

## **Zero-based Reviews not the same as Zero-based Budgeting**

One of the most important city policy documents is the budget. In the past, we have had three year business plans masquerading as budgets. Tax rates were set for three years and put to the public only once.

Then a new council decided that they will use zero-based reviews as an “improved” process. Some seem to have been fooled by this new term. Even Jen Gerson, reporting in *The National Post*, stated that Mayor Naheed Nenshi had implemented zero-based budgeting. Calgarians should know the difference and impact of the two processes. Zero-based reviews are not the same as zero-based budgeting.

### **The Zero-Based Review (ZBR)**

According to the city, “the Program was created by The Corporate Initiatives Division of the Chief Financial Officer’s Department and approved by City Council to raise the care and attention the City pays to restraining expenditures and continually seeking efficiencies in the delivery of municipal programs and services. A zero-based review is an evaluation process through which a business unit’s services are systematically reviewed to determine the most appropriate way to provide them and at what level. The objective is to provide options and recommendations to address two key service delivery questions:

Effectiveness: Whether any changes to services would help to achieve greater results within currently available resources

Efficiency: Whether any changes to the current method of delivering services would improve the cost effectiveness of the service

The ZBR program envisions that a couple of business units will be reviewed each year on an ongoing basis. The term “zero-based review” is reserved for reviews conducted through the corporate program. ZBRs are a new and important element of the efficiency and effectiveness strategy. Zero-based reviews examine all aspects of the business under review to ensure that every dollar is used well, in creating the city that Calgarians have said they **want** to live in.”

### **Zero Based Budgeting (ZBB)**

On the other hand, ZBB, according to the Government Finance Officers Association, “promises to move the organization away from incremental budgeting, where last year’s budget is the starting point. Instead, the starting point becomes zero, with the implication that past patterns of spending are no longer taken as a given. ”

We prefer what is known as Zero Line Budgeting This method of budgeting does not start with last year’s budget. Rather, departments are given a blank budget request form with zeros filled in for each line item instead of last year’s budget or actual expenditures as the starting point. Hence, the zero-line label. **Departments**, not Council, then rebuild their budgets from the ground up, justifying each line item. Where possible, departments are asked to provide drivers of cost. The budget requests are often accompanied by

service goals set by the departments in order to give budget authorities a better sense of what the output received for the input will be. Departments **do not** develop decision-packages to describe service levels. Central budget authorities consider the requests, along with the goals, further discuss them with departments as necessary, and then develop a final recommended budget.

As you can see, the two methods differ substantially. The problem with the city's ZBR is that it also uses concocted economic measures. While many organizations demand that the budget be based on the rate of inflation determined by the Consumer Price Index and the rate of growth, the city persists in using the Municipal Price Index (MPI). This measure, which uses internal data, including wages, is produced by the city and not by an independent body. Furthermore, this index is skewed by the constant increase of wages negotiated under union agreements. More often than not the Calgary CPI computed by StatsCan is lower than the MPI. Therefore, the budget is always based on a higher index.

Results of the current ZBR process at city hall have not brought any cost cutting or reported savings. By contrast, revenues have increased by 20% over the past three years, and your taxes have increased 30%. It appears that the ZBR is used by the city as a gimmick rather than a real effort to give Calgarians what **they want**.

The city administration and opponents of ZBB always resort to the following excuses:

- The ZBB process is too time-consuming and too costly ( *ironic for the public sector*),
- ZBB does not provide a structured method for taking account of the community's or elected officials' views and long-term priorities.
- Because participants in the ZBB process will necessarily be preoccupied with putting together the numbers for various decision-packages, they will not be able to focus on considering significant changes to how service is provided.
- Managers are reluctant to suggest decision-packages below current spending.

While ZBR was not the Mayor's initiative, what is disappointing is that he is a former finance instructor, a Harvard graduate, and he campaigned as a 'fiscal conservative'. Yet, together with other members of Council, he bought this farce hook, line and sinker. Furthermore, he now uses 'fuzzy math' to defend the tax increases blaming them on the mill rate. The truth is increasing expenditures and a reluctance to change the way services are delivered are the actual root causes of tax increases. The mill rate is adjusted based on council's tax policies, and on property assessment values which are subject to market prices. When prices go up, the mill rate is adjusted to be revenue neutral. So the Mayor is being disingenuous in his explanations. From campaigning as an outsider, he has now become a true insider.

"Fool me once, shame on you. Fool me twice shame on me."

Calgarians should ask all candidates for their position on the budget process. We know that several candidates profess to want ZBB, while some incumbents want to maintain the *status quo*. The question is, how committed are these candidates to reversing the current

process? How prepared will newly elected councillors be to say once and for all, “Council makes policies, administration implements them”. And if administration fails to implement, are Councillors prepared to utter the words: “You’re fired!”