

From austerity to bankruptcy: Tracing the impact of austerity on English local government

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UNIVERSITY OF
CAMBRIDGE



Almost half of England's councils 'could face bankruptcy over £4.6bn deficit'

Damning National Audit Office report says action is needed to address deficit accumulated under Tory-era policy



📍 Birmingham city council is among the councils granted a form of bailout. Photograph: Christopher Thomond/The Guardian

Gove imposes intervention package on Croydon giving Improvement and Assurance Panel powers of instruction

News 20 July 2023 by Jason Holland [🔗](#) [✉](#) [🐦](#) [in](#)



Libraries facing closure as budgets squeezed



| Khadija is one of the many readers who visit South Hornchurch Library

Northamptonshire forced to pay the price of a reckless half-decade

Patrick Butler

Social policy editor

No service will go unscathed with no easy cuts left to make for council that went bust



▶ Matt Golby, leader of Northamptonshire Council
Photograph: Joe Giddens

What were they smoking in Woking? tax payers need to be told

Nils Pratley

Residents will no doubt have to pay a price for their authority's risk taking and subsequent bankruptcy

Thu 8 Jun 2023 15.50 BST

Nottingham city council wasn't reckless. It was hollowed out by austerity

Patrick Butler

Other local authority bankruptcies have been explained away as special cases. But this one may become an all-too-familiar story



How does austerity shape financial distress in local councils?

This presentation

Conceptual contribution:

- The channels from austerity to financial distress

Empirical evidence:

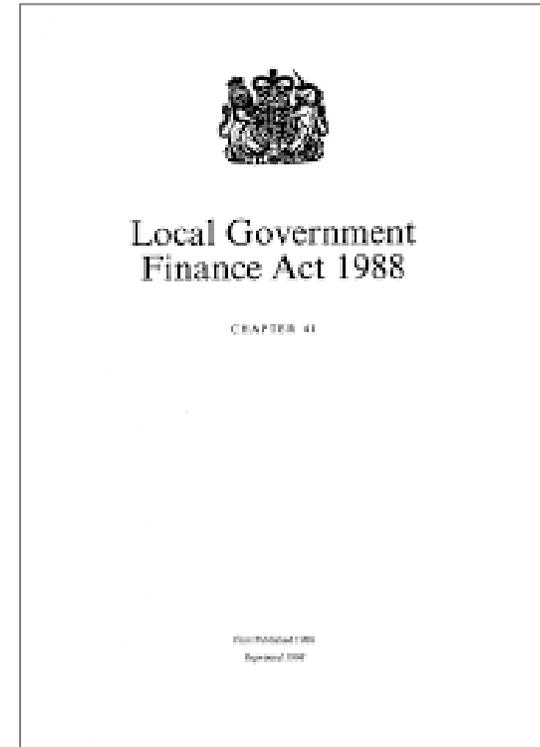
- Higher exposure to welfare cuts is associated with higher financial distress.
 - More exposed councils lose out on council tax revenue and may face higher pressure on spending.
- We don't find association between budget cuts and financial distress...
 - ...because local authorities cut spending in a response to central cuts.

Conceptual framework

“Bankruptcy” in local government

Councils are legally required to balance their budgets.

A section 114 notice is issued when expenditure exceeds income.

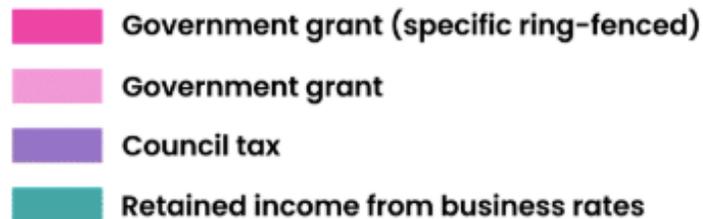
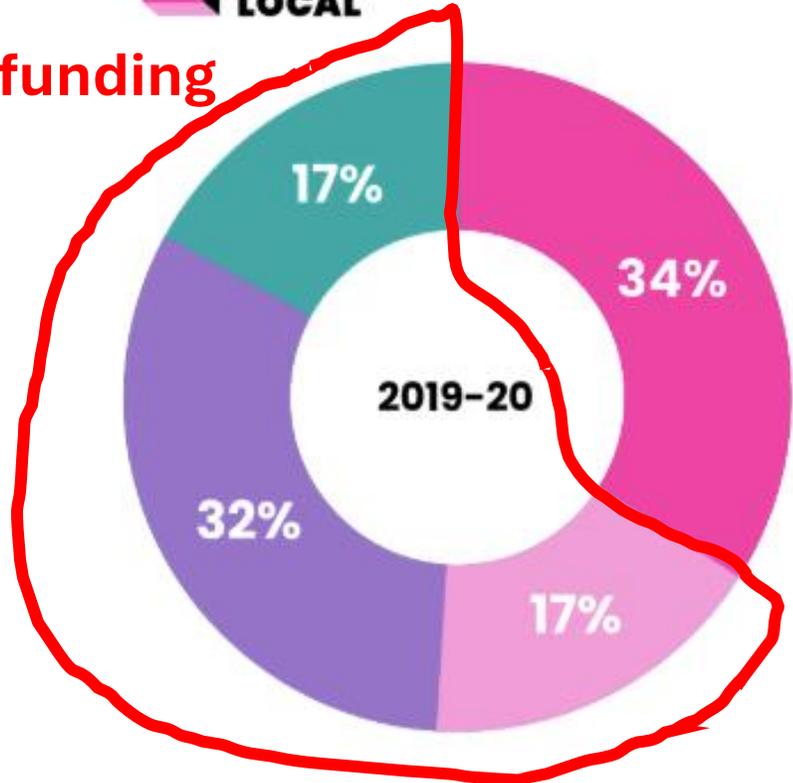


Income

Spending



Core funding

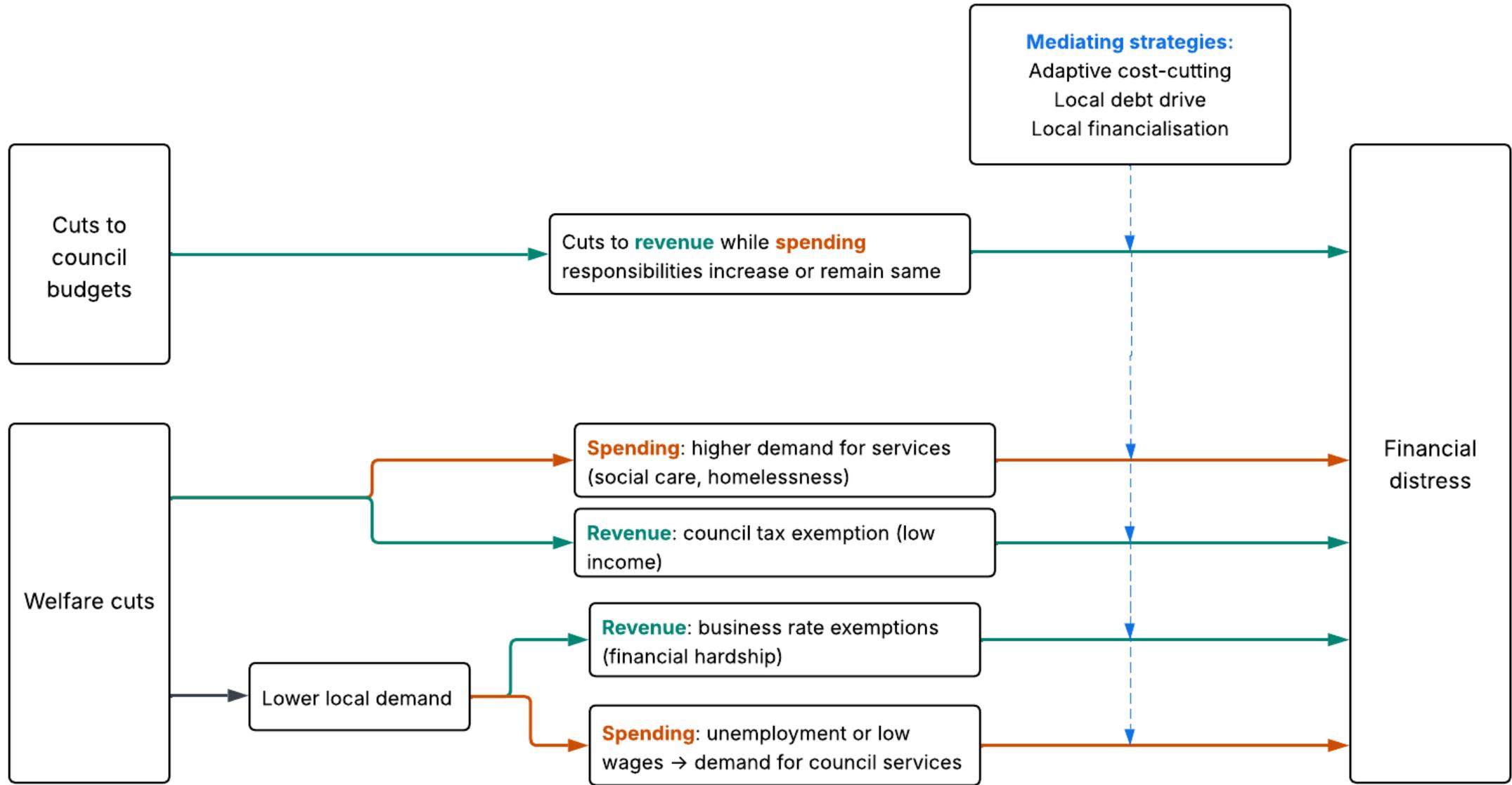


- Housing
- Social care
- Planning and development
- Highways & transport
- Environmental services
- Cultural services
- Education

Conceptual framework: From austerity to financial distress



Conceptual framework: From austerity to financial distress



Data and empirical strategy

Local Council Financial Distress

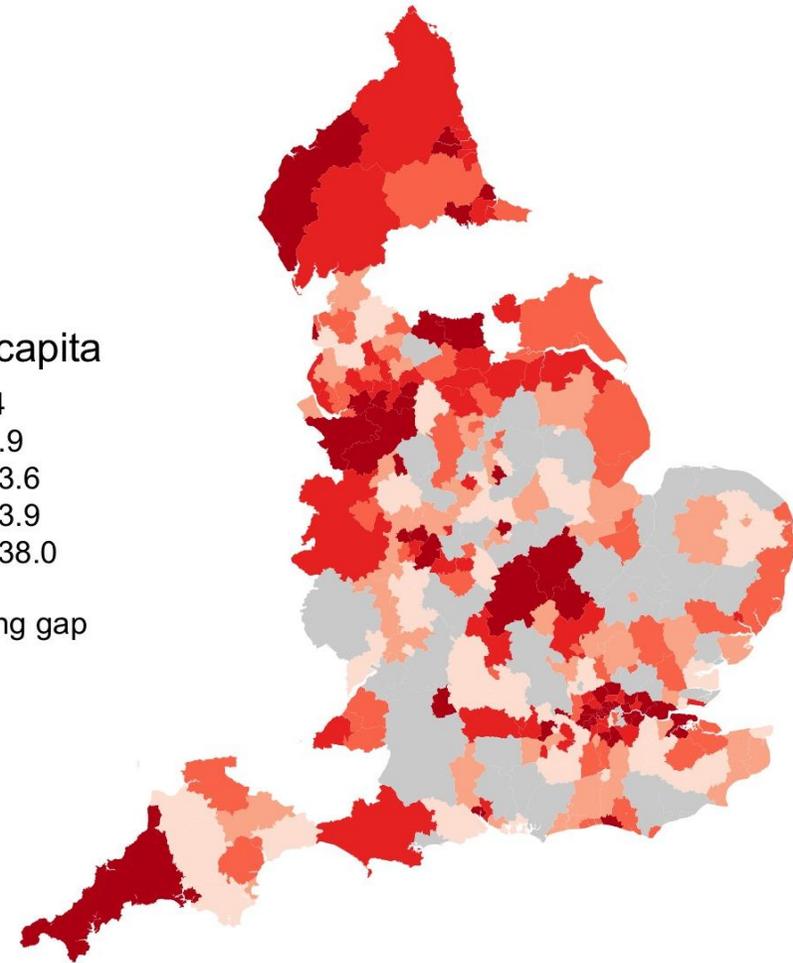
Funding gap (2025/26)

Difference between expected
expenditure needs and income
available to fund them

GBP per capita

- 0.1 to 6.4
- 6.4 to 14.9
- 14.9 to 33.6
- 33.6 to 63.9
- 63.9 to 238.0

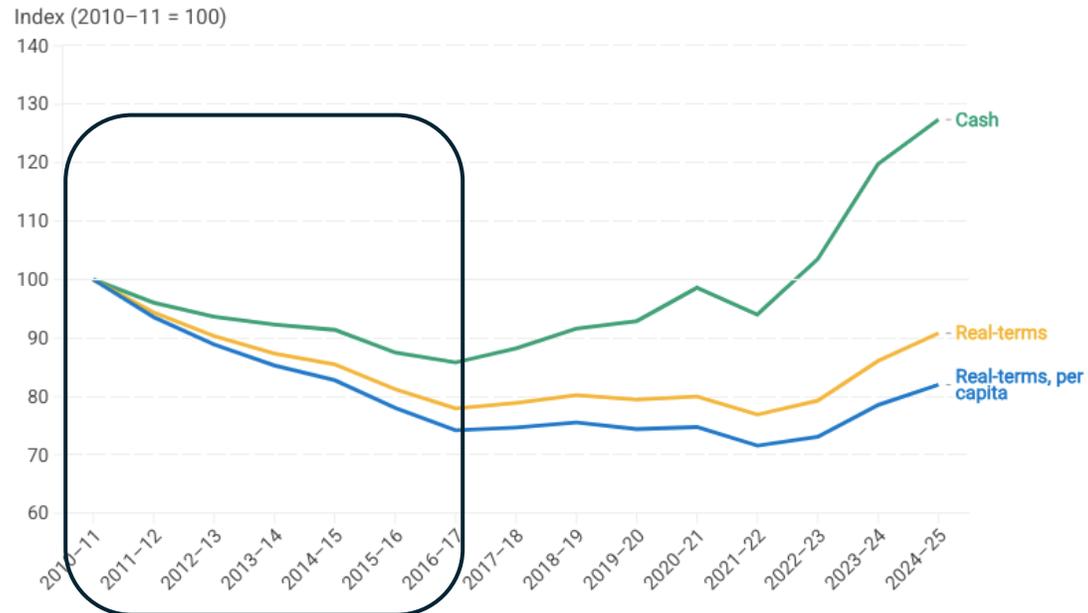
No funding gap



Source: UNISON (2025)

Austerity: Changes to core funding

Figure 8. Cash and real-terms core council funding and funding per person (2010–11 = 100)

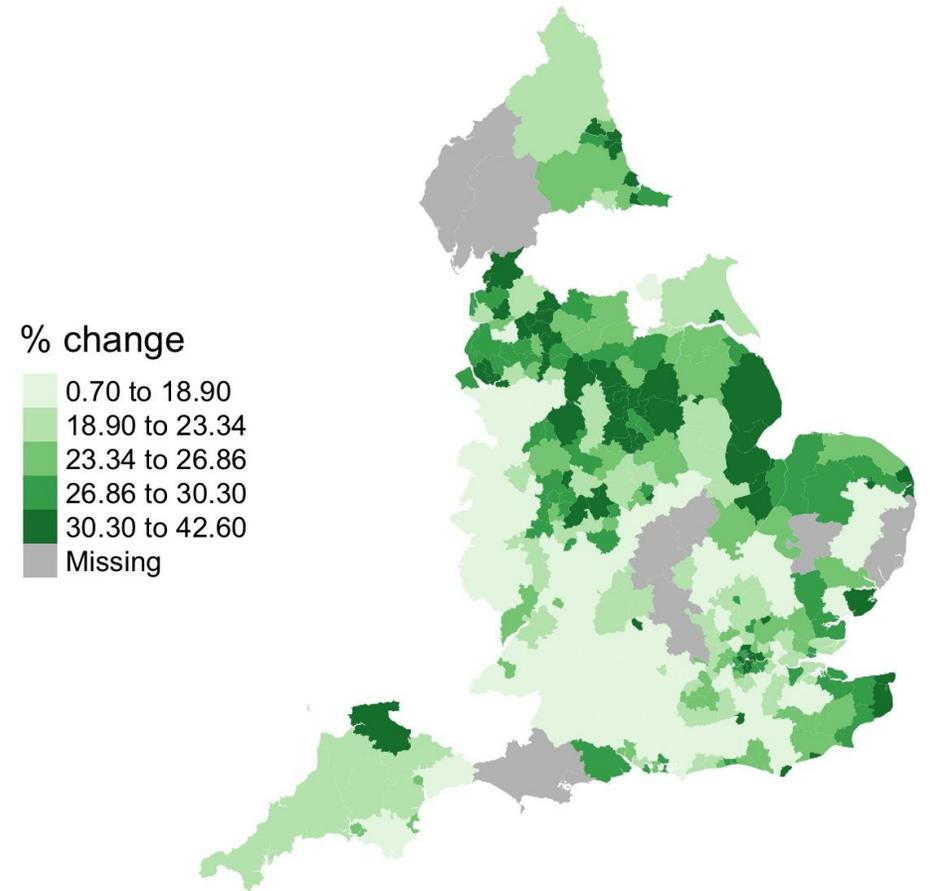


Note and source: Funding includes core spending power, above-baseline growth in business rates, and NHS transfers for social care services, and is described fully in Appendix A. Funding adjusted for inflation using GDP deflators from OBR Economic and Fiscal Outlook – March 2024. Per-person figures reflect the latest ONS mid-year population estimates. [Download the data](#)



Source: IFS (2024)

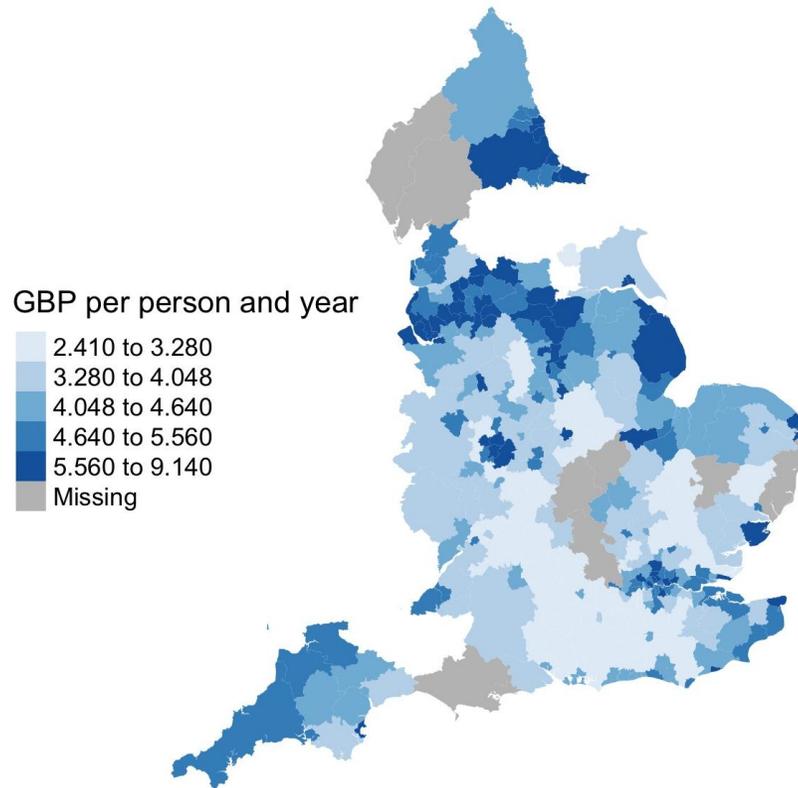
Change in core spending power (2010/11 - 2016/17)



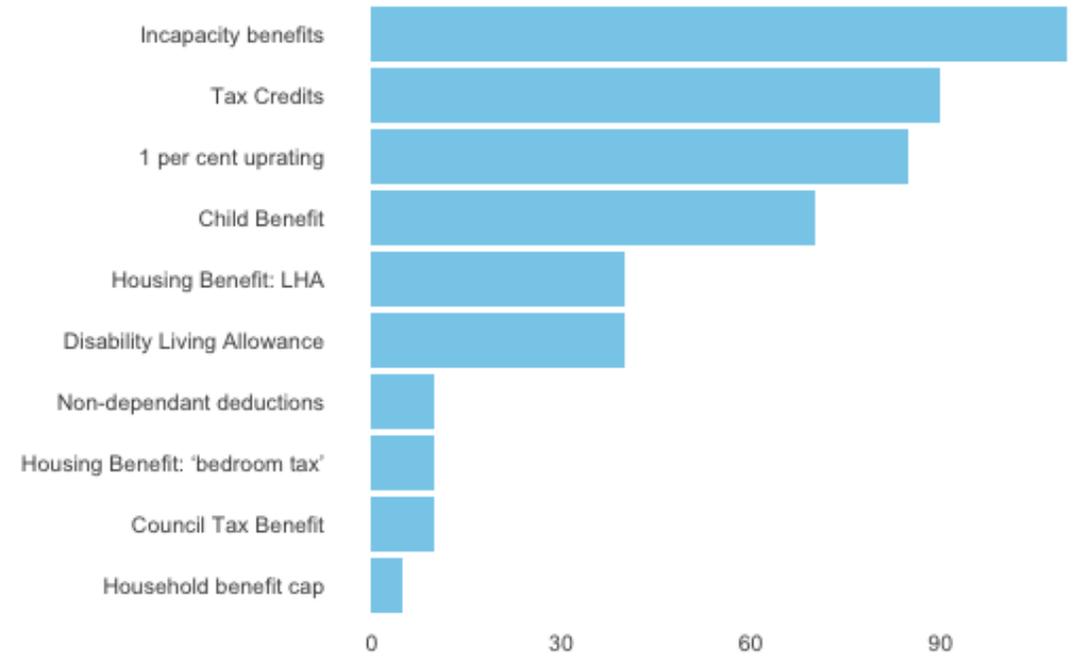
Source: Brien (2025)

Austerity: Welfare cuts

Loss from welfare reforms



Loss per working age adult (£ p.a.)



Empirical strategy

(1) Are funding gaps higher in councils more exposed to austerity?

$$fundinggap_i = \beta_1 budgetcuts_i + \beta_2 welfarecuts_i + \theta X_i + \varepsilon_i$$

- Control variables: economic, demographic, political, financial characteristics of local areas, exposure to 2007 financial crisis and Covid-19 (Antulov-Fantulin et al., 2021; Garcia-Sanchez et al., 2012, 2014; Padovani et al., 2024; Pike & Shaw, 2024).

Empirical strategy

(2) Do welfare cuts put pressure on council revenue?

$$counciltax_{i,t} = \alpha_i + \gamma_t + \sum_{t \neq 2010} \beta_t Year_t \times welfarecuts_i + \varepsilon_{i,t}$$

(3) Do budget cuts affect council spending on local services?

$$spending_{i,t} = \alpha_i + \gamma_t + \sum_{t \neq 2010} \beta_t Year_t \times budgetcuts_i + \varepsilon_{i,t}$$

Data from Ministry of Housing, Communities & Local Government

Results: Are funding gaps higher in councils more exposed to austerity?

	(1)	(2)	(3)
Austerity: Funding cut (% change)	2.271		-0.123
	(1.625)		(2.031)
Austerity: Welfare reform		0.194*	0.199*
		(0.083)	(0.099)
Single-tier authority	1.542***	1.294***	1.285***
	(0.300)	(0.312)	(0.350)
Population growth (2012-23)	-0.005	-0.009	-0.009
	(0.022)	(0.019)	(0.022)
Population 2023 (log)	0.303	0.309	0.310
	(0.273)	(0.261)	(0.263)
GDP p.c. 2023 (log)	0.328	0.422+	0.423+
	(0.233)	(0.237)	(0.234)
Num.Obs.	282	282	282
R2	0.437	0.445	0.445
Political Control, GFC, C19	Yes	Yes	Yes

+ p < 0.1, * p < 0.05, ** p < 0.01, *** p < 0.001

Welfare cuts put pressure on council
spending & revenue

Prior literature

Over 330,000 excess deaths in Great Britain linked to austerity, finds study

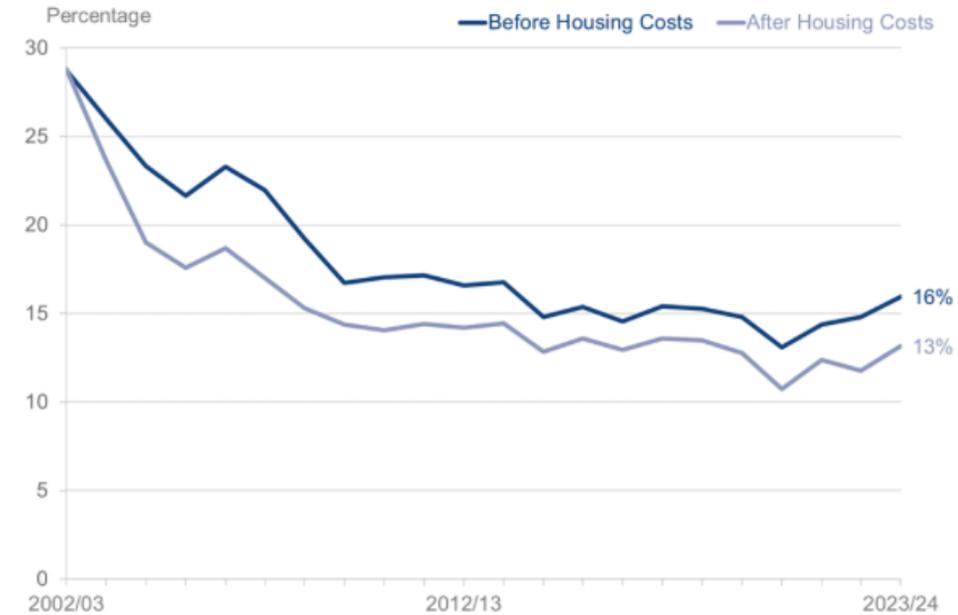
Research comes as government signals fresh round of public spending cuts



Additional deaths over eight years prior to Covid pandemic may reflect people dying prematurely due to reduced income, ill-health, poor nutrition and housing, and social isolation. Photograph: Guerilla/Alamy

e.g., Walsh et al (2022), Berman & Hovland (2024)

Figure 26: Percentage of pensioners in absolute low income, FYE 2003 to FYE 2024



Nearly one-fifth of UK pensioners live in poverty

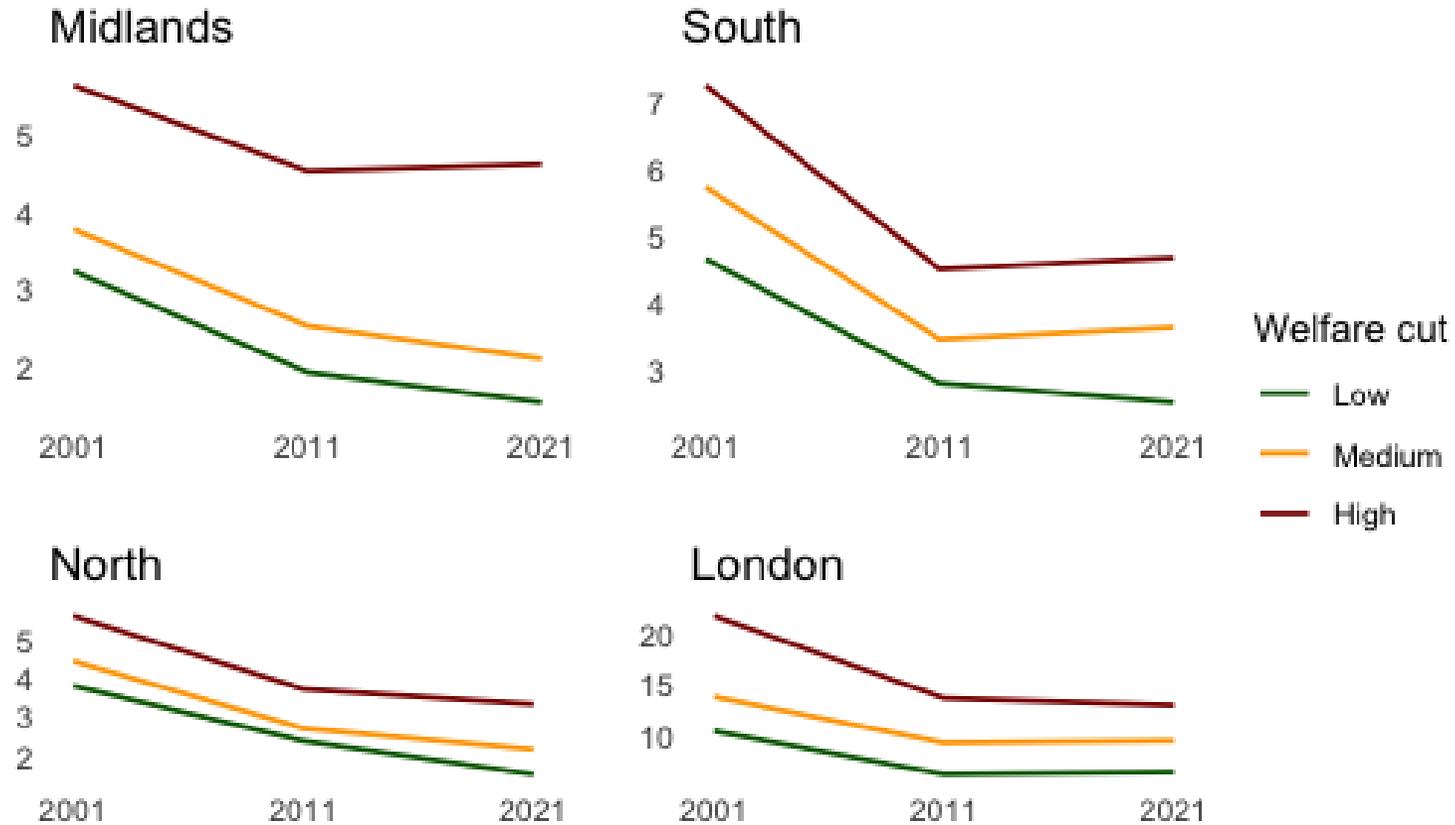
Pension changes and low benefit uptake drive hardship, with over 85s and women worst hit



About 2.1m people are living in poverty, of which about 1.1m are experiencing severe hardship © Christopher Furlong/Getty Images

Pressure on **spending** for housing support

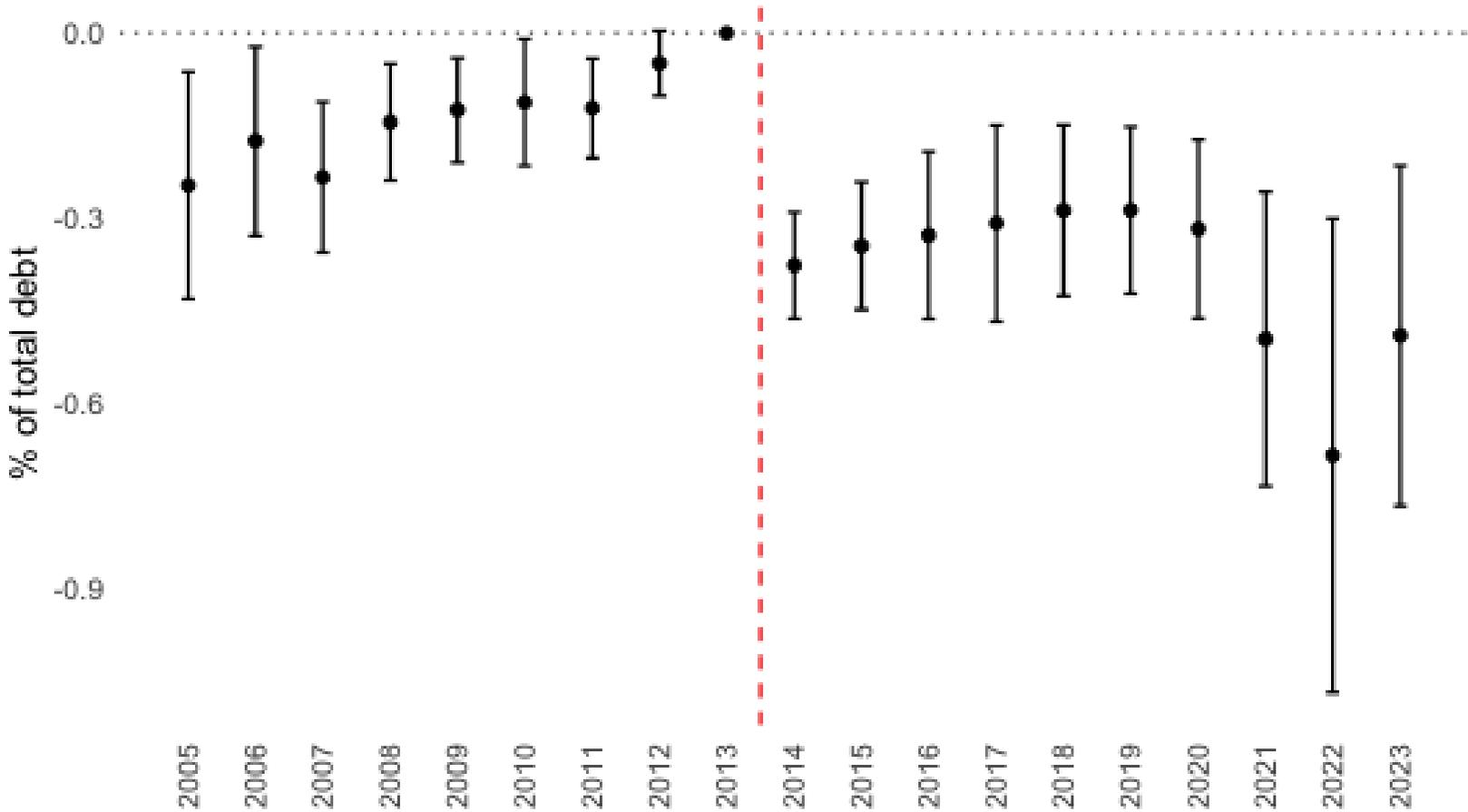
Overcrowding as a % of all households



Source: ONS Census

Council tax revenue

Welfare cuts reduce council tax received as % of total debt owed



Councils navigate budget cuts by reducing spending on key services

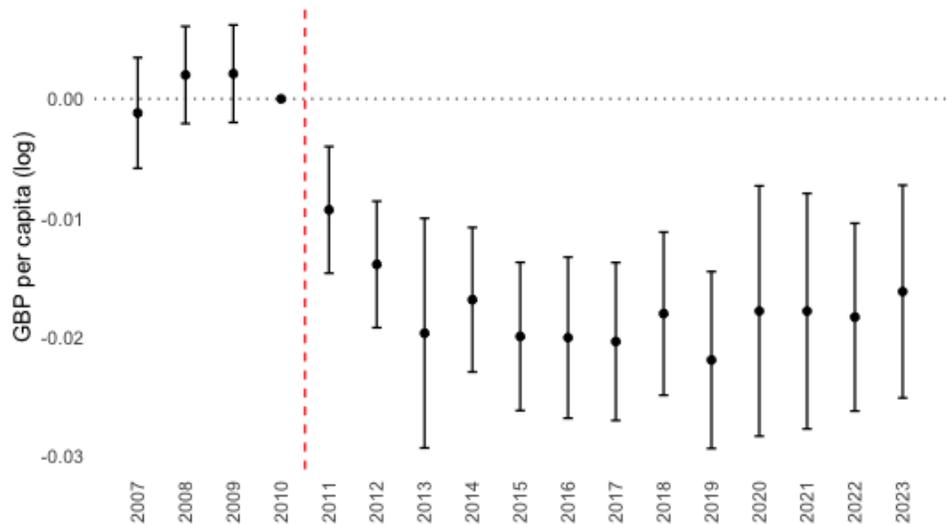
Prior literature

Table 3.

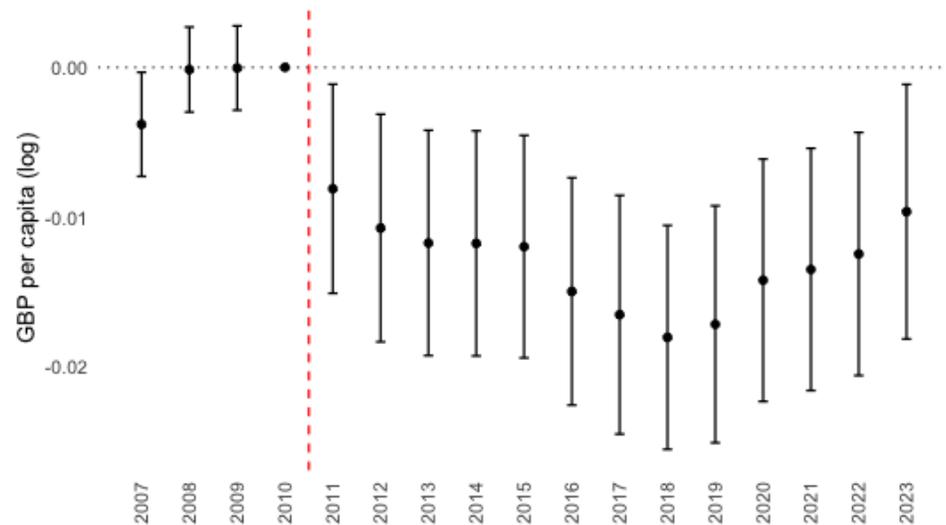
Change in spending by service area in English local authorities, 2010–2011 to 2016–2017.

Service area	Change in spending (%)	Change in spending (£ million)
Planning and development services	-53	-1180
Housing services (GFRA only*)	-46	-1245
Highways and transport services	-37	-1270
Cultural and related services	-35	-1204
Environmental and regulatory services	-17	-910
Central services	-15	-485
Adult social care**	-3	-582
Children's social care	3	238

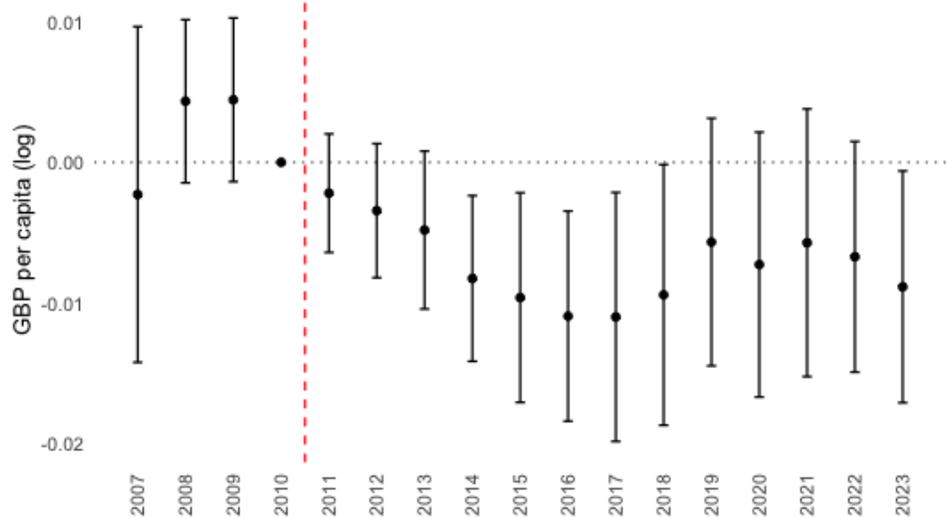
Planning and Development



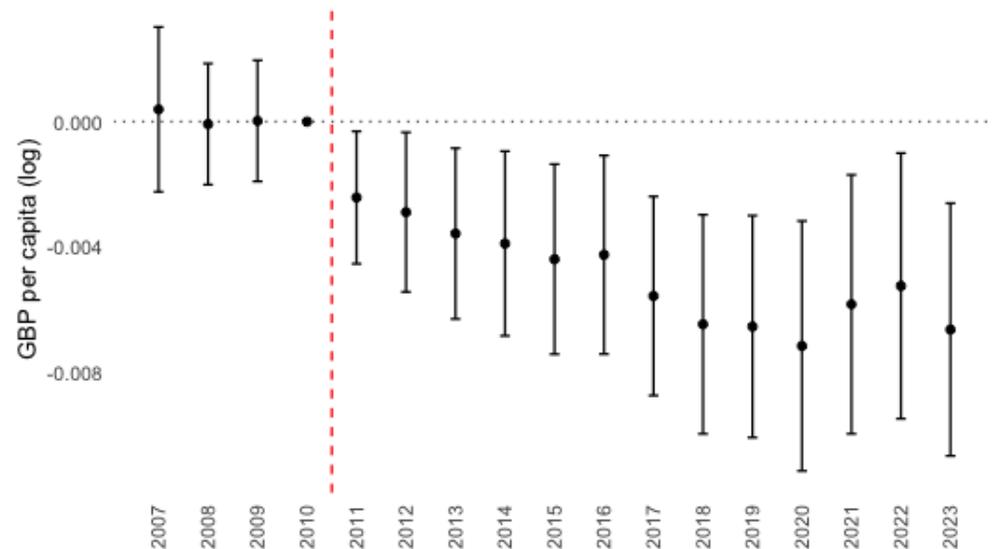
Highways and Transport



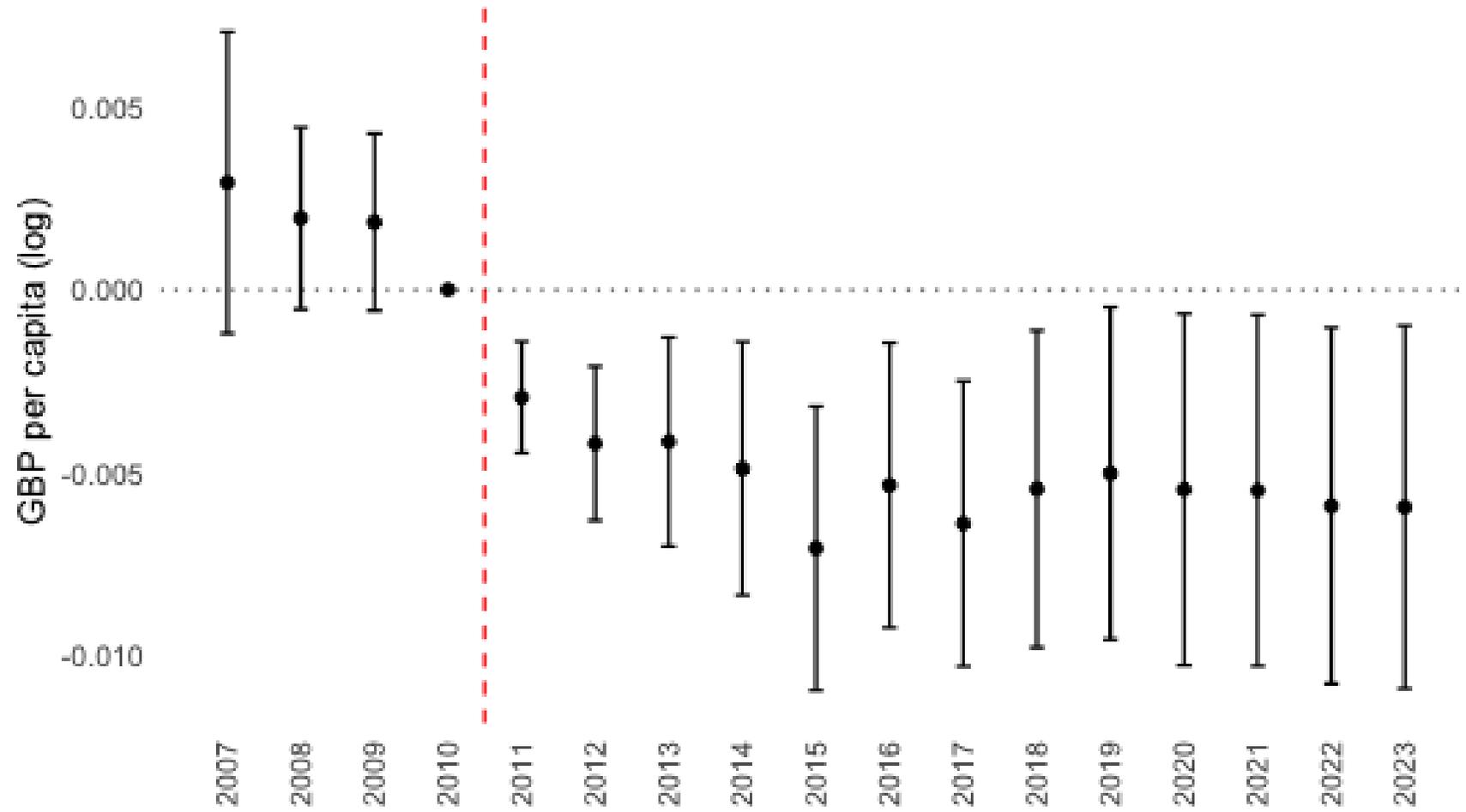
Housing



Environmental Services



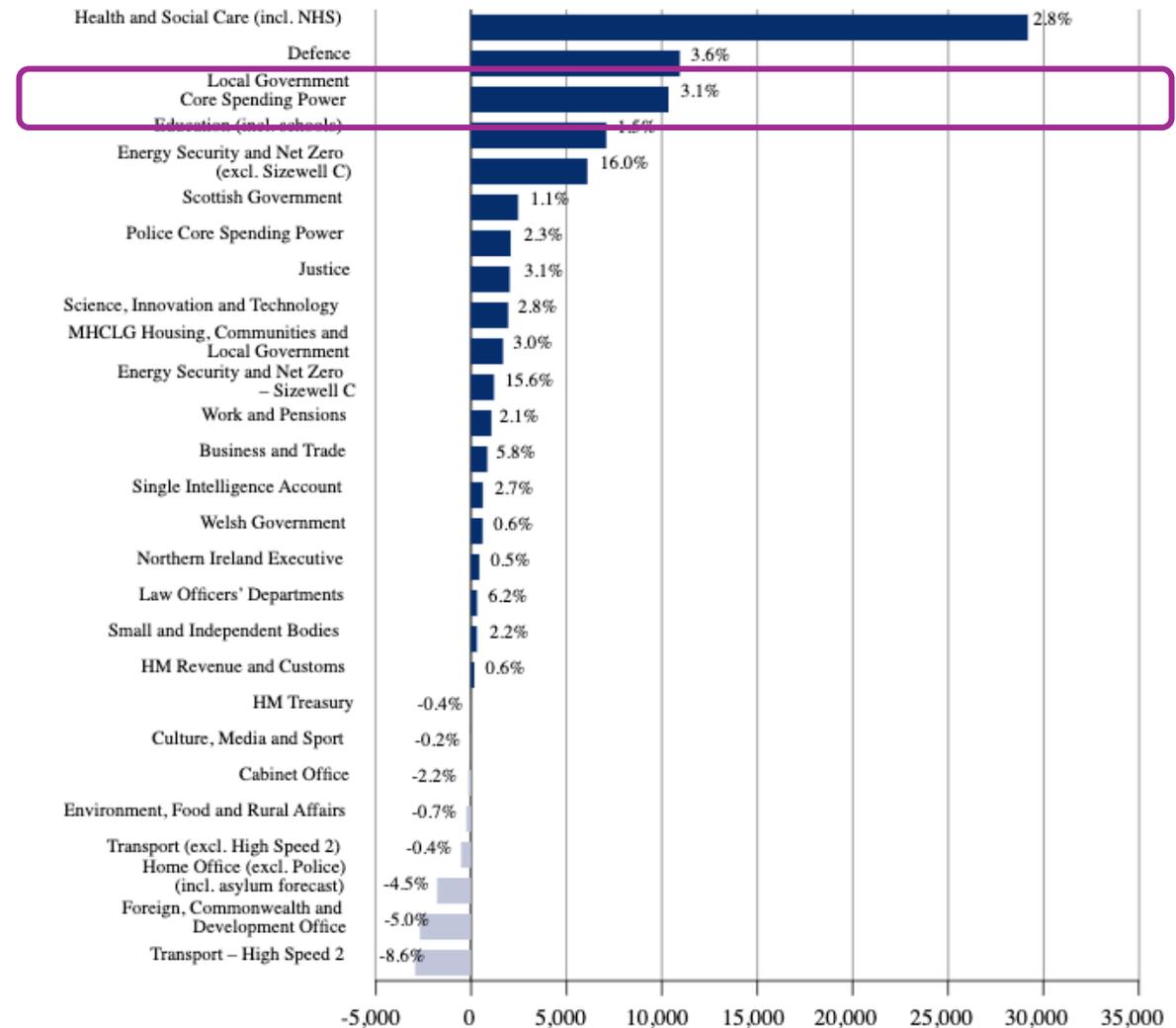
Budget cuts reduce local spending on Social Care



Conclusion

- Post-GFC austerity continues to affect local council finances.
- By increasing deprivation, welfare cuts have put pressure on council spending and revenue.
- While not directly correlated with funding gaps, central cuts to council budgets translated to local service cuts.
 - Sustainable strategy over long term?
 - Loss of know-how and capacity in local government in the face of ‘polycrisis’, climate change?
- What next for council finances?

Chart 5.5: Real terms increase in total DEL between 2023-24 and 2028-29 (£ million, 2024-25 prices)(1), and average annual real growth rate (%)(2)



Source: Office for Budget Responsibility, HM Treasury calculations.

Thank you!

Questions?