This article is a summary of a research report of the same title, recently released by GFOA and funded by a generous grant from the City of Calgary, Alberta. The report can accessed, free of charge, at www.gfoaconzulting.org under the research reports section of the resources tab.

When using zero-base budgeting (ZBB), a government builds a budget from the ground up, starting from zero. Though the apex of its popularity is long past, ZBB has seen renewed interest in today's environment of fiscal constraint, not least because the "zero" in zero-base budgeting sends a powerful message that taxes and spending will be held in check. However, the time lapse between the zenith of ZBB in the late 1970s and the present, as well as the political rhetoric surrounding the technique, has obscured the theory and practice of ZBB for many.

In elucidating this sometimes controversial and misunderstood budgeting method, this article will first describe the theoretical process of ZBB; however, because "textbook" ZBB is very rare, it will describe how GFOA research found ZBB is actually used in practice. Finally, the article will describe how public officials can decide if ZBB is right for their circumstances.

A BRIEF HISTORY

Zero-base budgeting first rose to prominence in government in the 1970s, when U.S. President Jimmy Carter promised to balance the federal budget in his first term and reform the federal budgeting system using zero-base budgeting, a method he had used while governor of Georgia. ZBB, as Carter and budget theorists envisioned it, required expenditure proposals to compete for funding on an equal basis — starting from zero. In theory, the organization’s entire budget would need to be justified and approved, rather than just making incremental changes from the prior year.

Interest in ZBB had been in decline for many years. The large amount of paperwork and data the method generates, in addition to doubts about its ability to fully meet its theoretical promises, were at least partially responsible. Also, the improving economic conditions from the low points of the late '70s and early '80s, in the United States, and the early '90s, in Canada, probably reduced the perceived need for what was largely regarded as a "cutback budgeting" method.

Pure ZBB might be largely gone, but it wasn’t forgotten, and vestiges have lived on since its heyday. In fact, ZBB seems to be experiencing a kind of resurgence. A GFOA survey shows that an increasing number of leading public budget practitioners (44 percent of all respondents) are considering ZBB, and approximately 20 percent of those surveyed say they are now using ZBB, at least in part — a 50 percent increase, compared to just before the worst of the 2008 recession. Governments are using “practical” versions of ZBB, but to better understand where these versions come from, it is useful understand the theory of ZBB.

THE THEORY BEHIND THE METHOD

ZBB promises to move the organization away from incremental budgeting, starting from zero, with the implication that past patterns of spending are no longer taken as a given. To deliver on this promise, the organization is first divided up into “decision units” — the lowest level at which budget decisions are made. A division of a department is a common decision unit. Managers in each decision unit then prepare a detailed description and evaluation of all activities the division performs, including alternatives to current service delivery methods and the spending plans necessary to achieve the decision unit’s goals. This information is used to create a number of “decision packages,” which show marginal spending-level differences that represent varying levels of effort and cost. There should be at least three decision packages for each decision unit, although there could be as many as ten or even more. The three elementary categories of decision packages are presented below:

- **Base package.** This type of package meets only the most fundamental service needs of the decision unit’s clientele and represents the minimum level of funding needed for the unit’s services to remain viable.
- **Current service package.** This describes what it takes
to continue the level of service currently provided. The difference between the base package and the current service level can be expressed by multiple decision packages, with each package representing one aspect.

- **Enhanced package.** This describes the resources required to expand service beyond current levels.

In addition to the detailed information on inputs (dollars, personnel) needed to provide the service, decision packages include performance measures that express the impact of the package on service levels. For instance, a series of decision packages from a street repair division might use measures to describe the variation in lane miles that can be maintained and the smoothness of the car ride that will be experienced (which might be expressed through a pavement quality index).

Because of the detailed information required, and because decision packages are created for the lowest levels of budgetary decision making, ZBB requires a lot of involvement by mid-level and perhaps even line managers. Each division creates between three and ten decision packages. After these are completed, they are ranked within their organizational units. For example, in a local government, the head of a department might gather the decision packages from each division of the department and then rank all of them.

Central budget authorities (the budget office, chief executive, governing body) then use the rankings as the basis for making allocations. For instance, each department would submit its suggested ranking to the chief executive, who would use those rankings to formulate a recommended budget for review by the governing body.

The foremost theoretical advantage of ZBB is that it offers a rational and comprehensive means for cutting the budget. Cuts are based on the perceived value to the organization, and all spending is put under scrutiny. In comparison, a traditional line-item process focuses on incremental spending and provides no clear way to compare the value of one service to another and to thereby rationally determine different reductions for different services.

The other major advantage is that ZBB gives top management insight into the detailed workings of departments. In theory, ZBB clearly differentiates service-level options, the impact of different service levels on what the community will receive from government, and a detailed plan for the inputs necessary to provide those service-level options.

There are also theoretical drawbacks to ZBB. The most widely cited is the amount of work associated with generating the decision packages and then reviewing them. An organization could develop hundreds of decision packages, requiring substantial commitments of time from every level of management to develop, review, and rank them all.

Another important drawback is reluctance on the part of managers to suggest decision packages that are less than current spending. For risk-averse departmental managers, the advantage of an incremental budget process is that only a marginal portion of their budgets are on the line in any given year. Under ZBB, the whole budget is on the line and managers are, in fact, expected to actively provide far-reaching options for how their budgets can be cut back, including revealing the absolute minimum level of funding they can accept. This dynamic might lead managers to resist ZBB.

The final theoretical drawback is that ZBB is not associated with an explicit planning process that is separate from the budget process. This has two primary implications. First, ZBB is driven largely by managers’ perceptions and preferences and does not provide a structured way to account for views and long-term priorities held by the community and elected officials. Elected officials might provide input on the final ranking of decision packages, but even this is simply reacting to staff recommendations, and it happens too late in the process to have much of an effect on how the budget is structured. The second implication is that because participants in the ZBB process will necessarily be preoccupied with putting together the numbers for decision packages, they will find it extremely difficult to focus on how significant changes could be made to the way a service is provided. As a result, partici-
pants tend to focus on the current service model and dividing that into decision packages.

So far, the discussion of ZBB has been theoretical. The next section examines the practical implications of ZBB.

**ZERO-BASE BUDGETING IN PRACTICE**

The term “zero-base budgeting” is often applied to budgeting methods that borrow elements of pure ZBB but do not conform to the theoretical ideal. According to GFOA’s research, jurisdictions that describe themselves as using ZBB tend to fall into two major categories. First is the “zero line-item budgeting” group, which focuses on determining if inputs (personnel, dollars) are reasonable, given the expected output. Second is the “service-level budgeting” group, which presents decision makers with different service levels and asks them to choose, thus focusing on what level of service a department should provide. Departments concentrate on presenting decision packages and service levels with associated metrics, with less emphasis on detailed input estimates.

**Zero Line-Item Budgeting.** In this method of budgeting, departments receive a blank budget request form with zeros filled in for each line item, instead of last year’s budget or actual expenditures as the starting point. Departments then rebuild their budgets from the ground up, justifying each line item. Where possible, departments are asked to provide drivers of cost. To illustrate, for its equipment line item, the police department in the City of O’Fallon, Missouri, describes the precise amounts it will need to spend on portable radio replacement parts, flashlight parts, digital voice recorders, polygraphs, and Taser cartridges, including explanations of why each expenditure is necessary.

These requests and justifications are sent to the central budget authority (finance department, budget office, city manager), where they are reviewed. The budget requests are often accompanied by service goals the departments set to give budget authorities a better sense of what the output received for the input will be, but departments do not develop decision packages to describe service levels. Central budget authorities consider the requests, along with the goals; further discuss them with departments, as necessary; and then develop a final recommended budget.

This form of budgeting improves cost consciousness and increases the number of in-depth discussions between budget authorities and departments about how money is spent. Further, budget discussions focus on more than just incremental changes in spending — the entire budget is looked at with a new perspective. For example, as a result of its prior ZBB experience, Johnson City, Tennessee, plans to re-conceptualize its thinking about parks and recreation services by moving toward a site-by-site analysis of park services, rather than the traditional department-wide view of major objects of expenditure (personnel, supplies).

Zero line-item budgeting helps identify better uses of available resources within a department’s budget. For example, one department realized that the money being spent on uniforms for civilian employees could probably be better used elsewhere. At the same time, zero line-item budgeting does not include the decision-making procedures needed when shifting resources among departments, which can be controversial.

There are also theoretical drawbacks to ZBB. The most widely cited is the amount of work associated with generating the decision packages and then reviewing them.

This type of budgeting does provide efficiency gains, but they are not systematic. For example, when examining maintenance costs for public lands, the Johnson City Public Works
Department realized that a crew for right-of-way maintenance would visit a given location to perform basic maintenance, and a crew for weeding and mosquito spraying would visit the same site at a later date. The department concluded that it did not need a separate budget for spraying and that these tasks could be handled by the other crews already working at these locations. While these gains are important, they are a byproduct of the increased scrutiny on inputs, not the primary objective of the process. Hence, gains tend to be uneven across the government.

Service-level budgeting emphasizes the decision package feature of ZBB theory, and the detailed estimate of inputs found in zero line-item budgeting receives less emphasis. In Hillsborough County, for example, each decision package incorporated pieces of supporting information such as the positions included, costs by major object of expenditure, and performance measures. For the most part, departments had a great deal of latitude in how to develop their decision packages, though the central budget office did provide guidance in a few key areas:

- Foremost, departments were strongly encouraged to avoid submitting too few decision packages, which would have put central budget authorities in an all-or-nothing position when selecting service levels.
- The departments were provided with context for developing decision packages, such as a five-year countywide pro forma from the budget office and the county board’s strategic plan.
- The budget office had a manager of performance management position dedicated to helping departments identify performance measures, benchmark against others, and tie those measures to the county’s strategic plan.

Departments ranked the completed decision packages while placing them into categories similar to those described by ZBB theory (see Exhibit 1 for an example of ranked decision packages for a library). They then sent their rankings to the budget officer and county administrator. The administrator examined the decision packages, asked questions as needed, made selections based on the departments’ rankings and his own understanding of the board’s goals, and modified the packages as needed. Finally, the county administrator and central budget office used all of this information, along with other considerations such as unit costs for providing a service and the proportion of the eligible population served by a service, to create a final recommended budget for the county board. This included some reallocations among departments, compared to the prior year.

In service-level budgeting, decision packages must provide detailed service-level choices. The decision packages presented by decision units have to be sufficiently detailed to allow

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Exhibit adapted from Hillsborough County budget documents, but simplified for presentation purposes.
for meaningful selection among service levels. Articulating service levels can be difficult, and managers rarely have a clear understanding of the relationship between service inputs and outputs, much less outcomes. Hence, translating service levels that are different from those currently provided into dollar amounts can be a challenge.

Doing so, however, allows decision makers to follow a more rational cutback strategy than across-the-board cuts because it shows the implications of cutback decisions. Service-level budgeting makes it clear what the government will stop doing when a budget is cut.

Service-level budgeting is also paperwork-intensive. Those who have used this sort of budgeting have taken many approaches to mitigating the paperwork. Hillsborough County switched to a biennial budget process so the work would be required only every other year. Hillsborough County also used departments as the decision unit, rather than a lower level of the organization. Manatee County, also in Florida, developed standard costs for different types of services to make it easier for departments to calculate the costs of their decision packages. The City of Windsor, Ontario, asked only a third of departments to participate every year (meaning the entire organization received a zero-base review over three years).

IS ZBB FOR YOU?

GFOA’s research showed a variety of opinions on ZBB among public managers, but most of those who have used the method tend to be satisfied with the results, suggesting that it has potential in some cases. In particular, ZBB proved useful for moving the organization away from incremental budgeting and across-the-board cuts, and for making the trade-offs between budget reductions and service reductions more transparent. Following are questions to consider when deciding if ZBB is right for you.

What Is ZBB Replacing? If the current system of budgeting is not working — for example, it is incremental, relies on across-the-board budget cuts, or does not recognize that service impacts are sometimes an inevitable trade-off for budget cuts — then ZBB could represent an improvement.

Is Performance Data Available to Help Make Different Funding Levels Meaningful? If the organization has experience with performance measures and understands the relationship between costs and service levels, and between service levels and community impact, it could make more effective use of ZBB.

How Much Work Will Be Required to Implement ZBB? To implement ZBB, organizations must have budget staff to develop forms and training. The analytical skills and the capacity of managers to engage in ZBB analysis are also important. The availability of these resources needs to be compared with the time available and the goals for ZBB. If the organization is facing a large budget deficit and needs to come to a solution in a short period of time, ZBB might not be the answer.

How Comprehensive a Budget Process Does the Organization Want? Do elected officials want to delve into the details of operating departments? ZBB is sometimes driven by elected officials’ interest in knowing what the organization does at a detailed level. In others, elected officials do not find the details helpful. Also, is the organization willing and able to have conversations about funding basic or core services? Some organizations may be able to use these conversations to question long-standing assumptions.

How Sustainable Should Budget Reform Be? Many organizations begin ZBB with the intention of using it only for a set period of time or for certain parts of the organization. The logic behind such an approach is that ZBB analysis will provide diminishing returns over time — the first analysis might provide large benefits, but subsequent analyses will provide much less. If the organization is willing to experi-
ment with an approach that could provide important, but potentially temporary, net benefits, then ZBB might be worth exploring.

**How Does the Organization’s Leadership View ZBB?**

Given challenges associated with ZBB, a clear endorsement from the organization’s leadership is needed to make it work. For example, the case study governments that have found success with ZBB reported minimal problems with the budgetary “game playing” that is said to afflict ZBB. This is probably because top leaders in those organizations made it clear that attempts to game the system would not be tolerated.

**CONCLUSIONS**

Like most budget reforms that promise to bring more rationality and comprehensive decision making to budgeting, zero-base budgeting has limitations. Budgeting is always art as much as it is science, and it is up to public officials to decide the extent to which ZBB, or at least elements of it, help the organization present financial and service information to decision makers in a way that will help them reach a structurally balanced budget that meets the needs of the community.

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**Notes**

1. Only one government that participated in the GFOA survey reported using “textbook” ZBB. As the article explains, others that reported using ZBB are using budgeting methods that are, in part, inspired by ZBB ideas.
2. In the early 1980s, ZBB was subject to a great deal of academic evaluation that documents many of these perceived shortcomings. For example, see: Perry Moore, “Zero-Base Budgeting in American Cities,” Public Administration Review, Vol. 40, No. 3, 1980; and Allen Schick and Harry Hatry, “Zero Base Budgeting: The Manager’s Budget,” Public Budgeting & Finance Vol. 2, No. 1.
3. Irene Rubin and Lana Stein point out that poor economic conditions cause a demand for more activist local government, which in turn creates a demand for budgeting systems that feature greater flexibility and responsiveness (see Rubin and Stein, “Budget Reform in St. Louis,” Public Administration Review, Vol. 50, No. 4 1990). Presumably, when conditions improve, a budgeting process that suits a caretaker approach to governing becomes acceptable.
5. Based on a survey of participants in the GFOA Distinguished Budget Presentation Awards program.

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