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From boom to bust? The financial performance of city and county councils in Ireland

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Abstract

A framework to assess the financial performance of city and county councils in Ireland is applied to the recent boom and bust period. Based on previous work, our financial performance measurement framework assesses performance in the areas of liquidity, autonomy, operating performance, collection efficiency and solvency using the audited, published financial statements of Irish local authorities. Financial indicators for the years 2007 and 2011 are developed and reported to capture the boom and bust years, respectively. Overall, the results indicate that the majority of Irish city and county councils performed satisfactorily in a financial sense relative to central government performance despite the downturn in economic activity and the resulting fall in council income. The paper suggests a small but increasing number of county councils are exhibiting signs of financial difficulty, with poor levels of revenue collection, increasing provisions for bad debts and rising debt levels. In light of the recent boom and bust in the Irish economy and the growing importance of performance measurement in a reforming public sector, we recommend adoption of the financial performance measurement framework as part of the annual financial statements of Irish local authorities.

Keywords: Performance measurement, financial ratio analysis, local government, boom and bust

Introduction

Local councils in Ireland have experienced the same boom and bust conditions that the national government and the general economy have witnessed since 2007/8. However, whereas the public finances of central government have been subject to much research and debate, the same level of scrutiny has not been applied to subnational government and local public finances. A recent paper by Turley &

Flannery (2013), examining the impact of the economic crisis on local government revenues and expenditures, found that falling local revenues combined with significant reductions in central government allocations to local government have resulted in expenditure adjustments as local authorities seek pay and non-pay savings. This is a follow-up paper, where the authors set out to assess the financial performance of Ireland's local authorities (city and county councils only, omitting rate-setting town governments at the sub-county level, i.e. borough councils and former urban district councils[1]) using a financial performance measurement framework. The framework consists of five measures or aspects of performance and involves the calculation of a range of financial performance indicators, allowing an assessment of a council's liquidity, autonomy, operating performance, collection efficiency and solvency position. Developing the financial performance indicators entails the calculation of sixteen financial ratios to assess the financial performance of city and county councils across the five areas identified as important in our earlier study (Turley et al., 2014).

Since the onset of the crisis in 2007/8, much more attention has been focused on public sector performance measurement. Aside from the national focus in policy documents such as *Ireland: Towards an Integrated Public Service* (OECD, 2008), the *Programme of Financial Support for Ireland* (Department of Finance, 2010) and *Public Service Reform* (Department of Public Expenditure and Reform, 2011), at the level of local government both the 2010 *Report of the Local Government Efficiency Review Group* and the 2012 *Putting People First: Action Programme for Effective Local Government* report (Department of the Environment, Community and Local Government, 2012) highlighted the importance of the performance of local authorities and the need to systematically measure, monitor and evaluate such performance by means of indicators – financial and otherwise.[2]

[1] Our main focus is on Ireland's primary local authority units, i.e. city and county councils. We exclude borough and rate-setting town councils (former urban district councils) as they have fewer functions than the city and county councils, are not countrywide in terms of coverage (town governments in Ireland cover only 14 per cent of the country's population), and will be abolished after the local elections in May 2014. Please note that as the non-rating former town commissioners have very limited powers, we include the population of these sub-county units, amounting to 143,571 persons in 2011, in our analysis.

[2] In addition, one of the requirements arising from the EU/IMF *Programme of Financial Support* was for local authorities, as part of general government, to furnish financial/budgetary reports on a quarterly basis.

While acknowledging that an analysis of financial statements is more of an art than a science and, more specifically, the well-documented limitations of ratio analysis (Atkinson et al., 1997; Halkos & Salamouris, 2004), we use a recently developed financial performance measurement framework, outlined in a recent paper by the same authors (see Turley et al., 2014). We report data for the thirty-four councils (five city and twenty-nine county, or eight urban and twenty-six rural[3]) for the two years of 2007 and 2011, allowing us to capture the boom and bust period under investigation. The year 2007 was the peak of the boom, when incomes were still high and rising. The bust is captured by 2011 data, when the economy was four years into the downturn, incomes had fallen and expenditure adjustments were ongoing (Central Statistics Office, 2012; Department of Finance, 2012).[4] The financial data for Ireland's primary local authority units are given in tables below, in the third section of the paper. We begin by briefly outlining our framework and the methodology employed. The data and an analysis of the findings follow. Our conclusions are presented in the final section of the paper.

In terms of background, Ireland has thirty-four city and county councils.[5] These are the primary units of local government, responsible for infrastructure provision and the delivery of public services in the areas of housing, environment, planning, roads and amenities. Funding for these services comes from fees and charges, local property taxes (on businesses in the form of commercial rates and, from July 2013, on residential dwellings in the form of the new local property tax) and central government grants. The thirty-four local authorities vary, in terms of size, urban/rural divide, staffing levels, size of budget, rates charged on commercial property, amounts of central grants, etc. A brief profile of the thirty-four local councils using 2011 data is given in Table 1.

[3] The CSO defines urban as settlements (towns) with a population of 1,500 or more. On that basis, we categorise eight councils as urban and the remaining twenty-six councils as rural.

[4] When carrying out the data collection for this paper in 2013, the latest year in which a full set of audited annual financial statements for all thirty-four city and county councils were available was 2011.

[5] As part of public sector and local government reform, it is planned to reduce the thirty-four city and county councils to thirty-one after the local elections in summer 2014. Moreover, the eighty town governments will be abolished and replaced with municipal districts, built around the main towns and their hinterland.

Table 1: Ireland's thirty-four city and county councils

	Population[1]	*Expenditure per resident (€)*[2]	*Revenue income (€)*	*ARV*[3]	*General purpose grant (€)*	*General purpose grant per resident (€)*
County councils						
Carlow	40,914	1,071	44,114,278	66.47	9,319,519	228
Cavan	69,534	915	63,979,345	56.85	15,381,808	221
Clare	94,477	1,178	111,324,798	72.99	10,762,263	114
Cork	359,274	884	322,496,017	74.75	36,381,937	101
Donegal	140,517	1,039	150,048,075	69.70	33,570,767	239
Dún Laoghaire–Rathdown	206,261	839	194,993,778	0.17	22,472,627	109
Fingal	273,991	821	243,165,241	0.15	28,323,120	103
Galway	168,875	850	147,138,036	66.59	30,405,607	180
Kerry	107,743	1,167	121,903,484	80.35	20,660,244	192
Kildare	180,012	801	147,628,202	68.95	21,604,877	120
Kilkenny	86,708	896	76,726,030	52.31	16,189,481	187
Laois	80,559	793	65,643,139	64.63	14,018,331	174
Leitrim	31,798	1,359	43,857,311	62.00	12,629,306	397
Limerick	134,703	809	114,816,748	59.92	19,427,980	144
Longford	30,998	1,357	41,743,350	66.68	12,033,108	388
Louth	61,355	1,200	67,776,304	55.08	9,976,131	163
Mayo	103,908	1,313	137,508,414	68.76	29,685,902	286
Meath	152,328	706	108,983,024	69.62	23,604,137	155

Table 1: Ireland's thirty-four city and county councils (Contd.)

	Population[1]	*Expenditure per resident (€)*[2]	*Revenue income (€)*	*ARV*[3]	*General purpose grant (€)*	*General purpose grant per resident (€)*
Monaghan	48,625	1,304	63,897,942	56.20	12,746,531	262
North Tipperary	53,429	1,219	63,178,633	60.13	15,235,676	285
Offaly	60,913	1,133	67,972,152	56.76	13,035,084	214
Roscommon	64,065	1,056	68,919,996	74.38	17,213,351	269
Sligo	47,825	1,426	62,873,056	64.43	14,121,597	295
South Dublin	265,205	849	240,649,262	0.17	18,087,797	68
South Tipperary	60,136	1,199	73,600,906	56.77	18,860,749	314
Waterford	59,072	1,178	69,382,094	69.92	19,345,029	327
Westmeath	70,606	980	69,828,061	52.27	17,354,945	246
Wexford	118,032	886	102,053,717	71.52	17,413,069	148
Wicklow	90,257	1,074	93,058,784	76.78	15,847,851	176
City councils						
Cork	119,230	1,502	184,178,102	74.05	18,968,770	159
Dublin	527,612	1,561	852,507,090	62.25	60,211,447	114
Galway	75,529	1,120	88,483,920	65.46	6,440,990	85
Limerick	57,106	1,446	89,558,905	76.07	8,204,778	144
Waterford	46,732	1,221	59,095,378	66.22	5,486,422	117

Table 1: Ireland's thirty-four city and county councils (Contd.)

	Population[1]	*Expenditure per resident (€)*[2]	*Revenue income (€)*	*ARV*[3]	*General purpose grant (€)*	*General purpose grant per resident (€)*
34 City & county councils	**4,088,129**	**1,063**	**4,453,083,572**	**65.77**	**645,021,232**	**158**
Range – maximum	**527,612**	***1,561***	**852,507,090**	**80.35**	**60,211,447**	**397**
Range – minimum	**30,998**	***706***	**41,743,350**	**52.27**	**5,486,422**	**68**
29 County councils	**3,261,920**	**956**	**3,179,260,177**	**65.184**	**18,817,546**	**167**
5 City councils	**826,209**	**1,485**	**1,273,823,395**	**68.81**	**19,862,481**	**120**
Rural – 26 county councils	**2,516,463**	**992**	**2,500,451,896**	**na**	**18,339,434**	**189**
Urban – 5 city councils + 3 Dublin county councils	**1,571,666**	**1,177**	**1,952,631,676**	**na**	**21,024,494**	**107**

Source: Central Statistics Office; Department of the Environment, Community and Local Government; authors' calculations.

[1] Excludes the population of the borough and rate-setting town councils.

[2] Day-to-day spending only.

Financial performance measurement framework and methodology

In previous work (see Turley et al., 2014) we showed the evolution of our framework, beginning with Groves (1980) and Groves et al. (1981, 2003), extended by Carmeli (2002) and further extended based on a review of evidence of developments and disclosure requirements in North America, Australia, Asia and Europe. The evaluation of financial performance involves consideration of budgetary management and resultant operating surplus/deficit, short-term liquidity, self-income and long-run solvency (Groves, 1980). Groves's work (1980) has been expanded upon over the last three decades in handbook format for local authority managers in the US to include a new focus on building fiscal sustainability, and these dimensions of financial performance have widespread acceptance (Carmeli, 2002; Groves, 1980; Groves et al., 2003; Nollenberger et al. 2003; Ryan et al. 2000). The concept of fiscal sustainability is not new and is often called financial soundness or fiscal solvency (Hildreth, 1996). Fiscal sustainability concerns the capacity to meet present and future levels of debt and other financial obligations within the organisation's revenue constraints (Chapman, 2008; Rose, 2010), and encompasses several dimensions: liquidity, own-source revenue reliance, revenue flexibility and indebtedness. We develop a set of financial measures to assess the financial performance of local government on the basis of international evidence on what is considered pertinent. We use a five-measure framework, assessing councils' financial performance in the areas of liquidity, autonomy, operating performance, collection efficiency and solvency. Table 2 outlines the framework, and the sixteen indicators employed, with more specific details in the paragraph that follows and in Turley et al. (2014).

Starting with liquidity, we examine the ratio of current assets to current liabilities. In terms of the current ratio, we do not use the slightly different quick ratio here as the value of stock (and prepayments) is very small in the Irish local councils' financial statements (less than 1 per cent of current assets). As for the other liquidity measure, namely the average collection period, this indicator is for commercial rates only. With respect to autonomy, the own-source incomes for Irish city and county councils are commercial rates and fees and charges on goods and services levied by the local authorities. Although these revenue sources are the same for all thirty-four city and county councils, the actual revenue income can vary

Table 2: Financial performance measurement framework

Measure	*Financial indicator*	*Formula*
Liquidity	Current ratio	$\frac{\textit{Current assets}}{\textit{Current Liabilities}}$
	Average collection period	$\frac{\textit{Rates arrears}}{\textit{Rates revenue}} \text{ x } 365$
Autonomy	Self-income ratio	$\frac{\textit{Own source income}}{\textit{Total income}}$
Operating performance	Operating surplus/(deficit)	Operating income – Operating expenditures
	Operating surplus/(deficit) per resident	$\frac{\textit{Operating income – Operating expenditures}}{\textit{Number of residents}}$
	Operating surplus/(deficit) ratio	$\frac{\textit{Operating income – Operating expenditures}}{\textit{Total income}}$
	General revenue reserve balance	End year closing balance
	General revenue reserve balance per resident	$\frac{\textit{End year closing balance}}{\textit{Number of residents}}$

Table 2: Financial performance measurement framework (Contd.)

Measure	*Financial indicator*	*Formula*
Collection efficiency	Commercial rates collection efficiency ratio	$\frac{\textit{Commercial rates collected}}{\textit{Total commercial water charges for collection}}$
	Housing rents collection efficiency ratio	$\frac{\textit{Housing loans collected}}{\textit{Total housing loans for collection}}$
	Commercial water charges collection efficiency ratio	$\frac{\textit{Commercial water charges collected}}{\textit{Total commercial water charges for collection}}$
	Housing loans collection efficiency ratio	$\frac{\textit{Housing loans collected}}{\textit{Total housing loans for collection}}$
Solvency	Net financial liabilities	Total liabilities – Financial assets
	Net financial liabilities ratio	$\frac{\textit{Total liabilities – Financial assets}}{\textit{Total income}}$
	(Gross) Debt to income ratio	$\frac{\textit{Total liabilities}}{\textit{Total income}}$
	Debt to assets ratio	$\frac{\textit{Total liabilities}}{\textit{Total assets}}$

Source: Turley et al. (2014).

significantly from council to council depending on the size of the base and the actual rate/fee levied. With regard to the operating performance measure, the operating surplus/(deficit) is a flow concept, measuring the difference between operating income and expenditure for a given year. While this is useful, we also need to measure the balance at the end of the year, after specific transfers have taken place. This accumulated operating balance is a stock measure and is called the general revenue reserve (GRR) balance. We report both this number and also this measure per local authority resident. These two indicators were not included in our original framework as outlined in Turley et al. (2014), but are included here as the focus is the Irish local government system. As for the collection efficiency measure and subsequent financial indicators chosen, arrears may date back for some considerable time, and may also relate to, in respect of commercial rates and water charges, businesses in the process of winding down. Unfortunately, as a profile of the different arrears by age and by debtors is not reported in the financial accounts of Irish local authorities, we cannot disaggregate these collection efficiency ratios. Finally, in terms of the solvency measure, net financial liabilities are defined as total liabilities less financial assets where financial assets include both current assets (but not stock or prepayments) and long-term debtors, as categorised in the local authorities' balance sheet. The debt service ratio is another useful indicator of solvency but we do not report it here as total interest costs are not identified separately (from other financial expenses) in the financial accounts of Irish local councils.

Each local authority is required to prepare an annual financial statement (AFS) by the end of March following the year-end and to publish it by the end of June. These AFSs undergo an independent audit by the Local Government Audit Service of the Department of the Environment, Community and Local Government. The financial data presented here for the thirty-four city and county councils are taken from the AFSs, which are prepared in accordance with the (revised) Local Authority Accounting Code of Practice (ACoP) and based on generally accepted accounting practices (Department of the Environment, Heritage and Local Government, 2009). The financial accounts of the local authorities are prepared on an accruals basis, and the financial year is January to December. It is these statements upon which we rely to draw information for the calculation of financial ratios in our financial performance assessment framework. As for the calculation of the indicators, the majority of the AFS data that we use come from the 'Income and Expenditure Account' and the 'Balance Sheet'. The remainder of the data come from either 'Notes to the Accounts' or from the AFS appendices. The data for 2007 and 2011, for all thirty-four local councils, and for all sixteen financial indicators, are reported in Tables 3–8. We begin with the liquidity measure.

Data, analysis and results

Liquidity

As might be expected, given the change in economic conditions, the current ratio for the thirty-four city and county councils fell, from 2.6 in 2007 to 1.7 in 2011 (see Table 3). The ratio fell in twenty-five councils, and fell by more than half in fifteen councils. Some of the local authorities that experienced large falls in the current ratio were Cavan, Fingal, Kilkenny, Leitrim, Louth, Roscommon County Councils and Galway City Council. In 2007 just two councils had a current ratio equal to or less than 1, namely Donegal and Mayo. By 2011 this number had increased to six councils, namely the county councils of Clare, Laois, Mayo and Sligo, and the two Waterford local authorities. Although great care needs to be taken with the use of benchmarks and industry norms, a very low current ratio might be a signal of growing liquidity problems for local government units. In contrast, eight councils experienced an *increase* in their current ratio. This illustrates that there is considerable variation in liquidity across councils and over time. In 2007 the current ratio ranged from a maximum of 6.9 in Roscommon County Council to a minimum of 0.6 in Mayo County Council.

In 2011 the maximum current ratio was 4.0 in North Tipperary County Council, with the minimum again in Mayo County Council at 0.6. Current ratios that are up to a factor of 11 times apart may suggest large variance across councils in financial management practices. Looking specifically at the five city councils or the eight predominantly urban councils (that is, the five city councils and the three Dublin county councils), there is no evidence of an urban/rural split in current ratios, as city council ratios also show wide variation, between 0.7 and 3.1 in 2011.

In terms of the average collection period, the results in Table 3 indicate a noticeable deterioration in rates payment discipline over this period. The average collection period for commercial rates increased by a factor of 3.5 in just four years, from 27 days in 2007 to 93 days in 2011. Increases of double or more than the average increase were witnessed in seven councils: Clare, Kildare, Meath, Monaghan, North Tipperary, Sligo and Wicklow County Councils. By 2011 three councils, namely Donegal and Louth County Councils and Limerick City Council, had an average collection period for commercial rates of six months or more. In contrast, and despite the deteriorating economic conditions, other councils managed to maintain a relatively good payment record. The average collection period in Kilkenny, Limerick and Offaly County Councils was one and a half months or less. As for differences between city and county councils, although both had a similar average collection period by 2011, of about three months, it was the county councils that witnessed a greater deterioration in payment discipline between 2007 and 2011. Similar to the current ratio, there is considerable variation in average collection periods for rates income across councils and over time. In 2007 the average period ranged from a minimum of 7 days in Meath County Council to a maximum of 64 days in Galway City Council. In 2011 the range was from 27 days in Offaly County Council to 201 days in Limerick City Council. Though economic conditions are by no means even across the country, such variations are difficult to fully explain. The economic recession has placed extreme pressure on businesses, compounded by debt and an absence of bank lending. In some cases, local authorities have sought to assist ratepayers by maximising flexibility with regard to payment plans and arrangements in relation to payment of arrears, etc. This might explain some of the variation in this ratio across councils, but not all.

Table 3: Liquidity

	Current ratio		*Average collection period (days)*	
County councils	*2007*	*2011*	*2007*	*2011*
Carlow	4.7	3.1	38	123
Cavan	4.6	1.9	19	100
Clare	1.4	0.9	13	92
Cork	4.1	1.8	14	75
Donegal	1.0	1.2	37	199
Dún Laoghaire–Rathdown	4.2	3.1	21	99
Fingal	6.1	2.2	15	61
Galway	1.4	1.5	33	107

Table 3: Liquidity (Contd.)

	Current ratio		*Average collection period (days)*	
County councils	*2007*	*2011*	*2007*	*2011*
Kerry	2.3	2.6	18	66
Kildare	1.8	2.3	13	104
Kilkenny	4.7	1.5	9	44
Laois	1.8	0.8	36	96
Leitrim	5.8	3.3	23	104
Limerick	2.8	1.5	9	45
Longford	3.8	1.6	23	68
Louth	6.8	2.5	54	184
Mayo	0.6	0.6	17	56
Meath	4.0	1.7	7	68
Monaghan	1.4	1.5	14	107
North Tipperary	3.2	4.0	8	74
Offaly	2.8	1.6	12	27
Roscommon	6.9	3.3	28	80
Sligo	1.7	0.6	13	129
South Dublin	2.8	1.6	22	112
South Tipperary	2.6	3.2	15	64
Waterford	1.7	0.8	33	137
Westmeath	2.2	1.0	12	72
Wexford	2.8	1.5	22	138
Wicklow	3.8	2.2	15	103
City councils				
Cork	3.3	1.5	29	85
Dublin	1.8	1.4	44	83
Galway	5.5	2.0	64	176
Limerick	1.5	3.1	52	201
Waterford	1.7	0.7	12	75
34 City & county councils	**2.6**	**1.7**	**27**	**93**
29 County councils	**2.8**	**1.8**	**19**	**90**
5 City councils	**2.1**	**1.4**	**42**	**97**
Rural – 26 county councils	**2.4**	**1.6**	**18**	**90**
Urban – 5 city councils & 3 Dublin county councils	**2.9**	**1.8**	**33**	**95**

Source: AFSs; authors' calculations.

Autonomy

Autonomy, measured by the self-income ratio as defined in Table 2 and reported for all thirty-four city and county councils in Table 4, showed more or less no change between 2007 and 2011. This is not surprising given that there was no change in revenue assignment in this period. However, sizeable differences still exist between the local authorities, arising largely from differences in size, economic activity and fiscal capacity. The less-populated and more-rural county councils (including Cavan, Leitrim, Monaghan, North Tipperary, Sligo and Waterford) had a self-income ratio of 0.33 or less. In contrast, the heavily populated and more-urban councils (the three County Dublin local authorities of Dún Laoghaire–Rathdown (DLR), Fingal, and South Dublin, and the city councils of Cork, Dublin and Galway) had a self-income ratio of 0.65 or higher. In 2011 the aggregate self-income ratio for the thirty-four local authorities was 0.53, with a range from a low of 0.26 in Leitrim County Council to a high of 0.76 in Fingal County Council. The low self-income ratios in rural councils is a reflection of fewer large towns, more smaller settlements and less commercial activity.

Table 4: Autonomy

	Self-income ratio	
County councils	2007	2011
Carlow	0.35	0.31
Cavan	0.31	0.32
Clare	0.51	0.55
Cork	0.55	0.56
Donegal	0.36	0.40
Dún Laoghaire–Rathdown	0.69	0.68
Fingal	0.76	0.76
Galway	0.27	0.32
Kerry	0.38	0.41
Kildare	0.59	0.57
Kilkenny	0.38	0.37
Laois	0.43	0.45
Leitrim	0.23	0.26
Limerick	0.48	0.52
Longford	0.30	0.34
Louth	0.37	0.41
Mayo	0.27	0.34
Meath	0.42	0.46

Table 4: Autonomy (Contd.)

	Self-income ratio	
Monaghan	0.29	0.28
North Tipperary	0.29	0.29
Offaly	0.40	0.40
Roscommon	0.30	0.34
Sligo	0.28	0.29
South Dublin	0.67	0.73
South Tipperary	0.34	0.30
Waterford	0.27	0.28
Westmeath	0.36	0.37
Wexford	0.43	0.46
Wicklow	0.47	0.50
City councils		
Cork	0.67	0.65
Dublin	0.66	0.66
Galway	0.69	0.70
Limerick	0.52	0.55
Waterford	0.65	0.64
34 City & county councils	**0.52**	**0.53**
29 County councils	**0.47**	**0.49**
5 City councils	**0.65**	**0.65**
Rural – 26 county councils	**0.40**	**0.42**
Urban – 5 city councils & 3 Dublin county councils	**0.67**	**0.68**

Source: AFSs; authors' calculations.

Operating performance

The aggregate operating surplus of the thirty-four councils in Table 5 declined from 204 million in 2007 to 184 million in 2011. Although there was a sharp decline in the aggregate operating surplus between 2007 and 2008, of over 80 million, the small decline in operating surplus over this period is in stark contrast to what has happened to the central exchequer balance. Whereas over twenty councils experienced a deterioration in their operating balance over this period, twelve councils reported an *improvement* in their operating balance between 2007 and 2011. Whilst some of this is undoubtedly due to the expenditure adjustments and efficiency improvements by local authorities since 2008, this outcome is unexpected given the scale of the downturn in the economy and the subsequent budgetary pressures confronting the local government sector in Ireland.

In 2007 three councils (Louth County and Roscommon County, and Galway City) reported an annual operating deficit, and one of these was very small. In 2011 only two (Louth and Sligo County Councils) reported an operating deficit. In contrast, the four Dublin councils each reported an operating surplus of 15 million or greater. Indeed, the five city councils witnessed an overall *increase* in their operating surplus, from 41 million in 2007 to 47 million in 2011. This means that the city council share of the aggregate surplus increased from 20 per cent to nearly 26 per cent. Looking at the eight predominantly urban councils, their operating surplus increased from 92 million in 2007 to 102 million in 2011. This means that their share of the aggregate surplus increased from 45 per cent to nearly 56 per cent. This is another illustration of the urban–rural divide across councils. By 2011 the average operating surplus per resident for the thirty-four city and county councils was 45. The range was from a high of a surplus per resident of 122 in Limerick City Council to a low of a deficit per resident of 39 in Louth County Council, with a standard deviation of 30.

Expressing the operating balance as a percentage of total income, the period 2007–11 witnessed no change, with the aggregate operating surplus/income ratio equal to 4 per cent. As aggregate council revenue income fell by just over 160 million in this period, and the aggregate surplus declined by just 20 million, it is clear that councils were able to reduce their expenditures by about 140 million. At the individual council level, the picture is more mixed. In 2007 the operating margins ranged from –2 per cent in Louth to 14 per cent in DLR. In 2011 the same councils had the lowest (–4 per cent) and highest (11 per cent) margins. During the four years, nineteen councils saw their operating margin decline, while fifteen experienced a constant or increased margin. Looking at the eight predominantly urban councils, only two witnessed a drop in operating surplus margin, again reflecting the urban–rural divide.

We now turn to the GRR balance, a measure of cumulative operating performance. It is an end-of-year value of all past surpluses and deficits, after transfers to specific reserves. A positive value indicates that a council has built up operating surpluses. A negative balance reflects a history of running deficits greater than accumulated surpluses.

The aggregate GRR balance was 34 million in 2007, as shown in Table 6. It fell sharply to 7 million in 2008, coinciding with the start of the economic downturn but also the early revenue and expenditure

Table 5: Operating performance

	Operating surplus/(deficit) (€)		*Δ in operating surplus/(deficit) (€m)*	*Operating surplus/(deficit) per resident (€)*	*Operating surplus/(deficit) ratio*	
County councils	*2007*	*2011*	*2007–11*	*2011*	*2007*	*2011*
Carlow	6,359,117	3,646,559	–2.7	89	0.14	0.08
Cavan	6,683,467	1,721,324	–5.0	25	0.09	0.03
Clare	4,755,256	3,518,047	–1.2	37	0.04	0.03
Cork	18,958,000	9,905,645	–9.1	28	0.06	0.03
Donegal	5,218,482	6,958,043	1.7	50	0.03	0.05
Dún Laoghaire–Rathdown	30,077,266	21,905,833	–8.2	106	0.14	0.11
Fingal	13,781,201	18,330,617	4.5	67	0.06	0.08
Galway	4,483,682	4,295,306	–0.2	25	0.03	0.03
Kerry	3,324,942	2,759,973	–0.6	26	0.03	0.02
Kildare	7,281,622	6,236,529	–1.0	35	0.05	0.04
Kilkenny	5,353,725	1,647,330	–3.7	19	0.07	0.02
Laois	1,916,324	1,764,123	–0.2	22	0.03	0.03
Leitrim	985,505	656,824	–0.3	21	0.02	0.01
Limerick	6,647,979	5,904,483	–0.7	44	0.06	0.05
Longford	1,699,030	1,330,978	–0.4	43	0.04	0.03
Louth	(1,326,681)	(2,395,777)	–1.1	(39)	(0.02)	(0.04)
Mayo	1,717,023	3,503,479	1.8	34	0.01	0.03
Meath	4,937,119	6,432,929	1.5	42	0.05	0.06
Monaghan	1,584,522	2,593,492	1.0	53	0.02	0.04
North Tipperary	4,525,970	1,656,773	–2.9	31	0.07	0.03
Offaly	3,055,239	1,058,773	–2.0	17	0.05	0.02

Table 5: Operating performance (Contd.)

	Operating surplus/(deficit) (€)		*Δ in operating surplus/(deficit) (€m)*	*Operating surplus/(deficit) per resident (€)*	*Operating surplus/(deficit) ratio*	
County councils	*2007*	*2011*	*2007–11*	*2011*	*2007*	*2011*
Roscommon	(495,216)	1,277,177	1.8	20	(0.01)	0.02
Sligo	1,613,311	(950,355)	–2.6	(20)	0.02	(0.02)
South Dublin	7,551,071	15,359,754	7.8	58	0.03	0.06
South Tipperary	4,009,373	4,040,697	0.0	67	0.05	0.05
Waterford	3,898,142	1,821,472	–2.1	31	0.05	0.03
Westmeath	7,121,218	2,102,549	–5.0	30	0.09	0.03
Wexford	2,817,052	5,223,384	2.4	44	0.03	0.05
Wicklow	4,920,245	4,653,441	–0.3	52	0.06	0.05
City councils						
Cork	8,675,243	5,140,723	–3.5	43	0.05	0.03
Dublin	27,543,070	28,787,106	1.2	55	0.03	0.03
Galway	(59,953)	3,901,270	4.0	52	(0.00)	0.04
Limerick	3,413,837	6,972,405	3.6	122	0.04	0.08
Waterford	1,348,955	2,028,857	0.7	43	0.02	0.03
34 City & county councils	**204,375,138**	**183,789,763**	**(20.6)**	**45**	**0.04**	**0.04**
29 County councils	**163,453,986**	**136,959,402**	**(26.5)**	**42**	**0.05**	**0.04**
5 City councils	**40,921,152**	**46,830,361**	**5.9**	**57**	**0.03**	**0.04**
Rural – 26 county councils	**112,044,448**	**81,363,198**	**(30.7)**	**32**	**0.04**	**0.03**
Urban – 5 city councils & 3 Dublin county councils	**92,330,690**	**102,426,565**	**10.1**	**65**	**0.05**	**0.05**

Source: AFSs; authors' calculations.

changes (see Turley & Flannery, 2013), before it steadily recovered to over 23 million in 2011. At the individual council level, the number of city and county councils with a positive GRR balance declined from eighteen to fourteen, with a corresponding increase from sixteen to twenty councils with negative GRR balances. This is a warning sign of potential financial difficulties.

As identified by the Local Government Audit Service in their annual reports, councils with large accumulated deficits in 2011 included Offaly (4.1 million), Wexford (6.3 million), Waterford and Meath (both 6.9 million), Donegal (12.3 million) and Sligo (13 million). In contrast, once again it was the most populated and urban councils that reported the largest accumulated surpluses, notably DLR (9.5 million), South Dublin (12.1 million), Fingal (17.7 million), Cork County Council (18.3 million) and Dublin City Council (20.1 million). The eight predominantly urban councils had a positive GRR balance of over 56 million in 2007, meaning that the other twenty-six councils had a negative balance of – 22 million. This is another sign of the relative financial resilience of urban councils. By 2011, even though the aggregate GRR balance had fallen from 34 million to 23 million, the eight urban councils had increased their accumulated general reserves to over 60 million. This means the general reserves of non-urban councils deteriorated to almost – 37 million. Per resident in 2011, the max–min range of these accumulated balances were a surplus per resident of 65 in Fingal County Council to a deficit per resident of 271 in Sligo County Council, with an average for the thirty-four local authorities of a 6 surplus per resident and a standard deviation of 60. These differences bring to the fore the need to be vigilant about a rural–urban divide emerging and persisting in Ireland in terms of expenditure trends and the provision of local services.

Table 6: Operating performance – general revenue reserve

	General revenue reserve balance (€)		*General revenue reserve balance per resident (€)*
County councils	*2007*	*2011*	*2011*
Carlow	(153,319)	(22,034)	(1)
Cavan	1,658,665	1,662,376	24
Clare	(1,971,791)	(1,791,516)	(19)
Cork	18,638,064	18,337,539	51
Donegal	(13,139,379)	(12,303,343)	(88)

Table 6: Operating performance – general revenue reserve (Contd.)

	General revenue reserve balance (€)		*General revenue reserve balance per resident (€)*
County councils	*2007*	*2011*	*2011*
Dún Laoghaire–Rathdown	8,901,725	9,500,465	46
Fingal	16,584,623	17,673,622	65
Galway	763,304	(1,402,328)	(8)
Kerry	1,573,792	2,813,213	26
Kildare	(6,463,439)	(2,998,445)	(17)
Kilkenny	55,129	(602,062)	(7)
Laois	(534,290)	(499,962)	(6)
Leitrim	240,616	(117,645)	(4)
Limerick	1,138,928	(384,927)	(3)
Longford	1,499,795	(432,355)	(14)
Louth	4,050,866	1,442,128	24
Mayo	(3,924,963)	(2,507,779)	(24)
Meath	(9,797,254)	(6,856,722)	(45)
Monaghan	(916,315)	(79,085)	(2)
North Tipperary	(334,422)	155,913	3
Offaly	(64,991)	(4,071,542)	(67)
Roscommon	165,762	99,815	2
Sligo	(1,469,502)	(12,954,069)	(271)
South Dublin	15,299,118	12,093,400	46
South Tipperary	2,906,569	2,966,710	49
Waterford	(6,949,137)	(6,907,083)	(117)
Westmeath	(3,665,511)	(1,870,068)	(26)
Wexford	(3,874,715)	(6,329,683)	(54)
Wicklow	(1,761,515)	(2,039,007)	(23)
City councils			
Cork	207,921	458,945	4
Dublin	7,745,909	20,113,211	38
Galway	8,109,411	44,605	1
Limerick	120,870	497,471	9
Waterford	(566,467)	(305,391)	(7)
34 City & county councils	**34,074,057**	**23,384,367**	**6**
29 County councils	**18,456,413**	**2,575,526**	**1**
5 City councils	**15,617,644**	**20,808,841**	**25**
Rural – 26 county councils	**(22,329,053)**	**(36,691,961)**	**(15)**
Urban – 5 city councils & 3 Dublin county councils	**56,403,110**	**60,076,328**	**38**

Source: AFSs; authors' calculations.

Collection efficiency

Beginning with commercial rates, the average collection efficiency ratio fell from 0.94 in 2007 to 0.76 in 2011 (see Table 7). All thirty-four local authorities saw falls in this collection efficiency ratio. The decreases ranged from 6 per cent to 37 per cent. This means that by 2011 there was much more variation in collection efficiency than in 2007. In terms of individual local authorities, many witnessed a bigger than average fall, with Donegal, Louth, Sligo and Wexford County Councils and Limerick City Council experiencing a 0.25 or greater decline. In 2011 all the aforementioned councils, in addition to Waterford County Council and Galway City Council, had a collection efficiency ratio of less than 0.70. Indeed, three of these, namely the county councils of Donegal and Louth and Limerick City Council, had ratios below 0.60. This compares to councils with high rates collection efficiency ratios, such as the county councils of Limerick (0.87), Kilkenny (0.88) and Offaly (0.92).

In terms of housing rents there was little or no change, with the average ratio for both 2007 and 2011 at or close to 0.90, with the highest ratio in Kerry County Council (0.98), lowest, surprisingly, in South Dublin County Council (0.75) and a relatively small variance (SD = 0.06) in both years. Rents collection efficiency ratios *increased* in nine councils, despite a decrease in household incomes during that period. As for commercial water charges, the average collection efficiency ratio fell from 0.61 to 0.56 between 2007 and 2011, making the commercial water charges collection efficiency ratio the lowest of the four ratios. There is very large cross-council variation in this ratio, with a range of 0.32 to 0.82 in 2011. There was a notable difference between the county councils (falling from 0.61 to 0.54) and the city councils, where the average ratio actually increased, albeit very marginally, from 0.64 to 0.65 during the period. Surprisingly, eleven councils witnessed an increase in the ratio. For those councils that witnessed a fall in the ratio, a number of councils experienced large falls, in particular Clare, Leitrim, North Tipperary, Waterford and Westmeath County Councils. In 2011 Donegal, Leitrim, Louth, Westmeath and Wexford County Councils had water charges collection efficiency ratios of 0.40 or less.

With respect to housing loans, the average collection efficiency ratio fell from 0.89 to 0.74. All councils, except Monaghan County Council, saw falls in this ratio. In 2011 this ratio ranged from a high of 1.00 for South Dublin County Council to a low of 0.48 for Westmeath County Council. Other councils with relatively high housing loans collection efficiency ratios (0.90 or higher) included Fingal (0.94) and Kerry (0.91) Councils, as against councils with relatively low housing loans collection efficiency ratios (equal to 0.60 or lower) such as Louth (0.59) and Sligo, Kildare and Roscommon County Councils (all 0.57).

Table 7: Collection efficiency

	Commercial rates collection efficiency ratio		*Housing rents collection efficiency ratio*		*Commercial water charges collection efficiency ratio*		*Housing loans collection efficiency ratio*	
County councils	*2007*	*2011*	*2007*	*2011*	*2007*	*2011*	*2007*	*2011*
Carlow	0.92	0.74	0.97	0.91	0.68	0.54	0.91	0.80
Cavan	0.95	0.75	0.91	0.82	0.52	0.50	0.95	0.82
Clare	0.96	0.79	0.85	0.83	0.79	0.41	0.90	0.67
Cork	0.96	0.82	0.93	0.93	0.54	0.60	0.86	0.70
Donegal	0.90	0.57	0.86	0.89	0.44	0.32	0.82	0.75
Dún Laoghaire–Rathdown	0.95	0.76	0.89	0.80	0.43	0.44	1.04	0.73
Fingal	0.96	0.85	0.95	0.87	0.72	0.68	0.97	0.94
Galway	0.91	0.72	0.90	0.91	0.19	0.53	0.91	0.83
Kerry	0.95	0.82	0.96	0.98	0.80	0.77	0.93	0.91
Kildare	0.96	0.77	0.85	0.80	0.64	0.58	0.74	0.57
Kilkenny	0.98	0.88	0.89	0.86	0.58	0.75	0.87	0.73
Laois	0.91	0.77	0.88	0.94	0.63	0.55	0.95	0.81
Leitrim	0.94	0.72	0.93	0.93	0.63	0.37	0.78	0.71
Limerick	0.98	0.87	0.93	0.90	0.88	0.77	0.79	0.78
Longford	0.94	0.81	0.90	0.88	0.60	0.59	0.85	0.77
Louth	0.88	0.59	0.94	0.83	0.48	0.40	0.98	0.59
Mayo	0.95	0.84	0.75	0.81	0.59	0.55	0.74	0.66
Meath	0.98	0.82	0.88	0.86	0.60	0.47	0.93	0.84
Monaghan	0.96	0.73	0.96	0.96	0.58	0.66	0.83	0.86
North Tipperary	0.98	0.81	0.98	0.97	0.89	0.59	0.94	0.73
Offaly	0.98	0.92	0.88	0.92	0.53	0.58	0.76	0.63
Roscommon	0.93	0.79	0.85	0.91	0.27	0.51	0.69	0.57
Sligo	0.96	0.68	0.93	0.86	0.40	0.47	0.81	0.57
South Dublin	0.94	0.74	0.79	0.75	0.52	0.53	1.11	1.00
South Tipperary	0.96	0.84	0.97	0.87	0.95	0.82	0.86	0.75
Waterford	0.91	0.67	0.92	0.83	0.92	0.50	0.89	0.76
Westmeath	0.97	0.80	0.86	0.91	0.72	0.38	0.74	0.48
Wexford	0.94	0.69	0.94	0.92	0.55	0.39	1.03	0.89
Wicklow	0.96	0.74	0.97	0.91	0.48	0.42	0.92	0.75

Table 7: Collection efficiency (Contd.)

	Commercial rates collection efficiency ratio		*Housing rents collection efficiency ratio*		*Commercial water charges collection efficiency ratio*		*Housing loans collection efficiency ratio*	
City councils								
Cork	0.92	0.79	0.93	0.89	0.86	0.79	0.89	0.82
Dublin	0.89	0.80	0.85	0.79	0.51	0.57	0.94	0.71
Galway	0.84	0.62	0.78	0.76	0.36	0.58	0.90	0.72
Limerick	0.86	0.59	0.87	0.93	0.78	0.67	1.00	0.80
Waterford	0.97	0.81	0.89	0.82	0.69	0.66	0.88	0.63
34 City & county councils	0.94	0.76	0.90	0.88	0.61	0.56	0.89	0.74
29 County councils	0.95	0.77	0.90	0.88	0.61	0.54	0.88	0.74
5 City councils	0.90	0.72	0.86	0.84	0.64	0.65	0.92	0.74
Rural – 26 county councils	0.95	0.77	0.91	0.89	0.61	0.54	0.86	0.73
Urban – 5 city councils & 3 Dublin county councils	0.92	0.75	0.87	0.83	0.61	0.62	0.97	0.79

Source: AFSs; Local Government Audit Service Activity Reports; authors' calculations.

Solvency

In 2007 financial assets exceeded financial liabilities in sixteen councils, leaving them with net financial assets. At the aggregate level in 2007, net financial assets were just under 50 million (see Table 8). During the four years to 2011, most councils experienced a deterioration, leaving just eight councils with net financial assets. The aggregate position swung from 50 million net financial assets to nearly 1.3 billion net financial liabilities in 2011. The county councils of Kerry, Westmeath and Wicklow witnessed a more than ten-fold rise in net financial liabilities. Westmeath County Council's net financial liabilities grew from 4 million to 72 million, which may suggest serious underlying financial difficulties. Net financial liabilities for the twenty-six predominantly rural councils for that period grew from 195 million to 920 million (a 4.7-fold unwelcome increase). The eight urban councils moved from having 244 million net financial assets to over 340 million net financial liabilities.

The net financial liabilities figure is divided by the number of residents to give a measure of net financial liabilities per resident. For the eight councils with net financial assets in 2011, these ranged from 20 per resident in Roscommon County Council to 282 per resident in North Tipperary County Council. In contrast, the net financial liabilities per resident varied from just 5 in Cavan County Council to over 1,000 in both Sligo and Westmeath County Councils.

In an effort to develop additional measures of sustainability, further measures of solvency were developed as part of our local government financial performance measurement framework (see Turley et al., 2014). Expressing net financial liabilities as a percentage of total income, the aggregate ratio moved from net financial assets of 0.01 of income to net financial liabilities of 0.28 of income. Just five councils saw a fall (improvement) in this ratio. About half of the local authorities witnessed a larger than average increase. In 2011 the range was from a high of 1.03 for Westmeath County Council to a low of –0.24 for North Tipperary County Council with a standard deviation for the thirty-four local authorities equal to 0.36. The twenty-six mainly rural county councils had a net financial liabilities-to-income ratio double that of the eight mainly urban councils.

A further measure of solvency involves taking the gross liabilities as a percentage of income. This ratio increased from 1.17 in 2007 to 1.39 in 2011. Whereas the twenty-nine county councils saw an increase from 1.12 to 1.43, the five city councils witnessed a very small increase, from 1.29 to 1.32. Six councils experienced a fall (improvement) in this ratio. In 2011 the range was from highs of 2.42 (Fingal County Council), 2.30 (Laois County Council), 2.08 (Wexford County Council) and 2.07 (Waterford City Council) to lows of 0.40 (Limerick City Council) and 0.33 (Roscommon County Council), with a wide and increasing variance (SD=0.42 in 2007 and 0.50 in 2011). Finally, for the debt-to-assets ratio, there was little or no change with the aggregate ratio for the period equal to 0.06. The range was from relatively high debt/asset ratios for Fingal County Council and Waterford and Galway City Councils (0.15, 0.12 and 0.10, respectively) to relatively low debt/asset ratios (0.03 or less) for Cavan, Kilkenny, Leitrim and Roscommon County Councils and the two Limerick Councils.

Although not part of our framework, we report in Table 9 the change in provision for bad or doubtful debts (as opposed to the actual write-offs which are reported separately in the financial accounts) for the period 2007–11. For the thirty-four local councils, bad debts

Table 8: Solvency

	Net financial liabilities[1] *(€)*		*Net financial liabilities ratio*		*Debt to income ratio*		*Debt to assets ratio*	
County councils	*2007*	*2011*	*2007*	*2011*	*2007*	*2011*	*2007*	*2011*
Carlow	(17,001,712)	835,205	(0.38)	0.02	1.07	1.53	0.05	0.06
Cavan	(15,441,259)	382,286	(0.21)	0.01	0.46	0.69	0.02	0.03
Clare	73,998,520	92,597,635	0.66	0.83	1.24	1.31	0.05	0.05
Cork	72,431,097	264,709,710	0.21	0.82	1.53	1.89	0.06	0.07
Donegal	50,714,449	67,592,470	0.30	0.45	1.16	1.32	0.05	0.05
Dún Laoghaire–Rathdown	(157,226,120)	(38,161,548)	(0.74)	(0.20)	0.95	1.52	0.05	0.08
Fingal	(68,927,263)	96,750,241	(0.28)	0.40	1.94	2.42	0.13	0.15
Galway	29,289,449	38,880,950	0.19	0.26	0.96	1.23	0.04	0.04
Kerry	830,888	14,875,419	0.01	0.12	0.62	1.05	0.02	0.04
Kildare	40,123,458	7,500,582	0.29	0.05	1.31	1.50	0.06	0.06
Kilkenny	(21,921,011)	(5,357,126)	(0.29)	(0.07)	0.82	1.01	0.03	0.03
Laois	(24,729,838)	24,048,114	(0.36)	0.37	2.10	2.30	0.07	0.07
Leitrim	(16,892,260)	(5,199,308)	(0.38)	(0.12)	0.47	0.60	0.02	0.03
Limerick	13,394,158	26,061,566	0.12	0.23	0.94	0.70	0.04	0.03
Longford	(15,717,032)	3,619,748	(0.36)	0.09	1.04	1.63	0.04	0.06
Louth	(49,307,316)	5,608,286	(0.79)	0.08	0.68	0.91	0.03	0.04
Mayo	67,154,445	70,182,923	0.46	0.51	0.95	1.16	0.03	0.04
Meath	(62,358,254)	12,031,408	(0.60)	0.11	1.23	1.39	0.04	0.05
Monaghan	5,753,907	7,741,213	0.09	0.12	0.90	0.84	0.04	0.04
North Tipperary	(4,340,797)	(15,081,413)	(0.06)	(0.24)	0.69	0.96	0.03	0.04
Offaly	24,444,086	31,091,972	0.38	0.46	1.22	1.10	0.05	0.05
Roscommon	(14,395,177)	(1,282,450)	(0.20)	(0.02)	0.42	0.33	0.01	0.01

Table 8: Solvency (Contd.)

	Net financial liabilities[1] *(€)*		*Net financial liabilities ratio*		*Debt to income ratio*		*Debt to assets ratio*	
County councils	*2007*	*2011*	*2007*	*2011*	*2007*	*2011*	*2007*	*2011*
Sligo	28,389,202	59,484,566	0.44	0.95	1.09	1.49	0.04	0.05
South Dublin	(70,776,375)	6,748,984	(0.25)	0.03	1.00	1.31	0.07	0.08
South Tipperary	(12,414,112)	(12,165,890)	(0.14)	(0.17)	0.98	1.18	0.04	0.04
Waterford	15,433,595	30,155,694	0.21	0.43	0.84	1.04	0.04	0.05
Westmeath	4,283,319	72,236,252	0.05	1.03	1.22	1.91	0.04	0.05
Wexford	19,437,128	82,258,821	0.19	0.81	1.24	2.08	0.05	0.08
Wicklow	3,602,616	47,648,765	0.04	0.51	0.97	1.63	0.04	0.06
City councils								
Cork	24,462,733	(16,143,582)	0.13	(0.09)	1.05	1.25	0.06	0.06
Dublin	21,592,102	207,974,626	0.02	0.24	1.30	1.37	0.09	0.09
Galway	17,313,146	60,082,057	0.21	0.68	1.90	1.43	0.11	0.10
Limerick	(2,683,831)	(12,068,195)	(0.03)	(0.13)	0.60	0.40	0.05	0.03
Waterford	(7,495,833)	36,965,362	(0.13)	0.63	1.97	2.07	0.10	0.12
34 City & county councils	**(48,979,892)**	**1,262,605,343**	**(0.01)**	**0.28**	**1.17**	**1.39**	**0.06**	**0.06**
29 County councils	**(102,168,209)**	**985,795,075**	**(0.03)**	**0.31**	**1.12**	**1.43**	**0.05**	**0.06**
5 City councils	**53,188,317**	**276,810,268**	**0.04**	**0.22**	**1.29**	**1.32**	**0.08**	**0.08**
Rural – 26 county councils	**194,761,549**	**920,457,398**	**0.08**	**0.37**	**1.07**	**1.33**	**0.04**	**0.05**
Urban – 5 city councils & 3 Dublin county councils	**(243,741,441)**	**342,147,945**	**(0.12)**	**0.18**	**1.29**	**1.48**	**0.08**	**0.09**

Source: AFSs; authors' calculations.

[1] Net financial assets denoted by brackets.

provision increased by a factor of 2.7, from 205 million to 560 million, further evidence of significant ongoing financial challenges. The 2011 provision is over a third of the value of trade debtors, and almost 13 per cent of revenue income.[6] There is sizeable cross-council variation, with sixteen councils experiencing a five-fold or more increase, and five of these showing a ten-fold or more increase. In contrast, actual declines in bad debts provision were witnessed in Galway, Laois and Louth County Councils. The most notable case was Limerick County Council (and, to a lesser extent, Carlow County Council) as it witnessed a very large increase in its provision for bad debts, from a little over 670,000 in 2007 to over 46 million in 2011, with most of that increase occurring in 2008, coinciding with the start of the economic crisis. Some of Limerick's problems (both city and county, and, in the case of the latter, the increase in bad debts provision) may be partly due to the boundary between Limerick City and County Councils, the very large increase in retail and residential development outside of the city catchment area and located in (the lower rate taxed) Limerick County Council during the boom years, and the detrimental effect of the economic downturn on commercial activity, payment discipline and council income.[7]

[6] In 2007 the range across the thirty-four local councils for the bad debts provision as a percentage of revenue income was 0–12 per cent. Four years later the range was 1–40 per cent. In 2011 the eight urban councils made provisions of nearly 17 per cent of income, while the rural councils' bad debts provisions were about 9 per cent of their income. It is perhaps surprising to see DLR and Fingal County Councils with high bad debts provisions. DLR is one of the most affluent areas in Ireland, while Fingal County Council has seen substantial population growth. Their provisions in 2007, at about 12 per cent of income, were higher than the figures in many councils in 2011, several years into the economic downturn. By 2011, their provisions had reached about one-third of income. One possibility is that this reflects a more prudent or conservative attitude towards recognising likely future write-offs, as against some other councils that have been slower in providing in the accounts for bad debts. This raises the interesting question of variation in bad debts provision due to differences in commercial activity as against variations in provision due to differences in council policy towards bad debts provision.

[7] The city limits are very narrow, with a hollowed-out city centre and, relative to other cities in Ireland, a low rates base per capita, leading to the classic planners' 'doughnut effect'. We wish to express our gratitude to a colleague in the University of Limerick for providing us with some local insight into the legacy problems of the two Limerick Councils. As from June 2014 there will be a single unified local authority for Limerick City and County.

Table 9: Provision for doubtful debts

	2007	*2011*
County councils		
Carlow	(109,480)	(3,675,746)
Cavan	(1,015,695)	(4,497,192)
Clare	(2,372,947)	(16,935,588)
Cork	(17,956,704)	(36,703,419)
Donegal	(7,465,770)	(12,495,412)
Dún Laoghaire–Rathdown	(25,304,918)	(72,174,787)
Fingal	(27,645,300)	(71,600,448)
Galway	(9,885,918)	(4,713,700)
Kerry	(700,000)	(4,775,000)
Kildare	(3,747,377)	(13,274,017)
Kilkenny	(852,895)	(6,975,062)
Laois	(2,751,597)	(1,041,037)
Leitrim	(61,396)	(1,040,823)
Limerick	(671,768)	(46,406,116)
Longford	(1,846,631)	(3,139,879)
Louth	(4,823,585)	(2,879,616)
Mayo	(1,119,100)	(7,578,736)
Meath	(11,487,206)	(22,696,393)
Monaghan	(128,020)	(793,144)
North Tipperary	(488,962)	(2,617,257)
Offaly	(740,000)	(2,944,436)
Roscommon	(964,656)	(10,928,878)
Sligo	(266,291)	(1,196,335)
South Dublin	(6,629,873)	(47,031,777)
South Tipperary	(599,000)	(3,190,343)
Waterford	(655,000)	(4,324,017)
Westmeath	(1,076,011)	(6,651,724)
Wexford	(10,057,251)	(9,876,022)
Wicklow	(810,000)	(3,410,000)
City councils		
Cork	(7,829,748)	(19,927,161)
Dublin	(49,318,829)	(79,043,977)
Galway	(1,845,707)	(14,962,992)
Limerick	(4,052,122)	(17,493,652)
Waterford	(261,000)	(3,003,978)
34 City & county councils	**(205,540,757)**	**(559,998,664)**
29 County councils	**(142,233,351)**	**(425,566,904)**
5 City councils	**(63,307,406)**	**(134,431,760)**
Rural – 26 county councils	**(82,653,260)**	**(234,759,892)**
Urban – 5 city councils & 3 Dublin county councils	**(122,887,497)**	**(325,238,772)**

Source: AFSs; authors' calculations.

Conclusions

Our 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, our analysis of the AFSs of the local city and county councils indicates that there are only a handful of local authorities experiencing serious financial difficulties. However, it must be remembered that our analysis in this paper 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. Also great care needs to be taken with the application of ratios to financial statements and subsequent interpretation of those ratios. Nonetheless, the use of ratios in a financial framework such as ours is a useful starting point to examine the financial health and performance of individual Irish local authorities. The Irish local government sector is undergoing substantial change. As elsewhere, performance measurement and external scrutiny will increase, driven by concerns about efficiencies and legitimacy. Benchmarking practices driven by comparative performance management concerns are on the rise. This paper is an endeavour to bring some level of scrutiny to bear on the published AFSs of Irish county and city councils and to open a discussion and develop a greater understanding about the reasons for cross-council differences. This framework examines performance across five areas: liquidity, autonomy, operating performance, collection efficiency and solvency.

Our 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. We 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. Our paper 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, although we report a deterioration in the operating balance, local government in Ireland, as measured by the thirty-four 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. Measured by the GRR balance, the most notable feature is the urban–rural divide, with the large urban councils generally outperforming the smaller rural councils. In terms of collection ratios, overall there was a fall in the collection efficiency ratios, reflecting an increase in arrears and write-offs, most especially in commercial rates. Finally, as regards solvency, financial assets exceeded liabilities in almost half of the councils in 2007, but this position had deteriorated to less than one-quarter of councils by 2011. These numbers, however, mask the deterioration of a small aggregate net financial assets position in 2007 to a significant aggregate net financial liabilities position of almost 1.3 billion by 2011 (with just seven councils accounting for 70 per cent of this amount).

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 (to be replaced with 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. We recommend the inclusion of our framework, or something similar, in the AFS 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.

As for further study, the next step is to complete the 2007–11 time series, extend to the years 2012/3 when the central exchequer budgetary pressures had stabilised whereas local authority finances continued to experience financial difficulties (confirming the general observation in previous downturns elsewhere, where imbalances in local government budgets often lagged central government budgetary problems), and then proceed to examine the relationship between our results for the financial indicators and the published Local Government Management Agency service indicators for the thirty-four city and county councils.[8] We also plan to use this framework to benchmark local authorities in Ireland. Finally, we also wish to investigate the determinants of poor financial performance, by looking at cross-council variation in size, regional GDP and socio-economic factors, and differences in internal organisational features of the local authorities such as staffing levels, expenditures and local services delivery, operational and financial management practices, efficiency improvements implemented, and so on. Whatever these determinants might be, the findings based on our framework for evaluating financial performance indicate that the boom and bust witnessed by the central government, as evident in the deterioration in the exchequer public finances from 2007 on, has been less pronounced in the local public finances, to date at least.

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[8] A very preliminary examination of the available data and results using our financial indicators for 2007–11 inclusive indicates that, as might be expected, there was a sudden and large deterioration between 2007 and 2008 in many of the financial measures used. Changes from 2008 onward appear to be more varied and less dramatic.

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