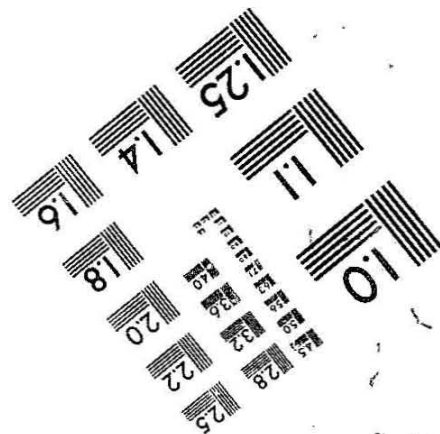
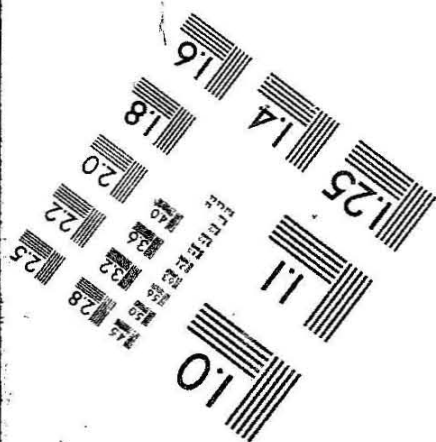
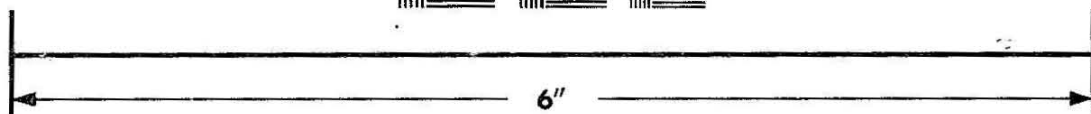
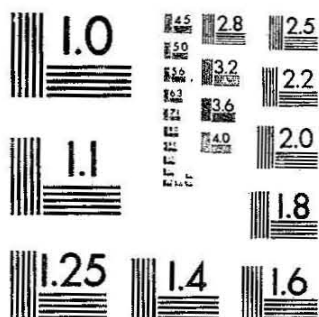


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RICHARD L. BROWN, Director Brown  
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# Can Zero-Base Budgeting Be Successfully Applied to the Federal Budget Process?

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Zero-Base Budgeting as it is being generally accepted throughout many business, State, and local organizations is a mechanism structured to deal with the evaluation and prioritization of a wide variety of programs through the budget process. It is proving to be particularly useful in organizations where one Chief Executive makes the final program direction and financial management decisions. However, the proposition of imposing a Zero-Base Budgeting mechanism on the Federal budget process is one that must be considered carefully in light of present Executive and legislative roles in that process. As presently structured, the Federal budget process cannot readily accommodate the Zero-Base Budgeting mechanism. The current congressional process of authorizing and funding Federal programs is too complex and cumbersome to accommodate a well-structured, definitive priority-setting system. This is not to say that many aspects of Zero-Base Review as intended by S2925, proposed Federal "Sunset" legislation, are not feasible. On the contrary, Zero-Base Review can and should be applied to the current Federal process. The mechanism used in executing that application must be carefully designed. To impose at the outset of a new budget cycle the Zero-Base Budgeting system as it has been adopted by Georgia, New Jersey, and other State and local governments would create an impossible administrative burden. Several major changes to the current budget administration and related political processes must be made if they are to accommodate a Zero-Base Budgeting system.

The present applications of Zero-Base Budgeting in both the private and public sectors have been principally mechanistic. Zero-Base Budgeting has not introduced any significantly new budgetary concepts or financial management innovations over

what has been intended by planning, programming, and budgeting coupled with current Office of Management and Budget directives concerning Management by Objectives. What Zero-Base Budgeting does do is structure a mechanism designed to give top management the capability to logically make judgments as to the relative priorities of programs competing for limited funds.

The Federal budget process currently involves four basic steps: (1) preparation and submission of the Budget of the United States by Federal agencies, the Office of Management and Budget, and the President; (2) review, authorization, and appropriation of funds by the Congress; (3) execution of approved programs by the various Federal agencies within approved funding levels; and (4) program audit and evaluation by each agency internally as well as the U.S. General Accounting Office as an independent agency. Exhibit I attempts to summarize this process. Responsibility for Federal program authorization, oversight, and purse string control are vested in the Congress rather than the Chief Executive. Recent passage of the Budget Reform Act of 1974 and the Budget and Impoundment Control Act reemphasize the congressional intention of strengthening that role. This presents an interesting complexity which the Zero-Base Budgeting mechanism cannot easily deal with — that of a lack of a single, high-level decisionmaking point to handle all priority ranking and budget administration decisions. Compounding this difficulty are the wide variety of program, budget, and appropriation responsibilities exercised by various committees, each representing different and often contrasting political interests.

Federal programs are initiated and approved by authorizing committees who also exercise an

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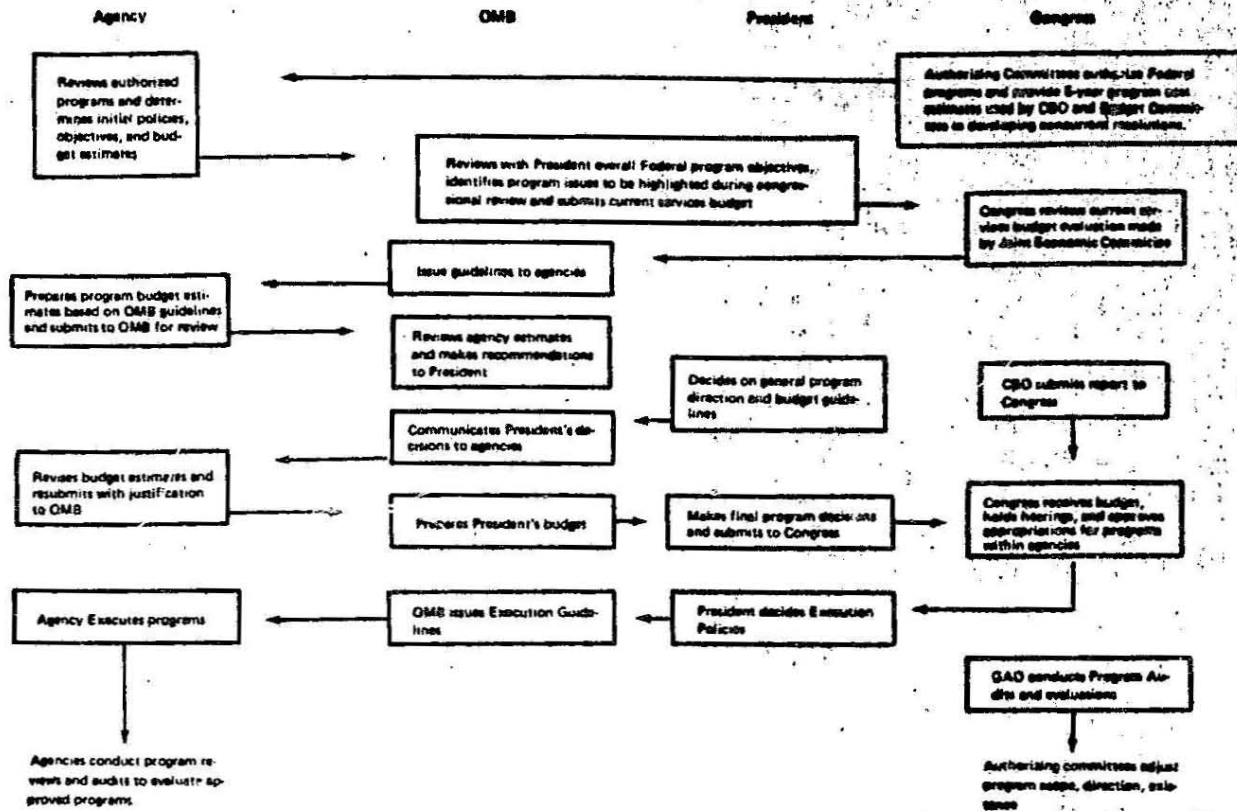
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# EXHIBIT I

## FEDERAL BUDGET PROCESS



oversight responsibility to assure that congressional program intent is properly executed by various Executive agencies. As various needs for Federal programs develop, either through expression of political interest or practical public administration demands, appropriate congressional committees consider legislation which will authorize Executive agencies to satisfy those needs. Even though legislation is passed authorizing a Federal program, there are no funds available to execute that program until the Executive agency responsible presents a budget to the Appropriations Committee for their approval, and separate congressional action is taken on that budget request. Recently, through passage of the Budget Reform Act, Congress recognized the importance of directly associating costs with Government functions and associating the authorization process with the appropriation process by placing spending ceilings on the execution of those functions. The Act requires each authorizing committee to indicate in their reports on proposed legislation which would authorize new Federal programs the 5-year costs of those programs. Up until now, program costs were chiefly the concern of

the Appropriations Committees and have not been considered in light of specifically constrained resources.

The implementation of an effective Zero-Base Budgeting system requires a structure which focuses program and budgetary decision authority at one high-level point in the organization. The Zero-Base tool compels the chief executive or financial officer to decide whether or not a program will be funded; if it is, at what level; and what the priority ranking of each program is in relationship to other programs competing for scarce resources. Program performance trade-offs must be made in the context of competing priorities and alternatives to performing programs at recommended levels. The diverse and uncentralized power structure of the Congress does not presently satisfy that need. Each authorizing committee has its own interests which are greatly influenced by their Chairmen, who in turn are influenced by their constituencies and party affiliations. In applying ZBB to the Federal process, the Congress as a unit would need to become the chief planning and budgeting officer of the Federal Government, and as such would need to develop a



priority ranking system which would permit it, as a unit, to make effective and logical program trade-offs. No one committee can execute that responsibility for the entire Congress. Priority ranking decisions must be made by the Congress as a whole. A system would need to be established to effectively permit this through traditional voting methods. The need for a new process by which Congress determines national spending priorities was recognized in the Budget Reform Act of 1974. That Act provided for a 50-hour debate on the congressional budget resolution which focuses on the allocation of total spending among major budget functional areas. Passage of a resolution by the Congress establishes a spending ceiling; however, the Congress still has no formal methodology of ranking the priority of one Federal program as compared to another. Priorities may be discussed during debate but they are not specifically voted upon.

In addition to creating a system which could effectively deal with the political conflicts naturally associated with any forced priority ranking, seven basic changes would need to be made to the present budgeting practice:

- (1) Criteria for determining what constitutes a Federal program must be more clearly spelled out.
- (2) A systematic method of funding discretionary and non-discretionary programs must be developed.
- (3) Program decision units must be identified and defined.
- (4) Decision packages must be developed.
- (5) Generally accepted principles and standards governing program evaluation and cost-benefit analysis must be developed.
- (6) A priority ranking system must be developed.
- (7) The decisionmaking process during execution must clearly support the outcome of priority ranking.

Before we can review all Federal programs from Zero-Base, we need to define what a program is and identify how many programs there are. This in itself can be complex since many functions outlined in the Federal budget cross agency lines, thereby making it difficult to identify whether an agency is administering a program or is administering one or more levels of a program.

The Budget Reform Act attempts to get Congress to prioritize Government spending as it is presented in terms of functional categories outlined in the President's budget. These categories are very broad and involve the activities of so many different agencies that using them to conduct a specific review

of program priorities becomes impossible. For example, functional category No. 750, *Law Enforcement and Justice*, involves a variety of efforts in over 13 different Government departments and agencies. To define Law Enforcement and Justice as a "program" would require the establishment of a single program administrator with the authority to cross agency lines in making program decisions. To define each agency's efforts in this function as a program would present such a large volume of paperwork that it would be impossible for the congressional staff to consider it. The problem of defining a Federal program has been reviewed in the work associated with S2925, Federal "Sunset" legislation. The report put out by the Government Operations Committee on this proposed legislation indicates that two methods were used to estimate the number of Federal Programs: (1) The budget accounts method, and (2) the public laws method. Each method estimated that there are approximately 1,000 programs. However, the report of the Committee on Rules and Administration aptly points out that inconsistencies in using these two methods could vary the number of programs under the jurisdiction of a Committee such as the Committee on Agriculture and Forestry by more than three times. That same report also points out that "The fact is that there are many more than 1,000 programs. How many more is an open question. There could easily be as many as 40,000, 50,000, or 100,000." Before we can apply



about the  
author...

Richard L. Brown is the Director, General Services and the Controller of the U.S. General Accounting Office. The offices over which he has responsibility are the Office of Administrative Services, the Office of Budget and Financial Management, the Office of Information Management, the Office of the Librarian, and the Office of Publishing Services.

Mr. Brown joined the General Accounting Office in 1974 as the Assistant Budget Officer. He later became the Budget Officer, and in 1977 was appointed Controller. Prior to coming to GAO he worked for the Navy Department and IRS. He taught English at the University of Maryland prior to beginning his career with the Government.

He has received his B.A. from Weber State College, his M.P.A. from the American University, and his Juris Doctorate from the National Law Center, George Washington University.

the Zero-Base Budgeting mechanism, we must spell out what criteria are going to be used to define a Federal program and apply that criteria on a continuing basis to program review and evaluation techniques. By doing so, Federal programs will be consistently defined permitting equal consideration through a priority ranking process.

Another major problem that must be resolved is that of dealing consistently with discretionary and nondiscretionary programs between agencies.

Both the Budget Reform Act and the proposed "Sunset" legislation recognize the need for separating budgetary items which are readily controllable from those which are not. According to estimates made by the Committee on Government Operations, up to 75 percent of the budget is relatively uncontrollable. S2925 limits nondiscretionary areas such as the National Debt and Social Security payments. To make a Zero-Base tool work effectively, criteria will need to be established which clearly define which "programs" are discretionary and which are nondiscretionary and therefore subject to the priority ranking process. Such criteria does not currently exist, nor does the present process consider its application in the context required for Zero-Base Review.

Once discretionary and nondiscretionary programs have been identified, program decision units need to be defined. For example, a decision unit could represent a "program," a functional category as outlined in the President's Budget, a group of programs administered by a single Federal agency, or all programs administered by a Federal agency. The unit requiring the decisions of go or no go, or if go, at what level, need to be identified in a manner which permits consistent evaluation and justification opportunity for each unit. These units need to be structured in such a manner as to permit the Congress to focus on what it believes are the substantive national issues without imposing a significant additional workload requirement on authorizing committee staffs in reviewing detailed justification documents for units where no issues exist. The unit must be specific enough to permit the application of a priority ranking technique to programs within the unit, and broad enough to avoid volumes of justification materials too large to be meaningfully considered.

Once decision units are identified, Decision Packages must be developed to serve as the vehicle for defining the unit's goals and objectives; presenting costs of operating the unit at alternative functional levels; presenting justification for the unit's continued existence, expansion, or alteration; and presenting alternative methods with their costs for achieving its goals and objectives. Decision

Packages become the backbone of any effective Zero-Base Budgeting process. They can be tailored to individual program needs and can be modified with relative ease to accommodate decision unit and program changes. Decision Packages can be prepared at virtually any level of detail providing succeeding levels of management the opportunity to review at whatever level they feel appropriate. This could present problems if committees began reviewing large numbers of Decision Packages prepared to assist in ranking program priorities below the decision unit level. Congress would need to concentrate on reviewing Decision Packages prepared for defined units if it hopes to deal with those units from a Zero Base. In many cases this would mean that committees would not review all "programs" from a Zero Base. But it would still be necessary for them to review all programs subject to priority ranking. Decision Packages also provide a mechanism for considering the input of managers at all levels within the overall unit. The greatest pitfall associated with use of Decision Packages is the tendency they have to proliferate large quantities of paperwork. Great care must be taken to insure that the temptation to collect and document data at the lowest level of detail is avoided. Decisions made by the Congress on each package as prepared for each decision unit should consider no more than proposed alternatives and levels of effort. The Congress must avoid the temptation of reviewing in detail the rationale behind each level of effort within the package.

One important key to viable Zero-Base Budgeting is an effective program evaluation process. Too frequently, the importance of this process is overlooked or underemphasized. If no change were made to the current Federal budget process, the Congress would have to rely on internal agency program evaluations based principally upon internal agency audit programs. The General Accounting Office could presently evaluate certain significant programs for the Congress; however, it would be impossible for the GAO to conduct an independent evaluation of every Federal program on an annual basis. One of the most significant problems to be overcome as it relates to program evaluation for purposes of Zero-Base Budgeting is to develop a method of consistently evaluating programs throughout the entire Federal Government. Since each agency would need to continue to bear the principal responsibility for conducting regular program evaluations, the Congress must be assured that each program is evaluated consistently in relationship to its competitors for scarce resources. To do this, generally accepted standards governing program evaluations need to be developed

and adopted by all Federal agencies. These standards must be designed to give proper consideration to costs versus benefits as well as program outputs as generated by public need. Such standards are not now consistently applied and program evaluation too frequently winds up as a synthesis of the best judgments of program managers at all levels. Inconsistent evaluation of a wide variety of very complex programs makes priority ranking judgments virtually impossible when they must be agreed upon by a group as large and diverse in interests as the Congress.

The Planning Programming and Budgeting System also recognized the importance of good program evaluation. However, like the present Zero-Base Budgeting mechanism, program evaluation under PPBS lacked standards and consistently applied evaluation techniques. This problem was acknowledged by Congress when in the Budget Reform Act of 1974 Title VII was included to strengthen the program evaluation role of the GAO. The GAO has recognized a long-standing need for appropriate internal auditing standards for use by all Federal agencies and has done a significant amount of work in encouraging the adoption of such standards. The next logical step is to develop program evaluation standards which will uniformly utilize information obtained from internal and GAO audits to consistently evaluate all Federal programs. Once program evaluation information can be obtained for all Federal programs the Congress will have a basis for implementing a priority ranking system.

The forced priority ranking is one of the most significant contributions of Zero-Base Budgeting. The present Federal process permits program review, evaluation, and funding analysis. However, there is no mechanism which forces top policy making attention on the relative value of all Federal programs. Zero-Base Budgeting has that mechanism in formal priority ranking.

Priority ranking systems vary considerably throughout the various Zero-Base Budgeting applications used by a wide variety of businesses and State and local governments. In virtually all instances where this mechanism is now being used, ranking of decisions boils down to informed program judgments made by the chief executive of the company or State or local government concerned. In some cases those judgments are based on sound information received through good program evaluation and internal auditing systems; however, in too many instances the judgments become subjective and are made primarily as a result of the pressure put on the decisionmaker by

the system. As effective a tool as priority ranking can be, forced decisions where there is no substantive evaluative information could seriously affect important programs. In the context of Zero-Base Budgeting, programs are considered in the light of budget year influences. Since budget year constraints will probably continue to grow out of an increasing public desire to reduce Federal expenditures, a Zero-Base system will force an evaluation of programs as they impact the budget year more than as they impact public needs over a 5- to 10-year period. This process in the ZBB mechanism focuses top management attention on the short-term implications of budget year decisions rather than on the long-term impact of these decisions on Federal programs. To make priority ranking work effectively, a method of incorporating the longer range perspectives of PPBS needs to be adopted.

Finally, the decisionmaking processes of budget execution must fully support the outcome of priority ranking. The constitutional fact of separation of powers will make that difficult, but not always impossible. If the President can be involved in the decisionmaking process with the Congress and can agree with the priority ranking, proper execution will be achievable. However, where there are differences (impoundments, shifts in approved program emphasis) the process will need to be engineered to formally accept these changes through revised Decision Packages which will ultimately be approved by the Congress. A process to accomplish this would necessarily be long and involved and may be too cumbersome to permit timely changes.

In conclusion, it seems that many Zero-Base Budgeting concepts are worthy of serious consideration in implementing them in the Federal budget process. A top down decision to implement a Zero-Base process immediately could result in serious program conflicts and procedural confusion. This could create an impossible workload to operate properly or an even more arbitrary decisionmaking system than is presently used, if done improperly. Without proper application of the full range of Zero-Base concepts, a large amount of additional paper review could be created with the resulting decisions being based on the same judgments as with the present process.

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