

SURREY COUNTY COUNCIL

CABINET

DATE: 25 FEBRUARY 2014

REPORT OF: MS DENISE LE GAL, CABINET MEMBER FOR BUSINESS SERVICES

LEAD OFFICER: SHEILA LITTLE, CHIEF FINANCE OFFICER AND DEPUTY DIRECTOR FOR BUSINESS SERVICES

SUBJECT: ICELANDIC BANK DEPOSIT



SUMMARY OF ISSUE:

This report concerns the outcome of the sale of the priority claim of the Council as a Landsbanki depositor/creditor. The Local Government Association (LGA) has successfully negotiated an offer on behalf of all interested authorities (totalling 86), resulting in a minimum 70 authorities selling at the same time with the remaining 16 having considered the offer with their outcomes currently unknown. This report relates to the £10m Landsbanki deposit. It does not relate to Glitnir depositor claims as those claims have been paid in full, albeit with £1.6m still held in Iceland due to the current imposition of capital controls.

In its meeting of 22 October 2013, Cabinet authorised, on the Council's behalf, the Local Government Association (LGA) and its legal representatives to arrange an auction of the council's claim for its deposit with Landsbanki (now known as LBI hf) managed by Deutsche Bank. It authorised the Leader or Cabinet Member for Business Services, in consultation Chief Finance Officer and the Monitoring Officer, to make a final decision on the sale price and to report back to the council with an update on the outcome of the auction

RECOMMENDATIONS:

It is recommended that the Cabinet:

- (1) Note the overall position.
- (2) Note the successful outcome with regard to the sale of the £10m Landesbanki investment.

REASON FOR RECOMMENDATIONS:

Given recent developments within Iceland and the LGA collective negotiation offer, as well as the underlying uncertainty that existed with regard to full repayment of its claim, the Council needed to fully consider the available offers by interested third parties to buy out its claim in Landsbanki. To enable this, the Council authorised the LGA to negotiate on its behalf and concluded a successful outcome.

DETAILS:**Background**

1. The Council originally placed £20m of deposits with two Icelandic banks: Landsbanki and Glitnir. Of the original £20m, the Council's exposure is £18.5m with £1.5m attributable to the Office of the Police and Crime Commissioner for Surrey. On 28 October 2011, the Supreme Court of Iceland upheld the District Court judgment in favour of local authority depositors, deciding by a 6-1 majority that local authorities' claims are deposits that qualify in full for priority in the bank administrations.
2. Prior to the auction, the position was 55.2% of Landsbanki and over 83.9% of Glitnir deposits had been repaid, with expected recovery rates at 100% for both banks (subject to exchange rate fluctuations).

Counterparty	Period	Principal £000	Rate	Principal Repaid £000	Principal Outstanding £000
Glitnir	364	5,000	6.25%	4,192	808
Glitnir	366	5,000	6.20%	4,193	807
Landsbanki	732	10,000	5.90%	5,520	4,480
		20,000		13,905	6,095

3. Following recognition of UK local authority wholesale deposits in Landsbanki by the Supreme Court of Iceland as priority claims, the Icelandic Winding Up Board (WUB) has consistently reported that the UK local authorities could expect to receive 100% of their deposits from the Landsbanki estate in Icelandic Krona (ISK) terms.

Transfer of Claim

4. An active market in the transfer of claims belonging to priority creditors of Landsbanki subsequently developed. Given a number of issues and risks in Iceland that made future final distributions to UK local authorities less absolute than previously envisaged, Cabinet decided at its meetings on 23 July 2013 and 22 October 2013 to proceed with investigating such a transfer. A minimum price level was decided at the 22 October 2013 meeting and this was set at 91p in the pound.
5. It was felt that the option to negotiate individually with regard to these offers was not feasible, given the lack of specialist expertise in this area, and the Council likely to receive a stronger offer within the pool of local authorities, and represented by the LGA's legal representatives.
6. The Local Government Association and its legal representatives commenced negotiations with interested third parties on the Council's behalf in order to achieve the best possible price. On 30 January 2014, this was confirmed at a level that satisfied the minimum required stipulated by Cabinet. This is regarded as a good outcome for the Council
7. Proceeds from the sale in the amount of £4,123,006.05 were received into the Council's bank account from Deutsche Bank on 4 February 2014. This includes an amount of interest due on the investment.

- 8 It should be noted that £1.6m relating to the Glitnir Bank remains in an escrow account, awaiting repayment, and subject to the final processes of the Icelandic Winding Up Board.

CONSULTATION:

- 9 Consultation throughout the sale process took place with senior management, the Leader, the Chairman of the County Council and the Cabinet Member for Business Services.
- 10 Consultation has also taken place with the Office of the Police and Crime Commissioner, given their ownership of 7.5% of this deposit.

RISK MANAGEMENT AND IMPLICATIONS:

- 11 Associated risks were set out in the reports of 23 July 2013 and 22 October 2013. The single major risk is that the purchaser of the deposit could make a substantial return on the investment due to a 100% repayment outcome and currency movements in favour of the investor. However, this could be countered by adverse currency movements, a significant timeline in terms of eventual receipt and continuing legal costs spread over a much smaller client base. The outcome brings certainty and closure to a situation that has existed for many years and could continue for many years to come.

Financial and Value for Money Implications

- 12 The outcome is regarded as representing value for money.

Section 151 Officer Commentary

- 13 It is considered that the sale transaction represents the best outcome and lowest risk to the Council. The resultant cost of any write off of monies will be met from the Financial Investments Reserve.

Legal Implications – Monitoring Officer

- 14 The Council is part of the Local Government Association (LGA) and has received legal advice from solicitors, Bevan Brittan, on the conduct of the litigation and the subsequent auction process. On 22 October 2013, Cabinet delegated authority to the Leader and Cabinet Member for Business Services, in conjunction with the Chief Finance Officer, to negotiate a final settlement, and authorised the LGA and its representatives to arrange an auction (managed by Deutsche bank) of the Council's claim for its deposit with Landsbanki (now known as LBI hf) with a reserve price of not less than 91 pence in the pound, recognising that level as a baseline to achieve value for money. The delegation was properly exercised and the sale was completed on 30 January 2014, achieving the levels required in accordance with the Cabinet's authority.

Equalities and Diversity

- 15 There are no equality or diversity issues.

WHAT HAPPENS NEXT:

Officers to close the accounts with regard to the sale transaction and write off irrecoverable balance to the Financial Investments Reserve.

Contact Officer:

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Annexes:

None

Sources/background papers:

LGA Advice and Solicitor reports
