

# **Zero-Based Budgeting (ZBB)**

## **What is Zero-Based Budgeting?**

ZBB is a management tool used to help organizations achieve more cost-effective avenues for the delivery of services. It requires that programs and services be justified from the ground up each budget cycle while using the previous year's budget to provide cost information.

For organizations such as ours it gives the opportunity to redirect effort and funds from current programs having low impact on student achievement to new programs that will meet the goals of our District.

When implemented properly ZBB enables an organization to plan and make decisions about the most efficient and effective ways to use their available resources to achieve their defined mission, goals and objectives.

## **What are the major benefits of ZBB for administrators and budget managers?**

ZBB addresses and supports comprehensive planning, shared decision-making, the development and application of strategies and allocation of resources as a way of achieving established goals and objectives. In addition, ZBB supports the added processes of monitoring and evaluation. ZBB when properly implemented in an organization can assist to:

- Develop and/or modify their organization's mission and goals
- Establish broad policies based on the mission and goals
- Provide a means of forecasting and planning, allowing you to analyze and forecast the impact on projects and activities and then plan accordingly.
- Efficiently identify programs that have the greatest impact on raising student achievement
- Allocate the appropriate level of resources to each program
- Monitor and evaluate each program during and at the end of its operation
- Report the effectiveness of each program
- Serve as an evaluation tool for changing responsibilities and workloads: can define peak periods, identify tools (vs. people) to improve efficiencies, identifies any needed cross-training
- Help to evaluate processes and policies that have been developed over time.

## What are the major processes for ZBB?

- **Definition of the Mission and Goals of the Organization**

Usually the organization has already established mission and goal statements. However, it may be necessary to redefine the ones that are already in existence and/or create new ones. This redefinition is particularly useful when there have been major changes in the internal and external environment.

- **Identification of the Organization's Decision Units and Decision Packages**

A ZBB decision unit is an operating division for which decision packages are to be developed and analyzed. It can also be described as a cost or a budget center. Managers of each decision unit are responsible for developing a description of each program to be operated in the next fiscal year or years. In ZBB these programs are referred to as decision packages and each decision package usually will have three or more alternative ways of achieving the decision package's objectives. **Briefly, each decision package alternative must contain, as a minimum, goals and/or objectives, activities, resources and their dollar costs. Also, the decision package should contain a description of how it contributes to the mission and goals of the organization.**

- **Analysis of Each Decision Package**

This analytic process allows the manager of the decision package and its alternatives to assess and justify its operation. Several questions should be asked and answered during the analytical process.

1. Does this decision package support and contribute to the goals of the organization?
2. What would be the result to the organization if the decision package is eliminated?
3. Can this decision package's objectives be accomplished more effectively and/or efficiently? This question will require creative planning by the person or persons developing the decision package.

- **Ranking of Decision Packages**

The ranking process is used to establish a rank priority of decision packages within the organization. During the ranking process managers and their staff will

analyze each of the several decision package alternatives. The analysis allows the manager to select the one alternative that has the greatest potential for achieving the objectives of the decision package. Ranking is a way of evaluating all decision packages in relation to each other. Since, there are any number of ways to rank decision packages managers will no doubt employ various methods of ranking. The main point is that the ranking of decision packages is an important process of ZBB.

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

- **Acceptance and Allocation of Resources**

Managers, following a review and analysis of all decision packages, will determine the level of resources to be allocated to each decision package. Managers at different levels of responsibility in the organization usually perform the review and analysis. Sometimes, the executive levels of management may require the managers of the decision packages to revise and resubmit their decision packages for additional review and analysis.

- **Budget Preparation**

The organization's budget is prepared following the acceptance and approval of the decision packages. Once the organization's budget has been approved managers of the decision units will place in operation all approved decision packages during the next fiscal year.

- **Monitoring and Evaluation**

The last major process of ZBB is monitoring and evaluation. The processes of planning, analysis, selection and budgeting of decision packages prepare the organization for operation during the next year. However, what managers plan to happen in the next fiscal year may or may not occur. Adjustments may be essential during the year in order to achieve the decision package objectives. Also, there is a need to know whether or not the organization did accomplish what it set out to achieve and what level of achievement was obtained. The monitoring and evaluation process of ZBB requires that the following be included in the overall design and implementation of decision packages.

**Decision package content should include:**

- Measurable performance objectives
- Appropriate activities as means for achieving the performance objectives

- Resource allocation essential for conducting the activities
- Methods for carrying out the activities as planned
- Evaluation of objective achievement during and at the end of the program of activities
- Procedures for reporting objective achievement to managers of the organization

## **The Importance of Planning**

A major planning effort is required by personnel of an organization when implementing ZBB. It is through the planning process that important guidelines and directions are provided for the development and ranking of the decision packages. Also, the planning process enables managers to prepare for the uncertainty of the future. Long-range planning allows managers to consider the potential consequences of current decisions over an extended time period.

### **The common components of the planning process are:**

- Development of the organization's mission and goals
- Generation of broad policies to guide and direct the organization
- Establishing and documenting the client or customer needs
- Creating a set of organization priorities
- Resource identification
- Decision package analysis, resource allocation and selection
- Budget preparation

### **Adherence to concepts and procedures of ZBB will result in the following:**

- Retention of desirable decision packages (including modification as may be necessary)
- Elimination of obsolete, non-relevant decision packages
- Increased or decreased levels of funding for some decision packages
- Addition of new decision packages

The ZBB planning process eliminates one of the major disadvantages of most traditional management and budgeting systems. Typically, in the traditional budgeting system planners focus on the incremental cost increases from year to year. ZBB overcomes this traditional budgeting weakness by subjecting all proposed programs and expenditures to the type of scrutiny that is normally conducted for new programs. The comprehensive resource cost analysis process is a strong internal planning characteristic of ZBB.