

ROTHERHAM BOROUGH COUNCIL – REPORT TO MEMBERS

1.	Meeting:	Audit Committee
2.	Date:	22nd July 2015
3.	Title:	Heritable Bank plc (In Administration)
4.	Directorate:	Finance & Corporate Services

5. Summary

To provide an update on the recovery of the Council's investment in Heritable Bank plc.

6. Recommendation

That Audit Committee notes the current position with regard to the recovery of the Council's investment in Heritable Bank plc.

7. Proposals

The Council invested £1.950m in Landsbanki Islands hf (LBI hf) in October 2007 and invested £1.800m with Heritable Bank plc (the UK subsidiary of the Icelandic Bank, Landsbanki Islands hf) in September 2008.

Both Banks collapsed in early October 2008 and since then the Council has been seeking to recover its investments.

As LBI hf was based in Iceland the recovery process was co-ordinated by the LGA on behalf of all the Local Authority creditors using Bevan Brittan. The process was complex and likely to go on for some time and thus the Council along with a majority of other Local Authority creditors, agreed to sell their claims in early 2014 (reported to Cabinet 26th February 2014 – Minute C203).

The proceeds from the auction sale were sufficient to recover £1.904m of the original principal invested of £1.950m, a shortfall of £46k or 2.36%. An independent assessment which had looked at the timing of further instalments prior to the decision to sell had indicated that a sale at that time and at the auction price achieved was the equivalent to a recovery of the Council's full principal by 2019. This was considered to be at the higher/best level of expected outcomes.

Being UK based Heritable Bank plc was placed into Administration with Ernst & Young LLP appointed as Administrators.

During the intervening period the Administrators have issued progress reports and also declared interim dividends to the Creditors of the Bank, including the Council.

In the first progress report of April 2009 the Administrators indicated that based on the information at that time any return would be in the region of 70 to 80 pence in the pound, but may be in the region of 55 to 70 pence under a more adverse set of circumstances.

Over time those estimates have been revised upwards such that now the Administrators have confirmed the estimated recovery will be between 98 and 100 pence.

Between July 2009 and August 2013 fourteen interim dividends have been paid amounting to approximately £1.696m or 94.22 pence in the pound based on the original amount invested. Including the interest which would have accrued on the investment (£3,815) which is included in the Council's claim the interim payments amount to 94.02 pence in the pound.

Following the resolution of a long running financial issue between Heritable and the old parent bank LBI hf the Administrators have now provided notice to the Council of a fifteenth interim dividend, the exact amount is unknown at this stage but it is hoped this will be declared and paid in August 2015.

The current position can therefore be summarised as follows:

	£
Investment	1,800,000
Recoveries to date	1,695,898
Shortfall on the original investment, the recoveries equating to 94.22 pence in the £	104,102

Based on the recovery estimate of between 98 and 100 pence in the pound the following table sets out the implications of achieving a recovery at the lower and higher levels. In addition it indicates that achieving a recovery of 99.79 pence in the pound would ensure full recovery of the Council's investment. It is still hoped that the final amount recovered will be at the higher end of the range and recovery at a level above 99% has been assumed in closing the Council's 2014/15 statutory accounts.

	£
Recovery based on 98p of the claim	1,767,739
Shortfall on the original investment	32,261
Recovery based on 99.79p of the claim	1,800,000
Shortfall on the original investment	0
Recovery based on 100p of the claim	1,803,815
Surplus representing the accrued interest	3,815

8. Finance

This is fully set out in the preceding section to this report

9. Risks and Uncertainties

Whilst the timing and amount of further recoveries remains uncertain it is still expected that the Council will receive a significant proportion of the amount which remains outstanding with the result that most if not all of the original investment in Heritable Bank plc will have been recovered.

10. Policy and Performance Agenda Implications

Effective Treasury Management will assist in delivering the Councils' policy and performance agenda.

11. Background Papers and Consultation

Cabinet 26th February 2014 and Senior Leadership Team 21 July 2015

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