

Personnel expenditure analysis of the Directorate Veterinary Services in the North West Province

By

Boitshoko R Ntshabele

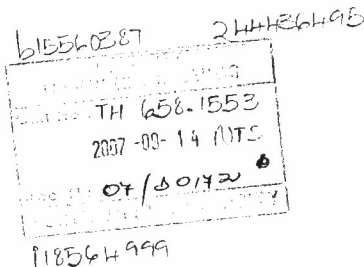
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Supervisor : Mr. A. S. Pelsner
Co-supervisor : Mr. G.D. Setsetse
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SUMMARY

The purpose of this study was to analyse personnel expenditure of the Directorate Veterinary Service in the North West Province and how it impacted on service delivery.

Literature on personnel expenditure and its influence on service delivery, particularly in the field of Veterinary Services is still in its infancy. Financial condition was referred as a tool to evaluate trends and patterns in how personnel budgets increases over a period of time as a fraction of the total budget affected the ability of the directorate to deliver services to the citizens of the province. Financial condition uses a percentage change to analyse changes in the budget over time for the Directorate.

Budget reports (2000-2002) collected from the Provincial Department of Agriculture, Conservation and Environment was analyzed in terms of a split between personnel and operational. This analysis was then used to elucidate patterns over time for the Directorate as a whole, which were then compared between the regions (using cost centers) to determine any bias in terms of resource allocation. The percentage change was also done per standard budget item used in the Province.

From the study it is evident that there was deterioration in financial condition for the financial year 2001/2001. This deterioration in financial condition is shown by a drop in budget but also in terms of a bias towards personnel. This phenomenon was however reversed in the following year of 2002/2003.

This study has identified a negative correlation between personnel budget and other expenditure needs for the Directorate Veterinary Services that had negative consequences for service delivery. To this extent it recommends a regular monitoring process to be put in place and the use of public partnerships where practical as a solution to rising personnel costs.

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CHAPTER ONE

1.1 Introduction and orientation

Employees of any organization represent a valuable resource especially considering that it is their efforts that are used to produce services and products offered by the organization. A substantial portion of organizational expenditure is geared towards remunerating employees in an attempt to satisfy and retain them in the employ of the organization. Employers also have the challenge of paying competitive salaries to attract potential employees. All employers source their employee requirements from the same pool and therefore should ensure that they are competitive and attractive in the eyes of job seekers; regarding remuneration packages.

This Chapter therefore introduces the study of the analysis of the effects of the direct costs of personnel on expenditures of the Directorate: Veterinary Services of the North West Province.

The Chapter commences with a background to the study followed by the problem statement, objectives of the study, significance of the study, methods of study, scope of the study and organisation of the study.

1.2 Background to the study

The North West Department of Agriculture, Conservation and Environment is made up of three Chief Directorates; one of which is Regulatory Services. This Chief Directorate is made up of Land Administration, Conservation and Environment and also Veterinary Services. The Directorate Veterinary Services is the focus of this study. This directorate is divided into four regions namely Central, Western, Southern and Eastern region. The core business of the Directorate is veterinary risk management, which involves the control of disease outbreaks in the province and also the prevention of disease occurrence through risk management of imports and export services. Three main functional areas are recognized, namely animal health, veterinary public health as well as diagnostic services.

The directorate currently employs 239 people. The areas of employment are similar to the functional areas. Over the years there have been complaints regarding availability of funds to provide services despite annual increases in the total budget allocated. Consequently, an assumption can be made that the increase in the operational budget subsidises the requirements in the personnel budget, hence the perceived shortage. It becomes important then to understand underlying trends in the personnel budget and trends in its relationship with the operational budget.

In the South African public service, remuneration is aimed at supporting service delivery on one hand, but on the other hand providing incentives for employees. The Minister of Public Services and Administration determines salary scales and allowances through negotiations with public sector unions, in the bargaining chamber for the public service. When salaries for public servants are determined the following aspects are considered; as per Government Gazette, (volume 427 of 2001):

- Available funding

- Results of job evaluation (if available)
- Employee's performance
- The need to recruit and retain personnel with appropriate competencies

In the same vein the notion of equal pay for equal work is embraced. The employees in an organization are the drivers of production and often their cost (personnel expenditure) is an integral part of the sale price of any commodity or service. The size of the contribution by personnel to total costs does, however, vary according to a number of factors, which amongst others include the type of product or services, degree of automation and skills requirement for the jobs available. These factors in some instances form the basis for how competitive an organization is, when compared to similar organizations in similar or related industries. In essence the size of labour costs will directly influence pricing strategies and price competitiveness.

Recent developments in the world's economies have brought on newer methods of working, the intention of which is to improve

worker productivity; consequently efficiency and effectiveness are targeted by these work methods. This resulted in a reduction of workforces as organizations opt to become lean in terms of employees, but still attaining the required production. All this, when viewed collectively, indicate an obsession with quality as well as cost savings.

If achieved, improved quality of products/services and a reduction in costs will improve an organization's competitiveness, making them either a cost leader (low cost producer) or product leader. This when extrapolated for national economics influences a country's competitiveness. A country's competitiveness relates to its ability to attract foreign direct investments (FDI), which consequently affects unemployment and economic growth.

The draft regulation of the Public Finance Management Act (Act 1 of 1999) requires that personnel costs be incurred for authorised purposes and that it should be assured that personnel costs represent value for money for the institution. The responsibility for the above rests with the Accounting Officer who is employed to develop and implement processes for managing personnel

costs efficiently and effectively, with the aim of achieving value for money. This is cascaded downwards, according to different programmes in the department, for the respective managers to implement. The managers in the subsequent levels of management are then given the responsibility of managing personnel and related costs within an agreed framework with the Accounting Officer.

For example: Increases in medical aid costs are not seriously considered as having an impact on total expenditure, but are rather seen as being a burden for the individual, even though employees receive a portion from the employer towards the total medical aid cost. The same can be said about increases in aspects that form part of an employee's total package, traveling allowance, capital allowance for subsidized vehicles and so forth. This trend cannot continue since knowledge of these aspects influencing a remuneration package have a direct impact on the entire decision making process in matters relating to personnel. The question that is raised here is whether or not it is necessary to explore alternative means of using existing staff to offer the

services of the Directorate, thereby preventing the unnecessary expenditure involved in hiring new employees.

Managers in the public service and in the Directorate: Veterinary Services should show the same level of concern for personnel expenditure. Understanding personnel expenditure and its dynamics will enhance decision-making and improve efficiency in the service. Managers would thereby fulfill an important obligation that is implied in the functions of a manager (i.e. that of control), but at the same time they will be complying with an essential requirement of the public service and the Public Finance Management Act..

1.3 Problem statement

Personnel costs have an impact on the distribution of funds to other inputs such as materials, consumables and others, which negatively affects the provision of services as dictated by departmental objectives. Rising personnel costs that are not commensurate with rising operational costs result in less funds

being available for purchasing of inputs and other services necessary for the delivery of services.

1.4 Purpose of the study

The purpose of the study was to examine the effects of personnel input costs on the expenditure of the Directorate of Veterinary Services in the North West Province. The actual expenditure represents the amounts of specific goods and services received (inputs) and the price or unit cost of these inputs (input prices). Personnel expenditure is represented by hours of work provided, multiplied by the wage rate for different types of personnel. This particular expenditure has an impact on the total expenditure of the Directorate: Veterinary Services, and thereby on the quality and extent of its service provision.

1.5 The specific objectives of the study

The specific objectives of the study were:

1.5.1 To determine, from the literature, the nature and scope of expenditure analysis in order to provide a perspective on the subject.

1.5.2 To analyze personnel costs as a percentage of total expenditure in the Directorate: Veterinary Services in the North West Province.

1.5.3 To examine the relationship between the Directorate: Veterinary Service's expenditures and the services received by its customers.

1.5.4 To analyze the effects of personnel remuneration on expenditure levels.

1.6 Significance of the study

The study will make a contribution towards increasing the existing body of knowledge in respect of financial analysis, especially expenditure analysis, in the public service. On the practical level it will have a number of benefits as outlined below.

1.6.1 Management in the Directorate

Managers of various cost centers, who will be presented with the report, will be reminded of their duties and responsibility to institute control measures and ensure that public services are delivered effectively and efficiently; as dictated by the public service regulations and the Public Finance Management Act (Act 1 of 1999). Costs relating to employment decisions will be highlighted to these managers making them aware of the impact on their ability to render services efficiently.

1.6.2 Governance

Improved performance, resulting from better controls in the management of public funds. Audit processes will give an assurance that regulations, policies and procedures in government are implemented thereby supporting effective and efficient service delivery. More funds will be available to render the same services to an increased number of beneficiaries. The type, amount (quantity) as well as the quality of services received by targeted communities due to an increase in available funding

could also be improved upon because public funds are used more effectively. An increase in available funds for the procurement of services and goods in support of service delivery will bolster economic growth.

1.7 Method of study

The study employed the following methods:

1.7.1 Literature study

In a review of appropriate literature, a thorough study of secondary and primary sources was made with the view to gathering information on expenditure analysis and personnel input prices. DIALOG-and-INTERNET searches were conducted with the following key words: expenditure analysis, personnel expenditure, human capital cost, personnel expenditure management and community needs (costing veterinary services).

1.7.2 Empirical investigation

The empirical investigation included the following:

1.7.2.1 Document study

This included the study and analysis of official documents such as the remuneration policy, financial statements and budget review of the Directorate: Veterinary Service. The study included all employees in the directorate in order to determine government spending on each of them. This involved evaluation and analysis of personnel expenditure records per cost center for the financial years 2000, 2001 and 2002. Total expenditure per cost center and average employee cost per cost center were determined. Budgets and expenditure records were also perused to determine patterns in the ratio of personnel remuneration to operational expenditure; or alternatively the respective budgets from the previous years.

1.7.2.2 Data analysis

Descriptive statistics supplemented by use of graphical representation of data was used.

1.8 Scope of the study

This study was restricted to personnel expenditures of the Directorate: Veterinary Services in the North West Province, seeking to identify their relationship with the total expenditure. On this basis the study cannot claim to be representative of other directorates nor other departments.

1.9 Organization of the study

The study is divided into the following chapters:-

- Chapter One : Orientation
- Chapter Two : Literature review
- Chapter three : Research design
- Chapter Four : Analysis and interpretation of data
- Chapter Five : Summary, findings, recommendation and conclusion.

1.8 Summary

This chapter introduced the study on personnel expenditure analysis in the Directorate: veterinary services, North West Province. The chapter communicated the background of the Directorate and analysis of the remuneration policy. It was followed by the outlining of the problem statement, formulation of the objectives of the study, significance of the study, methods of the study, the scope and organisation of the study. The focus of the study is to examine the financial condition of the Directorate: of Veterinary Services in relation to personnel expenditure. The question to be answered in this study is what effect personnel expenditure has on the total expenditure and service delivery.

CHAPTER TWO

THE NATURE AND SCOPE OF EXPENDITURE ANALYSIS

2.1 Introduction

In the preceding chapter an introduction to the study was made including a blueprint of how the study will be conducted. This chapter explores literature on the nature and scope of expenditure analysis. It begins by defining the financial condition, followed by financial condition analysis. Focus will be mainly on the categories and determinants of public expenditure followed by examination of personnel expenditure, which is the core of this study.

2.2 Financial condition and financial condition analysis

To understand the effects of personnel expenditure of the Directorate: Veterinary Services, one has to examine the financial condition of a government or directorate. Financial condition goes by many names, such as financial health, solvency, strength, and stress. According to Berne and Schramm (1986:68), all these can

be defined as the probability that a government will meet its financial obligations to creditors, suppliers, constituents and others as these obligations become due. This probability depends on the likelihood that these sources of cash, available to the government, and the required uses of cash, at any point in time, can be brought into equilibrium. For most governments the problem is not struggling with financial insolvency directly, but rather determining the likelihood that financial difficulties can come about; and what can be done to correct or avoid financial problems (ibid). To accomplish this, governments must be able to measure and evaluate their financial strengths and weaknesses. A complete assessment of a government's financial condition requires analysis of financial statements including examination of budgets, along with other information, using reasonable measures of the components of financial condition (Berne&Schramm, 1986:66-67). Developing a consistent set of measures of financial condition, however, requires an understanding of the relationship between a governments finances and the environment in which it operates. According to

Bahl (1984:74-88) Berne and Schramm (1986:67) a government's financial condition reflects changes in the demand for government services: the cost of personnel, equipment, materials, supplies to provide these services, and the revenues available to pay these costs. According to the authors these pressures on government finances result from other factors in the government's environment, such as the population and changes in the composition of population, changes in the industrial structure and employment patterns, changes in the power of public employees and client groups, changes in the national and regional economy and capital market conditions, as well as changes arising from past and current governmental decisions and policies. These internal and external factors and their relationships to financial condition need to be understood and incorporated into a framework for measuring, predicting, and responding to financial problems faced by government. Outcomes are assessed on the basis of such criteria as efficiency, responsiveness, and equity. Efficiency, for example, refers to whether government is able to deliver services with more or fewer resources. Various surveys

indicate that in recent years many citizens have come to believe that the costs of administering government have been increasing significantly while the quantity and quality of public services have been decreasing.

2.2.1 Characteristics of financial condition

The following are the major characteristics of financial condition (Berne & Schramm, 1986:68-70):

- (1) Financial condition has a time dimension. Available sources of cash and required uses for cash depend on the time horizon involved, with more sources and uses of cash possible as the time horizon lengthens. Consequently, how easily a government can meet its cash needs depends on when these cash needs must be met. Short-term financial condition depends on a government's ability to raise cash quickly to meet immediate needs; long-term financial condition depends on a government's ability to secure resources and manage expenditures over the long-term.

- (2) Financial condition is rooted in a government's economic environment. Ultimately the likelihood that a government can manage to meet its cash needs depends on that government's ability to earn resources (revenues) equal to or greater than its use of revenues (expenditures). Consequently, financial condition, the ability to balance sources and uses of cash to meet financial obligation has an underlying economic dimension; the ability to balance revenues and expenditures.
- (3) It is a multi-dimensional or multi-constituency concept. Financial condition depends on all sources and uses of cash that reflect the government's relationship with a wide variety of individual and groups, cash receipts from tax payers, users of services, other governments, creditors, and cash payments go to consumer groups, suppliers, employees, bond holders, banks and so forth. Thus financial condition cannot be measured solely with respect to a government's financial obligation to any one group, such as creditors, but has to be viewed as the net result of

obligations to all governmental clientele receiving or providing resources. It requires all major sources and uses of resources (revenues, expenditures, borrowing, etc.) and not just one aspect (such as debt or internal resources).

- (4) It involves implicit and explicit financial obligations, where implicit obligations are changes in resources and service flows or financial requirements that do not reveal themselves explicitly in cash flows or financial contrasts. For example, a government with cash reserves and untapped resources in a community that has substantial needs for governmental services is, in an overall sense, less financially healthy than it appears from a strict cash flow analysis. And so is the government that has little debt but has let its physical capital deteriorate, reducing services to the community in the process. These should also be considered in the analysis of a government's financial condition.
- (5) Financially, financial condition is a composite variable, encompassing financial strengths and weaknesses, not a

simple one-dimensional measure of well being. Furthermore, financial condition can vary greatly and is not a matter of being solvent or insolvent. Consequently, financial analysis must recognize these different dimensions and distinguish different levels of financial well being.

2.2.2 CATEGORIES AND DETERMINANTS OF FINANCIAL CONDITION

Earlier it was stated that financial condition could be defined as the probability that a government will meet its financial obligations.

Conceptually, this probability depends on the level of expenditure demands on the government (expenditure pressures) relative to the total resources available to meet those demands (available resources). In this context a gap between expenditure pressures and available resources become a measure of financial condition (Berne and Schramm, 1986:71-72). For example: a government that faces little pressures for additional expenditures and has a

substantial capacity to raise additional revenues is in good financial condition; a government with considerable pressure to increase its budget, but with little unused revenue capacity, is in poor financial condition. Government rendered services are referred to as public goods. The basis of providing such goods is public policy, which the incumbent government used during the elections. It follows therefore as stated by Brown and Jackson (2000:118) that government expenditure reflects policy choices of government. The presence of any democratic government is an indication by the electorate of approval of their policies. Public budgets and hence expenditures according to Gosling (2002:4) serve as a focal point for policy making and sets spending priorities for the period of governance. In clarifying the nature of Public goods Duff (1997:15) says that once such goods are made available to any individual, they are available to everyone. Usher, (2002:388-391) argues that certain goods which he refers to as indivisible are not amenable to Duff's proclamation in that these indivisible goods are according to him available altogether or not at all and offers a kidney transplant as an example. Brown and

Jackson (2000:131-139) refer to the following determinants of public expenditure amongst others; demands by the electorate, a set of production activities used to produce public goods as well as the quality of goods produced. These activities are affected by a combination of demand and supply factors Bahl (198:74-90) and Brown and Jackson (2000:122).

(a) Demand factors

The demand for public services, as expressed in community preferences, is affected by four major factors (Bahl, 1984: 74-90; Brown and Jackson, 2000: 122-138; Gosling 2002:59-60).

1. Population shifts, which operate through levels of current and future needs as well as levels and types of liabilities
2. National economic performance, which operates through the ability of government to increase revenues and to draw on, and redistribute, surplus internal resources to accommodate economic growth.

3. The relative price of services, which operates through the cost of providing services and the quantities demanded of those services.
4. Changes in income level, which operates through community tastes and needs, as well as community resources.

(b) Supply factors

The level of government expenditure is also determined by supply factors. These factors affect the cost of providing a given level of public service and determine whether the relative price of a service will rise or fall (Bahl 1984: 74-90; Forte Peacock, 1985:21)

- Costs of labour and capital and their impact on resources, users and other workers in general.
- Economics of scale can allow governments to reduce the unit cost of producing levels of services.
- Indexation, some welfare and medical services and even some collective bargaining contracts are indexed so that they rise with the rate of inflation.

- Long-term costs associated with capital investments as evidenced from the growth and maintenance of infrastructure.
- Employee productivity and the difficulties of productivity in the public sector.

There are also economic and non-economic factors that can shock the system such as recession, legislated mandates and political and government structure. It is clear from the above that the financial condition of a government will depend on supply and demand factors as evidenced by-

- (a) Community tastes and needs such as poverty, education and unemployment.
- (b) The conditions affecting production and distribution of public goods and services such as population density, size and climate.
- (c) The costs of labor, capital, and other productive resources such as wage rates and interests rates.
- (d) The wealth of the community such as income, property values and retail sales.

- (e) The political and governmental structure and surrounding area such as dominance of spheres of governments and political activities.

It is clear from the above that a financial condition of a government is influenced by a combination of factors which need to be taken into consideration in analysing components of public expenditure.

2.3 Categories of public expenditure

Kohl in his paper on the functional structure of public expenditure (Taylor, 1983:202-204) proposes the following requirements in categorizing expenditure by policy area or purpose:

- Functional categories should be sufficiently general in appreciation and stable over time to allow comparability.
- They should be concrete and function enough to be matched with the classifications used in national reports without undue discrepancy.
- Categories should not be too large in number and should represent important shares of total expenditure.

- Total expenditure should be allotted as completely as possible to specific functions without large residual categories.

From the above, it follows that categories of public expenditure reflect policy on how a government seeks to classify services rendered and as a result categories will differ country by country. Other areas besides functional government departments include supporting the local governments (transfer payments) and servicing the debts that have accumulated over time.

(<http://www.bized.ac.uk/virtual/economy/policy/tools/government/>)

2.3.1 Direct and Intergovernmental expenditures

Expenditure in government in the words of Gosling (2002:4) is based on policy priorities and is reflected in the public budget, which places value on the many purposes of government spending. Government expenditure framework entails both direct and intergovernmental expenses where direct expenditure refers to the purchasing of inputs resulting in claims on the resources of the economy according to Brown and Jackson (2000:119). Musgrave and Musgrave (1989:23) refer to intergovernmental

expenditures to be the flow of funds from and between different levels of government. The South African Constitution, (Act 108 of 1996) recognizes three spheres of government; national, provincial and local government. Different functions translating into goods and services for the different spheres are defined, described and corresponding levels of authority allotted.

2.3.2 Functions of government Expenditure

Another important type of classification of expenditure is by the function, or a set of activities, that these expenditures serve. Analysis of components of public expenditure provides insight into the function of Government Expenditure. Brown and Jackson (2000:155) proposed the following components of public expenditure.

- Public sector consumption: expenditure on goods and services at market prices including salary, wages and related costs.
- Public sector investment: expenditure on fixed assets.
- Subsidies: unrequited payments to private and public enterprises.

- Current grants: unemployment benefits and pensions.
- Capital transfers – unrequited payments on capital account.

Debt interest and net leading to private sector and overseas is also one of the components. These components illustrate the functional areas of government and hence its expenditure. Different functional areas of government exist e.g. health, defense and education. Haveman and Margolis (1983:5) say that although public goods are provided for through public expenditure as a single category, they nevertheless show a great deal of diversity and variety. The classification of expenditure by function provides useful information about the major expenditure priorities of governments. Specific government departments or sets of departments define these functions.

2.3.3 Object of public expenditure

Expenditure may also be classified, according to Berne & Schramm (1986:169), in terms of the resources secured by the expenditure, that is, the object of expenditure. This usually includes expenditure for personnel services, contract services,

materials and supplies, and other sources that are used by the government for producing goods and services. The direct expenditure for salaries and wages are another example of a classification of direct expenditure by the object of expenditure. Public expenditure arises out of government intervention in the economy as a result of societal preference or as a background of market failure due to market power or non-existence of markets, according to Rosen (1999:53). In its intervention in the economy Duff (1997:34) mentions that it has the following objectives:

- Economic efficiency objectives.
- Administration efficiency objectives.
- Equity objectives.

The economic objectives are about maximizing benefits out of available resources, whilst equity objectives refer to the distribution of income and wealth, Duff (1997:34-36). The basis of government and government policy is the constitution. Hyman (1999:51) agrees with Rosen (1999:54) that undesirable market effects lead to government intervention resulting in net gains that support the well being of all citizens. Savage and Robins

(1990:29) say that another object of government expenditure in the monetarist period of Thatcher in the UK where inflation was the arch enemy, government expenditure was cut to control money supply thereby reducing inflationary pressures.

2.3.4 Transfer payments

There are other categories of expenditures such as transfer payments to specific clientele groups and expenditures related to specific activities and/or programmes.

2.4 Personnel expenditure

Unlike expenditure on materials, supplies and other inputs of government, personnel expenditure is always a huge budgetary item. It therefore merits special attention in expenditure analysis.

2.4.1 Components of total personnel remuneration package

The employment contract obligates employers to reward employees for services rendered. Casciao in (Coetzee's 2001:4.3) refers to two types of rewards, financial and non-

financial rewards. Financial rewards constitute the bulk of an employee's remuneration package. According to Coetzee (2001:4.2) financial rewards include both direct and indirect payments. Direct payments are linked to remuneration for work carried out whereas indirect payments are independent of the remuneration and may include social benefits, vocational training and employment taxes (www.europa.eu.int/irc/dsis). Bergmann and Scarpello (2001:13) refer also to what they call non-pecuniary rewards i.e. a sense of accomplishment and a sense of power in one's work, Company reputation is also included therein. Carrel and others (Coetzee 2001:4.4) propose an average of 40% as the proportion of benefits in an employee's total pay package.

2.4.2 Purpose and importance of total compensation

The objective of total compensation is to reward employees. but according to Armstrong and Murlis (1988:50) reward should be founded on the proposition that the ultimate source of value in an organisation is its people. This will surely bode well for the organisation from a strategic perspective as organizational

success relies on attaining organizational goals that are supported by a "right" human resources strategy (Armstrong and Murlis, 1988:52). Thornhill, Lewis, Millmore and Saunders (2000:196) assert that compensation has the ability to motivate employees. Bartlett and Ghoshal (2002:37) sum it up by saying that employees must be seen as "talent investors", and should be treated as partners and rewarded like other investors.

2.4.3 Environmental impact of total compensation

The biggest influence on the employer-employee relationship comes from government legislation. In South Africa, the Labour Relations Act (Act 66 of 1995) exists mainly for the intent of harmonizing relations between the employer and the employee. "Government's usual interests are whether procedures for determining pay are fair (e.g. pay discrimination), safety nets for the unemployed and disadvantaged are sufficient (e.g. minimum wage, unemployment compensation), and employees are protected (e.g. criteria pay, child labour)" (Milkovich and Newman, 1999:541). Government is, however, not immune to the effects of

legislation in its dealings with public servants. Labour legislation is often referred to be labour friendly or alternatively employer friendly. Labour friendly legislation is considered to be prohibitive in terms of economic activity and often cited as the reason for problems with unemployment. High levels of unemployment at the lower end of the wage scale are ascribed to high labour costs (www.peer.review.a/mp.org/en/9901). Legislation prescribing minimum wages paid complicates the situation even further. Employee compensation needs to grow in tangent with productivity, as the latter tends to improve the investment climate, thus, encouraging additional investment (www.be/checkup.com). The opposite, rising compensation without a corresponding increase in productivity leads to inflationary pressures in the economy especially in cases of short labour supply and companies bidding up compensation in competition for limited resources (www.berstein.com, www.iero.eurofound.i.e/2002).

2.4.4 Assessing total remuneration package

Of all the components of a remuneration package only wage is necessary for production (www.towcon.educ/precha/eco). Total

remuneration packages http://strategic.ic.gc.ca/canadian_industry_statistics/cis.nsf, should be associated with level of production. In the South African public service the benefit portion has increased from 25 to 35 percent and this is attributed to payments for pensions, homeowner allowances and medical aid (<http://www.polity.org.za/html/govdoc>). Total remuneration packages have in recent times become the subject of many debates against the backdrop of accounting scandals such as Enron in the USA. Stephen Bartholomeuse quoted in (www.ccomform.com/an/2002/remuneration.cfm) proposes the following key elements on best practices:

- transparency;
- reasonableness;
- real and demanding benchmarks;
- reward for real out performance; and
- real risk of lost value if performance rewarded is not genuine and not sustained.

Remuneration is also in the spotlight as organisations realize that people are their greatest asset, thus reward and remuneration

packages should more effectively meet peoples needs ([www.cebano.co.za/the new employment deal.htm](http://www.cebano.co.za/the_new_employment_deal.htm)). Lazear (1998:438) proposes that total remuneration packages can be used to the advantage of the organization especially where a benefit can be purchased cheaper by the organization as opposed to the individual buying on their own. Another avenue is where a tax arbitrage position exists allowing the organisation to make a saving.

2.4.5 Effects of personnel remuneration

The expected effect of personnel remuneration is for employees to work towards attaining organizational goals. Armstrong (1999:10-11) states that compensation plays a major role in determining performance in an organization, but the following outcomes are also expected:

- ability to attract and retain outstanding employees;
- maintenance of employee perceptions of fairness and therefore overall employee satisfaction; and

- enhancement of individual and group motivation for high performance.

The above can be achieved if pay is internally equitable and externally competitive. Milkovich and Newman (1999:275) also support the view that remuneration should enhance job performance leading to progress in the organization.

2.5 Personnel remuneration and expenditure levels

Remuneration of personnel has to be part of a human resources strategy that supports the organization's grand strategy according to Armstrong (1999:82). This strategy should ensure that job performance is enhanced (Milkovich and Newman, 1999:275). Gosling (2002:180) says that higher percentage cost attributed to salaries reduce the ability to reduce expenditures in times of fiscal austerity. Gosling (2002:183) holds that personnel costs form a significant portion of total costs with benefits contributing up to 40% of total payroll costs. Bateman, Snell and Lazear (1999:357)

also assert that up to 60% of total costs go towards personnel expenditure, making it a significant cost for the organization.

2.6 Personnel expenditure in other countries

The opening up of economies worldwide and the phenomenon of globalization presents new challenges regarding the ability to attract Foreign Direct Investments (FDI) and international competitiveness. Countries with high labour costs, of which Germany is given as an example, have reduced capacity to attract FDI as a result of their perceived poor competitiveness, and consequently unemployment has been the result (www.din.de/english/publikationen). Poor competitiveness reduces export output and employment, ultimately affecting a countries economy badly (http://country/data.Brdep.com/EIU/Help.wages_costs) Labour costs and thus personnel expenditure (www.city.comwall.on.ca/wo) forms the largest component of total location sensitive costs. Countries like the United States of America use indices known as the employment index to monitor the effects of labour cost on the country's economy. This is

because labour costs represent a significant portion of direct production and as such, improvement in production costs have a positive economic impact (www.tontairo.com/facts08.as). The Japanese, instead of retrenching employees to control expenditure, use work sharing with an added benefit of not increasing unemployment (www.summers/freeserve.co.UK/c). While at macro-level personnel expenditure has an impact on the economy and ability of a government to deliver services. At a micro-level labour cost has an impact on total expenditure and the ability of a department or Directorate to deliver services to the community.

2.7 The theoretical framework for analysis of public expenditure

Two main theories on government growth exist, with one focused on the supply side and the other on the demand side. According to (Legrensi and Milos, Vol 30 in 01 January 2002) in Public Finance review, distinguishing the two growth theories allows for a distinction to be made between a responsive government,

where expenditure is geared towards the choices of the electorate, and an excessive government, spending beyond limits following the interest of bureaucrats and or politicians. On the demand side (Wagner: 1958) in Johnson and Brown (1999), in what is known today as Wagners law, proposes that the demand for goods and services by the public as a result of economic growth, organization and growing complexity in the relationship of an individual leads to growth in government. Johnson and Brown however argued that Wagnees law was oblivious to the effects of industrialization. Peacock-Wiseman (1961:65) refers to a displacement effect on public expenditure as a result of a crisis necessitating increased government spending. In their words, although in the post crisis period expenditure decreases it still remains higher than in the pre crisis period, ultimately indicating an increased level of government spending. Rizzo in his study of Regional disparities and decentralization in Forte and Peacock (1985:77) has shown that decentralization includes public expenditure as a result of local level institutional factors. Both supply and demand theories refer to growth in the size of public

expenditure without pinpointing the precise areas of growth. In simpler terms a notion exists that the growth in public expenditure should result in increased provision of public goods. If one accepts this notion on increased public expenditure one can then apply Verdorn's Law, which claims a positive relationship between volume of production and labour productivity in Ekstedt and Westberg (1991:51). Verdorn's Law was reformulated by (Kaldor) in Ekstedt and Westberg (1991:51) that in the secondary production sector production growth is positively related to the growth of labour. Taylor (1985:14) proposes an expansion of reasons for government growth beyond revenues and expenditure and proposes, amongst others, a look at the number of personnel employed and the extent of services performed or rendered as areas needing close attention in explaining government growth. This framework will support the view that given budgetary restrictions/limitations, personnel expenditure pressures impact on the attainment of organizational objectives and threatens expenditure on other inputs necessary in the delivery of services.

2.8 Summary

In brief, this chapter provided the conceptual framework of a government financial condition and tools for analysing such a condition. It is clear from this chapter that a government financial condition is characterised by many factors in determining expenditure pressures such as labour costs. Categories, determination and the framework for public expenditure were also provided. Components of personnel expenditure were also discussed with the view to determining their impact on public expenditure.

CHAPTER THREE

RESEARCH DESIGN

3.1 Introduction

This chapter outlines the method of research of this study. It explains the rationale behind the methodology employed, how the research was conducted, and what steps were taken to ensure the validity of the study. The theoretical framework as provided in chapter 2 and the purpose of the study as stated in chapter 1 were the guiding force in this investigation.

3.2 Case study as a methodological framework

This is a case study on the financial condition of the Directorate: Veterinary Services of the Department of Agriculture and Conservation in the NorthWest province. Researchers have used the case study research method for many years across a variety of disciplines. Researchers define the case study research method as an empirical inquiry that investigates a contemporary phenomenon within its real-life context; when the boundaries

between phenomenon and context are not clearly evident; and in which multiple sources of evidence are used (Keppel & Zedeck, 1989: 10 & Polit et al, 1991:207). Polit et al (1991:207) further state that a researcher conducting a case study attempts to analyze and understand the variables that are important to the history, development or case of the subject or the subject's problems. In this way the case study research method can be used to support and validate a theory or postulation (Burns & Grove, 1999: 197; Harley & Mulhall, 1994: 65). Huysamen (1994:169) states that the unit of analysis in a case research does not necessarily need to be a site or human being, but may also involve documents, it is evident that case studies should be defined or demarcated, meaning that the boundaries should be well determined. In this study the case has been defined as Directorate: Veterinary Services, specifically its financial condition. Critics of the case study research method believe that the study of a small number of cases can offer no grounds for establishing reliability or generality of findings (Brink 2000:116). Case study research is dismissed as useful only as an

exploratory tool. Yet researchers from many disciplines use the case study method with success in carefully planned studies of real-life situations, issues and problems.

3.3 Data collection

Data collection was guided by the objectives of the study and the following questions:

What are the objectives of the Directorate: Veterinary Services?

How are these objectives financed and why did the directorate fail to attain certain objectives?

What are the relations of personnel expenditure to the total expenditure?

What are the cost centres of the directorate and what proportion of the budget is allocated to those cost centres?

Data for this study was collected from documents and through semi-structured interviews with Senior Officials of the Directorate. Kecolt and Nathan (1985:10) refer to documents as written

materials that contain information. Documents are rarely developed with research in mind, yet they are potentially rich sources of information on social, economic and political phenomena.

The data for this study was therefore collected from financial statements, annual reports, operational plans and strategic plans. Financial statements and budgets are discussed in the next section.

3.3.1 Financial statements

The basic tool used by an accountant to communicate financial information is the financial statement. The most common financial statements are found in annual reports that are produced by governments to summarize their financial position and operations. Financial statements vary according to the level of detail reported, with statements prepared for public consumption usually being the most summarized. The information gleaned from financial statements can be used to judge the performance of an organization and also to assess the future

potential of an organization (Berne & Schramm, 1996: 13). The production of financial statements does not complete the accounting cycle. The cycle is only completed by the financial decision-making process. The decision can only be made once the information under consideration has been measured and evaluated. The measurement and evaluation of information on financial statements is known as analysis and interpretation and it is generally considered to be the last phase in the accounting cycle (Koen & Oberholder, 1999:3). The main limitation of financial statements is that they only provide monetary historical data.

3.3.2 Budgets

For financial analysis it is desirable to have the most up-to-date information that is available, and budgets provide information that is more current than financial statements (Berne & Schramm, 1986: 54), budgets, according to these authors, are documents that categorize, organize, and present financial information for purposes of planning, evaluation, implementation, and/or control

of financial resources. A key difference between budgets and financial statements is the prospective, or future-oriented, nature of budgets compared with financial statements that provide a record of past financial activities (Ibid). In this study operating budgets of the Directorate: Veterinary Services are analyzed.

3.3.3 Mission and objectives

The mission and objectives of the Directorate: Veterinary Services were studied to determine the extent to which resources have been made available for their attainment.

3.4 Techniques for analyzing financial condition of the directorate

Relevant information about the Directorate was extracted from financial and non-financial documents and sources. The extracted information was put in a form that allows for analysis. A set of comparative measures that help describe and analyze the Directorate's financial performance, which in the case of this study is limited to financial condition. The Directorate's own past

(or forecasted) levels of variables were used for comparison. Thus the Directorate's past liquidity was used as a standard of comparison with current level of these messes. For example, budgetary figures of the past three years were subjected to time series analysis. The series could be revenues, employment, income, population, or whatever, as long as it is in numerical form for a sequence of periods of equal length, such as years or months. The series may be put in percentage change form. The percentage change is the absolute numerical change in the series between two periods, divided by its value in earlier period, and multiplied by 100. The percentage change format has been used for the purpose of this study.

3.5 Summary

Document study was used to collect data. The data was extracted from financial statements, budgets, annual reports and strategic and operational plans of the Directorate: Veterinary Services. This data was subjected to time series analysis within the case study research method.

CHAPTER FOUR

DATA ANALYSIS AND INTERPRETATION

4.1 Introduction

This chapter provides a report on the results of the empirical investigations conducted to determine the financial condition of the Directorate: Veterinary Services in the North West province, as well as the profile of this Directorate. Quantitative and qualitative data that has been collected throughout the investigation are summarized and discussed.

4.2 Profile of the Directorate: Veterinary Services

This section provides the profile of the Directorate. It commences with the organisation and management of the Directorate, followed by the objectives and achievements of the Directorate.

4.2.1 Organization and Management of the Directorate

The Directorate is divided into the three subdirectorates, animal health, veterinary public health and veterinary diagnostic

services. Sub directorate animal health is further divided into the following four regions: Central, East, West and South whereas Veterinary public health is divided into two regions Central-Western and South-Eastern. The Veterinary diagnostic services subdirectorates is made up of the two laboratories based in Potchefstroom and Vryburg. The Directorate is headed by a Director Veterinary Services, and the subdirectorates and regions by Deputy Directors. Most of the employees of the Director are under the Sub-directorate animal health and the rest are employed under Public Health and Diagnostic services. The budget for the Directorate is allocated according to designated cost centers. The following cost centers are used, A03 (Southern region Animal Health) includes Potchefstroom laboratory and Veterinary Public Health South Eastern, A14 (Head Office), A15 (Central region Animal Health) includes veterinary Public Health Central Western, A16 (Eastern region Animal Health) and A17 (Western region Animal Health) but also includes Vryburg laboratory under Diagnostic services. A03 has 54 employees, A14 has 5 employees including the Director, A15, 62 employees,

A16 has 49 employees and A17 has 65 employees giving a total of 235 employees for the whole Directorate as at September 2002. The animal health regions provide animal health services ranging from inspection of animals for export, monitoring sicknesses, vaccinations to prevent diseases to controlling disease outbreaks. The veterinary public health regions focus on food safety matters in the respective regions especially concerning food of animal origin. The efforts are directed mainly at slaughterhouses that produce meat for the province. The laboratories support the activities of the other two functions by analysing samples and identifying causative organisms of disease or food emergencies.

4.2.2 Objectives of the Directorate

The Directorate: Veterinary Services derives its objectives from the Strategic goals of the Department of Agriculture, Conservation and Environment. Strategic goal number one is aimed at improving competitiveness and profitability and the Directorate's objective in meeting this goal is to create awareness

of trade barriers resulting from some international treaties and agreements. Another strategic goal is to ensure sustainable natural resource utilization and management, the Directorates objective in this regard is to facilitate the provision of veterinary animal health services. The Department's other strategic goal is to promote international cooperation and the objective of the Directorate relevant to this goal is to implement effective regulatory services. It is important to mention that only certain Departmental strategic goals are mentioned because of their relevance and support by the strategic objectives of the Directorate Veterinary Services.

4.2.3 Achievements of the Directorate in the past three years (2000-2002)

The Directorate has managed to implement effective vaccination programmes that were instrumental in limiting outbreaks of diseases like brucellosis, anthrax and rabies. These diseases are important as they are zoonoses (transmissible to man). The Directorate also kept at bay trans-boundary diseases like foot-

and-mouth disease (FMD) and contagious bovine pleuropneumonia that if present would have impeded trade in animal products and constrained the North West's continued export of live animals, as well as produce of animal origin, to Sub-Saharan Africa and the rest of the world. This has largely been supported by improved border inspection and patrol as well as other surveillance methods to serve as an early warning system in case of outbreaks, thereby also limiting the spread. This was demonstrated when suspicion of the possibility of animals exposed to FMD were being slaughtered at abattoirs in Brits. Staff movement was swift in tracing movement of animal products as well as waste to limit and exclude the possibility of an outbreak. The North West contributed labour to the effective controlling of FMD outbreaks in Kwa-Zulu Natal and Mpumalanga provinces. In 2000 an improvement was noticed in the number vaccinations to combat rabies, mostly in dogs and cats, as well as an increase in numbers of herds tested for tuberculosis (TB) compared to the previous years. A noticeable improvement was also seen in the number of extension efforts and participants. In

2001 the sub directorate VPH managed to reach targets set for inspection and exceeded targets on evaluation of new plans and upgrading and/or alternations. The biggest achievement was the re-registration of Lichtenburg Clover plant for Cheese exports to the European Union. Outbreaks of diseases like Lumpy skin disease were less as compared to the previous year. Achievements in 2002 include an increase in the number of herds tested for TB and CA, as well as cattle vaccinated against CA (contagious abortion). Live animal exports to neighbouring countries were also increased from Namibia. A well-organized Food Safety campaign was orchestrated with all districts giving their full support.

4.3 Financial condition of the Directorate

The financial condition of the Directorate: Veterinary Services relates to its ability to fund its activities at any particular point in time. This financial condition can be evaluated by examining budgets (Berne and Schramm, 1986: 66-67). Budgets of the individual cost centers were examined for a three year period

(2000-2002) noting the percentage change on the whole budget (total) as well as the individual Standard Item. The following Standard Items are applicable, standard item A for personnel, B for administrative expenditure, C for stores and livestock, D for Equipment, E for land and buildings, F for professional and special services, G for transfer current and H for miscellaneous expenditure. Percentage change is a fraction indicating something out of a hundred (www.nogain.org/Train/Res) and its used to explain changes in a value over time (www.nilesonline.com/stats/percent.shtml). It is calculated according to (www.nilesonline.com/stats/percent/html) by subtracting the old value from the new value and dividing by the old value then multiplying by 100. The starting point is looking at changes in total budget per cost center from year to year spanning 2000 to 2002. A consolidated budget of the Directorate from 2000 to 2003 is given below in table format.

Table 4.1 Consolidated budgets, Directorate Veterinary Services in 000's

Budget Item	2000/2001	2001/2002	2002/2003
Personnel	26 214	24 869	24 356
Administrative Expenditure	2 744	2 490	3 880
Stores and livestock	1 532	1 059	2 021
Equipment	637	454	1 252
Land and Buildings	0	152	573
Professional services	585	513	1 066
Miscellaneous Expenditure	215	50	69
TOTAL	31 927	29 587	33 217

In the financial year 2000/2001 the budget of the Directorate: Veterinary Services was R31 927 000. The following year 2001/2002 it was R29 587 000 and in 2002/2003 it was R33 217 000. Table 4.1 illustrates a decrease the total budget from 2000/2001 to 2002/2003. In the following period 2002/2003 it was increased thus improving the financial condition of the directorate.

The total budget can also be analyzed using percentage change formula.

$$\frac{29\,587\,000 - 31\,927\,000}{31\,927\,000} \times 100$$
$$= 7,3\%$$

A decrease in total budget of 7,3% was experienced from 2000/2001 financial year to 2001/2002. In the subsequent year 2002 the budget was increase and again with the percentage change formula.

$$\frac{33\,217\,000 - 29\,587\,000}{29\,587\,000} \times 100$$
$$= 12,3\%$$

An increase in the total budget of 12,3%, reversing the deteriorating financial condition of the year before and thus improving the ability to render a service. A further analysis of the financial condition can be done using percentage change focusing on the individual budget items in table 4.2.

Table 4.2 Percentage change for 2000 to 2002

Budget Item	2001/2002	2000/2001	% Change
Personnel	24 869	26 214	-5.13
Administrative Expenditure	2 490	2 744	-9.26
Stores and livestock	1 059	1 532	-30.87
Equipment	454	637	28.73
Land and buildings	152	0	0
Professional services	513	585	-12.3
Miscellaneous Expenditure	50	215	-76.74

In terms of the above table there was a deterioration in the financial condition affecting all sectors or categories of budgetary allocation, but most significantly under miscellaneous expenditure, equipment and stores and livestock. Personnel budget was the least affected. This then shows a bias in the allocation of financial resources towards personnel with negative connotations for service delivery as services and consumables used in the delivery of services cannot be bought to meet

requirements. In this sense personnel budget allocation had a negative relationship with the ability to render an efficient and effective service. The percentage change in the following period is also depicted in table format below.

Table4.3 Percentage change in 2001 to 2003

Budget Item	2002/2003	2001/2002	%change
Personnel	24 356	24 869	-2.06
Administrative Expenditure	3 880	2 490	55.82
Stores and livestock	2 021	1 059	90.84
Equipment	1 252	454	175.77
Land and Buildings	573	152	276.97
Professional services	1 066	513	107.79
Miscellaneous Expenditure	69	50	38

A significant improvement was noted from the previous period with all but personnel having a positive change. In terms of the analysis the financial condition was improved and as such the Directorate's ability to render a service also enhanced.

4.3.2 Personnel budget as a percentage of the total budget

The analysis above determined that personnel budget negatively affected the ability to render services. The analysis was however comparing personnel with other budget items. Here we analyse personnel as a percentage of the total budget for the periods under study. In table 4.2 personnel stood in 2000/2001 at R26 214 000 and the total budget at R31 927 000. Expressed as a percentage:

$$\frac{26\,214\,000 \times 100}{31\,927\,000}$$

$$= 82.11\%$$

In 2001/2002 personnel budget was R24 869 and the total budget R29 587 000,

Expressed as a percentage:

$$\frac{24\,869\,000 \times 100}{29\,587\,000}$$

$$= 84,05\%$$

In 2002/2003 personnel budget and the total budget were R24 356 000 and R33 217 000 respectively.

Expressed as a percentage:

$$\frac{24\,356\,000 \times 100}{33\,217\,000}$$

=73, 32%

From the above, it is evident that from 2000/2001 to 2001/2002 there was an increased contribution to the personnel budget in percentage terms of the total budget i.e. from 82, 11% to 84, and 05%. The direct connotation is that only 15,95% of total budget is available for operational activities. This therefore indicates deterioration in financial condition of the Directorate and an inability to render an effective and efficient service. In the following period this was improved when the personnel contribution to total budget was reduced to 73,32 leaving 26,68% for operational activities, and thus improving the Directorate's financial condition. The next analysis focuses on the various regions of the Directorate.

4.4 Analysis according to regions

In 2000/2001 the total budget was R8 715 000 and the following year 2001/2002 7464 000.

The percentage change in total budget

$$\frac{7464\ 000 - 8715\ 000}{8715\ 000} \times 100$$

$$= -14.35$$

This indicates on decrease in total budget of 14.04

Changes in Personnel budget for similar periods

2000/2001	6 984 000	
2001/2002	6 196 000	$\frac{6\ 196\ 000 - 6\ 984\ 000}{6\ 984\ 000} \times 100$

$$= -11.28\%$$

Indicating a 11.28% drop in personnel budgets

2001/2002	6 196 000	
2001/2002	6 241 000	$\frac{6\ 241\ 000 - 6\ 196\ 000}{6\ 196\ 000} \times 100$

$$= +0.73\%$$

An increase of 0.73%

The rest of the budget can be summarized as follows.

Table 4.4 Cost Center A03, Southern Region

	2001/2002	2000/2001	% Change
Stores and livestock	318 000	419 000	-24,11
Equipment	161 000	308 000	-47,72
Land & buildings	162 000	0	0
Professional and special services	25 000	218 000	88,53
Miscellaneous	0	103 000	-100

Table 4.5 Cost Center A03, Southern Region

	2002/2003	2001/2002	% Change
Stores and livestock	517 000	318 000	62,58%
Equipment	321 000	161 000	99,38%
Land & buildings	147 000	152 000	-3,29%
Professional and special services	273 000	25 000	992%
Miscellaneous	18 000	0	

In the above tables we find a phenomenon that we saw in the analyses of the budget of the whole Directorate. The financial condition of the region deteriorates in the financial year 2001/2002 but then improves in the following period 2002/2003. We however noted that in the Southern Region the budget in 2001/2002 did not only favour personnel but also professional services. In spite of this their ability to render services efficiently would have been negatively affected, as the budget did not cater sufficiently for operational activities.

Table 4.6 Cost Center A14, Head office

	2001/2002	2000/2001	% Change
Personnel exp.	1 349 000	5 712 000	-63,66
Administrative Exp.	301 00	320 000	-35,94
Stores and livestock	70 000	238 000	-70,59
Equipment	13 000	37 000	-64,86
Professional and special services	410 000	174 000	141,38
Miscellaneous Expenditure	50 000	3 000	156,67
Land & buildings	0	0	
Total	2 203 000	4 484 000	-5087

Table 4.7 Cost Center A14, Head office

	2002/2003	2001/2002	% Change
Personnel exp.	2 181 000	1 349 000	61,68
Administrative Exp.	348 000	301 000	15,61
Stores and livestock	183 000	70 000	161,43
Equipment	112 000	13 000	716,54
Professional and special services	95 000	420 000	-77
Miscellaneous Expenditure	6 000	50 000	-88
Land & Building	51 000	0	0
Total	2 976 000	2 203 000	35,09

The change in the budget at Head office differs with the rest of the cost centers and the whole Directorate. The Personnel budget was decreased by an amount of more that 60% but increased the following by an almost similar percentage. The changes in the other areas of the budget are however consistent with the budget for the Directorate.

Table 4.8 Cost Center A15, Central region

	2001/2002	2000/2001	% Change
Personnel exp.	7 541 000	5 484 000	33,56
Administrative Exp.	626 000	606 000	3,3
Stores and livestock	240 000	371 000	-35,31
Equipment	74 000	78 000	-5,13
Professional and special services	20 000	175 000	-88,57
Miscellaneous Expenditure	0	103 000	-100
Land & Building	0	0	0
Total	8 501 000	6 797 000	25,07

Table 4.9 Cost Center A15, Central region

	2002/2003	2001/2002	% Change
Personnel exp.	7 018 000	7 541 000	-6,94
Administrative Exp.	1 116 000	626 000	78,27
Stores and livestock	582 000	280 000	142,5
Equipment	361 000	74 000	387,8
Professional and special services	308 000	20 000	1440
Miscellaneous Expenditure	20 000	0	0
Land & Building	0	0	0
Total	9 570 000	8 501 000	12,57

Central Region also experienced an increase in personnel budget combined with decreases in other areas of the budget in a manner consistent with the Directorate's budget. Unlike the others the financial condition viewed holistically was not severely affected noting a -5% change in the equipment budget. The

change in the budget for stores remains consistent with what is observed in other regions and for the whole Directorate.

Table 4.10 Cost Center A16, Eastern Region

	2001/2002	2000/2001	% Change
Personnel exp.	3 513 000	3 905 000	-10,04
Administrative Exp.	340 000	392 000	-13,27
Stores and livestock	165 000	206 000	-19,9
Equipment	63 000	79 000	-20,25
Professional and special services	28 000	18 000	55,56
Miscellaneous Expenditure	0	3 000	-100
Land & Building	0	0	0
Total	4 109 000	4 603 000	-10,73

Table 4.11 Cost Center A16, Eastern Region

	2002/2003	2001/2002	% Change
Personnel exp.	3 129 000	3 513 000	-10,65
Administrative Exp.	5 000 000	340 000	47
Stores and livestock	260 000	165 000	51,58
Equipment	161 000	63 000	155,56
Professional and special services	137 000	28 000	389,29
Miscellaneous Expenditure	9 000	0	0
Land & Building	74 000	0	0
Total	4 280 000	4 109 000	4,16

Eastern Region experienced a reduction in its personnel budget for the period under study. This is contrary to findings in the other regions and the Directorate as a whole. The other changes are however consistent with the findings for the other regions and as

such its financial condition was also affected negatively in 2001/2002 but improved in 2002/2003.

Table 4.12 Cost Center A17

	2001/2002	2000/2001	% Change
Personnel exp.	6 270 000	149 000	1,97
Administrative Exp.	611 000	743 000	-17,8
Stores and livestock	266 000	298 000	-10,74
Equipment	143 000	135 000	5,93
Professional and special services	20 000	0	0
Miscellaneous Expenditure	0	0	-100
Land & Building	0	3 000	0
Total	7 310 000	7 329 999	-0,25

Table 4.13 Cost Center A17

	2002/2003	2001/2002	% Change
Personnel exp.	5 777 000	6 270 000	-7,86
Administrative Exp.	921 000	6 11 000	50,74
Stores and livestock	479 000	266 000	80,08
Equipment	297 000	143 000	107,69
Professional and special services	253 000	20 000	1165
Miscellaneous Expenditure	16 000	0	0
Land & Building	136 000	0	0
Total	7 879 000	7 310 000	7,78

The changes in the budget of the Western Region are similar to those noted in the other regions. The financial condition deteriorates in 2001/2002 and improves in 2002/2003. The budget for professional services is the only area where the

budget is significantly increased followed by a limit in personnel services. The ability of the region to deliver a service was negatively affected in 2001/2002 as a result of the budget changes and with the improvement in budget and financial condition it was expected that service delivery improved too.

Budget contribution per Standard Item

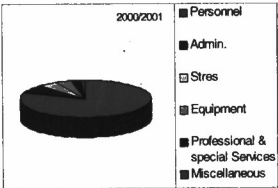


Figure 4.1 A03



Figure 4.2 A03

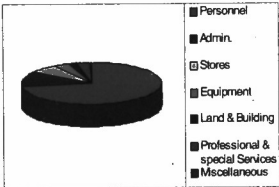


Figure 4.3 A03

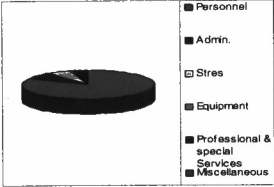


Figure 4.4 A14

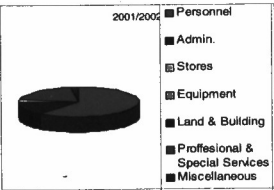


Figure 4.5 A14



Figure 4.6 A14

Budget contribution per Standard Item per region

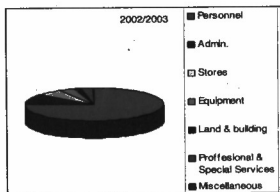


Figure 4.7 A15

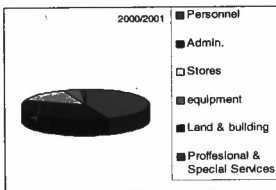


Figure 4.8 A15

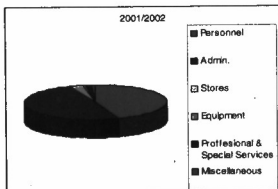


Figure 4.9 A15

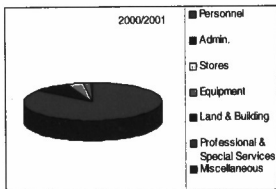


Figure 4.10 A16

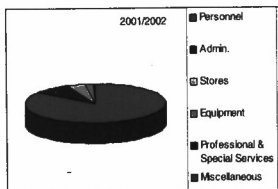


Figure 4.11 A16

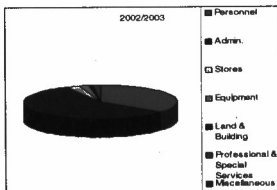


Figure 4.12 A16

Budget contribution per Standard Item

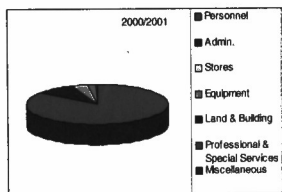


Figure 4.13 A17

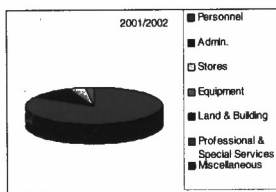


Figure 4.14 A17

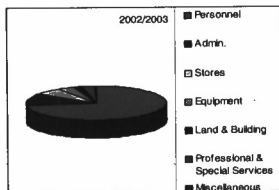


Figure 4.15 A17

In the figures above the budget is represented using graphs. This is to indicate how the budget share of the various items has changed over the period under study. The aim is also to depict changes in contribution of personnel in relation to the total budget, to be able to decipher patterns. In 2000/2001 personnel represented 79,9% of the budget for cost center AO3 Southern Region, which changed in 2001/2002 to 83, and 01%. This

represents an increase of 3% in terms of the budget slice. In 2002/2003 it changed to 73,32%, a decrease of 10%. It can be deduced that the funds available for operational activities were reduced from 2000 to 2001 and then increased in 2002 with a positive effect on service delivery for the region. Figures 4.4 to 4.7 depict the budget representation in graphs for A14 Head office. In 2000/2001 the personnel budget represented 82,78% of total budget which changed to 61, and 23% in 2001/2002. In 2002/2003 it increased to 73, 29%, an increase of 12% with negative consequences for the operational activities. Figure 4.8 to 4.11 represents cost center A15, where personnel contribution to total budget was 80, 39%. It then changed to 88, 7% in 2001/2002 an increase of 8% negatively affecting the ability to render services as the operational budget is reduced. In 2002/2003 personnel budget was reduced to 73, 33% improving the ability to render services as the pressure on operational budget is reduced. Figures 4.12-4.14 depict cost center A16, Eastern region and patterns in personnel contribution to total budget. Personnel budget was 84, 84% in 2000/2001 and then

changed to 85, 49% of the total budget. In 2002/2003 it was reduced to 73, 34. For cost center A17, Western Region, the figures are as follows, 2000/2001-83, 91%, 2001/2002-85, 77% and then for 2002/2003-73, 32 similar to patterns for the other cost centers. It can then be deduced that personnel budget was increased from 2000/2001 to 2001/2002 negatively affecting services by reducing monies available for operational activities or deterioration in financial condition. This was reversed in the subsequent year with improvement in budget distribution and thus an improvement in financial condition and the ability to render services positively affected.

4.3 Summary

This chapter reviewed the data analysis and interpretation thereof in connection with the financial condition of the Directorate: Veterinary Services in the North West province. A profile of the Directorate is outlined through examining its objectives, milestones, organization and management, achievements as well as analysis of the achievements. The chapter further looked at the budgets over a period from 2000 to 2002 and examined the effect of personnel budget on the total budget. The balance of the budget after subtracting represents the operational budget, which is used for service delivery. It was shown that the financial condition of the Directorate Veterinary services deteriorated in 2001/2002 reducing its ability to render its services to the customers as a result of personnel consuming the majority portion of the total budget allocated.

CHAPTER FIVE

SUMMARY, FINDINGS, RECOMMENDATIONS AND CONCLUSIONS.

5.1 Introduction

Expenditure monitoring, evaluation and control are essential elements of management in order to run the affairs of an organization effectively and efficiently. Personnel expenditure is probably the common target of any cost cutting exercise hence it is often associated with layoffs during restructuring processes. It should then follow that management should keep a constant eye on their personnel account to ensure successful and continued operations.

5.2 Results interpretation and discussions

The analysis in chapter 4 based on the budgets of the financial years 2000, 2001 and 2002 indicate a deterioration in the financial condition in 2001. This deterioration arose out of an increase in personnel budget, viewed in the context of the total budget. This resulted in a reduction in the funds allocated for

other budget areas required to enable the delivery of services. Service delivery in this period was therefore negatively affected to the detriment of the Directorate's customers. The situation was however reversed the following year; the considerable decrease in personnel increased the budget for operational activities - translating into an improved financial condition and therefore an improvement in services rendered.

5.3 Findings according to objectives

The objectives as stated where as follows:

5.3.1 To determine from literature the nature and scope of expenditure analysis in order to provide a perspective on the subject.

This has been extensively covered under the literature review in chapter 2 of this study. We have determined and used financial condition as an evaluation tool for analysis of expenditure, focusing on financial statements that included budgets. We have also determined that a measure of financial condition depends on

the time horizon that the researcher seeks to use in the study, with increases in uses and sources of cash improving as the time zone lengthens.

5.3.2 To analyze personnel costs as a percentage of total expenditure in the Directorate: Veterinary Services in the North West Province.

In chapter 4 we used percentages to determine how changes in budget allocation occurred in the period from 2000 to 2002. We also examined and found that the personnel portion of the budget for the Directorate increased from 2000/2001 to 2001/2002 thereby negatively affecting its financial condition. The percentage in 2000 stood at 82.11 and increased to 84.05 of the total budget leaving 15.95% for operations. The financial condition was negatively affected as funds for operational activities were compromised in favour of funds for settling obligations towards personnel. As a result service delivery suffered in the same period. The situation was improved with the subsequent budget that saw a reduction in the contribution of

personnel at 73.32% of the total budget. This released more funds (26.68%) for purchases of goods and services used in the delivery of services. In this way an improvement in financial condition was evident which translated into improved service delivery.

5.3.3 To examine the relationship between the Directorate: Veterinary Services and the services received by its customers.

To a larger extend this has been addressed above as the ability to render services; this correlates directly with changes in the financial condition. In 2000/2001 to 2001/2002 periods we had deterioration in the financial condition with negative consequences for service delivery. When the financial condition improved in the subsequent period 2001/2002 to 2002/2003 the ability to render services was improved with increased funds available for operations in the form of procuring goods and services used in service delivery.

5.3.4 To analyze the effects of personnel remuneration on expenditure levels.

Figures 4.1 to 4.16 present a graphical interpretation of the effects of personnel remuneration on expenditure levels. The personnel portion of the budget increases with a decrease in total forecasted expenditure/budgets signaling a bias towards personnel. This is further supported by table 4.1. showing patterns in total budget allocations. In 2000/2001 the total budget stood at R 31 927 000 and the personnel portion was 82.33

5.4 Recommendations

The recommendations are done per objective as stated for this study:

Objective 1: To determine from the literature the nature and scope of expenditure analysis in order to provide a perspective on the subject.

Our study has shown that little is known about this matter especially where it concerns the provision of veterinary services

from a public or state point of view. More work is necessary to improve understanding of the subject and how it compares to privately provided services.

Objective 2, To analyse personnel costs as a percentage of the total expenditure.

This study has shown various levels of personnel costs as a percentage of total expenditure. It is advisable to keep personnel costs at the barest minimum to enable service delivery to continue at acceptable levels. The Directorate should look to private public partnerships to relieve them of the burden of providing some services. This way savings will be made as it's generally accepted that the private sector is more efficient at service delivery than the public sector.

Objective 3, To examine the relationship between the Directorate: Veterinary Service and the services received by its customers.

Service levels showed a consistent variation with personnel expenditure levels. To ensure a consistent service delivery the Directorate should use private public partnerships to relieve the personnel expenditure burden. They should determine their optimum functioning level in terms of services rendered and personnel numbers. The shortfall could then be made up by seasonal or contract workers.

Objective 4, To analyse the effects of personnel remuneration on expenditure levels.

Personnel expenditure has a negative influence on expenditure levels in terms of the findings of this study. Personnel expenditure should be kept at the minimum or alternatively it should be used to determine funding for the Directorate if an appropriate and acceptable ratio exists for efficient service delivery.

5.5 Future research direction

This study has analyzed and described personnel expenditure focussing mainly on its relationship with total expenditure. It has

also compared the main elements of personnel expenditure, salaries and benefits for the directorate. A comparison between the public service and the private sector will further enrich knowledge on these aspects. The role of public sector benefits as part of the total employee package and its attractiveness to prospective employees also needs some attention.

5.6 Summary

Public Sector managers are entrusted with the difficult task of managing public funds and related resources. Management in the public sector is continuously in development through learning and borrowed practices from the private sector. Part of the learning must include a concern for effective and efficient delivery of service. It is through these that an organization can sustain its existence and continued operation.

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