

UK's Birmingham council, largest local authority in Europe, declares effective bankruptcy

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14 September 2023

Labour Party-run Birmingham City Council's effective declaration of bankruptcy last week marks a dramatic escalation in the social crisis confronting millions.

According to reports, "at least 26" more councils could be in the same position, some "within months." Bradford, Devon, Guildford, Hastings, Kent and Southampton, with millions of people in these areas, have been identified as at risk.

Birmingham council is Europe's largest local authority, serving 1.14 million people. It issued a section 114 (s.114) notice on September 5, saying it cannot meet its current liabilities without extraordinary financial support and cannot commit to new spending. The council has a projected deficit for 2023/24 of £87 million and faces a £760 million bill for equal pay claims that is rising by £14 million each month.

The statement warned, "The Council will tighten the spend controls already in place and put them in the hands of the Section 151 Officer to ensure there is complete grip. The notice means all new spending, with the exception of protecting vulnerable people and statutory services, must stop immediately."

As a first step, the council has asked all 10,000 staff if they want to take redundancy. This is after the council has already slashed the workforce in half, from 20,000, since 2010.

The first full council meeting since the announcement was held September 12, at which council leader John Cotton said "an improvement board with specialist experts" was being brought in, in consultation with Conservative government Levelling Up Secretary Michael Gove. The government previously utilised the same anti-democratic measures to sent unelected commissioners to oversee council operations in Labour-controlled Liverpool City Council in 2021. Birmingham council is to agree its "budget recovery plan" on September 25, with Cotton warning of "tough and robust decisions," i.e., cuts to jobs and further brutal cuts to services.

Attention has focused on mismanagement of the equal pay situation, but this was only a contributing factor to the crisis, not its sole cause. Similarly, the three-year-delayed implementation of a cloud-based IT system and its subsequent problems which pushed the cost up from £19 million to around £100 million.

Councils cannot officially declare bankruptcy because they are legally obliged to provide certain statutory services. However, services deemed "non-essential" are likely to be axed. Birmingham ended all existing non-essential spending in July with immediate effect and has yet to announce what services will now be considered non-essential, but they may include libraries.

While council tax rises are usually capped at five percent, authorities have been given government permission to introduce sharper rises in extreme conditions. Slough Borough Council—led by the Conservatives with support from the Liberal Democrats—which issued a s.114 notice in 2021, was this year allowed to raise council tax by 10 percent. Conservative-run Thurrock council in Essex issued a s.114 notice last December. Having raised council tax 10 percent last year, Thurrock is warning of a similar rise this year as well.

The first s.114 notice was issued in 2000, but their use has steadily increased in the last five years, reflecting a worsening crisis in government funding and the enthusiastic drive towards privatisation and commercial speculation. Croydon council, with no party in overall control, has issued three notices. Birmingham's s.114 is its second one this year. In June, Liberal Democrat-run Woking council issued a notice over "an extremely serious financial shortfall," warning of the need to find £12 million worth of cuts.

The bankruptcy of Northamptonshire County Council in 2018 resulted in outsourcing and privatisation for the benefit of big business, with the aim of providing the bare minimum service and deferring vital support to charities and volunteers.

That the crisis is collapsing a council the size of Birmingham has forced an acknowledgement of just how much has been slashed from local authority budgets in recent years. Council leader Cotton pointed to the effect of rising inflation levels and the cost-of-living crisis on demand for services, under conditions where the council has lost around £1 billion in funding in the last decade (a cut of over £900 for each resident), a situation replicated across the country.

This was part of a savage austerity onslaught nationally in which over half a trillion pounds (£540 billion) was stripped from public spending by successive Conservative governments, with local councils of all political stripes enforcing austerity at local level, leading to the loss of hundreds of thousands of jobs, cuts to pay and worse terms and conditions.

According to a 2017 study in the *European Journal of Public Health*, just between the years 2010-12, “there were over 500,000 public sector job losses”. The human cost of this was harrowing, with 330,000 excess deaths in Britain between 2012 and 2019 attributed to spending cuts to public services and welfare benefits.

To divert from this systemic crisis, attention is being focussed on one specific financial demand. In 2008, Tony Blair’s Labour government introduced “single status” pay deals, supposedly to create a common and equal pay scale and harmonise conditions for all jobs. No funding was provided for this, so councils used it as a mechanism to equalise wages downwards, resulting in a wave of strikes.

In Birmingham, 5,000 mainly female council workers won a case for equal pay in 2010. The council’s appeal of the decision was rejected in 2012. Since then, the council has paid out £1.1 billion in their ongoing settlement of equal pay claims.

This provided the trigger for the s.114 notice, as external auditors expressed concern that insufficient money had been put aside for these claims in accounts for 2020/21 and 2021/22, meaning that the accounts for these years could not be legally closed.

Councils of all political colourations responded to austerity cuts by hastening their rush into commercial deals, including property speculation. Thurrock’s s.114 notice followed borrowing to invest in solar energy. Woking admitted a “historic investment strategy” of “unaffordable borrowing.”

Labour councils were among the most enthusiastic and reckless in establishing ties with big business. Croydon’s crisis was triggered by the failure of its in-house property development project Brick by Brick.

All the parties have a shared economic agenda of taking from workers and public services to pay for the capitalist crisis. Shadow chancellor Rachel Reeves made clear in an interview with the right-wing *Sunday Telegraph* this month

that Labour is committed to more of the same.

Reeves dismissed any notion Labour in government might have “spending plans that require us to raise £12 billion,” necessitating tax rises on the wealthiest. Instead, in a pledge to continue austerity measures, she urged shadow ministers “to come up with reforms and identify schemes that could be scrapped so that the money can be spent elsewhere,” as “the money is simply not going to be there.”

Of the seven authorities that have issued s.114 notices, four are Labour-run (Birmingham, Croydon, Slough, Hackney) and two are Tory-led (Thurrock, Northamptonshire). Woking, under the Liberal Democrats, issued its notice in response to a staggering £1.2 billion deficit left by the previous Conservative administration. Catastrophic property speculation was involved here, too, with £750 million borrowed for the Victoria Square development, a project revealed to be worth just £200 million in reality.

While bringing councils to the point of bankruptcy, and slashing vital social services, a handful of council leaders and CEOs have reaped huge financial rewards. At Kent council, facing an £86 million deficit, former council chief David Cockburn earned £263,371 in pay and perks up to his resignation in July. His successor will be on a basic salary of £236,000. Birmingham CEO Deborah Cadman earned £244,820 in 2022/23, up from £186,003 the previous year.

Andy Street, Tory mayor of the West Midlands Combined Authority—which covers Birmingham—was able to point out that Labour’s next mayoral candidate Richard Parker, had “stood by and watched council budgets get cut time and time again.”



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