

WYRE FOREST DISTRICT COUNCIL

CABINET MEETING ON 18th December 2008

TREASURY MANAGEMENT UPDATE

COMMUNITY STRATEGY THEME	
CORPORATE PLAN THEME:	Improving Corporacy & Performance
KEY PRIORITY:	Financial and Asset Management
STRATEGY:	Financial Strategy
CABINET MEMBER:	Councillor John Campion
RESPONSIBLE OFFICER:	Head of Financial Services
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AN OPEN ITEM	

1. PURPOSE OF REPORT

- 1.1 The purpose of this additional report is to identify the current position in relation to the Council's investments with the three banks with Icelandic connections.

2. RECOMMENDATIONS

The Cabinet is asked to **NOTE :-**

- 2.1 The current position in relation to the recovery of funds from the three banks which the Council has investments.
- 2.2 The impact of the proposed Capital Finance Regulation in relation to the accounting arrangements surrounding the Council's Icelandic investments.

3. BACKGROUND

- 3.1 The Cabinet received urgent reports to the meetings on 23 October 2008 and 20 November in relation to the Council's investments with the following organisations:
- Heritable - £1m (UK based bank with Icelandic parent)
 - Landsbanki - £3m (Icelandic bank)
 - Kaupthing, Singer & Friedlander - £5m (UK based bank with Icelandic parent)
- 3.2 At the last meeting of the Cabinet an update position was provided in relation to the Heritable and Kaupthing, Singer & Friedlander (KSF). As an update to that report the current position in relation to these banks is as follows:

- Heritable: The first meeting of creditors on 9 December agreed the administrator's proposals for the conduct of the administration, and elected the following organisations / representatives to the statutory creditors' committee: Gerald Almeroth (Haringey); Lynda McMullan (Kent); Landsbanki Guernsey; Financial Services Compensation Scheme; Open University, representing university creditors. There was a brief meeting of the statutory committee following the full meeting. This confirmed the committee's role, which is to act as representative advisors to the administrators in the recovery process, and to determine the administrators' fees. There will be a full meeting of the committee on 22 December which is likely to go through more detail, although this will be governed by confidentiality agreements; the Local Government Association has requested that the administrators provide updates that can be circulated to all creditors, as in the case of KSF. One of the key issues for Heritable creditors to consider is the lodging of claims with Landsbanki, in relation to the parent company guarantee. The process for Landsbanki has not got to the stage where claims are being required, but local government's legal advisers, Bevan Brittan, examining this are looking at this issue. .
 - KSF: A meeting of creditors was held by the Administrators on Monday 1 December, followed by a meeting of the newly established creditor committee. John Harrison, Executive Director of Strategic Resources at Peterborough City Council will represent local government's interests on the committee, alongside representatives from Transport for London, Cats Protection (representing charities), the Financial Services Compensation Scheme and Trustees of the Singer & Friedlander Pension Scheme. All of the members of the committee are required to sign confidentiality agreements in relation to the role. At the full creditor committee meeting, the Administrators gave a clear steer that they would like to pay a dividend sooner rather than later, but that they were unable to give an indication of timescales or the likely size of the dividend. The statutory creditor committee were given more detailed information about the company's balance sheet and potential sales, but this information is confidential. However, the Administrators have produced a document containing information that can be shared across all creditors, which demonstrated a positive position on the revised balance sheet. It is expected that the next meeting of the creditor committee will take place in January 2009.
- 3.3 In relation to the Icelandic registered bank, Landsbanki there is limited further information at this stage, with creditor meetings for both banks having taken place in Reykjavik on Thursday 11 and Friday 12 December. Officials from Kent County Council and LB Barnet attended the meetings with solicitors from Bevan Brittan. It is hoped that a further update position will be available in time for the meeting of Cabinet.

Capital Finance Regulation

- 3.4 Government have announced draft regulations which are currently subject to consultation for implementation on 31 March 2009 in relation to impairments suffered by way of Icelandic investments.
- 3.5 If the Council was in the position where there was a doubt that the value of investments would not be returned then the Council would need to reflect this by impairing (reducing) the value at which these are held on the balance sheet. The contra-entry to such a reduction would normally be a charge to the revenue account.

- 3.6 The draft regulations allow authorities to apply credits to equivalent values to the revenue account to defer any impact of any potential impairment of such investments until the financial year 2010/11. To this end Government also advised Local Authorities that it was not necessary to seek capitalisation direction in relation to any potential losses arising from these investments.
- 3.7 The rationale behind the draft regulation is to allow sufficient time for the position in relation to the value and the timing of any dividends on the investments to be determined. This will also ensure that there is no direct impact on Council Tax payers on any potential impairment of the investments at this stage.
- 3.8 The position is still being clarified in relation to the impact of the regulation, particularly in relation to treatment of interest. It is not yet clear whether the government intends that it will cover the value of the both principal and interest relating to investments although early advice has indicated interest up to the 8 October 2008, i.e. the date at which the banks were either placed into administration or receivership may be covered, together with the principal element. Further clarification from the Department of Communities and Local Government (CLG) is currently being sought.
- 3.9 The regulation does not however protect the authority from the position where the Council does not at present physically have the use of these assets and therefore is currently not achieving an investment return on unreturned principal..This will however, be subject of any claim against the administrators.

4. KEY ISSUES

- 4.1 The position in relation to the two UK registered banks appears clear and that in both situations dividends are expected. Further information will be available in the new year.
- 4.2 The position in relation to the investment with Landsbanki is still developing and further updates will be available to future meetings of the Cabinet.
- 4.3 The Council is reviewing the detail of the Capital Finance regulation and will determine the most appropriate method of application. Upon advice from the Local Government Association as a direct result of the issuing of the draft regulation; no Local Authority has submitted a Capitalisation Direction in relation to this matter.

5. FINANCIAL IMPLICATIONS

- 5.1 The potential financial impact for 2008/09 as a result of this issue will be reported as soon as further information is available from the administrators working on behalf of the Creditors.

6. LEGAL AND POLICY IMPLICATIONS

- 6.1 All of the investments the Council have made are in line with the Council's approved Treasury Management Strategy. This strategy was developed in line with the guidance issued by government under Section 15(1)(a) of the Local Government Act 2003.

7. RISK MANAGEMENT

- 7.1 The Council has always had a risk based approach in the management and implementation of its investments. Use is made of Credit Ratings to ensure that only those organisations with the Highest Credit Quality are used. However, in the events described above as a result of unprecedented global pressure four banks have either been placed into administration or receivership. It is generally accepted that these events could not have been reasonably foreseen.

8. CONCLUSIONS/ACTION

- 8.1 At this stage although there has been progress in relation to the investments the Council, there has been no announcement from the administrators Ernst & Young in relation to the Heritable or KSF on the value or timing of dividends in relation to the Council's investments.
- 8.2 The draft regulation from Government in relation to the Icelandic investments is welcomed, and subject to clarification should allow sufficient time for the impact of the failure of the banks to be fully determined before any impact on the revenue account is made.
- 8.3 An further update report providing further information will be presented to the Cabinet on 22 January 2009.

9. CONSULTEES

CMT

10. BACKGROUND PAPERS

Council 27 February 2008 – Treasury Management Strategy

Various press briefings

Draft Regulation – Changes to The Capital Finance System – Accounting for possible Investment losses