

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?pagelid=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/item17217/Glitnir_banki_hf_\(%22Old_Glitnir%22\)/](http://www.glitnirbank.com/media/news-room/detail/item17217/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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