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## Research Update:

# Greater London Authority Ratings Affirmed At 'AA/A-1+'; Outlook Negative

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## Research Update:

# Greater London Authority Ratings Affirmed At 'AA/A-1+'; Outlook Negative

## Overview

- We anticipate a further weakening of U.K. municipalities' revenue and expenditure balances, and have consequently revised downward our assessment of the institutional framework under which U.K. municipalities, including the Greater London Authority (GLA), operate.
- This does not impact our assessment of the GLA's stand-alone credit profile.
- Therefore, we are affirming our 'AA/A-1+' ratings on the GLA.
- The outlook remains negative and indicates that we would lower the rating on the GLA if we lowered our long-term rating on the U.K. In addition, it also represents the likelihood of a downgrade if U.K.'s exit from the EU resulted in materially adverse economic conditions in London, or if we believed that the likelihood of the GLA receiving extraordinary support from the central government had weakened.

## Rating Action

On Aug. 12, 2016, S&P Global Ratings affirmed its 'AA/A-1+' long- and short-term issuer credit ratings on the Greater London Authority (GLA). The outlook is negative.

At the same time, we affirmed at 'AA' the long-term issue rating on £800 million loans issued to the GLA by the special-purpose vehicle Community Finance 1 PLC.

As defined in EU CRA Regulation 1060/2009 (EU CRA Regulation), the ratings on the GLA are subject to certain publication restrictions set out in Article 8a of the EU CRA Regulation, including publication in accordance with a pre-established calendar (see "Calendar Of 2016 EMEA Sovereign, Regional, And Local Government Rating Publication Dates: Midyear Update," published Aug. 10, 2016, on RatingsDirect). Under the EU CRA Regulation, deviations from the announced calendar are allowed only in limited circumstances and must be accompanied by a detailed explanation of the reasons for the deviation. In the case of the GLA, the deviation has been caused by our downward revision of the institutional framework assessment for U.K. municipalities.

## Rationale

We are affirming the long-term issuer rating on the GLA following the review of our institutional framework assessment for U.K. municipalities. Our downward revision of the institutional framework to very predictable and well-balanced from extremely predictable and supportive reflects our anticipation of further deterioration in the revenue and expenditure balances of U.K. municipalities (see "Cuts In Grants Are Weighing On U.K. Municipalities Ratings," published Aug. 12, 2016, on RatingsDirect). This does not impact our assessment of the GLA's 'aa-' stand-alone credit profile (SACP), though.

The ratings on the GLA continue to reflect our view of London's very strong economy and its fiscal and political significance for the U.K., which gives the government a strong incentive to provide the GLA with extraordinary support, if required. We continue to assess the GLA's liquidity as exceptional in international terms; its financial management as strong; and its contingent liabilities as very low. These strengths are offset by the GLA's weak budgetary flexibility and performance; its very high debt burden; and its volatile balance after capital accounts, related to the GLA's contributions to fund major infrastructure projects, and from appeals against business rates in London. The ratings also continue to reflect our belief that the GLA would receive timely extraordinary support from the U.K. government if needed, given London's considerable political significance and contribution to the U.K.'s economic and fiscal position. As such, our 'AA' long-term issuer credit rating on the GLA is one notch higher than the GLA's 'aa-' SACP.

## Outlook

The negative outlook indicates that we would lower the long-term rating on the GLA if we lowered our long-term rating on the U.K. because we do not believe that the institutional and financial framework allows U.K. local and regional governments to be rated above the sovereign. Additionally, it also represents the likelihood that we could downgrade the GLA if U.K.'s exit from EU resulted in materially adverse economic consequences for London.

We could lower the rating on the GLA if we believed the likelihood of it receiving extraordinary support from the central government had weakened.

We could revise the outlook on the GLA to stable if we revise the outlook on the U.K. government to stable, and at the same time, if the GLA performs in line with our base-case expectations.

## Key Statistics

Greater London Authority Rating Lowered To 'AA' Following Similar Action On The U.K.; Outlook Negative - June 29, 2016

## Ratings Score Snapshot

### Greater London Authority Ratings Score Snapshot

Key rating factors	
Institutional Framework	Very predictable and well-balanced
Economy	Very strong
Financial Management	Strong
Budgetary Flexibility	Weak
Budgetary Performance	Weak
Liquidity	Exceptional
Debt Burden	Very high
Contingent Liabilities	Very low

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\*S&P Global's ratings on local and regional governments are based on eight main rating factors listed in the table above. Section A of S&P Global "Methodology For Rating Non-U.S. Local And Regional Governments," published on June 30, 2014, summarizes how the eight factors are combined to derive the rating.

## **Key Sovereign Statistics**

Sovereign Risk Indicators - July 6, 2016. An interactive version is also available at <http://www.spratings.com/sri>

## **Related Criteria And Research**

### **Related Criteria**

- Criteria - Governments - International Public Finance: Methodology: Rating Non-U.S. Local And Regional Governments Higher Than The Sovereign - December 15, 2014
- Criteria - Governments - International Public Finance: Methodology For Rating Non-U.S. Local And Regional Governments - June 30, 2014
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions - November 19, 2013
- Criteria - Governments - International Public Finance: Methodology And Assumptions For Analyzing The Liquidity Of Non-U.S. Local And Regional Governments And Related Entities And For Rating Their Commercial Paper Programs - October 15, 2009
- General Criteria: Use Of CreditWatch And Outlooks - September 14, 2009

### **Related Research**

- Cuts In Grants Are Weighing On U.K. Municipalities Ratings, Aug. 12, 2016
- Research Update: Greater London Authority Rating Lowered To 'AA' Following Similar Action On The U.K.; Outlook Negative - June 29, 2016
- Institutional Framework Assessments For Non-U.S. Local And Regional Governments - April 21, 2016
- Default, Transition, and Recovery: 2014 Annual International Public Finance Default Study And Rating Transitions - June 08, 2015

In accordance with our relevant policies and procedures, the Rating Committee was composed of analysts that are qualified to vote in the committee, with sufficient experience to convey the appropriate level of knowledge and understanding of the methodology applicable (see 'Related Criteria And Research'). At the onset of the committee, the chair confirmed that the information provided to the Rating Committee by the primary analyst had been distributed in a timely manner and was sufficient for Committee members to make an informed decision.

After the primary analyst gave opening remarks and explained the recommendation, the Committee discussed key rating factors and critical issues in accordance with the relevant criteria. Qualitative and quantitative risk factors were considered and discussed, looking at track-record and forecasts.

The committee's assessment of the key rating factors is reflected in the Ratings Score Snapshot above.

The chair ensured every voting member was given the opportunity to articulate his/her opinion. The chair or designee reviewed the draft report to ensure consistency with the Committee decision. The views and the decision of the rating committee are summarized in the above rationale and outlook. The weighting of all rating factors is described in the methodology used in this rating action (see 'Related Criteria and Research').

## Ratings List

	Rating	
	To	From
Greater London Authority		
Issuer Credit Rating		
Foreign and Local Currency	AA/Negative/A-1+	AA/Negative/A-1+
Senior Unsecured		
Local Currency	AA	AA

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.standardandpoors.com](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.globalcreditportal.com](http://www.globalcreditportal.com) and at [spcapitaliq.com](http://spcapitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public Web site at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

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