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Summary:
Transport for London

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Summary:

Transport for London

Credit Rating: AA/Stable/--

Rationale

The 'AA' long-term issuer credit rating on Transport for London (TfL) continues to reflect its positive relationship with the government, the importance of its services to the U.K. economy, and its financial flexibilities. The rating is constrained by the risks and debt associated with its substantial capital plans. TfL is a functional body of the Greater London Authority (GLA; AA+/Stable/--), and is responsible for nearly all public transport functions in London.

Following elections in May 2008, the TfL board is now chaired by the new Mayor of London, Boris Johnson (Conservative Party). The new mayor's priorities will have various financial implications: he has already announced that the congestion charge zone will be reduced in size, thereby reducing revenues, but has also placed an emphasis on finding efficiency savings. We believe that any reductions in planned revenues will lead to corresponding adjustments in TfL's business plan, and that TfL will retain a conservative financial strategy.

TfL enjoys an extremely strong business position and a near-monopoly over London's public transport, and the associated fares. In addition, almost half of its revenues come from government grant, via the Department for Transport (DfT). Given the importance of TfL's services both for London and the U.K. economy, we would expect TfL to continue receiving substantial grant settlements, and to enjoy the prospect of additional support, if necessary, for the foreseeable future.

TfL has a high level of liquidity, with cash and short-term investments at about 30% of operating expenditures, and only slightly less than its £1.95 billion direct debt (at financial year-end 2008). The majority of TfL's debt is sourced from the government-funded Public Works Loan Board (PWLB). TfL's access to the PWLB is an important credit feature, substantially limiting refinancing and liquidity risk.

Although there are risks and uncertainties associated with TfL's investment program, its substantial size--£15.7 billion (excluding Crossrail) over nine years--allows considerable flexibility to defer, reduce, or cancel individual projects. TfL also has responsibility for Crossrail, a £15.9 billion major rail project for London and the southeast of England. Should the start-up costs of Crossrail overrun beyond the contingency provision, Tfl's financial obligations are in effect capped under an agreement with DfT.

TfL continues to face the ongoing challenges of managing the relationships and cost pressures associated with its PPP contracts with Tube Lines, integrating the operations formerly run by Metronet, and pursuing efficiencies across the group.

Outlook

The stable outlook reflects our expectation that TfL will continue to have a positive relationship with the U.K. government (AAA/Stable/A-1+), demonstrated by a willingness to provide additional support in the event of financial stress. Pressure might be put on the rating if conflict between the Conservative mayor and Labour central government led to a diminution of this potential supportiveness, but we believe such a scenario is unlikely.

TfL forecasts that its debt is set to increase substantially, rising by £5.69 billion between financial year-end 2008 and 2018. Given TfL's strong financial flexibilities, we believe that this borrowing will be sustainable at the current rating level, assuming that debt-service costs remain low in accordance with forecasts, and that TfL continues to have ready access to the PWLB. We do not expect to lower the rating.

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