DE GRUYTER
OPEN

Administration, vol. 64, no. 1 (2016), pp. 1–27
doi: 10.1515/admin-2016-0009

Benchmarking the financial performance of local councils in Ireland

Geraldine Robbins, Gerard Turley, Stephen McNena
J. E. Cairnes School of Business and Economics, and Whitaker Institute for Innovation and Societal Change, NUI Galway

Abstract

It was over a quarter of a century ago that information from the financial statements was used to benchmark the efficiency and effectiveness of local government in the US. With the global adoption of New Public Management ideas, benchmarking practice spread to the public sector and has been employed to drive reforms aimed at improving performance and, ultimately, service delivery and local outcomes. The manner in which local authorities in OECD countries compare and benchmark their performance varies widely. The methodology developed in this paper to rate the relative financial performance of Irish city and county councils is adapted from an earlier assessment tool used to measure the financial condition of small cities in the US. Using our financial performance framework and the financial data in the audited annual financial statements of Irish local councils, we calculate composite scores for each of the thirty-four local authorities for the years 2007–13. This paper contributes composite scores that measure the relative financial performance of local councils in Ireland, as well as a full set of yearly results for a seven-year period in which local governments witnessed significant changes in their financial health. The benchmarking exercise is useful in highlighting those councils that, in relative financial performance terms, are the best/worst performers.

Keywords: Performance measurement, financial indicators, benchmarking, local councils

Introduction

Continuous assessment of performance has become a central part of modern governance activities (Pollitt & Bouckaert, 2004). Benchmarking has been employed in the Australian public sector to drive improvements and is consistent with notions of continuous improvement (Bowerman et al., 2002; Julnes & Holzer, 2001; Magd & Curry, 2003). However, the manner in which local authorities in OECD countries compare and benchmark their performance varies widely (Kuhlmann & Jäkel, 2013). Benchmarking in the public sector needs more research attention (Hong et al., 2012). The fiscal crisis in Europe and the need to reduce public sector costs are resulting in many countries moving towards compulsory, large-scale benchmarking projects. In the absence of an explicit and publicly available model for benchmarking Irish local authorities, this paper compares and benchmarks the financial performance of Irish local government units for the period 2007–13.

This paper proceeds as follows: a review of the literature on benchmarking local government financial performance in the context of other public sector changes is presented, followed by an outline of the Irish local government context, an explanation of the methodology adopted, the presentation of results and a discussion of the findings.

Literature review

Analysis of financial reports is considered to be an important managerial tool for the evaluation of corporate strengths and weaknesses. Accounting in the public sector is expanding and evolving from an increased emphasis on accounting and control methods to accounting systems that now emphasise accountability, visibility and comparability (Järvinen, 2009). Accounting numbers are no longer seen as passive representations of economic reality but as actors that represent and actively construct particular realities (Boedker & Chua, 2013).

Suites of financial ratios are commonly used to benchmark firms in the business sector (Carmeli, 2002). A city has a limited ability to interpret its financial condition other than through comparisons with similar-sized cities (Brown, 1993). With the global adoption of New

Public Management (NPM) ideas, benchmarking practice spread to the public sector. Benchmarking appears to be an established and lasting management control tool in both private and public operations (Francis & Holloway, 2007). Performance information can comprise a comparison of performance levels with the performance of other organisations using 'comparative statistics' (Simon, 1937). The use of league tables and rankings are common practice in 'management by numbers' in countries that have adopted NPM ideas (Hood, 2007). Ireland is regarded as a late adopter of NPM ideas, but has codified NPM concepts in legislation and, more recently, has embraced measurement and performance management in its efforts to assuage the concerns of the troika – the European Commission, European Central Bank and International Monetary Fund – about its efforts to adhere to its financial assistance programme (Robbins & Lapsley, 2005; 2014).

The focus of this paper is local government. Various parties may be interested in the financial condition of local governments: central government, in conducting oversight of local governments; local governments themselves, which might be interested in trends in the various ratios that might highlight areas of concern; and citizens, who might be interested in evaluating the performance of elected officials (Kloha et al., 2005a). There are significant differences in the use of performance information by various users (Askim, 2007; Hood, 2007; Pollitt, 2006). For instance, politicians differ in their use of such information, stemming from wider political acceptance of performance measurement and other NPM concepts in different countries (Pollitt, 2006). Also the state of local government finances has a significant influence on voting decisions and will be of interest to holders of political office, both incumbents and hopefuls (Brusca & Montesinos, 2006). Managers within organisations use measures of financial performance for a variety of managerial purposes – to evaluate, control, budget, motivate, promote, celebrate, learn and improve – and Behn (2003) notes that no single performance measure is appropriate for all eight purposes and that, consequently, public managers should not seek a single magic performance measure. However, the US has an established tradition of using aggregate indexes on financial health (Brown, 1993; Kloha et al., 2005b; Mercer & Gilbert, 1996).

Increased pressure for comparative performance assessment is resulting in demands for measurement and the generation of performance information (Askim, 2007). Measuring the performance of public agencies and programmes is regarded as essential not only to ensure that citizens enjoy quality services but also to give assurances that taxpayers receive value for money (Pidd, 2012). Studies of NPM reforms have provided evidence of a greater reliance on ‘quantitative, primarily accounting-based indicators’ to facilitate organisational control in public sector organisations from the early 2000s (Modell, 2004, p. 39). It has long been recognised that the use of information is embedded in social norms that make it highly symbolic (Feldman & March, 1981). Management use of performance information within organisations is dependent on a number of factors, including public service motivation, leadership role, information availability, organisational culture and administrative flexibility (Moynihan & Pandey, 2010). Although a rhetoric has grown around the importance of performance measurement, it has not become embedded as meaningful practice in all local government organisations (Julnes & Holzer, 2001), resulting often in performance measurement and management adoption of a ceremonial rather than instrumental nature (Yetano, 2013). There is a marked difference in approach to the search for performance improvement from local governments, with significant differences in numbers of councils across countries (Martin et al., 2013).

Benchmarking – what is it?

Benchmarking is ‘a method for identifying aspects of an organisation’s activity that could be more efficient and/or more effective by comparison with other relevant organisations’ performance’ (Francis & Holloway, 2007, p. 172). Trosa & Williams (1996) distinguish between results and process benchmarking. Results benchmarking is concerned with the comparative data generated by benchmarking, whereas process benchmarking considers how results were achieved, so that the gaps in performance highlighted in the reported results can be closed by investigating and learning from others’ practices.

Benchmarking in local government has to be considered in its historical, administrative and political context. Kuhlmann & Jäkel (2013) identify four types of local government benchmarking: voluntary local self-management, compulsory hierarchical management, vertical coordinated management, and independent monitoring by international agencies such as the OECD and/or independent academic researchers. The first type – voluntary self-management – is motivated by a desire to find out why some initiative is working or not working, and to learn from experiences elsewhere. In the case of compulsory hierarchical management, central government determines the design of the performance indicators and the inspection process, and provides supervision for reporting and analysis of data. This form of local government benchmarking frequently involves naming and shaming of individual units. With vertical coordinated management, performance indicators are determined jointly by local and central government (Kuhlmann & Jäkel, 2013).

Benchmarking can bring benefits aside from discharging accountability, such as triggering dialogue about improvements in service performance (Wynn-Williams, 2005), and the sharing of best practices between councils (McAteer & Stephens, 2013). Care must be taken with the rhetoric and operationalising of benchmarking as a performance improvement practice. For instance, with respect to benchmarking healthcare in the UK, Northcott & Llewellyn (2005) found that benchmarking requirements, which were imposed by government policy and had the stated objective of 'sharing best practice', were operationalised differently. There, benchmarking data are disseminated in the form of indicator league tables with standardised benchmarks for performance, and it is not clear that there is any practical relevance to healthcare improvement.

The extent and status of public sector benchmarking are significantly shaped by central government (Bowerman et al., 2002). From 2002, English councils were subject for a number of years to a comprehensive performance assessment (CPA) as well as the regime of 'Best Value' service inspections in an attempt to improve delivery of public services (Yasin, 2002). Benchmarking is one of the private sector's 'managerialist' tools whose application became widespread in the UK public sector (Northcott & Llewellyn, 2005). Local authorities in the UK are driving service improvement through the use of national and regional benchmarking, with a significant role for auditors and inspectors (McAteer & Stephens, 2013). In 2005 the Audit Commission made changes to the original CPA and turned it into 'a harder test' of overall performance (Game, 2006). The CPA was based on the premise that council performance would be improved through a naming and shaming of poor performers and the resultant work in examining and explaining weaknesses as measured by the performance measurement system (Martin et al., 2013).

The top-down performance improvement system favoured in England for its 150 (single-tier and county) councils was not considered suitable for the 32 local authorities in Scotland, as they varied widely in size and served very different kinds of areas (Nutley et al., 2012). In Scotland the three-yearly Best Value audits introduced in 2003 make allowances for local conditions. The Improvement Service in Scotland developed a benchmarking scheme and toolkit covering services provided by Scottish local authorities, with allowances for differences in local contexts and priorities. The top-down UK reform style was not adopted for the 22 Welsh local authorities. In Wales the number of statutory performance indicators was reduced in 2005, and Welsh councils were required to link performance assessment to achievement of community strategies (Martin et al., 2013; Nutley et al., 2012). The Local Government Data Unit in Wales provides a similar service to that of the Improvement Service in Scotland. The approach in Wales is more bottom-up and allows for the Wales Programme for Improvement to be tailored to local priorities (Martin et al., 2013). In Northern Ireland reform of local government is underway, with a reduction of twenty-six councils to eleven and the expectation that new councils will be stronger, more responsive to citizen needs and more efficient, and will deliver more effective services. Originally started in 2002, the Northern Ireland local government reform has been slow to date (Knox, 2012).

In examining benchmarking initiatives in the UK, Martin et al. (2013) criticised the search for 'perfectly calibrated benchmarks' based around individual service metrics, arguing that managers need to be more willing to work with data that are 'good enough' and provide information about broader outcomes from the use of public monies. The long-term focus of benchmarking as part of a longer-term quality improvement approach may be at odds with the short-term budgetary cycles of government-funded organisations (Wynn-Williams, 2005). Wynn-Williams (2005) observes that there is enormous pressure to provide reports that show how well the organisation has performed but that many programmes have much longer time frames, and cannot be seen as 'successful' on an annual basis.

In Ireland benchmarking practices in the public sector are not prevalent, although there have been some comparative performance initiatives in recent years to assist with performance management of Irish hospitals. A recent study of the views and experiences of local government and state agency senior executives found that benchmarking was used as an internal management instrument (Boyle, 2014). However, there is little publicly available information on comparative performance of local government in Ireland. Existing information, such as that found in the Local Government Management Agency (LGMA) annual reports on the local authority service indicators, falls short of what is required to make benchmarking meaningful. Yet it is recognised in other sectors that performance improvement can be facilitated through benchmarking (Health Information and Quality Authority, 2013).

Benchmarking methods

Studies of local government performance improvement should take a multidimensional approach to assessing outcomes (Nutley et al., 2012). Data used for benchmarking should be drawn from operational data which are considered important by service users (McAteer & Stephens, 2013). The absence of comparative ratios available to municipal governments in the US motivated Brown to develop ten ratios, equally weighted and aggregated to provide an overall picture of a local government's financial condition (Brown, 1993; 1996). One weakness of Brown's model is that local government performance is judged entirely on a relative rather than an absolute basis for each individual financial indicator. All local government units may have improved their performance but it is likely that some will have improved more than others. With Brown's model some local governments must always be in the bottom quartile. This can have a negative impact on local government managers' motivation where they have endeavoured to improve performance and have been successful in that endeavour. To counterbalance these likely de-motivational effects, there may need to be some recognition of the measure of absolute performance change in order to acknowledge the efforts of local government managers seeking to improve performance as a result of benchmarking.

Other limitations of the usefulness of models for local government managers include: too many variables, exclusion of key variables, ambiguous expectations, failure to allow for diverse preferences, the need to calculate ratios for all local government before the relative performance of a single council can be established, and data availability (Kloha et al., 2005a).

Having determined that many of the states in the US do not use indicators to assess or monitor local financial conditions which allow the identification of local problems before they become major, Kloha et al. (2005a) identified indicators and combined these to form a ten-point scale of fiscal distress. Their indicators include population growth, real taxable value growth, large real taxable value decrease, general fund expenditures as a percentage of taxable value, general fund operating deficit, prior general fund operating deficits, size of general fund balance, fund deficits in current or previous year, and general long-term debt as a percentage of taxable value. In Spain, historically, councils have tended to be grouped according to population size. However, such a division does not create homogeneous groups, resulting in comparisons that are not very meaningful (Zafra-Gómez et al., 2009a; 2009b).

Zafra-Gómez et al. (2009a) identified three sets of diverse variables – environmental, organisational and financial – as the primary determinants of local government financial performance in Spain. These are similar to three dimensions that Hendrick (2004) argued affect local fiscal health: environmental, social and the characteristics of the tax structure. Zafra-Gómez et al. (2009a) identified the socio-economic factors that impact financial performance and recommended grouping local councils according to these factors so as to minimise the effects of the context when comparing the financial performance of councils. They considered such factors as domestic income per capita, registered unemployment, industry in the council region as measured by the size of a local tax on economic activity, a further index which measured economic activity with respect to wholesale and retail activity in the local council, a tourism index, population aged under fourteen years and over sixty-five years, net migration rates and dwellings per capita. In total, their model includes seven budgetary and financial variables (Zafra-Gómez et al., 2009a).

Recognising the limitations of relative models such as Brown's model (1993) and accepting that social and economic indicators are important factors in any study of financial distress (Kleine et al., 2003), García-Sánchez et al. (2012) aimed for an improvement in developing a predictive model of financial distress. They combined the best of the relative and absolute models in an effort to determine local fiscal distress more robustly. Brown's model (1993) was estimated with several updates in line with Zafra-Gómez et al. (2009a) and Kloha et al. (2005a), because both incorporate suitable social and economic indicators, basic elements in any analysis of financial crises (Kleine et al., 2003). The García-Sánchez et al. (2012) model is based on eight indicators relating to population, taxes, the existence of an operating deficit, and the relationship of debt and other liabilities/payables in relation to external resources. Cabaleiro et al. (2013) developed an alternative method, resulting in an aggregate indicator using multivariate statistical techniques for evaluating the financial health of municipalities in Spain based on three dimensions of performance:

sustainability, flexibility and vulnerability. The indicator evaluates and ranks the degree of financial health of each municipality, and serves as a tool to study how different factors might have an impact on the financial health of local governments. The performance of the indicator has been contrasted with the socio-economic variables of population size and geographic location.

Models to assess financial health of any entity based on accounting information suffer from the limitations of such information itself. Accounting information, even if detailed in nature, offers only a limited understanding of the complexity of organisations (Chapman, 1997). Despite this limitation or incompleteness, such information is considered enabling if it facilitates the raising of questions about performance and points managers towards issues of concern that require further attention and consideration. Control is a dynamic process and accounting can be seen as having an action-facilitating role in such contexts (Jordan & Messner, 2012).

In the next section of the paper we provide some background on the Irish local government context. We then proceed to outline the methodology adopted to benchmark the financial performance of Irish local government. In the absence of any norms or targets in the Irish local government system that would allow us to develop, in benchmarking terms, an absolute measure of financial performance, we use data from the thirty-four local councils to construct a relative measure of financial performance.

Local government context – Ireland

Historically, Ireland has been slow to adopt public sector reforms although this changed somewhat with codification of NPM reforms in legislation which supported implementation of NPM ideas under the Strategic Management Initiative (SMI) in Ireland from the mid 1990s (Hyndman & McGeough, 2008; Robbins & Lapsley, 2005). Initially, the SMI addressed modernisation of the civil service but the reform focus subsequently spread to the wider public sector. The aims of the SMI were to provide an excellent service to the public, contribute to national development, and make the most efficient and effective use of resources (Humphreys, 2002). The SMI followed the initiation of a national partnership process involving unions, government and employers, and the launch of the first national partnership agreement in 1987, the *Programme for National Recovery*.

Enactment of the Public Service Management Act in 1997 created a focus on performance management and measurement. Under this legislation each government department was required to prepare a statement of strategy and report progress on implementation of same. Sectoral legislation was enacted across the public sector in an effort to embed NPM thinking. *Better Local Government* proposed a range of measures to improve efficiency and effectiveness (Department of the Environment, Heritage and Local Government, 1996) and many of these recommendations were incorporated into the Local Government Act, 2001. This legislation was intended to promote efficiency and effectiveness; provide a framework for new financial management systems and other procedures, including comprehensive value for money audits; enhance the role of elected local authority members; and support community involvement with local authorities in a more participative local democracy. Performance measurement was identified as an element of local government modernisation in the fifth national social partnership agreement, *Programme for Prosperity and Fairness*, covering the period 2000–03 (Boyle, 2000). Contracting out the provision of public services increased in popularity, e.g. the contracting out of waste collection services at local government level.

The Local Government Audit Service produces value for money audits of various aspects of local authority activity (e.g. housing maintenance, motor tax), as well as progress reports on the implementation of recommendations contained in the audits. Since 2004, the LGMA has published annual reports on the results of the service indicators in local authorities. The forty-six indicators range from basic measures of outputs to more meaningful indicators which track financial performance, levels of water leakage and water quality, or levels of investment in libraries. Since 2006 each local authority must establish an audit committee. The Local Government Reform Act, 2014, sets out the statutory functions of audit committees, with the aim of improving accountability and transparency in the control and use of resources.

Against the backdrop of these efforts at reform, the negative effects of a centralised state on local government and its structures persisted and were the focus of the *Green Paper on Local Government Reform* in 2008 (Department of the Environment, Heritage and Local Government). Ireland is today a highly centralised state where local government is considered very weak in terms of democratic representation, expenditure functions, financial autonomy and other powers. However, the local government system in Ireland has witnessed significant reforms since the publication of the 2008 Green Paper. As part of a wider public sector reform agenda, catalysts for change have been the economic and fiscal crisis, and the *EU/IMF Programme of Financial Support for Ireland* (Department of Finance, 2010). Since 2012, we have witnessed three significant pieces of legislation relating to local government, namely the Finance (Local Property Tax) Act, 2012, which established the Local Property Tax (LPT), the Water Services Act, 2013, which transferred water services from local authorities to a new national utility company, and the Local Government Reform Act, 2014, which introduced a number of territorial and structural reforms. The latter was based on the long-awaited *Putting People First: Action Programme for Effective Local Government*, introduced by the Minister for the Environment, Community and Local Government in October 2012. The action programme covered four main themes, namely territories and structures; competencies and functions; funding, accountability and governance; and efficiency and performance reforms. A list of specific reforms that have been implemented is provided in Table 1.

Table 1: Recent local government reforms in Ireland

Abolition of town and borough councils
Reduction in the number of councillors
Amalgamation of certain local authorities
Creation of municipal districts, with reserved functions
Reconfiguration of the regional tier of administration
Reform of councillor–manager relationship
National Oversight and Audit Commission established
Continuation of shared services arrangements
Reduction in local government staff, and loss of some specific functions (e.g. administration of third-level grants, driver licences, etc.)
Creation of local enterprise offices and local community development committees to deal with the new functions relating to economic, community and local development
New local property tax, centrally collected with local authority rate-setting powers
Transfer of water services (assets, functions, finance) to the newly established Irish Water, but with service level agreements in place between the local authorities and Irish Water
New annual service plans
Audit committees on a full regulatory footing

Specifically in relation to performance management, the current service indicators – covering ten areas, including finance (or, more precisely, collection rates and age profile of arrears) – are to be replaced with a new performance standards and performance indicators system, involving local authorities setting targets and adopting annual service plans, and an evaluation of a local authority's performance in delivering a service or activity against the performance standard for that service/activity. A National Oversight and Audit Commission (NOAC) was established in summer 2014 to, inter alia, independently review and scrutinise performance using financial and non-financial indicators. Overall, the purpose is to implement a more robust system of performance standards and monitoring, with a focus on key performance indicators, outcomes rather than outputs, value for money, customer service and comparative performance of councils (Department of the Environment, Community and Local Government, 2012; 'Putting People First', 2012). In addition to these reforms, members of the Irish public now have unique rights as part of the public accountability framework under the Local Government (Financial and Audit Procedures) Regulations, 2014, for local government. They can inspect the annual financial statements and other documents relating to the accounts to be audited for seven days before the formal audit commences, and can raise objections about the inclusion or exclusion of items.

The time period of this study, 2007–13, coincided with a deep financial crisis in Ireland which impacted significantly on local government. In its response to the financial crisis and in tandem with reductions in public service staff numbers, the newly formed Department of Public Expenditure and Reform planned a programme of reform based on a renewed focus on customer service, maximising new and innovative service delivery channels, radically reducing costs to drive better value for money, organising in new ways, and increasing the focus on implementation and delivery (Department of Public Expenditure and Reform, 2011, p. 3). The *EU/IMF Programme of Financial Support for Ireland* was underpinned by an oversight model of quarterly reviews which required compliance with structural changes, reform of financial/banking systems and a series of fiscal measures. The troika has been seen as instrumental in supporting the implementation of reforms in Ireland over the past four years (Malsch & Gendron, 2013). The local government sector implemented the requirements of the Haddington Road Agreement from July 2013, the result being an additional one million hours to the sector on an annualised basis as a result of implementation of increased hours for certain staff under the agreement (Department of Public Expenditure and Reform, 2015, p. 25). The hours have been deployed to ensure the provision of front-line services in light of severe reductions in staff numbers of more than 27 per cent since 2008 (County and City Managers' Association, 2013; Department of Public Expenditure and Reform, 2015, p. 25).

Reforms continue within this sector, with sectoral shared service projects led by individual local authorities. The Local Government Efficiency Review Implementation Group, in its second report, indicated progress at local government level between 2010 and 2012 in addressing the issue of improved efficiency. Efficiency gains were achieved primarily through either staff reductions or procurement savings (Local Government Efficiency Review Implementation Group, 2013). There is a major disparity between the arguments relating to the importance of performance measurement as outlined in official Irish government publications and the impact of such rhetoric through evidence-based measures such as benchmarking models (Hyndman & McGeough, 2008, p. 25). Currently, an annual examination of performance is carried out by the Local Government Audit Service. The Local Government Audit Service typically compares financial performance on a temporal dimension – comparing revenue and expenditure metrics in one year with a previous year, rather than across councils (Local Government Audit Service, 2014). Where improvements in performance are identified as desirable, there is frequently no benchmark set for the targeted improvement. For instance, in respect of actions to address weaknesses in procurement procedures in one local council, the corrective action identified was intended 'to increase compliance rates substantially before year end as a result of this action' (Local Government Audit Service, 2014, p. 60). However, the expected improvement was not stated in any measurable way other than improvement. While there are currently no benchmarking models in this sector, it might be anticipated that NOAC may in time compare performance across councils, or at the very least develop more meaningful service indicators than exist at present to allow members of the public to carry out a comparison of performance across councils themselves. In the 2015 *Annual Progress Report on the Public Service Reform Plan 2014–16* it is noted that 'NOAC will be undertaking thematic reviews of local authority functions from which to develop more outcome focussed performance indicators and to identify, support and disseminate best practice' (Department of

Public Expenditure and Reform, 2015, p. 35). But at present, unlike in other jurisdictions, there is little comparison of performance across councils in the local government sector.

Benchmarking financial performance of Irish city and county councils

While the benchmarking methodology was previously outlined in Turley et al. (2015) as an application of the financial performance measurement framework, here we present the methodology, composite scores and a full set of results for all thirty-four local authorities for 2007–13, covering the years of boom to bust, but also years of austerity and subsequent green shoots of economic recovery. This paper contributes composite scores that measure the relative financial performance of local councils in Ireland, and a full set of yearly results for a period in which local governments witnessed significant changes in their financial health, culminating in the 2014 local government reforms that have resulted in, at least in terms of structural and territorial reforms, the biggest changes in the local government system in over a century.

The methodology to rate or score the relative financial performance of Irish city and county councils is adapted from Brown's assessment tool (1993, 1996) used to measure the financial condition of small cities in the US. We begin with the fourteen financial indicators employed in our financial performance measurement framework, as reported in Table 2 (Robbins et al., 2014; Turley et al., 2015).

Given the similarities between some of the indicators, the relative importance of some compared to others and the need for a simple but parsimonious model, we reduce the number from fourteen to seven, with autonomy, operating performance and collection efficiency each measured by one indicator, whilst liquidity and solvency are each measured by two indicators as they are critical aspects of financial health in times of reduced budgets and fiscal constraints. The actual indicators used are the current ratio and the average collection period (together measuring liquidity), the self-income ratio, the operating surplus/(deficit) ratio, the average of the four collection efficiency ratios and, finally, the net financial liabilities ratio and debt to assets ratio (together measuring solvency). For each indicator used we divide the data into quintiles, from the worst 20 per cent (quintile 1) to the best 20 per cent (quintile 5). Each quintile is assigned a score that ranges from –2 (quintile 1) to +2 (quintile 5),

Table 2: Financial performance measurement framework

Measure	*Financial indicator*	*Formula*
Liquidity	Current ratio	$\frac{\text{Current assets}}{\text{Current liabilities}}$
	Average collection period	$\frac{\text{Rates arrears}}{\text{Rates income}} \text{ x } 365$
Autonomy	Self-income ratio	$\frac{\text{Own source income}}{\text{Total income}}$
Operating performance	Operating surplus/(deficit)	Operating income – operating expenditure
	Operating surplus/(deficit) per resident	$\frac{\text{Operating income – operating expenditure}}{\text{Number of residents}}$
	Operating surplus/(deficit) ratio	$\frac{\text{Operating income – operating expenditure}}{\text{Total income}}$
Collection efficiency	Commercial rates collection efficiency ratio	$\frac{\text{Commercial rates collected}}{\text{Total commercial rates for collection}}$
	Housing rents collection efficiency ratio	$\frac{\text{Housing rents collected}}{\text{Total housing rents for collection}}$
	Commercial water charges collection efficiency ratio	$\frac{\text{Commercial water charges collected}}{\text{Total commercial water charges for collection}}$

Table 2: Financial performance measurement framework (contd.)

Measure	*Financial indicator*	*Formula*
Collection efficiency	Housing loans collection efficiency ratio	$\frac{\text{Housing loans collected}}{\text{Total housing loans for collection}}$
Solvency	Net financial liabilities	Total liabilities – financial assets
	Net financial liabilities ratio	$\frac{\text{Total liabilities – financial assets}}{\text{Total income}}$
	(Gross) debt to income ratio	$\frac{\text{Total liabilities}}{\text{Total income}}$
	Debt to assets ratio	$\frac{\text{Total liabilities}}{\text{Total assets}}$

Source: Turley et al. (2015).

specifically designed so that a local authority score in quintile 3 is assigned a 0. The scores for our seven indicators, equally weighted, are added together to calculate a composite score, with a potential range from –14 to +14. For each of the thirty-four local authorities there is a scorecard consisting of a score (+2 to –2) for each of the seven financial indicators, as well as a composite score (Turley et al., 2015).

Using our financial performance framework and the financial data in the audited annual financial statements for the years 2007–13 (pre-2014 territorial reforms when town and borough councils were dissolved and several local authorities were merged), we calculated a composite score for each of the thirty-four local authorities. These are reported in Table 3, in alphabetical order, first by county council and then by city council. Each number or score captures the financial performance of a council in that year, relative to the other thirty-three local councils, where financial performance is measured by liquidity, autonomy, operating performance, collection efficiency and solvency, as per the framework outlined above and detailed in Table 2. The worse the relative financial performance, the lower (and more negative) the score, and vice versa. The lowest score (with a minimum of –14) in each year is italicised, whereas the highest score (with a maximum of 14) for each year is highlighted in bold.

Next we employed a grading scale adapted from Brown (1993) so as to categorise councils into different groups based on relative financial performance, from *among the worst* performers to *among the best* performers, and all in between. This helps to identify, in terms of financial performance, the relatively best-performing councils, councils performing better or worse than most, average-performing councils and, most importantly from a public policy perspective, councils that perform the worst (in relative terms), and may be showing signs of financial difficulty or distress. Based on this methodology, the number of councils in each group for the years 2007–13 is given in Table 4.

We now report the cumulative or aggregate score, over the seven-year period 2007–13, where the range of possible scores is from –98 to +98 (see Table 5). In terms of relative financial performance, the worst-performing councils during this period were Sligo, Donegal, Waterford, Wexford and Mayo County Councils and Galway City Council, all with high negative scores. In contrast, the best-performing local authorities were Kilkenny, Limerick, Kerry, Fingal and the two Tipperary County Councils. The contrast between these two groups is

Table 3: Thirty-four local councils and financial performance scores, 2007–13

Council	*2007*	*2008*	*2009*	*2010*	*2011*	*2012*	*2013*
Carlow County Council	4	1	–4	–3	1	2	3
Cavan County Council	5	3	2	3	2	–1	0
Clare County Council	–1	1	–2	–5	–5	–2	–3
Cork County Council	–1	5	4	2	0	–3	–2
Donegal County Council	*–10*	–8	–9	–9	–5	–6	–7
Dún Laoghaire Rathdown County Council	6	3	3	4	5	6	5
Fingal County Council	6	6	8	8	6	5	5
Galway County Council	–8	–4	0	–3	–2	–3	–2
Kerry County Council	2	6	8	**9**	5	**9**	9
Kildare County Council	–2	–2	1	–1	0	3	4
Kilkenny County Council	**9**	**8**	**11**	8	4	8	**10**
Laois County Council	–2	–2	–5	–1	–4	–2	–2
Leitrim County Council	0	0	1	0	0	–2	–2
Limerick County Council	7	4	7	8	7	8	**10**
Longford County Council	0	–3	–3	0	1	1	–1
Louth County Council	1	0	–3	–3	–3	–4	–5
Mayo County Council	–9	–4	–4	–6	–3	–3	–6
Meath County Council	7	0	0	5	3	5	7
Monaghan County Council	–5	–2	–1	–1	0	–2	–1
North Tipperary County Council	6	7	7	8	4	4	4
Offaly County Council	–3	–4	–3	–2	1	–2	–1
Roscommon County Council	–1	–3	–3	1	2	3	–1
Sligo County Council	–6	*–9*	*–11*	*–11*	*–12*	*–12*	*–13*
South Dublin County Council	0	4	4	3	3	2	3
South Tipperary County Council	4	5	6	8	**9**	6	8
Waterford County Council	–3	–3	–3	–5	–9	–9	–9
Westmeath County Council	1	3	–2	–5	–6	–4	–4
Wexford County Council	–3	–8	–3	–6	–6	–6	–6
Wicklow County Council	5	3	1	–2	0	0	–2
Cork City Council	3	3	0	–1	3	0	1
Dublin City Council	–5	–5	–1	–3	–2	0	0
Galway City Council	–5	–6	–6	–5	–4	–3	–4
Limerick City Council	–3	2	1	4	7	7	6
Waterford City Council	1	–1	–1	1	–3	–5	–4

Table 4: Group classification of financial performance, 2007–13

Group	*Score*	*2007*	*2008*	*2009*	*2010*	*2011*	*2012*	*2013*
Among the worst	–7 or less	3	3	2	2	2	2	3
Worse than most	–3 to –6	8	8	10	10	9	9	7
About average	–2 to 2	12	10	13	11	12	12	12
Better than most	3 to 6	8	11	4	5	8	7	7
Among the best	7 or more	3	2	5	6	3	4	5

reflected in the relatively low and high cumulative scores, as reported in Table 5 but also in the yearly scores.

In Figure 1 we show the yearly scores for the relatively best- and worst-performing councils. The same councils – for example, Sligo, Donegal and Waterford County Councils – have been the worst-performing councils (in a relative sense) in each year of our analysis, and are the same councils that the Local Government Audit Service has highlighted (using language such as ‘serious financial matters’, ‘particular concerns’ and ‘very serious matter’) in their annual activity reports. The period 2007–13 captures, initially, the local authorities at

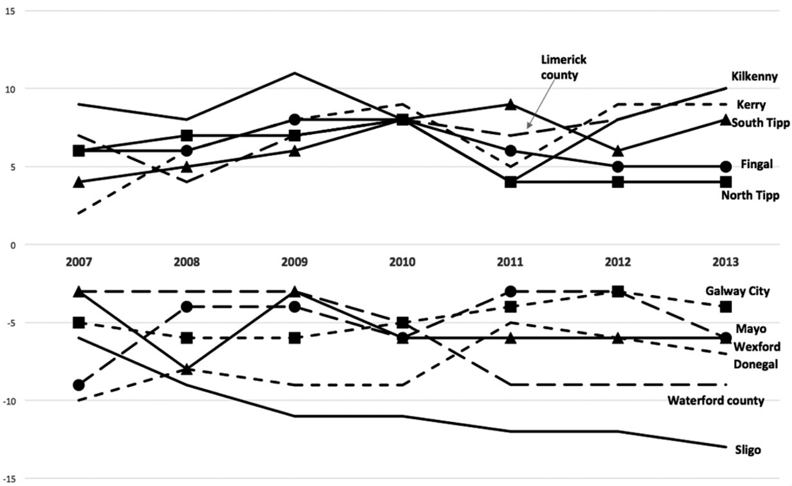
Table 5: Local councils, from worst to best, 2007–13

Council	*Score*	*Council*	*Score*
Sligo County Council	–74	Kildare County Council	3
Donegal County Council	–54	Carlow County Council	4
Waterford County Council	–41	Wicklow County Council	5
Wexford County Council	–38	Cork County Council	5
Mayo County Council	–35	Cork City Council	9
Galway City Council	–33	Cavan County Council	14
Galway County Council	–22	South Dublin County Council	19
Laois County Council	–18	Limerick City Council	24
Clare County Council	–17	Meath County Council	27
Westmeath County Council	–17	Dún Laoghaire Rathdown	
Louth County Council	–17	County Council	32
Dublin City Council	–16	North Tipperary County Council	40
Offaly County Council	–14	Fingal County Council	44
Monaghan County Council	–12	South Tipperary County Council	46
Waterford City Council	–12	Kerry County Council	48
Longford County Council	–5	Limerick County Council	51
Leitrim County Council	–3	Kilkenny County Council	58
Roscommon County Council	–2		

Note: The scores reported above are the sum of the annual scores for 2007–13, inclusive.

the peak of the boom when revenue income was high arising from buoyant own-source incomes and yearly increases in central government grants, through to the years of recession, crisis and austerity when local government budgets were stretched, with some councils under severe financial distress, as reported in our earlier research (Robbins et al., 2014; Turley & Flannery, 2013).

Figure 1: Annual composite score for top six and bottom six councils, ranked by cumulative score



Some of the findings of the benchmarking exercise are surprising, as our preliminary results indicated. A priori, on account of the bigger economic base and possible cost advantages arising from economies of scale, we would have expected the larger, urban councils to do better in financial terms relative to the smaller, less populated and rural councils. In the end, the results are mixed. Although rural county councils constitute the *among the worst* councils, they are also included in the *among the best* councils. Whereas the *better than most* category includes many of the larger, urban councils, it does not include Dublin City Council or some of the other city councils (which undoubtedly have larger expenditure needs, and thus higher spending) but does include some smaller, rural county councils (Turley et al., 2015). Some of this cross-council variation in financial condition may simply be due to good financial management on the part of local officials as opposed to external factors or socio-economic variables, such as size, population density, degree of urbanisation, level of economic activity and income per capita.

Another interesting research question with respect to performance measurement at local government level in Ireland is the relationship between the key financial performance indicators, as reported above, and non-financial performance indicators, as measured by the local authority service indicators and published each year by the LGMA. Our next step in this research is to examine the service indicators and assess their usefulness in terms of benchmarking local government service performance. We also intend to investigate further the determinants of poor financial performance and the reasons for relatively good financial performance on a range of measures. One early and interesting observation is the absence of any clear relationship between financial performance, as measured by our aggregate score, and changes to the LPT rate for 2015 (notwithstanding the fact that rate-setting powers are a reserved function and reside with elected councillors and not with council management). Of the six local authorities that cut their LPT rate by the maximum 15 per cent for 2015, three had positive cumulative financial performance scores for the period 2007–13 (of 19 or above), indicating relatively good financial conditions and the fiscal space for (some) tax cuts. On the other hand, two of the other three local councils that cut rates by 15 per cent had negative cumulative scores (of –16 or less), an indication of relatively poor financial performance, and less fiscal space for tax reductions. It is also true that many of the worst and best financially performing councils, as measured by our composite score, left the LPT rate unchanged, both for 2015 and 2016. Further research is required in this area, particularly given the 2014 local government reforms relating to expenditure and revenue assignments, and possible future effects on subnational government performance, fiscal and otherwise.

Conclusions

This study set out to benchmark the financial performance of local councils in Ireland. In the paper we apply a financial performance measurement framework to the published financial statements of local councils in Ireland in the pre and post fiscal crisis period to draw out differences in financial performance. We use the model to review and then compare the financial performance of local authorities in Ireland in the boom period and after the fiscal crisis to facilitate benchmarking of financial performance. The composite scores are presented at the individual local authority level for each of the seven years in the period under review.

Our benchmarking of financial performance has produced some interesting results. Some councils regarded as ‘good’ performers in the media are appearing as those in the best-performing category overall. Others with reputations as good but not excellent performers when performance measures are aggregated are appearing in the *among the best* category, with consistently good scores across a range of financial indicators. This raises interesting questions for policymakers and analysts about the nature of measurement of financial performance and about equity and fairness in debate. Our research in this area contributes by providing a method to objectively assess the financial performance of local councils. In this paper we present a full set of composite and aggregate scores for the thirty-four local authorities over the seven-year period 2007–13. The results provide a platform for debate and discussion with local authority management and government department officials to better define the elements of financial performance that are most important.

Although there are many well-known caveats with the use of composite scores and resulting league tables (see Espeland, 2007), the use of a financial performance score such as the one developed here can help stakeholders (central government, suppliers, taxpayers, citizens) to more easily assess the financial health of local councils. We believe this assessment tool can be used in conjunction with our earlier financial performance framework to benchmark local government financial performance with a view, in the short term, to inform policymakers in any future rescaling of local government structures (inter-municipal cooperation/dissolutions/amalgamations such as, for example, proposals to merge the city and county councils of Cork, and of Galway) or any future changes in local taxes, such as commercial rates or the LPT, but, ultimately, to strengthen the long-term financial sustainability of the local government sector in Ireland.

A limitation of our study is that while the number of councils in our study is only thirty-four, there are significant differences between some of them in terms of their circumstances, challenges and strategic objectives. We do not differentiate between councils of different sizes in applying our methodology. Perhaps this paper will lead to some discussion of the appropriateness of comparing performance across clusters of councils with similar objectives and challenges.

Acknowledgements

The authors acknowledge with thanks the helpful comments received from delegates on presentation of earlier versions of this paper at the European Group for Public Administration Conference, Speyer, Germany, in September 2014, and the Irish Academy of Management Conference, Galway, in September 2015.

This work was kindly supported by funding from the Irish Research Council New Foundations Awards 2014.

References

Askim, J. (2007). How do politicians use performance information? An analysis of the Norwegian local government experience. *International Review of Administrative Sciences, 73* (3), 453–72.

Behn, R. D. (2003). Why measure performance? Different purposes require different measures. *Public Administration Review, 63* (5), 586–606.

Boedker, C., & Chua, W. F. (2013). Accounting as an affective technology: A study of circulation, agency and entrancement. *Accounting, Organizations and Society, 38* (4), 245–67.

Bowerman, M., Francis, G., Ball, A., & Fry, J. (2002). The evolution of benchmarking in UK local authorities. *Benchmarking: An International Journal, 9* (5), 429–49.

Boyle, R. (2000). *Performance measurement in local government* [CPMR discussion paper 15]. Dublin: Institute of Public Administration.

Boyle, R. (2014). *Public sector reform in Ireland: Views and experiences from senior executives* [State of the Public Service Series, research paper no. 13]. Dublin: Institute of Public Administration.

Brown, K. W. (1993). The 10-point test of financial condition: Towards an easy-to-use assessment tool for smaller cities. *Government Finance Review, 9* (6), 21–6.

Brown, K. W. (1996). Trends in key ratios using the GFOA financial indicators database 1989–1993. *Government Finance Review, 12* (6), 30–4.

Brusca, I., & Montesinos, V. (2006). Are citizens significant users of government financial information? *Public Money and Management, 26* (4), 205–9.

Cabaleiro, R., Buch, E., & Vaamonde, A. (2013). Developing a method to assessing the municipal financial health. *American Review of Public Administration, 43* (6), 729–51.

Carmeli, A. (2002). A conceptual and practical framework of measuring performance of local authorities in financial terms: Analysing the case of Israel. *Local Government Studies, 28* (1), 21–36.

Chapman, C. (1997). Reflection on a contingent view of accounting. *Accounting, Organizations and Society, 22* (2), 189–205.

County and City Managers' Association. (2013). *Report to the Minister for the Environment, Community and Local Government.* Retrieved from http://www.environ.ie/ [2 March 2016].

Department of Finance. (2010). *EU/IMF programme of financial support for Ireland*. Retrieved from www.finance.gov.ie/documents/publications/reports/2011/euimfrevised.pdf [1 July 2015].

Department of Public Expenditure and Reform. (2011). *Public service reform.* Dublin: Department of Public Expenditure and Reform.

Department of Public Expenditure and Reform. (2015). *Annual progress report on the public service reform plan 2014–16.* Dublin: Department of Public Expenditure and Reform.

Department of the Environment, Community and Local Government. (2012). *Putting people first: Action programme for effective local government*. Dublin: The Stationery Office.

Department of the Environment, Heritage and Local Government. (1996). *Better local government – A programme for change*. Dublin: The Stationery Office.

Department of the Environment, Heritage and Local Government. (2008). *Green paper on local government reform: Stonger local democracy – options for change*. Dublin: The Stationery Office.

Espeland, W. N. (2007). Rankings and reactivity: How public measures recreate social worlds. *American Journal of Sociology, 113* (1), 1–40.

Feldman, M. S., & March, J. G. (1981). Information in organizations as signal and symbol. *Administrative Science Quarterly, 26* (2), 171–86.

Francis, G., & Holloway, J. (2007). What have we learned? Themes from the literature on best-practice benchmarking. *International Journal of Management Reviews, 9* (3), 171–89.

Game, C. (2006). Comprehensive performance assessment in English local government. *International Journal of Productivity and Performance Management, 55* (6), 466–79.

García-Sánchez, I. M., Cuadrado-Ballesteros, B., Frías-Aceituno, J. V., & Mordan, N. (2012). A new predictor of local financial distress. *International Journal of Public Administration, 35* (11), 739–48.

Health Information and Quality Authority. (2013). *Guidance on developing key performance indicators and minimum data sets to monitor healthcare quality.* Dublin: Health Information and Quality Authority.

Hendrick, R. (2004). Assessing and measuring the fiscal heath of local governments. *Urban Affairs Review, 40* (1), 78–114.

Hong, P., Hong, S. W., Roh, J. J., & Park, K. (2012). Evolving benchmarking practices: A review for research perspectives. *Benchmarking, 19* (4), 444–62.

Hood, C. (2007). Public service management by numbers: Why does it vary? Where has it come from? What are the gaps and the puzzles? *Public Money & Management, 27* (2), 95–102.

Humphreys, P. (2002). *Effective consultation with the external customer* [CPMR discussion paper 23]. Dublin: Institute of Public Administration.

Hyndman N., & McGeough, F. (2008). NPM and performance measurement: A comparative study of the public sectors in Ireland and the UK. *Irish Accounting Review, 15* (2), 29–57.

Järvinen, J. (2009). Shifting NPM agendas and management accountants' occupational identities. *Accounting, Auditing and Accountability Journal, 22* (8), 1,187–210.

Jordan, S., & Messner, M. (2012). Enabling control and the problem of incomplete performance indicators. *Accounting, Organizations and Society, 37* (7), 544–64.

Julnes, P. D. L., & Holzer, M. (2001). Promoting the utilization of performance measures in public organizations: An empirical study of factors affecting adoption and implementation. *Public Administration Review, 61* (6), 693–708.

Kleine, R., Kloha, P., & Weissert, C. S. (2003). Monitoring local government fiscal health: Michagan's new 10-point scale of fiscal distress. *Government Finance Review, 19* (3), 18–23.

Kloha, P., Weissert, C. S., & Kleine, R. (2005a). Developing and testing a composite model to predict local fiscal distress. *Public Administration Review, 65* (3), 313–23.

Kloha, P., Weissert, C. S., & Kleine, R. (2005b). Someone to watch over me: State monitoring of local fiscal conditions. *American Review of Public Administration, 35* (3), 236–55.

Knox, C. (2012). The reform of public administration in Northern Ireland: A squandered opportunity? *Administration, 60* (1), 117–38.

Kuhlmann, S., & Jäkel, T. (2013). Competing, collaborating or controlling? Comparing benchmarking in European local government. *Public Money and Management, 33* (4), 269–76.

Local Government Audit Service. (2014). *Activity report*. Dublin: The Stationery Office.

Local Government Efficiency Review Implementation Group. (2013). *Further report to the Minister for the Environment, Community and Local Government.* Dublin: The Stationery Office.

Magd, H., & Curry, A. (2003). Benchmarking: Achieving best value in public-sector organisations. *Benchmarking: An International Journal, 10* (3), 261–86.

Malsch, B., & Gendron, Y. (2013). Re-theorizing change: Institutional experimentation and the struggle for domination in the field of public accounting. *Journal of Management Studies*, *50* (5), 870–99.

Martin, S., Downe, J., Grace, C., & Nutley, S. (2013). New development: All change? Performance assessment regimes in UK local government. *Public Money & Management, 33* (4), 277–80.

McAteer, M., & Stephens, A. (2013). New development: The role of benchmarking in supporting improvement in local government – Scottish and Welsh practitioners' perspectives. *Public Money & Management, 33* (4), 281–4.

Mercer, T., & Gilbert, M. (1996). A financial condition index for Nova Scotia municipalities. *Government Finance Review, 12* (5), 36–8.

Modell, S. (2004). Performance measurement myths in the public sector: A research note. *Financial Accountability & Management, 20* (1), 39–57.

Moynihan, D. P., & Pandey, S. K. (2010). The big question for performance management: Why do managers use performance information? *Journal of Public Administration Research and Theory, 20* (4), 849–66.

Northcott, D., & Llewellyn, S. (2005). Benchmarking in UK health: A gap between policy and practice? *Benchmarking, 12* (5), 419–35.

Nutley, S., Downe, J., Martin, S., & Grace, C. (2012). Policy transfer and convergence within the UK: The case of local government performance improvement regimes. *Policy and Politics, 40* (2), 193–209.

Pidd, M. (2012). *Measuring the performance of public services: Principles and practice*. Cambridge: Cambridge University Press.

Pollitt, C. (2006). Performance management in practice: A comparative study of executive agencies. *Journal of Public Administration Research and Theory, 16* (1), 25–44.

Pollitt, C., & Bouckaert, G. (2004). *Public management reform – a comparative analysis*. Oxford: Oxford University Press.

Putting People First – a summary. (2012, Autumn/Winter). *Local Authority Times, 16* (3 & 4), 1–7.

Robbins, G., & Lapsley, I. (2005). NPM and the Irish public sector – From reluctant reformer to statutory codification. In J. Guthrie, C. Humphrey, O. Olson & L. Jones (Eds), *International public financial management reform: Progress, contradictions and challenges.* Connecticut: Information Age Publishing.

Robbins, G., & Lapsley, I. (2014). The success story of the Eurozone crisis? Ireland's austerity measures. *Public Money & Management, 34* (2), 91–8.

Robbins, G., Turley, G., & McNena, S. (2014). From boom to bust? The financial performance of city and county councils. *Administration, 62* (1), 119–51.

Simon, H. A. (1937). Comparative statistics and the measurement of efficiency. *National Municipal Review, 26*, 524–7.

Trosa, S., & Williams, S. (1996). *Performance measurement in government*. Paris: OECD.

Turley, G., & Flannery, D. (2013). The impact of the economic boom and bust on local government budgets in Ireland. *Administration, 61* (2), 33–56.

Turley, G., Robbins, G., & McNena, S. (2015). A framework to measure the financial performance of local governments. *Local Government Studies, 41* (3), 401–20.

Wynn-Williams, K. L. H. (2005). Performance assessment and benchmarking in the public sector: An example from New Zealand. *Benchmarking, 12* (5), 482–92.

Yasin, M. M. (2002). The theory and practice of benchmarking: Then and now. *Benchmarking: An International Journal, 9* (3), 217–43.

Yetano, A. (2013). What drives the institutionalization of performance measurement and management in local government. *Public Performance and Management Review, 37* (1), 59–86.

Zafra-Gómez, J. L., López-Hernández, A. M., & Hernández-Bastida, A. (2009a). Developing an alert system for local governments in financial crisis. *Public Money & Management, 29* (3), 175–81.

Zafra-Gómez, J. L., López-Hernández, A. M., & Hernández-Bastida, A. (2009b). Evaluating financial performance in local government: Maximizing the benchmarking value. *International Review of Administrative Sciences, 75* (1), 151–67.