

## Local Authority investments in Icelandic Banks

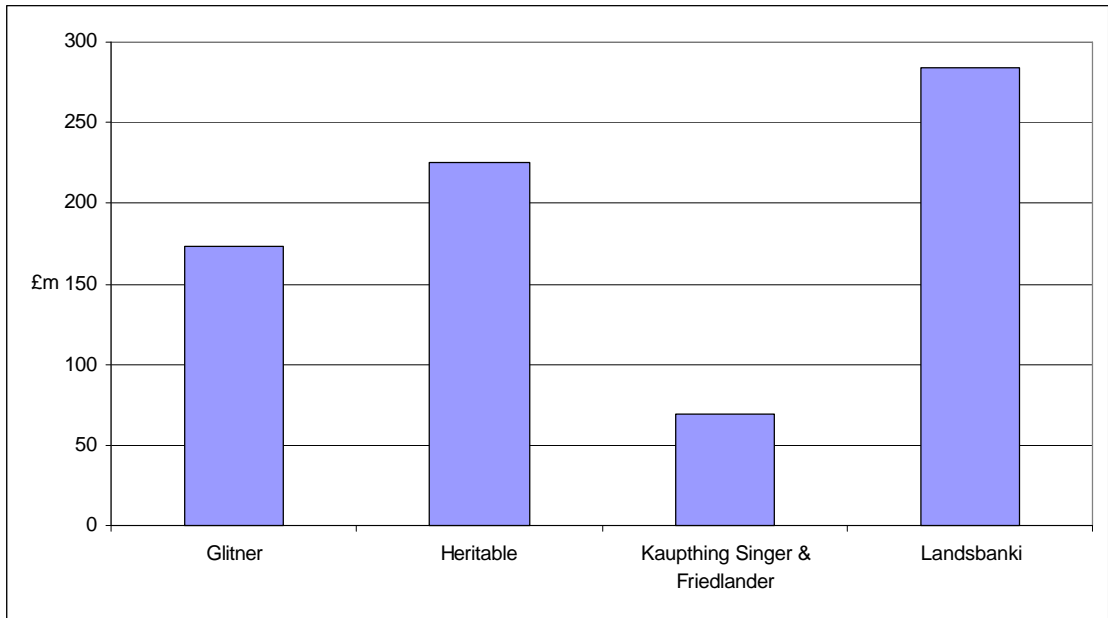
### Analysis of situation as at 13 October 2008 by the Local Government Association

1. Information has been received from 236 authorities about whether they had investments in Icelandic banks. Most of these authorities have, where relevant, provided details of the amount and maturity of each investment.
2. Of these 236 authorities, 120 have confirmed that they do not hold investments with Icelandic banks (or UK subsidiaries of Icelandic banks). The 116 authorities who do have investments with Icelandic banks have total deposits of £858.3m. These figures include information from Welsh local authorities and Police Authorities where details were not fully known when we reported the figure of just under £800m last Thursday.
3. These figures do not include Transport for London which is understood to have £40m with Icelandic banks.
4. The analysis by authority type is shown below:

Authority type	Total deposited (£000)	
London Boroughs	£147,207	17.2%
Metropolitan Districts	£32,278	3.8%
Shire Counties	£247,422	28.8%
Shire Districts	£182,552	21.3%
Unitary Authorities (England)	£96,023	11.2%
Unitary Authorities (Wales)	£38,700	4.5%
Police Authorities (England)	£79,718	9.3%
Police Authorities (Wales)	£10,000	1.2%
Fire Authorities (England)	£1,410	0.2%
Passenger Transport Authorities	£15,000	1.7%
National Park	£500	0.1%
Pension Fund	£7,500	0.9%
Total	£858,310	100.0%

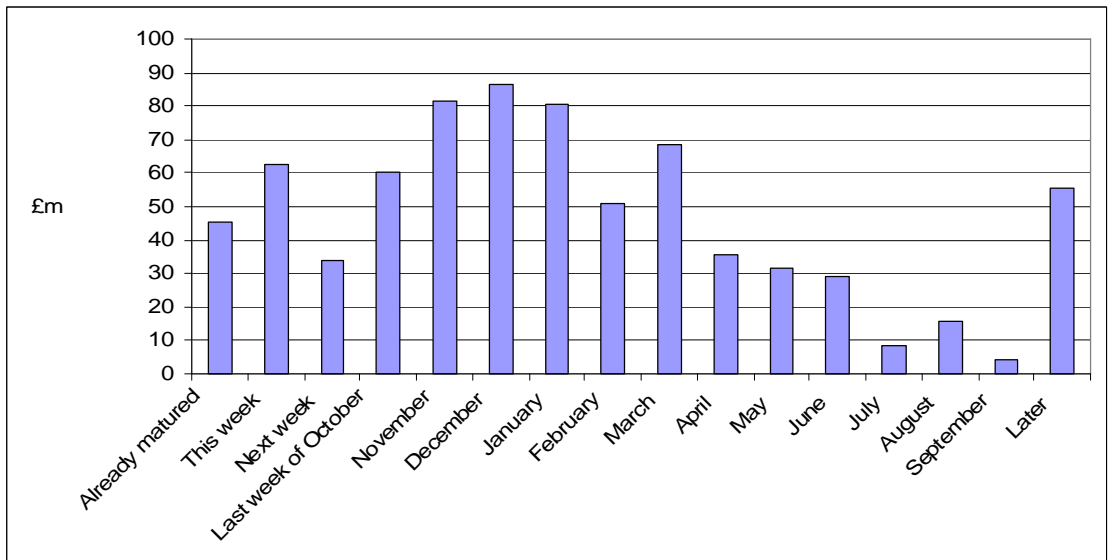
5. It should be noted that some authorities have included the amount relating to pension funds they administer within their own authority total.
6. The investment of £858.3m in Icelandic banks is part of total short term investment by the authorities concerned that totals in excess of £9.5 billion. In other words, in those authorities that had exposure to Iceland banks, the average exposure was less than 10% of the authority's total short term investment.
7. The amount of Icelandic bank investment covered by authorities who have shared detailed information with us about which banks they have invested in, and the maturities of the investments, totals £751.8m.

8. The analysis by bank is as shown below:



It is understood that Transport for London's investment, which is not included in the figures above, was with Kaupthing Singer & Friedlander.

9. The analysis by maturity date of investment is as shown below:



It can be seen that the investments maturing in October total £201.7m.

10. The LGA is in discussion with a small number of councils which have reported that they are potentially in serious short-term financial difficulty. No council is in immediate danger of running out of cash. In no cases does the evidence suggest that the council failed to observe the 2004 Guidance at the time its investments were made. In a number of cases the investments were made some considerable time ago, for example one authority's investments were all made in 2006.
11. The main problems identified (not all are present in all authorities) are:
  - Immediate difficulty in making the business rates payment because the maturing deposit was intended to cover that
  - Difficulties in balancing the agreed budget for the current year because interest receipts may now be substantially lower than expected.
  - Immediate need to reschedule capital projects that were intended to be funded from maturing deposits.
  - Immediate need to undertake short term borrowing adding to risk and cost
  - Where the council is already in serious financial difficulty, non-repayment of loan may exhaust all available reserves.
12. The LGA has also discussed with the Administrators of the two UK registered banking subsidiaries (Heritable and KS&F) the position in relation to those banks. The following key points, the wording of which has been agreed with the Administrators, emerged from the discussion.
13. The Administrators confirmed that they were seeking to maximize value from both companies, for the benefit of creditors. The LGA said that local authorities were looking to the Administrators to do their utmost to recover monies deposited, and would expect vigorous action from the Administrators to that end.
14. The Administrators said that they could not currently give an estimate of the level of funds expected to be recoverable nor when any payout could be expected. However, they agreed to provide estimated outcomes which local authorities could use (if they see fit), in planning their budgets, by mid-November.
15. The Administrators advised that both Heritable and KSF operated a number of businesses. In broad terms, the Administrators considered that the value of the book value of the assets of each business appeared to be of the same order of magnitude as the liabilities but that the recoveries for the Local Authorities would be dependent on the final level of actual realizations.