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**ZERO BASE BUDGET**

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**Evolution of Budgetary Reforms**

**BUDGETARY EVOLUTION TIMELINE**

- **Performance Budget (wartime)**
- **PPBS (1960-1970)**
- **ZBB (1970-1980s)**
- **Cutback management (1980s)**
- **Budgeting for Results**

**FOCUS ON MANAGING INPUTS & OUTPUTS, INCREMENTAL IN POLICY MAKING STYLE**

- Focus on national planning - inputs, outputs, effects, taxation
- Focus on policy prioritization
- Cost cutting, efficiency reviews, privatization, contracting out
- Performance indicators, output targets and evaluation

**REFORM ORIENTATION**

- Efficiency oriented
- Policy oriented
- Decision making oriented
- Efficiency oriented, decision making and control over spending

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**BUDGET SYSTEMS - COMPARISON**

<table>
<thead>
<tr>
<th>Traditional Financial Culture</th>
<th>New Financial Culture</th>
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<tbody>
<tr>
<td>Control by item expenditure details.</td>
<td>Control by Budget caps.</td>
</tr>
<tr>
<td>Control by process &amp; procedure.</td>
<td>Control by fiscal targets supplemented by budgeting for results.</td>
</tr>
<tr>
<td>Control by negotiations as increases on top of historical base.</td>
<td>Control by benchmark and baseline.</td>
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<tr>
<td>Control by bureaucratic politics</td>
<td>Control by managerial culture.</td>
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**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)

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**DIFFERENCE BETWEEN TRADITIONAL BUDGET AND ZBB**

<table>
<thead>
<tr>
<th>Traditional Budget</th>
<th>Zero Base Budget</th>
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<tbody>
<tr>
<td>Previous year budget taken as base.</td>
<td>ZBB re-evaluates each activity, no start from scratch.</td>
</tr>
<tr>
<td>It is more cost accounting oriented.</td>
<td>It is more decision oriented.</td>
</tr>
<tr>
<td>In traditional budget justification of line items and expenditure is not needed</td>
<td>In ZBB all expenditure require proper justification as well as ranking of activities.</td>
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<td>No alternative is given.</td>
<td>It also provides for alternatives.</td>
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**ZBB - HISTORY**

- The idea of ZBB was given by E. Hilton in 1924.
- In 1952, Verne Lewis advocated the new ZBB approach.
- In 1964, ZBB was first time introduced by US department of agriculture.
- In 1973, ZBB was adopted by Georgia state.
- In 1983, Deptt. Of Science and Technology GOI used it.
Identification of Decision unit

Formulation and development of decision package

Evaluating and ranking decision package

Preparing budget by allocating resources to activities or decision package

Follow up and Revision

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.

ZBB PROCESS

DECISION UNIT

Identification of Decision unit

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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 mgmt.
- 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.