

Transport for London

Update

Ratings

Foreign Currency

Long-Term IDR AA-
Short-Term IDR F1+

Local Currency

Long-Term IDR AA-

Outlooks

Long-Term Foreign-Currency IDR Negative
Long-Term Local-Currency IDR Negative

Financial Data

Transport for London

	31 Mar 17	31 Mar 16
Total operating revenues (GBPm)	5,399.2	5,288.6
Rev. from pub. sector (GBPm)	1,354.3	1,436.3
Operating balance (GBPm)	-480.4	-711.3
Total debt (GBPm)	9,795.3	9,113.1
Total assets (GBPm)	41,834.2	40,867.5
Reserves (GBPm)	23,586.8	25,236.1
Fitch calculated EBITDA margin (%)	8.9	6.1

Key Rating Drivers

Strong Government Support: Transport for London (TfL) is classified as a credit-linked entity and its Long-Term IDRs are notched down once from the UK sovereign's (AA/Negative/F1+), under Fitch Ratings' *Government-Related Entities (GRE) Rating Criteria*. Under the application of the four key rating factors covering the strength of linkage and the incentive to support (see paragraphs below), Fitch believes extraordinary support would be forthcoming from the UK government if needed.

Status, Ownership and Control: This factor is assessed as Strong. TfL is a statutory corporation subject to local government finance rules; as such, it must produce a balanced budget each year. TfL is a functional body of the Greater London Authority (GLA); it reports to the mayor of London, who is chair of the board. The mayor appoints board members and develops and publishes a transport strategy reflecting national and local priorities. Since 2004, a prudential scheme for local authorities has been in place, allowing TfL to borrow up to authorised limits.

Support Track Record, Expectations: This factor is assessed as Strong. The UK government has expressed support for TfL's long-term commitments in the latest funding settlement, but no longer directly subsidises TfL's investment plan. This includes Elizabeth Line funding, extensive modernisation of tube services and stations, and transformation of the road network. Since April 2017, the investment grant has been replaced by an equivalent almost GBP1 billion in business rates transferred to TfL by the GLA under a pilot scheme for further business rates devolution.

Until now, about one-third of TfL's total revenue has come from grants. Some of this has been paid directly to TfL from the Department for Transport (DfT), some has been transferred from the DfT via the GLA, and some has come through business rates collected and distributed by the GLA. The outcome of the 2015 Spending Review means that TfL's central government grant has decreased, resulting in a loss of about GBP0.7 million annually.

Socio-Political Implications of Default: This factor is assessed as Strong. TfL is strategically important for London and the UK economy. Over 31 million journeys are undertaken on TfL's network daily. TfL would be difficult to substitute in the short to medium term, with the transition process likely to lead to severe service disruption. Financial default would temporarily endanger the continued provision of essential public services and hamper TfL's investment programme. Disruption would have significant political and economic repercussions.

Financial Implications of Default: This factor is assessed as Very Strong. If TfL were to default, it would impair the availability and cost of borrowing for other GREs in the UK. The shock waves from such an event would result in a fundamental rethink of exposure to the public sector and would inevitably lead to a restriction on future lending. We believe the capital markets (32% of TfL borrowing), and the European Investment Bank (31% of borrowing) would restrict funding.

Rating Sensitivities

Sovereign Rating and Linkage/Support: A rating change could result from a change in the UK sovereign rating or a change in the assessment of the strength of linkage or incentive to support factors assessed under the *GRE Rating Criteria*.

Related Research

[United Kingdom \(May 2017\)](#)

Analysts

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Appendix A

Transport for London

(GBPm)	2013	2014	2015	2016	2017
Income statement summary and profitability					
Total operating revenue (exc. transfers and grants from public sector)	4,495.5	4,789.6	5,039.2	5,288.6	5,399.2
Operating revenue growth (%)	7.5	6.5	5.2	5.0	2.1
Transfers and grants from public sector	2,178.6	1,945.8	1,808.9	1,436.3	1,354.3
Transfers and grants from public sector/total revenues ^a (%)	32.6	28.9	26.4	21.4	20.1
Operating balance	184.1	-38.4	-206.8	-711.3	-480.4
Interest expense	351.9	377.7	408.2	414.8	412.7
Profit (loss) after tax	3,067.5	2,936.5	2,303.5	1,008.1	326.6
Personnel costs/total revenues ^a (%)	24.4	26.5	27.0	28.9	29.1
Fitch calculated EBITDA margin (%)	17.8	14.6	12.2	6.1	8.9
FCF margin (%)	-1.9	4.2	2.6	2.0	-5.2
Return on equity and reserves (%)	n.m.	n.m.	n.m.	n.m.	n.m.
Return on assets (%)	n.m.	n.m.	n.m.	n.m.	n.m.
Balance sheet summary					
Total assets	32,320.1	35,863.2	39,030.8	40,867.5	41,834.2
Stock	42.0	47.7	53.9	70.6	71.7
Cash and liquid investments	3,684.2	4,569.1	4,667.8	3,314.4	1,961.4
Reserves	18,674.8	22,174.4	24,257.3	25,236.1	23,586.8
Equity	0.0	0.0	0.0	0.0	0.0
Cash flow summary					
EBITDA (Fitch calculated)	1,150.6	991.1	847.9	469.1	602.6
CFO: cash flow from operations	882.5	687.5	528.5	272.5	295.5
Net capital expenditure	-1,008.5	-401.8	-353.1	-135.0	-648.9
Dividends paid	0.0	0.0	0.0	0.0	0.0
FCF: free cash flow	-126.0	285.7	175.4	137.5	-353.4
Equity injection					
Other cash financing	-538.6	-481.2	-396.2	-393.5	-405.9
Cash flow before debt movement	-664.6	-195.5	-220.8	-256.0	-759.3
New borrowing	428.5	435.1	668.1	623.1	733.4
Debt repayment	-21.3	-107.1	-22.1	-25.3	-53.0
Cash flow after net debt movement	-257.4	132.5	425.2	341.8	-78.9

^a Includes revenue from the public sector
Source: Issuer and Fitch calculations

Related Criteria

[Government-Related Entities Rating Criteria \(February 2018\)](#)

[Rating Criteria for Public-Sector, Revenue-Supported Debt \(February 2018\)](#)

Appendix B

Transport for London

(GBPm)	2013	2014	2015	2016	2017
Debt summary					
Short-term debt	1,139.6	709.2	784.3	832.1	1,105.7
Long-term debt	6,425.0	7,158.1	7,730.0	8,281.0	8,689.6
Total debt	7,564.6	7,867.3	8,514.3	9,113.1	9,795.3
Subordinated debt					
Finance leases	890.7	821.8	746.0	659.1	564.8
Other Fitch classified debt	0.0	0.0	0.0	0.0	0.0
Total risk	8,455.3	8,689.1	9,260.3	9,772.2	10,360.1
Unfunded pension liabilities					
Contingent liabilities	0.0	0.0	0.0	0.0	0.0
Overall risk	8,455.3	8,689.1	9,260.3	9,772.2	10,360.1
Cash, liquid deposits and sinking fund	3,684.2	4,569.1	4,667.8	3,314.4	1,961.4
Net overall risk	4,771.1	4,120.0	4,592.5	6,457.8	8,398.7
% debt in foreign currency	0.0	0.0	0.0	0.0	0.0
% debt at fixed interest rate	90.0	98.0	99.6	99.4	99.6
% issued debt	26.1	33.1	36.4	39.9	44.8
Coverage and leverage					
Fitch calculated EBITDA gross interest coverage (x)	n.m.	n.m.	n.m.	n.m.	n.m.
Net debt/(CFO-capex) (x)	-30.80	11.54	21.93	42.17	-22.17
Total debt/Fitch calculated EBITDA (x)	n.m.	n.m.	n.m.	n.m.	n.m.
Net debt/Fitch calculated EBITDA (x)	n.m.	n.m.	n.m.	n.m.	n.m.
Total risk/Fitch calculated EBITDA (x)	n.m.	n.m.	n.m.	n.m.	n.m.
Overall risk/Fitch calculated EBITDA (x)	n.m.	n.m.	n.m.	n.m.	n.m.
Total debt/equity and reserves (%)	40.51	35.48	35.10	36.11	41.53
Total debt/total assets (%)	23.41	21.94	21.81	22.30	23.41
Sector-specific data					
Total km in operation	582	584	586	594	599
Passengers per km	6,524,055.0	6,707,191.8	6,778,157.0	6,722,222.2	6,647,746.2
Public funding per passenger (units)	0.6	0.5	0.5	0.4	0.3
Operating costs per passenger (units)	1.7	1.7	1.8	1.9	1.8
Revenue – fare box	3,539.0	3,807.4	3,989.1	4,258.4	4,365.7
Revenue – fare box/operating costs (%)	54.53	56.21	56.54	57.27	60.35
Revenue – fare box/operating revenues and revenue from public sector (%)	53.03	56.53	58.25	63.32	64.64

Source: Issuer and Fitch calculations

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