

**Committee:** Finance and Administration Committee  
**Date:** 27<sup>th</sup> November 2008  
**Title:** **Treasury Management - Landsbanki update**  
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**Agenda Item**

**11**

Item for  
Decision

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## 1. Summary

- This report summarises the current position relating to the Council's deposit with Landsbanki, based upon information available as at 20 November.
- There is currently no reliable information about the Landsbanki administration process, the prospects for recovery of the outstanding sum, or the timetable for determining the likely outcomes.
- The Local Government Association is co-ordinating activity on behalf of all affected Councils.
- On 19 November a constructive meeting was held with the Local Government Minister, John Healey MP, during which the unique circumstances of Uttlesford were acknowledged and measures to mitigate the impact on the Council were discussed.
- Additional information is expected to become available before the date of the committee. A verbal update will be provided.

## 2. Recommendations

- The contents of the report be noted.
- Authority be delegated to the Leader of the Council, Chairman of Finance & Administration Committee, Chief Executive and Chief Finance Officer to determine the Council's response to any settlement terms offered (see section 8 below).

## 3. Background Papers

- Council meeting 21 October – Agenda Item 9 – “Financial Markets & Investment Income”.

#### 4. Impact

Communication/ Consultation	No public statements on any matters connected with the Landsbanki issue should be made in order to avoid risk of undermining ongoing negotiations with the UK Government and Icelandic authorities and associated legal proceedings.
Community Safety	No specific implications.
Equalities	No specific implications.
Finance	<p>At present it is not possible to be precise about the financial implications.</p> <p>In the short term there is a risk of adverse revenue implications due to loss of investment income.</p> <p>If there is a permanent loss of the deposit (or a significant proportion of it), there could be grave implications for the financial stability of the council.</p> <p>Assistance has been sought from the Government to minimise any risk to revenue budgets and General Fund balances, by funding any adverse financial implications from capital resources.</p> <p>The Council's capital resources may therefore be required to underwrite any potential losses.</p> <p>Uncommitted capital projects have been frozen until an accurate picture can be determined.</p>
Human Rights	No specific implications.
Legal implications	The Council will fulfil its obligations in connection with the insolvency process. There is a possibility of affected councils taking some form of collective legal action.
Sustainability	No specific implications.
Ward-specific impacts	No specific implications.
Workforce/Workplace	No specific implications.

## **5. Background to the Landsbanki deposit – a summary**

- “Treasury management” is the day to day management of the Council’s cash flow, including investing cash surpluses to generate income and borrowing money to cover short term cash shortfalls.
- Cash surpluses are placed with securely-rated financial institutions in accordance with the annual Treasury Management Strategy approved by the Council.
- The Treasury Management Strategy meets the requirements of the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities.
- The Council invested £2.2m with Landsbanki on 17 October 2007 for 364 days. The maturity date was 15 October 2008. The interest due on repayment was £134,929, so that the total amount repayable was £2.335m.
- Landsbanki was put into receivership by the Icelandic government on 7 October 2008.
- The Council has formally registered its claim with the relevant administering body for the outstanding debt of £2.335m, and a separate claim for the investment income foregone as a result of the principal sum being unavailable for re-investment.

## **6. Key events since 7 October 2008**

- The Council was visited on 17 October by the Government’s “rapid response team” of finance experts. A report was submitted to the Local Government Association (LGA) and the Department of Communities and Local Government (CLG). The report acknowledged that after difficulties in 2007, the Council has implemented a financial recovery programme, and has strengthened its financial controls, but continues to face a challenging financial outlook. The report indicated that central government assistance would ease the difficulties.
- In a statement on 27 October, the Local Government Minister, John Healey MP, stated that “ ...in the case of Uttlesford we have indicated that we are prepared to consider an application for capitalisation, which we would consider as part of the normal process for capitalisation applications. We will also pay for further expert support to these and other authorities-led by the local government sector itself, and using professionals from local government-if the authorities wish to take up this offer”.

- On 6 November, the LGA facilitated a conference for all Councils affected by the Icelandic banking crisis. During that meeting, the councils agreed that:
  - Public statements on any matters connected with this issue should be avoided to avoid prejudicing any legal proceedings and/or negotiations
  - Councils will work collaboratively to maximise the outcomes for the collective good
  - Councils should take practical steps to protect their position by securing all relevant documentation and formally registering their claims
  - Council should review investment procedures and their other cash deposits and take action to minimise risks where possible.
  - Legal costs incurred will be shared between the affected Councils pro-rata to the level of each Council's exposure.
- All actions recommended by the LGA have been completed.
- On 13 and 14 November, local authority representatives met with Icelandic administrators to obtain information about the insolvency process. However, no clear information is likely to be available until January/February 2009 at the earliest. Meanwhile Landsbanki were expected to issue a statement on 21 November, after this report was produced. A verbal update will be provided to the Committee.
- On 19 November, the Leader of the Council, Chairman of Finance & Administration Committee, Chief Executive, Director of Central Services and Chief Finance Officer met with the Local Government Minister. The meeting was brokered by the Saffron Walden MP, Sir Alan Haselhurst. A constructive discussion took place during which:
  - Circumstances unique to Uttlesford were identified and the practical impact of the Landsbanki issue was explained, in particular the material uncertainty caused and an exacerbation of an already challenging financial outlook
  - The Minister acknowledged the progress made by Uttlesford to strengthen its financial arrangements and stated that he did not want the Council to feel that it was exposed to major risks
  - The Minister indicated general support for the principle of using capital resources to underwrite any potential losses rather than revenue balances, and encouraged the Council to submit an early application for this which he promised to fast track (an application was submitted later that day)

- The proposal for a “business rates holiday” was not supported although the Minister acknowledged that others were making similar suggestions
  - The Minister indicated that funding would be made available to assist the Council with managing capacity issues.
- On 20 November a second LGA-facilitated conference was held. It was reported that attempts to elicit practical support from government officials had not been productive. A Steering Committee comprising representatives from each category of authority affected was established. Officers will keep in close contact with the district council representatives and will attend further meetings as required.

## **7. Capitalisation**

- If it is determined that the Landsbanki deposit, or a substantial proportion of it, will be irrecoverable, there will be a requirement to write off the loss against the Council’s financial resources.
- Without special dispensation, the Council would be obliged to charge such a write off against revenue balances. Due to the sums involved, this would almost certainly disable the Council and trigger a Section 114 situation.
- As indicated above, the Council is in discussion with CLG about the possibility of using capital resources to fund any potential loss, rather than revenue balances. While this would in itself cause significant difficulties for the capital programme, the effect would not be as severe as a write off to revenue balances.
- The Council’s capital resources currently total around £2.3 million, coincidentally similar to the maximum possible loss. The effect of using capital resources in this way is that the Council would be required to borrow to fund capital expenditure sooner than would otherwise be the case.
- As a precautionary move, all uncommitted projects within the existing approved capital programme have been temporarily suspended until the situation can be determined with greater certainty. Outline capital programme proposals considered during the current committee round have been on an “in principle” basis with an acknowledgement that revisions may be required.
- Revised capital programme proposals based upon latest information available and status of the capitalisation application will form part of the budget report which will be submitted to the Council meeting on 16 December.

## 8. Settlement Terms

- Although there appears to be no immediate prospect of this happening, the possibility exists that settlement terms may be proposed at any stage in the insolvency process. For example, a proposal may be made that creditors accept a settlement of 80 pence in the pound (this is purely illustrative) or wait for the insolvency process to run its full course. If this happens, a quick decision may be required which may not fall naturally into the committee cycle. It is therefore proposed that authority be delegated to the Leader of the Council, Chairman of Finance & Administration Committee, Chief Executive and Chief Finance Officer to determine the Council's response to any such proposal.

## 9. Next Steps

- Statement from Landsbanki expected 21 November 2008.
- Outcome of discussions with CLG regarding capitalisation, expected in December 2008.
- Budget report to the Council meeting on 16 December.
- Information shared by LGA and/or Steering Committee as it becomes available.
- Progress report to the next Finance & Administration Committee on 29 January.

## Risk Analysis

Risk	Likelihood	Impact	Mitigating actions
The Council does not receive the outstanding sum of £2.335m from Landsbanki	4	4	Application to CLG to use capital resources to fund any loss.  Participation in collaborative work facilitated by LGA.  Direct dialogue with the Local Government Minister.

1 = Little or no risk or impact

2 = Some risk or impact – action may be necessary.

3 = Significant risk or impact – action required

4 = Near certainty of risk occurring, catastrophic effect or failure of project.