

Summary:

Transport for London

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Table Of Contents

Rationale

Creditwatch

Related Criteria And Research

Summary:

Transport for London

Credit Rating: AA/Watch Pos/A-1+

Rationale

The ratings on Transport for London (TfL) reflect its positive relationship with the central government, the critical nature of its services for London and therefore the U.K. economy, and its financial flexibilities. Constraining rating factors include the risks and debt associated with its substantial capital plans, and the fiscal challenges facing the U.K. (AAA/Negative/A-1+).

TfL is responsible for nearly all public transport functions in London. It operates through a number of subsidiaries, the largest of which is London Underground Ltd., which together comprise the TfL Group. For the purposes of our analysis, we have focused on the group as a whole. TfL is also a functional body of the Greater London Authority (GLA; AA+/Stable/--).

TfL enjoys an extremely strong business position and a near-monopoly over London's public transport and the associated fares. In addition, approximately half of its revenues come from government grant, via the Department for Transport (DfT). Although the fiscal challenges facing the U.K. government may present some uncertainty over the level of future grant for TfL, and has already reduced the grant for 2010/11 by £108 million, we believe that the U.K. government will continue to act in a highly supportive manner, given the importance of TfL's services both for London and the U.K. economy.

Although there are risks and uncertainties associated with TfL's investment program, its substantial size--£13.5 billion (excluding works associated with Crossrail and the former Tube Lines PPP) from 2010/11 to 2017/18--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, thereby protecting TfL's credit standing.

Liquidity

TfL has a sufficient level of liquidity, with cash and short-term investments (including those earmarked for Crossrail) at £1.322 billion, as at Sept. 30, 2010. TfL also has access to undrawn overdraft facilities of £200 million. In addition, it has ready access to the government-funded Public Works Loan Board (PWLb), assuming TfL remains within its prudential borrowing limits. (PWLb's role is to lend to local authorities and other prescribed bodies, and it has a policy and track record of lending to local authorities such as TfL within two days of any legitimate application.)

Creditwatch

The positive implications of TfL's CreditWatch status reflect the likelihood of an upgrade over the next three months because of the application of our revised local and regional government criteria, our view of the institutional framework, and access to liquidity among other factors.

We aim to resolve the CreditWatch after reviewing TfL's position once the spending review settlements are announced and we are able to discount the effect on TfL's business plans for the rating horizon.

Related Criteria And Research

Methodology For Rating International Local And Regional Governments, Sept. 20, 2010

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