

Is Zero Base Budgeting a Reality or a Symbolic Representation of Politics in Public Sector in Sri Lanka?

Anil Jayantha Fernando

Senior Lecturer

Department of Accounting, Faculty of Management Studies and Commerce

University of Sri Jayewardenepura, Sri Lanka

Email: anil@sjp.ac.lk

Abstract

The purpose of the research paper is to examine whether Zero-Base Budgeting (ZBB) implemented by Sri Lanka in 2016 budget is a reality as planned or a symbolic representation of politics. Among other issues, inability to spend allocated funds in line with set budget lines shows the poorness/inadequacy in planning and execution of budgets in Sri Lanka and hence ZBB is argued to be a solution for better planning with reference to identified annual targets based capacities and priorities within a fiscal year, instead of incremental traditional budgeting.

Qualitative approach is used and data is collected from a sample of officials who are involved in the budgeting process, namely accountants, directors of budget/accounts and payments, directors planning/ development, and support staff.

This study finds that those who prepared ZBB have simply followed guidelines and formats provided by the government treasury to prepare budgets and do not understand what ZBB really means. The objectives of ZBB are unlikely to have been achieved as preparers have not understood the process. Budget planning does not happen by considering capacities and priorities of spending units. The practice of budget preparation has become an institutionalized practice of estimating numbers in the same traditional way but filling up new reporting formats as per national budget guidelines for ZBB. The need of integration of budget planning, review, output and outcome is not well communicated so that it has been perceived as an alienated concept.

Operational context is also found to be not conducive for successful implementation of ZBB mainly due to lack of technological setup, required training and guidance given prior to implementation. ZBB is also seen as a tool to cut the budget in terms of allocations instead of bringing about efficiency and effectiveness. The implementation of ZBB in Sri Lanka should have been focused on long term strategic management perspective instead of being hurried/in haste to implement it before the ground is ready for takeoff.

Keywords: Zero Base Budgeting, Planning, Prioritizing, Output and Outcome, Budget allocation

INTRODUCTION

Zero-base budgeting (ZBB) emphasizes on needs, abilities and priorities of expenditures and each activity or program is assumed to be carried out as new activities ("Zero-Based Budgeting - ZBB," 2016) with a futuristic approach. ZBB begins with a "Zero Base" without considering how much was allocated for the previous year. ZBB is therefore a flexible management tool that

provides a rationale for assessing outcomes of budgeted activities. ZBB offers alternative decision packages for efficient use of resource allocation.

In contrast, traditional incremental budgeting normally considers previous year's budget as a base and makes adjustments to it by adding certain percentages mainly on arbitrary basis to maintain the current level of operations. In a way, traditional budgeting does not take into account any initiatives to move towards delivering outcomes aligned with development goals (Samaratunga, 2015a). Socio economic and political environment is not assumed to be significantly different especially in developing countries and therefore, current programs and activities could be repeated at the same cost, with required adjustments for inflation thus justifying traditional budgeting. Therefore, traditional budget estimates can be easily made without assessing real needs and programs (Pyhrr, 1977).

Modified program budgeting method was practiced in Sri Lanka until 2016 when the National Budget Circular of 3/2015 was issued on 29th July 2015 requiring all implementing agencies to prepare budgets on "zero base" starting from the year 2016. The announcement was made by the Ministry of Finance subsequent to the power change at the presidential election held in 2015. The introduction of ZBB in Sri Lanka refers to a medium term framework covering the period from 2016 to 2018 based on national priorities integrated with planning, review, outputs and outcomes. The existing budgeting practice was regarded as imprudent (Samaratunga, 2015a) to pave a way for ZBB. Therefore, budget estimates are required to be made on a realistic basis to achieve economic growth of the country while utilizing limited public resources in an efficient and effective manner (Senewiratne, 2015).

Sri Lankan government expects to identify duplications, wastes and non-value adding resource allocations through ZBB and to eliminate them through ZBB (Samaratunga, 2015b) to achieve desired economic growth. The budget circular 3/2015 consists of objectives, instructions to preparers and standard formats and three hierarchies, namely spending agency, spending unit and division with specific responsibilities assigned for each for budget preparation.

Spending agency is the unit that has the highest responsibility whereas the division is the lowest unit in the diarchy. **A line ministry is a spending agency** and any cost unit identified at the operational level is a division. The structure in which information is gathered for the budget preparation comprises of 194, 203 and 987 spending agencies, spending units and divisions respectively (Treasury, 2015). The government treasury consolidates the national budget once data is collected from all units.

The government had taken measures to carry out training programs, seminars and workshops to educate those who involve in budgeting preparation processes. Preliminary investigations and discussions revealed that ZBB has been perceived differently and not well understood by the preparers. Hence, it is highly uncertain whether the objectives of ZBB would be achieved as planned. Therefore, it is worthwhile to assess the process of ZBB implementation and how objectives of the budgeting are met. This study is carried out to examine how best the ZBB was implemented within the given medium term framework and how major stakeholders perceived it.

METHODOLOGY

Both qualitative and quantitative techniques were used to analyze and interpret data. The primary data was collected through interviews, questionnaires and direct observations made as a project coordinator at various meetings at provincial levels and the line ministry level. The respondents

of interviews comprised of nine provincial directors - budgets and payments, nine chief accountants of provincial ministries of educations, nine chief accountants of provincial departments of education, seven provincial directors planning in education, nine provincial directors in planning 20 provincial accountants, two chief accountants at the Ministry of Provincial Councils and Local Government and two directors at the Ministry of Finance. A structured questionnaire was given/administered to the accountants and the other operational staff involved in the budget preparation at the provincial level . 55 dully filled questionnaires were collected. Each questionnaire consisted of questions with a scale of 1 to 5 representing least to most preferred respectively, *yes* or *no* answers and questions to give little explanations and a space to give additional comments.

Formats specified in the budget circular 3/2015, budgets for the year 2015 and ZBB prepared for 2016, instructions and guidelines given for preparing budgets, news articles, speeches made by politicians and other relevant literature were used as secondary sources of data. Direct citations and interpretations were used in qualitative analyses to explain the nature of ZBB and how preparers have perceived ZBB. Descriptive statistics including mean values of perception scores, percentages and comparisons were used in quantitative analyses.

LITERATURE REVIEW

Georgia county in the United States is considered to be the first to introduce ZBB during the administration of Governor Jimmy Carter in the 1970s, with a view to allocate recourses in a more efficient and effective way to achieve national priorities on a rational base (Pyhrr, 1977). Though its popularity declined subsequently, ZBB was reintroduced in Georgia in 2012 with some improvements where performance based budget procedures were incorporated (Lauth, 2014). This move influenced mainly public sector organizations to move towards ZBB implementation again. Budgeting practices of United Nation agencies, International Labour Organization, UNESCO and World Health Organization were also shifting to ZBB due to budgetary pressures, principals and the reactions of administrative leaders (Patz & Goetz, 2016).

Traditional budgeting does not need to justify the rationale for each activity and its connection to planning as it does not theoretically promote capacity enhancement. However, these conditions are unlikely to prevail in future as socio-economic and political situations urge the needs of reforms in planning when preparing budgets (Senewiratne, 2015). Growth prospects of a country are unlikely to be achieved unless proper investments are made in appropriate infrastructure developments. History shows that budget allocations under incremental budgeting system in Sri Lanka have never been significantly released by the government treasury unless specific political interference is seen. Hence, traditional budget is used as a tool of obtaining the legal approval from parliament to legitimize government activities without proper planning as the real spending take place based on whims and fancies of politicians enriched with power centers. Therefore, ZBB can be seen as a management approach and key decision making tool though it is relatively old (Lalli & Pyhrr, 2015). ZBB is considered to be an efficient and effective tool (Pyhrr, 1977) integrated with planning and decision-making compared to traditional incremental budgeting system. Effectiveness and efficiency of resources used by public sector organizations are key elements as a government is supposed to uphold the public interest first place.

Peter Pyhrr (1977), a manager at Texas Instruments in Dallas, developed the idea of ZBB and accordingly, he practiced preparing budgets simply ignoring previous year's figures starting from scratch with robust justifications and relevant assumptions ("Zero-base budgeting," 2009). The popularity of ZBB has been increasing again and as a result of that Georgia county reintroduced ZBB again in 2012 after three decades of difficulties faced when it was first introduced in 1970s (Pyhrr, 1977).

Despite the fact that its popularity had subsequently declined (Keenan, 2000), ZBB is considered to be a very good technique of effective resource allocation. ZBB has been found to be effective across industries, in companies big and small, and under both public and private ownership (Fitzpatrick & Hawke, 2015). ZBB is becoming popular again and it shows that the number of companies in the USA that introduced and were practicing ZBB increased from 14 in 2013 to 90 in 2015 (Fitzpatrick & Hawke, 2015). Carly Fiorina, a US presidential candidate in her campaign for the 2016 election has also proposed ZBB as a practical solution for balancing the federal budget (Bloomberg, 2015).

However, there is some criticism against ZBB mainly on the ground that current practice is trying to cut the budget at the micro level (Lauth, 2014) by covering behind (???) the back drop of prioritization. Hence, the success depends on how best ZBB is internalized in the system and the commitment to practice it in line with national development objectives rather than implementing it for the name sake (Guthrie, 2002). Further, ZBB is believed to have the potential of eliminating non value adding activities by managing costs to have desired end objectives effectively.

Apart from the basic idea of improving the efficiency and effectiveness of resource allocation now it is used as a tool of building a culture of cost management as well (Fitzpatrick & Hawke, 2015). Evidence finds that 10 to 25 percent of cost savings resulted after implementing ZBB (Fitzpatrick & Hawke, 2015) and ZBB is the best fit for organizations that follow standard practices. Hence, ZBB can be regarded as a relevant management tool to deal with scarce resources with respect to planning by public entities. ZBB can be a good tool to deliver national objectives while bringing maximum benefits to a wide range of beneficiaries with high level of transparency in budgetary process (Andrews & Hill, 2003) as against incremental budgeting.

Compared to incremental budgeting, ZBB is a bottom up approach whereby the need for resources at grass root levels (Divisions and Spending Units) are justified with quantifiable results and outcomes with corresponding detailed cost analysis. Hence, there is an opportunity for all the stakeholders at operational levels to immensely contribute to the economic development under ZBB practice. This exercise is expected

to help them prioritize all programs and activities based on a rational basis by considering the relative contribution to national development objectives and priorities.

DATA ANALYSIS AND DISCUSSION

Introduction of ZBB in Sri Lanka was a sudden decision announced unilaterally by the Ministry of Finance without having much consultation with other stakeholders at provincial level, immediately after forming a new government in August 2015. Budget preparers had no time to be familiarized themselves with the basics of ZBB but they were compelled to simply comply with the requirements by following instructions and guidelines provided. It was found that no

respondent in the study sample had a chance to make any comments or suggestions about ZBB before implementing it.

Instead of setting appropriate bases of each spending agencies, budget ceilings were found to have been decided by the Ministry of Finance unilaterally in accordance with the power vested with them. Views from and justifications of line ministries were welcome at meetings held with the officials of the Ministry of Finance before setting the ceilings but the pressure line ministries had on the need of budget allocation was seen to be minimal. It was observed that decisions on certain budget ceilings were announced unilaterally by the officials of the Ministry of Finance as they have realized and assumed adequate and required for budget heads. In an excerpt from a meeting the following statement was reported: “I think Rs. 100 million cannot be spent during the year and therefore, Rs. 50 million is adequate”. There were no counter arguments against such arbitrary decisions, instead officials from the ministry simply accepted such allocation unless they had specific line items with supportive information.

National development goals and objectives were never referred for budget allocation at meetings where the author participated. The officials of the line ministries maintained a stance of accepting what the Ministry of Finance decided. This indicates that the budget pressure generally comes from top to down, thus showing the prevalence of hierarchical bureaucratic administrative structure.

Discussions at the progress meeting mainly focused on physical and financial progress only and not a single reference was made to principles of ZBB and its outcomes targeted to be achieved. It was further observed that traditional incremental budgeting is well embodied in the budgetary process as an institutional practice.

Referring to the usefulness of meetings conducted on budget preparation, the average score given by respondents was 2.03 which is very close to “little useful” condition. The perception was obtained in a scale of 1 to 5 and the scale 1 represents ‘No Use’ whereas the scale of 5 represents ‘Very Useful’. It was further revealed that those meetings were less useful pertaining to understanding and preparation of ZBB. On average, all respondents at the interviews (67) had participated in more than 5 budget meetings prior to the preparation of ZBB whereas those who actually prepared documents and estimates had participated 3-5 meetings during the year 2015 for the purpose of budget preparations.

The guidelines on implementation of ZBB specify that the estimates should be made in two steps after identifying the ceilings. Estimates for expenditures are identified as recurrent and capital. Step 1 is to determine recurrent expenditure based on discussions made between operational staff at ministerial level (Spending Agency) and the Department of National Budget. Step 2 requires to ascertain capital expenditure where ministry-wise ceilings are estimated at discussions chaired by the secretary to the treasury. On average, more than 80 % of the government budget in Sri Lanka goes to recurrent expenditure that mainly comprises of personnel emoluments.

As per the guidelines given by the Ministry of Finance, the budget preparation process should first assess the relevance of proposed activities by reviewing missions, objectives and functions with a view to identifying non value adding activities. However, it was found that preparers had not taken the serious steps of identifying and relating budget estimates to the outcomes objectively.

The respondents had found hard to relate the programs and activities to corresponding outcomes. They had further perceived that outcomes may result due to many reasons and not specifically because of the programs and activities that they carried out.

Around 90% of respondents were confused about the program output and process outcomes. As a result, the outputs and the outcomes were included in the formats that are highly subjective and general. Inclusion of output indicators and outcome measures has been a compliance requirement in the given formats as they were not reviewed and related. What matters at the final phase of budget preparation was the submission of estimated figures to the government treasury, thus enabling the preparation of the consolidated budget within macro ceilings for capital expenditure which were decided by the Finance Ministry.

No evidence was found as to how estimates were related to the national development objectives for the year 2016. Financial progress revealed that only about 40% of the funds for capital budgets had been released at the end of September 2016 thus showing an unlikely situation to release the balance before the end of 2016. Therefore, no room was left for the government to review the objectives of ZBB and evaluate them against outcomes and KPIs mentioned in the results framework for the year 2016. Among other formalities, the government had three aims of ZBB (Treasury, 2015). They are namely;

1. To make budgetary requirements be comprehensive, justified and complete
2. To question the previously-set assumptions, assessing them and judging their relevance
3. To help/to be employed as a tool for systematic analysis, review and resource allocation to any area that needs attention

However, it was found that there was no mechanism to evaluate whether the above aims were achieved. There had not been proper discussions on assumptions to judge the relevance of programs and activities. In fact no such assumptions had been made at all. A Systematic analysis and a review were not done as such areas had not been identified.

Implementation of ZBB

The National Budget Circular 3/2015 requires each line ministry to appoint a team to review vision, mission, objectives and key functions to assess government priorities under the current context. This team is supposed to further identify relevant activities by eliminating duplications and wastes and reorganizing the operations to reduce the cost. The study finds that the Ministry of Provincial Councils and Local Government has taken prompt measures to appoint a committee as per the guidelines and several workshops and capacity building programs had also been carried out to finalise vision, mission, objectives and key functions of the Ministry in line with national priorities. However, the identification of relevant programs and activities and elimination of duplicates had become a big issue mainly due to lack of capacity of budgeting units and agencies. Further, it was noted that complexities prevailed within the organizational structure of the Ministry and allocation of duties and responsibilities among operational units. Hence, the budget for 2016 included duplicates and non value adding activities as there was no appropriate way of detecting and removing them.

The second biggest problem was the identification of cost units despite the fact that they are defined as a project and/or sub project. Similar kind of projects are carried out by many spending units and divisions. For example waste management is handled by foreign funded projects and by many other operational units as well thus the occurrence of duplication is

inevitable. This issue was more severe when provincial level spending units are to be identified within provincial administration. The study finds that no serious process had been in place to identify value adding activities and duplications. Prioritization budget allocation had not taken place at provincial level as it was not well taken and due to its impracticality.

Prioritization of Program and Activities

Prioritization of programs and activities in line with the national development priorities is one of the key aspects of ZBB. No proper guidelines were given how priorities are determined and assessed. All the respondents to the questionnaire mentioned that they were unaware of such priorities. Further, they had stated that budget estimates were given as in the manner they were decided in the previous year. The preparers of the budgets were confused over the priorities as whether ZBB talks about national priorities or the priorities of spending units or divisions. Further, none of the respondents knew how their priorities are linked to the national priorities if they exist. No actions were found have been taken by the government to communicate national priorities to spending agencies, units and division.

Despite the fact that budgeting unit is mentioned to have the freedom to decide its budget requirements in line with the national priorities, the guidelines leave much freedom for the government treasury to rearrange allocations on the ground that the requested budget amounts are not aligned with the national development priorities. The power to do so has been given as per the National Budget Circular 3/2015 itself. Hence, politicization and exercise of subjective influence of bureaucrats are likely to have occurred. Evidence find that, final ceilings on budget allocations had been made based on the wishes of political authorities at the national level and spending agency level. Such decisions are standalone programs and budget allocations that have deviated from the aim of producing a comprehensive allocations to achieve objectives in a three year time frame. One example is the massive fund allocation to the Ministry of Education under the program of “Nearest School is the Best School”. This is a deviation from basic principles of ZBB.

As per the guidelines given, all proposed programs and activities need to be aligned with the given sectorial targets and costs should be estimated reliably. However, the respondents of the interviews had some general understating of the national priorities. Accordingly, the reduction of interregional disparities was regarded as the first priority by the most of the respondents followed by the reduction of poverty as the second priority. In fact, no such practical evaluation has been carried out at the time of consolidating the overall budget for the country. The discussion revealed that the national priorities and goals are seen to be highly influenced by political agendas and subject to bargaining powers of political power centers.

Decision Packages and Levels of Operations

ZBB basically comprises of three decisions packages starting from the **zero-base level** which is meant to include program and activities to assure that minimum essential things are carried out. The second decision package is the **current funding level** to maintain the status quo; that is the level the budgeting unit has been carried out in the past (Pyhrr, 1977). The third package is **enhanced service level** that comprises programs to enhance the present levels to clearly set strategic targets. Therefore, ZBB should continue without referring to the past expenditure but it should be future and development oriented.

All three decision packages are subject to budget ceiling depending on the availability of resources, strategies implemented for the alignment of vision, mission and objectives. Spending unit has to determine what level to be implemented in estimating budgets. It is generally a combination of all three levels aligned with national development objectives and priorities. A selection of decision packages or budget level is the core of ZBB and that has to be agreed upon with general consensus national policies.

Although the budget preparation guidelines mentions about decision packages, it does not describe what they are and how they are linked to the budget estimates. None of the respondents were aware of these budgetary levels and determinants of them. ZBB has been understood as a mechanism that requires all the cost units to make their cash balances to be zero at the end of the fiscal year. More than 75% of respondents did not identify any difference between incremental budgeting and ZBB budgeting expect the idea that cash balances to be made Zero at the year end. The myth that ZBB budgeting starts and ends with zero balances is dominant at all decision making levels from the national level to the provincial/ divisional level of cost units. It was witnessed at many meetings where the author participated heads of ministries and other decision making units stressed the meaning of ZBB as a practice of starting with zero and ending with zero and not allowing for carrying forward. Hence, it is very clear that even top rank employees had not well undertood /accurately percieved the concept of ZBB.

Most have tended/Often there seemed to have a tendency to plan for what can be fully spent and never thought that it should be aligned to the national priorities with clear objectives in line with the mission statement.This ideology is pretty much seen at all levels that involve in budget preparation. The study found that no arrangements had been made to assess different decision packages mainly due to the fact that such a requirement had not been communicated to spending agencies, spending units and divisions. Therefore, no need had arisen to choose from different decision packages as only a single budget estimate had been given. However, the guidelines say that the responsibility of estimating figures for ZBB are vested with the management and the team.

Another basic requirement of zero-base budgeting is that budget estimates are made by keeping the cost of running the operations at the lowest possible level. Hence, it is required to calculate costs and benefits of activities that would lead to an incremental increase of value. Breaking the budget down into different decision packages in this way makes it easier for top managers to make choices on allocating scarce resources.

Budget Cycle

Budget cycle is required to be reviewed at the end of each year as it operates for three years from 2016 to 2018. The outputs and outcomes of the intended programs and activities are required to assess and are linked to the following year budget to reach the next level of national goals. The study did not find any evidence as to whether such arrangements have been made to carry out an assessment accordingly. There were no programs at the Ministry of Finance to do so. Instead, only physical and financial progresses are reported at the progress review meetings and instructions and guidance are given on how to expedite the work to spend the balance amount of allocation for the current year.

Linkages of Vision, Mission and Objectives to ZBB

The understanding of the respondents on vision, mission, and objectives was very poor. The majority is not well convinced about their mission statement and the national mission statement. The inclusion of vision and mission statements in strategic plans has become symbolical practices to simply comply with the guidelines issued by the authorities. The vision and mission were found to be not internalised in the organizational practices at cost units.

Beneficiaries

The number and nature of beneficiaries exposed to is considered as one major criterion to prioritize expenditure estimates. Accordingly, the budgeting unit has to reconcile how the number of beneficiaries has increased or decreased during the current year. The expenditure estimates should be made based on actual numbers of beneficiaries identified. Further, procurement of goods are required to be linked to well prepared procurement plans that are integral parts of ZBB.

The prioritation of capital budgeting expenditure is required to budget for the completion of continuation/continued(?) work funded by either domestic or foreign sources. Then resource allocations can be considered for rehabilitation and improvement of capital assets. Finally, new constructions are considered within ceilings if funds are available.

Although this order maintains a kind of rationale, it contradicts the objectives of ZBB where expenditure items should be proposed with justifications to achieve intended outcomes irrespective of the fact that whether it is new construction, continuation of old construction or simply a maintenance or rehabilitation of existing building. None of the respondents had understood the duplicity of instructions given in relation to the objectives of ZBB. Accordingly, positive answers were given to the both questions as to whether guidelines on prioritization of capital expenditure were followed and whether construction works and maintenance were included in the budget based on proper justifications aligned with intended outcomes.. It implies that respondents are unaware that answers to both questions contradict each other in achieving the objectives of ZBB. Therefore, the requests for capital expenditures are seen to have been made on arbitrary bases. It was the general practice to request for new constructions when allocations are likely to be given and no serious exercise was taken to determine outcomes. The respondents could not relate capital expenses to specify the outcome. It was found that outcomes in relation to capital expenditures have been specified arbitrarily. The intended number of the direct beneficiaries of capital expenditure were said to have been included in the budget formats as that number was a required information as per the guidelines. How beneficiaries are getting the benefits when programs and activities are carried out were mentioned and the respondents claimed that was not a serious considerations in determining the budget estimates.

It was suggested in the guidelines to budget for storied buildings to increase the efficiency and economise land use in relation to new work. However, it was revealed as per the records of budget estimates for the year 2016 that there were considerable requests for constructions work without specifying proper justifications and links to the outcomes and intended benefits. When line items of selected budget estimates were examined, it was revealed that expenditure items have not been connected to programs or projects with specific objectives, output and outcomes. They are seen to be mere expenditure items that fit to the given ZBB formats and then adhere to guidelines.

Development of KPIs , Monitoring and Evaluation of Performance

It was instructed to the spending agencies to develop Key Performance Indicators (KPIs) for each and every program and activity under ZBB. Accordingly, guidelines were stressing/highlighting the need of developing KPIs in a systematic process of gathering, manging, analysing, distributing and reporting performance information on time. The following process explained in Figure 1 was given as an example to be followed by the spending agencies with an example of education given in the circular 3/2015.

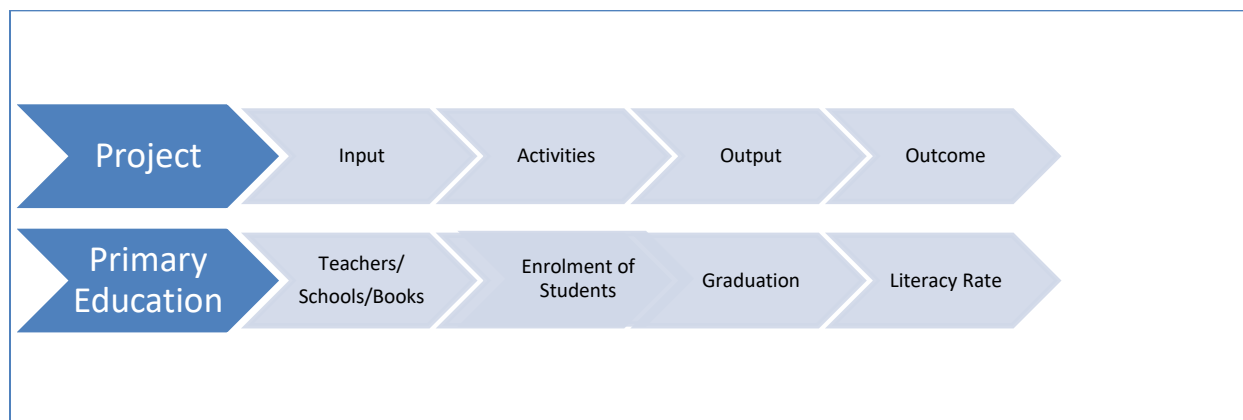


Figure 1: process of developing KPIs

At least two KPIs are required to be specified along with each program or activity under which funds are requested. Further, it is mentioned that unless two specified KPIs are achieved, the budget for the following year will be pruned accordingly. However, it was not seen that such an arrangement in place to assess this and already budget estimates for the year 2017 have been made and about to be presented to the parliament.

Therefore, end users of ZBB process realised that there are no consequences on the next year budget as they are simply intructions for the given year only. Nowhere in the guidelines it was specified how these achievement of KPIs are objecively measured and taken into consideration when the following year budgt figures are determined. If it is true, continous budget reviews should have been done/carried out either on monthly basis or quarterly basis thus incorporating revised figures into the budget. Exceptthe practice of reporting the quarterly progress, no comprehensive revisions had taken place and no resources had been allocated for this purpose. Therefore, when the budget for 2016 was finalised the buget estaimates included for the year 2017 were not seriously reconciled in the process of preparing budget estimates for the year 2017. It was revealed that the estimates for the year 2018 and 2019 as per medium term framework have been included without referring to justifications or relavance to specified outcomes.The reason for the inclusion of the numbers for the year 2017 in 2016 budget being significantly different from those in the budget for 2017 was not reviewed. Even the figures for 2018 included in the budget 2016 had been slightly modified and included in the budget for 2017 under the column for 2018. It appears that still the incremental budgeting take place in new formats with a backdrop of ZBB.

The study reveals that the spending agencies, spending units and divisions had developed respective KPIs and included the same in the ZBB as per the guidelines given. However, their

measurement and review as to whether and to what extent KPIs have been achieved were simply ignored. The main task for the spending agency, that is the line ministry, was to implement ZBB and not to measure outcome. Therefore, no official is interested in taking measures to carry out a comprehensive assessment on the results achieved from ZBB. Spending agencies are busy with the preparation of the budget for 2017.

It was found that linkages cannot be properly made in subsequent budgets as the key players are least bothered about reviewing results. Further, it appears that the government is worried/concerned only with the preparation of the budget for resource allocation purposes and not for the rest specified in ZBB. On the hand, ZBB can be used as a tool of manipulating the budget allocations as it has to set priority ceilings with limited revenue. Adhoc measures taken and the government interference to real implementation of ZBB have also created big threats to achieving the objectives.

Many flaws were seen in the process of data collection for monitoring and reviewing purpose. The treasury from time to time collects data on standalone basis and the same information is looked from/surveyed by divisions and spending units of different authorities. It was further revealed that the data collected on the progress of projects and programs carried out are not reconciled to assess the overall progress. The information collected at a time is simply stored. They are used only to discuss about the physical progress and financial progress only. No formal analysis or study is carried out to assess the output and outcomes to determine next course of actions to be taken. This practice is well known among employees and has become an embedded symbolical institutional practice.

Time taken for meetings for ZBB apart from other general meetings to make employees aware about the budget preparation, implementation and review process was considerably high. More than 30% of employee time had been utilized for this purpose. The respondents revealed that it is hardly that follow up actions are taken based on matters arising from such meeting. The researcher too evidenced the same by participating at many meeting being a constituent to an education project. The productivity of the time spent in this regard has to be separately measured and is another research issue/ can be investigated as a separate research issue.

The awareness of the end users about the output, outcome and KPIs of budget preparations remains at a very low level with a 1.4 score out of maximum score of scale 5. More than 90% of the respondents perceived that information collected on cadre category, approved cadre and actual cadre will be used by higher authorities for political agendas instead of using them for prioritizing national development goals. Accordingly, 72% stated that information on cadre was collected with an objective of filling vacancies with political appointments rather than rearranging the cadre to support ZBB. The comments given by respondents mentioned that most of the vacancies filled so far even under the new government are political appointments. The information on existing vehicles at each budget unit is requested along with ZBB. Accordingly, detailed information on cadre and motor vehicles were requested for. No attempts had been taken to figure out how actual cadre and vehicles are linked with programs and activities carried out each unit under ZBB.

ITMIS and Use of IT

Guidelines mention that an Integrated Treasury Management Information System (ITMIS) will be implemented by the Treasury to obtain required budgetary information for spending agencies through an online system. Answering/Responding to the question on the frequency of use of

Integrated Treasury Management Information System (ITMIS), 86% of the respondents replied that they did not use ITMIS, instead printed versions of formats obtained from the respective ministries were used for preparing budgets. Those who have mentioned that ITMIS was used revealed that the use of ITMIS was to download the budget formats.

There is no arrangements to obtain and submit online information for budgetary purposes and all the respondents stated that the budget estimates were not supplied online. In fact, there is no online system under ITMIS of MOF to support ZBB. ITMIS makes available some downloadable files namely Contact Information (it provides details of point of contacts at budgeting units) , Employee Information (A format to provide carder information), Individual Responsibilities and Institutions List, Instruction for End User Survey and ITMIS User Survey Document. The Instruction file explains how to fill up formats only. Since more than 70% of the total allocation it was not a difficult task for budget preparers to rearrange estimates in the new formats.

Proper implementation of ZBB requires well established IT environment to deliver the results as expected. The process involves a great deal of aggregation of numbers from divisional figures, continuous reviews and revisions, linking figures to the outcomes and justifications. The completeness and efficiency cannot be assured without appropriate IT facilities and systems in place. This aspect was seen to have been largely ignored. The required investment for establishing a sound IT environment and comprehensive training was not made. The use of IT at provincial level was minimal. Further, the use of IT was perceived as using computers to carry out some work only. It was found that some people engaged in budget preparation process use computers to compute data sometime and take printouts of them and either fax or send it by post to higher authorities instead of sending them by using emails though the facility is available. It has become a practice of doing so/ follow the same method. There was no proper influence or pressure from top to transform into an IT environment. Top people too were used to accepting and prefer to have hard copies of documents with manual authorization to avoid risks involved in public finance use.

Budgeting units did not have a proper understanding about cost drivers despite the fact that they are key elements in determining budget estimates (Fitzpatrick & Hawke, 2015). This situation too may have deviated from achieving the objectives of ZBB at its initial level. This understanding and knowledge help them to manage expenditure at the provincial level.

Many limitations were seen at the provincial level on the autonomy of deciding budgetary needs. Hence, no room had been there to carry out a proper planning and monitoring process in relation to ZBB. Budgeting from zero is only a part of the planning process. The connection between bottom up approach with top-down budget ceiling in line with national priorities is essential to achieve ZBB objectives.

It was further seen that there are no incentives to employees aligned with the performance of ZBB so that the motivation of end users to engage in budget preparation process is hard to find in the Sri Lankan context of ZBB. The National Budget Circular of 3/2015 issued on 29 July 2015 requires to implement ZBB for the year 2016. It was a hurried move and the real motive of this haste is yet to be unknown. It needs a considerable amount of preparations to form a conducive environment to smoothly launch ZBB. However, preparations within a time period of less than three months to implement ZBB in Sri Lanka were made. This haste in implementing ZBB has posed a question as to whether the environment was ready to embrace the new

concept of ZBB in Sri Lanka. The UAE had also taken measures to implement ZBB within a short period of time in 2010 (Samaratunga, 2015a) but it had a strong support as its IT systems were very sound and supportive. Further, the IT literacy of endusers there had been at an acceptable level.

Other Aspects

The government faced another problem of not meeting revenue targets as planned. For example, the imposition of Value Added Tax (VAT) increase from 11% to 15% created a real blunder to revenue collection. It was not possible to enact VAT increase bill until November 2016 so that the increase is effective with effect from 1st November 2016. Adhoc government policies may have deviated from the objectives of ZBB. For example, the project introduced for education called “Nearest School is the Best School” with a huge budget allocation of Sri Lankan Rupees (LKR) 1500 million per province in the budget for 2016 as a priority goal. However, only around LKR 300 million per province had been released at the end of September 2016 and it was unlikely that the balance amount will be released during the year. This allocation would be again included in the budget 2017 as well, irrespective of the fact upto what level it would have achieved thus leaving the budget review and measuring performance of ZBB unattended. Therefore, it could be concluded that the implementation of ZBB in Sri Lanka is at a very primitive level and is unlikely to achieve its theoretical objectives of streamlining national priorities and elimination of waste and duplication of allocation to bring about value creation with the view to enhance GDP and growth of the country.

With respect to the capital expenditure, no analysis was found to have been done as to how they relate to the intended outputs, outcomes and national development priorities despite the fact that the capital expenditure is a key for generating value and increasing GDP. Instead, budgeting units tended to estimate for common capital expenditure items such as construction of new buildings, repairs of buildings, procurement of computers, motor vehicles and other office equipment on arbitrary bases.

The costs of ZBB implementation were seen not to have been taken into account thus leaving ZBB to be mere rhetoric at this stage. It is a fact that ZBB cannot be implemented by issuing circulars and guidelines only. It requires significant amount of costs to create a supportive and workable environment to carry out ZBB. Among them, investments for appropriate IT environment and continuous training for staff take top priorities.

CONCLUSION

Motives of implementing ZBB in a hurried manner in a context where incremental traditional budgeting had been practicing over a long period of time are unclear as to whether that was politically agitated or it is a genuine attempt to incorporate with development goals and planning and performance measures. Hurriedness of/ The haste in implementing ZBB has created a *half baked* cake situation where the end users of budget preparation had not clearly understood the concept of ZBB and its objectives.

The need for IT facilities to assure smooth operationalization of ZBB had been simply ignored. This has taken a considerable time for consolidating the budget. No comprehensive training was given for budget preparers, instead ad hoc standalone guidelines were passed on to them at various workshops, seminars and meetings without having a clear focus. Evidence was found that some implementers also did not understand the objectives of ZBB. This has created

confused views of ZBB among public employees. On the other hand, there were no plans to motivate preparers of budgets. ZBB had been perceived as another routing practice just to comply with legal requirements and to follow instructions and guidelines given. Hence, it is being institutionalized as a symbolic practice.

The implementation of ZBB had not been integrated with resource allocations, planning and development goals as mentioned in the National Budget Circular. Rational and appropriate justifications which are the key underpinning of ZBB were not given at all, thus leaving its importance to be trivial. Non- focused meetings, briefings and other arrangements to educate budget preparers had wasted much of the valuable time of public employees. Discussions on ZBB implementation carried out at various levels were seen to have been unproductive to a larger extent. Whether intended objectives of ZBB could be achieved in this process is highly uncertain and it appears that no value has been created in terms of consolidating planning with budgeting.

No any serious intervention by the implementation of ZBB to integrate planning, budgeting and review processes as mentioned in Budget Circular 3/2015. The implementation of ZBB has paid very little attention on reviewing public expenditure in line with national prioritization and development goals. How the sectorial ceilings of expenditure to achieve efficient and effective use of public finance were used had not been reviewed by the authorities and they are likely to be buzz words. Secretaries to the ministries are requested to monitor final output/ outcome achievement of key functions of ZBB and it turns to be another burden for them without having any substance. A practice of cascading the responsibilities towards the downstream of the hierarchical administrative structure was seen rather than an attempt to achieve common goals. Hence, it is recommended to have a dedicated unit to deal with ZBB application and evaluation.

Alternative and efficient ways of utilizing limited resources had not been identified instead all the key players engaged in budgeting process were busy with tasks to meet deadlines and finalize the estimates as per instructions and guidelines, thus ending up with filling up new formats. Political agenda embedded in budget estimates were also seen and furtherance to that, the attempt of politicians to link budgeting objectives for 2017 to Sustainable Development Goals (SDGs) (ColomboPage, 2016) is seen as a new move without a having a proper review of 2016 budget and a substance.

One of the areas that could bring about the objectives of ZBB is the alignment of macro-economic targets with the national development priorities subjected to the levels of investment ceiling and that is yet to be considered in future. It is of paramount importance that the Ministry of Finance should have a clear understanding of the budget requests made by spending agencies, spending units and divisions and to maintain healthy relations with them in order to achieve strategic, operational and financial objectives of the country.

REFERENCES

- Andrews, M., & Hill, H. (2003). The Impact of Traditional Budgeting Systems on the Effectiveness of Performance-Based Budgeting: A Different Viewpoint on Recent Findings. *International Journal of Public Administration*, 26(2), 135-155.
- Bloomberg. (2015, 04 May 2015). Carly Fiorina Favors 'Zero-based' Budgeting. from <http://www.newsmax.com/Newsfront/fiorina-zero-based-budgeting/2015/05/04/id/642353/>
- ColomboPage. (2016). Budget 2017. Retrieved 15 August 2016, 2016, from http://www.colombopage.com/archive_16B/Jul21_1469120829CH.php

- Fitzpatrick, M., & Hawke, K. (2015). The return of zero-base budgeting. Retrieved 15 October 2016, from <http://www.mckinsey.com/business-functions/strategy-and-corporate-finance/our-insights/the-return-of-zero-base-budgeting>
- Guthrie, J. (2002). Application of Accrual Accounting in the Australian Public Sector – Rhetoric or Reality. *Financial Accountability & Management*, 14(1), 17-36.
- Keenan, J. (2000). Just How New Is Best Value? *Public Money & Management*, 20(3).
- Lalli, W. R., & Pyhrr, P. A. (2015). Handbook of Budgeting
- Lauth, T. P. (2014). Zero-Base Budgeting Redux in Georgia: Efficiency or Ideology? *Public Budgeting & Finance*, 34(1), 1-17.
- Patz, R., & Goetz, K. H. (2016). Changing Budgeting Administration in International Organizations: Budgetary Pressures, Complex Principals and Administrative Leadership. *Public Sector Organizations*, 4(3), 123-150.
- Pyhrr, P. (1977). *Zero-base Budgeting: A Practical Management Tool for Evaluating Expenses*. New York: John Wiley & Sons.
- Samaratunga, R. H. S. (2015a). All need to know about ZBB implementation. *Nation Weekend*.
- Samaratunga, R. H. S. (2015b). *National Budget Circular*
- Senewiratne, H. H. (2015, 9 October 2015). Fiscal program for 2016 under zero-based budgeting. *Divaina*.
- Treasury. (2015). *National Budget Circular 3/2015*
- Zero-base budgeting. (2009, 26 January 2009). *The Economist*
- Zero-Based Budgeting - ZBB. (2016). Retrieved 15 January 2016, from Zero-Based Budgeting - ZBB