

Zero-Based Reviews

Presented To: Audit Committee

Meeting Date: June 20, 2023

Type: Routine Management Reports

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Auditor General

Recommended by: Auditor General

Report Summary

This report provides a recommendation regarding the completion of zero-based reviews over the next 3 years.

Resolution

THAT the City of Greater Sudbury approves the recommendations as outlined in the report entitled “Zero-Based Reviews” as presented by the Auditor General at the Audit Committee on June 20, 2023.

Relationship to the Strategic Plan, Health Impact Assessment and Community Energy & Emissions Plan (CEEP)

This is an operational report which has no relationship to the Community Energy & Emissions Plan.

Financial Implications

No direct financial implications if the recommended review schedule is followed.

Background

Zero-base budgeting (ZBB) is a budgeting process that asks managers to build a budget from the ground up, starting from zero. However, ZBB has been the subject of a fair amount of controversy over the years, owing primarily to questions about the value derived from ZBB analysis versus the cost required to put ZBB into practice.¹ Interest in ZBB had been in decline for many years. The large amount of paperwork and data ZBB generates, along with doubts about the method's ability to fully meet its theoretical promises, were at least partially responsible for its lack of acceptance in the public sector and Canadian municipalities.

¹ Zero-Based Budgeting: Modern Experiences and Current Approaches, Government Finance Officers Association, page 4

Staff reported to Council on ZBB in September 2021 and concluded that adopting a ZBB within all areas of the City would increase the amount of administrative time required to produce the budget without incrementally greater benefits. The Auditor General’s Office agrees with this conclusion but believes that it may be beneficial to employ Zero Based Review techniques within reviews of several services that are provided by the City.

Zero-Based Reviews (ZBRs)

Zero-Based Reviews could be used in the City to identify innovations or alternatives that offer valuable opportunities for change. They could also be used if budget reductions are required.

Consider the key questions of planning and budgeting that are shown below. These questions are especially relevant in a time where budget changes are required, because they allow for a more rational and comprehensive approach to adjusting budgets.

Planning Questions	Budgeting Questions
What are the community’s priorities and how can government action add value?	What programs should we fund in order to best achieve the priorities?
How much and what quality of service does the community need from a given program?	What level of service should we fund within a program?
Is the service provided efficiently?	For a given service level, are the requested inputs reasonable for the output we expect to receive?

ZBR is of the greatest potential use in answering the second question, and can also provide helpful input for the budgeting portion of the third question² which is addressed within value-for-money audits.

ZBRs were used within the City of Calgary between 2012 and 2019 to review 11 different services. These reviews identified approximately \$50 million of savings from capital cost avoidance, \$20 million of operational savings and \$10 million of productivity gains. These numbers are modest relative to Calgary’s annual capital budget of \$1 billion and net operating budget of \$4 billion in 2019.

The application of ZBRs to programs within the City of Greater Sudbury may be beneficial but only after consideration of service levels within the City which has unique communities and geography. ZBRs may generate savings in some program areas and may point to the need for additional spending in others.

Incorporating Zero-Based Reviews within Value-For-Money Audits

Value-for-money (VFM) audits assess the extent of regard for effectiveness, efficiency and economy within services. Adding ZBR techniques to VFM audits may provide cost-effective options to achieve service objectives that would not be presented otherwise. Prior to implementing service revision that might be identified by ZBR techniques, it would be prudent to determine community priorities regarding these services. That determination might be made by a range of community consultation methods including surveys.

Incorporating ZBRs within VFM audits of services can be accomplished with the assistance of subject-matter experts in municipal finance. Provided that the services that are examined are limited to those set out in the schedule below, they can be delivered within the regular budget of the Auditor General’s Office.

² Ibid, page 10

Recommended Service Reviews

The following services are recommended for audit or review during the next 3 years:

Service	Timing
Parks Services	Q3/Q4 2023
Engineering Services	Q3/Q4 2023
Paramedic Services	Q1/Q2 2024
Children Services	Q2/Q3 2024
Fleet Services	Q3/Q4 2024
General Government	Q1/Q2 2025
Winter Maintenance Services	Q3/Q4 2025
Wastewater Services	Q1/Q2 2026
Water Services	Q1/Q2 2026
Building Services	Q2/Q3 2026

Next Steps

The Auditor General's Office will incorporate ZBR techniques within the audits of Parks Services and Engineering Services that are planned for later this year. The balance of the audits/reviews noted above will be included within the work plans for 2024 to 2026 that will be presented to Audit Committee in December.

Resources Cited

Staff report on Zero-Based Budgeting to the Finance and Administrative Committee September 2021
<https://pub-greatersudbury.escribemeetings.com/filestream.ashx?DocumentId=41881>

Zero-Based Budgeting: Modern Experiences and Current Approaches, Government Finance Officers Association
<https://mrsc.org/getmedia/c52f539c-adad-41c1-8421-6584ed3ba8d9/qfoazero.pdf>

City of Calgary Zero-Based Review Overview <https://www.calgary.ca/our-finances/zero-based-review-overview.html>

City of Calgary Results <https://pub-calgary.escribemeetings.com/filestream.ashx?DocumentId=77849>