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Kensington and Chelsea (Royal Borough of)

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Kensington and Chelsea (Royal Borough of)

Major Rating Factors

Issuer Credit Rating
AAA/Stable/A-1+

Strengths:

- Very strong U.K. local government framework that is predictable and supportive.
- Wealthy and diversified economy, benefitting from resilient retail and housing sectors.
- Substantial--if decreasing--level of reserves and moderate debt levels.

Weakness:

- Lower balances after capital accounts likely up to 2013, despite stronger operating performance.

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 an overall fiscal performance that we expect to be weaker until 2013 under our base-case scenario. In line with past years, the borough plans to implement cuts in operating expenditure to match lower revenues from the U.K. government, but is likely to require larger expenditure on infrastructure projects. However, the borough might not engage in projects that could overstretch budgets.

The borough's budgetary performance has been excellent 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 consider represent a comfortable cushion to accommodate current and future reductions in revenue arising from reductions in government grants. This is an important strength for the borough's credit standing, and underpins the rating under our base-case scenario. Despite temporarily drawing on its reserves for capital spending and onlending, our base-case scenario assumes that the borough will be able to cut spending accordingly and avoid depleting its overall reserves of £189 million.

The borough's low-to-moderate debt also contributes positively to the rating. At financial year-end 2012, outstanding debt totaled £170.2 million, or about 30% 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 about 25% of operating revenues by 2015. As is typical of U.K. local authorities, all the borough's debt was extended by the Public Works Loans Board (PWLB). From April 2012, all debt held by the borough has been transferred to the housing revenue account (HRA), which is fully separated from the borough's general revenue account. The debt will only be serviced by the more limited income and reserves linked to the HRA. However, in our view, the borough's ample reserves in its general revenue account--£175 million in February 2012--will continue to make its HRA debt levels sustainable. In our analysis, we consider both the general and the housing revenue accounts in determining the creditworthiness of the council. In March 2012, the borough funded over £24 million additional debt linked to the HRA by drawing down on its general revenue reserves to avoid taking on more debt.

After low operating balances to operating revenues--which averaged 3.6% over 2009-2011, we forecast a substantial recovery to an average of 10% over the period 2012-2015. As a result of recent cuts in government grants to local authorities, the borough has lost about £8 million in formula grant yearly between 2011 and 2013--a loss of 10% in cash terms or 2% of recurring spending. Cost curtailment and larger income from other sources--for instance, the borough benefitted from a 9% increase in business rate income in 2011-2012--have mitigated the effect of lower grant levels. Furthermore, the borough delivered savings in 2011-2012 estimated at about £6 million under the budgeted expenditure value, adding up to over £35 million in savings arising from lower costs and higher income since 2010-2011. The 2012-2013 budget includes £8.7 million in additional planned net savings.

The borough also received a council-tax-freeze grant of £1.9 million in 2011-2012 because it decided to freeze council taxes. It expects to roll over the grant as it has planned a new freeze in 2012-2013. 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 anticipate that 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 addition, the retention of the surplus generated by the collected business rate income might provide a further revenue boost in the future, though this revenue collection has been fairly stable in the past few years and we understand that any potential upside from the revaluations of the commercial properties might be limited under the proposed framework.

In our base-case scenario, we forecast that the borough will post small surpluses, after capital accounts, of less than 1% of total revenues on average, before it increases strongly in 2014 to about 15%, supported by large capital receipts from land sale. The planned capital works program is diverse, allowing some flexibility to defer individual projects. We consider that Kensington and Chelsea is well placed to cope with any increase in capital expenditure and 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--about £143 million as of February 2012, after applying Standard & Poor's haircuts to each type of investment and subtracting earmarked reserves. 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. We view the slight deterioration of the balance after capital accounts until 2013 as a consequence of higher-than-usual capital expenditure, though we anticipate that the borough might postpone some nonvital projects in the pipeline if its financial position weakened substantially. We expect the borough will successfully deliver the required savings to match the revenue shortfall, as well as maintain other sources of revenue. We also expect that the balance after capital accounts will improve from 2014 onward. Furthermore, we anticipate that debt levels will gradually decrease until 2015, 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 deteriorate further as a consequence of increases in operating expenditure and larger capital expending, leading to higher debt of more than 60% of operating revenues and to a substantial decrease in reserves. In light of the current strong commitment toward fiscal consolidation and the good track record of prudent fiscal policies, 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 situation.

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 had substantial free cash and liquid assets as of February 2012, amounting to £143 million--which we estimate is equivalent to about 6x its debt service in 2013. This high level is quite unusual for a local authority. Table 1 shows the equivalent figures for the Greater London Authority (AA+/Stable/--), Birmingham City Council (AA+/Stable/--) and Woking (AA-/Stable/--).

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 2011 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

Kensington and Chelsea (Royal Borough of)--2011 Peer Comparison

	Kensington and Chelsea (Royal Borough of)	Birmingham City Council	Greater London Authority	Saskatoon (City of)	Stockholm (City of)	Woking Borough Council
Issuer Credit Rating	AAA/Stable/A-1+	AA+/Stable/--	AA+/Stable/--	AAA/Stable/--	AAA/Stable/A-1+	AA-/Stable/--
--Five-year averages (two years of actual data, current budget, and two years of Standard & Poor's forecast)--						
Operating balance (% of adjusted operating revenues)	6.9	1.2	4.9	N.A.	3.7	7.0
Balance after capital accounts (% of adjusted total revenues)	3.1	(3.0)	(92.2)	N.A.	(2.2)	(21.3)

Table 1

Kensington and Chelsea (Royal Borough of)--2011 Peer Comparison (cont.)						
--Year ended Dec. 31, 2011; March 31, 2011 for U.K. credits--						
Budgetary flexibility						
Modifiable revenues (% of adjusted operating revenues)	49.6	43.0	68.81*	64.22*	80.54*	69.0
Capital expenditures (% of total adjusted expenditures)	6.9	12.3	67.7	43.89*	7.22*	35.1
Debt						
Tax-supported debt (% of consolidated operating revenues)	29.9	84.6	206.3	26.47*	8.90*	232.1
Interest (% of operating revenues)	2.3	3.5	6.5	0.70*	1.79*	9.3
Debt service (% of operating revenues)	4.0	5.8	6.5	3.21*	11.37*	21.9
Liquidity						
Free cash & liquid assets (% of debt service)	651.3	63.1	264.0	1,172.72*	1.47*	43.6

*Figures for 2010. N.A.--Not available.

Institutional Framework: Predictable And Supportive

Supportiveness maintained despite lower government grants

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). Despite cuts to local government funding by the central government as a result of the Credit Spending Review 2010, we still view the U.K. institutional framework as one of strongest in the world.

As a result of the new powers granted under the Localism Act 2011, which came into force in February 2012, councils have more flexibility to manage their housing stock by gaining control of the revenue raised by council rent. On the other hand, this long-term flexibility also means that councils have had to taken on more debt, corresponding to their part of the national debt linked to housing. Kensington and Chelsea, as a contributor to the national pool, has only needed to take on a limited amount of this additional burden, repaid by using internal reserves.

We consider that LRGs may need to widen the scope of their financial and risk management and adopt a more long-term approach to managing their new powers and investments. For further information on the reforms see "Industry Report Card: Sector Reforms Are Unlikely To Damage U.K. Local And Regional Governments," published on March 23, 2012.

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Economy: Wealthy And Well-Diversified Economy Benefiting From Resilient Retail And Real Estate Sectors

Kensington and Chelsea is a wealthy, densely populated area, with a residential population of 169,500 (according to the latest projection as of mid-2010 by the Office for National Statistics).

The borough'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 £60,842, or 332% of the EU-27 average in inner London in 2009, GDP per capita is high, compared with international peers and also compared with London as a whole (£35,026; 2010 estimates). Kensington and Chelsea's levels approach those observed in the west of inner London, where GDP per capita is £109,278. 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 Ladbroke Grove. This area tends to be the focus for regeneration and renewal initiatives, and is also a focus of service spending pressures.

Financial Management: Prudent And Very Positive For The Rating

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.

There have been no changes at the top levels of management, although some intermediate posts have been removed as a consequence of cost-cutting measures linked to the tri-borough initiative, an agreement by three London boroughs--Kensington and Chelsea, Hammersmith and Fulham, and the City of Westminster--to share services and achieve efficiencies. In this context, Kensington and Chelsea's chief executive Mr. Derek Myers became also the chief executive of London Borough of Hammersmith and Fulham in November 2011.

Budgetary Flexibility: Greater Flexibility Than Other Councils

Fiscal consolidation mainly based on cost-cutting efforts

As a result of recent cuts in government grants to local authorities, the borough has lost about £8 million in formula grant yearly in period 2011-2013--a loss of 10% in cash terms or about 2% of recurrent spending. On the other hand, the borough has mitigated the effect of this cut by higher income from other sources and cuts in expenditure. In particular, the borough continued to show commitment to fiscal consolidation by delivering savings in 2011-2012 estimated at about £6 million under the budgeted expenditure value, adding up to over £35 million in savings arising from lower cost and higher income since 2010-2011. A further £8.7 million in net savings are planned in the 2012-2013 budget. Savings have been focused on staff reduction and the re-allocation of services. Some services, like the provision of libraries and adult care, are now shared among the three councils in the context of the tri-borough initiative. Although this initiative allows the council to achieve some savings, we understand that the main benefit for the council is to give it more flexibility with the savings that would be implemented anyway.

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 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. However, we understand that the council wants to avoid any increases. In 2011-2012, the borough kept the council tax rate the same as in 2010-2011, which will give it £1.9 million additional revenue in 2011-2012 through a grant aimed at councils that freeze their tax rates. In its budget for 2012-2013, the council has also planned a further freeze of the council tax, though it remains to be seen if the full grant will be rolled over.

Capital program involving several projects allowing for some flexibility

The current capital program foresees investment of £180 million from 2012-2013 onward. This program requires over £142 million of council funding, which will mainly be provided from the borough's own reserves and capital receipts. The program is spread across a large number of diverse projects, of which about 60% by value have not yet started, and contains new major schemes such as the Kensington Academy and Kensington Leisure Centre--together requiring £40 million of council funding. Around 7% of the costs are related to rolling programs for minor works, such as office refurbishment, which can be reduced or postponed. This gives the council a degree of flexibility in deferring expenditures.

After the completion of the regeneration of Exhibition Road, the rebuilding of Holland Park School is the main project in the capital plan. The council plans to fund this project through a related land sale, which will deliver £95 million in September 2013. Another large project is the new building for the Kensington Leisure Centre, which is expected to start in 2014-2015 and will require an estimated £20 million. Further projects in the pipeline, which would require additional funding from the borough estimated at about £18 million, are not accounted for in the current capital program.

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 2013 following a land sale.

Localization of business rates income expected to support a stable source of income

Under the powers granted by the Localism Act 2011, local authorities will be able to retain part of the surplus on current levels of business rates income from 2013-2014 onward. Business rate income has proven to be a stable and resilient source of revenue for Kensington and Chelsea, and is the largest income category. We anticipate that this source of revenue might increase further in line with inflation (based on the Retail Price Index) and, in particular, if businesses physically expand.

Budgetary Performance: Ongoing Reduction In Costs To Accommodate Lower Revenues

Operating balance recovers substantially despite revenue loss

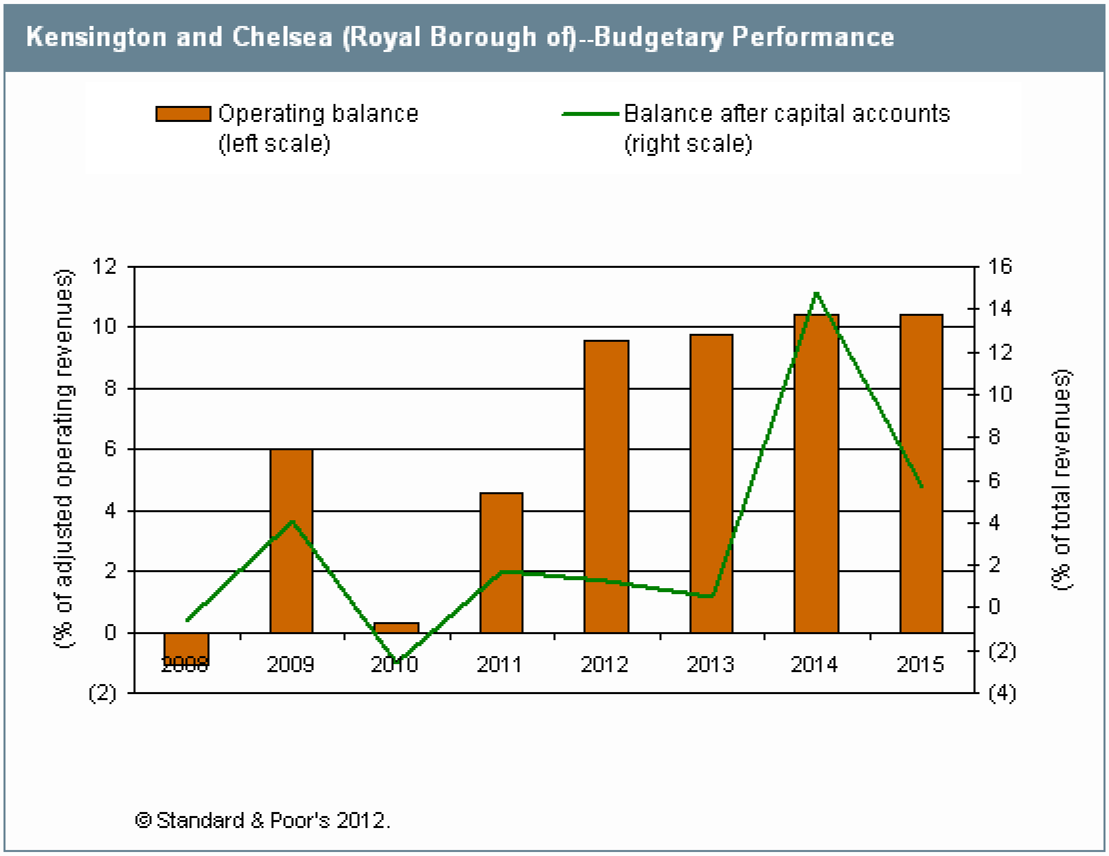
The borough's budgetary performance has been sound over the past few years, demonstrating good control over budgeted costs. Operating surpluses have been small, but surpluses of this level are not unusual for a U.K. local authority with such predictable revenues. Following cuts in grants by the central government in 2011 and following year, the borough has managed to cut expenditure to a larger extent than we previously expected. According to the latest estimates of the outturn for 2011-2012, the borough has managed to rein in its expenditure such that the operating balance for that year should be substantially larger than previous year.

After a balanced result at 0.3% of operating revenues in 2010, the operating balance gradually improved to an estimated 10% in 2012 (see chart 1) due to an ongoing effort to match costs to lower revenue. The borough had already started to reduce personnel costs in 2009 and has been able to continue its efforts toward fiscal consolidation. In conjunction with some realignment of services and a lower reserve level, this will help the borough to balance its books despite the lower predictable revenues. Although car park revenues have increased since 2010-2011, these revenues can be more volatile because they depend on the local economy to a greater extent than other revenue streams. That said, business rate income--which also depends to some extent on the local economy--has continued to increase, despite the ongoing subdued economic climate.

The borough could increase the council tax rate, though we do not expect it to do so unless it comes under pressure to avoid much steeper curtailment in services.

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 2014-2015. The borough anticipates that a third of the savings would be allocated to Kensington and Chelsea. Some of the savings are likely to be evident by end-2012.

Chart 1



Balance after capital accounts recovers substantially in 2014

Due to Kensington & Chelsea's significant capital program, we expect minor surpluses on the balance after capital accounts over the forecast period until 2013, before substantial capital revenue in 2014 boosts the accounts to a surplus of about 15% of total revenues (see chart 1). Balances after capital accounts as a percentage of total revenues averaged 0.4% between 2007 and 2010, exhibiting a deficit of 2.6% in 2010. However, balances have since returned to positive, mainly because of capital delays and an overall retrenchment of the capital program.

Furthermore, our base-case scenario also assumes capital expenditure not currently being budgeted for, but included in a pipeline of projects. We have assumed that proceeds from the land sale belonging to the Holland Park School will accrue in the financial year ending 2014, boosting the balance to about 15% of total revenues. 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: Very Positive, With Exceptional Access To External Sources

Despite temporary reduction in reserves, the borough exhibits an excellent liquidity position

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--£143 million as of February 2012 (down from £158 million in

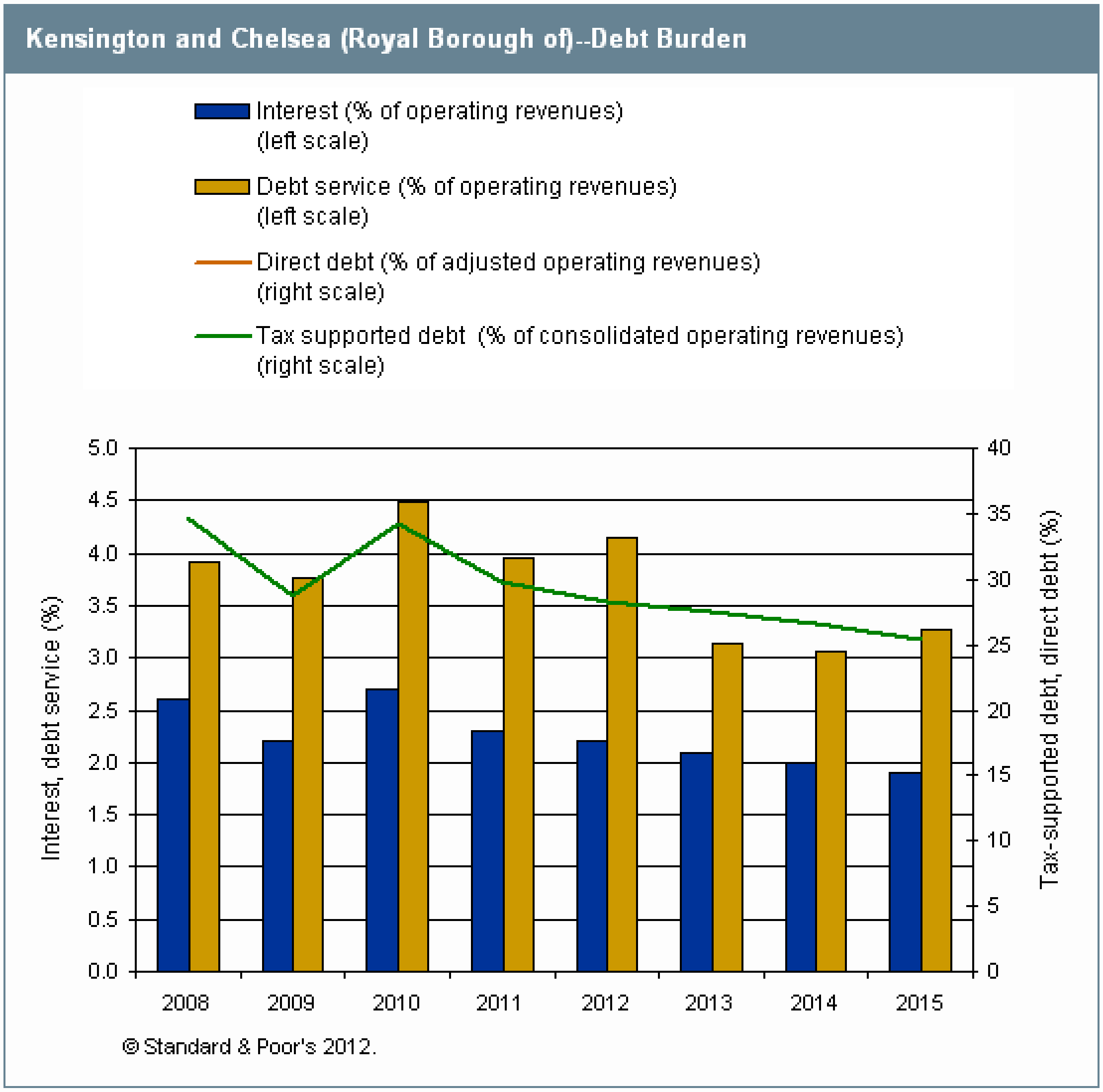
March 2011, including unrestricted reserves only and after applying Standard & Poor's haircuts.) This level of liquidity covers about 6x the next 12-months debt service, and gives the borough a high degree of flexibility to fund its capital program. We expect a further improvement in liquidity levels in financial year 2014, when the borough receives £95 million in proceeds from land sales. That year, cash is expected to cover 14x of debt service.

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. The borough has no credit lines with banks.

Debt Burden: High Level Of Internal Liquidity Underpins Reduction In Debt

Outstanding debt at financial year-end 2011 totaled £170.2 million, or about 30% of operating revenues. Over the next few years, the borough plans to reduce debt gradually to about 25% of operating revenues by 2015 (see chart 2). Although this might appear challenging due to the borough's reliance on limited earmarked reserves to service this debt from April 2012, we anticipate that the ample existing internal liquidity will allow the borough to deleverage according to its plan.

Chart 2



The borough's current debt is all with the PWLB at fixed rates and matures according to the following profile over the next few years: £6.2 million in 2012-2013, £6.2 million in 2013-2014 and £7.9 million in 2014-2015. In April 2012, all debt held by the borough was apportioned to the housing revenue account (HRA), which is fully separated from the general revenue account. This means that the HRA will be only serviced by revenue and earmarked reserves linked to this account. The account contains rent income and subsidies related to the provision of housing by the borough. It exhibited a surplus of over £1 million in financial year 2011-2012 and has over £14 million in ring-fenced reserves (after applied Standard & Poor's specific haircuts). Despite the healthy financial position of the HRA account, the level of earnings and earmarked reserves are much lower than the borough's general resources and might be too limited to repay all the debt coming due until 2015. We anticipate that the council could cover this gap by internal borrowing from the general revenue account. The general revenue account has a high level of reserves associated with it--about £175 million in February 2012. We understand that the council does not plan to raise further debt, and that it has not taken any decision as yet whether to refinance or to pay the debt coming due until 2015. Unless capital market conditions are very attractive, in our opinion, the borough will avoid external borrowing.

In line with the low debt level and gradual amortization profile until 2015, interest payments are low, at 2% of operating revenues on average.

Pension deficit

The latest information available indicates that the borough's pension fund had a pension liability of £154 million in financial year 2010-2011. This represented around 27% of operating revenues, compared with 10% in December 2010. These financial liabilities are intrinsically volatile and the fund exhibits high levels at the end of each financial year. We do not consider that the pension deficit is a risk factor at this stage. Furthermore, we expect the borough to introduce corrective measures early enough to achieve a balance within its targeted timeframe, if needed.

Contingent Liabilities: Minimal And Stable Levels

Kensington & Chelsea has granted few guarantees: less than 1% of operating revenues. This level has been stable for several years. In addition to a maximum exposure of £250,000 related to service refunds, 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.

Financial And Economic Statistics Tables

Table 2

Kensington and Chelsea (Royal Borough of)--Financial Statistics

	--Year ended March 31--									
('000 £)	**2015**	**2014**	**2013**	**2015**	**2014**	**2013**	**2012**	**2011**	**2010**	**2009**
	Downside Case			**Base Case**			Estimate	**Actual**		
Cash flow metrics										
Operating revenues	589,627	592,869	595,127	589,627	592,869	595,127	602,399	610,684	561,433	705,233
Operating expenditures	662,358	625,870	590,400	528,200	531,100	537,000	544,900	582,845	559,687	662,600
Capital revenues	4,000	31,000	12,000	4,000	123,000	12,000	10,000	26,000	18,000	6,363
Capital expenditures (capex)	57,000	104,000	137,000	32,000	79,000	67,000	60,000	43,000	35,000	19,998
Debt borrowed	0	115,000	130,000	0	0	0	0	0	0	0
Debt repaid	7,900	6,200	6,200	7,900	6,200	6,200	12,000	10,185	10,206	10,897
Balance sheet metrics										
Tax-supported debt	394,873	402,773	293,973	149,855	157,652	163,973	170,198	182,346	192,531	202,737
Free cash & liquid assets	153,700	255,700	154,700	283,700	255,700	154,700	137,518	157,518	157,115	168,853

Table 2

Kensington and Chelsea (Royal Borough of)--Financial Statistics (cont.)										
Key indicators										
Budgetary performance (%)										
Operating balance (% of adj. operating revenues)	(12.3)	(5.6)	0.8	10.4	10.4	9.8	9.6	4.6	0.3	6.1
Balance after capital accounts (% of adj. total revenues)	(21.2)	(17.0)	(19.8)	5.6	14.8	0.5	1.2	1.7	(2.6)	4.1
Budgetary flexibility (%)										
Modifiable revenues (% of adj. operating revenues)	52.2	51.8	51.4	52.2	51.8	51.4	50.9	49.6	59.4	51.0
Capex (% of total expenditures)	7.9	14.3	18.8	5.7	13.0	11.1	9.9	6.9	5.9	2.9
Liquidity (%)										
Free cash and liquid assets (% of debt service)	797.1	1,406.4	828.2	1,471.3	1,406.4	828.2	550.1	651.3	623.3	635.6
Debt burden (%)										
Tax-supported debt (% of consolidated operating revenues)	67.0	67.9	49.4	25.4	26.6	27.6	28.3	29.9	34.3	28.8
Interest (% of adjusted operating revenues)	1.9	2.0	2.1	1.9	2.0	2.1	2.2	2.3	2.7	2.2

Downside case and base case represent Standard & Poor's opinion on forecasted scenarios that might lead to a downgrade or a stable rating.

Table 3

Kensington and Chelsea (Royal Borough of)--Summary Of Published Rating Factor Scores*	
Institutional framework	Predictable and supportive
Financial management	Very positive
Liquidity	Very positive
Indicative credit level	AAA'
Overriding factors	None

*Standard & Poor's assigns scores across eight main rating factors, of which we publish three.

Related Criteria And Research

- Industry Report Card: Sector Reforms Are Unlikely To Damage U.K. Local And Regional Governments' Strong Creditworthiness In The Short Term, March 23, 2012
- Methodology For Rating International Local And Regional Governments, Sept. 20, 2010

Ratings Detail (As Of May 18, 2012)	
Kensington and Chelsea (Royal Borough of)	
Issuer Credit Rating	AAA/Stable/A-1+
Issuer Credit Ratings History	
27-Oct-2010	AAA/Stable/A-1+
21-May-2009	AAA/Negative/A-1+
05-Mar-2001	AAA/Stable/A-1+
Default History	
None	

Ratings Detail (As Of May 18, 2012) **(cont.)**	
Population	169,500 (Office for National Statistics, mid-2010 estimates)
Per Capita GDP	£109,278 (2009 value for inner London (west), Office for National Statistics)
Current Government	
The borough council has been under continuous majority leadership by the Conservative Party since the formation of the borough in 1965. Councilor Sir Merrick Cockell is the leader of the council.	
Election Schedule	
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 & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

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