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Cluster: Performance Management

Theme: Public-Sector Innovation & Reform

Further Reading:

Turley, G., Robbins, G., and McNena, S (2015). A Framework to Measure the Financial Performance of Local Governments, *Local Government Studies*, 41(3), 401-420.

Robbins, G., Turley, G. and McNena, S (2014). 'From boom to bust? The financial performance of city and county councils' *Administration*, Vol. 62 (1), 119-151.

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Read More About:

The Performance Management Cluster within the Whitaker Institute

EU funded Cost Action: Local Public Sector Reforms – An international Comparison

The Financial Performance of Irish Local Government

Local councils in Ireland experienced the same boom and bust conditions that the national government and the general economy witnessed since 2007/8. Whereas the public finances of central government have been subject to much research and debate, the same level of scrutiny was not applied to subnational government and local public finances. Yet, local government suffered a fall in local revenues combined with significant reductions in central government grants. In this study the authors set out to assess the relative financial performance of Ireland's local authorities using a financial performance measurement framework.

The study used a recently developed financial performance measurement framework, outlined in a recent paper by the same authors (see Turley *et al.*, 2015). Data for the 34 councils (5 city and 29 county) for the two years, 2007 and 2011, allowed the researchers to capture the boom and bust period under investigation. Using 14 indicators, five broad financial performance measures were employed, assessing liquidity, autonomy, operating performance, collection efficiency and solvency. This numerical and narrative analysis of key financial performance indicators was then applied to Ireland's primary local authorities during the recent boom and bust period. The framework addresses concerns underlying calls for increased accountability and transparency of public sector organisations as part of New Public Management reforms. Through application of this financial performance measurement framework using a benchmarking methodology the research identified strong and weak local authority financial performance.

Research Findings

The results indicate that the majority of city and county councils in Ireland do not appear to be in serious financial trouble despite the economic crisis, the decline in commercial activity and the poor state of the public finances at central government level. Contrary to much negative commentary, media or otherwise, the analysis of the annual financial statements of the local city and county councils indicates that there are only a handful of local authorities experiencing serious financial difficulties. However, it should be noted that the analysis is only up to the financial year 2011, and that an examination of the financial data beyond 2011 may show a greater number of councils in financial distress. The results indicate considerable variation in liquidity across both city and county councils and over time. In terms of the average rates collection period, there has been a noticeable deterioration in rates payment discipline during the period. The research showed that city and county councils had a similar average collection period by 2011, of about three months, but it was the county councils that witnessed a greater deterioration in payment discipline between 2007 and 2011, no doubt caused in part by deteriorating economic conditions and business failures. The research also confirms the sizeable differences that exist in terms of financial autonomy, with some very low self-income ratios in many rural councils. In respect of operating performance, local government in Ireland, as measured by the 34 city and county councils, reported an aggregate operating surplus in 2011. Although statutorily required to prepare and adopt a balanced budget, the reporting of only two operating deficits in 2011 (down from three in 2007), is surprising given the economic background and financial circumstances, both nationally and locally. The ability of many councils to operate balanced budgets during this difficult period is noteworthy in light of funding cuts, demonstrating financial management responsiveness at local council management level.

Policy Implications

Overall, these are very interesting times for local government and the wider public sector in Ireland. Given the introduction of a local property tax, the demise of town governments, the introduction of a country-wide municipal districts structure at sub-county level and the Local Government Reform Act 2014, it is important that the financial performance of city and county councils is continually measured and monitored so that policymakers, at a national and/or subnational level, are fully informed before any corrective action is considered. The authors recommend the inclusion of this financial performance measurement framework, or something similar, in the Annual Financial Statements to help more easily distinguish between the well-performing councils and those in financial difficulty, with a view to informing citizens and other users about relative financial performance and also facilitating early identification of financially troubled councils. Use of the framework over a number of years would also identify deteriorating trajectories in financial performance or aspects of performance for individual councils and act as an early warning alert system for managers, councillors, citizen users and the Department of the Environment, Community and Local Government. The authors are currently examining cross-council financial performance since 2011, with a view to assessing the impact of the 2014 reforms (most notably, city and county council mergers, introduction of the local property tax and change in Water Services given the establishment of Irish Water) on local government financial performance.

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