S&P Global
Ratings

RatingsDirect®

Research Update:

Greater London Authority Rating Lowered To 'AA' Following Similar Action On The U.K.; Outlook Negative

Primary Credit Analyst:
Neal Greer, London (44) 20-7176-6187; neal.greer@spglobal.com

Secondary Credit Analyst:
Ines Olondriz, Madrid (34) 91-788-7202; ines.olondriz@spglobal.com

Table Of Contents

Overview

Rating Action

Rationale

Outlook

Key Statistics

Ratings Score Snapshot

Key Sovereign Statistics

Related Criteria And Research

Ratings List

Research Update:

Greater London Authority Rating Lowered To 'AA' Following Similar Action On The U.K.; Outlook Negative

Overview

- On June 27, 2016, we lowered our unsolicited long-term rating on the U.K. to 'AA' from 'AAA'.
- Consequently, we are lowering our long-term rating on Greater London Authority to 'AA' from 'AA+' and affirming our 'A-1+' short-term rating.
- The negative outlook represents both the risk that the U.K.'s decision to leave the EU might weaken our view of the U.K. institutional framework for local authorities and uncertainty arising from the U.K.'s decision to leave the EU in the recent referendum.

Rating Action

On June 29, 2016, S&P Global Ratings lowered its long-term issuer credit rating on the Greater London Authority (GLA) to 'AA' from 'AA+'. At the same time, we lowered the long-term issue rating to 'AA' on £800 million in loans issued to the GLA by the special-purpose vehicle Community Finance 1 PLC. We affirmed our 'A-1+' short-term issuer credit rating on the GLA.

The outlook is negative, mainly reflecting risks that the U.K. decision to leave the EU might weaken our view of the U.K. institutional framework for local authorities, as well as risks to London's economic growth prospects, which could also damage GLA's financial profile.

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," published Dec. 22, 2015, 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 this case, the deviation has been caused by the lowering of our long-term rating on the United Kingdom to 'AA' from 'AAA' on June 27, 2016. The next scheduled rating publication on the GLA will be on Oct. 21, 2016.

Rationale

The downgrade of the GLA follows the lowering of our unsolicited long-term sovereign credit rating on the U.K. to 'AA' from 'AAA' (see "Research Update: Ratings On The United Kingdom Lowered To 'AA' On Brexit Vote; Outlook Remains Negative On Continued Uncertainty," published on June 27, 2016).

We generally cap the long-term rating on a local and regional government (LRG) at the same level as its respective sovereign. We do not consider that the institutional and financial framework for U.K. LRGs allows any of them to be rated above the sovereign (see "General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions," published Nov. 19, 2013).

One factor contributing to our decision not to rate the GLA higher than the U.K. is that, in our view, the GLA lacks sufficient financial autonomy to effectively resist significant sovereign intervention, such as reductions or delays in central government transfers. A large share of the GLA's revenues still come from the central government. In addition, U.K. LRGs do not have formal powers to block changes to the institutional framework. In this respect, we also consider that our rating on the GLA could be affected if we were to reassess our view of the institutional framework for U.K. local and regional governments.

The long-term rating on the GLA continues to reflect our view of London's very strong economy and its fiscal and political significance for the U.K., giving the U.K. government a strong incentive to provide the GLA with extraordinary support, if required. Other supporting factors are the extremely predictable and supportive U.K. local government institutional framework; the GLA's exceptional liquidity position in international terms; its strong financial management; and its very low level of contingent liabilities. Additionally, the GLA has now fulfilled its committed funding for Crossrail 1. We anticipate that this might have a positive impact on the GLA's financial performance in the upcoming years. Due to our belief that the GLA would receive extraordinary support from the U.K. government if needed, our ‘AA’ long-term issuer credit rating on the GLA is one notch higher than the GLA’s 'aa-' stand-alone credit profile.

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 more recently also from appeals against business rates in London.

The rating on the GLA continues to reflect our belief that the U.K. government would be willing to provide it with timely extraordinary support, if required, given London's considerable political significance and contribution to the U.K.'s economic and fiscal position. The government has already allocated additional revenues to the GLA to service the debt it has raised to fund Crossrail 1 and the Northern Line Extension (NLE), and has agreed that the GLA can refinance up to £750 million of future NLE debt over a 50-year period with the Treasury, if necessary.

Outlook

The negative outlook represents both the risk that the U.K.'s decision to leave the EU might weaken our view of the U.K. institutional framework for local authorities and the risk to London's economic growth prospects. That said, we consider that the latter risk could damage the GLA's financial profile, albeit toward the end of our 2016-2018 forecast period.

If we were to revise the outlook on the U.K. sovereign rating to stable, we would still maintain the negative outlook on the GLA, barring any other changes to its credit profile.

Key Statistics

For the GLA's published key statistics, please refer to "Greater London Authority Ratings Affirmed At 'AA+/A-1+' On Exceptional Liquidity, Despite High Debt; Outlook Stable," published on April 22, 2016.

Ratings Score Snapshot

Greater London Authority Ratings Score Snapshot

Key rating factors	
Institutional framework	Extremely predictable and supportive
Economy	Very strong
Financial management	Strong
Budgetary flexibility	Weak
Budgetary performance	Weak
Liquidity	Exceptional
Debt burden	Very high
Contingent liabilities	Very low

*S&P Global Ratings bases its ratings on local and regional governments on eight main rating factors listed in the table above. Section A of S&P Global Ratings' "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

For the latest key sovereign statistics, please refer to "Ratings On The United Kingdom Lowered To 'AA' On Brexit Vote; Outlook Remains Negative On Continued Uncertainty," published on June 27, 2016.

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

- Research Update: Ratings On The United Kingdom Lowered To 'AA' On Brexit Vote; Outlook Remains Negative On Continued Uncertainty - June 27, 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
- Report Card: U.K. Local Authorities Absorb Major Cuts, But What Flexibility Remains? - March 31, 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+/Stable/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 for further information. 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 S&P Global Ratings' public Web site at 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.