

FINANCIAL RESILIENCE

Research on financial resilience at Dutch local
government in times of austerity

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Summary

This paper has examined the theoretical background and the empiricism of the appearance of financial resilience at local governments. Little has been written about financial resilience in local governments. However, due to widespread austerity policies in all Western states and local governments, there is a need for conceptualization of financial resilience. Barbera et. al. (2014) started their empirical research on this subject in three European countries. In order to contribute to this literature on financial resilience in local governments, this paper is a replication of the research of Barbera et. al. (2014). The main subjects of this paper are: responses to financial shocks, the existence of financial resilience, and the relationship between responses to shocks and financial resilience in local Dutch governments. The central question therefore is: *what is the influence of financial resilience on the responses to financial shocks of Dutch municipalities?*

Short-term responses that are being distinguished in the literature are (1) cutting costs, (2) adjusting investments projects and (3) increasing collected income streams. Dutch local governments show short-term responses that include cutting costs and adjusting investments projects. Long-term responses of local governments differ a lot. Examples of long-term responses that have been distinguished in the literature are: increased willingness to cooperate and the merging of departments. Dutch local governments do show increased willingness to cooperate. Furthermore they have improved their risk management system and tried to change their role in society as long-term responses.

Financial resilience exists of five capacities; financial robustness, anticipatory capacity, awareness, flexibility and recovery ability. These capacities determine the existence of financial resilience in local governments and influence responses to financial shocks. Two of these capacities seem to influence patterns of responses the most; anticipatory capacity and awareness. High levels of these capacities result in pro-active/adaptive patterns of responses while low levels of these capacities result in reactive/complacent patterns of responses. Dutch local governments that show higher levels of anticipatory capacity and awareness show patterns of responses that are indeed more pro-active or adaptive. Lower levels of anticipatory capacity and awareness result in reactive/complacent patterns of responses to financial shocks.

Furthermore, Dutch local governments appear to bounce forward after experiencing what they call 'the largest austerity policies ever'. Although the financial shocks that they experienced have been a threat for their financial health, the municipalities also think of these shocks as opportunities to be creative and innovative.

Preface

This paper has been written as a part of my master's in Public Management at the *Utrechtse School voor Bestuurs- en Organisationswetenschap*. I started my bachelor's in 2010 at the same faculty as where I am graduating now. This thesis is the finishing part of my student days in Utrecht. After this summer, my adult life will start, in the first place with my new job at the NS as a management trainee.

I would like to thank a few people that have supported me the past semester and helped me to fulfill this last task of my studies. First of all, I would like to thank Tom Overmans, my supervisor and Martijn van der Meulen, my second supervisor. Without their help I could not have finished this thesis in the way I have. Secondly, I would like to thank the 15 respondents from Hengelo, Zeist, Zwolle, Hoorn and Ede that collaborated in this research. Thirdly I would like to thank Martin Jones and Ileana Steccolini for helping me with the Dutch case. Furthermore, I would like to thank my parents, brother and sisters for supporting me. Despite the fact that I was stressed or demotivated sometimes, they stayed supportive. This past year would not have been the same without Malou and Lianne. I would like to thank them for the fun we had. Finally, I would like to thank Sjors, for having trust in me, giving me thousands of useful hints about my writing and bringing me lunch during my hours in library.

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1. Introduction

1.1 Introduction

The financial crisis of 2008 highly influenced policies of Western states (Lodge & Hood, 2011; Scorsone & Plerhoples, 2010; Leisink & Bach, 2014; Pollitt, 2010) National governments had to introduce massive austerity packages for public services in order to face the relapse that was caused by the crisis (Lodge & Hood, 2011; Pollitt, 2010). National deficits and debt rates have risen by unprecedented amounts (Beetsma, 2011). Incomes are substantially lower than in the past (Overmans & Noordegraaf, 2014). Not only did national governments suffer a great deal from the financial crisis, local authorities have also been stricken (Hendrick, 2011; Jonas, 2012), since their budgets are directly related to national budgets (Miller & Hokenstad, 2014; Overmans & Timm-Arnold, 2015). Austerity policies that were introduced by national governments in order to deal with the financial crisis resulted most of the time in austerity policies at local governments as well (Overmans & Timm-Arnold, 2015; Leisink & Bach, 2014). Barbera et. al. (2014) state that especially European local authorities have been affected by huge decline and financial constraints due to the recent crisis. The effects of these austerity policies are most noticeable and detrimental at local government level (Miller & Hokenstad, 2014).

In order to deal with shocks like the financial crisis, governments have to be resilient (Boin & Van Eeten, 2013; Shaw, 2012). Organizational resilience means having the power and ability to deal with and recover from diverse types of adversity, for example external shocks. An example of this is being able to build up a city after an earthquake (Boin & Van Eeten, 2013). When governments face shocks that affect their financial management, i.e. financial shocks (like the financial crisis) organizational resilience has to be translated into *financial* resilience (Jones & Steccolini, 2014; Hendrick, 2006). A financially resilient organization is able to deal with and recover from financial external shocks. Governments are able to increase their financial resilience by being for example maneuverable, aware of risks and able to react on these risks effectively (Barbera et. al., 2014). An example of financial resilience is being able to recover and perform at an acceptable state of normality after experiencing a financial crisis.

So governments that are among other things maneuverable, aware of risks and able to recover, in other words; resilient, are better able to deal with financial shocks. However, since 1980, New Public Management (NPM) has flourished in Western countries and has put an emphasis on business-like thinking, efficiency and effectiveness. By putting frugality first, resilience in public administration can become very limited (Hood, 1991). Considering that Western governments have been imbued with NPM values for over thirty years now and because of that have limited values of resilience left, to what extend are they able to react and recover from financial shocks?

The position of local governments in the financial crisis is quite peculiar. Local governments immersed in NPM values and austerity policies. At the same time, they are linked and dependent of national governments' policies. Moreover, local governments lack in autonomy on their incomes and expenditures. In comparison to national governments, local governments have limited options to affect budgets (Miller & Hokenstad, 2014). Although the effects of the crisis became noticeable somewhat later than at national level, local authorities are now coping with serious levels of fiscal stress (Overmans & Timm-Arnold, 2015). In order to deal with this fiscal stress, governments can either cut public spending or raise public revenues (i.e. taxes), or use a mixture of both. This situation is called the fiscal squeeze (Hood, 2014).

In this paper we will take a closer look on how local governments are dealing with this fiscal squeeze. Little has been written about austerity policies in local governments (Overmans & Timm-Arnold, 2015; Leisink & Bach, 2014), which is striking because public organizations are entering into an era of cutback management and austerity, where public income will be lower than in the past (Pollitt, 2010, p.2; Pandey, 2010) This paper contributes to this gap in literature by examining it through the conceptual lens of resilience. The concept of resilience can provide us insights to which role there is for governments in adapting external shocks by providing an explanatory framework (Shaw, 2012), and can help us prepare better and even avoid tremendous adversity in the future (Hendrick, 2006). Although resilience and responses to financial shocks has been studied before, the need for more empirical research has been emphasized (Jones & Steccolini, 2014). We do not always recognize resilience, we can only conclude it was there if an organization coped with crisis and survived (Boin & Van Eeten, 2013). There is a lack of literature especially where it concerns *financial* resilience (Jones & Steccolini, 2014).

Financial resilience at local governments was already examined in Italy (Barbera, Guarini & Steccolini, 2014), Austria (Barbera et. al.,2014) and the United Kingdom (Jones & Steccolini, 2014). However, the adoption of NPM differs seriously from country to country (Hood, 1991; Pollitt, 2001; Pollitt & Bouckaert, 2004) as well as the influence and reactions on the financial crisis (Lodge & Hood, 2011; Leisink & Bach, 2014), even though regulatory pressures from the European Union for example have been the same (Barbera et. al., 2014). If the adoption of NPM and the influence and reactions on the crisis differ between countries, so will the level of financial resilience. It is needless to say that more research is necessary in Western countries in order to better understand the concept of financial resilience. Therefore, this paper is a *replication* of the research of Steccolini et. al. (2014) that took place in Italy, the UK and Austria. The same concepts, methods and tools were used to examine local governments (municipalities) in the Netherlands. A multiple-case study into five municipalities has been applied in order to replicate the former research properly. The objective of this paper is to examine the three subjects below by means of this multiple-case study in the Netherlands:

1. The main shocks that are received by Dutch municipalities and the long-term and short-term responses that Dutch municipalities have applied.
2. The appearance of financial resilience in Dutch municipalities.
3. The interaction between capacities of financial resilience (financial robustness, awareness, anticipatory capacity, flexibility and recovery ability) and responses to financial shocks.

1.2 Research questions

In order to properly examine municipalities' responses to financial shocks and the influence of financial resilience on these responses, research questions have been formulated. These questions serve as a guideline through this paper. The central question that covers the main objective of this research is:

What is the influence of financial resilience on the responses to financial shocks of Dutch municipalities?

In order to answer the central question, some sub questions have been formulated. These sub questions will be answered in the chapters that follow. These chapters will lead us to the answer on the central question in the final chapter. The sub questions exist of theoretical/contextual questions and empirical questions.

Theoretical/contextual questions

- i. What does the domestic institutional and financial context of Dutch municipalities look like?
- ii. What are financial shocks and how can organizations deal with financial shocks?
- iii. Which patterns of responses to financial shocks at local governments can be distinguished?
- iv. What is organizational resilience?
- v. What is financial resilience?
- vi. What is the relationship between financial resilience and responses to financial shocks?

Empirical questions

- vii. Which responses to financial shocks can be identified in Dutch municipalities?
- viii. To what extent do Dutch municipalities show financial resilience?
- ix. How are patterns of responses influenced by financial resilience of Dutch municipalities?

1.3 Scientific relevance

All over the Western world countries have been stricken seriously by the worldwide crisis of 2008, leading to widespread cutback management measurements. The way governments respond on financial shocks is therefore rather important and relevant (Kickert, 2012). Another huge shock on governments

has been austerity measures. Limited attention has been given to austerity and its effects on local governments (Miller & Hokenstad, 2014; Overmans & Timm-Arnold, 2015; Leisink & Bach, 2014). In order to cope with shocks like these, governments have to be resilient. However it is very hard to recognize resilience when it is there, rather we can assume it has been there if an organization survives a huge shock (Boin & Van Eeten, 2013). Other authors also emphasize the need for more empirical research on the concept of resilience (Wukich, 2013; Somers, 2009; Shaw, 2012; Hendrick, 2006).

Furthermore, not much attention has been paid to the financial aspects of resilience yet (Jones & Steccolini, 2014). Above all, NPM has caused some serious shortfalls in the amount of resilience left in governments, but NPM does not appear to have the same degree and manifestation in different countries (Hood, 1991; Pollitt, 2001; Pollitt & Bouckaert, 2004). It seems to be rather crucial to look at financial resilience at local authorities in order to get a broader picture of the concept financial resilience in Western countries. Levine already pointed out in 1978 that cutback management was in desperate need of a theoretical direction (Levine, 1978). As a consequence of recent crises we are witnessing a transition period, where NPM is no longer a dominant paradigm, but there is a lack of a new lens (Barbera et. al., 2014, p. 29). Jones & Steccolini (2014) started a new conceptual direction after the fade of NPM by using the lens of resilience. This paper tries to complement their theories by looking at financial resilience at Dutch municipalities. In short this paper will contribute at the resilience literature in two ways:

1. Focusing on financial management and financial resilience at local authorities.
2. Adding empirical evidence for verification and specification of the definition of financial resilience.

1.4 Social relevance

The capacity to deal with financial shocks is not only a concern of governments, it is also a concern of the society. Boin and Van Eeten (2013) argue that resilience will become increasingly important to face new threats in the future. They think that the world will be a safer place if organizations and governments are better able to absorb crises and other shocks. However, in order to formulate prescriptions that can lead to the improvement of resilience, more research is necessary to extend the theoretical base of resilience literature (Boin & Van Eeten, 2013). In the Netherlands, local governments are becoming more important to citizens. The role of municipalities is expanding and today they are more often the 'first governmental institution' that citizens have to deal with (Allers & Steiner, 2015). The way municipalities are dealing with and trying to survive financial shocks is therefore becoming more relevant.

1.5 Research approach & readers guide

In order to obtain an answer to the central question, the chapters that will follow are guided by the sub questions and will sketch some answers. In the 2nd chapter, the first theoretical/contextual question will be answered by illustrating the context of Dutch municipalities. In the 3rd chapter the remaining theoretical questions will be answered. As a result of this chapter it will become clear what already has been written about financial resilience. This will lead to a clear definition and conceptualization of the term. This theoretical part serves as background for the empirical part of this research. Chapter 4 will continue about the research design. In order to have a good understanding of the research itself and the results, this chapter will enlarge on the research methods, case selection and operationalization of terms. After expanding this subject, the 5th chapter will reveal the results and analysis of the empirical part. In this empirical part five Dutch municipalities have been examined. In this chapter the empirical questions will be answered. Finally, chapter 6 will draw some conclusions by answering the central question. This paper concludes with some suggestions for possible following research.

2. Domestic context of the Netherlands

In order to obtain a proper view of local authorities in the Netherlands this chapter will describe briefly a couple of features concerning the institutional and financial context. Firstly the main features of local governments in the Netherlands will be described, secondly the situation before and after the financial crisis in the Netherlands will be designated at national and local level. Thirdly this chapter will show a few things concerning the financial context of Dutch municipalities.

2.1 Main features of local government in the Netherlands

The Netherlands is a constitutional state and has a parliamentary system (Breeman & Van Noort, 2008). There are four managerial levels; central government, provincial authorities, local authorities (municipalities) and Board of Public Works (*waterschappen*) (Allers & Steiner, 2015). A municipalities' board consists of three elements. First of all there is the council (*gemeenteraad*). This is the highest authority inside the municipality and the council is responsible for all kinds of important decisions, like decisions about tax rates. Members of the council are chosen by the enfranchised citizens. Secondly a municipalities' board consists of a Bench of Mayor and Alderman (*College van Burgemeester en Wethouders*). This is the executive committee and their main task is the preparation and implementation of decisions made by the council. Furthermore, the Bench of Mayor and Alderman is responsible for the finances. The third element of the municipalities' board is the mayor (*burgemeester*). The mayor is chairman of the council and the Bench of Mayor and Alderman (Rijksoverheid, 2015).

Municipalities in the Netherlands have become important institutions in the Dutch institutional system. Today, the expenditures of municipalities constitute more than 25% of all expenditures of governmental institutions in the Netherlands. Municipalities' expenditures in total are 9% of GDP. In 2015 expenditures by municipalities will probably increase even more, approximately by 4% due to decentralizations of tasks from national government to local government (Allers & Steiner, 2015).

Dutch local governments provide in a couple of municipal services. These services mainly concern: housing, infrastructure, environment, promotion of local economy, primary education, culture, sports, social care and maintenance of public space (Leisink & Bach, 2014, p. 332). Spending on social care is the largest expenditure item of Dutch municipalities (Allers & Steiner, 2015). There are three possible ways in which municipalities receive money in order to pay for the expenditures on the municipal services. Municipalities receive the largest amount of money from the central government. A small part of their budget is obtained by the municipality itself. The central government sets apart and distributes money to the Dutch municipalities. Out of this budget municipalities receive first of all a payment for services generally, the Municipal Fund (*gemeentefonds*) and second of all they receive payments that are set apart for specific services (*specifieke uitkeringen*).

The money that is obtained by the municipalities themselves consists of revenues of taxes, like property taxes, and other sources of income like profits on estate development (VNG, 2014). However, Dutch municipalities have limited options for increasing their local revenues and are highly dependent on the central governments' payments. The financial autonomy of Dutch municipalities therefore is not very substantial. Municipalities have a low degree of control over their finances. Since local governments are highly dependent on central governments' financial policies, austerity policies also have to be implemented by local governments automatically, for instance because they influence the amount of money local governments receive out of the Municipal Fund (Overmans & Timm-Arnold, 2015).

2.2 Dutch (local) government and the aftermath of the financial crisis

According to the OECD, the Netherlands was hit hard by the financial crisis. The drop of GDP growth in 2009 due to the crisis was higher than the average of OECD member countries (OECD-SBO, 2011). Since local governments' budgets are dependent on central governments budgets, this adversity was experienced by both central and local government.

As a result of the economic crisis of 2008, municipalities in the Netherlands had to cope with declining revenues and increasing expenditures. This caused a huge financial relapse for Dutch municipalities. Declining revenues were, among other things, caused by a drop in the selling of land in which municipalities invested. Municipalities also had to deal with a drop of 10% in payments from national government. Furthermore, the national government handed over a few additional tasks and responsibilities to Dutch local authorities. Municipalities also suffered under the uncertainty concerning national governments' policies and the magnitude and distribution of the Municipal Fund (Allers & Hoeben, 2010).

2.3 Dutch local government accounting system

If expenditures exceed revenues, there is not enough money and there will be a debt (Van der Lei, 2013). In general, government institutions are focused on a balanced budgetary position that does not have deficits nor surpluses (Barbera et. al., 2014). Since government institutions are non-profit and focused on a zero-balance budgetary position, debts can make their budgets unhealthy. Paying the interest in the future is another expenditure that municipalities have to deal with and if debts are growing, municipalities can end up in trouble (Van der Lei, 2013).

Dutch municipalities are using an accrual-based accounting system. This system sets down expenditures and revenues at the moment of contracting, not at the moment of the real payment. For example, if an investment will be used more than one year, the expenditures of this investment will be spread over the years, even though the payment has been done in one of these years (Wassenaar, Allers

& Verhagen, 2014). When revenues do not cover expenditures, municipalities have to use a part of their equity to fill up this gap. Unallocated reserves are a part of equity that can be used to fill up a gap in the balance between revenues and expenditures. At the same time money can be saved for specific purposes in the future. These are called allocated reserves. The difference between these two amounts is the balance of the reserves and determines the value of the buffer a municipality has (CBS infoservice, 2015). The unallocated reserves generate a part of an institutions resilience. It can be used to respond on adversities or crisis. A negative amount of unallocated reserves can be seen as an indication of an institution that is not able to handle future crises (Kerklaan, Oostveen & Van Vugt, 2013).

This chapter dilated upon the domestic institutional and financial context of municipalities in the Netherlands. The different sections of this chapter draw an answer the 1st contextual question that has been formulated in chapter 1: *what does the domestic institutional and financial context of Dutch municipalities look like?* This contextual background of local government in the Netherlands is necessary in order to better interpret the findings and results of this examination on Dutch municipalities.

3. Theoretical background

3.1 Coping with financial shocks

“Crises are characteristic features of our society” (Rosenthal, Boin & Comfort, 2001, p.5). Histories and cultures of countries are built around crises, events that distress, disturb and catalyze reform processes. No culture or country is free from risks and crises. Titanic, the Spanish Flu epidemic, Chernobyl, Black Monday at Wall Street, Tenerife and 9-11. These events symbolize a few historic examples of crises that mark the world of today (Rosenthal, Boin & Comfort, 2001). The worldwide economic and fiscal crisis at the end of the 1970s has led to huge reforms in Western countries. A crisis that is marking the world of today is the financial crisis that started in 2008. This crisis appeared in three phases. Firstly the financial crisis, secondly the economic crisis and thirdly the fiscal crisis (Kickert, 2012).

The financial crisis costs governments a lot of money and made their debt rates rise drastically. The economic crisis forced governments into taking recovery measures that made debt rates and budget deficits rise even more. Finally there was the global fiscal crisis which led to drastic cutback policies through all Western countries (OECD-SBO, 2011).

It is obvious that the worldwide crisis of 2008 seriously affected Western countries. This first part of the theoretical background gives an overview on what has been written about responses by (local) governments to financial shocks like the crisis of 2008. The crisis in 2008 is an example of a financial shock that has been used by authors in order to identify responses to financial shocks of (local) governments.

3.1.1 Responses to financial shocks of national governments

Responses of national governments to recent financial shocks (i.e. the financial crisis of 2008) are in one way comparable (Kickert, 2012), but in another way highly differentiated (Lodge & Hood, 2011; Peters, 2011; Pollitt, 2010; Kickert, 2012; Raudla, Savi & Randma-Liiv, 2013). The initial responses of OECD countries seem quite similar. The first measures taken by governments mainly concerned *“capital injections and nationalizations, guaranteeing state debt, isolating or buying bad assets and increasing deposit assurance”* (Kickert, 2012, p. 301). These measures were taken in order to deal with the banking crisis of 2008 (Kickert, 2012). This response is also referred to as ‘return to the state’ (Lodge & Hood, 2011). Later in this section there will be more on this response.

However, responses to the recent financial crisis could also be seen as highly differentiated. This is because of at least three reasons. First of all, responses on the crisis of 2008 and patterns of measures taken by governments in OECD countries seem to be everything but the same. Secondly, not all countries have the same degree of vulnerability concerning financial crisis. Since countries do not have

the same degree of financial vulnerability, they could also experience different degrees of pressure for reshaping and reforming. Thirdly, the financial crisis of 2008 is just one of the main shocks that governments have to deal with. Two other important components that give pressure to countries are demographic and ecological vulnerabilities (Lodge & Hood, 2011).

Financial shocks can also impact existing policy-making institutional patterns of governments in different ways (Lodge & Hood, 2011; Peters, 2011). On the one hand, crises can lead to disruption of an existing governance system, even though this existing system might be functional. New patterns and systems will emerge in order to replace the existing systems. On the other hand, due to crisis there is a need to respond adequate and quickly to problems and existing systems or patterns could be intensified by this (Peters, 2011).

Lodge and Hood have written down four kind of 'states' which illustrate ways of responding to financial shocks by national governments.

1. *The directing state*: this response illustrates the 'return of the state'. Many countries initially responded this way directly after the worldwide economic crisis had started in 2008. The return of the state often consists of large-scale rescue packages and bank guarantees (Lodge & Hood, 2011).
2. *The hollow state*: the financial crisis in many countries led to scarcity of sources, which increased a business-like focus, putting emphasis on reorganizing services into more cost-controllable structures, and cutting in activities that are only lucrative in the long run. In other words, a return to the earlier long-lasting trend of NPM.
3. *The local communitarian state*: this response illustrates a movement towards a participatory democracy and society, putting emphasis on voluntary and community organizations, like soup kitchens and food banks. This kind of response includes saving costs by outsourcing certain tasks to society.
4. *The coping state*: this response especially appears at local levels of government and concerns giving up some tasks in order to save money.

The third and fourth response are quite the contrary of the first and second response. The first and second response imply governments that rely on the power and strength of the government and their support to the society, whereas the third and fourth response imply governments that give up tasks and let the society take care of it. Lodge & Hood predict that these four responses are likely to appear in the future, whereas the local communitarian state and the coping state are expected to be seen at local governments and the other two at national governments. Also, the most vulnerable states are likely to respond as a hollow state or the local communitarian state (Lodge & Hood, 2011). More on responses of local authorities is following in the next section.

Pollitt (2010) distinguishes three ways in which governments can react on financial shocks.

1. *Cheese slicing*: cheese slicing (for example cutting 5% in every department) is a strategy that sounds egalitarian. This strategy comes down to sharing the pain. In that way a governor does not have to decide which department will be hurt the most and which will be hurt less. Sometimes governors call in program specialists to do the job. A side effect of this strategy is budget holders trying to pad their budgets so that they can afford to lose some percentages in a round of cheese slicing.
2. *Efficiency gains*: this strategy often appears to be the least painful way of realizing cutbacks. Efficiency gains includes two aspects: savings will be made in order to meet the need for austerity policies. Secondly, most of the time the quality of services will stay equal or will even improve. “*Doing more with less*” (Pollitt, 2010, p. 5). Efficiency gains can even lead to innovation and reform. However these organizational and technological changes may not always work out well, plus this strategy will not be sufficient in order to correct the present fiscal stress of many governments.
3. *Centralized priority setting*: this strategy comes down to prioritizing cost-effective programs and at the same time diminishing or even dropping activities that are less cost-effective. This strategy tries to focus on outcomes rather than output and on effectiveness rather than efficiency. Decisions that are taken in order to prioritize are sometimes very painful because governors do not always understand the internal complexity of the services they had to cut (Pollitt, 2010).

3.1.2 Responses to financial shocks of local governments

In this section we will take a look at responses to financial shocks that local governments have showed. Overmans and Noordegraaf (2014) distinguish four responses of local governments. Overmans and Timm-Arnold (2015) have used this theory in order distinguish four responses to austerity. In the first part of this section the responses of these two papers will be discussed. The next section will discuss the responses to financial shocks that Barbera et. al. (2014) distinguish.

Overmans and Noordegraaf (2014) and Overmans and Timm-Arnold (2015) distinguish four responses to austerity:

1. *Fiscal cuts*: fiscal cuts are fiscal measures that focus on stability (Overmans & Timm-Arnold, 2015). These measures are also seen as *cutbacks*. Cheese slicing (section 3.1.1) is an example of cutbacks. Cutbacks usually focus on short-term stabilization of the fiscal balance rather than having a long-term purpose (Overmans & Noordegraaf, 2014).
2. *Organizational cuts*: organizational cuts are organizational measures that focus on stability (Overmans & Timm-Arnold, 2015), also referred to as *decline*. Organizations that fail to identify, avoid, anticipate, or adapt shocks that threaten the long-term sustainability of an organization tend to use decline as a response. Decline focuses on cutting costs in the short term (just like cutbacks)

by reducing activities and public services, in order to overcome a temporary crisis (Overmans & Noordegraaf, 2014).

3. *Fiscal change*: fiscal changes usually focus on creating new or reorganizing existing resources, like taxes. Fiscal changes are focused on change and have a strong fiscal orientation. Fiscal change is also called *retrenchment* (Overmans & Noordegraaf, 2014).
4. *Organizational change*: examples of organizational change are optimizing work processes and redesigning jobs (Overmans & Timm-Arnold, 2015). It is also called *downsizing*. Downsizing is used as a strategy to improve organizational performance and reform the fit between environment and organization (Overmans & Noordegraaf, 2014).

Now we will discuss the local governments' responses on financial shocks that are illustrated by Barbera et. al. (2014). Barbera et. al. emphasize the importance of filtering by local governments. Filtering includes judging and determining whether a potential financial shock will show as a threat or an opportunity for the organization. Do local governments see the potential shock as a risk or threat, or do they consider it as something that will most likely blow over. Responses given to financial shocks are shaped by the filtering of these shocks (Barbera et. al., 2014).

Barbera et. al. (2014) distinguish between short-term responses with impact on the short-term finances and long-term responses with impact on the long-term finances. Short-term responses are quite the same in most municipalities, while long-term responses strongly differ. A couple of short-term responses that municipalities showed will be illustrated here. According to Barbera et. al. (2014) there are three categories of short-term responses. The first is *cutting costs*. Cutting costs is a short-term response since it will influence the financial situation of the local government in the short term. Cutting costs could be reducing the number of staff, reducing levels of quality of services or even stopping certain services. Furthermore, local governments can cut costs by becoming more efficient in delivery of services.

A second category of responses is *adjusting investment projects*. This includes measures taken by local governments in order to control investment projects. Responses in this category could be postponing or cancelling investments. It could also be searching for alternative resources to pay for investments, also in order to control. A third category of responses is *increasing collected income streams*. This includes responses like increasing tax levels or introducing new kinds of taxes. Another way of increasing collected income streams is by the selling of property like land and buildings. Finally cleaning up budgets is a response that is used by local governments in order to control their finances in the short term (Barbera et. al., 2014).

Long-term responses that were given by local governments can be very different from each other. Examples of long-term responses are the *creating of an increased willingness to cooperate* and collaborate with private or public agencies. Other local governments responded by *merging departments and establishments*. *Focusing on priorities and the long-term budgets* could also be a long-term response of local governments. Finally, *trying to regenerate busyness* is something that local governments could do in order to control their finances in the long term (Barbera et. al., 2014).

In this paper we will further define the terminology of Barbera et. al. (2014) and later on use this terminology for empirical research. This terminology has been used in the remaining part of this paper because of three reasons. First of all, this terminology is about municipal responses, in contrast to for example the theory of Pollitt (2010). Second of all, it takes into consideration whether a response is focused on the short term or on the long term. Because of that these responses complement partial to the four responses Overmans and Timm-Arnold (2015) and Overmans and Noordegraaf (2014) distinguish. Thirdly, the theory of Barbera et. al. has been highlighted in this paper in order to replicate the former research on financial resilience in local governments in a proper way.

Section 3.1 answers the 2nd theoretical question that has been formulated in chapter 1: *what are financial shocks and how can organizations deal with financial shocks?* *Financial shocks* distress and disturb financial processes. A recent example of a financial shock is the financial crisis of 2008. National governments have responded in ways that are on the one hand comparable and on the other hand different. Lodge and Hood (2011) distinguish four different *responses of national governments*, the directing state, the hollow state, the local communitarian state and the coping state. Pollitt (2010) illustrates three categories of responses: cheese slicing, efficiency gains and centralized priority setting. Overmans and Noordegraaf (2014) and Overmans and Timm-Arnold (2015) illustrate four *responses local governments can show*: fiscal cuts, organizational cuts, fiscal change and organizational change. Barbera et. al. (2014) draw a distinction between short-term and long-term responses. Short-term responses of local governments are comparable and can be split up into three categories: cutting costs, adjusting investment projects and increasing collected income streams. Long-term responses of local governments are more different. Examples of long-term responses are: creating of an increased willingness to cooperate, merging departments and establishments, focusing on priorities and the long-term budgets and trying to regenerate busyness.

Barbera et. al. (2014) came up with five factors or capacities that influence the way local governments react to financial shocks. These capacities shape *resilience* and resilience seems to shape the way local governments response on financial shocks. Barbera et. al. found that there are relationships between the five capacities and the responses given by local governments. More on these

capacities can be found in section 3.2.2 and more on the relationships can be found in section 3.3. First, we will take a look at patterns of responses of local governments.

3.1.3 Patterns of responses to financial shocks at local governments

Derived from previously mentioned short-term and long-term responses, four patterns of responses to financial shocks at local governments have been formulated by the most recent research of Barbera et. al. (2014). These patterns reveal general tendencies in which local governments respond to financial shocks and when and in what way they show the previously mentioned short-term and long-term responses. The different patterns of responses are: pro-active, adaptive, reactive and complacent. The first and the second pattern involve governments that not only take into consideration the problems that have arisen from a shock, but also try to see chances and possibilities and opportunities in the consequences of shocks. These two patterns appear when local governments are able to filter ‘real potential’ shocks as serious shocks and not as a small threat that will most likely blow over. The other two patterns do not take possible chances of the shock in consideration. In the case of these two patterns the municipality did not manage to filter the shock in the right way (Barbera et. al., 2014). For example: they could not see the real magnitude of a shock and did not label it as a potential shock. When the local governments filtered the shock, they can search for solutions for the financial shock *internally*, or *externally*. Local governments with a pro-active pattern of responding find solutions externally, while complacent governments tend to ‘wait’ for solutions from the external environment. Local governments that show adaptive and reactive patterns of responses try to find solutions intern.

The four categories of patterns of responses are being illustrated in the figure below. The figure below distinguishes the four patterns on the base of two dimensions mentioned above. First of all, whether local governments are pro-active and treat financial shocks as opportunities, or more reactive and treat financial shocks mainly as threats. The second dimension distinguishes local governments that try to find solutions for financial shocks internal, and local governments that try to find solutions for financial shocks external.

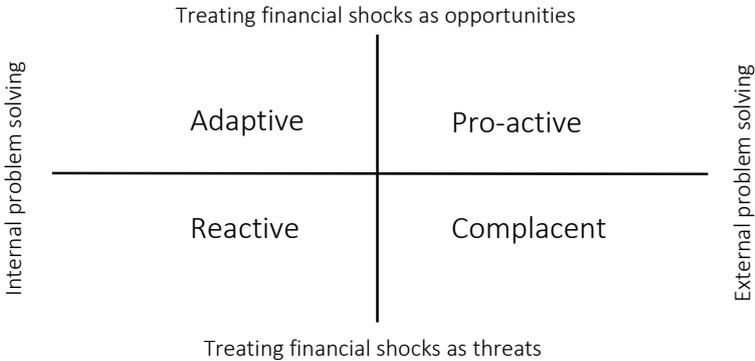


Figure 1 Four patterns of responses

Now we will further dilate upon the four patterns of responses by means of the theory of Barbera et. al. (2014). The *pro-active* pattern of responses involves local governments that react on shocks by taking the long-term view into consideration. It concerns bouncing forward in a way that the local government is pro-active and tries to be financially independent and autonomous. Choices are inspired by a long-term view in order to fulfil this wish of being independent. The responses are based on existing competences and resources, but new ones are also being explored (i.e. innovation). ‘Continuous adjustment’ and ‘continuous buffering’ is something that local governments do if they respond on financial shocks in a pro-active way.

Local governments that show pro-active patterns of responses usually have high levels of awareness and anticipatory capacity. Risk management and planning and control mechanisms are strong. Due to these features, these local governments are able to prepare for future developments and shocks. Recovery ability and robustness are high in these local governments, since they pro-actively react on changes and shocks. The responses that these authorities use on shocks are focused on the long-term view. Since policies of these governments are focused on enlarging the capability to deal with financial shocks in the future, their flexibility is high.

The *adaptive* pattern of responses involve local governments that react on shocks after the shock appeared. They are not capable of acting pro-active, but they are adapting to the new situation by trying to reduce vulnerabilities and trying to recover. Although local governments that are adaptive are less robust than the first category of governments are, they are internally driven to react on shocks. ‘Reconsideration of existing financial strategies’ is an example of behavior of local governments if they respond an adaptive way. Local governments that show this pattern have limited planning and control mechanisms. Their awareness and anticipatory capacity therefore is lower.

Although local authorities that respond in an adaptive way initially ignore the financial crisis, later on they adapt to the new situation. This is caused by low robustness. These low levels of robustness stimulate awareness and adoption. Due to this adaption local governments try to bounce forward to a more capable and better performing authority. By trying to reduce their vulnerabilities and try to recover from the crisis, these municipalities have medium levels of flexibility and recovery ability.

Local governments that show *reactive* patterns of responses seem to be externally driven when it comes down to changes and adjustments. These governments only react when they are being constrained or pushed by external actors. They only react when they suffer external constraints or impositions. It is about day-to-day management and postponing long-term decisions. Responses like amplifying dodging behaviors and capturing opportunities can be recognized at local governments that respond in a reactive way. Local authorities that show this pattern of responses lack proper planning

and control systems. Because of that, they have low levels of awareness, anticipatory capacity and financial robustness.

The final pattern that Barbera et. al. (2014) distinguish is a *complacent* pattern of responses. When this is the case, local governments do not really react at shocks and are not taking any measures that they did not already had before the shocks. These governments show a high financial robustness before the crisis. This means a low vulnerability and this is mainly due to a stable position; political and financial. Because of this the levels of awareness are also low at these local governments.

Initially, the local authorities that show complacent patterns of responses do not adapt to the new situation caused by the crisis, they have low levels of flexibility, probably because of their stable position and low vulnerability. These features cause high levels of recovery ability since the local authorities in this category cannot be harmed gravely so easily. However, also these local authorities have to adapt to the new situation at some point, because even though they have a stable position, their debt levels increase as well due to the crisis and will eventually harm their robustness. The local authorities however are initially complacent to these risks.

The four patterns that are defined by Barbera et. al. (2014) have been outlined briefly in the table below. In order to distinguish and operationalize the four patterns, four measures have been included.

Pattern of responses	Long-term/short-term view	Development of monitoring and planning mechanisms	Internally/externally motivated to adapt	Level of innovation
<i>Pro-active</i>	Long-term	High	Internally	High
<i>Adaptive</i>	Medium-term	Limited	Internally	Medium
<i>Reactive</i>	Short-term	Limited	Externally	Low
<i>Complacent</i>	Short-term	Low	Externally	Low

Table 1 Patterns of responses to financial shocks by local authorities

Section 3.1.3 has answered the 3rd theoretical sub question that has been formulated in chapter 1: *which patterns of responses to financial shocks at local governments can be distinguished?* First of all, the pro-active pattern that includes responses that are focused on the long term and are internally motivated. Secondly, the adaptive pattern of responses that involves responses focused on the medium term and these responses are internally motivated. Thirdly, reactive responses that are focused on the short term and are externally motivated. Finally there is the complacent pattern of responses. This pattern involves responses that are focused on the short term and are externally motivated.

3.2 Resilient public organizations

In the section above responses and patterns of responses to recent crises have been illustrated by means of different authors. Not only has there been written about responses by governments, emphasized as well is the need for a different kind of conceptual lens. Hendrick emphasizes that crises in governments stimulate the need for better understanding concepts and mechanisms in order to be prepared for and even avoid tremendous adversity (Hendrick, 2006). One of these new conceptual lenses is *resilience*. (Jones & Steccolini, 2014; Boin & Van Eeten, 2013). The concept of resilience can give us insights into what part there is to play for governments in adapting financial shocks, by providing an explanatory framework (Shaw, 2012). This section will introduce the term resilience firstly by focusing on *organizational* resilience. Secondly, this section will specify on the theoretical background of *financial* resilience.

3.2.1 Organizational resilience

The idea of a resilient organization illustrates an organization that is prepared to unexpected shocks and adversity, and will maintain performance during these hard times. A resilient organization has the power to 'bounce back' to an original state quickly after experiencing external shocks, without having much trouble, also referred to as passive resilience (Boin & Van Eeten, 2013; Barbera et. al, 2014). A resilient organization also has the power to 'bounce forward' by developing and creating new chances or capabilities, also referred to as active resilience (Barbera et. al., 2014). In order to deal with crises, governments need to be resilient and flexible. An organization that has this kind of resilience is always ready for the unexpected (Shaw, 2012). Jones and Steccolini argue that resilience is necessary in order to deal with shocks. They emphasize the importance of flexibility, adaptability and a long-term perspective in order to meet the uncertainty, volatility and complexity that surround the public sector nowadays (Jones & Steccolini, 2014).

Resilience can be seen as a reactive process, illustrated as a response to a crisis and the ability to survive, but authors also point out that resilience concerns taking pro-active steps. It is not only about surviving, it is about the possibility to thrive in the face of adversity through the existence of latent resilience (Somers, 2009). Taking into account both reactive and pro-active sides of resilience, it could be defined like this: resilience is the capacity for collective action in the face of unexpected shocks that mess up existing systems and infrastructures. Resilience is mostly about decisions that improve the capability to cope with future risks and even the capability to reduce these risks (Comfort, Boin & Demchak, 2010).

Hood (1991) points out that resilience is part of a type of administrative value in public management discourses. He distinguishes three types of administrative values. The first is the *sigma*

type. This cluster of values focuses on efficiency, matching resources to tasks and emphasizing output. The amount of slack is low, and inefficiency and waste are seen as most dreadful failures. The features of the sigma type largely correspond to the values of NPM. The second type is the *theta type*. This type emphasizes honesty, fairness and mutuality. Trust, consent and legitimacy are important values in this type of administrative design. The third type is called the *lambda type*. This type focuses mainly on robustness and resilience. In this way of thinking it is most important to be capable to deal with unexpected crises, risks and shocks. Hood argues that these three types may exist together in one organization, but values of different types exclude each other to a certain extent. For example organizations that want to focus on honesty can have troubles with focusing in the same time on frugality. Another trade-off that the three types point out is between NPM values (sigma type) and resilience (lambda type).

Section 3.2.1 illustrates the answer on the 4th sub question that has been formulated in chapter 1: *what is organizational resilience?* Organizational resilience means being prepared for future shocks, being able to absorb these shocks and maintain performance during and after a shock (Boin & Van Eeten, 2013; Barbera et. al. (2014). Resilience is part of the lambda type that Hood (1991) describes. This type of administrative value in public management discourses mainly focuses on robustness and resilience.

3.2.2 Financial resilience

This section will zoom in on the financial side of resilience. One author that focuses on the financial aspects of a resilient organization is Hendrick (2006). She argues that due to a lack of adequate reserves, governments are forced to dramatically cut back their budgets in times of crisis. During good times, states enjoy flourishing budgets and decreased taxes while increasing expenditures, without being much concerned about any possible bad times in the future. Governments that take into account these possible bad times and are able to build up some slack resources, are being less struck by crises and shocks (Hendrick, 2006).

Montoro and Rojas-Suarez (2012) have examined financial resilience of national economies. They argue that the more financially resilient the economy is, the better it can deal with a crisis. They introduce two dimensions of financial resilience that can be applied to (local) governments as well. The first dimension of financial resilience according to Montoro and Rojas-Suarez is the ability to cope with the impact of a financial shock. Secondly, financial resilience concerns not only the ability to cope with a financial shock, but also several capacities to react adequate and put in place policies rapidly (Montoro & Rojas-Suarez, 2012).

As Montoro and Rojas-Suarez argue, governments need capacities in order to react adequately on financial shocks. According to Barbera et. al., financial resilience is mainly about the way shocks that affect public finances are being absorbed by governments. Barbera et. al. emphasize the importance of capacities of governments, just like Montoro and Rojas-Suarez. Barbera et. al. distinguish five main capacities of financial resilience. These capacities will be discussed in the section below. These capacities determine the magnitude of financial resilience.

Robustness involves the capacity to maintain current performance of the system in times of uncertainty and change. Robustness concerns resistance of organizations in order to stay stabilized during disturbances. Concentrating on financial resilience, robustness would mean having stable and resistant finances. The opposite situation of a robust organization is a *vulnerable* organization. When organizations or governments are highly dependent on uncertain revenue bases, vulnerability will increase. High debt rates also make governments more vulnerable, whereas low debt rates make governments more robust since they have more capacity to deal with financial shocks. High debt rates can make a government vulnerable in two ways: firstly, flexibility will decrease due to high debt rates. Secondly, risks will rise concerning interest rates.

Anticipatory capacity of an organization involves the tools and possibilities that an organization has to recognize and identify a crisis or shock before it has appeared. Anticipatory capacity includes monitoring processes, like risk management and the monitoring of the external environment.

Although crises and shocks are most of the time unexpected, *awareness* concerns the ability to be prepared for future crises and shocks. It concerns a kind of proactivity that makes the organization able to be prepared if crises or shocks appear. Awareness also means understanding the nature, timing, likelihood and scale of threats and risks that could appear. Applied to financial resilience this means being prepared to unexpected financial crises and shocks in the future. Awareness also contains proper filtering of potential shocks (section 3.1.1). Awareness and anticipatory capacity are more or less linked together.

The amount of *flexibility* involves the ability to adjust to the new situation after a shock or crisis appeared. In terms of financial resilience this is about an organizations' capacity and flexibility to reconsidering financial approaches or budgeting systems in order to adjust to the new situation.

Recovery ability means an organizations' capacity to recover from a change or shock and restore previous functionality. In terms of financial resilience this means the capacity to recover from a change or shock in order to restore previous financial functionality and financial performance. Recovery ability also involves keeping service levels and assets functioning more or less the same (Barbera et. al. (2014).

3.3 Relationship between financial resilience and responses to financial shocks

According to Barbera et. al. the five capacities mentioned in the previous section determine the capability of an organization to bounce back and bounce forward; or in other words; to what extent an organization is financially resilient. After illustrating a few theories about resilience and financial resilience we will derive to a final definition of financial resilience. Financial shocks impact local governments and in order to deal with financial shocks local governments need financial resilience. This financial resilience influences the way local governments respond to financial shocks. Financial resilience is shaped by five capacities; robustness, anticipatory capacity, awareness, flexibility and recovery ability. In this paper we are especially interested in the relationship between financial resilience and responses to financial shocks. Barbera et. al. (2014) tried to illustrate this relationship in a model. In this paper, an adjusted version of this model has been used. This adjusted version mainly focuses on the relationship between financial resilience and responses to financial shocks and does not focus on other relationships that are not relevant in this paper.

Furthermore, Montoro and Rojas-Suarez (2012) and Barbera et. al. (2014) do not only think capacities of governments influence financial resilience, they also find a relationship between performance of governments and financial resilience. Since the multiple cases that have been examined in this paper had to differ in financial resilience, but the five capacities of financial resilience cannot be used as quantitative measures, performance has been used to select the different cases. Performance consists of budgetary position and volatility and these are two measurable values. More on the selection of cases will follow in section 4.3. In this section it will become clear that the two values 'budgetary position' and 'volatility' can be determined by means of figures and numbers. This means that they are quantitative data and are convenient to select cases. In the figure on the next page the model can be found that has been used in this paper, including the relationships between performance and financial resilience and financial resilience and responses to financial shocks.

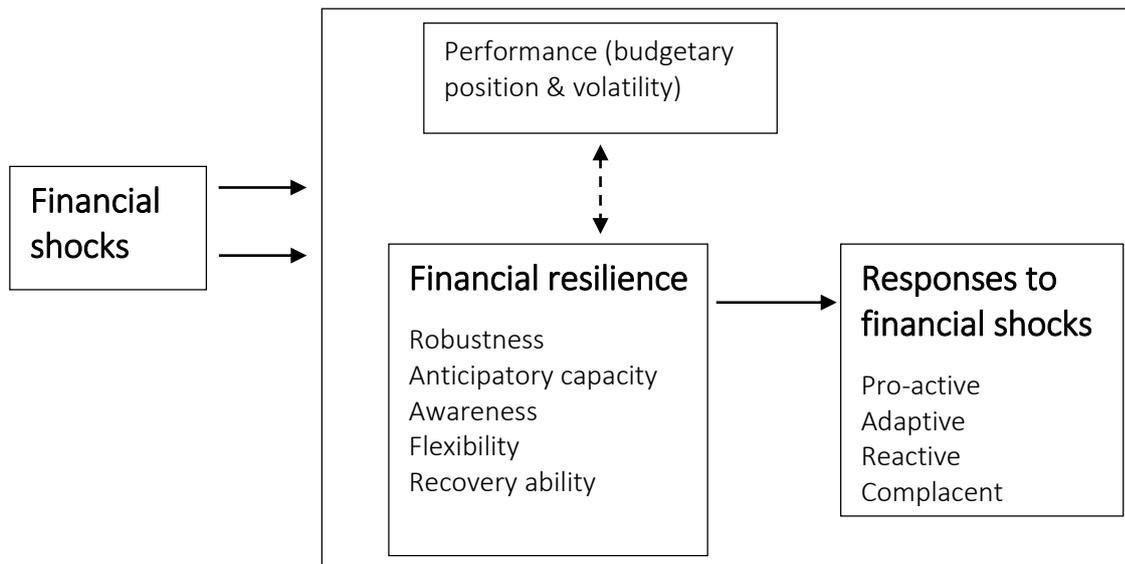


Figure 2 Conceptual model financial resilience

Although Barbera et. al. (2014) argue that the five capacities of financial resilience influence the responses that local governments, in their results it seems that two of the five capacities influence responses more than the other three capacities. The two that influence responses the most are *awareness* and *anticipatory capacity*. According to Barbera et. al. (2014) the relationship between those two capacities and responses to financial shocks is the strongest. Therefore two expectations about our findings have been formulated.

- *Expectation 1:* Local governments with high levels of awareness and anticipatory capacity are most likely to show pro-active or adaptive patterns of responses.
- *Expectation 2:* Local governments with low levels of awareness and anticipatory capacity are most likely to show reactive or complacent patterns of responses.

These two expectations have been tested by means of the empirical part of this research. But firstly, the next chapter will outline the methods that are used for this empirical research.

Sub section 3.2.2 and 3.2.3 answered the 5th and 6th sub question of this paper. The fifth question is: *what is financial resilience?* The sixth theoretical question is: *what is the relationship between financial resilience and responses to financial shocks?* *Financial resilience* describes the ability to cope with the impact of a financial shock and the capacities necessary to react adequately (Montoro & Rojas-Suarez, 2012). Barbera et. al. (2014) argue that financial resilience is shaped by five capacities: robustness, anticipatory capacity, awareness, flexibility and recovery ability. The relationship between financial resilience and responses to financial shocks is formulated in the two expectations above. This is the answer to the 6th sub question that is formulated in chapter 1.

4. Research methods

4.1 Replicating an existing study

Social science theories have less explanatory and predictive power than some other disciplines, but nevertheless social sciences do have models and theories that are empirically testable. An important reason to apply replication research concerns the confirmation or disconfirmation of those theories. In addition to that, behavioral science can show some random human errors or other failures (Neuliep, 1991). In other words, the findings of a lone researcher might not be correct. The contribution of a replication could be the strengthening of a theory or to test its veracity in order to determine if it can be seen as a theory or knowledge at all. Strengthening a theory can also concern generalizability, which involves testing the theory under different types of groups (Park, 2004). This research replicated the research that has already taken place in the UK, Italy and Austria, and in order to look at different types of groups like Park argues, another country has been added, the Netherlands. The different types of groups in this context correspondent with different countries.

Tsang and Kwan (1999) distinguish six degrees of replication research. The degree of replication is dependent on two factors, namely whether the scientist uses different or the same measurements and analysis and whether the scientist uses the same data set, the same population or a different population (In: Park, 2004). In the table below the different degrees of replication are summarized.

	Same measurement and analysis	Different measurement and analysis
Same data set	1. checking the analysis	2. re-analyzing the data
Same population	3. exact replication	4. conceptual extension
Different population	5. empirical generalization	6. generalization and extension

Table 2 Degrees of replication (Park, 2004, p. 192)

This research has used to a large extent the measurements and analysis tools that were also used in the researches of Steccolini et. al. (2014). In this research however a different population has been examined, namely Dutch municipalities. This means that the degree of replication of this research is empirical generalization.

4.2 Multiple-case study

The objective of this research is to explore the following three things at Dutch municipalities; responses to financial shocks, the existence of financial resilience and the relationship between financial resilience and responses to financial shocks. In order to do so, a *multiple-case study* was applied in this research.

Case studies are often used in public administration studies (Van Thiel, 2007). Case studies can be used by researchers when they intent to collect data about a phenomenon that needs more empirical data in order to understand the phenomenon. The objective of a case study is to examine the phenomenon in relation to the case's real-world context. Case studies are often applied when researchers have little to no control over this real-world context (Yin, 2014). Case studies are a proper tool to do an 'in-dept' examination on a phenomenon, which emphasizes an intensive examination on the phenomenon (Swanborn, 2010). Since there have been relatively few researchers examining financial resilience in municipalities and the influence of resilience on responses to financial shocks, an in-dept and intensive research on this phenomenon in the real-world context is necessary.

In addition to that, responses to financial shocks and the influence of financial resilience cannot be considered outside the context of a specific country. When the context and the phenomenon cannot be separated, case study is necessary (Yin, 2014). Case studies have been used in the UK, Austria and Italy by Steccolini et. al. (2014) in order to examine the subject in the context of these countries. This research has done the same focusing on the Dutch context. A multiple-case study has taken place in order to examine the subject in the Netherlands. Five municipalities have been selected in order to examine the phenomenon in the Dutch context. In the next section the selection of the municipalities will be discussed.

4.3 Case selection

In order to replicate the studies of Steccolini et. al. (2014) properly, the case selection followed the same logic and the same steps in this research. The selected municipalities in Italy, Austria and the UK are relatively large municipalities with populations of 43,465 citizens or more. Therefore the selected municipalities in the Netherlands also consist of around 50,000 citizens or more (75 Dutch municipalities in 2014 have 50,000 citizens or more). Municipalities that recently merged or rearranged in another way were excluded (67 Dutch municipalities remain). Furthermore, two criteria have been used to select the cases. *"Since the focus of the analysis is financial resilience, we considered as relevant variables both financial performance and its volatility over time"* (Jones & Steccolini, 2014, p. 7). Financial performance can be seen as budgetary positions, and in general governmental institutions agreed that there should not be too much deficits nor surpluses in governments' finances. More on the two criteria that have been used for case selection can be found in section 3.2.3.

Dutch municipalities' finances are structured in an accrual-based accounting system (Allers & Hoeben, 2010) (see section 2.3). If benefits do not exceed or are not equal to the expenditures, clearly a municipality needs to use their reserves. In some way the balance of the reserves thus reflects the budgetary position of the municipality, therefore this measure has been used to determine the

budgetary position of municipalities. If reserves are being used to cover expenditures, the budgetary position can be characterized as being negative. If benefits exceed expenditures and money is being added to reserves, the budgetary position is positive. If expenditures and benefits are more or less equal the budgetary position is around zero. In order to determine the budgetary position of the municipalities the balance of reserves has been calculated for the 67 municipalities for over the past 10 years (2005-2014). This has been calculated by using tables and figures from CBS, the national institute that publishes statistics about the Netherlands (CBS, 2015). Table 3 illustrates how budgetary positions in municipalities in Austria, Italy, the UK and the Netherlands have been calculated.

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

Table 3 Measures for budgetary positions in Austria, Italy, the UK and the Netherlands (parts of: Barbera et. al., 2014)

The second criteria for case selection is the volatility of the financial position. This criteria has been determined for each municipality by looking at the volatility of the budgetary position over the past 10 years. Volatility has been characterized as being low, medium or high. The standard deviation of the budgetary position over the 10 years has been used in order to determine whether the volatility is low, medium or high.

In order to replicate the research of Steccolini et. al. (2014), the same combinations of outcomes of the calculations have been used. One municipality in each country was selected with a budgetary position around zero and a low volatility. One municipality was selected with a budgetary position with also around zero but a high volatility. One municipality was selected with a negative budgetary position in combination with a medium volatility and one municipality in each country was selected with a positive budgetary position and a medium volatility. In Italy, one municipality (Parma) had a budgetary position around zero and a medium volatility. In order to replicate the former research as good as

possible, a fifth Dutch municipality has been added with also medium volatility and a budgetary position around zero. The table below illustrates which municipalities were selected in each country, including the values for budgetary position and volatility. After this table a figure follows in which the five Dutch selected municipalities are drawn in a graph. This graph reveals how the five municipalities are posited towards each other.

<i>Normalized Budgetary Position</i>	<i>Negative</i>	<i>Around zero</i>	<i>Positive</i>
Volatility			
<i>Low</i>		Modena (ITA) Manchester City Council (ENG) A (AUS) Zwolle (NL) Budg. Position: 0.17% Volatility: 0.69%	
<i>Medium</i>	Forli (ITA) Warrington Borough Council (ENG) B (AUS) Ede (NL) Budg. Position: -2.59% Volatility: 1.66%	Parma (ITA) Zeist (NL) Budg. Position: 0.10% Volatility: 1.81%	Derbyshire County Council (ENG) Lodi (ITA) C (AUS) Hengelo (NL) Budg. Position: 1.43% Volatility: 1.35%
<i>High</i>		Wigan Metropolitan Council (ENG) D (AUS) Hoorn (NL) Budg. Position: -0.12% Volatility: 2.18%	

Table 4 Values of selected Dutch municipalities

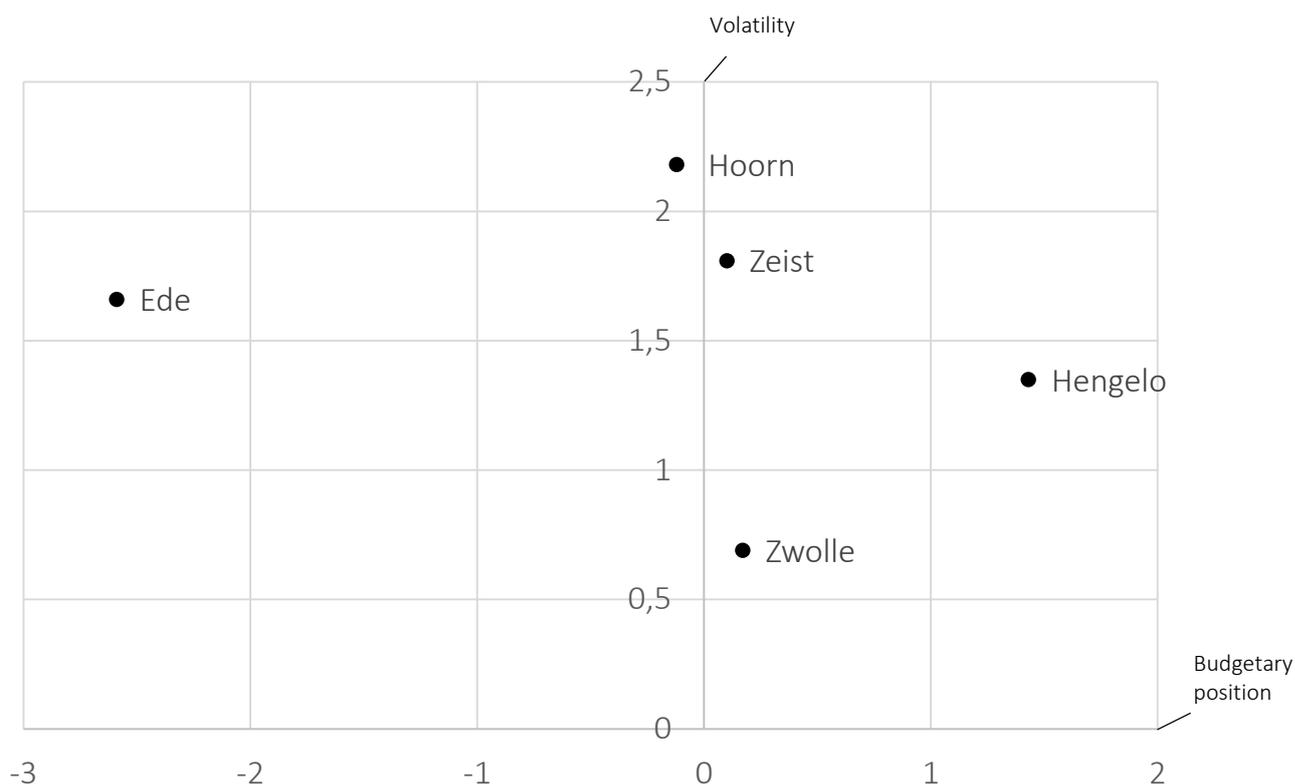


Figure 3 Selected Dutch municipalities (graphically)

4.4 Data collection

In order to get a proper view of the municipalities that have been selected, interviews with respondents have taken place, three interviews at each municipality. These interviews were conducted with people working at the financial division of the municipality. Most of them worked there for 10 years or more, so they could provide an overview of the financial position of the municipality for over the past 10 years. In the table below is summarized which respondents were interviewed at each municipality.

Municipality	Position (Respondent number)		
<i>Ede</i>	CEO (1)	Head of services & operational management (2)	Concern controller (3)
<i>Zwolle</i>	Head of finances (4)	Management of finances (5)	Financial policy advisor (6)
<i>Hengelo</i>	Policy advisor (7)	Senior financial policy advisor (8)	Head of staff & finances (9)
<i>Hoorn</i>	Concern controller (10)	Senior policy advisor (11)	Head of planning & control (12)
<i>Zeist</i>	Head of Development (13)	Senior financial policy advisor (14)	Alderman of sustainability, youth, education and finances (15)

Table 5 Conducted interviews at Dutch municipalities

In this research semi-structured interviews have been used. Semi-structured interviews refer to a way of data collection in which the interviewer prepares a set of open, general and specific questions. However contrary to structured interviews, semi-structured interviews can vary in the sequence of questions (Bryman, 2012). This method has been used because of two considerations. First of all, semi-structured interviews can be used in order to collect data about the phenomenon, and the respondents have room to shape the conversation. In this way, the researcher does not influence the process too much. On the other hand, it is important to embed some structure since the data has to be suitable for comparison (Van Thiel, 2007). In order to embed structure in the interviews a questionnaire has been set up. The questions of this questionnaire served as a thread of the conversation. The questionnaire can be found at the appendixes. In order to replicate the research as best as possible, this questionnaire contains the same questions as the questionnaire used in the other countries.

4.5 Operationalization

To be able to indicate how Dutch local governments have filtered and responded to financial shocks, to what extent they are financially resilient and what the relationship between this financial resilience and the responses is, operationalization of these terms is necessary. The first concept that has to be operationalized is responses to financial shocks of local governments. The second concept that is necessary to operationalize is financial resilience. In order to indicate by means of the interviews in which ways Dutch municipalities have responded to financial shocks, a few topics were listed on a topic list. By means of this topic list, the questionnaire has been formulated. This questionnaire can be found in appendix 1.

Topic list

Responses to financial shocks

- Financial health
- Financial goals
- Nonfinancial goals
- Risks (over the past 10 years and how they changed)
- Shocks (over the past 10 years and how they changed)
- Possible opportunities from the shocks
- Responses
- Facilitators of responses
- Inhibitors of responses

Financial resilience

- Definition of financial resilience
- Financial resilience and local government
- Phrases that describe financial resilience
- Relationship efficiency and financial resilience
- City's strength and vulnerability
- City's overall financial situation

4.6 Data analysis

The data gathered from the interviews has been recorded during the interview. After finishing the interview, a transcript has been written of the record. In this transcript every single word respondents said can be found. In order to analyze the data that has been gathered from the interviews, the different parts of the transcript were encoded. These codes were given in order to distinguish several subjects that were discussed in the interview. By means of these codes summaries could have been written of the interviews. In these summaries all important information was gathered and ordered by means of the different codes/subjects.

In the next chapter the results and findings of the empirical part of this paper are written down and summarized. In this chapter each section will describe the findings of one municipality. Not only will chapter 5 illustrate findings, included in each section is also the analysis of the data.

5. Findings & analysis

Broadly speaking, the five municipalities have had the same developments the past 10 years. At the beginning of these years, there was plenty of money, ideas and ambitions. Risky policies or huge projects including possible deficits were no issue. There almost was no end to it. *'In the good old days when we were planning on building a new pool, the costs were going to be 50,000 euros above the budget that we reserved for the pool. Then we said, well we can build it anyway'* (Respondent 9). However, these times were over when the financial crisis came along. In the Dutch municipalities the effects of this crisis were noticeable in 2010. The crisis influenced everything, including a couple of important shocks that the municipalities identified during the interviews.

Shocks that are being identified by the five Dutch municipalities are to a large extent comparable. Shocks that are being mentioned in every single case are:

- Three decentralizations of tasks in the social domain
- Losses on estate development
- Cutbacks in the Municipality Fund (see section 2.1)

Austerity policies and the dependence on the national government are also shocks that have been mentioned a lot by respondents.

As we learned from the previous theoretical chapters, the financial crisis of 2008 highly influenced policies of Western states (Lodge & Hood, 2011; Scorsone & Plerhoples, 2010; Leisink & Bach, 2014; Pollitt, 2010). In order to deal with this crisis, governments had to introduce huge austerity policies (Lodge & Hood, 2011; Pollitt, 2010). Although local governments experience the effects of this crisis later than national governments, in all five examined municipalities the crisis has been seen as a shock. Some municipalities even speak of the 'largest austerity policies' they ever experienced. In all municipalities a couple of cutbacks have taken place. However, they all seem to argue that their municipality is still healthy and in a good position.

This chapter consists of five sections. Each section gives a brief overview and analysis of the data gathered on each municipality. Firstly, the financial context of each municipality is described by means of some facts and a description of the municipalities' financial health. Secondly, there is a short description of the shocks received by the municipality, apart from the three main shocks that were mentioned above. After describing shocks, the responses given by the municipalities are described. This description of responses will partly fit into the responses Barbera et. al. (2014) distinguish (section 3.1.2). These responses are identified as having *short-term* or *long-term* impacts. The third subsection

sketches the main things that were said by interviewees concerning financial resilience and the different aspects of financial resilience (robustness, anticipatory capacity, awareness, flexibility, recovery ability). The last section of every city zooms in on the relationship between financial resilience and patterns of responses to financial shocks at Dutch municipalities. At the end of this chapter, section 5.6 will summarize and further analyze the relationship between financial resilience and patterns of responses by means of section 5.1.4, 5.2.4, 5.3.4, 5.4.4 and 5.5.4.

5.1. Ede

5.1.1 Financial context

Population	Area	Budgetary Position	Volatility	Debt rate quote
111,858	318.7 km ²	Negative: -2.59%	Medium: 1.66%	134%

(Source: VNG.nl, 2014)

Table 6 Facts municipality of Ede

Respondents think the financial position of Ede is relatively healthy. An example is that Ede took great risk by buying a huge territory five years ago. At the same time austerity policies are applied, Ede kept room to invest on projects. Expenditures and revenues are balanced. Ede tries to cover structural expenditures with structural revenues. The position of reserves is quite good compared to other municipalities in the neighborhood. *‘We still have some reserves left, so I think we are still able to adapt to future risks.’* (Respondent 1). On the other hand, Ede has larger debts than others according to the interviewees.

5.1.2 Which responses to financial shocks can be identified?

The main shocks Ede received were the shocks that had to do with the decentralizations, cutbacks on the Municipal Fund and losses on estate development. These three shocks have been filtered by Ede as being threats. An illustration of this: *‘If the estate development of Ede is not going well, Ede is not going well’* (respondent 3). However, these shocks also brought several opportunities. Ede tried to make an opportunity of the losses on estate development by coming up with a plan in order to sell more land. Concerning the decentralizations, Ede tries to be better at serving the citizens than the national government has been.

In order to deal with austerity, Ede has used reserves. This is a *short-term* response. However, interviewees argue that the use of reserves is kind of paradoxical. *‘The thing is, there are reserves with a certain base. A municipality has them for bad times. However, the bad times have come, but still it seems that you cannot touch that base.’* (Respondent 3). Moreover, Ede tries to build up new reserves for new risks, so this certain base is growing as well as it has been used for absorbing shocks.

Other short-term responses that were used by Ede are cutting into the organization, reduction in staff, becoming more efficient and cutting on investments. Concerning the cutting on these costs, Ede has focused mainly on internal aspects. According to respondent 1, the society has suffered less than the organization. Concerning cutting on investments, on the one hand several investments were cut into, but on the other hand Ede tried to keep investing in order to hold on to a certain level of strength, according to respondent 3.

Being struck by financial adversity is not so bad at all, concerning to interviewees. This forces you to look more critical at expenditures. The organization has become more effective and efficient due to the crisis. That is a positive development, according to respondent 1.

Compared to other cities, interviewees argue that Ede has not changed so much in levels of quality or maintenance concerning for example public spaces. Respondent 2 even admits that the maintenance of the public space is maybe almost too good, and there could be cut in the budgets on public spaces.

A long-term response that can be identified in Ede is the improvement of risk management. Ede uses since a couple of years risk management (a system called Naris) to monitor possible risks. Risk management concerns trying to estimate and judge possible risks, and building in some reserves in order to fall back on when risks have actually showed up. Nowadays Ede is more realistic to what risks there really are, they used to be far more optimistic about these things. However, this risk management only concerns financial damage, not image damage or other kinds of damage. But these things are too hard to measure according to respondent 2. Risk management alone is not enough. It has to become infiltrated in peoples systems, being part of their job. Respondent 3 argues that especially concerning bigger projects, there should always be some moment where all the disadvantages are being reviewed. This is a step that still has to be made by Ede.

Since the financial crisis Ede is more transparent about budgets and about things that are going on, for example losses on estate development. Ede has become more careful and cautious.

Another response on the financial shocks is the rise of the discussion about what the municipality should do for society, and more important; what the municipality should not do for society. In other words, Ede is thinking more about their specific role in society lately. The municipality of Ede is asking more from society then before, on maintaining their own neighborhood for example. The willingness as well as the need to cooperate with society has increased.

5.1.3 Financial resilience

'Financial developments are quicker now than they used to be. The question that is important to many municipalities now is: how can we have a solid budget but at the same time be maneuverable in order to be able to react at quicker developments.' (Respondent 1). Interviewees argue that being financially resilient means being settled for the future by being flexible, maneuverable and robust. However, the focus of the municipality nowadays is mainly on the sizes of debts, reserves, etc. They do not use the term resilience, they rather call it a financial 'barometer'.

The first capacity of financial resilience formulated by Barbera et. al. (2014) is (*financial*) *robustness*. Dependence on uncertain revenue bases could be a main driver of financial vulnerability. Interviewees point out that Ede has been strongly dependent on the revenues of estate development, and more strongly dependent on 'revenues' from the Municipal Fund, distributed by the national government. These are uncertain revenue bases. The revenues on estate development has decreased seriously the past few years. Also revenues from the Municipal Fund have changed and interviewees point out that they cannot influence the revenues from the Municipal Fund. It is clear that in that sense Ede is financially vulnerable. Another indicator of financial robustness is the size of debts. Ede has a relatively high debt rate quote. In that sense, Ede is financially vulnerable as well.

Concerning *anticipatory capacity*, Ede has made some serious progress the last few years. Interviewees argue that the risks management system has improved seriously with the introduction of a professional risk management program; Naris. Naris measures the likelihood and the magnitude of potential financial risks. Ede is also applying stress testing, which will show them the ins and outs on the financial situation of Ede at the moment. Interviewees show that Ede used to be a little too optimistic, but nowadays they also try to look at the down sides of new plans or investments. However, keeping an eye on risks has not been internalized in the organization according to respondent 3. Most of the time just controllers feel responsible for monitoring the risks. In short, Ede is getting better and better anticipatory on possible risks, but it has not yet internalized into the organization.

Interviewee 2 argues that Ede takes limited risks on estate development (nowadays). This is evidence that Ede is *aware* of the possible risks on estate development and anticipates on these risks. The fact that they improved their risk management is also evidence that Ede is aware of the current situation and possible threats to their financial health. Their awareness concerns mostly financial damage and does not focus on other kinds of damage, since it is hard to measure.

Interesting about awareness is that the interviewees argue that Ede is not going through a recession or trough at the moment, but at the same time they illustrate that revenues on estate development have seriously decreased, cutbacks have taken place and the savings have seriously

dropped. It is a possibility that the interviewees are not completely aware of the magnitude of the adversity that they are dealing with at the moment.

Ede has shown *flexibility* by among other things trying to involve society more into the municipalities’ policies. Respondent 3 argues that by increasing involvement of society and giving more responsibility to society, flexibility of Ede has increased. Ede also tried to involve private parties and other institutions in order to become more flexible. *‘The market is facilitating much more than in the past’* (Respondent 3). Ede also has been innovative, for example by trying to involve citizens in the introduction of austerity policies. Before they never did it like that, so this is evidence that Ede has responded on financial shocks in a flexible way.

According to the interviewees, the financial health of Ede in the past has not returned, in that way Ede has not recovered fully from the financial crisis. Their financial health has not stayed the same and is most likely not going to recover to pre-crisis levels. In that way, the *recovery ability* is not too strong. However, service levels and maintenance of public spaces stayed at high levels, according to interviewees. In that sense the performance levels stayed more or less the same and that means recovery ability is strong.

5.1.4 Relationship between financial resilience and patterns of responses to financial shocks
 In the table below is summarized which short-term and long-term responses the municipality of Ede has applied on financial shocks.

Municipality’s Responses	
<i>Short-term</i>	
1. Cutting costs	Reduction in staff
	Stopping certain services
	Becoming more efficient
2. Adjusting investment projects	Cancel investments
<i>Long-term</i>	
	Improvement of risk management
	Becoming more transparent
	Becoming more careful
	Changing the role in society
	Increased willingness to cooperate
	Focusing on city growth

Table 7 Applied responses municipality of Ede

Furthermore, the table below summarizes the five capacities of financial resilience, applied on the case of the municipality of Ede. These values follow the data derived from the three respondents that were interviewed at Ede.

Financial robustness	Low
Anticipatory capacity	Medium-high
Awareness	Medium-high
Flexibility	High
Recovery ability	Medium

Table 8 Capacities of financial resilience at the municipality of Ede

On the one hand, Ede responded to financial shocks in a *reactive* way. Responses were externally driven. For example, some short-term responses were reactions on the external environment. Before the largest financial shock of the last 10 years, the financial crisis, the risk management was less professional than it is now. Awareness and anticipatory capacity therefore were medium. Financial robustness was low and these capacities influenced the way Ede responded on the financial crisis initially, reactive.

However, Ede developed in the direction of an *adaptive pattern* of responses. Ede developed more focus on the long term and these long-term responses were more internally driven. Their awareness and anticipatory capacity improved. Because of that, they have reconsidered existing (financial) strategies for example, by focusing more on the power of the society instead of trying to do and pay everything themselves. Furthermore, Ede tries to avoid huge risks nowadays, because they do not want to have huge risks on estate development anymore. This points out that Ede has developed an adaptive pattern of responses to financial shocks.

5.2 Zwolle

5.2.1 Financial context

Population	Area	Budgetary Position	Volatility	Debt rate quote
124,140	111.33 km ²	Around zero: 0.17%	Low: 0.69%	80%

Table 9 Facts municipality of Zwolle

In spite of huge austerity policies (the largest ever according to the interviewees), Zwolle stayed strong and got over adversities. Respondents declare that they are proud of that. The most important causes of austerity are losses on estate development (incidental losses) and cutbacks on the Municipal Fund (structural losses). The days in which there was always money are gone, but that is not only a bad thing. Because of that you have to make the right decisions and that will lead to more understanding about public money.

Zwolle always has been a quite rich municipality, and could do things on their own. According to respondent 5, that also could be a danger. Respondent 5 argues: *'a municipality always need others to realize goals. Thinking that you can do everything on your own is a bit old-fashioned.'*

5.2.2 Which responses to financial shocks can be identified?

The main shocks the municipality of Zwolle had to deal with are comparable with the main shocks other municipalities had to deal with, that is: the decentralizations of three tasks in the social domain, the cutbacks in the Municipality Fund and the losses on estate development. The financial crisis and the austerity policies that came along with this crisis are also mentioned as shocks. According to respondent 5, responses of Zwolle to financial shocks find their origin in the characteristics of the municipality. *'Zwolle tries to do everything on its own, while it is not a bad thing to ask for help from outside'* (Respondent 5). Respondent 5 argues that Zwolle has always been strong because of this, but it could also be a weakness if Zwolle continues to solve problems on its own without making use of the help of third parties.

One respondent says that the crisis *'happened to'* Zwolle and Zwolle could have been more prepared according to respondent 4. Zwolle could have been more careful with expenditures. *'We never realized (among other governments) that the 'golden' times could turn around so quickly'*. (Respondent 4).

As a *short-term* response Zwolle has had a lot of cutbacks, over each department and each policy area. Another response is that Zwolle has stopped providing in certain services, like the fire department. This is a result of the cutbacks, since the municipalities' tasks became more than the remaining people could fulfill. Reduction in staff is another short-term response that Zwolle has used, as well as becoming more efficient.

At the same time Zwolle made some serious cutbacks, Zwolle tried to keep investing in order to avoid *'locking the city'* (Respondent 6). An example of an investment is the development of the area around the central station of Zwolle.

Since the crisis there has changed a lot on the *long term* as well, there are many reviews by accountants and Zwolle is trying to build up their resistance in a different way than before. In that way the crisis has been an opportunity. Zwolle was forced to make choices and think more about the things they did with their money. Plans used to be made and implemented over many years. Nowadays, every policy or plan is being reflected every now and then to check if it still fits in the society and the budgets. That has two consequences for the long-term view. On the one hand, short-term policies are being formulated with more focus on the long-term effects of that policy. However on the other hand,

developments are so quickly that long-term decisions are almost impossible to make. Every decision has to be adjusted in the short term in order to fit in the environment.

Another long-term response is that risk policies are tighter now than before. Risk management at Zwolle focuses on three parts; decentralizations, losses on estate development and remaining things. These subjects are obviously related to the main shocks/risks Zwolle has to deal with.

Another thing that changed is that before the crisis Zwolle tried to find money elsewhere if there was not enough. Nowadays, Zwolle tries to look more at the possibilities that they inside, for example seeking for collaboration with other parties. Trying to involve the society or other parties has become more important. Respondent 6 states however that when you give more responsibility and control to other parties, you could lose control. In case you have to implement new austerity policies, to what extent are you going to succeed when other parties have responsibility for a part of your policy?

Zwolle tries to look more to the society itself, trying to estimate what is necessary for the city and adjust policies on that estimation. *'That has really changed since the financial crisis because before that there was money to do all of these things, now we have to make choices, the right choices, so this is necessary'* (Respondent 4).

5.2.3 Financial resilience

According to the interviewees at the municipality of Zwolle, being financially resilient means being able to see what is coming. It also means that you are able to adapt to the new situation and serve the city even though there is adversity. You also have to improve your financial position, according to respondent 6. One way in which Zwolle is planning to improve their financial position is by decreasing the debt rates and by that decreasing the interest charges. Respondent 6 also argues that reserves are being increased, for example the reserves meant for decentralizations, in order to stay resilient.

The first capacity Barbera et. al. (2014) describe is *financial robustness*. Indicators of financial robustness are dependence on uncertain revenue bases and debt rates. Debt rates in Zwolle are medium compared to other municipalities in the Netherlands (VNG.nl). In that sense, the financial robustness of Zwolle is medium as well. Furthermore, interviewees illustrate that revenues of the municipality of Zwolle depend largely on the revenues from the Municipal Fund, which is like in other municipalities an uncertain revenue base, since the Fund changes regularly. Another insecure source of income is revenues on estate development. These revenues also decreased with huge amounts the past few years. Respondent 6 argues: *'the most important inhibitor of our financial resilience is the national government, followed by the losses we had on estate development'*. In short, Zwolle is financially vulnerable due to dependence on uncertain revenue bases like the Municipal Fund and revenues on estate development.

Secondly, we will discuss the *anticipatory capacity* of the municipality of Zwolle. Risk management of Zwolle has improved since the crisis. The system consists of three subjects, which are adjusted to the main risks Zwolle has to deal with. The risk management system is accurate and specific, according to respondent 6. Especially on the decentralizations Zwolle is monitoring the risks very accurate. According to respondent 5, every three or four weeks there are meetings about the current situation concerning the decentralizations.

Financial awareness has increased since the crisis, according to interviewees. Respondent 4 argues: *'we should have foreseen the crisis and the magnitude of the crisis. I think it is something that happened to all governments in the Netherlands, however it had a huge impact on our finances'*. Zwolle was having very good times and failed to realize that these times could be finished any moment. Financial awareness was low. After the crisis, Zwolle did react on time, starting to recognize the effects of the crisis and adapted to these effects. As a result, Zwolle is still a healthy municipality. Respondent 5 argues that the many cutbacks have impacted the municipality, people are tired of cutbacks. Respondent 5 is therefore very clear about the financial phase of Zwolle at the moment *'Absolutely in a recovery phase. I am done with it! I do not want to cutback anymore.'* (Respondent 5). This illustrates that financial awareness might suffer from the way the organization is looking at the financial phase of the municipality.

Zwolle has shown *flexibility* by adjusting certain things as a response to shocks like the financial crisis. After that, Zwolle is searching more collaboration with other parties, like the society. Flexibility has been pointed out as being the most important facilitator of financial resilience by interviewees in Zwolle. According to respondent 5, Zwolle has been very innovative lately due to shocks like losses on estate development and the decentralizations. For example, Zwolle is trying to improve their ways of pulling new companies to the city.

Recovery ability means to what extend municipalities can keep their services and performance at the same level. According to the interviewees, Zwolle is not as healthy as before the crisis, and it will be very hard, if not to say impossible, to reach these kind of levels of performance again. Respondent 4 thinks it is unlikely that Zwolle will return to those levels of performance and health again since he doubts the economy is ever going to be as good as it was before the crisis.

5.2.4 Relationship between financial resilience and patterns of responses to financial shocks

In the table below the main short-term and long-term responses that Zwolle applied are summarized.

Municipality's Responses	
<i>Short-term</i>	
1. Cutting costs	Reduction in staff
	Reducing levels of quality of services
	Stopping certain services
	Becoming more efficient
2. Adjusting investment projects	Postponing investments
	Cancel investments
	Searching for alternative resources for paying for investments
<i>Long-term</i>	
	Improvement of risk management
	Changing the role in society
	Increased willingness to cooperate
	Decisions are adjusted more often

Table 10 Applied responses municipality of Zwolle

Furthermore, in table 11 is summarized to what extend the different capacities of financial resilience appear at the municipality of Zwolle.

Financial robustness	Medium
Anticipatory capacity	Medium-high
Awareness	Medium-high
Flexibility	High
Recovery ability	Low-medium

Table 11 Capacities of financial resilience at the municipality of Zwolle

Initially, the municipality of Zwolle responded in a *reactive* way due to lower awareness and anticipatory capacity. Although financial robustness in Zwolle is relatively high compared to some other cases, Zwolle was hit hard by austerity policies. Therefore, Zwolle responded mainly with short-term responses like reduction in staff and stopping certain services are responses that are focused on the short-term. Risk management systems before the crisis were not as developed as they are now. Zwolle developed risk management systems as a long-term response. Along with this development, awareness and anticipatory capacity also improved to values that are medium-high.

Not only did the awareness and anticipatory capacity of Zwolle improve, their responses also became more *adaptive* due to this. In the first years after the crisis Zwolle mostly focused on externally driven, short-term responses. Later on they began to adjust to the new situation after the crisis by using

more long-term responses like an increased willingness to cooperate. These long-term responses were influenced by the raised awareness and anticipatory capacity.

5.3 Hengelo

5.3.1 Financial context

Population	Area	Budgetary Position	Volatility	Debt rate quote
81,052	61.78 km ²	Positive: 1.43%	Medium: 1.35%	255%

Table 12 Facts municipality of Hengelo

Hengelo has been relatively healthy according to the respondents. In a comparison to other municipalities in the province they seem to have a good position, but one respondent notes, that these positions are relative, since the way a municipality reached this position is also important. Hengelo has used some serious measures to stay on a good financial position. Originally, Hengelo has had a lot of metal industry in the past and large companies, like Akzo.

5.3.2 Which responses to financial shocks can be identified?

Hengelo has experienced the same main shocks as the other municipalities; cutbacks in the Municipal Fund, decentralizations from three tasks in the social domain and losses on estate development. Especially the decentralizations were experienced as a huge and difficult shock. *‘New tasks were passed the buck (including austerity policies), and if we would fail, consequences are for our own account’* (Respondent 8 & 9). Another important risk that interviewees in Hengelo describe is the unpredictability and undiplomatic way in which the central government organizes the funding of municipalities. Hengelo suffered a lot from the cutbacks in the Municipal Fund, but maybe suffers even more of the uncertainty they still have about future funds of the central government.

The city has been hit by austerity, but so far Hengelo could survive mostly by cheese slicing. This is the first *short-term* response that can be identified in the municipality of Hengelo. In the last round of austerity policies Hengelo change their method. They have become more transparent. Every department was required to come up with ideas about new austerity policies, in order to get everything into the open. In that way they found 11 possible millions to cut. Since only 6 million was necessary, they cut 6 million since they did not want to hoard up.

Quality levels of for example maintenance of public space have reach minimum levels. A couple of subsidies had to be withdrawn. Due to the large scaled austerity policies, there is not much elasticity left in Hengelo. Other short-term responses were reduction in staff and trying to increase efficiency levels.

A *long-term* response that can be recognized in Hengelo is that departments are becoming more transparent. In the past, departments tend to keep their things close to their chest. But that changed into a feeling of a collective interest concerning the wellbeing of the municipality. This change came along with the cutbacks and austerity policies of the past 5 years. On the other hand, in times of austerity, people withdraw back to their own departments and tend to lose focus on the bigger picture of the organization, according to respondent 9.

Responses of Hengelo before and after the financial crisis differ. Nowadays all measures taken are most of the time austerity measures, whereas in the past there was always money left to cover adversity. Since the crisis control and monitoring finances has become more accurate. The whole organization has become more critical on expenditures etc. Also, there is more focus on results of policies; output. Is this measure going to help fulfilling this austerity policy?

Through risk management, Hengelo tries to monitor the consisting risks. Risks are being monitored very meticulous. However, it stays a little like reading tea-leaves, according to respondent 9.

Concerning the decentralization of the social domain, Hengelo choose to monitor these decentralizations themselves. That was a good choice, since they were not dependent of another company to know the ins and outs.

Respondent 9 argues that since the economic crisis things are organized in a more tightened way. In the past, a budget deficit on a project was not a big problem. A gap of half a million euros was nothing to be worried about, that totally changed nowadays (respondent 9). The finance department has become stricter.

Respondent 8 thinks that Hengelo reacts sometimes too patient and passive on the policies of the national government. He thinks that there could be more action from the municipality on the tough measures of the national government.

5.3.3 Financial resilience

According to the interviewees, financial resilience is finding the right balance between a balanced budget, having some money left in order to deal with adversity, but also spending the money on the society, since that is the most important goal of public money. In addition to that financial resilience means being able to recover after adversity or other shocks to that right balance.

A large part of Hengelo's revenue comes from the Municipal Fund and used to come from profit on estate development. Just like other municipalities, estate development caused losses instead of profit lately. Hengelo started some large projects before the crisis hit them, and their financial health is being threat by disappointing results of these projects. This is an uncertain revenue base and Hengelo

has a hard time now that base is practically gone for now. Hengelo is also dependent on the incomes from the Municipal Fund, which is also an uncertain revenue base. Interviewee 7 illustrates this dependence: *'if we were not dependent on the financial space that we get from the central government, Hengelo would have a proper balanced budget up to 2019'*. Respondent 7 emphasizes that the highest financial vulnerability is the dependence of many things, like funding from the central government, but also the short falls in the selling of estate and the general economic situation. In short, interviewees show that Hengelo is dependent on uncertain revenue bases and this makes Hengelo *financially vulnerable*. Debt rates of Hengelo are relatively high (VNG.nl), resulting in more financial vulnerability. Obviously and states by interviewees, Hengelo's capacity is affected by these external conditions.

According to interviewee 9, risk management has been accurate and proper since a couple of years in Hengelo. Hengelo is trying to monitor risks as good as possible by having capable people at the risk management team, trying to learn from other governments in the Netherlands and try to adjust quickly to developments in Hengelo's main risks. Hengelo has an integrated risk management system on monitoring the results of the decentralizations. In short, *anticipatory capacity* in Hengelo is high.

Financial awareness is high at the moment, due to the anticipatory capacity that Hengelo has built. In the past this awareness used to be lower, this can be concluded because for example deficits at policy budgets were kind of accepted at that time. According to interviewees, Hengelo has become more careful and cautious. This points out that the awareness of the current financial situation is high.

Stories about the past cutbacks point out that Hengelo has become more *flexible*. In the last round of cutbacks, Hengelo tried a different strategy. Most of the cutbacks were fulfilled by cheese slicing, but the last time another strategy was chosen. Every department was asked to come up with ideas about cuts in their own department. By means of this strategy, Hengelo has been innovative and flexible. Hengelo also has been innovative in adjusting the way of reporting. There is more communication with the council and also more reports, in order to be sure that adjustments can be implemented on time.

Performance in Hengelo is not the same as it used to be. Some services are struck severely by the crisis, like the provision of sheltered workshops. In that sense, the *recovery ability* of Hengelo is low. However according to respondent 7 & 8, Hengelo is recovering from the recession since five years now.

5.3.4 Relationship between financial resilience and patterns of responses to financial shocks

In table 13 is summarized which short-term and long-term responses have been applied by the municipality of Hengelo.

Municipality's Responses	
<i>Short-term</i>	
1. Cutting costs	Reduction in staff
	Reducing levels of quality of services
	Stopping certain services
	Becoming more efficient
2. Adjusting investment projects	Postponing investments
	Cancel investments
<i>Long-term</i>	
	Improvement of risk management
	Becoming more transparent
	Becoming more careful
	Changing the role in society
	More focus on output
	Becoming more strict on for example balanced budgets for policies
	Focusing on city growth

Table 13 Applied responses municipality of Hengelo

Furthermore, in the table below is summarized to what extend the municipality of Hengelo appears to have capacities of financial resilience.

Financial robustness	Low
Anticipatory capacity	Medium-high
Awareness	Medium-high
Flexibility	High
Recovery ability	Low

Table 14 Capacities of financial resilience at the municipality of Hengelo

Hengelo had a low financial robustness since they were very dependent on uncertain revenue bases like the Municipal Fund and profit on estate development. Their anticipatory capacity and awareness were also relatively low before the financial crisis. When the financial crisis hit, Hengelo initially responded in a *reactive* way, by means of short-term responses like the cutting of costs and adjustments of investments. Meanwhile Hengelo realized that these short-term responses would not fix problems in the future, so Hengelo started to build on more sustainable developments like the improvement of risk management systems. Because of that, the anticipatory capacity and awareness of the municipality of

Hengelo improved a lot. They became more careful, more transparent, and became stricter on budgets, something they did not do in the past.

Along with the improved anticipatory capacity and awareness, Hengelo started to respond in a more *adaptive* way. An example of such a response is that Hengelo changed their role in the society.

5.4 Hoorn

5.4.1 Financial context

Population	Area	Budgetary Position	Volatility	Debt rate quote
71,906	53.25 km ²	Around zero: -0.12%	High: 2.18%	82%

Table 15 Facts municipality of Hoorn

Hoorn has always been quite rich. 10 years ago, it was a very healthy municipality. The long-range budgets were always positive, it almost could not be better. There were many ambitions, like large-scale house-building and other expansions. The situation before 2009 is summarized by one of the respondents: *‘Growth, growth, growth’*. (Respondent 10)

In 2009 it began to take a downward plunge. From that moment on Hoorn has been implementing cutback policies of a total amount of 20 million, in less than 10 years. Although these are huge numbers, Hoorn still seems rich according to the respondents, with still high reserves in spite of the decline of the amount of reserves.

Lately the balance of Hoorn has been disturbed, one respondent refers to the yo-yo effect. Knowing how the incomes will be on the long term has become more difficult. The figures and facts about the finances of Hoorn correspondent with this statement. The budgetary position of Hoorn has been volatile the past 10 years.

5.4.2 Which responses to financial shocks can be identified?

Apart from the three main shocks every single Dutch municipality had to deal with, the greatest impact came from the collapse of the theatre tower. Risks that are being identified by interviewees are the dependence on the central government (like Hengelo also illustrated) and the maintenance of public spaces. Concerning to one respondent the city is almost performing below par. Reducing the level of quality in maintenance of public space is the first *short-term* response Hoorn shows. The maintenance of public spaces will become a huge risks in the future, since the public spaces and several districts are becoming old and in need of renovation. Due to, among other things, the political compilation of the municipalities’ board, attention for maintenance of public spaces has become subordinate.

There is little space left over due to austerity policies. That has been noticed by respondents in the organization. Hoorn is now at a point where activities have to be given up in order to make some

financial space. This is another short-term response, stopping certain services. Other short-term responses that can be identified in Hoorn are reduction in staff and becoming more efficient.

Respondent 11 thinks that Hoorn should do more with taxes. There are too less ways of influencing revenues, one of the reasons is the relatively small amounts of taxes Hoorn collects. Some time ago the tourist tax was being dropped, since Hoorn did not make so much money on it, but nowadays this could be different, according to respondent 11. He pleads for adjustments in the tax system so that Hoorn has more autonomy on their revenues.

Concerning the decentralizations Hoorn tries to search actively for tools and ways to deal with these decentralizations. Respondent 12 argues: *'I was in a meeting last week with other municipalities from this region, and I asked how are you dealing with the decentralizations? They answered that they did not know yet, while we are actively trying to understand the situation and develop tools that we can use. Do not just wait until the central government comes up with something, but think and act on your own'*.

A *long-term* response that Hoorn showed after the collapse of the theatre tower is a development of working more thematic. In other words, asking questions about each project like; what are the responsibilities, what is needed to finish the project and when it is going to be finished?

The losses on estate development generated a highly improved risk management system. 5 years ago Hoorn introduced a risk management system, an application in which risks can be monitored very properly (Naris). These risks are being updated two times a year. 10 years ago there were not as many and big risks on estate development as there are now. At that time there were only benefits. That has totally changed now and almost become the opposite of what it was 10 years ago.

On the other hand, respondents declare that Hoorn is not completely prepared for the future concerning estate development. Not only did the profits on estate developments become uncertain, the possibilities for city expansion are limited. After finishing up the new housing estate (Bangert en Oosterpolder), Hoorn cannot expand the city anymore by building new houses, because they have reached the municipalities' boundaries. The way the municipality is preparing for that is unknown by the interviewee. The huge austerity policies that Hoorn had to apply have not only caused troubles. It also led to creative solutions and ideas and to innovation. *'Scarcity leads to creativity'* (Respondent 10).

5.4.3 Financial resilience

Interviewees in Hoorn define financial resilience as being capable to absorb setbacks, having a proper risk management and (by means of this risk management) being able to look forward. One interviewee emphasizes that being financially resilient means being in control.

Overall, interviewees think the financial resilience of Hoorn has decreased the past few years. *'Our flexibility and elasticity is really gone now'* (Respondent 10). The possibilities that Hoorn has to cut a bit and adjust a little here and there in order to fix the budget are gone now. In addition to that, their financial resilience seems weak when looking at long-range balanced budget. According to respondent 10, this is the biggest challenge for the upcoming years for Hoorn. At the moment Hoorn has to take ad hoc decisions, which will endanger the long-range decisions.

What can we say about the financial resilience of Hoorn if we look at the five capacities of Barbera et. al? Firstly, the *financial robustness* of Hoorn will be discussed. Just like other Dutch municipalities, Hoorn is highly dependent on uncertain revenue bases. First of all, they are dependent on the income from the Municipal Fund that is distributed by the central government. The central government adjusts the amount of money that Hoorn frequently, and sometimes they suffer a lot from these fluctuations. Interviewee 10 argues that because of this, Hoorn has to take more ad hoc decisions lately. This revenue base is therefore uncertain. Another revenue base has been the income on estate development. However, nowadays this revenue base is decreasing seriously. Above that, Hoorn is (literally) reached the borders of the municipality, so after they have finished their last estate development project, there will be no more options to build houses. Respondent 11: *'Hoorn has always built a lot of new houses, but in a couple of years this is not possible anymore. We will turn from a growing city into a boring city. Are we already anticipating on the fact that we will lose this revenue base? I really do not know.'* For this reason the financial robustness of Hoorn is low. The debt rates in Hoorn are medium compared to other Dutch municipalities (VNG.nl). Debt rates also influence the financial robustness.

Anticipatory capacity raised since the introduction of a risk management system five years ago. Risks are being monitored very properly according to interviewees. Respondent 10 argues: *'we always have been in control, however, the professionalism of the risk monitoring system used to be much lower.'* It also seems that Hoorn is taking less risks on the estate development. For example, interviewee 11 argues: *'We were planning on tunneling the railroad, but our board is more careful now with starting big projects like this project, so now we are looking for another solution for the hold-up of traffic around the railway.'* In short, risks are not only being monitored better than before, Hoorn is also *aware* that they have to be careful in taking big risks by starting large projects. That awareness has grown just like the anticipatory capacity when Hoorn introduced their risk management system. Concerning the end that is coming on estate development, Hoorn is not yet taking measures to absorb this problem. This means they are not yet aware of the fact that this will influence their revenue bases.

By thinking about adjusting their tax system, Hoorn shows that they are able to be innovative and creative. Interviewees argue that Hoorn has to become more like a network organization instead of the bureaucratic organization they used to be. It is not just working with your own department anymore, you will have to make use of other parties and other tools nowadays, according to respondent 10. However, these innovations and creative ideas have not yet been implemented in the organization. With regard to this, Hoorn is relatively lagging behind and their *flexibility* therefore is low-medium.

Financially the municipality of Hoorn is not yet recovered fully from the crisis. However, they seem to be in the recovery phase, according to the interviewees. Golden times like before the crisis, when there was always plenty of money, will not return very easily concerning to respondent 11. *'It will take a very long time, step by step, and it will depend on the economy of the whole country'* (Respondent 11). The levels of services have also decreased in Hoorn, for example the levels of maintenance of public spaces and neighborhoods have decreased, and some services had to be stopped, like the fire department. *Recovery ability* in Hoorn is therefore low.

5.4.4 Relationship between financial resilience and patterns of responses to financial shocks

Municipality's Responses	
<i>Short-term</i>	
1. Cutting costs	Reduction in staff
	Reducing levels of quality of services
	Stopping certain services
	Becoming more efficient
2. Adjusting investment projects	Postponing investments
	Cancel investments
<i>Long-term</i>	
	Improvement of risk management
	Changing the role in society
	Becoming more strict on for example balanced budgets for policies
	Focusing on city growth

Table 16 Applied responses municipality of Hoorn

Furthermore, in table 17 is summarized how the five capacities of financial resilience are noticeable at the municipality of Hoorn.

Financial robustness	Low-medium
Anticipatory capacity	Medium
Awareness	Medium
Flexibility	Low-medium
Recovery ability	Low

Table 17 Capacities of financial resilience at the municipality of Hoorn

Initially, Hoorn had low levels of anticipatory capacity and awareness. Before the crisis hit they were financially vulnerable, because they highly depend on uncertain revenue bases. Therefore the first responses that Hoorn gave to the financial crisis were short-term responses like cutting costs and adjusting investment projects. These responses were focused on the short term and on a quick recovery from the crisis. These kind of responses can be categorized as *reactive* responses.

Later on, Hoorn improved their anticipatory capacity and awareness for example by improving their risk management system. Nevertheless, they seem to focus on short-term risks rather than long-term risks. Although they try to see financial shocks as opportunities, for example since the theatre tower collapsed Hoorn is working more thematic, they do not always succeed in using these opportunities. In short, Hoorn sometimes shows *adaptive* responses, but still seems to be most of the time in the *reactive* pattern of responses.

5.5 Zeist

5.5.1 Financial context

Population	Area	Budgetary Position	Volatility	Debt rate quote
124.140	48.65 km ²	Around zero: 0.10%	Medium: 1.81%	31%

Table 18 Facts municipality of Zeist

Zeist is a relatively healthy municipality according to respondents. Being a municipality, you cannot live beyond your means (like the national governments does), so Zeist always took care of a balanced budget. Over the last 30 years Zeist never had a negative budget. In the benchmark of the province Utrecht concerning the financial health of municipalities, Zeist has been number 1 a couple of times. However, nowadays it is more complicated to get the budget balanced. Austerity keeps on going and it becomes harder and harder to adapt to that. That is the same with the long-range budget. The past years Zeist always could get a balanced long-range budget, but nowadays this is very difficult to realize. The time that you could do new things without cutting in old things is over. *‘Do you want something new, than you have to cut in something old’*, according to respondent 14.

Also, there are some concerns about the decentralizations, this will become very hard for the municipality, also financially spoken. Another difficulty is with the Planning & Control system. That is that there are continuously developments, so your P&C system always lag behind.

5.5.2 Which responses to financial shocks can be identified?

Zeist suffered the most from the three main shocks, decentralizations, losses on estate development and cutbacks in the Municipal Fund. Since the decentralized tasks concerns services in which quality and continuity is important to people, the municipality cannot permit to fail. There is not much space to

move for the municipality, but they have to take care of these new tasks, and that gives an unpleasant feeling according to respondent 15. Zeist choose to bind the three decentralizations through 'communicating vessels'. If there will be a deficit at one decentralization, money has to come from one of the other two budgets (this is a *short-term* response that can be identified in Zeist).

The past 10 years the relationship between the municipality and society has changed. Everlasting subsidies are not available anymore, that time is over according to respondent 15. This is another short-term response, the adjustment of subsidies. Other short-term responses that Zeist used are reduction in staff and becoming more efficient, although more steps can be taken concerning efficiency according to interviewees.

The losses on estate development are especially hard to solve structurally. However, Zeist does not have as much estate as other municipalities, since they changed their strategy. First of all, Zeist sold a lot of land. Respondent 15 argues that he is very happy that they sold all this land, since they do not suffer so much from the losses on estate development nowadays. Selling of land is a short-term response to austerity that Zeist applied. Not only did the municipality of Zeist sold their land, they also got rid of the focus on growth. Instead of building new houses, Zeist choose to maintain the nature and forest in their area (this is an example of a *long-term* response).

A long-term response of Zeist is that after the crisis, they tried to involve the society with their cutback policies. Already in 2010 Zeist applied this strategy, and because of the cooperation of the society, there was not a lot of resistance concerning the austerity policies. Respondent 13 argues: *'Having a deficit is in a certain way not only a problem of the municipality itself, it is also a problem of the society so they can help solve it.'* (Respondent 13). *'We are not living in an ivory tower anymore'*, according to respondent 13. In that way, austerity policies have brought us opportunities to better cooperate with other parties like the society.

As a long-term response on the decentralizations, Zeist wants to change from 'system thinking' to 'human thinking'. The reason for decentralization is to be closer to the citizen, so being a municipality you really have to try to be closer to the citizen instead on focusing on systems. All those systems and indicators should not be core business in these services fields.

Zeist has a proper risk management and has enough reserves to deal with shocks, according to respondent 13. Zeist is conservative. However, there are not many possibilities for Zeist to earn money, the only tool they have got left is the property tax (OZB), but Zeist thinks of the OZB as a last resort. 1.5 year ago Zeist increased the amount of reserves meant for losses on estate development, because they knew new losses would occur.

The way Zeist has responded to shocks is pro-active, according to respondent 14. Austerity policies are being seen as something that can be handled and even as an opportunity. The municipality has always handled money in a careful and decent way.

5.5.3 Financial resilience

According to respondent 14 financial resilience is not a termination that is used often. It is more about resistance. In Zeist this concerns mainly risk management, so it is mainly a technical term. Respondent 15 argues that the financial resilience of Zeist has improved over the last years, mostly by means of the improved risk management. Interviewee 13 defines financial resilience like: *'Financial resilience is having the flexibility necessary to deal with financial developments (whether they are positive or negative).'* It is remarkable that respondent 13 also mentions positive financial developments as something that governments have to deal with. Most of the interviewees and also the theory about financial resilience speak of negative developments that require financial resilience.

Debt rates in Zeist are very low (VNG.nl). Because of this, Zeist is relatively *robust*. However, on the other hand Zeist is affected by external conditions, like the dependence on the Municipal Fund. Due to new measurements that the central government used to distribute the Municipal Fund, Zeist lost a lot of revenue. This uncertain revenue makes Zeist more vulnerable. Compared to other municipalities, the dependence on profits in the estate development is lower in Zeist. As said before, Zeist sold land and has relatively little areas under development. This makes them less vulnerable. *'The ambition to grow has tempered lately. We simply sold a lot of our estate in order to maintain our nature.'* (Respondent 15)

Anticipatory capacity includes having a proper risk management. Since the losses on estate development risk management intensified and improved a lot, for example new employees were hired in order to focus on risk management. Not only did the risk management itself improved, 'risk thinking' did in a kind of way internalized into the organization. The financial buffers of Zeist also increased over the past few years. In other words, anticipatory capacity is high in Zeist.

Before Zeist had to deal with tremendous losses on estate development, the *awareness* of these risks was relatively low. After the losses on estate development appeared, about four years ago, a lot has changed, also concerning the awareness of Zeist. The attention for growth of the city lost power, the risks were monitored more properly than before, and decisions were made more carefully than before.

Zeist has been innovating a lot since the crisis. During the cutbacks of 2011, Zeist applied a way of working that has also been used in Brussels. The budget was divided in eight themes, and on each theme a 'chef de dossier' was engaged. The responsibility of this person was to cooperate with the

society in order to carry out the cutbacks that were necessary. Zeist also tried to cooperate and make use of the society and other parties outside the municipality. Through this, they outsourced some of their responsibilities and according to respondent 13 this increased their *flexibility* and their financial resilience.

According to respondent 15, the *recovery ability* of Zeist is threatened by the austerity of the last years. Risks are becoming more manifest, and this directly reflects in the financial resilience of Zeist. ‘We can absorb more austerity this year, and maybe also the next year, but if we have to deal with huge risks the next few years, well then it is all going to decrease a lot, like the reserves and our wealth.’ (Respondent 15). There are also a lot of difficulties playing a role nowadays that will obstruct total recovery of the municipality. For example, certain tasks of the decentralizations simply cannot be implemented by the municipalities since they do not have the right tools. There still are some faults in the decentralizations that will influence the financial position of Zeist, according to respondent 15.

5.5.4 Relationship between financial resilience and patterns of responses to financial shocks

In the table below is summarized which responses have been given by the municipality of Zeist.

Municipality’s Responses	
<i>Short-term</i>	
1. Cutting costs	Reduction in staff
	Reducing levels of quality of services
	Stopping certain services
	Becoming more efficient
	Selling of property (land, buildings)
<i>Long-term</i>	
	Improvement of risk management
	Changing the role in society
	Increased willingness to cooperate
	Becoming more strict on for example balanced budgets for policies
	Stop focusing on city growth

Table 19 Applied responses municipality of Zeist

Furthermore, in table 20 is summarized to which extend the five capacities of financial resilience appear in the municipality of Zeist.

Financial robustness	Medium-high
Anticipatory capacity	Medium-high
Awareness	Medium-high
Flexibility	High
Recovery ability	Low-medium

Table 20 Capacities of financial resilience at the municipality of Zeist

Financial robustness in Zeist has been relatively high. Nevertheless, they have been hit hard by the financial crisis since their anticipatory capacity and awareness had low values before the crisis. At the time the crisis came along, Zeist was initially not thinking in possibilities as well, it was mainly a matter of short-term solutions. Zeist applied a couple of short-term responses that involve cutting costs. The pattern of responses of Zeist at that time was *reactive*.

Almost forced by the financial crisis and the consequences, Zeist had to improve anticipatory capacity and awareness. They improved these capacities for example by improving the risk management system. Awareness and anticipatory capacity increased. Because of that, Zeist began to develop long-term responses like the choice to stop focusing on city growth. This is an example that Zeist recognizes the current situation in estate development. After the financial crisis, the pattern of responses of Zeist seems to move in the direction of *adaptive* responses.

5.6 How are different patterns of responses influenced by financial resilience?

5.6.1 Overview of results

Responses of Dutch municipalities to financial shocks have been described in the previous sections (5.1.2, 5.2.2, 5.3.2, 5.4.2 & 5.5.2). In the table on the next page, these responses are being summarized along the lines of the theory of Barbera et. al. (2014). This table summarizes the answer on sub question 7 (the first empirical sub question) that is formulated in chapter 1: *which responses to financial shocks can be identified in Dutch municipalities?*

Municipality's Responses	Municipality:	Ede	Zwolle	Hengelo	Hoorn	Zeist
<i>Short-term</i>						
1. Cutting costs	Reduction in staff	X	X	X	X	X
	Reducing levels of quality of services		X	X	X	X
	Stopping certain services	X	X	X	X	X
	Becoming more efficient	X	X	X	X	X
2. Adjusting investment projects	Postponing investments		X	X	X	
	Cancel investments	X	X	X	X	
	Searching for alternative resources for paying for investments		X			
3. Increasing collected income streams	Increase taxes					
	Introduce new kinds of taxes					
	Selling of property (land, buildings)					X
	Cleaning up budgets					
<i>Long-term</i>						
	Improvement of risk management	X	X	X	X	X
	Becoming more transparent	X		X		
	Becoming more careful	X		X		
	Changing the role in society	X	X	X	X	X
	Increased willingness to cooperate	X	X			X
	Decisions are adjusted more often		X			
	More focus on output			X		
	Becoming more strict on for example balanced budgets for policies			X	X	X
	Stop focusing on city growth					X
	Focusing on city growth	X		X	X	

Table 21 Summary short-term and long-term responses of Dutch municipalities to financial shocks

Capacities of financial resilience in the five Dutch municipalities were described and analyzed in sections 5.1.3, 5.2.3, 5.3.3, 5.4.3 and 5.5.3. In table 22 is summarized to what extent different municipalities have capacities of financial resilience (after the financial crisis). Besides, this table summarizes the answer to the 8th sub question: *to what extent do Dutch municipalities show financial resilience?*

	<i>Ede</i>	<i>Zwolle</i>	<i>Hengelo</i>	<i>Hoorn</i>	<i>Zeist</i>
<i>Financial robustness</i>	Low	Medium	Low	Low-medium	Medium-high
<i>Anticipatory capacity</i>	Medium-high	Medium-high	Medium-high	Medium	Medium-high
<i>Awareness</i>	Medium-high	Medium-high	Medium-high	Medium	Medium-high
<i>Flexibility</i>	High	High	High	Low-medium	High
<i>Recovery ability</i>	Medium	Low-medium	Low	Low	Low-medium

Table 22 Capacities of financial resilience in Dutch municipalities

5.6.2 Analysis of the relationship between financial resilience and patterns of responses in five Dutch cases

A comparable pattern can be recognized in four cities: Zwolle, Hengelo, Ede and Zeist. Before the crisis Zwolle, Hengelo, Ede and Zeist had low-medium levels of anticipatory capacity and awareness, they were financially vulnerable and because of these values they were hit hard by the financial crisis. During the past years of austerity due to this crisis, these municipalities were almost forced to increase their anticipatory capacity and awareness. If not, they would face more austerity and adversity in the future due to a lack of awareness. The improvement of awareness and anticipatory capacity was externally driven at that time (i.e. the financial crisis).

Zwolle, Hengelo, Ede and Zeist have developed internally, they managed to improve their anticipatory capacity by means of for example the improvement of their risk management system. All four municipalities point out that they have seriously improved their risk management and their people on risk management since a couple of years now (5 years in most of the cases). Awareness of current risks has seriously improved, since these municipalities are more cautious and careful now. They try to avoid taking large risks on for example estate development. This development used to be externally driven, but seems to internalize in most cities as well. Since these four cities had to implement tremendous cutback policies the last couple of years, by now everybody in these organizations will be aware of the fact that there are times of austerity and you have to be more careful.

Although municipalities argue that the focus on the long term has been threatened lately, for example because of the quick developments that municipalities have to deal with (changings in the Municipal Fund etc.), these municipalities are trying to focus not only on a balanced budget for this year,

but also for the years after this year, in other words, a long-range balanced budget. The level of innovation has become high after the crisis. All four cities show more willingness to cooperate with other parties, like the society. In these cities the society was asked to cooperate more with for example the processes around cutback policies.

In short, Zwolle, Hengelo, Ede and Zeist had low-medium levels of awareness and anticipatory capacity before the crisis hit them. They all admit that they were surprised by the severity of the financial crisis. This severity ended up in drastic cutbacks and years of austerity. Due to this, these cities were externally and later on internally stimulated to improve their anticipatory capacity and their awareness, so that they could never be as surprised again as they were when the financial crisis came. The responses these municipalities showed involved existing competences as well as exploring new ways and options, for example innovation and networking.

Before the crisis Zwolle, Hengelo, Ede and Zeist showed low-medium levels of anticipatory capacity and awareness, plus they showed a reactive pattern of responses. After being hit by the crisis, everything turned around and these municipalities started to improve their anticipatory capacity and awareness. Due to these developments, the four municipalities started to become more adaptive and at some point maybe even pro-active.

The municipality of Hoorn showed limited anticipatory capacity and awareness (low-medium) before the crisis and high levels of financial vulnerability. Their starting point is comparable to the starting point of the other four municipalities before the crisis came along. There was limited awareness of the fact that these 'golden times' could be over at some point in the future. Since the financial crisis hit Hoorn, their anticipatory capacity improved due to the introduction of a professional risk management program. Since the large scaled austerity policies, Hoorn was also forced to increase anticipatory capacity and awareness. These capacities can now be valued as being medium.

After the crisis, Hoorn is very volatile. One interviewee refers to this volatility as a 'yo-yo effect'. Interviewees point out that there will be some risks in the future that are going to be a problem. One of these risks is the level of maintenance of public spaces. Many places and neighborhoods are in need of maintenance, but these budgets are cut drastically over the past years. Another large risk that Hoorn will face in the future is the fact that they will reach the borders of the municipalities' area. In other words, after finishing up their last new housing development, they are not able anymore to develop new ground for housing. Since they used to earn a lot of revenue on estate development, they will have to find some kind of solution for this in the future. However, they have not developed such a solution yet.

Hoorn shows low-medium levels of flexibility, mostly due to limited innovation. There are a lot of ideas about improving several things inside the city, but these ideas are not implemented yet. For example, one interviewee argues that Hoorn could do something with taxes in order to create more revenue. Compared to the other cases, Hoorn seems to be a little less willing to cooperate with other parties. Their relationship with society for example seems to be less changed than in the other four cases.

In short, Hoorn had low-medium levels of anticipatory capacity and awareness before the crisis, and they have improved these capacities after the crisis up till medium levels. Levels of flexibility are a little lower than in the other cities. The focus on the long term is limited, since there is a lack of preparation on the future risk on estate development. Hoorn shows a pattern of responses that is mostly reactive, before as well as after the crisis.

6. Conclusions & discussion

6.1 Conclusions

European governments have suffered a lot from the financial crisis in 2008 (Lodge & Hood, 2011; Scorsone & Plerhoples, 2010; Leisink & Bach, 2014; Pollitt, 2010). The position of European *local* governments is peculiar. In comparison to national governments, local governments have limited options to affect their budgets (Miller & Hokenstad, 2014). Since little has been written about this peculiar position of local governments in the era of austerity, this paper has examined local governments in the Netherlands. Thereby we have focused two main concepts: responses to financial shocks (mainly the financial crisis) and the existence of financial resilience in local governments. Financial resilience is a new conceptual lens that has been used by authors lately, but is not yet being used by local governments in the Netherlands. The Dutch local governments rather speak of resistance or a financial barometer.

Barbera et. al. distinguish short-term and long-term responses of local governments to financial shocks. Three categories of short-term responses are cutting costs, adjusting investment projects and increasing collected income streams (Barbera et. al., 2014). These responses are recognized at each local government that has been examined (in Italy, the UK and Austria), but just two of those categories of responses can be recognized at Dutch local governments. Increasing collected income streams is a tool that has not been used by Dutch local governments, except for one response that Zeist applied; selling of land and property. We will return to this matter later. Other municipalities rather have been focusing on cutting costs and adjusting investment projects in order to deal with financial shocks.

Two long-term responses have been very common at Dutch municipalities. These are the improvement of risk management and changing the municipalities' role towards the society. Since a couple of years now, each examined municipality has seriously improved their risk management system and by that improved anticipatory capacity and awareness. Although the municipality of Hoorn also has improved risk management, they lack a bit of awareness concerning the risk on estate development that they will face in a couple of years. Another response that has been recognized in each case is the changing role towards the society. Each municipality has changed from being an everlasting supportive institution to being a more stimulating and facilitation institution for third parties like the society. Some municipalities are currently making use of society, and are more willing to cooperate with society in order to improve policy and save costs. The municipality of Hoorn seems to have innovated a little less on these fields than the other four cases.

An interesting note about long-term responses is that three cities seem to be focusing on city growth as a long-term response on financial shocks (Ede, Hengelo & Hoorn). However, Zeist has stopped

focusing on city growth since a couple of years now, since they are aware of the fact that estate development is an uncertain revenue base on which they cannot count. Therefore, Zeist sold land in order to minimize their risks on estate development. In that sense, Zeist is a peculiar case, because none of the other cases have revealed responses like these on recent financial shocks.

According to Barbera et. al. (2014), there are five capacities that shape financial resilience; financial robustness, anticipatory capacity, awareness, flexibility and recovery ability. Each capacity has been examined in the five Dutch municipalities. Table 22 illustrates an overview of the appearance of these capacities in the five cities. Two of these capacities are quite the same in each city; anticipatory capacity and awareness, because the cities experienced more or less the same financial shocks and all improved their risk management system. Financial robustness is varying between the five cities. Not all cities have the same amount of debt levels, and some cities are more dependent on uncertain revenue bases than other cities. Interesting about the capacity flexibility is that Hoorn is falling behind compared to the other four cities. Hoorn seems to have creative ideas, but has not applied them already like the other four cities have. Recovery ability is not high in each of the five cities. The municipalities are still recovering from the financial crisis, and they are facing new risks like the results of the decentralizations in the social domain.

After discussing responses to shocks and capacities of financial resilience, we will finish this conclusion by focusing on the central question. The central question in this paper has been: *what is the influence of financial resilience on the responses to financial shocks of Dutch municipalities?* Since Barbera et. al. (2014) argue that the relationship between two of those capacities and responses to financial shocks is the strongest, the focus has been on these two capacities. These are anticipatory capacity and awareness. The relationship Barbera et. al. (2014) have formulated is that local governments that show pro-active or adaptive patterns of responses seem to have higher levels of anticipatory capacity and awareness and local governments that show reactive or complacent patterns of responses seem to have lower levels of anticipatory capacity and awareness. Therefore the expectations formulated in chapter three have been:

- *Expectation 1:* Local governments with high levels of awareness and anticipatory capacity are most likely to show pro-active or adaptive patterns of responses.
- *Expectation 2:* Local governments with low levels of awareness and anticipatory capacity are most likely to show reactive or complacent patterns of responses.

By means of the empirical part of this paper, these expectations have been tested. As a result of the empirical part, each last section of the cities and section 5.6.2 draw some results and conclusions about the relationship between financial resilience and responses to financial shocks. This illustrates also the

answer on sub question 9: *how are patterns of responses influenced by financial resilience of Dutch municipalities?* There can be concluded that the municipalities of Zwolle, Hengelo, Ede and Zeist confirm that the first expectation is true. Higher levels of awareness and anticipatory capacity seem to be more likely in local governments that show pro-active or adaptive patterns of responses. Although Hoorn does not differ drastically from the other four cases, the case of Hoorn shows that lower levels of awareness and anticipatory capacity indeed seem to be more likely in the case of reactive or complacent patterns of responses.

The five cases that have been examined in this paper confirm these relationships. In other words, the answer on the central question is: local governments in the Netherlands that show pro-active or adaptive patterns of responses have higher levels of anticipatory capacity and awareness and local governments that show reactive or complacent patterns of responses have lower levels of anticipatory capacity and awareness.

To conclude this paper, we can say that the five municipalities that have been examined in this paper are *bouncing forward* after experiencing a tremendous financial shock. Bouncing forward means developing and innovating after experiencing a financial shock (Barbera et. al., 2014). All municipalities filtered shocks not only as threats, but also saw opportunities in these shocks. The levels of flexibility and innovation seem to be high, as well as the ambition to grow stronger after experiencing this huge shock. Not just stronger in financial terms (all five municipalities are not having the same financial results and performance as they used to have before the crisis), but stronger in terms of for example cooperation with other parties, like the society.

6.2 Discussion

Since there has been limited attention to the effects of austerity on local governments (Miller & Hokenstad, 2014; Overmans & Timm-Arnold, 2015; Leisink & Bach, 2014), there is a need for more research on financial aspects of resilience (Jones & Steccolini, 2014) and levels of NPM (that influences levels of financial resilience) differ across countries (Hood, 1991; Pollitt, 2001; Pollitt & Bouckaert, 2004), this paper has contributed to the literature on financial resilience in different European countries by examining the concept in five Dutch municipalities. In this paper we have tried to come up with empirical evidence on the theories of Barbera et. al. (2014) and by means of this we contributed on the conceptualization and operationalization of the concept of financial resilience.

Some side notes have to be written down in order to interpret the results of this paper in the right way. Some notes have to be mentioned since this paper is a replication of the research by Barbera et. al. (2014). First of all, since this thesis is a replication of the research by Barbera et. al. (2014), the thesis has been written in English and has used most of the time international references. However, the

questionnaire and the collected data is Dutch, because the respondents were Dutch as well. There is a possibility that there are some small errors between the Dutch data and the English analysis of these Dutch findings. This has to be kept in mind when reading and interpreting this research.

Secondly, the model that Barbera et. al. (2014) have introduced in order to conceptualize financial resilience is a bit too complex. The relationship between financial performance and financial resilience, as well as other relationships in the model are not very clear yet. Because of this, a simplification of the model has been used in this paper. So in future research, the model of Barbera et. al. (2014) is in need of more empirical evidence or some adjustments in the model itself.

The model of Barbera et. al. (2014) consists of some very interesting assumptions however. For example, the relationship between financial performance and financial resilience. Furthermore not only the relationship itself is interesting, also the direction of the relationship. Do local governments that have better financial performance also have better levels of financial resilience, or is it due to their financial resilience that local governments are able to realize financial performance?

Moreover, the model of Barbera et. al. (2014) consists of very interesting concepts. More research could be applied on these concepts. Not only the relationship between financial resilience and financial performance, but also the relationship between financial resilience and other things that are not mentioned in the model. Does financial resilience only influences responses to financial shocks, or is there more that financial resilience can take care of at local governments? For example, what is the influence of financial resilience on the resilience of the local government in terms of non-financial aspects?

Another aspect that could be examined more closely is the capacities that shape financial resilience. Is it true that anticipatory capacity and awareness have more influence on responses to financial shocks than the other three capacities? And how are these capacities influencing each other? Anticipatory capacity and awareness for example seem to influence each other and have often (in the Dutch cases always) the same levels.

The final note is about the background of the respondents. Although the request has been clear, not every respondent has been working in the organization for 10 years or more. Most of the respondents have worked for 10 years or more in the examined organization, but some of them just worked there for a couple of years. As a result, these respondents might have answered different to the questions asked since they did not have a complete view on the organization over the past 10 years.

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Appendix 1: questionnaire

Korte introductie over het onderzoek & het interview

Introductievragen

- Kunt u uw functie bij deze organisatie beschrijven?
- Hoelang werkt u al voor deze organisatie?
 - o Op welke afdelingen of welke andere organisaties?
- Wat zijn uw belangrijkste verantwoordelijkheden tijdens uw werk hier?

Financieel management: financiële gezondheid en doelen

- Kan u iets zeggen over de financiële gezondheid van de organisatie de afgelopen 10 jaar? Denk hierbij aan:
 - o Inkomsten en uitgaven, hoe verhouden deze zich tot elkaar?
 - o Schuldenlast
- Wat zijn de belangrijkste financiële doelen voor deze organisatie? (Een voorbeeld: schuldenpositie verbeteren)
 - o Zijn deze veranderd over de afgelopen 10 jaar? Zo ja, hoe?
 - o Zijn het lange of korte termijn doelen?
 - o Hoe probeert de organisatie deze doelen bij te houden?
- Wat zijn de belangrijkste niet-financiële doelen voor deze organisatie?
 - o Zijn deze veranderd over de afgelopen 10 jaar? Zo ja, hoe?
 - o Zijn het lange of korte termijn doelen?
 - o Hoe probeert de organisatie deze doelen bij te houden?
- Wat zijn volgens u de belangrijkste doelen voor deze organisatie (financieel vs. niet-financieel)

Risico's, impact, reacties, tegenwerkende & meewerkende krachten

- We hebben het net over de financiële gezondheid van uw organisatie gehad. Kunt u drie voorbeelden geven van dingen die volgens u de financiële gezondheid van uw organisatie in gevaar brengen (zogenaamde financiële *schokken*)
 - o Op welke manier zorgen jullie ervoor dat jullie deze risico's in kaart kunnen brengen?
 - o Zijn deze veranderd over de afgelopen 10 jaar?
 - o Zijn er ook kansen voortgekomen uit deze drie gebeurtenissen?
- Hoe zijn de reacties op de gebeurtenissen tot stand gekomen? Welke factoren (intern of extern) waren van invloed (negatief of positief)?
- In welke mate verschillen de reacties die uw organisatie heeft gegeven op de crisis in 2008 van reacties op eerdere interne of externe gebeurtenissen?

Financiële veerkracht

- Wat houdt een veerkrachtige organisatie volgens u in?
- Hoe zou u financiële veerkracht definiëren?

- Probeert 3 termen te bedenken die volgens u de lading van de term financiële veerkracht dekken. Welke is de belangrijkste?
- Heeft het begrip volgens u toepassing op gemeentes?
- Wat zijn volgens u indicatoren van financiële veerkracht? Hoe zou het gemeten kunnen worden?
- Leeft deze term volgens u binnen uw organisatie of binnen uw sector?
- Welke factoren zouden financiële veerkracht kunnen stimuleren?
 - En wat zijn volgens u factoren die financiële veerkracht zouden kunnen remmen?
- Wat is volgens u de relatie tussen veerkracht en efficiëntie?

Aanvullende vragen

- Wat is de grootste financiële *kwetsbaarheid* van de gemeente, en wat is de grootste financiële *kracht* van de gemeente?
- Kijkend naar de financiële situatie van de gemeente op dit moment, in welke fase bevindt de gemeente zich? (recessie, dieptepunt, herstelfase, hoogtepunt)?
 - Heeft de gemeente zijn oorspronkelijke financiële positie weer terug (van voor de crisis)?

Opdracht 1: selecteer termen uit het onderstaande rijtje die volgens u financiële veerkracht beschrijven.

Blijvend/voortdurend
 Snel herstellend
 Robuust/krachtig
 Op de hoogte/bewust
 Flexibel
 Behoedzaam
 Vooruitkijkend
 Efficiënt
 Voorbereid
 Adaptief
 Voorzichtig

Opdracht 2: kies één of twee van de onderstaande beschrijvingen die volgens u financiële veerkracht het best weergeven.

Het vermogen en de tijd die nodig is om na een financiële 'schok' weer een stabiele huishouding te creëren.

Het vermogen om genoeg middelen op te bouwen om schokken te absorberen.

Het vermogen om schokken tijdig te identificeren en maatregelen te nemen die de impact/consequenties minimaliseren

Kracht en robuustheid van een organisatie tegen externe invloeden

Vermogen om te herstructureren in tijden van een financiële schok