



The Rt Hon John Healey MP
Minister for Local Government

**Department for Communities and Local
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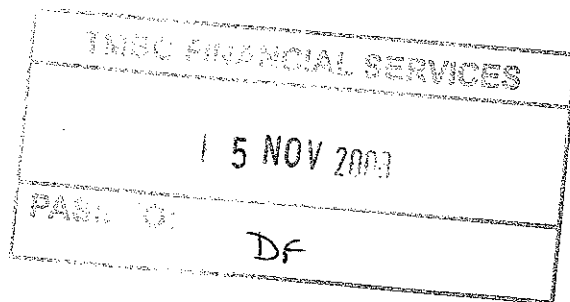
Our Ref: JH/030838/08

4 November 2008

A handwritten signature in black ink, appearing to read "Sharon Shelton".

Thank you for your letter of 9 October to the Rt Hon Alistair Darling MP, about the financial difficulties that your local authority is facing as a result of the failure of Icelandic banks. I am replying as the Minister responsible for Local Government Finance.

I enclose my reply to your letter to me on the same issue.

A handwritten signature in black ink, appearing to read "John Healey".
JOHN HEALEY MP



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Our Ref: JH/029798/08

20 October 2008

A handwritten signature in black ink, appearing to read "Sharon Shelton".

Thank you for your letter of 9 October, about the financial difficulties that your local authority is facing as a result of the failure of Icelandic banks.

After a number of Icelandic banks went into administration, it quickly became apparent that many local authorities were among those who had deposits in those banks.

Since then, the Government's priority has been to do everything that we can to help local authorities, along with other creditors, to get back the money which they had deposited in the banks. In particular, the Chancellor acted quickly to freeze the UK assets of Landsbanki, to ensure that local authorities and other creditors are treated fairly, and an HM Treasury delegation was sent to Iceland to discuss ways in which deposits could be protected. On 15 October, the Bank of England provided a short term secured loan of up to £100m to the London branch of Landsbanki, which will help to ensure an orderly wind down for Landsbanki and maximise returns to UK creditors.

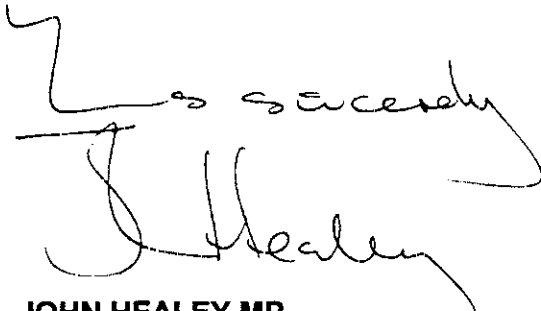
In relation to the banks in administration in the UK – Kaupthing Singer & Friedlander and Heritable - we are working to ensure that deposits are recovered as quickly as possible. The Local Government Association has opened discussions with the administrators, Ernst and Young.

We have been working closely with the Local Government Association to ensure that individual authorities who are facing difficulties are offered access to financial expertise to help them to assess the impact of the current situation on their finances, and identify options for addressing both short and long term issues. We have agreed that we will look at the issues facing each authority on a case-by-case basis, with the involvement of external financial expertise as the first step. We are doing this to protect individuals, communities and the local services on whom the most vulnerable people in our society depend.

It is the Government's position, as the Chancellor said on 8 October, that local authorities are informed investors, and are therefore not in the same position as retail depositors. The Government does not consider it appropriate to offer non-retail depositors the kind of guarantee referred to in your letter.

The Department has established a joint Rapid Response Unit with the LGA and the Improvement and Development Agency to provide sector-led support. The unit has experts in local authority financial management in place, ready to go immediately to work with those authorities who need assistance.

If your authority considers that it is in severe short-term difficulty, I would advise you to make clear to the LGA urgently that you wish to receive this assistance.

Yours sincerely


JOHN HEALEY MP
