



City of  
**Peterborough**

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**To:** **Members of the General Committee**

**From:** **Richard Freymond**  
**Commissioner of Corporate and Legislative Services**

**Meeting Date:** **April 12, 2021**

**Subject:** **Report CLSFS21-015**  
**Information About Zero-Based Budgeting**

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## **Purpose**

A report to provide information about Zero-based budgeting processes.

## **Recommendation**

That Council approve the recommendation outlined in Report CLSFS21-015 dated April 12, 2021, of the Commissioner of Corporate and Legislative Services, as follows:

That Information about Zero-based Budgeting, in Report CLSFS21-015, dated April 12, 2021 of the Commissioner of Corporate and Legislative Services, be received for information.

## **Budget and Financial Implications**

There are no financial implications with approval of the recommendations of this Report.

If Council directs staff to implement zero-based budgeting, there will be changes to budgeting processes that may result in additional costs with limited opportunity for savings in the future.

## **Background**

At its meeting of July 27, 2020, in consideration of the 2021 Budget Guidelines Report CLSFS20-028 dated July 13, 2020, Council resolved:

That staff provide a report on Zero-based budgeting processes for Council consideration in the first quarter of 2021.

This Report responds to Council's request.

### **What is Zero-based Budgeting?**

Zero-based budgeting (ZBB) is a budgeting process that allocates funding based on program efficiency and need rather than budget history. This requires beginning with a zero base and building the annual budget to achieve the planned level of service. ZBB does not consider what was budgeted in the prior year as each year the budget is developed based on the costs to deliver the programs and services to be provided.

Zero-based budgeting may be applied at the business unit, program/service, or account level. Depending on the level of ZBB, a justification is submitted with the budget for either the line-item, program or service or business unit as a whole. The justifications are directly tied to strategic priorities. These justifications are reviewed and ranked to determine the allocation of funding in the budget. Budget funding is only allocated to the higher ranked items and so requires difficult decisions in reducing service levels or discontinuing activities. When budget reductions are required, they are applied to specific areas rather than being organization wide.

### **ZBB in the Public Sector**

ZBB provides a structured approach to analyzing programs and services for opportunities of efficiency and potential cost savings by increasing awareness of how funds are spent, and how service levels change in relation to changes in costs.

The advantages of implementing zero-based budgeting in the public sector can include:

- a budget that allocates funds in alignment with the strategic priorities and goals of the municipality by requiring each business unit to identify its own mission and priorities
- improved collaboration across the organization to prioritize programs/services that will receive funding in the budget
- a budget that supports cost reduction by allocating funding to priority programs/services rather than funding automatic budget increases
- Improved perception of transparency and accountability about the budget process, internally and with the public

There are also potential disadvantages of implementing zero-based budgeting for government agencies which can include:

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- a budget process that is costly, complex, and time consuming, as the budget is rebuilt from scratch annually, compared to traditional budgeting that requires justification for incremental changes only
  - difficulties in completing ZBB due to the time constraints of a budget cycle
  - potential savings that are uncertain and potential costs that are significant, as ZBB requires dedicated staff resources to implement and maintain the process
  - problems in the prioritization of departments to allocate funding as some departments, such as internal service departments, do not have service levels that are easily measured

Due to the significant costs and risks of implementing ZBB, government agencies should require significant savings and have the necessary resources when beginning the process. It has been found that government agencies often experience minimal benefit from ZBB as they are not able to implement the resultant changes due to mandated programs/services and service levels. Legislative requirements limit the ability of government agencies to reduce service levels or eliminate programs/services that would generate cost savings. Personnel costs are generally the largest portion of a government's budget and it is difficult to reduce the staff complement of a particular program or business unit for cost savings due to employment legislation, collective agreements, and community expectations.

### **Budgeting Process at the City**

Currently the City uses a budgeting approach known as Net Based Budgeting. The budget is developed by staff and managers in each division by projecting the division-specific revenues and expenditures and the net of those amounts is funded by property taxes to balance the division budgets. With this approach division staff are responsible for the revenues and expenditures to deliver the division's programs and services which can provide incentives in managing both, and the cost to the taxpayer for those programs and services is easily identified.

In developing these budgets, staff consider prior year historical data, a forecast of the current year actual expenses and revenues compared to the current year budget, known and projected changes to service levels, and anticipated economic and inflation impacts. These budgets are reviewed and discussed in detail with division managers, Financial Services staff, and Commissioners during several rounds of meetings.

Report CLSFS20-057 dated November 2, 2020 provided a Budget and Service Analysis report from KPMG which identified mandatory and discretionary services the City provides and opportunities for cost reductions. This report was used as a reference during the 2021 budget process and will continue to be a reference in future budget years.

## Summary

Zero-based budgeting (ZBB) is a budgeting process that requires beginning the budget with a zero base and then building the annual budget to achieve the planned level of service. For the public sector, implementing ZBB can require additional resources and the potential savings are often not realized due to legislative and operational constraints. City budget processes involve a consideration of many factors beyond the prior year budget and staff believe that the current processes will continue to serve the City better than implementing zero-based budgeting.

Submitted by,

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