

OECD
BUDGET PRACTICES AND PROCEDURES DATABASE
PHASE II

FINAL GLOSSARY
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Account Clean-up

Process of defining and reconciling all transactions (revenues and expenditures) in the financial statements and correcting irregularities, inaccuracies or mistakes.

Accounting System

System for recording financial transactions. The two major accounting systems are cash accounting and accrual accounting. Cash accounting systems recognise transactions and events when cash is received or paid, whereas accrual accounting is a system in which revenue is recognised when it is earned and expenses are recognised as they are incurred.

Agencies

The term includes all bodies that are part of Government and have been given some autonomy and/or independence from the Ministries to which they report. They may be subject to a completely or partially different set of management and financial rules than the one applicable to traditional vertically integrated Ministries. The fact that they are considered part of Government excludes by definition private firms and non-governmental organisations, even when they are mainly funded by Government entities. It also excludes state-owned corporations.

Appropriation

Authority granted under a law by the Legislature to the Executive to spend public funds up to a set limit and for a specified purpose. Annual appropriations are made through annual budget laws or, in some countries, separate appropriation acts consistent with the budget. Supplementary budget appropriations are sometimes granted subsequent to the annual law if the annual appropriation is insufficient to meet the specified purpose. *See also Supplementary Budget*

Audit

An audit is an expert examination of legal and financial compliance or performance. Audits can either be carried out to satisfy the requirements of management (internal audit), or carried out by an external audit entity or any other independent auditor to meet statutory obligations (external audit). *See also Financial Audit and Performance Audit*

Budget

A comprehensive statement of Government financial plans including expenditures, revenues, deficit or surplus, and debt. The budget is the Government's main economic policy document, indicating how the Government plans to use public resources to meet policy goals.

Budget Cycle

All the major events or stages in making decisions about the budget, and implementing and assessing those decisions. It usually has four stages: formulation, approval, execution and audit.

Budget Year

The next fiscal year for which the Legislature must approve appropriations.

Capital Expenditure

Investments in physical assets such as roads and buildings that can be used for a number of years.

Central Budget Authority

The Central Budget Authority (CBA) is a public entity, or several co-ordinated entities, responsible for the custody and management of all (or the majority) of the public money. It is often part of the Central Government Ministry of Finance. The Central Budget Authority has the leading role in maintaining aggregate fiscal discipline, ensuring compliance with the budget laws and enforcing effective control of budgetary expenditure. This Authority regulates budget execution but does not necessarily undertake the treasury function of disbursing public funds.

Central Government

All units of Government that exercise authority over the entire economic territory of a country. In general, the Central Government is responsible for those functions that affect the country as a whole: for example, national defence, conduct of relations with other countries and international organisations, establishment of the legislative, executive and judicial functions that cover the entire country, and delivery of public services such as healthcare and education. Non-market, non-profit institutions controlled and mainly financed by the Central Government are included in the Central Government.

Chapter

Here defined as the highest organisational level in the budget, typically corresponding to a ministerial area of responsibility. In some Commonwealth countries it is referred to as a vote.

Contingency Reserve

See Reserve Fund

Contingent Liability

Obligations that have been entered into, but the timing and amount of which are contingent on the occurrence of some uncertain future event. They are therefore not yet liabilities, and may never be if the specific contingency does not materialise.

Current Expenditure

Spending on wages, benefit payments and other goods and services that are consumed immediately.

Direct Loan

A disbursement of funds (not in exchange for goods and services) that is contracted to be repaid.

Discretionary Spending

Public expenditure that is governed by annual or other periodic appropriations, rather than by formulas or criteria set forth in authorising legislation.

Evaluation

Retrospective analysis of a project, programme or policy to assess how successful or otherwise it has been, and what lessons can be learnt for the future.

Expenditure

The term refers to Government spending (or outlays) made to fulfil a Government obligation, generally by issuing a cheque or disbursing cash.

Extra-Budgetary Funds

Special funds owned by the Government, that are not part of the budget and that receive revenues from earmarked levies, possibly in addition to other sources such as fees and contributions from the general revenue fund. *See also Off-Budget Expenditure*

Financial Audit

Financial audit allows the Supreme Audit Institution to report on the State's account or accounts and provides the basis for the Legislature to give some form of discharge or opinion.

Fiscal Policy

Government actions with respect to aggregate levels of revenue and spending. Fiscal policy is implemented through the budget and is the primary means by which the Government can influence the economy.

Fiscal Risk

Includes uncertain costs of specific expenditure commitments, such as financial restructuring, and/or the potential for adverse budgetary effects resulting from variations in economic assumptions.

Fiscal Rules

A multi-annual constraint on a fiscal aggregate (*e.g.* expenditure, revenue, budget balance or debt). It is typically defined in terms of an indicator of overall fiscal performance, such as the deficit/GDP ratio or the debt/GDP ratio. *See also Golden Rule*

Fiscal Year

The Government's accounting period, which need not necessarily coincide with the calendar year.

Golden Rule

A rule which requires that, either annually or over the economic cycle, borrowing is restricted to the financing of investment expenditures. *See also Fiscal Rules*

Government Organisations

A unit that is part of the Government, including ministries and agencies.

Gross Domestic Product (GDP)

The total value of final goods and services produced in a country during a single year. Economic growth is measured by the change in GDP from year to year.

Line Item

A line item is an appropriation that is itemised on a separate line in a budget. In public budgeting it refers to the lowest or most detailed level where a political sanction of spending (*i.e.* an appropriation) is given in law. The lower the level, the more restrained the executive is regarding reallocating spending.

Line-Item Veto

Allows the Executive to reject particular items or provisions in a piece of legislation approved by the Legislature, rather than having to reject the legislation in its entirety. *See also Package Veto*

Loan Guarantee

A loan contracted by a non-Government agency with a guarantee that the Government will repay any amount outstanding in the event of default.

Macroeconomic Framework

Tool to check the consistency of assumptions or projections concerning economic growth, the fiscal surplus or deficit, the balance of payments, the exchange rate, inflation, credit growth and its share between the private sector, policies on external borrowing, and other macroeconomic estimates.

Mandatory Spending

Public expenditure that is governed by formulas or criteria set forth in authorising legislation, rather than by periodic appropriations.

Materiality Test

Evaluation of fiscal risks that assesses only programmes with a certain minimum threshold level of spending.

Multi-Year Expenditure Estimates

A projection of Government expenditures beyond the upcoming budget year.

Nominal Expenditure

Actual monetary value of expenditure in terms of the purchasing power of the day (at current prices). Nominal terms do not take into account the effect of inflation on the real value of money. Annual Government budgets are in nominal terms. Occasionally multi-year budgets are presented in real, or inflation-adjusted, terms.

Off-Budget Expenditure

The term generally refers to the Government transactions that are not included in the annual budget. The main forms of off-budget expenditures in OECD countries are off-budget funds, direct loans, guarantees and public-private partnerships (PPPs). See Kraan (2004) for further details.

Operating Costs

The day-to-day expenses incurred in running an activity or a project.

Organic Budget Law

A law specifying the schedule and procedures by which the budget should be prepared, approved, executed and accounted for, and final accounts submitted for approval.

Outcomes

Outcomes describe the impact of a Government programme on social or economic indicators. Examples of outcomes include the change in student test scores following an increase in hours taught, the change in the incidence of a disease following an immunisation programme, or the change in income inequality following the introduction of a new welfare payment. Outcomes are a broader performance metric than outputs, and are harder to measure.

Outputs

Outputs are defined as goods and services provided by Government agencies. Some examples include: teaching hours delivered, immunisations provided or welfare benefits paid. Outputs tend to be easier to measure than outcomes.

Package Veto

Allows the Executive to reject a piece of legislation in its entirety. *See also Line-Item Veto*

Performance Audit

A performance audit assesses the economy, efficiency and effectiveness with which the audited entity uses its resources in carrying out its responsibilities. Economy requires minimising the cost of resources used or required; efficiency refers to the relationship between the output from goods or services and the resources to produce them; effectiveness relates to the relationship between the intended and actual results of public spending.

Performance Budgeting

Strictly defined, it is only a budget that explicitly links each increment in resources to an increment in outputs or other results. Broadly defined, a performance budget is any budget that presents information on what Government organisations have done or expect to do with the money provided to them. The latter is also sometimes referred to as performance-informed budgeting.

Performance Goals

Higher-order objectives to which programme or Government activities are intended to contribute. Goals typically refer to broad results which may take a number of years to achieve and often involve many people, activities, processes and intermediate achievements.

Performance Measures

Performance measures are the inputs, processes, outputs and outcomes used to assess the economy, efficiency and effectiveness of the activities of an organisation. They are quantitative or qualitative factors or variables that provide a means to measure achievement, to reflect the changes connected to an intervention, or to help assess performance.

Performance Targets

Performance targets refer to specific outputs or outcomes that are to be achieved by a Government organisation. They can usually be accomplished in a shorter time period than goals or objectives, and are often an intermediate step in achieving the latter.

Private Finance Initiative (PFI)

A form of public-private partnership (PPP) where the contract entails the full provision of a public service by the private sector. Under the most common form of PFI, the private sector finances, designs, builds, and operates facilities to deliver specific service outputs. The PFI contractor receives a stream of committed revenue payments for the use of the facilities and the provision of services over the contract period. Once the contract has expired, ownership of the assets either remains with the contractor or is turned over to the public sector, depending on the terms of the original agreement. *See Public-Private Partnership*

Programme

A programme is a grouping of Government activities in relation to a specific set of objectives. Programme budgeting attempts to apply cost-benefit analysis to the allocation decision, allocate expenditures by programme, and assess results of programmes in relation to objectives. Programme classification applies this principle across all Government activities.

Public-Private Partnership (PPP)

A contract (institutional relationship) between public and private actors for the co-operative provision of a public good or service. The essential element is some degree of private participation in the delivery of traditionally public-domain goods or services. Private actors may include both for-profit and not-for-profit organisations.

Quasi-Fiscal Activities

Activities (under the direction of Government) of central banks, public financial institutions and non-financial public enterprises that are fiscal in character. This means that, in principle, they can be duplicated by specific fiscal measures, such as taxes, subsidies or other direct expenditures, even though precise quantification can in some cases be very difficult. Examples include subsidised bank credit and non-commercial public services provided by an enterprise.

Reallocation

Also referred to as Virement. A movement of funds from one account to another, which can be limited by formal rules. To prevent misuse, Government organisations must normally seek authorisation to make such transfers.

Rescission

The cancellation of funding previously made available by the Legislature, which may require legislative notification or approval.

Reserve Fund

Also called Contingency Reserve. A separate fund or a budget provision set aside to meet unforeseen and unavoidable requirements that may arise during the budget year, like natural disasters or armed conflict.

Revolving Fund

An account or fund in which the income derived from its operations is available to finance the fund's continuing operations without fiscal year limitations.

Sectoral Committees

Committees of the Legislature that have jurisdiction over a particular policy area, *e.g.* health, education or defence. In contrast, some committees have a Government-wide remit, *e.g.* finance or budget committees.

Sensitivity Analysis

Analysis of how sensitive outcomes are to changes in the assumptions. In the public budgeting context, fiscal sensitivity analysis estimates the fiscal effects of alternative macroeconomic assumptions.

Special Accounts

Accounts recording transactions of an “exceptional” character that are made outside the normal procedures for expenditure approval and recording; many refer to temporary accounts (such as advances), or to transactions whose authority is questionable, or to the accounts of formal extra-budgetary funds or “below-the-line” accounts.

Supplementary Budget

Also called Adjustment Budget or Supplemental Budget. It contains the proposed amendments to the main annual budget. This is the mechanism with which the Government seeks legislative approval for spending that differs from the original budget and appropriations. Supplementary budgets are given legal force through adjustment or supplemental appropriations.

Supreme Audit Institution (SAI)

The public body of a State which, however designated, constituted or organised, exercises by virtue of law, the highest public auditing function of that State.

Tax Expenditures

Concessions or exemptions from a normal tax structure that reduce Government revenue collection. Precise definition and estimation of tax expenditure require a definition of the normal tax base as well as a determination of the most appropriate way of assessing cost to the Government in the form of forgone revenue.

Virement

See Reallocation

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