Zero Based Budgeting
All Wards

Report authorised by: Executive Director of Finance: Mike Suarez

Executive summary

Lambeth, like other local authorities, faces a particularly challenging financial environment over the coming years. Zero Based Budgeting (ZBB) is a tool that can be used to improve an organisation’s understanding of cost and provide the opportunity to allocate financial resources more effectively.

ZBB integrates budget proposals with options for service level and predicted outcome. ZBB encourages the questioning of set assumptions, and facilitates systematic review, reprioritising, and, perhaps, withdrawing from long term activities that no longer align properly with an organisation’s objectives.

The key benefit of ZBB is that it focuses attention on the actual resources required to produce an output or outcome, rather than the percentage increase or decrease compared to the previous year. However, conducting a ZBB exercise across the council would be a resource intensive process and require the support of senior management.

Summary of financial implications

None. The report is for information. It does not contain any recommendations that, if agreed, would commit the Council to additional expenditure.

Recommendations

(1) That members note the zero based budgeting process and possible implications for the council
Consultation

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<td>Mike Suarez</td>
<td>Executive Director of Finance and Resources</td>
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<td>Andrew Pavlou</td>
<td>Legal and Democratic Services</td>
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Report history

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Background documents


Appendices

None
Zero Based Budgeting

1. Context

1.1 Lambeth, like other local authorities, faces a particularly challenging financial environment over the coming years. The global economic downturn, government efficiency targets and council tax freeze contribute to increased financial pressure at a time of greater demand for services and increased expectation. The tight financial context necessitates the need for increased value for money, improved efficiency and better use of resources.

1.2 Zero Based Budgeting is a tool that can be used to improve an organisations understanding of cost and provide the opportunity to allocate financial resources more effectively.

2. Budget Setting in Lambeth

2.1 The current practice in Lambeth for budget-setting is predominantly an incremental approach, year on year, although there will be times when a more fundamental review is applied to certain areas of service on an ad hoc basis.

2.2 The incremental approach is probably the most widespread method for budget-setting within the public sector as it is built on the underlying assumption that the "business" only changes incrementally from one year to the next. However, this methodology is certainly intuitive, and a very practicable approach to building budgets. However, it is not an approach that normally leads to fundamental change, and it can have the disadvantage that, overtime, inaccuracies appear, as what was previously a sensible and relevant structure, is no longer fit for purpose.

3. What is Zero Based Budgeting

3.1 Zero Based Budgeting (ZBB) is an approach to budgeting that starts from the premise that no cost or activity should be factored into a budget just because it was present in a previous period. Rather, everything that is to be included in the budget must be considered and justified.

3.2 In its pure form, ZBB involves the preparation of operating budgets on the assumption that the organisation is starting out afresh in the new planning period. However, it is usually used most effectively where the activities involved are wholly or mainly discretionary in nature. Understanding the extent that services are discretionary can be challenging and it is easy to assume that something is non-discretionary, for no other reason than the activity has been carrying on at a similar level for a number of years.

3.3 ZBB integrates budget proposals with options for service level and predicted outcome. Therefore, the quality of service associated with different resource levels can clearly be seen allowing fund allocation on the basis of best value for
money. A good understanding of comparative benchmark performance facilitates this process.

3.4 ZBB encourages the questioning of set assumptions, and facilitates systematic review, reprioritising, and, perhaps, withdrawing from long term activities that no longer align properly with an organisation’s objectives.

4. Benefits and Weaknesses of ZBB

4.1 ZBB can offer a number of advantages when it is applied intelligently. It is potentially a useful tool in terms of supporting the Councils Value for Money Agenda and realising efficiencies. ZBB would provide senior management with detailed information to enable decision making, and highlight redundant activities or duplications of effort within the council. However, conducting a ZBB exercise across the council would be a resource intensive process and require the support of senior management.

4.2 The key benefit of ZBB is that it focuses attention on the actual resources required to produce an output or outcome, rather than the percentage increase or decrease compared to the previous year. The process should be more user friendly to managers than the traditional incremental budget model as it delivers a fit for purpose budget with linked outcomes and eliminates historical inaccuracies. ZBB does not necessarily result in reduced budgets, but allows the council to prioritise available funds where they are needed the most.

4.3 The main benefits of ZBB are:

⇒ Questions accepted beliefs
⇒ Focuses on value for money
⇒ Clear links between budgets and objectives
⇒ Is an adaptive approach to changing circumstances
⇒ Can lead to better resource allocation

4.4 The main weaknesses of ZBB are:

⇒ Resource intensive process - adds to the time and effort involved in budgeting
⇒ Difficulty in identifying suitable performance measures and decision criteria
⇒ Questioning current practice can be seen as threatening – careful management of the “people” element is essential
⇒ Uncertainty about costs and resources options other than current practice
5. **ZBB in Housing, Regeneration and Environment**

5.1 During 2009-10 budget setting, the Business Solutions Team initiated a zero-based approach within the Regeneration & Enterprise Division. This was necessary following major Divisional restructuring in 2008-09. This resulted in better understanding of the budgets and has led to a more stable forecasting environment.

5.2 Review of budgets across the rest of HRE identified a number of historical anomalies which required to be corrected, and some other Divisions were interested in undertaking a similar process to revise their budgets. The Department has undergone a number of structural changes in prior years, but is now settling into a period of stability so it seemed a suitable time for a more detailed budget revision to take place.

5.3 The key thing within HRE has been to seek the active engagement of DLT members in the process, and a paper outlining the proposed approach was discussed and approved by DLT in October 2009. This has been followed up by a presentation at the DLT away day and in-depth workshops with each Divisional Management Team.

5.4 The approach decided on has been to implement the zero-based budgeting partially in the current year, by stripping out and reviewing in detail all budgets to be set for next year, with this intended to be followed up with a full review of the Department’s structure and services in the next financial year.

6. **Comments from Executive Director of Finance and Resources**

6.1 None. The report is for information. It does not contain any recommendations that, if agreed, would commit the Council to additional expenditure.

7. **Comments from Director of Legal and Democratic Services**

7.1 The Council has a general duty under section 3 of the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness. In addition it has a fiduciary duty to the tax payer to ensure the public purse is used prudently.

8. **Results of consultation**

8.1 None

9. **Organisational implications**

9.1 **Risk management:**
If the authority were to proceed with zero based budgeting, it would need to be supported by effective risk management.
9.2 **Equalities impact assessment:**
An equalities impact assessment has not been undertaken. There is no direct equalities impact at this stage, however, if zero based budgeting was introduced, the process would need to be supported by equality impact assessments.

9.3 **Community safety implications:**
None.

9.4 **Environmental implications:**
None.

9.5 **Staffing and accommodation implications:**
None.

9.6 **Any other implications:**
None.