Modified Zero-Based Budgeting

Modified Zero-Based Budgeting, or target-based budgeting, is an adaptation of Zero-based budgeting. Recognizing that little analysis occurs at the zero level and most annual budget decisions occur at the margins, TBB concentrates information gathering and budget analyses on a target level of funding. Each decision unit is given a target spending amount and asked to submit a budget for that amount. Additionally, the unit may submit decision-package requests above the target amount. TBB makes no attempt to comprehensively re-examine base spending. Rather, scrutiny is focused on the single target budget and decision packages are only formed for additional spending.

Under TBB, each decision unit is given a target spending amount and is asked to submit a budget for that amount. The total target for the organization is necessarily less than what is affordable because the difference between the target and what is affordable is used to fund additional activities through decision-packages.

Departments submit decision-packages to request funding for activities they cannot fit within target spending—either continuation of existing services or entirely new services. Departments prioritize their decision packages but often they receive guidance as to what decision-packages to propose and prioritize by a set of organization-wide goals distributed by central management. Central authorities then examine the decision-packages and decide what to fund.

Targets are assigned as a percentage of the base. Targets may be assigned across-the-board or they may be tailored to each department. If targets are assigned across-the-board, individualized attention to each department's needs comes more in consideration of supplemental projects and high priority needs that did not fit into the target amount. By contrast, if targets are tailored to each department, individualized attention is required in calculating the target. Alternatively, there may separate targets for capital and operating expenses.

Advantages:

- Modified Zero-Based Budgeting provides better and earlier direction to managers in the decision units on how to design their budget requests. Managers have a clear target budget and are told the priorities that decision packages should be aligned with.
- Modified Zero-Based Budgeting lends greater rationality to cut-back decisions than a traditional budget process by way of decision-package creation, ranking, and selecting. However, the initial target setting is often undifferentiated, so may have a significant across-the-board character.
- Because targets are revenue driven, Modified Zero-Based Budgeting is adaptable though lean times and good times. Targets can easily adjust to not only periods of recession but also political choices to limit or reduce property taxes.

- Modified Zero-Based Budgeting presents a set of priorities at the margins where decisions on spending will be made. It provides the possibility of substituting higher priority for lower priority items.
- Generally, departments that stay within the target have more autonomy about how to deliver services and where to put their dollars than they would under other systems of budgeting.

Disadvantages:

- Modified Zero-Based Budgeting gives the departments significant latitude to shield favored programs from cuts by fitting the programs within target spending. In contrast, under ZBB, *all* spending must be put into decision-packages and ranked, including the most basic services.
- Modified Zero-Based Budgeting gives decision-makers fewer options than ZBB for cutting the budget.