

Zero-Base Budget (ZBB) Submission

ODP

I. GENERAL

A. This provides guidance and instructions for preparation and submission of a simplified zero-base budget. To the extent possible, the requirements outlined herein are designed to use much of the data already prepared for the 1979 Program submission. Therefore, the submission will not conform to all of the concepts of the the ZBB process as we now understand them. However, the ZBB submission will give Agency management a general idea of what will be involved in the new budget system.

B. For the purpose of this initial effort, and in the absence of more specific information from the Office of Management and Budget, existing Resource Packages should be used as the basic building blocks for development of your zero-base budget. However, to bring your submission into closer conformity with some of the concepts of ZBB, some adjustments in the resource levels as included in your Program submissions may be necessary. Separate packages for the incremental resource levels of existing Resource Packages must be developed. We do not at this time intend to seek detailed funds data (i.e., at the object class level); only total resource requirements will be reflected in your ZBB submission. You should use both the position and funds data in your Program submission as a basis for the resource requirements included in your ZBB submission.

C. The ZBB submission should use the terms we understand that OMB plans to apply to the new process. Specifically, the terms "Decision Package" and "Decision Unit" will be used. In general, the latter equates to our existing Resource Package while the former equates to each of the various levels proposed for existing Resource Packages. For example, in relation to your Program submission, the minimum resource level for an existing Resource Package becomes a separate Decision Package; the additional resources proposed above the minimum level to bring the same activity up to the principal level become a separate Decision Package; the resources above the principal level which bring the activity up to the maximum level also become a separate Decision Package; and the aggregate of these Decision Packages (i.e., a "Decision Package Set") becomes a Decision Unit.

II. NUMBERING OF DECISION PACKAGES

A. To facilitate the identification of Decision Packages during the ranking process by different levels of management, a standard numbering system is desirable. We propose that a combination of letters (to identify the component and the Decision Unit) and numbers (to identify the individual Decision Packages representing the various incremental levels of resources) be used.

B. The first letters will be the component abbreviation, to be followed by a slash ("/") and a letter (beginning with the letter "A") representing an existing Resource Package, and a number in parenthesis to identify each of the several packages within the specific activity or program (i.e., Decision Unit). For example, "OMS/A(1 of 4)" would be the first of four Decision Packages for Decision Unit A in the Office of Medical Services. The "A" in this example equates to the Resource Package which the Office of Medical Services refers to as "OMS 1" in its 1979 Program submission.

III. PREPARATION OF THE ZBB SUBMISSION

A. Decision Package submissions will be made in the format shown in Exhibit A. The data for each package should not exceed two pages in length.

B. A set of Decision Packages, representing a Decision Unit, will be summarized in the format shown in Exhibit B. Much of the data required for Sections II, IV, and VIII of Exhibit B can be readily adapted from the appropriate Program submission. The Decision Unit Summary also should be limited to two pages if possible.

C. A ranking of Decision Packages will complete the ZBB submission. The component ranking will be prepared in the format shown in Exhibit C, with the Directorate ranking in a similar format as shown in Exhibit D. It should be emphasized that the ranking of Decision Packages in terms of the essentiality or priority of the activities and programs proposed is central to the ZBB process. While there may be less significance attached to whether one basic Decision Package is ranked higher or lower than another basic Decision Package [e.g., OMS/C(1 of 3) in relation to OMS/A(1 of 5)], the ranking of Decision Packages, and particularly incremental packages is very important. Therefore, careful attention should be paid to the order in which Decision Packages are listed on the ranking forms (Exhibits C and D). In this process, program managers must decide on the relative importance or essentiality of all Decision Packages subject to their review and evaluation [e.g., whether OMS/A(2 of 4) is more or less essential than OMS/B(1 of 3), than OMS/C(2 of 3), etc.].

IV. OTHER

Your ZBB submission is due in the Office of the Comptroller on 11 May 1977 in two copies.

Decision Package Data

I. Identification:

Package Name _____ No. _____
Directorate _____ Component _____ Unit(s) _____
Program Category _____ Program Subcategory _____

II. Description:

(This can generally be equated to a portion of an existing Resource Package. This same description, to the extent applicable, should be repeated for each additional Decision Package representing incremental resource levels for this same program or activity. However, description data for incremental Decision Packages should cover any specific activity for which resources are requested and which is not generally covered in the description of the basic Decision Package.)

III. Resource Requirements (Dollars in Thousands):

<u>1977 (Actual)</u>		<u>1978 (Congressional)</u>		<u>1979 (Request)</u>	
<u>Positions</u>	<u>Funds</u>	<u>Positions</u>	<u>Funds</u>	<u>Positions</u>	<u>Funds</u>

(Position and fund data for 1977 and 1978 may be included as appropriate in only the basic Decision Package; in such case no entries for 1977 and 1978 should be made in incremental Decision Packages for this same program or activity.)

IV. Short-term Objectives:

(Briefly explain the objective of the Decision Package, particularly in terms of output, and as related to the Major Objective for the total Decision Unit--which is the aggregation of all Decision Packages for this program or activity. For incremental Packages, the discussion should focus on what will be accomplished with the resources requested.)

V. Other Information:

(Provide any additional information which might be useful in evaluating the merits of approving this Decision Package. It is appropriate to include here, particularly for the minimum or basic package, the effects or impact of not approving the Decision Unit.)

Decision Unit Summary

I. Identification:

Package Name _____ No. _____
 Directorate _____ Component _____ Unit(s) _____
 Program Category _____ Program Subcategory _____

II. Description of Programs and Activities Comprising the Decision Unit

(This can generally be equated to our present Resource Package)

III. Resource Requirements:

	1977 Actual		1978 (Congressional)		1979 (Request)			
	Cumulative Total		Cumulative Total		This Package		Cumulative Total	
	Pos.	Funds	Pos.	Funds	Pos.	Funds	Pos.	Funds
Package 1 of n								
Package 2 of n								
Package 3 of n								
etc.								

(Only a single entry for positions and funds is required for 1977 and 1978, and should appear on the same line as the last entry for 1979.)

IV. Major Objectives:

(Briefly describe the major objectives, particularly in terms of output and for accomplishments expected from the programs and activities involved.)

V. Current Method(s) of Accomplishing the Major Objectives:

(Briefly describe the current process through which you get the job done.)

S-E-C-R-E-T

Decision Unit Summary, (Continued)

VI. Alternatives:

(Briefly describe the feasible alternatives to the present and/or proposed manner of accomplishing the stated objectives, and provide the reason(s) for not proposing adoption of the alternative(s) described. If appropriate, a discussion of longer-range cost factors should be included.)

VII. Accomplishments:

(This can generally be equated to the "Evaluation" portion of the present Resource Package submission. The progress toward meeting the major objectives should be discussed and to the extent possible should include both quantitative and qualitative measures of performance.)

S-E-C-R-E-T

S-E-C-R-E-T

Component Ranking

Component _____ Directorate _____

<u>Rank</u>	<u>Package</u>	<u>This Package</u>		<u>Cumulative Total</u>	
		<u>Positions</u>	<u>Funds</u>	<u>Positions</u>	<u>Funds</u>
1					
2					
3					
4					
5					
etc.					

S-E-C-R-E-T

Directorate Ranking

Directorate _____

<u>Rank</u>	<u>Package</u>	<u>This Package</u>		<u>Cumulative Total</u>	
		<u>Positions</u>	<u>Funds</u>	<u>Positions</u>	<u>Funds</u>
1					
2					
3					
4					
5					
etc.					

INTRODUCTION TO ZERO-BASE BUDGETING

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INTRODUCTION TO ZERO-BASE BUDGETING

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The term "zero-base budgeting" is not new. In the most literal sense, zero-base budgeting implies constructing a budget without any reference to what has gone before, based on a fundamental reappraisal of purposes, methods and resources.

This interpretation of zero-base has been roundly condemned as naive and impractical, if not downright mischievous. The U. S. Department of Agriculture's attempt at this sort of zero-base for FY1964 was widely regarded as a failure. As Allen Schick has remarked, even a teenager doesn't have an identity crisis every year. Or, as Dean Acheson pointed out in another context, we can't have a foreign policy if we pull it up every year to examine its roots.

But there is another version of zero-base budgeting. Developed originally at Texas Instruments by Peter A. Pyhrr as a method of controlling overhead costs, and subsequently implemented by Jimmy Carter in the State of Georgia, this latter day zero-base budgeting is simply the systematic application of marginal analysis techniques to budget formulation. It is this version of zero-base budgeting which is the subject of this article.

Although the basic concepts of zero-base budgeting as used at Texas Instruments and Georgia are indeed simple, putting them into practice is difficult, complex and demanding. Many organizations, however, apparently believe the results are worth the effort. Within the past three years, at least one hundred major corporations have applied zero-base budgeting to portions of their operating budgets. A handful of states and several local governments have adopted zero-base budgeting. A few Federal agencies have introduced zero-base budgeting on a limited basis within the past year.

Some of the growing popularity of zero-base budgeting must no doubt be attributed to Presidential campaign publicity. But it would be a mistake to think that the bandwagon syndrome is the main reason for ZBB's adoption. The real explanation lies in certain intrinsic features of the process itself coupled, fortuitously, with the needs of the times.

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Industry views zero-base budgeting as a more rational approach to the perennial problem of controlling overhead. The recent recession forced most companies to reappraise their discretionary costs, and many found ZBB an instrument ideally suited to the task.

In the public sector, the example of New York City looms like a severed head placed on a spike as an awful warning. Today, virtually everyone is a fiscal conservative. There is a growing realization that program initiatives to meet public needs must go hand-in-hand with sound financial management. As President Carter pointed out in Nation's Business (January, 1977):

"... there is no inherent conflict between careful planning, tight budgeting, and constant management reassessment on the one hand, and compassionate concern for the deprived and afflicted on the other. Waste and inefficiency never fed a hungry child, provided a job for a willing worker, or educated a deserving student."

Zero-base budgeting has come a long way since its origins at Texas Instruments and Georgia. These early models have been substantially improved upon and refined in later, less-publicized applications, while still retaining the original fundamental principles. Experience indicates that there are almost limitless ways to adapt the basic ZBB concepts to the varying decisional needs of different organizations. This should come as no surprise. Zero-base budgeting is, after all, a management oriented approach to budgeting. It follows, then, that its basic principles must be adapted to fit each organization's unique management structure and culture.

This article will attempt, somewhat boldly, to summarize the state of a complex and rapidly evolving art. The writer's viewpoint is not that of a scholar, but rather a practitioner, one who has been actively involved in helping organizations design and implement zero-base budgeting. The reader will therefore not find much in the way of public administration theory, nor any glittering generalities to serve as a conceptual framework. If any apology is needed, it would be this: It is too early to predict the ultimate fate of zero-base budgeting in the public sector. It could evolve in many different ways to serve different needs in different government organizations. Many versions of zero-base budgeting could comfortably coexist in Washington, in the states and in city halls. Different approaches may be quite appropriate even within the same government, at different levels and for different kinds of programs. No unified theory is likely to emerge; certainly none can be discerned at this time.

The basic principles and elements of zero-base budgeting, common to virtually all applications, are first summarized. Each of the elements of zero-base budgeting is then treated in more detail. Certain considerations affecting the design and implementation of zero-base budgeting are then reviewed, emphasizing the variety of possible approaches and the importance of tailoring the approach to the unique circumstances of each organization. Some differences between zero-base budgeting in the public and private sectors are then discussed, and results of a survey of corporate ZBB users are presented. The concluding section attempts to examine certain options for the application of zero-base budgeting to the federal government.

PRINCIPLES AND ELEMENTS OF ZERO-BASE BUDGETING

The distinctive and essential hallmark of zero-base budgeting is its focus on the total budget request. The current spending level is not regarded as an inviolate base, immune from detailed scrutiny. Existing activities are examined along with proposed new activities.

In traditional incremental budgeting systems, all participants behave as if the relevant question is: "At the margin, is an increment in Program A more important than an increment in Program B?" Decisionmakers are essentially forced to accept or reject a program increment, or to reduce its amount. Incremental budgeting effectively denies decisionmakers the option of trading off a requested increase in one activity against a reduction in another.

Zero-base budgeting places a premium on offering decisionmakers a range of choices among alternate funding levels. The relevant budgetary question is: "At the margin, is an increment in Program A more important than an increment in Program B or a previously funded item in Programs A, B, C. . . . ?" It is explicitly not assumed that present activities must necessarily be continued. Given revenue constraints, an existing activity may be reduced or eliminated entirely to make way for new activities, or one program may be cut back to permit another to expand.

Basic Elements of Zero-Base Budgeting

The three basic elements of zero-base budgeting are:

- o identification of "decision units"
- o analysis of decision units and the formulation of "decision packages"
- o ranking

The decision units are the lowest-level entities for which budgets are prepared. One important requirement is that each decision unit have an identifiable manager with the necessary authority to establish priorities and prepare budgets for all activities within the decision unit.

ZBB calls for two kinds of analysis. First is the analysis which most truly deserves the name "zero-base" — a re-examination of the purposes, activities and operations of the decision unit. In this analytic phase questions such as the following are addressed:

- o What would be the consequences if the decision unit were entirely eliminated?
- o How can the decision unit's purposes be achieved in a more cost-effective manner?
- o How can the efficiency of the decision unit's operations be improved?

Following the zero-base review of purposes, activities and operations, the decision unit manager then segments the decision unit's activities into a series of "decision packages". The first package contains those activities, or portions of activities, deemed highest priority. The second package contains the next most important items, and so on. The costs and consequences of each package are documented for higher-level review.

The third basic element of ZBB is "ranking", the process whereby higher level managers establish priorities for all decision packages from all subordinate decision units.

The priority-ordered set of all decision packages for the entire organization is then reviewed in light of the probable level of funding available to the organization. Packages which can be funded within the available total are included in the organization's formal budget request; those which fall "below the line" are dropped from the budget request — unless the organization chooses to seek an increase in the total funding level.

DECISION UNITS, DECISION PACKAGES, AND THE RANKING PROCESS

Identifying and Defining Decision Units

Decision units are the basic entities for which budgets are prepared. Decision units must be identified and defined as a necessary first step in implementing ZBB. This step, of course, is part of the initial design of the ZBB approach and need not be repeated in subsequent budget cycles, except to accommodate new activities or to improve the decisional usefulness of the budget structure. Decision units may be programs, functions, cost centers, organizational units or, in certain cases, line items or appropriation items.

A key consideration in selecting decision units is the organization's "responsibility structure". Decision units should generally be selected to parallel the flow of responsibility for budgetary decision making within the organization.

To illustrate this point, consider an organization which operates a number of neighborhood health centers, each of which offers a variety of health services such as tuberculosis control, venereal disease control, lead poisoning control, maternal and child health clinics, and so forth. The decision units may variously be (a) each center, encompassing all health services provided within the center, (b) each separate health service provided in each center, or (c) each health service aggregated across all centers.

If each center has a manager who is responsible for resource allocation within the center, then the individual centers may be logically selected as decision units. If each health service within a center has an identifiable manager responsible for resource allocation within that service, each service within a center could be viewed as a separate decision unit. On the other hand, if resource allocation decisions within health services are made system-wide by identifiable managers at the organization's headquarters, then the individual health services, aggregated across all centers, would be logical decision units.

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There is, of course, a fourth option: the entire organization may be considered a single decision unit. This option would make sense if all resource allocation decisions are made by the organization's chief executive, or if other considerations become important — such as the relative size of the organization with respect to the government of which it forms a part. For example, if an entire city is engaged in zero-base budgeting, then, from the standpoint of the Mayor, the entire neighborhood health center program might be logically one single decision unit. Relative size, therefore, is a second important consideration in identifying decision units.

The availability of data often constrains the choice of decision units. The organization's accounting system may not provide reliable cost data for the "ideal" decision unit structure. Compromises may have to be made, or the accounting system may be modified so that something approaching the ideal structure may become feasible at a later time.

Analytic Emphasis

Some organizations emphasize a fundamental re-examination of each decision unit before its manager is permitted to proceed with the formulation of decision packages. In other instances, only perfunctory attention is paid to the questioning of objectives, activities and operating methods, and decision packages simply reflect a prioritization of the status quo. The relative emphasis on each type of analysis is a matter to be decided by the architects and users of the zero-base budgeting system. Both types of analysis are useful, but considerations of time, practicality and available analytic skills sometimes dictate that the former be sacrificed and attention concentrated on the latter.

Formulation of Decision Packages

The decision unit manager formulates, in priority order, a series of decision packages which together equal the sum total of his budget request for the decision unit. Each decision package consists of a discrete set of services, activities, or expenditure items. The first, or highest priority, package addresses the most important activities performed by the decision unit, i.e. those which produce the highest priority services or which meet the most critical needs of the decision unit's target population. The cost of this first package is usually well below the current level of funding for the decision unit.

The first, highest priority package is often thought of as the "minimum level" or "survival level" for the decision unit, the level of service and funding below which the decision unit might as well be eliminated.

In some cases decision unit managers are allowed complete freedom in determining the appropriate magnitude of the first package, subject only to the constraint that it cost less than the current funding level. In other cases, guidelines are provided in the form of a percentage of the current level, for example: "The first package should be less than 75% of current", or "The first package should be between 40% and 60% of current".

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In most cases no firm rule is established for the total number of packages for each decision unit. In practice, the number can usually be expected to vary between a minimum of three and a maximum of around ten.

Typically, packages are smaller and more discrete as their cumulative total cost approaches and exceeds the decision unit's current funding level. This offers decisionmakers a more practical range of flexibility in the subsequent ranking process.

The decision unit manager's analysis of decision packages is communicated on a series of forms, using a separate form for each decision package. Each form documents:

- o Precisely what services are to be provided, or activities performed, if this package is funded.
- o The resource requirements of the package and their cost.
- o A quantitative expression of workload, output or results anticipated if the package is funded.

Usually, each form displays, in addition to the cost of the package, the cumulative cost of this plus all preceding (higher priority) packages in the series for the decision unit. Often the cumulative cost is also expressed as a percentage of the prior year's total for the decision unit. Similarly, the quantitative program measures are also usually cumulated and expressed as a percentage of the prior year figure.

In some cases, the decision unit manager is asked to identify additional information on each decision package form, such as "Benefits of funding this package", "Consequences of not funding this package", "Present services which would not be provided if only this package and those which precede it are funded", "Support required from other decision units if this package is funded", and the like.

The amount of cost and object class detail required on the decision package form can vary considerably depending on the requirements of the ZBB system's users. One approach is simply to record the package's total dollar cost and the number of positions involved. Or, the dollar cost may be broken down into considerable object detail. A breakdown by source of funds can also be shown, if appropriate.

In many cases it is helpful for the next level of management to conduct a preliminary review of proposed decision packages before the decision unit managers prepare the detailed forms. This review can help ensure that each decision unit manager and his superior agree on the priorities governing the formulation of decision packages before detailed cost estimates are prepared and forms filled out.

Ranking

Ranking is the process in which a manager reviews all decision packages (from all decision units reporting to him) and establishes their relative priority. A "ranking table" is prepared, listing all decision packages in descending order of priority. A running cumulative total is kept to indicate the total budget request for the sum of each package plus all preceding (higher priority) packages.

Ranking may be performed in a variety of ways, for example, unilaterally by a single manager, or in a committee fashion where the manager meets with his decision unit managers.

Depending on the size and complexity of the organization, a series of rankings by successively higher levels of management may be required to produce a single, consolidated ranking table for the entire organization.

To avoid overwhelming higher levels of management with excessive detail, the ranked decision packages are often consolidated into a smaller number of "super-packages" for review and ranking by the next managerial level.

In the ranking process, attention is usually concentrated on those packages which lie within a reasonable range around the probable "cut-off line", i.e. the expected funding level for the collection of decision units whose packages are being ranked. For example, if forty packages are being ranked, it is usually not necessary to determine precisely the relative priorities among numbers one, two and three, nor numbers thirty-eight, thirty-nine and forty. It is more important to ensure that those packages which fall just above and just below the probable "cut-off line" are indeed in the order which properly reflects management's priorities.

DESIGNING AND IMPLEMENTING ZERO-BASE BUDGETING

Before embarking on zero-base budgeting, an organization must carefully weigh several factors:

- o What are the strengths and weaknesses of the existing budget process?
- o What are the organization's objectives and expectations for zero-base budgeting?
- o Who is the principal intended "consumer" of the information generated by the zero-base budgeting process?
- o What implementation strategies shall be followed?
- o What degree of linkage to existing management systems is appropriate?
- o What particular ZBB "technology" shall be employed?

Any decision to launch zero-base budgeting should normally be preceded by a systematic appraisal of the strengths and weaknesses of the existing budget process. This review may be thought of as a "budget audit" during which managers assess the degree to which the current budget process serves or fails to serve the organization's planning, management and control needs. Design of the approach to zero-base budgeting can then attempt to build on existing strengths and correct deficiencies in the current process.

The organization should next explicitly address the question of what it hopes to achieve by implementing zero-base budgeting. Different organizations may have quite different objectives and expectations for zero-base budgeting. Some of the more common are:

- o Cut budgets rationally.
- o Reallocate resources from lower to higher priority areas.
- o Yield better information or more credible justifications to support budget requests.
- o Forge a better link between budgeting and operational planning and control.
- o Provide top management with better insights into the detailed workings of the organization.
- o Create more substantive involvement by line managers in budget formulation.
- o Achieve various "organizational development" objectives (such as improved communication between managerial levels, greater sense of participation, more identification with the organization's mission).
- o Enable top management to evaluate the managerial capabilities of subordinate managers.

The design of the zero-base budgeting process may vary depending on who is to be the principal consumer of the information produced. The consumer may be the legislative body, the chief executive, the department head, or line managers - or all of the above.

Implementation strategies must be carefully considered. For example, should zero-base budgeting be applied to the entire budget or should certain activities or expenditure items be excluded? Should full-scale implementation be attempted immediately, or should a pilot test be first conducted? Should zero-base budgeting replace or supplement the existing formal budget process?

The organization must also determine the appropriate form and degree of linkage to management systems already in place. What should be the relationship of zero-base budgeting to current planning, control and information systems? Can ZBB be appropriately meshed with an existing MBO system?

Finally, the organization must design the technical and procedural aspects of the zero-base budgeting process. Particular attention must be paid to the following:

- o The logic by which decision units are identified and defined.
- o The type of analysis to be emphasized.
- o The particular forms, procedures, timetable, guidelines and instructions to be used in implementing the process.
- o The type and amount of training and technical assistance to be provided.

Zero-base budgeting can take many forms and be used for many purposes. Existing public sector applications illustrate this variety. For example, the U. S. Navy, in response to a Congressional mandate, is using a partial version of zero-base budgeting to provide more detailed justification of its FY78 Operations and Maintenance appropriation request. The Environmental Protection Agency has used zero-base budgeting principles to develop a FY77 operational plan for one of its programs. HEW's Data Management Center uses zero-base budgeting, as part of a total management system, for manpower planning and project planning and control, as well as budget formulation.

Zero-base budgeting need not rely on a "bottom-up" approach. In some cases, in fact, a bottom-up approach may be entirely inappropriate. A structured "top-down" approach to zero-base budgeting is illustrated in the following example, drawn from a large municipal hospital.

A framework of very specific and detailed planning guidelines, developed by the hospital Administrator in conjunction with teams of doctors and other professional staff, was provided to all departments in the hospital. The guidelines consisted of, first, a series of "capacity" figures (e.g. varying numbers of in-patient beds) and, second, a number of "service levels". Each service level was defined in terms of the medical and surgical specialties to be offered by the hospital at that level, and also in terms of the standards set for a number of "quality" proxies (e.g. nursing-hours per patient-day). Each department head then developed estimates of resource requirements for every combination of capacity and service level. The departmental estimates were reviewed and then aggregated, producing a capacity/service level cost matrix for the hospital. This permitted the Administrator to develop a budget which, in his judgement, reflected the appropriate balance between size, range of medical services offered and standards of service.

An alternative to the approach described above would have been the more traditional "bottom-up" zero-base budgeting process. Individual units, such as pathology and food service, would have independently formulated decision packages for subsequent ranking by division chiefs and then by the Administrator. But this approach would have ignored critical interdependencies between units in providing service.

By linking dollar figures explicitly to service variables, at various possible funding levels, the Administrator's budget presentation clearly demonstrated the service impact of increases or decreases in his recommended budget. This was useful in the case of this particular hospital, since it had undergone successive budget reductions but was still expected by the city government to continue providing the same level of patient care. (What the "same level" meant was never precisely defined by the city fathers). The budget presentation made clear the consequences of further budget reductions — either wards would be closed, or the level of service would deteriorate, or both. Budget reductions could no longer be divorced from their service impacts.

In concluding this section on considerations affecting the design and implementation of zero-base budgeting, a number of issues will be listed. It is not possible, in the scope of this article, to give them the detailed discussion they deserve.

The users of zero-base budgeting must decide how to modify the process in the second and subsequent cycles following the initial year of implementation. Priorities may be reviewed to ensure that they are still relevant, decision units may be added or deleted as appropriate, new decision packages may be formulated to meet newly identified needs, and cost and output data may be refined and updated. But, it is usually not necessary to repeat the considerable development effort normally required in the first year. Illustratively, the focus can shift to areas of the budget not included in the first year, or the process can be driven deeper in the organization, or the reliability of data can be improved, or the process can be more selective in concentrating analytic efforts on particular issues.

Other design and implementation issues might include the appropriate role of the computer, for example in reducing paperwork, aggregating data in various ways, helping decisionmakers ask "what if" questions, or aiding the formulation of decision packages by providing analytical modeling capabilities to predict cost/output relationships. The treatment of administrative support units deserves special attention; it is necessary to ensure that packages formulated for support units are consistent with packages formulated for the primary "mission" units. Another important design issue is the degree to which top management wishes to drive budgetary accountability deeper into the organization. Although the existing responsibility structure may be the starting point for identifying decision units, management may elect to delegate budgetary responsibility to lower levels — not merely for the purposes of zero-base budgeting, but as a means to increase management commitment throughout the organization.

PRIVATE VERSUS PUBLIC SECTOR USE OF ZERO-BASE BUDGETING

The annual operating budget plays a less central role in the private sector than it does in government. Corporations employ a variety of management systems in addition to budgeting, to help set goals, acquire and allocate resources and measure performance. Strategic decisions, such as decisions to enter new markets or launch new products, are usually completely divorced from the annual routines of budgeting. Formal business plans are prepared to set short-term goals for sales and profits and to monitor progress. The market-place sends a variety of signals to the decisionmaker on the need to change direction or to shift resources from one venture to another.

In government, on the other hand, the budget process must generally serve many purposes. Certainly, many strategic policy decisions are initially made outside the budget, for example, through legislation or regulation. But the budget is the only conduit for funds to implement legislation or to enforce a regulation. It is only through the budget process, by appropriation or ordinance, that a President, Governor, or Mayor may legally draw from the public purse.

The budget process, in addition to its legal function in conferring authority to expend public funds, also serves, explicitly or implicitly, as the mechanism for establishing public priorities. Through the budget process, competing claims are resolved and expenditures brought into balance with revenues. Choices are made about which programs will expand and by how much and, less-often, which programs will be cut back.

The public budget process also serves in lieu of a management control system. Unlike a private corporation which can point to growth, market share and earnings, and despite a mounting clamor for "accountability", governments are rarely able to demonstrate the link between funding and results. For a government, simply living within its means is an achievement. The budget therefore carries with it strong sanctions to discourage deviations from its totals and subtotals; underspending and overspending are equally discouraged. Control is therefore exercised via inputs rather than outputs.

The different role and scope of budgeting in the two sectors partially explains a striking contrast in the application of zero-base budgeting in the private and public sectors. Virtually all private corporations using zero-base budgeting have confined it to overhead expenses, whereas most government bodies employing zero-base budgeting have applied it to program expenditures as well as to support costs.

Another part of the explanation lies in the different determinants of manufacturing and overhead costs. In manufacturing, unit costs are largely determined by technology, the price of raw materials and union contracts. Strong competitive pressures, reinforced by financial incentives, encourage managers to pursue a continual search for improved manufacturing methods, cheaper raw materials and more productive ways to use labor inputs. Given unit costs, total production costs are then a function of sales volume.

Overhead costs are quite another matter. With respect to these costs, it is much harder to answer the central budgetary question: "How much is enough?" Management generally has much more discretion in funding overhead activities, and there is rarely any direct benefit-cost relationship to serve as a guide to appropriate expenditure levels. However, control of overhead costs is critically important. Excessive overhead undermines profit margins; savings are reflected directly in the "bottom line". Any budget process, such as zero-base budgeting, which offers a more systematic approach to control of overhead is therefore likely to be warmly endorsed by private sector managers.

Corporate managers, however, have found that zero-base budgeting has advantages other than overhead cost control, according to a survey of fifty-four private corporations which had recently implemented the process for the first time. All respondents were on Fortune's 1,000 list.*

Respondents were asked by how much their operating budgets had changed from the prior year. Twelve percent reported a budget decrease of more than 10 percent; 30 percent reported a budget decrease of between 5 and 10 percent; 51 percent said that their budgets had changed (increased or decreased) less than 5%; and 7 percent of the respondents reported a budget increase of more than 5 percent.

Respondents were also asked to rate zero-base budgeting (a) as a tool to change total expenditure levels, and (b) as a tool to reallocate resources from lower to higher priority areas. Results were as follows:

	Respondents' Rating (percent)				
	<u>Excellent</u>	<u>Good</u>	<u>Fair</u>	<u>Poor</u>	<u>Not Appl</u>
Tool to change total budget level	28	46	20	0	6
Tool to reallocate resources	34	42	20	2	2

Respondents were asked for their overall evaluation of zero-base budgeting as a management planning and control system. Twenty-eight percent gave an "Excellent" rating, 59 percent rated ZBB "Good", 13 percent gave only a "Fair" rating, and none rated ZBB as "Poor". In response to a question asking them to compare zero-base budgeting with other formal management systems, 67 percent of the respondents described zero-base budgeting as "Better", and 33 percent said zero-base budgeting was "About the Same"; none described zero-base budgeting as "Worse".

The following table shows how the respondents rated zero-base budgeting as a process to achieve a number of managerial purposes other than changing budget levels or reallocating resources.

<u>Managerial Purposes</u>	Respondents' Evaluation of ZBB (percent)				
	<u>Excellent</u>	<u>Good</u>	<u>Fair</u>	<u>Poor</u>	<u>Not Appl</u>
Learn more about the organization	55	42	3	-	-
Manage overhead activities with more flexibility	20	54	23	3	-
Improve efficiency/effectiveness	18	58	18	3	3
Improve communications	16	47	29	3	5
Develop alternative methods of operation	15	46	36	3	-
Plan organizational changes	13	39	24	16	8
Evaluate staff performance	13	35	35	11	5

*The survey was conducted in 1976 by Paul J. Stonich of MAC, Inc. The results
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Base Planning and Budgeting: The State of the Art.

THE FUTURE OF ZERO-BASE BUDGETING IN THE FEDERAL GOVERNMENT

In this concluding section, some options for the application of zero-base budgeting to the Federal government are discussed, employing the design and implementation framework described in a previous section. At best, this section can only present a partial and preliminary list of some issues and options. It was written before the inauguration, without the benefit of any inside knowledge of the plans of the new Administration. This discussion may, therefore, be overtaken by events.

Strengths and Weaknesses of the Existing Federal Budget Process

The Federal budget process works. It comprehensively reconciles the competing claims of a myriad of programs into a unified whole. Each party understands the rules of the game, and open conflict is kept to a minimum. The budget, quite properly, is a central and well-understood fact of life in both executive and legislative branches of government.

Some weaknesses are, however, apparent. Budget justifications focus almost exclusively on increments . . . the additional positions and dollars requested above the "adjusted base." Neither the President nor Congress are routinely provided the opportunity of examining whether objectives should be changed, or whether the same objectives could be attained more economically, or what would be the consequences of funding a given program at varying levels. Interagency trade-off opportunities, within the same general program area, are difficult to examine without special analyses. The link between costs and services provided is hard to discern. Often, cuts are imposed without any explicit recognition of which services will be reduced by what amounts. Agencies are frequently expected to "absorb" cuts and still, somehow, maintain the present level of operations.

Objectives for Zero-Base Budgeting in the Federal Government

Objectives for zero-base budgeting should be formulated realistically, with due regard for the limitations of the process. Macro policy changes, or changes in legislation, might better emerge from the type of process envisioned in the so-called "sunset" bills discussed during the last session of Congress. Or, within the executive branch, the kind of long-term policy, program and organizational review that produced Elliot Richardson's "mega-proposal" for the restructuring of HEW might be more applicable to the design of fundamental changes in how public needs are to be addressed.

A tentative set of primary objectives for zero-base budgeting in the executive branch of the Federal government might be as follows:

- o Provide the President a range of choices within a given program area so that he can ensure that the total resources committed correspond to his policy preferences for that program area.

- o Yield more credible budget justifications, at all levels within the executive branch, in support of total budget requests, and not merely with respect to proposed changes from the prior year. The information should be structured so as to illuminate the consequences of various levels of funding, both above and below current levels.
- o Encourage agency operating managers to surface recommendations for improved methods of operation as part of the formal budget process.

Consumers

There are many potential consumers of the results of zero-base budgeting in the Federal government . . . the Congress (its substantive, budget and appropriations committees, as well as the Congressional Budget Office and the GAO), the President and his Office of Management and Budget, agency heads and their policy, planning and budget staffs, and the several levels of operating "line" managers within each agency.

Implementation Strategies

The central question is to identify the most productive targets of opportunity for zero-base budgeting and then determine how best to implement the process in the selected areas.

Although the President's Budget embraces virtually all Federal expenditures, zero-base budgeting may not be equally appropriate for all types of expenditure. The interest on the national debt is hardly susceptible to annual zero-base review. A variety of income and other transfers such as social security payments, veterans' benefits, welfare payments, and general revenue sharing are controllable only in the long run and can be changed only if there is a significant shift in the political consensus. Other major expenditures have powerful constituencies; it would take more than a new budget process to affect significantly expenditures from the Highway Trust Fund or the various agricultural price support programs. Stability and credibility in national security and foreign affairs require a degree of continuity in the scale and distribution of resource commitment. Significant or abrupt changes in long-range procurement or construction programs, both civilian and military, could cause severe economic dislocations even if decision makers are persuaded to ignore sunk costs.

In the long run nothing is fixed. In the short run, much is, at least within the realm of practical politics. This is not to say that programs such as those cited in the previous paragraph should not be thoroughly reappraised from time to time. Of course they must be. But the annual budget process may not be the proper forum for the debate.

There are, however, several classes of Federal expenditures ideally suited to the type of zero-base budgeting described in this article:

- o The overhead agencies of government, i.e. those agencies providing services not to the public but to government itself (e.g. GSA, the Civil Service Commission, parts of Treasury and Justice, etc.)

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- o The overhead (administrative and support) activities of agencies, in Washington and in countless field offices. This is a very diverse category including a multitude of functions such as legal, ADP, personnel, training, accounting, research, planning, procurement, printing, communications, transportation, etc., etc.)
- o Virtually all formula and project grant programs
- o Many operating programs of government, where the government itself acts directly as the provider of service, without any intermediaries. This group would include organizations such as the National Park Service, the Forest Service, the VA Hospitals, the Customs Bureau, the FAA, the FDA, and so forth.

A fundamental implementation issue to be resolved is the relationship of zero-base budgeting to the overall Federal budget process. Zero-base budgeting could be implemented as a supplement to the existing budget process, as a substitute for the existing budget process, or elements of zero-base budgeting could be incorporated into the existing budget process.

The first option would leave undisturbed the normal routines of budgeting, and therein lies both its advantages and disadvantages. Treating zero-base budgeting as supplementary to the existing budget process would cause the least disruption for both OMB and the agencies. True, it would generate an additional workload, but this could be accommodated. OMB and the agencies would in all likelihood set up special staffs to handle zero-base budgeting, effectively insulating it from the "real" budget process. This, of course, is precisely what happened to PPB.

The second option is only superficially a real option. The concept of "replacing" the existing budget process with zero-base budgeting is wrongheaded. In the first place, the budget process serves many purposes other than those for which zero-base budgeting is suited. Besides, a budget process is not an integrated circuit module which can be unplugged or reconnected at will.

The third option is a real option, in fact the only one which makes sense. The basic principles of zero-base budgeting could be made an integral part of the agency budget formulation process and could form the basis for both the Spring Preview and Director's Review. The formats of detailed supporting budget schedules need not necessarily be altered, but the schedules would probably be completed only after basic program allocations are made by OMB.

It is probable that at least three overlapping zero-base budgeting cycles would operate, each with a different focus. The first cycle would operate at the most detailed level within the agency. At this stage, operating managers would formulate zero-based budget requests which, through a successive ranking process, would flow upwards to the various line assistant secretaries. During the second cycle, the agency head would formulate the agency-wide budget and review it with OMB. The third cycle would involve OMB's own zero-base analysis and preparation of priority-ranked budget proposals for consideration by the President.

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In practice, of course, the process would not be as simple and sequential as suggested above. Several iterations might be required, each cycle would operate within a framework of planning and policy guidelines . . . much as in the present process.

Remembering the bitter lessons of PPB, it is to be hoped that OMB will not simply issue a general "ZBB Circular," leaving it up to each agency to interpret the instructions as best they can. At the other extreme, OMB should not attempt to design and prescribe for all agencies a single, uniform set of forms and procedures. A more workable, middle-ground scenario might be as follows:

- o OMB determines the most useful format for ~~its~~ analysis and presentation to the President of budget options, probably built around interagency program groupings
- o OMB negotiates, individually ~~with~~ each agency, the format for presentation of the agency's budget so that it is compatible with both agency top management needs and the requirements of Presidential decision making.
- o Each agency head is held responsible for development of an internal zero-base budgeting structure and process which most appropriately meets the agency's own management needs, subject to the condition that it is compatible with the joint agreement on format for presentation of the total agency budget to OMB. The internal agency structure and process may well vary between bureaus to take account of differing kinds of programs and the varying decisional needs of lower-level management.

A major implementation issue concerns the form in which the budget will be presented to Congress. Zero-base budgeting could be viewed solely as an aid to preparation of the President's Budget, with the zero-base backup excluded from the justification material submitted to Congress. This would certainly conform to the stance adopted by previous Presidents in dealing with Congress. It also agrees with the commonly accepted, some would say constitutionally-mandated, view that the President must present and defend a single budget total for each appropriation requested from Congress. It is difficult to imagine any President, even one who believes strongly in the value of zero-base budgeting, presenting to Congress a rank-ordered list of decision packages and saying, in effect, "This is my recommended budget figure, but if you want to increase or decrease it, here's my priority list of possible increases or decreases." On the other hand, it is difficult to imagine a Congress refraining from demanding such material when it is known to exist, or from asking witnesses to explain those items which fell just above or below the President's "cut-off line."

Linkage to Existing Management Systems

The budget, whether zero-based or not, will of course have to be capable of reconciliation with the Treasury's accounts. Various OMB reporting requirements, if maintained, will also have to be accommodated. However, unlike state and local governments, most of the Federal government's

"management systems" are not government-wide but are developed by each agency for its internal use. Since the most probable approach to zero-base budgeting in the Federal government would be on a selective, agency by agency basis, the question of linkage to existing management systems arises primarily at the agency level. To the extent possible, the design of the zero-base budgeting approach in each agency should take account of and build upon management systems already in place, such as planning systems, manpower management systems, specialized information systems unique to each program, performance measurement systems, and cost-accounting and other financial management systems.

Zero-Base Budgeting Technology

As this article has attempted to emphasize, zero-base budgeting may be variously implemented for different reasons, in different ways, and to serve the needs of different users. The Federal government is so diverse that no one ZBB "technology" can suffice. What constitutes a "decision unit" in one part of one agency will not apply in other parts of the same agency nor at different levels in the same agency, still less in other agencies. The decision variables governing the formulation of "decision packages" will vary within and among programs and agencies.

It would be possible, however, to develop models, standards or guidelines to deal with similar classes of programs or activities commonly found throughout the Federal government. Several agencies operate hospitals, for example; similar approaches to zero-base budgeting would probably be applicable regardless of the agency. Again, at a more detailed level, similar approaches could be used in different agencies to deal with functions such as maintenance, ADP operations and the like. Within OMB, it would doubtless be desirable to develop a consistent framework to analyze programs from different agencies within the same general program area.

Conclusion

Zero-base budgeting has proven, in diverse settings, that it can make a useful contribution to the art and practice of management. Whether it can be equally helpful if applied extensively in the Federal government is an open question. Its success will depend on how it is conceived and presented, and on the political will to make it work.

If, as seems probable, zero-base budgeting is launched on a broad scale, it is to be hoped that it will be viewed as an approach to resource allocation rather than a uniform set of procedures to be applied by rote regardless of the nature of the program, organizational level or management's needs.

The zero-base budgeting approach will most likely be applied selectively, its purposes and technology geared to management's unique decisional needs, and building to the extent possible on systems already in place. The Federal zero-

base budgeting structure will probably not be a single monolith, a gigantic pyramid with the President at the apex and agency branches, sections, and field offices at the base. Rather, the structure for zero-base budgeting will most likely be integrated and unified, if at all, only at the level of OMB for Presidential decision making purposes, and rather loosely coupled to the structures designed by individual agencies for their internal needs.

Tantalizing questions remain. How will responsibility for design and implementation of zero-base budgeting be distributed between OMB and the agencies? Who will conduct the necessary development and training? For what purposes will it be used? What parts of the Federal budget will be included? Will it be applied to "tax expenditures"? To the entire revenue side of the budget? How will its results be communicated to Congress? What will be the Administration's timing? How much will be attempted for the FY79 cycle?

Finally, what will be the lasting impact of zero-base budgeting? PPB is no longer a formal, government-wide system, but its effects are very much with us. The legacy of PPB has been a demonstrable improvement in the amount and quality of policy, program and budgetary analysis, in the Federal government and in state and local governments throughout the nation. Regardless of the ultimate fate of ZBB, the chances are that, after the next few years, budgeting will never be quite the same.

Annual Overhaul
Zero-Base Budgeting,
Advocated by Carter,
Used by Many Firms
Recession Sped Its Adoption,
But It All Began in 1962
At Texas Instruments Inc.
A Boost From Arthur Burns

CPYRGHT
 By LINDLEY H. CLARK JR.

Staff Reporter of THE WALL STREET JOURNAL
 In late January an unusual title showed

up on The Washington Post's list of nonfiction best-sellers in the nation's capital: "Zero-Base Budgeting: A Practical Management Tool for Evaluating Expenses."

Not only is the book four years old, but it sells for \$19.25 and is anything but light summer reading. Its author is Peter A. Pyhrr, the 34-year-old financial vice president of Alpha Wire Corp., a little-known firm in Elizabeth, N.J. Despite such seeming drawbacks, the 231-page book now is selling at a rate of more than 700 copies a week, and the publisher, John Wiley & Sons, is thinking about a 10th printing.

Zero-base budgeting and Mr. Pyhrr's book on the topic have had help from a dedicated promotion manager: Jimmy Carter. President Carter installed the system in Georgia during his term as governor, and he vows that he now is going to bring it to the federal establishment.

The book's sales in Washington reflect the fact that a lot of federal managers want to know what they are in for. Its sales elsewhere indicate that many corporate executives figure that what Mr. Carter says was good for Georgia just possibly might be good for them.

"Common Sense"

What is zero-base budgeting? "It's very simple, nothing more than common sense," says Robert C. Pearson, vice president and controller of Texas Instruments Inc., the big Dallas-based electronics firm where the system began evolving about 15 years ago.

Stripped to its essentials, zero-base budgeting requires the managers of an enterprise to justify everything they are doing or are about to do. Instead of just setting forth proposed budget increases, the managers must start from scratch each year and present alternatives involving any increases or decreases in their departments' activities.

"I wipe myself out every year," says Richard M. Perdue, director of corporate public relations for Texas Instruments. "And then I stop going to the phone if a newsman calls?"

The number of major companies using zero budgeting "probably runs into the hundreds," says James Kelley, president of Management Analysis Center, a Cambridge, Mass., consulting firm that has helped more than 40 companies install the system. Mr. Pyhrr, the author of the book, is a part-time associate of the firm.

Some Major Users

Major companies that have used zero-base budgeting include Westinghouse Electric Corp., Xerox Corp. and Allied Van Lines. Corporate interest in the system has grown so fast that the American Management Association, a business-education organization based in New York, has run nine zero-base seminars in the past year and a half. Another is scheduled for Chicago this week, and others are planned at a rate of about one a month.

The association also will soon publish a new book, "Zero-base Budgeting Comes of Age." The author is Logan Cheek, manager of multinational programs for Xerox. Mr. Cheek says he gets frequent calls from business and government groups that want to arrange meetings on the budgeting technique.

Even before Mr. Carter starts introducing zero budgeting in the executive agencies, the Federal Reserve System has been running pilot studies of the program at the Chicago Federal Reserve Bank and at the Federal Reserve Board in Washington.

As far as can be determined, in fact, the first person to use the phrase "zero-base budgeting" publicly was Arthur Burns, the chairman of the Federal Reserve Board. In 1963, when he was counselor to the President, he told a meeting of the Tax Foundation that a "reform of vital significance (to the control of government expenditures) would be the adoption of zero-base budgeting."

Burns's Evaluation

"Customarily," he went on, "the officials in charge of an established program have to justify only the increase they seek from last year's appropriation. In other words, what they are already spending is usually accepted as necessary, without examination. Substantial savings could undoubtedly be realized if both the Budget Bureau examiners and the congressional appropriations committees required every agency to make a case for its entire appropriation request every year."

The evolution of zero-base budgeting at Texas Instruments began in 1962, with the development of the company's objectives-strategies-tactics (OST) system for evaluating research and development projects. To decide whether to go ahead with a specific project, the company found it necessary to spell out a description of the activity, the consequences of failing to go ahead with it, alternative courses of action, and the estimated costs and benefits. All of this eventually went into a "decision package."

Once the decision packages were developed, the company set up a system of criteria for ranking the packages and thus deciding which research and development

programs to go ahead with, and on what scale.

In the late 1960s Texas Instruments officials decided they wanted to extend the budgeting concept beyond research and development—to the day-to-day operating expenses of the company. All of the company's activities, after all, were competing for shares of the firm's available resources.

Peter Pyhrr, then a young financial analyst, was involved in the extension of the concept throughout Texas Instruments. Across the company, says Mr. Pearson, there now are "thousands" of decision packages.

The spread of zero-base budgeting to other companies and to governments probably began in 1970, when Mr. Pyhrr wrote a Harvard Business Review article describing the system. Jimmy Carter, then the newly elected governor of Georgia, read the article and got in touch with the author. Subsequently, Mr. Pyhrr left Texas Instruments and worked as a consultant to Mr. Carter in installing zero budgeting in Georgia.

Gerry Galbo, a John Wiley editor, also read the article, and he invited Mr. Pyhrr to write a book. Jack E. Schang read the article, and when he went to Allied Van Lines as president in 1975 he put in zero-base budgeting.

"In my view the program is functioning very effectively here," says Robert Seeler, financial vice president of Allied. "We ran into no real resistance from the managers who had to develop the decision packages. Because the program was introduced by a new President, it had complete support."

Resistance at Westinghouse

There has been some resistance elsewhere, at least initially. Westinghouse Electric Corp. tried a pilot project involving about 400 people out of 2,500 in the areas of personnel, purchasing, traffic and real estate. "Some pratty good teamwork came out of it after the managers got over the feeling that they were being threatened," says Charles Carroll, director of public information. No final decision has yet been made as to whether to extend the program.

Supporters of zero-base budgeting stress that it must be carefully tailored to each company's needs. Xerox so far has used it only on a selective basis to appraise operations. For instance, Mr. Cheek used it in 1971 to assess the company's personnel department. In 1975 the company used a system much like zero-base, although it wasn't called that, to appraise its world-wide operations.

Peter Pyhrr says the system is of use only to large organizations; his own Alpha Wire doesn't use it. "The formality of the process is required in a large company where you don't have the easy communications you get when principal managers can sit down together and make the decisions," he says.

A major objection to zero-base has been that it takes more time than the normal budget-making process. However, Mr. Pearson says "you have to compare zero-base time not only with normal budget-making, but with all of the revisions through the year."

CPYRGHT

-and with all of the management time spent on making decisions."

The first year is always the hardest. Managers have to be persuaded to appraise their activities objectively and to draw up all the decision packages. In later years, many of the packages need only minor modifications or updating, proponents say.

Nonproduction Applications

Mr. Kelley of the Management Analysis Center says zero-base budgeting has been most useful for nonproduction expenses, and the experience of Texas Instruments confirms that appraisal.

"We're in a highly competitive business, under constant pressure to reduce costs," says Mr. Pearson. "This may force us to make many changes in manufacturing operations during the course of a year." Such changes, of course, would rapidly outdate decision packages approved at the start of the year.

So Texas Instruments remains committed to zero-base budgeting, but on a simplified or streamlined basis. "Our whole system of management is geared to planning on a continual basis," Mr. Pearson says. "Our quarterly rolling plan covers one to three years out into the future. It's pulled together in the fall and formalized in January.

"In the process of putting together that plan we use zero-base. But we don't attempt to repeat the zero-base analysis every quarter. There have been periods of rapid business change, such as mid-1974 when the recession deepened, when we've had occasion to refer back to the decision packages. The packages are one of our points of reference."

Mr. Pearson thinks the program has been well worth the effort. "The process helps our managers to understand that what some other people are doing is important," he says. "It makes managers better understand their own functions—and also the consequences of not doing something."

05 APR 1977

MEMORANDUM FOR: Administrative Officer, DCI Area
Comptroller, DDO
Comptroller, DDS&T
Chief, Plans and Program Staff, DDI
Chief, Plans Staff, DDA
Director of Logistics
Director of Finance
Chief, Audit Staff

SUBJECT : Adjustment of Allotments After the End of the
Fiscal Period

1. For a number of years the Comptroller has issued allotment advices after the close of a fiscal period whenever the allotment of one directorate for that period was exceeded as a result of a contract overrun or other obligation adjustment. By adjusting allotments between directorates, an effective method was established to control the allotment of Agency funds after the close of the fiscal year and ensure that the Agency did not exceed its appropriation.

2. A review of this procedure indicates that such adjustments need not be made either to control the allotment of available funds or to authorize a directorate to exceed its allotment. As you know, the Agency receives a single apportionment and if obligations do not exceed this apportionment, we are in compliance with the law. Adjustments to the directorate allotments after the end of the fiscal period are unnecessary and tend to disguise the true status of our internal allotments. [REDACTED]

13a (2) states:

"allotments will normally not be increased after the close of the fiscal period of the applicable appropriation. There is either compliance or non-compliance with the allotment authority and the issuance of the increased allotment advices after the close of the year would serve no purpose other than to have the account show in the 'black'."

Only in the instance of the overall Agency appropriation changing, when unobligated balances from Reserve releases are returned to the Reserve, will an allotment advice be issued.

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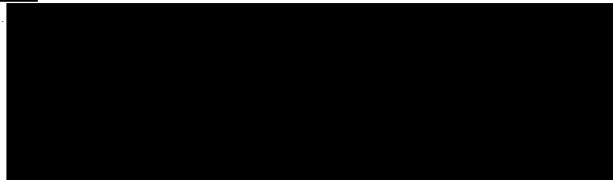
3. If directorates believe obligation adjustments are going to exceed their end of fiscal year allotment, a memorandum should be sent to the Comptroller requesting the amount of funds needed and giving the reason for the increase. Based on the availability of unobligated balances in other directorates, the Comptroller will issue a memorandum approving or disapproving the requested increase in obligation.

4. The Comptroller will also issue a memorandum to certain directorates and the Director of Logistics as administrator of the Materiel Procurement Account, reserving a portion of the unobligated balance of their allotment for use in other parts of the Agency. The reserved portion of the allotment will be determined by the Comptroller after consultation with the affected allottees. If it should become necessary for an allottee to exceed the allotment balance remaining after a portion has been reserved, the concurrence of the Comptroller must be obtained.

5. If you would like additional information about our revised procedures, please contact [REDACTED] of my staff.

STATINTL

STATINTL



TRANSMITTAL SLIP 15 April 1977

EO-13526
STATINTL-

TO: ODP/B&F - [REDACTED]		
ROOM NO. 2D-00	BUILDING Hdqs.	
REMARKS: Attached, FYI, are copies of material on the subject of Zero-Base Budgeting. <i>adm</i> <i>ER</i> <i>done</i> <i>11/5/77</i>		
FROM: DDA Budget Staff		
ROOM NO. 7D02	BUILDING Hqs.	EXTENSION 7726

FORM NO. 241
1 FEB 55

REPLACES FORM 36-8
WHICH MAY BE USED.

(47)