

# THE UK PUBLIC WORKS LOANS BOARD: CENTRAL GOVERNMENT LOANS FOR LOCAL GOVERNMENT INVESTMENT

The UK's Public Works Loans Board was a mechanism through which local government could access low-cost loans through central government. It played a key role in water and sanitation improvements in the UK between the 1870s and the 1980s. Until very recently, it remained a major vehicle for central-to-local government lending in the UK, and it has been a valuable template for many similar systems worldwide. This Finance Brief outlines the history of this body, still very relevant as a model today.

## WHAT WAS THE PWLB?

The UK's Public Works Loans Board was a long-standing and simple mechanism for local government and sanitary authorities in Britain to access low-cost loans, ever since its initial 1793 mandate was renewed under the 1875 Public Works Loans Act.<sup>1</sup>

Over the 19th century, the urban population in Britain increased from 29 to 77% of the (growing) total population, leading to a nine-fold increase in urban dwellers. Terrible living conditions in the rapidly growing cities and towns generated increasing awareness of WASH-related public health, leading to the 1875 Public Health Act, which *required* local authorities to deliver adequate water and sanitation, by contrast with the more permissive previous legislation. The challenge was clear: in 1879 (GDP per capita \$3,500 at 2014 prices) over one quarter of all local authorities in Great Britain still had no piped water, and the sanitation situation was similarly poor.<sup>2</sup>

## HOW DID IT WORK?

The Public Works Loans Board had the responsibility to on-lend at low cost to hundreds of small local governments and sanitation authorities. Lending was based on lowest-possible-cost national government borrowing through the National Loans Fund. This enabled rapid water and sanitation funding: before the PWLB, it had often been necessary to pass individual Acts of Parliament to approve each and every development and its necessary borrowing (a particular challenge when demand for infrastructure capital was

growing rapidly around the world). Promoting individual Acts was simply not manageable or affordable for small towns. Furthermore, dealing with each case individually had made it complicated and difficult for the Ministry of Finance ("the Treasury") to manage loans to local government.

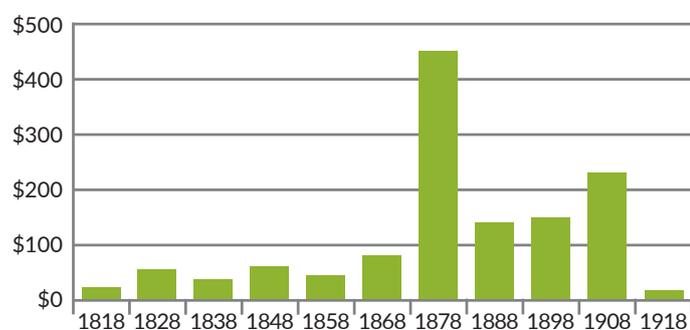
Under the 1875 Public Works Loans Act, local governments were able to access low-cost low-risk government loans with only a small mark-up on the interest rate paid by central government (an average of 0.05% over the past 135 years) and low fees (recently at 0.04% average). It was possible to sustainably maintain this low borrowing cost because of very high levels of debt repayment. According to recent PWLB Annual Reports, loans were "*automatically secured by statute on all revenue streams of the borrower*", including property taxes and (in the case of water) consumer tariffs. This followed annual approval by central government of each local authority's water and sanitation spending plans.

Importantly, the Act gave the supervising Local Government Board "*the obligation to ensure that work was actually carried out on every project, inspecting beforehand, reviewing its progress and overseeing afterwards*".<sup>3</sup> This technical support and supervision was a key component of the PWLB's success, in a period when there was considerable uncertainty about appropriate technical solutions, particularly for wastewater treatment.

Within 20 years, total local government debt including PWLB debt stood at US\$ 19.4 billion (2014 prices): of this, \$5.7bn was for water supply (19%), \$4.4bn for "public improvements

- mostly sanitary” (15%) and \$3bn for sewerage (10%). In the 1870s the PWLB made 10 – 20 loans each month, averaging \$1m each (2014 prices). Some local governments lobbied hard for even cheaper borrowing, suggesting the original 3.5% rate was too high and the standard repayment period should be extended from 30 to 50 years.<sup>3</sup> They were refused this change, and the interest rate was subsequently increased to 5%. In this way national government controlled overall PWLB borrowing, by varying the interest rate but also by setting a loans ceiling (\$400 million annual ceiling in 1875, most recently \$108 billion).

**Figure 1.** Average annual central-to-local government loan amounts in decades between 1818 and 1918 (US\$ million, 2014 prices), showing significant increase in investment in the 40 years following introduction of the PWLB.



## MORE RECENT HISTORY

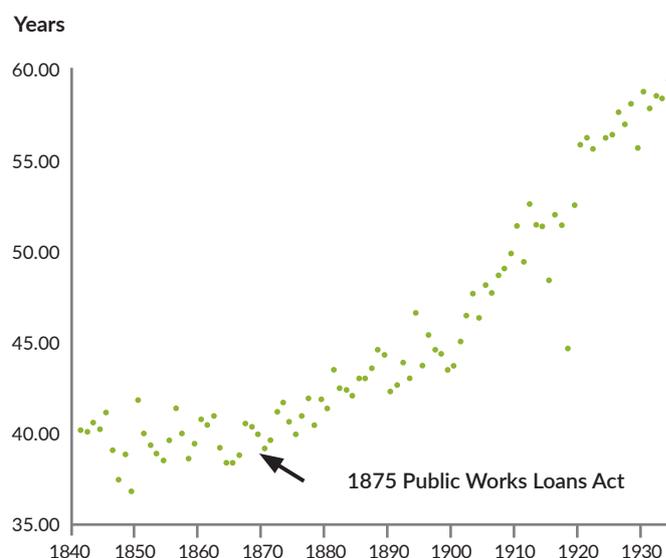
PWLB loans were used to fund capital investment in networked water and sanitation until the 1980s. In the mid-1980s the PWLB stopped funding water and sanitation, when government required the then-publicly-owned regional water and sanitation authorities to fund their investment from water tariffs and retained earnings. Subsequent privatisation in 1989 enabled the authorities to borrow directly from commercial lenders; at this time the government also cancelled the outstanding \$8 billion of water- and sanitation-related PWLB loans. Since the 1980s, the PWLB has continued to act as a vehicle for central-to-local government loans for other (non-water) areas. Currently, in 2015, the PWLB is being replaced by a new lending entity called the Municipal Bonds Agency.

The PWLB has been described as the “*mother of all subsequent ‘local government loans funds’ or ‘municipal development funds’*”. This includes many and varied funds developed with support from the World Bank and other international entities. The success and long endurance of the PWLB seem to have emanated from its operating principles, which were grounded in simplicity.<sup>4</sup>

## RELEVANCE TODAY

The impact of the PWLB in Britain was overwhelmingly positive, as shown in the graph of life expectancy 1840 - 1935 below.<sup>5</sup> The author believes that this historical model (central government acting as a channel, guarantor and monitor of least-cost borrowing by decentralised municipal authorities) is of relevance to modern Africa and Asia, facing very similar water and sanitation challenges today.

**Figure 2.** English life expectancy 1840-1935. Data: Office of National Statistics.



- 1 Chancellor of the Exchequer Official Report, 24 May 1875; Vol. 224, c. 800-01
- 2 Wohl A (1983) *Endangered Lives - Public Health in Victorian Britain*.
- 3 Richardson N (2008) *Typhoid in Uppingham: Analysis of a Victorian Town and School in Crisis, 1875-1877*.
- 4 Jones D (2004) *English Local Government and its Financing*.
- 5 <http://www.victorianweb.org/science/health/nightingale/1.html>

## PUBLIC FINANCE for WASH

The Public Finance for WASH initiative is grounded on two principles: i) that sustainable universal provision of high-quality water and sanitation services is fundamentally dependent on progressive domestic taxation systems, and that consequently ii) WASH-sector donors, donor-funded NGOs and in-country actors need to pay greater attention to ensuring that ODA is delivered in ways which support the development of effective and equitable domestic public finance systems.

**Credits:** This is a copyright-free document: you are free to use it as you see fit. Please cite as follows: “Franceys R (2015). *The UK Public Works Loans Board: central government loans for local government investment. Finance Brief 6, Public Finance for WASH, www.publicfinanceforwash.org*”.