BRITISH ACADEMY OF MANAGEMENT

BAM CONFERENCE

3RD-5TH SEPTEMBER

ASTON UNIVERSITY BIRMINGHAM UNITED KINGDOM

This paper is from the BAM2019 Conference Proceedings

British Academy of Management (BAM) Conference 2019

Perceiving Financial Vulnerability: The impact of entrenchment on value destruction in the case of Northamptonshire County Council through the lens of financial resilience.

1. Introduction

The concept of financial resilience has been shown to be useful in understanding how local authorities respond to adverse conditions affecting their financial position (Barbera et al. 2017). A dynamic combination of inter-related capacities, financial resilience allows us to go beyond "the figures" to understand how financial decision making occurs within organisations (Barbera et al. 2018). One of these capacities is perceived financial vulnerability, which is both informed by and informs an organisation's capacity to predict, interpret and respond to environmental changes that will impact upon its financial condition and ultimately its ongoing viability.

1.1 Problem Statement

After 10 years of financial austerity, the financial director of Northamptonshire County Council (NCC) issued a Section 114 notice in February 2018, the first occurrence in the UK for 20 years. A Section 114 notice is a significant event as it a legal requirement to report in the public interest where a local authority fails to set a balanced budget. A period of intervention followed the initial Section 114 notice but despite this, a second notice was issued in July 2018 stating that the Council had "no financial resilience". This lack of control has left NCC's stakeholders' facing value destruction as the Council has now had to cut back to a "core service" model of delivery. As a response, it has been forced to consider plans to merge with other local authorities, challenging the Council's ability as a steward of public funds.

1.2 Research Objectives and Possible Significance

The future of NCC will no doubt represent a fertile ground for future research, especially related to financial resilience. For now, however, the recent history of the council, which can be accessed from publicly available archival data, gives an ideal opportunity to explore how the Council perceived its financial vulnerability.

The Section 114 notice in February 2018 was not the first sign that there were problems with the Council, and in retrospect, it is possible to investigate the public record for signs of misperception of the council's financial vulnerability.

2. Literature Review

Perception is a common term definition as Efron (1969) defined perception as the primary form of a human being's cognitive contact with the environment that revolves around him. On this note, individuals and organisations may have very different perceptions of the consequences erupting from an event at a point in time. Hence, central and local government agencies perceive outcomes of uncertain events differently. For instance, in the UK, local government authorities perceived a growing financial autonomy with low fluctuations in their income sources, and robust financial reserve levels to cope with minor financial shocks (Barbera et al. 2019). Conversely, in Germany, local authorities are susceptible to higher financial vulnerability levels but lacked financial autonomy to absorb small financial shocks as much as countries like the UK and Italy (Barbera et al. 2019); even though Italy was regarded less vulnerable with regards to indebtedness.

Vulnerability is a term that is defined differently across various research themes. Some studies have defined vulnerability based on research disciplines including social sciences (Agarwal 2015), economic affairs (Ullah and Khan, 2017), and finance (Steccolini et al. 2015; Barbera et al. 2017). In the finance literature, vulnerability definitions have been characterised to be the consequences of encountering financial shocks as McManus et al. (2007) defined vulnerability as a situation where an organisation is exposed to shocks. Similarly, other studies (Barbera et al. 2017; Steccolini et al. 2017) agreed to the notion in their definition of vulnerability as the extent to which organisations are susceptible to shocks. Vulnerability tends to be related to resilience as Agarwal (2015) found that vulnerable individuals must be susceptible to shocks. Agarwal posited further that susceptibility of organisations makes them more likely to be exposed to shocks and uncertain events like the financial crisis.

2.1 Levels of Perceived Vulnerability among local Authorities in the UK

The local government sector in the UK has been characterised with one of the foremost adversities of the austerity era, especially since the 2010 Comprehensive Spending Review (Bailey, Bramley, and Hastings 2015). It is without a doubt that the local authorities in England have been significantly hit; after the 2010 settlement reported a reduction of Revenue Support Grants (RSGs) of £5.6 billion representing a cut of 28% over the 4-year period of review (Hastings et al. 2015). Since 2012, Liverpool City Council needed an accumulated total of £247.5 million in savings to achieve a balanced budget over a 6-year period of austerity (Ullah and Khan 2017). This means there were cutbacks in some statutory and discretionary services such as social services for adults and children, as well as the disabled (Ullah and Khan 2017).

2.2 Internal and External Perspectives (Viewpoints) of Perceived Vulnerability

Perceived Vulnerability can be categorised in two viewpoints within an organisation. Anessi-Pessina et al. (2012) purported evidence to prove that managers make decisions on revenue and expenditure to solve/correct internal and external contingencies.

For this reason, there is a crucial need to perceive vulnerability levels of organisations from internal and external viewpoints. In other studies, these viewpoints referred to such characteristics as “factors” (du Boys et al. 2017) or “sources” (Steccolini et al. 2017). For the purpose of this study, these will be referred to as “viewpoints”.

3. Methods and Possible Findings

Adopting a case study approach, and using publicly available archival data (including financial data held by the UK government, audit and inspection reports, CPA outcomes, the Council’s published accounts, peer assessments and other reports issued by the Council), this paper uses the lens of financial resilience to examine how Northamptonshire County Council perceived its financial vulnerability during the years leading up to February 2018. The paper shows that misperception resulted in entrenchment in decision-making that subsequently undermined value delivery. This focussed approach on a single organisation allows for an in-depth examination of events, contexts, processes and actions in order to better understand how we can interpret perceptions of vulnerability and the impact they have on financial decision making.

REFERENCES

Agarwal, J., 2015. Improving resilience through vulnerability assessment and management. *Civil Engineering and Environmental Systems*, *32*(1-2), pp.5-17.

Anessi-Pessina, E., Sicilia, M. and Steccolini, I., 2012. Budgeting and rebudgeting in local governments: siamese twins?. *Public Administration Review*, *72*(6), pp.875-884.

Bailey, N., Bramley, G. and Hastings, A., 2015. Symposium introduction: Local responses to 'austerity'. *Local Government Studies*, *41*(4), pp.571-581.

Barbera, C., Jones, M., Korac, S., Saliterer, I. and Steccolini, I., 2017. Governmental financial resilience under austerity in Austria, England and Italy: How do local governments cope with financial shocks?. *Public Administration*, *95*(3), pp.670-697.

Barbera, C., Jones, M., Korac, S., Saliterer, I. and Steccolini, I., 2019. Local government strategies in the face of shocks and crises: the role of anticipatory capacities and financial vulnerability. *International Review of Administrative Sciences*, p.0020852319842661.

Du Boys, C., Padovani, E. and Monti, A., 2017, September. Vulnerability factors shaping municipal resilience throughout the global financial crisis: comparing Italy and France.

Efron, R., 1969. What is perception?. In *Proceedings of the Boston Colloquium for the Philosophy of Science 1966/1968*(pp. 137-173). Springer, Dordrecht.

Hastings, A., Bailey, N., Gannon, M., Besemer, K. and Bramley, G., 2015. Coping with the cuts? The management of the worst financial settlement in living memory. *Local Government Studies*, *41*(4), pp.601-621.

Steccolini, I., Barbera, C., and Jones, M. (2015). *Governmental financial resilience under austerity: The case of English local authorities*. CIMA Executive Summary Report, 11(3), 1_13.

Steccolini, I., Jones, M., and Saliterer, I. (2017). *Governmental Financial Resilience. International Perspectives on how Local Governments Face Austerity*. (Emerald Publishing, Ed.).

Ullah, I. and Khan, M., 2017. Microfinance as a tool for developing resilience in vulnerable communities. *Journal of Enterprising Communities: People and Places in the Global Economy*, *11*(2), pp.237-257.