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## Transport for London

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# Transport for London

## Major Rating Factors

### Strengths:

- Significant government support, within an institutional framework that is predictable and supportive.
- TfL's dominant position as a transport provider in the Greater London area.
- Very positive liquidity position, supported by high levels of cash and equivalents, and access to the Public Works Loan Board.

### Issuer Credit Rating

AA+/Stable/A-1+

### Weaknesses:

- Rising tax-supported debt levels, set to increase to about 130% of operating revenues by 2015.
- Exposure to risks associated with its major capital program, although the largest capital project (Crossrail) is effectively capped by government.

## Rationale

The ratings on Transport for London (TfL) reflect the predictable and supportive institutional framework within which TfL operates as a U.K. local authority, its very positive liquidity position, and the strength of London's economy, which underpins demand for TfL's services. Although TfL has a major capital program, we believe its level of flexibility to defer capital expenditure (capex) is a positive rating factor, and we note that management has a strong track record of staying within budget. Constraining factors for the rating include the prospect of deficits after capital accounts, as government funding reduces, and as TfL continues its planned investments in infrastructure. This will lead to a gradual increase in debt and associated risks, which we anticipated in our previous outlook (see "Transport for London," published on June 1, 2012). We note, however, that exposure to cost over-runs on TfL's largest capital project--Crossrail--is effectively underwritten by the central government, thereby limiting its contingent liabilities.

TfL is a functional body of the Greater London Authority (GLA; AA+/Stable/--) and is responsible for implementing the mayor's transport strategy in London. TfL has many subsidiaries that together comprise the TfL Group. In our analysis, we focus on this consolidated group.

The strength of London's economy, and the consequent demand for public transport, is key to the creditworthiness of TfL, supporting both the growth in its fare revenues, and the rationale for continued central government funding. We estimate that London's gross value added (GVA) per capita was £35,780 in 2012 and we forecast that it will grow by 1% in 2013, supported by rising employment levels, which will lead to increasing demand for public transport. This is higher than our forecast for the U.K. average, and reflects the service-oriented nature of London's economy, in which financial services plays a key role. London accounts for 20% of the U.K.'s GVA and, with its GVA per capita at 170% of the U.K. average (2011), it is both pivotal to the U.K.'s economic growth and a major net contributor to the U.K.'s fiscal position.

Supported by London's economy, TfL's fare revenues have proved relatively buoyant, leading to strong financial

performance. Over the past three years, TfL has posted operating balances averaging in excess of 20% of operating revenues, and surpluses after capital accounts. Over the next three years, however, we forecast in our base case that operating performance will gradually weaken to about 15% of operating revenues. We also believe TfL will post deficits after capital accounts averaging about 10% of total revenues. Our assumptions reflect expected reductions in government funding, only partially offset by buoyant fare revenues, and TfL's continued investment in capital infrastructure. We note that deficits after capital accounts have been planned for some years and we do not believe this slight weakening of TfL's financial profile represents any material change in TfL's financial strategy.

Beyond 2016, we believe that recurrent deficits after capital accounts of about 5% are likely, given the fiscal pressures on the U.K., which are likely to constrain TfL's government funding, coupled with the increasing demands on London's transport infrastructure.

As TfL proceeds with its planned capital spending, we forecast in our base case that its debt burden will rise to about 130% of operating revenues by March 31, 2016, up from 111% at financial year-end 2013. More positively, we note that when TfL's construction of Crossrail is complete (expected in December 2018), TfL's operating performance may be bolstered by a significant step-up in net fare revenues.

While TfL may have limited flexibility to postpone its spending on Crossrail, without deferring the associated receipt of fare revenues, we understand that TfL, if necessary, has both the potential willingness and the capacity to defer or cancel other aspects of its capital program (such as station upgrades). More generally, TfL's management, which we view as very positive for the rating, has a strong track record of using flexibilities and controls to stay within both operating and capital budgets.

TfL's exposure to contingent liabilities is limited, given that the main risk--cost overruns on Crossrail--is effectively capped by the U.K. government.

## **Liquidity**

We view TfL's liquidity position as very positive, with a very positive debt service coverage of 1.4x, supported by strong and predictable cash flows. We note that this coverage is set to weaken in the coming years, which will partially be mitigated by TfL's ready access to external liquidity. We view this access as exceptional in international terms, based on its ability to borrow from the U.K. government's Public Works Loan Board (PWLb). TfL also has an established track record of issuing on the capital markets.

As at March 31, 2013, TfL held cash and short-term investments of about £2.3 billion, although we expect this may reduce over the next year to £1.6 billion to fund TfL's capital program. (An additional £1.6 billion of funds is earmarked for Crossrail.) Allowing for some reduction in value in a stress scenario, we estimate that on average cash equivalents should cover debt service over the next 12 months by 1.4x. Our calculation of debt service includes the repayment of commercial paper. (TfL also has access to an undrawn committed facility of £200 million.)

Beyond the next 12 months, we see TfL's levels of free cash and equivalents continuing to diminish, to fund its planned capital program. TfL has effectively been prefunding its capital program, by raising debt in advance of the associated capex. Therefore, as capital investment continues, we expect to see a significant reduction in cash balances from current levels.

TfL's liquidity position is supported by strong and predictable cash flows. Government grants are paid to TfL on a monthly basis, and fare revenues only show minor seasonal variations throughout the year. Furthermore, TfL adopts a prudent treasury management policy, investing its cash with highly rated counterparties.

We view TfL as having exceptional access, in international terms, to external liquidity. This is primarily due to the U.K. government's PWLB. The PWLB can provide funding to TfL within 48 hours of an application, assuming that TfL is operating in accordance with the Prudential Code. We also note that TfL has an established track record of issuing commercial paper and medium-term notes on the capital markets.

## Outlook

The stable outlook reflects our expectation that TfL will maintain its credit standing, even though its financial profile will weaken slightly, as government grants decline and debt levels increase to fund TfL's significant capital program.

We may consider raising the rating within the next two years in the unlikely scenario that TfL's capital program were to be funded increasingly by the U.K. government, resulting in surpluses after capital accounts and a reduction in debt. In this scenario, if TfL were to maintain its financial flexibility, particularly over fare revenues, then we may raise the rating.

Conversely, if TfL's flexibility to raise fares or defer capex were diminished, and if management decided to step up capex, leading TfL to post recurring deficits after capital accounts beyond about 10% of total revenues, then we may consider a negative rating action. Such an action would likely be coupled with concerns about management's ability to increase revenues or control costs, so as to stay within budget.

## Comparative Analysis

For the purpose of this comparative analysis, we compare TfL with other transport providers that we rate globally. Unlike most of the public transport providers that we rate in Western Europe, TfL is a local government entity rather than a company owned by shareholders. As such, it benefits from the support of the U.K. local government institutional framework. In this respect, it is similar to the French transportation authority, Sytral, which we also assess according to our criteria for local and regional governments.

Other rated transport companies in Western Europe, such as Rheinbahn AG in Germany, Consorcio de Transportes de Bizkaia in Spain, or ATAC Spa in Italy, operate under periodically revised service contracts and formula-based funding allocations to subsidize their operations. TfL, in contrast, receives substantial grants that are allocated by the U.K. government and the Greater London Authority. As such, it is more exposed to ad hoc public policy decisions than transport providers that operate under more contractual frameworks. Hence its revenue profile is more dependent on its continued strong relationship with the relevant government bodies.

Despite its close ties with the central government, TfL does not benefit from government guarantees on its debt. In this respect it is unlike Societe des Transports Intercommunaux de Bruxelles and Sytral. The former benefits from formal guarantees, and the latter from a statutory ultimate guarantee, from their respective governments.

With about £9 billion of total revenues, TfL's revenue base is significantly larger than that of its peers in Western Europe. This is why TfL is mostly comparable with major transport authorities in the U.S., such as the New York Metropolitan Transportation Authority or the Chicago Transit Authority.

These large transportation authorities play an essential role in their local economies and serve their populations through a complex portfolio of transport services, in vast metropolitan areas. They have similar funding frameworks that include substantial financial support from the relevant tiers of government.

**Table 1**

**Transport for London--2012 Peer Comparison**

	<b>Transport for London*</b>	<b>Consorcio de Transportes de Bizkaia</b>	<b>Societe des Transports Intercommunaux de Bruxelles</b>	<b>Sytral</b>	<b>SMTC Grenoble</b>	<b>Rheinbahn AG</b>
Issuer credit rating	AA+/Stable/A-1+	BBB+/Negative/A-2	AA/Negative/A-1+	AA-/Stable/--	A+/Stable/A-1+	AA-/Stable/A-1+
Country	U.K.	Spain	Belgium	France	France	Germany
Related government	United Kingdom and Greater London Authority	Historical Territory of Bizkaia and Autonomous Community of The Basque Country	Region of Brussels-Capital	Intercity of Lyon and Department of Rhone	Intercity of Grenoble and Department of Isere	City of Dusseldorf directly 5%, and through a holding company 95%
Issuer credit rating of the controlling governments	UK: (AAA/Negative/A-1+); GLA: (AA+/Stable/--)	Bizkaia: (BBB+/Negative/A-2); Basque Country: (BBB+/Negative/--)	AA/Negative/--	Not rated	Intercity of Grenoble: (A+/Stable/A-1+); Department of Isere (not rated)	Not rated
Link with the controlling government	N/A**	Integral	Integral	Very strong	Integral	Very strong
Role to the controlling government	N/A**	Critical	Critical	Critical	Critical	Critical
Likelihood of extraordinary support from the government	N/A**	Almost certain	Almost certain	Extremely high	Almost certain	Extremely high
<b>2012§</b>						
Total revenues (mil. £)	9,995.0	158.3	665.2	532.5	134.3	217.8
Total transfers (% of total revenues)	40.4	37.4	62.6	25.3	45.0	18.6
Fare revenues (% of operating revenues)	48.7	61.8	34.4	28.8	N.M.	71.6
Lease-adjusted debt (at year-end) (mil. £)	8,465.0	446.3	161.1	1,003.7	541.1	218.7
Direct debt (% of operating revenues)	107.5	335.1	28.8	195.5	389.0	99.0

**Table 1**

<b>Transport for London--2012 Peer Comparison (cont.)</b>						
Interest (% of operating revenues)	5.6	9.5	0.8	10.1	15.0	4.4
Debt service (% of total revenues)	20.4	39.4	4.4	22.4	32.8	10.2
Service area population	8,302,500	1,100,000	1,100,000	1,300,000	400,000	1,015,000

\*Standard & Poor's 2012 base case. §Except for Rheinbahn AG, where data is for 2011. \*\*These assessments of role, link, and likelihood of extraordinary support are relevant for entities rated according to our Government Related Entities criteria. As such, they are not relevant for our assessment of TfL, which we rate instead according to our criteria on local and regional governments (see below).

## Predictable And Supportive Institutional Framework

Standard & Poor's views the U.K. institutional framework for local and regional governments (LRGs) as one of the strongest systems globally. Under our criteria, we assess the U.K.'s framework as "predictable and supportive," and have assigned it a score of 1 (the highest) on a scale of 1 to 6. This is based on our view of its high degree of transparency, accountability, and predictability, as well as the supportive role of the U.K. government (see our system report "Public Finance System Overview: U.K. Local and Regional Governments," published on April 5, 2011 for additional information).

Although the U.K. government has reduced funding for local authorities in recent years, and is likely to continue to do so (further announcements on this are due in June 2013) we continue to believe that the system remains supportive from a credit perspective. In general, local authorities have significant flexibility to reduce operating expenditures, while maintaining their mandatory responsibilities. In addition, the system normally prevents them from running operating deficits, unless these can be met from general reserve accounts. For more on this, see "Sector Reforms Are Unlikely To Damage U.K. Local And Regional Governments' Strong Creditworthiness In The Short Term," published on March 23, 2012.

## Strong And Diversified Economy Supports Demand For Transport

We believe that demand for TfL's transport services will continue to be supported by London's strong and diversified economy, sustained employment levels, and a growing population (mid-2011, Office for National Statistics).

### London's key position within the U.K. economy

We estimate that London's GVA per capita was £35,780 in 2012, and we forecast that it will grow by 1% in 2013, supported by growing employment levels that will lead to increasing demand for public transport. This forecast partly reflects the growth of the business and finance services sector (1.6%) in the first quarter of 2013. As in previous years, we expect London's economy to outperform the U.K. average. From 2007-2011, for instance, London's GVA grew by more than double the U.K. average. Key reasons for London's performance include its wide international exposure and its focus on the service sectors, particularly law, accountancy, and financial services.

London accounts for about 20% of the U.K.'s GVA, and with its GVA per capita at 170% of the U.K. average (2011), it

is both key to the U.K.'s economic growth and a major net contributor to the U.K.'s fiscal position.

The transport infrastructure provided by TfL is one of the key assets supporting London's economy and its continued economic growth. The central government therefore has a strong incentive to improve the quality of London's infrastructure. As such, we believe that TfL will continue to receive support from the U.K. government over the long term.

### Demand for transport has proved resilient

Demand for TfL's transport services has proved relatively resilient to the economic cycle in recent years. For instance, following the U.K. recession in 2009, passenger journeys declined by just 0.3% in 2010, with a 2.2% reduction in Underground journeys partly compensated for by an increase in (cheaper) bus journeys. Since then, Underground journeys have increased each year (see table 2), and we understand they are set to rise by almost 6% in 2013.

Looking ahead, we believe demand will be supported by continued economic growth, rising employment levels, and growth in population that the Office for National Statistics (ONS) forecasts at 14% over the next decade.

**Table 2**

<b>Economic Growth and Transport Demand Indicators</b>					
	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013f</b>
<b>Economic Indicators (Annual Growth Rate %)</b>					
London GVA/capita	(0.4)	1.5	0.6	0.4	1.0
<b>TfL Passenger Journeys (Annual Growth Rate %)</b>					
London Underground	1.6	(2.2)	3.9	5.8	3.8
Buses	3.3	0.4	1.4	2.4	0.2
Docklands Light Railway	(1.5)	4.5	13.0	10.3	16.7
London Tramlink	2.7	(1.9)	5.3	2.2	4.6
London Overground	15.3	3.3	66.8	79.4	19.0
Total	3.3	0.6	2.7	4.4	1.6

f--Standard & Poor's forecast based on TfL figures.

## Good Track Record In Financial Management

### Management demonstrates track record of controlling expenditure

We view TfL's financial management as being very positive for the rating. The executive management team is highly experienced, with a track record of successfully delivering projects on time and within budget, such as those related to the transport arrangements for the Olympics. It has also been able to deal effectively with significant challenges such as the integration of Metronet and Tube Lines PPPs within TfL.

Although we forecast that TfL is to start posting deficits after capital accounts, after several years of surpluses, we believe that its financial strategy remains disciplined, and that these deficits are part of a sustainable long-term plan. We also believe its approach to debt management remains prudent, with limited exposure to market risks. Although TfL partly finances its capital expenditure (capex) through a commercial paper program, so as to reduce its interest costs, we believe that the associated refinancing risk is effectively mitigated through its large cash holdings, its

committed facilities, and its access to the government-owned Public Works Loan Board.

## High Levels Of Budgetary Flexibility

We view TfL's level of financial flexibility as a credit strength, based on TfL's control over fare revenues and the congestion charge, which together comprise just over half of its operating revenues, coupled with the size of its capex program (about 40% of total expenditures) and the associated flexibilities.

### Potential to increase operating revenues

In our base-case scenario, TfL's revenues from fares and congestion charges (its modifiable revenues) account for 52% of consolidated operating revenues in its budget for the year ending March 31, 2014. (Fare revenues form 80% of this income, whereas congestion charging fees account for about 20%.) As government grants decrease over our forecast period, and as fare revenues rise with increased passenger journeys, we anticipate that modifiable revenues will rise to almost 60% of revenues by 2016.

In theory, due to TfL's monopoly over public transport and the price inelasticity of demand for its services, we believe that TfL's ability to raise fares would only be limited by the politically sensitive nature of fare increases. For this reason, allowing for the electoral cycle, we believe that TfL would potentially be able to increase fares above currently planned levels of RPI + 1%, if required.

TfL has far more revenue flexibility than most U.K. local authorities, which tend to have far less control over their modifiable revenues, and on average receive about two-thirds of their operating revenues according to formulae determined by central government.

### TfL's asset base provides additional revenue flexibility

We understand that TfL has a considerable asset base that could provide additional revenues, either by way of asset sale income or by increasing the return on retained assets. In addition to its planned asset disposals, we understand that TfL could potentially generate sale proceeds from asset disposals in excess of 10% of its annual revenues.

### Strong expenditure flexibility, particularly in relation to its large capital program

TfL's expenditure profile is relatively flexible, as demonstrated by the success of the cost-saving program to date. Between 2008 and 2012, for instance, it achieved savings of £2.1 billion, including some re-profiling of investment, and the rationalization related to the integration of Metronet and Tube Lines PPPs. Given its positive track record, we believe that TfL is likely to continue to deliver its targeted expenditure reductions on both the operating and the capital side, and that it has the capacity to deliver more if there are further reductions to its grant.

TfL enjoys particular flexibility over capex, given the capital-intensive nature of its business. As seen over the years, TfL is able to postpone some line upgrades and other major projects if required. Much of TfL's capex program could be postponed without any obvious implication for fare revenues, and only a minority of its capex would be termed as essential for the continued provision of services. In the period up to March 2015, for instance, TfL plans to spend £896 million on station upgrades.

About half of TfL's capital program relates to Crossrail, the costs of which will amount to £6.1 billion over 2013-2015.



Although TfL could in theory defer much of this capex, to do so would in practice defer its receipt of at least some of the associated operating revenues. It expects to start receiving these following Crossrail's completion, which is due in December 2018.

## **Budgetary Performance Set To Weaken Slightly**

TfL's financial performance has been very strong over the past three years, with operating balances in excess of 20% of operating revenues, and small surpluses after capital accounts. Over the next three years, however, we believe that operating performance will gradually weaken to about 15% of operating revenues, and that TfL will post deficits after capital accounts averaging 5%-10% of total revenues. Our assumptions reflect expected reductions in government grant, partially offset by buoyant fare revenues, and TfL's continued investment in capital infrastructure.

Beyond 2016, we believe that recurrent deficits after capital accounts of about 5% are likely, given the fiscal pressures on the U.K., which are likely to constrain TfL's government funding, coupled with the increasing demands on London's transport infrastructure. We believe, however, that the consequent increases in debt are likely to be sustainable at the current rating level, given TfL's relatively conservative approach to financial management, the prospect of buoyant fare revenues, its continued financial flexibility, and the borrowing limits that the U.K. government will, in any case, effectively impose on it.

### **Operating performance to gradually weaken, albeit from a high level, as grant reduces**

In our calculation of TfL's consolidated operating revenues, we include all grants that TfL receives (excluding ring-fenced grants provided for Crossrail). Following the U.K. government's decision to improve its fiscal position by reducing general government spending, TfL is set to see its grant decline significantly. This will lead to a reduction in centrally-allocated revenues from 43% of operating revenues in the financial year ending March 31, 2013 to about 33% by 2016.

In another important change, some of TfL's grant (representing about 10% of operating revenues) will now be allocated by the GLA, rather than by the Department for Transport. We will follow the implications of this, but at present believe that this is likely to be neutral for TfL's creditworthiness. The interests of the GLA and TfL are closely aligned, with both being under the leadership of the directly elected Mayor of London, Boris Johnson. For the current year, the Mayor has agreed to allocate the level of grant that TfL had previously been expecting under its funding settlement with the Department for Transport.

In our view, TfL will be better placed than most U.K. local authorities to absorb its expected reduction in grant, partly because its overall grant reduction has been lower, but mostly because of its sizable revenues from fares and congestion charges, which comprise about half its operating revenues. These revenues are set to be supported by increased passenger volumes, and by fare increases above inflation. In our base case scenario, as London's economy recovers and supports increased employment, we envisage that passenger journeys will grow by at least 2.5% per year, and that fares will rise in line with TfL's assumptions at RPI plus 1%. Growth in London's economy is also likely to support London's business rates (a tax on commercial properties), which will be centrally-allocated to the GLA, according a formula linked to growth in London's business rate revenues. Growth in business rates is therefore likely to be favorable for the level of grant that the GLA will allocate to TfL.

Although there may further reductions in grant to come, we note that the effect on TfL's overall operating revenues will become less significant, as grant reduces to only a third of total operating revenues by 2016.

In our base case, we believe that operating costs will remain relatively stable, following TfL's plans to partly absorb the grant reductions through savings in operating expenditure. Consequently, we forecast that TfL's operating balance will only decline by about 7% of operating revenues, from 22% in the year ended March 31, 2013, to about 15% by 2016.

### Ongoing deficits after capital accounts are likely, on back of major capital program

After taking into account the growing size of TfL's capital expenditure program, we believe that TfL will post deficits after capital accounts averaging 5%-10% of total revenues over the next three years. This is a deterioration from the small surpluses after capital accounts posted over the previous three years. And given the increased demands for infrastructure spending in London, and the likelihood that government grant will continue to decline in real terms, we believe that an underlying deficit after capital accounts of around 5% may well recur beyond this period.

### Crossrail: Construction and financing risks mitigated by government

Crossrail is a £14.8 billion major rail project for the London metropolitan area. It is TfL's largest project, and will provide a fast urban train system that connects Heathrow and Maidenhead to West London, Essex, and South East London. It is expected to increase the capacity of urban transport by 10%. We would expect demand for TfL's transport services to have expanded so as to readily use this capacity by the time of Crossrail's completion in December 2018.

Crossrail is a complex project that is exposed to a number of major risks, particularly those associated with tunneling under London. Given its national significance, it is regulated by a specific project agreement between TfL and the Department of Transport. As part of the agreement, the Department of Transport effectively takes on the risk of cost over-runs beyond a certain level (for more on this, see Contingent Liabilities below). To date, however, we understand that Crossrail's construction is currently on track to be completed on time and to budget. Procurement activity is largely finished, and boring machines have now started tunneling.

The project is co-funded from several sources (see table 3), with the majority of funding coming from the U.K. government (via the Department of Transport) and the GLA. TfL itself will only take on about £2 billion of associated debt.

The GLA's contribution is to be mainly funded through borrowing (£3.5 billion), supported by supplementary business rates revenues. A Business Rates Supplement (BRS) of 2p has applied since April 2010 to business properties with a rateable value of more than £50,000 in the Greater London area.

**Table 3**

<b>Crossrail Funding Scheme</b>	
<b>(Mil. £)</b>	
<b>From London Boroughs</b>	
Developer Contributions	300
Community Infrastructure Levy	300

**Table 3**

<b>Crossrail Funding Scheme (cont.)</b>	
<b>From GLA</b>	
GLA Borrowing backed by Business Rates Supplement	3,500
Surplus on Business Rates Supplement	600
<b>From TfL</b>	
EIB Corporate Loan to TfL	1,000
Other TfL borrowing	1,000
Sale of Surplus Land and Property	444
<b>DFT Funding</b>	
BAA Plc	230
City of London Corporation	250
Department for Transport Grant	4,700
<b>Other Funding</b>	
Network Rail Surface Works and Other	2,500
<b>Total Funding</b>	<b>14,825</b>

Source: TfL.

## Debt Burden Set To Gradually Increase

TfL's capital program is to be funded by a combination of capital revenues, drawdowns from TfL's reserves, and debt issuance. As TfL has effectively pre-funded some of the program through previous debt issuance, we expect TfL's debt burden to rise only gradually from tax-supported debt of 111% of operating revenues as at March 2013 to about 130% by 2016.

In our base case, we believe the interest costs associated with this, including adjustments for finance leases, will rise to about 6% of operating revenues by 2016, which should be sustainable at this rating level. We believe that debt levels are unlikely to be much in excess of this by 2016, given that any borrowing increases are effectively constrained by the U.K. government.

As at March 2013, we calculate that TfL's tax-supported debt amounted to £8.7 billion, or 111% of consolidated operating revenues. This measure of debt includes about £7.6 billion of direct debt, £0.9 billion of financial leases, and £250 million of operating lease commitments. In our calculation of tax-supported debt, we base our analysis at a group level, taking into account both the liabilities of TfL, and the liabilities of its subsidiaries, irrespective of whether or not those liabilities are formally guaranteed by TfL as parent. (In previous years, we may have over-stated TfL's levels of tax-supported debt, largely due to an element of double-counting whereby a subsidiary's liabilities were counted twice if they had been guaranteed by TfL.)

TfL's debt is diversified among a number of lenders. As at March 2013, £2.7 billion of TfL's direct debt was sourced from the government-funded PWLB, £1.8 billion from the EIB, about £1.9 billion by bonds. Since TfL's bond issuance in May 2013, this has now risen to £2.3 billion. The long-term debt is predominantly held at fixed rate, and refinancing risk is managed through a mixed debt maturity profile. As at March 2013, TfL was also funded by about £1.1 billion of

commercial paper, which we expect to reduce slightly in the current financial year. (For more on TfL's approach to the use of commercial paper, see Financial Management section above.)

Looking ahead, we believe TfL's borrowing will continue to be funded by a similar range of sources.

### Limited exposure to pension liabilities and derivatives

As at March 2013, TfL had £699 million in unfunded pension liabilities, representing about 9% of revenues. We understand that TfL has a plan to cover this deficit by 2020. (We do not include these liabilities in our calculation of tax-supported debt.)

Unlike other local authorities, the TfL Act of 2008 allows TfL to enter into derivatives for hedging purposes. TfL therefore makes use of derivatives to hedge interest rate volatility, and may hedge commodity risk in the future. As of March 2013, TfL had about £350 million of forward starting swaps. None of these derivatives expose TfL to any potential requirement to pay cash collateral.

## Limited Contingent Liabilities

In our opinion, TfL's contingent liabilities are moderate and are mainly related to its significant investment plan, particularly with regard to Crossrail.

### Crossrail's Project Development Agreement protects TfL from major cost overruns

Crossrail's Project Development Agreement caps TfL's financial exposure to the project in case of significant cost overruns, thereby protecting TfL's credit profile.

The "Project Development Agreement" includes several review phases (or "intervention points"), which could help TfL identify potential cost overruns in advance and put timely correction mechanisms into place. If costs were to overrun significantly, under certain conditions TfL could exercise its right under a put option--an agreement it has with DfT--which would transfer the project ownership back to DfT. In practice, if there were major cost overruns, we believe that DfT and TfL would be likely to co-operate in managing and funding the completion of Crossrail.

**Table 4**

Summary Of Published Rating Factor Scores*	
RATING FACTOR	SCORE
Institutional framework	Predictable and supportive
Financial management	Very Positive
Liquidity	Very Postitive

\*Standard & Poor's ratings on local and regional governments are based on, among other things, a scoring system that covers eight main rating factors, as further explained in our criteria (see below). We publish our scores for the three rating factors above.

**Table 5**

Transport for London Financial Statistics (financial year beginning April 1)							
£ mil.	2009	2010	2011	2012e	2013bc	2014bc	2015bc
Operating revenues	6,609	7,198	7,522	7,876	7,741	7,561	7,821
Operating expenditures	5,793	5,386	5,606	6,167	6,314	6,287	6,654
Operating Balance	816	1,813	1,916	1,709	1,427	1,274	1,167

**Table 5**

<b>Transport for London Financial Statistics (financial year beginning April 1) (cont.)</b>							
Operating balance (% of operating revenues)	12.00	25.00	25.00	22.00	18.00	17.00	15.00
Capital revenues	232	1,272	1,468	2,119	2,115	1,774	1,785
Capital expenditures (capex)	2,877	2,937	2,776	3,498	4,101	4,237	4,500
Balance after capital accounts	(1,830)	147	609	330	(561)	(1,189)	(1,548)
Balance after capital accounts (% of total revenues)	(26.7)	1.7	6.8	3.3	(5.7)	(12.7)	(16.1)
Debt Repaid	42	220	1,547	1,169	877	928	826
Balance after debt repayment and onlending	(1,872)	(73)	(939)	(839)	(1,438)	(2,117)	(2,374)
Balance after debt repayment and onlending (% of total revenues)	(27.4)	(0.9)	(10.4)	(8.4)	(14.6)	(22.7)	(24.7)
Gross borrowings	1,100	651	2,359	1,236	1,167	1,463	1,411
Balance after borrowings	(772)	578	1,420	397	(271)	(654)	(963)
Operating revenue growth (%)	(1.1)	8.9	4.5	4.7	(1.7)	(2.3)	3.4
Operating expenditure growth (%)	13.2	(7.0)	4.1	10.0	2.4	(0.5)	5.8
Modifiable revenues (% of operating revenues)	49.5	49.2	51.1	48.7	52.3	56.5	57.6
Capital expenditures (% of total expenditures)	33.2	35.3	33.1	36.2	39.4	40.3	40.3
Direct debt (outstanding at year-end)	7,160	7,777	8,157	8,465	8,761	9,296	9,939
Direct debt (% of operating revenues)	108.3	108.0	108.4	107.5	113.2	122.9	127.1
Tax-supported debt (% of consolidated operating revenues)	140.8	111.5	111.8	110.7	116.4	126.2	130.3
Interest (% of operating revenues)	6.4	5.7	4.8	4.5	4.8	5.2	5.7
Debt service (% of operating revenues)	7.0	8.7	25.4	19.3	16.2	17.5	16.3

e--Estimated. bc--Base case, which reflects Standard & Poor's expectations of the most likely scenario.

### Ratings Detail (As Of June 12, 2013)

#### Transport for London

Issuer Credit Rating	AA+/Stable/A-1+
Commercial Paper	A-1+
Senior Unsecured	AA+

#### Issuer Credit Ratings History

03-Dec-2010	AA+/Stable/A-1+
20-Sep-2010	AA/Watch Pos/A-1+
29-Mar-2010	AA/Stable/A-1+

\*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

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