

## Kensington and Chelsea (Royal Borough of)

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# Kensington and Chelsea (Royal Borough of)

## Major Rating Factors

### Strengths:

- Very strong U.K. local government framework that is predictable and supportive.
- Wealthy and diversified economy.
- Substantial--if decreasing--level of reserves and moderate debt levels.

### Issuer Credit Rating

AAA/Stable/A-1+

### Weaknesses:

- Lower fiscal balances up to 2014, despite reining in costs further.

## Rationale

The ratings on the Royal Borough of Kensington and Chelsea reflect the strong support that the U.K. local government system provides to local authorities. The ratings also reflect the borough's wealthy economy, substantial reserves, and moderate debt levels. Constraining factors include fiscal performance that we expect to be weaker until 2014 because of lower revenues from the U.K. government.

The borough's budgetary performance has been sound over the past few years, with good control over budgeted costs. Its ongoing cautious fiscal stance has allowed it to build up substantial reserves, which we believe represents a comfortable cushion to accommodate current and future shocks in revenue arising from reductions in government grants. This is an important strength for the borough's credit standing, which underpins the rating under our base-case scenario. Despite temporarily drawing on its reserves, our base-case scenario assumes that the borough will be able to cut spending accordingly and avoid depleting its reserves.

The borough's low-to-moderate debt level also contributes very positively to the rating. At financial year-end 2011, outstanding debt totaled £182.3 million, or about 32% of operating revenues, which is low compared to the 'AAA' rating category average. Over the next few years, the borough plans to reduce debt gradually to 28% of operating revenues by 2014. Barring any unplanned increase in debt, this objective might be achievable in light of the sale of some land from the Holland Park School; the last payable installment is due that year. As is typical of U.K. local authorities, virtually all the borough's debt is from the Public Works Loans Board (PWLB).

We expect weaker budgetary performance than in the past, which may become a ratings weakness. Operating balances to operating revenues have averaged about 2% over the period 2007-2010, though we anticipate this will deteriorate slightly to a negative value in cash terms over the next four years. Due to the highly centralized U.K. local government system, the borough has depended on the government for over two-thirds of its income. As a result of recent cuts in government grants to local authorities, the borough has lost £22 million in 2011-2013, although we believe it will be able to mitigate the revenue shortfall by increases in other revenue sources. The borough will also receive a council-tax-freeze grant of £1.9 million in 2011-2012 because it decided to freeze council taxes.

Council taxes are still low compared with those of other councils. Although this could allow some political flexibility to raise tax rates in the future, we believe the borough would be keen to maintain its tax advantage. In our base-case scenario, we anticipate the borough will adjust gradually to a lower government grant by increasing other

sources of revenue and delivering further expenditure savings, as it has been doing since 2009.

In our base-case scenario, we forecast that the borough will post deficits, after capital accounts, of about 6% on average, a considerable fall from the slightly positive results averaged during 2007-2010. For 2011 in particular, we forecast a deficit of 8% of total revenues. The planned capital works program is diverse, allowing some flexibility to defer individual projects. We believe that Kensington and Chelsea is well placed to fund its capital program at the current rating level, given its moderate debt levels, significant reserves, and the prospect of further capital receipts from the land sale.

### **Liquidity**

We view the borough's liquidity position as very positive for the rating, particularly given the exceptional access to external liquidity through the U.K. government's PWLB. The borough has a high level of free cash and short-term investments--£164 million as of March 2011, including unrestricted reserves only, and after applying Standard & Poor's haircuts to each type of investment. This level of liquidity comfortably covers debt service for the next 12 months. The borough has no credit lines with banks, but it has access to the PWLB.

### **Outlook**

The stable outlook reflects our expectation, under our base-case scenario, that the borough will continue to enjoy a strong level of support from the U.K. central government and that budgetary performance will not vary substantially from our forecasts. During the forecast period up to 2014, we view the deterioration of the operating balance as temporary while the borough adapts to receiving lower government grants. We believe that the borough will successfully deliver the required savings to match the revenue shortfall, as well as increase other sources of revenue. We expect that the balance after capital accounts will improve from 2014 onward, returning the overall fiscal performance to more favorable levels. Furthermore, we expect that debt levels will gradually decrease over the forecast period, and that reserves will recover substantially from 2014, after a temporary reduction.

Under our downside scenario, we could lower the rating if the deficits after capital accounts were to continue deteriorating, leading to higher debt of more than 60% of operating revenues once reserves were depleted. We currently view this scenario as highly unlikely.

### **Comparative Analysis**

Kensington and Chelsea's economy compares well with its highly rated international peers in terms of average wealth levels and diversity, although its population is smaller (see table 1). Due to the highly centralized U.K. local government system, however, Kensington and Chelsea is much less exposed to the performance of the local economy than most of its international peers. Instead, like its national peers, it has a far higher dependence on central government transfers than international peers such as the cities of Saskatoon (AAA/Stable/--) in Canada, or Stockholm (AAA/Stable/A-1+; Nordic national scale rating K-1) in Sweden. This is likely to make its revenue base more predictable, which is positive from a credit perspective, but also constrains its prospects for future revenue growth, particularly given the U.K. government's current fiscal challenges.

In terms of budgetary performance, Kensington and Chelsea has performed comparably with its peers, posting healthy surpluses after capital accounts over the past few years. That said, we expect this position to deteriorate following the reduction in grant levels that was announced in October 2010. The borough has substantial cash

reserves amounting to £157 million--which we estimate is equivalent to 624% of its debt service in 2010. This high level is quite unusual for a local authority (compare with the Greater London Authority (AA+/Stable/-) and Woking (AA-/Stable/--) in table 1).

Tax-supported debt as a percentage of consolidated operating revenues is slightly higher than that of its international peers, though in line with the 'AAA' rating median and much lower than its national peers. In addition, the debt service is more manageable, representing a slightly lower proportion of operating revenues. The borough's long-term pension liabilities as of March 2010 were higher than those of other 'AAA' rated peers listed in table 1, but low compared to its national peers, which exhibit much larger liabilities and have much less in cash and financial assets.

Table 1

<b>Kensington And Chelsea (Royal Borough Of)--2010 Peer Comparison</b>						
	<b>Kensington and Chelsea (Royal Borough of)</b>	<b>Greater London Authority</b>	<b>Saskatoon (City of)</b>	<b>Stockholm (City of)</b>	<b>Taby (Municipality of)</b>	<b>Woking Borough Council</b>
Issuer credit rating (local currency)	AAA/Stable/A-1+	AA+/Stable/--	AAA/Stable/--	AAA/Stable/A-1+	AAA/Stable/--	AA-/Stable/--
Issuer credit rating (foreign currency)	AAA/Stable/A-1+	AA+/Stable/--	AAA/Stable/--	AAA/Stable/A-1+	AAA/Stable/--	AA-/Stable/--
National scale ratings	--/--/--	--/--/--	--/--/--	--/--/K-1	--/--/K-1	--/--/--
<b>--Five-year averages (two years of actual data, current budget, and two years of Standard &amp; Poor's forecast)--</b>						
Operating balance (% of adjusted operating revenues)	0.1*	1.5	117.9¶	3.2¶	4.9	6.8
Balance after capital accounts (% of adjusted total revenues)	(0.6)*	(100.4)	3.44¶	(3.1)¶	(3.9)	(33.1)
<b>--Year ended Dec. 31, 2010; Mar. 31, 2011 for GLA and RBKC. GLA's figures as of 2011--</b>						
Total adjusted revenues	584.1	156.8	317.2¶	3,561.0¶	345.9	89.9
Transfers received (% of total adjusted revenues)	25.6	31.2	14.8¶	3.9§	(8.9)	30.0
Modifiable revenues (% of adjusted operating revenues)	59.7	68.8	71.3¶	94.0¶	104.8	65.8
Capital expenditures (% of total adjusted expenditures)	5.9	67.7	32.4¶	8.3¶	8.3	55.6
Direct debt (at year-end)	192.5	800	64.8¶	670.8¶	19.8	206.2
Direct debt (% of adjusted operating revenues)	34.0	206.3	23.7¶	19.1¶	5.9	246.4
Tax-supported debt (at year-end)	192.5	800	64.8¶	742.9¶	48.6	201.2
Tax-supported debt (% of consolidated operating revenues)	34.0	206.3	23.7¶	16.1¶	14.2	240.4

**Table 1**

<b>Kensington And Chelsea (Royal Borough Of)--2010 Peer Comparison (cont.)</b>						
Net financial liabilities (% of consolidated operating revenues)	63.1	197	4.1¶	44.2¶	20.9	309.6
Interest (% of operating revenues)	2.7	6.5	1.4¶	2.7¶	0.4	5.0
Debt service (% of operating revenues)	4.5	6.5	3.5¶	12.6¶	1.8	11.0
Free cash & liquid assets (% of debt service)	623.7	264	1,224.2¶	1.6¶	1,831.8	81.6
Population	180,300.0	7,800,000¶	218,900.0¶	829,417.0¶	63,789.0	92,400.0
Nominal GDP per capita (unscaled)	57,180.0¶¶	33,808¶	N.A.	34,628.1¶¶	40,726.9¶¶	20.8¶

\*Figures for 2011. ¶Figures for 2009. §Figures for 2006. \*\*Figures for 2008. ¶¶Figures for 2007. N.A.--Not available. N/A--Not applicable.

## Institutional Framework

Standard & Poor's views the U.K. institutional framework for local and regional governments (LRGs) as one of the strongest systems globally. Under our criteria, we assess the U.K.'s framework as "predictable and supportive". We assigned it a score of 1 (the highest) on a scale of 1 to 6 based on its high degree of transparency, accountability, and predictability, as well as the supportive role of the U.K. government (see "Public Finance System Overview: U.K. Local and Regional Governments," published on April 5, 2011).

As a result of the October 2010 Comprehensive Spending Review, the central government has reduced the level of general grant by £22 million in fiscal years 2011/12 and 2012/13. This loss represents 21% of the value of the grant in previous year and is in line with our expectations. In our view, it will not weaken the borough's credit quality as long as expenditure levels are kept in check.

## Economy

### Wealthy, well-diversified economy

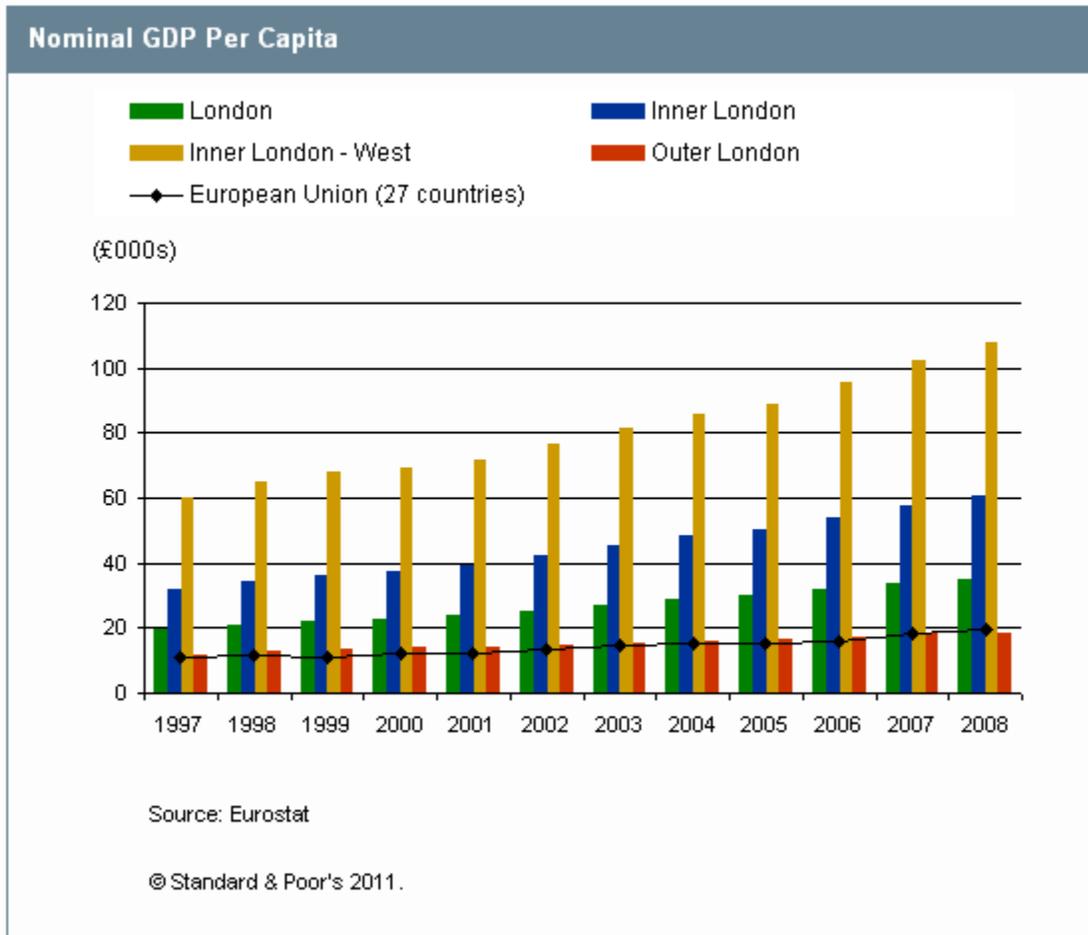
Kensington and Chelsea is a wealthy, densely populated area, with a residential population of 169,900 (according to the latest projection as of mid-2009 by the Office for National Statistics).

Kensington and Chelsea's overall economic structure is well developed and well diversified in terms of companies (over 10,500) and sectors; 94.3% of employees are employed in services. Major local employers include retailers Harrods and Peter Jones, Brompton Hospital, the Daily Mail newspaper, and the borough itself. Furthermore, unemployment tends to be lower than in the rest of the country, and lower than the London average. We understand that the borough's economy has been resilient during the past economic recession in the country, backed by the good performance of sectors such as retail (luxury goods), catering, tourism, and real estate.

Wealth levels in London are the highest in the country and some of the highest internationally. At £60,686, or 352% of the EU-27 average in inner London in 2008, GDP per capita is high, compared with international peers and also compared with London as a whole (£34,200; 2009 estimates) (see chart 1). Kensington and Chelsea's levels approach those observed in the west of inner London, where GDP per capita is £107,863 (627% of the EU-27).

Over the medium term, growth in the borough may be hampered by the lack of available and affordable real estate, given that Kensington and Chelsea has the highest house prices in the country. At the same time, there are areas of relatively high socioeconomic deprivation within the borough, notably in the north around Ladbrooke Grove. This area tends to be the focus for regeneration and renewal initiatives, and is also a focus of service spending pressures.

**Chart 1**



## Financial Management

The borough has benefited from political stability since its formation in 1965. It has been under the continuous majority leadership of the Conservative Party, which has also brought continuity in financial strategy and fiscal policies.

In Standard & Poor's view, the borough's financial management has a very positive impact on the rating. It demonstrates a high degree of expertise and commitment to the borough's transparency, as well as continuity, fiscal discipline, and well-defined financial policies. Our high score for the borough also reflects very good planning and monitoring capacities, as well as a prudent and well-defined debt and liquidity management.

## **Budgetary Flexibility**

### **Revenues dominated by central government grant settlements decrease**

The borough has a high level of financial flexibility for a U.K. local authority. We define financial flexibility as the ability to increase revenue and to cut expenditure and we measure it in terms of modifiable revenues as a share of operating revenues and the level of capital expenditure from the total expenditure. When compared with European peers, the borough exhibits only moderate financial flexibility, given its high dependence on a government grant.

The decline of about 21% in the government grant expected in 2011/12 through 2012/13 means that government grants will form only 53% of the borough's operating revenues in 2011/12, down from 67% in 2009/10. Increases in non-government-related revenues, have also contributed to this reduction. We believe that the borough can easily absorb this real-term decline in grant, particularly given its ability to draw on reserves, raise council tax--although this option is limited in practice--and reduce expenditures. Despite reductions in government grant, we still view the borough's dependence on a formula-based system as positive from a credit perspective, given its relative stability and predictability as a revenue source.

To calculate total operating revenues, Standard & Poor's takes operating cash flows and deducts the level of nondomestic rate receipts that are collected and passed on to the national pool. This deduction is intended to increase transparency about the borough's own revenues.

### **Flexibility from a low council tax rate**

Council tax, another highly predictable revenue source, generally comprises about 19% of the borough's operating revenues. Council tax charged by Kensington and Chelsea is relatively low when compared with the tax rate charged by most other councils. This gives the borough some political flexibility to raise rates in the future while keeping them within the bottom quartile of council tax rates for London. In 2011/2012, the borough kept the council tax rate the same as in 2010/11, which will give it £1.9 million additional revenue in 2011/12 through a grant aimed at councils that freeze their tax rates.

### **Other income sources set to increase slightly**

Car parking income is one of the most important of the borough's other revenue sources, generating net income of about 3% of total operating revenues in past years. In financial year 2010/11, car parking income increased by £4.9 million, backed by higher car parking charges introduced that year and the abolition of the western extension of the congestion charge by the Mayor in December 2010, which might have increased use of private transport.

In our view, income from sources other than government grants is positive for the rating because it increases the borough's financial flexibility. However, we do not expect the share of modifiable revenues to increase substantially from the current 60% of total revenues over the forecast period.

### **Expenditure pressures partially eased by the tri-borough initiative**

The Royal Borough of Kensington and Chelsea, the London Borough of Hammersmith & Fulham, and the City of Westminster have entered into agreements to integrate some services (excluding vital front-line services) from 2011 onward. The scheme aims to increase efficiencies and cost savings and ultimately to fully benefit from the powers granted by the Localism Bill. The three councils expect the plan to deliver combined savings of £35 million by 2014/15, backed by substantial reductions in the cost of overheads and middle and senior management. The borough is likely to approve the plan early in the second quarter of 2011 and the scheme will kick off in the

children's services area.

### **Capital program involving several projects allowing for some flexibility**

The current capital program foresees investment of £155 million from 2011/2012 onward, down from £191 million in the previous program. That said, the reduction reflects changes in some expected completion dates, rather than a real reduction in costs. Of the total program, the council expects to directly fund approximately 40%, mainly from the borough's own reserves and capital receipts. The program is spread across a large number of diverse projects, of which about 50% by value have not yet started. Around 15% of the costs are related to rolling programs for office refurbishment, which can be reduced or postponed. This gives the council a degree of flexibility in deferring expenditures.

The main projects include the regeneration of Exhibition Road and the rebuilding of Holland Park School, the latter of which the council expects to fund through a related land sale. Further projects in the pipeline, which would require additional funding from the borough estimated at £52 million, are not accounted for in the current capital program. Of these projects the main ones are the Kensington Academy and the new building for the Kensington Leisure Centre.

We consider that the borough's financial position could accommodate this additional capital expenditure without putting the ratings under too much pressure. Moreover, we consider that the risks involved should the borough seek external financing for this capital program would be low, because it expects to benefit from a large capital revenue stream in 2014 following a land sale.

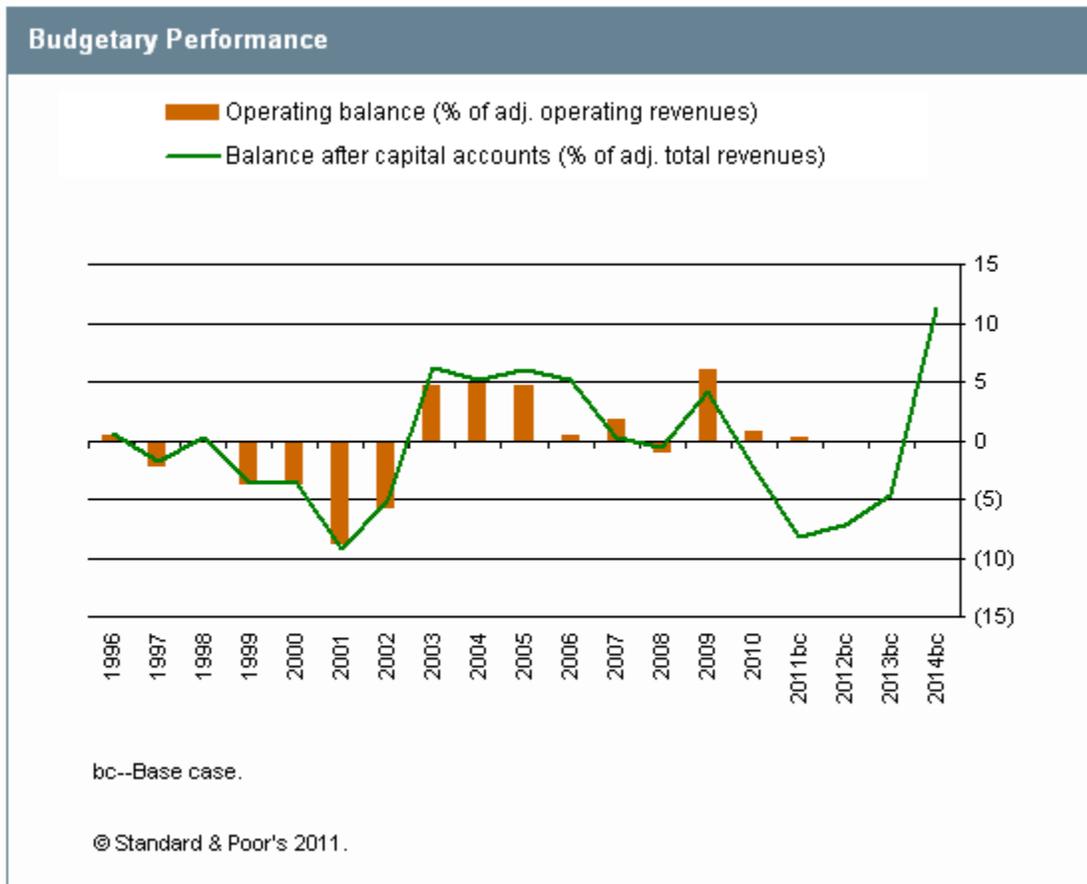
## **Budgetary Performance**

### **Loss of government grants trigger lower operating balances**

The borough's budgetary performance has been sound over the past few years, demonstrating good control over budgeted costs. Operating surpluses have been small, but surpluses of this level are not unusual for a U.K. local authority with such predictable revenues. We expect lower operating balances to deteriorate over the forecast period, mainly because of a fall in revenue. That said, we expect the council to counterbalance the revenue shortfall, to a large extent, by reining in costs more aggressively if required.

On average, we expect balanced operating balances over the period 2011 to 2014. Balances are likely to be weaker than the previous four-year average at slightly below 2% as the borough tries to match expenditure to lower revenues from central government (see chart 2). Since 2009, the borough has reduced personnel costs. In conjunction with some curtailment in services and a lower reserve level, this will help the borough to balance its books with lower predictable revenues. Although car park revenues increased in 2010/11, generated revenues depend on the local economy more and so are more volatile. The borough could increase the council tax rate, though we do not expect it to do so unless there is pressure to avoid much steeper curtailment in services.

Chart 2



The borough is set to benefit from savings arising from the tri-borough initiative, which it expects to deliver around £35 million in savings to all participating councils through 2014/15. The borough anticipates that a third of the savings would be allocated to Kensington and Chelsea. Some of the savings are expected to have already materialized by 2012.

#### Balance after capital accounts hit by capital program

Due to Kensington & Chelsea's significant capital program, we expect negative balances after capital accounts to accrue over the forecast period 2012 to 2014 (see chart 2). Balances after capital accounts as a percentage of total revenues averaged 0.4% between 2007 and 2010, but we anticipate seeing deficits of about 2% of total revenues between 2011 and 2014. The highest deficit is forecast to be 7% in 2012. However, our base-case scenario also assumes that once receipts from the sale of land accrue in 2014, the position would change once again. We expect to see a positive balance of 11% of total revenues in 2014, and the balance is likely to accrue from then onward unless there is a substantial enlargement of the capital program. If proceeds from the land sale do not materialize as assumed under this scenario, deficits would continue to accrue for a longer period. We have assumed that this happens as part of our downside scenario.

## Liquidity

### **Excellent liquidity on a declining path**

We view the borough's liquidity position as very positive for the rating, particularly given the exceptional access to external liquidity through the U.K. government's PWLB. The borough's liquidity position is demonstrated by its high level of free cash and short-term investments--£164 million as of March 2011, including unrestricted reserves only and after applying Standard & Poor's haircuts. This level of liquidity covers over 1000% of next 12-months debt service, and gives the borough a high degree of flexibility to fund its capital program. Given the borough's reluctance to incur new debt to finance its capital program in the short term, we expect the level of free cash and short-term investments to gradually decrease to about 56% of debt level by 2013, before it recovers, backed by the proceeds of land sales expected in 2014.

A further source of liquidity is the PWLB, the government-funded main lender to the sector. The PWLB provides loan finance for capital investments on request, provided the borough is within its Prudential Code borrowing limits and is acting legally. In line with national peers, the borough has no credit lines with banks.

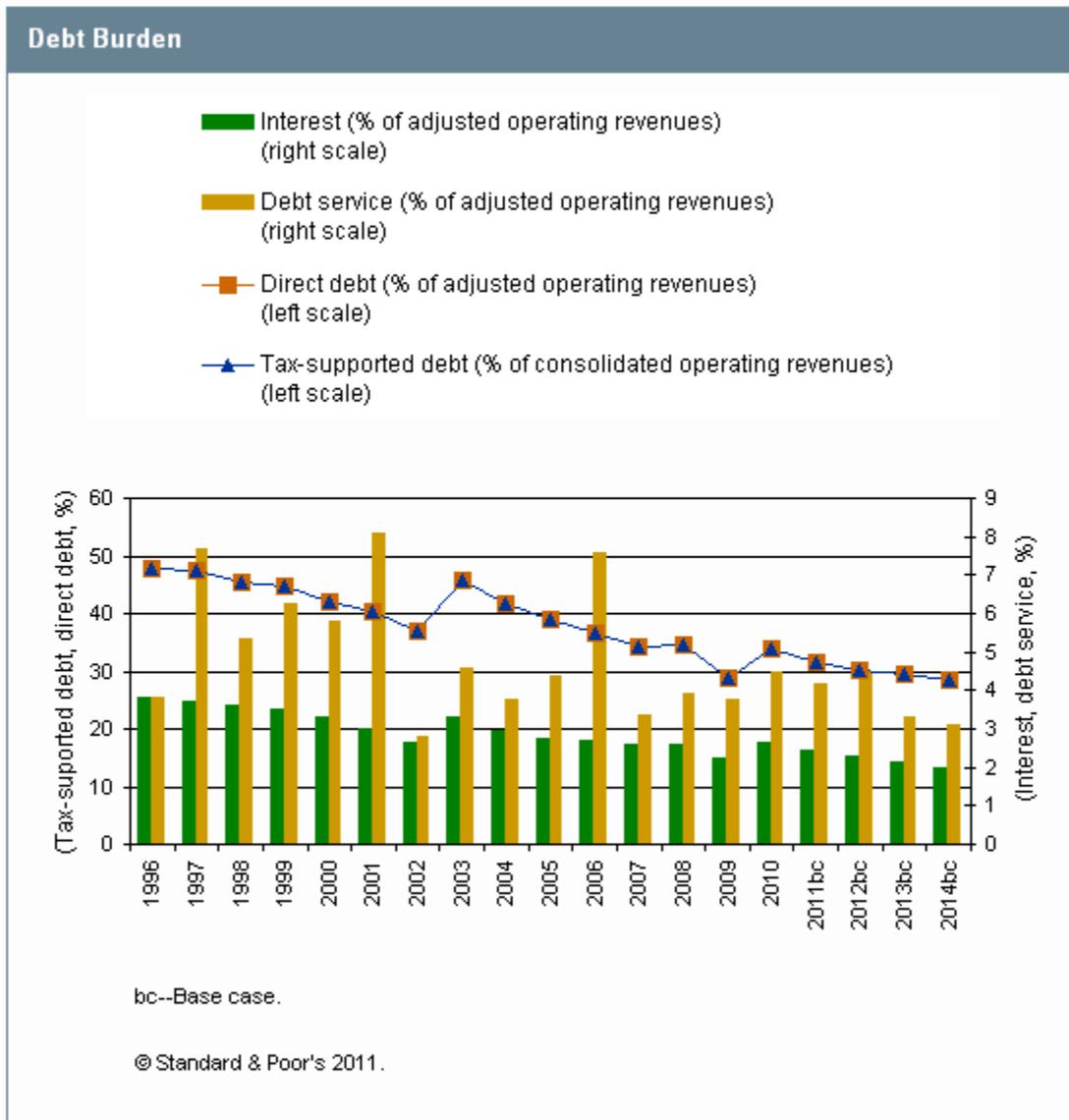
## Debt Burden

### **Moderate debt is set to decrease gradually**

Outstanding debt at financial year-end 2011 totaled £182.3 million, or about 32% of operating revenues. Over the next few years, the borough plans to reduce debt gradually to 28% of operating revenues by 2014 (see chart 3). Barring any unplanned increase in debt, we think this objective might be achievable in light of the sale of some land in Holland Park School. The last payable installment is due that year and amounts to £98 million or about 15% of total revenue.

We understand that the council does not plan to use additional revenues to repay the debt earlier. Instead they would be used to shore up services or avoid increases in the council tax rate. In line with the low debt level and gradual amortization profile until 2014, interest payments are low, at 2.5% of operating revenues on average for the period 2010-2012. Interest payments are expected to gradually decrease over the forecast period.

Chart 3



As is typical of U.K. local authorities, virtually all the borough's debt is from the PWLB. The debt is long term and at fixed rates, with a very even and affordable maturity profile. The borough's debt levels are expected to remain well within the specified limits during the forecast period.

**Pension deficit**

The latest information available indicates that the borough's pension fund had a net liability of £59 million in December 2010. This represented around 10% of operating revenues, substantially down from 57% at the end of financial year 2010 and more aligned with previous values. Despite the intrinsic volatility of these financial liabilities and the high levels in March 2010, we believe that the pension deficit is not a risk factor at this stage. Furthermore, we believe that the borough would be able to introduce corrective measures early enough to achieve a balance within its targeted timeframe.

## Contingent Liabilities

### Minimal and stable contingent liabilities

Kensington & Chelsea has granted few guarantees: less than 1% of operating revenues. This level has been stable for several years. In addition to a set of multiple small guarantees linked to rent deposits (amounting to £21,000 in total), the bulk of the borough's contingent liabilities of about £2 million is related to claims on the borough's previous insurance fund, Municipal Mutual Insurance (MMI).

MMI is an insurance company limited by guarantee and established by several local authorities. It is currently in run-off after experiencing material losses up to 1992. Although the company has not underwritten any new business since then, the company has to deal with any claims on the existing insurance policies until these mature. The borough is liable up to the amount of the guarantee provided.

We consider the borough's exposure to this level of contingent liabilities—around 1% of operating revenues—to be very low in absolute and relative terms in an international context.

**Table 2**

Kensington And Chelsea (Royal Borough Of)--Financial Statistics										
--Year ended Mar. 31--										
	2014bc	2013bc	2012bc	2011bc	2010	2009	2008	2007	2006	2005
Operating revenues	555,000.0	556,000.0	565,000.0	578,000.0	566,078.0	705,233.0	648,909.0	658,900.0	629,821.0	602,432.0
Operating expenditures	555,000.0	557,000.0	566,000.0	577,000.0	562,000.0	662,600.0	655,914.0	647,162.0	627,478.0	574,113.0
Operating balance	0.0	(1,000.0)	(1,000.0)	1,000.0	4,078.0	42,633.0	(7,005.0)	11,738.0	2,343.0	28,319.0
Operating balance (% of adj. operating revenues)	0.0	(0.2)	(0.2)	0.2	0.7	6.1	(1.1)	1.8	0.4	4.7
Capital revenues	104,000.0	6,000.0	10,000.0	20,000.0	18,000.0	6,363.0	45,679.0	46,429.0	75,317.0	44,017.0
Capital expenditures (capex)	30,000.0	31,000.0	50,000.0	70,000.0	35,000.0	19,998.0	42,689.0	56,278.0	41,362.0	33,543.0
Balance after capital accounts	74,000.0	(26,000.0)	(41,000.0)	(49,000.0)	(12,922.0)	28,998.0	(4,015.0)	1,889.0	36,298.0	38,793.0
Balance after capital accounts (% of adj. total revenues)	11.2	(4.6)	(7.1)	(8.2)	(2.2)	4.1	(0.6)	0.3	5.2	6.0
Debt repaid	6,300.0	6,223.0	12,148.0	10,184.0	10,192.0	10,897.0	8,763.0	5,052.0	30,825.0	9,622.0
Balance after debt repayment and onlending	67,700.0	(32,223.0)	(53,148.0)	(59,184.0)	(23,114.0)	18,101.0	(12,778.0)	(3,163.0)	5,473.0	29,171.0
Balance after debt repayment and onlending (% of adj. total revenues)	10.3	(5.7)	(9.2)	(9.9)	(4.0)	2.5	(1.8)	(0.5)	0.8	4.5
Gross borrowings	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	26,190.0	10,690.0
Balance after borrowings	67,700.0	(32,223.0)	(53,148.0)	(59,184.0)	(23,114.0)	18,101.0	(12,778.0)	(3,163.0)	31,663.0	39,861.0
Balance after borrowings (% of adj. total revenues)	10.3	(5.7)	(9.2)	(9.9)	(4.0)	2.5	(1.8)	(0.5)	4.5	6.2
Modifiable revenues (% of adj. operating revenues)	64.5	63.7	62.1	60.0	59.7	51.0	48.8	50.3	51.6	49.0
Operating revenue growth (%)	(0.2)	(1.6)	(2.2)	2.1	(19.7)	8.7	(1.5)	4.6	4.6	7.5
Operating expenditure growth (%)	(0.4)	(1.6)	(1.9)	2.7	(15.2)	1.0	1.4	3.1	9.3	7.6

Table 2

Kensington And Chelsea (Royal Borough Of)--Financial Statistics (cont.)										
Direct debt (outstanding at year-end)	157,673.0	163,973.0	170,198.0	182,344.0	192,531.0	202,721.0	224,703.0	224,919.0	230,085.0	234,955.0
Direct debt (% of adjusted operating revenues)	28.4	29.5	30.1	31.6	34.0	28.8	34.6	34.1	36.5	39.0
Tax-supported debt (% of consolidated operating revenues)	28.4	29.5	30.1	31.6	34.0	28.8	34.6	34.1	36.5	39.0
Interest (% of adjusted operating revenues)	2.0	2.2	2.3	2.4	2.7	2.2	2.6	2.6	2.7	2.8
Debt service (% of adjusted operating revenues)	3.1	3.3	4.5	4.2	4.5	3.8	3.9	3.4	7.6	4.4
Debt-service coverage ratio (%)	0.6	0.6	0.5	0.6	0.8	2.2	0.4	1.3	0.4	1.7
Free cash and liquid assets (% of adjusted operating expenditures)	18.6	11.4	20.0	28.4	28.0	25.5	15.7	16.0	14.3	14.6
Free cash and liquid assets (% of debt service)	596.8	348.9	450.3	676.9	623.7	635.6	405.5	467.7	187.8	320.0

bc--Base case.

## Related Criteria And Research

All articles listed below are available on RatingsDirect on the Global Credit Portal, unless otherwise stated.

- Methodology For Rating International Local And Regional Governments, Sept. 20, 2010
- Public Finance System Overview: U.K. Local and Regional Governments, April 5, 2011

Ratings Detail (As Of May 31, 2011)*	
<b>Kensington and Chelsea (Royal Borough of)</b>	
Issuer Credit Rating	AAA/Stable/A-1+
<b>Issuer Credit Ratings History</b>	
27-Oct-2010	AAA/Stable/A-1+
21-May-2009	AAA/Negative/A-1+
05-Mar-2001	AAA/Stable/A-1+
<b>Default History</b>	
None	
<b>Population</b>	169,900 (Office for National Statistics, mid-2009 estimates)
<b>Per Capita GDP</b>	£107,863 (2008 value for inner London (west), Office for National Statistics)
<b>Current Government</b>	
The borough council has been under continuous majority leadership of the Conservative Party since the formation of the borough in 1965. Councillor Sir Merrick Cockell is the leader of the council.	
<b>Election Schedule</b>	
Last council elections: May 6, 2010	
Next council elections: 2014	

\*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard

**Ratings Detail** (As Of May 31, 2011)\***(cont.)**

& Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

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