



FINANCIAL RESILIENCE IN LOCAL GOVERNMENTS: AN INTERNATIONAL PERSPECTIVE

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Agenda

- 1. Financial Resilience – setting the stage
- 2. Financial Resilience Framework – a multiple case study approach
 - 2.1 Background
 - 2.2 Research Design
 - 2.3 Financial Resilience Dimensions
 - 2.4 Financial Resilience Patterns
 - 2.5 1st round of reflections / questions / **case**
- 3. Further developing Financial Resilience – a quantitative view
 - 3.1 Aims
 - 3.2 Research Design
 - 3.3 Operationalization of Dimensions / Comparison accross countries
 - 3.4 The role of resilience dimensions in organizations
 - 3.5 2nd round of refelctions / questions / further steps

Financial Resilience – Setting the stage

- Why (financial) resilience?
- Resilience as the capacity to deal with shocks/uncertainty
 - Capacity to absorb shocks/recover quickly (*bouncing back*)
 - Capacity to cope with the unexpected and thrive in times of adversity (*bouncing forward*)

Relevance for
(managing) local
governments?



<https://www.stewartgroup.co.nz/we-love-to-write/2018/9/8/in-money-week-lets-talk-about-financial-resilience>

SLOW BURNING

THE CRISIS OF NORTHAMPTONSHIRE

mismanagement and / or insufficient external funding
(austerity programme)?

County Council
Formed in 1889

Population: 741.209 (2017)



Adult social services



Children and families



Schools and education



Highways



Waste and recycling



Libraries



Adult learning



Country parks

The crisis (hit / became visible)...


In **February 2018**, the statutory financial officer for Northamptonshire County Council issued a **section 114 notice**, indicating that it was at risk of **spending more in the financial year than the resources it has available**, which would be unlawful.

■ What is a section 114 notice?

- A notice issued by a council when it **does not have enough money** to meet its expenditure (inability to “balance the books”)
- This includes the withdrawal of any financial reserves
- It means the authority does not have the confidence it can bring its spending under control
- The notice **bans all new expenditure**, with the exception of safeguarding vulnerable people and statutory services.

05.02.18

Northamptonshire becomes first council in 20 years to issue major spending ban

 BBC News

Northamptonshire County Council bans spending again

Jul 24, 2018

Vulnerability to crisis?

Role of external factors?

"Government cuts are pushing our councils into crisis, and the crisis in Northamptonshire is the canary in the coal mine. [...] we have yet to see [the] government recognise the appalling **consequences of their austerity programme** for people up and down the country“ (Andrew John Gwynne, MP)

Red faces at a true-blue council

Northamptonshire council has gone bust. Who is to blame?

<https://www.economist.com/britain/2018/03/22/northamptonshire-council-has-gone-bust-who-is-to-blame>

Role of internal factors?

“...a reckless half-decade in which it **refused to raise council tax** to pay for the soaring costs of social care, preferring to **patch up budget holes with accounting ruses and inappropriate use of financial reserves...**“ (Patrick Butler, 01/08/2018, The Guardian)

Financial Resilience – Setting the stage

Environmental conditions

Cuts in external funding:

49.1%

real-terms reduction in government funding for local authorities, 2010-11 to 2017-18

28.6%

real-terms reduction in local authorities' spending power (government funding plus council tax), 2010-11 to 2017-18

Population growth:

| | Population in 1987 | 30 years to 2016 |
|------------------|--------------------|------------------|
| Northamptonshire | 561,300 | 30.6% |
| England | 47,300,400 | 16.8% |
| East Midlands | 3,925,300 | 20.4% |



Adult social services



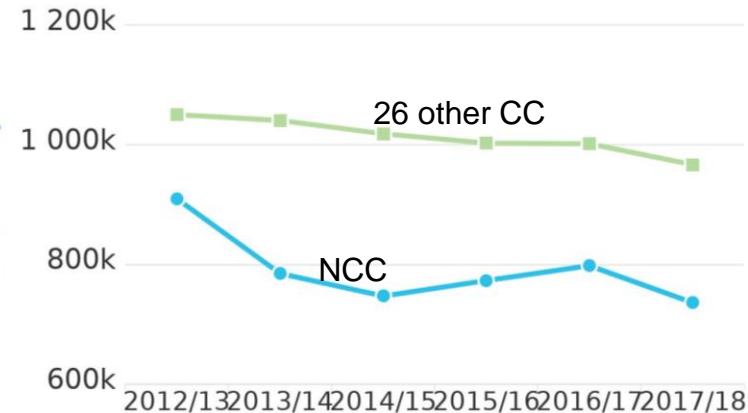
Children and families



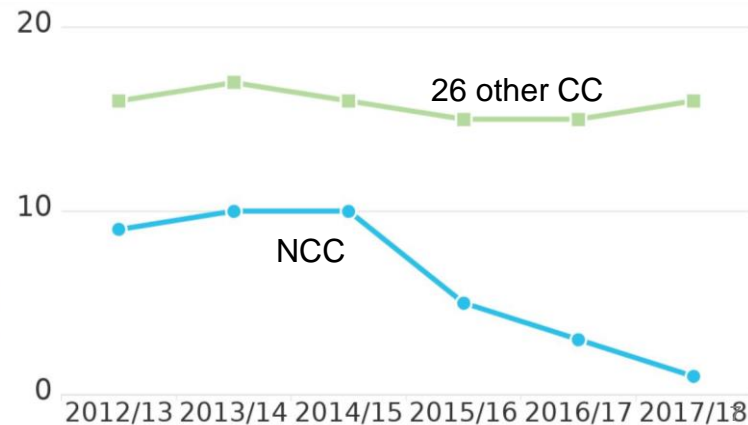
Schools and education

Development of Financial Measures

Net current expenditure - all services (RS)
(Adjusted to 17/18) (from 2012/13 to 2017/18)



Total non school reserves level at 31 March (RS) (per 100 £000s)
(Adjusted to 17/18) (from 2012/13 to 2017/18)



Did they see it coming?

05.01.2017

Northamptonshire County Council is at risk of 'insolvency' due to financial crisis, claims district council

31.07.18

Efforts to stop Northamptonshire County Council spending were ignored three years ago

Outgoing chief finance officer slams 'ill-informed' spending over last four years at Northamptonshire County Council

The Authority's financial position has been under heavy scrutiny. It is more important than ever that those charged with governance are able to make properly-informed decisions based on clear and robust information. It is unclear how the finance reports currently provided to Cabinet fulfil this function. External Audit Interim Report 2017/18 (May 2018) - Northamptonshire County Council

Mike O'Donnell, from the Chartered Institute of Public Finance and Accountancy (Cipfa), said the council reached its current situation "in large part a result of failure of leadership to act upon clear warning signs".

Responses to crisis

■ Proposed Action Plan

- Extended controls on expenditure
- Radical Service Reductions and Efficiencies
 - Road maintenance
 - Home-to-school transport
 - Waste Management
 - *Museums and libraries (plan to close/sell 21 of 36 libraries, but...)*
- Maximising Income
- Where appropriate transfer services to other organisations
- Establish a Strategic Coordinating Group
- Improve Financial Management and Planning
- Establish a Transformational Task Force
-

*“This **action plan** outlines the approach we are going to take, which includes **rigorous controls on spending, recruitment and contracts**. These decisions will be made based on the **core spending priorities** discussed by full council yesterday”
(Council Leader, 02/08/2018)*

Financial Resilience – Setting the stage

09.08.18

Northamptonshire ploughs ahead with ‘radical’ service and job cuts

17.04.18

Troubled Northamptonshire sells HQ for £64m to avoid ‘far more service cuts’

29.11.18

Government rescues ‘dysfunctional’ Northamptonshire with £70m bailout

10.05.18

Government commissioners sent into bankrupt Northamptonshire council

01.08.18

Northamptonshire sets up dedicated crisis team as council floats bare-bones ‘Core Offer’

30.11.18

New children’s services commissioner takes over at Northamptonshire

30.01.19

Northants given special dispensation by government to raise council tax by 5%

29.03.19

Spending ban over Northamptonshire County Council lifted

Northamptonshire: Unitary authorities plan approved

21.03.19

Commissioners report that Northamptonshire’s finances have ‘improved considerably’ but still risk ahead

04.07.19

Northamptonshire CC delivers ‘remarkable’ multi-million underspend

The council is set to be closed and replaced

Two new unitary authorities (1 April 2021)

■ Why resilience?

- Northamptonshire an exception?
- The management of shocks, crises, unexpected events – new «routine» for local governments
- Understand which capacities enable local governments to deal with these (often) disruptive and uncertain events affecting their financial and also non-financial performance.
- Gap in literature (back in 2012)
 - General focus on central government level and cutback/austerity measures
 - Financial management literature has focused on “types of reactions” to crises, without paying enough attention to internal capacities and path dependence
 - Some studies in organizational literature about the role of management capacities in facing crises/adversity
 - Need for integrating them?

Financial Resilience – Setting the stage

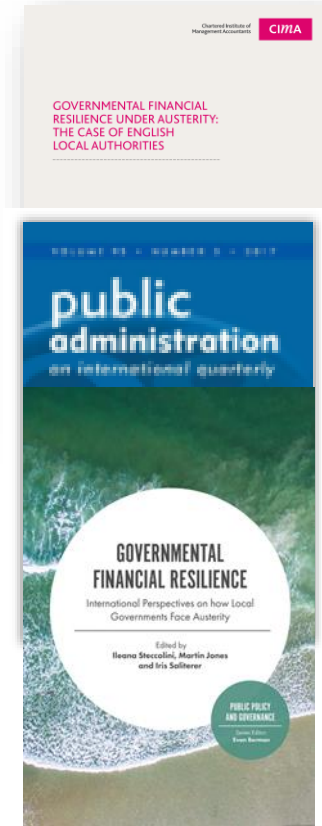
- Why resilience?
 - In the face of austerity and shocks, risk of short termism, focus on contingent, one-off responses or even fatalism...
 - go beyond a focus cutback management and decline (Bozeman 2010) and adopt a strategic view
 - explore wider complexities/nuances of responses to crises – politics and policy institutional effects, organizational practices; their changes, implementations and delivered outcomes (Boin et al. 2009, Lodge and Hood 2012, Peters 2011)
 - Resilience as useful concept
 - alternative view on LGs ability to anticipate, absorb, and react to shocks affecting their finances
 - capturing pressures and stimuli from external environment, internal capacities and capabilities as well as their interplay over time
 - and offering the conceptual basis for integrating different research streams.

2. Financial Resilience Framework – a multiple case study approach

2.1 Background

Development of the concept (2012 – 2016)

- Triggering Event: Global financial crisis
 - used the global financial crisis to uncover resilience dimensions, as some of its dimensions become visible only in times of disruption (Barbera et al. 2015)
- Multiple case study approach
 - multiple case studies (4) with local governments in the UK*
 - multiple case studies (12) with English, Italian, and Austrian local governments (concept development)
 - to capture and explore the dimensions
 - and emerging patterns of financial resilience in local governments
 - 45 case studies from 11 countries (Australia, Austria, Brazil, England, France, Germany, Greece, Italy, the Netherlands, Sweden, US)



2.1 Goals

Adopting a financial resilience perspective

- Perspectives and dimensions
 - Engineering (Bouncing Back) Perspective and Evolutionary (Bouncing Forward) Perspective.
 - Resilience as result of various broad dimensions: situation awareness, anticipation, vulnerability, coping capabilities...
- (Our) Contribution
 - Enrich resilience literature and integrating different research streams by identifying and operationalizing the internal and external **dimensions of financial resilience**
 - Explore whether their development and interaction over time gives rise to different **resilience patterns**
 - Better understanding of **how capacities evolve** over time
 - Provide insights on necessary **external conditions** and **organizational capacities** to face shocks in a long term perspective

2.2 Research Design/ Methods

Research Design

- Multiple case study (12 cases)
 - Context: Local governments in three European countries (different administrative traditions, different financial vulnerabilities):
[Austria](#), [Italy](#), [England](#)
 - Case selection:
 - Similar administrative responsibilities and functions in their respective countries
 - Different combinations of financial performance and related volatility
 - (i) meaningful and comparable measures of financial performance (ie, budgetary position and its volatility over time) were identified;
 - (ii) a preliminary analysis was performed to check all the potential local authorities positioning and most common combinations in terms of such performance measures;
 - (iii) for each country and for each of the most common combinations one case was selected.

Performance (normalised budgetary position) and Volatility (Standard Deviation) over 10 year period (2002-2011).

2.2 Methods – Selection of Cases

(Performance (normalised budgetary position) and Volatility (standard deviation))

| Austria | Italy | England |
|--|--|---|
| <p>Normalized budgetary position = (Surplus/deficit t – Surplus/deficit t-1) / total operating revenues</p> <p>Surplus/deficit = (cash + revenues to be recovered- commitments to be paid)</p> | <p>Normalized budgetary position = (Surplus/deficit t – Surplus/deficit t-1) / total operating revenues</p> <p>Surplus/deficit = (cash + revenues to be recovered- commitments to be paid)</p> | <p>Normalized budgetary position = contribution to unallocated reserves / net expenditure</p> <p>In England net expenditure is reported net of direct income and service specific government grants, and is presented as balancing with the main non-specific sources of income (general government grants, local taxation and contributions to/from reserves).</p> |

2.2 Methods – Selection of Cases

| Budgetary Position Volatility | Negative | Around Zero | Positive |
|----------------------------------|----------------------------------|----------------------------------|----------------------------------|
| Low | - | I1 (ITA) E1 (ENG) A1 (AUT) | - |
| High | I2 (ITA) E2 (ENG) A2 (AUT) | I4 (ITA) E4 (ENG) A4 (AUT) | I3 (ITA) E3 (ENG) A3 (AUT) |

2.2 Research Design/ Methods

Data collection

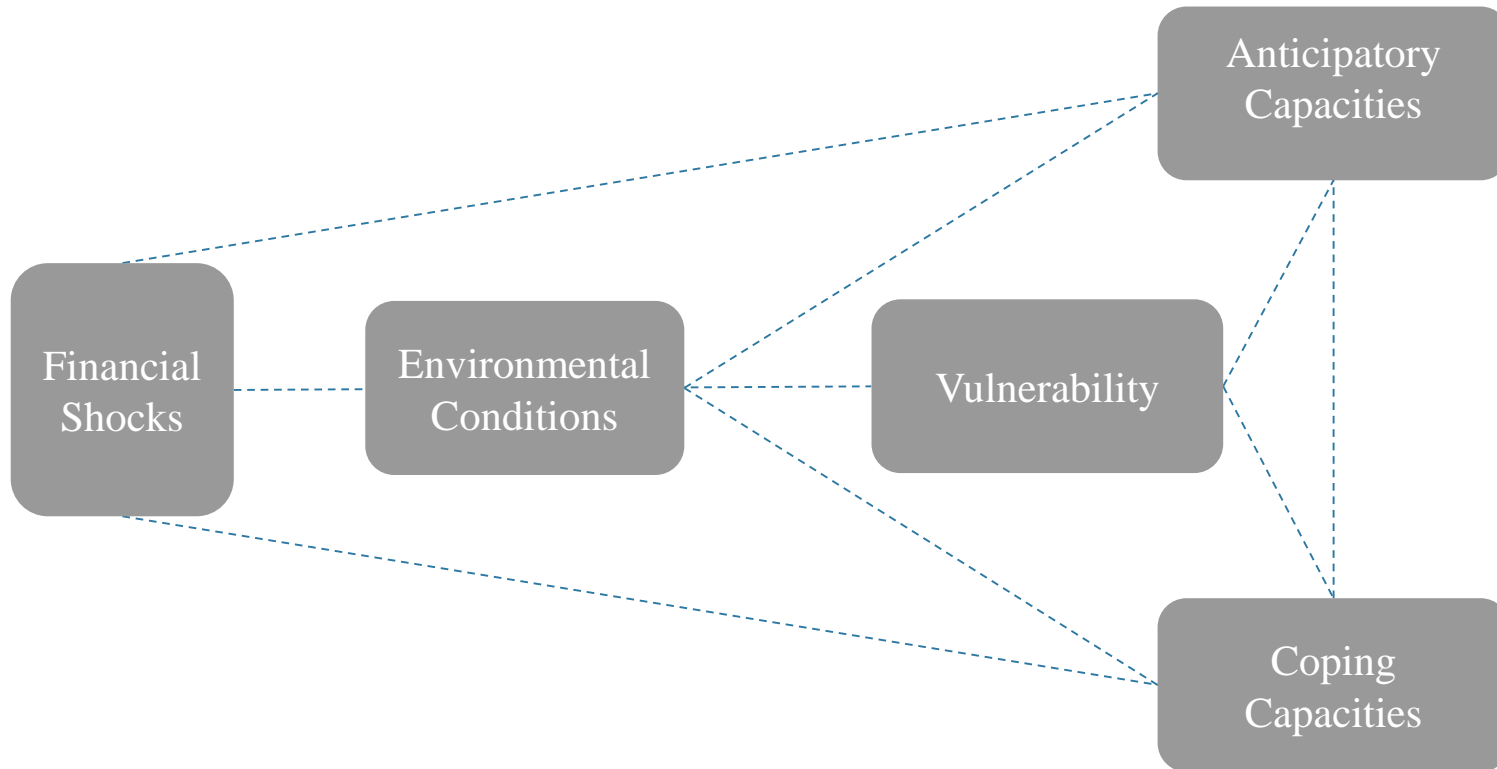
- Multiple case study (12 cases)
 - Up to 3 interviews for each case (in sum 30) conducted between 2013 and 2015
 - Chief executive officers (CEOs) and financial directors (CFOs)
 - Majority (26/30) of interviewees had been working in the respective LG for more than 10 years
 - Interviews included open-ended questions on the financial health of the LG, its main financial and non-financial goals, the main risks and shocks faced by the LG, and how LGs had identified and responded to them
 - Triangulation of interviews and of other data sources was relied on to corroborate the collected information
 - Other data sources: Media Coverage, Audit Reports, Financial Reports

2.2 Research Design/ Methods

Data analysis

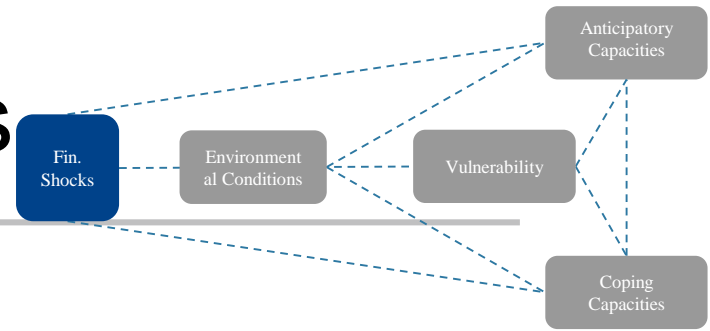
- Multiple case study (12 cases)
 - From the interviews major themes arose, which were discussed and compared again with the empirical materials as well as with the extant literature
 - Statements were validated using data triangulation (see data sources)
 - Initial emergence of broad dimensions of resilience, further developed into new and more focused categories through continuous iteration between the case data and the extant literature:
 - In each country the data were coded and classified according to the broad themes and categories and then compared and aligned across countries. These categorizations were compared with contributions from the literature streams discussed above, and coding schemes were revised.
 - The final coding categories and their relationships were examined to identify underlying patterns and reach the final conceptualization (i.e. dimensions) of financial resilience.

2.3 Dimensions of financial resilience



(Carmela Barbera, Martin Jones, Sanja Korac, Iris Saliterer, Ileana Steccolini, "Governmental financial resilience under austerity in Austria, England and Italy: How do local governments cope with financial shocks?", *Public Administration*, DOI: 10.1111/padm.12350)

2.3 Financial shocks



Financial Shocks

- unexpected external or internal events with significant, long-lasting impact on finances
 - direct (e.g. reduction in transfer payments or taxes, failure of PPP/PFI)
 - indirect (e.g. demographic changes, natural disasters, government policy)
- (In our context) Global Financial Crisis as triggering event

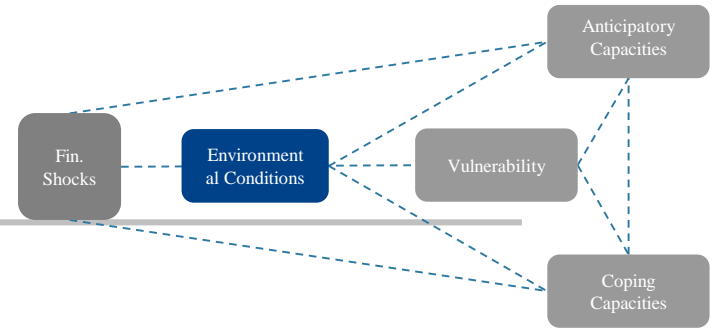
“Today we have lower revenues from building permits... this is the consequence of the economic crisis.” (BO, I4)

“The big change was certainly the financial crisis in 2008 [financial crisis].” (CFO, A4)

“I think it [the financial crisis] was a shock, it was very shocking.” (CEO, E3)

“...our savings target overnight went up [austerity] from £127 to £157 million over a 5 year period and that I would say was a shock.” (CFO, E3)

2.3 Environment



Environment

- (1) Institutional Conditions

- The system of rules, regulations, policies set by upper governmental levels and under which local governments operate (e.g. level of autonomy, budgeting and accounting rules)

“We have the most centralized system of resource allocation [fiscal autonomy] to be found anywhere in Europe, so therefore our dependency on the priorities of central government...” (CEO, E1)

“We have no control over the bigger part of revenues and expenditures [fiscal autonomy].” (CFO, A3)

“Every year the law changes [fiscal regulations/ uncertainty] – the Stability Pact, transfers.” (CFO, I4)

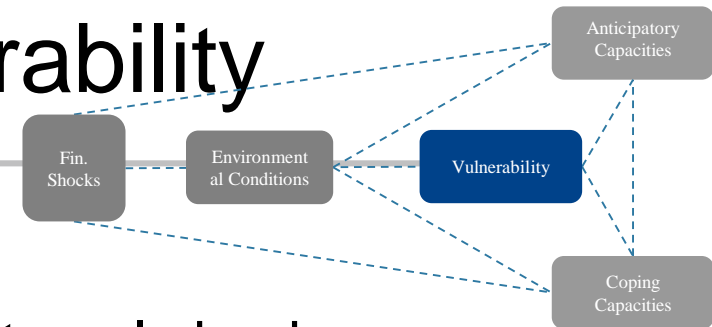
- (2) Economic and (3) socioeconomic context

- Economic conditions (e.g. strong and/ or diversified economic base)
- Social and demographic characteristics of the LG population (e.g. decreasing/ increasing population, affluent/ deprived population)

“Luckily we have financially strong businesses that pay a lot of municipal taxes.” (CEO, A4)

“There has been a gradual deterioration of the ability of citizens to pay. ... and the percentage of unrealized revenues is increasing. [increasing deprived population].” (CFO, I4)

2.3 Perceived Vulnerability



Vulnerability

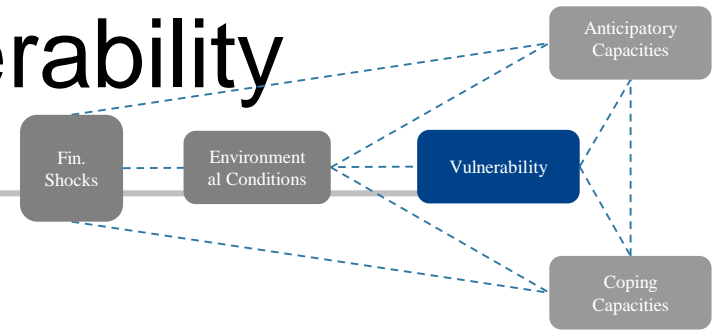
- Perceived level of exposure to a external shocks
- Financial vulnerability levels and sources before the shock and their evolution over time
- External and internal factors contributing to the level of vulnerability
 - e.g. uncertain revenue bases, diversification of income, uncertain transfers
 - e.g. rigidity of expenditure, debt level, reserves

“We operated with losses [budget deficits] for three years. ...It was a drop in grants, drops in municipal taxes [undiversified and unstable revenue sources]. ... This was massive, going into millions....” (CEO, A2)

“We ... are one of the Italian Municipalities with the lowest level of debt.[low debt financing].”(CFO, I1)

“If you look at our balance sheet you will see that it is extremely healthy in terms of sitting on reserves and cash levels.” (CFO, E1)

2.3 Perceived Vulnerability



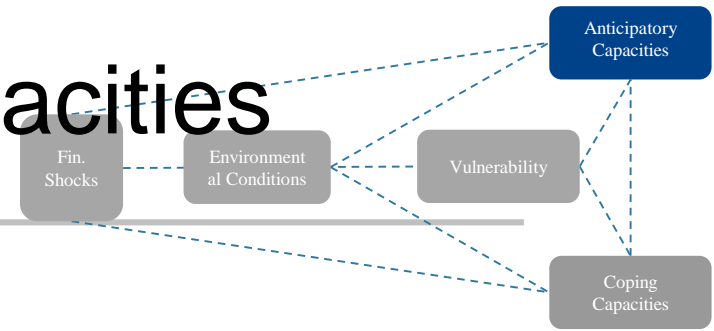
Vulnerability

- Not the specific level of vulnerability but rather the sense of ‘owning’ or being able to control it (i.e. being able to manage it and/or influence its sources).
- At the interface between the environment and the organization.

“...The city has climbed out of the cliff, and we are hanging now on the edge. I do not want to be totally pessimistic, but the city is in a delicate enough position that one disaster would force it into emergency management. (CEO, USM2)

“During the last crisis, in 2008, we lost revenue shares, but we handled the situation well. As it seems to be getting better now, we have to start building up a financial buffer again.” (CEO, A)

2.3 Anticipatory capacities



Anticipatory Capacities

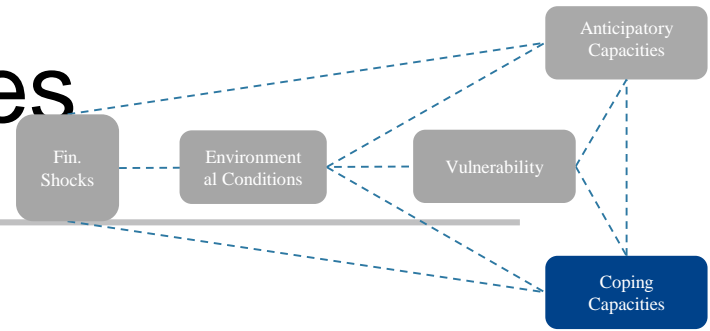
- The ability to identify and manage LG vulnerabilities, to recognize (potential) shocks in an early stage, and to understand their impact on the LG
 - Tools that are used to monitor the environment and help to identify and manage LG vulnerabilities (**instrumental perspective**)
 - Actors' mental processes of knowing, including awareness, perception, reasoning and judgment (**cognitive perspective**)
- The tools can exist or be built up internally driven, or externally driven, e.g., instruments required by upper governmental levels

"...regularly look at those risks, revise the lists and you update them." (CEO, E2)

"The economic crisis [...] it caught us unprepared because we did not recognize its dimension." (CFO, A2)

"Most people hadn't anticipated but we had. We have also put £10 million aside 14/15 for any residual on [...] the appeals side" (CFO, E1)

2.3 Coping capacities



Coping Capacities/ Strategies

- The ability to deal with the impact of shocks and disturbances
- These capacities lie dormant in times of order and become visible in times of disruption (shock) through coping strategies
- Three types of coping
 - **Buffering:** The ability to absorb the impact of a shock without changes in its structure or function (e.g. use of reserves, virement, slack resources)
 - **Adapting:** The ability to implement incremental changes to extant structures and functions without changing underlying principles, culture, values
 - **Transforming:** The ability to implement radical changes, characterized by new ‘rules of the game’, i.e., changes in the structure, function, goals and values of the LG

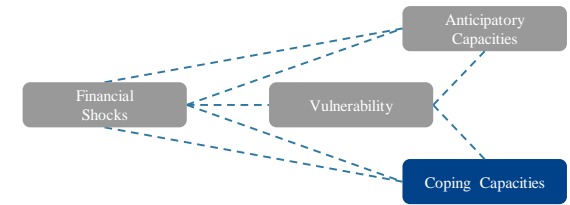
Breadth of of coping capacities/strategies:

Limited – only buffering

Selective – several coping actions of buffering and adapting

Comprehensive – the full use of the spectrum of coping actions in buffering, adapting and transforming

2.3 Coping capacities



Buffering

- Mainly financial measures and service related measures, retrenchment-oriented, one-off measures

*“When the crisis came in 2007/2008, we immediately tried **to reduce our spending**, [...] **to defer investments or maintenance** [defer investment, defer expenditures].” (CFO, A3)*

*“When the crisis hit, the city buffered by pushing a retrenchment strategy, that is refinancing debt, selling assets, cutting overhead costs, and **cutting services to a minimum**.” (CEO, USM1)*

“The mayor decided to constrain all current expenditures, including extra hour compensation, motor vehicle maintenance and gas, printing costs, travel, capacity building programs, utilities, etc.” (CFO, Brazil1)

Buffering Strategies across 45 cases : cost cuts, selling of assets, increase in fees and charges, decrease in subsidies to associations, decrease in personnel costs, use of reserves, prioritization of investments, deferring investments and expenditures, reduction of secondary public services, reduction of public services quality and number, increase in debt, ...

2.3 Coping Capacities

Adapting

- Financial, organizational and service-related measures

“Several reorganizations have occurred ... reduction of organizational positions ... reduction of allowances for managers.” (CEO, I4)

“ [...] we developed collaborations, worked with other communities. [...] So collaboration, the willingness to work with other businesses, besides other cities..... (CEO, USM3)

Adapting Strategies across 45 cases : organisational restructuration processes, increasing efficiencies, increasing collaborations/ partnerships, task reviews, enhancing internal competencies, enhancing performance management, enhancing control of external subsidiaries, restructuring services (mergers), implementation of urban renewal and development plans, proactive approach towards attracting businesses, re-targeting services users, brake on debt, ...

2.3 Coping Capacities

Transforming

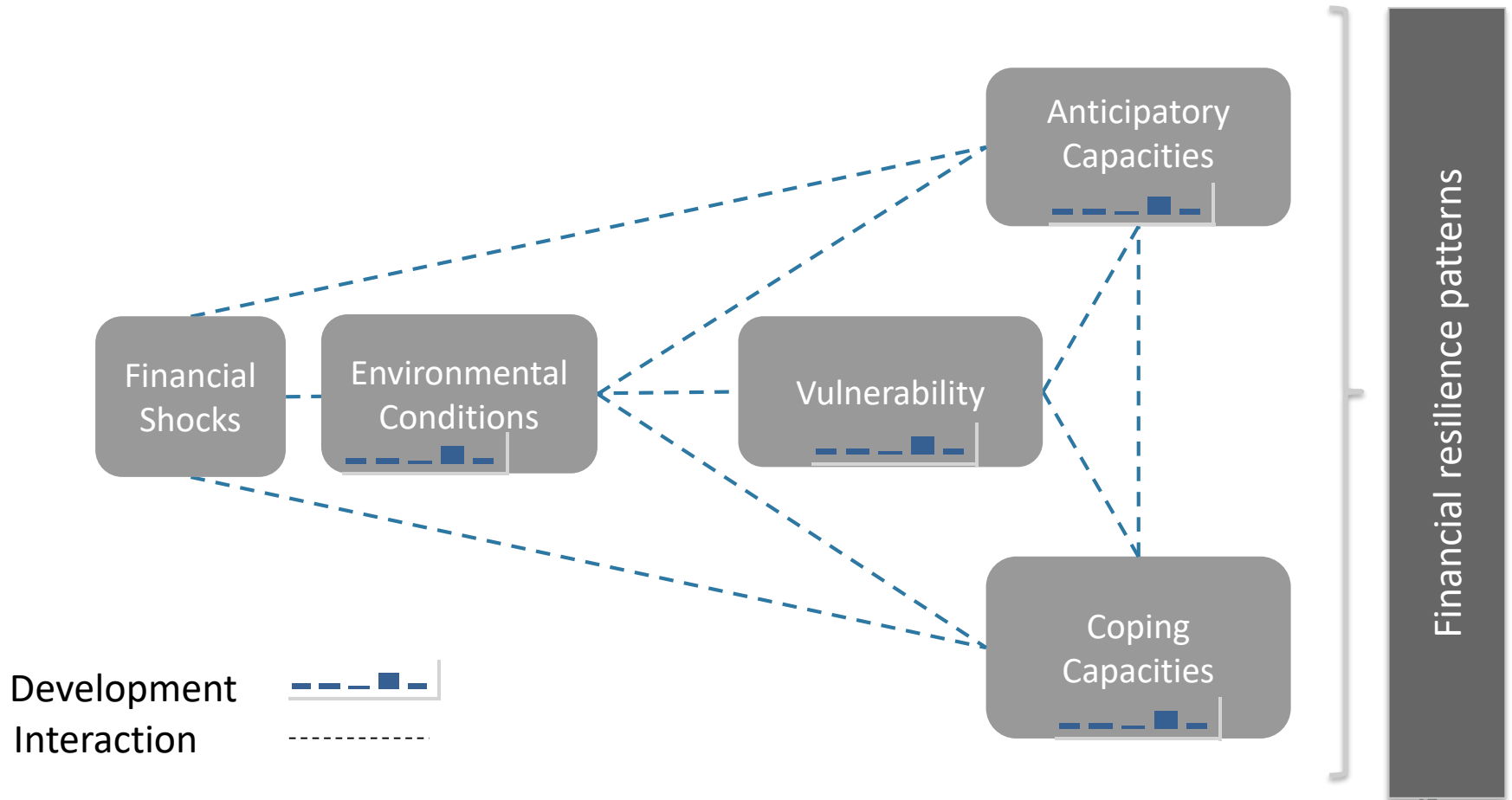
- (Long-term) Financial and organizational measures

“The ultimate goal, ... a self-sustaining financial base.” (CEO, E1)

“I would say our goals have kind of turned around that we are trying to make sure we are generating income and that we are self-sufficient and we can do what we want and carry on providing important services without any requirement of government funding has on us. [financial self-sufficiency]. In some ways it ought to make it easier planning in the future and not relying on the vagaries of government settlements.” (CFO, E2)

Transforming Strategies across 45 cases : increasing autonomy and becoming financial self-sufficiency (alternative income sources), new local government profile, new identity, mergers, ...

2.4 Financial resilience patterns: interaction and development of dimensions



(Carmela Barbera, Martin Jones, Sanja Korac, Iris Saliterer, Ileana Steccolini, "Governmental financial resilience under austerity in Austria, England and Italy: How do local governments cope with financial shocks?", *Public Administration*, DOI: 10.1111/padm.12350)

2.4 Emerging patterns of resilience

Self-regulation/Pro-active (A1, E1, E2, I1)

- Shocks as opportunities
- Good anticipatory before and after the crisis,
- Good understanding of their specific vulnerability
- Able to internally develop and employ full range of coping capacities
- Ready to adapt or transform to shape external environment to create
- Ability to manage

Constrained Adaptation

- Shocks as opportunities
- Unable or not yet in a position to shape external environment
- Good anticipatory capacities
- Constantly and proactively a

Contented Fatalists – (A3, A4)

- Wealthy and less vulnerable before crisis
- Weak anticipatory capacities
- Downplay emerging vulnerabilities
- Relying on absorbing shocks should they occur
- No investing in anticipatory and coping capacities
- ‚Resting on laurels‘

Capacity-driven strategies vs. Context-driven strategies

Reactive

- Acceptance of environment
- Varying levels of vulnerability and anticipatory capacity
- Need trigger to activate deployment or building of capacities
- Strengthen anticipatory capacity after crisis
- Wide range of coping capacities but focus on adaption

Threat or slipping into fatalism
 opportunity of seeking more path in future

Powerless fatalists – (I2, I3)

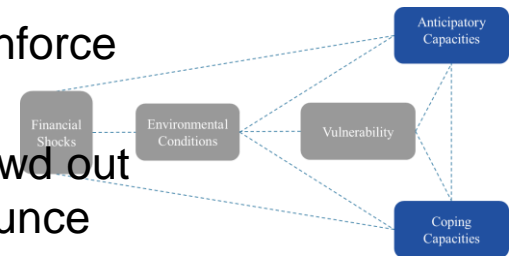
- Crisis exceeds capacities
- Fatalist mode, externally driven and constrained by external pressures
- Anticipatory capacity expected to increase
- Reliance on buffering capacity prevails
- Less willing to take ownership of changes
- Poor understanding of vulnerabilities

2.5 Discussion and Implications

Role of different dimensions in explaining patterns

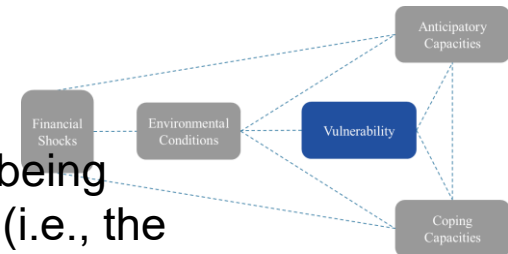
- Role of internal capacities

- Anticipatory Capacities and Coping Capacities reinforce each other, reducing vulnerabilities
- Heavy exploitation of buffering capacities may crowd out the development of other capacities needed to bounce forward, resulting in higher levels of vulnerability



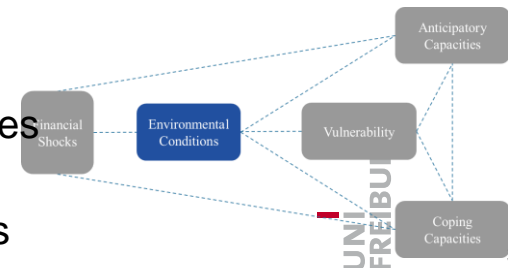
- Major role of Vulnerability

- result of both external and internal factors
- ‘endogenization’ of vulnerability (i.e., the sense of being able to influence its sources) or its ‘exogenization’ (i.e., the sense of being unable to control its sources) (*owning the vulnerability*)



- External environment important

- enhancing/inhibiting the development of internal capacities (anticipatory capacities, coping capacities/strategies)
- but not sufficient in explaining financial resilience patterns



2.5 Discussion and Implications

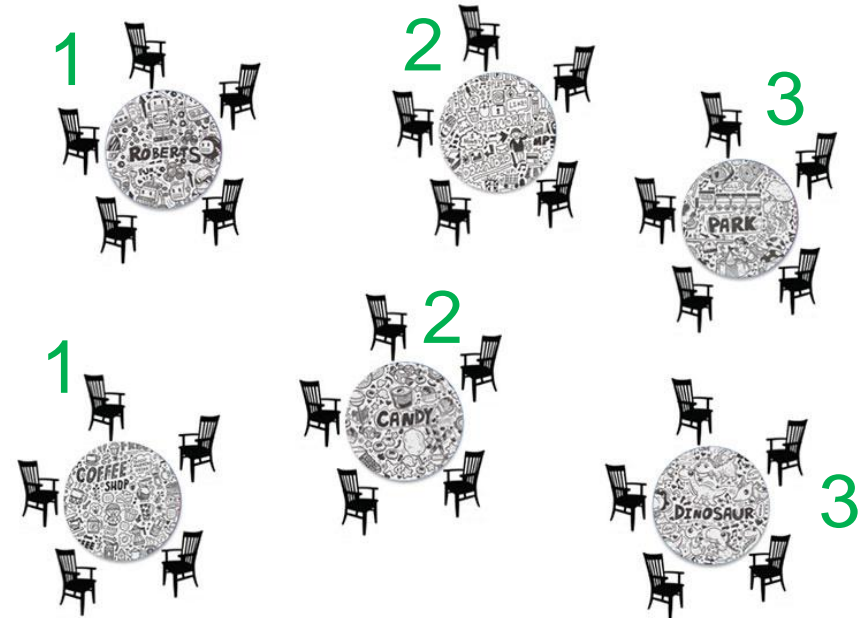
Dimensions and patterns of financial resilience

- Conceptual lens of resilience
 - proved useful in describing and explaining how LGs anticipate, absorb and cope with external shocks
 - provides integrating perspective – pressures and stimuli from des **environmental conditions** (Boyne & Meier 2009, Hendrick 2011), and **internal capacities** (Linnenluecke 2017)
- Link between financial performance (budgetary position, volatility) and financial resilience pattern could be observed only for self-regulators
- Application to a wider range of cases and countries 45 cases
 - led to some adjustments to and refinements of the framework
 - its main dimensions proved applicable across all cases and across the globe - in different public administration traditions.

Further/ Practical implications?

(Group) Assignment

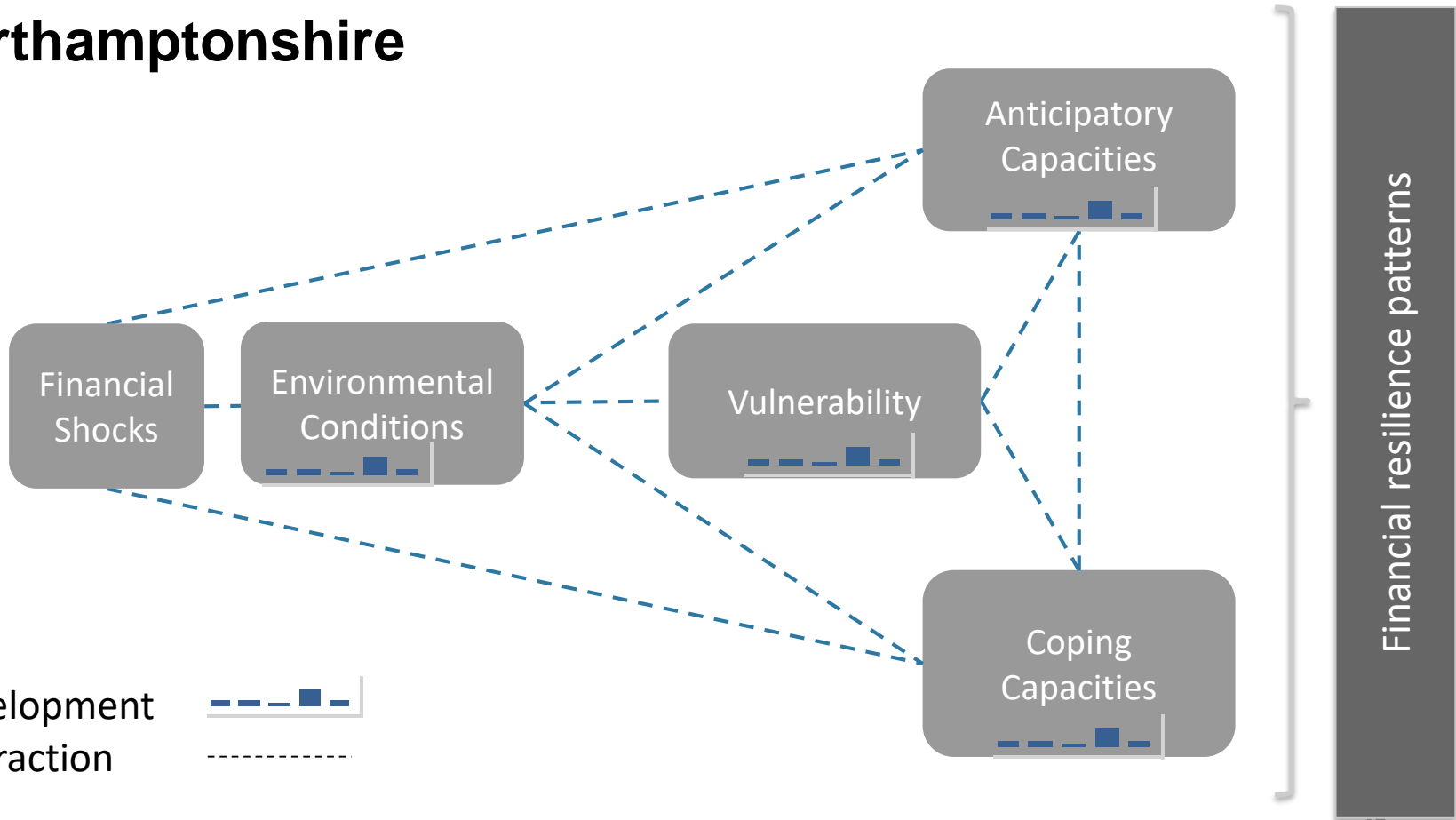
- Please read the assigned text (1,2, or 3) and try to make sense / think about the questions (individually) (10 min)
-
- Discuss the questions and possible answers in your group.
 - Write down the (a) **five most important** aspects **and** (b) the **five most unexpected** aspects that you think need to be further explored.... (20 min)
-
- share it with the audience (2 minutes each group)



Important: It is not necessary to discuss/ answer all questions – they just serve as impulse...

2.5 Going back to Northamptonshire

Northamptonshire



(Carmela Barbera, Martin Jones, Sanja Korac, Iris Saliterer, Ileana Steccolini, "Governmental financial resilience under austerity in Austria, England and Italy: How do local governments cope with financial shocks?", *Public Administration*, DOI: 10.1111/padm.12350)

Podcast

Episode Summary

In this episode of Local Gov Life, Kurt Wilson, City manager of Stockton California discusses his city's fiscal crisis and its aftermath.

<https://local-gov-life.simplecast.com/episodes/local-gov-life-s02-episode-04-navigating-fddece97>



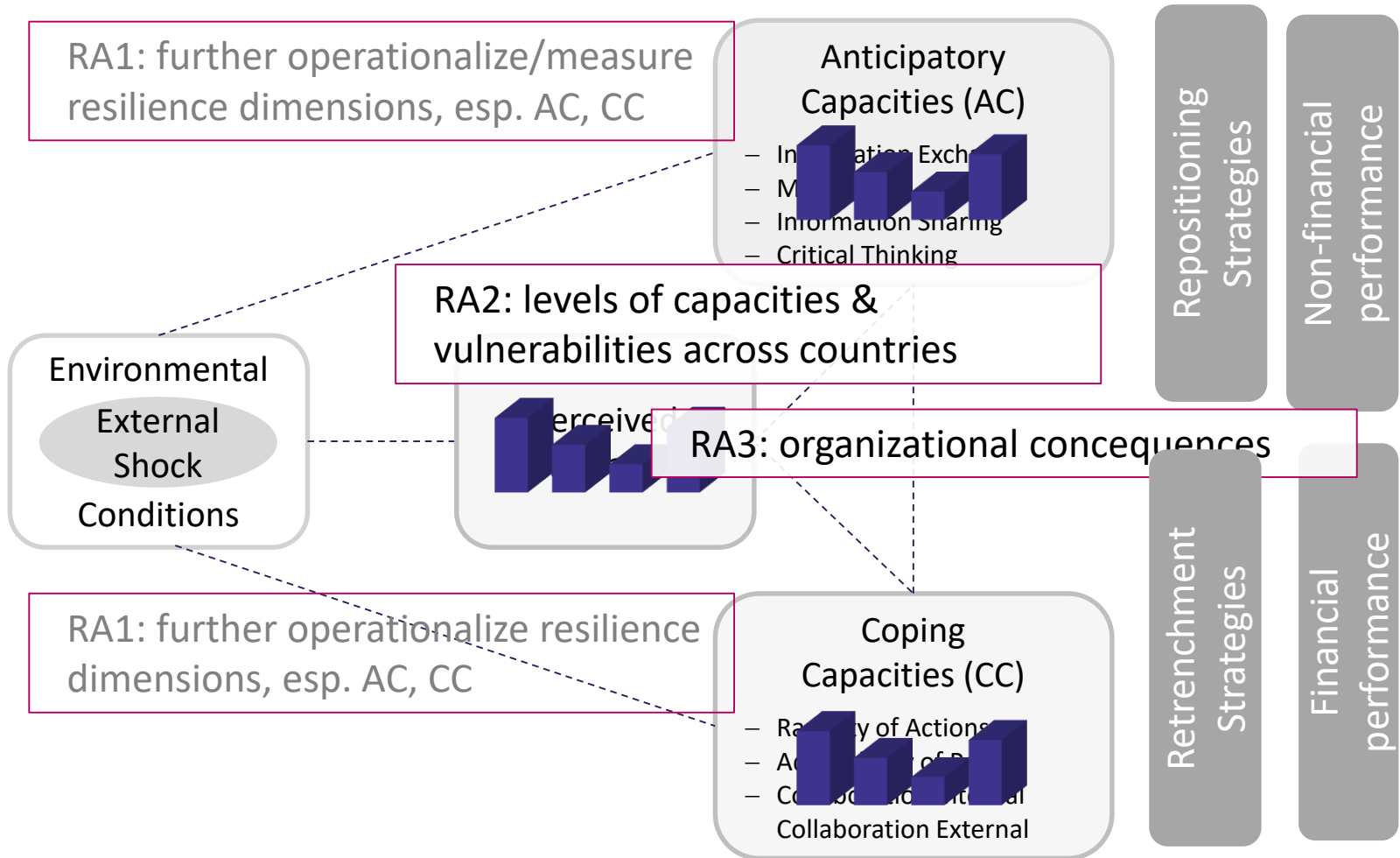
3. Further developing Financial Resilience – a quantitative view

3.1 Research Aims

- **Building on preceding research** on governmental financial resilience, aim to
 - **asses and further explore organizational capacities that enable LGs to face shocks and unforeseen events**
 - operationalize dimensions that shape governmental (financial) resilience applying a **quantitative research design**
- **Enhance understanding of LG financial resilience**
 - RA1: develop a survey instrument to further operationalize resilience dimensions, esp. Anticipatory and Coping Capacities
 - RA2: analyze the levels of (financial) resilience capacities (capabilities), and vulnerabilities, highlighting possible profiles of financial resilience across country contexts
 - RA3: analyze their main dimensions and organizational consequences, i.e. their relationship with financial and non-financial performance and different types of strategies

IMPACT: Provide practical guidance that allows LGs to assess and develop internal capacities in order to be better equipped to cope with disruptive events

3.1 Analytical Framework/Aims

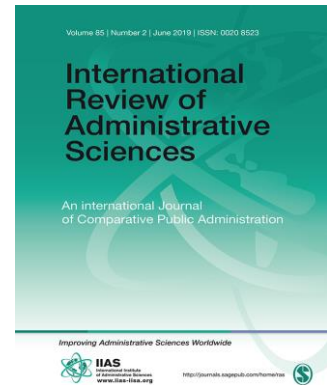


Reliability
Validity

3.2 Research Design/Methods

Research Design

- Quantitative Design
- Context
 - Local governments in three European countries (different administrative traditions, different financial vulnerabilities): Germany, Italy, England
- Stratified sampling approach
- Survey of chief executive officers, chief financial officers, and service managers
 - Pre-test of questionnaire in Jan 2017
 - Main survey June-December 2017
- Survey complemented with archival financial and socio-demographic data (10 year period)



3.2 Research Design/ Methods

Germany, Italy and UK: Main features (Barbera et al. 2019)

| | Germany | Italy | UK |
|---|--|--|---|
| Population in 2013 | 80,523,746 | 59,685,227 | 63,905,297 |
| GDP per capita in Euro 2013 | 34,884.1 | 26,958.1 | 31,562.3 |
| Administrative tradition | Continental European federal model | Continental European Napoleonic/Southern model | Anglo-Saxon model |
| Level of decentralization | Federal | Unitary ("Quasi") | Unitary |
| Local government expenditure in % of total government expenditure (2013) | 16.3% | 28.6% | 25.1% |
| No. of local governments (LAU 2 2013) | | | |
| Total | 11,116 | 8,092 | 418 |
| Population 5,001-15,000 | 1,919 | 1,674 | 1 |
| Population > 15,000 | 961 | 737 | 416 |
| Regional distribution of LG > 5,000 | Total: 2,880 West: 2,358 East: 522 | Total: 2,411 North: 1,592 South: 819 | Total: 417 England: 352 Scotland: 32 Wales: 22 Northern Ireland: 11 |

3.2 Research Design/ Methods

Germany, Italy and UK: Sample characteristics (Barbera et. al. 2019)

| | Germany | Italy | UK |
|--|-----------------------------------|-------------------------------------|--|
| Sample¹ | | | |
| Total | 1,921 | 1,574 | 406 |
| Population 5,001-15,000 | 960 | 837 | 1 |
| Population > 15,000 | 961 | 737 | 405 |
| Regional distribution of sample | West: 1,586 East: 335 | North: 1,022 South: 552 | England: 351 Scotland: 32 Wales: 22 |
| Responding LGs | | | |
| Total | 295 (15 %) | 268 (17 %) | 64 (%) |
| Population 5,001-15,000 | 157 (16 %) | 133 (16 %) | -- |
| Population > 15,000 | 138 (14 %) | 135 (18 %) | 64 (%) |
| Regional Distribution | West: 246 (16%) East: 49 (15%) | North: 200 (20%) South: 68 (12%) | England: 55 (16%) Scotland: 4 (13%) Wales: 5 (23%) |

¹ The smallest LGs (below 5,000) were excluded on the one hand to ensure to have a manageable number of responses, and on the other hand due to restrictions with regard to the accessibility of financial data for local governments with a population below 5,000 in Germany. In Italy the accessibility of e-mail addresses is a major issue. Moreover, smaller local governments (below 5,000) are generally subject to different law requirements with regard to their financial management systems, and they enjoy a specific funding system as well as support policies

3.3 Comparison across countries: the shocks

Diversity of perceptions on shocks

Impact of shocks

Germany Italy UK



Brexit concerns only UK LGs

Financial crisis felt more in UK and Italy ...

Italy the most affected by regulations

Germany is the most affected by refugee influx

<https://www.cimaglobal.com/Research--Insight/Local-government-financial-resilience-Germany-Italy-and-UK-compared/>

3.3 Comparison across countries: financial vulnerability

Financial Vulnerabilities

Germany Italy UK



Italian municipalities are the ones feeling less worried about their level of debt

German LGs are the ones which perceive their sources of vulnerability as being the most serious

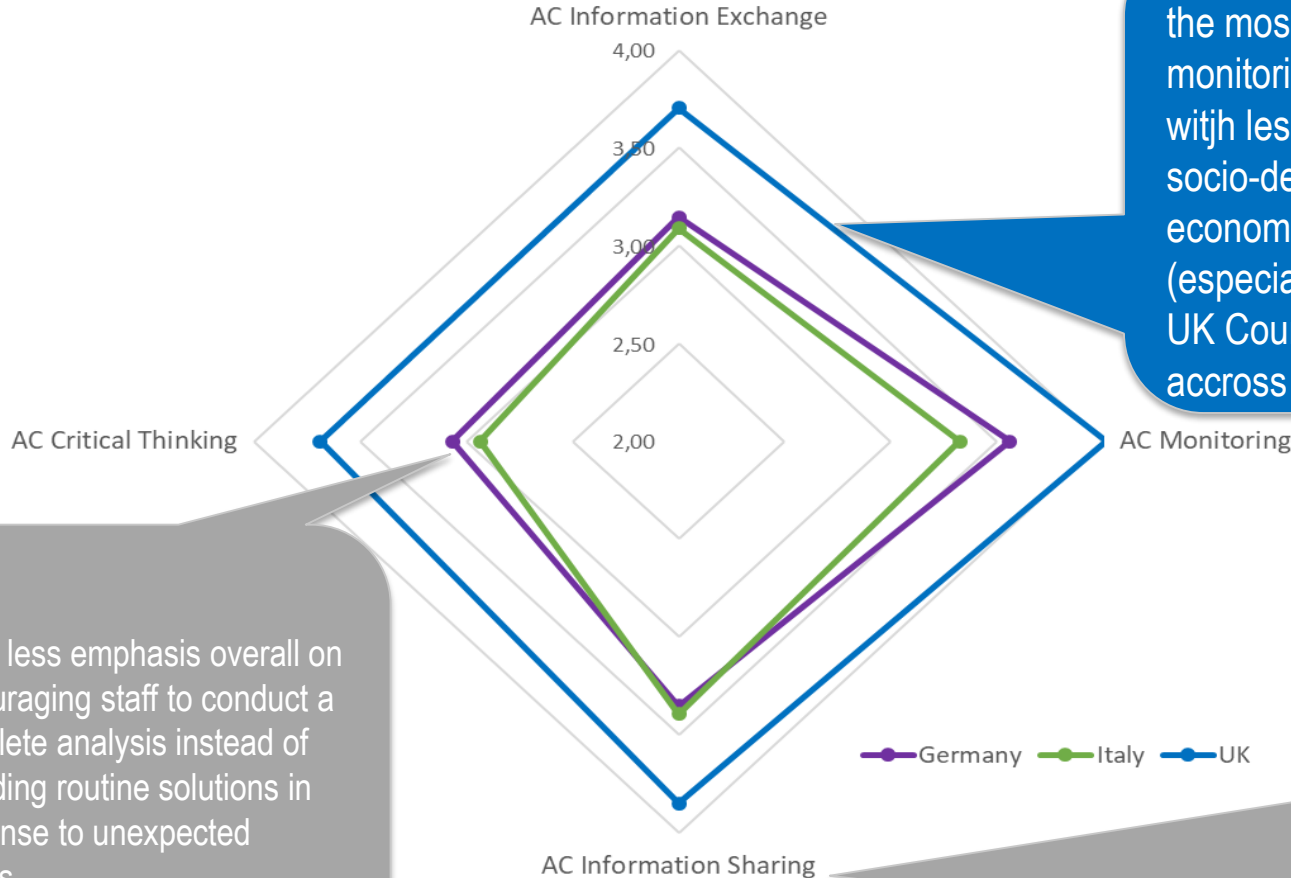
1 = do not agree at all
5 = fully agree

UK Councils are generally the ones feeling more autonomous, less worried about the volatility of own revenues and having more reserves...

Overall, LGs appear to be more worried about their financial autonomy and volatility of revenues and less about debts and the availability of reserves

3.3 Comparison across countries: Anticipatory capacities

Anticipatory Capacities across Germany, Italy and UK



Changes in rules and regulations the most relevant subjects of monitoring in all three countries, with less attention devoted to socio-demographic and economic developments (especially in Italy)
UK Councils being frontrunners across all AC dimensions

Much less emphasis overall on encouraging staff to conduct a complete analysis instead of providing routine solutions in response to unexpected events.

Information sharing valued highly in the UK
Less quick sharing in German and Italian local governments

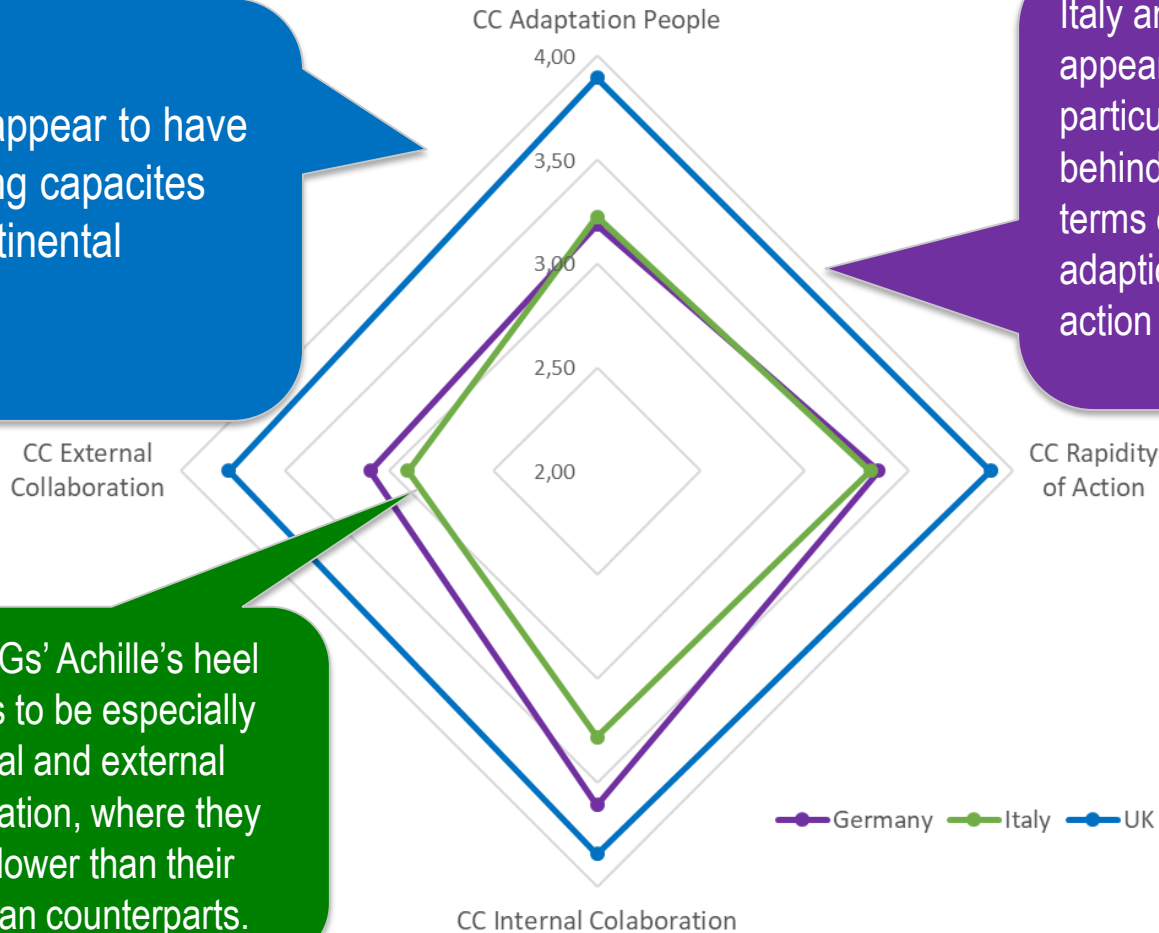
3.3 Comparison across countries: Coping capacities

Coping Capacities across Germany, Italy and UK

UK Councils appear to have stronger coping capacities than their continental counterparts

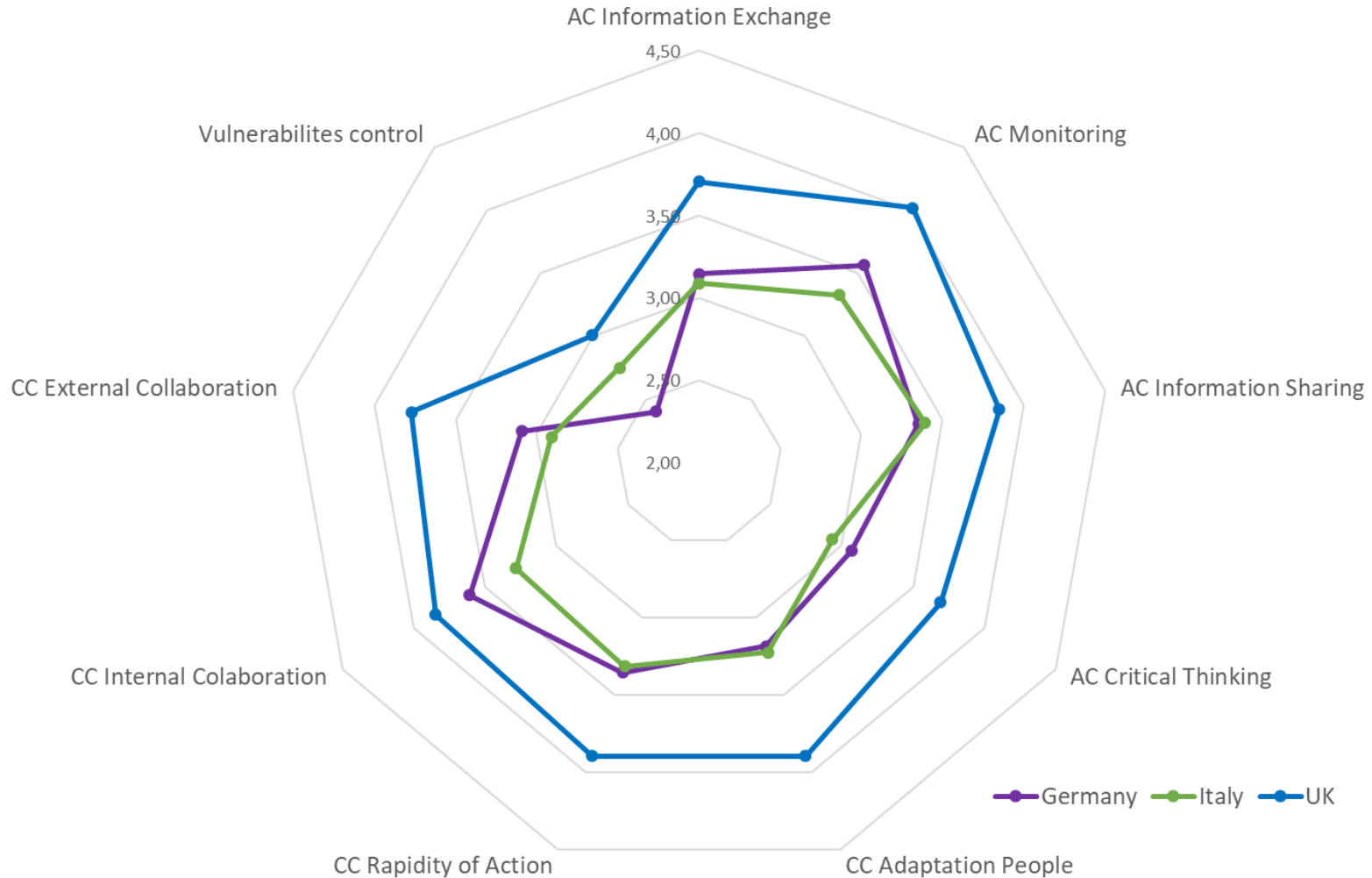
Italy and Germany appear to be particularly lagging behind, especially in terms of capacity for adaption and rapidity of action

Italian LGs' Achille's heel appears to be especially internal and external collaboration, where they score lower than their European counterparts.



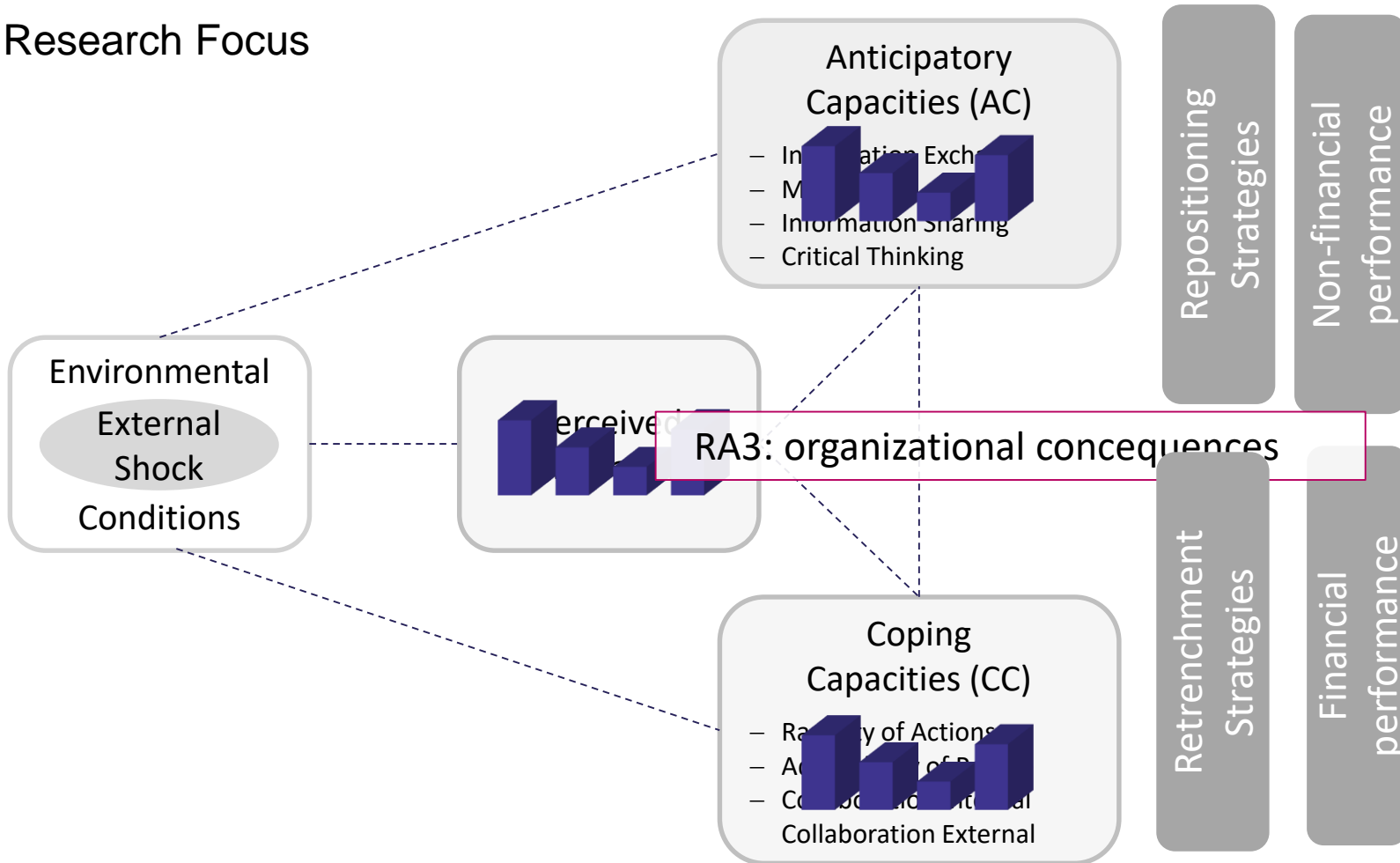
3.3 Comparison across countries: overall resilience

Local Government resilience profiles across Germany, Italy and UK



3.4 Organizational Consequences

Research Focus



3.4 Organizational Consequences: Performance

Two aspects of local government performance

Local Government Performance

Local government performance is expressed by **financial as well as non-financial performance**.

Financial government performance is measured as comprising three dimensions, covering short- and long-term aspects (the ability to pay for long-term obligations, the ability to pay for the existing level and quality of services now and in the future, the ability to generate sufficient revenues to pay expenditures).

Non-financial government performance is measured as comprising seven key dimensions (quality of services, efficiency in service delivery, goal effectiveness, responsiveness of services, success in developing innovations, reputation of work excellence, commitment/morale of staff).

3.4 Organizational Consequences: Performance (accross countries)

| | Germany | Italy | UK | Total |
|---|---------|-------|------|-------|
| Ability to pay for long-term obligations | 3.92 | 3.68 | 3.55 | 3.79 |
| Ability to pay for the existing level and quality of services now and in the future | 3.52 | 3.47 | 2.85 | 3.43 |
| Ability to generate sufficient revenues to pay expenditures | 3.17 | 3.36 | 3.20 | 3.24 |
| Financial Performance | 3.53 | 3.50 | 3.20 | 3.49 |
| Quality of services | 3.54 | 3.33 | 3.90 | 3.50 |
| Efficiency in service delivery | 3.29 | 3.17 | 3.97 | 3.32 |
| Goal effectiveness | 3.21 | 3.27 | 3.80 | 3.29 |
| Responsiveness of services | 3.28 | 3.25 | 3.75 | 3.32 |
| Success in developing innovations | 2.92 | 3.05 | 3.72 | 3.05 |
| Reputation of work excellence | 3.22 | 3.07 | 3.77 | 3.22 |
| Commitment/morale of staff | 3.59 | 2.62 | 3.75 | 3.25 |
| Non-Financial Performance | 3.29 | 3.11 | 3.81 | 3.28 |

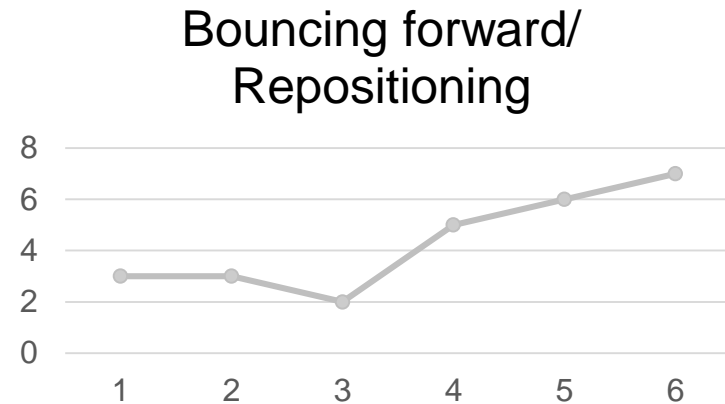
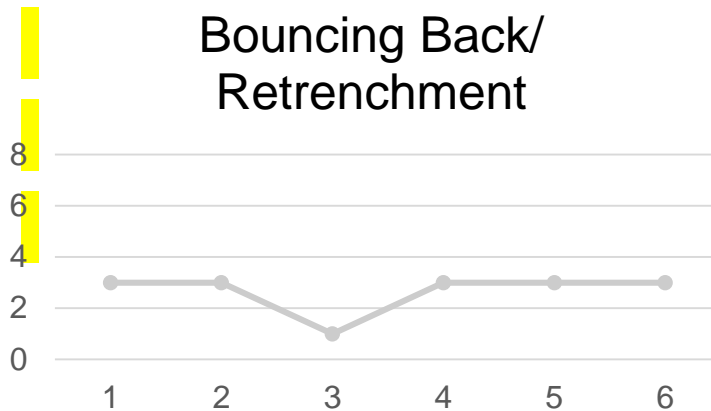
3.4 Organizational Consequences: Performance

| Role of... | Anticipatory Capacities | | Coping Capacities | | Fin. Vulnerability | | | |
|-------------------------------------|-------------------------|------------|--|-----------|---|------------|-----|-----|
| | Non Financial | Financial | Non Financial | Financial | Non Financial | Financial | | |
| Local Government Performance | | | | | | | | |
| AC Information Exchange | ** | | <p>✓ Monitoring activities, free information sharing and the rapidity of actions still show a positive association with financial performance</p> | | | | | |
| AC Monitoring | *** | ** | | | | | | |
| AC Information Sharing | *** | ** | | | | | | |
| AC Critical Thinking | ** | | | | | | | |
| CC Rapidity of Actions | | | *** | * | <p>✓ The main enablers/inhibitors of financial performance are however the various vulnerability sources.</p> | | | |
| CC Adaptability of People | | | *** | | | | | |
| CC Collaboration Internal | | | ** | | | | | |
| CC Collaboration External | | | *** | | | | | |
| V Low indebtedness | | | <p>✓ Anticipatory and coping capacities in general show a strong association with non-financial performance of local governments (explaining 38% and 41% respectively)</p> | | | | | ** |
| V High financial autonomy | | | | | | | ** | *** |
| V Low volatility own-revenues | | | | | | | | ** |
| V Sufficient reserves | | | | | | | *** | *** |
| Average impact shock (Control) | | - *** | ** | - *** | *** | - *** | | |
| Explanatory Power | 38% | 10% | 41% | 5% | 12% | 35% | | |

*** < 0.001; ** < 0.01; * < 0.1

3.4 Organizational Consequences: Response strategies

- Two types of response strategies



Bouncing back/ Retrenchment

reduced existing services

deferred/reduced investments

increased fees and charges for services

liquidated assets in order to raise capital

eliminated some services

Bouncing forward/Repositioning

changed the way it delivers services

changed the priorities of traditional activities

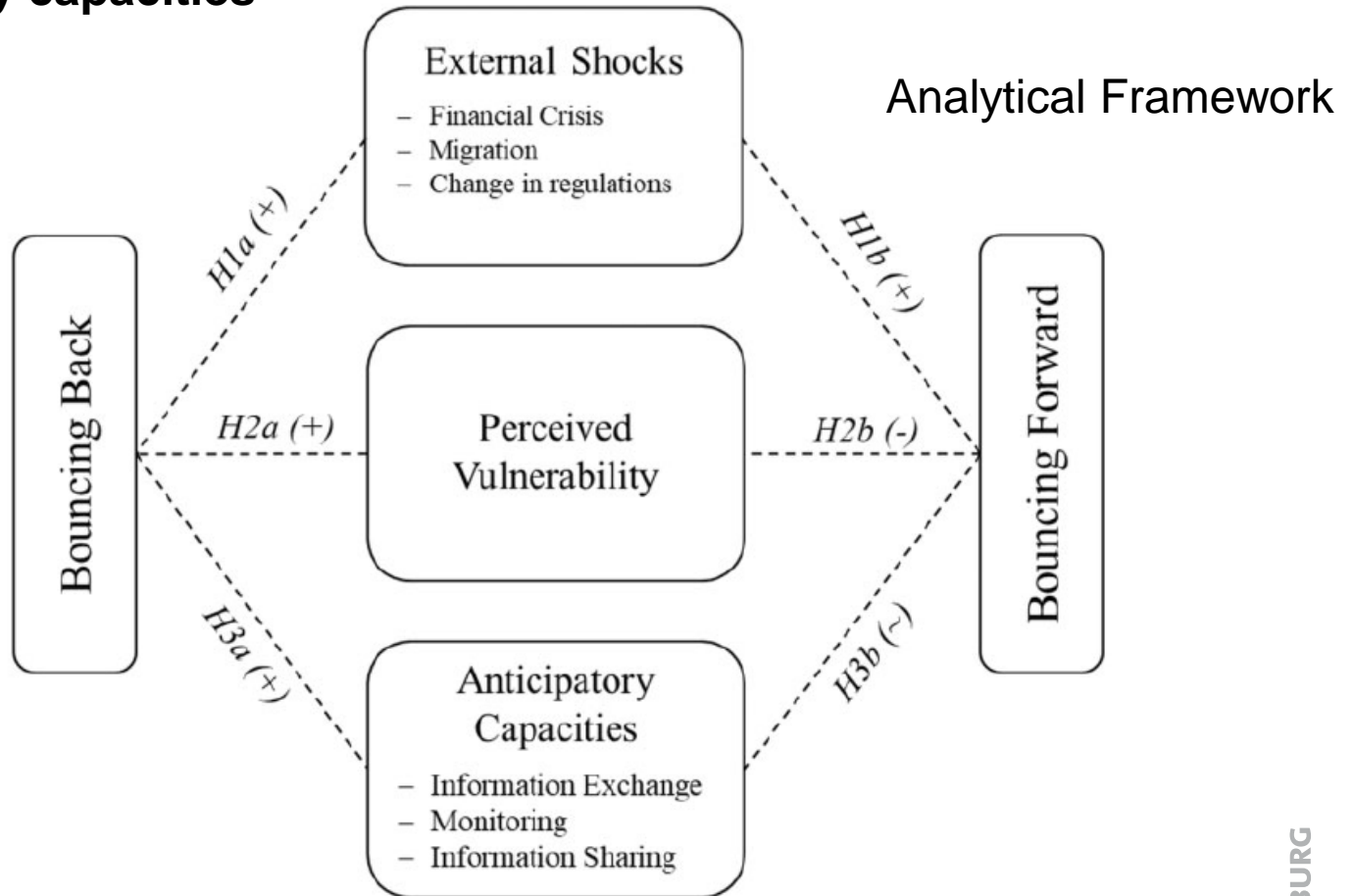
changed its internal structure

extended its existing services

established new services

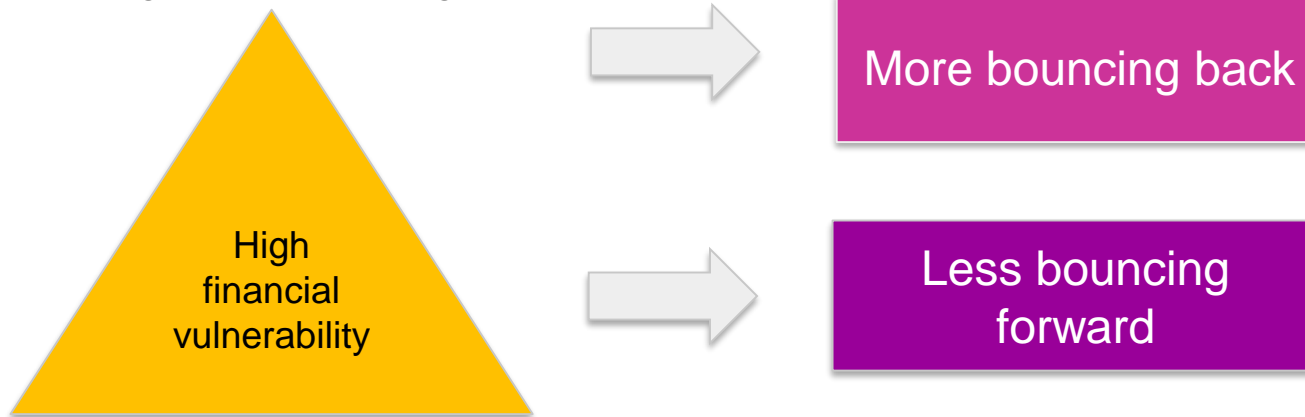
3.4 Organizational Consequences: Response strategies

Bouncing back or bouncing forward? The role of vulnerabilities and anticipatory capacities

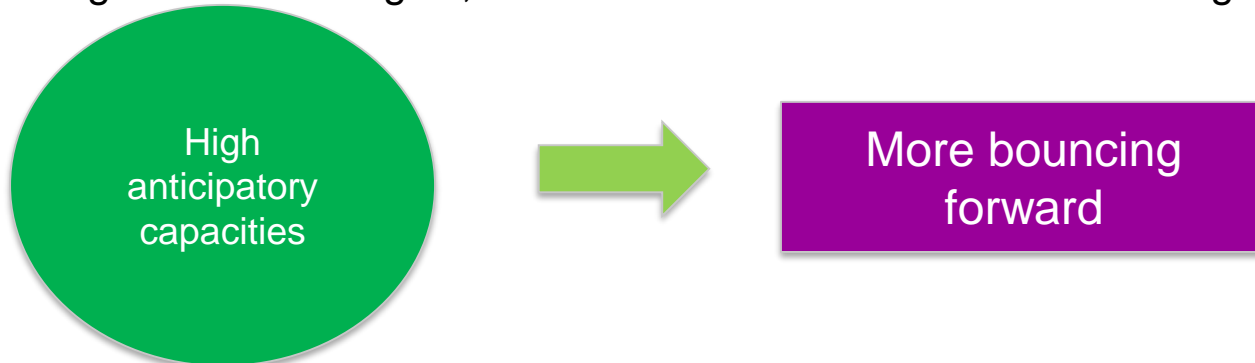


3.4 Organizational Consequences: Response strategies

- All *types of shocks* encourage both bouncing back and bouncing forward responses
- Higher financial vulnerability encourages bouncing back strategies and discourages bouncing forward strategies



- Anticipatory capacities (and especially information exchange) facilitate the adoption of bouncing forward strategies, and have NO association with bouncing back strategies



3.5. Discussion and Implications

- The resilience framework allows uncovering the internal capacities and capabilities that act as shaping forces within organisations.
- The quantitative research conducted on LGs in Germany, Italy and the UK shows that
 - although they are located in different administrative traditions, **similar local governments' resilience dimensions** can be identified across the three countries.
 - While country-specific LG financial resilience profiles show that particularly LGs in UK score significantly higher on all dimensions the results need to be considered with caution. However, the multiple case study showed similar results.
- It is important to highlight that the conceptual framework aims to assess the dimensions at the **organisational level** and to analyse their relationships and organizational consequences.

3.5. Discussion and Implications

- The quantitative **research on performance** shows that
 - Importance of internal (coping, anticipating) capacities and perceptions of vulnerability
 - Anticipatory and coping capacities play a crucial role in enhancing the **non-financial local government performance** while the identified vulnerabilities are strongly related to financial performance
 - Combination of resilience dimension is required to sustain or improve levels of financial and non-financial performance
- The quantitative **research on strategies** shows that
 - **Financial vulnerability encourages** bouncing back strategies and inhibits bouncing forward strategies
 - Anticipatory capacities encourage bouncing forward strategies
 - The analysis supports previous qualitative findings as anticipatory capacities appear to co-occur with adaptive behavior (Barbera et. al 2017)
 - Limitation: Cross-sectional study, **currently follow-up survey** in Germany and Italy

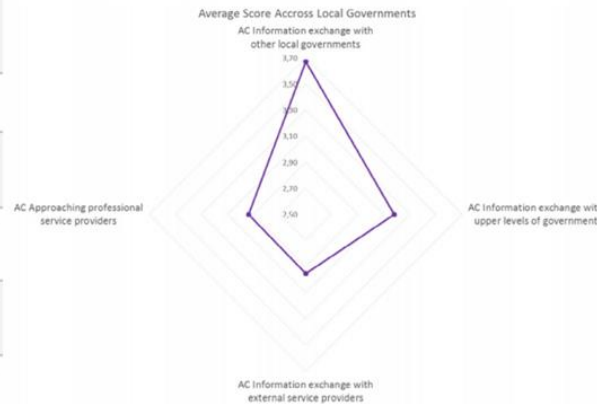
Practical Implications

The «financial resilience toolkit»

Translating the findings of our research (and our framework) into a tool to be used as a support for

- Assessing anticipatory and coping capacities, and perceived vulnerability
- Identifying possible critical areas or strengths

| Is my organisation able to anticipate unexpected events? | | Anticipatory Capacities (1): Information Exchange | | | | |
|---|--|---|---|---|---|---------------|
| 1 | <p>Does the local government have a clear understanding of the environment?</p> <p>Being aware of the external environment is essential in order to anticipate potential shocks and to identify and manage key local government vulnerabilities.</p> | | | | | |
| | In my local government: | 1 = Never | 2 | 3 | 4 | 5 = Regularly |
| | ▶ exchange information with other local governments | 1 | 2 | 3 | 4 | 5 |
| | ▶ exchange information with upper levels of government | 1 | 2 | 3 | 4 | 5 |
| | ▶ exchange information with external service providers | 1 | 2 | 3 | 4 | 5 |
| | ▶ approach professional service providers such as consultants, or tax consultants/accountants | 1 | 2 | 3 | 4 | 5 |
| Critical Assessment and future steps: e.g. improve degree of information sharing with other local governments, upper level of government etc. | | | | | | |



Next steps:

Organizing workshops in Austria, Germany, Italy, UK, France to discuss the financial resilience toolkit with Council finance officers and refine it

Find 'the austerity playbook' on YouTube



<https://www.youtube.com/watch?v=H41wC2o-cm8>

Based on ground breaking research by Professor Laurence Ferry (Durham University) and Professor Ileana Stecollini (Newcastle University) into how austerity unfolded in Newcastle and across the world, Andre Pink (Dende Collective) in association with Mark O'Thomas and Andrea Vicari Present a new work in progress jazz musical 'The Austerity Playbook'.

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