



LATE REPORTS, URGENT BUSINESS and SUPPLEMENTARY INFORMATION

Audit Committee

Monday, 17 November 2008

The following report and appendices were received too late to be included on the main agenda for this meeting and were marked 'to follow'. They are now enclosed, as follows:

Agenda Item Number	Page	Title	Reason for Late Report	Officer Responsible For Late Report
5	1 - 13	REVIEW OF INVESTMENTS IN ICELANDIC INSTITUTIONS	Received after publication of the Agenda	Head of Financial Services

AUDIT COMMITTEE

**Review of Investments in Icelandic Institutions
17 November 2008**

Report of Head of Financial Services

PURPOSE OF REPORT
This report provides Members with the details surrounding the placing of investments with Icelandic banks and information regarding recovery action.
This report is public.

RECOMMENDATIONS

- (1) That the report be noted, and the Committee makes any further recommendations as appropriate.

1 Introduction

1.1 In early October the Icelandic banking sector effectively collapsed, resulting in Heritable Bank and Kaupthing, Singer and Friedlander (KSF) falling into administration, and Landsbanki and Glitnir falling into receivership. The Council has money invested in three of these institutions and concerns have been raised, in particular regarding why monies were placed with one of them in early summer and what the Council's prospects for recovery are.

1.2 In response the Chairman has agreed to an extraordinary meeting of the Committee and this report has been produced in answer to the concerns raised. In addition Richard Dunlop, a Director from Butlers, the Council's Treasury Advisors, will also give a presentation to provide further information.

2 Current Investments in Icelandic Banks

2.1 The Council currently has investments totalling £6M placed with three separate Icelandic banks, details of which are as follows :

Institution	Investment £	Trade Date	Start Date	End Date	Rate %	Interest £
Landsbanki Islands	1,000,000	15 May 07	16 May 07	15 May 09	6.25	125,000
Glitnir	3,000,000	12 Jan 07	14 Jan 08	14 Jan 09	5.76	173,123
Kaupthing, Singer & Friedlander	2,000,000	15 May 07	16 May 08	15 May 09	6.00	119,671

- 2.2 It can be seen that for two of the investments, the Start Dates are a year later than the Trade Dates. These are known as 'Forward Deals', where a contractual obligation is made at the trade date, to place money with an institution at a later date. Decisions to take out forward deals would be based on normal investment criteria, as discussed below, albeit taking a slightly longer term view.

3 Investment Principles and Objectives

- 3.1 As required by the statutory regulations and the CIPFA Code of Practice on Treasury Management, each year Council approves an Investment Strategy as part of its treasury management arrangements. In particular this sets out criteria to manage the security and liquidity aspects of placing investments with institutions (known as counterparties).
- 3.2 The main principles governing the Council's investment criteria are the security and liquidity of its investments before yield, although the yield or return on investment will also be a consideration, subject to adequate security and liquidity. This is in line with Government guidance on Local Government Investments, which also states that "*it will be appropriate to seek the highest rate of return consistent with the proper levels of security and liquidity*".

To help understanding of the above statements:

Security: relates to how safe an investment is, i.e. how reliable is the institution in which money is invested

Liquidity: relates to cash flow, i.e. making sure investments are flexible enough to avoid unnecessary cash flow difficulties

Return: typically the interest made on investments

- 3.3 Given the nature of the concerns raised, more information regarding the security aspects is provided in the section below.

4 Security of Investments

- 4.1 As set out in the attached Strategy extract at **Appendix A**, the security of investments is managed through using credit ratings; this element of the Strategy has remained broadly the same for the last few years or so. There are three main agencies – Fitch, Moody's and Standard and Poor's. The ratings given by each agency differ in range and terminology, however, and so for consistency the Investment Strategy refers to Fitch ratings.
- 4.2 It should be noted that financial institutions invite the agencies to rate their organisations, so if one is not rated by all agencies it does not necessarily preclude it from being on the Council's counterparty list. For the three Icelandic Institutions, they all had Fitch and Moody's ratings but only one (Glitnir) had Standard and Poor's.
- 4.3 Each agency covers various criteria in determining its ratings and these are reviewed regularly. More information on this will be included in the presentation but a summary of the ratings and their movements for the Icelandic banks is included at **Appendix B**.

- 4.4 As touched on in section 2.2 above, under the Investment Strategy investments can be placed for a future date, i.e. an investment could be agreed (or 'traded') today with a start date of 01 April 2009, providing that the chosen institution's credit ratings are sound and that the investment would not cause any foreseen difficulties with cashflow. The main reason for considering such forward deals is to provide some degree of certainty with regard to future returns, as there can be much uncertainty in future movements in interest rates and sometimes, on balance, it can be viewed better to lock into future agreements rather than keep all investments short.
- 4.5 For any investment, on the day of trading the Council enters into a contractual obligation to transfer the money to the financial institution concerned, irrespective of what its credit rating may be on the actual date of transfer. Whilst there is, therefore, more potential risk attached to forward deals and longer term investments because of the timescales involved (through more scope for ratings changes over that time), generally the credit ratings used are such that a minor downgrading should not affect the full receipt of principal and interest – again this is provided for with the Strategy. The ratings should give the Council sufficient comfort as to the long term stability of the institution.
- 4.6 Generally, in its portfolio the Council would hold a mix of fixed term short dated investments, longer dated investments, forward deals and also monies in 'call accounts', where deposits can be recalled at any time and so are not fixed for a term. The mix would depend on cash flow needs, interest rate prospects and budgetary considerations. The security of investments would be managed through the ratings attached to the counterparties involved.
- 4.7 Regarding Icelandic institutions, the Council has used them on around 20 other separate occasions since 2006/07, generating investment interest of approximately £544K.

5 Issues relating to the KSF Investment

- 5.1 Specific concerns have been raised regarding the KSF investment. As can be seen from Appendix B, this investment was traded on 15 May 2007 and therefore at that date, the Council entered into a contractual obligation to transfer £2M to the bank on 16 May 2008.
- 5.2 On 09 May 2008, the bank's credit ratings fell to just below those required under the Investment Strategy and it was removed from the Counterparty list, so that new investments could not be placed with it.
- 5.3 It was recognised, however, that the Council had an existing contractual commitment to transfer the £2M a week later. Nonetheless advice was still sought from Butlers, who confirmed the contractual obligation. Given the relatively minor reduction in ratings, the view at that time was that there was no significant risk to the Council, and so the investment was duly placed. At that time, there were relatively positive articles in the press ("Icelandic banks come in from cold", Financial Times, 11 May 2008) which reported on the banks' first quarter's solid results and indicated some evidence that they were basically sound, though potentially they had been subject to various misconceptions surrounding their funding positions. There can be much speculation in the press and media, but under the Council's Investment Strategy reliance is placed on the credit ratings from the agencies, based on them undertaking objective assessments of counterparties and factoring the results into their ratings.

- 5.4 It was not until 30 September that the bank's ratings plummeted, and it failed very shortly afterwards. In May, there was no information to warrant breaching the investment contract with KSF, as it was expected then that the bank would continue to trade and therefore would have taken legal action against the Council had the forward deal not been placed. Furthermore the Council's reputation also must be considered. The Council needs to be in a position of trust with other counterparties in order to place investments and gain favourable rates; it is felt that this would not have been the case if the contract with KSF had been breached and legal action had ensued.

6 **Monitoring of Treasury Management Activities**

- 6.1 Under the Council's Treasury Management framework, quarterly monitoring reports are submitted through Performance Review Team (PRT) meetings, and an annual report is submitted (via Cabinet) to Council.
- 6.2 An update on the investment position was included in Financial Services' Quarter 1 PRT and the Investment Register at that date is included at **Appendix C** for information. The following was also reported at that time, in respect of the counterparty list:

“Changes to the list have been more frequent than usual over recent months, as more and more financial institutions have encountered trading difficulties. There have been instances where counterparties have been downgraded, or even removed from the list, during the lifetime of an individual investment. Where applicable to current investments, these are highlighted on [Appendix C to this report]. Given that the underlying criteria behind the list are extremely robust, making it sensitive to even minor changes, it is felt that this has not resulted in any materially increased risk to the Council so far, but the position will continue to be monitored. As a further mitigation measure, no forward deals are currently being entered into, but this will also be kept under review.”

- 6.3 Given the above, the contractual position regarding investments and the relatively minor changes in credit ratings coming through at that time, it is felt that no further actions could have reasonably been taken other than place the £2M with KSF, as contractually committed to do so.

7 **Administration / Receivership Arrangements**

- 7.1 By 08 October 2008 all three institutions were either in administration or receivership and had effectively defaulted on their financial commitments. The Local Government Associated (LGA) has become involved on behalf of councils and on 30 October it sent an update to all affected authorities explaining the latest position. This update is attached at **Appendix D** and in essence it reported that:
- UK Administrators (Ernst & Young) had been set up for KSF, and a list of lead creditors had been established to represent all local authority councils. They would report back in mid November with a more detailed assessment of how much authorities might receive and when this could be paid.

- The LGA were in the process of setting up creditor groups for Landsbanki and Glitnir, to work with the Icelandic Receivers.
- 7.2 With regard to this latter point, on 03 November 2008 the LGA wrote to Councils with interests in Landsbanki and Glitnir, inviting them to an initial meeting with Deloitte and Touche, who are now acting on behalf of the creditors of the banks.
- 7.3 This is in advance of “informal” meetings of the full creditor committees for each bank, which is due to be held in the week beginning 10 November 2008 in Iceland. The initial meeting will :
- Review information received to date from Deloitte about the administration process, including what ground the first creditor meeting is likely to cover, and any decisions it might take;
 - Discuss the composition of the steering committee for each bank, and confirm the local government representatives that will attend the meeting in Iceland;
 - Agree a set of common principles that the local authority creditor representatives attending the meeting(s) will need to promote.
- 7.4 Whilst no City Council representative attended, arrangements have been made to gain feedback from other Lancashire authorities and a further update will be fed into the Audit Committee meeting.
- 7.5 In addition, it can be confirmed that the Council has registered as a creditor for all 3 institutions. Recovery will now be subject to the administrative processes either here in the UK or in Iceland.

8 **Prospects for Recovery**

- 8.1 The position regarding the £6M of investments placed with Icelandic institutions represents a major but uncertain risk facing the Council and this has been highlighted in the recent Medium Term Financial Strategy (MTFS) update report to Cabinet. The following points can be made though:
- The Government has not guaranteed councils' and other bodies' investments in the way that it has for individuals. Assuming that this does not change, recovery will be through the Administration processes outlined above.
 - To the date the banks entered into administration / receivership, the Council was due investment interest of £260K and this too is at risk, as well as the £6M invested. A further £135K was due from October to the end of this financial year, with £23K also due in 2009/10, but it is not expected that these amounts will be recovered. These two latter amounts have been excluded from the MTFS projections reported to Cabinet but this is very much a provisional adjustment and no other losses have been provided for at this stage.
 - Until some information is known from the Administrators regarding prospects for amounts recoverable and the timescales involved, it is not possible to make any reasonable estimates of the financial impact overall.
 - Guidance is being sought on how the impact will be apportioned between General Fund and the Housing Revenue Account, as this is very unclear.

- 8.2 The Government has indicated though that it will consider capitalisation applications to allow councils greater flexibility to manage the financial consequences of the banking collapse. This means that authorities could:
- use capital resources such as capital receipts etc, to fund any losses, depending on such resources being available; or
 - use borrowing to fund any part of those losses. In effect, this would mean that the Council could finance them over a number of years.
- 8.3 Whilst it is not known whether the Government will implement a special capitalisation bidding round, arrangements are in hand to submit an initial application in the usual annual application process, which has a deadline of 15 December. This does not commit the Council to a specific course of action; it merely keeps the Council's options open.
- 8.4 Council Officers will continue to work with the LGA and other councils over the coming weeks to give support to the arrangements for recovery, and any associated developments.

9 Future Reporting Arrangements

- 9.1 As the matter is so significant, and given that the budget process is currently underway, formal updates will be included in the budget reports on every Cabinet agenda until March. This is in addition to the usual quarterly monitoring referred to earlier, and ensures that all Members are informed of developments and the implications can be taken account of in the budget and planning process. Thereafter, the reporting position can be reviewed in light of progress made. Any key information arising will also be communicated informally in the meantime.
- 9.2 As a result of recently approved changes to the Council's performance management framework, from Quarter 2 the corporate financial monitoring report (including treasury management) will be considered by Cabinet, and this change is felt timely.

10 Current and Future Investment Arrangements

- 10.1 In light of the uncertainties in the banking sector, the Head of Financial Services put into place new temporary treasury management arrangements with effect from 06 October 2008. In effect, these now keep any new investments very short, with counterparties being limited to either key British or Irish Institutions, where the Government has guaranteed wholesale deposits (i.e. the type made by local authorities). The likelihood is that over the coming months, there will be little if any need to place new investments, but the current arrangements will remain in place in the current climate.
- 10.2 As can be seen from the LGA note attached, the Government is undertaking an inquiry into local authority investments and it is expected that further guidance and/or regulation will arise as a result of the banking crisis. Any such changes will be incorporated into the Council's treasury management arrangements for the future.
- 10.3 Finally, the next internal audit review of treasury management will be undertaken shortly and its scope will be influenced by recent events and any resolutions arising from this Committee meeting.

11 **Options and Options Analysis (including risk assessment)**

This report is for information and no options are put forward.

CONCLUSION OF IMPACT ASSESSMENT (including Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing) No implications directly arising.	
FINANCIAL IMPLICATIONS As set out in the report.	
SECTION 151 OFFICER'S COMMENTS This report has been prepared by the s151 Officer.	
LEGAL IMPLICATIONS There are no legal implications directly arising from this report.	
MONITORING OFFICER'S COMMENTS The Monitoring Officer has been consulted and has no further comments.	
BACKGROUND PAPERS Treasury Management Strategy, Investment Strategy, Treasury Management investment documents.	Contact Officer: Nadine Muschamp Telephone: 01524 582117 E-mail: nmuschamp@lancaster.gov.uk Ref:

Extract of Investment Strategy 2007/08 – 2009/10

As Approved by Council 28 February 2007

1 Main Principles

1.1 The main principles governing the Council's investment criteria are the security and liquidity of its investments before yield, although the yield or return on investment will be a consideration, subject to adequate security and liquidity. The Council will ensure that:

- It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.
- It maintains a policy covering the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and the monitoring of their security.

2 Counterparty Criteria

2.1 The Head of Financial Services will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them for approval as necessary. These criteria are separate to those which determine Specified and Non-Specified Investments. Instead they determine which counterparties the Council can choose, rather than defining what the nature of the investments are.

- **Banks** – the Council will use banks which have at least the following Fitch or equivalent ratings:
 - **Short Term – F1** – *Indicates the strongest capacity for timely payment of financial commitments, may have an added '+' to denote any exceptional strong credit feature.*
 - **Long Term – A** – *denotes a low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. The capacity may, nevertheless, be more vulnerable to changes in circumstances or in economic conditions than is the case for higher ratings.*
 - **Individual / Financial Strength – C** – *an adequate bank. There may be some concerns regarding its profitability and balance sheet integrity, franchise, management, operating environment or prospects (Fitch / Moody's only)*
 - **Support – 3** – *A bank for which there is a moderate probability of support because of the uncertainties about the ability or propensity of the potential provider of support to do so. (Fitch only)*
- **Bank Subsidiary and Treasury Operations** – the Council will use these where the parent bank has the necessary ratings outlined above.
- **Building Societies** – the Council will use all Societies with assets in excess of £ 1bn.
- **Money Market Funds**
- **UK Government** (including gilts and the DMO)
- **Local Authorities, Parish Councils etc**
- **Supranational institutions**

Monitoring of Investment Counterparties

The credit rating of counterparties will be monitored regularly. The Council receives credit rating advice from its treasury management consultants, on a daily basis, in respect of any changes in ratings, and counterparties are checked promptly. On occasion, ratings may be downgraded when an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of principal and interest. Any counterparty failing to meet the criteria will be removed from the list immediately by the Head of Financial Services. New counterparties which meet the criteria will, similarly, be added to the list.

Icelandic Investments - Credit Rating History

Appendix B

Glitnir							NOTES
£3 Million Invested from 14th January 08 to 14th January 09 at 5.755%							
DATE	FITCH			MOODY'S			
	Short Term	Long Term	Individual	Support	Short Term	Long Term	
23 June 2006	F1	A	B/C	2	P-1	A1	C+
03 July 2006							
12 January 2007	F1	A	B/C	2	P-1	A1	C+
06 February 2007							
25 February 2007							
04 April 2007							
12 April 2007							
14 January 2008	F1	A	B/C	2	P-1	A3-Neg Watch	C
30 January 2008							
28 February 2008							
29 February 2008							
29 February 2008							
01 April 2008	Negative Watch	Negative Watch	Negative Watch				Negative Watch
21 April 2008							
09 May 2008	F2	A-					
09 May 2008	Neg Watch Removed	Neg Watch Removed	Neg Watch Removed				
09 May 2008							
09 May 2008	F2	A-	B/C	2	P-1	A2	C-
29 September 2008	Negative Watch	Negative Watch					
30 September 2008	F3	BBB-	F				
30 September 2008							
02 October 2008							
03 October 2008							
07 October 2008	B						
07 October 2008	Neg Watch Removed	Neg Watch Removed					
07 October 2008	D						
08 October 2008							

Note : Negative Watch refers to a period when it is possible a rating may be downgraded. The institution is placed on "Negative Watch".

Icelandic Investments - Credit Rating History

Kaupthing Singer & Friedlander							
£2 Million Invested from 16th May 08 to 15th May 09 at 6.0%							
DATE	FITCH			MOODYS			
	Short Term	Long Term	Individual	Support	Short Term	Long Term	Financial Strength
16 February 2006	F1	A	B	5	P-1	A1	C+
17 February 2006							
17 February 2006			B/C	3			C
31 August 2006							
28 February 2007						Aaa	
30 April 2007						Aa3	
15 May 2007	F1	A	B/C	3	P-1	Aa3	C
04 July 2007				2			
29 February 2008						A1	
29 February 2008							
01 April 2008	Negative Watch	Negative Watch	Negative Watch				
09 May 2008	F2	A-					C-
09 May 2008	Neg Watch Removed	Neg Watch Removed	Neg Watch Removed				
09 May 2008	F2	A-	B/C	2	P-1	A1	C-
16 May 2008	F2	A-	B/C	2	P-1	A1	C-
30 September 2008	Negative Watch	Negative Watch	Negative Watch	Negative Watch			
30 September 2008	F3	BBB	C				
08 October 2008	D	D	F		P-3	Baa3	D+
08 October 2008	Neg Watch Removed	Neg Watch Removed	Neg Watch Removed	Neg Watch Removed			

NOTES

Upgraded
Downgraded
Downgraded
Downgraded

TRADE DATE
Upgraded
Downgraded
Downgraded

REMOVED FROM LIST OF APPROVED COUNTERPARTIES
DATE OF TRANSFER

Downgraded
Downgraded

Icelandic Investments - Credit Rating History

Landsbanki Islands										
£1 Million Invested from 16th May 07 to 15th May 09 at 6.25%										
DATE	FITCH					MOODYS				
	Short Term	Long Term	Individual	Support	Short Term	Long Term	Financial Strength	NOTES	TRADE DATE	DATE OF TRANSFER
23 February 2006	F1	A	B/C	2	P-1	A2	C	Upgraded		
25 February 2007						Aaa				
04 April 2007						Negative Watch				
12 April 2007						Aa3				
15 May 2007	F1	A	B/C	2	P-1	Aa3	C-	Downgraded		
16 May 2007	F1	A	B/C	2	P-1	Aa3	C-			
30 January 2008						Negative Watch	Negative Watch	Downgraded		
28 February 2008										
29 February 2008						A2		Downgraded		
29 February 2008						Neg Watch Removed	Neg Watch Removed			
01 April 2008										
09 May 2008										
30 September 2008										
30 September 2008	F3	BBB	C					Downgraded		
30 September 2008	F3	BBB	C	2	P-1	A2	C-	REMOVED FROM LIST OF APPROVED COUNTERPARTIES		
02 October 2008										
07 October 2008	B	B	F	4	Negative Watch	Negative Watch	Negative Watch	Downgraded		
07 October 2008	Neg Watch Removed	Neg Watch Removed	Neg Watch Removed	Neg Watch Removed						
08 October 2008	D	D		5			E	Downgraded		

EXTRACT FROM FINANCIAL SERVICES PRT REPORT QTR 1

INVESTMENT INTEREST EARNED TO 30 JUNE 2008								
Name	No	Start	End	Rate	Days	Principal	Interest	Interest Earned 2008-09
				%		£	£	£
2007/08								
Northern Rock (1 Yr Fwd Deal)	002	20-Apr-07	18-Apr-08	4.9800	364	2,000,000.00	99,327.12	4,912
Landsbanki Islands	004	16-May-07	15-May-09	6.2500	730	1,000,000.00	125,000.00	15,582
EBS B.S.	021	03-Jan-08	03-Apr-08	5.9000	91	2,000,000.00	29,419.18	970
Glitnir	FI02/023	14-Jan-08	14-Jan-09	5.7550	366	3,000,000.00	173,123.01	43,044
2008-09								
Bradford & Bingley	001	04-Apr-08	04-Jul-08	6.0500	91	2,000,000.00	30,167.12	28,841
EBS B.S.	002	04-Apr-08	06-Oct-08	6.0200	185	3,000,000.00	91,536.99	43,047
Kaupthing, Singer & Friedlander	06/07-I29	16-May-08	15-May-09	6.0000	364	2,000,000.00	119,671.23	14,795
Anglo Irish Bank Corporation	004	17-Jun-08	17-Jun-09	6.5600	365	3,000,000.00	196,800.00	7,009
Sub-Total							865,044.65	158,200
Call Accounts								
Abbey National								72,605
Allied Irish								25,588
TOTAL								256,393

For investments highlighted, the counterparties have since been downgraded and removed from the counterparty list (see report).

Re Bradford & Bingley, the investment has now matured & monies returned to the Council.

30 October 2008

Dear Colleague,

The purpose of this note is to update you on the Icelandic Bank situation and the work the LGA has been doing over the last three weeks.

You can find LGA's press releases and public statements on this issue at: <http://www.lga.gov.uk/lga/core/page.do?pageId=659902>

Recap of position

There are four banks with which local authorities made deposits that are either Icelandic companies or UK subsidiaries of Icelandic companies.

The four are:

- Landsbanki Islands hf, a public limited company incorporated under the law of Iceland (Landsbanki)
- Glitner Bank (Glitner), an Icelandic Bank whose parent company is in receivership in Iceland
- Heritable Bank plc (Heritable), a UK subsidiary of an Icelandic group. Heritable is in administration under UK law.
- Kaupthing Singer & Friedlander Ltd (KSF), a UK subsidiary of an Icelandic group. KSF is in administration under UK law.

Landsbanki and Glitner are in Icelandic receivership, whereas Heritable and KSF are in UK administration. The deposits are split across the four banks:

Landsbanki	£347m
Glitner	£208m
Heritable	£284m
KSF	£ 82m

The LGA has analysed how much money has been deposited by each type of English local authority within its membership:

Shire Counties	£274m
Shire Districts	£229m
London Boroughs	£148m
Unitary authorities	£106m
Metropolitan districts	£32m
Fire and rescue authorities	£1.4m

Requests for information from the LGA - breakdown across banks

A number of authorities have requested details about which fellow councils are exposed to different banks, allowing them to work out who they need to work with.

We are be happy to share with the councils affected a list of other authorities with deposits with the same bank. However, given the sensitivities in this area we will not include your council's name and share it with others if you opt out of this. **Please email us at lqfinance@lga.gov.uk by close Tuesday 4 November if you do not want your council to be included on this list.**

UK Administrators

A number of councils have raised queries about the differences between administration and receivership. Full guidance is available at: <http://www.companieshouse.gov.uk/about/gbhtml/gbw1.shtml>

We have had conference calls with the Administrators of UK subsidiaries of Icelandic banks (Ernst and Young); they plan to report back in mid November with a more detailed assessment how much authorities might receive and when this could be paid.

We noted that we did not wish to see a fire sale of assets, and that Administrators should focus on gaining maximum value for creditors.

The Administrators have asked that we have two groups of local authority councils who will act as lead creditors. The lead authorities include Counties, Districts, Police Authorities, and Welsh Councils. Authorities represented on the creditor groups are listed below:

Kaupthing Singer and Friedlander

- Cheltenham
- Bassetlaw
- Hertfordshire
- Peterborough
- Carmathenshire
- BANES

Heritable

- Plymouth
- Haringey
- South Ribble
- West Sussex
- Gateshead
- Caerphilly
- Westminster

Further details about the work of these creditor groups, and how they will liaise with other councils, will be circulate as soon as possible.

Icelandic receivers

We have been pressing HM Treasury to take this issue forward and they have provided the update below.

"Following conversations between the Chancellor and Icelandic Prime Minister, a delegation of officials from the Treasury and Bank of England held discussions with the Icelandic authorities. The recent round of discussions has ended but talks are not over and will be continued in the very near future. The aim of these is to agree a mechanism whereby the Icelandic government can honour its obligations to UK depositors and ensure the fair treatment of UK creditors."

We are in the process of setting up creditor groups for the Icelandic banks, with a view to them acting as a contact point with the Landsbanki and Glitner administrative committees. Again, further details about the work of these creditor groups, and how they will liaise with other councils, will be circulated as soon as possible.

Glitnir have recently published a press release giving an email address through which creditors are advised to get in touch, see: [http://www.glitnirbank.com/media/news-room/detail/item/7217/Glitnir_banki_hf_\(%22Old_Glitnir%22\)/](http://www.glitnirbank.com/media/news-room/detail/item/7217/Glitnir_banki_hf_(%22Old_Glitnir%22)/)

Accounting treatment of impairments

CIPFA is developing guidance on treatment of potential liabilities. Their draft guidance is attached as Appendix A [*Note to Audit Committee: this is not attached as it is a technical document but it is available for any member if they would like it*]

Information/advice will be needed at time budget assumptions are finalised, as well as later in the budget process – when S151 Officers are advising on the robustness of budgets, and adequacy of reserves. We will press the CIPFA and the Audit Commission to ensure authorities have consistent information and advice.

Ratings Agencies

We have called for a review of the role of credit agencies, given that the bank ratings remained largely stable over the summer before collapsing.

Parliamentary review and John Healey evidence to CLG select committee

The CLG Parliamentary Select Committee have announced that they will hold an inquiry into local authority investments. The LGA will be submitting a response to this, and will consult with its members on this. Details of the inquiry are available here:

http://www.parliament.uk/parliamentary_committees/clg/clg_200708_pn63.cfm

Ministers Hazel Blears and John Healey appeared in front of the Parliamentary Select Committee on 27th October. The LGA set out its objections in advance to the naming of individual authorities in that meeting.

Ministers did open the door to capitalisation of amounts owed – but this would be assessed on a case-by-case basis. They released a note after the meeting setting out the position as they see it <http://www.communities.gov.uk/statements/corporate/icelandicbanks>.

Audit Commission

We have agreed to undertake a joint review of lessons learned with the Audit Commission. That work has not started yet and we'll ensure colleagues are kept up-to-date with developments.

We will also press for consistent treatment of authorities facing Icelandic difficulties in CPA and other audit queries.

Lobbying

LGA continues to press for Government support for authorities who face financial difficulties. We are drafting a set of proposed actions which we believe would help authorities who face difficulties.

Communication

We are conscious it has been a while since we contacted you all directly and apologise for this. We hope to be able to provide regular updates on this issue in future, and are planning on weekly communications to council chief executives and leaders of council political groups. These will be based on more detailed communications which we intend putting out to our finance contacts.

A number of you have raised queries about similar issues, or mentioned pieces of work you are thinking of doing that would be of interest to other authorities. We propose creating a shared mailing list, to enable you to share information among yourselves. We would appreciate any views on this – in particular whether you find it useful.

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