

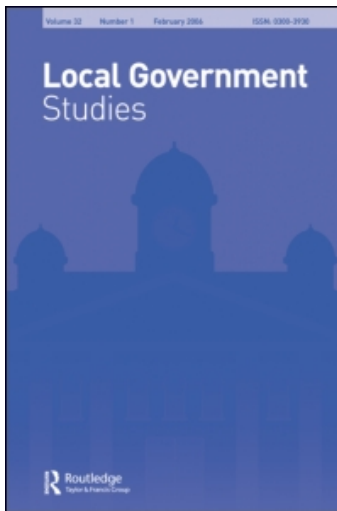
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A Conceptual and Practical Framework of Measuring Performance of Local Authorities in Financial Terms: Analysing the Case of Israel

ABRAHAM CARMELI

This study investigates the theme of performance measurement among local authorities in Israel. Using a broad approach, it deals conceptually with performance measurement and financial performance of local authorities in Israel as compared to several Western countries, and explores the implications for accountability and public trust in government. This study proposes and empirically tests a model for measuring the financial performance of local authorities in Israel. It demonstrates how to design effective performance measures in two areas: (a) financial strength/weakness, and (b) level of municipal development of the local authorities. By so doing, the article suggests advancing performance measurement in the governmental sector by using financial data from annual financial reports.

Local authorities are multiple task organisations involving a wide scope of activities, from education and welfare to fire-fighting and sanitation services. Therefore, the task of measuring performance of service organisations in such structures is a complex and difficult one. In order to design effective measurement, it is necessary to evaluate each field of activity separately, as well as the whole. Moreover, comparative analysis of local government in two or more countries requires the consideration of their unique features.

The importance of evaluating the performance of local authorities is well established in the organisational literature, as well as in the area of public administration. It is one of the essential elements of the accountability of public sector organisations to the public. Monitoring organisational performance is a very conventional procedure in such Western countries as the USA, Great Britain and New Zealand (Leithe, 1996), reflecting a culture of accountability. In Great Britain, for instance, the local government is

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required to report in the local press on the performance measures that have been adopted and the actual results of its activities.

In Israel, however, the situation is very different since there is no effective procedure of performance monitoring and reporting. Systematic publication of monitoring and reporting data on the functioning of the local government is very rare, with two exceptions. The first is the physical data reported by the Central Bureau of Statistics of Israel (1997). However, there is a significant lack of data in several areas of information, such as in the field of transportation where only the data of municipalities is included. The problem is even more acute due to the fact that in almost every area there is a significant rate of missing information. The second exception is a data summary of the annual financial reports of the local authorities published by the Ministry of Interior (1999). However, this publication covers data only from 1996. Some areas of activity are not monitored or reported at all; others are only semi-monitored and semi-reported; and still others are monitored but are not accessible.

Exploring this phenomenon must lead us to consider it as a problem of cultural norms and values. One of the symptoms of this problem is the disregard by public administration in Israel, including local government, of its obligation to be accountable and to consider accountability one of its fundamentals. In order to overcome this problem in practice, and to benchmark the functioning of local government, it is proposed that available data be used to create a formal framework of reporting and monitoring performance data. The importance of evaluating the performance of local authorities impels us to establish an effective measurement of performance based upon available data.

This article is concerned with the subject of evaluating and measuring the performance of the local authorities in Israel. The article begins with a brief discussion of major perspectives and models for measuring performance. The article continues with the subject of measuring performance on the local government level. Finally, the article proposes and tests an accountant-data based framework of performance measurement regarding financial and municipal development.

THE RATIONALE BEHIND ENHANCING GOVERNMENT PERFORMANCE MEASUREMENT

The National Academy of Public Administration (NAPA) of the United States has made a significant contribution to the rationale and the substance of why we need government performance measurement. NAPA (1999) has reported on several promising new initiatives adopted by American state and local governments. As the report of the panel on Civic Trust and

Citizen-Government Relations for the 21st Century (1999: 17) asserts: 'The American people will not invest significantly higher levels of trust or confidence in their government until they perceive improvements in the way it makes decisions and delivers results. Better government performance is a key to rebuilding public trust.' Hence, if rebuilding public trust in government is an essential goal and is a function of the improvement in the way government agencies perform their jobs, then the only way of achieving this is by establishing an effective system of performance measurement. This system should be relevant, available and easily comprehended by the public. The public has become more powerful than ever before, asking with more frequency and with more assurance whether its taxes are used efficiently and for the right purposes. Public administrators and legislators are also questioning what benefits are inherent in government programmes and whether their costs are justified.

The principle of accountability should guide all government agencies, as it is the essence of democracy, the very substance of good government. Relative to other Western countries, where the principle of accountability is well rooted, such an approach is not evident in the conduct of local government or public administration in Israel. The underlying reasons for this are somewhat beyond the scope of this study. One major reason, however, may be that since its establishment the state of Israel has been forced to fight for its survival. As a result, the development of the influence of civic society has been hindered, with the power of the state significantly overshadowing that of civic society. In this situation, the culture of accountability has been deprived of the support needed to develop. It is the goal of this article to enhance awareness of the importance of establishing an effective system of performance measurement in order to bridge this gap.

PERSPECTIVES AND MODELS OF PERFORMANCE MEASUREMENT

The measurement of organisational performance or effectiveness is not an easy task either for businesses or non-profit organisations with multiple and diversified goals. However, it is even more difficult for non-profit organisations (see Oster, 1995). Measuring the performance of business organisations is well defined from an economic point of view, according to which an economic rent is the major goal (see Mahoney and Pandian, 1992; Tirole, 1988). It is evaluated by financial ratio measures, such as return on assets (ROA), return on investment (ROI), growth of sales and profit margin. Yet in public sector organisations, including local governmental authorities, there are relatively few established measures that can be broadly used.

Performance measurement is a process of monitoring and reporting data in relation to the efficiency, quality and effectiveness of the organisation. As such, this definition comprises the three aspects of the principle of public

accountability suggested by Martin and Kettner (1996), according to which each one has a unique perspective on what should be the appropriate performance measure. Should it be an efficiency comparison of input to output? Or should the quality of the services/products of the organisation be emphasised? Or should the effectiveness perspective prevail, focusing on the results? This article concentrates on the last approach.

In reviewing the literature, several broad theoretical perspectives and models suggest concepts for ways of measuring performance. Following are some of the major ones (for a detailed discussion, see Daft, 1995): the goal model, which suggests measuring performance by examining the extent of achievement of real goals (Etzioni, 1964; Perrow, 1970; Mohr, 1973); the system resource approach, which proposes that the extent of gaining critical resources should be the performance measure (Yuchtman and Seashore, 1967); the constituency approach, which claims that the beneficiaries of the organisation assess its performance (Connolly *et al.*, 1980); the competing values approach, which argues that an organisation's performance should be examined by hierarchical managerial values and the extent of their attainment (Quinn and Cameron, 1983; Quinn and Rohrbaugh, 1983); and the internal process approach, according to which an effective organisation is one that creates healthy internal processes, particularly human relations processes (Ostroff and Schmitt, 1993). Although each one of these approaches or models has a significant contribution to make to the theme of measuring organisational performance, they are still not widely used because they lack feasibility.

CONCEPTS AND PRACTICES OF EVALUATING PERFORMANCE OF LOCAL AUTHORITIES

As already emphasised, the establishment of reliable and valid performance measures for local authorities is a complex task approached in different ways. Kravchuk and Schack (1996) cite ten principles needed in order to build an effective system of performance measurement. Ammons (1995) and Wholey and Harty (1992) claim that in order to design a system of performance measures, it should reflect (a) the need for public accountability and (b) the need for fulfilment of the public interest.

In general, we can find two major approaches for measuring the performance of local government. One approach argues that the measures should reflect the general functions that the local authorities fulfil, such as administration, human resource management, finance, tax collection, social services and others (Downs and Larkey, 1986). Other research suggests categorising the measures in groups, such as culture and art programmes, public safety, public utilities and others (Leithe, 1996). Others support the 'Three Es' model – economy, efficiency and effectiveness – as the

performance measure. However, this approach has been seriously criticised for its lack of consideration of such aspects as quality, customer satisfaction (Carter, 1991), availability, awareness, extensiveness, acceptability, fairness, equity and predictability (Politt, 1986).

The other approach holds that financial measures should be adopted, with the goal of evaluating efficiency in terms of financial measures (per unit cost) and effectiveness in terms of budgetary goal attainment. The suggestion for using financial criteria as an expression of behavioural norms, such as honesty, fairness and adherence to the law, emanated from the Governmental Accounting Standards Board (GASB). Those behavioural norms were embodied in the case of the city of Bridgeport, Connecticut, which argued for a declaration of insolvency as its expenditures exceeded its revenues (Lewis, 1994).

A FRAMEWORK FOR ANALYSIS OF THE ACTUAL PERFORMANCE OF LOCAL AUTHORITIES

In Israel, the performance of the local government can be classified into three major service sets. However, it seems that due to the informal entry of local government into areas of activity where it had no prior involvement, as well as the somewhat complex relationship between the central and local governments, there is no performance measure that can be defined as purely independent or dependent on either local or central government. First are the state services, which are definitely controlled by and dependent on central government. For instance, transportation safety is a field that almost entirely depends on the central government. Second are the mixed services, which are controlled by both the central and local governments. For instance, employment is controlled by and dependent on both central and local governments because it is central to their activities. Third are the local services, which are definitely controlled by and dependent on local government. For instance, garbage disposal is controlled by local governments.

This article deals with two aspects of performance measurement. The first is the financial aspect, and the other is the aspect of municipal development. The common method for establishing these aspects is the use of data from annual financial reports published by the local authorities. The aspects of financial and municipal development performance are classified within the local services.

THE SETTING AND THE ESTABLISHMENT

This measure expresses the need to benchmark local authorities based upon their financial situation. In the business sector, it is essential to benchmark corporations based on financial ratios. The first call to adopt accountant

criteria for benchmarking efficiency and effectiveness of local government came from the Governmental Accounting Standards Board (GASB) in May 1985. The city of Wooster, Ohio adopted the accountant criteria in order to evaluate the cost of activities of different units, such as the police, fire and community service divisions, the planning department and others (see Brown and Pyers, 1988).

Furthermore, using financial measures to test the budgetary balance or deficit is an essential theme in public administration, enabling us to benchmark the function of local government (see Wildavsky and Caiden, 1988). Many of the local authorities in both the USA and Israel suffer from a budgetary deficit. Beyond the ethical aspects of this state of affairs, such deficits can lead to insolvency and finally to bankruptcy. For instance, like the city of Bridgeport, Connecticut, which slid into bankruptcy, the city of Lod in Israel could not function as the result of an ongoing state of insolvency, and an appointed committee had to be set up by the Ministry of Interior to manage the city.

Groves (1980: 2) proposed four categories of financial variables for evaluating the financial performance of America's cities. First, cash solvency or short-term liquidity – does the government have the ability to create cash within 30 or 60 days for paying its debts? Second, budgetary solvency or fiscal-year balance – does the city create enough income during the ordinary budget duration in order to meet its expenses and not enter into a budgetary deficit? Third, long-run solvency or balance – does the government have the ability to pay all of its activity costs, both the ordinary and extraordinary? Four, service-level solvency – does the government have the ability to supply quality health and welfare services for the community, as requested by the public?

In accordance with the classification suggested by Groves (1980), this article proposes four categories for evaluating the financial strength of the local authorities in Israel. First, short-term liquidity (STL) examines whether the local authority has enough cash, or the ability to create cash, to pay its debts within a short period of time. Second, fiscal-year balance (FYB) examines whether the local authority creates enough ordinary income in relation to its ordinary expenses per capita. Third, long-run solvency (LRS) examines whether the local authority creates more income in relation to its potential as well as its obligations, both in the ordinary and extraordinary budget. Fourth, service and municipal development (SMD) examines the rate of service and municipal development in terms of direct expense. Table 1 presents a framework for performance measurement in accountant terms. This framework is, in a way, an extension of the four categories proposed by Groves (1980), as it distributes them over a time dimension – short and long terms. The internal distribution of the performance measurement framework should, therefore, be discussed in detail.

TABLE 1
A FRAMEWORK OF PERFORMANCE MEASUREMENT IN FINANCIAL TERMS

Category	Short Term	Long Term
Short-term liquidity (STL)	Current ratio (CR) Self-income ratio (SIR)	
Fiscal year balance (FYB)	Surplus (deficit) per resident ratio in the ordinary budget (SPRR) Surplus (deficit) ratio in the ordinary budget (SR)	
Long run solvency (LRS)		Collecting efficiency ratio (CER) Collecting per resident ratio (CPRR) Extraordinary budget income to loans load ratio (EBILLR)
Service and municipal development (SMD)		Municipal development expense per resident (MDER) Local service expense per resident (LSER)

Short-Term Liquidity Category (STL)

The STL category consists of two variables. The first is current ratio (CR) and the second is self-income ratio (SIR).

In the business sector, CR is an essential financial measure defined as the ratio between the current assets and the current obligations in the balance sheet. Since the structure and substance of the financial report from a local authority is different from that of a business firm, it is necessary to redefine the ratio. Therefore, for purposes of local authorities, CR is the ratio between the current assets in the ordinary balance (with the exception of investments, investments for budgeted funds, accumulated deficit in the ordinary budget and temporary net deficit in the extraordinary budget) and the current obligations in the ordinary balance (except for working development funds, budgeted funds, accumulated surplus in the ordinary budget, and temporary net deficit in the extraordinary budget). The current assets are defined as the current short-term properties (up to one year), such as customers, positive bank credit, investments and other debtors. The operational definition is the current assets in the ordinary balance/the current obligations in the ordinary balance.

The SIR is defined as the ratio between the total self-income and the total income in the ordinary budget. The self-income includes all the income (taxes, fees, grants, and so on) that the local authority directly collects from its residents, businesses and assets, and on specific occasions also from

service receivers operating within its jurisdiction (Hecht, 1997: 21). The total income in the ordinary budget comprises the general property taxes, fees, levies and service fees, general grants, governmental transfers and single income (Hecht, 1997: 21). The operational definition of the SIR is total self-income/total income in the ordinary budget.

Fiscal-Year Balance (FYB)

The FYB category consists of two variables. The first is surplus (deficit) per resident ratio in the ordinary budget (SPRR), and the second is surplus (deficit) ratio in the ordinary budget (SR).

The SPRR is defined as the ratio between the surplus (deficit) in the ordinary budget and the total number of the regular population at the end of the calendar year. The surplus (deficit) is defined as the ratio between the total amount of income and the total amount of expenses in the ordinary budget. The total amount of income in the ordinary budget comprises the general property taxes, fees, levies and service fees, general grants, governmental transfers and single income (Hecht, 1997: 21). The total amount of expenses in the ordinary budget comprises the general administration, local services, state services, enterprises and other expenses (Hecht, 1987: 184). The regular population is defined as the total number of regular residents and immigrants living in the country, as well as regular residents who are out of the country for a period of less than one year during the year of estimation (Israel, Central Bureau of Statistics, 1997: 19). The operational definition of the SPRR is the total amount of surplus (deficit)/total regular population at the end of the year.

The SR is defined as the ratio between the total amount of income and the total amount of expenses in the ordinary budget. The total amount of income in the ordinary budget comprises the general property taxes, fees, levies and service fees, general grants, governmental transfers and single income (Hecht, 1997: 21). The total amount of expenses in the ordinary budget comprises the general administration, local services, state services, enterprises and other expenses (Hecht, 1987: 184). The operational definition of the SR is the total amount of income / total amount of expenses in the ordinary budget.

Long-Run Solvency (LRS)

The LRS category consists of three variables. The first is collecting efficiency ratio (CER), the second is collecting per resident ratio (CPRR), and the third is extraordinary budget income to loans load ratio (EBILLR). The CER is defined as the ratio between the total amount of actual collecting and the total amount budgeted for collecting. The total amount of actual collecting comprises the income from property taxes, water and

sewage fees. The total amount budgeted for collecting comprises the balance of debts from earlier years and the debit in the account year minus exemptions, discounts and cancellations of self-income (property taxes, water and sewage fees) (Barzel, 1974: 9; Hecht, 1997: 21–7). The operational definition of the CER is the total amount of actual collecting in the account year/total amount budgeted for collecting in the account year. The CPRR is defined as the ratio between the total amount of actual collecting in the account year and the total number of the regular population at the end of the year. The total amount of actual collecting comprises the income from property taxes, water and sewage fees. The regular population is defined as the total number of regular residents and immigrants living in the country, as well as regular residents who are out of the country for a period of less than one year during the year of estimation (Israel, Central Bureau of Statistics, 1997: 19). The operational definition of the CPRR is the total amount of actual collecting in the account year/total regular population at the end of the year.

The EBILLR is defined as the ratio between the total amount of income in the extraordinary budget (except for loans) and the total amount of loans load. The total amount of income in the extraordinary budget comprises income from levies and fees on development activities and loans (Hecht, 1987: 232–9). The loans are defined as non-final income, made available by banks and the state budget for investments in development and infrastructure. The loans have to be approved by the Treasury and the Ministry of Interior; furthermore, they carry interest and have to be repaid in accordance with agreed upon terms (Hecht, 1997: 42–3). The operational definition of the EBILLR is the total amount of income in the extraordinary budget (income in the account year plus closed projects, except for loans and opening balances)/total amount of loans.

Service and Municipal Development (SMD)

The SMD category consists of two variables. The first is municipal development expense per resident (MDER). The second is local service expense per resident (LSER).

The MDER is defined as the ratio between the total amount of development expenses in the account year plus closed projects, except for opening balance, and the total number of the regular population at the end of the year. The development expenses comprise the total payments in the extraordinary budget that are earmarked for development projects for the welfare of the residents in such areas as roads, security, sanitation, water and drainage, education. The operational definition is the total amount of development expenses in the account year plus closed projects (except for opening balances)/total regular population at the end of the year.

The LSER is defined as the ratio between the total amount of pure activity expenses and the total number of the regular population at the end of the year. The expenses of local services are the kind of expenses in the ordinary budget that comprise cleanliness, sanitation, security, planning, building and others. The operational definition of the LSER is the total amount of pure activity expenses in the ordinary budget/total amount of the regular population at the end of the year.

AN EMPIRICAL ANALYSIS OF THE PROPOSED MODEL

In order to illustrate the logic and the assumptions of the proposed model, an empirical analysis of the model should be performed. Therefore, we will demonstrate the Israeli case in the year 1998, using data from the *Statement of Controlled Financial Data: Local Authorities 1998*, published by Israel's Ministry of Interior (1999). The analysis employs the performance model suggested above (see Table 1) and comprises four steps in presenting the financial performance of: (a) the entire Israeli local government (Step 1); the entire group of Israeli municipalities (Step 2); (b) the entire group of Israeli local councils (Step 3); and (d) the entire group of Israeli regional councils.

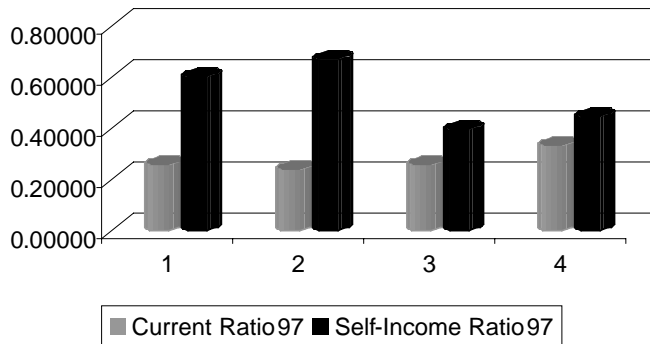
Short-Term Liquidity Category (STL)

As mentioned above, the STL comprises two variables: current ratio (CR) and self-income ratio (SIR). The result of this category is presented in Figure 1. It shows that local government performed very poorly in terms of its current assets to current obligations (CR), and better, though still far from satisfactory, in terms of the rate of its self-income (SIR) (.22 and .60, respectively). In terms of CR, no local authority showed acceptable results (at least a ratio of 1). The 'best' performers were the regional councils, with a CR of .416, as compared to municipalities and local councils, with .197 and .224, respectively. However, these are very poor short-liquidity positions. Only the municipalities exceeded the SIR value of .60 and gained rates of self-income of 67.16 per cent. The others, that is, local and regional councils, showed very poor results, with 44.23 and 39.66 per cent, respectively. Both the CR and SIR show that the local government performed poorly and that it should carry out more efficient activities to improve its short-term liquidity.

Fiscal-Year Balance (FYB)

The FYB category consists of the following ratio: the surplus (deficit) per resident ratio in the ordinary budget (SPRR) to the surplus (deficit) ratio in the ordinary budget (SR). The results of this category, as shown in Figure 2, indicate several interesting findings. The local government, as well as each form of local authorities (municipalities, regional and local councils),

FIGURE 1
SHORT-TERM LIQUIDITY PERFORMANCE 1997



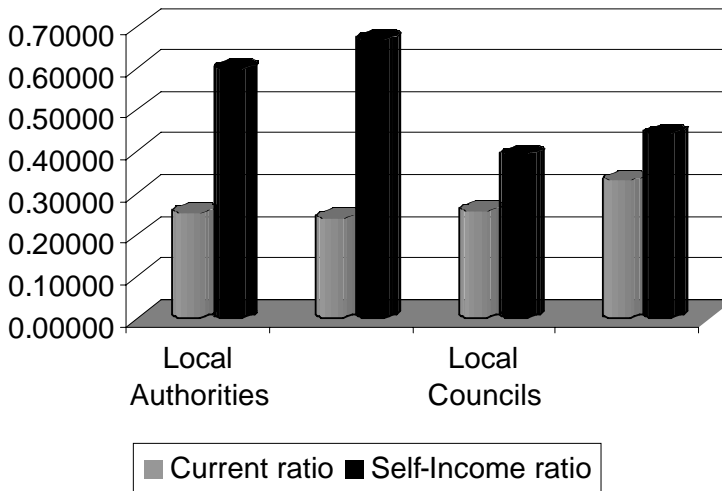
Notes: 1=Local Government (LG)
2=Municipalities (M)
3=Local Councils (LC)
4= Regional Councils (RC)

performed poorly on fiscal-year balance. The deficit in the ordinary budget of the entire local government is 6.67 per cent. One of the recent decisions taken by the Ministry of Interior in Israel is that each local authority will have to raise property taxes if its deficit exceeds the level of five per cent. This decision makes the local authorities responsible for the consequences of creating a deficit, since it is their political careers that are jeopardised by opposition to such an edict on the part of the residents. Figure 2 indicates that the local councils were the poorest performers, with a deficit of 8.57 per cent, whereas the regional councils were the better performers, with a deficit of 4.07 per cent. The deficit of the municipalities was 6.7 per cent, close to the deficit of the entire local government. The results regarding the deficit per resident in the ordinary budget were poor as well and not significantly different from the SR ratio. The deficits per resident in the ordinary budgets of the local government, the municipalities, the local councils and the regional councils were NIS 259.51, 189.01, 301.93 and 223.17, respectively. Both the SR and SPRR indicate that the local government showed poor fiscal-year balance and that it should concentrate its efforts on maintaining balance or positive fiscal balance.

Long-Run Solvency (LRS)

The LRS comprises three financial ratios: the collecting efficiency ratio (CER); the collecting per resident ratio (CPRR); and the extraordinary budget income to loans load ratio (EBILLR). The results in Figure 3 indicate a poor performance of the entire local government, with a CER of

FIGURE 2
SHORT-TERM LIQUIDITY PERFORMANCE 1998

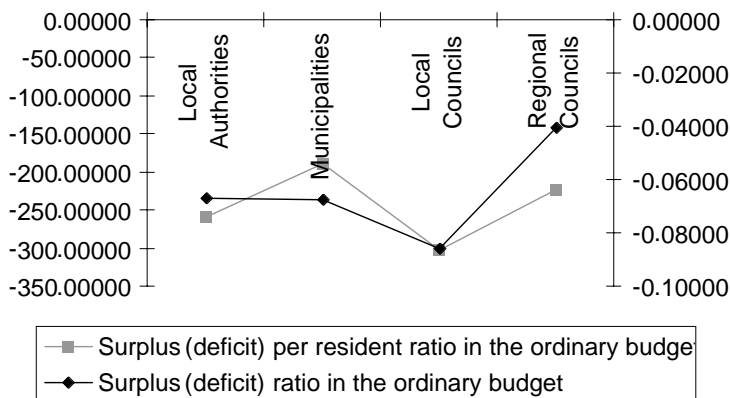


57.08 per cent, meaning that of the total potential collecting of NIS 1 the local government has collected only 0.57 NIS. Even the better performers, namely, the regional councils, only attained a collecting rate of 72.77 per cent. The weaker performers were the local authorities, with a collecting rate of 48.32 per cent. These results are also demonstrated in the CPRR results, in which the local government, municipalities, local councils and regional councils attained a poor collecting amount per resident, with NIS 1,373.48, 1158.85, 629.68 and 1,225.32, respectively. The EBILLR reveals an interesting finding, according to which the local councils perform better than the others by attaining a ratio above 1 (1.22), as compared to a ratio below 1 of the local government (.759), the municipalities (.664), and the regional councils (.864). All in all, we can conclude that local government has to improve its long-run solvency.

Service and Municipal Development (SMD)

The SMD comprises two ratios: the municipal development expense per resident (MDER) and the local service expense per resident (LSER). Except for regional councils, the results in Figure 4 show consistent evidence regarding the delivery of municipal services to the residents. It shows that the regional councils have spent fairly small amounts of money for regular (current) local services per resident (NIS 229.28), as compared to the entire local government, the municipalities and the local councils, which have invested NIS 1,717.43, 1,533.49 and 2,016.51, respectively. We can see that

FIGURE 3
FISCAL YEAR BALANCE 1998



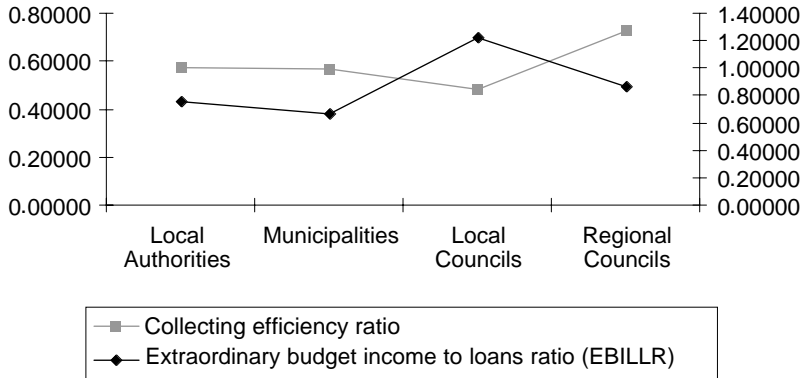
the local councils have invested the largest amount of money per resident. Looking back to Figure 2, the results indicate that the local councils also had the largest deficit rate of 8.57 per cent. This may indicate that the deficit is due to their good intentions of supplying more and better municipal services. This finding is also demonstrated in the case of the regional councils seems to yield contradictory evidence, according to which they have the smallest deficit of 4.07 per cent as well as the smallest amount of expense as well (NIS 229 per resident).

This result did not have any support from the MDER ratio. Here the regional councils are the better performers, with the expense per resident amounting to NIS 3,220.60, as compared to the entire local government, the municipalities and the local councils, with expenses per resident of NIS 2,315.46, 1,899.69 and 1,826.10, respectively. The reason may be structural, insofar as regional councils have the largest territorial jurisdiction but the smallest number of residents. This situation forces them to invest large amounts in development without sufficient financial resources for regular municipal services.

CONCLUSION

This study demonstrates the potential of using annual financial reports for the establishment of effective performance benchmarking. In the business sector, analysis of financial reports is considered to be a significant managerial tool for the evaluation of corporate strengths and weaknesses. In public administration, however, analysis of financial reports is less common for several reasons. First, unlike business organisations, local authorities

FIGURE 4
LONG RUN SOLVENCY (LRS)



and other public organisations may invest in and develop long-range projects that can be evaluated only years later. For instance, during the 1990s, the city of Tel Aviv-Jaffa in Israel adopted a policy to develop the southern area of the city at the expense of the stronger and more affluent northern area. This was a fundamental change in its urban policy, which can be evaluated only now. Second, financial reports vary from country to country, which makes the possibility of conducting international comparative studies difficult. Third, there is valid criticism that financial data do not always tell us the complete story in regard to policy, service programmes, quality and availability.

Nevertheless, the use of financial data may yield some essential benefits. First, and perhaps most important, it can inform us as to the real financial situation of the local authority. A local authority with an inferior financial position lacks the resources to supply services at the appropriate volume and quality, not to mention to develop short- and long-range services and infrastructure programmes. As a result, its residents may have strong tendencies to move to a more viable city, and it will lose its attraction for potential new residents. Furthermore, residents with a high inclination to leave will be less involved in municipal affairs. This concept also applies to other sectors, including business and research.

Second, although it is somewhat difficult to evaluate policy through financial data, a careful analysis may yield some benefits, mainly in exploring the extent of the direct inputs made by the local authority. This concept is reflected by the call for benchmarking the level of municipal development. Martin and Kettner (1996: 1) pointed out that both federal and non-federal human service programmes suffer from 'a crisis of confidence'

of the constituents. This crisis of confidence is derived from their dissatisfaction with the programme outputs. The opposing argument claims that only part of the budget is allocated directly to the programmes themselves, while the rest is needed for administrative expenses. Adopting a procedure of reporting and monitoring on the level of municipal development in financial terms may help to restore the confidence of constituents. Moreover, analysing the level of municipal development will create a clear picture of exactly where the public funds are being invested. Knowing their exact destination will also allow us to analyse policy versus practice.

In general, it can be concluded that using financial data in performance measurement may benefit the management of both local and central government, as well as the public. The local government leaders can then examine their activities and present their arguments in relation to concrete results. For instance, they can justify their policies by demonstrating the benefits to public welfare derived from public funding. The central government can have more effective control over the allocation of public monies and the application of policies. The public can benefit from the practical implementation of an important principle of accountability. Moreover, although, as claimed by Brereton and Temple (1999: 467), 'most citizens never were active in the public sphere', a relevant and appropriate system of performance measures may encourage the public to adopt a proactive stance to relevant issues. All in all, the most important potential benefit is a possible collaboration among the interested parties – an essential aspect that was hitherto far from being attainable in Israel.

In conclusion, in order to rebuild the trust and respect of the public in the central and local government, it is important to take more steps in this direction. This study not only proposes a conceptual model for measuring performance in financial terms but also exemplifies its usefulness for both researchers and practitioners. As the NAPA (1999: 18) asserts: 'Intense and consistent legislative pressure for measurable results, whenever and wherever appropriate, is the *sine qua non* of improved government performance.'

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