

26 November 2008

Chief Executives  
Directors of Finance

Local Authorities in England

Dear Colleague,

In his Statement to the House of Commons on the provisional local government finance settlement for 2009-10 today, John Healey (the Minister for Local Government) announced that the Government proposed to make a regulation which would, exceptionally, allow local authorities with funds invested in Icelandic banks to postpone the impact of the impairments required by accounting practice, from 2008-09 to 2010-11.

This also means that authorities will not need to seek capitalisation directions in the current year to enable them to manage the budgeting process. If any authorities choose not to avail themselves of the regulation, they should not expect to be granted a capitalisation direction for this purpose this year (2008-09).

I attach a more detailed summary of the proposed measure at Annex A.

The Department will consult Local Authorities on a draft regulation as soon as possible, with a view to bringing it into force before the end of this financial year. I understand that the Chartered Institute of Public Finance and Accountancy will also be supplementing its recent bulletin on impairments of financial assets.

Local Government Finance

**Summary of Proposed Regulation**

1. CLG intends to make a regulation under section 21(1) of the Local Government Act 2003 which will have the effect of deferring the impact of impairments for local authorities' Icelandic banks investments ("relevant investments") until 2010-11.
2. The immediate practical benefit is that authorities will not need to make provision in their budgets for 2009-10 for any possible loss on these investments. The accounts will continue to show the impairments in accordance with proper accounting practices, but authorities will be permitted to make offsetting credits to prevent any impact on budget calculations for 2009-10.
3. This also means that authorities will not need to seek capitalisation directions in the current year to enable them to manage the budgeting process. If any authorities choose not to avail themselves of the regulation, they should not expect to be granted a capitalisation direction for this purpose this year (2008-9). Requests for capitalisation directions in any future year will be treated in accordance with CLG's published criteria.
4. The way in which the regulation will work is set out in more detail in the following paragraphs.
5. The regulation will apply where:
  - a loss event affecting a relevant investment occurred between 1 April 2008 and 26 November 2008; and
  - an impairment in respect of the loss event is recognised in the authority's accounts for 2008-09 or 2009-10.
6. In these circumstances, the authority will have a discretion to make a credit in its accounts in the year the impairment is recognised for an amount up to the amount of the impairment.
7. If an authority enters such a credit in its 2008-09 accounts, and in its 2009-10 accounts enters, in accordance with proper practices, a credit representing a reduction in the impairment, it will be required to make a debit in the 2009-10 accounts equal to whichever is the lower of the 2008-09 regulation credit and the 2009-10 impairment credit.
8. An authority that has made any credit under the regulation will be required to make a debit in its 2009-10 or 2010-11 accounts equal to the total credits made reduced by any debit made under paragraph 7.
9. The regulation will apply to all authorities in England that are local authorities as defined in section 23 of the Local Government Act 2003.