



**"We need to cut our budget in half, and then by another 90% just to be on the safe side."**

## Quotation – Ross Perot

The budget should be balanced

The treasury should be refilled

The public debt should be reduced

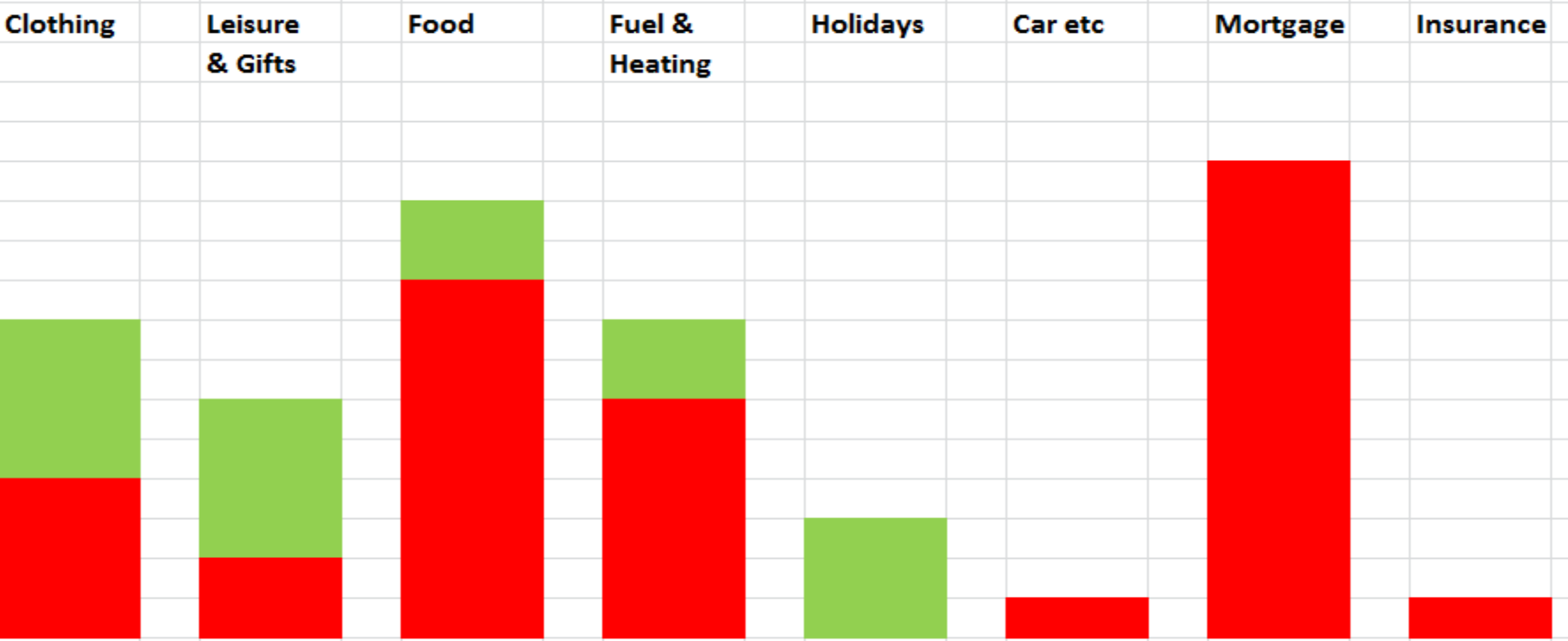
and

**The arrogance of public officials should be controlled.**

# What is zero base budgeting

- How many people know?
- If you were to lose a third of your income what would you do?
- What budgetary measures would you use?

# Household Budget



Assuming an income of £50,000 net

Each cell represents £1,000

	Discretionary	£15,000
	Essential	£35,000

30% of income will be lost i.e. £15,000

# History and Research

- Research by Canada and USA Government Finance Officers Association
- First became prominence in USA Government in 1970s and Canada in 1980s
- It has evolved and true zero base is rarely used now
- Priority-Driven Budgeting
- Target-Based Budgeting

# Zero Base Budgeting

Budgets are built from the ground up starting from zero.

Decision packages are presented and decided on.

## **Benefits**

- A powerful message that taxes and spending will be held in check
- Rationalises budget cuts
- Stops incremental increases
- Works well in fiscally challenging times
- A more rational and comprehensive approach to reducing budgets
- More transparent

## **Drawbacks**

- Labour and time intensive
- Too many or too few decision packages presented
- Easy to manipulate information in decision packages
- Does not address whether a service should actually be provided at all

# Affordability, Planning, Budgeting

**Prerequisite:  
What is Affordable?**

## Planning

What are the community's priorities and how can government action add value?

How much and what quality of service does the community need from a given program?

Is the service provided efficiently?

## Budgeting

What programs should we fund in order to best achieve the priorities?

What level of service should we fund within a program?

For a given service level, are the requested inputs reasonable for the output we expect to receive?

# Evolution of Zero Base Budgeting

## **Zero Line-Item Budgeting**

Each line of expenditure is scrutinised so more beneficial for smaller organisations

Identifies better uses of resources within a department

Engages managers in budget decisions

Can lead to efficiency gains

## **Service Level Budgeting**

Focus is on decision packages rather than line by line costs

Implication of decisions is very clear

Decision makers can select different service levels

Paperwork extensive



# Evolution of Zero Base Budgeting

## **Priority Budgeting**

Planning process used to identify priorities

## **Advantages**

Rationally considers relative value of different programs versus community need

Funding allocated according to how well they achieve the goals

Not incremental

## **Disadvantages**

More work than traditional budgeting

Less focus on service level options than zero base budgeting

# Evolution of Zero Base Budgeting

## **Program Review**

A planning process outside of the budget process

Can consider community need, service levels, efficiency, or alternative services delivery programmes

## **Advantages**

In-depth look at need, service levels and efficiency

Free from immediate pressures of budget process

## **Disadvantages**

Additional level of effort above budget process

No established way of using results in budget process

# Zero Base Budgeting – Yes or No

## If they have not used ZBB, why not?\*

Zero-base budgeting is perceived as being too much work	42.8%
No one has raised zero base budgeting as a serious option	35.7%
Insufficient knowledge, training, technical support available	14.8%
Departments were resistant to zero-base budgeting	12.7%
Central management was resistant to ZBB	8.5%
Elected officials resistant to ZBB	6.0%
Central budget staff were resistant to ZBB	5.6%
Have not heard of zero-base budgeting /don't know what it is	1.8%
Other**	30.0%

## If they are using ZBB, how satisfied are they? (% responding satisfied or very satisfied)+

Central budget office	71.0%
Chief executive officer	65.8%
Governing board	57.9%

# Basis Expenditure and Activity Report

Report by the Public Accounts Committee in July 2011 based on the 2010/2011 budgets:

- All departments forecasting the need for additional staff
- Very few savings forecast
- An implication that costs will be increased rather than decreased
- Unimaginative and detached from reality

## **Recommendations**

- Need to reduce spending to be impressed on all
- Schemes that are determined to be unnecessary, or non essential, should be removed from the forecasts

# Conclusion

The organisations that have used some form of zero base budgeting have benefitted from it.

Our Treasury Minister will not consider it because he states that the recommendations of the BEAR Report have been implemented and it would be “navel gazing” and would “distract from the real work” that needs to be done.

“We have sufficient information available already to enable effective priority setting to take place.....”

There are those who disagree with this stance.



"I'VE TAKEN ANOTHER CLOSE LOOK AT THE BUDGET, AND I'M SORRY I'M GOING TO HAVE TO LET TWO OF YOU GO."