

Member Information Service

Committee Meetings

Please note that a meeting of the Liquor Licensing Panel will be held at 10.00 a.m. on Tuesday, 18th June @ 10.00 a.m. This meeting will consider an application for a Premises Licence for Paulino's Restaurant, Lindfield.

Information and News

HIGH WEALD AONB JOINT ADVISORY COMMITTEE

Members are asked to note that the High Weald AONB Unit have recently taken over the clerk service for the Joint Advisory Committee (JAC). Any correspondence should be sent to Samantha Nicholas, Clerk to the High Weald JAC, Woodland Enterprise Centre, Hastings Road, Flimwell, Wadhurst, East Sussex. TN5 7PR

BRIEFING NOTE - COOPERATIVE BANK

1. Introduction

i) This briefing note updates members of the reasons surrounding the downgrading of the Cooperative Bank (the Council's banker) by Moody's Rating Agency on 9 May 2013. It also informs members of the Council's proposed response in regard to its treasury management exposure.

2. Background

ii) The Cooperative Bank plc. has been the banker of MSDC since 2007 and our contract expires in 2017.

iii) Under the Agreement, the contract may be terminated with immediate effect by either party giving notice in writing if the other commits a material breach that is not remedied within 30 days, or "is unable to pay its debts as they fall due, or becomes or threatens to become or is at risk of becoming subject to any form of insolvency, administration, or ceases or threatens to cease carrying on business"

Banking & Treasury Management Exposure

iv) At 14 May, 2013 the following deposits and balances were held with The Cooperative Bank plc.

Fixed Deposits

MSDC £1m maturing 31st May 2013

MSDC £1m maturing 6th August 2013

MSDC £1m maturing 7th January 2014

MSDC £1m maturing 19th March 2014

Combined Bank Balances £497,582.60

The Council's Treasury Management Policy (agreed by Council on 20 March 2013) states that The Head of Finance, under delegated powers, is permitted to undertake through the shared service arrangements the most appropriate form of investments in keeping with the investment objectives, income and risk management requirements...'

Placement of deposits is not contingent on credit ratings alone, but is based on a holistic view of the financial markets, the need to spread risk across a range of approved counterparties, and to achieve returns commensurate with that risk. The policy allows deposits with the Cooperative Bank for fixed term investment purposes of up to £5m.

3. Moody's Credit Downgrading & Fitch Comparator Ratings

On 9 May 2013 Moody's Investors Service downgraded the deposit and senior debt ratings of Cooperative Bank plc. to 'Ba3 / Not Prime.'

In effect, Moody's were expecting the bank to need external support at some point in the future.

In contrast, Fitch Rating Agency gives the Cooperative Bank a long term rating of BBB- *Good credit quality*. 'BBB' ratings indicate that there is currently a low expectation of credit risk.

Fitch's credit ratings provide a more optimistic view of the bank's position, and particularly its ability to meet its financial commitments without outside (central government) support. This optimism is re-affirmed by the Cooperative Bank's own press announcement in which it states:

'There are no issues in relation to our liquidity and we are primarily funded by customer deposits with a Loan to Deposit ratio of 92% meaning that we have more customer deposits than we lend out.'

By way of commentary on the Moody's down-rating, the Council's Shared Treasury Management Services external professional consultants, Sector Treasury Services Ltd, state:

'Co-op has not figured on the Sector suggested lending list for some years and this news does not change our view that clients should only use the bank for transactional business, with minimal balances retained. Most of the problems stem from the takeover of Britannia Building Society and the Bank's limited ability to deal with its problems as it is a mutual, and thus cannot raise capital.'

4. The Council's Proposed Response

Despite the down-rating by Moody's and Sectors extremely risk-averse view, the bank itself is upbeat about the ability to service both personal and business customers. As such your officers are mindful to maintain vigilance of the situation, minimising further banking exposures to the Cooperative Bank wherever possible. One alternative is to use money market funds with instant access for daily liquidity.

The Council's fixed deposits of £4m are contractual obligations to the maturity dates, and to attempt to return these prematurely would incur costs which have not yet been investigated. In any event, to do so may engender more of a risk of bank default due to fears of a run on the bank (especially if other Councils chose to do the same).

Similarly, we have no plans to terminate our banking contract with the Cooperative Bank.

Peter Stuart

Head of Finance

16 May, 2013