

In accordance with Section 100B(4)(b) of the Local Government Act 1972, the Chairman has agreed that this item may be considered at the meeting as a matter of urgency.

CABINET

21st September 2011

Report of the Leader of the Council

Transfer to Reserve – Icelandic Impairment Revaluation

Key Decision

This is a key decision as the transfer being requested exceeds £50k.

Purpose

To seek Cabinet approval to create a specific reserve for 'Icelandic Impairment Revaluation' and to transfer £473,726.26 to that reserve for the year ending 31st March 2011.

Recommendation

That Cabinet give retrospective approval for the creation of the Temporary Reserve for 'Icelandic Impairment Revaluation', required as part of the finalisation of the 2010/11 accounts resulting from changes to Icelandic Banking impairment valuations, in the sum of £473,726.26, as detailed within the body of the report.

Executive Summary

Following receipt of a capitalisation direction which allowed the Council to capitalise £3.386m in the 2009/10 accounts relating to the impairment of investments in Icelandic banks, the Council's borrowing requirement (the Capital Financing Requirement) was increased accordingly.

As part of the 2010/11 final account process, revised recovery expectations were received mainly from the Administrators of the Icelandic bank Kaupthing Singer and Friedlander - from 71% to 82%, which resulted in a change to the impairment value previously included in the accounts – equating to c.£474k.

On the basis that these are estimates based on the Administrators latest current projections, and in consultation with the External Auditors, it is recognised that the new 'potential' recovery levels may not materialise.

Following discussions with the External Auditors it is expected that, once the investments are returned, the Council will have to reflect this return in a reduced capitalisation thereby reducing its overall borrowing requirement. However, it is not considered prudent at this stage to reflect the improved recovery position and therefore it is considered necessary to create a reserve in the sum of £473,726.26 and hold this sum until final values are established, which are estimated to be in the early part of 2013.

As the new projections were received after Cabinet approved the creation of reserves in relation to 2010/11, on the 6th April 2011, Cabinet are to be requested to give retrospective approval for the creation of this reserve.

Financial Implications

To create a temporary reserve of £473,726.26 for Icelandic Impairment/Interest.

Conclusions

The transfer of £473,726.26 to a reserve is considered prudent until final recovery values are known.