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Perceiving Financial Vulnerability: Investigating Northamptonshire County Council through the Lens of Financial Resilience.

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1.0 Introduction

The concept of financial resilience has been useful in understanding how local authorities respond to significant adverse conditions or events affecting their financial position (Barbera *et al.* 2017). As a dynamic combination of strategic capacities, financial resilience allows us to go beyond "the figures" and provides insights to understand how financial decision making occurs within organisations (Barbera *et al.* 2018). Saliterer *et al.* (2017) defined financial resilience as the ability of organisations to anticipate, absorb, and respond to financial shock arising from a dynamic combination of four interrelated phenomena, which include, (1) financial vulnerability, (2) shocks, (3) anticipatory, and (4) coping capacities. One of these strategic capacities, perceived financial vulnerability is the degree to which organisations are exposed to specific shocks or crisis (Saliterer *et al.* 2017). Perceived vulnerability is both informed by and informs an organisation's strategic capacity to predict, interpret and respond to environmental changes that will impact upon its financial condition and ultimately its ongoing viability.

Central government funding of councils in England has declined dramatically since 2010 and retrenchment has been widely used as a resilience measure (Hofer 1980, Robbins and Peart 1992, Pearce and Robbins 1993, Boyne 2004, Walshe *et al.* 2004, Beeri 2009). According to Jones (2014), retrenchment is primarily focussed on cost savings and efficiencies through downsizing and restructuring and is often a characteristic of operational turnaround. Retrenchment is often used to create the financial and operational capacity for a longer-term market focus or a strategic turnaround. Thus, local authorities often implement short-term structural changes in response to fiscal pressures while they employ other long-term organisational changes to help alleviate the impact of long-term demand changes and service pressures. This approach was considered in a public sector context by Boyne (2004) and Beri (2009). UK Spending Reviews since 2010 have reduced financial support from central government to local authorities in the UK while the 2015 and 2017 Spending Reviews indicate that local authorities should expect a further significant reduction of more than 50%, in Revenue Service Grants (RSG) from £11.5bn to £5.4bn by 2025 (Harvey, 2016). Even though a very small number of local authorities may receive marginal percentage increases in their funding, the majority are perceived to be vulnerable to challenges as a result of continuing financial and service demand pressures.

Under the Comprehensive Performance Assessment (CPA) regime, local councils had an annual 'Use of Resources' assessment (Audit Commission 2009a), which in addition to assessing their resources (both financial and non-financial) was used as a tool to enhance financial management, improve service delivery and promote value for money. However, the performance of Northamptonshire County Council (NCC) was persistently weak under CPA and was one of 10 councils with lower performance scores for its Use of Resources in 2007 than in 2008 since its financial reporting was not meeting the minimum requirements (Audit Commission 2008). The Use of Resources assessment was abandoned by the incoming coalition government in 2010as and when it abandoned CAA. In 2014, the Local Audit and Accountability Act reduced the reporting requirements on local authorities, outsourced the remaining 70% of external audit and abolished the Audit Commission. Contrary to its stated objectives the perverse effect was to reduce both accountability and transparency in Local Authorities, an implication that became quickly obvious (Ellwood 2014, Ferry and Eckersley 2015; Ferry *et al.* 2015)

This loosening of external control and loss of advice and support between 2010 and 2018 contributed to the high-profile difficulties experienced by Northamptonshire County Council in 2018, and widespread media reports of financial difficulties in other local authorities since then.

The purpose of this paper is to investigate the perceived vulnerability of Northamptonshire County council (NCC) prior to the issue of two 'section 114' notices, in February and July, 2018 using a lens of financial resilience. The paper contributes to the limited literature on financial resilience and is the first academic paper (to the authors knowledge) that investigates the NCC's section 114 notices; making NCC the first council to do so in the last two decades.

The remainder of this paper is structured as follows. The next section discusses the background and context to the financial failure in Northamptonshire and the following section reviews the literature on perceived vulnerability. The fourth section describes the methodology, justifying the methods used. The fifth and final section discusses some initial findings and emerging conclusions. It is worth noting at this stage that NCC the powers available to central government to intervene that are based on failure to comply with part 1 of the 1999 Local Government Act were available throughout this period.

2.0 Background, Context & Antecedents

Northamptonshire County council's performance, including its financial performance was measured through the CPA and the Comprehensive Area Assessment (CAA) performance management regimes between 2002 and 2009/10. Both regimes included an annual 'Use of Resources' assessment as well as an annual external audit 'letter'. In 2010, the incoming coalition government replaced the CPA/CAA regime with a sector-led improvement regime (Audit Commission 2009b) and revised the audit arrangements as a result of the 2014 Act. Collectively these new financial reporting requirements and the Sector-Led Improvement arrangements (SLIs) were responsible for measuring and monitoring the council's performance from 2010 till 2018.

During the pre-recession period (2002 to 2010), there was a continuous increase in funding from the central government to NCC, in contrast to persistent cuts in central funding through fiscal austerity measures during the post-recession era (2010 to 2018).

The first part of this section is based primarily upon the publically available Audit Commission 'use of resources' reports and the annual external auditors letters to the council, the second part, of necessity, is based on the annual auditors letters, the quarterly performance reports from 2010-2019 deposited on the LGA website and the Financial Peer Challenge organised by the LGA in 2017.

2.1 Pre-recession Era (2002 to 2010)

From the first assessment of CPA in 2002, NCC provided 'weak[1]' services and signs of improvements were slow leading to low satisfaction by the general public (Audit Commission 2002). This weak performance was partially attributed to poor financial and managerial approaches, as there was already evidence of disorganized service plans in the council. NCC planned to improve its performance by developing a 3-year development plan to improve services and enhance value for money to its local people. In 2003, a slight improvement in services was evident among the majority of its performance indicators, even though Transport services remained very weak (Audit Commission 2003). NCC had an improved 'financial control and management' score which suggested a better financial positioning. However, systems and structures were still weak and the inspectors believed this needed a crucial revamp to achieve improved service delivery. NCC had the 14th lowest score (29 on their service delivery and 25 on their ability to improve) out of the 150 Single Tier and County Councils (STCCs) evaluated by the first CPA. As part of this score NCC managed to secure a score of 2 out of 4 for its overall financial performance.

A 'weak' NCC improved to 'fair' in 2004 due to significant improvements in the use of resources and children's services (Audit Commission 2004). However, there were some weak areas within children services such as the child protection register and helping older people to live at home, and NCC was still struggling to improve its priority services in 2005 (Audit Commission 2005). Value for money improved in some areas but not all these improvements were planned. Improvement plans were not always transforming to desirable outcomes even though these plans were reasonable and evident in 2005. Hence performance had improved but did not fully manifest itself in achieving value for money. As a result, NCC's overall rate of improvement was below the average for similar councils in 2006 (Audit Commission 2006). The council engaged in capital investment and yet, value for money was not achieved but was believed or anticipated to enhance financial management and also promote service delivery in the future. Although performance management improved in 2006, there was evidence of inadequate resources to deliver their plans. By the end of 2006, it became crucial for NCC to secure a better overall rate of improvement.

In 2007, NCC had a mixed overall rate of improvement. Improvement was evident in some priority areas such as crime reduction, improved road safety, and better environmental sanitation (Audit Commission 2007). However, the overall rate of improvement was below average for similar councils (primarily, relatively small county councils) and budget pressures led to inconsistent service delivery in meeting local priorities. Poor programme management, precipitated by poor performance management led to a further review of NCC's Integrated Change Programme (ICP). By 2008, the Council had improved, although not yet across all priority areas. NCC had made progress in adopting the improvement plans to sustain efficiency in service delivery, although some plans needed further refining to be successful (Audit Commission, 2008). NCC, like other councils faced emerging financial and service demand pressures during and after the financial crisis between 2008 and 2009. Effective governance structures and leadership processes had put the council in a better position to work with partners to enhance value for money, yet was not enough to secure an improved CPA score which still rated them 2 out of 4 for Use of Resources.

It is worth noting that not only were local government RSG settlements increasing financial support to the county council during this period, but NCC were receiving significant support from central government, the LGA (through the Improvement and Development Agency) and surrounding local authorities for its services and activities. For example, DCLG established the West Northamptonshire

[1] CPA classified the performance of councils as Poor, Weak, Fair, Good, and Excellent

Joint Planning Unit and the North Northamptonshire Planning Units to assist with planning and development. The Police and Crime Standards Directorate of the Home Office sent its first Partnership Support Programme taskforce to assist Northamptonshire and its districts 'drive up the performance' of the Community Safety Partnership and the first multiple authority peer evaluation of Sport and Leisure provision was undertaken with the county and districts in 2004/5.

In 2010, as part of the new CAA regime NCC's external auditors (KPMG) issued "an unqualified" audit verdict for the first time in years, although the auditors raised issues regarding poor financial reporting and performance management (KPMG 2010). The auditor referred to NCC's financial reporting processes as "unrecognisable compared to 2007/08" but still included 17 significant adjustments (valued at £107m) to balance the books (KPMG 2010).

2.2. Post-recession Era (2010 to 2016/17)

As a result of the Comprehensive Spending review in 2010, it became clearer that the central government would significantly reduce revenue support grants to local authorities, including Northamptonshire County Council. This affected the council's plans for spending on core, and other priorities areas of services. In 2011 the external auditors also pointed out that the council failed to address issues outlined in previous audits (KPMG 2011). NCC was slow at implementing previous recommendations although the council was closely monitored by external auditors, and was depositing quarterly performance reports with the LGA. Between 2011 and 2012, the external auditors raised one 'high', and eleven 'medium' priority recommendations (KPMG 2012), which added to the unresolved recommendations made in previous years. According to the auditors, NCC lacked expertise in financial reporting and management, which affected the quality of specific accounting areas including the fixed asset register, and grants. In 2014, NCC confirmed an £8.5m unadjusted audit error, which remained as an unadjusted audit difference because the council failed to correct it (KPMG 2014).

NCC faced challenges in meeting service demands due to a budget deficit of £415m in 2015/16 (KPMG 2016). There were overspends of £20.9m on children, families and education services, whilst adult care was overspent by £8.5m, although there were underspends of £30.4m on corporate services due to the excessive use of earmarked reserves in 2016 (KPMG 2016). It became evident that NCC did not have enough reserves to make a similar level of transfer in 2016/17 should the savings fall below planned levels (KPMG 2017). In addition, NCC incurred higher audit fees due to delays in obtaining working papers and producing bank reconciliation statements, and late adjustments made to the accounts. In 2017 NCC with a new management team in place agreed to an LGA Financial Peer Review. This found that "major shortfalls in achievement have been the norm in the last few years and reserves and balances have been used to ensure that the Council's annual budget and accounts show a viable position" (LGA 2017. P.1). The formal response from the council and the proposed action plan published in November 2017 was followed in January 2018 by the Secretary of State appointing an independent inspection of the authority's corporate governance and financial management systems. This was carried out between January and March 2018 (Caller 2018). This found that NCC had failed in its duty to secure best value as a result of poor management, a lack of budgetary control and a culture which discouraged political and managerial challenge.

2.2.1 The Section 114 Notices

NCC therefore were forced to issue two notices under Section 114 of the 1988 Local Government Finance Act in 2018 (NCC 2018). They were the first council to do so for nearly twenty years. A Section 114 notice is a legal requirement to report, in the public interest, where a local authority fails to set (or is likely to fail to set) a balanced budget. Northamptonshire had depleted its reserves and in February 2018, as part of the budget setting process the Chief Finance Officer was advising that the council would not have the resources to meet expenditure commitments in the next two financial years. This situation must be reported to the Full Council before 21 days and in the interim no significant new spending commitments could be entered into. Following the Caller report in March (2018) the government announced the council would be abolished and commissioners appointed to run the council until new arrangements were established (MHCLG 2018). Nevertheless, in July 2018, in consultation with the Commissioners, Northamptonshire issued a second 114 notice after receiving a letter from the Chief Finance Officer which identified a budget shortfall of £70m and advised that the spending limit could remain in place for the foreseeable future. The Chief Finance Officer also tendered his resignation in July 2018, and stated that the council had "no financial resilience".

NCC's case presents an opportunity for research related to financial resilience and perceived financial vulnerability. The Section 114 notices were clearly not the first sign that there were financial management problems with the Council, and it has been possible to investigate the public record for signs of misperception of the council's financial vulnerability.

In view of this background, this paper will utilise the lens of financial resilience to examine how Northamptonshire County Council perceived its financial vulnerability during the years leading up to February 2018.

3.0 Literature Review

3.1 How vulnerability is perceived by Private and Public organizations

The financial crisis has caused socio-economic problems across countries worldwide, even though Ladner (2017) posited that nations with stabilized economies and resilient public finances stood a better chance to buffer consequences from the crisis. The growing rise in the level of uncertainty and complexity after the crisis has increased perceived vulnerability on governance and laid more emphasis on how governments respond to shock and crises (Barbera *et al.* 2019). Some studies (Posner and Sommerfield 2012) agreed that the global financial crisis was an event that compelled governments of developed countries to adopt various measures to ensure economic stability. In effect, they either had significant reductions in public expenditure or raised tax levels. On the contrary, Blyth (2013) argued that austerity was a failed idea that has complicated the impacts of the crisis and resulted in increased financial vulnerability among individuals, organisations, and governments. It is worth noting that countries may encounter different levels of perceived vulnerability due to various stages of an unforeseen event like the crisis.

The approach adopted in the UK was heavily redolent of the approach to the sovereign debt crises in Greece, Portugal, Ireland, and later, Spain where the European Bank, the International Monetary Fund, and the European Union (commonly known as the Troika) insisted on austerity measures and multiple rounds of tax increases, spending cuts, and reforms. from 2010 to 2016. According to Posner and Sommerfield (2012), austerity has become a common response measure for developed countries, compelling them to make difficult decisions that tend to increase perceived vulnerability among individuals and organisations. Hence, some governments have implemented austerity measures to minimise public debt levels through reduced public expenditure. Kenneth *et al.* (2015) agreed to this notion but also suggested that economic restructuring was a resilience measure that could cause a downturn and increased perceived vulnerability. On this note, countries including the United States

(Korac *et al.* 2017), Italy (Barbera 2017), the Netherlands (Overmans 2017), and England (Jones 2017) have suffered severe impacts during and after every crisis. The magnitude of severity suffered appears to be related to the level of perceived vulnerability encountered within these countries. Among them, countries like England (Jones 2017), and Netherlands (Overmans 2017) have adopted measures including coping and anticipatory capacities to weather the shocks absorbed from the crisis and this reduced perceived vulnerability (Barbera *et al.* 2019). In these cases, their local governments deployed their capacities and capabilities to forecast possible events and manage their vulnerabilities in coping with such shocks during times of crises.

According to Lodge and Hood (2012), low vulnerability level countries (Australia, Denmark, South Korea) witnessed a marginal fall in reserves from 54% to 25% over 6 years after the crisis whilst the high vulnerability level countries experienced (Greece, Hungary, and Italy) an increase from 11% to 29% during the same period. From the Table below, Organisation for Economic Co-operation and Development (2011) analysed vulnerability among countries before and after the crisis (between 2006 and 2012) to track the changes in the level of perceived vulnerability among countries worldwide. Perceived vulnerability of the United Kingdom and Ireland moved from low vulnerability to high vulnerability as a result of the shocks from the global financial crisis. However, in countries like Norway, there was less or no major change in the level of perceived vulnerability. The financial crisis affected most countries but the impact on level of perceived vulnerability varied from country to country. For example, China had a slower economic recovery response to shocks due its large population of individuals at the poor and low-income level (Jalan and Ravallion 1998).

Table 1.2: Varying Degree of Perceived Financial Vulnerability among OECD States.

Degree of Perceived Financial Vulnerability	OECD States (2006)	OECD States (2012)
High (5/6)	Greece, Italy	Greece France, Ireland, Japan, Poland, Portugal, United Kingdom, USA
Medium (3/4)	Austria, Belgium, Canada, France, Germany, Hungary, Japan, Poland, Portugal, Slovakia, USA	Austria, Belgium, Canada, Denmark, Finland, Germany, Hungary, Iceland, Italy, the Netherlands, New Zealand, Slovakia, Spain
Low (2)	Australia, Czech Republic, Denmark, Finland, Iceland, Ireland, South Korea, Luxembourg, the Netherlands, New Zealand, Norway, Spain, Sweden, Switzerland, United Kingdom	Australia, Czech Republic, South Korea, Luxembourg, Norway, Sweden, Switzerland,

Source: OECD Economic Outlook 89, June 2011.
OECD, Organisation for Economic Co-operation and Development.

From the table above, the countries rated with high levels of vulnerability may have been exposed to different levels of shocks from the crisis. According to the OECD (2011), Greece, Japan, the United States of America, and the United Kingdom have a private sector which were considered to be as large as the public sector in financial terms. Hence, Lodge and Hood (2012) found that a failure in the banking sector of these countries; were a major factor that exposed their economies and respective local governments to financial crisis.

Governments provide public services to ensure a high living standard among the citizens. Public services play a significant role in the lives of individual households, especially low-income households (Hastings *et al.* 2013). The most important responsibility of a government is to ensure security, safety, and protection of individuals in their society. But there are issues that challenge governments when structuring measures to ensure the safety, protection, and security of the citizens. The financial crisis has affected the perceived vulnerability levels of governments, and thus, affected individual households to a large extent. Hastings *et al.* (2013) found that governments have made less cuts on social services that are mostly used by the individuals in the poorer groups and made extensive cuts in those used by richer groups. However, Khan (2012) suggested that countries become more vulnerable when individuals lack the required financial resources to absorb the pressures that emanate from unforeseen events like the crisis.

3.2 Perceived Vulnerability in Local Authorities Internationally

The global financial crisis has caused impacts on the performance of local government authorities across nations worldwide. According to Du Boys *et al.* (2017), the crisis has challenged most local authorities to devise productive strategies to restore the financial damages that were caused during and after the crisis. Again, the severity of this consequence varied among national and local governments respectively, leading to changes in their level of perceived vulnerability. Ladner (2017) postulated that there seems to be a lack of consistency in the change in vulnerability levels in the local government sector. This skews the debate about determining the best performing local authority, as they may have a high level of vulnerability. To this end, cities and municipalities have faced severe challenges from the crisis but have devised different strategies that have increased or decreased their level of perceived vulnerability. For example, in the UK where the Cambridgeshire County Council was financially resilient robust to mobilize funds from capital investments in 2018 during the continuing austerity. During the same period, its neighbouring authority - Northamptonshire County Council issued a Section 114 notice due to financial failure. In the USA, the City of Chicago became more vulnerable due to changes in revenues from the state grant and aids from the state government (Hendrick *et al.* 2010). Hence, the City of Chicago faced tough times as there was limited resources during an era of increased service demand pressures.

Local government authorities have distinct levels of perceived vulnerability across different countries worldwide, Hastings *et al.* 2013) asserted that local authorities have taken considerable measures to lower the high level of perceived vulnerability among their citizens. Barbera *et al.* (2017) and Steccolini *et al.* (2017) agree to this assertion, but found that local authorities have implemented coping and/or anticipatory response capacities to restore their financial status and ensure value for money. Barbera *et al.* (2017) found that the level of perceived vulnerability of local authorities were mostly dependent on the severity of shock they encounter and absorb. Steccolini *et al.* (2017) investigated the impact of shocks across local authorities in eleven countries and found three major external shocks namely; (1) global financial crisis, (2) migration, and (3) the change in financial regulations. Barbera *et al.* (2019) validated these findings, but characterised local authorities in the UK and Italy to be affected mostly by the global financial crisis. Local authorities in countries like Germany were mostly affected by factors like immigration (Barbera *et al.* 2019). On the whole, it is clear that just like central governments, local authorities may have been hit to a varying degree by the crisis.

Recent literature (Barbera *et al.* 2017; Steccolini *et al.* 2017) was found that local governments adopted coping and/or anticipatory capacities depending on the severity of shocks absorbed, external conditions that may be favourable or unfavourable at different levels of vulnerability. In Steccolini *et al.* (2017), their study investigated the major types of shocks that caused changes in levels of perceived vulnerability across eleven nations. Studies by Barbera *et al.* (2017); Drew (2017); and Papenfuß *et al.* (2017) support this claim, but emphasized that local authorities in developed countries such as Italy and the UK also experienced long-term shocks due to factors including tax regulations and devolvement of tasks. Italian local authorities are allowed to raise tax rates within a legal tax ceiling; German authorities operate autonomously which allows them to flexibly prioritise limited funds to services and promote value for money (Barbera *et al.* 2017). UK local authorities are constrained to prioritise statutory over discretionary services due to a continuous and persistent increase in service demand.

Perceived vulnerability of local authorities may change due to other external factors including change in bank regulations, uncertain and risky economic environments, and reduction in local government grants (Du Boys, 2017). Change in national economic conditions including organisational culture and/or tradition may also affect local authorities' levels of perceived vulnerability. These changes may have positive or negative impacts on perceived vulnerability. For example, the Referendum vote where the majority have voted for the UK to leave the European Union (EU) seem to have issues more difficult and challenging for individuals and institutions in the UK. Elsewhere in France, the three levels of local government (region, department and municipality) operate with a similar legal system, but municipalities seem to assume more responsibility which vary from social services to transportation affairs (Du Boys *et al.* 2017). Central government in France provided financial support (grants) to municipalities to enhance stability after the crisis (Du Boys 2017). These revenue grants decreased after 2014, and municipalities engaged in budget balancing strategies to withstand the shocks absorbed (Du Boys *et al.* 2017). Du Boys *et al.* (2017) postulated that French municipalities did not consider increasing tax rates, but complained about the grants reductions in 2015, which caused a fall in their capital investments.

In Italy, the local government structure is similar to France (being multi-level), but a fourth level of government comprises both regional and municipal authorities. Unlike France, the financial situation in Italy was different since cutback strategies adopted were effective before and after the financial crisis (until 2012). These cutback strategies included rationalisation of personnel (staff) and other cuts in current expenditure. In 2012, the central government introduced reforms to aimed to ensure stability in the economy. This introduced a flexible regime where municipalities were encouraged to adopt measures to withstand the various level of vulnerability. This situation is evident in France, where municipalities are not hindered by financial constraints because bankruptcy procedures do not apply to local governments and their assets poorly (Du Boys 2017). Hence, the under-performing French municipalities have their debt levels extended to enable more spending (Du Boys 2017). Consequently, the Italian local authorities adopted coping capacities in reducing their revenues to counteract the austerity policies implemented by the Italian central government (Du Boys *et al.* 2017). Interestingly, Du Boys *et al.* (2017) also suggested that a reduction in grants from central government caused a decrease in spending among local authorities, and made them more vulnerable. On this note, austerity policies have challenged local authorities to devise feasible and effective capacities to withstand the shocks in the short and medium term, and to also minimise their perceived vulnerability levels in the long term.

3.2.1 Perceived Vulnerability among Local Authorities in the UK

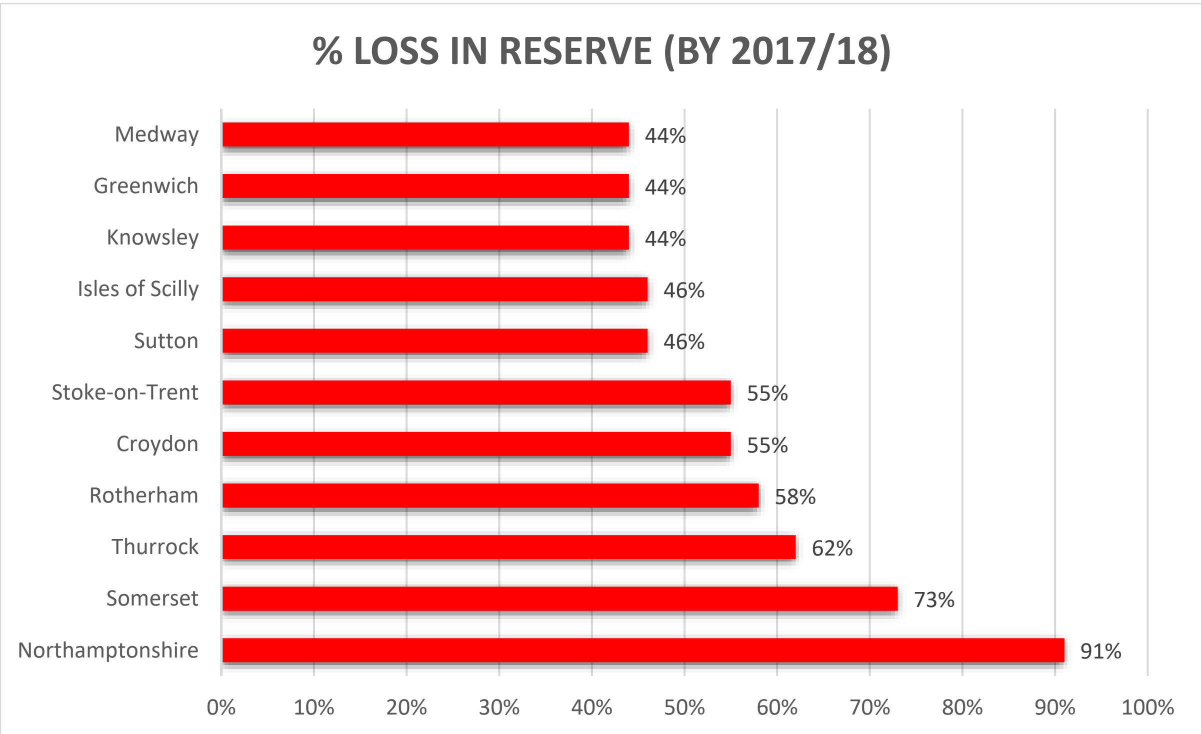
The local government sector in the UK has been characterised with one of the foremost adversities of the austerity era, especially since the 2010 Comprehensive Spending Review (Bailey *et al.* 2015). Local authorities in England have been significantly affected by loss of government support; after the 2010 settlement reported a reduction of Revenue Support Grants (RSGs) of £5.6 billion representing a cut of 28% over the 4-year period of review (Hastings 2015b). Since 2012/2012, Liverpool City Council needed an accumulated total of £247.5 million in savings to achieve a balanced budget over 6-year period of austerity (Kennett *et al.* 2015). This means there were cutbacks in some statutory and discretionary services such as social services for adults and children, as well as the disabled (Kennett *et al.* 2015). Conversely, the impacts of austerity on Bristol City Council was less significant as the council was less reliant on revenue grants from government. This may be the case because the Bristol City Council adopted a more long-term, strategist, and interventionist approach, where proactive capacities were adopted to reduce expenditure before the crisis and implementation of austerity. On this note, it can be deduced that local authorities' perceived vulnerability levels were determined by the magnitude of shocks absorbed from austerity policies.

Local authorities in the UK function on high levels of local political autonomy but are closely monitored and regulated by strict central governments in England, Wales, Scotland and the Republic of Northern Ireland (Wilson and Game 2011) based on fiscal and policy perspectives. Therefore, unlike other European countries, central governments in the UK have more control over their respective local government authorities in terms of financial and fund management. Similar to Italy and France, UK local authorities are funded both centrally and locally. In England, over half (57%) of local authorities' revenue for 2013/14 was generated from central government grants (i.e. specific and general), almost a quarter (22%) is collected locally (residential and business taxes), and the rest from service charges (13%) and capital receipts (8%) (Barbera *et al.* 2019). In their study, Barbera *et al.* (2019) found that UK local authorities had a lower level of perceived vulnerability than that of local authorities in Italy and Germany (highest level). This may be because UK local authorities are allowed to borrow, but within self-managed levels that are repayable.

Perceived Vulnerability can be categorised in two viewpoints within an organisation. Anessi-Pessina *et al.* (2012) found evidence to suggest that managers make decisions on revenue and expenditure to resolve/correct internal and external contingencies. Helm (2015) agreed to the notion, but added that organisational systems and processes provided proactive capacities in analysing the internal and external viewpoints of their operations. In addition to these internal and external viewpoints, other capacities may be adopted to rectify obvious vulnerability level and to mitigate or reduce possible consequences (Helm 2015). Perceived financial vulnerability evolves from internal and external viewpoints (Du Boys *et al.* 2017). Thus, there is a possibility of failure in organisational systems and potential consequences from uncertain and/or unforeseen events that may thwart progress in organisational systems and processes. For this reason, there is a crucial need to perceive vulnerability levels of organisations from internal and external viewpoints. In other studies, these viewpoints referred to such characteristics as "factors" (Du Boys *et al.* 2017) or "sources" (Steccolini *et al.* 2017). For the purpose of this study, these will be referred to as "viewpoints".

Local government authorities tend to adopt financial resilience strategies to sustain and recover from consequences of crisis, as Klase (2011) suggested that the authorities' reaction to fiscal stress is determined by the severity of fiscal retrenchment. With regards to local authorities, Steccolini *et al.* (2017) found that financial vulnerability was perceived as a result of internal (i.e. reserves, debt financing) and external (dependency on government funds, undiversified revenues) factors. This emphasizes the need to understand the effects of adopting internal and external capacities for financial decision making by local authorities to cope and adapt in times of crisis. Again, as Du Boys (2017) proved that local authorities with greater levels of coping and anticipatory capacities are able to limit the degree of cutback management or tax increments. In other words, these four dimensions are intertwined and linked to each other. Hence, local authorities manage to make (employ) decisions (strategies) that comprise these dimensions to cope and adapt with crisis. It becomes crucial to determine the internal and external viewpoints of perceived vulnerabilities of local authorities during times of austerity. BBC (2019) forecasted that 11 out of 152 councils in England will have full exhausted their cash reserves within the next four budgetary years. Northamptonshire County Council (91% drop in reserves) ranked first among 11 of the 152 councils which have used much of their reserves since 2015. Continuing austerity localism and cutback management means English councils are currently depleting reserves to balance funding gaps or engage further service cutbacks. From the figure (1.2) below, other councils set to fall with high perceived vulnerability include Somerset (-73%), Rotherham (-62%), Thurrock (-58%) will either have to reduce services and/or deplete their limited reserves.

Figure 1.2: Percentage Loss in Reserve for English Local Authorities



Source: MHCLG (2019)

Northamptonshire County Council further depleted its reserves after their financial failure was revealed by the two Section 114 notices in February and July, 2018). The county council was also directed together with its district councils to create two unitary authorities, whilst an improvement and stabilisation plan was created to generate £20m back into the council's reserves during 2018/19.

4.0 Methodology and Methods

Adopting a case study approach using qualitative data analysis, this research investigated the publicly available archival data, including financial data held by the UK government, external audit and inspection reports, the Council's published accounts, peer assessments and other council reports to evaluate the antecedents to the Section 114 notices.

External audits and CPA/CAA reports may sometimes be regarded as secondary data rather than primary data, despite being verified and approved by professional bodies (external auditors). However, this study has l used this 'secondary' data as it was collected for the same purpose that it is being used for this study; which is to measure, monitor, and manage the services of the county council.

Miles and Huberman (1994) consider data analysis qualitative research to consist of three concurrent flows of activity data reduction, data display and conclusion drawing/verification. Data reduction is the process of selecting, focusing, simplifying abstracting and transforming data which they see as continuing throughout the life of qualitative projects. Even before data is collected "anticipatory data reduction is occurring as the researcher decides which cases which research questions and which data collection approaches to choose" (Miles and Huberman 1994 p10). The three types of analysis (reduction, display and conclusion drawing/verification) form an interactive cyclical process and qualitative data analysis is a continuous iterative enterprise.

5.0 Emerging Findings

- It is now apparent that the issuing of the 114 notices were the results of longer term accumulated weaknesses, and not the results of short-term abnormal or one-off adverse events.
    - Government had powers of intervention since CPA time which would have been used then in both periods, but they did not intervene formerly in Northamptonshire County Council till the issuance of the two Section 114 notices.

- The period from 2002 to 2010, was characterised by increased investment by central government in local government support. The performance of NCC, in managing its services and its financial and fiduciary duties varied to an extent but was generally weak, and this was despite significant external assistance from the central government, local government, local authority peers, and related agencies. In fact, Central Government and key stakeholders were continually active and generally sought to support NCC to meet its objectives and obligations. There were however clear early warning signs that a policy of continual retrenchment may not be adequate in the long run and that a more strategic approach was required.

- The evidence for the period after 2010 is not as 'rich' or detailed as the evidence before 2010, but annual accounts and external audit letters strongly suggested a weak and weakening financial positioning throughout. Thus, the council encountered ever-deepening pressures on its financial accounts which was caused by financial mismanagement allied to the continuous increases in service demand pressure.

- Since 2010, service demand pressure has increased, but the central government support has continually decreased. In their response, to the LGA Financial Peer Review NCC agreed that council taxes increases were lower over many years, (as a result of NCC's own decisions) and claimed services were relatively underfunded compared to other similar councils. This is indicative of what previous studies have described as a state of 'denial'.

- The result was that in fiscal terms, the potential of retrenchment had virtually become exhausted – as the council engaged in a continuous use of retrenchment to solve long-term problems, which led to lower levels of reserves. The final result was for them to raid reserves, but this was a short them response to long-term structural problems. Clearly, NCC needed a long-term strategic turnaround; clearly, NCC was unable to achieve this turnaround. The LGA and government have been reluctant to intervene under SLI until Section 114 notices were issued and it resulted into a strategic approach that remains unclear.

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