

THE DEPTHS OF THE CUTS:
THE UNEVEN GEOGRAPHY OF
LOCAL GOVERNMENT
AUSTERITY

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LOCAL GOVERNMENT AUSTERITY**

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Abstract

Austerity, the sustained and widespread cuts to government budgets, has characterised Britain's public policy since 2010. The local state has undergone substantial restructuring, driven by major budget reductions from central government. Hitherto, few studies of austerity in the UK have considered the interplay of national and local policies. We contribute a fine-grained spatial analysis of local authority budgets, highlighting their socioeconomically- and geographically-uneven impacts. We identify substantial variations between authorities in terms of funding, local tax-base, fiscal resources, assets, political control, service-need and demographics. We argue that austerity has actively reshaped the relationship between central and local government in Britain, shrinking the capacity of the local state, increasing inequality between local governments, and exacerbating territorial injustice.

Key words: Urban Austerity, State Rescaling, Great Recession, Territorial Injustice, Local Government Restructuring, Fiscal Disciplining

JEL Codes: H, H1, H7, H12

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Public finances are one of the best starting points for an investigation of society, especially though not exclusively of its political life. The full fruitfulness of this approach is seen particularly at those turning points, or better, epochs, during which existing forms begin to die off and to change into something new. (Schumpeter, 1918)

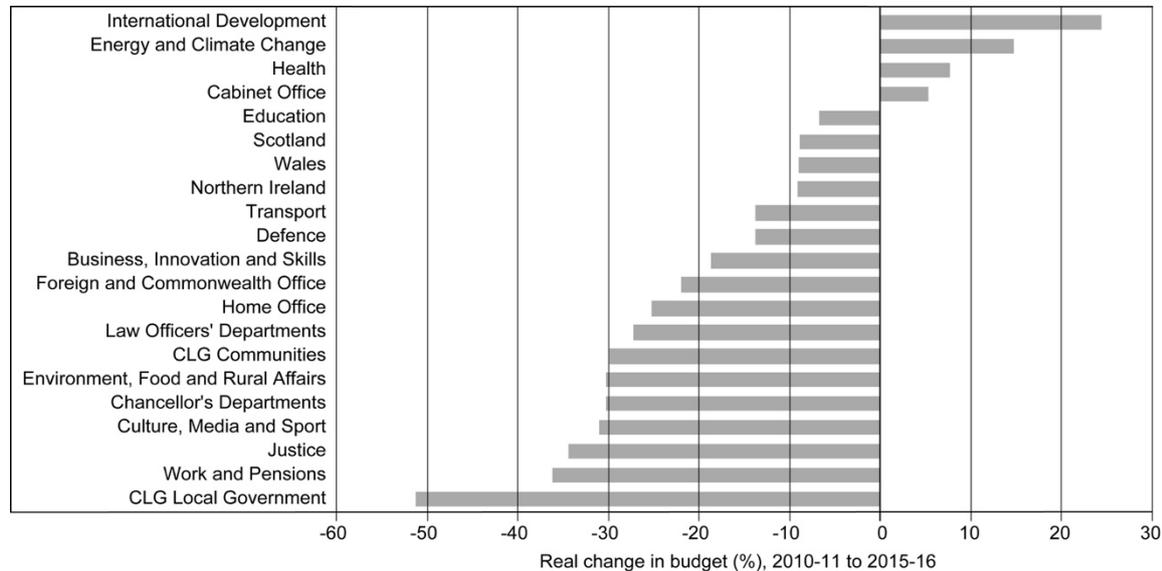
1. Introduction

Public finance is politics hidden in accounting columns. Despite its explicit and codified nature, the bureaucratic language, norms and conventions of public finance often make the nature of social and political change opaque. Like Schumpeter, we are interested in the societal and political transformations which public finance causes and what this symbolically reflects. Given the importance of the financial crisis of 2008 as a “turning point” or critical juncture, this paper examines the public finances of local government in Britain as a way to understand austerity and its role in reshaping the relationship between central and local government. Contemporary austerity in Britain has become both a powerful political discourse and an integrated policy of rapid cuts to state expenditure. After the global financial crisis of 2008, the UK government pursued emergency stimulus measures and bank bailouts to avert financial collapse and, thus, the private sector financial crisis became a sovereign debt crisis. However, by 2010, UK politicians diagnosed an unambiguous problem of sovereign debt and offered a clearly defined prescription of austerity (Farnsworth and Irving, 2018), creating what Streeck (2014) calls the “consolidation state”. Although there was considerable public debate about the wisdom of austerity - its pace and its scope - politicians and much of the popular media presented a narrative around austerity that invoked inevitability, the probable consequences of spooking financial markets, and the prudence of fiscal responsibility (Fairclough, 2016).

UK austerity policy focused on across-the-board budget cuts to almost all government departments. While a few departments, such as International Development experienced growth, most saw substantial cuts to their budgets (Figure 1). By far the largest cuts between 2010 and 2015 fell upon the Department of Local Government and Communities, which lost over half its funding during this period. The cuts to the Department of Communities and Local Government budget are substantial and sustained over this period, making these cuts one of the key drivers in restructuring local government and public service provision in Britain.

Figure 1. Real-terms cuts in departmental expenditure limits, 2010–11 to 2015–16. NB The 2015-16 defence budget includes the special reserve. The CLG

Figure 1.



Local Government budgets for Wales and Scotland are adjusted for council tax benefit localisation and business rates retention. Source: Institute for Fiscal Studies (2015), 'Recent cuts to Public Spending', figure 2. Based on HM Treasury Data (July 2015 Budget).

The recent deep cuts to central government spending on local government, and how this austerity effects local government across Britain, require systematic analysis. To date scholars have created a strong body of localised research into British austerity, focusing on particular services or case studies (Davies and Blanco, 2017; Hastings et al., 2017; MacLeavy, 2011; Penny, 2017). There are studies of the political narratives enabling austerity (Pemberton et al., 2016; Strong, 2014), and research into individuals' and families' strategies of survival (Hall 2015). However, there is little analysis comparing the cuts across local governments in the UK or exploring the uneven nature of regional patterns. This is partially due to (i) the diversity of local government structures, which makes changing budgets extremely difficult to compare; (ii) changing responsibilities of local government and insufficient government data, which make data hard to access and then compare; and (iii) the variation in local circumstances and local responses to austerity measures which means that a cuts to central government grant do not inevitably translate into service spending cuts of the same magnitude. Together these factors have obscured the broad patterns of cuts that have emerged over the past decade.

Despite having good data on *total* national cuts in departmental funding including for local government expenditure, patterns of cuts and the specificities of how local economies are affected remain opaque. Local governments vary in their population's need for services, their reliance on central grants, and their ability to raise local revenue. Together, this variation makes analysis and comparison of the cuts to local government budgets a challenge. We bring together a series of secondary data sets to identify fundamental changes in the structure of the local state in Britain and situate this within broader cultural and political changes. We argue that this reconfiguration of the local state is fundamentally spatial as the uneven distribution of public resources results in variable access to local state public services. We show that increased decentralisation in revenue raising and responsibility for the provision of public goods, together with an aversion to increased taxation, has led to a sharp shift away from discretionary spending – what Streek (2014) calls the social and physical infrastructure -- and towards mandatory spending. Thus, austerity pushed down to the level of local government in the UK has resulted in (i) a shrinking capacity of the local state to address inequality, (ii) increasing inequality between local governments themselves, and (iii) intensifying issues of territorial injustice.

2. Theories of austerity and the state

Why would states pursue a policy of budgetary contraction during the most severe economic downturn seen in a generation? While a few economists publicly advocated for counter-cyclical stimulus spending after the global financial crisis (Stiglitz et al., 2014; Krugman, 2015; Galbraith, 2016), others offered theoretical justifications for contemporary austerity which were closely intertwined with debates surrounding public debt and the fundamental role of the state in containing that debt and reassuring bond markets. Reinhard and Rogoff (2009) researched the relationship between public debt and economic growth and argued that historically, output and employment recover very slowly after a financial crisis. They argued for expansionary contraction – that austerity policies function to reduce public debt-to-GDP ratios and increase growth. Additionally, the pair identified a public debt “threshold” (90% of GDP) at which economic growth actually contracts (Reinhard and Rogoff, 2010). At the same time, other proponents of quickly reducing public debt argued that austerity or “fiscal consolidation” could be expansionary since reduced government spending would increase private sector confidence and generate increased growth (Alesina and Ardagna, 2010). These academic seeds fell on fertile policy ground. Reinhard and Rogoff, and Alesina and Ardagna's findings became extremely influential, as they were embraced by politicians, financial analysts, and especially international economic institutions who pushed many countries to either willingly or unwillingly adopt austerity policies.

However, these theories underpinning the revival of austerity did not go unchallenged. For example, Herndon, Ash and Pollin (2014) refuted Reinhart and Rogoff's findings and identified problems in their data, methods, and coding. When remedied, the public debt "threshold" disappeared (Herndon, Ash and Pollin, 2014). Additionally, scholars like McCausland and Theodossiou (2016) and Boyer (2012) find that fiscal austerity is associated with increasing public debt as a percentage of GDP, and has a damaging effect on economic recovery and growth.

However, despite these challenges to the efficacy of austerity, the austerians' conclusions and policy recommendations reinforced the ideological bent of many conservative policy makers who argued that reducing public debt was only "common sense" and would function to increase growth and prosperity (Konzelmann et al., 2016; Peck, 2014; Featherstone et al., 2012). To many academic and policy observers the adherence to austerity was part of a longer-term political project to promote a smaller state and to redefine the welfare state at a national and local level (Hamnett, 2014). Reducing public debt went hand-in-hand with shrinking the state (Blyth 2013; Streeck, 2014; Boyer 2012; Peck 2014; Featherstone et al. 2012).

3. Theories of State Rescaling

The restructuring and rescaling of the state is not new. There exists a large literature which explores state restructuring in the 1980s and 1990s, following the economic crisis at the end of the Fordist period (Brenner 2009; Jessop 1990, 1993; Peck 2001; Lobao et al. 2009). Much of the debate focused on the shift from a national Keynesian welfare state towards more market-oriented and localized government, variously conceptualised as a post-Keynesian, post-Fordist, Schumpeterian workfare, and neoliberal state. The dominant view was the nation state was firmly on the retreat – challenged by globalisation, supranational institutions, and by demands for power to be shared with the subnational state (Amin and Tomaney, 1995; Tomaney and Ward, 2000).

However, over time more nuanced analysis emerged as it became clear that the nation state remained a potent force and that actual evidence for decentralization of any significance is only partial and often contradictory (Cox, 2009). Brenner reminds us that nation state is not a static territorial entity, but is instead constantly being produced and reproduced, and changes in the spatial *scale* at which it operates are a fundamental part of this constant transformation (Brenner 2004). He argues that the nation state is "subject to multi-faceted and ongoing processes of qualitative adaptation rather than a simple quantitative diminution of their powers" (Brenner 2009). Rather than viewing these changes as a simple diminution of the state, Brenner shows that multi-scalar forms of governance are

proliferating, allowing the state to operate simultaneously in specific places and at multiple scales (Brenner 2004, 2009). Similarly, Cox reminds us that state rescaling is neither unidirectional nor zero sum; and that the increase in the power of regional and local government does not inevitably diminish national state powers (Cox, 2009).

4. Austerity and state rescaling

This debate on state rescaling gained new impetus from analyses of the effects of austerity upon the structure and function of the state. Political economy scholars have long focused on the importance of the city as the nexus of the collective consumption of public services (Castells, 1977) and contemporary austerity has again brought the urban scale into sharp focus (Peck, 2014; Davidson and Ward, 2018; Donald et al., 2014).

Peck (2012) argues that austerity is often concentrated in cities as national (and state-level government in the US) “dump” the fiscal crisis onto the local state, thus devolving austerity to the local level. Often public service provision is pushed down to lower levels of government with no corresponding revenue stream – concentrating the tensions and politics of fiscal crisis onto local government. This is a form of “fiscal discipline”, where local governments are forced to make the difficult decisions around budgeting and the provision of public goods and services. This form of “urban austerity” drives a division between those cities which have the economic resilience to withstand this fiscal disciplining and those that are unable to do so and are forced to downsize local government and retrench public services. Thus, austerity pushes and legitimises rescaling of the state at the local level.

In the US, Peck (2012) argues that contemporary austerity policy concentrates austerity at the local level, where anti-tax regimes are stronger and redistributive politics less well-embedded than in many European states. This is not simply a return to the Reaganite policies of the 1980s, but builds upon previous policies, “consolidating and intensifying their underlying logics and their (deepening contradictions).” (Peck, 2009: 630). Peck reflects on the:

deep-seated political motivations ... to denigrate the state (and its allies) and to cast aspersions on the viability of governmental solutions, the serial underperformance of the state becoming a self-fulfilling condition of this wilfully malign process of neglect. (Peck, 2012: 630)

Other scholars remind us that budget cutbacks and service retrenchment were already commonplace in local government long before austerity and the global economic crisis. In the US context, Lobao and Adua (2011) show that many local

governments in the US had a long history of low-tax regimes, low-capacity local administrations, and low levels of public service leading up to the global financial crisis. Peck (2014) also highlights how the political and ideological attack on the state *long* predated the global financial crisis in planned and coordinated attempts by conservative policy makers and non-governmental think tanks to replicate successful legislative limits to the local state.

In a similar vein, some scholars argue that this rescaling often results in a smaller and constrained local state that is confined to focus on mandatory spending (Peck 2012; Streeck and Mertens 2013). Streeck and Mertens argue that a fundamental part of austerity is the push to shift public spending to statutory, or non-discretionary services. That is, in addition to a smaller local state, the main effect of rescaling can be a permanently reduced capacity of the local state and institutional degradation. Likewise, Peck argues:

This ... more commonly serves as a prelude to political instability and institutional degradation, to crisis management, to backfilling efforts on the part of nonprofit or business interests, and in some cases to de facto abandonment. (Peck, 2012: 629)

Streeck and Mertens (2013) link this institutional incapacity to voting behaviour and argue that institutional degradation results in citizens' declining expectations of the state. Larsen (2008) argues that in many countries universal benefits are discretionary while targeted benefits are mandatory. Larsen shows that welfare regimes with a high degree of *universalism* show much broader political support for welfare policies and argues that large cuts in *universal* benefits function to undermine broader political support for a more redistributive state.

5. Central-local government relations

This section highlights the relationship between central and local government in the UK, the prevalence of centralised decision making, recent forms of devolution, and how this affects the implementation of urban austerity at the local level. The UK has a long history as a highly centralised state with only limited and conditional decentralisation (Pike et al., 2012). Local government in the UK is highly exposed to the decisions of the national government. This is due to the UK having one of the most centralised local government funding systems in the OECD, with diminished fiscal control and autonomy for local government (Martin et al., 2015). Despite its embrace of neoliberal policies, Thatcherism retained the highly centralised apparatus of the UK state – creating what Andrew Gamble (1994) called 'the free economy and the strong state' – involving tight control over local government (Pike et al., 2012). By 2009-10 the top decile of local authorities received 82% of their funding from the central state, while the

equivalent figure for the bottom decile was only 36% (Amin-Smith, et al. 2016). This range results from a funding formula which largely allocates budgets according to need – acting as a mechanism to redistribute tax revenue to areas with the highest need – but also renders the same areas the most vulnerable to budget cuts.

Important changes in the institutional relationship between local and central government over the last two decades has affected the structure of British local government in the UK. First, the Scottish, Welsh, and Northern Irish Assemblies have gained power due to the devolution of certain fiscal and/or spending policies. These new powers and institutional arrangements mean that local government in Scotland and Wales have greater autonomy over spending than in England. The national assemblies in Scotland and Wales, thus, have the potential to buffer their local governments from the full extent of the cuts. The UK state continues to govern England in a highly centralized manner, in apparent contrast to the devolution of authority to Scotland, Wales and Northern Ireland (Pike and Tomoney, 2009). The extent of this freedom is seen in the Barnett formula, which used to calculate the block grants which make up the majority of funding received by Scotland, Wales and Northern Ireland (Keep, 2018). The Barnett formula ensures that per person changes in spending are in-line with English spending, yet whilst English spending reductions might be allocated to local government, for instance, each devolved government can select where their own proportional decrease would fall.¹

However, the scope for policy innovation offered by devolution is limited by pressures to ensure that measures adopted by devolved administrations do not contradict those of the central state (MacKinnon, 2015). For example, although the Scottish government has tried to position itself as a social democratic alternative to the central UK government and to voice opposition to austerity, they have still had to implement many aspects of austerity. Despite these limitations, Hay and Martin (2014) argue that devolution in Scotland and Wales since 1999 has resulted in a different relationship between local and central state, such that the Scottish and Welsh national assemblies have been able to buffer local government from the worst of the central government cuts under austerity.

The second important change in the institutional relationship between local and central government since the onset on austerity is that many of the largest English cities have also been offered a form of devolved power. This form of devolution shifts some economic and social responsibilities down to city-regions, and will increase their autonomy to allocate the dividend of local economic growth. However important these changes are, local government in devolved regions and cities is still far from autonomous. Within an extremely centralised system the power of local governments to change course is highly constrained by the context

of public sector restructuring and expenditure reductions. The highly centralised system within which devolution takes place along with the “dumping” of budget reductions leads to the view of these changes as “centrally-orchestrated localism” (Pike et al, 2016: 10). Cochrane reminds us that “financial devolution at a time of fiscal stress means the devolution of responsibility without an equivalent devolution of power: decentralised decisions take place within centrally determined (and narrow) budgetary constraints” (Cochrane, 1993: 42).

Indeed, the central government has offered local government increased autonomy through a form of fiscal devolution - allowing local authorities to keep a larger proportion of new business taxes. From 1990 to 2013, local business tax was set nationally, pooled nationally, and then redistributed to local government. Local retention of up to 50% of business tax began in 2013, and there are plans for 100% local retention by 2020. The Conservative administration sees this as a way to incentivise local governments to support business growth and encourage competition for firms. Jones and Stewart (2012) argue that local control over tax revenue is essential for genuine localism. Likewise, local government associations in England, Scotland and Wales have consistently argued that capping local budgets and funding is “an affront to local democracy.” (Hay and Martin, 2014, p.234). However, this form of extra autonomy could come at a high price for some parts of local government.

Unlike the US case, the control exerted by central government has traditionally dampened competition between regions and cities in the UK for mobile capital. However, UK research shows that devolution and increased local autonomy leads to heightened territorial competition for investment (Tewdwr-Jones and Phelps 2000, O’Brien and Pike 2015, Bailey 2017). Bailey (2017) singles out the importance of variable local business taxes which has the potential to instigate a ‘race to the bottom’ between local governments in the UK. In a critique that is reminiscent of the US experience with city and state competition for firms, Bailey argues that devolved business taxation “encourages local areas to offer more attractive business environments than their neighbours through the delivery of low local business rates and a lax approach to regulation. In so doing, there is a danger that devolution will further the structural conditions under which mobile capital is able to play politics off against each in order to seek out ever lower tax and regulation zones” (Bailey, 2017: 20).

Even if this sort of competition was muted, fiscal devolution could reinforce the concentration of capital in those geographical areas that are already experiencing economic growth. Existing differences in industrial structure, economic development, resilience, and the local impacts of national policies can function to reinforce and reproduce *differential* rates of local economic growth and taxable returns to local government, and thus, widen regional economic disparities

(Sheppard, 2000; Bristow, 2005; Jeffery, 2006). This supports previous academic analysis which argues that devolution leads to increased competition, aggressive and injurious local rivalries (Morgan, 2001), and a widening of regional economic disparities (Martin and Sunley, 1997).

Schoenberger (1998) highlights the link between competition and territorial justice. She examines how the public discourse once reserved for the competition between firms has been extended to encompass competition between cities, regions and countries for mobile capital. Schoenberger shows how the evolutionary discourse around competitive success extends ideas of fitness and survival from firms to places (Schoenberger, 1998). The danger in using this discourse to normalise competition between places is that – unlike (some) firms – there are numerous ethical, economic and political reasons why contemporary policy may want intervene in the survival of particular places and communities, and not leave them to an evolutionary fate of adaptation or death. Within the UK the central government’s traditional role in dampening territorial inequality, means the move to a more devolved local state (of taxation and other localised revenue forms) is likely to exacerbate patterns of spatial inequality, particularly between London and the Greater South East and the rest of the UK. Writing before the financial crisis, Morgan (2005) argues that a devolved regional policy that aims to promote an economic dividend within each region is unlikely to yield a uniform economic benefit in each region. Devolution itself is unlikely to redress the territorial inequalities at the core of Britain’s North-South divide. In other words, treating unequal regions equally does not necessarily produce territorial justice (ibid).

6. Research Questions

Given these themes on austerity and the state in the literature, we explore a number of questions around the scale and nature of austerity cuts across local government in the UK and the implications of these cuts. Our research questions are threefold. First, how much decentralization has occurred? Second, what is the spatial distribution of contemporary austerity? Finally, which services have experienced the greatest cuts? The next section explains the data we used and how the database on local government spending was constructed.

7. Methods

We present data sourced from the HM Treasury Public Expenditure Statistical Analyses; the Welsh, Scottish and English Indices of Deprivation; and most significantly, the Institute for Fiscal Studies (IFS). The IFS has amalgamated data from HM Treasury, Scottish Local Government, and the Chartered Institute of Public Finance and Accountancy and it is presented at the scale of the local

authority. The data show the money spent on public services by local government, and grant “dependence”, how much of the budget came from a central government grant at the start of the recent period of austerity. By allocating the geographically overlapping spending of county and district councils to the smaller district councils, and splitting combined authority spending amongst the member authorities (Amin-Smith, et al., 2016), it allows comparison of the local government spending cuts between authorities and allows us to piece together a broader spatial and temporal picture of spending and need (Figures 3 and 4).

The changing form and function of the UK state creates impediments for temporal and spatial comparisons. Some centralised functions have been shifted down to local government, while other localised functions have been shifted upwards. For example, public health responsibilities were relocated from Primary Care Trusts into local government in 2013, providing new ring-fenced funding to local government. Conversely, a large proportion of schools in England (35%) were shifted out of local government control by 2018, resulting in apparent budgetary reductions to local government (NAO, 2018). To account for this and enable comparison between years certain budget streams have been excluded. In order to maintain consistency in fiscal reporting over time, spending areas which have been newly introduced to local government are omitted, as are those spending areas where responsibilities have changed significantly. This means that data on some important functions are omitted here – education, public health, police, fire, and some parts of social care are excluded for the English data; education for Scottish data; and education and housing benefits for Welsh data (Amin-Smith, et al., 2016). Presenting English, Welsh and Scottish data separately helps to distinguish the somewhat dissimilar relationships between local and central government enabled by devolution (Table 1). Northern Ireland’s local government has considerably fewer responsibilities than the English, Welsh and Scottish equivalents, so are not analysed here.

Table 1.

Local government role	England	Scotland	Wales	Northern Ireland
Council tax collection	✓	✓	✓	
Cultural services & heritage	✓	✓	✓	✓
Education	✓	✓	✓	
Emergency planning	✓	✓	✓	✓
Environment	✓	✓	✓	✓
Fire (overseen by local councillors)	✓		✓	
Housing	✓	✓	✓	
Leisure & tourism	✓	✓	✓	✓
Libraries	✓	✓	✓	
Local economic development	✓	✓	✓	✓
Planning	✓	✓	✓	✓
Public health	✓			
Social services & social work	✓	✓	✓	
Trading standards	✓	✓	✓	
Transport & highways	✓	✓	✓	
Waste management	✓	✓	✓	✓

Table 1. Powers and duties of local government. This table indicates the roles of local government. These broad areas break down into a long list of statutory duties and discretionary services. Sources: Gov.uk (2018); COSLA (2018); Welsh Government (2015); and NIDirect (2018). This was supplemented by additional verification searches online because most lists are not exhaustive.

8, The Geography of Local Government Austerity

Since the late 1970s, UK national-level public sector expenditure has tended to rise in real terms. Public spending rose most sharply under Labour administrations, but every Conservative government also increased real terms spending overall, until austerity was imposed in 2010 (Figure 2). By implementing austerity policies, the Conservative-Liberal Democrat coalition and the Conservative administration which followed imposed severe spending cuts and real term spending stagnated. However, when public spending is viewed as a percentage of GDP a new pattern emerges. Over longer periods Conservative governments, including their coalition with the Liberal-Democrats, reduce public spending as a percentage of GDP, while Labour governments increase it. The

largest component of public sector current expenditure is spent by central government and the central budget for local government grants are included within this total. Thus, the large reductions in spending on local government is an important component of the flattening of overall government spending as part of the UK's austerity policies.

Figure 2.

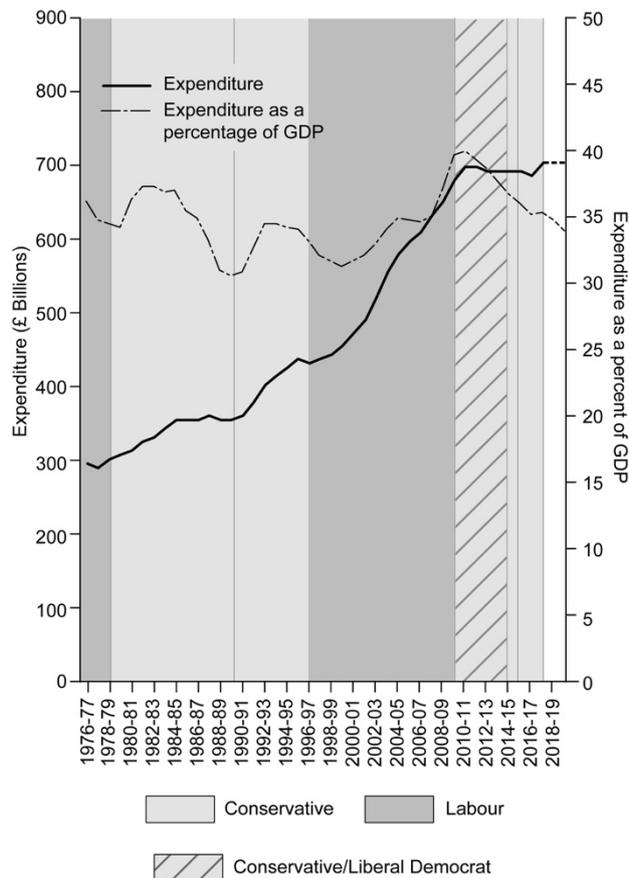


Figure 2. Long-term changes to government spending in real terms and as a percentage of GDP, 1976-77 to 2019-20. Real terms data are adjusted to 2016-17 price levels using GDP deflators from the Office for National Statistics (2017). Data source: PESA 2017, chapter 4.

One way to explore the variation within local government spending is to examine the importance of the central government grant to the total budget of local governments. The central government grant functions as an important redistributive mechanism between local authorities in the UK. Analysing the extent to which local government relies upon funds from central government

contributes to understanding how the national cuts had such uneven effects at the local level.

Public services are not provided equally across the nation and nor is the funding which pays for them. Local government budgets in England fund public services such as social care, children's services, planning and development, adult education, cultural services such as libraries, environmental services, and as of 2013 public health.² To some extent, the provision of public services tends to be concentrated in towns and cities, increasing or decreasing in parallel with the rise and fall of the urban population (36% of the total British population in 2014-15 live in cities (DEFRA, 2018)). However, the concentration of need - of people with low incomes who rely heavily on public service provision - is also an important factor in the *urban* nature of public service provision. Thus, it is often *urban* local governments which receive the largest proportion of their budgets from the central government grant. Parts of London stand out as having the highest proportion of the budget come from central government grants in 2009-10 (Figure 3). Other cities still dealing with the legacy of industrial decline or sustained levels of poverty such as Liverpool, Manchester, Nottingham, Hull and Birmingham, were also among the local areas with higher proportions of their budgets reliant on the grant from central government.

Larger regional patterns are also present in the importance of central government grants to local government budgets. Looking closely at the data, we observed that the very north of England, parts of the East, and Cornwall had high levels of central government funding as a proportion of their total budget. Strikingly, Figure 3 shows areas of the country where the grant from central government is important to local governments. The map shows that a large area of South-Central England, together with Rutland and Cheshire East, had very low proportions of their budget from central government. Likewise, the rural areas surrounding cities often have less reliance on grants from central government. This geographically uneven pattern is not only due to variations in demographics (the proportion of the population in need of different types of public services), but also in the reserves available to local government; alternative sources of income generation; and the strength and industrial mix of the local economy, and thus tax base. Given that central government grants to local government have been an important redistributive mechanism in the UK, it functions to ameliorate the worst aspects of the enduring North-South divide (Martin and Sunley, 1997; Martin, et al., 2015). However, because the importance of the central government grant as proportion of the total local government budget varies by such a large percentage, across-the-board austerity cuts in local government spending have fallen most heavily on those local areas with greatest need.

Figure 3.

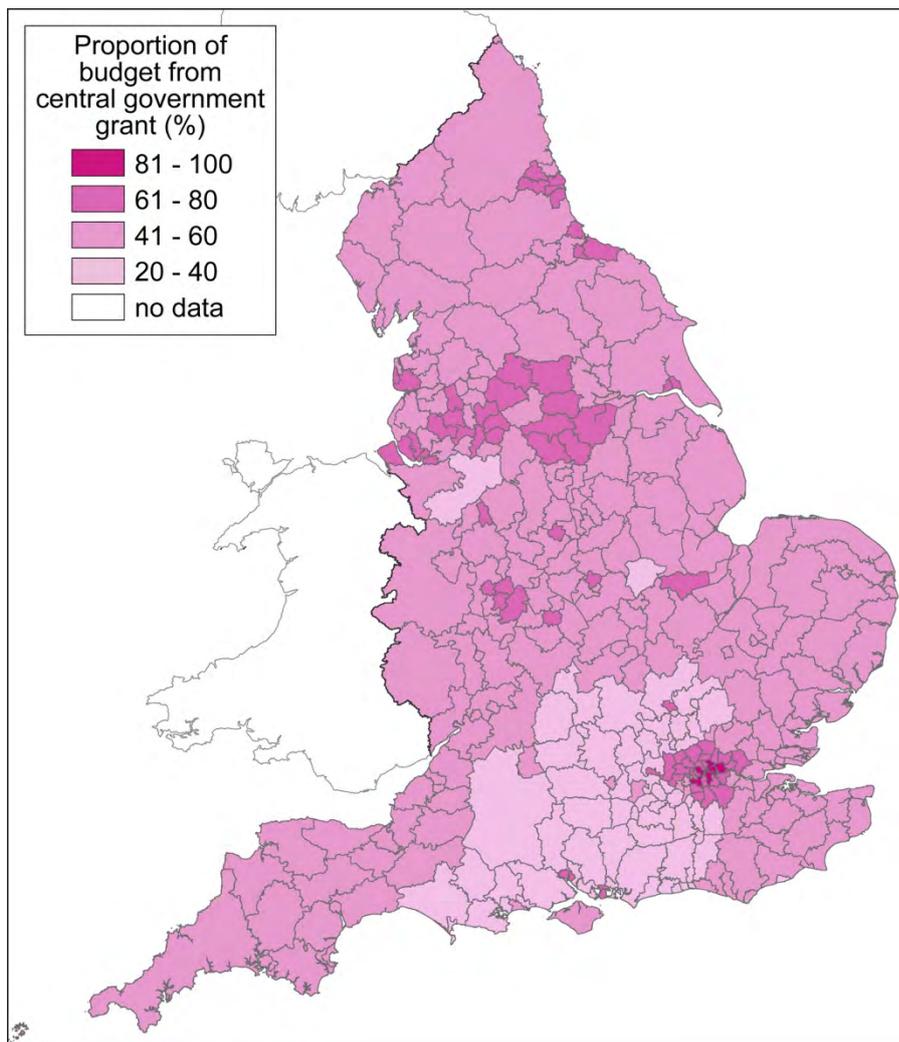


Figure 3. Map showing proportion of budget from central government grant in England, 2009-10. Map drawn using data sourced from the Institute of Fiscal Studies, Amin-Smith et al. (2016).

At the same time, there is evidence that *some* local governments have the ability to act as a buffer between their residents and the full brunt of the local government austerity cuts (Hastings et al., 2017). Our data shows that although the central government's funding cuts to local government are the major driver of reductions in spending on local government services, the actual *spending cuts* made by local government vary enormously (Figure 4). That is, the cut in central government funding is not always reflected in the scale of local government spending cuts. Actual cuts in services from 2009-10 to 2016-17 range from 46% to a mere 1.6%.³

Figure 4 shows a patchwork pattern of these reductions, with most local government in Wales and Scotland avoiding the most extreme service cuts,

although some cities, such as Glasgow have experienced major spending cuts. Within England, cities and local governments in the very north of the country saw the most severe cuts. Significantly, examining the mean and median reductions in local government service spending for Wales, Scotland and England, highlights that English local governments have experienced the highest proportion of cuts. The mean and median for England are twice what they are for Scotland and Wales (Table 2). Clearly, the cuts to the central government grant do not translate into identical spending cuts because of the variation in local governments' ability to adjust their spending, to draw on reserves, to raise money, and manage need. Specifically, in the case of Scotland and Wales, the smaller cuts reflect the block grants they receive from central government and, thus, their ability to allocate some of the cuts to other budgets.

Figure 4.

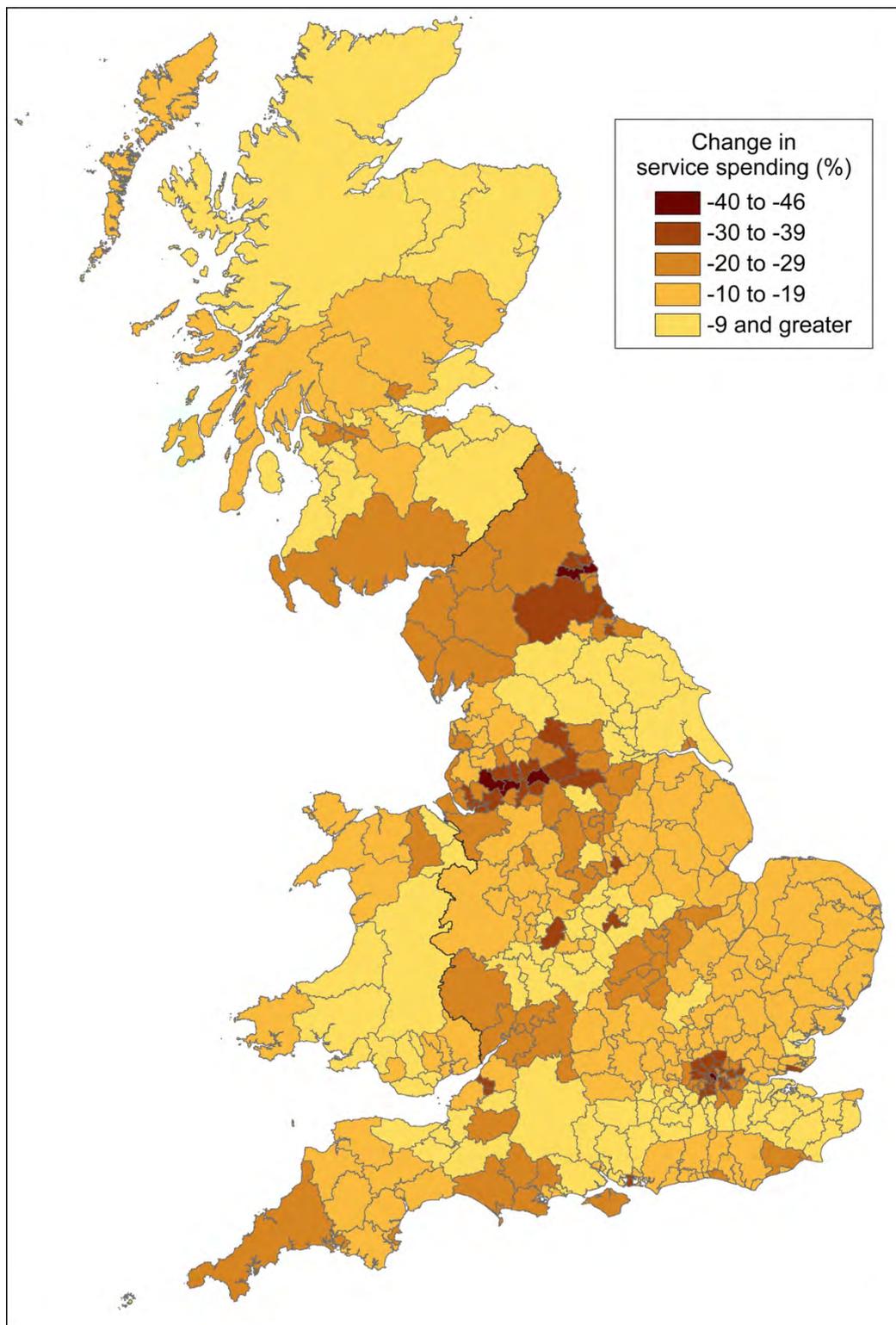


Figure 4. Map of change in service spending in Wales, Scotland and England, 2009-10 to 2016-17. The Welsh data show service spending, excluding education spending and housing benefits. The Scottish data exclude education spending. The English data exclude police, fire, public health, education, and elements of

social care spending. Map drawn using data sourced from the Institute of Fiscal Studies, Amin-Smith et al. (2016).

Table 2.

	Mean	Median
Wales	-12.1%	-10.9%
Scotland	-11.5%	-10.5%
England	-23.7%	-23.4%

Table 2. Average reductions in service spending for local government in Wales, Scotland, and England, 2009-2010 to 2016-2017. Each country has a slightly different division of responsibilities, so different spending data is compared for each country. The two smallest reductions in spending (including an increase) are excluded from the English average because these were in exceptional ‘sui generis’ (unique) authorities which function as a Unitary Council despite having extremely small populations, namely the Isles of Scilly and the City of London (Sandford, 2017). Data source: Institute of Fiscal Studies, Amin-Smith, et al. (2016).

Comparing reductions in local government service spending to the Indices of Deprivation shows that the more deprived areas tend to correlate with bigger cuts in service spending, in the less deprived areas service spending cuts tend to be smaller. This pattern is clearest in England. This is in part because deprived local authorities fared worse due to the decision to apply uniform cuts to need-based funding. Places which are more reliant on this funding, often have a lower capacity to generate council tax and business tax revenue than affluent areas. Furthermore, lower local property values mean there is less potential for local government to profit from renting or selling council assets which could be used to buffer shrinking grants. This is also a time when welfare cuts are disproportionately affecting more deprived areas (Beatty and Fothergill, 2016). The combination of local government grant cuts and welfare cuts to individuals compounds the impact of austerity in the worst hit places. Clearly the welfare state, as provider of public services and of direct income, has contracted – for individuals and for places (ibid).

However, despite the fact that some local governments have more ability to manoeuvre around cuts in central government grants, there remains a notable relationship between grant dependence and the cuts in local service spending (Figure 5) – the larger the proportion of the local government’s budget is derived

from the central government grant, the bigger the spending reductions. Those areas where a greater proportion of the budget came as a grant often have comparatively limited possibilities for raising revenue by other means, and a high level of need for services amongst residents. This means that cuts to central government grant often translate into cuts in service spending, as many local governments cannot, or can only partially, buffer against the cuts, especially given recent caps on local tax increases. The patterns depicted in the maps (Figures 3 and 4) show how there is a spatial pattern to this, in which the places which are most grant dependent and are cutting service spending most severely are concentrated in very Northern England and in cities such as Newcastle, the Liverpool-Leeds corridor, and in London.

The biggest spending cuts, and highest grant dependence, tend to exist in cities. This pattern is clear in many London boroughs and cities such as Liverpool, Manchester, Birmingham, Portsmouth, Oldham, Middlesbrough, Newcastle, Nottingham and Doncaster; all received a high proportion of their funding from the central grant, and experienced cuts of over 25% to total service spending. That some cities have experienced especially deep spending cuts is perhaps due to having fewer assets to rent, sell or otherwise (such as land and property) than larger counties. Additionally, the impact of reduced funding is likely to be most severe in areas with high concentrations of people who need local government services.

Figure 5.

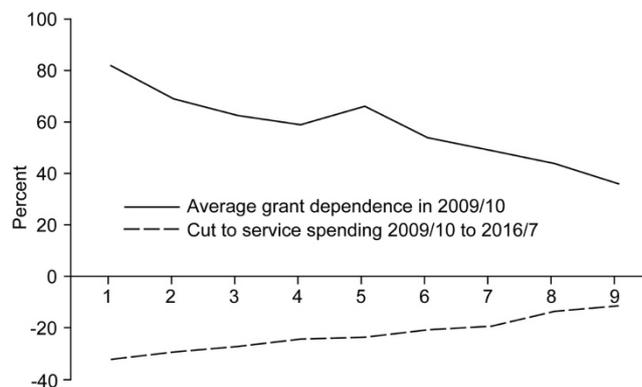


Figure 5. Grant dependence and service spending cuts in England. This graph shows the relationship between percentage of local authority grant dependence in 2009/10, and service spending cuts 2009/10-2016/17. Local Authorities are sorted into decile groups according to level of grant dependence, hidden by this are the extremes of the City of London being the most grant dependent at 95% and Wokingham Unitary Authority being the least grant dependent at 28%. This graph has been redrawn, based on the original produced by the Institute of Fiscal Studies, Amin-Smith et al. (2016).

Spending cuts in local government services can be seen across Scotland, Wales, and England. The cuts are almost ubiquitous in all three countries, with the largest reductions being in England, then Scotland, and smallest in Wales (Figures 6-8). The most severe cuts in Britain are concentrated within English local government: on average English local government reduced spending on services by 24% in 2009-2010 to 2016-2017, twice that of local governments in Scotland and Wales (11.5% and 12% respectively) (Table 2). During the same period the median of these reductions in English local governments were 23% - more than twice as high as the median in Wales and Scotland – signalling the large number of local governments in England which instituted severe cuts in service spending. Of the 206 UK Local Authorities presented here (less Northern Ireland due to limited data), the 46 which cut their spending on services by 30% or more were all located in England (Figure 8). Many of the most severe cuts to services are in London. This is at least partially due to having bigger percentage decreases because of the unfavourable redistribution of business taxes (Centre for Local Economic Strategies, 2014). Of the 103 Local Authorities to have cut spending by 20% or more, only 1 was in Wales, and 5 were in Scotland, where Glasgow stands out for the severity of cuts (figures 6-8). Devolved government in Scotland and Wales allowed the Welsh and Scottish governments to make different decisions regarding local government austerity. Although all three countries made substantial and severe cuts, clearly English local government has been cut most deeply. This variation highlights how uneven the effects of austerity spending cuts have been across the Britain.

Figure 6.

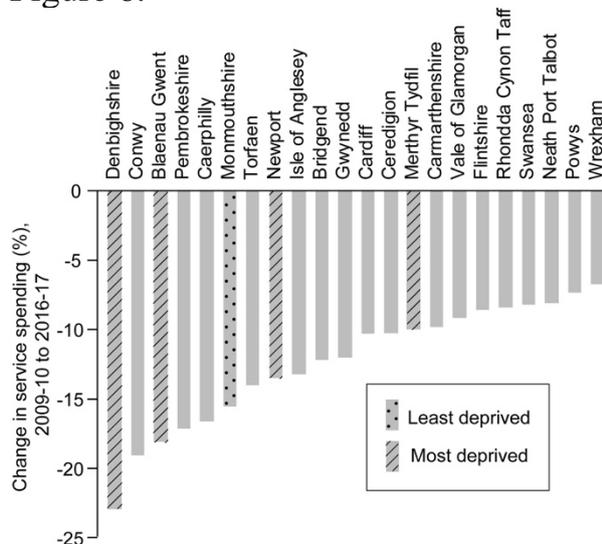


Figure 6. Changes to Welsh Local Government service spending, 2009-10 to 2016-17. The spending data show real terms change in service spending, excluding education spending and housing benefits. The places marked as ‘most deprived’ have over 15% of their Lower Super Output Areas ranked amongst the

10% most deprived on the Welsh Index of Multiple Deprivation; the ‘least deprived’ have none of the 10% most deprived LOSAs within their constituency. *Data source: Institute of Fiscal Studies, Amin-Smith, et al., IFS, 2016; and Welsh Index of Multiple Deprivation, Local Authority Analysis 2014.*

Figure 7.

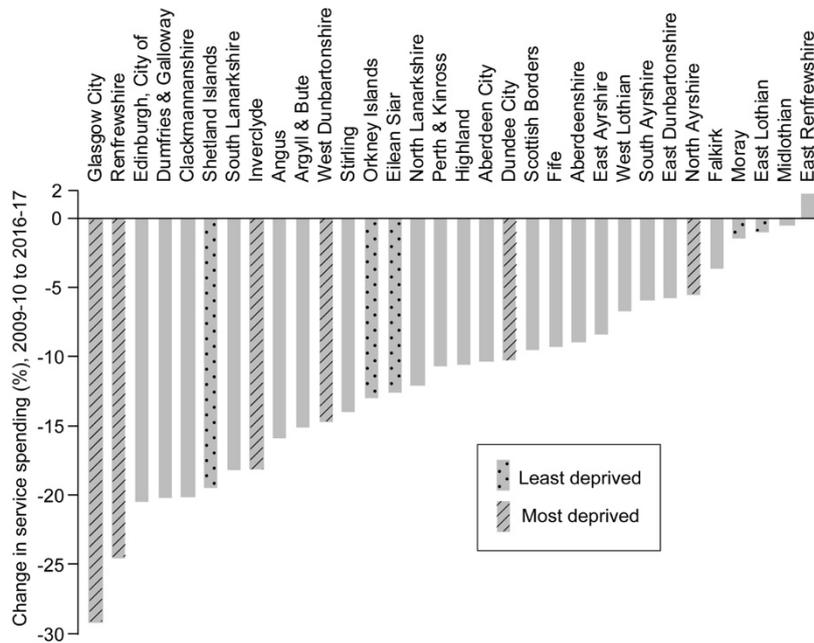


Figure 7. Changes to Scottish Local Government service spending, 2009-10 to 2016-17. The spending data show real terms change in service spending, excluding education spending. Deprivation data show 'most deprived' (areas with over 15% of their constituent data zones ranked within the 10% most deprived on the Scottish Index of Multiple Deprivation), and least deprived (areas with no data zones in the 10% most deprived). *Data source: Institute of Fiscal Studies, Amin-Smith et al., IFS, 2016, and the Scottish Index of Multiple Deprivation (SIMD) 2016.*

Figure 8.

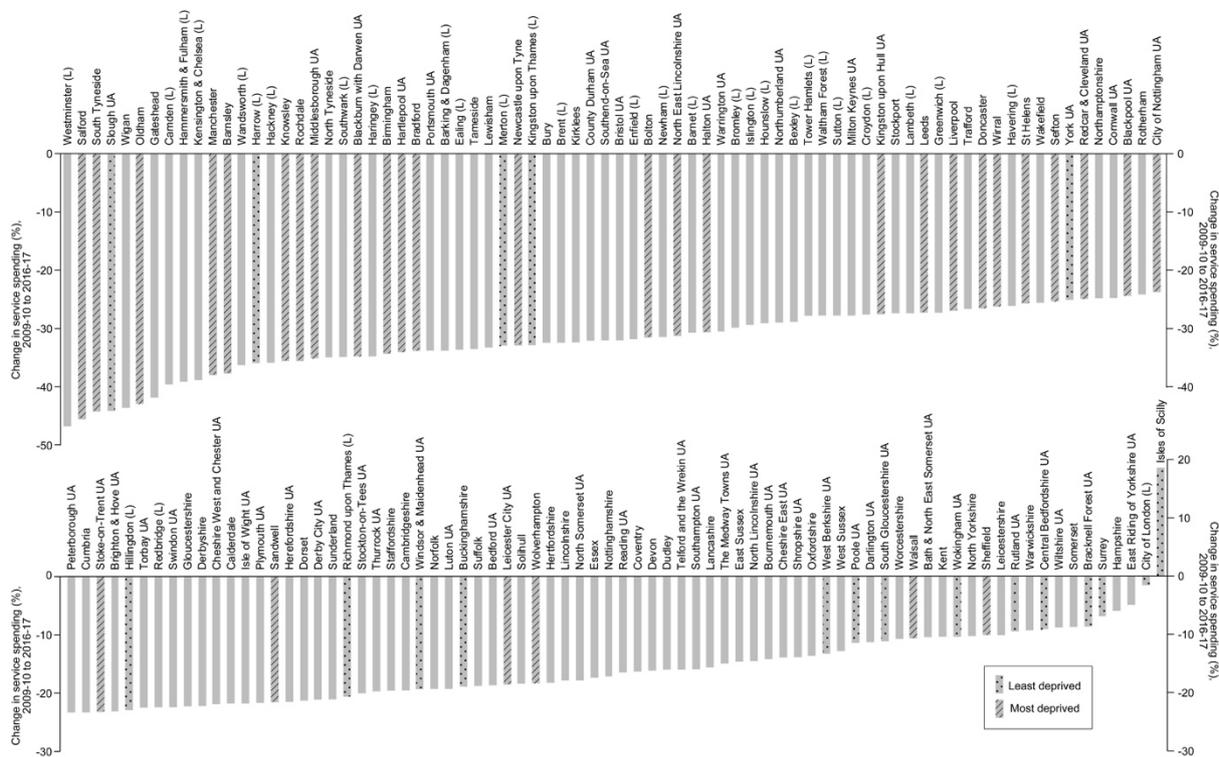


Figure 8. Changes to English Local Government service spending, 2009-10 to 2016-17. The spending data show real terms change in service spending, excluding spending on the police, fire, public health, education, and social care. Note that the smallest reduction and only rise in service spending were in the Isles of Scilly and the City of London respectively, which are ‘sui generis’ (unique) authorities due to functioning as a Unitary Council despite having extremely small populations (Sandford, 2017). *Data source: Institute of Fiscal Studies, Amin-Smith et al., IFS, 2016, and the English Indices of Deprivation 2015 (Department for Communities and Local Government, 2015).*

9. The Consolidation State?

Streeck (2014) refers to the coordination of fiscal consolidation, at a time of low growth, across Europe as the “consolidation state.” He argues that discretionary funding -- supporting social and physical infrastructure -- are the most common targets of austerity cuts in the consolidation state. Given the spatial distribution of the cuts explored above, this section examines which public services bore the brunt of the austerity cuts between 2010 and 2017. Many public services provided by British local government fall within the over 1,100 statutory duties mandated by the national state; all others are considered discretionary. Table 3 shows the change in spending, in real terms, on different services provided by

local government in England between 2010 and 2017. All non-mandatory services suffered the largest cuts, such as planning, housing, and highways and transport. Discretionary funding includes many universal benefits – often collective public amenities such as libraries and parks – and spending cuts on these services have been severe. For example, 343 libraries have been closed down in the UK between 2010 and 2015 with a loss of over 5,700 professional staff in the same period. This supports Streek’s (2014) contention that discretionary funding – the social and physical infrastructure – are the most common targets of austerity cuts.

However, there are also contradictions within this process of fiscal disciplining. For example, planning and development services, which to many on the political right is the exemplar of the “bloated” and bureaucratic state, seemed a particular target and lost over half (53%) of their spend between 2010 and 2017. But at the same time, Table 3 shows that public services that promote private sector business growth and economic development, which many on the political right might embrace as part of the sustained push to market-based provision of services, also lost the much of their funding (62%) during the same period.

Table 3.

Service area	Change in spending (%)	Change in spending (£ million)
Planning and development services	-53	-1,180
Housing services (GFRA only*)	-46	-1,245
Highways and transport services	-37	-1,270
Cultural and related services	-35	-1,204
Environmental and regulatory services	-17	-910
Central services	-15	-485
Adult social care**	-3	-582
Children's social care	3	238

Table 3. Change in spending by service area in English local authorities, 2010-11 to 2016-17. The data show changes to net current expenditure, in real terms, at 2016-17 prices. *GFRA is the General Fund Revenue Account, which includes government grants, business tax and council tax; this funds most local government services. Not included here is the Housing Revenue Account, funded by rental income; this is used to maintain local authority housing. **Transfers from health care bodies are included in the adult social care figures. Data source: National Audit Office, 2018. Financial sustainability of local authorities 2018, Figure 7. This report sourced its data from the Ministry of Housing, Communities and Local Government.

Of course, with over 1,100 statutory spending requirements, the boundary between mandatory and discretionary spending is not always clear. Mandatory and discretionary spending often co-exist in the same budget and support similar goals. Support and preventative services are often the targets of cuts, and though not mandatory they can be fundamentally linked to the goals of the mandatory services. For example, youth centres, a discretionary support service for low-

income youth across the UK, have been severely cut⁴ (Unison, 2017) and are not considered part of the mandatory package for children “at risk”, even though the youth centres target many “at risk” children. These cuts to children’s services are unevenly distributed across the country, but Unison’s study shows local authority cuts of 43% in Surrey, 44% in Essex, and 56% in Warwickshire.

Additionally, although mandatory services are relatively “protected”, the scale and quality of the public service is not. Many aspects of welfare for vulnerable and aging adults and services for children in care have suffered a budget decline in real terms, decreased quality, and higher eligibility thresholds for service users. For example, demand for children’s services increased between 2010 and 2017 in the form of 13% more children in care, 31% more children with a child protection plan, and 108% more referrals to children’s social care services. At the same time, the allocation of funding to children’s and young people’s services has reduced in real terms by £2.4 billion between 2010/11 to 2015/16, and the Department of Local Government has passed on £1.6 billion of this to their own Children’s Services spending (AFC, NCB and TCS, 2016) which contributed to a small increase of 3.2% in real terms spending by local government on children’s services from 2010-11 to 2016-17 (NAO, 2018, Table 3). However, this small increase was not enough to offset the large increases in demand and, thus, spending per child has declined in the same period. Likewise, the Directors of Adult Social Services in their 2017 survey of 95% of councils identifies the cumulative reductions in adult social care since 2010 as over £6 billion (ADSS, 2017). Austerity budget cuts have had drastic effects in the population. Reductions in funding for social care and health 2010-2014 had an adverse effect on mortality and life expectancy, with the over 60s being most susceptible (Watkins et al., 2017).

Our research has found that mandatory services, such as adult social care and children’s services are being squeezed most acutely, so are most likely departments to overspend. This is due to their statutory responsibilities for care and safeguarding, growing demand due to demographic change, a deterioration of other forms of support, growing wage costs for labour-intensive care services, and shrinking budgets. As these examples show, statutory spending was not exempt from the austerity cuts, although the cuts to these budgets were not as large as the cuts to the non-mandatory budgets. We found many local authorities were only able to provide the most basic functions and dropped most preventative measures, early outreach, and supplementary services.

At the extreme end of the spectrum, one local government in the UK is now only providing public services mandated by law. Northamptonshire County Council issued a section 114 notice and effectively declared itself bankrupt in 2018. Local politicians were replaced by central government appointed commissioners who

took over all budgeting decisions. This process has resulted in radical service cuts and halted all new expenditures except for statutory services and the safeguarding of vulnerable people and even these services have experienced cuts. The Council has adopted the legal-minimum level of service for residents. The 114 notice and the resulting budgetary decisions brings the legal framework of mandatory local government service provision into sharp relief as the social contract between the state and citizen gets rewritten. The National Audit Office (NAO, 2018) expects other local governments to also go into bankruptcy as they use up their reserve funds. This is a critical moment in fiscally disciplining local government in contemporary British austerity.

10. Conclusion

Austerity has actively reshaped the relationship between central and local government in Britain, shrinking the capacity of the local state, increasing inequality between local governments, and intensifying territorial injustice. Debate over the appropriate scale and scope of the local state in Britain has been revived by almost a decade of austerity policies. Austerity cuts from central government has many targets in the UK, but local government has had the largest proportional cuts of all. However, the diversity of local government structure, insufficient government data, and the variation in local responses to the cuts means there has been a lack of analysis around what the sustained decade of austerity has meant to the changing nature of the British local state. We used IFS data to make budget data across local authorities in the UK more comparable – allowing us to explore the geography and severity of recent budget cuts.

Like Peck (2012), we found that the politics of austerity “dumped” the fiscal crisis onto the local state. We found that central government grants were cut across the board, which weakens the redistributive element of the grant formula, and forces local government to rely more heavily on local sources of income – locally raised tax revenue, the sale of local assets, local reserves, and additional revenue sources. Although central government grants were cut across the board, we found that local government cuts to service spending varied enormously – increasing inequality between places. The cuts experienced by local government in England were deeper and more severe than the cuts experienced by local government in Scotland or Wales. Devolved government in Scotland and Wales gives these nations more room to find alternatives cuts and other funding sources. In England, we found that cuts in central government grants were particularly severe for municipal budgets, and particularly the London boroughs and other cities with a legacy of an older industrial base. Conversely, a swathe of “middle England” in the South Central part of the country experienced the smallest spending cuts. This form of urban austerity, thus, drives a division between those cities which have the economic ability to withstand this fiscal disciplining and those that are unable

to do so. Our analysis supports arguments that devolution in the UK widens regional disparities (Jeffery, 2006; Martin and Sunley, 1997).

We find that these targeted cuts to local government are intended to move Britain towards a “small state” by reducing local governments’ ability to provide services which make up the broad array of services under Britain’s welfare state. Local governments are spending larger proportions of their budgets providing statutory or mandatory services, but not only are unable to fully fund other parts of the welfare state, they are actually losing their capacity to function in this way. Although initiated at the level of the national state, this sharp reduction in service provision is pushed to the local level. Thus, our findings support Streeck’s (2014) arguments that increasing decentralisation - both in revenue raising and in the provision of public goods - together with an aversion to tax increases, has led local governments to shift away from discretionary spending, such as social and physical infrastructure towards mandatory spending. As part of this, we see that the reduction in local public services targets many universal benefits, which functions to undermine broader political support for a more redistributive local state (Larson, 2008). As such, austerity at the local level is part of a longer-term political project to re-shape and redefine the welfare state at a national and local level; even if this is marked by complexity, fragmentation and incoherence.

Finally, these changes have increased territorial inequity and injustice in the UK. Citizens’ access to public services is increasingly conditional upon the health of the *local* tax base – where poorer places provide fewer public services and less basic infrastructure. The increasing importance of local taxation to fund local spending, with a shrinking redistributive element coordinated by central government, is likely to lead to a downward spiral of disinvestment in people and places in some communities, while others thrive. British local government has hitherto not seen the extremes experienced by its American counterparts, where it is common for cities and states to bid for mobile capital with lower tax rates and lax regulation. In the US, this competition for firms does not simply play out internationally, but can be intensely local as neighbouring jurisdictions enforce “beggar thy neighbour” policies to increase their local tax base. Nonetheless, central government budget cuts, increased need for public services, and the ability for local government to retain the taxes from new business, all increase territorially-based competition between local government for firms and taxes in the UK. These findings support previous research which suggests that devolution is likely to heighten the aggressive and negative nature of territorial competition (Bailey, 2017; Morgan, 2001; O’Brien and Pike, 2015).

Almost a decade of sustained budget cuts in the UK has pushed austerity down to the level of local government and actively reshaped the relationship between central and local government. This has resulted in a shrinking capacity of the local

state to respond to the needs of their citizens for public services; a turn away from the provision of many discretionary, universal public services; increasing inequality between local governments themselves; and intensifying territorial injustice. The politics of these changes – the local states’ capacity to respond to need and its ability to ensure basic public service provision – occur at many scales, they are both public and intimate. These changes may ultimately lead to a stronger “pushback” from the populace. Schumpeter observed that public finances can offer a unique lens onto political and social changes – we concur. The austerity-driven shifts which have taken place in British social, economic and political life since 2010 necessitate the focus on patterns and trends in public finance which is offered here.

Notes

1 This population-based proportionality is mediated by a ‘comparability percentage’ which accounts for the level to which a duty is devolved (*ibid.*).

2 See figure captions as some services are excluded from this data.

3 One local authority, the Isle of Scilly, actually saw service spending growth of 18% and another, the City of London, saw service spending cuts of only 0%. However, following the Institute of Fiscal Studies, we treat both of these cases as outliers.

4 Unison, a union representing public sector workers in the UK, obtained data through issuing a Freedom of Information request to 168 local authorities, and found that youth services lost over £60m of funding between 2012 and 2014. They document that more than 2000 jobs were lost, over 350 youth centres closed, and 41,000 youth service places for young people were cut.

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