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To: All Members of the **EXECUTIVE**

The following papers have been added to the agenda for the above meeting.

They were not available for publication with the rest of the agenda.

Yours sincerely

Tim Pashen

(Acting) Chief Executive

SUPPLEMENTARY PAPERS

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10. Zero Based Budgeting	3 - 10
To consider any recommendations of the Performance and Finance Scrutiny Committee arising from its meeting on 9 September 2020.	

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Zero Based Budgeting

Summary

To consider the recommendations of the Performance & Finance Scrutiny Committee in respect of Zero Based Budgeting.

Portfolio: Finance

Wards Affected: All

Recommendation

The Executive is advised to RECOMMEND to Full Council that a Zero Based Budget be commenced this autumn for services that are particularly reliant on income from fees and charges, with incremental budgeting process retained for all other services.

1. Key Issues

1.1 At its meeting on 26 February 2020, the Council resolved:

- (v) that the Interim Deputy Chief Executive be instructed to prepare proposals, within the next three months, for consideration by the Performance and Finance Scrutiny Committee, for the undertaking of a Zero Based Budget (ZBB) exercise, and carried out in time for the setting of the 2021/22 budget, on all Council Services which, based upon the latest Budget Book, account for more than 0.75% of the gross Council expenditure. Recycling and Refuse is to be excluded from the ZBB process.

1.2 The Performance & Finance Scrutiny Committee considered a report on proposals for Zero Based Budgeting at its meeting on 9 September 2020.

1.3 The Committee considered the following options:

- (i) a Zero Based Budget be commenced this Autumn for services that are particularly reliant on income from fees and charges, with incremental budgeting process retained for all other services;
- (ii) a full Zero Based Budget be commenced this Autumn. This would require additional resources and training for officers and members and could only be successfully implemented for the 2021/22 financial year; or
- (iii) the incremental budgeting process be retained. This would potentially lead to inappropriate budgets remaining.

1.4 Further details on the options presented and recommended option were included in the agenda report, which is attached at Annex A to this report.

2. Resource Implications

2.1 Resource implications for Zero Based budgeting primarily relate to the officer resource required to conduct the ZBB exercise and will vary depending on the option chosen.

3. Options

3.1 The Executive has the option to support the recommended option proposed by the Performance & Finance Scrutiny Committee or recommend any alternative options it considers appropriate.

4. Proposals

4.1 It is proposed that the Executive RECOMMENDS to Full Council that a Zero Based Budget be commenced this autumn for services that are particularly reliant on income from fees and charges, with incremental budgeting process retained for all other services.

Annexes	Annex A – Report to the Performance & Finance Scrutiny Committee on Zero Based Budgeting
Background Papers	None
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Zero Based Budgeting

Portfolio:	Finance
Ward(s) Affected:	n/a

Purpose: Following the Council's request at its meeting on 26 February 2020, to consider proposals for the undertaking of a Zero Based Budget exercise in time for the setting of the 2021/22 budget and report to the Executive and Council on its recommended option for Zero Based Budgeting for 2021/22.

1. Background

- 1.1 Surrey Heath Borough Council, like other local authorities, has faced a particularly challenging financial environment over the last decade. The gradual withdrawal of central government grant (Revenue Support Grant) to support day-to-day spending completed in 2018/19. Central government funding has fallen by £2.7m in 8 years. The Council funds its services with income from Council Tax, Business Rates, Fees, Charges and Investment Income. Some of this income is likely to prove volatile from year-to year, particularly fees, charges, and investments.
- 1.2 The Covid 19 Pandemic has now added a further complication as the Country will come out of the recession during the transition out of the EU and will have to pay for the financial support the Government is giving during the Pandemic. As a result, the need to identify efficiencies, particularly in those areas where the Council relies to a greater or lesser extent on income from service users, is even more pressing.
- 1.3 At its meeting on 26 February 2020, the Council resolved that the Interim Deputy Chief Executive should prepare proposals, within the for consideration by the Performance and Finance Scrutiny Committee, for the undertaking of a Zero Based Budget (ZBB) exercise, and carried out in time for the setting of the 2021/22 budget, on all Council Services which, based upon the latest Budget Book, account for more than 0.75% of the gross Council expenditure. However, Recycling and Refuse was to be excluded from the ZBB process.
- 1.4 Zero Based Budgeting is a tool that can be used to improve an organisation's understanding of cost and provide the opportunity to allocate financial resources more effectively. Its popularity as a tool for budgeting in the UK public sector has declined over the past decade.

2. Budget Setting in Surrey Heath Borough Council

- 2.1. The current practice in Surrey Heath for budget-setting is predominantly an incremental approach, year on year, although there will be times when a more fundamental review is applied to certain areas of service on an ad hoc basis.

- 2.2. The incremental approach is probably the most widespread method for budget setting within the public sector as it is built on the underlying assumption that the "business" only changes incrementally from one year to the next.
- 2.3. This methodology is certainly intuitive, and a very practicable approach to building budgets. However, it is not an approach that normally leads to fundamental change, and it can have the disadvantage that, overtime, inaccuracies appear, as what was previously a sensible and relevant structure, is no longer fit for purpose.

3. What is Zero Based Budgeting?

- 3.1. Zero Based Budgeting (ZBB) is an approach to budgeting that starts from the premise that no cost or activity should be factored into a budget just because it was present in a previous period. Rather, everything that is to be included in the budget must be considered and justified.
- 3.2. A method of budgeting in which all expenses must be justified for each new period. Zero-based budgeting starts from a "zero base" and every function within an organisation is analysed for its needs and costs. Budgets are then built around what is needed for the upcoming period, regardless of whether the budget is higher or lower than the previous one.
- 3.3. In its pure form, ZBB involves the preparation of operating budgets on the assumption that the organisation is starting out afresh in the new planning period. However, it is usually used most effectively where the activities involved are wholly or mainly discretionary in nature. Understanding the extent that services are discretionary can be challenging and it is easy to assume that something is non-discretionary, for no other reason than the activity has been carrying on at a similar level for a number of years.
- 3.4. ZBB integrates budget proposals with options for service level and predicted outcome. Therefore, the quality of service associated with different resource levels can clearly be seen allowing fund allocation based on best value for money. A good understanding of comparative benchmark performance facilitates this process.
- 3.5. ZBB encourages the questioning of set assumptions, and facilitates systematic review, reprioritising, and, perhaps, withdrawing from long term activities that no longer align properly with an organisation's objectives.

4. Benefits and Weaknesses of ZBB

- 4.1. ZBB can offer several advantages when it is applied intelligently. It is potentially a useful tool in terms of supporting the Council's value for money Agenda and realising efficiencies. ZBB would provide senior management with detailed information to enable decision making and highlight redundant activities or duplications of effort within the council. However, conducting a ZBB exercise across the Council would be a resource intensive process and require the support of senior management.

4.2. The key benefit of ZBB is that it focuses attention on the actual resources required to produce an output or outcome, rather than the percentage increase or decrease compared to the previous year. The process should be more user friendly to managers than the traditional incremental budget model as it delivers a fit for purpose budget with linked outcomes and eliminates historical inaccuracies. ZBB does not necessarily result in reduced budgets but allows the Council to prioritise available funds where they are needed the most. In the present climate, this is likely to be those services where there has been a high dependency on income from fees and charges.

4.3. The other main benefits of ZBB are:

- Questions accepted beliefs.
- Focuses on value for money.
- Clear links between budgets and objectives.
- Is an adaptive approach to changing circumstances.
- Can lead to better resource allocation.

4.4. The main weaknesses of ZBB are:

- Resource intensive process - adds to the time and effort involved in preparing annual budgets.
- ZBB works best where an organisation has clear mission statement and is relatively homogenous, Councils by their very nature, are an amalgamation of many different services.
- Difficulty in identifying suitable performance measures and decision criteria in public sector and not-for-profit organisations.
- Questioning current practice can be seen as threatening – careful management of the “people” element is essential.
- Uncertainty about costs and resources options other than current practice.

4.5. Potential issues specifically at Surrey Heath Borough Council:

- The Council is presently reviewing its vision, corporate plans, and structures, and until these processes are completed, the realisation of ZBB benefits in full are unlikely.
- Lack of officer resources with a need to review skills, to ensure that officers can deal with such a resource technique of budget setting.

5. Officer Comments

5.1. Given the resource intensive nature of ZBB, it is recommended that for financial year 2020/21, the focus of the exercise should be on those services that are particularly reliant of income from fees and charges (e.g., Leisure, Planning). These are priorities in the current financial environment, given the downturn in economic activity and its impact on the local economy. This first tranche of reviews would allow the methodology to be fully tested, provide a valuable analysis of cost drivers in services that need to attract customers,

and assist in the repositioning of the Council's Medium-Term Financial strategy. This 'blended' approach would provide member and senior management support to those services most at risk from the current pandemic and its aftermath i.e. those that are funded from fees and charges for 2020/21, with a roll out to other services from 2021/22.

- 5.2. A separate approach to the Council's investment income is included in another report on tonight's agenda.

6. Options

- 6.1. The Committee has the option to recommend that

- (i) a Zero Based Budget be commenced this Autumn for services that are particularly reliant on income from fees and charges, with incremental budgeting process retained for all other services;
- (ii) a full Zero Based Budget be commenced this Autumn. This would require additional resources and training for officers and members and could only be successfully implemented for the 2021/22 financial year; or
- (iii) the incremental budgeting process be retained. This would potentially lead to inappropriate budgets remaining.

7. Proposal

- 7.1. It is proposed that the Committee considers the options set out in Paragraph 6.1 of this report and recommends that Zero Based Budget be commenced this Autumn for services that are particularly reliant of income from fees and charges, with incremental budgeting process retained for all other services.
- 7.2. The other options set out in (ii) and (iii) are not supported by the Corporate Management Team.

8. Resource Implications

- 8.1. Resource implications for Zero Based budgeting primarily relate to the officer resource required to conduct the ZBB exercise and will vary depending on the option chosen. The recommended option, as set out at paragraph 6.1, is considered to produce the best outcome in terms of the benefits of a ZBB when balanced with the officer resource required to conduct this exercise.

9. Recommendation

- 9.1. The Committee is asked to advise the Executive to RECOMMEND to Full Council that a Zero Based Budget be commenced this Autumn for services that are particularly reliant on income from fees and charges, with incremental budgeting process retained for all other services.

Annexes: None

Background Papers: None

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