

Budgeting Processes and Procedures

Zero-Based Budgeting Initiative

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“We need to restore the American people’s confidence in their government, that it is on their side, spending their money wisely, to meet their families’ needs. That starts with the painstaking work of examining every program, every dollar of government spending, and asking ourselves: is this program really essential? Are taxpayers getting their money’s worth? Can we accomplish our goals more efficiently or effectively some other way?”

– **US President Barack Obama**

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Introduction

Definition

A budget is a statement of estimated income (revenue) and planned expenditure over a specified period of time, usually one year.

Government revenue is usually derived from taxes, charges and levies, as well as from borrowing; while expenditure is incurred for the provision of goods and services.

Government budgeting is as old as the modern state itself, when the Crown imposed taxes on citizens and in turn, provided defence and security.

The Budgetary Process has gone through changes over time and across nations.

Illustration with US experience of 60 years of effort to link resources with results.

US Budget Historic Milestones

- The first Hoover Commission (1947) and the Budget and Accounting Procedures Act (BAPA) of 1950
- Planning – Programming – Budgeting System (PPBS), 1965 - 70
- Management by Objectives (MBO), 1973 – 74
- Congressional and Impoundment Act (1974)
- Zero-Base Budgeting (ZBB), 1977 – 81
- Government Performance and Results Act (GPRA) 1993
- Program Assessment Rating Tool (PART), 2004

Budgetary processes

From the experience of the US and several other nations, the most common and perhaps the most traditional budgeting tool is the line-item budget process.

I. Line – Item Budgeting

In line-item budgeting, the emphasis is on the nature of the income and expenditure. The line-item budget is primarily a tool for controlling expenditures. It typically spells out the level of spending allowed for specific purposes. As the fiscal year progresses, departmental spending must be within these amounts unless formal budget amendments are approved (virement).

While line-items can be useful for internal control, they are not useful as a policy or decision-making tool. They assure elected and administrative officials that money is being spent only for approved purposes but they do not show what is being accomplished with the money

Other major drawbacks of line-item budgets include:

- They promote ‘inertia’, with the focus being on marginal changes from year to year
- They can result in inefficient and uneconomical activities because management is not permitted enough flexibility to address changing situations and often must ‘use it or lose it’
- They invite micromanagement, encouraging questions such as ‘why are we spending so much on supplies?’ rather than ‘how have our efforts increased manufactured exports this year?’
- The line-Item Budgeting process falls flat on its face when confronted with the daunting challenges of budget cuts to balance the budget in the face of dwindling revenues and or rising costs.

Figure 1: Sample Line-Item Budget

	FY 2010 N'000	FY 2011 N'000
Personnel Costs	3,500,000	3,850,000
Employee Benefits	337,527	398,196
Travels	112,105	198,000
Repairs & Maintenance	50,533	60,633
Rentals & Leases	454,123	377,000
Utilities & Communications	170,232	197,500
Professional Services	1,355,752	1,397,000
Supplies & Operating Expenses	188,380	428,102
Transportation Equipment:		
a) Maintenance	11,250	12,350
b) Purchases	350,000	375,018
c) Other Equipment	150,000	165,500
TOTAL EXPENDITURE	6,679,902	7,459,299

II. Zero-Based Budgeting

Zero-base Budgeting has been defined as a planning and budgeting process required by each manager to:

- Establish objectives for his function;
- Define alternative ways of achieving the objectives;
- Selecting the best alternative of achieving these objectives;
- Break the alternatives into incremental levels of effort;
- Cost and benefits of each incremental level; and
- Describe the consequences of disapproval.

Zero-Base Budgeting (ZBB) is a method of budgeting in which all expenses must be justified for each new period. ZBB starts from zero-base and every function within an organisation is analysed for its needs and costs. Budgets are then built around what is needed for the upcoming period, regardless of whether the budget is higher or lower than the previous one.

ZBB is a technique which complements and links the existing planning, budgeting and review processes. It identifies alternative and efficient methods of utilizing limited resources in the effective attainment of selected benefits.

The objective of ZBB is to ‘reset the clock’ each year. The traditional incremental budgeting assumes that there is a guaranteed budgetary base, the previous year’s level. Zero-based budgeting implies that managers need to build a budget from the ground up, starting at zero.

Resources are not necessarily allocated in accordance with previous patterns and consequently each existing item of expenditure has to be annually re-justified.

Purpose: - ZBB is to re-evaluate and re-examine all programs and expenditures for each budgeting cycle by analyzing workload and efficiency measures to determine priorities or alternative levels of funding for each program or expenditure. Through this system, each program is justified in its entirety each time a new budget is developed.

ZBB Historical Development

ZBB in the United States

ZBB became popular in the 1930’s but the concept has been around since as early as 1924, when British budget authority, E. Hilton Young, advocated complete justification for every item requested in the budget.

Peter Pyhrr, who created and developed a ZBB system for Texas Instruments as part of his responsibilities as Control administrator in 1962 is called the “father of ZBB”.

In 1962, the US Department of Agriculture also adopted a ground-up system of budgeting which is considered to be the first formal use of ZBB in the US government.

The process finally evolved into the current ZBB concept, which was popularized by Pyhrr in a 1970 article in the Harvard Business Review (HBR). Jimmy Carter, then Governor of Georgia, was impressed with it, and invited Pyhrr to join him in adapting ZBB for Georgia's 1972/73 budget. Carter was so enthusiastic about the process that when he became president, he ordered all federal organs to implement a ZBB system by 1979.

The concept of ZBB soon spread to both the public and private sectors with mixed results and was the subject of wide debate in the 1970's. Ronald Reagan dropped ZBB when he became president in 1980.

ZBB in India

In India, ZBB was implemented in the Ministry of Science and Technology in 1982. It was adopted by the government of India as a technique for determining expenditure budgets in 1986.

The Ministry of Finance made it mandatory for all administration ministries to review their respective programs and activities in order to prepare expenditure budget estimates based on ZBB principles.

In 1986, the Rajiv Gandhi government wished to adopt ZBB and tried to implement it in the defence ministry as well.

ZBB was also emphasized in the Seventh Five Year Plan (1988-93), transportation sector.

The Maharashtra government renamed and used it as development based budgeting. However, not much progress in this regard has happened in this area since then.

Termination of ZBB

Interest in ZBB had been in decline for many years. The large amount of paper work and data ZBB generates along with doubts about the method's ability to fully meet its theoretical promises, were at least partially responsible.

Also, the improving economic conditions from the low points of the late 70's and early 80's in the US, and the early 90's in Canada, probably reduced the perceived need for what was widely regarded as a 'cutback budgeting' method.

In the public sector, ZBB being a largely executive branch initiative does not commend itself to the legislature and therefore has no legislative backing.

ZBB was officially eliminated in federal budgeting in the USA on August 7, 1981. However, some elements of the ZBB budgeting process such as the presentation of alternative levels of funding and the linking to alternative results remained in effect through the Reagan, Bush and early Clinton administrations, before being eliminated in 1994.

Resurgence of interest in ZBB

Today, ZBB is enjoying a renaissance. The number of companies publicly referring to zero-based budgeting has exploded over the past few years, including such disparate companies as Alcoa, Boston Scientific, Jardins Corporation, and Quicksilver. It is not only big companies that have taken to ZBB, businesses of all sizes are taking the leap. For example, B &G Foods- a US based multinational company with \$850 million in annual sales and less than \$100 million in sales, general and administrative (S,G&A) expenses has recently adopted ZBB. ZBB has also been enjoying a revival driven by powerful investors like 3G Capital Partners, the force behind the 2015 merger of Kraft Foods and H.J Heinz and the recent partnership with Warren Buffet, Berkshire Hathaway. It is becoming clear that ZBB can be effective across industries in companies big and small, and under both public and private ownership.

Furthermore, as we are experiencing the worst economic slowdown in decades and these have imposed major fiscal challenges on companies and governments, traditional budgeting methods, namely, line-item and incremental budgeting, have declined in the last few years. While all forms of budgeting that are thought to be better adapted to cutting back the budget, not just ZBB, have increased.

Finally, behind the apparent resurgence, is that those companies and governments that report using ZBB are using 'practical' versions of ZBB that are less intensive than the theoretical or textbook model outlined below.

In fact, theoretical ZBB that builds the budget upwards from a zero base are unheard of in many governments today. This is so because some programs due to legislative inertia or political exigency have a minimum funding level or base package that is greater than zero.

Zero Based Budgeting (ZBB)

Zero-based budgeting (ZBB) is a method of budgeting in which all expenses must be justified for each new period. Zero-based budgeting starts from a 'zero base' and every function within an organisation is analysed for its needs and costs. Budgets are then built around what is needed for the upcoming period, regardless of whether the budget is higher or lower than the previous one.

ZBB allows top-level strategic goals to be implemented into the budgeting process by tying them to specific functional areas of the organization, where costs can be first grouped, then measured against previous results and current expectations.

Contrary to the traditional method of budgeting in which past trends are expected to continue, zero-based budgeting assumes that there are no balances to be carried forward as there are no expenses that are pre-committed. In the literal sense, it is a method for building the budget with zero prior bases. Zero-based budgeting lays emphasis on identifying a task and then funding these expenses, irrespective of the current expenditure structure.

Because of its detail-oriented nature, ZBB may be a rolling process done over several years with only a few functional areas reviewed at a time by managers or group of leadership.

ZBB can lower costs by avoiding blanket increases or decreases to a prior period's budget. It is, however, a time-consuming process that takes much longer than traditional cost-based budgeting. The process also favours areas that achieve direct revenues or production; their contributions are more easily justified than in departments such as client service and research and development.

Zero-Based Budgeting Steps

A zero-base budget requires managers to justify all their budgeted expenditures, rather than the more common approach of only requiring justification for incremental changes to the budget or the actual results from the preceding year. Thus, a manager is theoretically assumed to have an expenditure baseline of zero.

In reality, a manager is assumed to have a minimum amount of funding for basic departmental operations, above which additional funding must be justified. The intent of the process is to continually refocus funding on key business objectives and terminate or scale back any activities no longer related to these objectives.

The basic process flow (steps) under ZBB:

1. Identification of a task under business objectives;
2. Finding ways and means of accomplishing the task (create and evaluate alternative methods for accomplishing each task objective);
3. Evaluate alternative funding levels, depending on planned performance levels;
4. Setting the budgeted numbers and priorities.

ZBB Example

Assume a manufacturing department of a company ABC that spent N10 million last year. The problem is to budget the expenditure for the current year.

There are several ways of doing so:

- i) The board of directors of the company may decide to increase / decrease the expenditure of the department by 10 per cent (incremental approach). The manufacturing department of ABC Ltd will get N11 million or N9 million depending on the management's decision.
- ii) The senior management of the company may decide to give the department the same amount as it got in the previous year without hiring more people in the department or increasing the production, e.t.c.
- iii) Another way is, as against the traditional method of arbitrary budget changes or holding it constant at the previous year's level, management may use zero-based budgeting in which the previous year's number of N10 million is not used for calculation.

ZBB application involves calculating the expenses of the department and justifying each of these. This reflects the actual requirements of the manufacturing department of Company ABC, which may be N10.5 million.

So, in ZBB, the department starts with no budgeted funds and must justify every person and expense that should be included in the budget for the coming year. This might result in a budget of say, N10.5 million in our example, which is higher than last year but reflective of the actual needs next year.

Advantages of ZBB

1. **Accuracy:** Against the traditional methods of budgeting that involve just making some arbitrary changes to the previous year's budget, ZBB makes every department re-examine each and every item of the cashflow and compute their operations' costs. This, to some extent, helps in cost reduction as it gives a clear picture of costs against the desired performance.
2. **Efficiency:** ZBB helps in efficient allocation of resources (department-wise) as it does not look at the historical numbers but looks at the actual numbers;
3. **Reduction in redundant activities:** ZBB lends to the identification of opportunities and more cost effective ways of doing things by removing all the unproductive or redundant activities.
4. **Alternative analysis:** ZBB requires that managers identify ways to perform each activity (such as keeping it in-house or outsourcing it) as well as the effects of different levels of spending. By forcing (compelling) the development of the alternatives, the process makes managers consider other ways to run the business.
5. **Budget inflation:** Since every line item is to be justified, ZBB overcomes the weakness of incremental budgeting of budget inflation. Since managers must tie expenditures to activities, it becomes less likely that they can artificially inflate their budgets – the change is too easy to spot.
6. **Mission focus:** Since the ZBB concept requires managers to link expenditures to activities, they are forced to define the various missions of their departments – which might otherwise be poorly defined.
7. **Required review:** Using ZBB on a regular basis makes it more likely that all aspects of the company will be examined periodically.
8. **Coordination and communication:** ZBB improves coordination and communication within the department and motivates employees by involving them in decision-making. The ZBB should spark a significant debate among the management team about the corporate mission and how it is to be achieved.

Many of the advantages of ZBB focus on a strong, introspective look at the mission of a business and exactly how the business is allocating its scarce resources in order to achieve that mission.

Disadvantages of ZBB

The main downside of ZBB is the exceptionally high level of effort required to investigate and document department activities. This is a difficult task, even once a year, which causes some entities to only use the procedure once every few years, or when there are significant changes within the organisation. Another alternative is to require the use of ZBB on a rolling

basis through different parts of a company over several years, so that management can deal with fewer such reviews per year.

Other drawbacks of ZBB are:

1. **Bureaucracy:** Creating a ZBB from the ground up on a continuing basis calls for an enormous amount of analysis, meetings and reports, all of which require additional staff to manage the process.
2. **Time consuming:** ZBB is a very time intensive exercise for a company or a government funded entity to do every year against incremental budgeting, which is a far easier method.
3. **High manpower requirement:** Making an entire budget from scratch may require the involvement of a large number of employees. Many departments may not have adequate time and human resources for the same.
4. **Lack of expertise:** Explaining every line item and every cost is a difficult task and requires training the managers.
5. **Gamesmanship:** Some managers may attempt to skew their budget reports to concentrate expenditures under the most vital activities, thereby ensuring that their budgets will not be reduced.
6. **Intangible justifications:** It can be difficult to determine or justify expenditure levels for areas of a business that do not produce concrete tangible results. For example, what is the correct amount of marketing expense and how much should be invested in research and development (R&D)?
7. **Update speed:** The extra effort required to create a ZBB makes it even less likely that the management team will revise the budget on a continuous basis to make it more relevant to the competitive situation.

Zero-Based Budgeting in the Public Sector

ZBB in the public sector is a different process from ZBB in the private sector.

The use of ZBB in the private sector has been limited primarily to administrative overhead activities. For example, Peter Pyhrr used ZBB successfully at Texas Instruments in the 1960s and authored an influential 1970s article in the HBR.

In 1973, President Jimmy Carter, then Governor of Georgia, contracted Pyhrr to implement a ZBB system for the state of Georgia executive budget process.

President Carter later directed the adoption of ZBB by the federal government during the late 1970s.

ZBB was an executive branch budget formulation process introduced into the federal government in 1977.

ZBB main focus was on optimizing accomplishments made at alternative budgeting levels. Under ZBB agencies were expected to set priorities based on the program results that could be achieved at alternative spending levels, one of which was to be below current funding.

In the public sector the implication that ZBB is the act of starting budgets from scratch or requiring each program or activity to be justified from the ground up is a myth, because in many large agencies a complete zero –case review of all program elements during one budget period is not feasible. It will result in excessive paperwork, and can be an almost impossible task if implemented.

Components of a Public Sector ZBB Analysis

In general, there are three components that make up a public sector ZBB process.

- i. Identify three alternative funding levels for each decision unit (traditionally, this has been a zero-based level, a current funding level and an enhanced service level).
- ii. Determine the impact of these funding levels on the program (decision unit) operations using a program performance metrics, and
- iii. Rank the program “decision packages” for the three funding levels.

The federal ZBB budgeting system had the following steps:

Budget request from each decision unit were to be prepared by their managers who would;

1. Identify alternative approaches to achieving the units’ objectives;
2. Identify several alternative funding levels including a minimum level normally below current funding;
3. Prepare “decision packages” according to prescribed format for each unit, including budget and performance information; and
4. Rank the decision packages against each other.

Steps in a Public Sector ZBB process

1. Identification of decision units.
2. Analysis of each decision unit through development of decision packages.
3. Evaluation and ranking of decision packages to develop the budget.
4. Preparing the budget, including those decision packages which have been approved.

A. Defining a decision unit.

A ZBB decision unit is an activity/programme or department for which decision packages are to be developed and analysed, It can be described as a cost or budget centre. Managers of each decision unit are responsible for developing a description of each programme to be operated in the next fiscal year. For example, in a district, the decision units could be different specialist clinics, programme units, hospital OPD unit, dispensaries or individual primary health centres (PHCs).

A specific manager should be clearly responsible for the operation of the programme.

- Identify and describe a particular activity.
- It must have well defined and measurable objectives.
- It must have well defined and measurable impacts.

Defining the Government Program Zero-Base

There is often considerable confusion over the meaning of zero-based budgeting. There is no evidence that public sector ZBB has even included “building budgets from the bottom up, and reviewing every invoice” as part of the process.

There is a difference between a ZBB process and a sunset review process. In a sunset review process, the entire function is eliminated unless evidence is provided of program effectiveness.

Sarant has provided a definition of the Zero-based for government programs as “the minimum level or actual grass roots funding level necessary to keep a program alive. Therefore, the minimal level is the program or funding level below which it is not feasible to continue a program because no constructive contribution can be made toward fulfilling its objective”

Identifying this level of program funding has been subjective and problematic. Consequently, some States have selected arbitrary percentages to ensure that an amount smaller than last year’s request is considered. They do this by stipulating that one alternative must be 50, 80 or 90 per cent of last year’s request. This equates to analysing the impact on program operations of a 10, 20 or 50 per cent reduction in funding as the zero-based funding level.

Nevertheless, the attraction of ZBB, for many, is that the ‘zero’ in ZBB, sends a powerful message to all stakeholders that the line would be held on spending and that nothing will be taken for granted. Applying the ZBB level to the budgeting process makes a rhetoric statement, even if the actual budgeting process doesn’t confirm fully to ZBB theory.

B. Development of decisions packages.

After the identification of appropriate decision units, the next step is to prepare a document for each of these describing the objectives or purposes of the decision unit and the actions that could be taken to achieve them. Such document is called “Decision Package”. It has two qualities;

- a) Mutually exclusive- contains alternative ways of doing a job, and
- b) Incremental- defining different levels of efforts.

Decision packages will have work packages.

Example:

- A specialist clinic can be a referral unit with diagnostic facilities, the treatment and after care being done at a district and PHC level.
- Equipment in an x-ray unit may suit a vertical unit, or an additional horizontal unit, or a unit for bedside operation.
- Increased emergency beds and less normal beds.

C. Decision-making – Review and ranking of decision packages.

Deciding to accept or reject or amend the activity. There is always a certain minimum level of effort in decision units which have to be necessarily preformed (high priority units) - funds to be committed.

Once the decisions packages have been prepared, they are ranked in an ordinal scale, i.e. 1st, 2nd, 3rd, etc, in order of priority, using cost benefit analysis (CBA).

Surplus funds are then allocated to these decision packages.

Take a decision package

1. Is the activity under our control?
2. Recognise less effective activities.
3. Validate- arrangements (elimination).
4. Make the activity profitable.

Example of ZBB Approach

Consider four (4) functions/activities to be performed by a decision unit- decision packages A, B, C and D.

Decision package A- OPD can have three (3) alternatives

A1- OPD giving only Allopathic treatment

A2- OPD Allopathic + Ayurveda

A3- OPD Allopathic+ Ayurveda + Homeopathy

Decision package B- Pathology unit

B1- Basic Path Lab with referral services

B2- Well equipped path lab

Decision package C – Specialist clinic

C1- Child care unit

C2- Family welfare clinic

C3- Orthopaedic rehabilitation centre

C4- Leprosy centre

Decision package D- X-ray unit

D1- Single vertical machine

D2- Additional horizontal bed machine

D3- Well equipped radiology department

ZBB Approach

Having identified the different decision packages and different alternatives, the next decision is to prioritize alternatives

$$A \rightarrow 3+B \rightarrow 2+C \rightarrow 4+D \rightarrow 3 \} \text{ 12 alternatives}$$

The absolute basic minimum need would be to have:

- i. OPD with Allopathy \longrightarrow A1
- ii. Basic Pathology Lab \longrightarrow B1
- iii. Child Care Unit \longrightarrow C1
- iv. Family Welfare Clinic \longrightarrow C2
- v. Single Vertical X-ray \longrightarrow D1

These are now ranked as:

$$D1 - C2 - C1 - B1 - A1$$

↑ Funds- in order of priority, is well-equipped radiology department.

Prioritization depends on the specific needs of the particular district/hospital/PHC and may be pre-determined.

Decision Ranking Process

Table 1

Function A	Function B	Function C	Function D
A3	B2	C4	D3
A2	B1	C3	D2
A1		C2	D1
		C1	

Future Budget

C4
D3
B2
A3

Order of Priorities

A2
D2
D1
C2

Minimum Needs

C1
B1
A1

Importance of Performance Measures

Performance measures are a key component of the ZBB process. At the core, ZBB requires quality measures that can be used to analyse the impact of alternative funding scenarios on program operations and outcomes.

Without quality measures ZBB simply will not work because decisions packages cannot be ranked. To perform a ZBB analysis, alternative decision packages are prepared and ranked, thus allowing marginal utility and comparative analysis. Traditionally, a ZBB analysis focused on three types of measures. These should be measures;

- I. Effectiveness,
- II. Efficiency, and
- III. Workload for each decision unit.

Indirect or proxy indicators could be used if these systems did not exist or were under development.

Table 2

Traditional Budgeting Vs. Zero Based Budgeting

Traditional Budgeting	ZBB
1. Emphasis	
It is accounting oriented; emphasis on 'How much'	It is more decision oriented; emphasis on 'Why'
2. Approach	
It is monitoring and control of expenditure	Achievement of objectives
3. Focus	
To study the changes in expenditure	To study the cost benefit analysis of decision packages
4. Communication	
It operates only vertical communication- top down	It operates both vertical and horizontal communication
5. Method	
It is based on the extrapolation from yester year figures into future projections	Its decision package is totally based on the cost benefit analysis

Practical Zero-Base Budgeting Processes

The pure version of ZBB found in theory appears to be very rare in practice. Rather, the level of ZBB has been applied to budgeting methods that borrowed elements of pure ZBB, but that do not conform to the theoretical ideal. Those describing themselves as using ZBB fall into two categories:

- a) Zero line-item budgeting; and
- b) Services level budgeting.

Zero Line-Item Budgeting

In zero line item budgeting, the focus is on answering the budgeting question, whether inputs are reasonable, given the expected output?

The method seeks to create greater transparency on how line items are arrived at by, requiring detailed justifications of line item requests in lieu of pointing to prior years allocations as the justifications.

- Departments are given a blank budget request form with 'zero' filled in each for every line item.
- Departments then rebuild their budgets from ground up, justifying each line item.
- These requests and justifications are sent to the central budget authority, who then reviews them, using the justifications, rather than what was spent last year, as the point of comparison.
- The budget requests are often accompanied by services' goals set by departments, in order to give budget authorities a better sense of what the output received for the input will be.
- Departments do not develop decision packages to describe services levels.
- Central budget authorities consider the requests, along with the goals, further discuss with departments as necessary, and then develop a final recommended budget.

Services Level Budgeting

In services level budgeting, decision makers are presented with different service levels and asked to choose between them, thus focusing on the budgeting question of what level of services should one fund within a program?

- Services level budgeting emphasises the decision package feature of ZBB theory.
- The detailed estimate of inputs found in zero-line item budgeting receives less emphasis.
- In this method, departments concentrate on presenting decision packages and services levels with associated metrics while there is less emphasis on detailed input estimates.

Table 3

ZBB Typology

Textbook ZBB	Zero-Line-Item Budgeting	Service Level Budgeting
Key Features		
Budgets are built from the ground up. Decision units propose decision packages, which describe detailed resource requirements and which budget authorities use to choose service levels.	Line items require detailed justification, in some cases, including unit costs and quantities. Last year's spending is not the key reference point. Decision packages are not used.	Department develops decision packages to allow budget authorities to choose service levels. Less emphasis on detailed examination of line-item compositions.
Advantages		
<ul style="list-style-type: none"> • Rational and comprehensive means for cutting. • Gives decision makers insight into operations. • Highlights entirely new ways of providing services. • Engages lower-level management in budgeting. 	<ul style="list-style-type: none"> • Changes conversation about cost for the better. • Helps reallocate spending with departments. • Engages managers in budget discussions. • Can lead to efficiency gains. 	<ul style="list-style-type: none"> • Decision-makers can select different service levels. • Implications of cut back decisions are very clear. • Often supplemented by strategic plan. • Approaches rationality and comprehensiveness of textbook ZBB.
Disadvantages		
<ul style="list-style-type: none"> • Amount of work to develop decision packages. • Reluctance of managers to propose decision packages that are less than current spending. • Does not have a planning process that is separate from budgeting. 	<ul style="list-style-type: none"> • No structured means for considering different service levels. • Does not have a separate planning process. • Efficiency gains are systematic. 	<ul style="list-style-type: none"> • Paperwork intensive, but less than textbook ZBB. • Efficiency is not addressed directly. • Loose connections between strategic plan and budgeting. • Requires good performance data.
Who Uses It		
Very rare in practice. The GFOA found only two governments from a sample of 413.	Case examples include: City of O'Fallon, Missouri; City of Fredric, Maryland; City of Johnson City, Tennessee; School Employees Retirement System of Ohio.	Case examples include: Hillsborough County, Florida; Manatee County, Florida; City of Windsor, Ontario; Town of Orangeville, Ontario.

Strengths of ZBB

- i. It moves the organisation away from incremental budgeting.
- ii. Rationalizes budget cuts.
- iii. Makes the trade-offs between inputs and outputs more transparent.
- iv. Can be used to centralize budget decision-making, if that is a goal of budget reform.
- v. Effective for re-allocating resources within departments.
- vi. Does not preclude use of other budget-based balancing techniques.

Weakness of ZBB

- i. Managerially driven.
- ii. Does not directly address whether a government should be in the business of providing a service in the first place.
- iii. More effective when good performance measures are in place.
- iv. Perceived to require too much paperwork.
- v. Does not address alternate service delivery options.
- vi. Doesn't directly address efficiency of services.

The Success factors to consider before implementing ZBB

Given the identified strengths and weaknesses of even the practical ZBB processes, it may not be appropriate for some organizations, while serving as a perfect fit for others. In deciding whether ZBB will be an appropriate budgetary tool for your organization the following considerations must be taken into account.

1. ***What is ZBB replacing?*** If the current system of budgeting is not working, for example, it is incremental; relies on across the board budget cuts; or does not recognise that service inputs are sometimes an inevitable trade off for budget cuts, then, ZBB could represent an improvement.
2. ***Is performance data available to make different funding levels meaningful?*** If the organization has good experience with performance measures and understands the relationship between costs and service levels and community impact, it could make more effective use of ZBB.
Also, managements' attitude about having data to describe service levels and make decisions is important. If managers, especially at the top, don't place much importance on using data to drive decisions, then considerations of service levels will be less meaningful.
3. ***How much work will be required to implement ZBB?*** The availability of central budget staff to develop forms and training for ZBB is crucial to ZBB success. Also important are the analytical skills and capacity of departmental managers to engage in ZBB analysis.
The availability of these resources needs to be compared to the time available and the goals for ZBB. If the organization is facing a large budget deficit and needs to come to a solution in a short time, ZBB may not be the answer.

4. ***How comprehensive a budget process does the organization want?*** If elected officials want to delve into the details of operating departments, then ZBB will have enthusiastic support. Otherwise, you will have negative experience with ZBB.
5. ***How sustainable should budget reform be?*** Many organizations begin ZBB with the intention of only using it for a set period of time or for certain parts of the organization. In such cases, the benefits from the use of ZBB are limited.
6. ***How does the organization's leadership view ZBB?*** Given the theoretical and practical challenges associated with ZBB, it takes a clear endorsement from the organization's leadership to make it work.
7. ***What issues are drawing interest in ZBB?*** ZBB is a means to an end and not an end in itself. Therefore, there is a need to consider the issues that are driving interest in ZBB and determine if there is a better way to solve them.

Though ZBB's strength is in looking at what is done today, understanding it in more depth, and making marginal adjustments to inputs, and consequently, service levels; ZBB is less effective for making major changes in how services are delivered or how community needs will be best met.

Alternatives to ZBB

There are three (3) major alternatives to ZBB, with each addressing some of the planning and budgeting questions that ZBB is often intended to solve.

A. Priority Budgeting.

Under this system, the government first determines how much revenue it has available, then, identifies the community's most important priorities, and allocates resources to the priorities rather than directly to departments, and then ranks programs according to how well they align with the priorities. This form of budgeting focuses on determining which services the government should offer to get the most value from the tax money. Hence, it too is a non incremental form of budgeting.

B. Program Review

Program review is a planning method used to examine, outside of the budget process, how a program is provided. It can answer several important questions, for example, what services should we be in the business of providing? For those services that we do offer, what level of service should we provide? Are we providing that level of service efficiently? Program review answers these questions outside the pressures of the budget process, and thus may be more successful than ZBB in finding real alternatives.

C. Target Based Budgeting (TBB)

Unlike ZBB, TBB makes no attempt to re-examine base spending. Rather each decision unit is given a target spending amount (for example 90 per cent of last year) and is asked to submit a budget for that amount. The total budget for the organization is necessarily less than what is affordable. This is because the difference between the target and what is affordable is

used to fund additional activities through decision packages. TBB is a significant improvement on incremental budgeting but it is much less intensive than ZBB.

Table 4

Priority Budgeting	Target-Based Budgeting	Program Review
Key Features		
Explicit planning process used to identify organization-wide priority goals. Funding then allocated to program according to how well they achieve goals.	Departments given a spending target, set as some percentage of last year's spending (e.g., 90%) and must submit decision packages and justifications for spending above the target.	A planning method to examine, outside of the budget process, how a program is provided. Can consider community need, service levels, efficiency, or alternative service delivery programs.
Advantages		
<ul style="list-style-type: none"> • Explicit spending versus service tradeoffs. • Not incremental- last year's spending is not the basis for the next year. • Rationally considers relative value of different programs versus community need. 	<ul style="list-style-type: none"> • Provides some rationality to cuts through decision packages. • Less work involved. Fewer decision packages are produced, and less scrutiny is applied to total spending. 	<ul style="list-style-type: none"> • Offers in-depth look at questions of community need, service levels, and efficiency. • The analysis is free from the immediate pressures of the budget process.
Disadvantages		
<ul style="list-style-type: none"> • More administrative and analytical work than traditional budgeting, but less than textbook ZBB. • Requires performance for best results. • Less focus on service level options than ZBB. 	<ul style="list-style-type: none"> • Does not comprehensively examine spending- base spending is not heavily scrutinized. • Fewer options for decision makers. Decision packages only cover above- base spending. 	<ul style="list-style-type: none"> • No firmly established means for eventually integrating results into budget process. • It is an additional level of effort beyond what is required for budgeting.
Who Uses It		
The GFOA survey found that 21% of respondents use it.	GFOA survey found 33% of respondents use it.	Case examples include: City of Toronto, Ontario; City of London, Ontario; City of Windsor, Ontario.

Summary and Conclusions

Zero-based Budgeting (ZBB) is a method of budgeting in which all expenses must be justified for each new period. ZBB starts from a zero base and every function within an organisation is analysed for its needs and costs. Budgets are then built around what is needed for the upcoming period regardless of whether the budget is higher or lower than the previous one.

ZBB allows top strategy goals to be implemented into the budgeting process by tying them to specific functional areas of the organisation, where costs can be first grouped, then measured against previous results and current expectations. ZBB has been around for decades, but is now enjoying a revival or resurgence in both the private sector and the government.

In the private sector, the revival of ZBB as a cost cutting budgeting tool has been championed by the powerful investors like 3G Capital Partners, the force behind the 2015 merger of Kraft Foods and H.J Heinz. Such high profile exposure has prompted more companies to view ZBB as a fresh wonder diet for achieving radical corporate leanness.

In the public sector too, there has been a resurgence of interest in ZBB. At the core is doubtlessly the fact that we have been experiencing the worst economic downturn in decades. These times have imposed major fiscal challenges on government finances and accordingly, have required serious changes for many, on how resources are allocated. GFOA's survey showed that traditional budgeting methods, namely, line-item and incremental budgeting, have declined in use in the last few years, while all forms of budgeting that are thought to be better adapted to cutting back the budget, not just ZBB, have increased.

However, because of its detail oriented nature, putting a great demand on the organisation's resources- men, money, material and time- the organisations, governments and companies reporting to be using ZBB are in fact using practical versions of ZBB that are less intensive than the theoretical or textbook model. Others use ZBB on a rolling basis, done over several years with only a few functional areas reviewed at a time by managers or group of leadership.

In fact, research by the GFOA found that use of textbook ZBB is almost unheard of in local governments today.

The attraction of ZBB, for many is that the 'zero' in ZBB sends a powerful message to all stakeholders that the line will be held on spending and that

nothing will be taken for granted. Applying the ZBB label to a budgeting process makes this statement, even if the actual budget process does not confirm fully to the ZBB theory.

This paper has identified steps to be taken in the implementation of a ZBB process in the private sector and in the government. We have also outlined the strengths and weaknesses of both.

Furthermore, to the extent that no government undertakes theoretical ZBB, we have described the two practical ZBB tools in use, the zero-line item budgeting and the services level budgeting.

We then went ahead to outline key success factors to consider in the implementation of ZBB. The paper concludes with the presentation of three (3) main alternatives to ZBB; Priority Budgeting; Program Review Budgeting; and Target Based Budgeting (TBB), with each addressing some of the planning and budgeting questions that ZBB is often intended to solve.

THANK YOU

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