

*promoting better local government*

*From the Chairman and Chief Executive of the Association  
Councillor Margaret Eaton  
John Ransford*

To Group Leaders and Chief Executives  
All councils with exposure to Icelandic banks

26 October 2009

Dear Colleague

This briefing updates you on latest developments relating to the Icelandic banks, including significant progress in Iceland.

### **Landsbanki**

Agreement was reached earlier this month on the terms of the deal that will compensate creditors of old Landsbanki (including local authorities) in relation to assets transferred to new Landsbanki (which was set up to ensure the maintenance of a banking system in Iceland following the collapse of the old banks). The deal is expected to be confirmed by 6 November.

This is an extremely significant point in the process of winding-up the old banks, and follows months of intensive negotiations in which local government's legal advisers and representatives have worked tirelessly alongside UK and Dutch government advisers. The work of our representatives and advisers as part of this joint approach has helped deliver a deal that we are satisfied reflects local government's interests. This outcome did not always look possible at points over the last six months, and we are therefore keen to acknowledge and emphasise the work that has been undertaken on behalf of local authority creditors under the guidance of the Landsbanki steering committee and lead officers.

Details of the deal are available on the Landsbanki website at:

<http://www.lbi.is/newsandevents/?NewsID=65> Current valuations suggest that recoveries will be equal to (or exceed) the previous estimate of 83p in the pound:

<http://www.lbi.is/Uploads/document/AssetValuation30062009.pdf>

### **Glitnir**

As reported in our last briefing, agreement on the terms of compensation from the new bank (Islandsbanki) to old Glitnir bank was reached in September. The settlement was concluded on 15 October 2009: <http://www.glitnirbank.com/home/337-creditors-acquire-95-of-share-capital-in-islandsbanki.html>

E-mail [margaret.eaton@lga.gov.uk](mailto:margaret.eaton@lga.gov.uk); [john.ransford@lga.gov.uk](mailto:john.ransford@lga.gov.uk)

Local Government House, Smith Square, London SW1P 3HZ DX 119450 Clerkenwell 3

Chief Executive: *John Ransford*

Tel 020 7664 3000 Fax 020 7664 3030 Information Helpline 020 7664 3131 <http://www.lga.gov.uk>

In relation to both Glitnir and Landsbanki, the conclusion of these agreements enables the insolvency to move onto the next stage of winding up, realising assets and paying off creditors. This is likely to include the issue of priority status for depositor creditors (such as local authorities) being challenged and tested in court. The detailed information published by Glitnir following the conclusion of negotiations confirms that the Resolution Committee intends to treat claims on deposit as 'priority claims.' See page 15:

[http://www.glitnirbank.com/images/stories/Glitnir -  
\\_Final Information Memorandum 10 14 09.pdf](http://www.glitnirbank.com/images/stories/Glitnir_-_Final_Information_Memorandum_10_14_09.pdf)

### **KSF and Heritable**

The administrations of the UK-based banks KSF and Heritable, although inevitably complex, are more straightforward than the Icelandic processes because they do not involve the added complication of trying to re-establish a domestic banking system from the banks that have collapsed. We are satisfied that these are continuing apace, and expect further dividends to be paid to creditors before the end of the year.

A six-monthly update is expected from KSF imminently. It will be sent directly to local authorities, and we will circulate it to our finance contacts as soon as we have a copy.

### **Support for local authorities**

A response from new Local Government Finance Minister Barbara Follett in relation to our letter on capitalisation is attached as an annex to this document. The letter states that government has 'decided [to] allow councils who face *exceptional financial difficulties due to Icelandic impairments* to apply for capitalisation on the basis of the usual criteria.'

Applications will be dealt with in the normal timescale, and must be submitted by 15 December 2009. General guidance on capitalisation can be found at:

<http://www.communities.gov.uk/localgovernment/localgovernmentfinance/capitalfinance/capitalisation/capdirections200910/>

We are pleased that government has made this commitment as a result of LGA lobbying. Authorities with queries should raise these with CLG in the first instance, and let us know if there are any issues.

### **Meeting of Icelandic bank creditors**

The LGA is holding a meeting of Icelandic bank creditors on Friday 6 November (exactly one year after the first such meeting) to update them on progress over the last year. The meeting will cover all Icelandic banks and issues such as capitalisation, but is likely to focus largely on Landsbanki and Glitnir. If you would like to attend, please email

[Barbara.Johnson@lga.gov.uk](mailto:Barbara.Johnson@lga.gov.uk) by Friday 30 October.

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

Yours sincerely

*E. Margaret Eaton*

Cllr Margaret Eaton  
Chairman

*John Ransford*

John Ransford  
Chief Executive



Councillor Margaret Eaton  
Chairman, Local Government Association  
Local Government House  
Smith Square  
London  
SW1P 3HZ

October 15th 2009

Dear Margaret,

Thank you for your letter of September 8th 2009 addressed to the Minister for Local Government the Rt Hon Rosie Winterton MP, about the accounting treatment of Icelandic bank deposits by local authorities.

I understand your concern about the anticipated impact of these potential losses on the budgets of local authorities in the financial year 2010 -11. Obviously, local authorities are responsible for their financial decisions and management and were informed investors in Icelandic banks. Government guidance makes it clear that, provided that proper levels of security and liquidity are achieved, it may then (but only then) be reasonable for local authorities to seek the highest yield consistent with those priorities. That is why I am pleased that so many local authorities have invested in such a way as to be able to absorb their potential losses. Indeed, some of them have not needed to make use of the exceptional deferral regulation we made.

In your letter, you ask that local authorities who have to budget for Icelandic impairments should be considered for capitalisation. We have looked at the options carefully and decided that the Government should allow councils who face *exceptional financial difficulties due to Icelandic impairments* to apply for capitalisation on the basis of the usual criteria. They may apply this year and, if their application for capitalisation is wholly successful, they would not then need to rely on the deferral regulation when finalising their 2009-10 accounts.

In addition, we have looked at your request to bring forward the timescale for capitalisation decisions. However, we do not believe there is a case for doing this. Capitalisation

decisions are always made towards the end of the year in order to ensure that all factors and circumstances can be taken into account Therefore, the deadline for capitalisation applications, for Icelandic losses or any other reason than equal pay, remains December 15th 2009.

Finally, in your letter you asked whether impairments should be passed on to the Housing Revenue Account (HRA) and others. I hope that you will not mind me replying separately on this point at a later date.

Best wishes

*Barbara*