

## ZERO BASE BUDGET

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## Evolution of Budgetary Reforms

BUDGETARY EVOLUTION TIMELINE	FOCUS ON MANAGING INPUTS & OUTPUTS, INCREMENTAL IN POLICY MAKING STYLE	REFORM ORIENTATION
<ul style="list-style-type: none"> <li>Performance Budget (wartime: 1960)</li> <li>PPBS (1960s-1970s)</li> <li>ZBB (1970-1980s)</li> <li>Outback management (1990s)</li> <li>Budgeting for Results</li> <li>Main reform issues</li> </ul>	<ul style="list-style-type: none"> <li>Focus on national planning- inputs, outputs, effects, taxation</li> <li>Focus on policy prioritization</li> <li>Cost cutting, efficiency reviews, privatization, contracting out.</li> <li>Performance indicators, output targets and evaluation</li> </ul>	<ul style="list-style-type: none"> <li>Efficiency oriented</li> <li>Policy oriented</li> <li>Decision making Oriented</li> <li>Efficiency oriented.</li> <li>Decision making and control over spending.</li> </ul>

## BUDGET SYSTEMS- COMPARISON

Traditional Financial Culture	New Financial Culture
<ul style="list-style-type: none"> <li>Control by item expenditure details.</li> <li>Control by process &amp; procedure (Detailed Regulations &amp; Scrutiny of inputs).</li> <li>Control by negotiations as increments on top of historical base</li> <li>Control by bureaucratic politics (incremental politics).</li> </ul>	<ul style="list-style-type: none"> <li>Control by Budget caps.</li> <li>Control by fiscal targets supplemented by budgeting for results.</li> <li>Control by benchmark and baseline.</li> <li>Control by managerial culture.</li> </ul>

## CONCEPT OF ZBB

- ZBB is a type of budgeting process where each item of expenditure under consideration is evaluated from scratch for the new financial year and starts with zero and taken when only its needs are fully justified.
- The primary objective of ZBB is to reduce and end all unnecessary expenditure.
- ZBB is in contrast to traditional budget which is incremental and based on previous budgets.
- The principle of ZBB requires the expenditure on even ongoing activities to be justified..... It is to be applied not only to items of non development expenditure but also to those of development expenditure. ( seventh five year plan

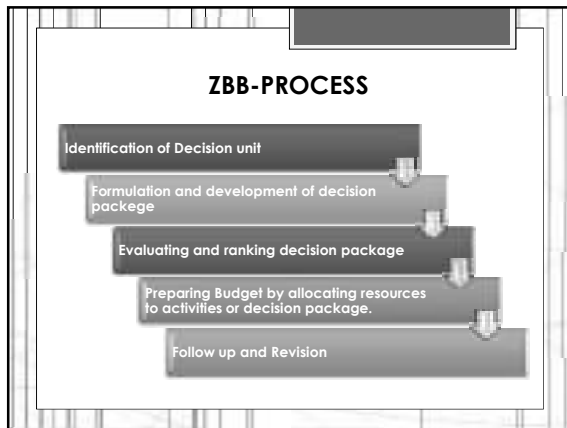
## DIFFERENCE BETWEEN TRADITIONAL BUDGET AND ZBB

Traditional Budget	Zero Base Budget
<ul style="list-style-type: none"> <li>Previous year budget taken as base.</li> <li>It is more cost accounting oriented.</li> <li>In traditional budget justification of line item and expenditure is not needed</li> <li>No alternative is given..</li> </ul>	<ul style="list-style-type: none"> <li>ZBB re-evaluates each activity, so starts from scratch.</li> <li>It is more decision oriented.</li> <li>In ZBB all expenditure require proper justification as well as ranking of activities.</li> <li>It also provides for alternatives.</li> </ul>

## ZBB- HISTORY

The idea of ZBB was given by E. Hilton in 1924.

- In 1952, Verne Lewis advocated the new ZBB approach.
- 1964, ZBB was first time introduced by US department of agriculture.
- 1973, ZBB was adopted by Georgia state.
- In 1983, Deptt. Of Science and Technology GOI used it.



### DECISION UNIT

- Decision unit is a distinct segment of an organization for which budget is prepared.
- This segment may be a program, activity or project.
- This segment should not be too small nor too big in terms of expenditure.

### DECISION PACKAGE IS COMPREHENSIVE JUSTIFICATION OF BUDGET ESTIMATES

It contains:

- Goals/objectives of various activities of various functions/activities of the unit.
- Benefits to be derived from financing the activity/program.
- Relevance of the activity/program
- description of the function or activity of decision unit.
- Consequences of non funding.
- The project and estimated cost of the package.
- The yearly phasing of the proposed expenditure/ project cost.
- Alternative way of performing the same activity.

### ZBB-MYTHS & REALITIES

**ZBB means budget from zero**  
 ✓ It means to build a sustainable culture of cost mgt.

**Implementation of ZBB requires 'cutting to bones'.**  
 ✓ cost cutting depends on company's top down target.

**ZBB only focuses on SG&A**  
 ✓ ZBB applies to all type of cost expenditures.

**ZBB is slash and burn process not for growth oriented companies.**  
 ✓ It is successful for growing companies.

### ZBB-ADVANTAGES

- Efficiency
- Accuracy
- Budget Inflation
- Coordination and communication
- Reduction in redundant activities.

### ZBB-DISADVANTAGES

- High Manpower Turnover
- Time consuming
- Lack of expertise
- Cumbersome.