Austerity urbanism, local government debt-drive, and post COVID predicaments in Britain

Hulya Dagdeviren

University of Hertfordshire, College Lane, Hatfield AL10 9AB, United Kingdom

*Corresponding author. University of Hertfordshire, College Lane, Hatfield AL10 9AB, UK. E-mail: h.dagdeviren@herts.ac.uk

Abstract

Conditions of local governance in the aftermath of the global financial crisis are often discussed as reflections of ‘austerity urbanism’. What forms of mutations have taken place in austerity urbanism after the initial years of spending cuts at the local level? This article investigates this question by focusing on the uneven geographies of post-austerity debt-drive in Britain. It is shown that austerity urbanism in Britain was somewhat peculiarly combined with debt-driven ‘entrepreneurialism’ several years after the introduction of extensive budgetary cuts. The local debt-drive was instigated by austerity-urbanism as a way of resolving the challenge of financing local services and development. The relatively low level of initial debt stock among local governments, very attractive borrowing terms and various regulatory changes facilitated the expansion of borrowing. Using debt stock data for over 300 local governments, it is demonstrated how debt build-up evolved to create financial difficulties for around 40 per cent of local governments. The Covid-19 pandemic, with its severe impacts on local revenues, exposed the debt-driven local development projects, leading to rescue operations and efforts to curb borrowing through new rules and regulations. For deeper international insights into the dynamics of debt-financing and urban development in times of crises, further research is needed to complement existing research in Britain and the USA, where relatively greater evidence exists.

Keywords: local governments; austerity urbanism; debt; Covid-19; Britain.

1. Introduction

The Covid-19 pandemic, following the austerity programmes of varying intensity in the aftermath of the global financial crisis (GFC), exacerbated the pressures on local governments in advanced capitalist economies (OECD 2020). Similar shocks in the last five decades led to significant theoretical advancements in economic geography. Harvey’s (1989) seminal work on entrepreneurial urban governance, involving risky, debt-based growth initiatives, articulated the response of local governments to the crises of the 1970s. Local manifestations of the GFC, on the other hand, were discussed with reference to ‘austerity urbanism’ (Peck 2012; Davidson and Ward 2014; Donald et al. 2014).

This article builds on the existing literature on ‘austerity urbanism’ with a view to understand how it mutated over time. In the USA, a substantial body of economic geography literature demonstrated that austerity urbanism not only involved scaling back expenditures but also reducing the debt that was accumulated prior to the GFC (Davidson and Ward 2014; Peck and Whiteside 2016; Kirkpatrick 2016; Peck 2017b). A recent study by Davidson, Lukens, and Ward (2021) found that the debt levels of...
over 1,400 municipal governments declined by 8.5 per cent since 2006, excluding seven outlier cities with 'supernormal indebtedness' from the analysis.

In contrast, the evidence in this article reveals that local governments in Britain combined austerity urbanism with debt-driven entrepreneurialism for several reasons. One key factor is that, prior to the GFC, local governments in Britain generally did not adopt a debt-led growth strategy. The lack of extensive indebtedness, coupled with low interest rates and favourable lending terms from the Public Works Loan Board (PWLB) incentivized increased borrowing. The local debt-drive was actively promoted through various growth deals with the central government, which relaxed borrowing constraints for qualifying local governments. This dual path was seen as a solution within a highly centralized local government system with limited local autonomy, addressing the challenge of sustainable funding for local services and development, following the severe budgetary cuts (Davies and Blanco 2017; Hastings et al. 2017; Gray and Barford 2018). However, the Covid-19 closures severely impacted local revenues, limiting repayment capacity of many local governments and rendering their debt burden unsustainable. By 2020, approximately 40 per cent of local governments had accumulated high levels of debt, and some were unable to meet their repayment obligations. The incidence of this issue was particularly pronounced in areas with greater multiple deprivations.

From a theoretical perspective, the article contributes to the literature on economic geography by offering a synthesis of the role of finance and debt in the generation of scalar instabilities. Local entrepreneurialism and austerity urbanism are often viewed as distinct regimes, corresponding to different phases of capitalist instability: the former is associated with the crisis of the 1970s (Harvey 1989) while the latter is connected to the 2008 crisis. However, the evidence in this article shows that even if the emerging regimes closely resemble these ideal types, they can re/degenerate into different forms in response to changing conditions in economic geography. The combination of austerity urbanism with debt-based entrepreneurialism in Britain reinforces this argument. The central government supported this dual-path as a means of shifting the costs of the GFC to the local level while ostensibly resolving the local growth-development challenges through debt-driven entrepreneurialism. The promotion of debt-based growth initiatives at the local level in Britain contradicted the political discourse on prudence and generational theft invoked against borrowing at the central level (Blyth 2013; Kelton 2020). The mantra for low taxes, spending and debt at the central level compelled local governments with limited taxation autonomy to rely on debt-financed investments, exposing them to post-pandemic downturn in local economic activities and resulting in difficulties in debt-servicing.

From an empirical perspective, the article aims to contribute to a research agenda, addressing issues related to debt and financial sustainability within the context of local governments. Debt-drive for local growth in the USA prior to the GFC and in Britain post-GFC has been seen as both a potential remedy for resource shortfalls and the underlying cause of bankruptcies and other major financial difficulties. When does the remedy turn into a predicament? This research investigates this question and initiates a discussion of critical indicators, focusing on the case of British local authorities. Further research is necessary to generate more evidence in a wide range of political, institutional, and economic contexts.

The next section provides a review of the economic geography literature pertaining to crises with a focus on austerity urbanism and local development financing. Subsequently, the article delves into an examination of the evidence surrounding debt-driven urban development in Britain under centrally imposed austerity measures entailing substantial cuts to local budgets. The unsustainability of this strategy is illustrated by considering the economic consequences stemming from the pandemic. Drawing on these discussions, the article presents a spatial analysis of the relationship between growth of leverage and financial difficulties at local level.

2. Austerity urbanism, debt-drive, and financial predicaments

The crises of capitalism lead to major shifts and mutations in urban governance, with debt financing playing a crucial role in the process. This was evident in the paradigmatic transformation from managerialism to urban entrepreneurialism in response to the crises of the 1970s. The resource shortfalls at the subnational level during this period compelled local governments to increasingly rely on external finance for growth generating local projects (Harvey 1989; Wood 1998). In the new landscape of urban development, municipal authorities took on greater risks by increasing borrowing and actively
competing for private capital, especially through public-private partnerships to foster growth (Jessop 1997; Wood 1998). Urban entrepreneurialism has been applied in diverse economic geographies across the globe (Golubchikov 2010; Zacares 2020) with variegated outcomes, reflecting spatial differences in social, institutional, economic, and political structures as well as historical development patterns (Brenner, Peck and Theodore 2010; Phelps and Miao 2020). Debt-based financing emerged as a fix to the growth problem at subnational scales (Weber 2010; Farmer 2014; Peck and Whiteside 2016; O’Brien, O’Neill, and Pike 2019) through real estate development, landscape beautification, and mega projects (Sasajima 2013; Rius-Ulldemolins and Gisbert 2019; Bok 2021). The approach mutated into speculative entrepreneurialism during the 1990s, creating spaces of excess capital, high debt, volatility, and increased inequality (Peck 2014b), due to its orientation towards ‘short-term political gain’ and tendency for ‘serial emulation of innovations’ as envisaged by Harvey (1989).

The consequences of the GFC for local governments, on the other hand, have been extensively discussed with reference to ‘austerity urbanism’, which is viewed as a politically motivated programme, founded on distorted narratives of debt and deficits (Peck 2012; Tonkiss 2013; Donald et al. 2014; Peck 2017a; Theodore 2020). Cascading down responsibility from federal/central level to local administrations through the reconfiguration of funding and financing has been a prominent facet of these programmes as reflected by: (1) reductions in resource transfers from central to local level (2) withdrawal or reduction of funding for a wide range of local services; and (3) labour redundancies; (4) reorganization of local governments’ functions to curtail spending (e.g., shared services, bringing previously outsourced services in-house, substitution of face-to-face services through online delivery) (Davies and Blanco 2017; Gardner 2017; Hastings et al. 2017; Dagdeviren and Karwowski 2021). Although revenue decline and downsizing have been the defining features of austerity urbanism (Davidson and Ward 2022), it has had far reaching consequences (Davidson and Ward 2014; Fuller 2017). Notably, it negatively impacted democratic processes, leading to the imposition of emergency management through unelected executives in some US cities (Peck 2012; Donald et al. 2014). More importantly, austerity urbanism, rather than being neutral, involved:

…[a] regressive redistribution of the costs and risks of economic stagnation, deregulatory failure and financial overreach, displacing the consequences of the Wall Street crisis from the market to the state, from elites to the marginalised and from the federal government to state and municipal authorities (Peck 2014a: 19).

Indeed, Hastings et al. (2017) argued that austerity urbanism resulted in a ‘dual regressivity’ characterized by both greater impacts on poorer towns and heightened disadvantage for the poorest in those towns. The interventions and outcomes of austerity urbanism have been variegated (Lobao and Adua 2011; Lauermann 2018; Whiteside 2021; Davidson and Ward 2022). This is partly considered to reflect ‘the agency’ of local governments, their finances, political stance, and management cultures (Pike et al. 2019; Deruyter and Bassens 2021). The ‘new municipalism’ literature, for example, highlighted the potential progressive changes in local governance with reference to the growing tendency of bringing previously privatized or outsourced services to in-house after the austerity (Thompson et al. 2020; Thompson 2021; Cumbers and Paul 2022).

Several studies challenged the validity and prevalence of austerity urbanism (Kim and Warner 2021; Aldag, Kim, and Warner 2019). Some of the issues raised in these studies were addressed by Theodore (2020). For example, Aldag, Kim, and Warner (2019) used survey data, gathered from municipal governments in New York in 2017 (8 years after the initial rollout of austerity measures) to provide evidence for the limited incidence of austerity urbanism at local level in the USA. However, longer-term data cited by Theodore (2020) reveals that austerity affected the expenditures of around half of the US state governments, if not more, during 2009–2011. In the subsequent years, spending cuts persisted but were not as comprehensive as they were in the initial years. Some of the measures in Aldag, Kim, and Warner (2019) were problematic, too. For instance, the authors considered the introduction of new/higher charges for local services as an indicator of ‘pragmatic municipalism’ while this can also be seen as a measure of austerity because of its potential negative impact on access to services.

Theodore (2020) alluded to the importance of the choice of period for analysis, which is particularly relevant for this article. Permanent pursuit of austerity is difficult. At some point, local cuts, and restructuring can no longer be justified through an ideological narrative of frugality as the risks associated with a broken-down public service system grow and politically sensitive areas such as social care
for children are impacted (Donald et al. 2014). This is why British local governments embarked on debt-driven urban development programmes, involving infrastructure investment, commercial regeneration of cities, and housing development (Hastings et al. 2015; O’Brien and Pike 2015; Fuller 2018) as they realized that addressing major deficiencies in essential services such as housing, health, and education after many years of budgetary consolidation could not be achieved through some ‘magical’ reorganization of their functions. Thus, the shift to debt-driven entrepreneurialism for growth and local development emerged as a direct result of austerity urbanism in Britain as will be further explored in the forthcoming sections. However, the unsustainability of this approach was exposed by the lockdowns and economic contraction during the Covid-19 period.

Borrowing can play a crucial positive role in financing local development, enabling investments in essential areas such as infrastructure, town regeneration programmes, public amenities, and housing. Historically, many public entities utilized it without compromising their commitments. However, it is essential to consider the conditions under which debt build-up becomes unsustainable. Post GFC literature in the USA indicates that excessive borrowing can lead to municipal bankruptcies (Peck 2014a; Kirkpatrick 2016; Schindler 2016), but the precise circumstances that lead to local financial instability are not entirely clear. In heterodox economics literature, Minsky (1980, 1981, 1986, 1991) identifies an inherent relationship between growing debt and financial instability although his analysis primarily focuses on the private sector’s activities. In the next section, we discuss several factors that make the application of Minsky’s financial instability thesis to the context of local governments difficult. However, the principal point in Minsky’s analysis, connecting high levels of debt to financial exposure and instability, holds true for any sector of the economy, including public sector entities. Two conceptual tenets in his work are particularly helpful for assessing the sustainability of debt in a wide range of settings: (1) growth of leverage, that is, increasing reliance on external funds for financing investments and (2) the ability to service and repay liabilities through internal revenues. The latter, repayment capacity, depends on whether debt-financed investments generate adequate revenue to service associated liabilities.

This is where outbreaks of wider crises become pertinent. A funding squeeze and austerity during a downturn can result in excessive borrowing for revenue-generating investment unless this path is explored and exhausted through prior experiments, as seen in some of the US cities post GFC (Peck 2014a). The success or the failure of this strategy depends on the rate of return on investments, the size and maturity of debt stock as well as the structure of interest rates. If the size of repayments grows faster than the revenue flow, the sustainability of local governments’ debt levels would be adversely affected. In a world affected, for example, by a pandemic with extensive closure of economic activities, the expected cashflow from externally financed investments is much less likely to materialize. The resulting direct effects such as a decline in local government rental income, and indirect effects like declining local tax revenues, will deteriorate the sustainability of local debt and may even expose the authorities without excessive borrowing.

In the forthcoming sections, drawing on the literature discussed here and using debt leverage and repayment capacity as key measures, we will assess the relationship between austerity urbanism and growing local indebtedness.

3. Method and data

From a methodological perspective, the primary task here is to examine the evolution of debt levels after the austerity, using suitable measures of analysis. In the previous section, the Minskian approach was mentioned for this purpose. There are some caveats about its applicability to local government contexts. These stem from regulatory constraints that prevent local authorities from deliberately pursuing speculative or Ponzi routes although they may inadvertently slide into such positions for other reasons (Ebel and Petersen 2012; Geißler, Hammerschmid, and Raffer 2018; Baskaran 2020; OECD 2020). If local governments do find themselves in such perilous situations, upper-tier governments often intervene through municipal mergers, rescue operations, or the imposition of emergency management to mitigate the potential negative consequences of unsustainable debt (Wilson and Game 2011; Peck 2012). Furthermore, unlike private debt, which tends to be procyclical (Barbosa-Filho et al. 2008; 1 A few studies such as Kirkpatrick (2016) and Ioannou (2023) applied Minsky’s financial instability framework to local government sector, using his well-known financing positions, that is, hedge, speculative and Ponzi financing.

2 Ponzi financiers are defined as entities that are unable to pay neither the interest nor the principal repayments, thus, they would have to continue borrowing to fulfill their debt obligations.
public sector borrowing has a countercyclical dimension to stimulate growth or reduce private credit risks through various financial mechanisms such as bailouts as exemplified by the sovereign debt problems in Europe after the GFC (Howarth and Quaglia 2015). However, two key concepts highlighted by Minsky, are important for any sector of the economy in the evolution of financial stability in general and debt sustainability in particular: the leverage rate and ability to service and repay debt out of internal revenues. In this study, leverage rate is employed to assess how reliance on external borrowing, as opposed to grants from the central government or locally generated revenues, changed under austerity. Although the leverage rate is estimated in different ways in the broader literature, here it is measured as the ratio of borrowing to local investment, following Minsky (1980, 1981). This is complemented by absolute debt per resident (DPR) as a comparative spatial proxy for the temporal evolution of debt levels. The drawback of these two measures is that they do not fully reflect the immediacy of debt repayment problems posed by the accumulated debt stock. Some local governments with high leverage may be able to continue servicing liabilities while others may only do so at the cost of reduced service levels (Jones and Walker 2007; Garcia-Sanchez et al. 2012). Those with high revenue generation capacity and longer debt maturity are likely to fare better than those experiencing resource crunch and shorter debt maturity. To address this concern and better gauge debt service and repayment capacity, we use the ratio of debt repayment requirements to core spending power. This indicator aims to reflect the pressure on internal resources, immiency of potential debt defaults, and the need for rescue support from the central government.

The changes in the dynamics of debt financing post-austerity have been tracked by categorizing local governments into quintiles, ranking them according to their level of indebtedness. More specifically, their per resident debt stock and repayment obligations were used to position them from the lowest to the highest category, as illustrated in Table 1. Using data from the earliest available year, this classification served as the baseline against which the evolution of debt and repayment capacity after the austerity and the pandemic could be assessed.

The data are provided by the Department for Levelling up, Housing and Communities (DLUHC). Debt service and repayment requirements data encompass interest payments, lease payments, and provision for repayment of the principal borrowed, following NAO (2018). The core spending power estimates reflect the sum of domestic and non-domestic taxes, other fees and charges, and grants that are not transferred to other authorities (e.g., police) or third parties (DLUHC 2022a). The spending power data before 2011 are not comparable to those from 2011 onwards. Therefore, the year 2011 was chosen as the starting point for comparison as it marks the first year of austerity programme. The estimations cover over 300 local governments in Britain.3 ArcMap 10.8 was used for district level local government debt profiles. The maps are based on the UK Local Government District Boundaries of May 2021.

### 4. Growth of leverage under austerity urbanism and post pandemic exposure

#### 4.1 The context

From an international perspective, the fiscal autonomy of local authorities in Britain has been limited. New Public Management Programmes in the 1980s tightened their autonomy further (Wilson and

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3 Note that the total number of local governments change due to administrative restructuring from one year to another. Since 2008, seventy-two local authorities have been merged into other local administrative units.
Game 2011; Ferry and Murphy 2018) and encouraged them to rely on greater privatization, public-private partnerships, and Private Finance Initiative (Taylor, Haynes, and Darking 2020). The devolution programme in 1997 marked a significant milestone for Scotland, Wales, Northern Ireland albeit with unequal distribution of powers across the four nations in the country (MacKinnon 2015). Scotland has its own parliament with some autonomy for rule making. Legislative authority of the assemblies of Wales and Northern Ireland has been limited compared to Scotland (Keating, Cairney, and Hepburn 2009). Regional Development Agencies were intended to operationalize devolution in the English regions but their achievements were constrained by inadequate resourcing. They were disbanded in 2012 by the Coalition Government as part of the austerity programme (Pike et al. 2018).

Thus, unlike the European countries with devolved political structures such as Spain, local public finance system in Britain has remained highly centralized despite the devolution. Local autonomy with respect to spending decisions as well as revenue raising powers is highly restricted. These differences are even more pronounced when compared to the federal systems such as Germany or the USA (Ladner, Keuffer, and Baldersheim 2016). Prior to the austerity programme, approximately 70 per cent of local spending was funded by transfers from the central government (UK Treasury 2022b) through block grants allocated according to the size of the local population (King and Eisner 2016). The remaining revenue is derived from domestic/non-domestic property taxes and rents as well as fees and charges for some services.

In England alone, the austerity programme led to a 37 per cent real-terms reduction in grants from the central government between 2010 and 2020 (Institute for Government 2020). Across the four nations, real per capita local spending declined by 20 per cent in the same period (UK Treasury 2022b). Local areas with high multiple deprivations saw their budgets cut more severely (Hastings et al. 2015; Gray and Barford 2018). Consequently, a comprehensive range of services have been affected, including social care, libraries, out-of-school clubs, and subsidies for arts and cultural activities. A greater proportion of cost containment came from labour redundancies and the so-called ‘efficiency savings’ within back-office operations through, for example, joint provision of services or sharing senior management teams.

Procurement costs were reduced by bringing outsourced services back to in-house. Charges were introduced for services that were previously provided ‘free at the point of delivery’. Some local authorities took the unusual step of selling assets and property (Fitzgerald and Lupton 2015; Gardner 2017; Hastings et al. 2017; Christophers 2019). Despite the extensive restructuring, British local governments continued to face challenges in maintaining their social and economic functions at the bare minimum, thus, many resorted to short-term borrowing through inter-council borrowing (Dagdeviren and Karwowski 2021).

4.2 Austerity and rising leverage

A significant proportion of British local governments combined austerity in local services with debt-driven growth to secure future funding for their services as will be shown in this section. This is intriguing for two reasons. First, from an international perspective, local debt-drive in Britain took place at a time when research elsewhere, especially in the USA, suggested a scaling-down in entrepreneurial strategies in response to the GFC and the impending difficulties in debt repayment (Peck 2012; Peck and Whiteside 2016). Second, at the national level, this took place during a period when the central government’s policy narrative was based on an ideological discourse of fiscal prudence and consolidation, highlighting the risks associated with increasing debt and spending for economic stimulation (Skidelsky and Fraccaroli 2017).

The grants from the central government relative to local revenue severely declined between the pre-crises and post austerity periods (Fig. 1a). The central government envisaged a ‘self-financing model’ which required local governments to elevate their commercial activities for revenue generation (Christophers 2019; Taylor, Haynes, and Darking 2020). Increasing borrowing aimed to facilitate this process.

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4 Currently, there are a total of 333 local governments in England. Around half of them are unitary/single tier authorities with the remaining mostly organized as two-tier governments. Outside England, local governments are unitary authorities. There are thirty-two such authorities in Scotland, twenty-two in Wales, and eleven in Northern Ireland.
A greater discretion and flexibility for borrowing began after the New Labour took office and passed the Local Government Act of 2003. However, debt stocks remained at relatively low levels until the austerity programme was rollout in 2011 (Fig. 1A, Supplementary Appendix). When it became evident that the cuts to local government budgets were not to be reversed any time soon (Fig. 1a) leverage rate more than doubled (Fig. 1c) as a greater number of municipalities resorted to borrowing for financing investments and growth generating projects. Revenue growth failed to match the growth of debt stock (Fig. 1b) with further deterioration taking place in the level of local revenues following the pandemic. Thus, austerity has been an instigator of debt-driven growth, a strategy whose sustainability was exposed by the pandemic. As a result, an increasing number of local governments faced repayment difficulties, as will be discussed later.

The evolution of local government indebtedness after the 2008 crisis to the peak of austerity and the pandemic period has been displayed in Fig. 2. The maps show considerable variation by country. Notably, when compared to England, a large proportion of local governments in Scotland and Wales were already in the top quintile prior to the austerity with the highest debt levels. In contrast, a large proportion of local authorities in England had only up to £162 per resident. This picture changed dramatically after the austerity. By 2021, one-third of English local governments, all Scottish councils and over 80 per cent of Welsh authorities were in the highest debt category. The Covid-19 pandemic was instrumental in revealing the endemic nature of high leverage among local governments.

These aggregate trends hide considerable variation at local level. There are individual local authorities such as Bromley in London and parts of Oxfordshire in the South East that had little to no debt over time. But there are also others such as Birmingham, Leeds and Glasgow with total debt levels in billions rather than millions of pounds. A year into the pandemic, close to 60 per cent of local authorities in London fell back into highly indebted position, with relatively poorer authorities such as Barking & Dagenham, Croydon, Enfield, Newham, and Haringey carrying the greatest burden. The North East was the second highly leveraged region where Gateshead, Newcastle, Tyneside, and Northumberland led the way. The evidence in the tables above illustrates a substantial rise in the incidence of local governments moving into higher tiers of debt positions.

These trends lend support to Pike’s (2023) classification of some local governments as ‘the vanguards’ of certain financial practices. From 2009 to 2014, the authorities with more than £1494 per resident debt merely increased from 20 per cent to 25 per cent. These ‘vanguards’ were followed by many other authorities. Thus, close to half of the municipalities in the recent years had more than £1494 per resident debt (top table in Fig. 2). By 2021, around twice as many local governments in the South East,5

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5 The Act allowed local governments to borrow for ‘any purpose relevant to [their] functions… or for the purposes of the prudent management of its financial affairs’ subject to the conditions of affordability and regard for the Prudential Code for Capital Finance CIPFA 2017 Edition.
the East of England, North West, and the South West were devoting more than 10 per cent of their resources to servicing debt (bottom table in Fig. 2). There has been no change in the North East but this region had the highest incidence of local governments with unsustainable debt from the start. Interestingly, smaller and less urban municipalities (shire districts) took greater risk with debt. In 2011, only twenty shire districts allocated more than 10 per cent of their resources to debt service and repayment. By 2021, seventy such municipalities had fallen into that category. Notably, the incidence of high indebtedness and low debt service capacity was more widespread among the poorest local government districts with the greatest multiple deprivations (Fig. 3), a finding that aligns with the previous research by Hastings et al. (2015). There were signs of a looming debt crisis among local governments before the outbreak of the pandemic when Northamptonshire Council issued a Section 114 notice in 2018 and Croydon Council in 2019, indicating their inability to balance their budgets (Butler 2020; Wallis 2021). The pandemic revealed the extent of risks and exposure further. By 2021, around 40 per cent of local governments in Britain had moved into the top category of indebtedness.

4.3 Drivers and nature of debt-based entrepreneurialism

Debt-driven local growth projects among British local governments aimed to create new income streams, ameliorate the stifling effects of austerity, and generate sustainable funding for services through higher local tax revenues. The reliance on borrowing has been encouraged by the central government and it is worth noting the routes through which this is done. First, the introduction of the 2011 Localism Act by the Coalition Government together with the austerity programme, encouraged further commercial activity (Christophers 2019; Taylor, Haynes, and Darking 2020), enabling local governments to bypass borrowing restrictions. Second, the initiation of a series of ‘growth deals’ (Ward 2020) permitted greater flexibility for financing infrastructural investment through borrowing (O’Brien and Pike 2015). Finally, the zero-bound interest rate policy, implemented as a measure of recovery and stimulus, along with the attractive lending terms offered by the PWLB, especially the fixed-rate loans with very long maturity (up to 50 years), were instrumental in incentivizing local governments to embark on debt-led growth initiatives.

Indeed, debt-credit relations largely remained a public affair with the PWLB providing approximately 90 per cent of credit to local governments in Britain. This has been crucial in preventing

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*Scotland’s and Wales’ revenue and expenditure finance data are not consolidated and harmonized with England’s, making them difficult to use for comparative purposes.*

*A small number of local governments with credit rating such as Warrington, Birmingham, Salford, and Leicester also raised funds by issuing bonds through the UK Municipal Bonds Agency.*

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Figure 2. Evolution of the total DPR and debt service to spending power (DSSP) (£, deflated figures). Source: Local governments’ outstanding debt is obtained from Borrowing and Investment Live Tables of DLUHC. Data exclude debt of counties, independent authorities, and councils’ commercial companies. The share of counties in total debt was 9.3 per cent, independent authorities 18 per cent (of which 82 per cent belongs to London), and the commercial companies 0.3 per cent in 2021. Reporting date is 31 March for all years. Per resident data are estimated using ONS’ population estimates at local authority level.
exposure to markets and containing potential risks within the public sector. After the pandemic, the central government stepped in to prevent a major fallout through the Exceptional Funding Programme (DLUHC 2022b). Recently, the debt-drive has been tightened as reflected by the UK Treasury’s decision not to advance any loan to local governments through the PWLB if they are at risk of non-payment (Hill 2022). Furthermore, local governments are now prohibited from borrowing for yield only (UK Treasury 2022a).

Research moving beyond debtor–lender relationships found myriad ways in which local governments’ activities have become financialized (O’Brien and Pike 2019; Penny 2022). High risk-taking was facilitated through regulatory flexibility, use of tax increment financing and greater borrowing for infrastructure development against speculative/uncertain future income streams. Such financialized deals involving infrastructure and real-estate assets aimed to increase local growth potential and revenues from local property taxes (Strickland 2013; O’Brien and Pike 2015). Under the New Development Deals, for example, specified areas such as local enterprise zones in metropolitan cities were permitted to obtain additional borrowing against future growth in Business Rate (non-domestic tax) revenues (Raco 2018). Local governments were also permitted to borrow against rental income, resulting in growth of residential buildings for sale or rent, ostensibly to cross subsidize affordable and social housing (Christophers 2019). Use of arms-length companies, set-up as commercial entities or Special Purpose Vehicles (SPVs), not only eased the borrowing restrictions but also enabled moving some liabilities off-balance-sheets (Deruytter and Möller 2020). London councils have been particularly proactive in using SPVs in search of higher revenue generation (Beswick and Penny 2018; Penny 2022).

What type of investments did local governments undertake? The innovative dimension in British entrepreneurialism has been limited from the start with debt-based investments largely focusing on commercial property. This, to a great extent, reflects the constraints within which local governments operate. The ‘Commercial Councils’ register of Local Government Association (LGA 2021) shows that an overwhelming number of municipal authorities invested in property development and acquisition,

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8 Applications of ten local governments were endorsed: Eastbourne, Bexley, Luton, Peterborough, Wirral, Croydon, Nottingham, Copeland, Slough, Redcar, and Cleveland. In most cases, permission for sale of assets has been issued to tackle debt servicing and repayment problems.

9 Previously, the central government redistributed the Business Rate revenues to local authorities according to needs. Local Government Finance Act of 2012 allowed local governments to retain half of the business rate revenue raised locally.

10 The 2012 Housing Finance Reform allowed local governments to borrow for housing development against future housing revenue. This was initially subject to a borrowing cap which was later abolished in 2018, permitting local governments to borrow without restrictions, except for compliance with the Prudential Code.

11 Note that the list is not exhaustive as some councils with significant commercial investments are not included in the register.
including office space, housing, business parks, shopping centres, leisure, and cultural and civic facilities. The borrowing drive for property investment started in 2016 (NAO 2020) although some councils were already heavily indebted prior to this point. By 2020, there was an explosion in commercial property investments involving 179 local governments (CPA 2020, 2021).

For example, Runnymede Borough, pursued a high-leverage growth strategy with a seemingly attractive plan of passing the PWLB loans on to its own companies (SPVs) to develop office, industrial, retail sites, and real estate (Rice 2019). The plan envisaged a commercial income stream from these investments to comfortably provide for future debt-service requirements. However, by 2019, its debt service and repayment obligations were 60 per cent more than its spending power with further deterioration after the pandemic. Similarly, Woking Council invested in commercial property (WCLP 2020) and saw its debt-related obligations in proportion to its spending power more than quadruple between 2011 and 2021. It lent some of its credits from the PWLB to third parties, including its own commercial companies. Spelthorne is another council displaying a similar trajectory. Until 2015, this municipal authority had no significant debt. By 2019 its borrowing exceeded one billion pounds (OBR 2019). By 2021, its liabilities for debt service and debt repayment were 3.3 times more than its entire core spending power. This level of debt was unsustainable prior to the Covid-19 and has become impossible to service after the pandemic which had a significant impact on the council’s revenues.

Pursuit of revenue growth through high leverage led several local governments to issue what is known as a Section 114 notice or report, which is a formal statement of expenditures exceeding available resources, an outcome designated as unlawful. The authorities issuing Section 114 notice are required to cut down non-essential or non-statutory expenditures to restore budget balance. After the austerity programme, seven local governments issued section 114 notices with more expected to follow: Northamptonshire in 2018, Croydon in 2019, 2021, and 2022, Slough in 2021, Nottingham City Council in 2021, Thurrock in 2022, Woking in 2023, and Birmingham City Council in 2023. It is worth noting that these local authorities were mid-range borrowers prior to the crisis with a debt of less than £1,000 per resident (Fig. 3A, Supplementary Appendix). However, by 2012, they had all moved into the highest debtor category (the top quintile). Greater borrowing after 2016 escalated their debt position further. Using Pike’s (2023) conception, these local governments could be seen as ‘vanguards’ of the debt-driven growth strategy, initiating a commercial investment programme early in the post austerity period. Excluding Thurrock, these authorities were already devoting more than 10 per cent of their resources to interest charges and repayment obligations, long before indebtedness became a widespread issue among local governments. An important reason for the rapid increase in debt repayment obligations was the use of short-term borrowing from other local authorities to fund part of the investments and repayments (Dagdeviren and Karwowski 2021).

5. Discussion and conclusions

Austerity urbanism shaped the circumstances of local governments in many countries in the past decade and Britain was no exception. The associated restructuring led to a 20 per cent decline in real per capita local spending from 2009 to 2020 (UK Treasury 2022b), despite increased charges and fees for local services and the so-called ‘efficiency savings’ in areas such as procurement and outsourcing.

A key contribution of this article is related to the framing of the shifts in urban development regimes in response to major crises of capitalism. The discussion of the British case in this article emphasizes that the idealized descriptions of these shifts are in fact highly geographically differentiated and subject to alterations over-time to resolve the contradictions encountered along the way. The lesson from the USA and British experiences is that the neoliberal solutions implemented after the crises tended to create new vulnerabilities. Indeed, entrepreneurial urbanism allowed the US local governments to circumvent the resource bottlenecks in the 1980s and 1990s for local growth and development through a debt-drive but it also exposed them to new risks and limited their capacity to weather the initial impacts of the next crisis (i.e., the GFC) as resorting to another debt-driven strategy was prohibitively risky.

This study has illustrated the limitations of employing the same strategy in a different context and timeframe. The highly centralized local government system in Britain prevented a major debt-drive

12 Northamptonshire was restructured and the region is now being served by two councils. Therefore, consistent data was not available.
among municipal authorities until the mid-2000s. However, reduced funding from the centre in the aftermath of the GFC compelled local authorities to seek alternative means of financing local services and development. Thus, austerity urbanism was accompanied by debt-based entrepreneurialism. Intriguingly, local governments embarked on a debt-driven growth path at a time when debt for financing economic recovery through higher government spending at the central level was dismissed based on a discourse of ‘there is no alternative’, ‘generational theft’, and ‘prudence’ (Levitas 2012). Undoubtedly, this approach represented another form of downloading responsibility. Debt-led entrepreneurialism helped British government to contain the escalation of debt at the central level by shifting the burden of financing growth, regeneration, economic recovery to the local level. This approach appeared to promise a sustainable revenue stream into the future primarily through commercial investment in property and real estate.

From a broader perspective, increasing reliance on debt-financed investments at the local level reflects two general tendencies of neoliberal governance. The first is the persistent reluctance to raise tax rates for oligopolies and the ultra-rich to fund economically and socially necessary public investments. The second is the periodical cutbacks in public expenditure, with austerity urbanism representing the more recent assault. Therefore, for aspiring local governments, financing local development through debt remains one of the few options under the prevailing hegemonic relations. Although Crouch (2009) characterized the shift from Keynesian to neo-liberal policies as ‘privatised Keynesianism’, in reality, debt built-up at the local level was obscured by political rhetoric against debt and deficits and promotion of budget cuts at the federal/central level. This trend was made evident by a series of studies in the US prior to the GFC as mentioned above.

The debt-drive might have provided British local governments with some breathing space, considering the potentially high margin between borrowing rates and returns on investments in commercial property before the Covid-19. However, the pandemic with its impacts on local revenues, especially on business rates (i.e., non-domestic property taxes) exposed the unsustainability of growth seeking entrepreneurial local development with excessive reliance on debt. As a result, an increasing number of local authorities found it challenging to maintain a balanced budget. Instead, they were compelled to cut down their spending to the bare essentials after formally declaring their inability to balance their budgets.

The scalar underpinnings of these developments are evident through the greater incidence of debt-drive in poorer local areas with higher levels of multiple deprivations. This highlights how the austerity programme compounded existing structural disadvantages in these regions. There has been considerable variation in both the timing and the scale of debt-drive. Initially, a relatively small number of local governments acted as the vanguards of debt-drive, enticing many others to follow the same path.

This study also provided insights into the sustainability of local government debt, highlighting key indicators to monitor and the critical points that may signal financial vulnerability. However, this should be seen as the beginning of a research agenda and further work is needed from different parts of the world to establish a more conclusive analytical framework. Crucially, the findings highlighted how local governments are different from the private sector with respect to debt repayment capacity and sustainability. For example, most local governments that issued Section 114 notice since 2018 or requested emergency support from the central government after Covid-19 were allocating 10 per cent or more of their spending power to debt repayments (see data in the Supplementary Appendix, Table 1A). This level of debt service and repayment obligations is unlikely to create major pressure for private sector entities. Several factors account for why local governments would encounter issues of financial sustainability at lower thresholds. First, the ability for repayments needs to be considered against the compromises made regarding local service levels, that is, whether repayments are threatening spending for, for example, social care or education (Bahl and Duncombe 1993). Indeed, for a given resource base, higher repayment requirements would result in lower spending on local services. Second, local governments typically do not usually generate revenue or cashflow for a significant proportion of their investments in public services such as schools, transport, and social care even though these investments enable the delivery of a range of socially indispensable services (Torrance 2009; Pike et al. 2019). Positive deviations from identified debt thresholds imply greater diversion of resources away from funding local services and infrastructure, potentially leading to difficulties with
repayments. Thus, local governments can more easily move into high-leverage and high-risk category compared to the private sector entities.

This is closely connected to policies that may assist in preventing local governments undertaking unsustainable financial commitments. A first step would be to identify debt sustainability benchmarks for good and bad times with sensitivity to various attributes, including size, mandates, financial strengths and weaknesses, and the economic development of the areas served. Public institutions such as the UK Treasury, Office for Local Government, National Audit Office, and the Chartered Institute of Public Finance and Accountancy are well positioned to provide concrete direction against excessive borrowing in the future. However, exit from existing unsustainable debt positions requires more than direction. A practical approach would be for the central government to offer case-specific solutions, ranging from full or partial debt write-offs to debt restructuring to bring debt levels to a sustainable trajectory. The primary goal should be to restore local spending on services and development. It is worth noting that local investments in Britain constituted around 4 per cent of total expenditure in the last two decades and remained well below 10 per cent in the best years. The 'levelling up' approach of the current government does not go beyond an expression of rhetorical ambition and lacks credible funding strategies for local development (Tomaney and Pike 2020). Increasing capital grants for urgently needed investments in infrastructure, schools, housing and social services would alleviate the pressure on local governments to heavily rely on debt. In an environment of rapidly rising interest rates, this would not only reduce their financial risks but also furnish the levelling up strategy with substance.

From an international perspective, the outstanding question for further research is whether the British experience regarding the pursuit of a combined policy path is unique or not. A comparison with the much-discussed case of the USA reveals distinct differences. The earlier take-up of entrepreneurial initiatives and excessive reliance on debt in the USA ended with borrowing aversion in the immediate aftermath of the GFC to tackle looming bankruptcies. In contrast, low level of initial indebtedness among British local governments played an instrumental role in the spread of debt-based entrepreneurial initiatives in the aftermath of the GFC, particularly to finance property acquisition. These divergent experiences raise questions about how debt-growth nexus is influenced by political structures, be they federal, devolved, or centralized. If there are other countries trekking the same path, another question arises: what are the common underlying factors that lead to the persistence of debt-driven entrepreneurialism despite its negative consequences in the USA after GFC and in Britain after the pandemic? It is possible that when progressive adaptations are out of question due to the nature of hegemonic power relations, experiments with old/failed neoliberal programmes (e.g., debt-driven entrepreneurialism) are revived and taken up again where they are considered feasible. The persistence with failed experiments probably reflects the struggle for maintaining the prevailing hegemonic status-quo and the absence of viable policy alternatives within confines of neoliberal ideology. The exploration of these questions requires a greater engagement with political economy and economic geography.

Supplementary data

Supplementary data are available at Journal of Economic Geography Journal online.

Conflict of interest statement

None declared.

Funding

None declared.

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