

promoting better local government

*From the Chairman and Chief Executive of the Association
Councillor Margaret Eaton
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To Group Leaders and Chief Executives
All councils with exposure to Icelandic banks

20 March 2009

Dear Colleague

'File on Four' report

Many of you will have heard or read about the recent 'File on Four' report on council finances and investments in Icelandic banks, which included suggestions about councils' likely recovery from the banks. The information quoted was provided by an individual not involved in the administration processes for any of the banks and does not accord with information that is publicly available about potential recovery. We would advise councils to discount the forecast made on the programme; this update provides further information about progress and potential recovery from each of the banks councils invested in.

Individual bank update

The next creditor meetings for **Landsbanki** and **Glitnir** will take place during week beginning 30 March. As outlined in our previous update, the key issue in relation to both banks is the issue of preferential status for depositors, including local authorities. There are positive signs that depositors will be treated as having preferential creditor status under Icelandic legislation (as is the case in other jurisdictions such as the US). If this is the case, councils are likely to recover a very significant part of their deposits through this route (or even all of it, in the case of Glitnir). However, the position is not yet confirmed and it is likely to be several months before it is resolved. The expectation is that the issue will need to be tested in the courts, and draft legislation is before the Icelandic parliament which should enable this to happen once it is passed.

Through our lawyers Bevan Brittan we are continuing to monitor this issue and, under the direction of the relevant local government creditor committees, will take appropriate action as necessary.

The administration process for **Heritable** is ongoing. As stated in previous updates, the administrator has advised that he expects to make a material payment to

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creditors. Further information about the administration will be made available to creditors in the statutory report required in April.

There remains significantly less clarity about possible recovery from **Kaupthing, Singer and Friedlander**, although the administrator has advised that he expects a dividend will be payable. A meeting of the statutory creditor committee was held on 16 March. The committee were updated on payments and activity by different parts of the business, as well as on a Bank of England trust account holding some £150m of deposits made with KS&F between 2 -7 October 2008. A fuller update will be provided to creditors in the statutory report due by 21 April.

Audit Commission and other reports

We are anticipating that the Audit Commission will be publishing its report into local authority treasury management and Icelandic banks on 26 March. We will share further information with council finance officers and media teams as soon as possible.

We understand that the CLG Select Committee report into local authority treasury management is unlikely to be published until after Easter.

Dialogue with government

We have had further dialogue with Treasury officials and their advisers at meetings in London and Reykjavik, and they have continued to provide useful information about processes taking place in Iceland and their dialogue with the Icelandic government / IMF. A further meeting has been scheduled for the end of April.

If you have any queries about any of the information in this update, please get in touch.

Yours sincerely

Margaret Eaton
Chairman

John Ransford
Chief Executive