

**CASE STUDY** Contributor : Astrid R.N. Haas

# Lending at Scale: How the UK's Public Works Loan Board Finances Local Government Capital Investment

This case study demonstrates how a sovereign-backed lending mechanism can support local authority borrowing for capital investment. The UK's PWLB shows how simple processes, strong government backing, and a prudential framework can enable accessible finance, while revealing vulnerabilities when borrowing is used for commercial purposes.



## 1. Overview and Purpose

The UK's Public Works Loan Board (PWLB), now operated by the UK Debt Management Office (DMO) on behalf of HM Treasury, is one of the world's oldest public financing institutions for local government, tracing its origins to 1793. It provides low-cost, sovereign-backed loans to local authorities for capital investment in housing, infrastructure, green finance, and public services, and currently accounts for most local authority borrowing in England.

The system works because of a mutually reinforcing set of conditions: the UK government's strong position in gilt markets, a long-established trust relationship between the PWLB and local authorities, a simple and fast application process, and a prudential framework that keeps borrowing affordable and sustainable. Loans are approved quickly, without credit checks, at rates no commercial lender can match, and the entire process is deliberately designed to minimise friction for local chief finance officers.

The model has not been without stress. In the mid-to-late 2010s, several councils began using PWLB borrowing to make purely commercial property investments, with the aim of generating rental income to offset cuts to central government grants. When interest rates rose and property markets weakened, several local councils found themselves unable to service their debts. The episode exposed a structural vulnerability in a trust-based system and prompted reforms to both PWLB lending terms and the broader prudential framework.

## 2. Urban Context and Structural Challenge

The Public Works Loan Board (PWLB) was established in 1793, making it one of the world's oldest public lending institutions for local government. Its founding logic was straightforward: local authorities in England needed access to long-term capital for public works, and the government was better placed than private markets to provide it reliably and at affordable rates. By the post-war period, the PWLB had become the principal source of capital finance for local government, providing loans for housing, roads, schools, and the infrastructure of the welfare state, with the UK government borrowing on the gilt market<sup>1</sup> at sovereign rates and on-lending to local authorities at a modest spread, secured automatically on the general revenues of the borrowing authority.

For most of the twentieth century, this arrangement operated within a system in which local government capital spending was closely managed by central government. The shift came with the introduction of the prudential regime in 2004, under which major local authorities were given responsibility for their own capital financing decisions. They could borrow for any capital purpose, provided their chief finance officer was satisfied that the debt was affordable and sustainable. The PWLB continued to function as a non-discretionary lender that did not ask the purpose of a loan, but the range of purposes for which councils could legitimately borrow had expanded considerably.

For much of the 2010s, this combination worked reasonably well. Councils used PWLB borrowing for conventional capital investment in housing, infrastructure, and service assets. Rates were competitive, never more than one per cent above the gilt rate, the application process was simple and fast, and no credit rating was required because the DMO already held detailed financial information on all local authorities through their statutory returns.

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<sup>1</sup> UK government bonds, known as gilts, are debt securities issued by HM Treasury to finance public spending, and are considered among the lowest-risk investments available in sterling markets because they are backed by the full faith and credit of the UK government.

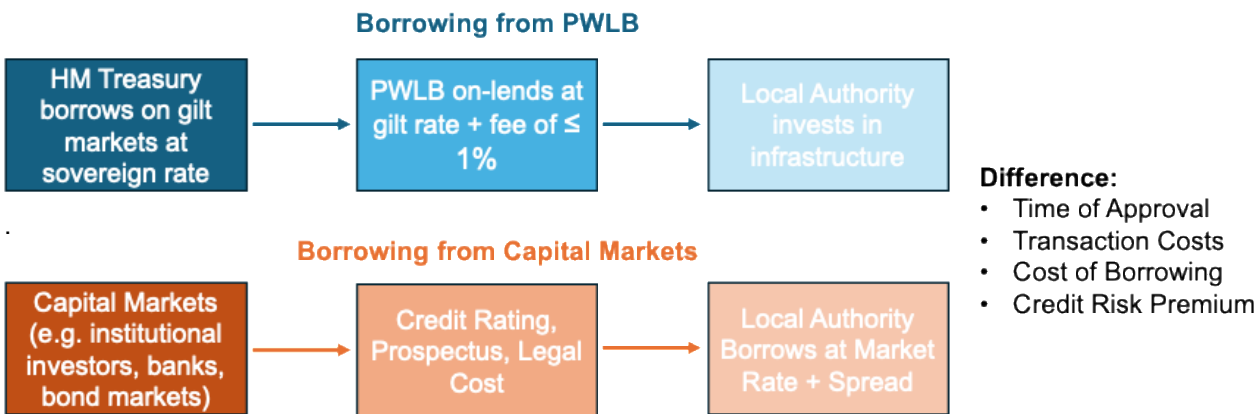
The system came under stress from the mid-2010s onwards, when several councils began borrowing heavily to invest in commercial property, including retail parks, office buildings, and other income-generating assets, with the aim of using rental income to plug gaps in revenue budgets caused by a decade of central grant cuts. Grant funding had fallen by over 40 per cent in real terms between 2009/10 and 2019/20,<sup>2</sup> and with council tax rises capped at typically two to five per cent annually,<sup>3</sup> commercial investment appeared to offer one of the few routes to generate unrestricted revenue. The PWLB, as a non-discretionary lender, advanced the funds without challenge.

When interest rates rose and property markets weakened, several councils found themselves unable to service their debts. Woking Borough Council and Thurrock Council became the most prominent casualties, with Woking accumulating debt of £2.16 billion, equivalent to more than £20,000 per head of population.<sup>4</sup> Both required government intervention. Across the sector, total local authority debt reached £122 billion by 2025. The episode made clear that the prudential regime, as then constituted, provided insufficient safeguards against borrowing that was formally permissible but fundamentally imprudent, and that the non-discretionary character of the PWLB had become a liability as well as an asset.

### 3. Project Approach and Delivery Model

The response to the commercial investment crisis came in two related moves. The first was a change to PWLB's own lending terms, introduced around 2020, which required that any borrowing have a connection to the delivery of local public services, rather than being undertaken purely for financial gain. Councils were placed under an obligation to demonstrate this connection when applying for loans.

The second was the revision of the Prudential Code for Capital Finance, which tightened the framework within which councils were expected to make their borrowing decisions. Although the PWLB is not a regulator, the volume of borrowing it oversees means that changes to its lending terms carry de facto regulatory weight and feed through quickly into wider practice and into how councils assess and present their capital programmes.



<sup>2</sup> Institute for Government (2026) Local Government Funding in England

<sup>3</sup> House of Commons Library (2023) What Happens if a Council Goes Bankrupt?

<sup>4</sup> BBC (2025), Schools, Care Homes and Sports Clubs Sold Off to Pay Spiralling Council Debt

Figure 1 - Local Authority Borrowing from PWLB versus Capital Markets

The underlying mechanics of the PWLB remain unchanged. The DMO borrows on the gilt market at sovereign rates and on-lends to local authorities at a spread of no more than one per cent, making PWLB loans significantly cheaper than commercial alternatives (see Figure 1). The lending envelope, the total volume the PWLB can lend, is set by Treasury and typically reviewed every three to four years. Within that envelope, the operational lending decisions are entirely civil servant to civil servant, with ministers involved only in setting the overall limit. The process is designed to be fast: once a local council has passed a resolution approving a capital project and the chief finance officer applies to the PWLB, approval is typically rapid. There is no elaborate prospectus, no credit rating process, and no complex market engagement required.

The limits of this architecture were demonstrated by the UK Municipal Bonds Agency (UKMBA), established in 2014 as a Local Government Association-led initiative designed to offer councils a collective route to capital markets and reduce dependence on PWLB, partly in response to a temporary increase in PWLB rates. The UKMBA pooled borrowing needs from multiple councils and issued bonds on their behalf, in principle offering competitive rates and helping to develop a domestic municipal bond market. When the PWLB responded to the competitive pressure by reducing its rates, the incentive for councils to use the UKMBA largely disappeared. The agency issued very few bonds across its decade of operation and has since closed to new business, servicing only its existing debt obligations. The episode illustrates a structural challenge that is relevant beyond the UK context: when a sovereign-backed lender offers lower rates and substantially lower transaction costs, the business case for a municipal bond market is very difficult to sustain, even with institutional support and deliberate policy intent behind it.

## 7. Key Lessons and Transferable Insights

### What Worked Well

- The sovereign backing and gilt-market access of the PWLB allow it to offer rates that no commercial lender or bond market mechanism can typically match, making it the rational first choice for virtually all capital borrowing by local authorities and ensures that the cost of public infrastructure finance in England is anchored to the risk-free rate rather than to perceptions of individual councils' creditworthiness.
- By removing project preparation costs, legal complexity, and time delays associated with bond issuance or commercial borrowing, the PWLB makes capital finance accessible to councils of all sizes and financial sophistication, including those that would struggle to prepare a bond prospectus or engage a credit rating agency.
- The apolitical, civil-servant-to-civil-servant character of the lending relationship insulates individual borrowing decisions from political pressure while keeping democratic accountability where it belongs.
- The published borrowing and investment tables maintained by central government provide system-wide transparency that supports monitoring without requiring the PWLB itself to act as a regulator.

### Challenges and Constraints

- The trust-based model is vulnerable when that trust is abused and although the reforms introduced improved the safeguards, the underlying tension, between a non-discretionary lender and a borrower population with strong incentives to borrow as much as possible in a period of fiscal stress, has not been fully resolved.

- The broader fiscal crisis of UK local government, driven by a decade of central grant cuts, structural constraints on own-source revenue, and rising demand for social care, creates a context in which even well-managed borrowing becomes harder to sustain.
- The dominance of the PWLB has suppressed the development of a diverse municipal capital market in the UK as demonstrated by the failure of the UKMBA to achieve scale.

## 8. Key Takeaways

- A sovereign-backed lending facility can provide reliable, low-cost capital to local governments at scale, but it works best when embedded in a framework of institutional trust, prudential self-discipline, and robust financial transparency.
- Simplicity is a competitive advantage as the PWLB's fast, low-friction application process is central to its dominance, because it reduces the transaction costs and professional risk that would otherwise deter local finance officers from borrowing.
- The conditions that make the PWLB work, including sovereign creditworthiness, an established trust relationship, and comprehensive existing knowledge of the borrower population, are not easily replicated, and attempts to build competing models without those foundations are likely to struggle.
- The existence of a dominant, low-cost public lender does not prevent a local government fiscal crisis and especially when the underlying revenue base is inadequate to fund services, capital borrowing can deepen rather than resolve the problem.
- A trust-based system with limited pre-approval gatekeeping requires strong norms and peer pressure to remain disciplined as when those norms are violated, the systemic response affects all borrowers.

**This Case Study was prepared by Dr Astrid R.N. Haas, Urban Expert Economist, [UrbanAsti Limited](#), by way of contribution to the work of the CSCC Urban Finance Action Group, March 2026. The author expresses appreciation to Bevis Ingram, Senior Finance Advisor Local Government Association UK for his insights into this case study.**



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