

WHAT IS ZERO-BASE BUDGETING?

Zero-base Budgeting is a budgeting and financial management strategy to help policy makers achieve more cost-effective delivery of public services.

The concept of zero-base budgeting has been utilized successfully by private corporations and recommended for application to the federal budget for some time. For government use, this planning and budgeting technique endeavors to redirect effort and funds from lower priority current programs to higher priority new programs, improve efficiency and effectiveness, and reduce spending.

Traditionally, most government budgets have been constructed by adding to the current expenditure level such amounts as seem warranted by circumstances. In most jurisdictions, expenditures for the coming year will exceed those of the current year. For this reason, most attention is directed to the “increments” that have been added to this year’s expenditures to reach the proposed budget total. A major flaw in incremental budgeting is that it assumes the current year’s expenditure level is justifiable and this may not be true. It may be either too high or too low.

Zero-base budgeting, on the other hand, is a detailed and concentrated study of those activities that might be considered costly or ineffective and that continue to be funded primarily because they are never examined.

It may be useful for one or more government programs to be subjected to zero-base budget analysis every year. In such an analysis it is not assumed that the current year’s spending for a particular program is justified. On the contrary, the wisdom of spending any money at all on the program is examined.

These questions are typical for analyses of this type:

- Is there any measurable evidence of the value of the program under review?
- Are the goals and objectives of the program important enough to warrant the expenditure being made?
- What would happen if the program were not provided at all?
- Are there other less costly and more effective ways of achieving these objectives?
- Where would the program fit in if all programs were displayed in order of importance?
- Would the benefits be greater if a portion of the funds spent on the program under review were used instead for other programs?

An important element of this budgeting procedure is that it forces prioritization of government programs and activities. With the prospect of insufficient revenue to match the demand for spending, it is useful for government to have a ranking of programs and activities based on proven effectiveness, as well as suggested alternatives to expensive or ineffective programs.

There are two basic steps to the process of zero-base budgeting. The first step is to develop what is referred to as “decision packages.” The second is to rank the decision packages. The decision package is a document that identifies and explains the specific activity, its goals and objectives, measurement of performance, costs, benefits, and

alternative courses of action. Ranking of decision packages is then accomplished at each management level until a comprehensive agencywide ranking is obtained.

Conceptually, zero-base budgeting is a systematic logical approach to allocating limited resources where they will do the most good.

Modified Zero Based Budgeting

Service-level budgeting is a modified zero-base budgeting approach. This concept matches spending levels with services to be performed. Under zero-base budgeting, a great deal of effort can be devoted to documenting personnel and expense requirements that are readily accepted as necessary. Modified zero-base budgeting can avoid this by starting at a base that is higher than zero. An appropriate starting point for a jurisdiction might be 80 or 85 percent of current spending levels. High-priority requests above this level could be identified to restore part or all of the current year's service levels.

Desirable new programs could also be considered for funding. As a result, a legislative body might be presented the choice of reducing some current operations in favor of adopting a new program. Thus a new program might be funded out of savings incurred by reduction of an existing program. The phrase "service-level budgeting" is in some cases a better description for this process.