FitchRatings

Tagging Info

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

Ratings Endorsement Policy
04 Mar 2014 11:42 AM (EST)

Fitch Ratings-Barcelona/London-04 March 2014: This announcement corrects the version published earlier today which incorrectly stated certain liquidity figures.

Fitch Ratings has affirmed Transport for London's (TfL) Long-term foreign and local currency Issuer Default Ratings (IDR) at 'AA' and its 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 issuer 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.

KEY RATING DRIVERS
TfL's ratings are credit linked to the UK sovereign (AA+/Stable/F1+) under Fitch's public-sector entity criteria. Fitch has adopted a notch-down rating approach. The link to the sovereign is due to the strong support for TfL from the central government through multi-year funding, funding letters, oversight of borrowing limits and shared priorities because of the strategic importance of TfL for London and the UK economy. Additionally TfL's total contribution/risk to Crossrail has been capped at GBP7.1bn and if the costs breach a pre-determined level, there is a put option to the Department for Transport (DfT).

About 43% of TfL's total revenue comes directly from the central government through grants paid by the DfT to the Greater London Authority (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 FY13, excluding Crossrail funding, amounted to GBP3.440bn in line with GBP3.438bn in FY12.

Fare revenue accounts for 45% of TfL's total revenues. TfL has a balanced business plan and has the flexibility to respond to pressures within its business plan by delaying capital expenditure, reducing operating costs or increasing fares if necessary. Moreover, liquidity is strong, with cash reserves totaling GBP3.7bn at YE13, although GBP1.4bn of this is ring-fenced for Crossrail, leaving GBP2.3bn of free liquidity.

Passenger journeys across most modes of transport increased in the financial year to end-March 2013 (FY13). Recent forecasts suggest patronage will increase in future years with a 5% rise forecast over the three years to FY16 for bus patronage and 11% by FY16 for the tube.

Ambitious capital expenditure has led to increased debt. Direct debt amounted to GBP7.6bn at FYE13, and according to TfL's forecast, direct debt will increase by GBP1.6bn between FY13 and FY16 to reach GBP9.1bn.

Construction of the Crossrail line at sites across the city remains on time and within the funding envelope of GBP14.8bn. 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.

RATING SENSITIVITIES
A downgrade could occur due to weakening support from central government or a sharp reduction in revenue without supplementary sources of revenue or funding identified or matched by tangible support. A significant increase in debt servicing to revenue ratio could also lead to a downgrade.

An upgrade could arise from closer or more direct 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 investment programme.

Contact:
Primary Analyst
Ines Callahan
Associate Director
+34 93 323 84 00
Fitch Ratings Espana S.A.U.
Paseo de Gracia 85, 7
Barcelona 08008

Secondary Analyst
Fernando Mayorga
Managing Director
+34 93 323 84 00

Committee Chairperson
Raffaele Carnevale
Senior Director
+39 02 87 90 87 203

Media Relations: Peter Fitzpatrick, London, Tel: +44 20 3530 1103, Email: peter.fitzpatrick@fitchratings.com.

Additional information is available at www.fitchratings.com.

Applicable criteria, "Ratings of Public Sector Entities Outside the US" dated 4 March 2013 and "Tax-Supported Rating Criteria" dated 14 August 2012 are available on www.fitchratings.com.

Applicable Criteria and Related Research:
Rating of Public Sector Entities - Outside the United States
Tax-Supported Rating Criteria