

### **Icelandic Investments – Assumptions and Accounting Treatment**

1. The position regarding the Icelandic investments is a lot clearer than when the budget was set a year ago. We are in the fortunate position in that we expect that the majority of the investment will be paid back over time. The accounting treatment has since been clarified and we shall be in the position to continue to accrue interest at the deal rate, which in all cases is over 5%.
2. In 2008/09 we took the prudent approach not to recognise £936k of accrued interest in the revenue accounts. This will be fed back into the general fund in due course.
3. The council has £12m principal invested in three institutions. £4m is invested in the UK in Kaupthing, Singer and Friedlander (KSF), and is being dealt with under UK law. However the council has £6m investments with Landsbanki, and £2m with Glitnir, which are both based in Iceland and therefore being dealt with under Icelandic law.
4. The KSF administration process is more advanced and, to date, £1.25m has been returned to the authority. The administrator forecasts that the expected distribution will be in the range 60-75%, which is significantly higher than the 50% distribution used in the accounts in accordance with CIPFA guidelines.
5. The Iceland based investments are more complicated as they are being dealt with under Icelandic law. Currently the Winding-up Board for Landsbanki recognises that UK local authorities, as depositors, enjoy priority claim status, meaning that our deposits will be distributed before general creditors' claims. However, the board for Glitnir has recently indicated that it does not recognise this preferential status and proposes to distribute local authority claims along with general creditor claims. It is likely that, despite each board reaching a different conclusion, they will both be tested through the Icelandic courts during 2010 before a definitive decision is made. Preference status means that we would expect to receive around 83% return from Landsbanki and 100% from Glitnir. If we are unsuccessful in achieving this, then the distributions will be closer to 32% and 25% respectively. Clearly there is considerable risk on how much we are likely to recover, and we are depending on the Icelandic courts uphold our preferred creditor position. The LGA has engaged lawyers to represent councils' interests and defend the preferred creditor status.

6. We have applied to Communities and Local Government to capitalise the impairment on the principal invested in Icelandic banks, which means, if successful, we would be able to use capital to offset any impairments, rather than the general fund. This also means that the council would be able to recognise the interest earned on investments much earlier than the current accounting treatment that we have used. The budget has been set using the assumption that we will be able to capitalise the impaired investments, and therefore recognise interest earned from these investments starting from 2009/10. Should the capitalisation request fail, then we would have to recognise the impairment in 2010/11, and not be able to recognise interest receipts in the revenue account until 2011/12. A final decision on the capitalisation request will not be known until 29<sup>th</sup> January 2010.
7. In accordance with directions issued by CLG we have assumed that impairments will be in line with the latest information available, which means that we assume we are a preferred creditor for Landsbanki and a general creditor for Glitnir. We have applied for capitalisation on this basis and have calculated interest receivable following the same principle. Therefore for the purposes of the budget the proportion of funds to be returned are detailed in the following table:

<i>Bank</i>	<i>Lowest Expected Return</i>	<i>Highest Expected Return</i>	<i>Return Applied in Budget</i>
KSF	60%	75%	60%
Landsbanki	32%	83%	83%
Glitnir	25%	100%	25%