ante/ex post* gender impact assessments and the gender equality objectives in the Annual

Budget. The cross-departmental performance evaluation information is co-ordinated by the performance management office (FPMO) (*Wirkungscontrollingstelle*) within the Chancellery, which also supports the line ministries in developing and realising the outcome objectives and outputs.

Report on Impact Assessment (*Bericht zur Wirkungsfolgenabschätzung*)

The growing number of impact assessments will challenge the parliament's oversight capacities in the future. The spring report on impact assessments summarises the previous year's results of *ex post* impact assessments and programme evaluations of laws, regulations and bigger projects in various areas that are conducted after latest 5 years (see Section 3.4 for further details on the system of impact assessments). With the introduction of "RIA light" in 2015, the BMF already undertook an important first step to limit the overwhelming wealth of information. However, with an expected growing number of *ex post* evaluations in the next years, more has to be done to allow the parliamentary reader to focus on the main initiatives and projects.

Currently, all assessed projects are presented identically despite significant differences of political and budgetary importance. Highlighting the most relevant projects - in terms of financial and/or social impact - for example by visual coding or organisation and linking them directly with the corresponding outcome objectives would assist accessibility and allow prioritisation. Alternatively, it could be considered to include these key assessments in the report on outcome orientation (see below), while making assessments that show less impact available on the interactive website maintained by the Federal Chancellery (www.wirkungsmonitoring.gv.at). If selected carefully, this could help to further streamline the amount of information provided by the Impact Assessments and to connect them closer to the results of the outcome orientation - making them more relevant for the parliamentarians and the public.

Report on Outcome Orientation (*Bericht zur Wirkungsorientierung*)

The report in autumn, which is presented in parallel with the budget documentation to the Budget committee, provides a comprehensive set of information, showing to which extent the objectives and activities in the Annual Budget (performance informed budgeting) have been achieved/implemented in the previous fiscal year. Colour-coding facilitates the quickly identification of whether specified targets have been met. The report furthermore provides a comprehensive narrative account of the performance information in each Budget Chapter, including an account of the achievement of the previous performance objectives and an explanation of any changes or refinements to these objectives.

For enhanced transparency all performance and monitoring information is available in digital form on an interactive website maintained by the Federal Chancellery (www.wirkungsmonitoring.gv.at). The website provides an overview of the linkages between all budgetary bodies and their corresponding chapters, outcome objectives, outputs and specific projects. Additionally, a "gender map" (*Gleichstellungslandkarte*) gives an overview of all gender related outcome objectives and their corresponding outputs, organised by thematic clusters. To maintain easy access and user-friendliness of the provided data, data presentation may be further developed for example by simplification.

Despite these improvements to the presentation of the report, the nature of the performance information provided has been the subject of some concerns within the parliament. In September 2017, an internal report of the Subcommittee to the Budget Committee highlighted various issues regarding the outcome orientation. The criticism reflects

previously stressed shortcomings, such as the low ambitions of the objectives set; the poor quality of indicators; and poor linkages between the achievements of outputs and overall goals. The report highlights that these shortcomings occur around objectives and indicators related to gender equality, which is insufficiently recognised as a crosscutting theme. In response to these challenges, the Subcommittee's report (BA, 2017) supports a PBO recommendation to decrease the number of outcome objectives in exchange for a more focused and relevant discussion (see Section 3.2 for a detailed discussion on performance information).

4.3. Promoting transparency and accountability

4.3.1. The Parliament, its Committees, and the PBO

Austria's new budget system has changed the culture of parliamentary budget debate, particularly within the Budget Committee, encouraging a more outcome-focused discussion. Debate on performance information is further enriched by the Budget Committee's creation of a Subcommittee on Budgetary Performance and Execution which hears evidence from civil servants, although to date this subcommittee has met only irregularly.²⁷ The change to more outcome based questions by parliamentarians challenges the line ministries to provide qualitative and meaningful information regarding their objectives. The ability of the National Council to monitor implementation throughout the year has also been enhanced by new reporting requirements throughout the year.

There are some ongoing challenges, however. Corrections of the budgetary numbers, in particular around updates due to accrual adjustments, have at times challenged parliamentarians' confidence in interpreting the data presented and moved the budgetary debate into one on data quality. Some work remains to be done to continue to enhance presentation of the accrual information and build confidence in the budgetary numbers (see Section 4.5). Striking the right balance between providing "too much" and "not enough" information for the parliamentary scrutiny process is a challenge faced across OECD countries. As noted earlier, despite improvements, some of the budget documentation is still not regarded by parliamentarians as accessible or usable enough, and there is a perception of "information overload" in some areas. Parliamentarians have, for example, expressed frustration around the quality and *number* of performance objectives and indicators.

As noted earlier, the Subcommittee on Budgetary Performance and Execution provides an additional forum to tackle the preponderance of performance information. Given the scale of budget and performance-related information already available, and the increasing volume which will be available in the near future - notably the performance-related reports and evaluations co-ordinated by the Federal Chancellery - there is scope to give sectoral committees an even greater role in discussion of performance information (quality and relevance of proposed objectives and achievements, review of key evaluations) for the ministry or agency that they cover. Such an approach should allow for the Budget Committee and the Subcommittee on Budgetary Performance and Execution to further benefit from each sectoral committee's specialised knowledge, while freeing them to focus more on their core mandate.

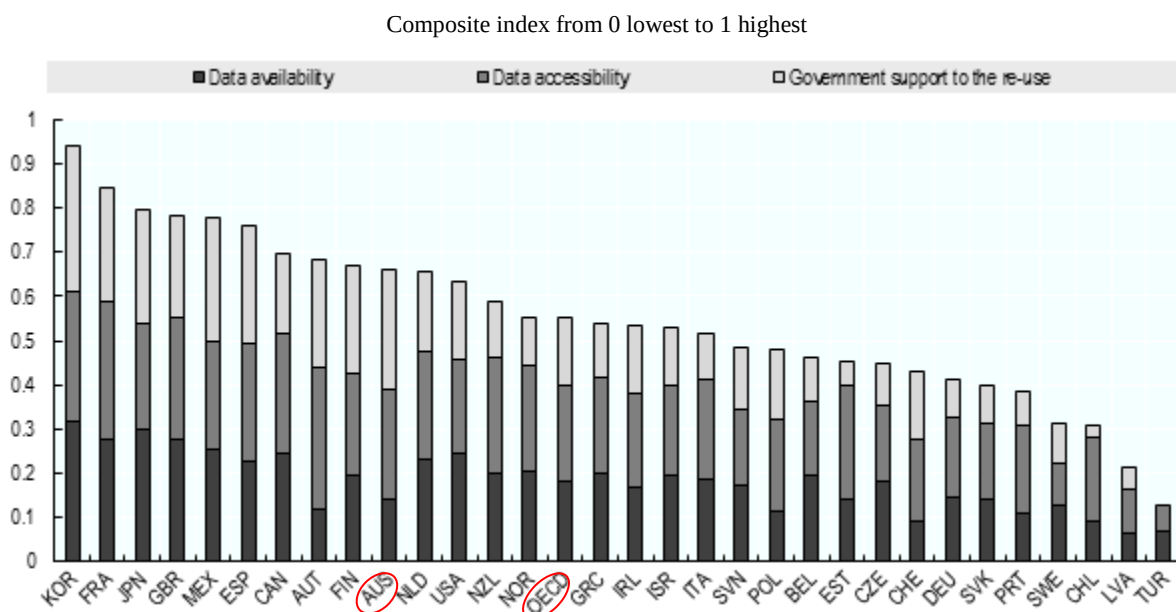
The establishment of a Parliamentary Budget Office (*Budgetdienst*, PBO), which directly supports the Budget Committee, has taken place in parallel with the broader agenda of budgetary reform, and is in line with advanced practice in OECD countries.²⁸ While an assessment of the role and impact of the PBO is beyond the scope of this review, there

appears to be a general recognition by stakeholders both inside and outside parliament that the PBO has substantially improved the ability of the parliament and the Budget Committee to engage with the new budget process and documents - notably in the area of performance budgeting, which is a distinctive feature of Austria's budget reform (see Section 3).

4.3.2. Open government and open data

Significant steps have been taken to communicate budget information transparently. As one of the 12 core objectives of Austria's "Digital Roadmap" Austria already committed to "promote open data, open government and open source [...] to shape the path towards a digital future and position Austria amongst the innovative leaders in digitalisation"²⁹. Open government data (OGD) can be a powerful lever for social and economic development. It can also be used to strengthen public governance by improving the design of public services with a citizen-driven approach, by enhancing public sector efficiency and by spurring public sector integrity and accountability (OECD, 2017a). In comparison to other OECD countries, Austria ranks among the top ten countries on the OECD Open-Useful-Reusable Government Data Index (Figure 8). Austria is the leading country in data accessibility (free and accessible format) and among the top performers regarding government support for data re-use. As previously mentioned in Sections 3 and 4, financial information and reports published by the BMF are freely available on the BMF webpage, and performance information is presented in an interactive format.

Figure 8. Open-Useful-Reusable Government Data Index (OURdata), 2017



Source: OECD (2017b), Survey on Open Government Data; Data for Hungary, Iceland and Luxembourg are not available. Denmark does not have a Central/federal data portal and therefore are not displayed in the Index. Detailed methodology and underlying data available online in the annex online. Information on data for Israel: <http://dx.doi.org/10.1787/888932315602>.

However, relative to other OECD countries Austria is lagging behind in terms of data availability. In contrast to most other OECD countries, there are no formal requirements at federal level whereby government data should be "open by default" unless a legitimate justification is provided (OECD, 2017a). Austria may hence consider applying a sound

legal and regulatory framework for all aspects of the data value chain, such as having the necessary formal requirements to promote data availability (Box 4.1). For budgeting information, the provision of freely available government data would reduce the pressure to provide supplementary and more technical data in the budget reports, as long as the relevant links are provided. The initiative "Co-operation Open Data Government Austria" (*Cooperation OGD Österreich*) is a very promising step in this direction.

Additionally, oversight mechanisms would contribute to monitor the further development of Open Government Data initiatives and their compliance with national legislation and regulations. This may entail assessments (e.g. through the form of a report) for the whole federal government to evaluate whether all relevant legislation and regulations on open government data are currently in place with regard to security, privacy, confidentiality and intellectual property (OECD, forthcoming a).

Box 14. Legal and regulatory frameworks in OECD countries to promote data availability

Several OECD countries are taking steps to provide greater legal support to open data by discussing open data-specific laws.

In Korea, the availability of a specific law on open data provides a clear distinction of the roles inside public institutions (institutional chief data officers and data managers) and sets a legal foundation for technical support bodies. In Korea, the open data law mandates the Korean government to develop a Basic Plan for the Promotion of the Provision and Promotion of Public Data every three years (Master Open Data Plan). While the Korean Master Open Data Plan is linked to the Korean Action Plan for the OGP, the former sets a strategy for open data at the national level in order to achieve Korea's objectives at the international and national level.

In April 2016, a bipartisan bill was introduced to the Congress of the United States. The United States Open, Public, Electronic and Necessary (OPEN) Government Data Act (to be enacted) aims to set open data as a standard practice by public institutions in the United States by making public sector information open-by-default, and to set a legal framework for policy continuity to open data in the country (US Congress, 2016; Kilmer, 2016).

In Belgium, the Council of Ministers introduced a bill to adapt the Belgian legislation to the 2013 European Union Directive on the reuse of public sector information (EU, 2013), which seeks to spread open data across EU countries. The bill is part of the efforts of the Belgian government to pave the way for open data in the country. These efforts also include a formal strategy for open data with a vision for 2020.

Source: OECD (2016a), Open Government Data Review of Mexico: Data Reuse for Public Sector Impact and Innovation, OECD Publishing, Paris. <http://dx.doi.org/10.1787/9789264259270-en>

Open data, however, is only one key element in the toolbox used when moving towards the concept of an "open government", or as the OECD defines it "a citizen-centred culture of governance that utilises innovative and sustainable tools, policies and practices to promote government transparency, responsiveness and accountability to foster stakeholders' participation in support of democracy and inclusive growth". To ensure a wider acceptance, increased accountability and a more realistic debate on budgetary choices, budget principle

no. 5 of the OECD's Recommendation on Budgetary Governance calls upon governments to “provide for an inclusive, participative and realistic debate on budgetary choices” by:

- offering opportunities for the parliament and its committees to engage with the budget process at all key stages of the budget cycle, both *ex ante* and *ex post* as appropriate;
- facilitating the engagement of parliaments, citizens and civil society organisations in a realistic debate about key priorities, trade-offs, opportunity costs and value for money;
- providing clarity about the relative costs and benefits of the wide range of public expenditure programmes and tax expenditures;
- ensuring that all major decisions in these areas are handled within the context of the budget process

Moving from budget transparency to a more inclusive and participative budgeting process can increase policy responsiveness and citizen trust, and also has the potential to enhance efficiency and impact. In Austria, during the annual budget debate, experts, such as academics and chambers, are invited by parliamentary parties to present their view on the MTEF/the budget in spring and autumn (see Section 2). However, there is a perception among some stakeholders that these “expert hearings” are somewhat formulaic, as the experts are nominated by the political parties, have a very limited time to speak, and do not provide written evidence in advance. Moreover, there is only limited engagement from civil society in general. The two main civil players that are involved in the budgetary process remain the Austrian Chamber of Labour and the Chamber of Commerce. Although they produce several useful and insightful commentaries, in particular on the Budget report, supplementary budget documents and the strategy reports, their consultation is mostly informal, and no possibility for official input is given before the draft budget is finalised.

For a more inclusive and participative approach, in line with budget principle no. 5, international models of pre-budget consultation and debate should be considered, allowing the budgetary formation phase within parliament and government to benefit from a range of views on budgetary priorities before the draft budget is prepared. Box 15 provides international examples which Austria may use to reflect on how to further develop the open, consultative character of the budget process.

Box 15. Consultative and participatory budgeting practices in OECD countries

Canada

In Canada both the government of the day and the House of Commons Standing Committee on Finance (FINA) now hold pre-budget consultations as part of the budget formulation phase.

Typically, the Minister of Finance seeks prior advice from parliamentary committees during the budget preparation phase (June - September). In October, following the release of the Budget Consultation Papers covering the economic and fiscal outlook and prospective fiscal and expenditure targets, the Minister of Finance begins consultations with the Standing Committee on Finance (FINA) among other stakeholders. The views of the general public are collected in pre-budget consultations, with topics announced in a press release. In the past these consultations tended to be conducted as closed-door sessions with representatives of stakeholder groups. Under Canada's new government (2015) the

Minister of Finance's pre-budget consultations have been revamped to be more open and to take more advantage of digital and social media platforms. While there are still some closed-door sessions, there are also a range of public events in various locations across Canada where participants have the opportunity to offer their opinions directly to the Minister of Finance. Canadians can participate in Google Hangout or Facebook Live events, take short online surveys on a dedicated consultation webpage (close-ended questions that allow quantification of results), provide submissions by email, and reach out through other social media platforms such as Twitter. Their feedback is collected in a summary report published online (see for example Finance Canada 2017 Pre-Budget Consultations Summary Report: www.fin.gc.ca/pub/pbc-cpb/2017-eng.asp#s2).

The Finance Committee's pre-budget consultations also provide an important feedback avenue for the annual budget. Since the mid-1990s, the committee is "specifically empowered to hold "pre-budget" consultations, pursuant to the Standing Orders." Consultations are launched in autumn with a press release inviting Canadians to voice their opinions about the upcoming budget, including on specific themes, although the committee tends to focus on aggregate spending, tax policy, deficits and surpluses, and not on detailed departmental allocations. The committee takes written and oral submissions and holds public hearings in the capital and in different locations throughout Canada. The results are submitted in a pre-budget report with recommendations in early December. This report is also usually debated in parliament. While the committee's recommendations are not binding, they provide an opportunity for parliament and the public to communicate budgetary priorities to the government.

Ireland's National Economic Dialogue

In 2015, Ireland introduced a number of improvements to its annual budgetary cycle, including the institution of a new National Economic Dialogue (NED). The NED is a pre-budget consultative forum, convened by the government, bringing together the various civil society interests, social partners and parliamentary stakeholders to discuss priorities for the October budget. The forum is held in June, after the government has determined (from its spring budget semester) the level of "fiscal space" available in the coming year, and before line ministries have submitted budget proposals. The NED is moderated by an independent chairperson and all of its sessions are held in public. At the conclusion of the Dialogue, the chairperson submits a report on key messages for consideration by the government and line ministries during the pre-budget deliberations. In the October budget, the minister for finance/public expenditure includes a report on the extent to which the "key messages" from the NED have been addressed in the budget.

Korea

Six mechanisms are used that span the entire budget cycle in Korea. During the budget formulation stage, 1) formalised open discussions for the public are held 2) representatives from the Ministry of Finance hold meetings with local government officials and citizens 3) a "fiscal policy advisory council" reviews and finalises the budget, and 4) an assembly expert hearing is conducted. During the implementation stage, 5) a "budget waste reporting centre" can be used by citizens to report any suspected misuse or waste of public funding. In the auditing stage, 6) citizens have the opportunity to make suggestions to the board of audit and inspection on which public entity operations or expenditures to audit.

Source : OECD (2017a) Budget Transparency Toolkit.

The introduction of RIA has introduced an enhanced consultation process for new legislation (see Section 3). Nevertheless, while the impact assessment system can be described as advanced practice in international terms, Austria's policy-making processes would benefit from enhancements to their consultative and transparent character. The OECD Better Life Index for example takes into account the "formal process for public engagement in developing laws and regulations [as] one way to measure the extent to which people can become involved in government decisions on key issues that affect their lives". In Austria, the level of stakeholder engagement in developing regulations is 1.3 (on a scale between 0 and 4), which is significantly lower than the OECD average of 2.4, with Austria ranking 33rd out of 38 countries in the index³⁰ (OECD, Better Life Index 2016³¹). This can be partly ascribed to a lack of an all-encompassing requirement for consultation. For example, as outlined in Section 3.3.1, while impact assessments for primary legislation are open for consultation by the public and all interested stakeholders, spending proposals, primary laws initiated by parliament and *ex post* assessments are not routinely subject to public consultation. Taking account of the good practices and principles outlined in the OECD's Budget Transparency Toolkit (2017), there would appear to be scope to adopt a more transparent, participative approach. A useful first step would be to enhance the visibility of the impact assessment process to the wider public, for example by providing a single public website that publishes all (final) impact assessments, including legislative, regulatory or spending-related. Providing transparency on this broader set of proposals would help to raise awareness of the tool and would over time provide a valuable starting point for more routine and uniform interaction with the public during the course of policy-making.

4.4. The cash and accrual basis of public financial reporting and budgeting

Among the budgetary principles set out in Section 2 of the Federal Organic Budget Act 2013 and Art. 51(8) in the Federal Constitution, is the requirement to obtain a "true and fair view" of the financial condition of the Federal Government. In practice, the "true and fair view" is implemented by adopting a dual approach to financial reporting and budgeting, involving both traditional cash budgeting and accounting and accrual budgeting and accounting in parallel. This important pillar of budgetary reform aims to provide policy-makers with fuller, objective and undistorted information regarding the financial context and implications of policy options. Accrual accounting is also a prerequisite for accurate cost accounting, which can yield useful insights on relative efficiencies across different administrative areas (see Box 16).

Box 16. Accrual budgeting and reporting in OECD countries

While "cash accounting" focuses upon transactions which move cash into and out of the public treasury, "accruals accounting" is based upon economic events, i.e. transactions that involve an exchange of value (including obligations or commitments), irrespective of when cash changes hands. Cash accounting has the benefit of simplicity, which is valuable in public financial management because many users of public financial documents - including parliamentarians, officials and the general public - would not be expected to have training in professional accounting techniques. However, cash accounting on its own can be manipulated more easily than accruals accounting, e.g. by deferring payments into another period to hide the costs associated with a decision, or bringing receipts forward in order to make the public finances look healthier than they really are. Accrual accounting also entails the maintenance of a balance sheet, showing the value of assets and liabilities and thus the

entity's "net worth"; as well as a cash flow statement reflecting the liquidity of the entity's financial position.

Because of these advantages, accrual accounting has long been the norm among private companies, In the public sector, and especially in the central government sector, cash accounting has been more traditionally applied. However in recent decades, there has been a steady movement towards the adoption of accruals approaches in various aspects of government budgeting and reporting. By 2016, 82% of OECD countries prepared their financial reports on the accrual basis, while 32% also prepared accrual budgets (incorporating either accrual, or cash, or both accrual and cash appropriations and related budget execution reports)¹ Where an accrual basis is used, the type of approach can vary widely, as countries opt to implement some or other parts of the generally recognised international standards (such as International Public Sector Accounting Standards (IPSAS) or the Government Finance Statistics Manual (GFSM)) in their nationally-defined accounting framework.

A number of factors have driven the trend towards accrual accounting, including a) the development and refinement of the international standards mentioned above, b) the increasing professionalisation of public financial management and c) greater capabilities of financial management information systems (FMISs). However, the trend is also driven by a fuller appreciation of the benefits that can be obtained from using accrual as well as cash accounting. Among the key benefits are the following:

- **Quality and transparency:** Accounts prepared on a standard accrual basis include comprehensive information, which allows for the analysis of key features of public financial performance. Moreover, through correct matching of revenues and expenses, the full financial implications of policy initiatives are clearly visible from the outset.
- **Reliability and integrity:** Accrual accounts are less vulnerable to distortion through the manipulation of cash payments, and thus give a more reliable picture of the underlying financial position. Users of the financial reports - both domestically and internationally - can thus focus upon policy content and more readily appraise the true financial position.
- **Efficiency and productivity in government:** Accrual accounting is a prerequisite for effective cost accounting, encompassing the full level of resources consumed in delivering programmes, maintaining assets and servicing liabilities. This in turn underpins an agenda of administrative efficiency and productivity in the use and impacts of public funds.
- **Consolidated approach to public financial management:** The accrual basis, uniformly applied, allows for (and indeed requires) a consolidated approach to managing and/or reporting on the financial position of the public sector as a whole, or broad elements of the public sector, as distinct from the "budgetary central government" sector alone (ministries and agencies).
- **Quality in business processes:** In general terms, the disciplines of accrual accounting are associated with enhanced professionalism in business processes such as internal control; identification, monitoring and costing of liabilities, including contingent liabilities; and fiscal risk management as a whole.

- **Accountability:** a standardised, consistent approach to accruals reporting and budgeting forms a sound basis for planning, implementation, reporting and accountability across the budget cycle; and thus for supporting the functions of key institutional stakeholders such as parliament and the supreme audit institution.

Note: ¹ Australia, Austria, Canada, Chile, Denmark, UK, Island, Mexico, New Zealand, Switzerland.

Sources: OECD/IFAC (2017), *Accrual Practices and Reform Experiences in OECD Countries*, OECD Publishing, Paris. <http://dx.doi.org/10.1787/9789264270572-en>; IMF (2016), *Implementing Accrual Accounting in the Public Sector*. Washington, DC: International Monetary Fund, 2016.

As in the case of many OECD countries that have moved over recent years to introduce accrual-type reforms, the particular form of accrual methodology adopted in Austria is based upon the International Public Sector Accounting Standards (IPSAS). The Austrian system does not aim at full compliance with these standards: many of the IPSAS standards have been fully adopted, but others have been adapted for national purposes, based on a number of considerations including proportionality and relevance. The development of the nationally-adapted standards was led by the BMF in close consultation with the Court of Audit. A significant point of divergence from IPSAS is the treatment of public pension liabilities, which are not incorporated into the balance sheet, instead being recognised in a note to this statement.

The essence of the parallel system in Austria is the preparation of an operating statement alongside the traditional cash flow statement; as well as the preparation of the end-of-year balance sheet based upon a rigorously maintained asset register, with assets depreciated on an economic basis by reference to a standard schedule for different categories of asset. The dual preparation of cash and accruals reports is facilitated by a specially-designed financial management information system (HIS³²). Based on the transaction data recorded in the SAP accounting system HIS allows data to be automatically re-presented into the appropriate formats (standardised tables) as well as combined based on user's needs (manual query)³³. Importantly, the Austrian system presents the cash and accruals information on a prospective basis (as part of the annual budget), in real-time (for in-year monitoring) and on a retrospective basis (end-year financial reporting), which in principle allows for a joined-up approach to planning, reporting and accountability over the course of the budget cycle. This approach conforms well with the OECD Recommendation on Budgetary Governance, budget principle number 6, which provides that governments should “present a comprehensive, accurate and reliable account of the public finances”, including through:

accounting in a manner that shows the full financial costs and benefits of budget decisions, including the impact upon financial assets and liabilities; noting that (i) accruals budgeting and reporting, which correspond broadly with private sector accounting norms, routinely show these costs and benefits; (ii) where traditional cash budgeting is used, supplementary information is needed; (iii) where accruals methodology is used, the cash statement should also be used to monitor and manage the funding of government operations from year to year.

The parallel presentation of both cash and accruals information in budget reports is advanced practice internationally, and has the potential to improve the quality and reliability of data available for decision-making and accountability. Both approaches have complementary strengths: in international terms, good practice is for the cash basis to serve as the primary reference for establishing fixed spending limits, while the accrual basis provides a definitive reference for forecasting and financial reporting.

In practice, however, the cash and accruals information are not yet employed to their full potential. Stakeholders report that the cash-based reports form the basis for day-to-day management and for discussion between the BMF and the line ministries. The operating statement is still little-used and is regarded by some (especially in line ministries) as an ancillary or background document rather than a core focus of planning or accountability. There appear to be a number of reasons for the relative lack of use of the operating statement:

- The new accruals reports are still relatively recent and are unfamiliar to many existing civil servants, who have been trained in the use of the cash statement over many years;
- Related to this point, there are still “teething problems” within ministries in booking accounts systematically on an accrual basis during the year, with the result that errors and inconsistencies need to be resolved after end-year. As a result, the accuracy and reliability of the accrual reports are a disproportionate focus of audit and parliamentary attention, rather than the content and policy messages contained within the reports;
- Among the key users of the accruals information are the National Statistical Office, which draws upon these data in preparation of its bi-annual notifications to the European Commission on the public finances (the so-called “Maastricht returns”), and the Court of Audit. However among other practitioners, including ministry officials and parliamentarians, the added value and policy relevance of the accrual information is still not fully understood.
- In this latter regard, it is notable that the BFRG, which is an integral element of budgetary management, does not currently present accrual information on a multi-year basis. This would seem to represent a *lacuna* in an otherwise consistent approach, and tends to reinforce a general perception that the cash ceilings are the “real” benchmarks for budgetary planning. Other countries that take an advanced approach to accrual reporting and budgeting - notably New Zealand and the United Kingdom - underline the importance of a consistent and thoroughgoing approach in “normalising” the adoption and use of this methodology (see e.g. OECD (2017c)).

These issues need to be addressed in order to strengthen confidence in the usefulness and cost-effectiveness of the accrual dimension of budgeting and reporting. Indeed, additional detail in public financial documents, if it is seen as superfluous, risks distracting users and obscuring important policy-relevant signals. In such a circumstance, it would be understandable for users to call for a streamlining through reducing the accruals information.

In order to counter these shortcomings and sustain support for Austria’s advanced approach, a number of measures would appear to be advisable:

- The BMF together with the Court of Audit should clearly document and re-state the intended uses and benefits of cash and accruals accounting for policy-making and accountability in the Austrian system, and should incorporate this messaging into training, capacity-building, education and awareness initiatives both within government and with other stakeholders in parliament and with the public.
- Accruals information should be included in the BFRG to correspond with the cash-based information. By extending the “true and fair view” to this budget-related

report, this approach would more consistently apply the “aims and principles” of budgetary management set out in section 2 of the Federal Organic Budget Law.

- To aid clarity and accessibility, the cash- and accrual-based tables in the budget reports should be more clearly distinguishable from one another, e.g. through colour-coding, formatting and applying other elements of the improved “design language” outlined earlier in this Section. In addition, each table - both cash and accruals-based - should include a short interpretative note to guide non-technically-expert readers. This interpretative note should routinely include a factual explanatory comment regarding any significant discrepancies (or apparent discrepancies) between the two reports.
- Irrespective of the general principle of dual reporting in both cash and accrual terms, care should be taken that the frequency of accrual reports is consistent with maintaining their accuracy and integrity. Accordingly, as proposed earlier in this Section, there is scope for streamlining the monthly accrual-based budget execution reports to a quarterly basis.

Box 17. Key Recommendations

19. Create a clear system to facilitate navigation across the various budgetary documents. The Budget Report could be re-designed as a single overview document that serves as a “policy-maker’s handbook”, not only summarising the key information but functioning as an index document for all related supplementary documentation. Clearly established and visually highlighted links between the different budget documents are also advisable to allow the individual reader to quickly find the information of specific interest to them.
20. Continue to develop a distinct and consistent “design language” to facilitate navigation across the various budgetary documents. This should include uniform table and section headings; consistent nomenclature and colour-coding (in particular for cash and accrual data); and structuring of content. Such a uniform budgetary reporting framework should also be carried through, as appropriate, to the corresponding elements within the performance reports by the Federal Chancellery.
21. Highlight key information in budgetary documents. This may include highlights on the specification of the annual financial details, and on critical performance information linked to the identified political priorities. In particular in the context of the increasing number of impact assessments published, selected highlights should allow parliamentarians to easily identify evaluations of programmes with the greatest financial and/or societal impact.
22. Support continued development of best IT practices for standardised reporting. Innovative automation processes could be used to increase the cost-benefit ratio over time for reporting. Knowledge-sharing of IT tools across Ministries should be supported to identify best practices
23. Continue to provide monthly execution reports with official, reliable cash information. Accrual information and analysis should be provided in quarterly reports including a narrative report explaining deviations from in-year profiled expenditures and revenues.

24. Enhance the explanatory information in the supplementary budget documents. The supplementary budget documents should provide the narrative for the more technical Chapters, including explanations for significant changes in allocations and performance goals, and highlighting links to the higher level objectives and measures.
25. Expand the provision of open data. In line with current government commitments Austria's "Digital Roadmap" and the "*Cooperation OGD Österreich*" initiative, an "open by default" policy should be considered allowing users to compare, combine and follow the connections among different data sets, including international comparisons. Data-visualisation tools provide added value for individual users and should be further developed and improved.
26. To promote budget transparency and inclusiveness, consider international models of pre-budget debate and consultation, allowing the budgetary formation phase within parliament and government to benefit also from a range of views on budgetary priorities before the draft budget is prepared (see also Recommendations 1 and 2); as well as enhancing the visibility of the impact assessment process to the wider public, for example by publishing a more comprehensive set of (final) impact assessments - legislative, regulatory and spending-related - through a single public website. A "citizen's budget" could also be produced with a view to fostering public understanding and engagement.
27. Include accruals information in the medium term expenditure framework to correspond with the cash-based information. Extending the "true and fair view" to this budget-related report would more consistently apply the "aims and principles" of budgetary management set out in section 2 of the Federal Organic Budget Law and Art. 51(8) Federal Constitution.
28. Ensure clarity and accessibility of accrual data. The cash- and accrual-based tables in the budget reports should be more clearly distinguishable from one another, e.g. through colour-coding, formatting and applying other elements of the improved "design language" for budgetary documents. In addition, each table - both cash and accruals-based - should include a short interpretative note to guide non-technically-expert readers. This interpretative note should routinely include a factual explanatory comment regarding any significant discrepancies (or apparent discrepancies) between the two reports.

Notes

¹ OECD (2015), *Recommendation of the Council on Budgetary Governance*. Note that this OECD Budget Review is focused on a sub-set of the overall budget principles related to performance budgeting and budgetary management, and accordingly does not examine in depth issues relating to fiscal rules, fiscal risk / long-term sustainability, capital budgeting or independent fiscal institutions.

² Before the reforms, money could only be reallocated by amending the budget law.

³ Budget- und wirtschaftspolitische Zielsetzungen

⁴ ‘Administrative units’ in this context refers to budget management at the operational level (so-called ‘budget managing bodies’), such as police departments or tax offices. The idea was that these units, when they achieved savings, should also get access to the reserves.

⁵ Due to the timing of federal elections in autumn 2017, the annual schedule of budgetary preparations is delayed.

⁶ <http://www.finanzen.at/nachrichten/aktien/Budget-Fiskalrat-mit-Bedingungen-fuer-Reform-1001837261>

⁷ 237 first-level detail budget, 150 second-level detail budget (Federal Ministry of Finance, *Budget Report 2017*).

⁸ Einvernehmensherstellung, see § 58 Abs. 2 BHG 2013

⁹ <https://www.parlament.gv.at/PERK/GL/BUDGET/>, accessed 5.10.2017

¹⁰ Previously the financial statements were presented by the end of September

¹¹ OECD (2014), *Budgeting Practices and Procedures in OECD Countries*

¹² § 55 and § 56 BHG 2013

¹³ Annual Budgeting Act (BFG) 2017, Article VIII

¹⁴ An overview of relevant parameters defining the variable expenditure ceilings by Chapter are briefly listed and explained in the Fiscal Strategy Report.

¹⁵ *Ressourcen-, Ziel- und Leistungspläne*

¹⁶ PBO support for performance budgeting notably includes a) overview “maps” of performance information, b) explanation of key performance budgeting concepts such as outputs and outcomes, and c) analysis of consistency of outcome targets in different areas. The PBO also assists with gender related analysis.

¹⁷ Implementation costs regarding federal, state or local authorities and social insurance providers as opposed to costs of compliance for businesses

¹⁸ Upon completion.

¹⁹ Additionally, the principles of budgeting at federal level which include gender equality are stated in Article 51(8)

²⁰ www.wirkungsmonitoring.gv.at/.

²¹ <http://blog.imag-gendermainstreaming.at>

²² For 2017 and 2018, the documentation on the BFRG, including the Fiscal Strategy Report (*Strategiebericht*) and the Fiscal Sustainability Report (*Langfristige Budgetprognose*) which is prepared every 3 years was decided to be moved to October. However, due to the government reshuffle, this will not come into effect yet. The next BFRG is expected for spring 2018.

- ²³ E.g. compare description of budgetary priorities on annual and multi-annual basis (“*Wirtschafts- und budgetpolitische Ziele*”; “*Budget- und wirtschaftspolitische Zielsetzungen*”; “*Budgetpolitische Schwerpunkte*”).
- ²⁴ E.g. Compare documents issued by BMF and BKA
- ²⁵ In general, the performance mandates within a ministry (i.e. *Ressourcen-, Ziel- und Leistungsplan*) are internal documents and management tools that are not made public.
- ²⁶ Conversation with officials, November 2017.
- ²⁷ Several parliamentary and other stakeholders noted that oversight of performance would be enhanced if there were more regular meetings of the Subcommittee on Budgetary Performance and Execution throughout the year (as is the case, for example, for the Standing Subcommittee on European Affairs).
- ²⁸ Since 2007, OECD countries report a larger budgetary role for the legislature in successive surveys on budget practices and procedures. Among the most marked trend is the establishment of legislative budget offices or scrutiny units (OECD Budget Practices and Procedures Database).
- ²⁹ www.digitalroadmap.gv.at/, accessed July 2017
- ³⁰ The index measures elements such as consultation methods, openness, transparency and feedback mechanisms
- ³¹ www.oecdbetterlifeindex.org/topics/civic-engagement/
- ³² *Haushaltssystem (HIS)*
- ³³ The full budget execution reports are not yet prepared automatically, i.e. the layout and the explanatory notes need to be prepared manually.

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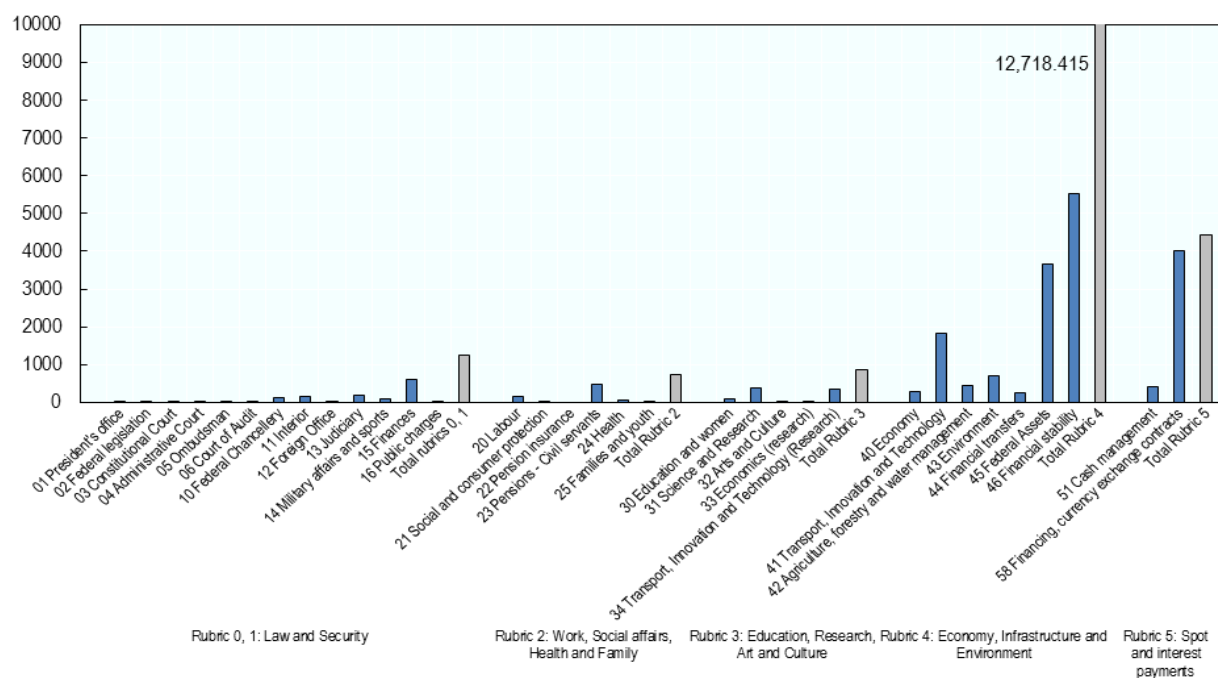
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Annex 1 Tables and Figures

Annex Figure 1. Overview of accumulated reserves by Chapters, end of year 2017



Source: BMF.

Annex Table 1. Internal recommendations and Achievements

Challenges:	Recommendation (2014/2015) by BMF and PBO:	How are the challenges addressed:	
Missing overviews and tables	Include overview tables and summaries.	Many of the main budget documents (budget report, Supplementary budget reports, Strategy report, execution reports) include a brief summary of the main messages.	
Budget report	Underlying assumptions on taxes, labour market development, loans and currency exchange contracts are missing. No risk assessments of the estimated expenditure and income generated is presented. Developments on Chapter level are not explained. No overview of cross-cutting issues (such as Climate, Development Cooperation, business promotion)	- Cyclically sensitive expenditure and incomes (variable budget appropriations assumptions) should be supported by the underlying planning and consequences of changes of the economic framework conditions. - This should include an evaluation of budgetary risks, as well as the methodology for tax revenue estimates and interests. - Expand explanations on Chapter and Budget level. Clearly address the budgetary consequences of cross-cutting strategies and objectives as well as the budgetary measures for the implementation of government programmes. Cross-cutting issues may be presented separately.	Provision of underlying assumption in individual Chapters, such as in UG 20 (Labour). Increased emphasis on the evolution since the previous BVA, and differences between cash and accrual accounts. Nevertheless, narrative is often more descriptive than explanatory. Budgetary priorities include a range of cross cutting issues. However, links to the relevant Chapters are only occasionally developed and key cross-cutting issues, such as climate change and gender equality are missing.
Supplementary Chapter budget documents to the draft Annual Budgeting Act	No overview of the developments on Chapter level. Not tailored for clearly identifiable audience Budget priorities defined in the strategy report are not explicitly addressed. Expenditure priorities are only discussed on detail budget level. Explanations vary largely across departments and are mostly of qualitative nature. Main budgetary challenges are not discussed Discrepancies to previous years are not available nor discussed. Little informative value of financial information and resource allocations Most important information (such as recipients of transfers) are only available in the budgeted accounts (available online). Confusing presentation of cash and accruals Too comprehensive	The supplementary documentation should give a clear overview of the main priorities, changes to previous year(s) and future developments (See old reading aid). Emphasising political priorities as well as developments and changes with regards to previous years Cash and accrual numbers need to be optically differentiated. Published full reports only online	The new design (2017 onwards) outlines an executive summary for each document (of maximum three pages) which includes a narrative of: Key tasks Personnel information at a glance Projects and plans Key figures in a macroeconomic presentation incl. narrative explanations and analyses - highlighted section on expenditure priorities of special budgetary and planning relevance, abnormalities, major differences, one- time effects on detail budget level - increased reader friendly explanations of the budget, taking into account the major changes to the previous year and differences between cash and accruals (targeted at Parliament and public) Differentiated presentation (grey and white) Published online

	Challenges:	Recommendation (2014/2015) by BMF and PBO:	How are the challenges addressed:
Supplementary reports to the draft ABA		Combining the administrative reform budget supplement and better regulation budget supplement.	
Outcome orientation report	Too many and too detailed outcome objectives have to be defined by the ministries. This often leads to unambitious or redundant objectives.	Allow flexibility for line ministries to focus on a smaller number of objectives in order to increase the quality and relevance of the measures. Content visualisation via a web-based database	Introduction of the digital form on a user-friendly interactive website maintained by the Federal Chancellery (www.wirkungsmonitoring.gv.at)
Regulatory Impact Assessment	Limited informative value, inflexible bureaucratic instrument, high work load	Evaluation should focus on the financial or politically most important legislative proposals and other projects. Reduce the requirements and time for minor planned measure: - Introduction of RIA light (see Chapter 3.4). - Only perform internal evaluation if the financial impact exceeds EUR 20 million or a direct substantive connection exists with the performance information in the annual budget. - Use available resources analysing underlying problems and assessing the impacts of proposed solution	The introduction of "RIA light" reduced the overwhelming number of evaluations and helped to focus on the main initiatives and projects. However, the remaining projects are presented identically, while of different importance (see PBO, 2016).
Strategy report	No overview of cross-cutting issues (such as Climate, Development Cooperation, business promotion) No references to government programmes, departmental strategies and their budgetary consequences.	Clearly address the budgetary consequences of cross-cutting strategies and objectives as well as the budgetary measures for the implementation of government programmes. Cross-cutting issues may be presented separately. The cross-sectional topic areas could be prepared by the ministries with main responsibility for an area. The budget report and strategy report could be combined based on the changes in the budget timeline	Budgetary priorities include a range of cross cutting issues. However, links to the relevant Chapters are only occasionally developed and key cross-cutting issues, such as climate change and gender equality are missing.
Report on the preliminary budget outturn		Elimination due to duplication with the preliminary financial statements	Integration of annual report on receivables (quarterly report eliminated) and report on changes to reserves

	Challenges:	Recommendation (2014/2015) by BMF and PBO:	How are the challenges addressed:
Monthly execution reports	Little explanatory power (mainly numeric reports). Developments and changes in particular are not at all or not sufficiently explained.	Provide management summary of main messages.	Management summary in the beginning of each report.
Report of hived-off entities		Support numerical values with supplementary explanations, including clarification of developments and changes with regards to previous year(s). Align the reporting dates for reduced workload and more explanatory power (see also PBO (2017)) Combining the report on hived-off entities and the report on the results of investment and financial controlling, independently of the budget with a reporting date of 31 December, submitted to the National Council by 30 April to ensure that all data would be available at a sufficient level of quality. Simplification of entry of personnel expenses for hived-off entities so that the Austrian Development Agency (ADA), Austrian Federal Computing Centre (BRZ) and Public Employment Service Austria (AMS) can make entries as a personnel office.	
Report on budget controlling	No preview of future budget developments	Include a prognosis for the expected annual results, discuss expected derivations from the estimated budget, including risks, and quantify corrective actions Improve IT support Adjust controlling timeline to increase the information value of the figures in the cash flow statement	Relaunch of the PBCT
Results of investment and financial controlling	The report has been improved significantly, including reporting on single corporate entities in which the Federal Government has a direct and majority equity as well as legal entities under public law subject to oversight by the Federal Government	Reconsider adjustment of reporting dates (see combining with the report on hived-off entities).	
Report on budget allocation overruns and future commitments	Budget allocation overruns play a minor role in the 1st quarter	Eliminate the report for the 1st quarter	

Source: Authors, based on (a) BFM(2014) Evaluation of the Austrian Budget Reform in accordance with the Austrian federal government work programme for the period 2013-2018, Bundesministerium für Finanzen (BMF), February 2014 (b) PBO(2015), Bericht des Budgetdienstes zur Evaluierung der Haushaltsreform, 18. Februar 2015; (c) PBO(2016), [Bericht des Budgetdienstes über die Folgenabschätzung 2016](#); (d) PBO(2017), [Anfragebeantwortung des Budgetdienstes zu den Berichten über Ausgliederungen und Beteiligungen des Bundes](#).

Table A.1. Key budget documents

German name	English name
Budgetcontrolling Bericht	Results of the Budget Controlling
Ausgliederungsbericht (Gesellschaften, an denen der Bund direkt und mehrheitlich beteiligt ist, sowie über Rechtsträger gemäß § 67 Abs. 1 Z 2 Bundeshaushaltsgesetz 2013 (einschließlich der Universitäten)	Report on hived-off entities (corporate entities in which the Federal Government has a direct and majority equity interest as well as legal entities under public law subject to oversight by the Federal Government pursuant to Sec. 67 (1) (2) Federal Organic Budget Act 2013 (including universities).
Bericht über die öffentlichen Finanzen (früher: Finanzschuldenbericht)	Report of the Fiscal Advisory Council on Public Finances
Bericht über die Übernahme von Bundeshaftungen	Guarantee report
Bericht über Maßnahmen gemäß ESM-Informationsordnung	Report on measures taken within the framework of the European Stability Mechanism
Budgetbeilagen	Supplementary reports to the draft Annual Budgeting Act
<i>Budgetbeilage Beiträge an Internationale Organisationen</i>	<i>Supplementary report to the budget on Financial contributions to international organisations</i>
<i>Budgetbeilage Budgetsichten</i>	<i>Budget Summaries (Supplementary report to the budget)</i>
<i>Budgetbeilage Entwicklungszusammenarbeit</i>	<i>Supplementary report to the budget on Development Cooperation</i>
<i>Budgetbeilage Forschung und Entwicklung</i>	<i>Supplementary report to the budget on Research and Development</i>
<i>Budgetbeilage Infrastruktur</i>	<i>Supplementary report to the budget on Infrastructure</i>
<i>Budgetbeilage Öffentliche Schulden</i>	<i>Supplementary report to the budget on Public debt</i>
<i>Budgetbeilage Personal des Bundes</i>	<i>Federal Civil Service (established posts) (Supplementary report to the budget)</i>
<i>Budgetbeilage Umweltschutz</i>	<i>Supplementary report to the budget on Environmental protection</i>
<i>Budgetbeilage Zahlungsströme zwischen den Gebietskörperschaften</i>	<i>Financial relations between the different levels of government (Supplementary report to the budget)</i>
<i>Eckwerte gemäß Volkswirtschaftlicher Gesamtrechnung</i>	<i>Budgetary indicators (ESA) (Supplementary report to the budget)</i>
<i>EU-Beilage</i>	<i>European Union (Supplementary report to the budget)</i>
Budgetbericht	Budget report
Bundesrechnungsabschluss	Financial Statements of the Federal Government
Detailbudget	Detail budget
Ergebnisse des Beteiligungs- und Finanzcontrollings	Report on the results of investment and financial controlling
Finanzschulden und Währungstauschverträge	Report on financial debts and currency swaps
Forderungen: Stundung, Ratenbewilligung, Aussetzung und Einstellung der Einziehung	Report on receivables: deferrals, agreed instalments, suspension and discontinuation of collection of receivables
Förderungsbericht	Report on subsidies
Gebahrungsvollzug (Entwicklung des Bundeshaushaltes Jänner-April und Jänner-September, Bericht des Bundesministers für Finanzen)	Report on budget execution January-April & January-September
Katastrophenfondsgesetz - Bericht des Bundesministers für Finanzen	Report on the financial situation of the Natural Disaster Fund and the use of resources
Langfristige Budgetprognose	Fiscal Sustainability Report
Monatserfolg	Monthly budget executions reports
Rücklagenbericht § 47 (2) Z 2	Report on changes to reserves
Strategiebericht	Fiscal Strategy Report
Teilhefte	Supplementary budget documents to the draft Annual Budgeting Act
Vorbelastungen – und Mittelverwendungsüberschreitungen	Report on budget allocations that exceed the appropriation level ("budget overruns") and future year commitments
Vorläufiger Gebahrungserfolg	Report on the preliminary budget outcome of the previous fiscal year
WFA-Finanzielle Auswirkungen-Verordnung	RIA Financial Impacts Regulation
Wirkungscontrolling-Bericht (unter besonderer Berücksichtigung der tatsächlichen Gleichstellung von Frauen und Männern).	Report on outcome orientation (with a particular focus on de-facto equality of women and men)

Cash or accruals for budgeting? Why some governments in Europe changed their budgeting mode and others not

By

Jan van Helden and Christoph Reichard

This paper investigates why central governments in some countries (especially the UK and Austria) have moved from a cash budgeting system to accrual budgeting, while others (particularly Belgium and Portugal) continue to use cash budgeting, given that both groups of countries share that their financial reporting system have become accruals-based. Our research shows that the two countries opting for a complete change to accruals emphasise the importance of consistency of the entire accounting system and the imperative to inform also about resource consumption in the budget. In sharp contrast, the two countries deciding for a partial change and for staying with cash budgeting argue that a clear and unambiguous view at cash spending is authoritative for their budgeting concept and that political decision makers would not accept an accrual-based budget. The change process in all four countries was influenced by several contextual factors, such as cash-accounting legacies and previous NPM-reforms. We conclude that stakeholders in government show more reluctance when deciding on a budgeting concept than about a financial reporting change which is perceived as less essential. We also conclude that the less ambitious reform mode (cash-based budgeting with accrual financial reporting) takes more implementation time than the more ambitious reform mode (accruals for budgeting and reporting).

JEL codes: H61, H83, M41

Keywords: cash budgeting, accrual budgeting, international comparison

The authors are from the University of Groningen, the Netherlands and the University of Potsdam, Germany, respectively. Jan van Helden's research is on public sector accounting, with a special emphasis on budgeting, performance management and costing. Christoph Reichard's research is about performance management and management training in the public sector.

1. Introduction

Many Western countries have transferred their cash-based accounting system into an accrual-based system for financial reporting purposes during the last decades, but are continuing to use a cash-based budgeting system. The number of countries using cash for budgeting and accruals for financial reporting is quite large: it varies for central government between 34% (world-wide, PWC, 2015) and 50% (OECD countries, Moretti, 2016). A comparative study about 14 European countries reveals that this combination is also substantial for local government, counting for 43% of the countries (Brusca, et al., 2015).

Our research goal is to understand why central governments in some countries have moved to accruals budgeting, while others keep using cash budgeting, given that both groups of countries share that their financial reporting system has become accruals-based. We are therefore interested in the selection processes on the budgeting modes, which includes types of reasons main stakeholders put forward in preferring either cash or accruals for budgeting. These reasons may also include expectations about the implementation and use of the two budgeting options.

Our research contributes to the body of knowledge about international comparative research on public sector accounting. It may challenge a basic financial management logic which highlights that, systems for budgeting and financial reporting need to be coherent to enable proper comparisons between planned and realised financials. A potential practical implication of our work lies in the need for deliberate choices about accounting systems for budgeting and reporting purposes in the public sector. In a more general sense our research gives voice to the opinions and perceptions of various stakeholders involved in public sector accounting changes (see also Adhikari and Gårseth-Nesbakk, 2016).

Section 2 of this paper presents an overview of arguments pro or contra cash-based versus accruals-based budgeting, as derived from a comprehensive literature study. Subsequently Section 3 sketches a theoretical framework which helps in understanding the decision making processes about the choice between cash or accruals for budgeting. The core of our paper is Section 4. Here we present the empirical findings on four countries, two using cash budgeting in combination with accrual financial reporting (Belgium and Portugal), and two using accruals for budgeting and financial reporting (the UK and Austria). Finally, Section 5 contains a comparative analysis and theoretically informed interpretation of the four country studies and suggests routes for future research.

2. The pros and cons of cash and accrual budgeting

This section presents a short overview of the various arguments which are mainly used in the literature to emphasise either the CB-(Cash Budgeting) or the AB (Accrual Budgeting)-mode in public financial management. We disregard variations of these two modes (modified cash or modified accrual accounting) which can be found in various countries and which represent compromises between the two pure modes. The first variant is basically a cash system which only includes a few accrual elements, such as commitments at the year-end, while the second is basically an accrual system which doesn't include a few items like heritage assets. These rather modest variations don't change the fundamental characteristics of the respective accounting system.

The main arguments pro and contra the two budgeting modes are presented in Table 1; they are based on a comprehensive literature review of the authors (Reichard and van der

Helden, 2017). For both budgeting modes it is assumed that financial reporting is accrual-based (AR = accrual reporting).

Table 1. Overview on arguments used in literature in favour and against cash and accrual budgeting respectively

Criteria for assessment	Cash Budgeting	Accrual Budgeting	Assessment
Consistency of accounting system for budgeting and financial reporting	CB and AR follow diverging logics and cannot easily be compared with each other. The two modes are thus incoherent.	AB and AR follow the same accrual logic and both parts of the system are aligned with each other.	Clear argument in favour of AB
Appropriateness for financial and fiscal steering and control	CB is focused on budget authorisation. It allows easy planning and control of monetary spending of government ("money is core"). CB is more connected with fiscal policy-making, e.g. with the level of indebtedness, fiscal sustainability reporting or midterm expenditure frameworks which are all cash-based.	Spending control via AB is more ambiguous and spending departments have more discretion. Risk of overspending may be higher. Budgetary focus may shift from compliance to general performance issues. On the other side, accrual information has a mid-term perspective (e.g. pension provisions) which is lacking for cash information. Moreover, macroeconomic fiscal statistics like ESA and GFS are based on accrual data. Accrual-based budgetary reporting would need less significant adjustments for transformation into national (macro-economic) accounts compared to cash-based reporting.	Generally stronger arguments for CB, but with some limitations, e.g. with regard to national accounting
Coverage of financial information	CB has a limited focus: it only discloses cash-related transactions while non-cash activities are excluded. Thus, CB doesn't inform about the full resource creation and consumption of a public sector organization.	AB doesn't exclude the disclosure of cash data: Usually, the AB includes accrual data as well as cash flow figures. Furthermore, AB covers full costs of government activities (e.g. depreciation of assets) and not only cash-related transactions. Contingent liabilities like provisions are also disclosed (although certain long-term obligations like social insurance benefits are not covered). Thus, AB may lead to higher inter-generational equity and result in strengthened accountability.	Clear advantages of AB
Usability of budget by major stakeholders	The content and functioning of CB are easily comprehensible, also by non-experts like elected politicians in the budget committee. Cash is an unambiguous "language". The CB doesn't require sophisticated accounting knowledge.	AB is more complex and difficult to understand and to handle. It requires some solid accounting knowledge of the major actors. Elected politicians are said to be reluctant to use accruals, and thus budgetary powers may shift from legislation to professionals. Furthermore, AB requires considerable discretion of managers to decide e.g. on valuation of assets. Because of high complexity, the budget cycle may be overloaded and not be finished in time.	CB is easier manageable and less demanding; this may be partly outweighed by various disadvantages of CB
Manipulation risk	CB is considered as being vulnerable to manipulation, e.g. by anticipating or postponing cash-transactions.	Also AB is suspected to be manipulated, e.g. with regard to the valuation of assets or interest rates. Manipulation in AB may be more difficult to be detected and to be prevented compared to CB.	Highly contestable for both CB and AB

Criteria for assessment	Cash Budgeting	Accrual Budgeting	Assessment
Cost of implementation and use	Changing the accounting system from cash to accruals is doubtless a time-consuming and expensive adventure. Thus, it is argued that remaining in the CB-mode will be cost-efficient. The bulk of the costs of system change will, however, occur in any case as a result of the change of the accounting/reporting system. Furthermore, the CB-mode requires an additional budgetary reporting system (but see the AB-mode).	The AB-mode is eventually more costly than the CB-mode in its implementation stage and certainly more expensive during its operation. Similar to the CB-mode, a specific budgetary reporting concept may be necessary to allow item-specific comparison of budget appropriations with actual spending.	Contestable as both options are costly

Source: Compilation of the authors, based on: Blöndal, 2003, 2004; Carlin and Guthrie, 2003; Diamond, 2002; Jorge et al, 2016b; Khan, 2013; Moretti, 2016; Robinson, 2009, 2016; Schick, 2007; Warren, 2015.

The six categories comparing the advantages and disadvantages of the two budgeting modes under review present different results. According to our assessment, there is not one exclusive “winner” of the comparison. While the reasoning related to two of the categories favours quite explicitly the AB-mode, two other categories come to a somewhat nuanced “pro-CB” result and again two other categories end-up in a contested situation. At the end, governments have to draw their own conclusions on the preferability of either the CB- or the AB-mode for a public sector budgeting system. The result of such judgement will largely depend on the weighting of the various assessment criteria with regard to the two budgeting modes.

3. Theoretical framework

This section introduces our theoretical framework for understanding decision-making processes about cash-based or accrual-based budgeting in government, and it builds on more comprehensive frameworks for conceptualising public sector accounting reforms.

The most prominent framework of public sector accounting reform has been developed by Klaus Lüder. We refer to his ‘financial management reform process’ (FMR) model (Lüder, 2002), whilst acknowledging that there are earlier versions of his framework. According to Lüder, his model contains three clusters of variables: contextual (stimuli and institutional arrangements); behavioural (reform drivers, political reform promoters and stakeholders); and instrumental (the reform concept and implementation strategy). Lüder’s ideas have inspired many public sector accounting researchers for conducting either single country studies or comparative multi-countries studies about governmental accounting reforms (Lüder and Jones, 2003; Jorge, 2005; see also reviews by Vela and Fuertes, 2000; Lüder, 2002).

Lüder’s model shows many similarities with the more general public sector reform framework by Pollitt and Bouckaert (2011, p. 33), although it is more accounting oriented, by giving attention to the impact of auditing institutions, standard setters and statistical offices. Moreover, there are variations of Lüder’s ideas in publications of other researchers. Christensen (2002), for example, revises the framework by distinguishing three groups of actors, particularly promoters of change as well as producers and users of accounting information, which influence each other and are subject to certain stimuli, such as NPM-like ideas. Upping and Oliver (2011) attempt to merge the Lüder model with ideas developed by Innes and Mitchell (1990) on facilitators, motivators and catalysts for change, although rather than integrating both change models, the models seem to be just stuck together. Alesani et al. (2012), further explore the dependent variable of the public sector

accounting reform process, including improvement of transparency and accountability as well as improvement of financial management practices. Ouda (2010) elaborates on the content of the accounting reform and the transition process rather than the impact of contextual variables. A somewhat different viewpoint on conceptualising public sector management accounting change comes from ter Bogt and van Helden (2000), who provide explanations for two types of gaps: a development gap (formal accounting systems are less developed than originally planned) and a usage gap (the actual use of the formal accounting system is less than proposed).

In general, Lüder's model emphasises the groups of variables that are potentially influential in public sector accounting reforms. We are aiming to expand these ideas in two directions. First, by a focus on the decision making processes underlying public sector accounting reforms, in our research the preference for either cash or accruals for budgeting; Second, by giving attention to the extent of change and the pace of the change process.

We see the choice between cash or accruals for budgeting as fundamentally different alternatives, which require a deliberate selection procedure. This resonates with Johansson and Siverbo (2009), who – building on accounting change ideas developed by Burns and Scapens (2000) – distinguish three inter-related change processes. The first is *retention*, which is the preservation of current practices. The second is *variation*, i.e. variation of existent practices as prerequisites for enabling a substitution of current by new practices. Variation originates from external sources, such as important stakeholders advocating alternatives to the current practices, and from internal sources when different internal stakeholders hold diverging preferences about alternative practices. The third sub-process is *selection*; that is the type of reasoning important stakeholders put forward in deciding about the most desirable practices.

Greenwood and Hinings (1996) aim to understand organisational change, which regards the extent of change as well as the pace of change, as a response to both market and institutional pressures (*ibid*, 1996. p. 1014). With respect to the extent of change, they make a distinction between *radical change*, which implies the move from an existing to a new template, and *convergent change*, meaning a revision or fine tuning of the template in use. Related to the pace of change a distinction is made between *revolutionary change* as a quickly accomplished change and *evolutionary change* as a slow and gradual change taking a relatively long time span. Greenwood and Hinings argue that in general convergent change is more likely than radical change. This may be due to, e.g., a strong embeddedness of organisations in their institutional context, the absence of a strong coalition supportive of an attractive option for change, and a lack of enabling capacity for action, in the sense of the ability to manage the transition process from one practice to another.¹

Our research goal of understanding the change process on cash or accruals for budgeting and the theoretical notions developed above, give rise to the following *research questions*:

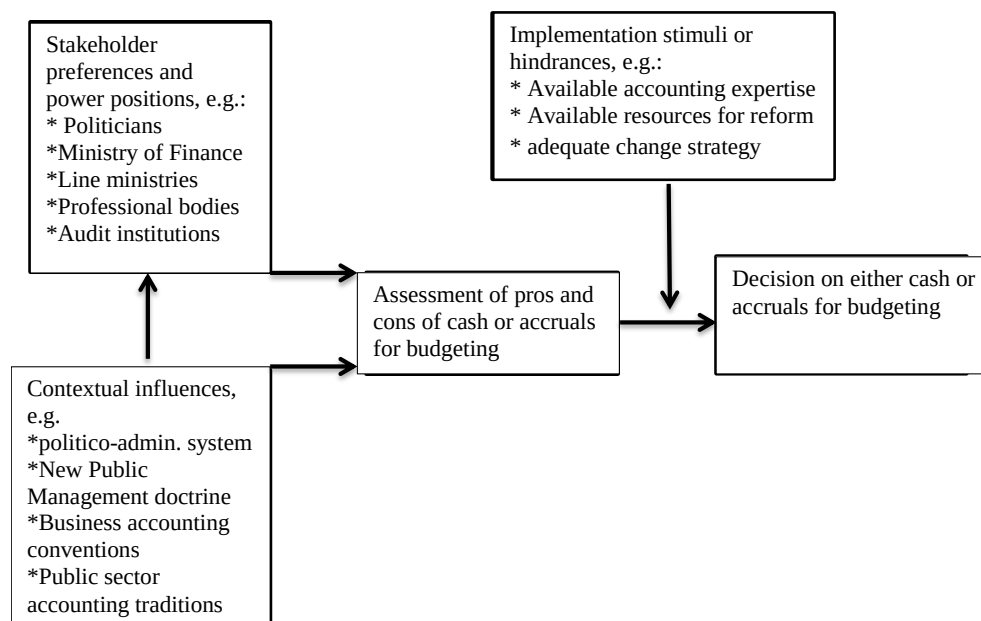
1. What were the main arguments for either sticking to cash for budgeting or for moving to an accruals basis for budgeting?
2. Was there an explicit reasoning about the pros and cons of two alternative options, i.e. either cash or accruals for budgeting, before putting forward the ultimate preference for one of the two?
3. Who were the most important stakeholders in the discourse on budgeting modes, and what was their position (e.g., advocate, opponent, neutral)?

4. What was the relative power position of each of the stakeholders under 3, and how did they come to the final decision?
5. What were the contextual circumstances of importance to the decision process on cash or accruals for budgeting?
6. Which implementation stimuli or barriers played a role?

Our research questions are linked to the presented results of our literature review in the following manner: First the two options of cash or accruals for budgeting show a sufficient *variation* for making a deliberate selection by relevant stakeholders in government (Question 2). Second, a transfer from cash to accruals for budgeting and financial reporting in government is assumed to be a *radical change*, i.e., a fundamental different way of designing budgeting systems, while a move from a cash-based system to only accruals for financial reporting and keeping the budgeting system cash-based is seen as a *convergent change* (Questions 1 and 2). Third, the reasoning for making a deliberate choice between both options can be seen as a *selection process* which is assumed to be informed by possible pros and cons of each option (Question 1; see Section 2 for the possible advantages and disadvantages of both options). Fourth, the ultimate decision depends on the *preferences and relative power positions of important stakeholders* (Questions 3 and 4). Potentially important stakeholders are elected politicians, ministers, professional bodies of accountants and auditors, audit institutions, public sector managers and public sector controllers. This list includes users and producers of budgeting information. Fifth, *contextual circumstances* can be influential (Question 5). These circumstances can vary from the governmental structure and culture to the importance of imitating private sector practices. It also includes the extent to which governments are open to new ideas (e.g. with regard to international trends), and whether they have strongly developed own traditions of standard setting in budgeting and accounting. And finally, certain *implementation stimuli or hindrances for change* can be influential (Question 6), which may influence the pace of change, i.e. *evolutionary* or *revolutionary*.

Figure 1 shows our theoretical framework.

Figure 1. Theoretical framework for understanding decision making processes on cash versus accruals for budgeting in government



Source: Jan van Helden and Christoph Reichard.

The decision to use either cash or accruals for budgeting (box on the right hand side) is impacted by an assessment of the pros and cons of both budgeting options (box in the middle). Two groups of factors can be influential: the preferences and power positions of important stakeholders, and various contextual factors (the two boxes on the left-hand-side). These two groups of influential factors can be interdependent, for example, when the preferences for budgeting options of politicians as one of the stakeholders come under the influence of business-like doctrines as in NPM. In addition to an assessment of pros and cons of the two budgeting options, there may also be certain influential implementation stimuli or hindrances (box in the top-middle).

This framework and the related research questions have been used as a guideline for our set of questions for conducting interviews (see Appendix).²

4. Four country studies: empirical findings

This section presents the findings of our empirical investigations. After a justification of the methods for data collection and analysis in section 4.1, the findings about the country studies are presented in the Sections 4.2 until 4.5. This paper studies four European countries: Belgium and Portugal are two countries which continue to use cash-based budgeting in combination with accrual-based financial reporting. Additionally two countries following the “AB-AR-mode” have been selected: United Kingdom and Austria. These countries were chosen because they follow divergent administrative cultures and traditions and additionally also varying accounting traditions. Furthermore, their exposure to public management reforms is diverse.

4.1 *Methods for empirical investigation*

Our investigations are constrained to the central government level in the four selected countries. We are primarily using secondary data sources, especially government reports and academic and professional publications about public sector accounting reforms in these countries. Often, these reports and publications do not address all the issues of interest to us, as developed in our theoretical framework. Hence, we conducted two to three expert interviews in each country in which we could request information about all these issues (see Appendix for our interview guide). The interviews were semi-structured, which gave room for sharing information about public sector accounting reforms in the country at hand beyond our interview guide. Experts had different backgrounds, ranging from academic research to consultancy and managerial positions. The use of multiple data sources potentially substantiates the analysis and provides sufficient evidence. Whenever different data sources gave diverging views, this is acknowledged in our analysis.

4.2 *Belgium*³

Following earlier reforms at local level, the federal government initiated comprehensive accounting reforms in 2003 by issuing two laws. In the following period, government entities at all levels introduced accrual financial reporting. While Belgian municipalities - with some regional differences - also changed their budgeting mode more towards accruals, the other government layers continued using the cash mode for budgeting and budgetary reporting. At the central level, government introduced in execution of the law of 22/5/2003, the FEDCOM system where all financial transactions are simultaneously recorded in the accrual reporting accounts and in the cash-based budgetary accounts (Christiaens and Neyt, 2015). The implementation started in 2007 and is expected to be completed in 2019 (information by the budget office). While implementation is completed in the federal ministries, it is still pending in a number of agencies. The budget in its current stage of development seems to follow a modified cash-mode with a tendency to strengthen the accrual components in future; it is structured into current and capital expenditures/revenues.

The decision to continue cash budgeting was made at the same time when the change of the reporting concept towards accruals was decided. The basic aim of remaining at cash mode with budgeting while changing the reporting mode was to broaden the information base, i.e. to add accrual information to the still available cash data. Although there was no explicit reasoning about the pros and cons of the two budgeting modes, politicians were supposed to become better informed about assets and liabilities of the government via accrual reporting (Christiaens and Neyt, 2015). The main reason to stay with the cash mode was the concern to move into unknown terrain whereas the cash budgeting concept is well established since long and is widely perceived as the most important financial planning concept of government which is also emphasised in constitutional law. Furthermore, bureaucrats were convinced that politicians would not accept a change towards accrual budgeting (Bellanca and Vandernoot, 2013). Hence, the bureaucrats in the Federal Public Service (FPS) Budget and Management Control department (responsible for budget composition and control) moved forward with a partial change, i.e. they revised the reporting mode without changing the well-established budgeting mode. As a result, the two sub-systems of budgeting and reporting are disconnected from each other and accrual accounting data doesn't play a major role in budget formulation.

Major stakeholders of this reform were the senior bureaucrats, primarily in the FPS Budget and Management Control. According to one of our interviewees politicians were not much

involved in the development of the concept. During the implementation process, the political level did not allocate sufficient financial resources necessary to perform the demanding change project.

The decision for the CB-AR-mode was influenced by some contextual factors. At first there was and still is a deeply rooted tradition of cash budgeting, based on Roman and West European administrative traditions, to which bureaucrats as well as politicians feel themselves committed (Christiaens and Neyt, 2015). This tradition was supported for many years by the dominant austerity policy of the federal government which forced all actors to concentrate their decisions on fiscal targets, i.e. on cash flows. On the other side, although the international influence on the reporting reform was modest, the general NPM-doctrine had some impact on the reform discourse. Furthermore, several more generic public management reforms (e.g. the “Copernicus Plan” of the Belgian federal government) were influential. During these administrative reforms, there was quite some enthusiasm for modernising the federal accounting system, but the positive mood declined shortly after the start of the FEDCOM-project. To some extent, the need to establish common accounting principles allowing comparisons of the accounts of all Belgian government entities was another reform driver (Bellanca and Vandernoot, 2013). Additionally, the business sector with the parallel renewal of its accounting standards was influential. And finally, the European Commission put some pressure on the Belgian government to improve its financial management system, not least with regard to ESA 2010.

The implementation process of this partial reform was organised in quite a cautious way and required a lot of time (more than 10 years). Because of the immense time needed for establishing the reporting system, the willingness to broaden the concept towards accrual budgeting was very weak. Some of the federal ministries still operate their own accounting system in parallel to the official accrual reporting because they consider the former system as more reliable and informative. One reason for the slow implementation was a considerable lack of human resources (OECD, 2017, 46), e.g. with regard to asset valuation and developing appropriate disclosure and measurement principles, but also for adequately managing the whole change process. According to our interviewees, another reason for slow implementation was an only modest disposition of the Belgian Supreme Court of Audit to undertake regular financial audits and by this to support the move towards accruals.

4.3 Portugal⁴

Until the beginning of the 21st century accounting was cash-based in the Portuguese central government. Announcements for accounting reforms date back to the 1990s, when accrual-based financial reporting was expected to be introduced in combination with cash-based budgeting for autonomous bodies and agencies within the central government, such as the tax office, universities and hospitals. However, core government budgeting and financial reporting remained cash-based, although there are plans to transform the cash-based system into an accrual-based system for financial reporting starting in 2020 (Jorge, 2015, p. 157).

Accrual-based accounting was seen as superior to cash-based accounting, especially because it allows a better treatment of transactions related to fixed assets (depreciations instead of capital investments and disinvestments), and it provides insights into the full resource consumption of activities rather than a registration of cash outflows. Moreover, accrual accounting is better aligned to the requirements of National accounting statistics.

There are external pressures for public sector accounting reforms coming from the EU and the IMF as a consequence of the budget support that Portugal received. In addition,

managers of autonomous bodies, who already used accruals for financial reporting in combination with cash for budgeting, were satisfied with having accruals information. And although capabilities for accounting expertise were a serious problem when the reform was launched, currently many employees, both managers and accountants, are better trained than in the past for effectively using accrual accounting information. In addition, the public sector standards committee can be seen as a supporter of the reform. This committee, among others, comprises representatives from the Institute of Chartered Accountants and the Institute of Chartered Auditors, as well as academic members and high officials from government.

However, there were also stakeholders opposing the reform to accruals. Many political actors do not understand the potential benefits of accrual information above cash information (see also Jorge, et al. 2008). In fact, when cash and accrual information are available, politicians will prefer using cash information, and they will in any way need professional support in effectively using accrual information (Jorge, et al, 2016a). In addition, some line managers in central government fear not to be equipped for proper using accrual information. In a more general sense, politicians but also officials in the powerful Ministry of Finance fear a loss of control of cash when budgeting and accounting are based on accrual principles. Moreover, according to Jorge et al. (2007), accrual-based reforms in government are problematic due to the absence of a conceptual framework that aligns business accounting conventions to the public sector (for example the irrelevance of certain private sector ratios for the public sector); because of difficulties in valuating public domain assets (e.g., how to deal with assets that do not generate revenues); and due to a lack of guidance for those who have to implement the changes.

Our interviewees differ to some extent in their appreciation of combining cash for budgeting and accruals for financial reporting. On the one hand, one interviewee acknowledges some more or less fundamental arguments in favour of this logic. Politicians consider budgeting predominantly as the establishment of cash ceilings for different functions, which is perceived as a simple and straightforward mode for planning and control purposes. In addition, there is a cultural dimension pointing to a long lasting tradition of cash budgeting, which is part of the accounting users' mindset. Moreover, there is a fear of losing control over cash if budgeting would be accrual-based. And, not the least, cash-thinking requires less expertise than accrual-thinking. On the other hand however, our second interviewee does not exclude that the combination of cash for budgeting and accruals for reporting as an intermediate reform stage. He acknowledges that accruals for both budgeting and financial reporting was not an explicit reform goal, but it was seen as a desirable end-result within the accounting profession.

Some driving forces for the reform can be indicated. The NPM philosophy is influential, especially the emphasis it puts on managerial thinking in autonomous bodies. The forming of those bodies (i.e. agencification) is an important signal in this respect. Another factor is business accounting as a benchmark for public sector accounting; the adoption of IPSAS is a symptom of this impact. Furthermore, austerity was influential, particularly through the pressures put on Portuguese government by the Troika (as part of budget support by the EU and IMF).

According to one of the interviewees, the implementation of the accounting reforms in Portuguese central government took a substantial number of years and is still ongoing. The slow pace of change is due to a combination of the following factors. First, it was insufficiently acknowledged that the reforms require a change in the structure of the organisation of central government. Currently, there are too many very small organisation

units which lack the capacity for proper use of budgeting and reporting repertoire to be feasible. Second, the currently very centralised accounting procedures, in which the Ministry of Finance is the dominant actor, are not aligned to the requirements of decentralisation which go alongside accrual-based accounting (budgeting and reporting). And third, some actors were difficult to convince that accrual information is superior to cash information, especially politicians and some line managers, as well as actors in the Ministry of Finance (see above). Our other interviewee argues that political instability – varying priorities of subsequently active government cabinets – is not conducive to smoothly functioning reforms.

The 1990s accounting reforms were imbedded in a larger process, starting with a new financing regime that distinguishes between administratively and financially autonomous bodies, the former essentially with cash-based reporting and the latter starting with accruals. Currently new initiatives are on the agenda, particularly the introduction of program budgeting, later to be followed by including performance information in the budget (performance budgeting). These reforms are planned to be implemented in 2018-2020.

4.4 The United Kingdom⁵

The reform in the direction of accruals for UK's central government started in 1993 and was subsequently developed in a Green Paper of July 1994 and a White Paper of July 1995 (Heald, 2002, pp. 412-413). The reform included both budgeting and reporting. The reform, labeled as RAB (Resource-Based Accounting and Budgeting), did not exclusively deal with the move to accruals, although this was its core part. It also included the adoption of performance information in budgeting and reporting, as well as the establishment of spending reviews, which were initiated a couple of years later.

Resource-based accounting is defined as “a set of accruals accounting techniques for reporting on the expenditure of central government and a framework for analysing expenditure by departmental aims and objectives, relating these to outputs where possible”. And resource budgeting is defined as covering “planning and controlling public expenditure on a RA basis”. “RAB is covering central government departments and agencies. Control will be dedicated to both cash and accrual items, with an emphasis on the latter” (Quotes come from: Likierman, 1995, p. 563).

According to Likierman (1995, pp. 565-566; 2000, pp. 256-258), RAB is considered as having some major benefits:

- Improved management information, especially on costs and assets, for departments, which will allow better decisions on, for example, the allocation of resources, especially on capital, as well as a comparison between internal and external providers (see further Heald and Georgiou, 1995 about asset valuation under RAB).
- Better opportunities for a control focus on outputs;
- Mitigating the annuality effects in spending;
- Cash control at a higher level, so more aggregated, than under the cash system;
- For the economy as a whole, information improves on the registration and use of assets.

In addition, our interviewee gave some more specific reasons for the preference of the AB-AR mode, in which the Treasury was leading. On the one hand, accruals information was

seen as superior to cash-based information because cash information was perceived as especially inappropriate for budgeting and reporting about capital expenditures. In addition, accrual-based information was regarded as more relevant to decision making than cash-based information. Cash information was also seen as relatively more vulnerable for manipulation, for example through postponements of purchases. On the other hand, the Treasury did not want to run different accounting systems for different purposes. So, consistency between budgeting and reporting, as well as between accounting for internal purposes and for statistical purposes was important. Therefore, the budgeting and reporting system had to be consistent, and thus based on the preferred mode, i.e. accruals. A background reason was that the accrual system was better aligned to the wish for further decentralisation in central government, so giving decentralised units more discretion in their financial management.

A main driver for these reforms was the need to cut expenditures and deliver more value for money in times of austerity. Although macro-economic considerations can also be a rationale, RAB is particularly informed by micro-economic rationales (Likierman, 1995). According to our interviewee, a crucial event was that the Treasury recruited Andrew Likierman as the top official in charge of the reform. Mr. Likierman had a high reputation and was appointed at a very senior level, so with a lot of power over other actors in central government. The Treasury was dominant, and an initiator of the reform. The Chartered Institute of Public Finance and Accountancy (CIPFA), the Public Accounts Committee (PAC), the Treasury and Civil Service Select Committee (TCSC) and the National Audit Office (NAO) were supporters of the reform while raising concerns about the readiness of departments to achieve the transition (Heald, 2002, p. 413). Members of Parliament did not play a role; they were involved, but in the reform process rather than in the decisions.

Although the Treasury was generally positive about the move to accruals, there was some reluctance concerning loosening cash control. This concern was, however, accommodated by continuing to disclose cash information for budgeting (including budgetary reporting), although at a more aggregated level than the accrual information (see also Jones, et al., 2013, p. 429). Because the cash-based system remained and, since cash-based budgets appear alongside the accrual-based equivalents, it is not excluded that significant decisions are still being taken with reference to the cash basis (Jones, et al., 2013, p.435).

Although accrual-based accounting information would require more accounting expertise than cash-based accounting information, both from public sector managers and especially from politicians, appropriate expenditure and expense control by the Treasury was seen as more important than potential obstacles in understanding accounting information by non-experts.

Several contextual factors were conducive to the reforms, according to our interviewee. NPM thinking was influential and in a similar vein private sector accounting conventions were seen as a benchmark for government. It was hoped that it would also be possible to recruit accountants from the private sector with suitable expertise for implementing accrual reforms in the governmental sector. Additionally, the already available and positive experiences with accrual accounting in more autonomous governmental organisations such as executive agencies were relevant. Finally, New Zealand was seen as a frontrunner in these types of public sector accounting reforms.

The implementation including the change process was crucial to the success of the reform. The reform was initiated in 1994-1995, but not fully implemented until 2001-02. Mr. Likierman and his staff used a timetable of seven years for implementation of the reform, because of its complexity and the need to be cost-effective (spending money on nurses and

teachers was seen as more important). The reform period was much longer than in New-Zealand (three years), because the transition for that country was less complex than for the UK. Another factor of importance was that Mr. Likierman remained in charge throughout the whole period. With his expertise and personality, he was able to convince people with some reservations regarding the reform. The reduced costs of implementing such reforms through advanced technologies (i.e. IT applications) were also seen as a facilitator for RAB introduction (Likierman, 1995).

An implementation barrier was that some ministries, such as the Ministry of Defence, suffered from serious shortcomings in their basic information systems, which meant that they could not easily catch up with the accounting reforms. But, reform deadlines remained and it was accepted that not all actors could meet these deadlines.

Whole-of-Governments Accounting is seen as a further step of the move from cash to accruals. Its actual introduction was seriously delayed for about ten years until 2012, because it was not a priority and the economic-financial climate was not conducive (Heald and Georgiou, 2009). The adoption of IPSAS is not foreseen in the UK (although the UK government accounting standards are mainly based on IFRS, which are largely complying with IPSAS), and a move towards the evolving European Public Sector Accounting Standards (EPSAS) seems even unthinkable after the Brexit (Jones and Caruana, 2015).

4.5 Austria⁶

The federal government of Austria started an extensive reform of its budgeting and accounting system in 2004. Prior to this, almost all Austrian government entities practiced cash accounting and budgeting by following the cameralist bookkeeping style, although there existed formally, a kind of hybrid accounting concept with some accrual elements (*Mehrphasenbuchführung*). The new concept is largely based on IPSAS and it consists of a full-fledged accrual reporting system with balance sheet, income statement and cash-flow statement (Steger, 2008). Both the budget and the annual reporting are composed in an accrual version as well as in a cash version which both follow the same structure of budgetary items (OECD, 2017, 41). The budgeting concept includes also a multi-year performance budget with only very few chapters and items (Blöndal and Bergvall, 2007, Steger, 2008; 2010). The Ministry of Finance (MoF) as the central reform promotor developed the basic elements of the accrual concept with a focus at the budget in 2004-2006. The reform was realised in two steps (becoming active in 2009 and 2013 respectively): in the first stage of reform several irrevocable legal changes in the constitution and various regulations were issued. The formal reform decision on the proposal of MoF was taken by Parliament after debate in the Cabinet. The members of Parliament were regularly informed about proposed changes by the head of the budget division. A quite intensive and partly controversial debate among some politicians and senior bureaucrats about the pros and cons of AB and CB happened in the second phase of the project in early 2009, when the basic decision about the change by Parliament was already made.

For the reform team in MoF's budget division, the complete change of the reporting and the budgeting concept towards accruals was a definite aim since beginning. Major arguments pro AB-AR were the consistency of the whole federal financial management system and the greater validity of accrual compared to cash data. Moreover, it was emphasised that AB will also provide cash information by disclosing not only accrual appropriations but also cash appropriations (*Finanzierungsvoranschlag*). The change towards AB was, however, controversial within the budget division of the MoF, where

some well-established staff members were critical about its usefulness but also about the costs of the change. There was not much resistance against the change in the line ministries and – apart from a few critical comments – neither in the Parliament.

The most important stakeholders who supported the change project were the MoF (more specifically the minister and the head of the budget division as key players) and the Court of Auditors. Although the Chancellery and most of the line ministries were at first skeptical, they did not resist explicitly to the reform. The majority of politicians and bureaucrats considered the change of the budgeting mode as technical and were not really aware of the impacts of such a change. After the constitutional amendments, most stakeholders realised the inevitability of the reform and slowly became more positive to the reform by appreciating the increased budget flexibility. Consultancy firms and accounting boards did not play a strong role. A review of the official responses of ministries and other relevant government-related institutions (e.g. court of auditors, Länder-governments, social partner associations like unions, etc.) to the new budget act 2013 shows that most stakeholders were more or less satisfied with the basic reform approach (https://www.parlament.gv.at/PAKT/VHG/XXIV-ME/ME_00066/index.shtml).

The reform project was constrained by some context factors but also facilitated by some others. At first, the accounting traditions of the Austrian government sector were not conducive for a move to accruals (e.g. long lasting cameralist legacies and strong influence of legal budgeting regulations). Moreover, the impact of private sector accountancy and auditing firms on the project was quite modest. On the other side, the debate in Austrian government was facilitated by already existing accrual elements in the formally established hybrid bookkeeping system. Further, some ministries were used to cope with accruals as state-owned enterprises and similar autonomous organisations already followed since long the accrual mode. Thus, double-entry bookkeeping and accruals were not completely new for a variety of actors. Additionally, in the early 2000s the MoF performed pilot experiments with budget flexibilisation in a series of federal agencies: participating agencies could enjoy more freedom of budget execution and in response they were expected to strengthen their output-focus and to manage their financial resources with more self-responsibility (Promberger et al., 2005). The positive experiences with these experiments contributed to an openness of most stakeholders to the accounting reforms. In a broader view, the impact of the NPM doctrine – apart from the budget flexibilisation experiments and some changes in performance management – on the reform was modest, because the impact of NPM on Austrian government reforms – apart from “management rhetorics” – in general was limited (Hammerschmid and Meyer, 2005). Nevertheless, the reform debate in Austria was inspired by international experiences with public financial management reforms; the head of the budget division was active e.g. in OECD reform circles (Steger, 2010). The preceding reforms in the neighboring country Switzerland were of particular influence.

The reform implementation benefited from a deliberately planned change strategy. At first, the division of the whole change process in two stages was based on a thoughtful decision: in the first stage several fundamental decisions (e.g. changing the constitution in 2007) were made, without determining details of the concept. More complicated and detailed changes were postponed to the second stage when the fundamental settings were irrevocable. Additionally, the MoF established close contacts with the Parliament’s budget committee quite early and persuaded its members to accept the reform concept (Steger 2010). Furthermore, the concept itself was composed in a rather pragmatic and not very rigorous manner: the performance component of the budget for instance is limited to five

indicators for one of the only about 30 federal budget areas (Egger-Peitler, 2013). Additionally, the new budgeting concept also includes information about the gender-impact of budget appropriations which serves the special interests of some politicians in strengthening the gender dimension of public services (gender budgeting). In general, the cash/accrual-issue was not very dominant in most of the reform debates; it was superimposed by other features of the new budgeting concept, primarily by the outcome-orientation and flexibilisation of the budget and the responsibility shift from the MoF to the line ministries.

On the contrary, the implementation process was hindered to some extent by limited human capabilities to undertake the necessary changes in the accounting and budgeting concepts (e.g. valuation of assets). Additionally, the surrounding accounting traditions in Austria's public sector were not highly supportive: apart from a few municipalities, neither the Länder governments nor local government had started with financial management reforms; the federal government, therefore, was the pioneer in this field.

5. Comparative analysis and discussion

Table 2 comprises the major results of our analysis of the factors influencing the decision-making process with regard to the budgeting mode in the four countries under review.

Table 2. Major findings of the comparative analysis

Country and financial management mode ¹	Belgium CB-AR	Portugal CB-AR ²	United Kingdom AB-AR	Austria AB-AR
Influential stakeholders	Supporters of the (CB-AR) reform: senior managers, primarily of MoF	Supporters of reform (CB-AR): - Public Sector Standards Committee - Professional bodies - Managers of autonomous bodies Reluctant about reform: - MoF - Politicians - Some line managers	Supporters of reform: - MoF (Treasury) dominant - Institutional support from e.g. NAO, PAC Politicians informed but not decisive	Supporters of reform: - MoF (particularly the head of budget division) - Court of auditors Critical position: only limited opposition in early reform stage in some line ministries

Country and financial management mode ¹	Belgium	Country and financial management mode ¹	Belgium	Country and financial management mode ¹
Main pros and cons relevant for decision	Politicians prefer cash in budgeting; budget is seen as more important than financial reporting Accrual mode is perceived as important for financial reporting but not for budgeting	Supporters see accrual information as superior Politicians prefer cash in budgeting, that is seen as more important than financial reporting Incapability of some line managers MoF fears loose of cash control	Accrual accounting superior, e.g. treatment of assets, better control focus Consistency of budgeting and financial reporting mode Loose of cash control accommodated through cash information at higher level in the budget	Consistency of budgeting and reporting modes; higher significance of accrual data for financial steering Reporting includes both cash and accrual data
Contextual influences	Some EU-pressure NPM-doctrine Preceding general administrative reforms Business accounting standards Long lasting tradition of cash-based budgeting as hindrance for AB	Pressures from IMF and EU NPM-doctrine Business accounting standards Long lasting tradition of cash-based budgeting as hindrance for AB	Austerity: importance of value for money NPM-doctrine Positive experiences of autonomous bodies with accruals Recruitment opportunities for private sector accountants	Long lasting tradition of cash-based budgeting and cameralist accounting as hindrance Accrual elements in existing bookkeeping system Positive experiences with previous reform of budget flexibilisation International reform trends
Implementation issues	Long and cautious reform process (ongoing since 2003) Barriers: - highly complex multilevel government structures - Lack of accounting expertise	Insufficient attention to step-by-step approach (ongoing change since 1997) Barriers: - Inappropriate organisation structure - Lack of capabilities at decentral level	Positive impact of: A powerful change agent Pragmatism in change process (extended time span due to lack of resources)	Positive impact of: - Thoughtful reform strategy and very influential change agent - Relatively fast implementation process (less than 5 years) - Pragmatic and user-friendly budgeting concept Barrier: lack of accrual accounting expertise

Note: ¹Legend: CB = Cash Budgeting; AB = Accrual Budgeting; AR = Accrual Reporting; ² For autonomous bodies and agencies; in core government CB-CR

Source: The authors

As the country cases illustrate and Table 2 shows in a condensed way, the countries opting for the CB-AR-mode acted under different conditions and diverging institutional and contextual factors than those opting for the AB-AR mode. In the first case the respective MoF was quite cautious and – at least partly – not fully convinced of the move towards accruals. In the latter case the MoF was an important player and strongly in favour of the reform. Furthermore, in the first case the senior bureaucrats in the MoF perceived or anticipated the attitudes of elected politicians against an accrual budget as dismissive and therefore supported the CB-AR mode. This is also confirmed by the collection of arguments used in the debate about the budgeting mode. In the CB-AR-case the major argument was to ensure strict spending control. In contrast, in the AB-AR case stakeholders primarily referred to the consistency of budgeting and reporting, to better steering and control options

with a view to the entire resource consumption and to the fact that accrual reporting does not exclude provision of cash information, e.g. via separate budgetary reporting.

In all the four country cases, the implementation process was influenced by several stimulating and hindering factors. A lack of skilled human resources in the reforming government entities was for sure a hindrance in all cases, although less restrictive in the UK case (easier access to private sector professionals because of less strict boundaries between private and public sector). The whole implementation process was more stretched in the countries following the CB-AR mode (between more than 10 and 25 years), while UK (7 years) and particularly Austria (5 years for first stage) managed the reform in a swifter manner. This is also the result of specific conditions of the change process: in both AB-AR-countries the implementation was based on a well-developed and situation-specific change strategy. In Austria for instance the whole reform was divided into two broad parts where the fundamental decisions for change were made very early in the first part. Further, in both countries there was a highly powerful and at the same time professional change agent initiating and co-ordinating the reform process. These change agents were able to mobilise sufficient support in the political sphere (parliament) as well as among senior bureaucrats. In the UK-case, organisations in the public as well as in the private sector like national audit courts, standard setting boards or professional accounting associations were specifically supportive to the implementation process.

The administrative traditions and cultural patterns in the reviewed countries had considerable impact on the reform decision and on the reform process: while the UK with its highly intensive NPM-reform trajectories, with a quite permeable public and private accounting community and with a less legalistic regulatory setting for public financial management has moved towards accruals for budgeting and financial reporting in a definite and purposeful change process, the other three countries had a different point of departure. This is particularly relevant for Belgium and Portugal as countries belonging to Napoleonic state traditions and corresponding administrative cultures. In such countries, the budget is more strongly perceived as an instrument of the legislature to decide on (cash) spending and thus a change towards additional non-cash items in the budget is perceived as unacceptable (Adhikari and Gårseth-Nesbakk, 2016, p. 133). In this Continental-European setting, the Austrian case is somewhat exceptional: although having similar legacies as Belgium or Portugal, this country undertook a far-reaching and uncompromising reform in quite a short period - most probably as the result of a thoughtful change strategy and the influence of a powerful change agent.

By generalising our observations in the four countries, we conclude that the following factors will be relevant in a country where the government intends to opt for the AB-AR-mode (Cortes, 2006; Schick, 2007): There is a reform-motivated government and particularly the MoF is promoting and pushing forward the implementation. Within the MoF there is at least a highly dedicated task force which guides the reform process. The government is open to and interested in actual public (and private) financial management developments (e.g. IFRS and IPSAS). Furthermore, an influential public financial management community is institutionalised (professional bodies, academics, accountancy firms) which supports the ongoing reform debate. The reform debate follows the current mainstream arguments “pro accruals” without taking much notice of the particularities of the budgeting issue (see Section 2).

We observe that governments opting for the CB-AR-mode will tend to a rather cautious reform process. They perceive an affinity of politicians to CB as a serious barrier for a move to AB and they emphasise cash spending control as the most important aim of

budgeting. Rather weak fiscal conditions (e.g. a high debt level) of the country in the past may serve as an additional driver for preferring the CB-mode, because the government feels a strong need for fiscal control. Sceptics of a budgeting reform can be found in the legislature (politicians) as well as in the MoF and in the court of auditors. Governments in these countries are less interested in learning from external experiences with financial management reforms and tend to follow the patterns of traditional (cash based) budgeting. The public financial management community is less developed and poorly institutionalised.

Given that governments start from a cash based system for both budgeting and financial reporting, we can assign the discussed budgeting and financial reporting modes (CB-AR and AB-AR) to the two earlier introduced accounting change dichotomies (radical versus convergent and revolutionary versus evolutionary change; see Section 3):

AB-AR is an example of radical change, while CB-AR can be seen as an instance of convergent change, or at least as a relatively less extent of radical change.

Table 3. CB-AR or AB-AR modes related to types of change extent and change pace

		Extent of change	
		Radical (AB-AR)	Convergent (CB-AR)
Pace of change	Revolutionary (within 10 years)	Austria, The United Kingdom	
	Evolutionary (within a period of more than 10 years)		Belgium, Portugal

Source: Authors.

An evolutionary time span of change covers a period of 10 or more years, while a revolutionary time span relates to a time span of less than 10 years (the number of years of both change types may look arbitrary, but it has to be acknowledged that the reform in question takes several to many years given the technical complexities and the efforts it requires for “getting things done” in organisations).

Table 3 positions each of the four countries under investigation to the two change dichotomies. The question now arises whether we can understand why each of the four countries is positioned as it is in Table 3, and in a more general sense which factors are conducive to radical or convergent change and which to revolutionary or evolutionary change.

Our country studies as discussed in Section 4 and summarised in Table 2 suggest that the choice between radical and convergent change is mainly a matter of how strong the pros and cons of cash budgeting and accrual budgeting are perceived by the main actors. In Austria and the United Kingdom there was a firm belief about the potential benefits of accruals in budgeting and financial reporting. In both Belgium and Portugal this belief was, however, mitigated by the fear that politicians, and sometimes also some officials in the Ministry of Finance, would not accept a loosening of cash control. Moreover, the government decisions were strongly affected by the long lasting traditions of cash budgeting. Contextual influences in the direction of accruals are relevant in all four countries, such as NPM and accounting conventions in the business sector, but these factors do not “make the difference” in the preference for a radical or convergent reform type.

The preference for revolutionary or evolutionary change seems to be predominantly a matter of implementation in general and of the change process in particular. In Belgium

and Portugal an ambitious pace of change was infeasible due to a lack of resources and doubts about the readiness to change among main actors, such as line ministries. Both countries also lack a powerful reform promotor to enforce the change process and convince reluctant actors. In contrast, in the United Kingdom and Austria we observe the importance of an influential change master (see above). Austria may also have had the advantage of being a late adopter of accounting reforms: the country might have benefited from earlier reform experiences abroad (as was indicated by our interviewees who referred to previous OECD-experiences as benchmarks and to active participation of MoF-representatives in OECD working groups).

Table 3 gives rise to an unexpected conclusion: the radical and thus more ambitious reform goes hand in hand with a revolutionary time span of implementation, while the convergent and thus less ambitious reform aligns with an evolutionary time span of implementation. To put it differently: the less ambitious reform mode takes more time than the ambitious reform mode.

Our findings are not fully in line with the ideas of Johansson and Siverbo (2009), who suppose that a deliberate selection procedure is at stake in the case of fundamentally different alternatives. This would imply that decision makers opting for either CB-AR or AB-AR deliberately consider all pros and cons of both options, and then decide. However, we observe that the decision for one of the options was made in quite an implicit and generic way rather than considering the pros and cons of both options in a deliberate manner.

A striking outcome in all four country studies is the remote position of politicians in the reforms: although politicians, such as MPs, as major users of accounting information for budgeting decisions were informed or convinced by other actors, they were not core to the decision making process. Particularly in the two CB-AR-cases, the bureaucrats in the MoF anticipated the resistance of politicians against an accrual budget in their appreciation of budgeting modes, but nevertheless the bureaucrats essentially made the decision. This can be risky on the long term, because co-ownership of a new accounting repertoire can be a main driver for its embeddedness in practice.

Our theoretical framework contributed to gathering rich and consistent evidence about the decision-making processes on either cash or accruals for budgeting in an era of accrual financial reporting. This framework on the one hand builds on existing concepts about public sector accounting reforms, especially by highlighting the possible impact of contextual influences and implementation stimuli and hindrances, but it is more specific in emphasising the types of arguments that may play a role in selecting a cash or accruals budgeting mode. The framework suggests that the move from cash to accruals for budgeting and financial reporting is an ambitious reform goal, which is only achievable if a substantial number of conditions are fulfilled, which relate to the interplay of certain external pressures and internal capabilities of the organisations in the public sector (see also Greenwood and Hinings, 1996).

From a practical point of view, our research provides decision makers of budgeting and financial reporting reforms with a comprehensive set of arguments about diverging budgeting modes. In addition, it suggests certain change process-related factors that can be conducive to a successful reform trajectory.

The presented findings have some limitations: At first the number of countries under review is quite limited and expanding the analysis to a larger setting of countries, covering also other administrative and accounting traditions in Europe (and elsewhere), could be attractive. Secondly, our empirical information relies primarily on the analysis of

documents available in English language, such as journal publications, and on several expert interviews. As in all cases the decision-making process on the accounting mode is already 10-20 years ago, the “institutional memory” in the reviewed countries may be sometimes limited.

So far, the decision about an appropriate budgeting mode (cash versus accrual) which to a large extent is contingent on a variety of contextual and accounting-related factors is still below the radar of public sector accounting research. As for sure this is a highly important decision for national governments, there is need for further empirical research on the effects of selecting either cash or accrual budgeting on the performance of public sector accounting systems.

Notes

¹. An application of Greenwood and Hinings’ concepts in the public sector can be found in Argento and van Helden’s (2009) analysis of water sector reforms in the Netherlands and Mauro’s (2016) analysis of performance budgeting in Italian central government.

². Our framework does not cover all contributions to conceptualising public sector accounting reform and accounting change, as discussed in this section, but they will be part of our comparative analysis of the empirical findings in Section 5.

³. The presented findings are based on our literature review (see list of references). Furthermore, we conducted interviews with Johan Christiaens and Christophe Vanhee, both professors at the Department of Public Governance, Management and Finance at Ghent University, with Paul van Sprundel, Chief Audit Executive of the Federal Internal Audit Service of Belgium and with senior managers of the federal budget office.

⁴. In addition to some publications (see list of references), this country study relies on two interviews: with Mrs. Susana Jorge, assistant professor (with accreditation) of public sector accounting at the University of Coimbra and member of the public sector standards committee in Portugal; and with Mr. Luis Morais Sarmiento, deputy director of the Statistics Department of the Banco de Portugal (Portuguese Central Bank), and previously active in various high level positions in the Portuguese Ministry of Finance.

⁵. This country study is based on relevant literature about the budgeting and accounting reforms in UK’s central government (see list of references). An important source was an interview with David Heald, Professor of Public Sector Accounting at the Adam Smith Business School, University of Glasgow, and previously professor of public sector accounting in Aberdeen and Sheffield. Mr. Likierman, who was a leading official in the reforms, gave feedback on a draft version of this country study.

⁶. The presented findings are based on a review of the predominantly German-language literature (see references) and on interviews with Gerhard Steger (former head of the budget section of the federal MoF), with Johann Seiwald (prior member of the reform team in the MoF) and with Reinbert Schauer (emeritus professor at the University of Linz and official academic observer of the reform project).

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Annex 1.A. Interview Guide on Cash versus Accrual Budgeting in Central Government

The table below presents a guide for semi-structured interviews. Some general principles underlie this table:

- The subsequently mentioned topics and related questions are informed by the theoretical framework and related research questions.
- A distinction is made between questions asked in countries sticking to cash for budgeting and countries that have moved to accruals for budgeting; in order to achieve coherent sets of questions both are presented in the second and third column as parallel sets of questions.
- In general for each topic firstly an open question is formulated which requires a spontaneous answer of the interviewee; subsequently the interviewer can put forward more specific answer options.

Topic	A. Questions for countries preferring <u>Cash</u> for budgeting in central government	B. Questions for countries preferring <u>Accruals</u> for budgeting in central government
Positioning the decision on cash or accruals for budgeting	IA. When did central government decide to stick to cash for budgeting while moving to accruals for financial reporting?	IB. When did central government decide to replace cash by accruals for budgeting, and was this decision connected to a move to accruals for financial reporting?
Reasons for preferring cash or accrual budgeting	IIA. What were the main arguments for sticking to cash for budgeting when the decision for accrual financial reporting was settled? IIA.1 First ask for a spontaneous reaction, thereafter, some more specific issues can be discussed; see below IIA.2 Money is core focus for budgeting IIA.3 Consistency with fiscal policy IIA.4 Understandability of cash information IIA.5 Less risky for manipulation IIA.6 Low costs of implementation and use	IIB. What were the main arguments for moving to accruals instead of cash for budgeting when the decision for accrual financial reporting was settled? IIB.1. First ask for a spontaneous reaction, thereafter, some more specific issues can be discussed; see below IIB.2 Consistency of budgeting and reporting system IIB.3 Compatibility with statistical systems IIB.4 Comprehensive information on full costs of activities/programs IIB.5 Less risky for manipulation IIB.6 AB can also include cash data in cash flow projections
The deliberateness of the selection process	IIIA. Was there an explicit reasoning about the pros and cons of two alternative options, i.e. either cash or accruals for budgeting?	IIIB. Was there an explicit reasoning about the pros and cons of two alternative options, i.e. either cash or accruals for budgeting?
Stakeholders in decision process on preferring cash or accrual budgeting	IVA. Who were the most important stakeholders in the decision under IA, and what was their position (e.g., advocate, opponent, neutral)?	IVB. Who were the most important stakeholders in the decision under IB, and what was their position (e.g., advocate, opponent, neutral)?

Topic	A. Questions for countries preferring <u>Cash</u> for budgeting in central government	B. Questions for countries preferring <u>Accruals</u> for budgeting in central government
	IVA.1 First ask for a spontaneous reaction, thereafter, some more specific stakeholders can be discussed; see below	IVB.1 First ask for a spontaneous reaction, thereafter, some more specific stakeholders can be discussed; see below
	IVA.2 Senior politicians, such as the Minister of Finance or members of the committee for budgeting and reporting	IVB.2 Senior politicians, such as the Minister of Finance or members of the committee for budgeting and reporting
	IVA.3 The National Audit Office	IVB.3 The National Audit Office
	IVA.4 Professional bodies, especially of accountants and auditors	IVB.4 Professional bodies, especially of accountants and auditors
	IVA.5 Public sector managers	IVB.5 Public sector managers
	IVA.6 Public sector controllers/accountants	IVB.6 Public sector controllers/accountants
The relative power position of each of stakeholders and the process of arriving at a final decision	VA. What was the relative power position of each of the stakeholders, and, if they had diverging preferences about cash or accruals for budgeting, how did they come to a final advice/decision?	VB. What was the relative power position of each of the stakeholders, and, if they had diverging preferences about cash or accruals for budgeting, how did they come to a final advice/decision?
External contextual circumstances of importance to decision process on cash or accrual budgeting	VIA. Were there certain contextual pressures for the taken decision?	VIB. Were there certain contextual pressures for the taken decision?
	VIA.1 First ask for a spontaneous reaction, thereafter, some more specific issues can be discussed; see below	VIB.1 First ask for a spontaneous reaction, thereafter, some more specific issues can be discussed; see below
	VIA.2 A critical appraisal of international fashions such as NPM and IPSAS	VIB.2 International trends such as NPM and IPSAS
	VIA.3 A general consensus that government is largely different from the business sector	VIB.3 Pressures from the business community in the country
	VIA.4 Legalistic government	VIB.4 Government flexible on law
	VIA.5 Strong standard setting traditions	VIB.5 Weak standard setting traditions
Implementation barriers on adoption of cash or accrual budgeting	VIIA. Implementation barriers	VIIIB. Implementation stimuli
	VIIA.1 First ask for a spontaneous reaction, thereafter, some more specific issues can be discussed; see below	VIIIB.1 First ask for a spontaneous reaction, thereafter, some more specific issues can be discussed; see below
	VIIA.2 Staff competences cash-oriented	VIIIB.2 Staff open for learning accrual competences
	VIIA.3 A lack of resources for change process to AB	VIIIB.3 Sufficient resources for change process to AB
Other budgeting reform issues	VIII.A. Were there other reform issues, such as program budgeting and performance budgeting going alongside the reform to cash budgeting and accrual financial reporting?	VIII.B. Were there other reform issues, such as program budgeting and performance budgeting going alongside the reform to accrual budgeting and financial reporting?

Getting added value out of accruals reforms

By

Delphine Moretti and Tim Youngberry

After three decades of public financial management reforms, around three quarters of OECD countries are using accrual accounting with some adopting accrual budgeting as well (OECD Accruals 2016 Survey). This is however a sensitive time: questions are increasingly being raised on the cost and usefulness of accrual reforms, whose impacts on public management and performance are not obvious to many stakeholders.

Against this background, this study brings together the experience of eleven countries that have introduced accrual accounting and/or accrual budgeting into their public sector. It aims at summarizing initial objectives of accrual reforms, countries' own assessment of how well these objectives have been achieved and propose recommendations on how finance ministries should go about achieving maximum outcomes from their transition to accrual accounting.

JEL code : H50, H60, H83

Keywords : accrual accounting, accrual reform, budgeting, transparency, performance

The research and preparation of this report was conducted by Delphine Moretti, Senior Policy Analyst in the Budgeting and Public Expenditure division, and Tim Youngberry, OECD expert under the supervision of Jón Blondäl, Head of the Budgeting and Public Expenditure division. Jaehyuk Choi, Policy Analyst, and Erik Scheller, Intern in the Budgeting and Public Expenditure division, assisted with the preparation of the report.

Foreword

After three decades of public financial management reforms, around three quarters of OECD countries are using accrual accounting with some adopting accrual budgeting as well. This is a sensitive time: questions are increasingly being raised on the cost and usefulness of accrual reforms, whose impacts on public management and performance are not obvious to many.

In many OECD countries, finance ministries' focus of interest is therefore shifting from finding out how to implement accrual accounting (or budgeting, in a more limited number of countries) to realising benefits from their reforms - and being able to demonstrate these.

Against this background, Sections 1-3 of this report brings together the experience of eleven OECD countries that have introduced either accrual accounting or accrual budgeting in the public sector over the past quarter century.

The introduction explains how many OECD countries have transitioned to the accrual basis for preparing their accounts and budgets, the objectives of these reforms in different countries, and their assessment of how well these have been achieved.

The following sections discuss how accrual reforms contributed to improvements in the transparency of the public finances (Section 1), accountability for fiscal policy and the use of public resources (Section 2) and the management of public funds (Section 3).

Section 4 of this report presents details of country experiences - Australia, Austria, Canada, Estonia, France, Japan, Korea, New Zealand, Spain, Switzerland and the United Kingdom.

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This report reflects the results of survey and interviews conducted with officials from the OECD Financial Management and Reporting Network in the eleven OECD countries listed above. Norway also contributed to this report for the section on agencies. The authors would like to thank these officials for their insights and help in compiling information on their countries' practices.

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Box 1. What does “accrual” mean?

Before beginning a detailed discussion of the benefits of accrual reform, it is helpful to define what is meant by “accrual”, “accrual accounting” and “accrual budgeting” in this report.

What does “accrual” mean?

The term “accrual” is associated with two related concepts.

First, the recognition of economic events at the time at which they occur, regardless of when the related cash receipts and payments change hands. Economic events can include the delivery of a taxable service by a private company (for which the government accrues tax revenue), performance of a public service by a government employee (for which the government accrues a salary and perhaps a pension expense), or the loss or theft of a government asset such as a vehicle or equipment (for which a reduction in the asset stock will be recognised). These economic events may generate a corresponding or simultaneous cash flow, but in many cases - such as depreciation, revaluations, or impairment - they do not. This is an important difference between cash and accrual bases.

Second, the recognition of all stocks of assets and liabilities in balance sheets. Under accrual accounting, governments recognise all assets and liabilities including financial assets (such as equities), non-financial assets (such as land and buildings), and all liabilities including debt securities and bonds and other liabilities (such as payment arrears and civil service pension obligations). These stocks may be recorded at their historic cost, current market value, or some approximation, that is regularly revalued to ensure the balance sheet reflects the government’s true financial position at a given point in time. Governments that follow pure cash accounting typically account only for their cash holdings on the assets side and, possibly, debt on the liability side of their balance sheets. These are often valued at “book value” or the value at which they were initially acquired or issued.

What is accrual accounting?

“Accrual” concepts are used for producing government accounting and statistics - that is the reporting of past activities of government – in a growing number of countries. Specifically, accrual accounting refers to financial statements that governments produce for reporting their past activities.

Accrual accounting and accrual-based statistics are governed by standards, either set by national standards setters or international standards setters (e.g. International Monetary Fund, or IMF; International Accounting Standards Board, or IASB; International Public Sector Accounting Standards Board, or IPSASB).

What is accrual budgeting?

In theory, the principle of accrual budgeting is simple: it consists of forecasting economic events that will be generated by the government policies on accrual basis and managing obligations as opposed to cash - in other words, accrual budgeting forecasts and makes decisions about how rights to resources are established and received, and how obligations are incurred and settled.

In practice, the term “budget” has different meaning in different countries. In most countries it refers to the appropriations approved by the legislature to incur commitments and/or outlays. In other countries, generally those with a Westminster tradition, the budget refers to a broad statement of government fiscal policy and appropriations are approved by the legislature in separate documents often referred to as “estimates.”

Source: Authors and Cavanagh J. et al. (2016), Warren K. (2015).

Executive summary

This executive summary brings together the report’s main findings and considers various success factors for achieving results from accrual reforms. A table summarises objectives from accrual reforms, main challenges, steps to be taken and points to possible outcomes and benefits.

Being realistic over what accrual reforms can achieve, and at which pace

Case studies show that accruals reforms are lengthy projects. Most countries that adopted accrual accounting considered options to maximise outcomes of their reform when they felt more confident with the quality of their accrual based financial statements and build up resources and capacities for undertaking further steps. Indeed, even those countries that have moved to accrual accounting or budgeting decades ago, acknowledge that, with regards to “getting added value out of accrual financial statements” they are still on a learning curve. Overall, accrual reforms themselves seem to take 5 to 10 years; transparency benefits appear to come relatively quickly once reforms are complete; and policy and management outcomes seem to take more time.

Virtually all countries share the same broad objectives for their accrual reforms, but each country in practice has prioritised more specific outcomes to be achieved so that the accrual framework is of greater use for the management of its public finances. Countries’ experience shows indeed that all objectives cannot be pursued at once, and better outcomes are likely to be achieved were resources are focused on a limited number of priority outcomes. For example, in Japan, resources have been focused on developing policy unit cost information and cost accounting, while the United Kingdom, after dedicating significant resources to producing whole of government consolidated financial statement, is now focusing on strengthening its balance sheet management. Overall, the main finding of this study is clear: governments and finance ministries should not expect benefits from their accrual reforms unless they prioritise outcomes and actively plan for it.

Insuring leadership after the transition to accrual accounting

Strong leadership and project management by finance ministry after the transition to accrual accounting were identified as critical by many countries interviewed as part of this research for achieving outcomes from the adoption of accrual accounting. Countries also stressed the need to have teams or groups mixing fiscal policy specialists, budget officials, accountants and representatives of line ministries for analysing the accrual data and identifying uses for this information. Supreme audit institutions, professional account bodies, and parliament are also important sources of pressure to make use of accrual information. Two recent good practices in that area are worth noting: in France, an “Accruals Working Group” was set up in 2016 with representatives of the budget directorate, public accounting directorate and line ministries to move forward the analysis

and use of accruals data; in the United Kingdom, a “balance sheet management group” comprising representatives of various groups within the Treasury and line ministries was set up in 2017 to undertake analysis and improve management of assets and liabilities reported in the balance sheet.

Communicating clearly and legibly

A common theme in all case studies is challenges associated with lack of interest in accrual basis financial statements outside of specialists’ circles and the need for government to improve their financial communication. As discussed in this report, in response to this major challenge, virtually all countries have developed reader-friendly summaries and commentaries of technical, complex and sometimes overly detailed financial statements. Many have developed an open fiscal data base, in the hope that accrual information will be used by stakeholders for feeding into their public finance analyses. Two countries, Australia and the United Kingdom, also engaged recently in simplifying substantially the content of their financial statements.

However, this may not be enough to address problems such as lack of understanding of technical accounting terms and what figures reported in financial reports mean in terms of government policies. The main way to promote and increase visibility of financial statements in the public and the media would be therefore by linking its information to economic and social issues (such as how the government sustains economic growth or addresses inequalities), which would likely stimulate greater stakeholder engagement. While this is an emerging area of interest, one interesting initiative in this area is the New Zealand government’s publication of its Investment Statement that classifies all assets and liabilities into three functional classes (social, financial and commercial) in addition to the “conventional” balance sheet that classifies them by nature (current - inventories, receivables, cash, etc. - and non-current - intangible and tangible assets).

Harmonising standards

The debate on whether full benefits of accrual accounting can be achieved only by countries that also adopt accrual budgeting is not settled yet, even though countries such as Austria, New Zealand and the United Kingdom consider that using accrual concepts across all the budget cycle (i.e. for the budget, accounts and statistics) is an important factor for achieving better outcomes from accrual reforms. In practice, as shown in this paper and in previous studies, a growing number of countries combine accrual and cash accounting bases in their budget system: cash (or modified cash) is favoured for setting spending limits; accrual is used for forecasting or reporting the financial situation. Opposing cash and accruals, in the sense of promoting the usage of accruals only or cash only, seem therefore to be more of an academic debate than a reflection of reality.

This does not mean that efforts are not needed for harmonising standards for reporting government operations. Case studies show that where different standards are used for the budget, fiscal headlines or targets, accounts and statistics, there is a certain level of confusion among stakeholders as to which set of accounts presents a more reliable portrayal of the government financial results and situation. Production of reports reporting similar operations with different standards and reconciliation exercises also have a cost for finance ministries that is not negligible. Initiatives such as using similar standards for fiscal targets, the budget and accounts (New Zealand) or harmonising accrual based accounting and statistical frameworks (Australia and the United Kingdom) could therefore be considered

the way to go for getting expected outcomes from accrual reforms in terms of transparency towards stakeholders, or at least to avoid some possible negative effects.

Using accrual data as a building block for richer, more reliable fiscal information

It is often stated in academic literature that accrual accounting is the foundation of good fiscal management, because it addresses weaknesses of cash accounting that governments may be tempted to exploit by deferring cash disbursements, bringing forward cash receipts or failing to disclose public sector liabilities and commitments. Also, academic studies often consider that accrual reforms should lead to new, better ways of assessing the financial position of governments, for example by analysing variations of public sector net worth.

While these arguments are undoubtedly valid, countries do not often mention them as specific objectives, or outcomes, of their accrual reforms. As highlighted in this report, very few countries, for example, have adopted new, balance-sheet based, fiscal headlines following accrual reforms or developed government-specific financial ratios. Rather, the bulk of countries consider that benefits of accrual reforms are more likely to be indirect.

With regards to the reliability of fiscal data, for example, New Zealand and the United Kingdom indicate that, because their budgetary, accounting and statistical frameworks are all accrual-based and integrated, fiscal reporting as a whole is built on a “block” of audited departmental annual reports and accounts. Consequently, external stakeholders have greater confidence in the reliability of data, can better navigate budget documents, accounts and statistics, have a better sense of how these documents relate to each other and greater confidence in the overall reliability of fiscal data. France, which did not adopt accrual budgeting, similarly notes that reconciliation exercises between accrual and cash fiscal balances at year-end helped improving the reliability and understandability of fiscal data.

With regards to accruals generating a richer suite of information for other fiscal reports and increasing fiscal transparency, examples abound. All countries agree that publishing financial statements increases transparency in itself, but many, consider that better outcomes are achieved when this information is put into use for preparing or improving other fiscal reports, such as improving fiscal forecasts as mentioned by the United Kingdom; allowing better long-term fiscal sustainability assessments, as mentioned by Canada and New Zealand; identifying fiscal risks as mentioned by Austria; or better informing auditors’ and parliamentary budget office’s work as mentioned again by Canada.

One lesson from this study for finance ministries that wish to convince stakeholders of the usefulness of accrual reforms may well be, therefore, that outcomes should not be assessed only in terms of direct impacts from publication of accrual basis financial statements, which may be limited, but also in terms of indirect benefits on quality and completeness of fiscal reports and overall improvements to fiscal transparency, which are likely to be more significant.

Creating a feedback loop within the budget cycle

Case studies clearly show that policymakers have paid greater attention to the acquisition, disposal, and management of government assets, liabilities and contingent liabilities following accrual reforms. Examples are country specific, covering areas as varied as defence inventories, public sector pension, infrastructure decommissioning costs and medical litigations. There is therefore little doubt that the nature of accountability and depth

of scrutiny has shifted from a relatively narrow focus to a larger one following accrual reforms.

However, it remains difficult to illustrate with specific examples of how information on assets and liabilities and full costs of programmes impacted budget preparation and/or discussions on sectoral and fiscal policies. Similarly, evidence of impacts on decision making of using the accrual basis for policy costing was difficult to find. Indeed, while all countries were asked to provide illustrations of accrual budgets and/or financial statements had driven decisions made by government and parliament, only three countries (Australia, New Zealand and the United Kingdom) gave specific examples and, in both cases, it was the creation of a fund for financing public sector pensions. Interestingly, a number of interviewees mentioned that, more than pushing policy makers to make better decisions, accrual creates “safeguards” and makes it more difficult for them to make bad ones, such as the creation of liabilities and contingent liabilities as a mean of implementing public policies, for example in the form of deferred benefits or guarantees.

In any case, one finding of this study may be that both academics and practitioners need to think of how accrual data could be put to practical, or more obvious, use in budget discussions. For example, one interviewee mentioned that budget proposals on investment could be grounded on analysis of value and depreciation of assets reported in the balance sheet, in addition to economic or social considerations. Recently, the decision of the United Kingdom’s government to announce a Balance Sheet Review in its autumn budget statement and to update parliament on progress made at the next autumn budget is a promising initiative for strengthening the feedback loop between accrual financial statements and budget discussions.

Making accrual data useful at operational level

For a number of countries, accrual accounting has proven a useful tool for strengthening assessment of performance of departments or operational units. Practices depend on countries, but include benchmarking of operational costs and greater accountability from managers on financial and operational performance. Decisions about pricing of government services are also, in some cases transparently set, based on full costs rather than simply cash outlaid. Other countries however note that despite encouragements to use information derived from accounting systems for decision making, managers do not know how to make use of it. Getting outcomes from accrual accounting in this area seem to imply defining systems or procedures and requirements and/or incentives to managers to implement or use them.

Table 1. Objectives, issues, steps and expected outcomes of accrual accounting

Objective	Issue	Steps to be taken	Expected Outcomes
Providing a “true and fair” view of public finances	Accounts publication have no impact on perception of government openness because of initial audit qualifications	1) Professionalisation of the finance function; 2) Modernisation of IT systems and business processes; 3) Development of risks management and internal control within government	Removal of audit qualifications leading to greater use and promotion of accrual accounts by experts groups
Producing better analysis on the state of public finances	Accrual data considered irrelevant for analysing government financial position (e.g. lack of meaning of “net worth”)	1) Develop accounting data sets covering more than 3 years to identify and analyse variations on longer time-scale; 2) Integrate systematically information from the accounts in fiscal sustainability analysis and fiscal risks analysis	Raising quality of wide range of fiscal reports (i.e. use audited accounts as a “building block” for improving reliability of fiscal reports as a whole)
Raising awareness of the general public on public finances	Accounts are too technical for the media and general public	1) Simplification; 2) Brochures; 3) Open budget data; 4) Non-conventional public-friendly presentation of the balance sheet	Greater media and civil society engagement
Defining more comprehensive fiscal objectives	Fiscal policy remains done on cash and/or assessed against statistics	1) Adopt fiscal headlines/rules set on accrual accounting terms; 2) Harmonisation of standards (to the extent possible) to avoid confusion as to which sets of accounts presents a reliable portrayal of results against objectives	Greater political interest in accrual forecasts and accounts
Budgeting for cash and non-cash operations	Budget decision making remains done based on cash considerations only	Use policy costing on accrual basis for selected financial operations (e.g. long term and financial operations)	Better decision making by policy makers
Reinforcing parliament’s year end scrutiny	Parliament does not scrutinise accounts	1) Provide technical support to parliament (auditors, parliamentary budget offices); 2) Highlight and comment information that is relevant to parliamentary work (e.g., high financial impact; significant annual variations; clear link to policy implementation)	Parliamentary questions/investigations
Management of assets and liabilities	No understanding of risks, challenges and opportunities associated with assets and liabilities	1) identification of surplus assets exercises; 2) using of capital charges; 3) overall balance sheet analysis	Rationalised acquisition/disposal decisions on assets and liabilities
Performance evaluation	Performance evaluation makes no use of accrual financial data	1) develop cost accounting as a tool for benchmarking; 2) charging of government services using full cost information	Greater managerial interest in accrual data quality/use
Entity level management	Monitoring based on cash transfers	Develop entity-level 1) management and 2) sustainability accrual indicators (e.g. aging of payables, stock of liquid assets, etc.)	Better monitoring of entities

Introduction

Accrual accounting began to generate interest in terms of its potential to contribute to improved public management and performance in the 1990s. Debates about the merits of applying accrual accounting to the public sector initially concentrated on the inherent differences in the nature of public and private activities, and the appropriateness of accrual

accounting for assessing the financial situation and performance of the public sector. Expected benefits associated with accrual accounting (or budgeting) included improvements in transparency and accountability; a more comprehensive assessment of the state of the public finances; and stronger incentives for efficient management of public resources (OECD, 1993). While consensus was building on the merits of introducing accrual accounting, interest shifted to implementation issues (including accounting standards), which were extensively discussed, for example, at the annual OECD Accruals Symposiums.

Today, the bulk of OECD countries have either implemented or are implementing accrual reforms:

- A third of OECD countries prepare both accrual budgets and accrual accounts;¹
- Around half of OECD countries produce cash-based budgets and budget execution reports as well as accrual financial statements;
- At the other end of the spectrum, a smaller group of OECD countries prepare only cash (and/or commitments) budgets and cash financial reports.

Even amongst these countries that have adopted accrual budgeting, accrual reforms have had limited impact on the management of spending authorisations (also called appropriations). New Zealand is the only country where full accrual spending authorisations are used.² Cash spending limits continue being used in a large majority of countries, as they are relatively simple to use for demonstrating compliance and are also closely related to government's immediate financing requirements. Using the cash basis also has limits, which are acknowledged by most finance ministries. These limits have been addressed by using "multi-year appropriations" or "commitment appropriations" that cover all obligations that the government enters into on a given year, irrespective of the year of the cash outflow.³ Overall, while academic debates tend to present cash and accrual spending authorisations as two end points of a spectrum, with cash spending authorisations covering only cash paid and cash received, and accrual authorisations covering all financial operations irrespective of whether cash is paid or received, they generally do not give enough consideration to real-life practices, which show that many countries are somewhere between these two end points.

Table 2. Status of accrual reforms in OECD countries

	Countries
Accrual	New Zealand; United Kingdom
Accrual and Cash	United Kingdom; Austria
Modified Accrual	Australia; Austria; Canada; Denmark; Iceland; Sweden; Switzerland
Cash and/or Commitments	Belgium; Chile; Czech republic; Estonia; Finland; France; Germany; Greece; Hungary; Ireland; Israel; Italy; Japan; Korea; Luxembourg; Mexico; Netherlands; Norway; Poland; Portugal; Slovakia; Slovenia; Spain; Turkey; USA

Note: A number of OECD countries combines accrual and cash spending limits. Countries that combine accruals and cash give spending authorisation on both accrual and cash bases; other countries that use modified accrual spending authorisations exclude expenses that are not within the government control, such as those arising from depreciations or changes in the market value of assets and liabilities, hence cannot be qualified as "full accrual".

Source: OECD Accruals Survey (2016).

Box 2. Why not Accruals? The cases of the Netherlands, Norway and Germany

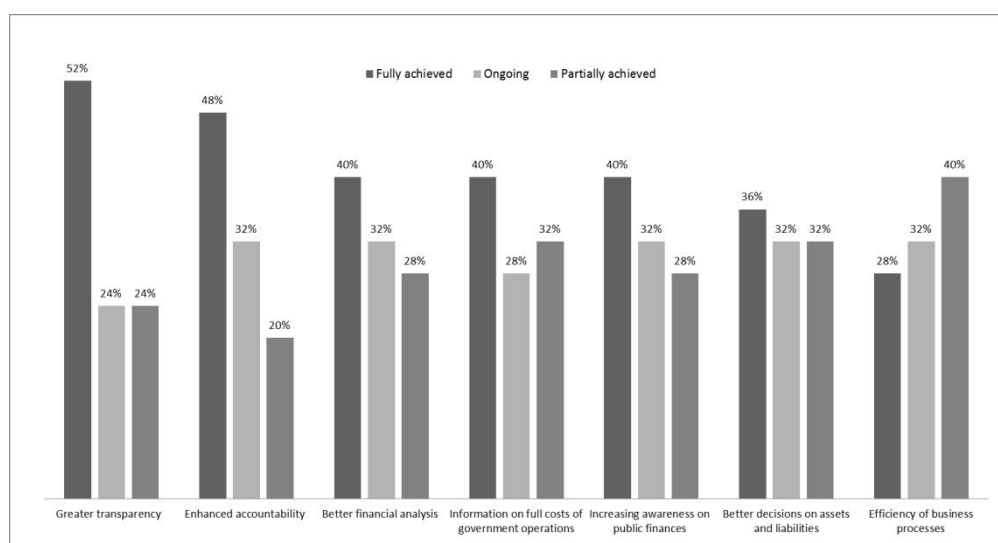
While the great majority of OECD countries have embraced accruals, some have chosen not to. The Netherlands, Norway and Germany are three examples. In Germany, in 2006, the Federal Ministry of Finance introduced the MHR-project (“Modernization of the budgeting and accounting system”). One of the proposed outcomes of the project was that the current cash-based accounting system would be complemented with an accrual-based system. Further, the Federal government as a whole was to produce an enhanced list of assets and liabilities, although it would not produce a comprehensive balance sheet. However, the overall project was halted in 2010 due to a lack of parliamentary support, due mainly to significant costs associated with such a reform and fear from the parliamentarians that they would lose some influence over the budget.

In **the Netherlands**, A 2017 government enquiry concluded that in principle a comprehensive accrual budgeting and accounting constituted a more coherent and clearer system for forecasting and accounting for government operations. At the same time the current cash-based accounting and budgeting system were seen as well-functioning, and there was a principal concern that the implementation and transition process in itself to an accruals based system would have a detrimental effect on the capacity of already pressured ministries. Therefore, a move to accruals was inadvisable in the short term. The report recommends that an interim evaluation is to be carried out in 2020 to assess the requirements for taking further steps towards an accrual accounting system.

In **Norway**, a 2015 government enquiry assessed that there were no substantial reasons to move away from the current cash-based system for budgeting and accounting. The enquiry argued that a government using cash-based budgeting is better positioned to engage in contra-cyclical fiscal policy since, in such a system, there is a direct link between increased budgetary allocations and actual cash-flows. Further, it argued that it was important that the basis for the accounting system was aligned with the basis for the budget since that facilitated the scrutiny of government by the parliament. Hence, given that the basis for the budget should not change, then the basis for the accounting should also not change. Interestingly, for all three countries, the core reason for deciding against a transition to accruals is concern about losing budgetary control.

Sources: Revenues and expenses revaluated - Report of the Advisory Committee on the Central Government Accounting System; Bedre beslutningsgrunnlag, bedre styring (NOU: 2015:14); OECD (2014), Budget Review: Germany, Journal on Budgeting, OECD Publishing, Paris.

After around three decades of reforms, a recent OECD survey (2016) showed that introducing accrual accounting or budgeting is no guarantee that its potential benefits will be realised. A majority of countries express satisfaction that the reform objectives around transparency and accountability had been achieved. However, satisfaction with regards to other objectives is uneven. It is still relatively high relating to financial analysis, information on the full costs of operations and awareness of the state of public finances. It drops in the area of assets and liabilities management and efficiency of business processes, which are considered as “on going” or “partially achieved” by a significant number of countries.

Figure 1. OECD Countries: Achievements of accruals reforms objectives

Source: Moretti D. (2016), *Accrual practices and reform experiences in OECD countries Results of the 2016 OECD Accruals Survey*, Journal on Budgeting, OECD Publishing, Paris.

As a result, focus of interest for most OECD countries has shifted from finding out how to implement accrual accounting (or budgeting) to realising more fully the large range of benefits expected from the reforms. Indeed, virtually all finance ministries recognise that interest for accrual data is limited within and outside government. Some finance ministries also acknowledge that initiatives for using it are still in their infancy. External stakeholders share these views. For example, in the United Kingdom, the House of Commons Public Accounts Committee (2017) recently published a report that welcomed the Treasury's improvements to the quality, coverage and timeliness of the Whole of Governments Accounts but noted that there was more to do to make these accounts more useful to the Government, as well as to Parliament and the public.⁴ Similarly, in France, the Court of Accounts (2011) regretted the limited use of accrual data within government and lack of interest for the financial statements in Parliament.

Overall, after three decades of reforms, the value of accruals for the public sector remains disputed, or at least unclear. Against this background, this paper aims at highlighting outcomes delivered by accrual reforms and attempts identifying success factors for achieving these.⁵ The 11 OECD countries chosen for this study all implemented accrual accounting reforms, and include 6 countries that also implemented accrual budgeting reforms. As well as taking different approaches to the scope of accrual reforms, these countries vary across other criteria as well. While most countries selected implemented accrual reforms 10 or more years ago, 2 of the countries selected are at an earlier stage of their reform implementation. The case studies also cover a range of country institutional settings, for example a "Westminster model" of public finance management (Australia, Canada, New Zealand and United Kingdom) and a "Continental Europe model" (Austria, France, Spain). Taken together, they provide a diverse group of countries where the issue of outcomes and benefits of accrual reforms can be considered without any significant bias.

Table 3. Selected OECD Countries: Accounting basis for Annual Financial Reports, preparation basis for budgets and reform periods

Countries	Accounting system	Reform period	Budgeting system	Reform period
Australia	Accruals	1990s	Accruals Cash	1990s
Austria	Accruals	late 2000s- early 2010s	Accruals Cash	late 2000s- early 2010s
Canada	Accruals	mid-1990s mid 2000s	Accruals Cash	mid-1990s mid 2000s
Estonia	Accruals	2013-2015	Accruals Cash	2015-2017
France	Accruals	2001-2006	Cash	-
Japan	Accruals	2000-2005	Cash	-
Korea	Accruals	2009-2011	Cash	-
New Zealand	Accruals	1988-1994	Accruals	1988-1994
Spain	Accruals	Late 1980s-2010	Cash	-
Switzerland	Accruals	Late 2000s	Accruals Cash	Late 2000s
United Kingdom	Accruals	1993-2002	Accruals	1993-2002

Source: Authors based on case studies in Section II and Moretti D. (2016), Accrual practices and reform experiences in OECD countries Results of the 2016 OECD Accruals Survey, Journal on Budgeting, OECD Publishing, Paris.

This study uses a comparative case study approach. The case studies themselves are based on answers to a common, predominantly qualitative, questionnaire covering all areas relevant to assessing the use of accrual financial information, as well as interviews. This approach has specifically sought to understand core objectives and outcomes of accrual reforms and looked at specific elements of how governments achieved these outcomes. The following sections of this report discuss the key themes emerging from the analysis, before turning to the individual case studies themselves.

1. Transparency

Transparency relates to being open in all communications, transactions and operations to the general public. In the public sector, this means that information published by governments on how public money is raised and used is comprehensive, reliable and understandable. This section discusses the extent to which accrual reforms have delivered results in this area and is structured around the three main objectives commonly pursued by governments: 1) providing a “true and fair” view of public finances; 2) producing better analysis on the state of public finances; and 3) raising awareness of the general public on public finances.

1.1. Providing a “true and fair view” of public finances

Virtually all countries consider that accrual reforms have profoundly improved the range and manner in which financial transactions are reported in the public sector and allowed providing a “true and fair view” of public finances to the general public. In accounting and auditing, the concept of “true and fair view” is generally considered to mean that financial statements are free from material misstatements and faithfully represent the financial performance and position of the entity.

First, accrual reforms pushed governments to innovate in carrying out their financial and accounting processes and making use of new, more advanced technologies (such as integrated financial management information systems). Two countries, Australia and New Zealand, underline in particular that accrual reforms contributed to the professionalisation and modernisation of the finance function. This included training of officials in accrual accounting and/or recruiting employees with professional accounting qualifications. Some countries, such as France, also note that accrual accounting reforms resulted in the increasing use of risk-based internal control approaches and in the creation (or reinforcement) of the internal audit function within government.

This, in turn, allowed governments to monitor a wider range of financial transactions, in a more systematic and reliable manner. Several examples have been provided as part of this study. For example, finance ministries had to define and track triggering events for delivery of goods, the provision of a service, or the fulfilment of a contract; clarify in some cases the existence of a valid claim, that is when all requirements and conditions for receiving a subsidy or benefit are satisfied by the third party; and start inventorying and measuring conditional or potential financial obligations of the government, such as cost of decommissioning nuclear facilities or cleaning up contaminated land.

Some countries, e.g. Australia, underlined that “true and fair view” on public finances can be achieved only when an unqualified audit opinion on the financial statements is granted by the supreme audit institution. In fact, in virtually all countries, audit qualifications or findings increased following initial implementation of accrual accounting, but reduced over time as management focused on remedying those issues. This generally took time, highlighting that even in OECD countries that have among the best financial reporting practices, the move to accrual accounting often brought to light weaknesses in internal control and accounting practices that had been previously undetected.

For these countries that have achieved their objective of publishing financial statements that provide a “true and fair view” of public finances, a fundamental question is whether it impacted external stakeholders’ perception of government openness. This question remains difficult to answer with regards to the general public, but it is clear that expert groups (auditors, parliamentary budget offices, specialised NGOs, credit rating agencies, etc.) generally support accrual reforms and consider that financial statements provide a solid and transparent base of information for their use (Moretti, 2017).⁶

1.2. Producing better analysis on the state of public finances

1.2.1. Financial analysis of government financial statements

In adopting accrual accounting or budgeting, countries often sought to develop financial analysis of government financial statements in a similar way to private sector practices. This has been achieved only to a limited extent. New Zealand publishes a comprehensive Investment Statement covering the whole balance sheet every fourth year with performance measures for every major asset class, including some financial analysis on e.g. their commercial holdings. However, private sector financial ratios (e.g. liquidity or operating performance ratios) are generally little used in government. Only one country (Spain) has developed a set of ratios for analysing the government balance sheet and operating statement. In the UK, more recently, the Office for Budget Responsibility used various financial ratios during their stress test of the public sector balance sheet in their Fiscal Risks Report.

A more common concern of the general public, according to finance ministries, is to get a sense of trends in government expenses, revenue, assets and liabilities over extended time periods - that is time periods that exceed those, relatively limited (usually two to three years), reported in the financial statements. Therefore, a number of countries (France, Japan and the United Kingdom) are developing and maintaining accounting data sets that cover at least 5 years (a desirable objective being to have data set covering over 10 years, according to some finance ministries).

1.2.2. Long-term sustainability of public finances

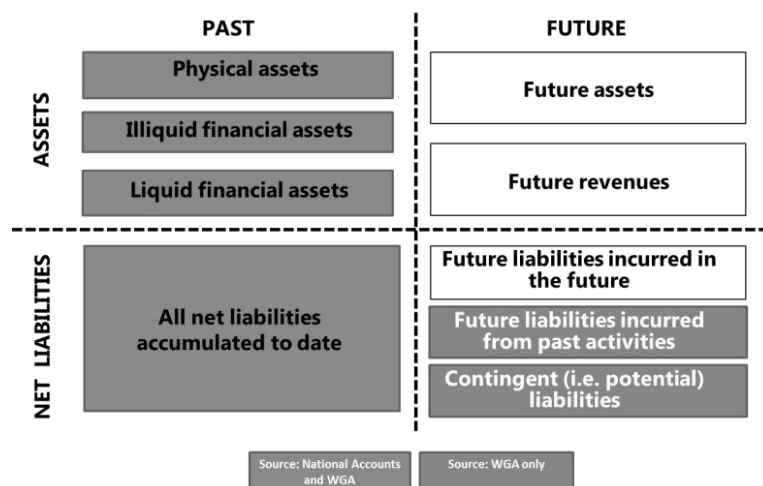
Assessing the long-term fiscal sustainability of public finances is a key element of budget transparency (OECD, 2015).⁷ Different definitions of fiscal sustainability can be found in literature, but, historically, fiscal sustainability has been defined as a “measure of government solvency” (Shaw, 2017). For example, for the European Commission, “a public entity is considered as solvent if the present discounted value of its current and future primary expenditure is smaller than (or equal to) the present discounted value of its current and future path of income, net of any initial debt level”.

In the private sector, solvency is measured in reference to a firm’s net worth. There has been extensive discussion of whether such an approach could be used for governments, but this method is generally considered questionable (Shaw, 2017 and Office for Budget Responsibility, 2015). One core reason that prevents the use of government net worth as a measure of public finances sustainability is the “backward looking” nature of balance sheets - i.e. balance sheets measure assets and liabilities generated by past government activities and net worth provides information on short term solvency - while fiscal sustainability assessments by nature have a long term time span, hence a “forward looking” nature - i.e. they measure assets and liabilities that will be generated by both past and future government activities.⁸

Accrual accounting is nevertheless useful to long-term fiscal sustainability assessments. The comprehensive approach of accrual accounting in defining and recognising liabilities along a spectrum (from contingent liabilities to provisions and debts) means that financial statements provide a framework to consider all liabilities generated by past government activities. Also, some argue that financial statements provide information that is not available otherwise, such as civil service pension liabilities, provisions and commitments for finance leases and certain contingent liabilities (Office for Budget Responsibility, 2015).

While it is difficult to measure the impact of accrual reforms on improving the reliability of fiscal forecasts, a number of governments explicitly mention changes that would occur to the government’s assets, liabilities and contingent liabilities over the time horizon of the assessment in the key assumptions underlying the projections. For example, in the United Kingdom, the Office for Budget Responsibility estimates the economic value of the government’s contingent liabilities, in cases where there is a non-zero but less than 50% probability that the government will face some cost in the future.

Figure 2. Using Financial Statements to Inform Assessments of Public Finances' Sustainability



Note: The figure above highlights the components of long term sustainability assessments' forecasts, according to the United Kingdom's Office for Budget Responsibilities. Those components are assets and net liabilities generated both by past and future government activities. Components highlighted in green can be found in both National Accounts (statistics) and Whole of Government Accounts, or WGA (financial statements), while components highlighted in blue can be found in WGA only. Components in white are assets, revenue and liabilities generated by future government activities. They are not reported in National Accounts and WGA and are forecasted based on past trends and current policies according to hypothesis made by the Office for Budget Responsibility.

Source: Office for Budget Responsibility (2016), Fiscal Sustainability Analytical Paper: public sector balance sheet, United Kingdom.

Box 3. Accrual Accounting and Credit Ratings

While budget transparency, in general, has been shown to be associated with better credit ratings (Hameed 2005, Arbatli & Julio Escolano 2012) there is little academic research establishing there is a direct link between accrual-based accounting and better credit ratings.

Perception of government on impact of accrual reforms on their credit rating vary. Australia, Canada and Switzerland, on the one hand, indicate that accrual financial statement are used by rating agencies when they assess the overall financial position and balance sheet strength of the government. Spain and France, on the other hand, are not aware of any particular interest showed by rating agencies towards their accrual-based accounting.

The difficulty of evidencing any link between accrual accounting and better credit ratings may be due to the fact that the intent of credit ratings is very similar to the purpose of long term sustainability assessments - that is assessing and comparing governments' capacity to generate sufficient current and future cash flows to make principal and interest payments. Therefore, information sources used by credit agencies on current cash flow levels are generally government statistics, which are internationally comparable, and, on future cash flow levels, economic and fiscal outlooks.

While financial statements may not be central to credit ratings, credit agencies underline that they provide useful information on future large liabilities, such as pension obligations.

Source: Authors based on case studies and interviews, and presentation of Fergus McCormick, Chief Economist, Co-Head of Sovereign Ratings, Global Sovereign Ratings, DBRS Inc. (www.imf.org/en/News/Seminars/Conferences/2017/03/02/Transparency-and-Beyond-Harnessing-the-Power-of-Accrual-in-Managing-Public-Finances)

1.2.3. Fiscal Risks

Fiscal risks are commonly defined as “factors that may cause fiscal outcomes to deviate from expectations, arising from macroeconomic shocks or the realisation of contingent liabilities” (IMF, 2016). While disclosure and management of fiscal risks is not yet a widespread practice in OECD countries, interest is growing as governments acknowledge the recurrence of financial shocks, the exposure of public finances to these shocks and the related need for a better understanding of potential impacts on their fiscal position (Kopitz, 2014 and IMF, 2016).

Accrual accounting, which entails the disclosure of contingent liabilities, and the management of fiscal risks are mutually supporting activities. Virtually all countries recognise that the scrutiny that comes with disclosure of contingent liabilities in financial statements creates pressure to ensure that these risks are identified, measured and managed, and ideally leading to earlier and smoother policy responses. Some countries interviewed as part of this study, such as Austria, Estonia and France, noted that accrual accounting helped in identifying and monitoring risks that were previously not acknowledged or reliably measured. In many cases, risks identified relate to contingent liabilities (e.g. guarantees), provisions (e.g., tax litigations) and long-term debt (e.g. pensions). More generally, it is notable that among those OECD countries that have started publishing comprehensive and regular assessments of fiscal risks, a majority had previously introduced accrual reforms (Australia, New Zealand, Finland and the United Kingdom).⁹

Table 4. Using Financial Statements for monitoring Fiscal Risks

Fiscal Risks Categories	Information in Accrual basis accounts
Financial sector crisis	Loans and contingent liabilities (guarantees both explicit and implicit)
Litigations	Provisions and contingent liabilities.
Subnational governments insolvency/default	Contingent liabilities (guarantees explicit and implicit)
State-owned enterprises insolvency/bankruptcy	Equity investments
Natural disasters	Provisions and contingent liabilities (guarantees explicit and implicit)
Public private partnerships (PPPs)	Liabilities, provisions and contingent liabilities (guarantees explicit and implicit)
Export guarantees	Contingent liabilities
Nuclear decommissioning	Provisions and contingent liabilities

Source: Christopher Towe *et al.* (2016), IMF (2016) and authors.

One missing piece of the puzzle at this stage may be how accrual reforms have improved (or will improve) management of fiscal risks. For example, recording provisions and contingent liabilities have made governments more conscious of risks and some countries are now trying to subject them to the same degree of scrutiny and control as ordinary spending. The United Kingdom, for example, recently published guidance to improve the

management and scrutiny of contingent liabilities. One country (New Zealand) noted that another aspect of the management of fiscal risks is the importance of the statement of financial position in providing an assessment of the resilience of public finances. Because fiscal risks are by definition uncertain, the awareness and understanding of them will never be complete. Recognition that fiscal policymakers are working with incomplete knowledge and an acknowledgement of the complexity of the economic system suggests there needs to be a clear allowance for uncertainty. Such an allowance is provided by the resilience of a government, its capacity to absorb shocks and stresses and capacity to adapt and rebound from them. For large economic shocks, citizens expect their governments to act as a shock absorber, and the statement of financial position in effect provides a much enhanced view of the ability of the government to perform this function. Rather than just a single debt measure, the whole structure of the balance sheet can be assessed, including the reserves and other financial instruments the government owns, and the options it has to adapt its balance sheet in response to shocks.

1.3. Raising awareness of the general public on public finances

In the area of transparency, a larger goal for governments that have engaged in accrual reforms is often to increase interest and understanding of the general public in public finances. One country (New Zealand) reports that the use of accrual budgets and accrual accounts, consistently applied, and in terms familiar to users of private sector financial statements, can provide an aid to understanding the government's financial position.

However, years into reforms, many finance ministries, e.g. Austria and Canada, acknowledge that interest in financial statements and use of accrual data remains limited, or at least below initial expectations. Accrual financial statements, which are complex, voluminous documents, are generally difficult to understand for non-expert users. Therefore, according to finance ministries, a key aspect to be considered in terms of citizens and generalist media engagement is to have proper consideration of the value and clarity of published information.

Consequently, virtually all governments have developed tools to summarise and explain financial statements, as well as avoid data misinterpretations. Case studies show a variety of practices. Some countries, e.g. New Zealand, Estonia and France, short brochures (often called *At a Glance* or *Citizens' Guide*) are used to highlight information that is key for citizens' understanding of the government's financial situation, in plain language and with user-friendly visualisations.¹⁰ In addition, rather than including ever more information in financial statements, some governments, e.g. Australia, have started simplifying and clarifying disclosures in order to make them more user friendly (Moretti, 2017).

As Blöndal (2003) notes there is very little understanding in the media of the underlying concepts of accruals and, as a result, media therefore often have difficulties in interpreting presented figures. Media lack of interest may be a consequence of the focus on government deficits and debt in public discourse. Some finance ministries have responded by developing comprehensive communication strategies. For example, in New Zealand, media "lock-ups" and presentations are organised when financial statements are published similar to when the budget is released).

One issue to address may be that the conventional presentation of a balance sheet (i.e. assets and liabilities classified in non-current and current assets and liabilities, and within these categories, presented by nature) is often too technical for non-specialist stakeholders to fully understand the purpose of government holdings of assets and liabilities and more importantly to make policy decisions on this basis. One notable experience for addressing

this problem is New Zealand's balance sheet presentation in its *Investment Statement*, which shows how much the government owns and, perhaps more importantly, invests each year in infrastructure and other assets for economic or social purpose.¹¹

Where accrual information is not easily accessible, probability that citizens and media will analyse and use this information as part of the debate on public finances situation is very low. A minimum step to take is to publish financial statements on government, finance ministry and/or auditor's websites. Accrual data underpinning charts and tables in financial statements is also often available on line (e.g. Australia, Estonia and the United Kingdom). Lastly, some countries provide accrual data on their open data portals. In the United States, for example, the Digital Accountability and Transparency Act of 2014 requires federal agencies to publish all of their spending data on one platform - that is to bring together three broad categories of federal spending reporting requirements: cash-based agency budgets, accrual-based accounting data, and award data (public procurement). It is however clear that more needs to be done in this area.

Table 5. Open Data Practices in surveyed countries

	Countries
Comprehensive Open Data Portals with accrual information	Australia, Estonia, Japan, Spain
Selected accrual information available at Open Data Portal	Canada, France, Korea, Switzerland
No Open Data Portal or no information given	Austria, New Zealand, United Kingdom

Source: Authors based on case studies in Section 2.

2. Accountability over fiscal policy and use of public resources

Accountability relates to being responsible to someone for actions taken; about being able to explain, clarify and justify actions. In public financial management, it implies that the government has a duty to explain its fiscal policy and account for the use of public resources to parliament and that, conversely, the parliament has the right to question fiscal policy and authorise and scrutinise allocations of public resources to government policies. This section discusses to which extent accrual reforms have delivered changes in this area and is structured around the three core stages of the budget process potentially impacted by accrual reforms: i) the setting of government fiscal objectives; ii) the approval of the budget and appropriations; and iii) the scrutiny of year-end accounts.

2.1. Defining more comprehensive fiscal objectives

A large majority of OECD countries use so called "headline measures" as indicators of the executive's fiscal strategy and management (OECD, 2014).¹² Headline measures can be defined as numerical objectives or limits for expenditure, revenue, debt, or balance set by government on annual or multi-year basis.¹³ Sometimes, these headline measures are qualified as "fiscal targets" or "fiscal rules". Fiscal targets are constraining on a political basis only and can therefore be revised at executive's discretion. Fiscal rules are fiscal targets that are legally binding or can only be revised on a low-frequency basis (e.g., as part of the electoral cycle).

2.1.1. Cash vs. accrual fiscal targets

The cash balance and gross debt have been historically the fiscal targets favoured by governments. Case studies show however that accrual reforms had an impact on the way government define their strategic fiscal objectives, as a majority of countries have adopted

accrual based head line measures - meaning that the range of possible expenses, revenues, assets and liabilities included within their fiscal target is broader than on a cash basis. For example, the accrual basis deficit measure used by euro area countries includes expenses that are due for payment. Another example is the net debt measure used by New Zealand.

Deficit and debt targets are the most common headline measures against which government define their fiscal strategy.¹⁴ Despite the wealth of information provided by accrual financial statements, case studies highlight a reluctance to move away from these “conventional” headline measures. Australia, one of the two countries that uses accrual and cash based fiscal targets simultaneously notes that stakeholders tends to focus on the latter which are more easily understandable or maybe perceived as more reliable and relevant. Balance sheet targets other than gross debt are little used. The United Kingdom has had a fiscal target for Public Sector Net Debt, defined as the public sector’s consolidated gross debt less its “liquid” assets - that is assets that could readily be sold - since the late 1990s. Only two countries (New Zealand and Australia) offer regular projections of their net worth in budget documents, but do not use this to measure a fiscal target or fiscal rule. In New Zealand, positive net worth is considered a core fiscal objective because it provides a buffer against potential future economic or fiscal shocks and, perhaps more importantly, ensures intergenerational equity.¹⁵ More recently, the United Kingdom has supplemented its target for Public Sector Net Debt with a more comprehensive measure of Public Sector Net Financial Liabilities (encompassing all financial assets and liabilities), but this is not the subject of a formal fiscal target.

Case studies also show that there is not necessarily a clear linkage between concepts used for fiscal targets, annual budgets and accounts within a given country. For example, in France, the budget is prepared on cash basis, financial accounts prepared on an accrual basis according to national accounting standards and fiscal targets are set on ESA10 basis.¹⁶ Conversely, Switzerland, which is preparing accrual basis budgets and financial statements based on IPSAS, anchors its fiscal policy with a cash based fiscal rule called the Debt Brake that seeks to avert structural imbalances in federal government finances.

2.1.2. Statistical vs. Accounting Frameworks

In most other countries, fiscal targets are set and reported on statistical terms, meaning that fiscal statistics are core accountability documents with regards to governments’ achievements against their fiscal objectives.¹⁷ This suggests that financial accounts are still considered to suffer a number of limits compared to fiscal statistics, with regards to setting and monitoring fiscal objectives.¹⁸ One of these limits is the lack of comparability because few countries use international accounting standards (Moretti, 2016).¹⁹ Another limit of financial accounts is relatively frequent changes in accounting methods and institutional coverage, making difficult to interpret long series of accounting data sets. Lastly, and perhaps a core limit, is timeliness. Statistics are available in most countries every month within a few weeks, when audited accounts are not available until well after the end of the year. Financial accounts can consequently wrongly be perceived by economists, policy decision makers and the media as secondary to fiscal statistics, or of limited added-value.

Table 6. Selected OECD Countries: Head Line Measures, Fiscal Targets and Fiscal Rules

Country	Cash basis	(Modified) Accrual basis on statistical terms ¹ (ESA10 or GFSM2014)	Accrual Basis on accounting terms (national GAAP, IPSAS or IFRS)
Australia	Underlying cash balance: i.e., cash flow arising from operating and investing activities	Net Operating Balance and Net Lending (GFSM2014)	
Austria		Fiscal balance (ESA10), debt rule (ESA 10) and structural balance rule (ESA10)	
Canada	Financial source/requirement: i.e., difference between cash inflows and outflows		Budgetary Balance: i.e., difference between revenue and expenses on accrual basis
Estonia		Fiscal balance (ESA10), debt rule (ESA 10) and structural balance rule (ESA10)	
France		Fiscal balance (ESA10), debt rule (ESA 10) and structural balance rule (ESA10)	
Japan	Primary Balance		
New Zealand	Residual Cash (IPSAS)		Revenue; Expenses; Operating Balance before gains and losses, or OBEGAL; Net Debt and Net Worth (IPSAS)
Spain		Fiscal balance (ESA10), debt rule (ESA 10) and structural balance rule (ESA10)	
Switzerland	Debt brake rule: i.e., balanced cash revenue and expenditure		
United Kingdom		Welfare spending "cap", Public Sector Net Borrowing and Debt (ESA10) ²	
Total	5	6	2

Notes: Accrual-based aggregates can be measured in compliance with accounting standards (IFRS, IPSAS, national standards) or statistical frameworks (ESA10 or GFSM2014).

¹ The ESA10 framework is using some but not all accrual concepts, in particular it excludes depreciation and civil and military pension costs from the deficit.

² The United Kingdom, in recent periods, has used an accrual based fiscal target, the Public sector net debt (PSND), but this target is not used by the current government. Recently, the government have begun reporting and forecasting in each budget Public Sector Net Financial Liabilities as a supplementary indicator of fiscal performance.

Source: authors based on case studies in section II and Lledo V. *et al.* (2017).

Table 7. Selected OECD Countries: Time-lag for publishing year-end accrual based financial statements

Country	Time-lag
Australia	3 months
Austria	6 months
Canada	6 months
Estonia	8 months
France	5 months
Japan	7 months
Korea	5 months
New Zealand	3 months
Switzerland	3 months
Spain	9 months
The United Kingdom	3 months and 12 months

Note: For the United Kingdom, departmental Annual Reports and Accounts are published prior to the Whole of Government Accounts. Usually this is done 3 months after the end of the fiscal year, although by statute departments have up to 10 months to do so.

Source: Moretti D. (2017), Rationalising Government Fiscal Reporting, OECD and OECD (2014), Budgeting Practices and Procedures in OECD Countries, OECD Publishing, and authors

To address this problem, some countries have engaged in harmonising their statistics and financial accounts. One country (Australia) has developed its national accounting framework for the public sector by transposing IFRS after considering their relevance in the public sector context and including any necessary adjustments specific for the public sector, but also adopted an accounting standard that aims to harmonise accounting and statistical practices to the extent possible. Benefits of this approach are, of course to improve the clarity and transparency of government reporting, but also to remove the source of confusion as to which set of accounts presents a more reliable portrayal of results against stated government fiscal objectives. For similar purpose, another country (the United Kingdom) uses similar criteria for defining the institutional coverage of its financial accounts and fiscal statistics.

2.2. Budgeting for cash and non-cash operations

Only a quarter of OECD countries prepare forecasts of its annual revenue and expenditures on accrual basis (Moretti, 2016). Within this group of countries, some present only forecasts of their revenue and expenses and some also forecasts assets and liabilities (such as, for example, the value of pension liabilities at year-end). Countries that have adopted accrual budgeting generally use based costing in decision-making for new policy and use for preparing their medium-term expenditure and/or revenue forecasts to varying degrees. Those that do consider that this helped ending the practice of governments using operations like asset sales or using timings of payments as a mean for meeting their fiscal objectives.

Box 4. What is policy costing on accrual basis?

Policy costing processes differ from one country to another, including the nature of the new policy proposals (government's proposals as part of the budget cycle, pre-election political party's proposals) the type of impacts measured (economic and/or fiscal); the methodologies used; the role of the finance ministry/treasury and the independent fiscal institution in preparing the costing; and transparency requirements.

For calculating the fiscal impacts of a given policy, the costing methodology will consist generally of forecasting cash flows over a given period (between one to ten years usually) and measuring the effect on government cash basis fiscal aggregates - that is the cash fiscal balance and, sometimes, borrowing. Cash flows typically distinguish between capital, operating and transfer costs.

For those countries that do accrual basis policy costing in addition to the cash one, forecasts will be prepared in accordance with accrual accounting concepts (i.e. costs are measured when they are incurred, instead of when they are paid) and will include depreciation, amortisation of assets and financing costs, where relevant. This means that new initiatives and programmes proposed by ministries or departments are to be evaluated against their full cost. The forecast will also measure the effect on government fiscal aggregates other than the cash basis fiscal aggregates - that is the accrual fiscal balance (e.g. Australia) and net worth (e.g. New Zealand).

Source: Authors, based on public information on the websites of the Parliament of Australia's Parliamentary Budget Office

(www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Budget_Office/Corporate_publications/Work_Plan_2012-13/costings) and New Zealand's Treasury (www.treasury.govt.nz/publications/guidance/planning/costingpolicies).

Academic research (Khan, 2013) and case studies identify three main benefits associated with accrual budget forecasts. The first one is the so called "alignment" of budget and accounts, which are presented according to similar rules and principles (even though it could be argued that similar alignment can be achieved under a cash and commitment budgeting and accounting system). Arguably such an alignment can also increase accountability. The second benefit is that accrual budgeting requires, in the preparation of the budget, the application of recording and measurement that align with accrual accounting standards set by an independent standards setter, which improves the reliability, credibility and clarity of forecasts and fiscal policy. The third benefit is the use accrual based costing in decision-making for new policy, giving decision-makers a richer suite of information on which to make decisions.

While differences between forecasts on cash and accrual basis will be limited in most cases, decision making on policies and programmes that have long life spans and delayed financial impacts can benefit from the longer term perspective and more comprehensive impact analysis allowed by accrual accounting. Reforms to civil service pensions were provided as an example by three countries.²⁰ Interestingly, in the United States, even though most federal commitments are presented in the budget on a cash basis (except for activities that are financial in nature, such as credit programmes or leases), lawmakers require the Congressional Budget Office to prepare costs estimates for other types of legislative proposals on accrual basis (that is using a number of methods associated with accrual

accounting: measurement at fair value, control approach, etc.) to illustrate their long-term net costs (Congressional Budget Office, 2018).

2.3. Reinforcing parliament's year-end scrutiny

In virtually all OECD countries, a core goal for governments that engaged in accrual reforms was to improve accountability for public resources. If governments accounts are complete, timely and reliable, and the scrutiny process will be more effective, the recommendations of the parliament (and more specifically, its finance committee or public accounts committee) can filter in to the budget, creating “continuous and virtuous cycles of improvements” (Wehner, 2003) in public spending and fiscal policy.

Overall, accrual reforms and the wealth of information provided in financial statements has not perceptibly increased the time spent by parliament on scrutinising year-end accounts and discharging government for its implementation of the budget. In some countries, parliaments tend to be more focused on approving budgets than on the more technical year-end financial scrutiny, irrespective of the accounting system used by government. In other countries, year-end scrutiny is well developed but remains focused on use of spending authorisations and does employ accrual information to its full potential.²¹

However, recent parliamentary questions and inquiries mentioned in interviews for this study illustrate the increased level of scrutiny on public finances permitted by accrual reforms. Examples provided show that parliamentary interest is usually raised by items reported in financial statements that firstly, are significant in terms of financial impact (e.g. guarantees, provisions for decommissioning of infrastructure); secondly, vary significantly from one year to another (e.g. payables); thirdly, provide insight on public policies' quality (e.g. provisions for clinical negligence) or fourthly, are related to observations made by the SAI and/or PBO (e.g. Canada). The UK House of Common's Public Accounts Committee also published a series of reports on management of UK balance sheet as a whole.

Stakeholders outside of finance ministries have also an important role to play in making accrual information understandable and useful to parliament (Moretti, 2017). In particular, the level of scrutiny that a parliament can deliver depends very much on the quality of the audit reporting (Wehner, 2003). In most countries, effort for facilitating scrutiny of accrual financial information is therefore shared between the Finance ministry, auditors and, in some cases, the parliamentary budget office. For example, in Austria, the Austrian Parliamentary Budget Office publishes an annual analysis of financial statements, with that analysis being available to Parliamentarians and the general public.

3. Improvements to Resource and Performance Management

Effective resources management is about measuring and optimising costs from government activities, including defining the appropriate nature and level of assets holdings and liabilities for delivering these services. Performance management is about linking costs and results in order to assess efficiency of programmes and activities. It also involves improving approaches for charging users. This section discusses to which extent accrual reforms have delivered results in this area.

3.1. Management of government balance sheet

One of the common objectives of accrual reforms was to increase the range of financial transactions monitored and reported by government, enable innovations in carrying out financial and accounting processes and lead ultimately to overall improvements in

government resource management. This is an area in which accrual reforms appear to have delivered the desired outcomes. Examples of such innovations include the monitoring of a wider range of financial and non-financial transactions, such as acquisition and sale (or disposal) of fixed assets, equity stakes in public corporations; performing regular reviews for identifying write-offs of unrecoverable debts or overpayments and recognising losses of stocks or other assets; developing toolkits or checklists for defining and harmonising the reporting of obligations entered into by the government (grants, investment contracts, etc.). Some countries also mention that accrual accounting reforms also resulted in the increasing use of risk-based internal control approaches and in the creation (or reinforcement) of the internal audit function within government.

Case studies also comprise examples of improvements to management of assets and liabilities in virtually all countries. Firstly, most governments have sought to improve their cash management practices - that is both ensuring suppliers are paid on time and reducing administrative delays for recovering payments from third parties (in particular taxes).²² Secondly, management of other groups of assets and liabilities were increasingly scrutinised following their accrual reforms leading to changes in management methods. Examples provided in case studies include defense inventories (accrual adoption revealed in some cases excessive inventories in defense ministries leading to improvements of processes for acquisition, disposal and maintenance) or PPPs and concessions contracts (measurement of concession and PPPs assets and liabilities led to better understanding of the scale of public sector assets that were under private sector management, leading to improvements in monitoring and strategic decision making).

The identification of surplus assets is also a clear objective in a number of countries, such as New Zealand and the United Kingdom. Inventorying of asset holdings and determining if these assets are needed to deliver government services is expected to result in the identification and disposal of assets that are surplus to requirements (such as government offices or equity holdings), creating additional cash inflows for government services.

New Zealand and France have also sought to improve government resource management by introducing a “capital charge”, the aim of which was to encourage departments to use their resources efficiently by charging them against the value of their assets. In the case of New Zealand, for example, the charge was based on the government’s borrowing costs and levied against the average value of the net assets of each organisation over the previous year. Fewer assets would mean a lower charge, with a portion of related savings kept in the department’s budget as an incentive.

An important emerging trend is the analysis of the balance sheet “as a whole” on a regular basis. This is done so far by two countries (New Zealand and the United Kingdom), with two core objectives: describing and analysing the composition and variation of assets and liabilities to external stakeholders (one important aspect of this description being to outline impacts of management decisions) and measuring risks, challenges and opportunities associated with assets and liabilities for government finances and policies. In New Zealand, this review is done at least once every four years and an *Investment Statement* is published to present results of that analysis. This statement classifies all assets and liabilities into three functional classes (social, financial and commercial) and provides easier to understand (?) financial and non-financial performance measures of the main assets and liabilities over time. The United Kingdom has recently set up a *Balance Sheet Management Unit* and announced a *Balance Sheet Review* in its 2017 Budget. This Balance Sheet Review will look in to how to make more effective use of public sector holdings, looking at areas such as estates optimisation, improving the return on investments, and reducing the

cost of liabilities. The stated objective is to release resources for further investment in public services and improve the sustainability of the public finances.

3.2 Evaluating performance against full-resources consumption

3.2.1. Optimising costs from government activities

In some cases, accrual reforms and evaluating the full costs of government activities were considered a prerequisite for ultimately achieving the larger goal of optimising costs from government activities (e.g. Canada and Japan). Linking full costs (inputs) to results (outputs) would enable a more accurate and comprehensive assessment of the efficiency of government programmes or operational units, leading to better management and decision making. Another underpinning objective, in some countries, was a more competitive approach to public service provision. The assessment of the full cost of public services vis-à-vis the full cost of similar services in the private sector would, for example, inform decisions on contracting out (OECD, 1993).

Such objectives have been technically difficult to achieve. For full costs to be apportioned to results, it is not only necessary to maintain a system of accrual accounting, but also to record output volumes and have a financial administration or management accounting system that splits out all costs - that is all direct and indirect costs - to the different outputs.²³ Complex problems have been involved in both areas for countries, such as developing a systematic and rational methodology for allocating indirect costs and assessing output data relevance and quality. These difficulties explain why a limited number of countries report results in this area so far. One country, Japan, has introduced a cost accounting system that allows producing annual *Policy Unit Cost Information*.²⁴ Another country, France, develops a cost accounting module within its integrated financial management system, which is currently being tested in two line ministries. Two countries, Australia and New Zealand, mentioned that accrual accounting allows benchmarking certain activities with the private sector, which would not be possible with cash basis information.

3.2.2. Charging for government services

Accrual information served in some cases to develop a formal framework for determining charges for government services. Under such frameworks, accrual accounting data is used to ensure that the full cost of services delivered to citizens/users is identified and that fees and charges are set accordingly. For example, Australia developed formal guidance on what costs should be included in determining the charge for a particular activity including direct and indirect costs, capital related costs (such as amortisation and depreciation) and other non-cash costs (such as accruing employee benefits). New Zealand also has a comprehensive cost recovery framework that includes guidance on understanding the costs of production (including operating and capital costs) as well as demonstrating efficiency in the application of those costs to the cost recovery activity. Interestingly, one country (Norway) that uses the cash basis of accounting uses accrual concepts in its regulation covering the setting of government fees and charges. More specifically, the relevant regulation permits that if the cost of a major investment should be reflected in a fee it can be spread out over the expected lifetime of the asset.

3.3. Entity level management

There seems to be a greater consensus on accrual accounting benefits for monitoring of financial performance of individual entities than for the whole of government. Even some

of those countries that use cash and/or commitment for central government have required agencies, social security funds, local government or state owned enterprises to adopt accrual accounting. In most cases, this is because accrual accounting is considered a good way to prevent entities from over-committing, or incurring expenses that will need to be funded at some point in the future. It is also because accrual accounting allows comprehensive oversight of entities' financial performance.

With regards to agencies, in Canada, for example, certain indicators for assessing agencies' financial performance are based on the balance sheet, e.g. aging of gross non-tax accounts receivable as of year-end and percentage of payments to suppliers in the fiscal year that were made on time. In New Zealand, the Treasury considers, among other indicators, how much of an entity's fixed asset has been consumed (through accumulated depreciation); when it will need to be replaced; and the stock of liquid assets in the entity that is available to replace the asset: this analysis informs the starting point for discussions with the entity on its financial sustainability.

Another example is the use of accrual accounting information to assess the financial sustainability and service delivery responsibilities of local governments. In Australia, for example, a review of local governments' financial sustainability conducted by a state government based on their accrual financial statements resulted in changes to the assessment of infrastructure priorities, as well as policies to merge individual local governments to improve their financial sustainability.

4. Country experiences

4.1. Australia

4.1.1. Australia uses accrual budgeting and accounting, but manages appropriations on cash basis

In Australia, accruals reforms commenced in the late 1980s and were completed within approximately ten years. Accrual accounting was introduced as a mean for adopting more commercial and business like practices into the public sector. Following the move to accrual accounting, the government implemented accrual budgeting to enable a clear line of sight between the budget and year end accounts. Budget and year-end accounts since then are prepared on a full accrual basis using Australian Equivalents of International Financial Reporting Standards, across all levels of government.^{25, 26}

After this first wave of reforms, a number of post implementation reviews were undertaken, which resulted in some changes to the overall budget and financial management framework. Most significantly, the framework moved away from full accrual based appropriations to a model based on cash requirements for the budget year. The appropriation amount is determined by adjusting accrual expenses for significant non-cash items. This means that total accrual expenses have depreciation, amortisation and other large non-cash items deducted to arrive at the appropriation amount.

4.1.2. Financial statements are used by expert groups, but widening their audience requires improving their timeliness and simplifying their content

At federal government level, a *Final Budget Outcome report* (FBO) is published within three months of the end of the fiscal year. This document covers general government sector and reports outcomes compared to the approved budget. In addition, *Consolidated*

Financial Statements (CFS), covering the whole of federal government, are published within five months after the end of the fiscal year.²⁷ CFS provides detailed comments on budget outcomes and accompanied with a brochure. The FBO receives significantly more attention from media and the public than the CFS. This is partly due to the timeliness of which the FBO is issued, within three months of year end compared to five months for the CFS, its focus on general government outcomes, and a press release and press conference held by the Treasurer. Consequently, there have been recent changes to the level of disclosure to try and improve the usefulness and clarity of the CFS.

In addition to the publication of reports in PDF, financial data for the Budget, CFS, FBO and monthly financial statements are provided on a dedicated website as well as on an Open Data Portal for further analysis by the public. The government has also supported the development of innovative analytical approaches to government financial data through a government supported “govhack” - an open forum which encouraged the public to develop innovative software offerings. One approach that was developed through that support was theopenbudget.org which takes a different approach to presenting budgetary information, including graphics and “drilldown” functionality as well as a per capita calculation for spending in the various functions/units of government.

The relevant committee reviews the FBO and CFS annually in conjunction with a report from the SAI, and testimonies from the SAI and the relevant ministries. Parliamentary interest in the FBO is mostly concentrated on fiscal outcomes and debt levels of the general government, although there is also interest in the asset holdings of the Sovereign Wealth Fund. The analysis usually focuses on the cost of specific line items and the overall cost control of the government. The committee issues annually a report with observations on, for example, the clarity, usefulness and completeness of the financial information.

Accrual financial statement is used by rating agencies. Data presented on an accrual basis are used by rating agencies when they assess e.g. the overall financial position and balance sheet strength of the government.

4.1.3. Macro fiscal policy is largely focused on the cash basis head line target

They are two prime fiscal targets in Australia: one is cash based and the other one accrual based. Both fiscal targets are measured based on the Government Finance Statistics (GFS). The cash based measure is Cash/Surplus deficit aggregate adjusted for assets acquired by finance lease and earnings from the Future Fund (Australia’s Sovereign Wealth Fund). This measure treats capital and recurrent spending in the same way. The accrual based measure is the Net Operating Balance, calculated as Revenues Less Expenses. This measure makes a broad distinction between investment in capital assets, which provide a stream of benefits over time, and recurrent spending. The cash basis Cash/Surplus deficit aggregate is the headline fiscal measure that focuses most of the parliamentary and general public attention. This is mainly because fiscal policy settings have been based on a target surplus as measured by the cash based measure.

Macro-fiscal policy decisions can however be driven by concerns around accrual basis measures. One example is the decision to establish a SWF in part driven by concerns around the growing liability for public sector employee pensions. The establishment in 2006 was intended to offset the projected costs of funding public sector pensions in the future: the government was concerned with the growth in the liability (as evidenced in accrual financial statements) and the significant intergenerational equity issues that arose from funding public employee pensions from recurrent revenues.²⁸

4.1.4. Oversight of individual entities relies partly on accrual measures

Individual entities in the Australian government are held accountable against both accrual and cash measures. The primary control is that agencies are not allowed to incur an operating loss without the approval of the Finance Minister. This provides a mechanism to prevent entities from over-committing, or incurring expenses that will need to be funded at some point in the future and recognises the full accrual cost of government services and operations in the year in which they are provided. Individual entities are also held accountable for ensuring appropriation limits and conditions are observed. Appropriations are cash-based and entities have process and system controls in place to ensure that appropriations are only spent for the intended purpose and that appropriation limits are not exceeded. On occasions, entities have spent outside the purpose of an appropriation or have exceeded the limit. In these cases, the breach is reported to Parliament as part of the annual financial statements and audit report for that entity.

Another example is the use of accrual accounting information to assess the financial sustainability and service delivery responsibilities of local governments. In Australia, local governments have very different resources along with significant differences in service delivery responsibilities; in many cases, greater service delivery responsibilities sit at lower levels of government, which have limited capacity to raise their own revenues, relying on transfers from higher levels of government. A review of local governments' financial sustainability conducted by a state government based on their accrual financial statements resulted in changes to the assessment of infrastructure priorities, as well as policies to merge individual local governments to improve their financial sustainability.

4.1.5. Measuring full costs of public services allows benchmarking and better pricing

Accrual financial information is used to benchmark efficiency both within government, and compared to the private sector in areas such as corporate services and ICT-costs. This has led to a number of initiatives to increase efficiency and realise savings such as a property consolidation, efficiency dividends and the creation of a fund to support reforms that modernise government services e.g. through better use of government data.

The Australian Government has a formal *Charging Framework* and *Cost Recovery Policy* that sets out the principles and policies for determining whether an activity should be cost recovered, and how to determine appropriate costs for that activity. The framework applies to activities where the government charges the non-government sector for a specific government service such as, regulation, goods, services, or access to resources or infrastructure and is based on the concept that where an individual or organisation creates a demand for a government service, then they should generally be charged for it, unless the government has decided to fund the activity from general revenues of government. It includes guidance in relation to the types of costs, such as capital and operating, direct and indirect and the manner in which the costs should be allocated to those activities. One of the key criteria in determining the charge is whether expenses and revenues for the activity need to align over a reasonable time period. Typically this would be a financial year, however if necessary it can be based on the "business cycle" for the specific activity.

Box 5. Financial Sustainability Assessments of Local Government Units

In response to fiscal challenges facing the local government sector, the New South Wales (NSW) government developed a framework to assess the financial sustainability of local governments in that state. The framework used a range of indicators, based on audited accrual based financial statements and assigned a weighting to each indicator to arrive at an overall score for each local government's financial sustainability.

The analysis and ratios used in the assessment included both accrual and cash based measures. Examples include a Capital Expenditure Ratio, defined as the ratio between annual capital expenditure and annual depreciation, used to indicate the extent to which a Council is forecasting to expand its asset base, a Building and Infrastructure Renewals Ratio defined as the proportion spent on infrastructure asset renewals and the asset's deterioration measured by its accounting depreciation, and the Cash Expense Cover Ratio, measuring the number of months a Council can continue paying for its immediate expenses without additional cash inflow, and defined as the ratio between Current year's cash and cash equivalents and 12 times the total expenses less depreciation and interest costs.

As each council was assessed they were grouped into a range of categories ranging from very strong to very weak in terms of financial sustainability. The results of the Financial Sustainability Rating were used by the NSW government in assessing individual local governments as part of initiatives to understand infrastructure spending in NSW and to inform the government's policy on the possible amalgamations of different local governments to improve their financial sustainability.

Source: New South Wales Treasury Corporation (2013), Financial Sustainability of the New South Wales Local Government Sector
www.olg.nsw.gov.au/sites/default/files/TCorp-Report-Financial-Sustainability-of-the-New-South-Wales-Local-Government-Sector-April-2013.pdf

4.1.6. Accrual reforms have led to major improvements to business processes and internal control

The introduction of accrual accounting was accompanied with a devolved approach to management. This meant individual entities needed to implement new financial management information systems and financial control processes to meet the demands of the new accounting framework. This included the introduction of asset registers, workflow based approvals, identification and measurement of assets and liabilities.

New systems and processes took some time to settle with a substantial number of process and control weaknesses in the early phases reported as part of the National Audit Office's report to Parliament, which ultimately led to significant improvements to financial processes recognised in particular by the external auditor.²⁹

4.2. Austria

4.2.1. Austria's framework, which combines cash and accrual bases, is currently under review

In 2007 and 2009 Austria's federal parliament decided on a far reaching comprehensive budget reform package. This budget reform was implemented in two stages, the first stage

as of 1 January 2009 and the second one as of 1 January 2013. A core issue following the adoption of the new Organic Budget Law was the move to both accrual budgeting and accrual accounting. The annual budget law is prepared on accrual and cash accounting bases within binding cash ceilings set on a four-year period in a legally binding medium-term expenditure framework.³⁰ The annual financial statements are composed of a full suite of financial statements and disclosures, including an operating statement and cash flow statement that are fully comparable to the initial budget.

A first internal review of the budget and accounting framework under the new Organic Budget Law was undertaken in 2014 focusing on specific areas, such as administrative costs related to various reporting and information requirements and the sequence of activities in the budget process. In addition, the Organic Budget Law required a formal external evaluation to be commissioned within five years of implementation, i.e. by 2017 at the latest. This was assigned by the government and is currently being carried out by the IMF, OECD and Alpen Adria University. This evaluation may lead to amendments to the current budgeting and accounting frameworks.

4.2.2. Accrual accounting has increased transparency on public finances, but generates limited interest

Accrual accounting and budgeting is believed to have improved the transparency on the government operations in Austria, as integrated cash flow statements, operating statements and statements of financial position satisfy the objective of providing a comprehensive, true and fair view of the government financial situation. The previous cash-based budget was not seen as providing sufficient financial information in advance. Consistent use of both accrual and cash basis between budgets and year end accounts is also considered as a key motivating factor for using accrual data: this making accruals more relevant than if only used in year-end accounts.

Accrual financial statements and related audit reports form the basis for parliamentary scrutiny. The Court of Audit (CoA) prepares the annual report based on the financial statements provided by each line ministry and tables it for discussion in the budgetary committee of the National Assembly. The President of the CoA and the minister of Finance stand in the budgetary committee for discussions and questions by the parliamentarians. The Parliamentary Budget Office publishes an analysis of financial statements to support parliamentary scrutiny, which discusses, among other things, differences between accrual and cash headline measures, developments from one year to the next and compares differences between budget and outcomes. Parliamentary scrutiny remains, though, to a large extent focused on cash flow statement and ESA-based indicators, and less so on accrual data, the balance sheet and operating statement. There is also some ongoing discussion on the quality of the accrual data in the financial statements. The National Assembly approves this Annual Report by law.

Interest of the general public in accrual financial data is also considered limited, despite the publication of regular reports by various institutions that analyse and contextualise this information. In general, the Ministry of Finance provides reports on a monthly, quarterly and annual basis. For example there is the monthly report on budget execution which contains both cash and accrual information. A comprehensive budget report accompanies the annual budget figures and describes main spending, key priorities and overall fiscal circumstances. Moreover, there are special reports for the financial statements, e.g., summary reports prepared by the CoA, and brief reviews as well as analyses by the PBO.

All published reports are available on each institution's website. Furthermore, the government is considering developing an Open Budget Database to increase interest in and legibility for the public of both accrual and cash financial data.

4.2.3. Accrual financial data is used mainly for identifying fiscal risks

Accrual financial statements aided in the discussion, identification and measurement of fiscal risks, such as guarantees, provisions, contingent liabilities and other long-term liabilities, that can impact the annual budget and medium-term situation of public finances. However, the fiscal policy decision making process remains largely focused on cash basis forecasts, which feed the medium term expenditure framework. Accrual forecasts are used inter alia mainly for calculating the deficit figures (e.g. the Maastricht deficit) and only very little for allocating accrual spending authorisations to ministries and agencies.

In Austria the outcome-oriented budget management is based on two elements: presentation in the budget plus an outcome-oriented assessment of consequences for legislative measures and large planned projects. However, the use of accrual-based financial information for performance evaluation and benchmarking is still very limited in Austria. This may be due to a perceived lack of reliability of the accrual data (compared to cash data), the predominant role of ESA-based financial objectives and uncertainties on how to best make use of information on full costs of operations within the administration.

4.3. Canada

4.3.1. Canada uses accrual budgeting and accounting, but manages appropriations on cash basis

Canada commenced its move to accrual accounting in the mid-1990s and completed the transition within ten years. One key objective of the reform was to provide more comprehensive and up-to-date financial statements and greater accountability by the Government to Parliament and the Canadian public.

The government moved to accrual budgeting in its 2003 budget³¹ to align the presentation of its forecast results with the adoption of full accrual accounting for financial statement reporting purposes in 2002-03. Appropriations for government expenditures remained however authorised and reported on cash basis.

4.3.2. Accrual financial data is systematically disclosed and analysed, but generates interest mainly in experts groups

The *Public Accounts of Canada* (PAC) include discussion and analysis of various areas of the consolidated financial statements. In addition, the *Annual Financial Report* (AFR) of the Government of Canada is released annually by the Department of Finance. The AFR reviews the government's spending and revenue performance over the previous fiscal year and discusses the factors affecting these results. On a monthly basis, the Department of Finance also releases the Fiscal Monitor, which provides monthly and year to date financial highlights on a period over period comparative basis. Accrual data is also available in the Government of Canada's Open Data Portal in the form of 23 datasets, those considered to be of the greatest interest to the general public. While these datasets consist of information which is already included in published Public Accounts of Canada, it further improved transparency, as well as accessibility. Despite this wealth of information, general public interest in accrual financial data is limited. The media will report on annual and monthly

results, and there are occasional questions from parliamentary committees, but minimal analysis on financial statements is provided in the press.

Specialised public groups in the finance and investment sectors have a strong interest in how accrual concepts are used in specific instances, such as by the Canada Pension Plan Investment Board's use of accrual accounting in managing the Canada Pension Plan investments. Accrual financial information is not the primary basis for determining ratings, but ratings agencies show interest in some accrual based financial statements. Areas which ratings agencies are interested include assumptions used in the budget planning process, contingent liabilities, federal future employee benefits relative to federal pension fund assets and implementation of infrastructure projects.

4.3.3. Observations of the Auditor General of Canada on financial statements focus most of parliamentary interest

Under the Financial Administration Act, the PAC must be tabled in the House of Commons within nine months after the end of the fiscal year. They are referred to the Public Accounts Standing Committee, which will meet with the Comptroller General of Canada, the Deputy Minister of Finance and the Auditor General of Canada.

The Committee issues a report after it completes its review. The report in general, includes recommendation and observations concerning, amongst other things, the timeliness of the financial reporting, and the understandability and completeness of the financial information.³²

Generally, the majority of parliamentary interest is related to observations of the Auditor General of Canada. In 2015-16 this included: Transformation of Pay Administration, Management estimates - selecting discount rates; National Defence - Inventory and liability for contaminated sites. Some other topics of interest include: reporting of losses, travel expenditures, professional services, lapses and Canadian Mortgage Housing Corporation loans.

4.3.4. Accrual-based information is regularly used for macro fiscal analysis

There is no legislation governing fiscal targets in Canada, but a number of headline measures focus government and parliament's attention. The first one, the Budgetary Balance, is accrual basis. It records government revenues and expenses when they are earned or incurred, regardless of when the cash is received or paid.³³ The second one, the Financial Source/Requirement, is cash basis. It measures the difference between cash inflows and outflows and related borrowing need.

Long term fiscal projections presented in a separate report use the Government's accrual accounting framework as their starting point, implicitly using the same accounting policies as used in the preparation of the Government's annual audited consolidated financial statements shown in the Public Accounts of Canada.

4.3.4. Assets management has improved following the adoption of accrual accounting

Accrual accounting has encouraged better stewardship of physical assets and decisions about whether to buy, lease or sell buildings and equipment, as accrual accounting focuses on the consumption or use of resources. In addition, a more complete recording of the Government's liabilities encourages the development of better plans for managing those liabilities, according to the government.

Authorities also have the view that accrual accounting more accurately reflects the cost of owning and operating capital equipment, hence providing a better means to relate the costs of programmes to the performance results being achieved. However, expenditure management initiatives are seen as more important to the internal control environment than accrual accounting to realise savings and increase productivity.

4.3.5. Agencies and SOEs financial performance evaluation use accrual based measures

Canada developed a *Management Accountability Framework*, which is a framework for management excellence, accompanied by an annual assessment of management practices and performance in most departments and agencies of the Government of Canada.³⁴ From an agency perspective, the MAF includes certain indicators which are based on the balance sheet. Examples of these indicators includes aging of gross non-tax accounts receivable as of year-end and percentage of payments to suppliers in the fiscal year that were made on time.

Financial performance evaluation for state owned corporations is fully done on an accrual basis. The Financial Administration Act provides the general governance and accountability framework for state owned enterprises, including financial reporting requirements. Most SOE's are required to submit annual operating and capital budgets to the Treasury Board Secretariat for approval to ensure financial sustainability, proper stewardship of resources and alignment with government priorities.

4.4 Estonia

4.4.1. Estonia adopted accrual accounting about thirteen years ago and just finished rolling out accrual budgeting

In Estonia, transition to accrual accounting and compilation of consolidated statements was decided in 2003. The timescale for the reform was short: in 2004 accrual basis consolidated financial statements were published for the State subsector, and in 2005 the coverage was extended to the whole of the public sector.

Following this initial reform, an accrual budgeting reform proposal was issued in 2008, as part of a broader reform agenda that included activity-based budgeting and an enhanced system of strategic planning and management. A pilot exercise was launched in 2010, with the final decision to transition to accrual budgeting taken by the end of 2015. Estonia implemented its first accrual based state budget in 2017.

4.4.2. Transparency is a key objective of reforms, which has already been achieved

The core objective of the accrual accounting reform was to provide a true and fair view of public finances.

Accounts are prepared according to IPSAS in order to increase usefulness for interested groups. Financial statements include a summary and analysis section to make them more user-friendly. They are also accessible on a dedicated website, which receives an increasing number of visits.

4.4.3. *Government is working on achieving other reform objectives*

Estonia's accrual based budget includes revenues, expenses, investments, financing activities and a forecast of cash flows. A forecast of the balance sheet will be implemented in 2020.

The main objective of the introduction of accrual budgeting was to align the basis of the budget with the basis for the financial statements, and as a result reduce the volume of reports. According to authorities, "another objective was to unify the accounting principles of budgeting and the calculation of position of the government sector".

Estonia considers accrual-based budgeting a pre-requirement for performance based budgeting and the country will implement a performance based state budget in 2020. One of the ambitions of the move towards performance based budgeting is to enable the government and interested public members to compare the effectiveness of different public services, and to enable comparisons between public services with private sector alternatives.

While parliamentarians remain primarily focused on ESA10 fiscal targets (deficit, debt to GDP ratio), interest in the financial statements has increased over time with questions asked on the level and annual variation of liabilities, liquid assets and cash reserves. Parliament is also increasingly discussing the overall financial situation of the public sector and impacts on next year's budget.

The Ministry of Finance also believes that accrual reforms enabled better understanding of the nature of government liabilities and the scope of government owned assets. Accrual accounting has also helped Estonia to identify fiscal risks and informed analysis of the long-term fiscal sustainability.

Accrual financial statements are used to monitor ministries, agencies and other public sector entities. All ministries publish accrual consolidated financial statements, covering relevant agencies, that are used for regular monitoring of their budget execution.

4.5. *France*

4.5.1. *France is operating cash, commitment and accrual accounting systems*

In France, the adoption of accrual accounting at the State level took place as part of a broad set of budgeting reforms in the early 2000s. As part of these reforms, it was decided that the State would operate simultaneously two accounting systems: a cash and commitment accounting system (so called "budgetary accounting") and an accrual accounting system (so called "general purpose accounting").

The State completed its transition to accrual accounting in about five years. Since the reform took place, efforts have been focused on improving the quality of financial data, the internal control environment, and internal audit functions. As a result, since the first State financial statements on accrual basis were published (2006), nine audit qualifications have been removed (there were 13 qualifications in 2006 and four qualifications in 2016).

4.5.2. *Interest in accrual basis financial statements is building progressively in parliament*

For the State, the core accountability document at year-end is the Budget Execution Law (*Loi de règlement*, or LR), which reports all financial operations undertaken by the central government during the fiscal year.³⁵ While the cash deficit focuses most parliament

attention, parliament has increasingly scrutinised a number of key aggregates over the last years. These aggregates are: 1) the contingent liabilities, 2) payables and 3) provisions for tax litigations. The Public Accounting Directorate believes that there might be three main reasons for this interest. First, these liabilities are significant in terms of financial impact (e.g. guarantees, within contingent liabilities). Second, they are not reported and measured in the cash basis budgetary accounts (e.g., provisions for tax litigations). Third, they provide useful insights on public policies (e.g., provisions generated by litigations over new tax policies) or financial management (e.g., annual variation of payables).

4.5.3. Evidence shows that financial statements increased fiscal transparency, but efforts are still needed to improve their accessibility

Accrual accounting is considered a success with regards to transparency. A recent survey undertaken with key stakeholders in France by the Court of Accounts (*Cour des Comptes*, or “CC”) shows indeed that the introduction of general accounting has substantially improved the understanding of the State’s financial position. Also, data from the Finance Ministry web portal shows also that the financial statements are generating significant views and downloads. However, there is still a perception in Government that interest in accrual data remains limited.

To address this perceived issue, two documents are currently published alongside the financial statements: 1) the Management report (*Rapport de présentation*), which comments on core events of the past fiscal years and financial operations that impacted the State accounts, provide explanations on variations of main aggregates, and also includes a bridge table between the cash basis deficit and accrual basis loss; 2) a four-pager summary of the financial statements, which presents the key aggregates with infographics. Two additional initiatives are currently being rolled out to increase the accessibility and usefulness of the financial statements. First, a so-called Memento will be published from 2017, which will present data sets covering over ten years and comment and analyse trends in assets, liabilities, revenue and expenditures reported in the financial statements. These data sets will not be part of the financial statements per se, and will not therefore be submitted to pro-forma requirements, nor audited. They will constitute supplementary information for parliamentary and citizens' information and aim at increasing the usefulness of the accrual data for oversight of the government financial situation and decision making. Second, the accrual data will be made available on the Finance Ministry’s open fiscal database. The level of detail of the accounting data that will be made available to the public is currently under discussion.

4.5.4. Accrual accounting has helped to bring about substantial improvement to financial and accounting processes

Assets and liabilities are now comprehensively inventoried and reliably measured, allowing a better understanding of the impacts of some policy decisions. One example of progress made in the understanding of the nature and value of assets entrusted by the State to “concessionaires”. Following the adoption of accrual accounting, administrations were requested, for the first time, to perform exhaustive inventories of on-going concessions and gradually carry out measurement of the value of the related assets - motorways, water works, railway assets (including tunnels and other infrastructure), airports, ports, etc.

The introduction of accrual accounting has made an essential contribution to the modernisation of the government finance function. Risk management tools have been adopted widely since then, particularly internal control and internal auditing, the use of

which had previously been confined to a limited number of services. Internal control and accounting procedures associated with accruals have also helped to identify a number of operational issues. One example provided as part of this research is defence assets management: year-end inventories allowed identifying, and addressing, issues with the turnover in stocks.

4.5.5. Accrual financial statements are little used for macro fiscal policy in France, but have allowed highlighting a number of risks to public finances

Accruals data is used to a certain extent for informing long-term sustainability assessments and national accounts (statistics). While there is neither systematic, comprehensive or regular analysis of the balance sheet nor any report on fiscal risks in France, the accrual basis financial statements have highlighted a number of risks to public finances and generated consequently increasing attention from parliament and, to some extent, the general public (e.g. guarantees, tax credits and provisions for tax litigations).

4.5.6. Accrual accounting is used for monitoring the financial situation of individual public entities

Public agencies, local government, social security funds and SOEs have historically used accrual accounting in France. Accrual aggregates and ratios are therefore regularly used to monitor the financial situation of these entities.

4.6. Japan

4.6.1. Accrual financial statements are supplementary information to core cash basis fiscal reports

Japan is operating a cash basis budgeting system. Budget and year-end reports are prepared on a cash basis and the fiscal target, referred to as the Primary Balance (PB), is also cash based.³⁶ Cash basis fiscal reports are indeed perceived to have advantages over accrual basis ones regarding certainty, objectivity, and accessibility.

The adoption of accrual accounting was therefore undertaken as a trial process, with the government's opening balance sheet prepared as a first step. The full adoption of accrual accounting started in 2000 and it was completed in approximately five years, but accrual basis financial statements are complementary to cash basis fiscal reports according to legislation. For this reason, there is no formalised process of review by parliament of these financial statements. The statements are, distributed to every parliamentarian who have the opportunity to direct questions to the government. Further, the statements are submitted to a control by Japan's Board of Audit.

4.6.2. Adoption of accrual accounting was considered a prerequisite for strengthening financial and operational performance evaluation in Japan's public sector

In conjunction with the implementation of accrual accounting, Japan introduced the Incorporated Administrative Agency system.³⁷ This system aimed at comparing financial results and measuring performance of operations of individual entities, with the ultimate goal of improving their service delivery and productivity in the public sector. Financial statements and PUCI can therefore be used by parliamentarians to assess policies of the government and the related cost of services.

As part of this project, each ministry is required to prepare so called Policy Unit Cost Information (PUCI) for each of its policy units.³⁸ PUCI measures operating costs of each policy unit in order to facilitate annual financial and operational evaluation and to ensure the transparent and efficient allocation of resources. Financial information used in PUCI is fully accrual based. *Incorporated Administrative Agencies'* operating costs are also measured on accrual basis and compared annually.

4.6.3. Financial performance of individual entities is monitored with accrual basis financial statements

Agencies prepare accrual based financial statements which are used for performance monitoring. Agencies, referred to as incorporated administrative agencies, disclose balance sheets by accounts and some balance sheet items (total assets amount and main assets breakdown) by segments. These financial statements need to be submitted to the relevant minister within three months of the end of the accounting period for approval. Incorporated administrative agencies have incentives to manage efficiently their balance sheets and financial operations. For example, if profits are recognised after offsetting losses carried forward from the preceding years, agencies can appropriate all or those parts of the profits which are considered as generated by their management efforts. These profits may only be spent on specific areas that have been stipulated for surplus spending in the agencies Medium-term plan. This approach provides incentives for management trying to increase profits.

Accrual financial statements from SOEs inform management policy. Each SOE prepares individual accrual financial statements, following private sector practice, which is used by the government to monitor the company, assess its management plan and decide on dividend policy.

4.6.4. Substantial efforts are done to improve accessibility of accrual financial data

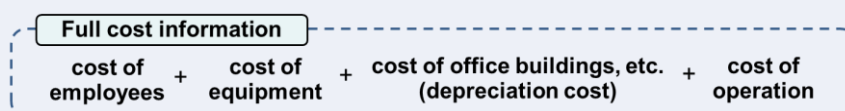
Japan prepares a number of documents to further explain the government's accrual and cash based financial reports, at government and individual ministries level. These include an annual Public Finance Statistics Book and Japanese Public Finance Fact Sheet. These documents include the use of graphs, and tables showing the current fiscal position as well as trends over time. There is also an explanation of the impacts and consequences of particular fiscal policy directions. As part of the publication of the annual financial statements, brochures and leaflets are also made available on the MoF's website. The brochure and leaflet provide different levels of detail, with the leaflet being briefer and simpler than the brochure. The aim is to provide easily understandable information for interest parties who may not be familiar with the government's overall financial position.

Detailed information on the accrual financial statements is made available through an Open Data Portal. As a part of accrual financial statements, further disaggregation of each line item, such as a breakdown of loans by borrowers, a breakdown of securities by issuers, breakdown of tangible assets etc., is provided on the Open Data Portal. This also includes policy unit cost information, and individual full cost information for some government activities. The main intention is for the government to disclose its financial information in a level of detail similar to what private companies in Japan provide in their financial statements.

Box 6. Japan: Cost Accounting

Japan historically maintained a *Policy Evaluation System* for measuring and comparing operating expenditure (excl. capital and wages expenditures) of each administrative service within government. Following the publication of the first central government accrual based financial statements in 2013, the government tried measuring “full costs” associated with so-called “public operations”.

In practice, each ministry was requested to define 1 to 4 public operations within its activities’ scope and measure full costs associated with each one of them, based on the accrual data., as follows:



For each public operation, a “cost per unit” was calculated by allocating costs to the “number of users” or “number of working days” of a given administrative service, as follows:

Operation of correctional institutions (Ministry of Justice, FY2015)	Full cost: JPY 291 883 million Number of inmates: JPY 62 378 people	Cost per inmate (1day): JPY 12 820
Passport-related operations (Ministry of Foreign Affairs, FY2015)	Full cost: JPY 19 415 million Number of passports: 3 013 516 books	Cost per passport: JPY 6 443
Operation of national park management (Ministry of Land, Infrastructure, Transport and Tourism, FY2015)	Full cost: JPY 12 329 million yen Number of annual visitors :33 005 360 people	Cost per annual visitor: JPY 374
Operation of quarantine of entrants (Ministry of Health, Labour and Welfare, FY2015)	Full cost: JPY 2 811 million Number of entrants quarantined: 43 907 442 people	Cost per entrants quarantined: JPY 64
Police operation in Hokkaido Prefecture (National Police Agency, FY2015)	Full cost (central government): JPY 3 154 million Full cost (local government): JPY 125 492 million Population in Hokkaido: 5 401 210 people	Cost per inhabitant in Hokkaido(1 day): JPY 65

Information for each public operation is made public by the government. Expected outcomes of cost accounting are improving transparency on the government policies and operations, but also informing the budget process with data (e.g., is the full cost of operations varying from one year to another? if yes, why? what are the main sources of costs: operating expenditures? wages? amortisation of equipment? etc.).

Government notes that as of today some challenges are still to be overcome to improve the reliability and usefulness of the information, including defining a methodology for allocation wages and amortisation of equipment from shared services. In addition, the cost per unit is measured on a very limited number of services (compared to the large range of policies and services delivered by the government).

Source: Authors, based on information provided by the government of Japan.

4.7. Korea³⁹

4.7.1. Korea has completed a swift transition to accrual accounting but the budget is still established on a cash basis

Korea moved to accrual accounting between 2009 and 2011, following a proposal from the Ministry of Finance. The core objectives were to increase transparency and enhance the credibility of government finances. The general view from authorities is that the preparation and implementation of the new accounting basis faced no major challenges, due in part to a new integrated IT-system for all budget operations that already were in place.

The current year-end National statement of accounts includes a financial statement on accrual basis including a relatively comprehensive balance sheet, the budget outturn on cash basis and a performance report.

Korea continues to operate a budget where the core elements - the tables of total and net revenues and expenditures - are presented on cash basis. This is supplemented with information on commitments, and the estimated balance sheet and income statement of the funds. The legislature authorises the current and capital expenditures, commitments, financing flows, and the debt ceiling.

4.7.2. Ongoing efforts to increase accessibility to and usefulness of accrual figures

Public interest in accrual figures continues to be relatively low. While the state-funded Korea Institute of Public Finance already publishes a booklet titled National Accounting for Beginners they, plan to expand their list of publications to increase the accessibility to the financial statements. Additional titles will aim at explaining the financial statement in plain language along with infographics, as well as offering accessible analysis of key figures over time with the goal of giving the readers an intuitive understanding of the financial status of the Korean government. Furthermore, the institute offers training programmes for high ranking officials in accrual accounting.

The Korea Institute of Public Finance, in addition to the more direct efforts, also runs a research programme trying to develop new ways to make use of accrual information. This research covers, for example, the effect of accrual-based figures for economic forecasts and the development of accrual indices to evaluate the sustainability of public pension systems.

The Ministry of Finance publishes accrual financial data in a dedicated online database; Open Fiscal data. Korean accrual financial information is structured in a 5-level chart of accounts. Currently, data on level 1-3 is disclosed, while the most detailed data on level 4 and 5 is seen as for internal management purposes.

Table 8. Korean 5-level charts of accounts

Level I	Level II	Level III	Level IV	Level V
Assets	Investment assets	Long-term investment securities	Debt instruments	National debt

Note: Example from Korea's 5-level chart of accounts. Source: Korea Institute of Public Finance

Accrual financial statements examined by the supreme audit institution are submitted to and reviewed by the parliament. While parliamentarians still focus on the, also provided,

cash-based information, interest in accrual figures is considered to grow over time. The parliament has repeatedly passed recommendations asking for more detailed accrual information to be presented to them.

4.7.3. Accrual information has proven valuable over multiple policy areas

The introduction of accrual accounting has significantly improved the government's information on assets held, including incentivising the government to conduct periodic reviews to determinate their current value. On the liabilities side, the regular publication of provisions for the future pension for civil servants and military personnel was a key driver behind growing concerns for the cost of the system, triggering a pension reform in 2015.

For state-owned enterprises accrual information plays a central role both for dividend policy, and for the charges set by public utility corporations. As for local government - were individual municipalities switched to accrual accounting already in 2002 - accrual information has proven valuable in managing long-term investments such as waste management facilities.

4.8. New Zealand

4.8.1. Consistent use of accrual standards thorough the budget cycle allows greater clarity, comparability and reliability of fiscal information in New Zealand

New Zealand completed its transition to accrual budgeting and accrual accounting in six years, from about 1988 through to 1994, as part of a broad set of public financial management reforms. The main motivations for reforms were to assist the Government to translate its strategy into action; promote informed decision-making and accountability; and encourage a responsive and efficient public sector.

Following reforms, fiscal targets, budget, accounts and performance evaluation are all prepared according to IPSAS standards. Both the initial move to accrual accounting and subsequent alignment of budgeting and accounting standards have increased fiscal transparency in New Zealand, according to Treasury and a number of independent evaluations commissioned by government. Among various benefits identified, evaluations mention the clearer read of fiscal reports prepared according to high quality standards; the easier navigation and comparison from one report to another as they are prepared according to consistent rules and principles; and improvements to government's forecasting ability thanks to the "feedback loop" between audited accrual accounts and accrual forecasts.⁴⁰ Therefore, while cash flow statements are also produced as part of the public reporting arrangements, the main focus of stakeholders with regards to public finances scrutiny is now on accrual information.

4.8.2. The general view is that accrual basis fiscal reports are accessible and legible for all groups of stakeholders

Government is of the view that the use of accrual budgets and accrual accounts, consistently applied, and in terms familiar to users of private sector financial statements, can provide an aid to understanding the government's financial position. A feature of cash budgeting is the use of funds to make internal allocations, and unless the purpose and rules around the transfers to and from those funds is known to users, reports on these funds are not easily able to be understood. Because under accrual accounting the basis of the report is an entity,

rather than a set of fund accounts, this barrier to understanding the impact of public finances is reduced by accrual accounting and budgeting.

Legislation requires that each public sector entity, including the whole-of-government, prepare annual financial statements, which are systematically audited by the Controller and Auditor-General. All of these audited financial statements are tabled in Parliament and scrutinised by relevant select committees, which draw conclusions and recommendations depending on material transactions and events during the year and audit observations. A special feature of the scrutiny process in New Zealand is a thorough questionnaire sent from parliament to the relevant line ministry before each vote on appropriations. This questionnaire covers questions on capital expenditure and financial risks where answers are considered to be facilitated by the accrual based system used.

Commentaries explaining the results and accompanying press releases are prepared as part of the publication of the monthly, annual, and forecast financial statements of government. In addition, media “lockups” to explain results are organised prior to the presentation of annual financial statements and 5-year Budget forecasts. Also, “snapshot” and “at a glance” documents aimed at citizens are released at the same time than the annual financial statements and budget. The general view is that these initiatives have helped generating significant media and public attention, outside of expert groups such as rating agencies which strongly support the production of accrual basis fiscal information (e.g. rating agencies especially appreciate the 5-year accrual budget forecast).

4.8.3. Accrual data is used in all aspects of fiscal policy

The New Zealand government’s fiscal strategy and longer term and shorter term fiscal targets are set on accrual terms. In particular, the prime fiscal performance target is an aggregate referred to as Operating Balance before gains and losses, or OBEGAL.⁴¹ The other important fiscal target is net debt. Therefore, all policy initiatives included in submissions put forward to the Government for decisions must include the estimated (cash) impacts on the financial position (net debt) and the estimated (accrual) impact on the financial performance (on OBEGAL) of the Government. Some significant past policy decisions have reflected the impacts of using of accrual based information for fiscal policy, for example, a move from defined benefit schemes for employee pensions to defined contributions schemes.

Accrual accounting has also helped New Zealand better identifying and measuring its fiscal risks coming from contingent liabilities and assets. Accrual financial statements are therefore one of the core sources of information for the government’s Fiscal Strategy Report, the specific chapter on fiscal risks in the budget forecasts, and the Statement on the Long-term Fiscal Position (LTFS) of the government covering at least the upcoming 40 years.

4.8.3. The balance sheet receives specific attention through the production of an Investment Statement every four years

Under the Public Finance Act 1989, the government is required to produce an Investment Statement at least every four years.⁴² The Investment Statement measures the government’s performance in managing the State’s balance sheet. It provides information on the shape and health of the government’s portfolio of assets and liabilities at the end of the last full financial year. It outlines how the balance sheet has changed in recent years and includes forecasts on its anticipated composition and size through for the next two years. It also describes the performance of the government’s major asset and liability classes and

discusses frameworks for good balance sheet management to underpin living standards in New Zealand.

Box 7. New Zealand: Managing the Crown's Balance Sheet for Citizens

To put the Crown's balance sheet size into context, there were approximately 4.5 million people living in New Zealand at the end of the last financial year. That means the Crown owned about NZD 54 000 worth of assets and owed NZD 39 000 in debt on behalf of every New Zealander at that time. That means many families' indirect share of the Crown's assets and liabilities would typically be second only in value behind the family house and mortgage.

Against this background, New Zealand government believes well-managed Crown's balance sheet is crucial to supporting the provision of state-funded services while also underpinning the overall economy's performance, and contributes to increasing living standards.

In particular, the government observed in recent reports that government assets come with both benefits and costs. Based on the public sector discount rate the opportunity cost of Crown asset ownership is around NZD 25 billion per annum. This does not include the costs of utilisation, or upkeep. Capital is not free. Capital that does not provide benefits greater than the costs of ownership incurs costs on citizens. Citizens are therefore entitled to expect the government to make the best use of these assets and to manage liabilities to minimise costs. Achieving this allows for more and better public services - more schools or better healthcare for example - or lower taxes, which increases incomes.

Source: authors, based on public information.

4.8.4. Both accrual and cash measures are used for assessing entities' financial and operational performance, generating clear efficiency gains

The Treasury analyses accrual basis financial reports of all government entities. This analysis includes: assessing entity cash holdings, as excess cash held by entities outside the core government sector can affect whole of government financing costs⁴³; monitoring cost recovery activities (referred to as Memorandum accounts) to ensure that revenue and expenses are aligned (if necessary, pricing adjustments can then be made to ensure that the pricing appropriately recovers the costs); and considering fixed asset sustainability by considering how much of the asset has been consumed (through accumulated depreciation); when it will need to be replaced; and the stock of liquid assets in the entity that is available to replace the asset. This analysis informs the starting point for discussions with the entity on its financial sustainability.

Investment intensive entities are subject to a review every two years to assess their management of investments and assets. The reviews results in an "Investor Confidence Rating" (ICR) which is made public. The ICR provides an indication of the level of confidence that investors (such as Cabinet and Ministers) can have in a department or agency's ability to realise a promised investment result if funding was committed. The ICR provides an incentive mechanism that rewards good investment management performance and proactively addresses performance gaps. Entities that receive a good rating may obtain greater autonomy, higher financial delegations and less monitoring and reporting. Entities that do not rate as well may obtain less autonomy, lower financial delegations and may

attract additional monitoring and support from central agencies. The ICR helps individual agencies identify where they need to lift capability to maximise the value of their investments and assets and is one component of the information that is considered by Cabinet when it prioritises investments.

State-owned enterprises are subjected to scrutiny from the parliament, the relevant ministry and a special Commercial Operations group within the Treasury based on their individual accrual financial statements. One feature is a yearly shareholder expectations letter covering e.g. expected dividends and, when appropriate, the capital structure of the enterprise. A SWF, the New Zealand Super fund, was created in 2001 in order to make future retirement costs more affordable. Accrual financial statements are used to assess the performance of the fund by the Government, the Parliament and the public. All annual financial statements are audited. Expectations on Chief Executives and governing bodies of entities are set out in a public document agreed by Cabinet. The circular covers the management of investments and physical and intangible assets and shows the government's intention that there must be active management of government resources and alignment between individual investments and long-term priorities. Financial management is an explicit component of Chief Executive performance evaluation and includes cost control, forecasting, managing fiscal pressures and risks, managing resources, and stewardship of assets.

When undertaking cost benefit analyses or benchmarking activities, the government uses accrual based cost evaluations.⁴⁴ This has encouraged greater cost awareness amongst programme managers. A 1996 study by Treasury staff pointed out that “richer management information” made a key contribution to allowing managers to re-evaluate and change their inputs to increase efficiency. The same study underscored that the system has aided public expenditure control by more clearly defining the costs and benefits associated with different options.⁴⁵

4.8.5. The setting of fees and charges are done under an accrual based framework

New Zealand has a comprehensive cost recovery framework that includes guidance on understanding the costs of production (including operating and capital costs) as well as demonstrating efficiency in the application of those costs to the cost recovery activity. Under this framework, costs are considered on a full accrual basis to ensure that the full cost of services delivered is identified and fees and charges set accordingly.

4.9. Spain

4.9.1. Spain completed its accrual accounting reform progressively, in about 25 years

The accrual accounting reform started in the 1980s, and followed a gradual path in Spain. In 1986, public entities were required to maintain double entry book-keeping; in 1990, some accrual concepts were introduced in the public accounting framework; and from 2007 to 2010 public entities finally transitioned to accrual accounting.⁴⁶ Budgets in Spain however, remain prepared on close to cash basis (so called rights and obligations basis). Fiscal rules are set in statistical terms and compliance assessed against national accounts.⁴⁷

4.9.2. Better transparency on public finances is the main outcome of the reform

The annual publication of audited financial statements is believed to have contributed to better accountability and transparency. In these financial statements, a number of ratios are

included in order to highlight the state and evolution of public finances. In addition, accrual data is made available to the public on an Open Data Portal at the level of financial statements line items. Both accrual and cash based aggregates and ratios are used to monitor the financial situation of agencies and state owned corporations. These ratios differ depending on the activity considered.

Box 8. Accrual-basis financial ratios

1/ Balance Sheet Ratios:

Instant liquidity: cash and cash equivalents / current liabilities; Liquidity in the short term: cash and cash equivalents + receivables / current liabilities; General liquidity: current assets / current liabilities; Inhabitant's debt: current + non-current liabilities / number of inhabitants; Debt: current + non-current liabilities / current + non-current liabilities + equity; Relation of debt: current liabilities / non-current liabilities; Cash flow: current + non-current liabilities / cash flow from operating activities.

2/ Statement of Financial Performance Ratios:

Revenues structure: Taxes/operating activities revenues; Transfers and grants/operating activities revenues; Sales and rendering of services/operating activities revenues; Rest of operating activities revenues/operating activities revenues.

Expenses structure: Wages, salaries and employee benefits/operating activities expenses; Grants and other transfer payments/operating activities expenses; Acquisitions/operating activities expenses; Rest of operating activities expenses/operating activities expenses; Coverage of operating activities expenses; Operating activities expenses/operating activities revenues.

Source: Authors, based on information from Spanish IGAE.

4.10. Switzerland

4.10.1. The Swiss Confederation uses the accrual basis for budget and financial statements, but adopted a cash basis fiscal rule

Accrual reforms in Switzerland were initiated in the 2000s by the Director-General of the Swiss Federal Finance Administration with the support of the Minister of Finance, the Government, and the Parliament.⁴⁸ Its objective was to 'close the gap' between the Federation and cantons in terms of financial transparency.

Following reforms, both budgets and financial statements are prepared on an accrual basis using IPSAS standards. Financial statements are prepared by individual ministries and agencies, as well as at whole of government level. Budgets are accompanied by an Integrated Task and Financial Plan, which contains estimates of expenditure and revenues covering the budget year and three following years. Appropriations are made on an accrual basis.

Despite its accrual reforms, the Swiss Confederation anchors its fiscal policy with a mechanism called the "Debt Brake". The Debt Brake is cash based measure that seeks to avert structural imbalances in federal government finances. The Debt Brake is reported in conjunction with the accrual based financial reports.

4.10.2. Whilst general interest in the accrual financial statements is limited, particular areas attract attention

The Parliament makes a report on the annual financial statements each year. The focus of the report varies over time with recommendations usually concerned with the reporting process (including timelines) and the internal control environment. However, the main area of interest is the (cash) financing statement due to the prominence of the cash basis fiscal rule in macro fiscal policy. Compliance with the fiscal rule is indeed closely scrutinised by Parliament and other institutions, which leads to interest in particular areas of financial statements that impact the Debt Brake.⁴⁹

Accessibility for the general public has been improved by making accrual financial information available on an Open Data portal.⁵⁰ The Swiss government has created an Open Data portal to provide greater accessibility to government information, including financial information. The accrual financial data that is included in the portal is reported at the financial statement line item level. In addition to making data available on the portal, the annual financial statements are supplemented with a brochure and “at a glance” documents to make the information more accessible and understandable to the general public. Further, rating agencies do make use of the accrual data provided.

4.10.3. Accrual data is used for evaluating the operational performance of administrative units

The statement of financial performance is supplemented by cost accounting at the level of the administrative units. This approach encourages cost awareness and the economical use of funds and encourages administrative units to improve the efficiency of their operations. It also facilitates a comparison of cost performance between similar functions of government. Fees and charges for government services are based on accrual information. Each area is subjected to legal requirements that establish the basis and details for setting the level of fees and charges.

4.10.3. Changes to financial processes in the context of accrual reforms have led to efficiency gains

The implementation of accrual accounting necessitated new ICT systems to underpin public financial management. This has improved the linkages between budgeting and *ex post* reporting data thus providing a clearer line of sight between budget and actual financial results. Overall data quality has improved due to better system controls being implemented as part of the new ICT systems. Linking cost accounting, budgeting and accounting together have led to better and more readily available data and generated efficiencies in the production and reporting of this information.

4.11. United kingdom

4.11.1. The UK uses accrual budgeting and accounting, but continues using cash basis appropriations (so called spending totals)

The UK completed its transition to accrual budgeting and accounting in about ten years. The reforms started in 1993 and were concluded in 2002. The transition process and the accompanying accruals based budgeting and accounting arrangements, was led by Her Majesty’s Treasury (HMT). The timescale for implementation was set to accommodate the scale of systems changes in departments as part of the normal replacement cycle and to

allow monitoring and assessment of departments' progress through a series of pilots, dry runs and "trigger points", but nevertheless encountered some delays.

Following these reforms, both the budget and year-end financial statements are prepared on an accrual basis. The annual *Budget* is composed of an income statement that forecasts government expenses and revenues on a full accrual basis. Central government departments and the majority of individual public sector entities prepare financial statements on an accruals basis, as per International Financial Reporting Standards (IFRS) as adapted for the public sector. A consolidated set of all public sector entities financial statements is produced annually, known as the *Whole of Government Accounts* (WGA).

Each year Parliament gives statutory authority for the consumption of resources, capital spending, and for cash to be drawn from the Consolidated Fund (the government's general bank account at the Bank of England) by Acts of Parliament known as *Supply and Appropriation Acts*. Up to five different accrual-based spending totals are set for each department⁵¹, alongside an amount of cash required in total to service each of these budgets.

4.11.2. Macro fiscal policy is done on accrual basis

In the United Kingdom, fiscal policy is done mostly on accrual basis. New policy proposals are measured *ex ante* on accrual basis IFRS. This measurement is done for expenses and revenue, but does not include balance sheets impacts. Likewise, medium term forecasting is done on an accrual basis IFRS.

Three fiscal targets are in the 2017 Charter for Budget Responsibility, all set in statistical terms (ESA10). The targets are set for the deficit (so called Public Sector Net Borrowing, or PSNB), debt welfare spending. In recent periods, the United Kingdom also used ESA10 based Public sector net debt (PSND) and Public Sector Net Financial Liabilities (PSNFL) as supplementary indicators of fiscal performance.⁵²

The United Kingdom started publishing in 2017 a *Fiscal Risks Report* drawing on various information sources including WGA.⁵³ In this report, one chapter explores particular risks associated with the public sector balance sheet and divide them into four sub-categories: 1) risks from balance sheet transactions such as student loans or financial assets sales (whose timing can impacts forecasts of government revenue); 2) risks from balance sheet transfers, for examples the reclassification of entities such as housing associations within the public sector; 3) risks from valuation changes; and 4) risks from balance sheet "surprises", that is impact on assets and liabilities of government possible future interventions. This report also analyses a number of headlines measures as part of the stress test of the public sector balance sheet, including the government fiscal targets indicators such as government liquidity and financing burden, based on IMF recommendations.

4.11.3. General consensus is that accrual reforms enhanced accountability and improve decision making

The adoption of accrual-based budgeting and accounting across the whole public sector derived from the motivation across Parliament and government to enhance accountability, improve decision making and strengthen public management. Recent reports and assessments published by the Treasury, the government, House of Commons and National Audit Office show that accrual accounting and budgeting are considered to have met these objectives.

With regards to management, recognition of provisions and contingent liabilities has prompted much more active management of stocks and controls over new flows. Also, the

UK's publication of Whole of Government Accounts which recognised, for the first time, the liabilities associated with public service pensions is seen as an important contributing factor in significant reforms to civil service pension contributions and benefits a few years later.

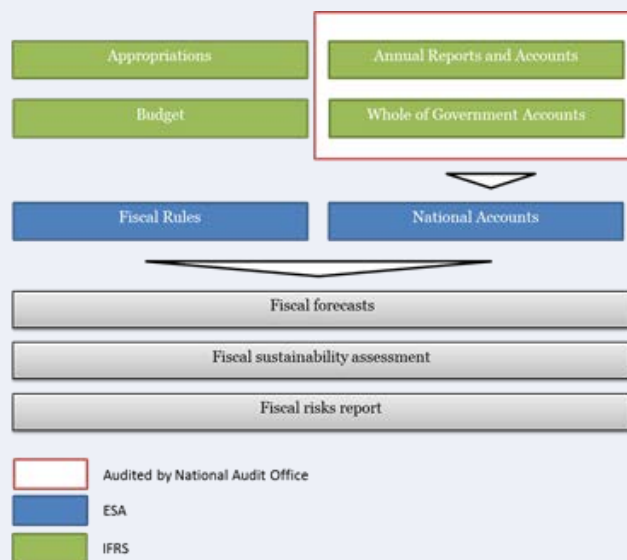
Recent parliamentary questions and inquiries into a number of provisions reported in the public sector balance sheet (provisions related to nuclear decommissioning, clinical negligence and tax administration legal disputes) illustrate the increased level of transparency, and related scrutiny, permitted by the adoption of accruals. The Parliament and National Audit Office also just completed a major series of enquiries into the management of the balance sheet.

4.11.4. Accruals reforms have increased overall confidence in the consistency and reliability of fiscal data

The fiscal, budgetary and accounting frameworks are all accrual-based and linked, and, perhaps more importantly, structured around a “block” of audited departmental annual reports and accounts.

Box 9. United Kingdom: Accrual-based fiscal framework

The budget and appropriations are IFRS-based. Fiscal rules are set on ESA basis. Departmental Annual Reports and Accounts are also IFRS-based. They include an audited outturn of spending authorisations granted by the parliament (so called core tables) and audited financial statements. The audited outturn and financial statements are used to prepare IFRS-based WGA and ESA-based National accounts. The Economic and fiscal outlook, Fiscal sustainability report and Fiscal risks report draw, in turn, on the aggregates published in WGA and national accounts.



Note: ESA and IFRS are both prepared on an accruals basis (recognition of economic events regardless of when cash transactions occur) and they each prepare a statement of financial position, income and expenditure analysis and details of other changes; although with presentational variances. However, there are some differences in how the accruals concept is applied at a detailed level (e.g., provisions). (Source: WGA)

Source: authors, based on public information from HM Treasury and National Audit Office.

Efforts to improve the clarity and usefulness of financial data have been made regularly, as experience of using accrual data and producing accrual basis financial reports has grown.

- The 2011 Clear Line of Sight (Alignment) reforms simplified government's financial reporting to Parliament. The reform aligned, as far as possible, the recording of government spending in Supply Estimates with the spending limits set by Treasury and the spending reported in the WGA and Annual Reports and Accounts;
- The format and content of the WGA has been improved, progressively, to better address user's needs. For example, the introduction section (the "*Overview*") evolved from a "summary" to a "snapshot" on key issues. In its current version, it answers a number of simple key questions⁵⁴, provides data sets over a five-year period to show trends in spending and raising revenue and report issues in targeted areas of interest for users (rates of frauds and errors, debt management);
- The WGA include two bridge tables with the national accounts: 1) Net liabilities (WGA) to Public sector net debt (National Accounts) and 2) Net expenditure (WGA) to Current deficit (National Accounts).

The Treasury is now reviewing the content of the accounts to determine whether the disclosures are proportionate and focused on the material items in the accounts.

4.11.5. The UK government recently launched a Public Sector Balance Sheet Review

Under the impulse of the Public Accounts Committee, the Treasury is seeking to make better use of WGA to both improve public financial management and inform policy. To achieve this objective, one recent initiative of the Treasury has been to set up a *Balance Sheet Analysis unit* tasked with undertaking analysis of the public sector balance sheet to understand its expansion since the financial crisis and improving the management of assets and liabilities. The work of the unit has already seen the publication of guidance in July to improve the management and scrutiny of contingent liabilities, mentioned above.

As part of this work stream, the UK government formally launched a Balance Sheet Review at the 2018 Autumn Budget. The review aims at supporting the sustainability of the public finances but also helping in identifying resources for further investment in public services. As part of this review, the Treasury will work closely with other government departments in carrying out the review to improve balance sheet management by, for example, looking at ways to pool investments to minimise the cost of multiple management fees or making money out of government's ideas, by selling some intangible assets like software. The government has committed to providing an update at Budget 2018 - we believe that the balance sheet review is an asset with the potential for significant return.

Notes

1. Where accrual budgets are voted, appropriations can be presented on cash basis (e.g. Canada), accrual and cash bases (e.g. Austria, Australia and the United Kingdom) or accrual basis (e.g. New Zealand).
2. Departments' net assets are included into annual appropriations - meaning that they cannot exceed that level of net assets without authorisation. Under such regime, all assets and liabilities generated by government financial operations are part of the legislative oversight mechanism.
3. For example, the European Commission defines budgetary commitments as "legal promises to spend money on certain projects, contracts, research, etc. - either in the same year as the commitment or later".
4. In particular, the PAC recommended that the WGA be published more quickly after the year-end; include more information on the reasons for significant movements on the balance sheet and the associated fiscal risks; explain better where public money is going; and discuss the impact that the Government's decisions have on the short- and long-term public sector financial position.
5. These countries have introduced accrual budgeting and accounting, or accrual accounting only in to their public financial management framework.
6. One example is Canada where the published accrual information is highly appreciated by the external Canada Pension Plan Investment Board.
7. The OECD recommends that governments publish "a report on long-term sustainability of the public finances, regularly enough to make an effective contribution to public and political discussion on this subject, with the presentation and consideration of its policy messages - both near-term and longer-term - in the budgetary context."
8. It is considered good practice to examine a time horizon sufficient to assess the budgetary implications of demographic change, spanning 30 years or longer.
9. In 2011, the Ministry of Finance in the Netherlands, with the support of the Dutch fiscal council (the Central Planning Bureau) and the central bank, published a risk analysis of the Dutch public finances, but this exercise has not been repeated yet. The Department of the Taoiseach in Ireland is required to publish an annual national risk assessment (NRA) for debate in the Irish Parliament, and has published two to date. The NRA is not focused on fiscal risks, as it aims more generally on "identify strategic risks that may arise due to potential changes in the economic, financial, geo-political and social environments" - considering possible effects on national wellbeing rather than just the implications for fiscal sustainability."
10. In addition to examples provided in case studies, the US Federal Government's Citizens' Financial Statements is worth mentioning, which summarises the U.S. Government's current financial position and condition, and discusses key financial topics, including the financial sustainability of the federal government's policies. The Government Accounting Office (GAO) also publishes a brochure called "Understanding the Primary Components of the Annual Financial Report of the United States Government", whose goal is to make available to "every American" a comprehensive overview of the federal government's finances.
11. For example, social assets may comprise hospitals, schools, social housing, as well as student loans, while economic assets may comprise infrastructure and loans provided to businesses.
12. 94% of OECD countries have adopted at least one fiscal rule (OECD, 2014).
13. Targets and rules on deficit or profit levels are also called "fiscal balance rules" or "public sector net borrowing rules".
14. In such a case, the measure of deficit is cash payments minus cash receipts and the measure of debt is the government's overdraft.

15. With regards to limited use of net worth as fiscal target, one explanation may be that countries consider it to be difficult to monitor and analyse due to its volatility. Net worth can significantly vary from one year to another due to changes in assets and liabilities reported at market value that are not linked to government fiscal policy and management (Robinson, 2009).
16. Fiscal rules for euro area countries are set in the European Union's *Stability and Growth Pact* and *Treaty on Stability, Coordination and Governance in the Economic and Monetary Union* (so called *Fiscal Compact*). Fiscal rules are set and reported against the European System of Accounts (ESA) and are as follows: general government fiscal deficit rule; debt rule; medium-term structural balance objective; and medium-term expenditure benchmark limiting annual growth in general government expenditure to potential GDP growth.
17. There are "historical" reasons explaining this situation. Before accrual reforms, government fiscal reporting practices were generally viewed as weak and fiscal statistics considered a more reliable source of fiscal data. Fiscal statistics were indeed compiled by agencies independent from government within a few months after year-end, prepared under international principles or rules (GFSM or ESA frameworks) and had a broad institutional coverage (generally, general government).
18. In a majority of OECD countries, financial statements are prepared according to national standards and published between 3 to 8 months after year end. They also often have an institutional coverage limited to budgetary central government or central government. (Moretti, 2016)
19. This is considered a problem in particular where fiscal targets are set, monitored and compared at regional level (e.g. Euro area).
20. Australia established a sovereign wealth fund to fund the retirement pension of public servants and military personnel, due to growing liabilities accrued in budget documents and year end accounts. New Zealand⁷ decided to move from defined benefit schemes for employee pensions to defined contributions schemes. Finally, the UK's publication of Whole of Government Accounts which recognised, for the first time, the liabilities associated with public service pensions is seen as an important contributing factor in significant reforms to civil service pension contributions and benefits a few years later.
21. As is well known, there is always a trade-off in the way parliament engages in the budget process. At one side of the spectrum, in Westminster tradition countries, the vote of the budget is a vote of confidence towards government, and focus of parliamentary work is on year-end financial scrutiny. At the other side of the spectrum, the congressional system of the United States gives a budget writing function to committees and scrutiny is not the focus of parliamentary work. However, despite very different starting points, increasing the quality and range of parliamentary scrutiny of government results can be considered as an objective in most OECD countries.
22. Accrual accounting cannot be considered as the only factor explaining improvements to cash management practices, but is part of the reasons why some countries have paid increased attention to their working capital level. Accrual accounting cannot be considered as the only factor explaining improvements to cash management practices, but is part of the reasons why some countries have paid increased attention to their working capital level.
23. Direct costs include the salaries, wages, and benefits of employees while they are exclusively working on the delivery of the service, as well as the materials and supplies, and other associated operating costs such as utilities and rent, training and travel. Likewise, they include costs that may not be fully funded in the current period such as compensated absences, interest expense, depreciation or a use allowance, and pensions. Indirect costs include shared administrative expenses within the work unit and in one or more support functions outside the work unit (e.g., legal, finance, human resources, facilities, maintenance, technology).
24. Cost accounting is usually defined as a system of accounting that captures an entity's costs of production for certain goods or services by assessing the input costs of each step of production as well as fixed costs such as depreciation of capital equipment. Cost accounting will generally first measure and record these costs individually, then compare input results to output to allow management assessing performance.
25. There are three levels of government: Federal (National); Sub national (known as States) and Local Government (Municipal) in Australia.

26. The accounting standard setting framework allows the Australian Accounting Standards Board (AASB) to insert additional paragraphs that clarify or provide specific instruction to public sector entities. The AASB also issues standards for specific application in the public sector, which are either developed by the AASB or use International Public Sector Accounting Standards as a reference point.
27. These statements consolidate all entities controlled by the Australian government in the general government, public non-financial corporations and public financial corporations sectors.
28. In 2006 and following strong budgetary surpluses, the Australian Government decided to establish a Sovereign Wealth Fund (SWF) that would be hypothecated to fund the retirement pensions of public servants and military personnel. The decision was based on the accruing and growing liabilities for these pensions as evidenced in the accrual based budget and ex post financial statements. The government's intention was to set aside money to fund these pensions, with the expectation that further contributions from the government plus returns earned by the SWF would be sufficient to fund these pensions in the future. The policy settings for the SWF were legislated such that the financial return target for the SWF was to be Consumer Price Inflation + 4.5% per annum, over the life of the SWF. The financial returns were then quarantined in the SWF to ensure that the growth in value was preserved to enable the SWF to meet its policy objective of funding the anticipated pension obligations of federal public sector civilian and military employees in the future. The Australian Government is restricted from drawing from the SWF until at least 2020. To date, the SWF has generated returns of 7.7% per annum since the SWF was established. The returns are calculated on an accrual basis with full accrual based financial reports prepared by the SWF in accordance with Australian Accounting Standards.
29. For example, see Australian National Audit Office reports from that time on Financial Statements of Commonwealth entities; anao.gov.au.
30. The annual budget law is composed of an income statement and cash flow statement, broken down into 1) global budgets, which set the annual amount of expenses (accrual) and expenditures (cash) for each ministry's policy area; and 2) detailed budgets, which set out the annual amount of expenses (accrual), cash appropriations, and multi-year commitment levels for administrative units.
31. Accrual budgets in Canada present all new initiatives included in Budgets and Fall Economic Statements with a five year accrual profile.
32. In addition to the review of the Standing Committee on Public Accounts other parliamentary organisations make occasional reports about specific areas. They include the Parliamentary Budget Officer; the Senate Committee on National Finance; and the Standing Committee on Government Operations and Estimates.
33. Government of Canada, Budget 2017, p. 258, www.budget.gc.ca/2017/docs/plan/budget-2017-en.pdf
34. The MAF is a key tool of oversight that is used by the Treasury Board of Canada Secretariat (TBS) to help ensure that federal departments and agencies are well managed, accountable and that resources are allocated to achieve results. It also ensures that Treasury Board Policy Suite requirements and expected results are met.
35. The law shows final budget outturns for each public policy (so called mission) and programme against parliamentary authorisation, the cash basis deficit or surplus, and accrual basis profit or loss. It includes two main sets of appendices: 1) the Performance Reports (*Rapports annuels de performance*, or "RAP"), which provide detailed schedules of government expenditure outturns (on cash and commitment bases) and performance results; and 2) the State financial statements.
36. The Primary Balance is an indicator that shows to what extent the expenditure required to implement policy measures in a given timeframe is covered by tax revenues in the same timeframe.
37. Incorporated Administrative Agency means a corporation, incorporated pursuant to the laws as an agency managed under the medium-term objectives, a national research and development agency or an agency engaged in administrative execution.
38. Typically, a ministry has between 5 and 15 policy units. There are 140 policy units in total across the government.
39. This information was compiled by KIPF.

40. One example of this is the audit and scrutiny of outstanding accidents claims obligations, which has led to both better claims management and improvements to the underlying actuarial assumptions to the liability.
41. A number of other fiscal indicators are also used and are reported to Parliament, although they are not subject to approval by Parliament.
42. This Statement is one of a number of publications that the Treasury produces to provide transparency around the Crown's finances. Other reports include the Financial Statements of the Government of New Zealand, the Economic and Fiscal Updates and the Statement on the Long-term Fiscal Position.
43. Better cash management practices adopted parallel to accrual accounting led to significant savings. Through utilising supplier credits and eliminating idle balances, overall interest cost where reduced with ca NZD 35 million per annum (in 1990 value).
44. For example, a number of cost measure ratios are benchmarked to provide confidence that "back office" functions are delivered efficiently.
45. Edmonds, Peter (1996), *Effects of Public Sector Financial Management Reforms in New Zealand*.
46. Authorities note that accrual basis financial statements have been hence published since 1986.
47. Fiscal targets, like those of other members of the euro area, are set by the European Union's Stability and Growth Pact and Treaty on Stability, Coordination and Governance in the Economic and Monetary Union (so called Fiscal Compact). These fiscal objectives are as follows: general government fiscal deficit rule; debt rule; medium-term structural balance objective; and medium-term expenditure benchmark limiting annual growth in general government expenditure to potential GDP growth.
48. The Federal Budget Act was revised following several consultations between the administration and parliamentarians.
49. Those areas include liabilities, specific cost categories (e.g. ICT costs, payroll costs) and the government's overall financial position.
50. https://opendata.swiss/en/dataset?political_level=confederation&groups=finances
51. Resource Departmental Expenditure Limit, Capital Departmental Expenditure Limit, Resource Annually Managed Expenditure, Capital Annually Managed Expenditure, and so-called "Non Budget" Expenditure.
52. PSND is defined as the public sector's consolidated gross debt, less its 'liquid' assets – that is assets could readily be sold. PSNFL captures a wider range of financial assets and liabilities than recorded in public sector net debt excluding public sector banks. This new supplementary fiscal aggregate announced by government in the Autumn Statement 2016.
53. From 2017 onwards, the Office for Budget Responsibility started publishing a Fiscal risks report (FRR). This report will complement existing medium-term forecasts and long-term projections by focusing on identifiable risks to the public finances.
54. What does the government receive from taxes and other income? What does government spend on providing services and running costs? What does the government pay to finance its liabilities? What are the most significant assets owned and controlled by government? What liabilities does government have?

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Public financial management reforms and fiscal policy-a qualitative content analysis of the impact of PFM reforms on country budget income in Sub-Sahara Africa: A case for Kenya and Rwanda

By

Bernard Omollo

Public Financial Management (PFM) reform is a central fiscal policy feature. However, previous studies and reforms in developing countries have been mixed, with literature mainly taking two broad approaches: Descriptive studies seeking to explain the types of reforms undertaken, modelled along governments' establishment of new institutions; enactment of fiscal legislation; budgeting and accounting processes re-engineering; and adoption of information technology. The second approach by researchers has been along comparative assessments, limited to cross-country comparisons of PFM performance ratings. This research assumed an impact based qualitative content analysis to establish the necessary PFM reform policy factors that supports country PFM reforms that could contribute towards budget income in Kenya and Rwanda. We find that Political will and government stance on corruption: unique country context and clarity on reform areas; including the adoption of the measurable results framework are critical. Others such as Reforms visibility; Processes and institutionalisation of reforms; as well as Performance standards, rewards and sanctions were all necessary policy factors for PFM reforms to potentially contribute towards budget impact as evidenced in our case for Rwanda. In contrast, limitation of such policy factors in PFM value chain undermines the fiscal impact of reforms as found in Kenya.

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1. Introduction

Public Financial Management (PFM) reforms have attracted significant interest both in development and governance research space in the recent past. According to World Bank (2005), and for the purpose of this study, public financial management includes all phases of a government's budget cycle, including the preparation of the budget, internal control, procurement, monitoring and reporting arrangements, and external audit. Other central themes underpinning PFM reforms include governments Medium-Term Expenditure Frameworks (MTEF), performance management, fiscal decentralisation, treasury and revenue authority modernisation. Others are public enterprise reforms, Treasury Single Account (TSA), Integrated Financial Management Information Systems (IFMIS) implementation, accrual accounting through International Public Sector Accounting Standards (IPSASs), internal audit, among others (IMF, 2014^[1]). The broad objective of public financial management reforms are to achieve overall fiscal discipline, in-country resource mobilisation, allocation, and utilisation, and more importantly to uphold efficiency and accountability in the handling of public resources¹. Previous studies for Africa on this subject have placed more concentration on describing a raft of reforms undertaken by listing the gaps or successes of such reforms or running cross-country comparisons of performance ratings as opposed to their actual or potential fiscal impact.

In supporting improvement in PFM in Africa, various international bodies such as World Bank, AfDB, IMF, OECD, DFID, USAID, UN, SIDA, EC, KfW, GIZ and DANIDA² including various governments have invested significant resources in supporting reforms in Africa. As a result, different assessment frameworks have been developed to evaluate country PFM systems, some of which include:

1.1. IMF, World Bank and Donor frameworks

The IMF's Fiscal Transparency Code (FTC) and World Bank Country Policy and Institutional Assessment (CPIA) are PFM related assessment tools whose core components are included in PEFA methodology as discussed below. Some donors have developed specific financial risk management frameworks designed for conducting country PFM due diligence assessments prior to budgetary support. According to OECD, most donors use harmonised tools like the PEFA methodology, but in combination with their own tools (OECD, 2011^[2]).

1.2. PEFA Methodology

The programme was started in 2001 by European Commission, IMF, World Bank, and the governments of France, Norway, Switzerland, and the United Kingdom. Public Expenditure and Financial Accountability (PEFA) secretariat is the custodian of the PEFA framework which measures various PFM systems and budget outcomes including fiscal discipline, strategic allocation of resources, and efficient service delivery. The PEFA framework is used to assess and report on the strengths and weaknesses of public financial management using 31 performance indicators which are further disaggregated into 94 dimensions. The 31 indicators are organised across 7 pillars as follows:

1. Budget reliability;
2. Transparency of public finances;
3. Management of assets and liabilities;
4. Policy-based fiscal strategy and budgeting;

5. Predictability and control in budget execution;
6. Accounting and reporting; and
7. External scrutiny and audit.

The overarching goal of PEFA methodology is to contribute towards:

1. Country-led reform programme for which the analytical work, reform design, and implementation and monitoring reflect country priorities;
2. A co-ordinated programme of support from donors and international financial institutions; and
3. A shared pool of information on PFM.

This research was based on the PEFA framework due to its wide, standardised and fairly long-term application in Africa. As at the time of the study, at least 448 PEFA based PFM assessments and reports had been completed for various governments and sub-governments all over the world. Eighty-eight more had been commissioned with their assessment reports being in the draft form. Still, 16 assessments were in the pipeline. Overall, 255 assessments conducted were in Sub Sahara Africa which forms nearly 50% of all assessments (PEFA, 2017^[3]).

1.3. PFM Reforms in Sub-Saharan Africa, Kenya and Rwanda context

The growth of more informed citizenry in the current information age coupled with increasing pressure for political accountability and the aftershocks of the global economic crisis of 2008 has seen a rise in the need for better PFM both in developed and developing countries. Larbi points to the difference in context between developed and developing countries worth taking to account when implementing PFM reforms. They state that while developed countries' governments take the lead in the implementation of such reforms, most developing country PFM reforms was led by donors (Larbi and Batley, 2004^[4]).

Since the 1990s, with the support of international donor community, and financial institutions, developing countries undertook significant work to reform and build PFM systems. However, towards the end of the decade, evaluation work revealed that it was difficult to measure changes in PFM performance over time at country level and globally due to overlapping PFM analytical studies not co-ordinated within donors causing increased transactional costs and lack of country ownership leading to little impact.

1.3.1. Kenya

Public financial management reforms in Kenya can be traced to budget re-engineering reforms in the 1970s through 1990s to early 2002 to date. The reforms were largely triggered by negative budget outcome which had weighed down on macroeconomic growth, fiscal management, and public service delivery. The Kenya government responded through initiatives aimed at better fiscal management, Forward budgeting procedures-extending planning horizon to three years like the current MTEFs, and review of programmes to align policy to budgeting. Despite these initiatives, the reform programmes did not result in meaningful change as envisioned. Expenditure programmes and budget ceilings were based on unrealistic macroeconomic rather than realistic forecasts leading to loss of credibility of the reforms (Kiringai and West, 2002, p. 39^[5]). The reforms were followed by subsequent budget rationalisation programme and the current MTEF related reforms. Budget rationalisation programme was aimed at instilling discipline to tame fiscal

imbalances while MTEF which assumed a mixed design of top-bottom, and bottom-up approach sought not only to enforce policy discipline but to further realign policy and planning with the budget. MTEF core objectives were: Fiscal discipline, efficiency in resource allocation, and operational efficiency through provision of services at least cost (Kiringai and West, 2002, p. 54^[5]). The objects of budget rationalisation programme faltered mainly due to reform recommendations being put on paper only but not followed in practice (Folscher, 2007^[6]). Some of the fiscal reform objects realised or partially achieved include stronger legal framework, improved development of macroeconomic capacity at the Ministry of Finance, development of IFMIS, and improved debt management capacity among others. Among some of the MTEF challenges include lack of suitable indicators to measure programme design and performance as well as lack of output-oriented budgeting, and weak links between fiscal and public service reforms (Kiringai and West, 2002, p. 54^[5]).

The 2008 Kenya government Vision 2030 is anchored on eleven pillars two of which are governance and public-sector reforms. The strategy seeks to achieve: transparent, accountable, ethical and results-oriented government institutions. It highlights specific strategies as strengthening the legal framework for anti-corruption, ethics and integrity; promoting results-based management within the public service; and encouraging public access to information and data. Others include introducing civilian oversight around legal, justice and security institutions; lastly, it sought to strengthen parliament's legislative oversight capacity (Office of the Prime Minister, 2008, p. 9^[7]). Unlike previous segmented reforms mainly focused on budget reforms, the government in 2006 developed its first PFM reform strategy titled 'Revitalisation of Public Financial Management System in Kenya'. It covered the period between 2006-2011. Its primary targets were: the transformation of political priorities into the annual budget allocations; Budget credibility, quality and timeliness; the accuracy of financial reports; procurement; and IFMIS among others³. By the close of 2011, while some reforms had been achieved, a number of them were not (National Treasury, 2016^[8])⁴. In 2013, the government in a bid to further consolidate the changes brought about by legal and institutional frameworks developed and adopted a new PFM reform strategy for 2013-2018. The strategic vision is stated as: A public financial management system that is efficient, effective, and equitable for transparency, accountability and improved service delivery (National Treasury, 2016, p. 20^[8])⁵.

Certainly, it is evident that the Kenya government has invested heavily on PFM reforms over a long period. While Kenya has undergone three PEFA assessments in 2006, 2008, and 2012 with yet another evaluation in the pipeline in 2017, the results of the PEFA ratings have been mixed. There were improved scores in certain PFM areas, with significant drops in others. Still, a few areas have recorded no meaningful shift during the period, recording neither improvement nor decline in the PEFA ordinal ratings. This background of extended period of reform and investments coupled with constant average PEFA scores performance raises interest to establish the actual policy factors affecting reforms in Kenya including the potential fiscal impact of such reforms. It also enables discussions the success or failure of such policy factor and how they could be consolidated to sustain or improve PFM results in the future.

1.3.2. *Rwanda*

PFM reforms in Rwanda can be traced to post 1994 civil conflict reconstruction programmes which the government embarked on from around 1999/2000 to date. Under Rwanda Vision 2020 which was developed in the year 2000, the government priority was good governance and capable state. It says that the government would ensure good

governance, which can be understood as accountability, transparency and efficiency in deploying scarce resources (MINECOFIN, 2000, p. 15^[9]). The vision further identified human resource development and the knowledge-based economy as the second priority. Rwanda had embarked on institutional PFM reforms which included among other things the establishment of an independent Office of the Auditor General that reports to parliament which was different from the previous Francophone styled *cour des comptes*⁶ that was deemed inefficient given its direct reporting to the executive. Other PFM institutionalisation followed through the years including the establishment of the National Tender Board (NTB) through Prime Minister order No 91/03 of 2002, that was subsequently replaced by Rwanda Public Procurement Authority (RPPA) in 2007 (RPPA, 2011^[10]). In 2006, Rwanda assumed MTEF following the adoption of the Organic Budget Law. The law required the minister for finance, under article 39 (2) to prepare budget estimates with actual data for the year before the current year, estimates for the current year and projections for the two subsequent years (Rwanda Parliament, 2006^[11]). The government also developed certain unique PFM innovative approaches that brought elements of contractual performance, such as capitation funding in education and *Mutuelles*⁷ in the health sector. The government also introduced performance/result based health funding mechanism, as well as community health financing policy which enables village pooling of risks through *Mutuelle* health financing model.

The Vision 2020 implementation is currently being implemented through term-based poverty reduction and economic development strategies. According to IMF (2013), Rwanda made notable achievements in sustaining high growth, reducing poverty, and ameliorating income inequality during the first Poverty Reduction Strategy (PRS: 2002–06) and the first Economic Development and Poverty Reduction Strategy (EDPRS1; 2008–2013). Both strategies identified governance and public finance accountability as central themes in development. But weaknesses in the area of capacity were later identified and incorporated in subsequent EDPRSs. In 2008, Rwanda developed its first PFM reform strategy covering 2008–2013, this was later superseded by a new PFM sector strategic plan 2013–18. The 2008–13 strategy was modelled along four themes: Economic management and budget; financial management and reporting; public procurement; and budget execution oversight (MINECOFIN, 2011^[12]). An independent evaluation of the implementation of the strategy commissioned by the Ministry of Finance in 2012 revealed a remarkable achievement⁸.

Rwanda has been involved in various PFM reform initiatives with PEFA assessment ratings consistently improving over time. The newly expanded PEFA framework used in 2016 assessment, for instance, scores Rwanda highly in areas such as national budget preparation processes and classification, internal controls, and transfers to subnational governments among others. However, some areas such as public asset management, performance information for service delivery, and external audit, and revenue mobilisation among others still require improvement. The current donor budget support still stands at between 35%–40% of gross budget revenue (AECOM, 2017, p. 28^[13]). This makes Rwanda one of the leading donor budget support recipient countries in Africa. Against this backdrop of long period of progressive reforms, we set to establish how different PFM policy factors were contributing to PFM results in Rwanda and Kenya and find out if there were any potential fiscal impacts of PFM reforms in the two countries.

1.4. Statement of the Problem

Good PFM practices should be a precondition for effective macroeconomic management and sustainable economic development (Carlos and Mario, 2015^[14]). The aim of PFM

reforms is to entrench fiscal policy decisions, processes, and institutions that will promote financial discipline, and ensure efficient government spending and revenue generation. The World Bank has positioned the need for reforms as an integral part of development process which is crucial to ending extreme poverty in developing countries (World Bank, 2017^[15]). Many governments share this thought both in developed and developing world, accordingly, all factors held constant, such efficiency should potentially generate value for money on public finances and positively impact on government fiscal performance and growth⁹. However, most PFM reforms initiatives in developing countries are seem to suffer two challenges: Design weaknesses leading to PFM reforms which are concentrated on processes and legislation as opposed to measurable results. And secondly, weak capacity coupled with lack of country-led evaluation methods based on accurate statistical outcomes which seem to affect the quality of PFM reforms. There exists an argument of budget upstream, downstream conflict- That African countries tend to make better budgets than they actually execute them (Andrews, 2010, p. 12^[16])¹⁰.

One new area of academic research is the study of fiscal institutions. Although a good deal of work had been done on the properties of fiscal rules, relatively little analysis had been done on the interaction and accounting regimes. It would be interesting to consider how the adoption of different accounting systems changes the incentives faced by budget makers in the various fiscal environments and how it results in different outcomes (Boothe, 2007, p. 200^[17]).

While literature records weakness of failure to compare PFM reforms with practical results, little progress has been made in this important area. In developing countries, donor evaluations have frequently concentrated on their technical assistance rather than the impact, relevance, or sustainability of reforms (DFID, 2008, p. 11^[18]).

1.4.1. Outcome

This study sought to reduce the research gap in understanding the potential fiscal impact of PFM reforms and government policy factors influencing PFM reforms in Kenya and Rwanda and whether under such policy circumstances PFM reforms had any correlation with fiscal indicators– Undesirable government audit results and tax revenue. Through content analysis methodology we find that the following PFM policy factors positively influenced reforms in Rwanda but not in Kenya: Political will and government stance on corruption; unique country context and clarity on reform areas; adoption of measurable results framework; Reforms visibility; Processes and Institutionalisation of reforms; and Performance standards, rewards and sanctions. We also find a strong correlation between PFM performance and reduction of undesirable audit results, as well as tax revenue in Rwanda and not Kenya.

2. Objective of the study

The aim of the study was to analyse the implementation of public financial management reforms undertaken in Kenya and Rwanda and their potential to contribute towards improvement in budget income. The research was done by looking at the policy factors affecting reforms, and correlation of two important budget-related variables against PFM reforms: Undesirable audit results and tax revenue in Kenya and Rwanda.

2.1. Research questions

1. What are the key PFM policy factors influencing PFM reforms in Kenya and Rwanda and how has their application contributed to better PFM results in both countries as revealed in PFM literature?
2. What is the correlation between PFM reforms (PEFA ratings) and undesirable audit results (unsupported government expenditure), and tax revenue (Tax/GDP)?

Long-term presence of PFM programmes in a country was associated with measurable PFM results in a country (Wescott, 2008, p. 44^[19]). Audit results and tax revenue are both measurable reform outcomes which would ordinarily be expected to be influenced by PFM.

We expect that since different governments assume unique own fiscal and fiduciary policies, and operate in different environments, such policies would have a bearing in every government programme and potentially impact their success or failure. We set to review various public financial management related policies including their application as revealed in PEFA reports for Rwanda and Kenya alongside country and donor reports that possibly could explain the same.

The understanding which underpins our argument on the behavioural relationship between PFM reforms and undesirable audit results in relation to budget is that once the national assembly approves the budget for a given fiscal year, the funds would be expected to finance particular national programmes. Lack of proof of how such budgeted funds were used signifies non-accountability and potential leakage against budget income. As a country implements PFM reforms whose primary aim is accountability, it would be expected that incidences of poor accountability measured by undesirable audit outcome should reduce over time hence creating a positive impact on budget income.

As a government implements PFM reforms, it would also be expected that there would be efficiencies in service delivery through modernisation, automation and increased capacity leading to higher productivity which would positively impact on revenue collection as well as efficiencies in the utilisation of collected taxes measured by Tax/GDP. The relationship between Tax/ GDP ratio and PFM reforms is on the expectation that PFM reforms could improve revenue recording and accounting including reforms to the national tax authorities to enhance the collection of taxes.

2.2. Significance of the study

This study is significant because it aims to fill the information gap on financial and policy incentives as potential influencers on PFM reforms and will be beneficial to various stakeholders as follows:

2.2.1. Governments' PFM and fiscal policy making

The study contributes to policy making in governments in the area of PFM reforms. Reforms in the developing countries have traditionally been driven more by the donors' community. With a better understanding of the impact that PFM reform could have on revenue mobilisation and utilisation, governments would be able to use reforms as a vehicle for revenue generation. The evidence established would also challenge Kenya and Rwanda and developing country governments at large to focus on appropriate policy choices to boost the outcome of reforms. This has the potential to enhance innovation and introduction of SMART¹¹ reform activities.

2.2.2. International donor organisations and governments

Various donors have invested significant resources in financial management improvement in developing countries. The outcome of this study will help them in designing future reform programmes, and evaluation frameworks by ensuring that appropriate mix of policy and measurable result indicators are considered in the programming of individual PFM projects.

2.2.3. Contribution towards future studies

Previous research appears to have given more prominence either to the types of reform activities initiated in various countries and comparative PEFA ratings. Little inquiries focused on how such improvements were adding to, or had the potential to increase national budget income and what policies influenced them. Such approach should be a primary goal of any PFM reform initiative. This research opens a new opportunity for more targeted comparisons and similar studies in the future across various countries.

2.2.4. Value for money in change management and evaluation consulting

Management consultants who conduct PFM evaluations, as well as those who provide technical assistance, will be able to add value to recipient governments as the study will help inform the choice of reform programme designs along measurable result.

2.2.5. Statistical bodies

Relevant and accurate statistics are integral to PFM reforms. Without accurate and timely statistics and use of it, performance budgeting cannot function (World Bank, 2014, p. 3_[20]). The study will help inform statistical bodies to focus on core measurable results indicators such as audit outcomes among others, as used in this research to aid more correlative analysis.

3. Review of literature

Except for official PFM literature and donor governments' evaluation reports, the literature on the impact and policy factors affecting PFM reforms at cross-country level is limited. According to the World Bank, sound PFM supports aggregate control, prioritisation, accountability and efficiency in the management of public resources and delivery of services, which are critical to the achievement of public policy objectives, including achievement of the Sustainable Development Goals (SDG)¹² (World Bank, 2005_[21]). The importance of PFM thus reinforces its relevance to country budget performance. The Bank identifies sound public financial management systems and policies as fundamental to the appropriate use and effectiveness of donor assistance since aid is increasingly being provided through modalities that rely on well-functioning government systems for budget development, execution and control. Since 1970 through the 1980s, the two-driving forces of public sector reforms in the developed countries was the need to cut spending and reduce fiscal deficits, and to facilitate performance through improved efficiency, effectiveness, and quality of service (Wescott, 2008_[19]). The dual themes of controlling expenditure and reducing deficits while improving fiscal performance through efficiency remain a core narrative across various PFM literature to date. According to the OECD, the link between public sector performance and the overall performance of the economy is widely recognised by governments of member countries¹³ (OECD, 1995_[22]). However, this important PFM aspect does not seem to have been rigorously explored in various studies

in Sub-Saharan Africa, where 50% of PEFA assessments have been conducted. In OECD countries, reforms have pursued two broad approaches to budget saving- top-down approach where finance ministries decide on what costs to cut and block, and a second method based on budget ceiling setting by the ministries of finance to control spending. The focus in both cases being budget transparency and saving. Still, there is ongoing debate on the benefits and costs reforms. OECD reforms have focused on achieving budget savings through more robust central control, multiyear, shifting from compliance to performance auditing, computerised information systems, budgets linkage to clear fiscal policy and realistic revenue estimate, as well as shifting from cost to accrual accounting (Wescott, 2008, p. 3_[19]). Wescott (2008) details the unique approaches applied by the OECD in regard to reforms around auditing procedures whereby governments have undertaken high quality compliance auditing as well as expanding audit scopes aimed at identification of misuse and wastage of public assets and resources. Other core reform areas explored by OECD countries revolve around fiscal (decentralisation) and utilisation of robust ICT systems in public finance management as well as administrative reforms led by bureaucrats seeking to control spending and rent-seeking by separating policy making from execution. While both OECD and Wescott's literature do not directly assess the fiscal impact of PFM reforms and policy effectiveness, or what leads to different cross-country outcomes like is the case in our study, there is a major convergence with our study on budget saving as the major fiscal policy that should drive reforms which our study also sought to explore.

This study builds upon the qualitative PFM study for Liberia. The study lists various challenges ranging from: weak capacity; poor education systems, including prolonged use of donor systems; and lack of integrity among civil servants' as deterrents against adoption of home-grown PFM reforms (Kwame, 2014, p. 112_[23]). While Kwame (2014) attributes economic stagnation and slow growth including the poor budget performance as a result of weak country PFM systems, unlike our study which is based on PEFA rating, Kwame did not apply a standard PFM rating model to establish PFM performance against which resultant impact could be assessed. However, Kwame's attempt to establish impact association with PFM reforms is a positive step in linking reforms with fiscal results, an approach we have adopted in our study. Still, on indicator relationships like Kwame, Lambsdorf (1999) found a strong correlation between GDP per capita and a country's ranking in corruption indexes even though no causality between GDP and corruption was found. Just like Kwame, Lambsdorf's study did not directly apply PFM performance rating as a variable, neither was it based on content analysis of PFM literature to evaluate policy factors affecting such reforms as is the case in our research.

In his evaluation of PFM reforms in Ghana, Burkina Faso, and Malawi, Lawson, (2012) compared donor support and PFM reform focusing on the comparative analysis of donor versus government support and PEFA performance rating differentials. Lawson makes a significant step towards the application of PEFA ratings to PFM related research similar to our study. However, unlike Lawson's study which sought to establish PEFA performance as a resultant outcome of cross country donor support, we apply PEFA rating to determine potential budget impact and reasons for different cross-country results based on OSM¹⁴ policy assessment framework. Other researchers that sought to establish PFM performance relationships like Lawson include Mkoy (2004) who found no evidence of improvement in service delivery as a result of new public management reforms in Georgia. Ngowi (2005) attempts to attribute Tanzania's economic development to the budgets reforms but this is not sustained by any qualitative or quantitative empirical evidence.

An emerging theme in most PFM reforms literature appears to be the role of capacity gaps in developing countries. The study by World Bank (2015) brings a different dimension to

the subject of capacity building and technical assistance. It holds that capacity and change management in PFM reforms should be understood beyond the traditional capacity building or training programmes, that focus should instead be placed on readiness for change and commitment of leaders, identification of relevant stakeholders, and potential risks and resistance to change. The bank advocates for flexible approaches, including finding innovative solutions to emerging issues during the implementation of reform programmes. Our study confirms World Bank's stance on the capacity building but goes further to analyse through content analysis what the Bank states as risks, commitment, and resistance to change factors thus enabling us to make further inferences on various contextual and policy factors influencing reforms. Still, on developing countries and contextual factors, the literature suggests different context between developed and developing countries worth taking to account when implementing PFM reforms. While developed countries governments take the lead in the implementation of such reforms, most developing country PFM reforms have been led by donors (Larbi and Batley, 2004, pp. 5-6,29-30_[4]). Like Larbi & Batley (2004), other researchers explain that African countries are in different circumstances, i.e. transition economies, weak democracies, post-conflict and post-authoritarian regimes are all unique thus calling for tailored reforms approach built around individual country circumstances (Wescott, 2008_[19]). Some studies have further expanded such contextual differences to include aid dependency, income levels, population sizes, the period of reform, domestic minerals, colonial heritage, and civil society influencers of country PFM performances among others as (Paolo de Renzio, 2009_[24]), (Andrews, 2010_[16]). Our study shares the broad concept of contextual factors as identified in the mentioned literature. However, we look into country contextual factors as one among other fundamental policy factors that impact PFM reforms based on Open policy analysis model. Our research was also restricted to Kenya and Rwanda which was not the case in the previous studies.

In conclusion, we sought to establish the influence of key PFM policy factors and a correlation between PFM reforms and budget income in Kenya and Rwanda. Previous literature such as World Bank (2005), OECD (1995), and Westcott (2008) agree with our research objective through their emphasis on fiscal and economic outcomes as strong underpinnings which should be expected to result from PFM reforms. However, limited literature has explored cross-country association of such relationships. A few studies such as Kwame (2014) in Liberia, Lawson (2012) in Ghana, Burkina Faso, and Malawi; Mkoy (2004) in Georgia, and Ngowi (2005) in Tanzania all attempted to associate PFM reforms with certain country indicators. But unlike in our case, the studies either did not apply standard PFM rating model such as PEFA or where such model was used as in the case for Lawson (2012), it was applied as the resultant outcome against non-budget outcome such as donor support which does not address our research objective which is based on fiscal impact. On policy factors influencing PFM performance, studies by World Bank (2015), Larbi & Batley (2004), and Paolo de Renzio (2009) find technical capacity and contextual factors as general factors affecting the reforms. Our policy analysis finds the same factors in addition to other PFM themes based on our application of OSM. We go further to establish their level of impact which was not the case in previous studies.

4. Research Methodology

This section highlights methods and procedures that were used to conduct the research. It includes the research design, techniques employed and data collection (instruments and procedures), data analysis and presentations methods including data validity and ethical issues.

4.1. Research Design

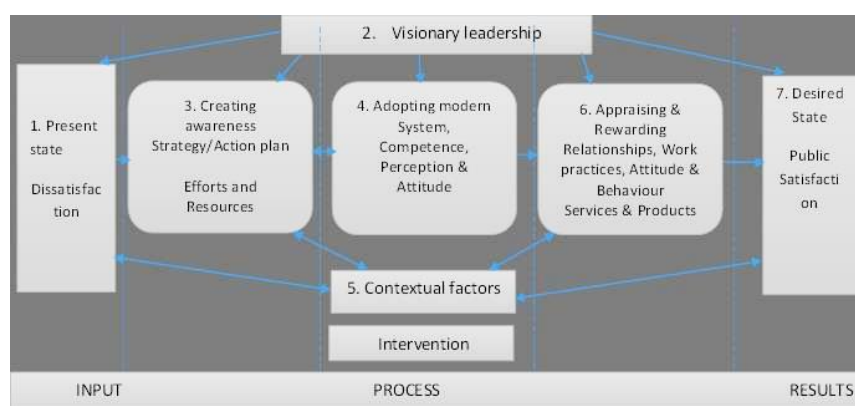
We conducted a framework qualitative content analysis of secondary data. Content analysis was selected because of its ability to enable objective analysis of secondary information (Harris, 2001^[25]). Another choice of content analysis is due to data accessibility issues (Yehei and Cody, 2015^[26]). To selectively choose the PFM themes and areas to focus our analysis, we used Open System Model of Reform which is a case-based framework for evaluating the effectiveness of public sector reforms (Analouui, 2008^[27]). Our secondary data was from PEFA assessment reports for Kenya and Rwanda between 2006 through 2016, government audit reports published by the Auditor Generals of Kenya and Rwanda during the same period, as well as tax revenue statistics published by IMF and The World Bank¹⁵. Other sources of our secondary data included national PFM reform policy and donor evaluation reports as well general literature review on the subject in both countries.

4.2. Instruments, methods and data analysis

4.2.1. Qualitative content analysis based on Open Systems Model

We applied the Open System Model framework (OSM) used in evaluating public sector reforms to identify and code key reform themes in the PFM literature in Rwanda and Kenya respectively:

Figure 1. Open system model



Based on the model, we coded and re-worded themes 1-7 in the framework to fit PFM language for analysis as per the following PFM policy factors/themes¹⁶:

1. Clarity on PFM reform target areas at commencement of reforms;
2. Political will and commitment to reforms including anti-corruption stance;
3. Public visibility of government PFM reform stance;
4. Processes, Institutionalisation of reforms & Change management;
5. Unique country context influencing reforms;
6. Performance standards, reward & sanctions inculcated in the reform agenda; and
7. Measurable results and achievements.

While themes 1-6 were text concentrated, we adopted both quantitative and qualitative analysis methods under theme seven –Measurable results. Under qualitative component,

we compared the actual practice and adoption of measurable PFM results framework documented in various PFM literatures. We then analysed and marked the text describing each of the seven themes in various PFM reports as per the example in Annex Figure 1.B.3 and Annex Figure 1.B.4. Both supportive and negating information was summarised and filled in a table and subjected to the five-point Likert scale of 0-4¹⁷ to measure the concentration of each theme in the secondary data to enable us draw comparative information. The information was then summarised in tables form as per Annex Figure 1.B.2 and the final output presented in graphical format as per Table 2 in the results section. Quantitatively under theme seven-measurable results, we applied different measurement methods such as correlation, and ratios of two key PFM variables Tax/GDP ratio and Undesirable audit results both against PEFA ratings as per PEFA assessment reports. This enabled us to determine the extent to which the two countries were performing. The quantitative information for theme seven was arranged as follows:

4.2.2. PEFA ratings

Country PEFA assessment reports were obtained from www.pefa.org¹⁸ for both Kenya and Rwanda. PEFA assessments have been done for the following periods for both countries:

Table 1. PEFA rating for Kenya and Rwanda by year

Kenya	2006	2008	2012
Rwanda	2007	2010	2016

The annual PEFA ratings for each country was first populated into the table format, then by use of Microsoft Excel 2016 V-LOOKUP tool, the PEFA four-point ordinal scale D-A was converted into numerical interval scale of 0-4. This conversion methodology resonates with PEFA secretariat guidance on the application of PEFA ratings on empirical research (PEFA, 2009^[28]). The conversion helped us to establish average quantified cross-country PFM performance. Being a systematic assessment, the average was deemed not only to apply to that year of assessment but generally as the cumulative state of affairs on PFM issues as at that time of the assessment (PEFA, 2016, p. 8^[29]). The resultant total average rating for each of the year is used as the measure of the level of PFM reform in each country to compare the two countries performances, including in calculating correlation against undesirable audit results and tax revenue to enabled us objectively address the seventh theme-measurable results under the OSM based content analysis study.

4.2.3. Undesirable audit results (unsupported expenditure)

The data on unsupported expenditure was derived from published annual audit reports from the Office of the Auditor General of Kenya and Rwanda respectively. Being constitutional offices, and with reporting mandates to respective National assembly, the information was deemed accurate and arranged as follows: Individual reports for all the years between 2006-13 for Kenya, and 2007-16 for Rwanda was studied and tabulated in Microsoft Excel 2016. To ensure comparability in measurement, Ratio index of unsupported cost/Total Government expenditure audited was used. This was to ensure that absolute figures which could undermine data validity were eliminated.

4.2.4. Tax Revenue

Tax/GDP Ratio for Both Kenya and Rwanda was derived from the World Bank published data (World Bank, 2017^[30]).

4.3. Data validity

OSM is a standard policy framework used to evaluate public sector related reforms, the seven themes address different policy areas as found in various PFM literature. Undesirable audit outcome/non-supported government expenditure measures government expenses which were budgeted for and paid yet lack documentary evidence that supports its occurrence or payment thereby signifying impropriety of budgeted funds. This variable was selected because it does not only point to lack of accountability but it also signifies lack of capacity and inefficiency in fiscal management. It also signifies weak systems in the public sector which is impacted directly or indirectly by the seven pillars of PEFA performance areas¹⁹. The variable is also the most publicly visible indicator that citizens use in developing countries to determine if public resources are being put into proper use by accounting officers in the public service. A reduction of unsupported government expenditure would improve government fiscal position and free up resources to finance government strategic economic objectives which would spur spending and growth in the economy. Tax/GDP ratio is considered the standard of measurement of tax revenue. A functional PFM would be expected to impact on revenue mobilisation processes through a more efficient tax body, robust revenue collection, recording and accounting, and even more importantly to tame revenue leakage through anti-fraud revenue collection measures. For this reason, result based PFM reform programmes tend to apply the variable as a resultant target.

Our review of the secondary literature was based on the seven policy themes as indicated in the previous section.

5. Data Analysis and results

In the following sections, we present our findings of the overall results of the content analysis based on the Open System Model providing comparative results of Kenya and Rwanda against all the seven thematic areas that influenced reforms in the two countries. The overall analysis presented in Figure 2 below for all the seven themes is followed by details of the content analysis of theme seven-Measurable results and achievements²⁰.

5.1. Results of the content analysis

5.1.1. Comparative content analysis of PFM factors in Kenya and Rwanda: Themes 1-7

Figure 2. Results of content analysis based on Open System Model

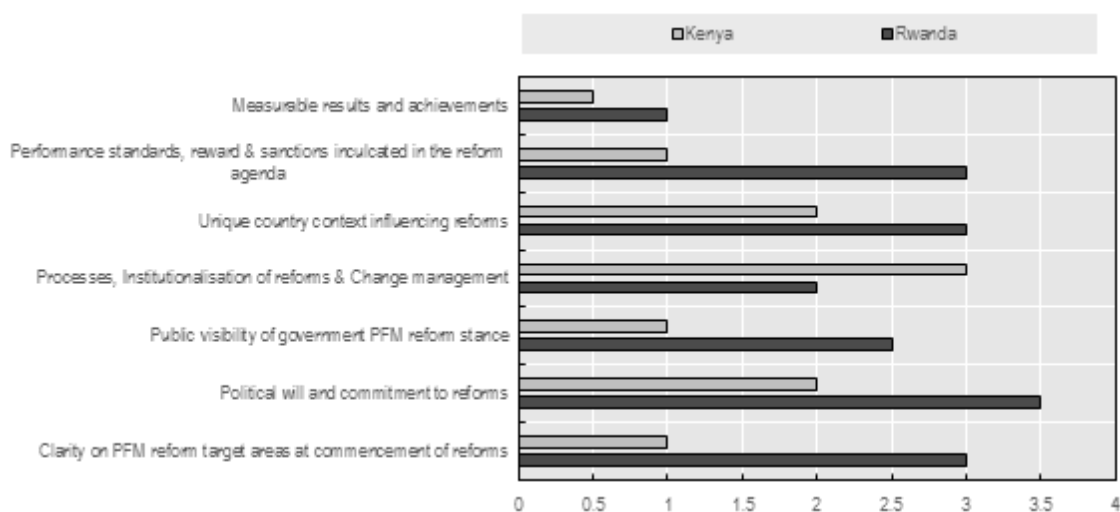


Table 2. Results of theme 7- Measurable results and achievements

		YEAR 1	YEAR 2	YEAR 3	Correlation with PEFA Ratings
Kenya	PEFA Rating	2.26	2.27	2.24	
Rwanda		2.32	2.90	3.05	
Kenya	Undesirable Audit Outcome	0.0058	0.0012	0.0057	0.12%
Rwanda		0.0271	0.0123	0.0075	-99%
Kenya	Tax/GDP	15.14	15.96	15.88	1%
Rwanda		12.55	13.15	14.01	84%

Note: Year 1-3 are determined by the period of PEFA assessment and corresponding government audit periods- Kenya 2006,2008 & 2012. Rwanda 2007, 2010 & 2015/16.

Source: Compiled by the researcher from published PEFA, Audit, and Tax/GDP related reports

Figure 3. Kenya-Bar Chart: Comparative change in undesirable audit outcome and PEFA ratings

Kenya: audit outcome vs PEFA rating

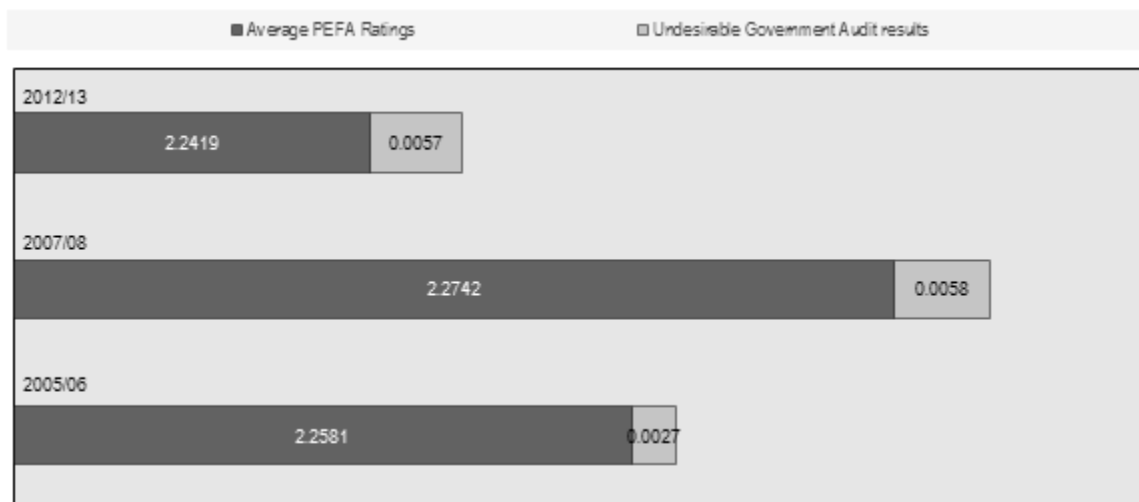


Figure 4. Rwanda-Bar Chart: Comparative change in undesirable audit outcome and PEFA ratings

Rwanda: audit outcome vs PEFA rating



Figure 5. Kenya-Bar Chart: Comparative change in Tax/GDP against change in PEFA rating

Kenya: Tax/GDP vs PEFA rating

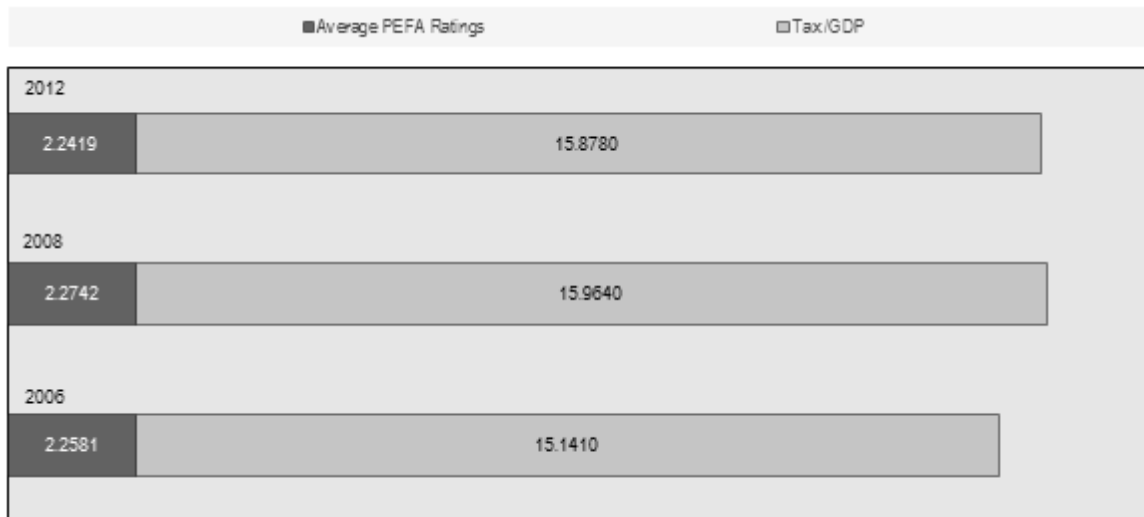
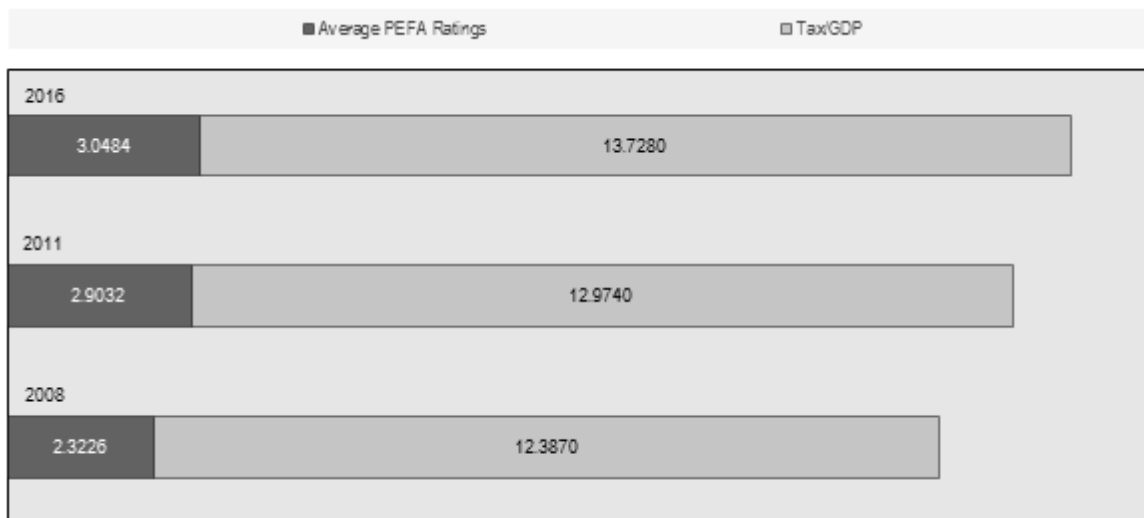


Figure 6. Rwanda-Bar Chart: Comparative change in Tax/GDP against change in PEFA rating

Rwanda: Tax/GDP vs PEFA rating



6. Discussion

The objective of the study was to analyse the implementation of public financial management reforms in Kenya and Rwanda and their potential to contribute towards budget income. This was done by analysing the contents of PFM literature to reveal how all the seven PFM policy factors identified under the OSM fared in the two countries comparatively. It also included policy factor number seven- measurable results, which we analysed through comparison of PEFA ratings as well as other measurable PFM indicator variables: Undesirable audit results, and tax revenue. As presented in Figure 2, the study reveals better PFM performance in Rwanda than Kenya in six of the seven successful PFM reform policy factors as follows.: Political will and commitment to reforms: 3.5:2, Clarity on PFM reform target areas: 3:1, Public visibility of government PFM reforms: 2.5:1; Unique country context influencing reforms: 3:2; Performance standards, rewards and sanctions inculcated in reform agenda: 3:1, and Measurable results: 1:0.5. Kenya on the other hand fairs better than Rwanda in the area of Processes, institutionalisation of reforms and change management at: 3:2.

On theme seven- measurable results, Rwanda recorded better PFM performance ratings across the three- PEFA assessments in comparison to Kenya whose performance was not only lower but also in declining status. We also found a strong correlation between PEFA ratings and Tax/GDP and undesirable audit results in Rwanda, but no such relationship between the indicators was noted for Kenya. Below we present the detailed discussion of the outcome of all the seven PFM policy factors.

6.1. Measurable results and achievements including results-based PFM programme design

Unlike the rest of the policy factors whose content analysis was based on the frequency of text concentration in the secondary literature, this theme was analysed based on actual measurement of results and existence of result based PFM policy frameworks²¹. As shown in Figure 2 – results of content analysis of secondary data, Kenya and Rwanda performance under this theme is established as 0.5:1²². For both countries, the modest ratings were as a result of limited data points given only three PEFA assessments had been conducted for each country thereby limiting our observations. However, Rwanda PEFA ratings over the three years-2.32, 2.90, 3.05 remain better than Kenya: 2.26, 2.24, 2.27 as indicated in Table 5.1. Further comparative analysis of PEFA ratings against PFM variables, including results-based PFM programming justifying our content analysis rating is explained below:

6.1.1. PFM Reforms and audit findings

The steady improvement of PEFA ratings and strong inverse correlation for Rwanda suggests that Rwanda PFM reforms have a potential direct impact on government budget income. As the PFM reforms ratings have improved between 2008 and 2016, the level of undesirable audit outcome reduced. As shown in Figure 4, the bar chart presents a visual outlook of a declining size of undesirable audit results with the increase in PFM performance; this is further represented by inverse correlations of 99% between PFM reforms and undesirable audit outcome as shown in Table 2. Beside the low PEFA ratings over the three years, Kenya PFM reforms demonstrate no direct correlation with undesirable audit findings over the period. As presented in the bar chart Figure 3, as average PFM rating slightly improved from 2.258 to 2.274, in 2006 and 2008 respectively, undesirable audit results increased instead, moving from 0.0027 to 0.0058 respectively. The pattern is then reversed in 2012 where PFM rating slightly declined to 2.2419 while

undesirable audit outcome increased to 0.0057 leading to near negligible correlation of 0.12% as shown in Table 2. Though this finding would have been unexpected given the long period of PFM reforms in Kenya, it does largely agree with other PFM literature and studies which point to the fact that PFM reforms vary within each country, with successes of such reforms influenced by many factors.

Rwanda better content analysis rating is further reinforced by our review of World Bank's status of implementation report of the Rwanda Public Sector Governance Programme for Results (PforR) which introduced measurable results indicators in PFM reforms programming. One of the indicators achieved is: Total of 53 organisations against a baseline of 32 and target of 47 received unqualified (clean) audit opinions in Rwanda (World Bank, 2016, p. 7_[31]). While this study did not seek to prove causality, the results of the content analysis show a stronger ability of Rwanda's PFM reform to influence fiscal accountability which would lead to a reduction of undesirable audit results/wastage of funds. Such a reduction would have a positive budget impact as resource leakage are minimised to avail more funds towards national budget implementation.

6.1.2. *PFM reforms and tax revenue*

As visualised under the bar chart in Figure 6 and Table 2, the study for Rwanda reveals a strong positive correlation of 84% between PEFA ratings and tax revenue depicting a potential improvement in tax revenue with improvement in PEFA rating. In the case of Kenya, we found no correlation between similar variables. The bar chart presented in Figure 5 indicates an inconsistent direction in change of tax revenue with the change in PEFA ratings for Kenya. This is further reflected in Table 2 showing a correlation of 0.09%. Kenya has for the last ten years been involved in various PFM reforms including those directly targeted at strengthening the Kenya Revenue Authority such as automation of revenue collection, amendments to the income tax laws, as well as the enactment of new companies act among others. It appears that any improvement in tax revenue may not be attributed to PFM reforms. The positive results for Rwanda, on the other hand, is reinforced by our review of PforR which indicated 16.3²³ Tax/GDP performance against the baseline of 14.2 and target of 17.4 (World Bank, 2016, p. 5_[31]). Literature ranging from PEFA assessment reports and donor evaluation reports, however, indicate that Rwanda is one of the leading aid-dependent countries in budget support between 35-40% (AECOM, 2017, p. 28_[13]), (DFID, 2014, p. 7_[32]). Our finding thus suggests an opportunity for Rwanda to look at PFM reform as possible revenue strengthening tool based on the positive results noted.

6.1.3. *Results based PFM policy frameworks*

The second supporting evidence of higher content analysis rating of theme seven-measurable results for Rwanda against Kenya is the enforcement of measurable and performance oriented policies in PFM reforms. One of the key weaknesses in PFM reform programming generally and especially in developing countries as witnessed is the failure to associate tangible result outcomes with PFM reforms. Despite the level of investment in the reform in both developed and developing countries, monitoring and assessment of PFM reform progress have been hampered by the lack of performance-based indicators (DFID, 2008, p. 11_[18]). A look at the evaluation of Kenya's first PFM reform strategy 2006-2012 reveals activities and tasks instead of results as achievements. It states the strategy as²⁴. Two issues arise from this model of PFM programme designing and strategy- First, the programme was designed largely along activities and not on measurable outputs basis. Secondly, it would be difficult to attribute any achievement of PFM reforms directly to the

2006-2012 PFM strategy since there were other factors at play such as the enactment of a new constitution in 2010 as a result of political developments in the country after the disputed elections of 2007. The political situation culminated into the establishment of various independent PFM institutions and enactment of related laws as discussed under process and institutionalisation of reforms. The evaluation report of Rwanda PFM 2008-2013 strategy revealed almost similar scenario where planned outputs had no correlation to the Strategic outcomes and were not modelled around measurable variables (ECORYS, 2012, p. 20_[33])²⁵. The Rwanda new programme for results, however, includes measurable outcomes such as audit results and tax revenue (World Bank, 2014_[20]). Rwanda also developed a performance by results policy in 2015 which currently directs the public service delivery by ensuring that all activities and public service are results oriented. This approach is expected to continue shaping Rwanda's PFM reform initiatives as specific results are targeted to achieve key PFM objectives.

What gets measured gets done (Peters, 1986_[34]). If PFM reforms are to have an impact, countries should develop well thought and measurable results against which performance can be compared. This should be matched with robust statistical data reforms that support analysis and programme evaluation. One common factor in the past PFM reforms strategies in Kenya and previously in Rwanda prior to PforR, as well as in many developing countries is that reforms have been process oriented and activities oriented but not results based. As a result, PFM programming and evaluations have given more attention to the establishment of institutions, enactment of legislation, capacity enhancements through training, and re-engineering of PFM processes. While such reforms and processes are building blocks of the PFM fruit tree, the ability of the fruit-tree to yield fruits remains the yardstick to defend its usefulness and impact. If PFM reforms are to create value in developing countries, performance ratings and evaluations should be underpinned with measurable fiscal impact realised as a result of reforms undertaken. The recently launched Rwanda Public Sector Governance Programme for Results is a multi-sectoral programme that implements PFM Sector Strategic Plan 2013-2018, National Strategy for Development of Statistics (NSDS 2) 2014-2019, and Rwanda Governance and Decentralization Sector Strategic Plan 2013-2018. The PFM component focuses on economic planning and budgeting; Resource mobilisation; budget execution, internal control and accounting and reporting; external audit; IFMIS, Fiscal decentralisation; and co-ordination of PFM sector activities (World Bank, 2014_[20]). Riding on the government's performance by results policy framework, the programme attempt to align financing and disbursement of towards PFM reform with quantifiable performance milestones and results (World Bank, 2016_[35]).

6.2. Political will and stance on corruption

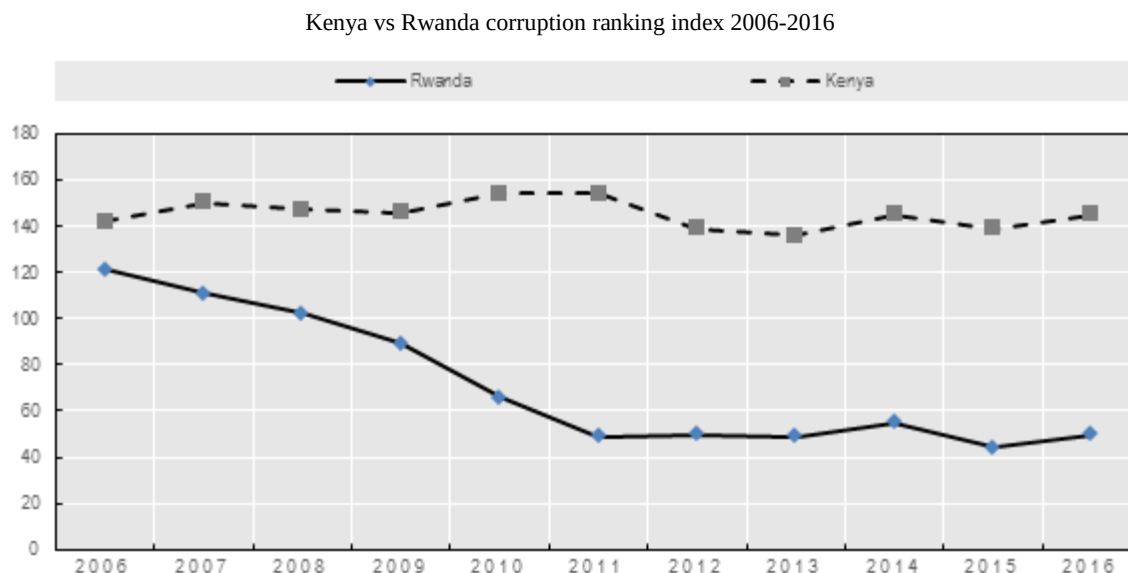
There exists convergence in PFM literature that the success of public financial management reforms in any country is dependent on the political support from a country's leadership, including the government's stance against corruption. We find 1.5 as much text concentration on supportive political will in Rwanda PFM literature than Kenya as evidenced in the content analysis output in Annex Figure 1.B.2. Rwanda is further supported by better corruption perception ratings over the years, which altogether places overall Rwanda: Kenya ratings at 3.5:2 as per Table 2 in our content analysis.

A major success story of the implementation of PFM reforms in Rwanda is said to be the commitment and government ownership at the highest political level (AECOM, 2017_[13]). The PEFA assessment reports over the years highlighted political support and strong stance on corruption as a major boost to the reforms in Rwanda. Further, the reports attribute development partners' support to PFM reforms partly due to the low levels of corruption

and the willingness of the government to tackle corruption head-on (AECOM, 2017, p. 101_[13]). Our review of literature in the Kenya case casts an opposite picture with weak political will cited as a source of an impediment to reform (Ecorys & ACE, 2012, p. 10_[36]). Besides the lack of political will, the 2009 PEFA assessment highlights irregularities generally and in the areas of in procurement matters as some of the factors that have eroded the progress towards the reforms (LINPICO, 2009, p. 60_[37])

Below we also present comparative quantitative trend analysis data on Corruption Perception Indices between Kenya and Rwanda during the same period covered in our PFM reforms study. The results show significantly lower corruption levels in Rwanda in comparison to Kenya.

Figure 7. Corruption perception index for Kenya and Rwanda between 2006-2016



Source: Compiled by researcher based on secondary data analysis (Transparency International, 2006-16).

A study by Lawson (2009) which looked into Kenya against Nigeria points to accountability improvements noted in Nigeria and not in Kenya due to political support that the former enjoyed. Lawson, however, cautions that while political will is key and should not be ignored, lack of it should not be taken as an insurmountable obstacle. He holds that while political leadership may at times support PFM and anticorruption reforms due to internal and external pressure with the hope that they will remain in control of the same, such new systems may, however, outgrow political manipulation and stand autonomously with limited room for future political destabilisations. In spite of the emerging literature on limited political freedom in Rwanda as noted by Shahubudin (2011), the results from this study indicating better PFM reform impact in Rwanda over Kenya seem to mirror President Kagame's strong stance against corruption which has yielded good results going by the latest Transparency International Corruption Perception Index placing Rwanda ahead of Kenya at 50/176, 146/176 respectively (Transparency International, 2016_[38]).

As demonstrated by literature, we suggest that for PFM reforms to yield results, the political will and control of corruption should be prioritised.

6.3. Processes institutionalisation of PFM reforms and change management

The results of our study reveal that Kenya enacted several PFM legislations than Rwanda during the period under study. As noted in the most recent PEFA assessment, over 10 PFM legal frameworks were in operation (Ecorys & ACE, 2012_[36]). These were later followed by the enactment of a new public financial management law of 2012, as amended in 2014 and 2015. The constitution and the new PFM law resulted in the creation of 47 new fiscal decentralised units (County governments), the establishment of the office of Controller of Budgets, Commission of Revenue Allocation, and a more independent office of the Auditor General. Rwanda's post-conflict constitution of 2003, on the other hand, gave parliament's chamber of deputies' oversight roles over public finances, the Organic Law on State Finances No12/2013, and the law of public procurement of 2007 as amended collectively appear to have been the central legal frameworks which directed PFM in Rwanda over the period. PFM reforms were then included in the Poverty Reduction Strategy (PRS: 2002–06) and the first Economic Development and Poverty Reduction Strategy (EDPRS) 1; 2008–2013). Apart from these, Rwanda adopted innovative reform initiatives such as *Mutuelle* and *Imihigo* which have been embraced as change instruments with strong government support and public service commitment. Taken together, Kenya appears to have at least 1.5 times as more legislative frameworks and institutions supporting PFM reforms than Rwanda hence our content analysis of literature ranks Kenya: Rwanda at 3:2 as shown in Annex Figure 1.B.2 and Figure 2.

The outcome of our study, however, challenges the benefits of Kenya's long period of institutional and legal reforms. The biggest pitfall has been institutionalisation seen as an end in itself with little substantive results to show towards fiscal reforms. The results from this study mirror those by Lawson (2009) who looked at the performance of the Kenya Anti-Corruption Commission (KACC) against Nigeria's Economic and Financial Crimes Commission (EFCC). While both bodies were established under generally similar principles, mandate, and operating environments, EFCC made substantial achievements in enforcing its mandate against financial and economic crimes within few years after establishment while KACC was the reverse²⁶

This study contends that if PFM reforms have to succeed; developing countries should invest more on actual implementation above institutionalisation. While institutions and legal frameworks are important, these should not be seen as an end in themselves. Instead, they should be followed with strong political will to actual implementation and commitment to ensure value addition, training, and evaluation to meet intended objectives.

6.4. Performance standards, reward and sanctions /Capacity, inculcated in reform agenda

Capacity and performance standards, in this case, represent both technical know-how and change management approaches including rewards and sanctions adopted in the public service to tacitly support reforms. It also includes the effectiveness of oversight institutions such as Parliamentary Accounts Committees among others to technically provide the required oversight over the executive. Rwanda intensified investment in capacity building in the public service in the area of public finance and accountancy through the last decade as it sought to rebuild the public service after its collapse post-1994 genocide. However, capacity was still regarded as low Andrews (2010). In 2015, it formulated a robust result based performance management policy for public service (RBM)/*Imihigo*²⁷. The policy sought to ensure that the entire public service: institutions, programmes, and individuals are performance oriented, with service requirement to deliver as per agreed upon results

outcome rather than traditional output basis (MINECOFIN, 2015^[39]). It establishes reward and sanctions to encourage compliance and results in the public service.

Previous PEFA assessment reports had cited capacity gaps across all PFM disciplines including weaknesses in the areas of economic planning and budgeting, budget execution, accounting and reporting; inadequate audit and legislative oversight (AECOM, 2017^[13]). The first poverty reduction strategy, for instance, did not fully achieve its objects, due to limited institutional capacity aspects, lack of result-focused objectives, weak systems for monitoring and evaluation, co-ordination failures between sectors, and weak linkages between budget lines and policy objective (Bigsten and Issaksson, 2008^[40]). Other challenges around technical capacity in Rwanda arise from its young accounting profession –the Institute of Certified Public Accountants of Rwanda which was only established in August 2008.

Kenya, on the other hand, has had a fairly mature accounting and governance profession for a long period of time. However, our content analysis reveals a mixed bag of capacity issues for Kenya with parliament accounts committee and the Office of The Auditor General reported as having improvement but weaknesses noted in other areas such implementation of the constitutional PFM reforms (Ecorys & ACE, 2012, p. 125^[36]). The PEFA assessment report for 2012 further stated that Kenya’s good technical capacity had not translated into better PFM for the country. This was also supported by a study which found that lack of technical capacity in PFM reforms coupled with greater potential of creative accounting was the most prevalent hindrance in the implementation of PFM reforms in Kenya (Mwangi, 2011, p. 36^[41]). Mwangi further states that Kenya’s reforms suffered from weak change management processes where public service seemed to prefer easy old ways as opposed to new methods. For instance, Mwangi reports that 80% of accountants in public service preferred cash method over IPSASs accrual-based accounting (Mwangi, 2011, p. 44^[41]). Khemani, et al. (2005) notes difficulties in sustaining reforms in PFM systems generally as exacerbated by weaknesses in administrative capacity and technical skills. They further note that this, in turn, partly reflects an inability of host country institutions to attract and retain high-quality staff with remuneration packages sufficient to ensure competitive terms for competent local staff. Still, along with capacity, international development institutions have been blamed of ‘forced replication’ where western PFM recommendations have traditionally been used as templates in implementing reforms in developing countries in disregard to local settings and capacity challenges, leaving little room for innovation. Putting together the foregoing arguments our content analysis shows thrice as much positive content (3:1) supporting performance standards/capacity for Rwanda than Kenya with the latter appearing to demonstrate strong technical standards but with equal challenges eroding the achievement.

This study portends that African governments should complement capacity building with change management opportunities. Targeted PFM reform capacity building initiatives and performance framework that seek to improve current situations should be matched with appropriate reward and sanction tools at the public service level to sustain PFM reforms.

6.5. Strategic focus/PFM visibility

One of the noted differences between Kenya and Rwanda PFM reform is what we have called strategic focus or PFM visibility where we rank Kenya and Rwanda based on our secondary data review at 1:3 respectively. This theme represents the level of PFM reform saturation in various policy instruments. A look at the PFM and governance literature in the Kenya and Rwanda reveal some marked difference on how the two countries had given

PFM the required visibility. The Rwanda vision 2020 which was developed in 2000 mentions good governance, accountability and transparency among its thematic approaches. This is further mentioned in details in the succeeding strategic policy documents such as EDPRSs including the newly adopted Result Based Performance Management (RBM) Policy of 2015. Kenya, on the other hand, had done well in the establishment of key PFM infrastructure largely after the promulgation of a new constitution in 2010. However, other than an active media which had enhanced public awareness in Kenya, PFM reforms visibility had not left a strong foot-print in the government policy instruments. Andrews (2010) cites Rwanda as traditionally has been more open to dialogue with the civil society in the area of PFM (Andrews, 2010, p. 33_[16]). The result of such strong visibility is that in Rwanda, the public service is being positioned to embrace PFM not simply as a government programme but a national agenda which calls for individual responsibility.

Strong PFM visibility not only raise the expectation on the public servants as to their responsibility in supporting and implementing reforms, but it enables two other important aspects of any reform environment. First, it allows the involvement of the public in the strategic direction of the government regarding reforms thereby giving them an opportunity to support and evaluate such initiatives. Secondly, it enables policy convergence in the public service making reform programmes more effective, enabling the government to consolidate reforms and create intended impact.

6.6. Unique country context and clarity on PFM target areas

Rwanda literature points to an ambitious post-conflict PFM reconstruction process that sought to improve not only the collapsed pre-1994 genocide systems but to introduce new modern systems. One of the strategies adopted towards this was the abolishment of previous francophone systems, and the introduction of Anglophone oriented PFM systems (Johnson et al., 2008_[42]). It appears that majority of PFM related literature and policy documents draw their commencement and evaluation basis from the reconstruction period soon after the genocide giving Rwanda a more definite start date for evaluation purposes and unanimity that the country's performance has been impressive since then (World Bank, 2010_[43]). Kenya raft of PFM legislation and institutionalisation can also be traced to political formation around the elections of 2002 and 2007 culminating in the passage of a new constitution in 2010 from which a number of PFM centred legislative reforms were enacted. Studies associate PFM stability and growth to post-conflict countries that enjoys peace to what is called '*starting from scratch dividend*' (Andrews, 2010, p. 3_[16]). Andrew's observation seems in tune with evidence from our content analysis where we find supporting PFM literature saturation at 3:2 on unique country context, and 3:1 on the clarity of PFM reforms respectively as shown in Figure 2.

7. Conclusions

As demonstrated in this study, Rwanda has done better than Kenya in its PFM reform agenda. We argue that PFM reforms have the potential to positively impact a country's fiscal policy given the strong correlation it can have on country budget income indicators such as audit results and tax revenue as demonstrated in the case of Rwanda in our content analysis. This paper sought to emphasise and bring to bear the potential impact of PFM reforms on country budget income. One of the core benefits of PEFA assessments has been its comparability aspect (PEFA, 2009, p. 3_[28]). As governments seek to compare own performance against neighbouring countries, Paolo de Renzio, (2009) suggests the

grouping of countries according to general characteristics such as region, population, administrative heritage, democracy, political systems, among others. Kenya and Rwanda being members of the same economic block with near similar cultural and socio-economic characteristics, the difference in the results of the study reveal some interesting PFM reform lessons. While both countries have been involved in reforms for a while, Rwanda appears to record better results than Kenya whose results are inconsistent with substantial reforms undertaken to date. We conclude that for PFM reforms to have fiscal impact all the seven PFM reform policy factors: Political will and government stance on corruption; unique country context and clarity on reform areas; adoption of measurable results framework; Reforms visibility; Processes and Institutionalisation of reforms; and Performance standards, rewards and sanctions should all be taken into consideration in the designing and implementation of such reforms as revealed in the case for Rwanda.

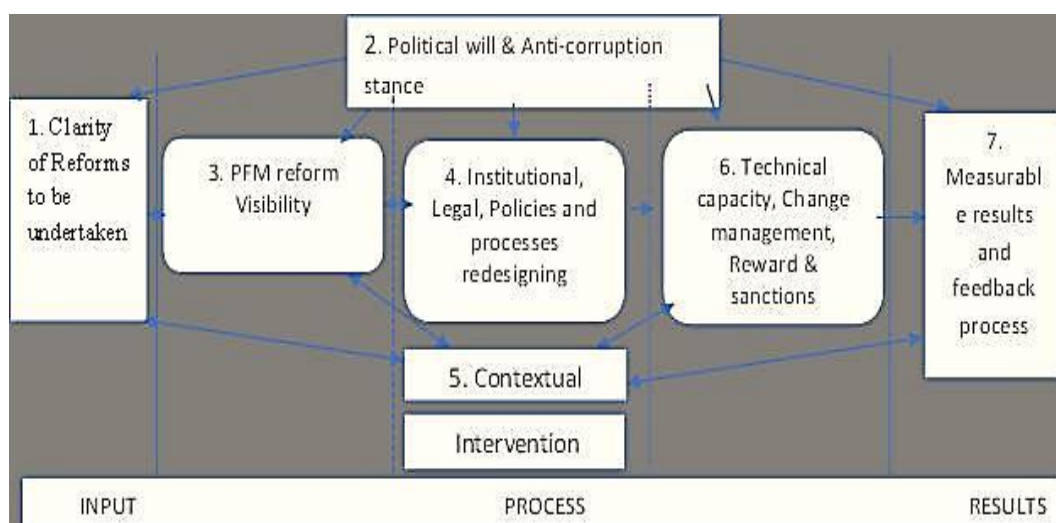
8. Limitation of the study

The major limitation of the study was as a result of few PEFA assessments having been conducted in both Kenya and Rwanda. In the period between 2006 to 2016, only three assessments had been done for each country thereby limiting our observation within a period of ten years to three key observations per country in our assessment of theme number seven-measurable results. Other limitations included organisation of data from the Offices of the Auditor General where information was not consistently presented in specific format coupled with the large volume of PFM literature leading to additional time resource in data organisation and analysis.

9. Recommendations

This study recommends follow-up studies as more PEFA assessments are conducted in the future. We also suggest that more countries and additional measurable variables should be included in the future to further determine PFM reform impact in more countries. Kenya's average PFM rating being generally weak compared to Rwanda's. It may be interesting to look at similar studies under countries with same average ratings to establish whether or not the potential for fiscal impact only reflects above certain rating thresholds.

Lastly, having amended the OSM by introducing more PFM oriented themes which enabled us to better review the PFM content, we recommend a redesigned Open System Model to help in evaluation and designing of PFM reform programme as per Figure 8 below:

Figure 8. New Open System Model for PFM program design/evaluation

Source: Analoui, 2008

Notes

¹ PFM has broadened its focus from the narrowly defined budget to all aspects of managing public resources, including resource mobilisation and debt management, with a progressive extension to the medium- to long-term implications and risks to public finances from today's policy decisions. The coverage of PFM has thus expanded from the narrowly defined central government budget to all levels of public administration and the broader public sector, including state enterprises and public-private partnerships (Marco, Teresa and Michel, 2013^[71]).

² Have been involved. Others are IMF, OECD, The Department for International Development-UK, United States International Development Agency, United Nations, Swedish Development Co-Operation, European Commission, German Development Bank, German Development Cooperation, and Danish International Development Agency

³ According National Treasury (2016) Reducing tax evasion, poor collection and accounting of non-tax revenue, institutional reforms, debt management, revamping of the external audit, strengthening PFM legal framework and addressing the low capacity of PFM staff and integration with other PFM systems.

⁴ The reforms were also overtaken by a raft of new legal and institutional environment following the new political formation in the coalition government which spearheaded the adoption of a new constitution in 2010 and subsequent enactment of the public financial management Act of 2012, as amended in 2014 and 2015. The constitution and the PFM law resulted in the creation of 47 new fiscal decentralised units (county governments), establishment of office of Controller of Budgets, Commission of Revenue Allocation, and a more independent office of the Auditor General.

⁵ The following principles underpin the new strategy: Openness and accountability on PFM matters, Equity in revenue mobilisation and allocation, an equitable share of the debt burden, prudence in

public funds utilisation, and responsible, clear fiscal reporting. In 2006, the Kenya government established a PFM reform secretariat which is based at the ministry of finance to coordinate all PFM reform-related activities in the country. The secretariat is headed by a coordinator who reports to the cabinet secretary to the treasury with four staffing units: programme management; monitoring, evaluation and financing; finance, budgeting and resource management; and strategic communications and legal reforms. As outlined by (PFM Secretariat, 2017^[76]), the governance structure of the programme includes a PFM sector working group; steering committee, and a supporting technical committee which is composed of the implementing government agencies and development partners and is chaired by the co-ordinator to the secretariat.

⁶. French court of auditors

⁷. French word for mutual/used in Rwanda to mean community joint health financing/insurance

⁸. Showing 80% rating on programme effectiveness (ECORYS, 2012). The evaluation revealed areas of improvement such as mismatch on certain PFM activities with strategic objectives. A DFID evaluation of the same programme also lists various challenges such as weak links between auditing and national budget implementation as well government of Rwanda's over-reliance on donor budget financing support among other challenges (DFID, 2014).

⁹. A well-functioning PFM system, as defined by key indicators, would improve the use of aid as well as overall budget performance through savings leading to efficiency dividends, and thus contribute to macroeconomic stability and growth (Tej, Prakash; Ezequiel, Cabezon, 2008^[46])

¹⁰. This thought is shared by other studies which found that despite the level of investment in PFM reform in both developed and developing countries, monitoring had been comparatively weak and that until recently, assessment of PFM reform progress was hampered by the lack of performance-based indicators (DFID, 2008^[18])

¹¹. Specific, Measurable, Achievable, Realistic, and Timely

¹². Millennium Development Goals as at 2005

¹³. Australia, Austria, Belgium, Canada, Czech, Republic, Denmark, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Japan, Korea, Luxembourg, Mexico, Netherlands, New Zealand, Norway, Poland, Portugal, Slovak Republic, Spain, Sweden, Switzerland, Turkey, United Kingdom, and United States of America

¹⁴. Open System Model

¹⁵. (World Bank, 2017^[63])

¹⁶ PFM Policy factor and theme used interchangeably. Under the Open System Model, visionary leadership is theme 2. However, the word found to be used extensively in PEFA reports and PFM literature to represent leadership is Political Will of the top country leadership including their stance on corruption and reforms. We thus replace visionary leadership with political will to fit PFM language and go ahead to analyse its existence in the PEFA reports and other PFM literature. The same principle is applied across all the seven themes. Also, see Annexes A.2, A.3 and A.4.

¹⁷. Based on the reports, highest concentration, or count of text/information supporting/affirming a particular theme is rated 4 while lack of, or negating tax frequency against a particular theme is rated as 0. The scale enabled us objectively analyse PFM reforms based on the Open System Model based content analysis.

¹⁸. (PEFA, 2017^[62])

¹⁹. Budget reliability; transparency; management of assets and liabilities; policy based fiscal strategy; predictability and control in budget execution; accounting and reporting; and external scrutiny and audit.

²⁰. We isolate 7th theme-Measurable results for separate analysis because of its numerical property to enable us to compare actual measurable PFM performance between Kenya and Rwanda based on

PEFA assessments regarding our research interest and then apply theme 1-6 for further performance differentials analysis.

21. Based on the reports, highest concentration, or count of text/information supporting/affirming a particular theme in the reports reviewed is rated 4 while lack of, or negating text concentration against a particular theme is rated 0 to enable us objectively analyse PFM reforms used on the Open System Model based content analysis. For theme seven, the rating is based on actual PEFA rating and associated variables-undesirable audit results & Tax/GDP; as well proof of the existence of policy step towards performance measurement in PFM reforms.

22. We rate Rwanda better than Kenya because of its better PEFA ratings which are correlated with the budget variables. Rwanda also has in place a results-based PFM project-Pfor as well as the existence of National results based policy framework as outlined under paragraph 6.1.3. Kenya's low ordinal rating is due to near constant PEFA rating at C with

23. The figure different from 13.72 applied in our correlation from the official WB data statistics. Also, it closely relates to 2015/16 Rwanda fiscal period as opposed to 16.3 which was as at 25 November 2016 hence applicable to 2016/17 fiscal period.

24. (i) the establishment of a sound PFM legal and regulatory framework by the enactment of the Public Financial Management Act (2012); (ii) National level roll-out of the Integrated Financial Management System (IFMIS) & adoption of a new Chart of Accounts; (iii) roll out of Programme Based Budgeting; (iv) Use of Country Systems (UCS); (vi) Strengthening of the Office of the Auditor General (OAG); and (vii) development of the successor PFMR Strategy (2013-2018)

25. The report states that items such as "Project team established" belong in an action/road-map and do not represent measures of achievement. However, Rwanda has since made some improvements through its new programme for results which seek to operationalise its 2013-18 PFM strategic plan

26. The challenge of claiming reforms with little achievements as seen in Kenya appear to be a major problem across many countries in Africa. Governments in Africa have often attempted to associate with public reforms at the superficial presentational level without the substantive commitment to the same (Bandy, 2015, p. 74).

27. Local Kinyarwanda word for performance/results, or to vow to deliver

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Annex 1.B. Figures

Annex Figure 1.B.1. Compiled table of PEFA assessment ratings for Kenya and Rwanda

		KENYA						RWANDA						
		SCORES												
OLD	OLD PEFA PERFORMANCE INDICATORS FROM 2006	2006	2008	2012	2007	2010	2016	NEW PEFA PERFORMANCE INDICATORS FROM 2016						
	A. Credibility of the Budget													
PI-1	Aggregate expenditure out-turn compared to original approved budget	C	2 B	3 B	3 B	3 A	4 C	2	PI-1					
PI-2	Composition of expenditure out-turn compared to original approved budget	A	4 B	3 C+	2.5 D	1 D	1 C+	2.5	PI-2					
PI-3	Aggregate revenue out-turn compared to original approved budget	C	2 A	4 B	3 A	4 A	4 B+	3.5	PI-3					
PI-4	Stock and monitoring of expenditure payment arrears	B	3 B	3 C+	2.5 D+	1.5 B	3 A	4	PI-4					
	B. Comprehensiveness and Transparency													
PI-5	Classification of the budget	C	2 C	2 C	2 A	4 A	4 B	3	PI-5					
PI-6	Comprehensiveness of information included in budget documentation	B	3 C	2 C	2 D	1 A	4 A	4	PI-6					
PI-7	Extent of unreported government operations	C	2 D	1 D	1 D+	1.5 D+	1.5 A	4	PI-7					
PI-8	Transparency of Inter-Governmental Fiscal Relations	B	3 B	3 B	3 B	3 A	4 D	1	PI-8					
PI-9	Oversight of aggregate fiscal risk from other public sector entities	C+	2.5 C	2 C	2 D+	1.5 C	2 B	3	PI-9					
PI-10	Public Access to key fiscal information	B	3 B	3 B	3 C	2 A	4 C+	2.5	PI-10					
	C(i) Policy-Based Budgeting													
PI-11	Orderliness and participation in the annual budget process	B	3 C+	2.5 B	3 B+	3.5 B+	3.5 B+	3.5	PI-11					
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	C	2 C	2 C+	2.5 C+	2.5 C+	2.5 D+	1.5	PI-12					
	C(ii) Predictability and Control in Budget Execution													
PI-13	Transparency of taxpayer obligations and liabilities	B	3 B+	3.5 B+	3.5 A	4 A	4 A	4	PI-13					
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	C+	2.5 B	3 B	3 B+	3.5 A	4 B+	3.5	PI-14					
PI-15	Effectiveness in collection of tax payments	D+	1.5 D+	1.5 D+	1.5 D+	1.5 D+	1.5 A	4	PI-15					
PI-16	Predictability in the availability of funds for commitment of expenditures	B+	3.5 B+	3.5 B	3 B+	3.5 B+	3.5 B	3	PI-16					
PI-17	Recording and management of cash balances, debt and guarantees	B	3 B	3 B	3 B	3 B	3 A	4	PI-17					
PI-18	Effectiveness of payroll controls	D+	1.5 C+	2.5 B+	3.5 D+	1.5 B+	3.5 B+	3.5	PI-18					
PI-19	Competition, value for money and controls in procurement	B	3 B	3 C+	2.5 B	3 A	4 C+	2.5	PI-19					
PI-20	Effectiveness of internal controls for non-salary expenditure	C	2 C	2 C	2 D+	1.5 B+	3.5 B+	3.5	PI-20					
PI-21	Effectiveness of internal audit	C	2 C+	2.5 C+	2.5 C+	2.5 C	2 B+	3.5	PI-21					
	C(iii) Accounting, Recording and Reconciliation													
PI-22	Timeliness and regularity of accounts reconciliation	C	2 C	2 D	1 B+	3.5 B+	3.5 C+	2.5	PI-22					
PI-23	Availability of information on resources received by service delivery units	B	3 D	1 D	1 D	1 D	1 B+	3.5	PI-23					
PI-24	Quality and timeliness of in-year budget statements	C+	2.5 C+	2.5 C+	2.5 D+	1.5 D+	1.5 B+	3.5	PI-24					
PI-25	Quality and timeliness of annual financial statements	D+	1.5 D+	1.5 D+	1.5 C+	2.5 D+	1.5 A	4	PI-25					
	C(iv) External Scrutiny and Audit													
PI-26	Scope, nature and follow-up of external audit	D+	1.5 D+	1.5 D+	1.5 D+	1.5 B+	3.5 C+	2.5	PI-26					
PI-27	Legislative scrutiny of the annual budget law	D+	1.5 C+	2.5 C+	2.5 C+	2.5 C+	2.5 B+	3.5	PI-27					
PI-28	Legislative scrutiny of external audit reports	D+	1.5 D+	1.5 C+	2.5 D+	1.5 B+	3.5 D+	1.5	PI-28					
	D. Donor Practices													
D-1	Predictability of Direct Budget Support	D	1 D	1 D	1 B+	3.5 A	4 C+	2.5	PI-29					
D-2	Financial information provided by donors for budgeting and reporting on project and program aid	D	1 D	1 D	1 D	1 D+	1.5 D+	1.5	PI-30					
D-3	Proportion of aid that is managed by use of national procedures	D	1 D	1 D	1 D	1 D	1 B+	3.5	PI-31					
	AVERAGE SCORE		2.26	2.27	2.24	2.32	2.90	3.05	AVERAGE SCORE					

Annex Figure 1.B.2. Qualitative Content Analysis based on seven themed Open System Model of public sector reforms

Code	Open System Model themes for public sector reform	KENYA					Total	Total	RWANDA					Open system model as aligned to PFM theme for our analysis
C1	Present state	✓	✓	✓	✓		4.0	6.0	✓	✓	✓	✓	✓	The Clarity on PFM reform target areas at commencement of reforms
C2	Visionary leadership	✓	✓	✓	✓		4.0	6.0	✓	✓	✓	✓	✓	Political will and commitment to reforms and stance on anti-corruption
C3	Creating awareness/strategic action plan	✓	✓				2.0	7.0	✓	✓	✓	✓	✓	Public visibility of government PFM reform stance
C4	Adopting modern System, Competence, Perception & Attitude	✓	✓	✓	✓	✓	6.0	4.0	✓	✓	✓	✓		Processes, Institutionalisation of reforms & Change management
C5	Contextual factors	✓	✓	✓	✓		4.0	6.0	✓	✓	✓	✓	✓	Unique country context influencing reforms
C6	Appraising & Rewarding Relationships, Work practices, Attitude & Behaviour	✓	✓				2.0	6.0	✓	✓	✓	✓	✓	Performance standards, Technical capacity including reward & sanctions inculcated in the reform agenda
C7	Desired State	✓					0.5	1.0	✓	✓				Measurable results and achievements

Annex Figure 1.B.3. Sample qualitative content analysis- Assessing Political impact based on Rwanda 2016 PEFA assessment report

these result in an 'audit trail' on the system. Although there is no identifiable (formal) IFMIS oversight body, there is strong political support as well as collaboration at lead-user level where requirements are articulated.

Dimension rating = B

PI-27	Dimension	Score	Justification
Financial data integrity		B+	Scoring Method M2
27.1	Bank account reconciliation	B	Bank reconciliations for all CG bank accounts takes place monthly, at aggregate and detailed levels, usually within 2 weeks from the end of the month.
27.2	Suspense accounts	NA	No suspense accounts are operated.
27.3	Advance accounts	A	Imprest accounts operated at budget agencies are reconciled and reported to on in the monthly budget execution report within two weeks following month-end.
27.4	Financial data integrity processes	B	Access and changes to records are restricted and recorded.

Ongoing reforms

There are efforts to strengthen the IFMIS and improve reporting in the PFM System. An IFMIS review is underway to determine the course for the next version. The current PFM Sector Strategic Plan identifies IFMIS and other mission-critical systems as foundational issues to be at the heart of the next reform efforts. Even the current version of IFMIS, has challenges in extracting *ad hoc* data. MINECOFIN and the Central Bank have embarked on an initiative to create an automatic link between the IFMIS and the Central Banking System that will ensure that data is shared between the two systems so that bank reconciliations can be carried out on a more regular basis.

PI-28 In-year budget reports

28.1 Coverage and comparability of reports

commitment controls are in place and effectively limit commitments to actual cash availability and approved budget allocations. The OBL, accounting regulations, and various manuals of procedure specify the requirements for duties to be divided between staff involved in different aspects of the payment process, and these are generally followed, although both the GCIA and the OAG do report minor instances of non-compliance with internal financial controls (PI-25).

The Internal Audit function is decentralized, but guidance and monitoring is provided by the central IA Unit at MINECOFIN (officially referred to as the 'Government Principal Internal Audit Unit'); this is now fully staffed, and there are internal audit personnel at each government entity, including Districts; in total, there are over 160 IA personnel, although independence may be impaired as staff are recruited (and can be dismissed) at the entity level.

A 'risk-based' approach – following the Institute of Internal Auditors' 'Professional Practices Framework' – is used, and the function has been greatly strengthened by the new OBL, and Entity Audit Committees approve the respective audit plans, and review the reports produced, which coupled with a strong political will has improved the implementation of audit recommendations, as noted by the OAG. The central unit consolidates and issues a quarterly Internal Audit report to the Minister of Finance highlighting key and crosscutting findings and recommendations for attention and action.

Accounting and reporting

Bank reconciliations for all Central Government accounts takes place at least monthly at aggregate and detailed levels within two weeks of the end of the period. GoR does not use suspense accounts, and travel allowances are promptly expensed and any reconciliation conducted at the MDA level.

In-year budget execution reporting (PI-28) covers general government and is on a quarterly basis. Reports are broken down by the three classifications: programmatic; economic; and functional, and include external disbursements, all at the payment (and not at the commitment) stage. The fact that the OAG reported that the majority of budget agencies required adjustment to their AFS during audit suggests that monthly budget execution reports are less than completely reliable.

Annex Figure 1.B.4. Sample qualitative content analysis- Assessing unsupported expenditure based on Kenya 2012/13 government audit report

The Officer Commanding Police Division-Kiambu

142. [REDACTED] Payments

Examination of records for 2012/2013 maintained at the Officer Commanding Police Division office - Kiambu revealed that the department made payments amounting to Kshs.759,530.00 for supply of fuel, repair of engine and payment to officers for allowances. However, the payments were not supported by detailed orders, vehicle work tickets, mechanical pre and post inspection reports and a list of officers whose allowances were to be paid and their acknowledgement of receipt of the allowances. In the circumstances, it was not possible to confirm the propriety of the expenditure amounting to Kshs. 759,530.00.

Githunguri District

The Officer Commanding Police Division - Githunguri

143. Unsupported payments

Examination of records for 2012/2013 maintained at the Officer Commanding Police Division office-Githunguri revealed that the department made payments amounting to Kshs.217,100.00 for the supply of spare parts and repair of motor vehicle GK A 540E. However, the payments were not supported by a report to show what was to be done on the vehicle and how the amount was arrived at.

Limuru District

144. Unsupported Payments

The office made payments amounting to Kshs.300,000.00 payable to a firm for supply of fuel but the amount was not supported by detailed orders and vehicle work tickets to account for the fuel purchased.

Kikuyu District

145. District Commissioner's Office

Examination of records for 2012/2013 maintained at the District Commissioner's office revealed that fueling of motor vehicles was mostly done at one service station. Further, detailed orders to support an amount of fuel drawn for payments amounting to Kshs.370,000.00 were not attached to the payment vouchers or availed for audit verification.

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