



## CIMA Global Academic Research Programme

# Local government financial resilience: Germany, Italy and UK compared

With a practical tool-kit  
for local governments



# Key conclusions

External shocks and unforeseen events represent important reminders that focusing solely on traditional financial measures to analyse and predict success or failure provides an incomplete picture of how organisations tackle them. The concept of financial resilience, i.e., governments' capacity to cope with shocks and difficulties affecting their financial condition allows the uncovering of internal capacities and capabilities that act as shaping forces within organisations. The survey conducted on local governments in Germany, Italy and the UK shows that:

- similar local governments' resilience dimensions can be identified across the three countries
- significant differences with regard to the levels of capacities and vulnerabilities emerge, leading to country-specific financial resilience profiles for local governments
- the identified anticipatory and coping capacities appear to play a crucial role in enhancing non-financial local government performance while the identified vulnerabilities are strongly related to financial performance
- when facing difficult times, a combination of anticipatory and coping capacities is required to sustain or improve levels of financial and non-financial performance.

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# Abstract

The increased uncertainty, volatility and complexity under which local governments operate, coupled with recent shocks, starting with the 2008 financial crisis, but also including Brexit and the increasing influx of refugee migrants, have put great emphasis on governmental financial resilience, i.e., how governments cope with shocks affecting their finances.

This report increases our understanding of local government financial resilience by presenting the results of a survey of local governments across Italy, the UK and Germany. Analysing the combination of internal and external resilience dimensions against the background of recent crises and across countries, the project not only sheds light on different performance enabling capacities but also helps to achieve a greater understanding of how local governments maintain or build resilience.

The capacities, which also assist in keeping particular vulnerabilities in control, are specified in practical guidance linked to this report, a tool-kit for local governments to assess and develop their capacities in order to be better equipped to cope with disruptive events.

## Introduction

Governments are no strangers to dealing with crises and unforeseen events negatively affecting their finances. In particular local governments, the governmental level providing an array of 'tangible' services and thus directly impacting the quality of life of those they serve, have to be constantly ready to tackle them. As disruptive events to their environmental conditions become more common, it is imperative to understand which capacities enable local governments to deal with shocks and crises.

In this respect, recent research projects (multiple case studies focusing on UK local authorities, but also multiple case studies across 11 countries worldwide), have investigated the concept of local government financial resilience. The concept has proven useful in exploring local governments' ability to anticipate, absorb and react to shocks affecting their finances. In particular, it allows a more integrative view of local public finances that focuses not only on pressures and stimuli coming from the external environment, and on financial data, but equally takes into account organisational pre-conditions and capacities.

As such, a financial resilience approach suggests that focusing solely on traditional financial measures to analyse and predict organisational success or failure in response to crises provides an incomplete picture, and that it is also necessary to uncover the internal capacities and capabilities that act as shaping forces within organisations. The framework that has been developed by Barbera et al. (2017) and guides the analysis in the following, consists of four dimensions, as shown in figure 1 and described in table 1.

Building on the previous qualitative findings cited above, this study further develops and operationalises the main dimensions presented in figure 1 by using quantitative methods and surveying local government actors across three of the largest European countries (Germany, Italy, and the UK). In particular, it aims to understand which financial resilience-building capacities and capabilities are present in local governments across the three countries and how they influence local governmental financial as well as non-financial performance.

Figure 1: Dimensions of financial resilience

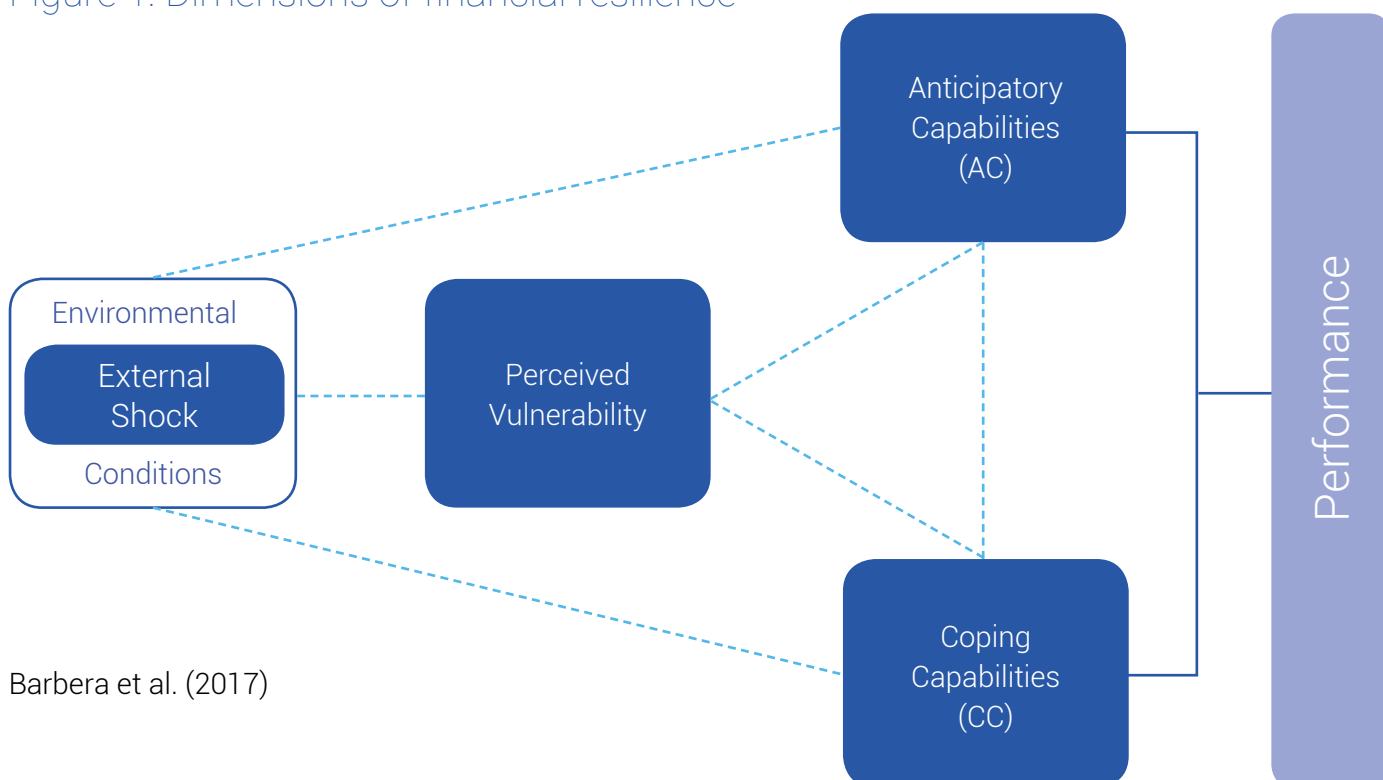


Table 1: Dimensions of financial resilience: the analytical framework

Dimensions of financial resilience: the analytical framework	
Environmental Conditions / External Shocks	Environmental conditions comprise the institutional, economic, and social environment in which local governments operate. The focus of this study is on external shocks that disrupt the environmental conditions of local governments, thereby impacting their financial condition.
Anticipatory Capacities	Anticipatory capacities refer to the availability of tools and capabilities that enable local governments to better identify and manage their vulnerabilities and to recognise shocks before they arise, as well as to understand their nature, likelihood, timing, scale and potential impacts.
Coping Capacities	Coping capacities lie dormant in times of order, and usually become visible in times of disruption in the form of coping actions. Coping capacities refer to resources and abilities that enable local governments to face shocks and manage their vulnerabilities. To cope with shocks, local governments need to be able to adapt, in particular to learn and apply new knowledge, adopt timely responses, also by putting together collective expertise and rely on internal collaboration.
Vulnerability	In general terms, vulnerability represents the extent of exposure to potential shocks. The focus of this study is on financial vulnerability, i.e. specific vulnerability that may affect governments' finances. Local government financial vulnerability can be considered as the result of both external (e.g. dependency on grants, undiversified revenues) as well as internal (e.g. debt financing, reserves) sources.
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).

## Objectives

This project aims to enhance our understanding of local government financial resilience and its relevance for local government performance by:

- ▶ analysing the types and levels of financial resilience capacities and capabilities that are present in local governments across the three countries,
- ▶ highlighting possible profiles of financial resilience across the three country contexts,
- ▶ analysing their main dimensions and their organisational consequences, i.e. their relationship with financial and non-financial performance.

Further developing and operationalising local government financial resilience provides the basis for setting practical guidance on how local governments may assess and develop their capacities that enable them to cope with disruptive events.

## Research methodology

The research builds on a survey of local governments in Germany, Italy, and the UK, complemented by an analysis of archival data covering financial and socio-demographic aspects (for methodological details please see appendix 1) and blended with findings from recent qualitative studies (Barbera et al. 2015, 2017; Steccolini et al., 2017). All three selected countries are large economies and have local governments that are responsible for a wide array of services. They show however different financial vulnerabilities and represent different administrative traditions (see the main features of the countries under analysis in appendix 2), with Germany being a representative of the Continental European administrative tradition, Italy being an example of a Southern European, and the UK of the Anglo-Saxon administrative tradition.

In the UK, local governments have high levels of local political autonomy, however they are very closely administered by the respective centres of government in England, Scotland, Wales and Northern Ireland from a policy and fiscal point of view. As such the central level holds a very high degree of power and control. Local government expenditure in the UK is funded from a variety of national and locally collected sources. In England, for example, more than half (about 57%) of income comes from central grants (specific and general), with locally collected taxation (domestic and business) accounting for around 22%, charges from services around 13%, and other income (including capital receipts) 8% (2013/2014 data). UK local governments can borrow money, but within self-managed indicators. In Italy, local governments provide a wide range of services and they are allowed to raise both local taxes (the property tax represents the major revenue source) and fees from the services they provide, within the legal limits set by the central government. The ratio between local governments' own revenues (from tax and service fees and tariffs) and current revenues (tax plus service fees and tariffs plus transfers from other public sector organisations) was about 60.8% in 2013. According to the Italian Audit body, despite this, they lack any real power to regulate the most important aspects of taxes, including the tax bases and rates (Corte dei Conti, 2015). Since 2008, increasing constraints and financial limits have further reduced their

autonomy and affected their finances and functioning. In Germany the principles of subsidiarity and local autonomy play an important role. Each Länder can autonomously regulate the organisation of local governments, thus there is high devolution in political and functional terms. However, allocation of resources is centralised: a great portion of revenues comes from revenue shares distributed by the federal level (17.6%) and state grants (around 35% of total revenues). Their main own revenue sources are own taxes (e.g., business tax, land tax, service fees).

Based on an analysis of the literature on resilience, organisational capacities, and governmental financial management, as well as the qualitative groundwork put forward by Steccolini et al. (2017), the dimensions presented in figure 1 were operationalised for the purpose of a large-scale survey. The questionnaire was developed and translated to ensure fit in the respective country contexts while preserving comparability. Table 2 shows how the resilience dimensions were operationalised, providing information on the variables that were used to measure each dimension. Further details on operationalisation are provided in Appendix 3.

The received usable responses for the analysis come from 300 local governments in Germany, 206 in Italy and 60 in the UK.



Table 2: The resilience dimensions and their operationalisation

Dimension and definition	Operationalisation	Methods details and references
<p><b>Shocks/ Environmental Conditions</b></p> <p>Environmental conditions comprise the institutional, economic, and social environment in which local governments operate. The focus of this study is on external shocks that disrupt the environmental conditions of local governments thereby impacting their financial condition.</p>	<ul style="list-style-type: none"> <li>▶ Global Financial Crisis</li> <li>▶ Refugee Influx</li> <li>▶ Regulations (e.g. changes in tax base, task devolvement)</li> <li>▶ Brexit</li> </ul>	
<p><b>Performance</b></p> <p>The extent to which local governments are able to finance their services and investments while guaranteeing balanced budgets, as well as the extent to which they provide services in an efficient and effective way, also in terms of quality level and responsiveness.</p>	<p><b>Financial performance</b></p> <ul style="list-style-type: none"> <li>▶ The ability to pay for the existing level and quality of services now and in the future</li> <li>▶ The ability to pay for long-term obligations</li> <li>▶ The ability to generate sufficient revenues to pay expenditures</li> </ul> <p><b>Non-financial performance</b></p> <ul style="list-style-type: none"> <li>▶ The quality of services</li> <li>▶ Efficiency in service delivery</li> <li>▶ Goal effectiveness</li> <li>▶ Responsiveness of services</li> <li>▶ Success in developing new/ innovative ways of service delivery</li> <li>▶ Reputation of work excellence</li> <li>▶ Commitment/morale of staff</li> </ul>	<p><b>Financial performance</b></p> <p>Groves and Valente 1994, Groves et al. 1981, Hendrick 2004, Maher and Deller 2011, Sohl et al. 2009, Wang 2006,</p> <p><b>Non financial performance</b></p> <p>Andrews et al. 2009, Andrews et al. 2006, Burnard et al. 2012, Ray et al. 2011, Speklé and Verbeeten 2014, Van de Ven and Ferry 1980, Verbeeten 2008, Walker and Brewer 2009</p>
<p><b>Vulnerability</b></p> <p>The extent of exposure to financial shocks and disturbances that may affect local government finances</p>	<ul style="list-style-type: none"> <li>▶ Level of indebtedness</li> <li>▶ Financial autonomy</li> <li>▶ Volatility of own revenues sources (e.g. taxes)</li> <li>▶ Level of financial reserves (fiscal slack)</li> </ul>	<p>Hendrick 2011, Maher and Deller 2011, McManus et al. 2007</p>

### Anticipatory capacities

The availability of tools and capabilities that enable local governments to better identify and manage their vulnerabilities and to recognise potential financial shocks before they arise, as well as their nature, likelihood, timing, scale and potential impacts. In this regard, anticipatory capacity is not limited to the presence of systems in place to plan, control, and manage risks, but also related to situation awareness and sense-making.

- ▶ External information exchange
- ▶ Monitoring
- ▶ Internal information sharing
- ▶ Critical thinking

Amniattalab and Ansari 2016, Boin et al. 2010, Cohen and Levinthal 1990, Jansen et. al. 2005, Jaworsky and Kohli 1993, Jones 2105, Lee et al. 2013, Lengnick-Hall and Beck 2005, Linnenluecke and Griffiths 2013, McManus et al. 2007, Mott 1972, Paliokaite and Pacesa 2015, Ray et al. 2011, Somers 2009, Stephenson 2011, Weick and Sutcliffe 2001, Weick and Sutcliffe 2006, Weick and Suttcliffe 2006, Whitman et al. 2013, Wicker et al. 2013, Youndt et. al. 2004

### Coping capacities

The ability to deal with the impact of shocks and disturbances. Coping capacities refer to resources and abilities that enable local governments to face shocks and manage their vulnerabilities. To cope with shocks, local governments need to be able to adapt, in particular to learn and apply new knowledge, adopt timely responses, also by putting together collective expertise and utilising internal and external collaboration.

- ▶ People adaptability
- ▶ Rapidity of action
- ▶ Critical thinking
- ▶ Internal collaboration
- ▶ External collaboration

Andrews 2010, 2011, Jimenez 2012, Lee et al. 2013, Lengnick- Hall and Beck 2005, Lengnick-Hall et al. 2011, Paliokaite and Pacesa 2014, Ray et al. 2011, Vogus and Sutcliffe 2007a, 2007b, Whitman et al. 2013, Wicker et al. 2013, Youndt et. al. 2004

## Main findings

The presentation of the main results and findings follows the dimensions shown in the analytical framework in figure 1. Please refer to table 1 for an explanation of each dimension.

### The impact of shocks across Germany, Italy and UK

The perceived impact of different external shocks on the financial condition of local governments varied substantially across countries (see figure 2 and table 3; 1= not at all, 5= to a great extent).

Figure 2: The impact of shocks across Germany, Italy and UK

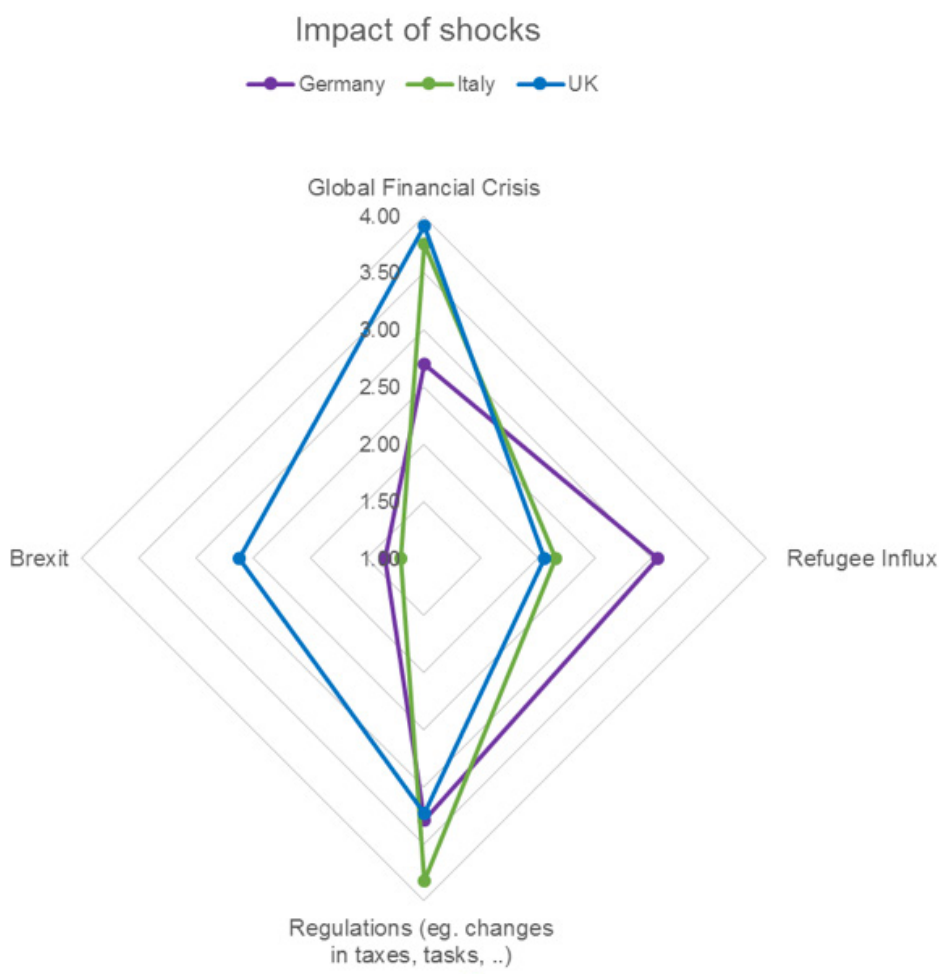


Table 3: Dimensions of financial resilience: the analytical framework (country mean)

	Germany	Italy	UK	Total
Global Financial Crisis	2.70	3.75	3.89	3.22
Refugee Influx	3.05	2.16	2.07	2.61
Regulations (e.g. changes in tax base, task devolvement)	3.29	3.83	3.25	3.48
Brexit	1.34	1.20	2.61	1.43

While the global financial crisis was considered to be a major shock in Italy and the UK, it appears to have been perceived as affecting German local governments' finances only marginally. The latter however seem to have been seriously affected by the refugee influx. This result mirrors official data on Germany as the country with the highest number of first asylum applications (around 722,000 in 2016, according to Eurostat<sup>3</sup>). Local governments in all three countries perceive changing regulations as significant external shocks, the impact however reaches a peak in Italy. This reflects the important role played by central policies in affecting local services, as well as issues related to processes of devolution of tasks and administrative responsibilities to the local level, which have taken or are taking place in all three countries. Combined with inadequate/insufficient fiscal compensation, or even centrally imposed cuts in financial resources, this led to increased uncertainty over revenue bases and fiscal targets (see also Barbera et al., 2017). As expected, Brexit emerged as an external shock with the potential to significantly affect public finances only in the UK, and does not yet appear to be a cause for concern for German and Italian local governments. This is a clear signal, or confirmation, of the fact that the consequences of Brexit are not fully clear yet.

From this perspective, a few studies have tried to estimate the potential consequences of Brexit on European Member States based on different scenarios. For example, according to Emerson et al. (2017) the impact on EU27 GDP would amount on average to losses between 0.11 and 0.52% of GDP until 2030, i.e., an annual average impact between 0.01 and 0.05% of GDP. This is considered as being an "insignificant and hardly noticeable" impact at the macro-economic level for the whole EU27 economy, however it may be expected to translate into higher contributions from the other EU countries in the future as the UK is a net contributor to the EU budget.

### Vulnerability

This study looked specifically at financial vulnerability, i.e. the perceived extent of exposure to potential shocks that may affect local governments' finances. Qualitative analyses of local government financial resilience have shown that it is the sense of being able to control the local governments' financial vulnerability and/or influence its sources rather than a specific level of vulnerability that affects the way shocks are interpreted and subsequently tackled (see Barbera et al. 2017).

We assessed four key issues to analyse if local governments are in control of both external and internal financial vulnerability sources: financial autonomy, abundance of financial resources (fiscal slack), low level of indebtedness and low volatility of own revenue resources (see figure 3 and table 4; 1: strongly disagree, 5: strongly agree).

Figure 3: Control over financial vulnerabilities across Germany, Italy and UK

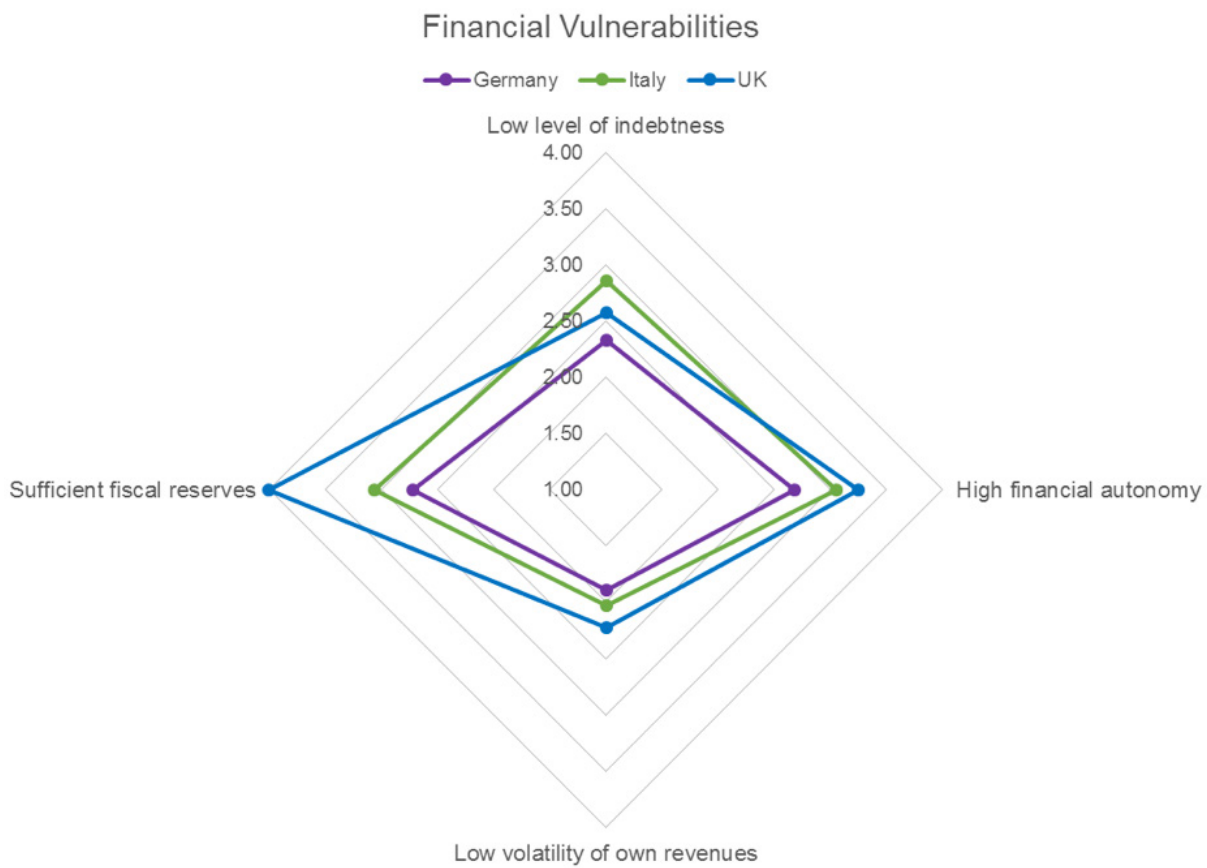


Table 4: Local governments' control over financial vulnerabilities (country mean)

	Germany	Italy	UK	Total
Low level of indebtedness	2.33	2.86	2.58	2.55
High financial autonomy (considering our own revenue sources) in general	2.68	3.05	3.25	2.88
Low volatility of own revenues sources (e.g. taxes)	1.89	2.03	2.23	1.98
Sufficient financial reserves (fiscal slack) to absorb a small amount of shock	2.72	3.06	4.00	2.98

Surprisingly, Italian local governments perceive themselves as less financially vulnerable than their counterparts with regards to their level of indebtedness. Italy is known for its high debt level, a major issue that the Italian central government has tried to keep under control in recent years also by forcing local governments to reduce it. The responses to the survey, thus, may reflect the recent constraints over Italian local governments to reduce their level of debt.

German local governments highlight a lack of power over their revenue sources, and a lower ability to use slack resources to tackle small shocks in comparison to those in Italy and the UK. Italian local governments consider themselves as being less vulnerable to external factors and, at the same time, holding higher internal control. Local governments in the UK, perceiving a relatively high financial autonomy, low volatility of own revenue sources, modest indebtedness, as well as a sufficient level of financial reserves to absorb small shocks, seem to identify overall a lower level of financial vulnerability compared to those in the other two countries. This indicates that, despite the unprecedented advent of Brexit, they nevertheless retain a belief that they have sufficient financial autonomy and are able to manage their financial situation.

In addition, it is interesting to observe the difference in the perceived financial autonomy of local governments. Indeed, we may assume that autonomous local governments can decide upon service levels and quality as well as funding, while fewer control would be exerted by those local governments that have to deliver centrally set services, but funded locally. From this perspective, contrasting evidence emerges from this study. Indeed, in the UK, that is often considered as being highly regulated from the centre and as such less autonomous than its continental peers, local governments appeared to be less subjected to shocks coming from regulatory change and characterised by

higher financial autonomy (presenting thus lower vulnerability) compared to their counterparts in Italy and Germany. A possible explanation for this may relate to the ability of local governments in the UK to retain a proportion of the business rates, increase council tax within certain limits (i.e. the tax rate is not set centrally, even though the limits are) and a relaxation in recent years in the ways local authorities can generate other income and act commercially. They also have general autonomy to set their own budget and prioritise across functions/services with certain exceptions (e.g. education) (Wilson and Game, 2011). By contrast, as mentioned in the methods section, recent studies in Italy have shown that the increase of fiscal autonomy of local governments (with shared tax revenues/grants representing only the 20% on average across local governments) experienced since the Nineties' did not translate in greater autonomy over taxation at the local level, where fiscal autonomy and power over tax imposition have still to be realised (Corte dei Conti, 2015). The wide variety of competencies accounts for a high autonomy of German local governments in political and functional terms. However, allocation of resources is centralised and local governments rely strongly on revenue shares distributed by the federal level and on state grants, which significantly constrains their fiscal autonomy (Wollmann 2004). Local governments can set business tax and land tax rates individually, however, businesses are geographically mobile, which in fact sets limits to raising tax rates. Moreover, this tax source is highly cyclical: in 2009, during the financial crisis, business tax revenues plummeted by 21%. At the same time, land tax is based on outdated valuations of the land value, thus this revenue source is stagnating (OECD 2016).

### Anticipatory Capacities

Anticipatory capacities (AC) become visible through different behaviours that assist local governments in gaining understanding of their environment in order to recognise potential disruptive events. In particular, this finds expression in the exchange of information with other

local governments and with upper levels of government; monitoring national policies and regulations, citizen's needs, economic and socio-demographic developments; providing staff with sufficient information; as well as fostering an organisational setting that encourages problem analysis and information sharing (see figure 4 and table 5; 1: strongly disagree, 5: strongly agree).

Figure 4: Anticipatory capacities across Germany, Italy and UK

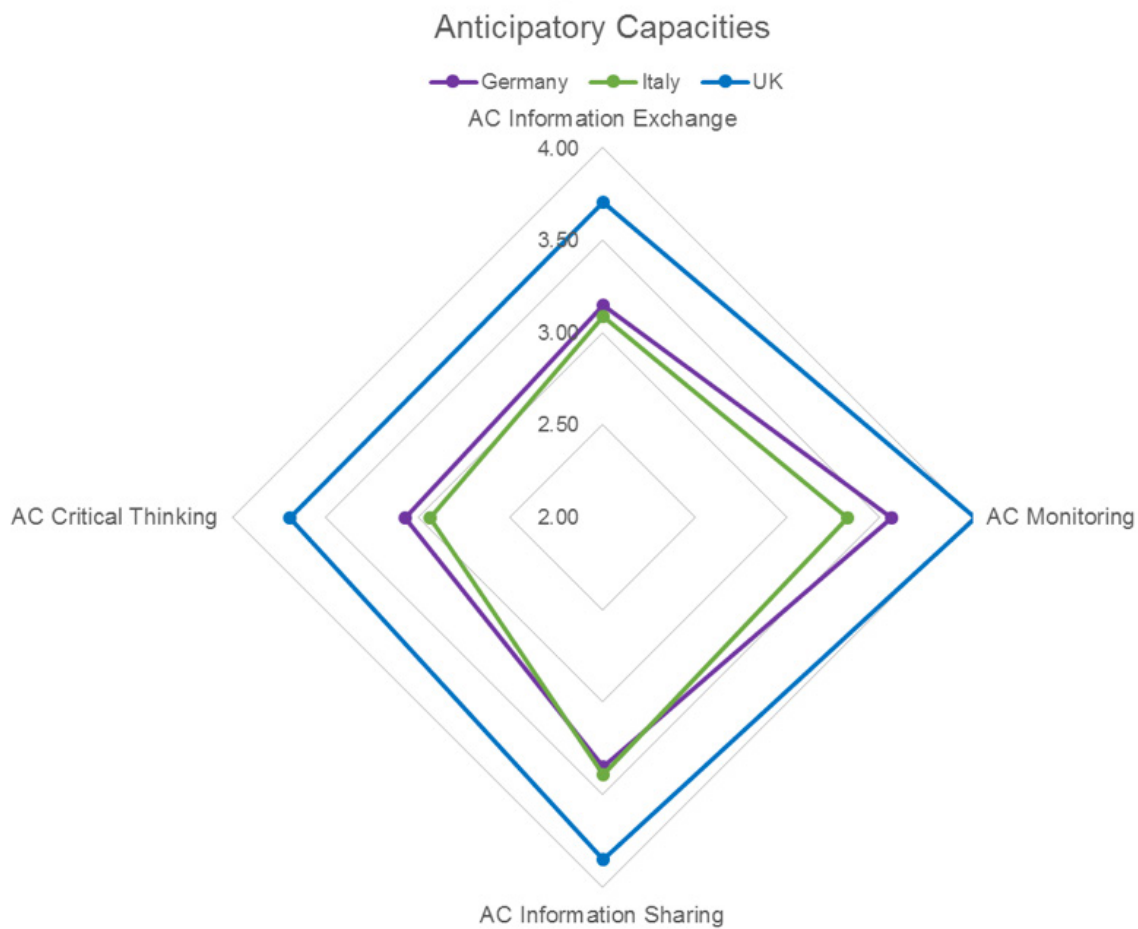


Table 5: Local governments' anticipatory capacities (country mean)

	Germany	Italy	UK	Total
AC Information Exchange	3.15	3.09	3.70	<b>3.18</b>
AC Monitoring	3.56	3.33	4.02	<b>3.52</b>
AC Information Sharing	3.35	3.39	3.85	<b>3.42</b>
AC Critical Thinking	3.07	2.93	3.69	<b>3.09</b>

UK local governments appear to rely overall on stronger anticipatory capacities when compared to their continental European counterparts. This may in part be due to a historic emphasis on benchmarking and the sharing of best practice, for example through the UK Local Government Associations "peer challenge" programme.

With regards to information exchange, exchanging information with peers (other local governments) appears to be particularly relevant for increasing understanding about the environment across all three countries. Here, local governments in the UK seem to be the frontrunners. They also declare to regularly exchange information with upper levels of government, an aspect that seems rather unusual for Italian local governments. In contrast, German local governments exchange information with external service providers less regularly than with professional service providers such as consultants/tax consultants or accountants – a group that seems to play a minor role in Italian local governments.

With regards to monitoring the external environment, UK local governments appear to outperform their counterparts in the other two countries, particularly with regards to changes of national policies and regulations. The latter however seem to be the most important areas monitored by local governments also in Germany and Italy. This is particularly interesting when contrasting this result with the results on shocks, where regulatory changes have been identified as least significant in the UK compared to the other two countries. Similar differences between the UK and its continental neighbours are shown also with regards to socio-demographic and economic developments, with Italy monitoring the latter to an even lower extent.

Information sharing seems to be valued highly in the UK, where responses indicate that it is important that people have the information and knowledge they need to respond to unexpected problems that arise. Likewise, UK local governments seem also to pass on relevant information quickly across functions and hierarchical levels. German and Italian local governments, in contrast, report lower levels in both cases. While information seems to be shared more freely across functions and hierarchies in the UK, German and Italian local governments do not report comparable levels. Additionally, much less emphasis seems placed on encouraging staff to conduct a complete analysis instead of providing routine solutions in response to unexpected events – respondents in Germany and Italy report similar levels. UK local governments here again show a higher level, but this aspect of information sharing seems to be the least relevant for them.

Critical thinking seems to be encouraged to a lesser extent than the other behaviours that uncover anticipatory capacities. Questioning the way things are usually done, and encouraging people to express different points of view is considered as a common approach adopted in the UK, but not in local governments in the other two countries. Compared to the aforementioned aspects, UK local governments report lower levels of encouraging people to bring forward information that may be considered 'bad news'. Interestingly, this is not accompanied by rewarding people for spotting potential problems but seems to be a more natural occurrence. This seems to be the case in German and Italian local governments in particular, probably mirroring also different traditions in personnel management.



### Coping Capacities

Coping capacities lie dormant in times of order and usually become visible in times of disruption in the form of coping actions. In order to cope with shocks, local governments need to stay up to date, apply new knowledge, and adapt; be able to respond in a rapid way, and build on internal and external collaboration (see figure 5 and table 6; 1: strongly disagree, 5: strongly agree).

Figure 5: Coping capacities across Germany, Italy and UK

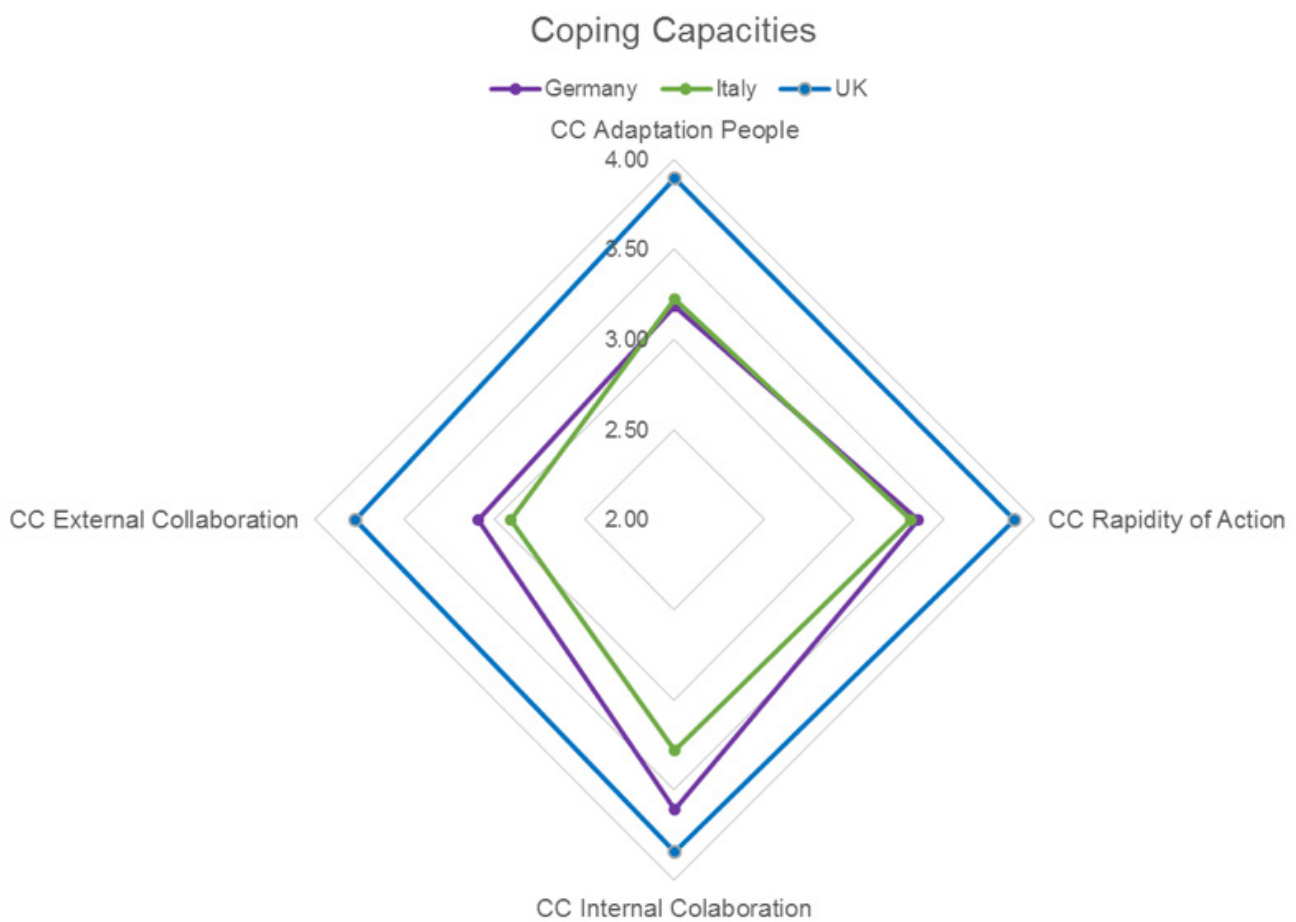


Table 6: Local governments' coping capacities (country mean)

	Germany	Italy	UK	Total
CC Adaptation People	3.19	3.22	3.89	3.28
CC Rapidity of Action	3.35	3.32	3.89	3.40
CC Internal Collaboration	3.61	3.28	3.84	3.51
CC External Collaboration	3.09	2.91	3.77	3.10

In general, local governments in the UK appear to show strong coping capacities. This supports the picture that is gained with regards to anticipatory capacities. UK local governments seem to build on strong social capital, where people are able to assimilate and apply new knowledge in their practical world, use their knowledge in novel ways, employ alternative options to sustain operations, and adapt quickly to changing circumstances during unexpected events to a higher extent than in Germany or Italy. In particular, people seem to be less able to use their knowledge in novel ways in German local governments.

Not only do local governments in the UK seem to be more able to adapt to unexpected events, but they also stand out for adopting timely responses to shocks. Indeed, the respondents perceive that their organisation has the capacity to shift rapidly from business-as-usual, make timely decisions, quickly pool collective expertise and reconfigure resources to deal with unforeseen problems. German and Italian local governments show a similar rapidity in responses to shocks in all aspects except the ability to quickly deal with conflicts in uncertain decision-making processes, where we see slightly higher levels in Germany.

The difference between the UK and the continental local governments again is shown with regards to collaboration, internal as well as external. With respect to internal collaboration, UK local governments report a particularly strong willingness of people to collaborate in order to find solutions to problems, but also to exchange ideas across departments or to collaborate across departments during business as usual. This result seems to be in line with the findings on anticipatory capacities (e.g. relevant information is passed on quickly) discussed above.

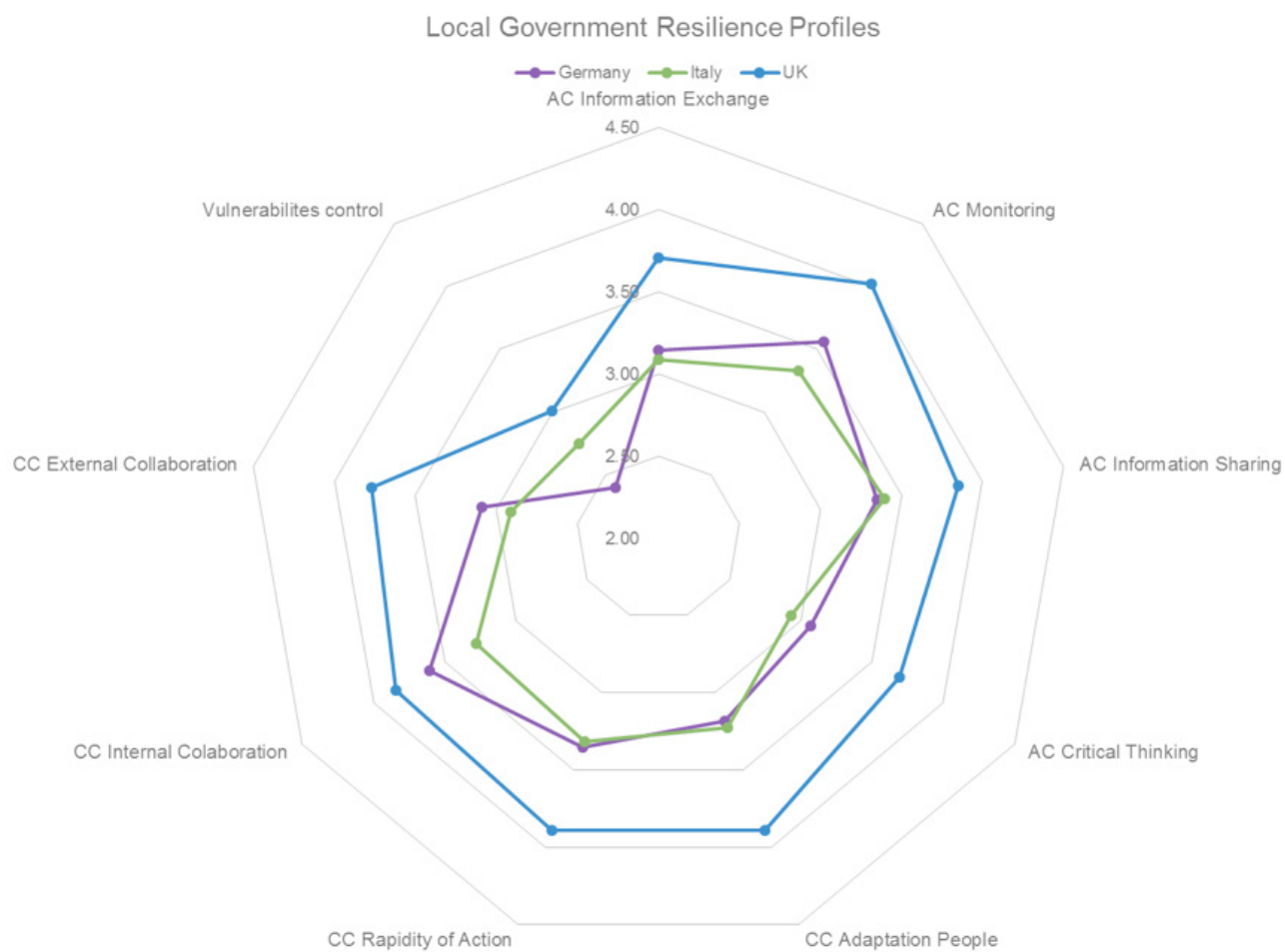
Although the levels are comparable to Germany, Italian local governments express relatively weaker signals of internal collaboration in all aspects. External collaboration seems to play a minor role in Germany and Italy, with the existence of strong relations with organisations that could supplement/substitute local governmental services in case of emergency or adversity reaching relatively low levels of agreement across all three countries. This somewhat points to the importance to local governments of service delivery as well as the specific array of services they fulfil. Results on the encouragement of collaboration with external stakeholders to develop solutions, and pointed collaboration with external partners regardless of organisational boundaries, show an equal importance of these aspects, however, the levels are slightly higher in Germany than in Italy.

### Country specific financial resilience profiles of local governments

The financial resilience profiles of local governments across countries were assessed by calculating the mean average of the nine dimensions discussed above and are shown in figure 6.

Although clear differences between country profiles are shown, it is important to highlight that the conceptual framework aims to assess the dimensions at the organisational level and to analyse their impact on performance. This allows local government actors to better reflect on their sources and levels of vulnerabilities and also understand what anticipatory and coping capacities they need to assess, nurture, and develop in order to anticipate, absorb and react to shocks affecting their finances over time.

Figure 6: Local government resilience profiles in Germany, Italy and the UK



### Linking shocks, vulnerabilities, capacities, and performance

In the final section of the report and in line with the third research aim of the project we analyse the relationship of the resilience dimensions with perceived financial and non-financial performance of local governments based on figure one. Due to low comparability or lack of objective measures of performance across the three countries, this study uses perceived performance, which, in prior public management research, has been shown to be as reliable as measures of organisational performance not based on perceptions. The importance of capturing managerial perception is further supported when taking a closer look at vulnerabilities.

Focusing on financial performance, UK local governments report a lower perceived financial performance than their counterparts. This is interesting as local governments in the UK, at the same time, perceive themselves as less financially vulnerable. Perhaps, when aligned to the strong anticipatory capacity identified for UK local government, this appears to reveal comparatively strong attention towards such issues. This could possibly be a legacy of various management reforms introduced within the sector over previous decades that were focussed on strategic capacity, financial management and performance management.

Table 7: Local government performance (country mean)

	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

With regards to non-financial performance, the dimension that received the highest scores across all countries was quality of services, while success in developing new ways of service delivery received the lowest scores. The results probably reflect high expectations by citizens, who require more and more sophisticated services in all of the three countries. German local governments show average scores in the other dimensions, but report a relatively high level of commitment/morale of staff. This stands in relatively stark contrast to the results in Italian local governments, where commitment/morale of staff reached the lowest level across the non-financial performance indicators. Prior results suggest one reason for this to be the consequent lack of young and motivated employees. In general, performance results are slightly below average

in Italy, particularly in the commitment/morale of staff (2.61). The UK shows high non-financial performance levels overall, which may be due to a legacy of centrally imposed performance management requirements focussing on value for money and continuous improvement.

Table 8 shows the relationships of the main dimensions of the financial resilience framework, i.e. capacities and vulnerabilities on the two different types of performance when controlling for the average impact of shocks (see figure 1).

Table 8: Local government financial resilience dimensions and their relevance for local government performance

Local Government Performance	Non financial	Financial	Non financial	Financial	Non financial	Financial
AC Information Exchange	**					
AC Monitoring	***	**				
AC Information Sharing	***	**				
AC Critical Thinking	**					
CC Rapidity of Actions			***	*		
CC Adaptability of People			***			
CC Collaboration Internal			**			
CC Collaboration External			***			
Low Indebtedness						**
High Financial Autonomy					**	***
Low volatility of own-revenues						**
Sufficient financial slack					***	***
Average impact shock (Control)		***	**	***	***	***
Explanatory Power	38%	10%	41%	5%	12%	35%

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

While it turns out that anticipatory and coping capacities in general show a strong association with non-financial performance of local governments (explaining 38% and 41% respectively), the picture changes when looking at the their relationship with financial performance. Monitoring activities, free information sharing and the rapidity of actions still show a positive association with financial performance, the main enablers or inhibitors of financial performance are however the various vulnerability sources. The results also show that while specific financial vulnerability sources (i.e. financial slack and high autonomy) have a positive impact on non-financial performance, the effect is much weaker (only explaining 12% of the variance).

In general, the results reveal the crucial role of different anticipatory and coping capacities in enhancing the performance of local governments. While the financial performance of local governments is strongly linked to associated vulnerabilities, enhancing or maintaining a high level of non-financial performance when facing difficult times, turns out as mainly being dependent on the capacities identified above. This emphasises the importance of developing wider coping and anticipatory capacities within local governments (e.g. environmental scanning) as a key element to effectively tackle with difficult conditions and to build and nurture a financial resilience culture.

## Conclusions

So far, management accounting has put emphasis on narrow concepts of local government financial management and measurement such as liquidity, solvency or efficiency. In times of shock or unforeseen events, this approach offers only a partial view of how local governments are able to tackle them. Applying the concept of financial resilience, i.e., governments' capacity to cope with shocks and difficulties affecting their financial condition, uncovered the internal capacities and capabilities that act as shaping forces within organisations.

The present study contributed to further developing and operationalising the dimensions of financial resilience, and understanding its relevance for local government performance. The results of the survey conducted on local governments in Germany, Italy, and the UK show that, although they are located in different administrative traditions, similar local government resilience dimensions can be identified across the three countries. However, significant differences with regard to the levels of different capacities and vulnerabilities are traced out, leading to country-specific financial resilience profiles for local governments. Taking into consideration the relevance of financial resilience for local government performance, it turns out that the identified 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. When facing difficult times, local governments need to be able to rely on a combination of anticipatory and coping capacities in order to sustain or improve levels of financial and non-financial performance.

The capacities, which also assist in keeping particular vulnerabilities in control, are specified in practical guidance linked to this report, a tool-kit for local governments to assess and develop their capacities in order to be better equipped to cope with disruptive events (see page 30).

The tool-kit consists of key questions across nine sub-dimensions that practitioners can ask themselves about their organisation to help identify their own capacities and vulnerabilities, which in turn can help them to cope with shocks and difficulties affecting their financial condition.

Four of these nine sub-dimensions relate to Anticipatory Capacities, another four relate to Coping Capacities, and one dimension refers to Vulnerability, as shown in table 9 (please, note that by clicking on each of the nine sub-dimensions the reader will be directly addressed to the specific sections of Appendix 4 about the tool-kit, showing the related key questions).

Table 9: The tool-kit contents

Capacities/vulnerabilities	Operationalisation (sub-dimensions)
Anticipatory Capacities	<ul style="list-style-type: none"> <li>▶ Information Exchange</li> <li>▶ Monitoring</li> <li>▶ Information Sharing</li> <li>▶ Critical Thinking</li> </ul>
Coping Capacities	<ul style="list-style-type: none"> <li>▶ Adaptability of People</li> <li>▶ Rapidity of Actions</li> <li>▶ Internal Collaboration</li> <li>▶ External Collaboration</li> </ul>
Vulnerabilities	<ul style="list-style-type: none"> <li>▶ Vulnerabilities</li> </ul>

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## Appendix 1 – Detailed information on methods

Based on an analysis of the literature on resilience, organisational capacities, and governmental financial management and the insights of Steccolini et al. (2017), the relevant variables (e.g., dimensions of resilience, possible antecedents and consequences) were operationalised and the questionnaire was developed. The latter was pre-tested and refined before the final launch. The questionnaire was administered online to chief executive officers, chief financial officers and service managers in local governments. Local governments included in the survey were identified based on a stratified sampling approach. In Italy and Germany all local governments with a population above 15,000 were selected, and a probabilistic sampling (50%, considering their regional distribution) was applied to identify local governments with a population between 5,000 and 15,000 inhabitants. The step resulted in a target population of 1,920 local government in Germany and 1,574 in Italy. For the UK, for comparability purposes, all higher tier authorities (a total of 419) were included in the study for

the four regions, giving a total of 189 Unitary Councils (England 124, Wales 22, Scotland 32 and Northern Ireland 11), 27 English Shire Counties, 201 English Shire Districts, plus the Greater London authority and the City of London corporation<sup>4</sup>. The email addresses were collected from the governmental websites as they were publicly available. This allowed us to get usable data from 295 local governments in Germany, 208 in Italy and 61 in the UK. In addition to the survey data, archival financial data and published reports were used as sources for the analysis (Aida Pa database and the website of the Ministry of Interior that publish the main financial data for Italian local governments, based on year-end financial reports, for Italy, and in the UK Statistics Wales, Local Government Finance Statistics (Scotland) Department for Communities and Local Government (Statistics at DCLG – England). For Germany the database <http://www.wegweiser-kommune.de/> was accessed to get financial, economic and sociodemographic data for the years 2006-2015.

## Appendix 2 – Germany, Italy and UK: Main features

	Germany	Italy	UK
Population in mio. 2013	80,523,746	59,685,227	63,905,297
GDP per capita in Euro 2013	34884,1	26958,1	26958,1
Administrative tradition	Continental European federal model	Continental European Napoleonic/Southern Model	Anglo-Saxon Model
Level of decentralisation	Federal	Unitary ("Quasi")	Unitary
General debt level in % of GDP 2013	82.4	145.5	105.4
General Fiscal balance 2013 as % of GDP	0.2	-2.95	-5.74
Financial vulnerability 2006 / 2012 (Lodge/Hood, 2012)	Medium / Medium	High / Medium	Low / High
Local debt level in % of GDP (2013)	5.30%	12.30%	9.80%
Local debt level in % of Total Public Debt (2007/2013)	7.8/6.5	10.3/8.5	17.7/9.3
Local government profiles	North Middle European Group	Franco Group	Anglo-Group
No. of local governments (LAU 2 2013)	11,116	8,092	419
under 5000	8,236	5,681	
5001-15000	1,919	1,674	
15001-50000	779	590	18
above 50001	182	147	401
Sample	1,921	1,574	419
Main local government fiscal sources	Business tax, land tax, dog tax, amusement tax, hunting and fishing licence tax, service fees, other government grants, revenue shares	Municipal property tax; household waste tax; tax on the occupation of public spaces and areas; local advertising tax; surtax on personal income tax; fees and charges; surtax on electricity consumption; municipal tax on building licences; provincial vehicle insurance tax and registration tax; regional tax on productive output; regional automobile tax; fuel duty	Council tax (resident property); retained and redistributed non-domestic rates (business rates); other government grants (including specific government grants); sales, fees and charges; council rents
Main local government shared taxes	Income tax shares, value added tax shares	Personal income tax (municipalities and provinces); personal income tax and corporate income tax (regions with special status)	Business rates (business property tax)

## Appendix 2 – Germany, Italy and UK: Main features (continued)

	Germany	Italy	UK
<b>Financial arrangements</b>	<p>Income tax revenues are distributed to the municipalities according to the taxpaying ability of inhabitants</p> <p>VAT revenues are based on a formula reflecting geographical and economic factors</p> <p>Budget balance rules are in place</p> <p>Borrowing allowed for investment purposes only (debt-brake).</p> <p>Local governments in fiscal distress can be put under supervision by their Länder</p>	<p>Annual constraints on expenditure and/or the budget balance of sub-central government set in Stability Pact</p> <p>Issuance of local government own debt allowed only to finance capital expenditure, no approval by upper-level government required, cap on debt service</p>	<p>Central grant distribution determined by centrally set funding formula, including redistribution of business rates (amended 2014/15 to include an element of business rates retained locally)</p> <p>Statutorily required to set a balanced budget</p> <p>Issuance of local government own debt allowed only to finance capital expenditure, no approval by upper-level government required, internally set caps on debt</p>
<b>Local government expenditure in % of total government expenditure (2013)</b>	16.3%	28.6%	25.1%
<b>Local government expenditure by function in % of total local government expenditure</b>			
General Public Services	18.1%	13.1%	8.0%
Public Order and Safety	3.4%	1.7%	9.2%
Economic Affairs	12.9%	14.2%	8.0%
Environmental Protection	4.4%	5.3%	4.2%
Housing and community amenities	3.6%	4.3%	4.7%
Health	1.7%	47.0%	1.1%
Recreation, Culture and Religion	6.7%	2.5%	2.6%
Education	15.9%	6.8%	29.1%
Social Protection	33.2%	5.0%	33.0%
<b>Local government capital expenditure in % of total government capital expenditure (2013)</b>	34.3%	58.9%	35.9%

## Appendix 3 - Detailed information items (country mean)

ANTICIPATORY AND COPING CAPACITIES	Germany	Italy	UK
<b>AC INFORMATION EXCHANGE</b>			
AC Information exchange with other local governments	3,61	3,63	4,10
AC Information exchange with upper levels of government	3,21	2,96	3,82
AC Information exchange with external service providers	2,74	3,08	3,57
AC Approaching professional service providers	3,03	2,69	3,33
<b>AC MONITORING</b>			
AC Monitoring changing national policies and regulations	3,70	3,68	4,27
AC Monitoring changing citizen's needs	3,51	3,32	3,83
AC Monitoring economic developments	3,51	3,09	4,00
AC Monitoring socio-demographic developments	3,53	3,22	3,97
<b>AC INFORMATION SHARING</b>			
AC people have the information and knowledge they need	3,42	3,62	4,00
AC Information is shared freely	3,30	3,42	3,87
AC relevant information is passed on quickly	3,58	3,46	3,97
AC people are encouraged to conduct complete analysis of problems	3,10	3,07	3,57
<b>AC CRITICAL THINKING</b>			
AC people question the way things are usually done here	3,28	3,04	4,03
AC people express different points of view	3,41	3,19	3,98
AC people are rewarded for spotting potential problems	2,48	2,70	3,13
AC bring forward information that may be considered 'bad news'	3,11	2,80	3,62
<b>CC ADAPTABILITY PEOPLE</b>			
CC ability to use their knowledge in novel ways	2,98	3,11	3,90
CC ability to assimilate and apply new knowledge in their practical work	3,41	3,42	4,02
CC keep up with new ways of doing things	3,15	3,20	3,82
CC ability employ alternative options to sustain operations during unexpected events	3,18	3,25	3,87
CC ability to adapt quickly to changing circumstances during unexpected events	3,20	3,14	3,87

## Appendix 3 - Detailed information items (country mean)

CC RAPIDITY OF ACTIONS	Germany	Italy	UK
CC ability to shift rapidly from business-as-usual to respond to a shock	3,43	3,36	4,03
CC Quickly deal with conflicts in uncertain decision-making processes	3,27	3,06	3,75
CC Timely decisions to deal with unforeseen problems	3,40	3,40	3,97
CC Quick reconfiguration of resources to deal with unforeseen problems	3,25	3,29	3,85
CC - We are quick in pooling our collective expertise	3,42	3,48	3,87
CC INTERNAL COLLABORATION			
CC people collaborate with each other to diagnose and solve problems	3,57	3,25	3,98
CC people interact and exchange ideas also across departments	3,48	3,26	3,80
CC cross-departmental collaboration is part of business-as-usual	3,77	3,34	3,75
CC EXTERNAL COLLABORATION			
CC collaboration with external stakeholders to develop solutions is strongly encouraged	3,08	3,01	3,80
CC departments work with external partners to get the job done, regardless of organisational boundaries	3,11	2,99	3,80
CC strong relations with organisations that could supplement or substitute our services in case of emergency/ adversity have been built	3,09	2,73	3,72

# Guidelines and tool-kit for enhancing or building governmental financial resilience

## Guidelines

This tool-kit supports the publication "Local government financial resilience: Germany, Italy and UK compared" and should be used in conjunction with it. It is based on the concept of financial resilience.

Financial resilience has proven useful in exploring local government's ability to anticipate, absorb and react to shocks affecting their finances. In particular, it gives an integrative view of local public finances, focusing not only on pressures and stimuli coming from the external environment, and on financial data, but equally taking into account organisational pre-conditions and capacities. It also allows for the various dimensions of financial resilience to be explored in relation to a local governments' financial and non-financial performance, allowing decision makers to

better understand and account for the extent and influence of underlying preconditions and capacities when responding to significant unexpected events and their financial consequences.

The financial resilience profile of local governments can be assessed by calculating the mean average of the dimensions presented below and allows public managers to better reflect on their sources and levels of vulnerabilities and also understand what anticipatory and coping capacities they need to assess, nurture, and develop in order to anticipate, absorb and react to shocks affecting their finances over time.

The various dimensions of financial resilience are outlined in Table 1 below.

Table 1: Dimensions of financial resilience: the analytical framework

Dimensions of financial resilience: the analytical framework	
<b>Environmental Conditions / External Shocks</b>	Environmental conditions comprise the institutional, economic, and social environment in which local governments operate. The focus of this study is on external shocks that disrupt the environmental conditions of local governments, thereby impacting their financial condition.
<b>Anticipatory Capacities</b>	Anticipatory capacities refer to the availability of tools and capabilities that enable local governments to better identify and manage their vulnerabilities and to recognise shocks before they arise, as well as to understand their nature, likelihood, timing, scale and potential impacts.
<b>Coping Capacities</b>	Coping capacities lie dormant in times of order, and usually become visible in times of disruption in the form of coping actions. Coping capacities refer to resources and abilities that enable local governments to face shocks and manage their vulnerabilities. To cope with shocks, local governments need to be able to adapt, in particular to learn and apply new knowledge, adopt timely responses, also by putting together collective expertise and rely on internal collaboration.
<b>Local Government Performance</b>	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).



## Tool-kit

This tool-kit has been designed to support public sector accountants, controllers, auditors and performance management officers, and local and national policy makers in assessing the financial resilience of public sector organisations and identifying possible areas for improvements therein. The final aim is to help practitioners to face unexpected events.

As no one-size-fits-all solution exists for government financial resilience, this tool-kit can represent a starting point for improvement. Deeper investigation and reflection will be required within each organisation to address specific weaknesses in order to enhance or build financial resilience.

The tool-kit consists of key questions practitioners can ask themselves about their organisation to help them identify their own capacities and vulnerabilities that can help them to cope with shocks and difficulties affecting their financial condition.

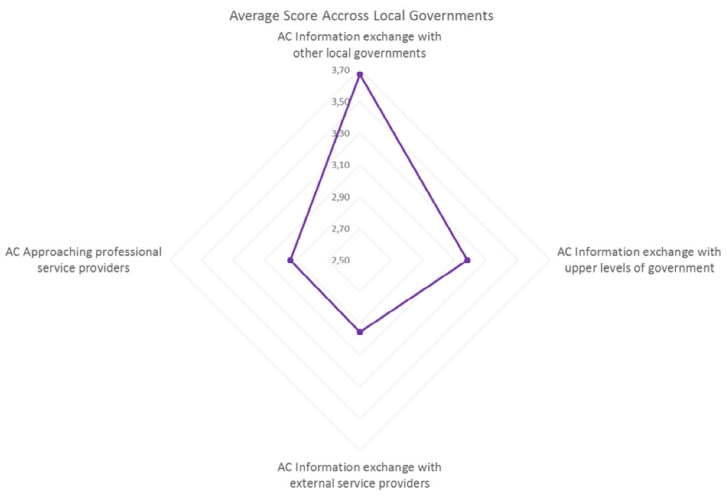
The diagrams given in the tool-kit are illustrative of the average position of all local governments included survey responses of over 500 local governments from across three European countries (Germany, Italy and The UK) between May and June 2017 and can be used as a guide to position local governments against their peers.

It is important to note that the average position is just that, and does not suggest a recommend position as each local government will be drawing on a different history and its own unique set of local circumstances. Nevertheless, completing the questionnaire and comparing to the average will provide a useful start point for the consideration of the status of the dimensions of financial resilience.

# Anticipatory Capacities

Definition: Availability of tools and capabilities that enable local governments to better identify and manage their vulnerabilities and to recognise potential financial shocks before they arise, as well as their nature, likelihood, timing, scale and potential impacts.

Is my organisation able to anticipate unexpected events?		Anticipatory Capacities (1): Information Exchange				
<b>1</b>	<b>Does the local government have a clear understanding of the environment?</b> Being aware of the external environment is essential in order to anticipate potential shocks and to identify and manage key local government vulnerabilities.					
	<b>In my local government:</b>	1 = Never ==> 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.						



Is my organisation able to anticipate unexpected events?

Anticipatory Capacities (2): Monitoring

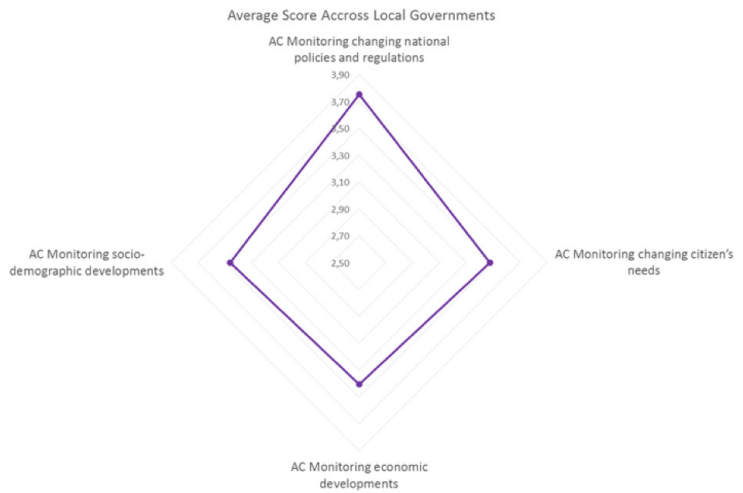
**2 Does the local government have a clear understanding of the environment?**

Being aware of the external environment is essential in order to anticipate potential shocks and to identify and manage key local government vulnerabilities.

**In my local government:** 1 = Never ==> 5 = Regularly

▶ monitor changing national policies and regulations	1	2	3	4	5
▶ constantly monitor changing citizen's needs	1	2	3	4	5
▶ constantly monitor economic developments	1	2	3	4	5
▶ constantly monitor socio-demographic developments	1	2	3	4	5

Critical Assessment and future steps: e.g. introduce or improve procedures for monitoring various environmental factors



Is my organisation able to anticipate unexpected events?

Anticipatory Capacities (3): Information Sharing

**3 Do people in my organisation have enough and the right information to cope with shocks?**

People are key assets for the organisations. The extent to which they hold proper information is critical for the identification of the right solutions among different alternatives

**In my local government...** 1 = Never ==> 5 = Regularly

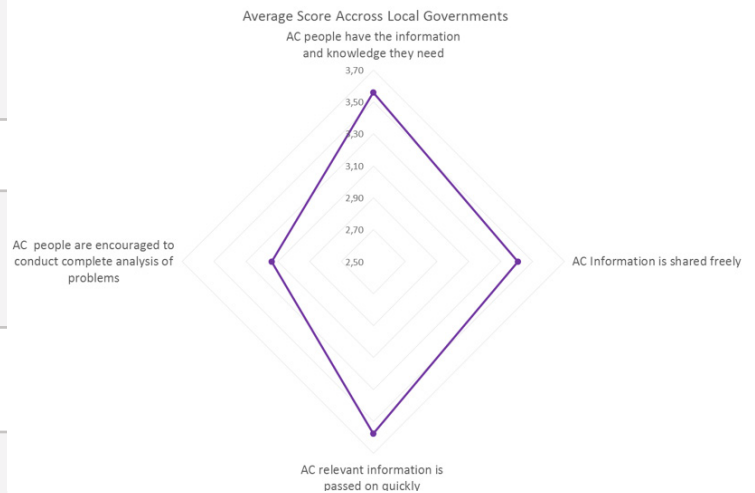
▶ people have the information and knowledge they need to respond to unexpected problems that arise 1 2 3 4 5

▶ information is shared freely across functions and hierarchical levels 1 2 3 4 5

▶ when something unexpected happens, relevant information is passed on quickly across functions and hierarchical levels 1 2 3 4 5

▶ people are encouraged to conduct a complete analysis instead of providing a routine solution 1 2 3 4 5

Critical Assessment and future steps: e.g. simplify information flows, incentivise people to share information freely, give people time and resources to conduct a complete analysis



Is my organisation able to anticipate unexpected events?

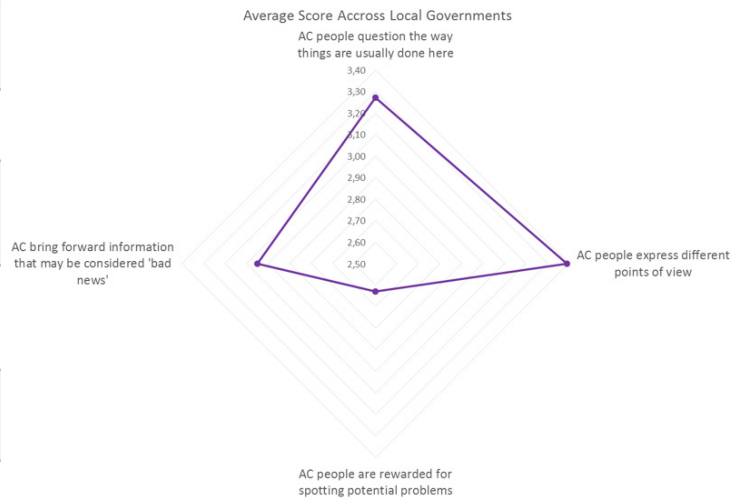
Anticipatory Capacities (4): Critical Thinking

4 Do people in my organisation use a critical thinking approach?

The adoption of a critical thinking approach fosters an open-minded attitude to identify solutions to problems that may arise.

In my local government... 1 = Never ==> 5 = Regularly

▶ people are encouraged to question the way things are usually done here	1	2	3	4	5
▶ people are encouraged to express different points of view	1	2	3	4	5
▶ people are rewarded for spotting potential problems	1	2	3	4	5
▶ people are strongly encouraged to bring forward information that may be considered 'bad news'	1	2	3	4	5



Critical Assessment and future steps: e.g. introduce measures aimed at encouraging a bottom up and critical approach to events taking place in the external environment

## Coping Capacities

Definition: Coping capacities, refer to resources and abilities that enable local governments to face shock and manage their vulnerabilities. To cope with shocks, local governments need to be able to adapt, in particular to learn and apply new knowledge, adopt timely responses, also by putting together collective expertise and rely on internal and external collaboration.

Is my organisation able to cope with unexpected events?

### Coping Capacities (5): Adaptability of People

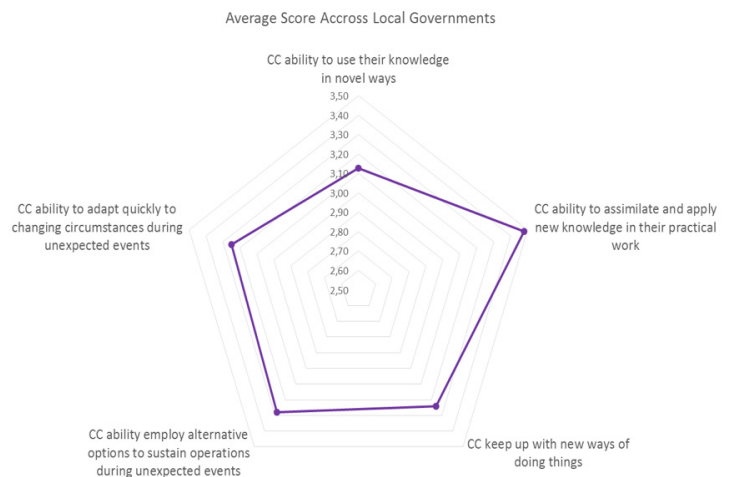
#### 5 Are people in my organisation able to successfully adapt to unforeseen circumstances?

People are key assets for the organisation. The extent to which they are able to cope with changing circumstances is critical in implementing innovative solutions.

In my local government... 1 = Never ==> 5 = Regularly

	1	2	3	4	5
▶ people are able to use their knowledge in novel ways					
▶ people are able to assimilate and apply new knowledge in their practical work					
▶ people do a good job in keeping up with new ways of doing things					
▶ people are able to employ alternative options to sustain operations during unexpected events					
▶ people are able to adapt quickly to changing circumstances during unexpected events					

Critical Assessment and future steps:



Is my organisation able to cope with unexpected events?

## Coping Capacities (6): Rapidity of Actions

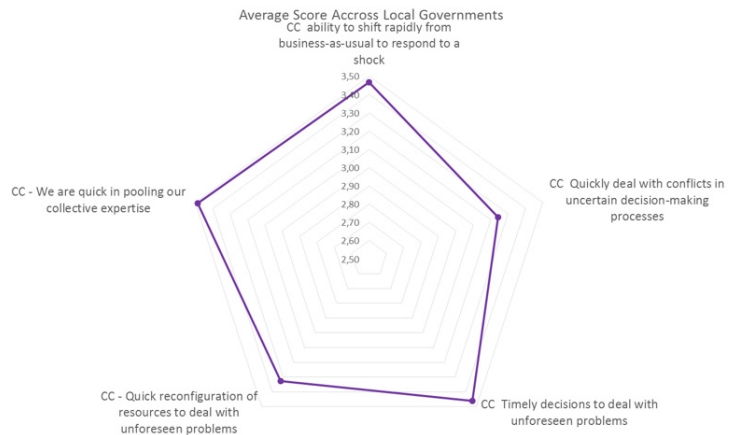
### 6 Do people in my organisation have enough and the right information to cope with shocks?

People are key assets for organisations. The extent to which they hold proper information is critical for the identification of the right solutions among different alternatives

In my local government... 1 = Never ==> 5 = Regularly

▶ We are able to shift rapidly from business-as-usual to respond to a shock	1	2	3	4	5
▶ We can quickly deal with conflicts in uncertain decision-making processes	1	2	3	4	5
▶ We can make timely decisions to deal with unforeseen problems	1	2	3	4	5
▶ We can quickly reconfigure resources to deal with unforeseen problems	1	2	3	4	5
▶ We are quick in pooling our collective expertise to resolve unforeseen problems	1	2	3	4	5

Critical Assessment and future steps:



Is my organisation able to cope with unexpected events?

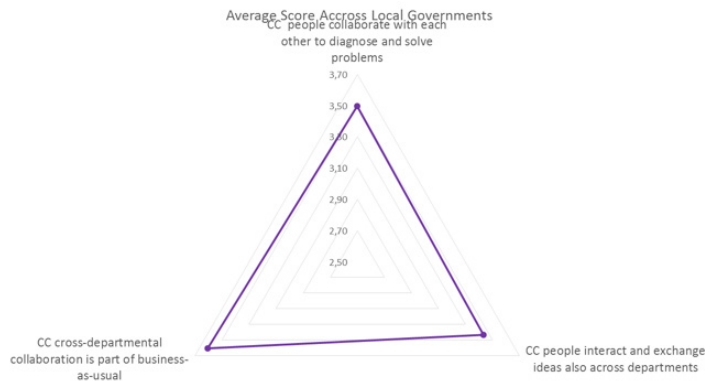
Coping Capacities (7): Internal Collaboration

7 Do people in my local government exchange ideas and collaborate with each other?

This dimension taps into the social capital of organisations and reflect the capacity of employees to create, transfer, and leverage knowledge between themselves (Youndt et. al. 2004).

In my local government... 1 = Never ==> 5 = Regularly

▶ people collaborate with each other to diagnose and solve problems	1	2	3	4	5
▶ people interact and exchange ideas also across departments	1	2	3	4	5
▶ cross-departmental collaboration is part of business-as-usual	1	2	3	4	5



Critical Assessment and future steps:

Literature: Youndt et. Al. 2004 Journal of Management Studies, Andrews 2010, 2011



Is my organisation able to cope with unexpected events?

Coping Capacities (8): External Collaboration

**8 Do people in my local government exchange ideas and collaborate with each other?**

This dimension taps into the social capital of organisations and reflect the capacity of employees to create, transfer, and leverage knowledge between themselves (Youndt et. al. 2004).

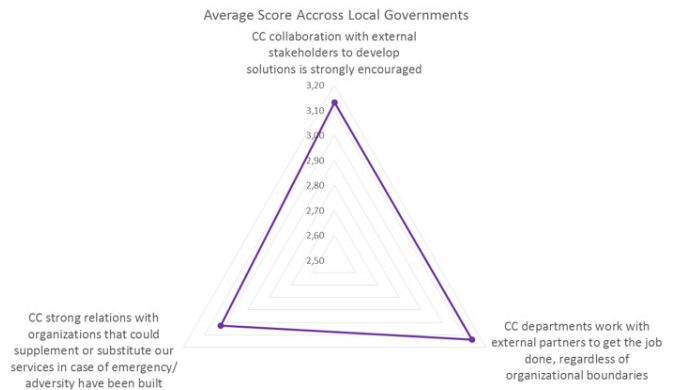
**In my local government...** 1 = Never ==> 5 = Regularly

▶ collaboration with external stakeholders to develop solutions is strongly encouraged 1 2 3 4 5

▶ departments work with external partners to get the job done, regardless of organisational boundaries 1 2 3 4 5

▶ strong relations with organisations that could supplement or substitute our services in case of emergency/ adversity have been built 1 2 3 4 5

Critical Assessment and future steps:



## Vulnerabilities

Definition: In general terms, financial vulnerability represents the extent of exposure to potential shocks that may affect governments' finances. Local governments' financial vulnerability can be considered as the result of both external (e.g. dependency on grants, undiversified revenues) as well as internal (e.g. debt financing, reserves) sources, and thus turn out to be at the interface between the environment and the organisation.

Is my organisation vulnerable to unexpected events?		Vulnerability (5): Adaptability of People				
9	<p><b>Is my local government in control of both external and internal financial vulnerability sources?</b></p> <p>The 'endogenisation' of vulnerability (i.e. the sense of being able to influence its sources) affect the way in which crisis and the resulting impacts are interpreted, and receive attention</p>					
	<b>In my local government...</b>	1 = Never ==> 5 = Regularly				
	▶ The debt level is low	1	2	3	4	5
	▶ The financial autonomy (considering our own revenue sources) in general is high	1	2	3	4	5
	▶ The volatility of own revenues sources (e.g. taxes) is low	1	2	3	4	5
	▶ We have enough financial reserves (fiscal slack) to absorb a small amount of shock	1	2	3	4	5
Critical Assessment and future steps:						

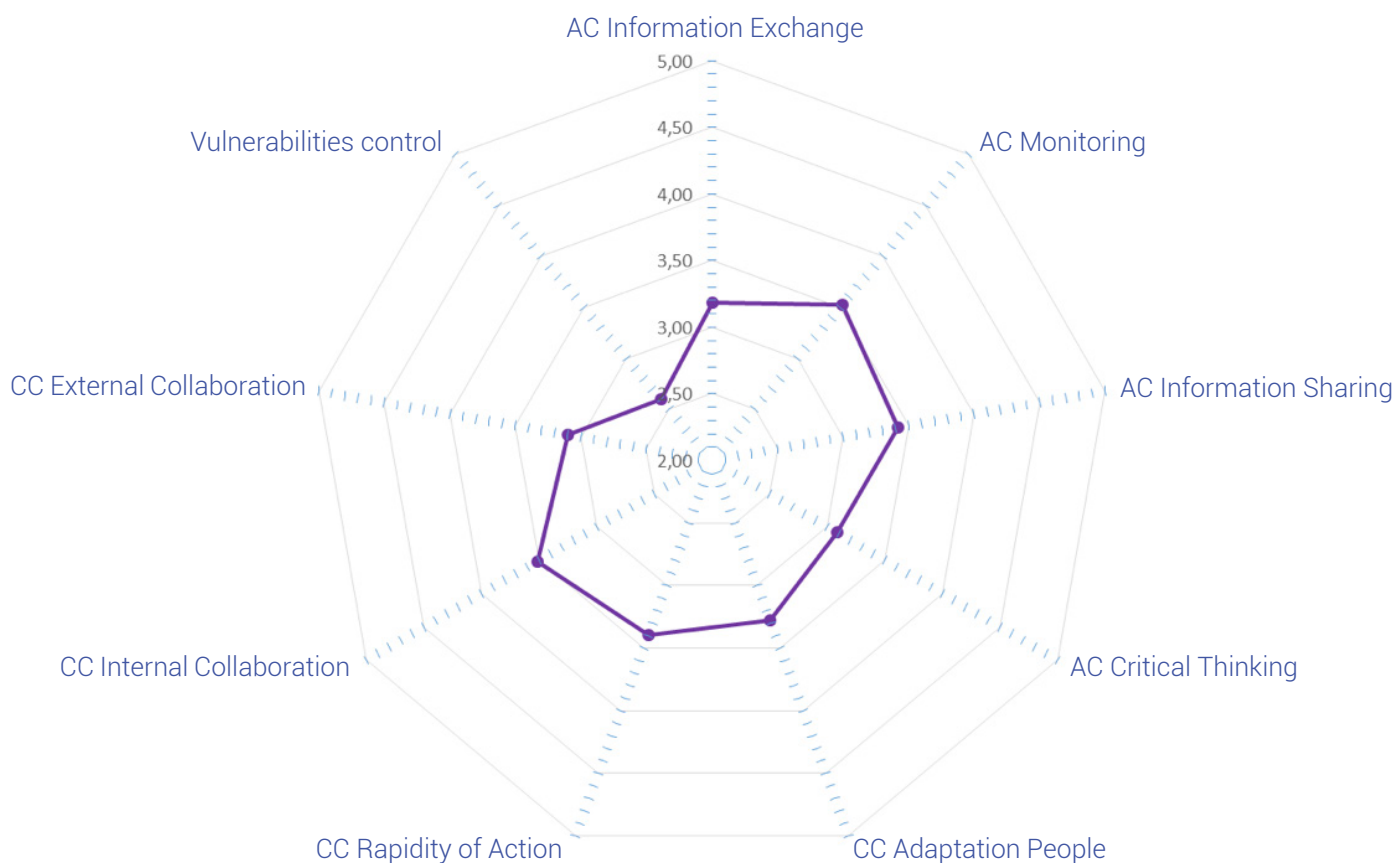
Average Score Across Local Governments

Indicator	Score
Low level of debt	2.5
Low volatility of own-revenues	2.0
High Financial Autonomy	2.0
Sufficient fiscal slack (face minor shock)	2.0
Unlabeled Indicator	1.5

## Financial resilience profile of my local government

Definition: The financial resilience profile of your local government can be assessed by calculating the mean average of the 9 dimensions presented above and allows public managers to better reflect on their sources and levels of vulnerabilities and also understand what anticipatory and coping capacities they need to assess, nurture, and develop in order to anticipate, absorb and react to shocks affecting their finances over time.

## Average Local Government Resilience Profile



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July 2018