

## APPENDIX D

### Strategy for 2007/8

#### 1. Borrowing

PWLB rates for longer periods have been in the range 4.1% to 4.6%, whilst shorter dates have increased with Base Rate increases. Interest rates on LOBO loans from Commercial Banks have also increased during the year.

The opportunities to borrow at historical low rates in 2006/7 were taken prior to the start of that year. Three loans of £10 million were borrowed from banks at rates of 3.25% and 3.35% (fixed for 5 years) and 3.62% (fixed for 10 years).

The County Council's capital programme assumes borrowing in 2007/8 of over £60 million and another £60 million in the following year. However, cash levels are relatively high due to earlier receipt of government grant, pension fund cash balances and various balance sheet reserves. Therefore, assuming these do not decline too rapidly, we are in the comfortable position of not necessarily needing to borrow in 2007/8. With current PWLB and LOBO borrowing rates well above their lows and the prospect of them declining in the next two years, there will be a watching brief with a target of funding below 4% should rates decline to this level again.

#### 2. Lending

The Bank Base Rate has increased three times by 0.25% so far in 2006/7 to the current 5.25%. Inflation rates have increased much more than expected by the Monetary Policy Committee, giving expectation to at least one more Base Rate rise before falling again.

With cash resources relatively high, some funds have been lent for longer periods for over 5.5%. Until the cash flow position is more certain it is likely that the remainder will be lent for periods below 3 months. However, as the Base Rate nears its expected top level, other opportunities to lend longer will be considered.