

Zero-based Budgeting



Council Presentation
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What is *Zero-based Budgeting (ZBB)*?

ZBB: an approach to planning and decision-making that reverses the working process of traditional budgeting

- Requires that the budget request be evaluated thoroughly, starting from zero-base;
- Every part of the budget must be approved;
- Fresh budget prepared without reference to the past;
- Process is independent of whether specific line items are increasing or decreasing;
- Identifies services, service level, and the funding of these services -- independent of current funding

Many other budgeting techniques:

- Traditional Incremental Budgeting: departments justify only variances assuming the “baseline” is justified because of past experience.
 - “Zero-sum Budgeting”: a personal finance technique budgeting every unit of income and then offsetting budgetary increases with corresponding decrease.
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Potential Advantages & Disadvantages

Potential Advantages:

- 1) Allocates resources based on priorities and benefits rather than history
 - 2) Focuses managers on cost effective ways to improve operations
 - 3) Detects inflated budgets
 - 4) Increases managements initiative and responsibility in decision-making
 - 5) Increases communication and coordination within the organization
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Potential Advantages & Disadvantages

Potential Advantages: (Continued)

- 6) Identifies and eliminates wasteful and obsolete services
 - 7) Identifies opportunities for alternate service or outsourcing
 - 8) Forces departments to better align resources to mission, mission elements, and goals
 - 9) Facilitates more effective delegation of authority
 - 10) Identifies areas of wasteful spending, and can suggest alternative courses of action.
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Potential Advantages & Disadvantages

Potential Disadvantages:

- 1) Much more time-consuming than incremental budgeting
- 2) Justifying every line item can be problematic for departments with intangible outputs
- 3) Requires specific training due to increased complexity vs. incremental budgeting
- 4) In a large organization, the amount of information backing up the budgeting process may be overwhelming



What is the history of *ZBB*?

- *ZBB* rose to prominence in 1970's (President Carter)
 - Interest in *ZBB* declined for many years:
 - Too much paperwork & data
 - Doubt about method's ability to fully meet its theoretical promises
 - Improving economic conditions from late '70s & early '80s
 - Actual use of *ZBB*-"**type**" practices have increased
 - Governments using *ZBB* are using "**practical**" versions of *ZBB* that are less intensive than theoretical *ZBB*
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Theoretical ZBB

- Organization divided up into decision units
 - lowest level at which budget decisions are made
 - Managers prepare detailed description & evaluation of all activities including alternatives
 - Information used to create “decision packages” showing varying levels of effort & cost
 - Multiple decision packages for each decision unit
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ZBB Budgeting in Practice

- Pure theoretical *ZBB* very rare in practice
 - only 2 governments from a sample of 413 based on a GFOA survey
- Port Industries do not use *ZBB* for operating budgets
 - some use aspects of *ZBB* for capital projects focusing on ROI
- Del Mar, TAMU-CC and Port of CC do not use *ZBB*
- 13 Texas cities¹ surveyed do not use *ZBB*
 - All use a hybrid of several budgeting methods

¹ Amarillo, Arlington, Austin, Dallas, El Paso, Fort Worth, Garland, Grand Prairie, Irving, Laredo, Lubbock, Plano, San Antonio.



What method do we use?

- The City of Corpus Christi uses some aspects of *ZBB* (decision packages) combined with several other budgeting methodologies



How would we apply *ZBB* here?

- Departments identify services provided by mission element
 - Decision packages developed for each service based on various service levels and determine core/non-core
 - Decision packages would be driven by data to the extent possible
 - Budget is developed in each fund using decision packages
 - Process requires more input by management and City Council prior to final budget adoption
 - Process requires much more time and effort by staff
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QUESTIONS
