

Transport for London (/gws/en/esp/issr/80962831)



Fitch Affirms Transport for London at 'AA-'; Outlook Negative

Fitch Ratings-Barcelona/London-03 May 2018: Fitch Ratings has affirmed Transport for London's (TfL) Long-Term Foreign- and Local-Currency Issuer Default Ratings (IDR) at 'AA-' with Negative Outlooks and Short-Term Foreign-Currency IDR at 'F1+'.

Fitch has also affirmed TfL's GBP5 billion MTN programme's long-term foreign and local currency ratings at 'AA-' and ECP commercial paper programmes, short-term foreign and local currency ratings at 'F1+'. The corresponding debt issues have been affirmed at 'AA-'/F1+'.

TfL's ratings are notched down once from the UK sovereign (AA/Negative/F1+) under Fitch's Government Related Entity (GRE) criteria, reflecting the application of the four key rating factors under the strength of linkage and incentive to support factors. Fitch believes that extraordinary support from the UK government would be forthcoming if needed.

KEY RATING DRIVERS

Status, Ownership and Control Assessed as Strong

TfL's legal status is that of a statutory corporation subject to local government finance rules and as such it must produce a balanced budget each year. TfL is a functional body of the Greater London Authority (GLA) and reports to the mayor of London who is the chair of the board. The mayor appoints the 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 and Expectations Assessed as Strong

The UK government has expressed its support for TfL's long term commitments in the latest funding settlement, although since April 2017 it no longer subsidises TfL's investment plan. This has included funding for not only the Elizabeth Line but also the extensive modernisation of tube services and stations and the transformation of the road network. Since April 2017, the investment grant has been replaced by an equivalent amount of almost GBP1 billion business rates transferred to TfL by the GLA under a pilot scheme for further business rates

devolution.

Until now about a third of TfL's total revenue has come from grants. Some of this is paid directly to TfL from the Department for Transport (DfT), some is transferred from the DfT via the GLA, and some is 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 billion annually.

Socio-Political Implications of Default Assessed as Strong

TfL is strategically important for London and overall, for the UK economy. Over 31 million journeys are undertaken on TfL's network every day. 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 lead to significant political or economic repercussions.

Financial Implications of Default Assessed as Very Strong

This has been 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 EIB (31% of borrowing) would restrict funding.

RATING SENSITIVITIES

A change in the rating could result from:

- A downgrade or upgrade of the UK sovereign
- A change in the assessment of the strength of linkage or incentive to support factors under the Government Related Entity Criteria.

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Summary of Data Adjustments - Fitch has made an adjustment to the statutory accounts in order to reflect the operating nature of TfL:
- a positive adjustment has been made to Fitch calculated EBITDA for all years, representing the difference between the total amount of revenue grants received and the total amount of grants allocated to revenue in the statutory accounts.

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Additional information is available on www.fitchratings.com

Applicable Criteria

Government-Related Entities Rating Criteria (pub. 07 Feb 2018)

(<https://www.fitchratings.com/site/re/10019302>)

International Local and Regional Governments Rating Criteria - Outside the United States (pub. 18 Apr 2016) (<https://www.fitchratings.com/site/re/878660>)

Rating Criteria for Public-Sector, Revenue-Supported Debt (pub. 26 Feb 2018)
(<https://www.fitchratings.com/site/re/10020113>)

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(<https://www.fitchratings.com/site/dodd-frank-disclosure/10028248>)

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