# B2. What is the public budget, and why is it relevant?

A budget is generally considered to be an action plan for spending in the future according to the income expected. Governments must therefore calculate the total amount of money they wish to spend on schools, hospitals, roads and salaries throughout the year. A national budget is arguably one of the most important public documents, as it is a translation of a country’s national development goals into annual spending plans. Budgets are the medium through which policies are funded and executed and, in turn, activities to support selected priorities are delivered. The development, implementation and reporting of the budget all require technical understanding of the PFM process. In addition, as budget outcomes also may depend on political as economic factors, it is also important to understand the politics of the budget cycle *(54)*.

WHO has collated key PFM resources to raise understanding and awareness on the role of PFM rules and processes for health spending. [The resource portal on PFM for health](https://www.who.int/news/item/04-03-2021-resources-portal-on-pfm-for-health) contains various types of materials (working papers, policy briefs, audio files, video podcasts) produced by a range of partners and experts (IMF, World Bank, WHO, OECD, IBP, CABRI). The materials are all available online and easy-to-use for self-learning

Knowledge of the workings of the budget and the broader PFM system in a country help to understand why resources are spent on certain things and in certain ways and then to find mechanisms to influence the process and decisions that lead to spending on these “things” and “ways” *(54)*.

It is important to consider the budget within the broader context of UHC. What are the links and gaps between UHC, the formulation of policy, the allocation of resources, budget execution and service delivery on the ground? How do those links and gaps affect the welfare of the population? If the links and gaps are understood, opportunities can be found to improve the design of policies, their inclusion in the budget cycle and their implementation to achieve a greater impact on children’s welfare *(54)*.

The budget is the most relevant policy document of any government, as it explains the amount of resources it expects to receive (**revenue**) and how it plans to spend them (**expenditure**).

**Revenue** represents the income that a government receives from various sources to spend on public service delivery. In many countries, most funds come from revenue raised from taxes and varying proportions of funds from external aid and public borrowing. Understanding the sources of revenue for the budget is important because they have implications for public policy decisions *(54)*. It is money that comes from the public – a simple condition that gives people the right to know the final use of public monies.

When the total revenue is insufficient to meet spending commitments, governments have to borrow money. Such borrowing is known as **“public debt”**, which may be external (when the government borrows from other governments, international institutions or foreign commercial banks) or internal (when loans come from the issuance of bonds or certificates payable by the government, with attractive rates, to the public). Loans must be paid back in the future.

**Expenditure** represents authorized spending on various aspects of public service delivery by government agencies and line ministries. The two basic types of expenditure are recurrent and capital; however, as shown in the sections below, three classifications better explain spending decisions. For now, let us say that **recurrent expenditures** are made by the government to maintain operations during the budget period and do not result in the creation or acquisition of fixed assets. Recurrent expenditures include wages, rent, office requirements, interest payments on borrowed funds and maintenance of fixed assets. The recurrent expenditure budget does, however, sometimes include some capital expenditures (for example, equipment such as computers and chalkboards), depending on how the economic transaction is defined. **Capital expenditures** are those on assets that last for more than 1 year. They include equipment, land, buildings, legal expenses and other transfer costs associated with a property. For capital projects (e.g. building schools), all associated expenses are also considered as capital expenditure *(55)*.