



Medium Term Budgeting Framework in a Federal Context: The Austrian Experience

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I. Context: Budget Reform in Austria (1)



- **Intensive work on budget reforms in Austria in the past 12 years.**
- **Federal Government was the frontrunner: implementation in 2 stages: 2009 and 2013.**
- **Federal State Government of Styria: implementation 2015, design very close to the Federal Government's Model.**
- **8 Federal States and 2100 Municipalities and Cities: implementation 2019 and 2020, mostly focusing on accrual budgeting and accounting.**

I. Context: Budget Reform in Austria (2)



Where did we start? Features of the „old“ system, which was legally formalized in 1986.

- Traditional line item budgeting, with more than 1.100 line items.
- Very technical presentation of the budget – very detailed accounting information.
- Federal Government MTBF only at the start of a new government (“budget program”).
- Cameralistic system, only very rudimentary balance sheet.
- No systematic performance information in budget documents.

Context: Budget Reform in Austria (3)



Federal Government

- Primary motivation: Improved budgetary decision-making
 - Intensive study of foreign examples, small team developed “pragmatic” reform approaches.
 - Addresses weaknesses of the “old” system:
 - No binding medium-term perspective
 - Prevailing focus on inputs
 - Control monopoly of classic cameralistics
 - Budget as a comprehensive strategic instrument for resources & outputs & outcomes
 - 3 Legislative Amendments of
 - the Constitution
 - the Budget Law 1st stage as of 2009
 - the Budget Law 2nd stage as of 2013
- Unanimously adopted
in Parliament
in Dec. 07 and in Dec.09
- Internal evaluation in 2014/15, external by international organizations in 2017

Context: Budget Reform in Austria (4)



Federal State Government of Styria

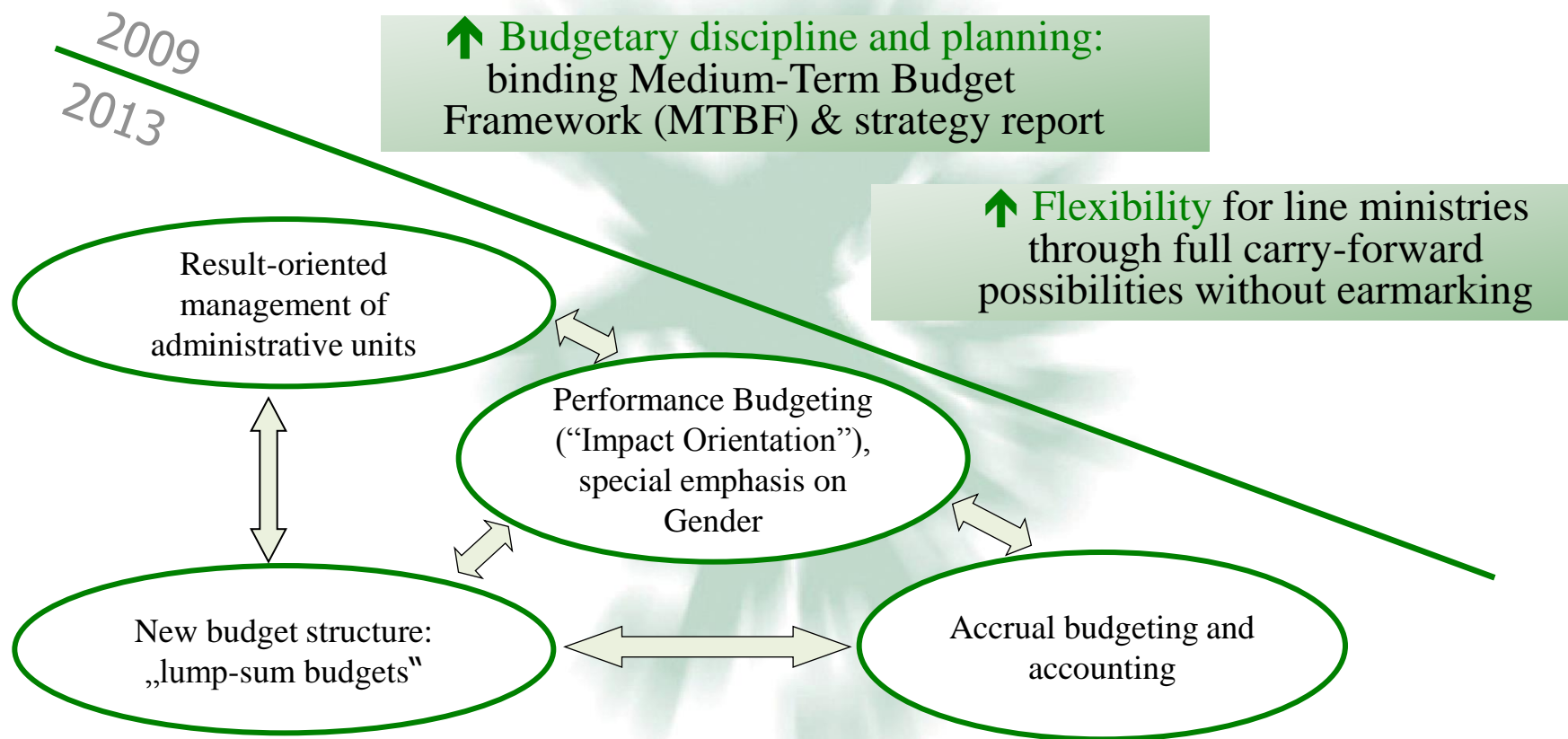
- Primary motivation very similar to the Federal Government.
- Design close to Federal Government, but adaptation to institutional structure of a Federal State.
- Budget reform was part of the government program 2010 of the so called “Reform-Coalition 2010-2015”
 - Project implementation from 2011-2015, reform team
 - 2015 budget was the first under the new regime.
 - Budget reform was embedded in a set of far reaching reforms.
- Legislative Amendments of the Constitution and Budget Law in 2013
- Internal evaluation and further development planned for 2017/18.

Fiscal Rules and Relations in the Federal Context



- **European Stability and Growth Pact at the center**
- **Austrian Internal Stability Pact 2012:** breaks down obligations to the federal-state- and municipal level: balanced budget rule (max. -0,1% of GDP for Federal States), debt-brake rule and expenditure rule.
- **Fiscal equalization scheme:** 2017-2021 („Fiscal Equalization Act 2017“): concluded in November 2016: distributes taxes and regulates transfers; reform efforts to modernize the scheme: progress has been achieved – ongoing work.
- **Accompanying legislation:** consultation mechanism, health, stationary care, etc.

Elements of the Federal Government Budget Reform



New budget principles: Impact-orientation; Efficiency; Transparency; True and fair view.

Parliamentary Budget Office founded, Federal Court of Auditors strengthened

Double challenge of cultural change and technical proficiency – intensive communication and training required

Federal Government MTBF: Overview (1)



Federal Government MTBF: „Federal Financial Framework Act 2017-2020“

Rubric	Designation	Kind of payments	year (amount in EUR million)			
			2017	2018	2019	2020
0,1	Law and Safety	fixed	9.568,243	9.150,893	9.167,350	9.440,562
		variable	75,100	75,100	75,100	75,100
		amount 0,1	9.653,343	9.235,993	9.252,450	9.525,662
2	Work, Social affairs, Health and Family	fixed	21.979,705	22.245,380	22.733,429	23.255,119
		variable	18.694,708	19.608,471	20.590,940	21.593,885
		amount 2	40.674,413	41.853,851	43.324,369	44.849,004
3	Education, Research, Art and Culture	fixed	13.650,651	13.849,082	13.953,011	14.181,942
4	Economy, Infrastructure and Environment	fixed	7.313,483	7.345,475	7.280,915	7.363,098
		variable	2.155,416	2.191,467	2.228,181	2.267,726
		amount 4	9.478,899	9.546,942	9.519,096	9.640,824
5	Cash and Interest	fixed	4.745,397	4.328,207	4.359,738	4.840,938
	total amount		78.202,703	78.814,075	80.408,664	83.038,370

Federal Government MTBF: Overview (2)



Federal Government MTBF: „Federal Financial Framework Act 2017-2020

Subdivision	Designation	Year (amount in million €)			
		2017	2018	2019	2020
1	Office Of The President	8,027	8,171	8,318	8,476
2	Federal Regulation	211,334	225,898	264,540	266,996
3	Constitutional Court	15,163	15,421	15,674	15,950
4	Supreme Administrative Court	19,775	20,203	20,653	21,135
5	Austrian Ombudsman Board (AOB)	10,458	10,634	10,812	11,006
6	Federal Court of Audit	31,655	32,419	33,145	33,908
10	Federal Chancellery	452,926	445,512	446,666	435,468
	fixed	377,826	370,412	371,566	360,368
	variable	75,100	75,100	75,100	75,100
11	Internal Affairs	3.459,015	3.095,212	2.954,361	2.943,832
⋮					
21	Social Affairs and Consumer Protection	3.121,744	3.125,986	3.195,682	3.351,398
22	Pension Insurance	11.279,800	11.850,000	12.514,000	13.258,300
	fixed	0,000	0,000	0,000	0,000
	variable	11.279,800	11.850,000	12.514,000	13.258,300
23	Pension - Officials	9.520,650	9.702,967	10.103,996	10.414,889
24	Health	1.063,148	1.094,879	1.142,070	1.175,247
	fixed	427,740	430,108	420,930	424,862
	variable	635,408	664,771	721,140	750,385
25	Family and Youth	6.875,929	7.035,088	7.059,328	7.098,183
30	Education and Women	8.346,930	8.456,171	8.538,968	8.745,446
⋮					
51	Cash Management	15,251	13,251	9,313	4,156
58	Funding, Currency Swaps	4.720,146	4.304,956	4.340,425	4.826,782

Design of the Federal Government MTBF



1. **Structure**
2. **Institutional setting**
3. **Nature of the ceilings**
4. **Variable expenditure and margins**

Structure and Scope of the MTBF



- **Five Rubrics:**
 - 0,1: Law and safety: Highest organs, interior, security, justice, etc.
 - 2: Work, social affairs, health, family („social spending“)
 - 3: Education, research, art, culture („soft ware“)
 - 4: Economy, infrastructure and environment („hard ware“)
 - 5: Cash and interest
- **33 Subdivisions:**
 - „Budget chapters“
 - Each subdivision belongs to one Ministry or Highest Organ
- **Covering four years, contains only expenditure side (payments) of the central state budget**

Institutional setting of the MTBF



Constitution:

- Defines objects of MTBF (rubrics and subdivisions) and binding nature of the „Financial Framework Law“ for the annual (or biannual) budgets („Federal Finance Act“),
- the bindingness of the ceilings and
- exceptions (imminent danger and state of defence)

Federal budget law („Federal Budget Act“):

- Defines structure of MTBF,
- that it contains only payments,
- the nature of the ceilings,
- the contents of the „Strategy Report“ and
- the time-table (30th April): MTBF in spring, annual budget in autumn.

The Nature of the Ceilings



- **Definition of ceilings:** Amounts contained in the “Federal Financial Framework Act (FFFA)” plus unspent funds from previous years.
- **Two kinds of ceilings:**
 - nominally fixed: ~75% of expenditure
 - variable according to predefined indicators: : ~25%
- **FFFA is legally binding for budget and execution on the rubric level for n+1 to n+4 and on the level of subdivisions for n+1 (& n+2)**

Variable Expenditures and Margins



- **Variable Expenditures:**
 - areas with high exposure to economic cycle, the automatic stabilisers can work accordingly and exert a countercyclical influence on the economy
 - depending on tax receipts,
 - refunded by EU, and
 - payments from legally defined liabilities in selected areas (e.g. unemployment payments and the subsidy to the pension system)
- **Margins**
 - The idea was, that with variable expenditure no large margins are needed.
 - In recent years about EUR 10 Mio. per rubric

Federal State of Styria MTBF



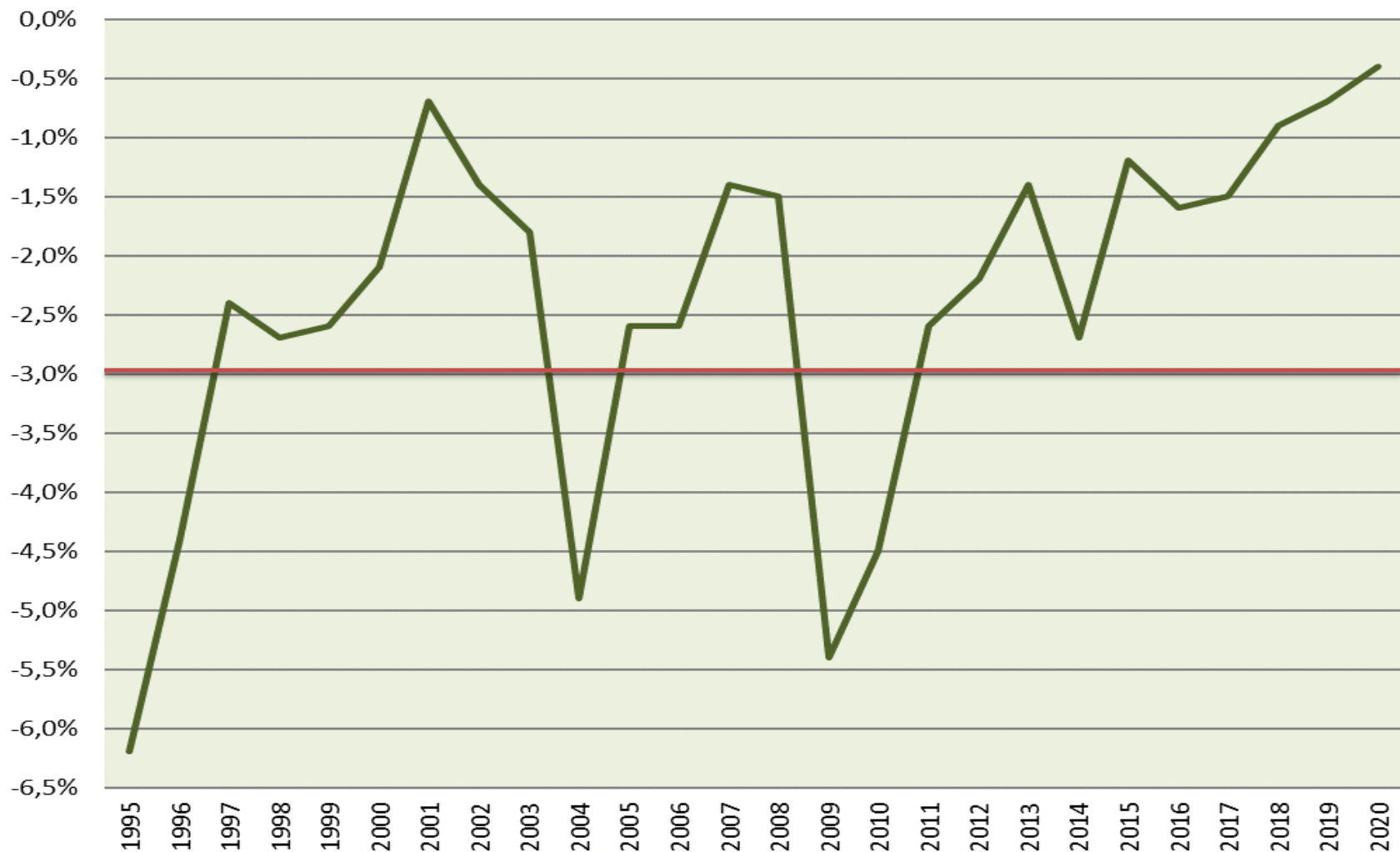
	2017	2018	2019	2020
State Governor Hermann Schützenhöfer				
Lower limit on receipts	168.636.300	169.885.900	169.885.900	169.885.900
Upper limit on payments	266.658.800	264.836.600	261.939.400	261.361.400
Deputy State Governor Michael Schickhofer				
Lower limit on receipts	2.663.029.700	2.753.279.600	2.852.379.600	2.955.479.600
Upper limit on payments	281.607.800	271.434.900	271.299.000	271.022.100
Christian Buchmann				
Lower limit on receipts	22.202.500	22.132.500	22.132.500	22.132.500
Upper limit on payments	132.369.200	125.751.100	122.885.600	120.904.500
Christopher Drexler				
Lower limit on receipts	1.158.035.900	1.128.351.400	1.128.351.400	1.128.351.400
Upper limit on payments	3.103.602.400	2.562.555.300	2.572.296.300	2.586.983.400
Doris Kampus				
Lower limit on receipts	95.037.900	65.037.900	65.037.900	65.037.900
Upper limit on payments	519.447.100	550.337.500	563.172.100	573.892.100
Ursula Lackner				
Lower limit on receipts	971.304.400	893.861.100	893.861.100	893.861.100
Upper limit on payments	1.170.269.500	1.091.177.200	1.090.117.900	1.087.959.400
Anton Lang				
Lower limit on receipts	17.605.000	12.919.600	12.919.600	12.919.600
Upper limit on payments	255.628.800	248.239.000	246.761.100	244.259.000
Johann Seitingner				
Lower limit on receipts	223.855.900	277.908.100	277.908.100	277.908.100
Upper limit on payments	502.469.900	526.089.000	524.120.500	522.404.500
State Parliament Styria ("Landtag")				
Lower limit on receipts	200	200	200	200
Upper limit on payments	597.300	563.500	563.500	798.900
State Court of Auditors				
Lower limit on receipts	0	0	0	0
Upper limit on payments	182.100	171.500	172.700	173.900
State Administrative Court				
Lower limit on receipts	151.600	151.600	132.600	132.600
Upper limit on payments	769.200	520.800	523.800	532.000
Lower limit on receipts	5.319.859.400	5.323.527.900	5.422.608.900	5.525.708.900
Upper limit on payments	6.233.602.100	5.641.676.400	5.653.851.900	5.670.291.200

Federal State of Styria MTBF



- **Only one layer, “departmental budgets” by members of government instead of rubrics and subdivisions.**
- **Receipts are also part of the MTBF.**
- **Resolution in State Parliament (“Landtag”), but not as a formal law.**
- **No variable ceilings.**

III. Experience: Maastricht Deficit General Government 1995 - 2020



Source: 1995-2015 Statistics Austria, 2016-2020 Federal Ministry of Finance

Federal Court of Auditors and Parliamentary Budget Office



Federal Court of Auditors:

- Highlights top down budgeting procedure.
- Criticizes frequent changes, especially in-year changes,
- traceability and documentation of planning process within Ministries as well as interaction between MoF and Line Ministries,
- quality of information and detail of information given in the Strategy Reports.

Parliamentary Budget Office

- The strategy report is not sufficiently related to the government program -> therefore suitable to political discussion only to a limited extent.
- MTBF timing leads to “early” budget debate in spring instead of fiscal strategy debate.
- Frequent changes of the ceilings – see critique of FCoA.
- Process could be better aligned with the European Semester.

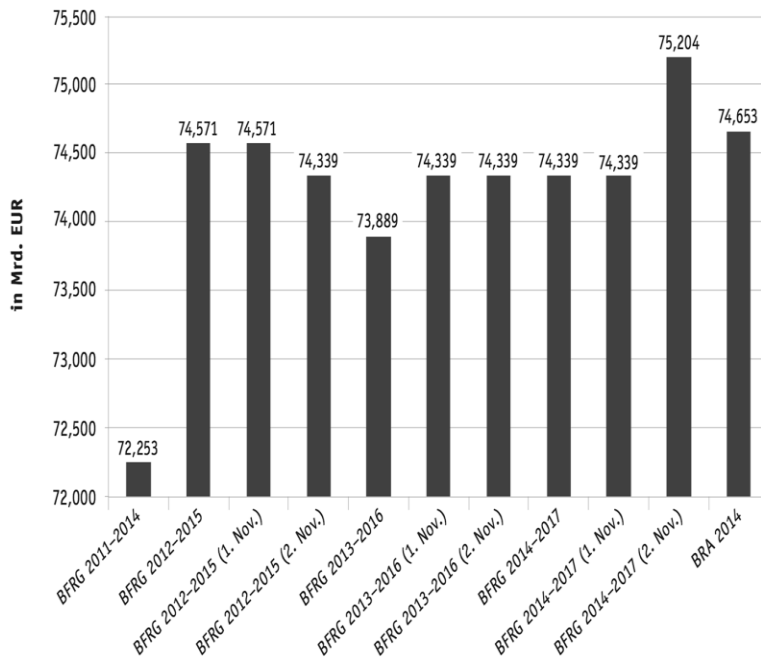
Frequent changes of MTBF: Overview



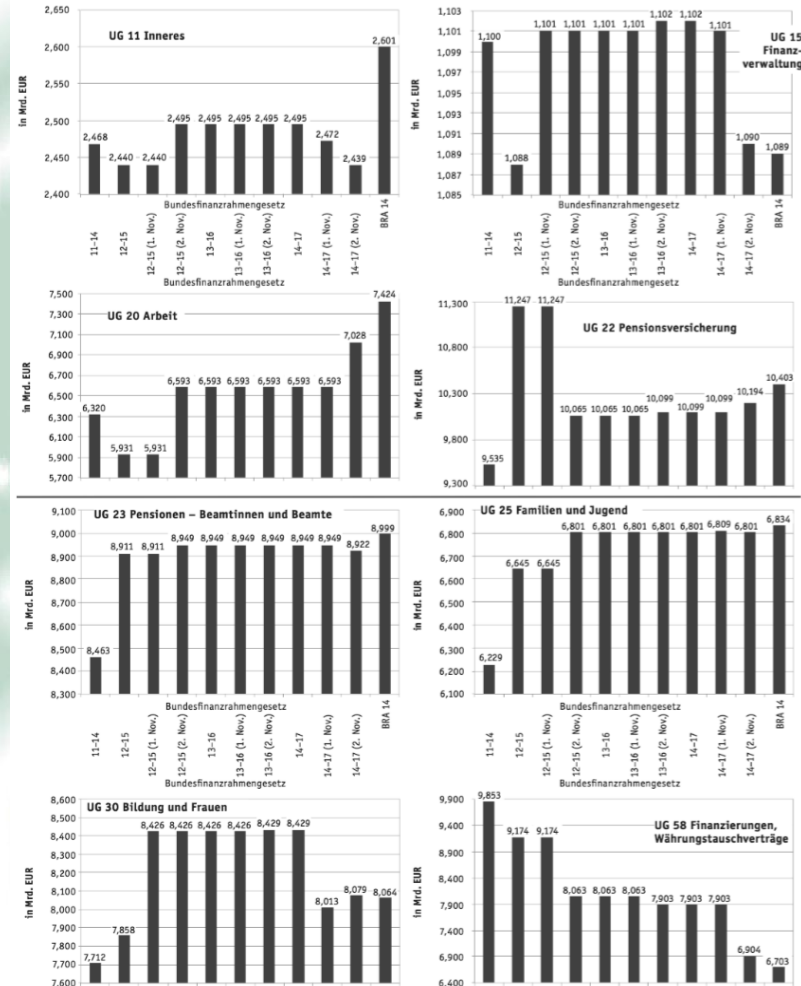
BGBl. I Nr.	Kund- machung	für die Jahre	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
			in Mrd. EUR										
51/2009	17.06.09	2009–2012	77,520	70,817	71,271	73,369							
78/2009	18.08.09	2009–2012	77,520	70,817	71,271	73,369							
119/2009	04.12.09	2009–2012	77,520	70,817	71,271	73,369							
51/2009	17.06.09	2010–2013		70,817	71,271	73,369	74,734						
78/2009	18.08.09	2010–2013		70,817	71,271	73,369	74,734						
119/2009	04.12.09	2010–2013		70,817	71,271	73,369	74,734						
33/2010	11.06.10	2011–2014			69,099	70,144	70,931	72,253					
40/2011	30.05.11	2012–2015				73,606	73,213	74,571	75,488				
25/2012	12.04.12	2012–2015				75,630	73,213	74,571	75,488				
62/2012	24.07.12	2012–2015				76,530	75,153	74,339	73,930				
25/2012	12.04.12	2013–2016					74,253	73,889	73,930	76,512			
62/2012	24.07.12	2013–2016					75,153	74,339	73,930	76,512			
102/2012	04.12.12	2013–2016					75,056	74,339	73,930	76,512			
88/2013	17.06.13	2014–2017						74,339	73,930	76,512	78,584		
7/2014	07.02.14	2014–2017						74,339	73,930	76,512	78,584		
37/2014	06.06.14	2014–2017						75,204	74,385	77,704	78,988		
37/2014	06.06.14	2015–2018							74,385	77,704	78,988	80,521	
63/2015	29.05.15	2016–2019								76,541	77,509	78,991	80,388

Source: Federal Court of Auditors, „Quality of Medium Term Budget Planning“, Bund 2016/14

Frequent changes of MTBF: Year 2014



Entwicklung der geplanten Auszahlungsobergrenzen für 2014 in den überprüften Untergliederungen



Quellen: BFRG; Strategieberichte; BRA

Preliminary Conclusion CM (1)



Status Quo

- MTBF important to frame mindset of politicians and administrators. Medium term discussion of budget issues is established.
- Avoids exclusive focus on just next year's budget. Still focus is quite strong. But important progress has been made.
- „Legalistic“ approach was critical to achieve this.
- Frequent amendments undermine credibility of years $n+2$ to $n+4$.
- High build up of reserves/unspent funds from previous years: end of year flexibility worked, but use of funds poses challenges in the current system.
- Process is an issue of debate, especially in relation to the Stability Program and the EU Semester

Preliminary Conclusion CM (2)



Design questions – ongoing thinking:

- Do fixed ceilings require higher margins?
Swedish case: margins, can variable expenditure alone do the job?
- Question: how many „fixed“ ceilings?
- Contruction of ceilings: Integrate reserves/unspent funds from previous years?
- Process: Better alignment with EU Semester? How to steer strategic macro-budgetary discussion?
- State MTBF Styria:
 - Integration of variable ceilings for funds received by Federal Government earmarked for specific purposes (revenues = expenditures)?



Thank you for your attention!
Questions and discussions ...