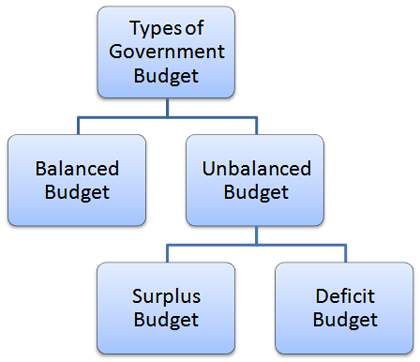
**squareDifferent Types of Government Budget - Diagram ↓**

[](http://lh6.googleusercontent.com/_iFIztPmvqg8/TWdik6PbWhI/AAAAAAAAEIc/8HoWzqbI1Kw/Types-of-Government-Budget.png)

**squareA. Balanced Budget ↓**

Balanced budget is a situation, in which estimated revenue of the government during the year is equal to its anticipated expenditure.

Government's estimated Revenue = Government's proposed Expenditure.

For individuals and families, it is always advisable to have a balanced budget.

Most of the classical economists advocated balanced budget, which was based on the policy of 'Live within means'. According to them, government's revenue should not fall short of expenditure. They also favoured balanced budget because they believed that government should not interfere in economic activities and should just concentrate on the maintenance of internal and external security and provision of basic economic and social overheads. To achieve this, government has to have enough fiscal discipline so that its expenditures are equal to revenue.

**squareB. Unbalanced Budget ↓**

The budget in which income & expenditure are not equal to each other is known as Unbalanced Budget.

Unbalanced budget is of two types :-

1. Surplus Budget
2. Deficit Budget

**1. Surplus Budget**

The budget is a surplus budget when the estimated revenues of the year are greater than anticipated expenditures.

Government expected revenue > Government proposed Expenditure.

Surplus budget shows the financial soundness of the government. When there is too much inflation, the government can adopt the policy of surplus budget as it will reduce aggregate demand.

Increase in revenue by levying taxes on people reduces their disposable incomes, which otherwise could have been spend on consumption or saved and devoted to capital formation. Since government spending will be less than its income, aggregate demand will decrease and help to reduce the price level.

However, in modern times, when governments have so many social economic & political responsibilities it is virtually impossible to have a surplus budget.

**2. Deficit Budget**

Deficit budget is one where the estimated government expenditure is more than expected revenue.

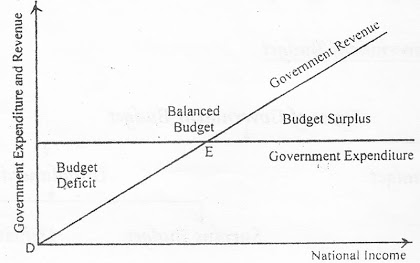
Government's estimated Revenue < Government's proposed Expenditure.

According to Prof. Hugh Dalton, "If over a period of time expenditure exceeds revenue, the budget is said to be unbalanced".

Such deficit amount is generally covered through public borrowings or withdrawing resources from the accumulated reserve surplus. In a way a deficit budget is a liability of the government as it creates a [burden of debt](http://kalyan-city.blogspot.com/2011/02/burden-of-internal-and-external-public.html) or it reduces the stock of reserves of the government.

In developing countries like India, where huge resources are needed for the purpose of economic growth & development it is not possible to raise such resources through taxation, deficit budgeting is the only option.

In Underdeveloped countries deficit budget is used for financing planned development & in advanced countries it is used as stability tool to control business & economic fluctuations.

[](http://lh5.googleusercontent.com/_iFIztPmvqg8/TWdiotjTEQI/AAAAAAAAEIg/pbrAYBEPabY/Graph-of-Balanced-Budget.jpg)

At the Point E, budget is balanced. To the left of point E the government budget is in deficit and to the right of point E, the budget is in surplus.

When the government incurs a budget deficit it is financed by borrowing. The government borrows from the public by issuing government bonds. This gives rise to government debt or public debt

**What is the capital budget?**

This consists of capital receipts and payments. It also incorporates transactions in the public account. Capital receipts are loans raised by the government from the public which are called market loans, borrowings by the government from the Reserve Bank and other parties through sale of treasury bills, loans received from foreign bodies and governments, and recoveries of loans granted by the central government to state and union territory governments and other parties.   
  
Capital payments consist of capital expenditure on acquisition of assets like land, buildings, machinery, and equipment, as also [investments](http://economictimes.indiatimes.com/topic/investments) in shares, loans and advances granted by the central government to state and union territory governments, government companies, corporations and other parties.

**What is the revenue budget?**

This consists of the revenue receipts of the government (tax revenues and other revenues) and the expenditure met from these revenues. Tax revenues comprise proceeds of taxes and other duties levied by the Union. Other revenues are receipts of the government mainly consisting of interest and dividend on investments made by the government, and fees and receipts for other services rendered by the government. Revenue expenditure is expenditure  ..

for the normal running of government departments and various services, interest charges on debt incurred by government, subsidies and so on. Broadly speaking, expenditure which does not result in the creation of assets is treated as revenue expenditure. All grants given to state governments and other parties are also treated as revenue expenditure even though some of the grants may be for creation of assets.

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**What is Performance-Based Budgeting?**

It is important to understand that performance-based budgeting is not simply the use of program performance information in developing a budget. Performance-based budgeting does more than just inform the resource allocation decisions that go into the development of a traditional type of budget. In other words, it is not just "budgeting based on performance." Instead, it is the process by which a particular type of budget is developed -- a Performance Budget (or "program performance budget"). To design an effective system of performance-based budgeting, it is therefore vital to understand first exactly what the end product itself should be, what it should contain, and how it should look.

A true Performance Budget is not simply a Line-Item (or object class) budget with some program goals attached. It tells you much more than just that for a given level of funding a certain level of result is expected. A real Performance Budget gives a meaningful indication of how the dollars are expected to turn into results. Certainly not with scientific precision, but at least in an approximate sense, by outlining a general chain of cause and effect. The most effective governmental Performance Budget does this by showing, for each program area, how dollars fund day-to-day tasks and activities, how these activities are expected to generate certain outputs, and what outcomes should then be the result.

A program Performance Budget can be distinguished from a Line-Item Budget in a fundamental way. The line items show what each dollar will be spent on: salaries, benefits, office supplies, travel, utilities, equipment, etc. The Performance Budget shows what each dollar will accomplish, generally in the way of a measurable result achieved (such as a reduction in accidents, an improvement in health, an increase in customer satsifaction, etc.), or in the way of an activity performed (such as process a grant application, inspect a worksite, review a compliance activity,.

# Define Performance Budgetingঃ

Performance data are used during the performance-budgeting process to allocate money for different activities.

How a company distributes and uses its people and financial resources largely depends on its budget. From planning and staff development to financial reporting and administrative services, organizations rely on different factors when determining their budgets for the fiscal year. Performance budgeting is one method that organizations use to decide where, how and when budgeting dollars get used. Performance budgeting is a model that is linked directly with financial and organizational results. Metrics that show how expenditures achieve objectives and deliver results are some of the primary characteristics of performance budgeting. Organizations apply performance budgeting in different ways, depending on their sector, customer base or constituency and their overall objectives. For example, a governmental agency may use its budget to reduce waste, while a university may wish to increase its attendance rates.

# zero based budgeting (ZBB)

(From Wikipedia, )

**Zero-based budgeting** is an approach to planning and decision-making which reverses the working process of traditional [budgeting](http://en.wikipedia.org/wiki/Budgeting). In traditional incremental budgeting (Historic Budgeting), departmental managers justify only variances versus past years, based on the assumption that the "baseline" is automatically approved. By contrast, in zero-based budgeting, every line item of the budget must be approved, rather than only changes. During the review process, no reference is made to the previous level of expenditure. Zero-based budgeting requires the budget request be re-evaluated thoroughly, starting from the zero-base. This process is independent of whether the total budget or specific line items are increasing or decreasing.

The term "zero-based budgeting" is sometimes used in personal finance to describe "zero-sum budgeting", the practice of budgeting every unit of income received, and then adjusting some part of the budget downward for every other part that needs to be adjusted upward. 7 Zero based budgeting also refers to the identification of a task or tasks and then funding resources to complete the task independent of current resourcing.

## Advantages

1. Efficient allocation of resources, as it is based on needs and benefits rather than history.
2. Drives managers to find cost effective ways to improve operations.
3. Detects inflated budgets.
4. Increases staff motivation by providing greater initiative and responsibility in decision-making.
5. Increases communication and coordination within the organization.
6. Identifies and eliminates wasteful and obsolete operations.
7. Identifies opportunities for outsourcing.
8. Forces cost centers to identify their mission and their relationship to overall goals.
9. Helps in identifying areas of wasteful expenditure, and if desired, can also be used for suggesting alternative courses of action.

## Disadvantages

1. More time-consuming than incremental budgeting.
2. Justifying every line item can be problematic for departments with intangible outputs.
3. Requires specific training, due to increased complexity vs. incremental budgeting.
4. In a large organization, the amount of information backing up the budgeting process may be overwhelming.

## Use in the public sector

### Background

Zero Base Budgeting (ZBB) in the public sector and the private sector are very different processes, and this must be understood when implementing a ZBB process in the public sector. “The use of ZBB in the private sector has been limited primarily to administrative overhead activities (i.e. administrative expenses needed to maintain the organization…)”.For example, Peter Phyrr used ZBB successfully at Texas Instruments in the 1960s and authored an influential 1970 article in Harvard Business Review. In 1973, President Jimmy Carter, while governor of Georgia, contracted with Phyrr to implement a ZBB system for the State of Georgia executive budget process.

President Carter later required the adoption of ZBB by the federal government during the late 1970s. “Zero-Base Budgeting (ZBB) was an executive branch budget formulation process introduced into the federal government in 1977. Its main focus was on optimizing accomplishments available at alternative budgetary levels. Under ZBB agencies were expected to set priorities based on the program results that could be achieved at alternative spending levels, one of which was to be below current funding.”

According to Peter Sarant, the former director of management analysis training for the US Civil Service Commission during the Carter ZBB implementation effort, “ZBB means “different things to different people.” Some definitions are implying that zero-base budgeting is the act of starting budgets from scratch or requiring each program or activity to be justified from the ground up. This is not true; the acronym ZBB, is a misnomer. ZBB is a misnomer because in many large agencies a complete zero-base review of all program elements during one budget period is not feasible; it would result in excessive paperwork and be an almost impossible task if implemented.” [[5]](http://en.wikipedia.org/wiki/Zero-based_budgeting#cite_note-5) In many respects the “common misunderstanding” of ZBB noted above resemble a “sunset review” process more than a traditional public sector ZBB process.

### Definition

According to Sarant, ZBB is a technique which complements and links to existing planning, budgeting and review processes. It identifies alternative and efficient methods of utilizing limited resources . It is a flexible management approach which provides a credible rationale for reallocating resources by focusing on a systematic review and justification of the funding and performance levels of current programs.”

A method of budgeting in which all expenses must be justified for each new period. 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 the budget is higher or lower than the previous one.

ZBB allows top-level strategic goals to be implemented into the budgeting process by tying them to specific functional areas of the organization, where costs can be first grouped, then measured against previous results and current expectations.

### Components of a public sector ZBB analysis

In general there are three components that make up public sector ZBB:

1. Identify three alternate funding levels for each decision unit (Traditionally, this has been a zero-base level, a current funding level and an enhanced service level.);
2. Determine the impact of these funding levels on program (decision unit) operations using program performance metrics; and
3. Rank the program “decision packages” for the three funding levels.

The process was also specifically intended to involve both program staff and budget staff in the process. In many cases, program staffers were asked to look for alternative service delivery models that could deliver services more efficiently at lower funding level.

The US General Accounting Office (GAO) reviewed past performance budgeting initiatives in 1997 and found that ZBBs “main focus was on optimizing accomplishments available at alternative budgetary levels. Under ZBB agencies were expected to:

Set priorities based on the program results that could be achieved at alternative spending levels, one of which was to be below current funding.

1. In developing budget proposals, these alternatives were to be ranked against each other sequentially from the lowest level organizations up through the department and without reference to a past budgetary base.
2. In concept, ZBB sought a clear and precise link between budgetary resources and program results.”

Further, “ZBB illustrated the usefulness of:

1. Defining and presenting alternative funding levels; and
2. Expanded participation of program managers in the budget process.”

The federal ZBB budgeting system had the following components: “Budget requests for each decision unit were to be prepared by their managers, who would (1) identify alternative approaches to achieving the unit’s objectives, (2) identify several alternative funding levels, including a “minimum” level normally below current funding, (3) prepare “decision packages” according to a prescribed format for each unit, including budget and performance information, and (4) rank the decision packages against each other.”

ZBB was officially eliminated in federal budgeting on August 7, 1981. “Some participants in the budget process as well as other observers attributed certain program efficiencies, arising from the consideration of alternatives, to ZBB. Interestingly, ZBB established within federal budgeting a requirement to:

1. Present alternative levels of funding; and
2. Link (them) to alternative results.”

### Defining the government program zero-base

As noted earlier, there is often considerable confusion over the meaning of zero-base budgeting. There is no evidence that public sector ZBB has ever included “building budgets from the bottom up” and “reviewing every invoice” as part of the analysis. In discussions of ZBB, there is often confusion between a ZBB process and a sunset review process. In a sunset review the entire function is eliminated unless evidence is provided of program effectiveness. This confusion ultimately leads to the question: what is a zero-base?

Sarant’s definition of the zero-base based on the federal training experience is: “A minimum level is actually the grass roots funding level necessary to keep a program alive. Therefore, the minimal level is the “program or funding level below which it is not feasible to continue a program… because no constructive contribution can be made toward fulfilling its objective.” Identifying this level of program funding has been subjective and problematic.

Consequently, “some states have selected arbitrary percentages to insure that an amount smaller than last year’s request in considered. They do this by stipulating that one alternative must be 50 or 80 or 90 percent of last year’s request.” This equates to analyzing the impact on program operations of a 10, 20 or 50 percent reduction in funding as the “zero base” funding level.

### Importance of performance measures

Performance measures are a key component of the ZBB process. At the core, ZBB requires quality measures that can be used to analyze the impact of alternative funding scenarios on program operations and outcomes. Without quality measures ZBB simply will not work because decision packages cannot be ranked. To perform a ZBB analysis “alternative decision packages are prepared and ranked, thus allowing marginal utility and comparative analysis.”

Traditionally, a ZBB analysis focused on three types of measures. “They (federal agency program staff) were to identify the key indicators to be used in measuring performance and results. These should be “measures of:

1. effectiveness,
2. efficiency, and
3. workload for each decision unit.

Indirect or proxy indicators could be used if these systems did not exist or were under development.”

### Impact of ZBB on Government Operations

According to the National Conference of State Legislatures:

“In its original sense, ZBB meant that no past decisions are taken for granted. Every previous budget decision is up for review. Existing and proposed programs are on an equal footing, and the traditional state practice of altering almost all existing budget lines by small amounts every year or two would be swept away. No state government has ever found this feasible. Even Georgia, where Governor Jimmy Carter introduced ZBB to state budgeting in 1971, employed a much modified form.

State programs are not, in practice, amenable to such a radical annual re-examination. Statutes, obligations to local governments, requirements of the federal government, and other past decisions have many times created state funding commitments that are almost impossible to change very much in the short run. Education funding levels are determined in many states partly by state and federal judicial decisions and state constitutional provisions, as well as by statutes. Federal mandates require that state Medicaid funding meet a specific minimum level if Medicaid is to exist at all in a state. Federal law affects environmental program spending, and both state and federal courts help determine state spending on prisons. Much state spending, therefore, cannot usefully be subjected to the kind of fundamental re-examination that ZBB in its original form envisions.

To the extent that ZBB has encouraged governors and legislators to take a hard look at the impact of incremental changes in state spending, it produced a significant improvement in state budgeting. But in its classic form--begin all budget evaluations from zero--ZBB is as unworkable as it ever was.”

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| Dictionary Says | Definition of 'Zero-Based Budgeting - ZBB' A method of budgeting in which all expenses must be justified for each new period. 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 the budget is higher or lower than the previous one.   ZBB allows top-level strategic goals to be implemented into the budgeting process by tying them to specific functional areas of the organization, where costs can be first grouped, then measured against previous results and current expectations. |
| Investopedia Says | Investopedia explains 'Zero-Based Budgeting - ZBB' Because of its detail-oriented nature, zero-based budgeting may be a rolling process done over several years, with only a few functional areas reviewed at a time by managers or group leadership.   Zero-based budgeting can lower costs by avoiding blanket increases or decreases to a prior period's budget. It is, however, a time-consuming process that takes much longer than traditional, cost-based budgeting. The practice also favors areas that achieve direct revenues or production; their contributions are more easily justified than in departments such as client service and research and development. |

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