The role of the institutional context for local government financial resilience – taking stock

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Abstract This chapter looks at how the institutional context of local governments influences their ability to anticipate, absorb, and react to shocks affecting their finances. Drawing on empirical research on governmental financial resilience, the authors take stock of lessons learned from case studies in eleven countries as well as a large-scale quantitative survey of local governments in three major European economies with different state models (Germany, Italy and the UK) in the aftermath of the global financial crisis. The concise overview adds to the understanding of how rules, regulations, and (austerity) policies of upper-governmental levels influence different dimensions of local government financial resilience and why the latter may play out very differently within a given country. The findings add to a more general understanding of how local governments face shocks and crises, and thus may offer initial clues on local government financial resilience in the global COVID-19 pandemic.

Key Words: Financial resilience, institutional context, vulnerabilities, anticipatory capacities, coping capacities

1 Introduction

A healthy financial condition is key to a local government's ability to deliver services in a stable, uninterrupted manner, meeting the demands of its citizens. Public financial management scholars have therefore put forward an abundance of frameworks that are aimed at measuring the financial condition, financial health, or, conversely, the fiscal stress of a local government (e.g. Carmeli 2002, Cabaleiro et. al. 2013, Zafra et. al. 2009). With the global financial crisis not only having hit national governments but also producing risks to the financial condition and service delivery of local governments, research in the field during the last decade has dedicated substantial effort to answering the question of how local governments have reacted to the financial shock of declining revenues and subsequent central austerity measures while facing the challenge of maintaining or even expanding their levels of services (e.g. Overmans and Nordegraaf 2014, Overmans and Timm-Arnold 2016).

The authors of this chapter, together with colleagues, have put forward, explored, and operationalized the governmental financial resilience framework throughout a series of empirical studies. The framework allows to capture the (interplay of) external conditions, vulnerabilities and internal capacities that shape financial resilience, i.e. the ability of local governments to anticipate, absorb and react to shocks affecting their finances and service delivery (Barbera et al., 2015, 2017; Davoudi et al. 2013; Linnenluecke, 2017; Steccolini et al., 2017; Sutcliffe and Vogus, 2003).

Building on previous research on governmental financial resilience, this chapter outlines its dimensions and discusses their relationships in a nutshell. According to the overarching theme of this volume, however, an emphasis is put on the role of the institutional context where we take stock of the findings on how the latter - in particular - influences different financial resilience dimensions and thereby adds to the understanding of why rules, regulations, and policies of upper-governmental levels may play out very differently within a given country.

The chapter is organized as follows. In the subsequent section, we briefly describe the background and the evolution of research on governmental financial resilience, and present the framework that underpins the empirical studies on the patterns and the various dimensions of governmental financial resilience before describing the latter in more detail. The third section of the chapter then takes stock of lessons learned from various case studies that highlight different patterns of financial resilience found across local governments in eleven countries as well as from a large-scale quantitative survey that was carried out with local governments in Germany, Italy, and the UK. The discussion particularly highlights the role and influence of the institutional context (i.e. the system of rules, regulations, and policies set by upper governmental levels) on (i) the impact of crises that affect local governments' finances, (ii) vulnerabilities, (iii) anticipatory capacities, (iv) coping capacities, and (v) local governments' coping strategies. Conclusions are drawn in section four.

2 A resilience perspective on financial shocks

Resilience can be defined as the ability to deal with shocks and uncertainty, and to "learn how to do better through adversity" (Wildavsky 1988, p. 2). While the concept of resilience has first emerged in the fields of physics and engineering, and later also in the field of psychology as well as the social, organizational and management sciences, it has also transgressed a 'purely' engineering view of resilience (i.e. as the ability to withstand - an external - force or shock, to react and efficiently absorb the impact in order to bounce back to the situation as of before the shock) (*'bouncing back'*) to a more evolutionary approach (where individuals, groups, or organizations thrive through crisis and bounce forward by anticipation and quick adaptation to new challenges and an altered environment, often *before* circumstances force them to do so) (*'bouncing forward'*) (Gunderson and Holling 2002, Hamel and Välikangas 2003). While the concept of resilience has drawn interest from scholars in the fields of disaster management and high reliability organizational science throughout the last two decades, first attempts of applying the resilience perspective to the broader field of (public) management– surprisingly - were made only recently (Barbera et al. 2015, Barbera et al. 2017).

In the near past, local governments all over the world have been challenged by various shocks and crises that have affected their financial condition and their ability to maintain, or - depending on the type of crisis - alter their service level in order to cope with the consequences of shocks and crises. While at the time of writing, economies and societies, business and public institutions struggle to find a way out of the global COVID-19 pandemic, the impact of the global financial crisis and the following austerity policies are still on the agenda of academics and practitioners alike.

Over the last years, financial management literature has shown a strong focus on the classification as well as the description of different types of reactions to 'the' crisis (CIT) while devoting less attention to the role of internal or organizational contexts, conditions, capacities, and histories (or, developments over time) (Barbera et al. 2017). Only a few studies in public management (e.g. Boyne and Meier 2009; Meier and O' Toole 2009; Meier, O'Toole, and Hicklin 2010; O' Toole and Meier 2010) have investigated the role of management capacities in facing shocks, threats, uncertainties, crises or turbulence. Hence, scholars have called for multi-disciplinary approaches or alternative frameworks that may enhance our understanding of the underlying processes and capacities which allow governments to anticipate and respond to crises (e.g. Bozeman 2010, Pandey 2010, Grossi and Cepiku 2014).

The authors of the present chapter and colleagues in an international network of researchers have responded to this call, and, throughout a series of empirical studies, have proved the conceptual lens of resilience useful in contributing to and integrating the perspectives offered by different streams in literature that have sought to explore, describe und understand how governments deal with shocks and crises affecting their financial condition and service level over time (Barbera et. al. 2015, Barbera et. al. 2017, Steccolini et. al. 2019, Barbera et. al. 2019).

2.1 Evolution of (empirical) financial resilience research

The first study that took a resilience approach to exploring the capacity of a government to face and absorb external shocks affecting public finances (Barbera et al. 2015) has drawn upon case studies of English municipalities in the still prevailing aftermath of the global financial crisis. The contribution underlined that, governments need to combine different capacities and reactions to be financially resilient in the context of (external) shocks affecting their finances. As such, the authors proposed a framework that-captures the ‘logic’ of bouncing back (e.g. by increasing taxes and fees, deferring investments, reducing the costs, scope or size of the organization, and selling assets, see Barbera et al., 2017; Steccolini et al., 2017) and bouncing forward (e.g. by transforming and repositioning, re-defining the modes of service delivery and core activities, improving existing services or supplying new ones).

In a following study extending the financial resilience approach to 12 European local governments across three European countries situated in different administrational traditions (Barbera et al. 2017), a more nuanced view on the interplay of different resilience dimensions (see figure 1), was provided and five main *patterns of financial resilience* were identified: self-regulation, constrained or reactive adaptation, contented or powerless fatalism. The multiple case studies allowed identifying and operationalizing the dimensions of financial resilience, and highlighted that the patterns are the result of the interplay and development of different internal and external dimensions over time. Consequently, the financial resilience framework (Barbera et al., 2017; Barbera et al., 2019) proved useful in considering not only the actions and reactions to shocks and crises, but also capturing the capacities needed to cope with the latter. The empirical findings emphasized that both, environmental conditions that (local) governments operate in as well as internal capacities (i.e. anticipatory and coping capacities) already in place are relevant dimensions in understanding how these entities respond to shocks and crises and address their vulnerabilities. Further support for the financial resilience framework was then provided through an edited volume (Steccolini et al. 2017) that presented evidence from 45 case studies with local governments across eight European and three non-European countries (i.e. Austria, UK, France, Germany, Greece, Italy, Netherlands, Sweden) and three non-European (Australia, Brazil, Michigan, US) on how they were affected, and, more importantly, how they were able to anticipate, absorb, and respond to shocks. This larger study allowed to consolidate previous research and revealed similar resilience patterns across countries, not all patterns can be found in each country but each pattern can be found in more than one country (Steccolini et. al. 2017).

The main organizational capacities identified across the case studies are anticipatory and coping capacities and were later operationalised through a survey, conducted between 2017-2018, across over 600 municipalities in Germany, Italy and UK (that provided the basis for a financial resilience toolkit available in Barbera et al., 2018). In contrast to the previous findings yielded from multiple case studies the stratified sampling in this large-scale quantitative survey allowed an assessment of the make-up and the level of dimensions of financial resilience, as well as their relation with financial and non-financial local government performance, within and across three European countries, and traced out some interesting differences in local government financial resilience between the surveyed country contexts (Steccolini et. al. 2018, Barbera et. al. 2019).

Following the aim of the present chapter, we will go into more detail on the findings from the qualitative and quantitative studies with a particular emphasis on the role of the institutional context (i.e. the system of rules, regulations, and policies set by upper governmental levels) in section four. The next sections however first present the framework that underpins the empirical studies and contain a more detailed description of the dimensions of governmental financial resilience.

3 Resilience framework and dimensions

Governmental financial resilience is the result of the interaction of environmental conditions and internal capacities (see Figure 1). An overview of the financial resilience dimensions (i.e. environmental conditions, shock and crisis, vulnerability, anticipatory capacities, coping capacities) provides Table 1.

It is important to stress the dynamic aspects of the framework, which – depending on the research design - allows not only to assess the types and level of resilience dimensions and investigate their relationships as well as their impact on organizational outcomes (i.e. performance, strategies) (see Steccolini et. al. 2018, Barbera et. al. 2019) but also to identify and capture different resilience patterns (Barbera et. al. 2017, Steccolini et. al. 2017).

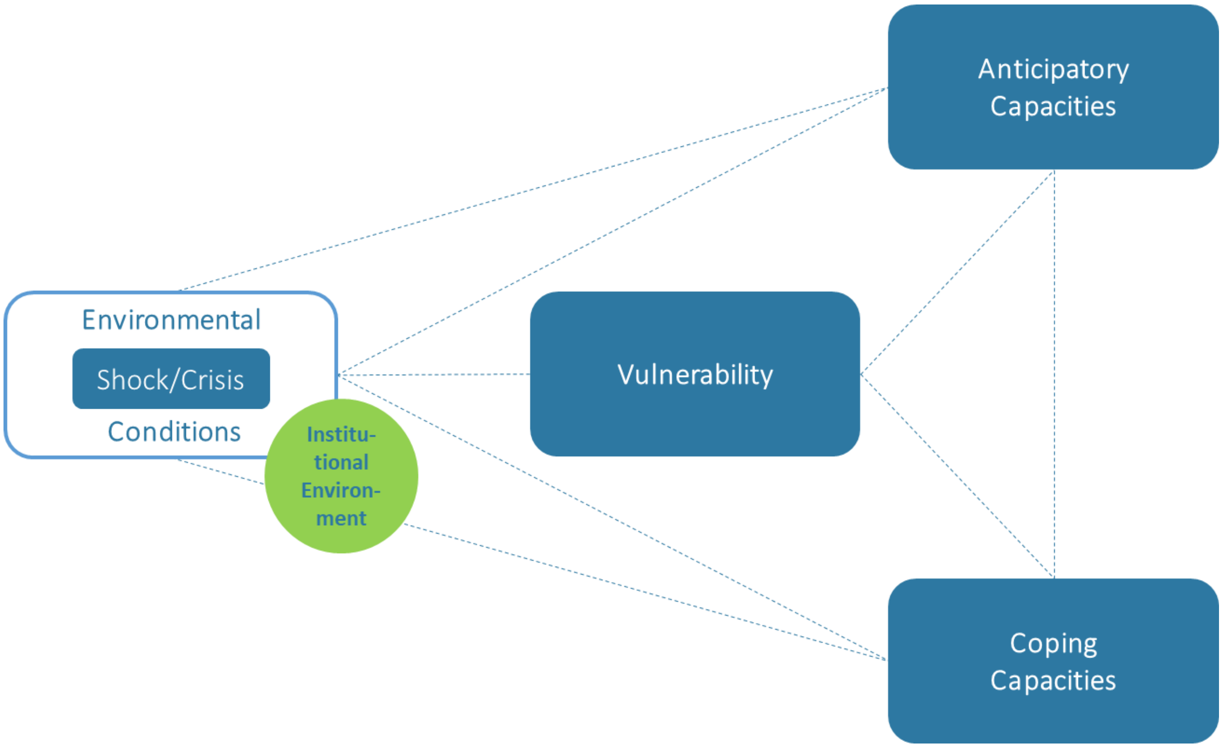

Figure 1: Governmental financial resilience, dimensions and relationships (Barbera et al. 2017, Steccolini et al. 2019)

Dimension	**Definition**
Crisis	Shocks and crises are events that have significant impact on (local) governments finances and service delivery, varying in their nature, likelihood, timing, scale and potential impacts. The impact of a shock or crisis can be direct, e.g. eroding tax bases, or indirect, e.g. due to changes in central government policies as consequences of a crisis. Crisis act as a ‘magnifying glass’, allowing to identify and explore the dimensions of financial resilience and their interplay.
Environmental conditions	Environmental conditions comprise the institutional, economic, and social context in which local governments operate. The context may be characterized by varying levels of munificence, dynamism, complexity, and/or predictability. These conditions not only influence the level and sources of vulnerabilities but may also amplify or buffer shocks and crisis.
Institutional context	The institutional context encompasses the system of (fiscal and financial) rules, regulations, and policies set by upper governmental levels, and under which local governments operate.

Vulnerability	Vulnerability represents the exposure to (potential) shocks that may affect local government finances and service delivery is the result of external (e.g. low financial autonomy, undiversified or unstable revenues) and internal (e.g. high debt level, low level of reserves) sources. Being at the interface between the environment and the organization, it can be influenced by both (i.e. by environmental conditions or anticipatory and coping capacities). The sense of being able to control the vulnerability and/or influence its sources affects the way shocks are interpreted and subsequently tackled (Maher and Deller 2007, 2011; Jimenez 2012; Barbera et al., 2017)
Anticipatory Capacities	Anticipatory capacities refer to the availability of tools and capabilities that enable local governments (a) to better identify and manage their vulnerabilities and to recognize potential financial shocks before they arise, and (b) to understand their nature, likelihood, timing, scale and potential impacts. Anticipatory capacities are not limited to the presence of tools that allow to plan and monitor the environment, and systems that assist in identifying and managing vulnerabilities as well as in controlling and managing risks. They encompass also cognitive capacities such as critical thinking, situation awareness and sense-making (e.g., Lengnick-Hall and Beck 2005; Weick and Sutcliffe 2006; McManus et al. 2007; Somers 2009; Boin et al. 2010; Linnenluecke and Griffiths 2013), as well as organizational (or organizational leaders') behaviors such as information exchange, information sharing, and monitoring. The cognitive and behavioral capacities are enhanced by the existence and quality of technical anticipatory capacities (tools and systems), which, in turn, can be built up internally driven (as an effort of the local government itself) or externally driven (e.g. instruments required by upper governmental levels) (Barbera et al. 2017, Steccolini et al. 2019).
Coping capacities	Coping capacities refer to resources and abilities that enable local governments to face shocks and manage their vulnerabilities. Coping capacities lie dormant in times of order and become visible in times of disruption in the form of actions that are taken and coping strategies that are pursued. The underlying capacities which enable local governments to cope (i.e. buffer, adapt, transform; see Barbera et. al. 2017) encompass the ability to learn and apply new knowledge (adaptability), adopt timely (rapidity of action) and innovative responses, also by putting together collective expertise, and the possibility to rely on internal and external collaboration (Barbera et. al. 2018, Steccolini et al. 2019).

Table 1: Dimensions of governmental financial resilience defined (Barbera et al. 2017, Steccolini et al. 2019)

4 The role of the institutional context in shaping financial resilience – taking stock

This chapter summarizes the lessons learned from various case studies that highlight different patterns of financial resilience found across local governments in eight European and three non-European countries as well as from a large-scale quantitative survey that was carried out with local governments in Germany, Italy, and the UK (n = 600). We put particular emphasis on the role of the institutional context (i.e. the system of fiscal and financial rules, regulations, and policies set by upper governmental levels) in influencing (i) the impact of crises that affect local governments' finances, (ii) (financial) vulnerabilities, (iii) anticipatory capacities, (iv) coping capacities, and (v) local governments' coping strategies. According to the overarching theme of this volume, we do not consider broader political and administrative aspects which influence the autonomy of local governments (see Ladner 2016, and others).

Our previous (case-study based) research on governmental financial resilience described above has specifically looked at the global financial crisis as a major unexpected event of shock and crisis. While the financial crisis – in some way – affected most countries, the effects on local governments were not uniform, with some being affected immediately and/or more substantially than others (see Wortmann and Geissler in this volume; Steccolini et al. 2017; Geissler et al. 2019).

This differing ***impact*** was partly due to the proximity of the crisis, the effects of pre-existing fiscal profiles and fiscal (intergovernmental) arrangements (i.e. the structure, basis, and controllability of major revenue sources, debt rules, investment guidelines, tax limits) as well as national coping policies. For example, local governments in several countries (e.g. France, UK, Italy, Greece, The Netherlands) had to deal with national governments intentionally ***cutting back or delaying subnational transfers/grants*** as a response to the financial crisis. In other countries, where a large share of local government revenues is based on (fixed) intergovernmental tax arrangements, a general decrease in major taxes (e.g. centrally collected value-added tax, income tax) automatically led to a reduction in revenues at the local government level – although with varying degrees (e.g. Austria; Michigan, US). Such reductions were even more problematic in ***contexts*** where the ***local level's fiscal autonomy*** (level of own revenue sources, tax base, tax scope) was described as ***low*** and ***strict spending limits*** as well as ***debt rules*** were in force, putting great pressure on local governments (e.g. UK, Italy). The latter was particularly true for local governments where crisis-related factors (e.g. rise in unemployment, drops in home ownership) automatically triggered expenditure increases in areas where local governments are directly responsible, such as social care services (e.g.

Italy). Only in a few cases were increased expenditures buffered through increased grants from the national level (e.g. in Sweden), while more often they had to be borne by local governments themselves (Italy, Germany), even in a context of decreasing own revenues (e.g. local taxes) and/or transfer payments.

Across cases, the sources as well as the level of financial vulnerability have strongly been influenced by ***financial autonomy*** (i.e. level and controllability of own revenue-shares)**.** Particularly the ***low flexibility in revenues*** due to ***tax limits*** on, or removal of, local taxes mandated by upper government levels (e.g. in Australia, France, Germany and Italy) were identified as main ***institutional challenges*** decreasing the controllability of a local government's own funding stream and constraining its possible revenue-related responses or coping strategies. The perceptions of these specific sources of financial vulnerability prompted some local governments to take efforts to become more self-sufficient (e.g. cases in the UK) and therefore less dependent on central government grants to deal with (potential) shocks and crises.

The (more recent) quantitative survey of local governments in Germany, Italy and the UK provides support for the abovementioned findings from the qualitative case studies. However, in addition to the global financial crisis, it highlighted the refugee influx and Brexit as major events impacting local governments' finances and service delivery between 2015 and 2017. Interestingly, it revealed that ***changes in regulatory regimes*** (e.g. changes in tax base, task devolvement) were among the highest rated external ***shocks*** or challenges in all three countries, reaching the peak in Italy (Barbera et.al. 2019). As such, (unexpected or unforeseen) changes in rules, regulations, and policies (i.e. ***changes*** in the ***institutional context***) *themselves* may even be perceived as ***external shocks***.

While the studied local governments mainly referred to the (negative) ***impact of fiscal rules and regulations*** on their financial autonomy as well as the challenges related to ***centrally induced austerity measures***, local governments also mentioned the ***uncertainty and dynamism related to central policies, rules and regulations*** (in response to a crisis) as factors influencing not only their vulnerability but also their options in reacting to or coping with shocks and crises.

However, the presence of ***anticipatory capacities*** (see definition in Table 1) turned out as a crucial factor allowing local governments to better anticipate (foresee) and deal with challenges related to the uncertainty and dynamism of the ***institutional context***. Strong anticipatory capacities were expressed by high awareness of the local government's particular sources of vulnerability or potential risks and cautious planning by both the political as well as administrative decision-makers. Instruments like embedded medium-term financial planning (i.e. with an actual impact on planning processes and annual budgets), risk-assessments, long-term investment plans, monitoring and control processes, or scenario analyses supported local governments' capacity to anticipate developments, to be prepared for, and able to cope with potential shocks and crises affecting their financial condition and service delivery (see Korac et al. 2017). As such, anticipatory capacities are not only key in identifying potential shocks and their consequences but also crucial in acquiring an understanding of the government's different vulnerabilities as well as strategies to address them.

Along these lines, it turned out that in some contexts, ***regulations or guidelines*** (e.g. mandatory monitoring systems) may have ***fostered*** the institutionalization of stronger ***capacities*** across cases, thus better equipping local governments ***to anticipate with*** possible shocks (e.g. UK, The Netherlands) while reverse effects were shown in others (e.g. Brazil, Greece) where non-existing regulations or non-mandatory guidelines accounted for anticipation of potential shocks and crises were seen as a matter of local governments' own efforts and (investments in) tools (Steccolini et al. 2017). Consequently, in some of those local governments we found relatively fewer tendencies to take a pro-active stance in building and developing comprehensive anticipatory capacities. In this regard, it is imperative to draw attention to the relationships between the dimensions of governmental financial resilience: all of the cases in the research on governmental financial resilience as well as statistical analyses in the large-scale quantitative survey of local governments across three major European economies suggest that ***anticipatory capacities*** and ***coping capacities*** are ***complementary and reinforce each other*** (see also Barbera et al. 2017). A comprehensive set of tools and systems, as well as decision-makers' awareness and sense-making - which reflect strong anticipatory capacities - turned out as important prerequisites for successfully coping with shocks and crises, i.e. being in a position to either buffer the impact of the latter, or being able to pursue adapting or transforming strategies in response to a crisis.

As stated in Table 1, ***coping capacities*** refer to resources and abilities that enable local governments to face shocks and manage their vulnerabilities (see definition in Table 1). While buffering capacities allow local governments to absorb shocks without changing structures and functions (e.g. through the use of reserves, by increasing debt, through a temporary reduction of services, or an increase in fees and charges), adapting capacities allow local governments to (quickly) implement incremental changes in their structure and functions (e.g. organizational restructuring, increasing collaborations/partnerships, task reviews, re-targeting services) to cope with shocks. Transformative capacities however comprise local governments' ability to implement radical changes (e.g. changing relationships with society, changing the local government's (economic) profile, developing/tapping alternative main income sources, mergers, service-model reinvention) in coping with shocks, surfacing in fundamental changes of the local government's function, structure or even goals and values. While buffering may be used to quickly return to the status quo, it may also serve as a basis for implementing adaptive and/or transformative strategies (e.g. using reserves to implement changes in service delivery instead of covering eroding tax revenues). Consequently, buffering, adapting and transforming strategies may comprise a mix of financial, organizational and/or service-related measures. However, a glance of the examples of coping capacities already shows that the institutional context (rules and regulations) may foster, or inhibit, the variety and the scope of a local government's coping capacities.

However, this does not mean that strong anticipatory (or coping) capacities automatically act as a shield against crisis. In sum, there is compelling evidence of the role of the institutional context as a catalyst or as an amplifier of the impact of a shock or crisis, thereby shaping local governments' specific vulnerability sources and influencing the range as well as the intensity of possible (fiscal) responses. Cases from different countries in as well as outside Europe show that the financial crisis led to a ***reduction of transfers*** from upper government levels (Saliterer et al. 2017, Steccolini et al. 2017, see also Ladner 2016) while obligations to deliver services remained the same or even increased. The latter however, rather than being attributable to the financial crisis alone, reflects a more general trend across countries, with local governments perceiving themselves increasingly deprived of the resources needed to maintain, and let alone expand their service level (see Ladner 2016). In particular, in the multiple case studies in Austria, Italy, Germany, and the UK, local government decision-makers pointed at the challenges associated with the devolvement of tasks/service responsibilities from the central or regional to the local level, with inadequate or no support funding at all (Korac 2017, Pappenfuß et. al., Jones 2017).

Still, features of the institutional context turned out as being insufficient in explaining the observed differences in resilience patterns within a country: while facing a similar institutional (though not economic or social) context, local governments followed different paths in dealing with crisis. Some took a more pro-active or adaptive stance with internal capacities playing a key role in addressing and managing vulnerabilities (capacity-driven patterns). In others, the financial crisis seemingly exceeded the threshold of local governments' existing capacities, leading to a perception of powerlessness and forcing them into a fatalist mode, while still others mainly relied on pre-existing wealthy environmental conditions which made them less vulnerable to the financial crisis (context-driven patterns). Being at the interface of the environment (institutional, economic, and social context) and the organization (organizational capacities, i.e. anticipatory and coping capacities), our research revealed that ***vulnerability***, the sense of being able to influence its sources was ***key factor*** in explaining ***resilience patterns*** (see also Barbera et. al. 2017).

4 Conclusion and Outlook

While there has been a long-standing interest in the financial condition, financial health, or, conversely, the fiscal stress of a local government, academia has – until recently – only seldomly answered the calls in literature to explore the wider complexities and nuances of responses to crises, not only focusing on political and policy perspectives, but also allowing a greater understanding of institutional effects and organisational practices, together with how these are changed and implemented and the outcomes they deliver (Boin et al. 2009; Lodge & Hood, 2012; Peters, 2011). Building on the concept of resilience, the authors of this chapter, together with colleagues, have put forward, operationalized, and refined the framework of *governmental financial resilience*, which allows capturing the environmental conditions (institutional, economic, and social context) that local governments operate in as well as their internal capacities (i.e. anticipatory and coping capacities), which give rise to different patterns for anticipating, absorbing and reacting to shocks and crises that affecting the finances of local governments.

Taking stock of the findings and lessons learned from 45 case studies from 11 countries worldwide, as well as from a large-scale quantitative survey, this chapter highlights the role of the institutional context (i.e. the system of rules, regulations, and policies set by upper governmental levels) in enhancing or limiting (i) the impact of crises that affect local governments' finances, (ii) vulnerabilities, (iii) anticipatory capacities, (iv) coping capacities, and (v) local governments' coping strategies. This chapter therefore adds to the understanding of why rules, regulations, and policies of upper-governmental levels may play out very differently within a given country.

The findings reported in this chapter draw attention to the role of internal capacities (***anticipatory and coping capacities***) in identifying and managing a local government's vulnerabilities, identifying shocks and crises before they arise, and taking actions or pursuing coping strategies in order to respond to shocks and crises by buffering, adapting or transforming in order to maintain, re-gain, or attain a certain financial condition and maintain or expand their service level. However, it also unearths important findings regarding the ***institutional context***: (centrally imposed) rules and regulations may prompt local governments to build and strengthen anticipatory capacities, but at the same time, fiscal frameworks and central policies such as austerity may drain local governments' coping capacities in fiscal (both on the revenue as well as the expenditure side), financial, as well service-oriented terms. Consequently, they may be able to anticipate and detect financial shocks early, but exhausted structures and tools for coping (e.g. financial reserves, efficiencies) will hamper precautionary measures, leaving local governments more financially vulnerable in a time of uncertainty and increasingly complex demand. This reflects the important role played by central policies in affecting local finances and 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 several of the country contexts (see also Ladner 2017).

However, the ***(initial) research on governmental financial resilience*** has specifically looked at how local governments anticipated and coped with the ***global financial crisis***, showing that fiscal rules and regulations (i.e. the institutional context) have (has) a direct effect on the range as well as the intensity of ***financial*** measures or responses, but not necessarily on organizational/service-related measures. Here, we expect that the current ***global COVID-19 crisis*** will more immediately impact local governments' modes of ***service delivery***.

While the (at the time of writing, still ongoing) COVID-19 crisis hit (probably all) local governments by surprise, applying the lessons learned from the research on governmental financial resilience, we suggest that those local governments that can build on strong ***anticipatory capacities***, like monitoring, (external) information exchange, (internal) information sharing and critical thinking will be more likely to have shown a high level of awareness associated with the uncontrolled spread of the virus and its impact. First impressions from media reports show that early awareness of the latter was accompanied by a more pro-active behavior (e.g. cancellation of events, visitor guidelines and bans of visits in elderly care homes) in early stages of the crisis – which is in line with the findings on capacity-driven patterns that characterize local governments with a pro-active or adaptive stance (see above) found among the case studies conducted in the aftermath of the global financial crisis.

When COVID-19 hit, strong ***coping capacities***, like adaptability of people, rapidity of actions, internal and external collaborations seem to have facilitated a timely adaptation in certain local governments, with public sector staff swiftly switching to remote work; enhanced use of ICT to deliver public services, the timely creation of networks with associations, voluntary organizations and other local actors to provide services (e.g., home shopping for elderly people, telephone hotlines for psychosocial support). However, maybe even more than during the financial crisis 2007 to 2009, the current COVID-19 crisis highlights the importance of the ***institutional context***, which may facilitate local governments' ability to deal with the crisis by offering timely and clear information, by loosening tight fiscal rules or moving away from austerity policies, and even offering financial support (OECD 2020). Given that this specific crisis requires not only (innovative) fiscal and financial responses, but also fundamental changes of ***service delivery models***, it opens up a window of opportunity to shed light on possible further refining dimensions of governmental financial resilience such as ***social capital*** related aspects, like ***intergovernmental relations and trust***, and ***trust by and support from citizens*** – the latter either as initiators of and participants in community actions (e.g. sewing masks), as co-producers of preventive measures (e.g. complying with rules and measures of staying at home, respecting physical distancing rules) as well as by adapting to new service models (e.g., following school lessons from home).

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