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PARLIAMENT
OF THE REPUBLIC OF SOUTH AFRICA

Brief on Zero-Based Budgeting- Standing and Select Committees on Appropriations- July 2020

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Executive Summary

During a Joint Meeting of the Standing Committee of Appropriations and Select Committee of Appropriations (the Committees) on the 2020 Revised Division of Revenue (DORA) on 10th July 2020, the Committee Chairpersons requested that further research and analysis be supplied to inform its deliberations on Zero-Based Budgeting (ZBB). This brief will provide the Committees with a desktop analysis of zero-base budgeting in the government sector.

During the 2020 Supplementary Budget Speech, the Minister of Finance relayed the government's intention to adopt zero-based budgeting. Subsequently, on 23rd July 2020, the National Treasury informed the Committees that it is finalising the zero-based budgeting concept paper and would table it in Parliament before the 2020 Medium Term Budget Policy Statement (MTBPS).

Over the years, South Africa has implemented a series of public management reforms. A performance-based public management system was adopted, including programme-performance budgeting. The process, formats and guidelines for the implementation of the budget are well formulated but government institutions are still struggling with the implementation and monitoring of key mechanisms.

South Africa's government budget framework is guided by the Constitution of the Republic, while the budget process is derived from the Public Finance Management Act of 1999 (PFMA) and Municipal Finance Management Act of 2003 (MFMA). The common budget approaches that are already in use in the South African public sector include:

- Incremental budgeting,
- Activity-based costing and
- Zero-based budgeting

In many instances of government budget processes, both incremental and ZBB methods are used together. The incremental budgeting method is used for the Compensation of Employees and for the Goods and Services budget line items that recur annually. The ZBB method is then used to determine Transfers and Subsidies and Payment for Capital Assets budget expenditure items due to the non-recurrence of these expenditure line items.

The structure of the current consolidated expenditure budget may provide an additional opportunity for the government to use ZBB. However, further use of ZBB may be limited to the Goods and Services budget (13.6% of consolidated expenditure) or budgets within specific transfers and subsidies. Alternatively, the government and parliament could implement a strict monitoring and evaluation system that reviews the efficiency and effectiveness of budget programmes regularly.

Widespread implementation of ZBB was attempted across the world in the 1970s, however, these attempts to implement ZBB were unsuccessful and fizzled out. Nonetheless, elements of ZBB remained part of budgeting across the world, and interest in ZBB recently increased again in response to the downturns following the global financial crisis of 2008.

While doubts remain about its plausibility for implementation, 'textbook' ZBB is still often touted as an ideal budgeting method for public institutions. Many countries that attempted ZBB have noted that its implementation did not fit well with their existing budget processes that were often influenced by political priorities and varying time considerations. They further noted that

the technical, human and other resource requirements for the successful implementation of ZBB processes on a continuous basis were much too onerous.

Basically, ZBB places an immense administrative burden on line departments and budget preparation offices. This excessive burden has contributed to most governments' decisions to abandon ZBB, or to implement only some aspects or elements of it. Nonetheless, a renewed interest in ZBB has recently emerged on the part of some governments as countries attempt to improve spending composition and outcomes in a context of reduced fiscal space. Some of the countries surveyed for this brief include China, Nigeria, South Korea and the United States of America.

If government is to implement ZBB successfully, then Parliament may require government to demonstrate complementary measures. These should address the recognised shortcomings of ZBB already identified in the current system and by other countries who have attempted to implement ZBB. If budgets were to be rebuilt from scratch annually, such complementary measures could include implementation of:

- Additional specialised training of personnel,
- Employment of additional specialised personnel;
- Budgeting for additional cost and time attached to ZBB
- Appropriate cost-benefit analysis
- Alignment of current government monitoring and evaluation mechanisms to ZBB

Departments may face extreme constraints that constrain their ability to complete ZBB within a budget cycle. Other problems include: the availability of personnel to drive the process internally; capacity to maintain the government's budget for multiple purposes (economic and social development, service delivery and redress climate and environmental challenges); lack of real time performance information or service delivery data affecting budgets; and the inability to implement ZBB in a medium-term government framework aligned to service delivery performance.

1. Introduction

Economic and political developments coupled with inefficiencies in public administration and state institutions are some of the reasons that have necessitated public sector reforms in South Africa and across the world. These reforms have attempted to improve planning, programming and budgeting systems.

The primary emphasis of several governments in the 1960s was on financial planning and cost accounting. A more programmatic management-by-activity approach was then implemented in the 1970s and 1980s. In fact, the public sector reform interventions carried out since the 1980s became known as new public management (NPM). The introduction of NPM was aimed at shifting government service delivery management from processes and financial probity towards a result-based style of service delivery management.¹

Critique of the efficacy of NPM led to new approaches to public management that focused on the whole of government. These approaches include new public governance and new public services models. Globally and also in South Africa, these models incorporate a number of features such as public service delivery by multiple inter-dependent actors and multiple processes and inputs that shape policymaking.

One alternative to NPM was to focus on creating public value – an approach developed by Mark Moore.² Moore claims that developing policies and creating public value required a more thorough approach than NPM's importing of private sector practices and market discipline into the public sector. He pointed out that the public sector is different to the private sector as it should be more focused on the ends rather than the means.

Moore emphasises that the political and philosophical aspects of public performance management should be seen as equally important to their technical aspects. In fact, Moore contrasts public value creation with NPM by demonstrating that public officials involved in creating value should be concerned with the entire value chain.

Critiques of the public value management approach have focused on the difficulty in measuring whether outcomes have worked. The outcomes often occur at the end of the value chain a long time after the initial interventions. As a result, it is difficult to reach agreement amongst citizens about the value and impact of these outcomes.

Mariana Mazzucato and Josh Ryan-Collins propose an alternative approach that does not focus exclusively on public value but recognises that value is created socially through the cooperation of several stakeholders, including the market, state and civil society.³ Their view is contrary to mainstream approaches to economic and public management that see value as being created exclusively within businesses. They argue instead that value is "...co-created and requires a stakeholder understanding of capitalism itself."⁴

Mazzucato and Ryan-Collins stress that an understanding of value creation requires not only an understanding of investment and value creation in the private sector, but in all stakeholders collectively involved in the process of value creation, including the public sector.⁵ What is

¹GRUENING, G. 2001b. Origin and theoretical basis of New Public Management. *International Public Management Journal*, 4, 1–25.

²Mark H. Moore (1995). *Creating public value: Strategic management in government*. Cambridge: Harvard University Press.

³Mariana Mazzucato. And Josh Ryan-Collins (2019). "Putting value creation back into 'public value': From market fixing to market shaping." *UCL Institute for Innovation and Public Purpose*, Working Paper Series (IIPP WP 2019-05)

⁴*Ibid.*

⁵*Ibid.*

crucial here is that the question of the role of the public sector and whether or not it has the capabilities, resources and capacities to be part of a process of co-creating value. They say that, "Public goods should not be seen as simple corrections to the (market failure) problem of positive externalities, but as objectives in and of themselves."⁶ They add that this approach requires imagination, investment and capabilities in the public sector.

Regardless of the different focus of these reforms, performance measurement has consistently searched for effective ways to make government work better and more cost effectively. Aside from the role of performance measurement in government effectiveness, the focus of reforms has shifted to a more holistic performance-based management approach, one that balances financial efficiencies with outcome effectiveness.

In our uncertain times of slow economic growth and the challenges to do more with less, governments like South Africa are exploring alternative means of spending and investing in improved well-being and social equality. They are looking to do so through service delivery and economic interventions that support economic growth, investment and employment to foster economic development. Governments are also focused on knowledge formation, innovation and the creation of new markets, seeking new economic possibilities to expand the economy and the pool of revenues available to government.

2. Budget as a policy instrument

For governments, the budget is an essential policy document illustrating how it will prioritise and achieve its annual and multi-annual political outcomes. Apart from funding new and existing government programmes, the budget serves as the governments' primary instrument for implementing government policies, including fiscal policy, and thereby influencing the economy as a whole.

Alongside other government policy instruments (such as laws, regulation and joint action with other stakeholders within society), the budget aims to turn plans and aspirations into reality (including those from political manifestos and integrated development plans). Over and above this, the budget is a contract between citizens and government (and its entities), demonstrating how the government will spend and invest to improve well-being and equality in society through service delivery and economic interventions that support economic growth, investment, employment to foster economic development, knowledge formation, innovation and creation of new markets and increase economic possibilities that expand the size of the economy and the pool of revenues available to government.

The budget should therefore be realistic, clear, transparent and credible if it is to be implemented efficiently. In this sense, it is to function as a basis of accountability between the Executive and Parliament.

The budget enables citizens and government service users to analyse the performance of the economy and to understand how the government spends and invests in a country's public resources. During preparation of the budget, it is vital to make trade-offs or complementarities and set priorities between programmes to ensure that the budget aligns with government policies. The methods for constructing the budget should then ensure that for service delivery optimisation the most cost-effective measures are selected.

⁶Ibid.

In addition, measures that increase or ensure operational efficiency in government should be pursued. Macroeconomic and fiscal flexibilities and constraints should be considered at the planning phase, during implementation and in the final reporting stages of the budget process.

In democracies, the approval of the budget is one of the most important form of parliamentary oversight over the Executive. The budget authorises the executive to collect revenues, spend and invest with the aim of attaining a multiplicity of objectives, including economic development, social goals and redistribution objectives. In this sense, each government requires sound fiscal policies with regard to government revenues, expenditures and borrowing in the name of achieving macroeconomic stability and other government objectives. As noted earlier, the government budget is arguably the most powerful instrument of the government in carrying out its policies.

2.1. Common government budget challenges

Multiple objectives for budgeting: Government budgets often face multiple objectives, such as economic development, service delivery, socioeconomic issues, climate and environmental issues, which lead to opportunities for trade-offs.

Limited inter-departmental collaboration in the budgeting process: Although the budgetary process considers inputs from various government functions, some departments or government entities are perceived to have or have real limited collaboration in the process;

Service delivery data is often not available real time or of poor quality: The lack or limited availability of real time service delivery data requires adjustment or review of budget allocations during the budget cycle. These processes of policy evaluation and review are either absent from or weakly connected to the budgetary cycle and decision-making processes;

3. Government Budgeting principles

The South African government budget framework is guided by the Constitution of the Republic. The budget process is further derived from the PFMA and MFMA. Both PFMA and MFMA provide clear regulatory frameworks for financial management in government. They are designed to ensure that all of the revenue, expenditure, assets and liabilities of those governments are managed efficiently. They also take account of the responsibilities of persons entrusted with financial management within governments while providing for matters connected therewith.

At the same time, specific provisions of the budget determination and allocation principles in terms of budget methods are not prescribed in both Acts. Over the years then, various budget methods have been used within every sphere of government. Amongst the popular budgetary methods used are incremental base budgeting, activity-based costing budgeting and zero-based budgeting.

Incremental based budget: There are two variants to this approach. Firstly, it could be based upon the previous year's actual spending information to determine the budgets of future years, i.e. the previous year's expenditure plus allowance for price increases due to inflation. Actual revenue and expenditure of previous year's is used as a baseline for allocations within the Medium-Term Framework (MTEF).

The second approach to incremental based budgeting uses up-to-date information tracking the actual expenditure of the existing year in order to forecast the full year spending. The previous year's expenditure is only used to indicate whether the estimates are correct, which may be a more accurate method than using the previous year's information.

Subsequently, the budget holders have to choose whether to provide the budget allocation to specific line items or to increase or decrease a consolidated amount based on the allocation of the previous year. If planned for, this type of budgeting allows for once-off payments within a financial year.

Activity Based Costing: This budget method is used for the re-engineering of work processes where baseline information is used as a reference, but organisational plans are also considered here. The actual base costs of each service delivery activity is calculated separately before the activity costs are combined together to determine a budget for the whole government department or agency.⁷ The ideal in this approach is to develop performance indicators with targets for these activities.

3.1. Zero-Based Budgeting

Zero-Based Budget: This approach involves in-depth examination of all the activities typical to government departments, including service delivery, investment and economic development. The rationale for each activity must be examined and redundant activities must be identified and discarded. At the same time, new activities should be identified where applicable.

Once specific service delivery activities are agreed upon, including investment and other measures of economic development, the specific amounts allocated as inputs for these activities can be calculated. Costs are calculated based on the actual cost for an item, e.g. equipment, projects, transfers, professional and special services.⁸

ZBB is hence a budgeting process that allocates funding based on programme efficiency and necessity, rather than considering the budget history. In contrast to traditional budgeting or incremental budgeting, no budget item is automatically included in the future budget. In ZBB, the budget holders review every programme and expenditure at the beginning of each budget cycle and must justify each budget line item in order for it to be funded.

The budget holders can apply ZBB to any type of expense including the following: capital expenditures; current payments or operational expenditure; and general and administrative costs. When successfully implemented, ZBB may produce significant savings, releasing government from entrenched expenditure and methodologies. However, when ZBB implementation is unsuccessful, the costs of implementing the ZBB could significantly delay the achievement of government objectives.

According to a study by the Government Finance Officers Association (GFOA),⁹ ZBB first rose to prominence in the late 1970s when the then United State of America (USA) implemented ZBB after President Jimmy Carter promised to balance the federal budget in his first term.

⁷Gary Cokins, 2007, *Activity-Based Cost Management in the Public Sector*, PUBLIC SECTOR GOVERNANCE AND ACCOUNTABILITY SERIES, BUDGETING AND BUDGETARY INSTITUTIONS

⁸Theoretical definition of ZBB; ZBB promises to move the organisation 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.

⁹Kavanagh, Shayne. *Zero-Based Budgeting- Modern Experiences and Current Perspectives*, 2011.
<http://www.gfoa.org/sites/default/files/GFOAZeroBasedBudgeting.pdf>

Carter's plan was to reform the federal budgeting system with ZBB, as a system he had used while serving as Governor of Georgia State. The implementation of ZBB meant that spending by the US federal government would require expenditure proposals to compete for funding on an equal basis, starting from zero. The shift to ZBB entailed that the federal budget of the USA in its entirety had to be justified and approved, rather than just undertaking an analysis of the incremental change from the previous fiscal year.

Since the introduction of ZBB by the Carter presidency, a great deal of academic and empirical work has assessed the effectiveness of ZBB in attaining its objective of balancing government's budget books. For example, Schick Allen¹⁰ demonstrated that despite budget efficiency improvements and fiscal savings in year one of implementing ZBB, pre-occupation with ZBB routines compromised government's ability to assess service delivery objectives.

Schick Allen concluded that government departments were unable to productively identify significant efficiency gains beyond the first year of implementation of ZBB. In view of Schick Allen's assessment of the Carter Administration's implementation of ZBB then, the US federal government found it difficult to implement ZBB over a medium-term framework. This problem led to further difficulties in planning service delivery on a year-on-year basis.

After the Carter administration's implementation of ZBB at a federal level, Rubin's study of budget reform and political reform in local government sectors showed that the adoption of ZBB was motivated by an intention to push through budget cuts during a period of economic and fiscal stress.¹¹ The budget holders were required to identify and implement budget cuts in the name of resolving budget competition due to a shortage of state revenues to fund government expenditure.

Rubin further shows that the success of adopting ZBB is dependent on other measures, such as economic growth which expands the tax base and increases state revenue. The extent of political reforms in local government thus affects the implementation of ZBB. Rubin's list of political reforms by local government include:

- The budget system to create a clear separation between non-politically appointed heads of administration and knowledgeable political heads, as well as achieve the decentralisation of decision-making;
- A local government context that has alternated between a manager and a mayor, or having abandoned the manager form of government, is considered old-fashioned in comparison to a city that has a long, unbroken tradition of city-manager government within the context of greater local government reform;
- Instances of where accountability is provided through the openness of administrative processes and documents.

Perry Moore surveyed senior local government officials on the use of ZBB, with these figures ranging from political heads, city managers, budget officers, councillors and middle managers.¹² Moore noted that the officials surveyed perceived the main benefit of adopting ZBB to be its potential to cut budgets or to limit increases of budgets.¹³ They further reported ZBB to be beneficial in processes requiring budgets to be shifted between government

¹⁰Schick, Allen(1978), The road from ZBB, *Public Administration Review*, Mar/Apr78, Vol. 38 Issue 2, p177-180. 4p

¹¹Irene S. Rubin (1992) *Public Administration Review*, Sep. - Oct, 1992, Vol. 52, No. 5 (Sep. - Oct, 1992), pp. 454-466

¹²Moore, Perry (1980), Zero-Base Budgeting in American Cities *Public Administration Review*, May - Jun, 1980, Vol. 40, No. 3 (May - Jun., 1980), pp. 253-258

¹³Moore, Perry (1980), Zero-Base Budgeting in American Cities *Public Administration Review*, May - Jun, 1980, Vol. 40, No. 3 (May - Jun., 1980), pp. 253-258

functions. Many of those surveyed in the same research reported that ZBB required intense use of human and institutional capacity as well as excessive paperwork.

The major problems experienced with ZBB are commonly cited by those with experience of ZBB use. They questioned whether the excessive time and human and institutional capacity required for ZBB added any significant long-term value. Furthermore, the ZBB budget process was eventually routinised after two years of implementation, notwithstanding the high cost of implementing ZBB.¹⁴

A study by Brunei also cited the problems of time and technical capacity as key challenges for the implementation of ZBB.¹⁵ As a result of these challenges, some of the senior officials surveyed did support the use of the ZBB periodically rather than annually.

After the 2008 global financial crisis, an increasing number of governments and private sector corporations considered adopting ZBB in response to fiscal constraints precipitated by the economic recession.¹⁶ This popular consideration and adoption of ZBB was founded on the perception that budget allocation should be based on programme efficiency and necessity rather than budget history.

A report by the World Bank¹⁷ on public sector governance and accountability, which assessed various budget reforms from many countries, noted that the use of ZBB in government remains popular as an idealised approach to budgeting for public institutions. The report adds that in practice, however, ZBB is close to impossible to operationalise for the following reasons:

- it creates more paperwork and requires time to implement, whereas many public institutions lack the extra resources and capacity;
- in its ideal form, ZBB fails to account for the realities of the institutional and public politics that drive budgets;
- most state programmes are not amenable to annual evaluation because even if they are not required by legislation, they involve multi-year contractual relationships with service providers, not to mention public officials;
- ZBB is an inwardly focused process that could be used to underline the priorities of managers, allotting less time and attention to mapping decisions that account for the preferences and priorities related to service delivery.

3.2. Advantages and disadvantages of ZBB

There is theoretical or “*textbook*” approach to ZBB, a rationale promising to move government away from an incremental budgeting process where the previous 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.

Another ZBB approach is generally used in practice, including only some of the elements of the theoretical ZBB. These elements could take the form either of ‘*service level budgeting*’ or ‘*zero line-item budgeting*’, the latter seeking to create greater transparency by requiring detailed justification of budget line-item requests in lieu of considering the allocations of

¹⁴Shayne C. Kavanagh, (2011), Zero-Based Budgeting- Modern Experiences and Current Perspectives 2011.

<http://www.gfoa.org/sites/default/files/GFOAZeroBasedBudgeting.pdf>

¹⁵Ahmad, Alaa-Aldin A (2007) Zero-Base Budgeting: Employees Perceptions and Attitudes in Brunei Public Sector Organizations, JKAU: Econ. & Adm., Vol.21 No. 1, pp: 3-14 (2007 A.D./1428 A.H.)

¹⁶Mark Hopkins, 2015, Zero-Based Budgeting: Zero or Hero? <https://www2.deloitte.com/mt/en/pages/operations/articles/gx-zero-based-budgeting.html>

¹⁷World Bank, (2007), PUBLIC SECTOR GOVERNANCE AND ACCOUNTABILITY SERIES, BUDGETING AND BUDGETARY INSTITUTIONS

previous years as their justification. *Service level budgeting* presents budget decision-makers with different service levels, asking decision-makers to choose between the options.

For the public sector in particular, it can be difficult to scrutinise an organisation's programmes in their entirety within the time constraints of a budget cycle. Government departments utilising ZBB tend to divert staff and other resources from their day-to-day activities, or require the introduction of double duty to support ZBB activities. This burden can make an already complex process even more challenging, especially when they are learning how to conduct ZBB on the fly.

Furthermore, departments often have established processes for conducting regular programme-effectiveness reviews on a periodic basis (e.g. quarterly, annually, or tied to certain milestones within a programme). In these instances, ZBB could be disruptive, potentially to a prohibitive degree. It is therefore worth considering some of the common advantages and disadvantages of ZBB before implementing it partially or fully. These include:

Table 1 Advantages and disadvantages of ZBB

Advantages of ZBB in Government	Disadvantages of ZBB in Government
ZBB may result in a budget that is well justified and aligned to strategy.	Implementing ZBB could be costly, complex and time consuming because a budget has to be rebuilt from scratch annually, whereas simpler and faster traditional budgeting requires justification only for incremental changes.
ZBB could catalyse broader collaboration across an organisation.	ZBB may be cost-prohibitive for departments with limited funding.
ZBB could support savings by encouraging active resource allocation rather than automatic budget increases.	Implementing ZBB may be risky when potential savings are uncertain, more so beyond the first year of implementation.
ZBB could improve operational efficiency by rigorous challenging of assumptions.	ZBB execution could be derailed by budget cycle timing constraints.
ZBB could increase government efficiency by forcing government departments to actively work together to priorities programs.	ZBB typically requires specialised training or personnel to accomplish, requiring more resources in general. These requirements may be disruptive to the department's operations.
ZBB could improve alignment of resource allocation with strategic goals by forcing cost centres to clarify their missions and priorities.	Implementing ZBB at all levels could be a major challenge for public-sector organisations with limited funding.
ZBB could improve public support through perceived increases in transparency and accountability, both internally within an organisation and externally with the public.	Government departments may face extreme constraints relating to their ability to complete ZBB within a budget cycle and the availability of personnel to drive the process internally.
	Implementing ZBB prioritization process may be problematic for departments with intangible outputs to which it is difficult to assign a monetary value
	ZBB also presents problems for the credibility of a medium term budget framework

3.3. South Africa's ZBB experience

Since 1994, South Africa has implemented a number of public management reforms, including improvements to the classification system of public finances and the creation of a performance-oriented public service. The reforms have also targeted the way in which budgets are developed and reflect how public service accounts for public expenditure and commitments have been transformed over the years.

The budget process, formats and guidelines on ZBB's implementation are well formulated. Nonetheless, government departments are still struggling to implement the public management reforms as they are intended. Meanwhile, the South African Constitution sets out a framework for the government's annual budget expenditure allocations, e.g. equitable shares and allocation of revenue, with measures to be contained in all spheres of government budgets.

Different spheres of South Africa's government use various budget methods to determine annual budgets. When combined, these lead to a consolidated government budget

expenditure. Incremental, activity-based costing and ZBB methods are already being used by government departments and municipalities in their budget preparation.

In many instances of government budget processes, the methods of incremental and ZBB are combined. An incremental budget method is used to determine the budget expenditure line items related to current and operational expenditures, such as Compensation of Employees (COE) and Goods and Services (G&S). This approach is being utilised because these expenditure items are less likely to change by more than 15 per cent annually in lieu of significant policy changes.

The main motivation to review the system through regular monitoring and evaluation is that the current payments or operational expenditure from previous years may already include inefficiencies and wasteful amounts. The COE and G&S budget expenditure items account for 46 per cent (32.7 and 13.6 per cent respectively) of the government's consolidated spending for the 2020 MTEF budget announced in February 2020.

As the COE budget is legislated, it is in large part the result of the personnel headcount and their regulated benefits, which are negotiated based upon increases and allowances. The government's ability to decrease COE budget line items significantly is then constrained because its influence is limited to annual increases and retrenchments or appointments.

The G&S budget expenditure items are mainly based on procurement plans. The government may have more flexibility in increasing or decreasing this item compared to COE. The National Treasury provides directives and regulatory guidelines annually for determining and costing G&S budget line items in the public sector. Therefore, failure to obtain strict compliance via monitoring and evaluation of such compliance may be one of the weaknesses in curbing irregular and wasteful expenditure within G&S budgets.

Other current expenditure budget items are determined by borrowing or rental contracts. The value of the Rand may increase or decrease debt-service costs of foreign debts and imported goods and services.

Table 2 2020 BR Consolidated government expenditure by economic classification

R million	2020/21	2021/22	2022/23	% of total MTEF allocation
Economic classification	Medium-term estimates			
Current payments:	1,143,427	1,218,008	1,286,331	59.6%
Compensation of employees	638,865	667,815	697,113	32.7%
Goods and services	265,078	281,465	288,525	13.6%
Interest and rent on land	239,484	268,728	300,693	13.2%
<i>of which: Debt-service costs</i>	229,270	258,482	290,145	12.7%
Transfers and subsidies:	640,225	671,805	713,436	33.1%
Municipalities	145,339	155,518	165,464	7.6%
Departmental agencies and accounts	28,639	27,012	28,492	1.4%
Higher education institutions	48,278	50,341	51,873	2.5%
Foreign governments and international organisations	2,880	2,838	3,029	0.1%
Public corporations and private enterprises	35,540	39,865	43,227	1.9%
Non-profit institutions	41,023	43,696	45,849	2.1%
Households	338,528	352,534	375,503	17.4%
Payments for capital assets:	92,147	101,411	108,975	4.9%
Buildings and other capital assets	71,527	79,612	85,692	3.9%
Machinery and equipment	20,620	21,799	23,284	1.1%
Payments for financial assets	73,646	44,116	27,298	
Total	1,949,445	2,035,339	1,136,040	100.0%
Contingency reserve	5,000	5,000	5,000	
Consolidated expenditure	1,954,445	2,040,339	2,141,040	

Source: 2020 Budget Review

Apart from the incremental budgeting method used in determining current payments in the budget, the ZBB method is used to determine the items that make up Transfers and Subsidies (T&S) and Payment for Capital Assets (CA) budget expenditure. These budget expenditure items (T&S and CA) account for 38 per cent (33.1 and 4.1 per cent respectively) of government consolidated spending for the 2020 MTEF budget, announced in February 2020.

Specific business plans and assets procurement and maintenance plans are being used to inform government spending plans for T&S and CA making them zero-rated in nature. As a result, Treasury regulations and guidelines for these budget line items make it impossible not to use ZBB method in determining these budget line items.

The current consolidated expenditure budget structure provides an opportunity for additional use of the ZBB approach to budgeting. However, further use of ZBB could be limited to budget expenditure on Goods and Services (13.6 per cent), or budget items within specific transfers and subsidies, or again with regard to both line items where incremental budgeting principles are currently in use.

It is also worth noting that the government may have to strengthen human and institutional capacity to implement ZBB. Over the years, the South African Office of the Auditor General (AGSA) has raised concerns that the lack of sufficient financial management, budget control and performance capacity in both government and municipalities has led to irregular and fruitless and wasteful expenditure.

4. International Experience of Zero-based budgeting

“Wherever zero-based budgeting has been attempted, it has failed”¹⁸

International experience of implementing ZBB has demonstrated that the approach does not fit well with existing budget processes influenced by political priorities, and that ZBB is subject to varying time considerations. ZBB has also placed an immense administrative burden on line departments and budget preparation offices, which has contributed to most governments abandoning ZBB, or only implementing some aspects or elements of ZBB.

As we show below, there has been a renewed interest by some governments in ZBB as countries attempt to improve spending composition and outcomes in a context of reduced fiscal space.

China¹⁹

In the 1990s, China began to implement a modified version of ZBB in certain provinces as it modernised and unified its own budgeting system. Here ZBB had mixed results. Both political interference – political decisions taking precedence over considerations of affordability and outputs – and the fact that a notable share of expenditure fell outside of ZBB considerations reduced the efficacy of ZBB. Despite the introduction of ZBB, Chinese government departments still set budgets based on previous years’ budgets or use incremental base budgeting. Many have abandoned any attempt altogether to use ZBB. Although not strictly ZBB, the introduction of “sunset clauses” has nonetheless improved budget making in China.

¹⁸ Allen Schick (2002) Does Budgeting have future <https://www.oecd.org/gov/budgeting/43506059.pdf>

¹⁹ Alfred M. WU (2014) Searching for Fiscal Responsibility: A Critical Review of the Budget Reform in China https://www.eduhk.hk/fias/fas_upload/userfiles/pdf/2013/Searching%20for%20Fiscal%20Responsibility.pdf

Nigeria²⁰

The federal government of Nigeria began to shift from incremental budgeting to ZBB in 2016. This change has entailed considerable pressures on the time and resources required for budgeting as many government departments have struggled to fulfil ZBB requirements. The time since implementation is insufficient to draw definitive conclusion about spending efficiency and allocation in Nigeria. However, preliminary analysis suggests there has been little or no change in performance, in part due to bureaucratic connivance between budget offices and line departments.

South Korea²¹

South Korea introduced ZBB in the 1980s to allow for improved expenditure, which entailed reviewing current and new projects in the context of the zero-based budgeting principle by the country's²² Budget Review Committee (set-up to make collective budget decisions in the budget office). The South Korean experience highlights the immense administrative load placed on both line departments and the central budget evaluation committee, as well as the limitation of performance data for appropriate assessment of budget proposals. ZBB also presents problems for the credibility of a medium term budget framework. The second and third year of an expenditure framework indicated at the beginning of the first year would be subject to major revision with ZBB.

United States of America²³

The US attempted to introduce Zero-Based Budgeting (ZBB) in the late 1970s at the legislative, executive and agency levels of government. In practice, owing to the complexity and administrative requirements for successful implementation, it did not translate into starting budgets from scratch or requiring programs to be justified from a zero based. In practice ZBB entailed 'sunset reviews' of programmes. The US General Accounting Office upon reviewing past performance budgeting initiatives found that ZBBs "main focus was on optimizing accomplishments available at alternative budgetary levels". The USA as a whole stopped using ZBB formally in 1981, although some states (e.g. Georgia, Idaho) have implemented a version of ZBB.

²⁰ Sunny B. Beredugo, Joseph. U. B. Azubike and Emmanuel E. Okon, (2019) Comparative Analysis of Zero-Based Budgeting and Incremental Budgeting Techniques of Government Performance in Nigeria <https://www.rsisinternational.org/journals/iriss/Digital-Library/volume-3-issue-6/238-243.pdf>

²¹ John M. Kim, From Line-item to Program Budgeting Global Lessons and the Korean Case <http://www1.worldbank.org/publicsector/pe/bookprogrambudget.pdf>

²² ibid

²³ Ronald Snell , (2012) NCSL FISCAL BRIEF: ZERO-BASE BUDGETING IN THE STATES <https://www.ncsl.org/documents/fiscal/ZBB2012.pdf>