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RESEARCH

Transport for London

Publication date: 30-Jan-2006
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ISSUER CREDIT RATING
Transport for London

Issuer Credit Rating	AA/Stable/--

Issuer credit rating history:

June 5, 2000	AA

Major Rating Factors

Strengths:

- Continued strong links with the U.K. government, further reinforced by association with the successful 2012 London Olympic bid and the handling of the events of July 7, 2005.
- Improving relationship with London boroughs, which helps smooth implementation of the transport strategy and investment program.
- Dominant transport provider in London, which has strategic importance for the U.K. economy.
- Strong and experienced management team, underlined by appointment of a new Transport Commissioner from within the senior TfL management team.
- Flexibility to increase fares or reduce service, if required.
- Stability and oversight provided by the U.K. local authority framework.

Weaknesses:

- Proposed increase of direct debt by up to £3.3 billion over a five-year planning period.
- Above-inflation fare increases, particularly on buses, which may create political difficulties and reduce passenger numbers.
- Challenging new program of investment, in particular the time-specific Olympic-related investments, which may stretch project-management capacity.
- Increasing costs associated with fuel and electricity.
- Costs associated with changes in scope to private-finance (initiative) PFI projects, particularly costs relating to meeting the requirements of major public-private partnership (PPP) contracts.
- Ongoing risks associated with managing major London Underground investment programs undertaken by PPP contractors.

Rationale

The rating on Transport for London (TfL) reflects its significant fare-generating capacity and its strong links with the U.K. government, both through the provision of funding via transport grants and central oversight by the U.K. local authority framework. TfL, an executive body of the Greater London Authority (GLA; AA+/Stable/--), is responsible for certain public transport functions in London, including the Underground system and bus services.

TfL's five-year funding agreement, agreed with the U.K. government in 2004, remains unchanged. TfL is now starting to prepare for the Comprehensive Spending Assessment in 2007.

TfL's relationship with the government reflects its importance as the major transport provider in London. London contributes a disproportionately high percentage of U.K. GDP, and is a growing city. A major impediment to future growth is its transport infrastructure, which the government is keen to see improved. The successful 2012 Olympic bid has further increased the profile of TfL's activities because developing transport infrastructure, particularly in East London, will be a key part of delivering a successful Games. The costs to TfL of meeting its commitments to the Games are fully factored into its business plan. There is about £2.2 billion of Olympic-related expenditure up to 2012. TfL has guaranteed the successful delivery of key projects in support of the Games. Failure to deliver these projects could jeopardize the Games taking place in London. Ultimately such a decision would be taken by the International Olympic Committee. Furthermore, failure to deliver its investment program, particularly that associated with the Olympics, could significantly impact TfL's future relations with government.

TfL's response to the events of July 7 and 21, 2005, has also increased its profile with the government. TfL quickly got the affected services running again after the bombing incidents. The Circle line and key portions of the Hammersmith & City and Piccadilly underground lines were closed for several weeks to allow police to gather evidence. The explosions caused no significant damage to the tracks, signals, or tunnels. The relatively low cost of the damage is to be met largely by insurance, although TfL was not insured for business-interruption loss.

TfL has a strong and experienced management team that has successfully delivered a number of important projects to date. The decision by the Transport Commissioner, Mr. Robert Kiley, to stand down is not expected to result in any significant change of strategy. Mr. Kiley will be retained in a consultant capacity. Mr. Peter Hendy was appointed as the new Transport Commissioner by the TfL board in January 2006. Mr. Hendy had been TfL's Managing Director of Surface Transport since 2001. The appointment of Mr. Hendy is not expected to result in any significant change with regard to other members of the senior management team.

TfL has an extremely strong business position, and has a near monopoly over public transport, with control over the London Underground system and the bus system. Furthermore, it is able to capture additional revenues from private transport through its congestion charge. Due to its dominant market position, TfL has significant flexibility to raise fares without adversely affecting passenger numbers. TfL has also shown strong resilience to the effects of the attacks in July 2005. Although there was some loss of patronage in the immediate aftermath of the events, the loss of revenue from this and costs associated with increased security were more than made up by increased revenue from improvements to capacity levels, service performance, and ticketing strategy.

In December 2004, TfL issued £200 million of bonds under a MTN program. TfL plans to borrow up to £3.3 billion by the end of the financial year ending March 31, 2010 (2009/2010). The borrowing has been agreed with the government and is allowed under the prudential borrowing flexibilities for local authorities, which came into effect in April 2004. The initial stage of the program was to borrow up to £400 million in the financial year ending March 31, 2005, but only £196 million was borrowed due to lower spending on operations and the investment program and higher than expected income. TfL has agreed with the government to reprofile the £200 million not borrowed over the business planning period. According to its business plan, TfL expects to borrow up to £550 million in the financial year ending March 31, 2006, and a further £604 million in the 2006/2007.

The business plan underpinning the growth in debt assumes increases in fares and in passenger numbers on both bus and Underground services. Although demand for public transport services in London has, historically, not been much affected by price increases, a decline in London's economy could reduce projected passenger numbers.

The recently implemented London Underground fare increase and that planned for 2007 are slightly higher than inflation, but within past fare-increase levels. The recently implemented changes to bus fares, together with those planned for 2007, although representing significant increases over inflation, project average fares that remain within recent historical ranges. The main increases are being staged over three years, 2005 to 2007. The combined magnitude of these increases causes some uncertainty regarding their effect on ridership levels, particularly following the third proposed increase in 2007. Bus demand and revenues have, however, continued to rise in the current financial year, despite the fare increases in January 2005.

The growth in debt will take place incrementally and will be subject to adjustments if needed to restore the balance of revenues and operating expenses. Furthermore, TfL has a legal obligation to set a balanced budget every year, and therefore its policy on debt accumulation and associated debt-service costs must reflect this obligation.

TfL continues to face the ongoing challenges of managing cost pressures, particularly those associated with London Underground Ltd. (LUL) and the PPP contracts. TfL is liable for 95% of the £5 billion debt of the Underground PPPs if a put option is exercised in the event of project default, and this risk is reflected in the rating on TfL. The Department for Transport has strong incentives to step in to pay this obligation, which is treated as a contingent liability of the U.K. government and is supported by a letter of comfort. This support, however, is not legally binding and may not be timely.

The underground service has suffered some limited strike action by the Rail, Maritime and Transport (RMT) union. The strike action was in support of maintaining staffing levels at stations. LUL and the RMT union have now reaffirmed a deal to ensure safe staffing levels at stations and no job cuts. Further disputes regarding this issue, which is expected to result in productivity savings, and that of pay increases may be possible in 2006. TfL is keen to agree longer-term pay settlement agreements with the unions that also create longer-term savings.

Outlook

The outlook is stable, reflecting TfL's prudent approach to debt growth and its strengthening relationship with government. TfL's use of debt is expected to be gradual, and consistent with its balance of operating revenues and expenses, and the level of government funding support. TfL still remains dependent on the government for nearly one-half of its revenues and the outcome of the 2007 Spending Review will be of particular significance. Under its ambitious development program to make improvements to London's transport infrastructure network, TfL has flexibility to reduce its investment program (with the exception of its Olympic commitments) and associated debt requirements in the event of unforeseen changes to its business-planning assumptions. Standard & Poor's Ratings Services will continue to assess the progress of TfL's project management and debt utilization against its stated business plans.

Background

TfL is an executive body of the GLA, responsible for providing an integrated transport service in London covering the London Underground system, buses, taxis, and strategic trunk roads. Although TfL is an executive arm of the GLA, it is constituted as a separate local authority body. In addition, TfL has a different credit-risk profile from the GLA. The strategic goals of TfL and GLA, however, should be closely aligned because the Mayor of London, Ken Livingstone, is also chairman of TfL. The Mayor also appoints the Transport Commissioner for London, who heads the executive management team. The Mayor and TfL work very closely together, but TfL's interests may not always necessarily coincide with those of the Mayor or the GLA.

TfL is subject to the support and constraints of the U.K. local government financing system, which translates into a variety of financial and regulatory controls that are significant credit strengths. These include a requirement to provide a balanced budget every year, restrictions on the amount of debt that can be raised, and a requirement for external audits. TfL has a five-year funding agreement with government, and funds are provided to TfL annually.

Legal Structure

TfL is one of the four functional bodies of the GLA established by the Greater London Authority Act 1999 (the GLA Act). TfL's role is to discharge the GLA's transport-related duties, and it can only carry out activities that are within its statutory powers. TfL is a statutory corporation that may be the subject of insolvency proceedings and be placed under administration.

TfL has eight wholly owned subsidiaries: Transport Trading Ltd. (TTL), London Bus Services Ltd., London Buses Ltd., London Underground Ltd., Docklands Light Railway Ltd., Victoria Coach Station Ltd., London River Services Ltd., and London Regional Transport Pension Fund Trustee Co. Ltd. TfL also holds a majority in London Transport Insurance (Guernsey) Ltd. TTL is the holding company for all the operating transport companies owned by TfL. Under the GLA Act, TfL must ensure that its subsidiary companies do not do anything that TfL itself does not have power to do.

The main operating companies generate their own revenues (principally fares), but do not break even with just their own revenues. The operating companies therefore rely on grant funding provided by the U.K. government to TfL via the GLA. The GLA has some powers to contribute additional transport funds via the council tax precept on Londoners. The level of funding that could be provided by the GLA, however, will amount to only a relatively small amount of additional income. Government transport grants given to GLA are passed straight through to TfL. In the event that these transport grants are removed in their entirety from TfL, and the ratings on TfL are lowered to below investment grade, bondholders have the right to redeem the bonds. Standard & Poor's is of the opinion that the government, or a successor organization to

TfL, would provide support to repay the bonds in the event that they were redeemed. There is, however, no letter of comfort provided by government to this effect. Furthermore, government support may not be timely.

Under the terms of the Local Government Act 2003, the Mayor (alongside TfL) can set prudent borrowing limits for TfL. These limits have also been set with regard to wider negotiations with the government regarding future grant levels. The government has reserve powers to cap the level of borrowing of any local authority, if it is deemed to be borrowing more than it can afford.

The U.K. government has established the Prudential Code, which helps set a level of prudent borrowing and an approach to monitoring. Prudential borrowing must be used for capital investment purposes and cannot be used to fund revenue shortfalls. The level of borrowing is set annually. The borrowing levels agreed with government and set out in the five-year business plan are based on TfL's projections of affordable borrowing, and therefore may be adjusted year on year to reflect changing conditions and underlying business assumptions. The borrowing levels set out in the current business plan are based on TfL's assessment in 2005 of its prudent level of borrowing.

Demand

The business plan and borrowing strategy are set against a background of very strong demand. TfL has a near-monopoly in its specific transport markets in London.

London's population is estimated at 7.4 million, and the catchment area for commuting into the city covers a significantly larger number of people. The city's population is forecast to grow by about 800,000-1 million by 2016, which makes it different from most other major developed-world cities, where city populations are declining. London has a major financial and business services industry and is a major administrative and tourism center. The vast majority of commuters working in central London travel by public transport. Since the potential for increased road use is severely limited, significant increases in transport capacity, both bus and Underground, are therefore required to deal with the forecast growth.

London buses carry over six million passengers every weekday, and in the past year bus ridership levels rose by 5.3% compared with the year before, despite the first of three fare increases of retail price index (RPI) plus 10%. Bus journeys have risen another 6% through the third quarter of the current year, prior to the second RPI plus 10% increase. For the total business plan period (to 2010) Tfl has plans to increase bus capacity by 5% more bus kilometers (buses multiplied by kilometers traveled) and by improving frequency, reliability, and real-time information to passengers, and is investing for such further service improvements. Bus services are tendered out to private operators and TfL has a monopolistic position regarding the allocation of contracts.

LUL carries about 3 million passengers each weekday and accounts for more than one-third of all journeys to work in central London. Each day, as many passengers use the Underground as use the entire U.K. rail network. Ridership levels have generally recovered after the attacks of July leaving year-to-date totals on 1% below the previous year's record levels. Revenues are up 6% in comparison with the same period in the previous year.

TfL is in a strong position regarding the delivery of public transport services in London within most of its markets, particularly since the transfer of LUL. Only in parts of south London, where privatized national rail companies provide significant local commuter services, is there alternative public transport provision not under TfL's direct control. There are limited Underground services in these areas, and the private rail services are not a significant competitive threat.

The only possible alternative transport competition is from private motor vehicles. Private car use has reached saturation levels, with declines in recent years during peak travel periods because London suffers from serious peak-hour congestion. Furthermore, as the congestion charge has proved to be successful in reducing private-vehicle trips to central London, demand for public transport is likely to increase further.

The congestion charging system has been successfully introduced in the central London business district area, and in September 2005 the Mayor approved the extension of the zone westward to the retail and leisure center of London. In July 2005, the Mayor increased the charge in the existing zone to £8 from £5.

Operating Activities And PPPs

TfL's main operating activities include bus and Underground train service provision. All bus services are provided under a rolling program of contracts, with the majority of services provided by private-sector operators on rolling five-year contracts. Service patterns can be altered and contracts are subject to variations. In addition, private bus operators take on the risk of managing cost, including wage pressures, and negotiate directly with unions.

Underground services, meanwhile, are provided by LUL, which is responsible for operating the Underground train network and managing the stations. LUL has entered into separate contracts for infrastructure improvement programs with PPP contractors. In this respect, LUL essentially has a contract-management role. Overall, the relationships with the PPP contractors are businesslike. There are a limited number of disputed areas, and the PPP arbiter has not been engaged in disputes to date.

Operationally, LUL is divided into three units, and this division of the network is also reflected in the three PPP contracts. The three private sector infrastructure companies (Metronet Rail SSL Ltd., Metronet Rail BCV Ltd., and Tube Lines Ltd.) are responsible for network renewal and maintenance, which over time will lead to operational and capacity improvements. The PPP contracts are for 30 years and are subject to a review every 7.5 years by an independent statutory arbiter. These periodic reviews allow for changes to service needs and unexpected cost pressures. Under the service contract, the infrastructure companies are protected against higher costs that are deemed economic and efficient. As a consequence, the level of payment by LUL to the PPP contractors could be subject to change. In the event of any material change, Standard & Poor's expects the U.K. government to provide additional assistance to ensure that TfL meets any change to its obligations.

Metronet Rail SSL and Metronet Rail BCV appear to be behind on track renewal and station upgrade programs, and this seems to have been caused by problems with the Metronet consortium's supply chain. These operational problems and the lack of progress to mitigate work delays were reflected in the downgrade of the debt issued by the project companies to 'BBB' from 'BBB+' in December 2005.

Tube Lines appears to be performing positively on its Piccadilly Line works and is ahead of its base case on the Jubilee Line works. Progress on the Northern Line has been below expectations, however, as a result of poor rolling stock and signals performance. The rolling stock is provided by Alstom under a PFI contract that was originally agreed with LUL and then novated to Tube Lines.

As a result Tube Lines' failure to provide enough reliable trains to LUL, on Oct. 7, 2005, LUL issued a formal emergency directive to Tube Lines concerning the situation, and Tube Lines in turn issued a step-in notice to Alstom. An emergency directive allows LUL to intervene in its suppliers' activities on health and safety grounds. A team of LUL and Tube Lines rolling stock engineers, managers, and safety specialists, directed by LUL's Engineering Director began supervision of all Alstom's Northern Line train-maintenance activities.

A permanent engineering modification has been developed and service is now restored. The scope for improving Alstom's performance under the terms of the novated contract is limited, and Tube Lines is seeking to reprofile the contract with TfL.

LUL also has separate PFI schemes outside the main PPP contracts. These have been in place for a number of years, and relate to communications and power supply. The communications PFI (Connect) is behind schedule and over budget, and TfL is subject to a claim by the PFI contractor for additional works. The delays mean that the project for radio communication for train drivers is now expected to be completed by September 2007.

TfL is also renegotiating LUL's contracts with Powerlink to upgrade the power-supply projects to the underground system. The upgrades are needed to support the main PPPs. Powerlink has been issued a formal warning for contract underperformance and system power failure. Additional costs of upgrading the power supply to the underground system have been factored into the business plan, but significant further amounts may need to be included into the plan period to 2010 and over the longer term, depending on the scope of required works and how negotiations with the PFI providers proceed. TfL guarantees LUL's obligations under the separate PFI agreements.

Business Plan

TfL has produced a balanced five-year business plan reflecting its program of investment, the levels of grant funding, increases in fare revenues, and its borrowing plans. TfL outperformed its business plan in 2004-2005 in part due to lower operating costs, improvements in working capital, and increased fares, charges, and higher patronage levels than expected against increased levels of fares and charges. Capital projects were delayed in 2005, in part due to planning delays, although most of the financial impacts of these delays come from deferring the construction costs to the later years of the plan. Consequently, TfL was able to transfer more funds to its reserves in 2004/2005 than planned and only needed to borrow £196 million rather than the planned £400 million. Levels of borrowing have been reprofiled (as has the investment program) and annual borrowing has been adjusted for 2006-2007 and following years. No additional borrowing above the £3.3 billion agreed with the government in 2004 has been proposed.

In addition to the re-profiling of the investment program, some projects have been added that will be funded from increased revenue and savings. There will be no additional debt over and above that which was agreed in 2004 for the five-year planning period.

The business plan incorporates operating savings of about 4% per year. Much of the forecast savings will come from back-office efficiencies resulting from the integration of the LUL with TfL. This includes savings in procurement, marketing, and internal business services. Additional operational savings have been identified from the introduction of cashless buses, leveraging benefits from the already established Oystercard (a prepaid ticket card) and communications efficiencies.

Achieving projected year-on-year savings will be challenging, particularly as savings from technological improvements could be offset by cost pressures elsewhere, for example from union demands for high wage settlements. Savings targets were exceeded in 2004-2005, however, and are forecast to be ahead of plan in 2005-2006. TfL has increased its savings targets over the next five years by £110 million.

TfL also faces other cost pressures, which are largely outside its control, notably regarding energy and insurance. TfL may also face additional pressure to increase its expenditure related to security, although most of any additional unforeseen costs are expected to fall on the Metropolitan Police.

Although TfL has a pension deficit, it has an agreement with the government to fund this. The deficit in March 2003 was about £450 million, on a £3 billion fund. The £60 million additional cash needed each year to make good the deficit is built into the funding agreement with the government.

Borrowing Strategy And Projections

Total borrowing at the end of the business plan period in 2010 is forecast to be about £3.3 billion, which will represent about 60% of total income less PPP-associated revenues. The proposed debt to be raised will not be earmarked for specific projects; instead, it will be used to finance a range of projects set out by TfL that reflect the Mayor's transport priorities.

The variety and range of projects will give TfL good flexibility to adjust the investment program in response to unforeseen events. Standard & Poor's has received the details of the scale and timing of the borrowing, which have been finalized, and there is now greater clarity regarding the use of proceeds on the planned investment program.

Future borrowing is likely to be a mix of funding types and maturities. The overall objective of the strategy is to match maturities with the asset lives of the investments in the program.

TfL's cash balances provide a buffer against unforeseen variations and should provide further comfort to investors. The reserve provision for LUL is £170 million. This is linked to potential additional costs associated with the PPP and will be replenished by the government if drawn. There is also a £150 million general reserve for TfL. Grants are received at the start of the financial year, which contributes to good liquidity through the year. Furthermore, in the event of program slippage, TfL carries cash forward into the next financial year. TfL is also forecasting creditor balances of about £230 million per year throughout the five-year plan. Overall reserves are about £1 billion, which is extremely strong, although this level is expected to decline to about £500 million at the end of the business planning period, because a significant amount of planned investment is expected to have been completed.

Investment Program

TfL's non-PFI/PPP investment program contains a diverse number and type of projects. There is flexibility to delay some of the projects, although those promised in support of the London Olympic Games in 2012 are time specific. In addition, there are only a few large schemes that, once committed to, could expose TfL to certain project-management risks. The main project in the investment plan is the East London Line extension (ELLX), projected to cost about £900 million. This represents 15% of all the non-PFI/PPP capital investment work.

The construction risks associated with the ELLX are relatively low compared with other recent Underground extensions such as the Jubilee Line Extension. The ELLX does not involve any new tunneling work, and in part follows existing, or disused, overground railway lines. TfL has undertaken a full risk assessment and has included a significant risk allowance over the expected capital cost. This includes some additional flexibility to allow for interim works to extend the railway even further, and an additional contingency allowance for unforeseen risks. The cost estimates have been based on best practice and full outturn prices from recent Underground projects, and have been rigorously tested by designers and quantity surveyors.

There are other substantial projects in the program, but they are significantly smaller than the ELLX. The costs of the western extension of the congestion charge, various PPP enabling works, the Camden Town station upgrade, and the Tottenham Court Road station upgrade, for example, total about two-thirds of the cost of ELLX. Appropriate contingency levels have been factored into these and other projects in the program. Progress in terms of running to time and to budget will be key credit considerations, and will be continually monitored by Standard & Poor's.

The majority of the projects in the investment program, however, are much smaller in size and scope. They include cycle paths, bus shelters, and cameras for bus lane enforcement. This means that TfL has considerable flexibility to cut back its spending on its investment program quickly, if required. Even the larger projects can be revised given appropriate lead times.

Government Grant Funding Agreement

TfL's grant funding is set out in the letter it received (dated July 20, 2004) from the Department for Transport. The agreement provides five years of certainty regarding funding. Although the agreement is not a legal commitment by government, the letter states that: "the Secretary of State will take all possible steps to avoid any deviation from this funding plan." It confirms that the additional income from planned fare increases will not be used to reduce the secretary of state's commitments under the agreement. This letter has been put into the public domain on the Web sites of the Department for Transport and TfL.

The Mayor's transport plan for London remains consistent with the U.K. government's transport objectives and strategic direction, and this underpins the funding agreement with the government. Furthermore, improvements in London's transport have a key role to play in London's 2012 Olympic Games, which are strongly supported by the government. Following the successful London Olympic bid, the government has made additional funding of about £200 million available for a number of specific Olympic projects.

TfL is already starting to prepare for the government's Comprehensive Spending Assessment in 2007. This will establish TfL's funding level for the years beyond the current business period, which runs to 2010. This may also have clear implications for the costs of the second 7.5-year period of the PPP, which occurs after this date. Projections of PPP scheduled payments for the second period (which are currently not binding on the Infracos) are projected to rise substantially above current levels. The government faces significant spending pressures from other departments, and an unfavorable settlement could have adverse credit implications for TfL.

Fare Revenue Projections

The key fare-increase assumptions underpinning TfL's five-year business plan include bus-fare increases of RPI plus 10%. The first increase was implemented in January 2005 and the second went into effect in January 2006. The Mayor has announced his intention to increase fares by a similar amount in 2007, and thereafter to implement increases of RPI plus 2%. Underground fare increases of RPI plus 1% each year are included in the business plan and have been implemented in January 2005 and January 2006.

TfL recognizes that the planned increases in bus fares have taken its standard annual price elasticities beyond their normal reliability. Outturns have, however, so far been generally consistent with projections, so these and projections of further increases in revenues may be seen in the context of continual improvement in service quality and reliability, and the fact that fares will remain affordable relative to earnings. Furthermore, the fare policy will seek to target peak travel, which is relatively inelastic, and to improve the yield from off-peak pricing, which is more elastic. TfL is also encouraging the use of the more cost-effective pre-paid Oystercard by differentiating the price of paper tickets.

Demand for the Underground is more inelastic than for buses with regard to fare increases. Furthermore, planned fare increases are less than the substantial increases of the 1990s which had only limited effect on ridership levels. The Underground is, however, more vulnerable to changes in London's economic position, and to customers being turned away by service disruption. To date, both bus and Underground fare revenues have been ahead of forecasts despite fare increases and disruption due to line closures.

In addition to having flexibility to cut back its planned investment program and reduce the requirement to increase debt, TfL also has a high degree of flexibility to cut back services if required. Buses, for example, have low fixed costs, and service levels can be reduced within TfL's planning horizon in response to changes in business-planning assumptions.

Financial Summaries

The following data shows TfL's financial performance (table 1), together with its forecasts for the next six years (table 2).

Table 1. Transport for London Financial Performance

	Year ended March 31--			
(£000s)	**2006f**	**2005**	**2004**	**2003**
Corporate revenue account				
Income	349	324	243	59
Grant	2,190	2,298	2,617	1,832
Revenue expenditure	(825)	(869)	(664)	(451)
Funding of subsidiaries	(1,560)	(1,263)	(1,396)	(1,230)
Capital expenditure	(595)	(139)	(261)	(204)
Transfer (to)/from reserves	441	(327)	(434)	9
Surplus/(deficit)	0	24	105	15
Transport Trading LTD Group profit and loss account				
Sales revenue	2,460	2,280	2,090	1,891
Operating and other costs	(4,328)	(3,784)	(3,601)	(3,034)
Grant taken to P&L	1,868	1,510	1,501	1,147
Profit/(loss) for year	0	6	(10)	4
f--Forecast.				

Table 2. Transport for London Summary Business Plan 2006f-2010f

	--Year ended March 31--				
(Mil. £)	**2010f**	**2009f**	**2008f**	**2007f**	**2006f**
Fares and congestion charge	3,162.8	3,036.0	2,886.6	2,617.0	2,500.3
Other income	342.7	325.1	306.7	276.0	250.7
Investment income	38.3	43.8	47.2	52.7	55.1
Income	3,543.7	3,404.9	3,240.5	2,945.7	2,806.1
Operating costs (excluding PFI/PPP payments)	(4,031.9)	(3,873.9)	(3,795.9)	(3,636.1)	(3,495.5)
PPP/PFI payments	(1,840.3)	(1,668.4)	(1,590.5)	(1,558.2)	(1,420.4)
Debt service (includes repayment of principal)	(239.0)	(186.6)	(132.2)	(85.2)	(23.8)
Net operating expenditure, PFI, PPP, and debt dervice	(2,567.4)	(2,324.0)	(2,278.1)	(2,333.7)	(2,133.6)
Precept	24.8	23.5	22.3	21.1	20.0
Total transport grant	2,708.8	2,664.6	2,548.6	2,383.0	2,161.0
Available transfer to investment program	166.1	364.2	292.8	70.4	47.4
Contribution to investment program	(166.1)	(364.2)	(292.8)	(70.4)	(47.4)
Balance	0.0	0.0	0.0	0.0	0.0
Investment program					
Capital value of PFI/PPPs	(1,368.0)	(1,294.0)	(1,332.0)	(1,437.0)	(1,379.0)
TfL-controlled capital projects (net of over-programming)	(1,034.0)	(1,332.0)	(1,149.0)	(895.3)	(814.6)
Contingency	(28.0)	(28.0)	(27.0)	(26.0)	0.0
Adjust for working capital	(25.2)	(8.6)	(54.6)	(38.4)	(82.3)
Net capital expenditure	(2,455.2)	(2,662.6)	(2,562.6)	(2,396.7)	(2,275.9)

Funded by:					
PPP and PFI providers	1,368.0	1,294.0	1,332.0	1,437.0	1,379.0
Contribution to investment program	166.1	364.2	292.8	70.4	47.4
Prudential borrowing	600.0	750.0	600.0	604.0	550.0
Third-party funding	123.0	132.1	193.6	234.0	169.4
Adjust for reserve transfers	197.0	123.0	143.9	51.6	129.9
Total funding	2,454.2	2,663.3	2,562.3	2,396.9	2,275.7
Surplus/deficit	(1.1)	0.7	(0.3)	0.3	(0.2)
f--Forecast. PFI--Private-finance initiative. PPP--Public-private partnership.					

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