

## Britain's 2<sup>nd</sup>-largest city effectively declares itself bankrupt

# BANKRUPT

**The city of Birmingham, the second largest in England after London, has announced to its residents that it can no longer meet its financial obligations. What are the causes and consequences?**

Birmingham has always been at the heart of the UK's growth, from its role in the Industrial Revolution as a manufacturing powerhouse to its current importance as a centre for finance, education and culture. Its diverse population, rich heritage and strategic location have made it a magnet for business, tourism and investment. However, the recent financial crisis has cast a shadow over its illustrious history, raising questions about its future and the wider implications for other UK cities.

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Indeed, Birmingham's financial difficulties have resulted in a 'Section 114 Notice'; in other words, the local authority's Chief Financial Officer has made a declaration that available resources will not cover proposed expenditure, effectively halting all non-essential spending. Although this is not 'bankruptcy' in the traditional sense, it is the closest equivalent for local authorities in the UK. The filing of such a notice is a rare and severe measure, indicating deep financial distress and the need for urgent intervention. The purpose of such a notice is also to spur local authorities into action.

### Anatomy of a bankruptcy

One of the biggest challenges facing Birmingham City Council has been the settlement of a gender pay inequality case. The dispute is worth £760 million and stems from historical disparities, where women were paid significantly less than their male counterparts for similar roles over a long period of time. The arrears faced by the city, have put a strain on its treasury.

At the heart of the scandal was the fact that the city had grossly underpaid its female employees, a decision that may have saved the city money in the short term but is now leading to fiscal disaster. The 2012 ruling by the UK Supreme Court, gave the possibility to thousands of women to sue the city over equal pay, as well as other complaints that later emerged, ultimately leading the city to exhaust its financial reserves and going bankrupt.



As well as settling this dispute, Birmingham has had to deal with the effects of central government spending cuts over the last decade. Austerity measures have had the effect of reducing funding to local authorities, leading to a reduction in services and increased pressure on existing resources. For Birmingham, these cuts have exacerbated existing financial challenges, limiting the council's ability to tackle pressing issues or invest in future growth. While local factors have played an important role in Birmingham's financial crisis, it is essential to understand the city's difficulties within a wider global economic context. Economic downturns, including the COVID-19 pandemic, uncertainties in international markets and global events, such as the ongoing war in Europe, are having a detrimental effect on local economies. Birmingham, with its diverse economy and international links, has not been immune to these pressures. The city's financial difficulties can be seen as a reflection of the wider economic challenges facing cities and indeed countries around the world

### Birmingham's bankruptcy: repercussions for the city and beyond

The immediate impact of Birmingham's financial difficulties has already been felt by its residents. The lodging of the Section 114 notification has resulted in all non-essential spending being halted. This means cuts to public services, from libraries and community centres, to parks and even transport. Essential services will not be spared either, as they face the challenge of maintaining their activities against a backdrop of diminishing resources.

Other local authorities in the UK could face the same challenges as Birmingham. With many councils operating on reduced budgets, the financial health of local government is under the microscope. Birmingham's predicament has highlighted the urgent need for transparent financial management and systemic reform. It is a reminder of the delicate balance that local authorities must strike and the constant need for support from central government. Other local authorities need to take proactive steps to ensure that they do not find themselves in a similar situation. In trying to navigate these troubled waters, Birmingham City Council has been faced with some difficult decisions. The council may be forced to sell off some key assets. These include a 7% stake in Birmingham Airport and a vast estate of land and property valued at around £2.4 billion. While these sales may bring immediate financial relief, they also raise concerns about the long-term economic implications. The sale of valuable assets may offer a temporary solution, but it could also restrict the council's income streams in the future, which could lead to further financial difficulties. The obvious question then is: will these short-term solutions lead to a deeper deficit from which the city will one day have to extricate itself? Only time will tell.

### History doesn't repeat itself, but it does rhyme

When a city as large as Birmingham is facing financial difficulties, it is natural to look for parallels in history to understand the wider context. While each city's financial crisis is shaped by a unique socio-economic and political landscape, common lessons and patterns emerge.

Detroit's 2013 bankruptcy is one of the largest municipal bankruptcies in US history. As in Birmingham, Detroit's financial crisis 'fermented' for years, driven by the simultaneous decline of several industries, a declining population and financial mismanagement. However, the consequences of Detroit's bankruptcy offer a glimmer of hope. Thanks to strategic investment, community involvement and urban renewal projects, Detroit is on the road to recovery, showing that cities can reinvent themselves after a crisis. Another American example is Stockton, which in 2012 became the largest American city at the time to declare itself bankrupt. The city's financial difficulties were linked to the 2008 financial crisis, overly generous pension promises and ambitious development projects that came to nothing. Stockton's approach to financial recovery has been one of public engagement. The town involved its residents in the difficult decisions about cutting services and raising taxes, emphasising transparency and collaboration. Across the Atlantic and closer to the UK, Valencia offers a European perspective on

the financial crises facing cities. In the early 2000s, buoyed by the boom in the Spanish economy, Valencia embarked on ambitious infrastructure project. However, the 2008 financial crisis hit Spain hard, and Valencia's debts became far too large. The city's financial difficulties highlighted the risk of over-reliance on debt financing and the importance of fiscal prudence.

These examples clearly show that cities who rely heavily on a single industry or economic sector are more vulnerable to financial shocks. Economic diversification helps to cushion the impact of global downturns. Moreover, in times of crisis, transparency and public commitment become paramount. Finally, the recovery of cities like Detroit highlights the importance of making strategic investments after the crisis. These investments, whether in infrastructure, education or community development, can pave the way for long-term growth and resilience.

### Cities on the brink of collapse?

As we saw earlier, Birmingham's descent into financial distress has been influenced by a myriad of factors. On a global scale, many cities are showing similar warning signs. Naples, for example, has been struggling with debt for years. The city's difficulties are compounded by lawsuits and demands for back pay from public sector workers, echoing some of Birmingham's difficulties. Closer to Birmingham, Leeds has had to face up to difficulties linked to cuts in public spending. The city's financial stability is being tested by reduced funding from central government and increased demand for services. Although these cities are not yet facing a crisis on the scale of Birmingham's, the similarities in the challenges they face are a warning. Proactive financial management, economic diversification and public engagement are essential to avoid the same fate as Birmingham.

### Conclusion

Birmingham's financial crisis, while worrying, is not insurmountable. History is full of examples of cities that have faced serious financial problems and emerged stronger, having learnt from their past mistakes. As Birmingham looks to the future, a number of strategies and measures are taking shape.

One of the immediate measures being considered by Birmingham is the sale of major assets. While this may provide an influx of funds in the short term, it is crucial that these sales are approached strategically. Assets such as Birmingham Airport and large estates can be leveraged to provide immediate relief and generate long-term income. Collaborative partnerships, leases or partial sales can provide a balance between immediate financial needs and future income streams. Private sector involvement can be a game-changer for cities in financial distress. Public-private partnerships can lead to investment in infrastructure, urban development and essential services. By pooling resources and expertise, the city can embark on projects that would be financially difficult to undertake independently. Whatever course of action is adopted, the role of central government in the UK is essential. Financial support, policy reform and strategic direction can provide a buffer on which Birmingham can rebuild. Collaborative efforts between local

and central government can lead to sustainable financial models and, most importantly, ensure that the problems experienced today are not repeated in the future.

As the success stories of previously failed cities show, Birmingham's people are its greatest asset. Involving the community in making decisions, finding solutions and implementing recovery measures can foster a sense of ownership and collaboration. In addition, promoting innovation and entrepreneurship can lead to new sources of income and job creation. Many cities around the world have faced and overcome financial challenges. Understanding the measures they have implemented and adapting best practice can provide Birmingham with a proven roadmap for recovery.

As Britain's second city faces unprecedented challenges, it is at a crossroads. The choices made today will undoubtedly shape its future for generations to come. By making strategic decisions, working together and focusing on sustainability, Birmingham can emerge from the current crisis and lay the foundations for a prosperous and resilient future.

## For further information

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