

Birmingham City Council effectively declares bankruptcy

Birmingham City Council has effectively declared bankruptcy after being hit with a £760m bill to settle equal pay claims.

The council said it had issued a section 114 notice, confirming that all new spending, with the exception of protecting vulnerable people and statutory services, must stop immediately.

In a statement declaring itself in financial distress, the local authority said it 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 Labour-run council is the largest local authority in Europe, comprising 101 councillors (65 Labour, 22 Conservative, 12 Liberal Democrat and two Green).

The statement read: “Birmingham City Council has issued a s.114 notice as part of the plans to meet the council’s financial liabilities relating to equal pay claims and an in-year financial gap within its budget which currently stands in the region of £87m.

“In June, the council announced it had a potential liability relating to equal pay claims in the region of £650m to £760m, with an ongoing liability accruing at a rate of £5m to £14m per month.

“The council is still in a position where it must fund the equal pay liability that has accrued to date (in the region of £650m to £760m), but it does not have the resources to do so.”

It added: “The council’s senior officers and members are

committed to dealing with the financial situation and when more information is available it will be shared.”

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Equal pay crisis

Sky's Midlands correspondent Becky Johnson said the council has been in talks in recent months over the management of finances in Britain's second city and the equal pay crisis.

It comes after a Supreme Court ruling back in 2012 found in favour of mostly female employees of Birmingham City Council – and that a bonus scheme that was handed out to staff in certain roles favoured those which were mainly taken up by men.

Johnson said: "They have been paying out these claims over the years, but the bill is now increasing by about £14m a month and currently stands at £760m – and is just not money the council can afford to spend.

"We know over the summer they stopped essential spending to try to meet this bill – they tried to do this without taking this measure."

She said the implications of the section 114 notice are "serious", adding there will be a huge reduction in investment from the council in the city while it tries to figure out how it is going to pay the bill.

Political fallout

"Now this has provoked a huge political row," Johnson added. "The leader of the Conservative group is accusing the Labour-led council of failing to get a grip of the equal pay issue, and accused them of lying to the public that things were looking rosier than they were financially over recent years."

Councillor Robert Alden, leader of the Conservative opposition, said: "Labour's failure in Birmingham has become clear for all to see. What Labour pledged as a golden decade ahead to voters in 2022 turns out to be based on budgets in 20/21 and 21/22 that did not balance and were unfunded.

"Combined with Birmingham Labour's refusal to deal with equal pay over the last decade this has created this mess where residents will now lose valuable services and investment."

He added: "Birmingham Labour have no grip of their mess and no ability to fix it, hence why the final say on spending control has now been removed from the Labour political leadership."

'Unprecedented financial challenges'

In a joint statement, council leader John Cotton and his deputy Sharon Thompson, said: "Like local authorities across

the country, it is clear that Birmingham City Council faces unprecedented financial challenges, from huge increases in adult social care demand and dramatic reductions in business rates income, to the impact of rampant inflation.

“We implemented rigorous spending controls in July, and we have made a request to the Local Government Association for additional strategic support.

“Today’s issuing of a Section 114 Notice is a necessary step as we seek to get our city back on a sound financial footing so that we can build a stronger city for our residents.

“Despite the challenges that we face, we will prioritise core services that our residents rely on, in line with our values of supporting the most vulnerable.”

Other councils which have effectively declared bankruptcy

Hackney Council issued a section 114 notice in 2000, with Northamptonshire County Council following suit in 2018.

Croydon council issued its third section 114 notice in two years in November 2022, while Thurrock in Essex took the step in December last year after it got into difficulties over borrowing large sums to invest in solar energy.

Woking also issued a section 114 in June this year due to what it said was “an extremely serious financial shortfall owing to its historic investment strategy that has resulted in unaffordable borrowing, inadequate steps to repay that borrowing and high values of irrecoverable loans”.

‘Concerning’ for residents

Prime Minister Rishi Sunak’s official spokesman said: “Clearly local government is vital to our communities and we know they have been facing pressures. The government for its part has stepped in to provide support, an additional £5.1bn to councils in 23/24, which is more than a 9% increase for

Birmingham City Council.

“Clearly it’s for locally elected councils to manage their own budgets, I know the department has been engaging regularly with them to that end and has expressed concern about their governance arrangements and has requested assurances from the leader of the council about the best use of taxpayers’ money.”

He acknowledged Birmingham has a “particular issue around equal pay settlements” and said ministers have “commissioned an independent governance review which will report in the coming weeks”.

“It will be concerning for the people of Birmingham and it is important that the council provide reassurance and deliver on what has been requested by the department,” he added.