Fitch Ratings

Fitch Affirms Transport for London at 'AA'; Outlook Stable

Fitch Ratings-Barcelona/London-04 November 2015: Fitch Ratings has affirmed Transport for London's (TfL) Long-term foreign and local currency Issuer Default Ratings (IDR) at 'AA' and Short-term foreign currency IDR at 'F1+'. The Outlooks on the Long-term IDRs are Stable. Fitch has also affirmed TfL's GBP5bn MTN programme's Long-term local currency rating at 'AA' and its commercial paper (ECP) programme's Short-term foreign and local currency ratings at 'F1+. The corresponding debt issues have also been affirmed.

The affirmation reflects no change in Fitch's view of TfL as a credit-linked entity.

KEY RATING DRIVERS

TfL's ratings are notched down from the UK sovereign (AA+/Stable/F1+), under Fitch's public-sector entity criteria, reflecting the strategic importance of TfL for London and the UK economy. The strong integration as well as control and support from the central government is underlined through multi-year funding, oversight of borrowing limits and shared priorities. Additionally TfL's total contribution/risk to Crossrail has been capped at GBP7.1bn of the total funding budget of GBP14.8bn and if the costs breach a pre-determined level, there is a put option to the Department for Transport (DfT). Fitch believes that extraordinary support from the UK government would be forthcoming if needed. TfL's standalone rating would be lower than it currently is if it was not notched down from the sovereign.

About 40% of TfL's total revenue comes from grants. Some of this is paid directly to TfL from the DfT, some is transferred from the DfT via the Greater London Authority (GLA), and since April 2013, some is through business rates collected and distributed by the GLA. The UK government has part-funded TfL's investment plan and pledged to support its long-term commitments. Total general and capital grants received in the financial year ended March 2015, excluding Crossrail funding, amounted to GBP2.9bn, slightly below the GBP3.2bn in FY14.

Fare revenue accounts for 50% of TfL's total revenues. TfL has a balanced business plan with flexibility to respond to pressures by delaying capital expenditure, reducing operating costs or increasing fares if necessary. TfL has firm plans in place to deliver savings of GBP13bn to 2020/21 and still views that additional savings of GBP3bn can be secured until FY21. Moreover, liquidity is strong, with cash reserves totalling GBP4.7bn at FYE15, although GBP2.1bn of this is ring-fenced for Crossrail.

Passenger journeys across all modes of transport increased in FY15. Recent forecasts suggest patronage will increase by a total 8% over the years to FY21 for buses and 11% for the tube.

Ambitious capital expenditure has led to increased debt. Direct debt amounted to GBP8.5bn at FYE15, and according to TfL's forecast, will increase by GBP2bn between FY15 and FY18 to reach GBP10.7bn. Construction of the Crossrail line at sites across the city remains on time, with 65% of construction now complete and the tunnelling completed in June 2015. Investment in Crossrail and the tube is vital to secure future economic growth in the capital. Crossrail will increase London's rail capacity by 10% and enable new and faster journeys.

The outcome of the UK government's Autumn Statement will likely see cuts in grants of between 25%-40% as the budget for transport is unprotected. Nevertheless, it is expected it will only be the operating grant that will be reduced and TfL expects to be able to compensate for these reductions through a number of measures, including further efficiency savings as well as growing commercial income.

RATING SENSITIVITIES
A downgrade could result from weakening support from the central government or a sharp reduction in revenue without supplementary sources of revenue or funding identified or corresponding tangible support. A significant increase in debt servicing-to-revenue as a result of weaker support could also lead to a downgrade.

An upgrade could arise from closer links or stronger commitment from the central government. A significant reduction in debt could lead to positive rating action, although this is unlikely due to TfL's large debt funded investment programme.

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Applicable Criteria
Rating of Public-Sector Entities - Outside the United States (pub. 26 Feb 2015) (https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=862448)
Tax-Supported Rating Criteria (pub. 14 Aug 2012) (https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=686015)

Additional Disclosures
Dodd-Frank Rating Information Disclosure Form (https://www.fitchratings.com/creditdesk/press_releases/content/ridf_frame.cfm?pr_id=993416)
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