

"Ideas on: Zero-Base Budgeting"

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Aparna Sengupta
Associate Professor
HOD, Department of Economics

Zero-Base Budgeting:—

Zero-base budgeting (ZBB) is an innovative technique to guard against wastage in public expenditure. The technique works out NOT through auditing which is a post-operative check but an examination of the very rationale of an expenditure item under consideration. It is a method which is sought to be transplanted from the commercial world. In the literal sense, it is a method for building the budget with zero prior bases.

Zero based budgeting (ZBB) is a method of budgeting in which expenses must be justified for each new period. The process of zero-based budgeting starts from a "zero base" and every function within an organization is analyzed for its needs and costs. Budgets are then built around what is needed for the upcoming

Period, regardless of whether each budget is higher or lower than the previous one. So, Zero based budgeting is Contrary to the traditional budgeting in which past sales/ expenditure are expected to continue.

Steps of Zero-based budgeting: —

1. Start — Begin at ground zero —
2. Evaluate — Evaluate every Cost area —
3. Justify — Account for all Components of the budget —
4. Streamline — Determine what activities should be performed and how —
5. Execute — Roll out Comprehensive planning and execution processes.

Advantages of Zero base budgeting: —

1. Zero base budgeting helps in efficient allocation of resources as it is based on needs and benefits.
2. Emphasize on Decision making. So It improves Co-ordination and Communication

- and motivates on focused operation.
3. Orientation towards Cost-benefit Analysis.
Disciplined execution leads to Cost-effective ways of doing things by removing all the unproductive or redundant activities
 4. Discontinuation of an obsolete process.
Zero-based budget Overcomes the weakness of incremental budgeting of budget inflation.

Disadvantages: —

1. Zero based budgeting is a very time-intensive exercise. It is time-consuming for a Govt. to do every year as against incremental budgeting.
2. zero base budget changes with the change in an organization. So it may lead to skills and management conflict. Many departments may not have an adequate time and human resource for the same.
3. Zero base budgeting is subjective

in nature. More paper work is involved in the preparation of ZBB and detrimental to long term growth.

In spite of the above disadvantages, ZBB was adopted by several governments all over the world to improve their budgeting skills. ZBB was first tried by Mr. Jimmy Carter in 1973 when he was the Governor of Georgia, with proper remoulding. Later on, it was adopted by a number of states in the USA. India also thought of adopting this line of thinking. The prevailing circumstances and rapidly increasing Govt. expenditure lend support to this philosophy. In our country, the existing provisions for scrutinizing expenditure proposals are quite elaborate. Each proposal has to be cleared through a number of stages which makes a lot of delays and cost escalation. The reality is that there is hardly any effective

System for evaluating non-plan expenditure.
At the same time, it must also be remembered that an effective adoption of ZBB is not an easy task. No ministry or department likes to admit that its usefulness has decreased or vanished. Actually, the very mechanism of additional checks and justifications tend to add to the total public expenditure instead of bringing it down.
