STANDARD & POOR'S
RATINGS SERVICES
McGRAW HILL FINANCIAL

RatingsDirect®

Research Update:

Greater London Authority Rating Affirmed At 'AA+' On Continued Government Support; Outlook Stable

Primary Credit Analyst:
Maria J Redondo, London (44) 20-7176-7094; maria.redondo@standardandpoors.com

Secondary Contacts:
Carl Nyrerod, Stockholm (46) 8-440-5919; carl.nyrerod@standardandpoors.com
Liesl Saldanha, London (44) 20-7176-3571; liesl.saldanha@standardandpoors.com

Research Contributor:
Robin Froggatt-Smith, London (44) 20-7176-3609; robin.froggatt-smith@standardandpoors.com

Table Of Contents

Research Update:

Greater London Authority Rating Affirmed At 'AA+' On Continued Government Support; Outlook Stable

Overview

- The Greater London Authority's (GLA's) credit profile benefits from the strong ongoing and extraordinary support it receives from the U.K. government.
- The GLA's forecast financial performance and debt levels are mainly driven by the authority's involvement in co-financing Crossrail and the Northern Line extension (NLE); its liquidity position is very positive.
- We are therefore affirming our long-term rating on the GLA at 'AA+'.
- The stable outlook reflects our view that the GLA will continue to enjoy strong support from the government, and that negative balances after capital accounts will gradually decrease to more moderate levels as its commitment to fund Crossrail finishes in the financial year ending March 31, 2015.

Rating Action

On May 23, 2014, Standard & Poor's Ratings Services affirmed its 'AA+' long-term issuer credit rating on the Greater London Authority (GLA). The outlook is stable.

At the same time, we affirmed the 'AA+' long-term issue rating on the £600 million loan granted to the GLA by the special-purpose vehicle Community Finance 1 PLC.

Rationale

The rating on the GLA reflects our view of the predictable and supportive U.K. local government institutional framework; London's wealth and economic and political significance for the U.K.; the entity's very positive liquidity position; and its low level of contingent liabilities. We also assess the GLA's management as very positive for the rating.

These strengths are offset by the GLA's very high levels of debt and negative balances after capital accounts by international standards. However, these negative balances reflect the significant grant funding that the GLA is passing to Transport for London (TfL; AA+/Stable/A-1+) for its capital expenditure (capex) on Crossrail until financial year ending March 31, 2015 (2014/2015) and the Northern Line Extension (NLE) from 2014/2015 to financial year ending March 31, 2020 (a target completion date). The GLA's exceptionally high debt levels for the rating are offset by our belief that the U.K. government would be willing to provide timely extraordinary support to the GLA to avoid financial distress, if required. We see as evidence of this extraordinary support the revenues allocated to service debt raised to fund Crossrail and the NLE, its most recent infrastructure project. The GLA's low budgetary flexibility, in particular its low revenue flexibility, is in line with U.K. local authorities and also constrains the rating.

The GLA's deficits after capital accounts and high debt levels are a direct consequence of the implementation of Crossrail (a £14.7 billion infrastructure project to be completed by 2019) and the NLE (for an estimated cost of £1 billion). The GLA is covering £4.1 billion of Crossrail's cost by raising debt (which it projects will be about £220.5 million less than the originally planned £3.5 billion) and passing the borrowing proceeds, plus a further direct contribution of £778 million, as capital revenue to TfL. The GLA will finance the NLE with £1 billion of additional borrowing that will be passed through as grant to TfL. In addition, and as an unprecedented measure, the U.K. government has guaranteed the GLA that it can refinance up to £750 million debt over a 50-year period, if needed.

Since 2012, the GLA has been granted additional responsibilities including the management of the affordable housing program and the regeneration and management of the Olympic Park in London. We believe this increase in the GLA's responsibilities reflects the central government's confidence in its management, which we view as very positive for the rating. The GLA has shown strong debt and liquidity management, as demonstrated by its prudent approach to the sourcing and planned amortization of Crossrail borrowing.

The rating on the GLA also reflects the strength of London's economy. We estimate that London's gross value added (GVA) per capita was £38,464 in 2013, and we forecast growth in GVA will continue to gather pace, rising to 2.8% in 2015, supported by rising employment levels. We anticipate that London's economy will continue to grow faster than that of the U.K., reflecting the more flexible and service-oriented nature of London's economy, in which financial services play a key role. London is both pivotal to the U.K.'s economic growth and a major net contributor to the U.K.'s fiscal position, thus providing a strong rationale for continued central government investment in infrastructure.

The GLA has historically posted modest operating surpluses or excess operating revenue after costs, and has demonstrated limited ability to modify revenues--which we define as limited budgetary flexibility in our criteria--similar to U.K. local authorities. The GLA has primarily relied on grant revenues from the U.K. government; we expect that in the long term these grant revenues will be increasingly replaced by tax revenues. Of these tax revenues, the GLA has discretion over the allocation of retained business rates to its functional bodies--which potentially provides modest spending flexibility. We have factored in what we view as an above-average capability to generate revenues from asset sales, as the GLA has a substantial portfolio of land and assets.

In line with our expectations, GLA's large operating surpluses are set to decrease to an average of 24% of operating revenues over 2014-2017 in cash terms, from 41% in the year ended March 31, 2014, as the effect of front-loaded grants fades. Over the past three years, the average operating surplus was 45% of operating revenues.

On the capital side, however, we forecast a gradual improvement in the GLA's negative balances after capital accounts as it completes its funding of Crossrail by 2014/2015. The GLA exhibited negative balances after capital accounts of 71% on average over 2012-2014, and 70% in the year ended March 31, 2014. Over 2014-2017, however, we expect these negative balances to improve to 10% on average. Despite the recent improvement of the balance after capital accounts, we view the negative balances as very large compared with peers' in that rating category. The deficits after capital accounts improve in our forecast because the transfer of borrowing proceeds to TfL to co-finance Crossrail will no longer be required by the financial year ending March 31, 2016, although we anticipate that the GLA's co-financing of the NLE will cause its balances after capital accounts to deteriorate again after our forecast period.

We understand that the GLA will partially fund the NLE with contributions from developers--under Section 106 and the community infrastructure levy, which together make up about 20% of revenues to refinancing NLE borrowing. The rest will come from incremental business rates generated within an enterprise zone around the site in Battersea. We understand that the first revenue stream is supported by measures that ensure the total developer contributions will be paid to a schedule, which is vital in the early stages of the project; incremental business rates are a resilient source of revenues, in our view, and will repay the GLA's debt in the mid and later phases of the project.

The GLA has raised a total of £3.26 billion in debt in the past four years to March 2014, mainly to fulfil its commitment to part-finance Crossrail. This borrowing for Crossrail comprises mainly loans from the Public Works Loan Board (PWLB) and a £600 million loan from Community Finance Company 1 PLC (CoFCo 1), a special-purpose entity established to issue notes and onlend the proceeds to the GLA. In 2014/2015, we expect the GLA to incur about £573 million in debt. As a result, the GLA's tax-supported debt will continued to increase to more than £3.8 billion by March 31, 2015 (or 571% of consolidated operating revenues). Tax-supported debt is expected to rise to over 900% of consolidated operating revenues by the end of our forecast horizon, which is extremely high by international standards.

Despite the significant increase in debt, we believe this is mitigated by GLA's long-dated and expected smooth debt-maturity profile and the business rates supplement (BRS) collected from London boroughs, which has been ring-fenced so that the GLA can use it to service Crossrail debt. Although legally liable to service this debt, the GLA does not expect to use its non-BRS revenues to do so, and it cannot divert the BRS revenues to fund its operating expenditure. Likewise, we believe the developers' revenues and incremental business rates allocated to refinance the GLA's NLE debt--along with flexibilities tied to the Mayor's control over a larger pool of revenues--are sufficiently secure and therefore we believe that this debt is sustainable at the current rating level.

The stability and adequate size of these revenue sources to service debt payments are positive factors supporting the rating at the current level, despite the sizable debt on the GLA's books. Furthermore, we anticipate that the GLA would likely receive timely extraordinary support from the U.K. government, if required, owing to the high-profile investment that the GLA funds.

We consider the GLA's contingent liabilities to be very limited. We understand that the risks directly associated with cost over-runs on Crossrail and the NLE are borne by TfL, which may receive additional funding from the U.K. government in certain cases.

In our view, the rating on the GLA is also supported by what we consider to be a predictable and supportive institutional framework for U.K. local governments.

Liquidity

We view the GLA's overall liquidity position as a very positive factor for the rating, based on what we view as very positive debt service coverage and our expectation of exceptional access to external liquidity (the GLA has access to the PWLB). On the other hand, we have applied a negative adjustment to our score to factor in the GLA's very large funding needs, as described by our criteria.

As of May 2014, the GLA had almost £1 billion in free cash reserves and short-term investments (after allowing for some loss of value in a stress scenario and coverage of part of the GLA's investment program), which will comfortably cover about 750% of the next 12 months' debt service. Although we expect the level of available free cash to decrease over the forecast period to the financial year ending March 31, 2017 (2016/2017), we anticipate that debt service coverage will remain structurally at very high levels. The GLA's very positive liquidity position is a key support to the rating, in our view, given the magnitude of the GLA's debt burden.

Outlook

The stable outlook reflects our base-case expectation that the GLA will continue to enjoy strong support from the U.K. central government, and that its financial performance and borrowing plans won't deviate from our base case. We also expect that, structurally, the GLA will maintain a very positive liquidity position through 2016/2017. Moreover, we expect that the risks related to the borrowing for Crossrail and the NLE are properly mitigated by the stability and certainty of developer contributions and business rate revenues, the GLA's ready access to the PWLB for additional liquidity, and our view that central government would provide timely extraordinary support, if required.

We could lower the rating if the GLA used its reserves to finance further major capex because the central government had not allocated sufficient revenues to make debt-financed capex affordable. In our view, this could occur if the central government were less supportive of a new project (for economic and/or political reasons). That said, we believe existing extraordinary support for Crossrail and NLE would continue. In such a scenario, GLA's ability to raise cash from asset sales might decline, reducing its budgetary flexibility. We would view this scenario as evidence of the GLA's currently strong and prudent financial management deteriorating.

We could consider an upgrade over the next two years if the GLA kept almost all revenues from retained business rates and used them to repay debt earlier than scheduled. Under this scenario, which we view as unlikely, the GLA's budgetary performance would improve and its debt burden would decline significantly from today's very high level by international standards.

Published Rating Factor Scores

Table 1

Greater London Authority--Summary Of Published Rating Factor Scores*

RATING FACTOR	SCORE
Institutional framework	Predictable and supportive
Financial management	Very positive
Liquidity	Very positive

*Standard & Poor's ratings on local and regional governments are based on, among other things, a scoring system that covers eight main rating factors, as further explained in our criteria (see below). We publish our scores for the three rating factors above.

Key Statistics

Table 2

Greater London Authority -- Financial Statistics

	Fiscal year end March 31						
£ Mil.	2010	2011	2012	2013bc	2014bc	2015bc	2016bc
Operating revenues	386	796	541	413	670	431	446
Operating expenditures	347	522	59	365	396	365	368
Operating balance	39	273	482	48	274	66	78

Table 2

Greater London Authority -- Financial Statistics (cont.)							
Operating balance (% of operating revenues)	10.1	34.3	89.0	11.6	40.9	15.3	17.5
Capital revenues	2.0	102.0	843.0	764.0	1,222.0	690.0	505.0
Capital expenditures (capex)	1,000.0	1,185.0	2,050.0	1,638.0	1,752.0	888.0	631.0
Balance after capital accounts	(959.0)	(810.0)	(725.0)	(826.0)	(256.0)	(132.0)	(48.0)
Balance after capital accounts (% of total revenues)	(247.3)	(90.3)	(52.4)	(70.2)	(13.5)	(11.8)	(5.1)
Debt Repaid	0.0	0.0	0.0	101.0	10.0	50.0	115.0
Balance after debt repayment and onlending	(959.0)	(810.0)	(725.0)	(927.0)	(266.0)	(182.0)	(163.0)
Balance after debt repayment and onlending (% of total revenues)	(247.3)	(90.3)	(52.4)	(78.8)	(14.1)	(16.3)	(17.2)
Gross borrowings	833.0	684.0	1,080.0	800.0	573.0	196.0	300.0
Balance after borrowings	(126.0)	(126.0)	355.0	(127.0)	307.0	14.0	137.0
Operating revenue growth (%)	N.M.	106.2	(32.0)	(23.7)	62.2	(35.7)	3.5
Operating expenditure growth (%)	N.M.	50.6	(88.6)	515.0	8.5	(7.8)	0.8
Modifiable revenues (% of operating revenues)	31.1	26.6	42.3	33.0	21.5	32.1	30.9
Capital expenditures (% of total expenditures)	74.2	69.4	97.2	81.8	81.6	70.9	63.2
Direct debt (outstanding at year-end)	800.0	1,400.0	2,500.0	3,263.0	3,826.0	3,972.0	4,157.0
Direct debt (% of operating revenues)	207.3	176.0	461.8	790.1	571.0	921.6	932.1
Tax-supported debt (% of consolidated operating revenues)	207.3	176.0	461.8	790.1	571.0	921.6	932.1
Interest (% of operating revenues)	8.4	7.6	16.7	27.7	19.2	31.8	32.5

Table 2

Greater London Authority -- Financial Statistics (cont.)							
Debt service (% of operating revenues)	8.4	7.6	16.7	52.2	20.7	43.4	58.3

The data and ratios above result in part from Standard & Poor's own calculations, drawing on national as well as international sources, reflecting Standard & Poor's independent view on the timeliness, coverage, accuracy, credibility, and usability of available information. The main sources are the financial statements and budgets, as provided by the issuer. Base case reflects Standard & Poor's expectations of the most likely scenario. Downside case represents some but not all aspects of Standard & Poor's scenarios that could be consistent with a downgrade. Upside case represents some but not all aspects of Standard & Poor's scenarios that could be consistent with an upgrade.

Table 3

Greater London Authority -- Economic Statistics						
	Fiscal year end March 31					
£ Mil.	**2010**	**2011**	**2012**	**2013bc**	**2014bc**	**2015bc**
Population	8,061,511.0	8,204,484.0	8,308,417.0	8,399,810.0	8,483,808.0	8,577,130.0
Population growth (%)	N.M.	1.8	1.3	1.1	1.0	1.1
GDP per capita (local currency) (single units)	35,896.0	36,976.0	37,232.0	38,464.0	40,025.0	41,609.0
Real GDP Growth (%)	1.7	4.4	1.5	1.9	2.9	2.8
Unemployment rate (%)	8.9	9.1	10.0	8.9	7.8	7.5

The data and ratios above result in part from Standard & Poor's own calculations, drawing on national as well as international sources, reflecting Standard & Poor's independent view on the timeliness, coverage, accuracy, credibility, and usability of available information. Sources typically include national statistical offices, Eurostat, and Experian Limited.

Key Sovereign Statistics

Sovereign Risk Indicators, March 24, 2014, (Interactive version also available at http://www.spratings.com/sri)

Related Criteria And Research

Related Criteria

- Methodology For Rating International Local And Regional Governments, Sept. 20, 2010
- 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, Oct. 15, 2009

Related Research

- International Local And Regional Governments Default And Transition Study: 2012 Saw Defaults Spike, March 28, 2013
- Rating Assigned To U.K. Repack Transaction Community Finance Company 1's Series 01 Notes, July 8, 2011
- Public Finance System Overview: U.K. Local and Regional Governments, April 5, 2011
- Presale: Community Finance Company 1 PLC (Series 1), June 22, 2011

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 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.

Ratings List

Ratings Affirmed

Greater London Authority	
Issuer Credit Rating	AA+/Stable/--
Senior Unsecured	AA+

Additional Contact:
International Public Finance Ratings Europe; PublicFinanceEurope@standardandpoors.com

Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com and at spcapitaliq.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following Standard & Poor's 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.