European local authorities' financial resilience in the face of austerity: a comparison across Austria, Italy and England

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ABSTRACT

European local authorities have been particularly stricken by the current context of decline and cutback management, and represent an ideal place where to study how governments respond to shocks affecting their financial conditions and management.

Along these lines, this paper adopt the perspective of financial resilience for looking at the current context of austerity, and related responses, by shedding new lights on the role of internal capacities and conditions in influencing such responses and, ultimately, performance. Through a multiple case study analysis based on 12 European local authorities in Austria, Italy and England, the paper identifies the main shocks perceived by local management, the related short-term and long-term responses, highlighting the dynamics of financial vulnerabilty, awareness, anticipatory capacity, flexibility and recovery ability (ie, financial resilience) in its interaction with the external context and shocks. From the analysis, four patterns of resilience emerge: pro-active resilience, adaptive resilience, passive/fatalist resilience, complacent resilience.

Keywords: financial resilience; financial management; fiscal crisis; municipality; resilience; austerity.

Introduction: the Need for Conceptualizing Financial Resilience

For more than thirty years public administration theories and practices have been strongly permeated by the search for efficiency, economy and effectiveness, heralded by the NPM, re-inventing government and similar public sector modernization movements (Hood, 1991, 1995). This predominance has been increasingly questioned in the face of NPM shortcomings and the recent economic downturn and fiscal crisis. Indeed, the latter are posing unprecedented challenges to governments, pressured to cutback expenditure while at the same time responding to an increasingly heterogeneous demand and playing a role in the economic recovery and growth (Pandey 2010). Questions have thus arisen on how individuals, organizations and systems can enhance their responses to shocks (Meier, 2009; Meier et al., 2010) and whether recent crises have opened a paradigmatic gap, whereby NPM (or Public Governance) are no longer the predominant models, but a new one has yet to come (Coen and Roberts, 2011). New conceptual lenses as well as unusual or innovative solutions might be needed to develop a better understanding and better cope with these challenges. One of these lenses may be resilience.

While some definitions of resilience have focused on the capacity of governments to reduce risks and recover from crises (Holling 1973; Vickers and Kouzmin, 2001; Sutcliffe & Vogus, 2003; Pickett et al. 2004; Shaw 2012; Boin and Van Eeten 2013; Wukich, 2013), resilience can be more generally defined as the ability to "learn how to do better through adversity" (Wildavsky, 1988: 2). So far, resilience literature has adopted a predominantly prescriptive and normative stance, highlighting the need for more empirical research (see, for example, Boin and Van Eeten 2013, 430; Wukich 2013) as well as for the development of operationalizations and specifications of resilience (Dalziell and McManus 2004; Reid and Botterill 2013). This paper addresses this gap by looking at a particular facet of resilience, so far less explored: financial resilience, with the aim of developing a first conceptualization.

Given the theory-building aims of the article, it presents a multiple case study analysis of 12 European local authorities across Austria, Italy and England with a focus over a period of 10 years. Europe is an interesting field of study where investigating financial resilience: as a consequence of the economic and social downturn, and the debt crisis, many European countries witnessed a number of challenges on balancing their public finances. Among these countries, Austria, Italy and England reacted in different ways, by introducing budgetary and policy changes and/or economic stimulus packages. By selecting these three cases we also account for different administrative traditions (Pollitt and Bouckaert, 2004 and 2011; Meyer and Hammerschmid, 2010) and different financial vulnerabilities (as defined in Lodge and Hood, 2012).

This makes the cases under analysis particularly salient for studying reactions to crises and shocks, at the same time, by focusing on multiple and polar cases and a 10 year time span, identifying patterns of behaviors that are of more general relevance to resilience literature and bear general significance for organizations. More specifically, our findings show that, when studying reactions to financial shocks, it is central to consider extant organizational capacities and their dynamic interaction. From the analysis, four patterns of resilience emerge: pro-active resilience, adaptive resilience, passive/fatalist resilience, complacent resilience. These patterns results from both the combination and the dynamics of different vulnerabilities, awareness, anticipatory capacities and reactions. Thus, this study makes a threefold contribution. First, it contributes to the literature on resilience that, in the public sector, has so far adopted a community or organizational perspective but not a financial management perspective. Second, our analysis shows that resilience can be a multifaceted concept, and tries to offer a fine-grained view and definition of different dimensions of (financial) resilience. Third, if traditional literature on austerity, fiscal stress, cutback management and financial difficulties focuses on the contextual conditions and the organizational actions and reactions, our paper looks at the role of organizational capacities in affecting such responses.

The paper is structured as follows. The next section reviews resilience literature and highlights the case for a new emphasis on financial resilience. The third section specifies the methods of the analysis. The fourth section presents the results of the multiple case study analysis; results are further discussed in the fifth section. Finally, section six draws some conclusions.

Towards Financial Resilience: the theoretical background

NPM and similar modernization movements are claimed to have dominated the public administration scene over the last thirty years, with their emphasis on efficiency, economy and effectiveness. Prior to 2008, several authors had started to debate whether NPM could be considered dead and, if so, what its replacement would be (Brunsson and Olsen, 1993; Lapsley, 2008; Osborne, 2010; Pollitt, 2007). This discussion has been accentuated by the recent economic and fiscal crises, which are claimed to have opened a paradigmatic gap (for example, Coen and Roberts, 2012) and have increasingly pointed to the (possible lack and) importance of systemic, organizational and individual capacity for responding to shocks and disturbances (Meier and O'Toole, 2009).

In its well-known paper, Hood (1991) pointed out that parsimony and economy, associated with NPM, are only one possible typology of administrative values among others, other configurations of values being possible, like "theta-type" values, associated with honesty and fairness, and "lambda-type", associated with reliability, robustness and adaptability. Recent events appear to highlight the relative neglect (with notable exceptions, see for example Meier and O'Toole, 2009; Shaw 2012; Boin and Van Eeten 2013), in practice and theory, of the latter type of values, and the importance of recovering an attention towards them. Lambda-type values represent public administration capacity to "keep operating even in adverse 'worst case' conditions and to adapt rapidly in a crisis" (Hood 1991, 14). In the literature, this capacity has often been associated with the concept of resilience (see for example Burnard and Bhamra, 2011; Bhamra, Daniab and Burnarda, 2011; Boin and Van Eeten, 2013). Resilience is, indeed, generally seen as the capacity to deal with uncertainty related with shocks and disturbances (Shaw 2012).

Since its origins in the field of physics and ecology (see Davoudi and Porter, 2012), the concept of resilience has been adopted and extended to other disciplines, including public policy, urban planning, disaster and crisis management (Wildavsky, 1988; Comfort 2002; Vale and Campanella 2005; Pain and Levine 2012; Boin and Van Eeten 2013; Reid and Botterill 2013; Wukich, 2013).

In the following sections we review relevant organizational literature on resilience, both from the public and the private sector, and then advance the case for conceptualizing financial resilience.

Organizational resilience: definitions and dimensions

In general, resilience has been described as a capability for reaction to crises, *bouncing back* to an original state (passive resilience or "rebounding") (Wildavsky, 1988; Holling 1973; Hoffer Gittell et al., 2006; Boin; 2009; Scotti-Petrillo and Prosperi 2011; Show, 2012; Boin and Van Eeten, 2013), or as the capacity to anticipate and cope with the unexpected, *bouncing forward* through the development of new capabilities and the creation of new opportunities (active resilience or "thriving") (Pickett et al. 2004;Gittell et al., 2006;).

Four main dimensions of resilience are generally identified in organizational literature: *robustness, recovery ability, awareness and flexibility.*

Robustness is the capacity to maintain "system performance in spite of exogenous and endogenous uncertainty and change" (Anderies et al., 2004; Anderies, 2006; Anderies et al., 2003; Anderies et al., 2007; Janssen and Anderies, 2007; Janssen et al., 2007; Martin-Breen and Anderies, 2011, p. 41; Burnard and Bhamra, 2011). Robust organizations are enduring and resistant to change (see Kennedy, 1987 and Tuchman, 1985, cit. Carmeli and Markman, 2011) and have a high degree of tolerance to disturbances (Mamouni Limnios et al., 2014). While being plausible in the short term, robustness may not be suitable in the long term as disturbances may destabilize the organization and the need for some changes may arise (Martin-Breen and Anderies, 2011).

Recovery ability (Kendra and Wachtendorf, 2003; Sutcliffe and Vogus, 2003; Välikangas and Romme, 2012; Whitman et al., 2013), is the capacity to restore functionality in a timely way. This capacity can be linked to the presence, within the organization, of adaptive behaviors, bricolage skills, team working and sharing of the decision making power (Mallak, 1998), as well as organizational learning and openness to develop new capabilities (Lengnick-Hall et al., 2011).

Awareness (or preparedness), characterizes those organizations that are able to manage future challenges and to anticipate crises (McManus et al., 2007; Fleming, 2012; Linnenluecke and Griffiths, 2013; Whitman et al., 2013), for example through their planning capacity and practices (McManus et al., 2007; Erol et al., 2010; Fleming, 2012; Linnenluecke and Griffiths, 2013; Whitman et al., 2013) or their organizational proactivity (Erol et al., 2010; Starr et al., 2003).

Finally, *flexibility* represents the ability to change after external and/or internal shocks (see Wildavsky, 1988; De Oliveira Texeira and Werther Jr., 2013; Demmer et al., 2011; Skertich et al., 2012; Välikangas and Romme, 2012; Pal et al., 2014; Ates and Bititci, 2011). Being flexible means being able to change as soon as disturbances arise (Ates and Bititci, 2011; Judge and Elenkov, 2005; Weeks et al., 2004), thus to renew over time through innovation processes (De Oliveira Texeira and Werther Jr., 2013; Demmer et al., 2011; Reinmoeller and van Baardwijk 2005), to continuously reconfigure intellectual, financial, technological and human resources (De Oliveira Texeira and Werther Jr., 2013; Pal et al., 2014), business model and strategies (Demmer et al., 2011), behaviours (Välikangas and Romme, 2012), dynamic competitiveness (Pal et al., 2014), as well as to promote creativity within the organization (McManus et al., 2007).

So far, resilience literature has adopted a predominantly prescriptive and normative stance, highlighting the need for more empirical research (see, for example, Boin and Van Eeten 2013, 430; Wukich 2013) as well as for the development of measures and operationalization of resilience (Dalziell and McManus 2004; Reid and Botterill 2013). The literature on resilience in the public sector has often focused on public policy issues (for example, Walker et al. 2006; Maguire and Cartwright 2008; Seville 2009; Shaw 2012; Bailey and Berkeley 2012; Reid and Botterill 2013) or crisis management (for example, Rosenthal et al., 1989, 2001; Boin, 2009; Vale and Campanella 2005; Comfort 2002; Boin and Van Eeten, 2013; Wukich, 2013). However, much less attention has been devoted in this literature to how governments face and absorb external shocks affecting public finances, i.e., financial resilience.

Towards a conceptualization of financial resilience

In recent years there has been a resurgence of scholarly interest towards governmental financial crises and stress, following not only the sovereign debt crises, but also the increasing number of bankruptcies in local authorities and, more generally, the conditions of cutback that are striking many public sector organizations. On the one hand, contributions have been developed on how to predict and detect fiscal distress (for example, Hendrick, 2004; Kloha et al. 2005; Trussel and Patrick 2009; Maher and Deller 2010; Garcia-Sanchez et al. 2012). On the other, literature is growing on how austerity is being tackled by governments (Hendrick, 2011; Klase 2011; Dougherty and Klase 2009; Bozeman 2010; Maher and Deller 2010; Pandey 2010; Scorsone and Plerhoples 2010; Baker 2011; West and Condrey 2011; Sacco et al. 2011; Cepiku and Bonomi Savignon, 2012; Cepiku et al., 2013; Raudla et al., 2013). However, this literature tends to provide classifications of reactions to austerity or crises, often leaving the organizational conditions, capacities and histories, that may affect such reactions, in the background. Moreover, as Bozeman (2010) points out, focusing only on decline and cutback management may cause scholars to miss an important opportunity to build new theories adopting a longitudinal and strategic view on the whole life-cycle of public organizations. This is even more important as we are entering an era of cyclical volatility characterized by rapid re-occurrence of cycles of decline (Pandey 2010). Thus, the present context appears particularly suited to study organizational responses to shocks and crises not only in a specific time and space, which may be an important aim *per se*, but also to capture patterns of behaviors that are of more general relevance to public administration literature and bear general significance for organizations. This requires to look not only at actions and reactions to crises and shocks, but also to better clarify how pre-existing conditions and capacities affect decisions and actions. An interesting effort in this direction is offered by Meier and J. O'Toole (2009) and Meier et al (2010) studies, based on a set of US public school districts, on how shocks impact on performance and how public managers can handle and mitigate environmental shocks. However, these studies are not aimed at exploring in-depth the capacities and conditions that affect organizational responses.

In the light of these considerations, the resilience concept may further prove relevant in several respects. First, it can contribute to the adoption of a long-term and lifelong perspective on organizational capacity to cope with difficult times. Second, it can help to overcome the current traditional focus of management approaches on efficiency, stability and control (Shaw 2012; Leach 2008) and point to the likely importance of flexibility and adaptation, or the enduring capacity to absorb shocks (Hood 1991; Dalziell and McManus 2004; Scotti Petrillo and Prosperi 2011; Breen and Anderies 2011; Pain and Levine 2012).

At the same time, the financial management arena appears to be suited for studying resilience at a time where fiscal stress and shocks are of particular significance. No conceptualization of financial resilience has been provided so far. In response to calls for empirical analyses and operationalizations of resilience, this paper focuses on a specific facet of resilience, ie, financial resilience, and proposes a first conceptualization of it as the capacity of a government to face and absorb external shocks affecting public finances.

Methods

Given the exploratory and theory-building aim of the paper, the analysis is based on a multiple case study of twelve European local authorities across Austria, Italy and England. Case studies appear to be particularly suited for connecting theory and empirical evidence (Yin, 1994) and for exploring current phenomena, i.e. events and situations that are not too far in time and can be analyzed through both documental analysis and interviews with actors (Yin 2009). The next subsections explain the choices as to the context of the analysis, the selection of cases, and how data were gathered and analyzed.

The context: European local authorities

The recent economic and fiscal crises offer a unique opportunity not to be missed to study how governments face shocks. European countries were particularly struck by the crises, and adopted a variety of measures to counteract them. Extant studies show that, in spite of similar regulatory pressures from the European Union, European central states reactions have been diverse (Peters, 2011; Lodge and Hood, 2012). In order to account for this variety, our analysis takes into consideration three major European countries (namely Austria, Italy and England), which are characterized by both different administrative systems (Pollitt and Bouckaert, 2004 and 2011; Meyer and Hammerschmid, 2010) and different financial vulnerabilities (Lodge and Hood, 2012). More specifically, England represents the Anglo-Saxon administrative model and is considered exposed to low financial vulnerability, Austria represents the Continental European tradition and is described as exposed to low financial vulnerability, whereas Italy represents the Southern European tradition and is considered highly financially vulnerable.

European local authorities have been significantly affected by recent crises and have generally been asked to contribute significantly to the consolidation of public finances. As a consequence, their field appears particularly suited for studying governmental responses to shocks affecting their financial conditions and management. However, those studies that focus on the local level of government tend to describe the variety of austerity and cutback management strategies adopted (for example, Hendrick, 2011; Maher and Deller 2010; Scorsone and Plerhoples 2010; Baker 2011; West and Condrey 2011; Cepiku and Bonomi Savignon, 2012; Cepiku et al., 2013) rather than adopting a longer term perspective on the capacity to absorb fiscal shocks. Yet, local authorities represent an interesting field of analysis, given that they are subject to institutional constraints and policies dictated by higher levels of government, but can also enjoy a certain degree of organizational, financial and strategic autonomy. This allows for investigating the role of external pressures as well as internal conditions and capacities on the responses to shocks and crises.

In Austria the national debt level exceeded 80 % of GDP in 2013 for the first time, still accounting for one of the lowest debt levels in the EU (Statistik Austria 2013), of which Austrian municipalities account for a relatively low share (2.2 % of GDP). However, the economic crisis seriously affected local authorities' fiscal autonomy. Transfers from higher levels of government still form the large part of municipal income, whereas municipal taxes are payroll-taxes depending on income tax levels set by the federal government and significantly affected by the economic cycle.

Italy represents an interesting case in that its public debt-GDP ratio is one of the highest in the world (132.6% at the end of 2013) and since 2000 local authorities have been required to help tackle the national deficit bearing huge funding reductions from the central government. The economic downturn and the ensuing recent sovereign debt crisis also translated into a new emphasis on central government scrutiny and constraints on local authorities.

The local government sector in England has suffered significant pressure on resources in recent years, in part due to the scale of funding reductions as part of the austerity measures imposed by the previous Labour and current Coalition Governments, but also due to policy changes implemented by the Conservation/Liberal Democrat Coalition that have effected locally collected taxation, as well as impacting upon the range of services provided. As part of the Austerity measures, local government is having to absorb a £20 billion reduction in central government funding, a real terms cut of 40%.

Case selection: local authorities

Through theoretical sampling four cases for each country were identified (Eisenhardt, 1989), for a total of 12 cases. In order to consider entities subject to similar institutional and market pressures, in Italy the analysis was focused on local authorities that are seats of province (a total of 117 local authorities, as at September 2012). Similarly, in Austria the analysis was focused on local authorities (70 local authorities) that are seats of district authorities. Since the different parts of the UK have different arrangements and legal frameworks in place for local authorities, this study has focused on English local government as a region within the UK, as these local authorities will have experienced similar pressures and change during the period of the study but have been operating under the same system. English local government consists of a range of structural forms including Metropolitan and Unitary Councils as well as the two tier County Council and District Council model. To ensure comparability, we considered local authorities classified as single tier and county councils (STCCs), namely unitary authorities, metropolitan districts, London boroughs and shire county councils (152 English councils in 2011/12[1]).

Given the aim of the analysis, ie, exploring the capacity to absorb financial shocks, the cases were selected by considering both the 10-year average financial performance, in terms of budgetary position, as well as the 10-year volatility therein. This required a preliminary identification of comparable measures of financial performance and is further explained as follows.

In government institutions, there is no universally agreed upon optimal measure of budgetary position, however there is a general expectation that neither deficits nor surpluses should exceed certain thresholds2 (Bretschneider and Gorr 1992; Hendrick 2006; Rose and Smith 2011) and that governments will keep their actual budgetary positions around zero in the short to medium term. Thus, a measure of budgetary position can be considered a relevant "bottom line" to our aims. Table 1 illustrates in more detail how the budgetary position was calculated for each country. For Italy and Austria, that adopt a commitment based of accounting, the budgetary position measure is represented by the variation in the

[1] In England, a number of councils voluntarily reorganized in 2009/10, which meant that a full set of data was not available over the 10 year period and as such these were excluded from the analysis (leaving 141 STCCs analysed).
2 See Bellesia (1998) and Anessi Pessina and Sicilia (2012), for further detail on the traditional performance measure used in Italy, and section 114 notice for chief financial officers in England.

commitment-based surplus/deficit position. For England, where a modified accruals basis of accounting is adopted, the measure is represented by the contribution to unallocated reserves as it represents the “balancing figure” between the Net budget requirement on the one hand and government grants and locally collected taxation on the other.

To ensure a medium-to-long-term view on performance, we consider the average budgetary position over ten year (2002-2012). This measure is normalized by total annual income in the Italian an Austrian context, net expenditure in England[3].

The volatility of the budgetary position was calculated as its standard deviation over the ten-year period 2002 to 2012.

Table 1 – Measures for the budgetary position in Austria, Italy and England

Austria	Italy	England
Normalized budgetary position = (Surplus/deficit t – Surplus/deficit t-1) / total operating revenues Surplus/deficit = (cash + revenues to be recovered-commitments to be paid)	Normalized budgetary position = (Surplus/deficit t – Surplus/deficit t-1) / total operating revenues Surplus/deficit = (cash + revenues to be recovered-commitments to be paid)	Normalized budgetary position = contribution to unallocated reserves / net expenditure 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).

Data were gathered from AIDA PA and Ministero dell’Interno data for Italy, Statistics Austria for Austria and annual Revenue Summary (RS) data set for England.

For each country, all the local authorities were classified in terms of combination of

[3] In England 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).

normalized average budgetary position and volatility. The most common combinations were identified and for each combination and country one case was selected. Table 2 shows the selected cases and gives a visual clarification about the different positioning of the local authorities based on the normalized ten-year average budgetary position and the volatility. The blank quadrants in the matrix are those where only a very small number of local authorities (probably outliers) can be found, whereas the others reflect cases that are at the same time polar, but are also well represented in the local authorities population. The positioning of each case is relative to the overall positioning of local authorities in each country.

Table 2 – Cases selected from Austria, Italy and England

Budgetary position / **Volatility**	**Negative**	**Around zero**	**Positive**
Low		Modena (ITA) Manchester City Council (ENG) A (AUS)	
Medium	Forlì (ITA) Warrington Borough Council (ENG) B (AUS)	Parma (ITA)	Derbyshire County Council (ENG) Lodi (ITA) C (AUS)
High		Wigan Metropolitan Council (ENG) D (AUS)	

Collection of data and analysis

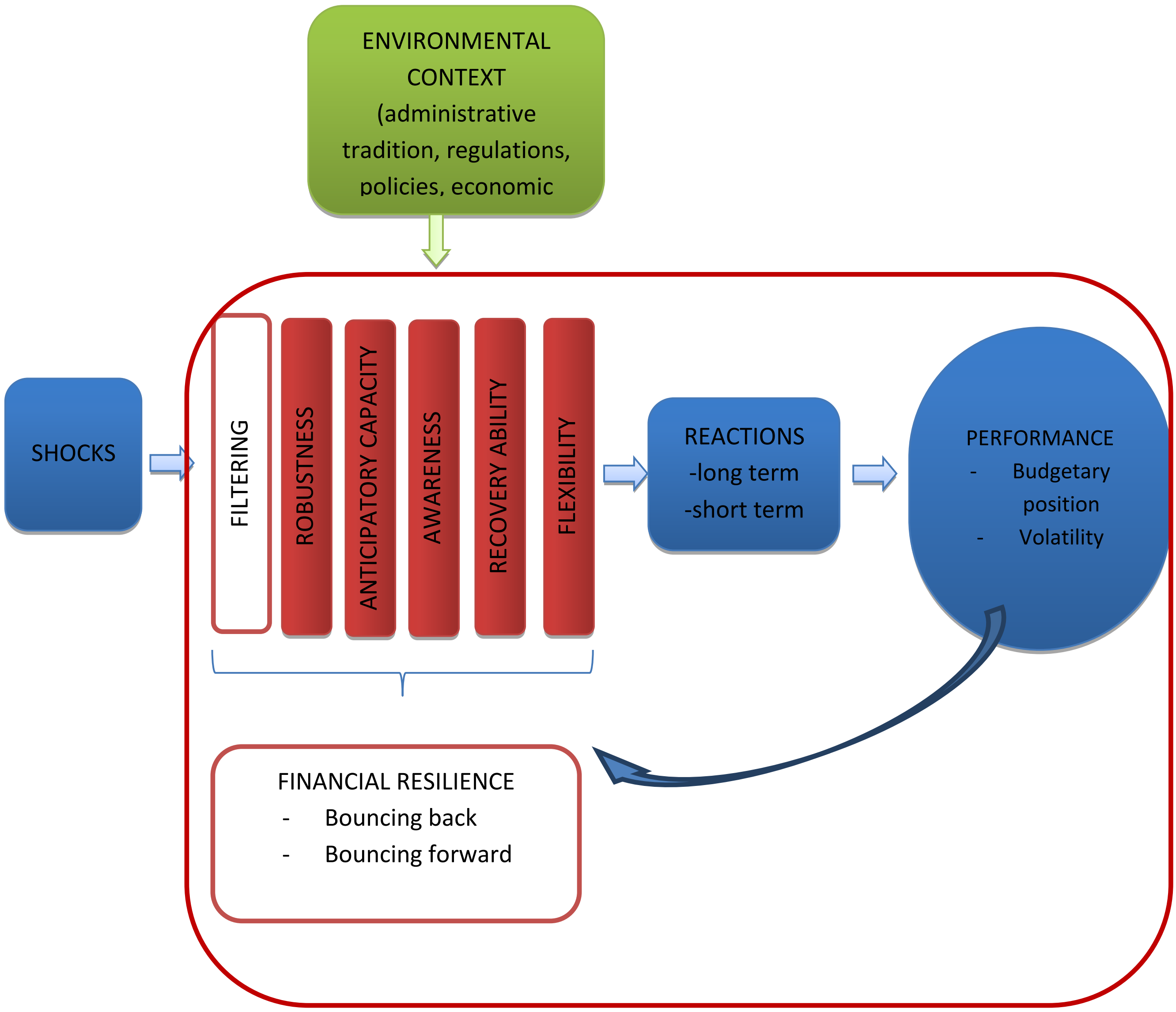
Up to three semi structured interviews (Bailey, 2007) were undertaken within each of the twelve local authorities. To ensure a triangulation of views, the interviews were conducted with the Chief Executive Officer (CEO) or Deputy Chief Executive (Deputy CEO), the Director of Finance and a service department director. The questionnaire is reported in the appendix. Each interview lasted between 60 and 120 minutes, was recorded and transcribed. The interviews, that were conducted between May and November 2014, focused on three main areas, namely; the financial health of the local authority and its main financial and non-financial goals, the main risks and shocks that the local authority had faced over a ten year period, how it had identified and responded to these and finally, the understandings and meanings that were placed on the term financial resilience, including its link (if any) to efficiency.

Findings

The analysis of the 12 cases suggests that respondents in the three countries tend to identify the economic and European fiscal crises as central shocks in their organizations' lives and identify a number of short-term and long-term reactions to the crisis. The interviewees also pointed to a number of contextual, as well as organizational conditions and capacities that appear to have influenced local authorities' responses and performances.

Figure 1 proposes a first conceptualization of financial resilience based on the analysis of the cases. The following sub-sections describe the main shocks perceived by the interviewees and how these were filtered by their organizations and the related organizational reactions. Subsequent sections identify and discuss the dimensions of financial resilience emerging from the analysis.

Figure 1 – A conceptualization of local authority financial resilience



Shocks and filtering

This section discusses the main shocks perceived by the various interviewees, and whether they were seen as threats or opportunities (filtering). Almost exclusively, the 2008 economic crisis and/or related effects were specifically referred to as being the major shocks undergone by local authorities. Other shocks, which pre-dated 2008 and were generally related to responding to central policy or demographic changes, were considered by respondents to be relatively insignificant compared to the climate after 2008.

Shocks identified since 2008 were mostly considered to be external in origin. The main common shocks were related to variability in the revenue base due to a number of reasons. First, central governments reduced their financial support to local authorities. In Italy and Austria this was a consequence of the EU Growth and Stability Pact, for England it was a consequence of the comprehensive spending review process. Second, the economic crisis impacted upon locally collected tax receipts (local income taxes, business taxes) and at the same time increased demand for some services (mainly social services and locally paid benefits/transfer payments). Third, changes were made by central governments' to the local tax collection regime. Although this was not necessarily a consequence of the economic crisis, it increased the uncertainty of the revenue base for local authorities and may have eroded their planning capacity. In England this was represented by changes to the retention of business rates. In Italy, since 2007/8 and for all the ensuing years the central government repeatedly and significantly modified the regulation concerning local property taxes, increasing uncertainty on the revenue base.

Shocks that could be regarded as being internal to organisations, are mainly management or policy related and tended to arise in the English cases. The focus in Austria and Italy was almost exclusively towards externally perceived shocks.

The unprecedented scale of the reductions in funding suffered by local governments since 2008 has resulted in structural, policy and service delivery consequences that are discussed in the following sections. What is interesting to note here, are the different ways in which this seismic change in the funding landscape was interpreted by interviewees.

For some it was seen as an *externally imposed threat*, and while organizational responses were necessarily introduced to meet the challenge, these were limited in scope and tended to favor a *passive approach,* common especially in the Italian context. Furthermore, these organizations were less willing to take ownership of the changes and preferred rather to deflect the issue back onto national governments and postpone solutions, waiting for the storm to pass. In the Austrian context, some interviewees even showed a fatalist approach, declaring that their authorities did not see the crisis coming.

Conversely, others, especially in England, viewed the challenge as an *opportunity*, resulting in a much more *proactive approach* and a more varied range of responses to both cuts in expenditure and seeking alternative sources of income generation. Some respondents went as far as to claim that their goal was financial self-sufficiency (at the local level) in order to be free from, or at least be more directly in control of, the impact of future similar crises.

Reactions to shocks

The reactions to shocks were classified as to whether they had a short-term or a long-term impact. Those reactions having a short-term impact were very similar across all the cases and all three countries. There were many responses aimed at *cutting costs*, and these ranged from reductions in staffing, reducing the levels or quality of services, or stopping some services altogether, salami-slicing (ie, across-the-board cuts) or generally becoming more efficient in the delivery of services. In some authorities there was a greater emphasis placed on shared responsibility and accountability for identifying savings, whereas in others such decisions were taken by at the center. Another range of responses were related to *investment projects* and included a variety of measures aimed at reducing resources previously planned for investment including the postponing of some projects and waiving or cancelling ad hoc projects. On the flip side of this, some authorities increased investment in areas where it could be justified on the basis of “spend to save”, or where there was an alternative funding stream. A range of measures were also seen aimed at increasing locally collected income streams. These ranged from increasing the rates of local taxation, introducing new taxes (eg. hotel tax) or improving tax collection rates. Additionally, some authorities also increased existing fees and charges as well as introducing new ones. Others resorted to selling off municipal assets such as land and building. There was also evidence of authorities taking the opportunity to clean up the budget, effectively removing hidden redundant budgets that had been allowed to perpetuate under incremental budgeting systems.

Reactions with a longer term impact were more variable across the cases and across countries and were probably influenced by the various capacities referred to below. There were some responses that were similar, the main one being a greater willingness to network and collaborate with other public agencies or the private and nonprofit sectors in the delivery of public services or, more generally, adopt alternative delivery models. Longer term structural changes were also apparent across a number of cases including the merging of departments and establishments (eg schools), to reduce surplus operational and management capacity. Following the short-term budget reductions referred to above, there then seemed to be attempt to refocus/rebalance the budget in line with priorities and objectives over the longer term, in some cases linked to greater levels of stakeholder consultation and engagement. Where responses were more varied, these included some opposite approaches. For example one authority had adopted a strategy of externalization of activities, whereas another (A, in Austria) had embarked upon a process of "re-municipalization". There was also some evidence of authorities seeking to regenerate their local communities by attracting new businesses, thereby easing the pressure on some social services and potentially increasing tax revenues from individuals and businesses.

Capacities for financial resilience

The reactions to shocks appear to be influenced on the one hand by the way in which they are filtered and understood by respective authorities and on the other by the level of management capacity within organizations to identify, interpret and respond to the shocks. Drawing on the conceptual lenses of resilience literature, management capacity has been considered across five variables or dimensions, namely; robustness (and vulnerability), anticipatory capacity, awareness, flexibility and recovery ability.

(Financial) robustness relates to the capacity of an organization to keep its (financial) performance stable over time. Conversely, *(financial) vulnerability* reflects the degree to which this capacity is affected by internal and external conditions. These dimensions are situational in nature, allowing local authorities to be regarded as having relatively higher levels of financial vulnerability or robustness. Dependence on uncertain revenue bases appears to have been pointed out as a main driver of vulnerability, affected by changing local economic conditions. This was very evident in several Austrian cases. Similarly, exposure to high levels of debt will both constrain the flexibility of an authority when income levels are reducing and also expose it to interest rate risk (such as in the Austrian case) making it more vulnerable, whereas low debt authorities, like Wigan in England, may be regarded as more robust as they will have greater capacity to absorb financial shocks. Finally, PPP/PFI schemes as well as reliance on external subsidiaries in the provision of services have in some cases been presented as forms for managing the challenges posed by the crisis, but may have also produced in other cases financial vulnerability in terms of increased rigidity of expenditure, reduction in financial management levers as well as loss of control accompanied by the maintenance of residual financial responsibility.

According to the interviewees, vulnerability may also be caused by internal organizational conditions, such as poor management and limited planning capacity.

Anticipatory capacity and *awareness* are described by interviewees as linked dimensions, although they are described separately here in the first instance, with each variable to some extent informing the required level of the other. *Financial anticipatory capacity* relates to the tools and capabilities that an authority possesses, or is able to build up over time, to recognize and identify potential financial shocks before they arise. These tools for building anticipatory capacity shared some similarities across countries and at the basic level include internal monitoring processes (for example in-year budget monitoring and forecasting), increasing in sophistication to include monitoring of the external environment, stress testing and simulation analysis. Often these occurred within a medium-term financial planning framework. In England in particular there was a high prevalence of integrated risk management as a means of formally identifying, mitigating and managing risks across the whole organization. This is probably the result of the requirement to introduce and publish risk registers in the mid 2000s, although it does indicate that this has been internalized. *Financial awareness* is an organization's understanding and knowledge of the nature, likelihood, timing and scale of potential financial shocks within the environment and is clearly dependent on the level of anticipatory capacity as discussed above. At a more sophisticated level, it would also include an understanding of the potential impacts and consequences of decisions made by the authority on the environment. This dimension can be considered in a relative way, with organizations displaying higher or lower levels of awareness. Some Italian authorities showed low levels of awareness, or were late to develop appropriate capacity and therefore awareness until after the situation had become too critical. Perhaps here there was a sense of disbelief that the financial impacts would be as severe as they were. In Austria too there was evidence that awareness levels were low before the crisis, but have now increased, informed by the introduction of an increased range of anticipatory tools. In England, where the sophistication of anticipatory capacity was probably more mature before the crisis, awareness levels reflected this, resulting as we have seen above, in strategies that involved starting early and getting ahead of the game.

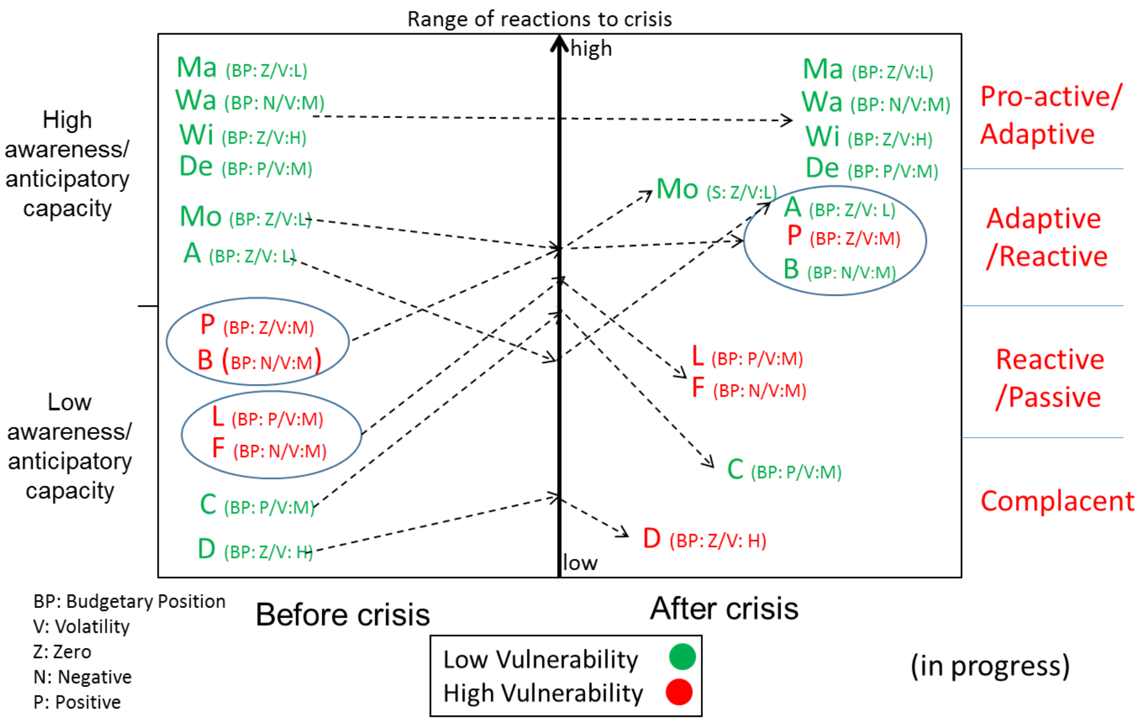
Financial flexibility is the capacity to quickly react to shocks. Local authorities can be financially flexible by maneuvering reserves and slack resources, in order to absorb shocks and ensure services provision or investments. Financial resources can be increased, for example, through extra-income sources from enterprises (like in most English cases) or in-year virements. From another perspective, flexibility has also been described in non-financial terms, as the ability to reinvent and to be innovative (almost in all Italian cases) and to invest in new capabilities and competences (like in Manchester and Warrington), thus improving both financial and non-financial performance. All the English and Italian interviewees, as well as some Austrian respondents, identified increasing reliance on networking and partnerships for providing public services as yet another aspect characterizing flexibility. Improving collaboration with external stakeholders may allow local authorities to outsource services or simply to share decision making processes.

Finally, (financial) *recovery ability* means being able to keep performance stable overtime or to restore the financial performance to pre-shock levels. Financial performance stability can also be seen as intertwined with the capacity of local authorities to maintain the same level of services and keeping assets functioning (i.e., non-financial recovery ability).

Discussion

In this section we discuss the patterns of financial resilience that emerged across the 12 cases, by viewing it as a dynamic combination of interrelated dimensions (in terms of vulnerability, awareness, anticipatory capacity, recovery ability and flexibility). These dimensions are seen as being at the same time the antecedents and the results of their interactions with the external context and shocks, in terms of both the filtering of and reactions to shocks. From the analysis, four patterns of resilience emerge: pro-active resilience, adaptive resilience, passive/fatalist resilience and complacent resilience (see figure 2). They are discussed in the next subsections and summarized in table 3 and 4 in the appendices.

Figure 2 – Resilience as path dependent trajectory



Financial resilience as pro-active, self-regulating and internally-driven

The local authorities of A, Modena, Manchester, Wigan, Warrington and Derbyshire show medium to high levels of *anticipatory capacity* and *awareness* both before and after the crisis. On the one hand, control mechanisms and planning capacity where especially well developed in all these Local Authorities, although some differences exist among the approaches adopted such as making good predictions and doing simulations being two relevant aspects in Modena and risk management systems being more widely embedded in Manchester, Warrington and Derbyshire. Furthermore, awareness of risks related to the shock and their impact on resource availability, and thus of potential financial imbalances, was already particularly high in these Local Authorities prior to the changes in government funding, and further strengthened after the cuts had been introduced.

This appears to translate into lower levels of *vulnerability* compared to the other cases, higher levels of *recovery ability* (with financial condition remaining stable over time in some cases or returning to stability in others) and a *long-term* view in the type of *reactions* to shocks.

These authorities appear to permanently bounce forward in a proactive and comprehensive way, in order to become financially independent/autonomous and masters of their own destiny, rather than being reliant on, and subservient to, central government funding allocations. This attitude appears to translate into an average budgetary position over ten years that is around zero in most cases (with the exceptions of Derbyshire, with an average positive position, and Warrington, with an average negative one), and volatility therein, which is low-to-medium (except in the case of Wigan, where volatility is high, but due to a one-off extraordinary transaction). Also, this reflects a strong attention towards maintaining a stable financial position over time, even adjusting for shocks, and is confirmed by the types of reactions to shocks that characterize these local authorities, whose choice appears to be inspired by a long-term perspective. Some local authorities have reacted in the long-term by both enhancing existing approaches, tools and capacities, as well as adopting new solutions and alternatives. In Modena the attention was oriented towards further strengthening control mechanisms and responsibility in achieving financial goals. Enhancing the collective responsibility of internal actors was also the main long-term reaction in Derbyshire and Wigan; the latter started, moreover, to join up with other agencies. Manchester and Warrington adopted new models of delivering services and embarked on a process of restructuring. Finally, A has reacted by strengthening its independence through a re-municipalization process, thus adopting structural reforms.

In short, these Local Authorities were shown to have been able to internally develop, over time, appropriate structures and processes, or self-regulating capacities, that allow them to more successfully react to shocks. Reactions are, thus, based on existing competences and resources as well as exploring new alternatives (e.g., innovation, networking). Past experience has been shown to play a relevant role, as confirmed by the case of Manchester, where the financial impacts of shocks in its recent past, including a terrorist attack on the city center and the hosting of the commonwealth games, may certainly have influenced its responses.

Local authorities at a crossroads: adaptive or… fatalist resilience?

A second set of local authorities is composed by Forlì, Lodi, Parma and B. These authorities show limited monitoring and planning mechanisms, translating into low levels of *awareness* and *anticipatory capacity* as well as higher levels of *financial vulnerability* before the crisis. However, in spite of similar starting points, the three Italian authorities initially ignored the crisis, whereas in B it was perceived as critical immediately after its occurrence, leading to higher level of awareness and anticipatory capacity (e.g. scenario analysis, development of investment plans). However, the 2012 elections in Parma, with a radical political change, appear to have now translated into a new path of increasing awareness and anticipatory capacity (e.g. need for new models for delivering services, increasing citizens' involvement in decision making processes, strengthening of monitoring tools).

Financial vulnerability appears to be particularly high in these local authorities before the crisis and still remains an issue after the crisis, mostly due to weaknesses in information flows in Forlì, limited planning in Lodi, subsidiaries' strained finances in Parma and high dependence on a vulnerable stream of municipal tax for B. This is reflected in a medium volatility of financial positions over time, and a variety of budgetary positions, ranging from negative (Forlì and B), around zero (Parma) and seemingly positive (Lodi).

All local authorities undertook paths of enhancement and adaptation after being hit by the crisis. Forlì raised its interest in creating PPPs. Networking with external stakeholders, mainly from the third sector, has been one of the main reactions adopted by Lodi and Parma, respectively in addition to externalization of services and services re-targeting. Structural measures (ie, school mergers), were adopted in B.

However, in spite of similar starting points, the consequences of the crisis appear to be different in the four authorities. Indeed, after the crisis B and Parma (in this latter case, also as a consequence of elections) became more and more aware of the challenges at stake and invested in increasing their anticipatory capacity (e.g. vulnerabilities oriented monitoring, scenario analysis), showing better recovery ability and trying to reduce their vulnerabilities. Thus, they appear to have embarked upon a path of *adaptive resilience*, trying to bounce forward towards better performances and developing new capacities.

On the contrary, the other two local authorities appear to see themselves as pawns in the hands of others, ie, they are aware but fatalist, and tend to strive for improvement only when driven by external constraints and impositions. This suggest a *fatalist or passive type of resilience,* externally driven and constrained by external pressures.

The degree of vulnerability and the magnitude of shocks appear to be crucial in explaining how authorities with similar starting points end up taking different paths. Indeed, high initial financial vulnerability (such in the case of B and Parma) can trigger increased awareness as well as a stronger adoption of adaptive measures (investment in anticipatory capacities and recovery ability) and long terms reactions. But if the shock is exceeding a specific threshold, options can become limited forcing the local authorities to go in a “firefighting” or fatalist mode, ie a day-by-day management of emergencies.

These findings suggest that the consequences of a combination of low awareness and anticipatory capacity before the crisis depends on the vulnerability and filtering processes (getting aware) of a local government after being hit. Some local authorities significantly increase their adaptive capacity as a result of the shock, whereas for others the shock increases the vulnerability to a point where a sense of impotence forces emergent, fatalist and externally-driven approaches to ensure financial resilience.

Complacent resilience

The last group of local authorities includes C and D. C is characterized by a positive budgetary position and medium volatility, while D has an around-zero budgetary position and high volatility. Both local authorities show a low financial vulnerability before the crisis, mainly due to the political stability and good revenue base, which may also explain their initial low level of awareness. However, it is interesting to notice that the crisis appears to have affected the level of vulnerability of D, which has started to increase as a consequence of high debt levels. In spite of this, anticipatory capacity has remained low in D and medium in C after the crisis.

Looking at the two cases together suggests that a low initial vulnerability, with favourable contextual conditions at the time of crisis could promote complacency and probably lead to a lack of awareness and anticipatory capacity and the tendency to initially ignore emerging vulnerabilities. This may subsequently cause a failure to build the necessary adaptive capacity. For now, the wealthy conditions and context of D seem to offset the weaknesses linked to the absence of motoring and assessment tools. However, the financial situation in D can be regarded as unstable due to the high debt level and the therefore increasing inability to deal with the next financial shock leading to a higher level of vulnerability.

Closing discussion

The discussion shows that the adaptive capacity in terms of measures taken (reactions to crisis), can be strongly linked to the awareness, anticipatory capacity and vulnerability of local authorities. However, our analysis also highlights the role of the context, and of the policies adopted by central governments for local authorities. English authorities in general are at the forefront with regard to anticipatory capacity and awareness due to their specific institutional context. Italian authorities' behaviours are strongly constrained and influenced more by changing central regulations on revenues and the internal growth and stability pact than the crisis per se. Austrian authorities appear to be more worried about their shrinking revenue base and increasing debt. Many of the traits of the proactive and self-regulating authorities were also present in most of the other cases but not with the same intensity and not necessarily over the same time frames. For some they only started to be introduced or become fully developed after the crisis had hit. Different patterns of behaviours can be observed, seemingly caused by the magnitude of the impact of the crisis and the vulnerability of local authorities, as well as their awareness of risks (also depending on the specific history of shocks in the past and favourable contextual conditions). Those local authorities which were not aware and vulnerable (in financial terms) at the time of crisis, have been more sensitive in building the needed capacity to absorb the crisis, coming out of the crisis with higher awareness and anticipatory capacity. While others, faced with shocks that appear too large for their vulnerability, seem to give up to their stormy environments.

In short, the analysis shows that resilience can be regarded as a continually changing combination of capacities, and as a case of *becoming* rather than *being*; interpreting it as part of a path-dependent trajectory.

Conclusions

European local authorities have been particularly stricken by the recent economic and fiscal crises, and represent an ideal place where to study how governments respond to shocks affecting their financial conditions and management. However, focusing on the contingent crises and austerity might cause scholars to miss an important opportunity to build new theories adopting a longitudinal and strategic view on the whole life-cycle of public organizations.

Along these lines, this paper proposes a possible perspective for looking at the current context of austerity, and related responses, over a longer term perspective and as an opportunity for theory building.

So far, traditional financial management approaches have tended to emphasize productive efficiency, stability and control, that have also been central in NPM movements, and are often considered desirable for routine activities and stable environments. As a consequence of the recent crises we are currently witnessing a transition period, where NPM is no longer a dominant paradigm, but no new paradigm is in place yet. The resilience concept can represent a useful conceptual lens for re-balancing the current focus of literature by pointing out that, among the various facets of resilience, financial resilience deserves a stronger attention.

Through a multiple case study analysis based on 12 European local authorities based in Austria, Italy and England, our paper identifies the main shocks perceived by local management and the related financial strategies adopted in response, and highlights the role played by organizational conditions and capacities in affecting such responses. More specifically, we propose a first conceptualization of financial resilience, identifying possible dimensions therein (in terms of financial robustness, awareness, anticipatory capacity, flexibility and recovery ability) and discussing how they shape and combine to give rise to different types of resilience. Our analysis suggests that financial resilience is a dynamic combination of interrelated dimensions (in terms of vulnerability, awareness, anticipatory capacity, recovery ability and flexibility). These dimensions are seen as being at the same time the antecedents and the results of their interactions with the external context and shocks, in terms of both filtering and reactions to shocks. From the analysis, four patterns of resilience emerge: pro-active resilience, adaptive resilience, passive/fatalist resilience and complacent resilience. These patterns results from both the combination and the dynamics of different vulnerabilities, awareness, anticipatory capacities and reactions and their interaction with contextual economic, institutional, policy factors, as well as shocks therein, giving rise to the dynamic emergence of proactive, adaptive, passive reactions and capacities.

Our contribution is three-fold. First, we contribute to the literature on resilience that, in the public sector, has so far adopted a community or organizational perspective but not a financial management perspective. Second, our analysis shows that resilience can be a multifaceted concept, and tries to offer a fine-grained view and definition of different dimensions of (financial) resilience. Third, if traditional literature on austerity, fiscal stress, cutback management and financial difficulties focuses on the contextual conditions and the organizational actions and reactions, our paper looks at the role of organizational capacities in affecting such responses.

The findings of the study have some broader implications for both regulators and local authorities. The analysis shows that local authorities' approaches to financial resilience are significantly affected by central government's policies, though they might interpret, filter and respond differently to such impulses. Thus, policy makers have a strong responsibility in affecting responses to crises. In some of the cases analyzed, legislative uncertainty and the current re-centralization of funding and decision making processes appear to seriously restrict and jeopardize variety in municipal responses, and at the same time provide scapegoats for local authorities to elude and postpone the solutions of problems, (apparent) adaptive or externally driven- like behaviors. Thus, relatively stable and at the same time empowering financial policies may be desirable to ensure self-responsible behaviors of local authorities.

The analysis also points to capacities that local authorities may have an interest in developing and constantly monitoring, in terms of robustness, awareness, flexibility and recovery ability.

This paper aims to stimulate a debate among practitioners and scholars about governmental financial resilience. This promises to be a rich and interesting field of further investigation, in many respects.

Further studies (also cross-country and -government) might enrich the number of variables used to analyze financial resilience strategies, considering dimensions such as financial dependence and interdependence, the degree of centralization, heterogeneity of activities, quality of services, etc. Moreover, the role of reserves, slack resources, as well as earnings management in financial resilience strategies could be interesting avenues for future research. More broadly, research is also needed to determine what characteristics of accounting, control and reporting system may enhance financial resilience. Aspects that may deserve further consideration are also the relationships between financial resilience and organizational and community resilience, and thus the intertwining between financial and nonfinancial aspects of resilience. Finally, quantitative analyses may test the explanatory validity of the proposed model.

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Appendix

GOVERNMENTAL FINANCIAL RESILIENCE - QUESTIONNAIRE

Introductory questions

- How long have you been working in this organization?
    - Depending on the answer: previous experience within the same or in another office/organizations
- What do you see are your main responsibilities?

Financial management: financial health and goals

- Can you describe how the financial health of your organization has changed over the last 10 years?
- Which are the most important financial goals for the organization? Have they changed over the last 10 years? How?
- Which are the most important nonfinancial goals for the organization? Have they changed over the last 10 years? How?
- Which are in your view the most important (financial vs nonfinancial) in your organization?

Risks, shocks, responses, inhibitors and facilitators

- Which are, in your view, the main risks that may affect your organization's financial health? Have they changed over the last 10 years?
- What are, in your opinion, the main shocks that have impacted upon the financial management of your organization over the last 10 years?
- How and when did the organization see this coming?
- How did your organization deal with each of the shocks?
- What were the main internal/external factors affecting (positively/negatively) your responses? Can you give us examples on them?
- To what extent have the responses to the financial crisis of 2008 differed from responses to other significant (internal and external) shocks/events you faced prior to 2008?

Resilience

- What does resilience mean according to you? And to the financial management of governments?
- How would you define Financial Resilience?
- Which are, in your view, the facilitators of financial resilience? And the factors that may inhibit it?
- What is the relationship between resilience and efficiency?

Table 3: Summary Analysis – Patterns of Resilience

	Modena	(A)	Manchester	Wigan	Warrington	Derbsyhire
Volatility/Performance	**Low (Z)**	**Low (Z)**	**Low (Z)**	**High (Z)**	**Medium (-)**	**Medium (+)**
Shock Financial Crisis (Constant)						
Reaction Short-Term (Change after crisis)	**Systematic** (prio/cuts/rev/inv/clean)	**Systematic/Focused** (cuts/inv)	**Systematic** (cuts/rev/prio)	**Systematic/Focused** (cuts/prio)	**Systematic/Focused** (cuts/rev)	**Systematic/Focused** (cuts/prio)
Reaction Long-Term (Change after crisis)	**Enhancing and Adapting** (Responsibility/ control)...through Compliance	**Adapting** (Re-municipalization/ reforms)	**Enhancing and Adapting** (Protect front line/ADM)	**Enhancing and Adapting** (Networking/ Responsibility)	**Enhancing and Adapting** (ADM)	**Enhancing and Adapting** (Responsibility)
Awareness: Mind (Before/After)	**High/High**	**High/High**	**High/High**	**High/High**	**High/High**	**High/High**
Anticipatory Capacity: Tools/Activities	**High**	**Medium/High**	**High**	**High**	**High**	**High**
Recovery Ability Financial *Ret --> returned* *Rem --> remained*	**Ret Stable**	**Rem Stable**	**Rem Stable**	**Rem Stable**	**Rem Stable**	**Rem Stable**

Table 4: Summary Analysis – Patterns of Resilience

	Parma	(B)	Forli	Lodi	(C)	(D)
Volatility/Performance	**Medium (Z)**	**Medium (-)**	**Medium (-)**	**Medium (+)**	**Medium (+)**	**High (Z)**
Shock Financial Crisis (Constant)						
Reaction Short-Term (Change after crisis)	**Systematic** (cuts/rev/prio)	**Systematic** (cuts/rev/inv/prio)	**Systematic** (divest/rev/clean/inv)	**Systematic** (cuts/rev/inv)	**Systematic** (cuts/rev/inv)	**Ad-hoc** (cuts)
Reaction Long-Term (Change after crisis)	**Adapting** (Networking/Re-targeting service users)	**Adapting** (Restructuring/asset sale/ prio inv plan)	**Adapting** (PPPs/"closing gap")	**Adapting** (Networking/ Externalization)	**Enhancing** (Inter-communal cooperation)	**Enhancing** (Change budgeting approach)
Awareness: Mind (Before/After)	**Low*/High**	**Low/ High**	**Low*/Low***	**Low*/Low***	**Low/Medium**	**Low/Low***
Anticipatory Capacity: Tools/Activities	**Low-Medium**	**Medium** - Increasing	**Low-Medium**	**Low-Medium**	**Medium**	**Low** and Secific
Recovery Ability Financial *Ret --> returned* *Rem --> remained*	**Not Stable**	**On Recovery**	**Not Stable**	**Not Stable**	**Ret Stable**	**Vulnerable**