Transport for London

Full Rating Report

Ratings

Foreign Currency

Long-Term IDR	AA
Short-Term IDR	F1+

Local Currency

Long-Term IDR	AA

Outlooks

Long-Term Foreign-Currency IDR	Stable
Long-Term Local-Currency IDR	Stable

Financial Data

Transport for London

	31 Mar 14	31 Mar 13
Operating revenues incl. grants (GBPm)	8,004.1	7,935.1
Total direct debt (GBPm)	7,867.3	7,564.6
Total risk including finance leases (GBPm)	8,689.1	8,455.3
Operating profit/total revenue (including grants; %)	41.6	43.7
Total risk/total revenue including grants (%)	108.9	106.6
Total risk/total assets (%)	24.3	26.2
Cash and liquid deposits/ total risk (%)	52.4	43.6

Related Research

United Kingdom (June 2014)

Interpreting the Financial Ratios in International Public Finance Reports (July 2010)

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Key Rating Drivers

Strong Government Support: The ratings of Transport for London (TfL) are credit linked to the UK sovereign (AA+/Stable/F1+) under Fitch Ratings' public-sector entity criteria. TfL is classified as a dependent entity 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.

Multi-Year Public Funding: About 40% of TfL's total revenue comes from grants. Some of this is paid directly to TfL from the Department for Transport (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 FY14, excluding Crossrail, were GBP3.215bn (FY13: just under GBP3.440bn).

Balanced Financial Performance: Fare revenue accounts for 48% 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 expects to deliver total savings of GBP12bn by FYE21, with possible additional savings of GBP4bn.

Passenger Patronage Resilient: Despite the economic contraction, passenger journeys across all modes of transport increased in FY14. Recent forecasts suggest there will be further increases in FY15 and beyond, with a 4% rise forecast over the three years to FY17 for bus passengers and 11% for the tube.

Crossrail on Track: 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. TfL's total contribution/risk has been capped at GBP7.1bn, and if the costs breach a pre-determined level, there is a put option to the DfT.

Significant Capital Expenditure: Large scale capital expenditure has led to increased debt. Direct debt is forecast to increase to GBP9.85bn by FY17, a rise of GBP2bn from FY14. TfL has the flexibility to respond to pressures within its business plan by delaying capital expenditure, reducing operating costs or increasing fares if necessary.

Strong Liquidity: At end-2014, TfL had GBP4.6bn of cash and liquid assets, including GBP2.1bn ring-fenced for Crossrail. TfL maintains a minimum cash balance of GBP250m and has access to GBP200m of undrawn overdraft facilities. TfL is a statutory corporation and is regulated for capital finance purposes. It can borrow from the Public Works Loan Board (PWLB), which mitigates liquidity/refinancing risk.

Rating Sensitivities

Weaker Government Support: A downgrade could occur due to weakening support from the central government or a substantial decrease in revenue without supplementary sources of revenue or funding identified or matched by tangible support. A significant increase in the debt servicing-to-revenue ratio could also lead to a downgrade.

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

Rating History

Date	Long-Term Foreign Currency	Long-Term Local Currency
6 Nov 14	AA/Stable	AA/Stable
4 March 14	AA/Stable	AA/Stable
13 Dec 13	Revision IDR	Revision IDR
24 April 13	AA/Stable	AA/Stable
27 March 13	AA+/RWN	AA+/RWN
16 March 12	AA+/ Negative	AA+/ Negative
02 March 12	AA+/Stable	AA+/Stable
10 March 11	AA+/Stable	AA+/Stable
17 March 04	AA/Stable	AA/Stable

Profile and Overview

TfL is a statutory body created in 1999; in 2000, the Greater London Authority Act transferred all responsibility for London buses and other transport to TfL from the central government. In 2003, the responsibility for London Underground Limited (LUL) was passed to TfL; since autumn 2007, TfL has taken on some overground rail services, including the East London Line and the North London Railway. It is also responsible for the Docklands Light Railway (DLR), river services, taxis and cycling as well as roads and bridges.

Legal and Accounting Framework

Links Between the GLA, Central Government and TfL

TfL is a statutory corporation that is regulated under the Local Government Act 2003 and Local Government Finance Act for capital finance purposes. TfL is a functional body of the Greater London Authority (GLA) and reports to the mayor of London. The current mayor is the chair of the board and other board members include senior figures from industry, finance and government. The GLA has a strategic role in London's planning and operations. Its main responsibilities are transport, policing, fire and emergency planning, and culture and the environment across the Greater London area. The GLA is run by the mayor and an assembly of 25 members, all of whom are directly elected every four years.

Four separate functional bodies undertake the GLA's responsibilities: TfL; the Mayor's Office for Policing and Crime Authority (MOPAC), previously the Metropolitan Police Authority (MPA); the London Fire Emergency Planning Authority (LFEPA); and the London Legacy Development Corporation (LLDC), previously the London Development Agency (LDA). The aggregate budget (excluding debt-raising) for the GLA and its functional bodies was GBP11bn for FY15. TfL receives 59% of the budget and policing receives 29%. The GLA only receives 7% of the total budget, as it is funded through grants and a council tax precept.

TfL funds itself through a mixture of central government grants (both block and tied) and own revenue such as fares. The GLA channels the block grants, which cannot be intercepted and used for anything other than intended and cannot be used to fund shortfalls in one functional body through surpluses in another. In Fitch's opinion the central government would bail out TfL in case of need, as the GLA does not have the funding or resources to do so.

Since April 2013, London's business rates have been one of the main sources of revenue for TfL. Since then, local authorities have been entitled to a share of the increase in non-domestic or business rates, which has provided an economic incentive for councils to generate greater levels of income. London councils begin with a 30% local share of business rates and keep any new growth in revenue they generate until 2020. The business rates have replaced part of the funding previously paid as a grant from the DfT. The business rates are collected by the GLA and the proceeds are passed on to TfL. Business Rates Retention income in the Business Plan is maintained at constant levels in real terms until FY21. There is also an additional levy referred to as the Community Infrastructure Levy (CIL), which is a London-wide levy on new developments, designed to raise funds for the infrastructure needed to develop an area.

Central Government Grants Key to the Rating

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 GLA, and some is through business rates collected and distributed by the GLA. The GLA transport grant is regulated by a four-year spending review. The government has part-funded TfL's investment grant, which partly offsets the decrease in the general grant funding. The government has also pledged to support TfL's long-term commitments.

Sources of funding for TfL between FY14 and FY16 includes GBP2.5bn in business rates retention funds, a general grant of GBP2.6bn, as well as a London investment grant of GBP2.7bn, the latter of which supports the delivery of TfL and government-shared priorities. An

Related Criteria

Rating of Public-Sector Entities (March 2014)
Tax-Supported Rating Criteria (August 2012)

operating grant is only agreed with government to FYE16, while capital funding has been confirmed to FYE21. A revenue grant from FY17 onwards will be set in future government spending reviews, but TfL's business plan assumes that the revenue grant is maintained in real terms.

TfL's Strategic Policy Set by London Mayor

In May 2012, Boris Johnson of the Conservative party was re-elected as the mayor of London; he has been mayor since May 2008. His focus during his first mandate was to maintain the modernisation of the tube infrastructure, with an emphasis on security as well as a commitment to the Crossrail project. The top priority for the current mayoral term is jobs and growth for the city. The Mayor's Transport Strategy, published in May 2010, set out goals and aspirations for the transport network over the next 20 years. Its six main goals include: supporting economic development and population growth; enhancing the quality of life for all Londoners; improving their safety and security and transport opportunities; reducing transport's contribution to climate change and improving its resilience; and supporting the delivery of the 2012 Olympic and Paralympic games and its legacy.

In May 2012, the Secretary of State for Transport expressed the DfT's continued support for TfL. She also confirmed that TfL's overall funding for the spending review period would not be affected by the reform of the Local Government Finance Act. The DfT confirmed it would continue to pay a transport grant to the GLA for TfL and that the changes to the payment arrangements through the business rate should not be construed as any weakening of government support. In July 2013, the spending review of funding from the DfT set out the headline reduction in TfL's total grant of 12.5% in FY16. If business rate funding is included, this reduction is 8.5% or GBP220m, equivalent to 2.2% of TfL's total capital and revenue funding for FY14 including Crossrail. The funding letter also included a six-year capital investment deal supporting Crossrail, the modernisation of the tube, major investment in the road network and cycling, and improvements to the bus, DLR, London Overground and Tramlink networks.

Strategic Importance of London's Economic Development

Greater London has a population of around 8.4 million, which is around 13% of the population of the UK, accounting for 22% of national GVA. TfL's business plan includes investment to support an estimated population growth to nine million by 2018 and 10 million by the 2030s, and potential growth in employment of more than half a million by 2020. About 30 million journey stages are undertaken on TfL's network every day, which is half of all bus and rail journeys in England. TfL's capital expenditure plan aims to increase capacity on the tube by 30% by end-2020 and by 10% on rail. In FY14, 37% of capital expenditure was on the tube, down from 53% in FY11.

Plans for FY15 include the Northern line upgrade to be completed in December 2014; new trains on the Metropolitan, Circle, Hammersmith and City and District lines; and London Overground upgrades to five-car units by December 2014. Other key milestones include a new ticket hall at Paddington completed in July 2014; the Tottenham Hale gyratory removal completed in October 2014; the 250th new Routemaster that has been in service since August 2014; construction of the first Quietway route that started in September 2014; and TfL's vision of the future of the tube's new operating vision, from January 2015. TfL has also invested in mobile technology and the provision of Wi-Fi services on the tube and Overground. All Overground stations now have Wi-Fi and in July 2014, 144 tube stations had access. TfL's new website, designed to be used on mobile devices, was launched in March 2014.

Finance and Performance

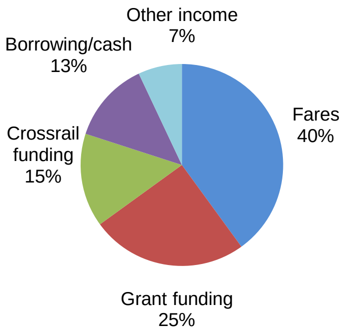
Accounting Regime Primarily Based on Local Authority Framework

TfL is treated as a local authority for accounting purposes and is required to deliver a balanced budget. KPMG audits TfL's accounts, which consolidate TfL's subsidiaries. In FY11, TfL followed the code of practice on local authority accounting, based on IFRS adopted by the EU. The most significant changes were the immediate recognition of capital grants and contributions in the income statement when there is reasonable assurance that all conditions relating to those grants have been met. Prior to this, only revenue grants would be included in the income statement and capital grants would be recorded as deferred grants on the balance sheet.

Since 2004, a prudential scheme for local authorities, including the GLA and its bodies, has been in place, allowing TfL to borrow up to authorised limits. The mayor is required to approve the affordable borrowing limit for TfL each year as the legal maximum. TfL then agrees its incremental borrowing limits with the central government as part of the funding settlement. Under the agreement with the DfT, TfL's borrowing must be contained within annual limits of GBP600-700m until FY21. Sources of financing include PWLB funding, MTN and CP programmes, private finance initiatives (PFIs) and European Investment Bank (EIB) funding.

Figure 1

TfL Income 2014/15 Budget



Source: TfL

Revenue

Fares Critical but Offer Little Flexibility

TfL's fare structure is complex and market-oriented, with off-peak prices and family discounts. To help fund the capital expenditure programme, the mayor of London, who has sole responsibility for fares, confirmed that fare increases must be in line with the retail price index (RPI) plus a percentage increase. In September 2014, the mayor announced fare increases for January 2015 of RPI plus 0%. The business plan assumes a fare increase at RPI plus 1% for future years. The mayor has secured government funding to cover the gap between RPI and TfL's business plan.

A new ticketing payment system has been developed that will enable customers to use contactless debit or credit cards on Oyster card yellow readers, offering them the same fares as Oyster cards and removing the need to queue for Oyster card top-ups. This scheme was launched on buses in December 2012 and has been extended across the rail services, including the tube, London Overground, DLR, and tram services in 2014. The extension of contactless card usage on the tube and other forms of transport is expected to cut the number of journeys paid for in cash rather than leading to a decrease in Oyster card usage. More than eight million Oyster cards are used regularly in London. Weekly capping of 'pay as you go' fares will also be introduced and by 2016 the existing Oyster card will carry many of the same features as contactless payment cards. Since summer 2014, buses no longer accept cash.

Increasing Demand

Since FY10, total use of public transport has increased across all lines of transport, including

Figure 2

Revenue by Mode and Patronage

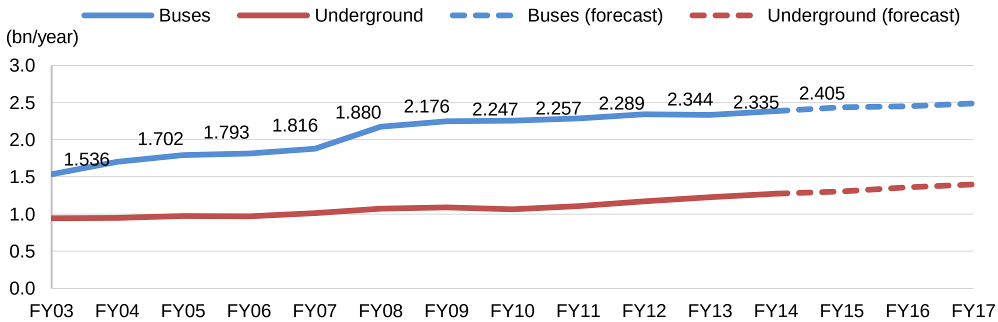
	FY15 forecast[c]			FY14			FY13			FY12		
	Revenue[a]	(%)	Patronage[b]	Revenue[a]	(%)	Patronage[b]	Revenue[a]	(%)	Patronage[b]	Revenue[a]	(%)	Patronage[b]
London underground	2,630	55	1,306	2,476	52	1,265	2,315	55	1,229	2,179	52	1,171
Buses	1,559	33	2,440	1,501	32	2,405	1,418	34	2,335	1,335	32	2,344
Surface (incl. congestion charging)	400	8		452	10		387	9		376	9	
London rail, including	342	7		324	7		287	7		228	5	
Docklands light railway			107			102			100			86
London overground			145			136			125			103
London tramlink (incl tube lines)			30			31			30			29
Other (corporate items)	44	1		37	1		89	2		63	2	
Emirates Air Line	7	0	2			2			2			
London River Service			9									
Total	**4,982**		**4,039**	**4,790**		**3,940**	**4,496**		**3,821**	**4,181**		**3,732**

Notes: Revenue includes fare revenue as well as advertising, rent etc. There are no fare revenue numbers that can be compared across the board
[a] (GBPm)
[b] Passenger journeys (m)
[c] 1Q15 operational and finance report
Source: TfL

the tube, buses, and London Rail, including DLR, London Overground and Tramlink. Greater demand has resulted from the rising population living in the urban area; the congestion charge has also increased the use of public transport. The pattern of passenger growth on the tube is related to economic growth in the city, whereas bus use is linked to the growth of the population in London. TfL bases its revenue projections on growth forecasts provided by GLA Economics and growth in London is generally forecast at 0.5% higher than national projections. At spring 2014, real GVA growth, forecast to be 3.8% in 2014, 3.2% in 2015 and 2.6% in 2016.

Figure 3

Passenger Journeys



Source: TfL business plan Dec 2013. FY15: target from 1Q15 operational and financial performance report

London Underground

For FY15, the tube is expected to cover 53% of total revenue from fares. Passenger journeys are forecast to increase to 1.306bn. The tube carries 4.2 million people each weekday. The record number of passenger journeys was set at 4.52m on Tuesday 7 August 2012 during the Olympics. Since then a non-Olympic record of 4.4 million passengers was set on 11 October 2013.

There are currently a total of 11 lines, covering 402km and serving 270 stations. During peak hours there are more than 525 trains in operation and every tube train travels just under 115 thousand miles a year The sub-surface railway upgrade is the Underground's largest investment. On all four sub-surface lines, including the Metropolitan, Hammersmith & City and Circle & District, 191 new walk-through air conditioned trains are being delivered. Additionally, a new signalling system and control centre, power upgrades and extensive train depot improvements are also being delivered. The new signalling system leads to quicker journeys and more frequent services. Tube capital spend is forecast at GBP8.8bn to FY21.

Surface Transport

Surface transport is responsible for buses, congestion charging, traffic signalling, roads, bridges and tunnels, and cycling and walking. It is forecast to deliver 39% of revenues in FY15 and passenger journeys on the buses are forecast to rise to 2.440bn from 2.405bn. Bus use in London has risen due to increased investment, as well as measures supporting public transport. There are now 8,500 buses, 19,500 bus stop and 50 bus garages. The bus is the most used public transport mode in London, responsible for half of all daily journeys and nearly half of all UK bus journeys. From 2015, bus congestion hotspots on roads across the city will be targeted to allow smoother travel through busy junctions. Bus priority corridors will enable fast journeys in areas of development.

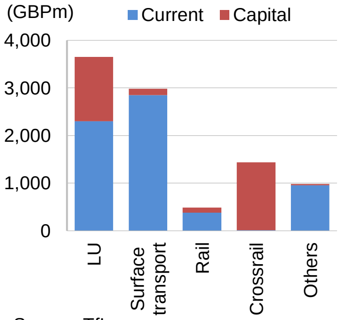
TfL outsources some of its operations, including bus services. Six private companies operate on 90% of bus routes, on five-year contracts. A new bus was introduced in February 2012 to replace London's old Routemaster bus, which was withdrawn from service in 2005. These buses meet TfL's targets for low carbon emissions, achieved through low weight construction for fuel efficiency. The engines are designed to be on the road for 22 hours a day, travelling at 6mph and stopping every 100m. Six per cent of the bus fleet has been converted to quieter, cleaner hybrid diesel electric technology; by 2016, it is expected that 1,700 buses or 20% will have been converted.

Congestion charging was initially launched in 2003 to reduce cars entering the most congested central areas. It has been extremely successful in its primary objective of restricting car traffic, keeping down congestion and increasing bus patronage. Capita took over these operations in October 2014 and implemented improvements including enabling Autopay customers to pay via direct debit and the introduction of a simple online registration process for discounts. The online payment process has not been changed. The congestion charge rose to GBP11.50 a day from GBP10 a day from 16 June 2014, the first increase since 2011. A further increase is planned in 2018, with the standard rate rising to GBP13.

Ninety-five per cent of London's roads are controlled and managed by the London boroughs. TfL's investments support improvements where problems are most acute. SCOOT (Split Cycle Offset Optimisation Technology) was in use at London's traffic signals, contributing to a reduction in delays on the TfL road network. In 2010, the introduction of the London permit scheme for road and street works led to a significant reduction in disruption due to the better co-ordination of utility works. SCOOT, Variable Message Signs, CCTV and new intelligent sensors will be used to respond to real-time traffic conditions.

Figure 4

Breakdown of Expenditure FY14



Source: TfL

The number of cycling journeys in London has nearly tripled since 2001 and more than 570,000 cycle trips are made daily. It is expected that more than one million journeys will be made by 2020. Quietways is a network for bikes, which will provide quiet, comfortable, safe and attractive cycle routes on back streets. Cycle highways will provide safer, fast and continuous routes in London, often in parallel with key public transport routes. Barclays cycle hire scheme will be expanded southwest, bringing into operation an additional 2,400 bikes and 5,000 docking points. More than 10,000 bikes and 700 docking stations will be available for more than 25 million journeys. It now covers more than 100 square km of the Capital.

The Emirates Air Line, opened in June 2013, is a 1km cable car line, with a highest point of 295ft that connects North Greenwich and the Royal Docks in less than 10 minutes. In its first year it carried 2.4 million passengers across the Thames.

Rail

Rail covers both the DLR and the London Overground. The Overground now serves 83 stations, 57 of which are operated by London Overground. On the Overground, passenger journeys are expected to rise to 145 million in FY15, reflecting the completion of the orbital network in December 2012, allowing customers to avoid changing trains in Central London, and a continued increase in demand. Since the East Line opening, overall demand on the Overground has quadrupled. As a result of this and peak time congestion, an extra car will be added to all four-car London Overground electric trains by 2016 and an additional two trains an hour on the East London line by 2015. Tramlink services have been increased by the introduction of new trams and increasing frequency, leading to increased capacity. Tramlink now has 28km of track, 30 trams in the fleet and 39 stops.

The DLR now has 45 stations and 145 vehicles. In August 2012, the DLR celebrated 25 years of service. In summer 2013, sections of track were doubled, increasing capacity especially during peak times. The first phase of this project was completed by spring 2014 and the second will be completed in 2019, which will finish the doubling of all remaining single track sections between Stratford and Bow Church. This project is essential to service the growth and regeneration of the area. The DLR will also benefit from additional railcars to increase capacity.

Expenditure

Service Expenditure, Staff Costs: Main Components of Operating Expenditure

TfL is one of the largest employers in London, with an average 25,973 of permanent staff in FY14 (25,845 in FY13) (including fixed term contracts). At FYE14, this was equivalent to 29,185 full-time equivalents (FYE13: 28,202). Staff costs accounted for 26% of operating costs (including depreciation) in FY14. In the past, a significant part of TfL's expenditure was on

PPPs and PFIs. Since August 2010, TfL no longer has any PPPs. PFIs were contracted where TfL controls the use of infrastructure and residual interest at the end of the arrangement and which are treated as service concession arrangements.

AI3 Thames Gateway designs and constructs improvements to the AI3 infrastructure. *Connect* provides the network-wide integrated radio and transmission communication services to LUL. *British Transport Police* provides improved operational infrastructure to support policing of the Jubilee line extension and LULs LT policing system. *Dockland Light Railway contracts for Greenwich* involve designing, constructing and maintenance of the extension. The PFI contracts for City airport and Woolwich Arsenal extensions were bought by TfL in 2011.

Power was a PFI contract until FY13, when the lease was terminated and the one-off costs associated with the termination were captured.

Crossrail: TfL major Capital Expenditure Project

Crossrail is TfL's most significant capital expenditure project. A high frequency, high capacity service will be delivered to 42 stations, nine of which will be new in central London. It will expand the city's rail network capacity by 10%, reducing congestion by up to 60% on many Underground lines, the DLR and Southeastern train services, and it aims to generate over GBP40bn for the UK economy. There will be 118 km of rail that will link Reading and Heathrow in west London and Maidenhead in Berkshire to Shenfield in Essex and Abbey Wood in the south-east. An additional 1.5 million people will be within 45 minutes commuting distance of the capital's key business districts. Part of Network Rail's existing infrastructure will be used. A total of 24 trains an hour in each direction will run in central London.

Services will begin in phases; the first new trains are planned to begin operating in 2017 and Crossrail services will start running in the central tunnel section towards the end of 2018. Crossrail has already created thousands of jobs in construction and through the wider supply chain. Crossrail is expected to be fully operational by the end of 2019 and GBP14.8bn has been set aside for funding. This will be funded by a government grant, the private sector and Network Rail. TfL's exposure has been capped at GBP7.1bn and there is a put option to the DfT if the costs breach a pre-determined level. TfL has taken on additional borrowing to fund part of its contribution.

Figure 5

TfL Funding of Crossrail – Capped at GBP7.1bn

Source	(GBPbn)
Indirect funding	**4.7**
GLA borrowing backed by BRS	3.5
Boroughs	0.6
Business rate supplement (BRS)	0.6
Community infrastructure Levy (CIL)	0.3
Developer contributions	0.3
TfL direct funding	**2.4**
EIB corporate loan for Crossrail	1.0
Other corporate borrowing	1.0
Sale of TfL surplus land	0.4
Total TfL funding sources	**7.1**
DfT funding sources	**5.2**
(Including BAA plc, City of London, DfT grant)	
Other funding sources	**2.5**
(including Network Rail surface works, Other)	
Total funding envelope	**14.8**

Source: TfL

Crossrail tunnelling began in May 2012 and is now 83% complete. In July 2014, a contract for operation of services was awarded to MTR Corporation. During FY13, the procurement of Crossrail's GBP1.2bn rolling stock and depot was changed to be wholly publicly financed rather than financed through a PFI. On 19 February 2014, this contract was awarded to Bombardier and covers the supply, delivery and maintenance of 65 new trains and a depot. In terms of Crossrail controls, an Intervention Point (IP) mechanism identifies potential cost over-runs and delays at an early stage. These controls are tested on a semi-annual basis and no IPs have been breached to date.

Overall Performance

As a result of the transition to IFRS in 2011, government grants (including capital grants) are now shown in full on the Group Comprehensive Income and Expenditure statement, which creates an accounting surplus on provision of services. This surplus represents the funding of the capital investment programme and is spent on various projects, including Crossrail and tube upgrades, as set out in TfL's business plan and agreed by the mayor.

For FY14, TfL recorded a total comprehensive income and expenditure of GBP3.5bn, an increase of GBP1bn from FY13. This was primarily due to a GBP0.9bn difference yoy in the actuarial (non-cash) gains/losses on defined benefit pension schemes.

Figure 6

TfL Borrowing

(GBPm)	FY14	FY13
PWLB	2,725	2,725
Commercial paper	688	1,103
EIB	1,884	1,770
TfL bonds	2,600	1,972
Total direct debt	**7,898**	**7,565**
Finance leases	822	891
Total direct debt & finance leases	**8,720**	**8,456**

Source: TfL

Projections: Revised Business Plan (BP), Published December 2013

TfL's most recent business plan was published in December 2013. An operating grant has only been agreed with government to FYE16, while capital funding has been confirmed to FYE21, the period over which TfL has a capital funding envelope from the DfT. The focus of the plan is on the ongoing renewal of assets and the sustained investment in infrastructure.

Financing of the operating and capital plans can be seen in Appendix C, but primarily comes from a general grant and business rates retention for the operating plan, and from an investment grant, Crossrail funding sources, and new borrowing and reserves for the capital plan. Total operating income is projected to rise to GBP5.4bn in FY16 from GBP4.7bn in FY14. Nevertheless, TfL has flexibility to delay some capex if the increase in future fare income is lower than projected.

Key themes in the business plan cover four key areas: customers; delivery; value; and TfL staff. TfL strives to provide an accessible transport system and aims to improve the customer experience through technology, as well as by engaging with its stakeholders and partners to fund improvements. TfL aims to have a well maintained infrastructure, to maximise capacity on its network to help with growth in the city, and in doing so is committed to supporting jobs across the city.

Plans include introducing a new 24 hour tube service at weekends from 2015, initially on the Northern, Piccadilly, Victoria, Central and Jubilee lines; providing step-free access to at least an extra 27 stations across the London Underground and London Overground networks; continuing to make ticketing as convenient and hassle-free as possible; tube improvement programmes; Northern line improvement and future tube upgrades; maximising traffic flow with technology; London Overground and London Tramlink capacity upgrades; harnessing the potential of the river; tackling overcrowding at stations and interchanges; Crossrail and Crossrail 2, which is a proposed scheme that will provide an increase in capacity; expanding rail services; and a significant investment in cycling.

TfL has a Savings and Efficiencies programme and since FY10 has worked to reduce costs. Over GBP16bn of efficiencies to FYE21 have been identified, which will be invested in infrastructure as well as help keep down fares and manage with lower government grant levels. To date, GBP12bn of savings to FYE21 have been secured. The remaining GBP4.2bn will be achieved by reducing back office expenditure and focusing on inefficient activity. Of this, GBP188m was achieved in FY14 against a target of GBP137m.

New efficiencies have been identified across: track access (facilitating maintenance/investment works); energy costs by bulk power purchases through government procurement schemes; working with London boroughs to maximise efficiencies and minimise costs on highway works; new contracts for the congestion charge and low emission zone schemes; and no cash service on buses. TfL will also be focusing on commercial development, as it has one of the largest property portfolios in London. It will be improving and developing its existing commercial assets and services management in and around stations to generate secondary revenues.

2014/15 Budget, Published In March 2014

The 2014/15 budget is based on the first year of the Business Plan. Since the approval of the Business Plan, three key items have been integrated into the budget: a change to the contract payment profile for Crossrail Rolling Stock and Depot; an adjustment to fares revenue reflecting the fares increase implemented in January 2014; and a GBP30m contribution spread for the Garden Bridge.

Debt, Liquidity and Contingent Liabilities

TfL's direct debt totalled GBP7.898bn at FYE14, an increase of 4% or GBP333m from GBP7.565bn at FYE13. Some short-term debt was refinanced to take advantage of positive market conditions, including GBP410m of commercial paper and GBP70m of outstanding ex-tube lines notes. TfL drew down the fifth instalment of GBP150m of a GBP1bn EIB facility for Crossrail. During FY14, a GBP400m, 32-year bond was issued in May 2013 and a GBP300m, 20-year bond was issued in September.

The weighted average maturity of debt at FYE14 was 20.8 years and the weighted average interest rate was 3.8%. In July 2014, TfL's GBP5bn MTN Programme was further updated. In November 2012, the government introduced the PWLB certainty rate on loans of up to 50 years, which reduced rates to 80bp from 100bp over gilts. Annually in April, TfL follows the process required to maintain access to the PWLB at this discounted certainty rate for the year beginning 1 November.

In the three months to 1Q15, GBP618m borrowing was raised. This included GBP100m of the last tranche of the GBP1bn EIB Crossrail facility; GBP500m of a 50yr bond (GBP370m original and GBP130m tap); and GBP18m in Commercial paper. Direct debt stood at GBP8.523bn at 30 September 2014 and is expected to remain at GBP8.5bn at FYE15. TfL will raise external funding over the business plan period under its prudential borrowing programme.

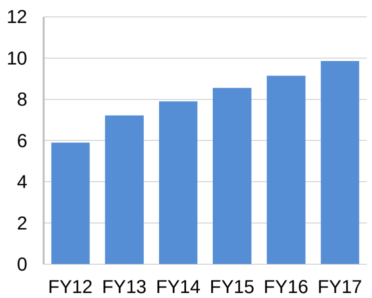
Guarantee contracts have been given to some of TfL's subsidiaries, which totalled GBP0.9bn at FYE14. This is based on approximate amounts of debt that were envisaged to be drawn by the counterparty at the signing of each agreement. TfL is legally required to recognise its guarantees and those that have value are recorded as a liability on the balance sheet. All guarantees have been assessed as having zero or immaterial value and disclosed for the information purposes only. All guarantees granted are over obligations of its subsidiaries which are already recorded as liabilities on the Balance Sheet. Some of TfL's PFI contracts contain commitments that could result in breakage costs in the event of early termination.

For a portion of borrowing requirements, TfL uses interest rate derivatives. TfL is allowed to enter into derivatives to mitigate risk under section 49 of the TfL Act of 2008. At FYE14, Transport for London Finance Limited (TFLFL) held 18 interest rate derivative contracts with a combined notional value of GBP832m (including gilt locks and swaps).

Figure 7

Actual and Projected Debt

(GBPbn)



FY14: Actual; FY15-FY17: Business plan
Source: TfL

Pensions

In FY14, the fair value of the assets of the public sector section of the TfL pension fund increased by GBP473m. There was an increase in the actuarial value of future liabilities of GBP171m as net re-measurement gains were offset by the accrual of benefits and interest. As a result, the deficit of pension scheme assets over future liabilities for the TfL pension fund was reduced by GBP302m. Most of TfL's employees are covered by a defined-benefit scheme managed by one of its wholly-owned subsidiaries. The last triennial valuation from March 2012 showed a GBP699m deficit. Unfunded pension liabilities (GBP2.5bn for FY14) have not been included in the total risk figure, as this is the accounting figure and not what TfL is required to fund.

Strong Liquidity Position

TfL still has access to traditional liquidity facilities and total collective limits are GBP250m, mitigated by cash and liquid deposits of GBP4.6bn at end-FY14. Of this, GBP2.1bn is ring-fenced for Crossrail. Much of TfL's investment is in UK Treasury bills and UK gilts and is government guaranteed, along with 'AAA'-rated money market funds, supranationals and UK clearing banks. Additionally, TfL has GBP200m of undrawn overdraft facilities.

Appendix A

Figure

Transport for London

Statement date	31 Mar 10	31 Mar 11	31 Mar 12	31 Mar 13	31 Mar 14
Income statement					
Operating revenues	2,995.9	3,250.3	3,521.0	3,784.0	4,066.4
Staff expenses	(1,298.0)	(1,455.7)	(1,514.6)	(1,626.3)	(1,785.6)
Depreciation	(835.3)	(892.3)	(948.0)	(1,002.1)	(1,022.1)
Other operating revenues and expenditure	(3,375.6)	(3,084.8)	(3,107.9)	(3,150.1)	(3,242.9)
Operating balance before grants and subsidies	(2,513.0)	(2,182.5)	(2,049.5)	(1,994.5)	(1,984.2)
Revenue from public sector	1,367.6	1,282.3	1,707.8	2,178.6	1,484.8
Operating balance after revenue from public sector	(1,145.4)	(900.2)	(341.7)	184.1	(499.4)
Interest revenue	13.9	9.4	13.4	18.3	21.2
Interest expenditure	(410.9)	(395.5)	(352.4)	(351.9)	(377.7)
Operating balance after financing	(1,542.4)	(1,286.3)	(680.7)	(149.5)	(855.9)
Surplus (loss) on disposal of fixed assets	(105.2)	(321.8)	2.5	(121.8)	(121.9)
Non-operating revenue and expenditure	1,064.0	4,023.9	2,081.0	2,799.7	4,477.5
Profit (loss) before taxation	(583.6)	2,415.8	1,402.8	2,528.4	3,499.7
Taxation	0	1.3	1.5	0.2	(0.1)
Profit (loss) after tax	(583.6)	2,417.1	1,404.3	2,528.6	3,499.6
Minority interests					
Profit or loss for the financial year	(583.6)	2,417.1	1,404.3	2,528.6	3,499.6
Balance sheet					
Assets					
Tangible assets	21,651.7	23,404.7	25,106.0	27,091.1	29,269.4
Intangible assets	162.3	139.6	114.0	103.6	122.6
Other long-term assets	334.0	301.2	472.1	705.2	1,082.7
Long-term investments	0	4.9	0	209.2	203.4
Stock	18.3	35.6	37.6	42.0	47.7
Trade debtors	68.4	95.9	155.0	137.7	184.2
Other current assets	538.7	519.0	369.1	347.1	384.1
Cash and liquid investments	1,509.4	2,066.8	2,661.7	3,684.2	4,569.1
Total assets	24,282.8	26,567.7	28,915.5	32,320.1	35,863.2
Liabilities and equity					
Long-term liabilities	308.6	221.8	260.0	255.7	295.5
Pension	2,193.7	1,620.1	2,292.7	2,813.2	2,482.2
Long-term debt	7,075.6	7,242.3	5,903.2	7,215.0	7,904.1
Trade creditors	182.0	219.0	187.5	36.1	41.8
Other short-term liabilities	1,832.9	1,991.9	1,911.4	2,118.0	2,180.2
Short-term debt	398.0	563.4	2,247.2	1,207.3	785.0
Equity	0	0	0	0	0
Reserves	12,292.0	14,709.2	16,113.5	18,674.8	22,174.4
Minority interests					
Liabilities and equity	24,282.8	26,567.7	28,915.5	32,320.1	35,863.2
Debt statement					
Short-term debt	0	494.9	2,177.5	1,139.6	709.2
Long-term debt	4,125.5	5,855.8	4,954.3	6,425.0	7,158.1
Total debt	4,125.5	6,350.7	7,131.8	7,564.6	7,867.3
Other Fitch classified debt	3,355.8	1,419.0	1,027.5	890.7	821.8
Total risk	7,481.3	7,769.7	8,159.3	8,455.3	8,689.1
Cash, liquid deposits and sinking fund	1,509.4	2,066.8	2,661.7	3,684.2	4,569.1
Net risk	5,971.9	5,702.9	5,497.6	4,771.1	4,120.0
Contingent liabilities	0	0	0	0	0
Net overall risk	5,971.9	5,702.9	5,497.6	4,771.1	4,120.0
% debt in foreign currency					
% issued debt	14.54	9.45	13.66	26.07	33.05
% debt and fixed interest rate					
Cash flow statement					
Funds from operations	(744.2)	4.6	428.1	1,161.5	590.9
Other cash flow movements	0	0	0	0	0
Changes in working capital	0	0	0	0	0
Cash flow before net capital expenditure	(744.2)	4.6	428.1	1,161.5	590.9
Net capital expenditure	308.8	47.9	(181.0)	(1,008.5)	(401.8)
Cash flow before financing	(435.4)	52.5	247.1	153.0	189.1
New borrowing	1,100.0	651.2	1,921.8	428.5	435.1
Other cash financing	(661.8)	(525.3)	(661.1)	(538.6)	(481.2)
Debt repayment	0	(161.2)	(1,483.1)	(21.3)	(107.1)
Cash flow after financing	2.8	17.2	24.7	21.6	35.9

Source: Fitch

Appendix B

Figure 9

Transport for London

Statement date	31 Mar 10	31 Mar 11	31 Mar 12	31 Mar 13	31 Mar 14
Ratio analysis					
Profitability ratios					
Personnel costs/oper.rev including revenue from public sector (%)	26.16	28.18	25.72	24.37	28.46
Revenue from the public sector/oper.rev including revenue from public sector (%)	70.73	90.44	81.90	81.86	84.67
EBITDA/oper.rev including revenue from public sector (%)	(6.25)	4.55	12.10	17.77	8.33
Balance sheet ratios					
Current assets/total assets (%)	8.79	10.23	11.15	13.03	14.46
Current assets/total liabilities (%)	17.80	22.91	25.18	30.86	37.88
Return on equity (%)	n.m.	n.m.	n.m.	n.m.	n.m.
Return on assets (%)	n.m.	n.m.	n.m.	n.m.	n.m.
Debt ratios					
Net debt/EBITDA (x)	(8.44)	18.23	6.27	3.27	6.31
Long-term debt/oper.rev including revenue from public sector (%)	83.13	113.34	84.13	96.27	114.08
Total debt/EBITDA (x)	(13.30)	27.02	10.01	6.38	15.05
Debt/equity (%)	33.56	43.18	44.26	40.51	35.48
EBITDA/gross interest expenditure (x)	(.75)	.59	2.02	3.37	1.38
Debt servicing/operating balance before revenue from public sector (%)	(16.35)	(25.51)	(89.56)	(18.71)	(24.43)*
Debt servicing/operating balance after revenue from public sector (%)	(35.87)	(61.84)	(537.17)	202.72	(97.08)*

Note: This calculation includes GBP70m repurchase of the Tube Lines B notes.

n.m.: not meaningful
Source: Fitch

Appendix C

Figure 10

TfL Funding, Income, Operating and Capital Expenditure Plan

TfL operating plan	2013/14	2014/15	2015/16	2013/14 - 2015/16
GBP(m)				
Fares income	4,093	4,323	4,715	13,131
Other operating income	642	678	719	2,039
Total operating income	**4,735**	**5,001**	**5,434**	**15,170**
Operating expenditure (net of third-party contributions)	**-5,931**	**-6,161**	**-6,342**	**-18,434**
Operating balance	**-1,196**	**-1,160**	**-908**	**-3,264**
Interest income	18	22	37	77
Debt interest	-346	-372	-416	-1,134
Group items	-13	-16	-11	-40
Current balance	**-1,537**	**-1,526**	**-1,298**	**-4,361**
Finance sources				
General grant	1,094	835	629	2,558
Overground grant	29	28	29	86
GLA precept	6	6	6	18
Business rates retention	803	828	853	2,484
Other revenue grant	37	6	0	43
Total revenue grants	**1,969**	**1,703**	**1,517**	**5,189**
Surplus/(deficit) to fund capital plan	**432**	**177**	**219**	**828**
TfL capital plan	**2013/14**	**2014/15**	**2015/16**	
GBP(m)				
Capital expenditure	-1,751	-2,525	-2,519	-6,795
Third party contributions - capital	85	35	35	155
Capital expenditure (net of third party contributions)	-1,665	-2,490	-2,235	-6,390
Sales of property and other assets	70	24	33	127
Net capital expenditure (core TfL)	**-1,595**	**-2,466**	**-2,202**	**-6,263**
Net Crossrail contribution	**-1,757**	**-1,619**	**-1,632**	**-5,008**
Total capital expenditure	**-3,352**	**-4,085**	**-3,834**	**-11,271**
Finance sources				
Operating surplus/(deficit) from above	431	176	220	827
Investment grant	895	909	925	2,729
Metronet grant	184	0	0	184
Other capital grants	100	141	213	454
Crossrail funding sources	2,051	1,687	906	4,644
Working capital	-376	583	-52	155
Net borrowing, other financing and reserve movements	67	588	1,872	2,527
Total	**3,352**	**4,084**	**4,084**	**11,520**

Source: TfL business plan update

The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.