



RATING ACTION COMMENTARY

Fitch Affirms Transport for London at 'A+'; Outlook Stable

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Fitch Ratings - London - 17 Sep 2021: Fitch Ratings has affirmed Transport for London's (TfL) Long-Term Foreign- and Local-Currency Issuer Default Ratings (IDRs) at 'A+'. The Outlooks are Stable.

The affirmation reflects Fitch's expectations that TfL's credit metrics will remain compatible with the rating, despite the impact of the Covid-19 pandemic in FY21.

Fitch rates TfL using its Government-Related Entities (GRE) Criteria. The assessment of support by the company's sponsor, the UK sovereign (AA-/Stable), combined with the distance between the sponsor's rating and the company's Standalone Credit Profile (SCP; bbb+), results in the application of a top-down minus one approach.

TfL has a key public mission in the UK capital, as infrastructure and operations manager of almost all public transportation.

KEY RATING DRIVERS

Status, Ownership and Control

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

Strong

The UK government has always expressed its support for TfL's long-term commitments, although it has not subsidised TfL's investment plan since April 2017. Since then, the investment plan has included the Elizabeth Line, 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 Since April 2017, the investment grant has been replaced by an equivalent amount of almost GBP1 billion business rates transferred to TfL by the GLA under a pilot scheme for further business rates devolution.

The majority of the grant TfL receives is through business rates collected and distributed by the GLA, or transferred from the Department for Transport via the GLA. During the Covid-19 pandemic, further extraordinary grants have been received by TfL from the UK government in order to maintain operations. These are expected to be maintained at a level to sustain TfL's financial profile until the crisis is over.

Socio-political Implications of Default

Strong

TfL is strategically important for London and for the UK economy overall. Prior to the Covid-19 pandemic, around 4 billion journeys were undertaken on TfL's services annually. 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

Very Strong

If TfL defaulted, it would impair the availability and cost of borrowing for other GREs in the UK, and likely the UK sovereign, given TfL's importance. 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.

Revenue Defensibility

Strong

TfL's revenue defensibility is driven by a strong demand assessment. Despite the pandemic, we expect passenger demand to return to high levels through the cycle. TfL has limited pricing power, but we consider the overall assessment to be strong given its position as the key provider of public transport in the capital.

Operating Risk

Midrange

We assess operating risk based on a Midrange assessment of operating costs and stronger assessment of resource management, with a neutral influence from the capital planning and management factor.

Financial Profile

Midrange

TfL's financial profile significantly deteriorated during FY21 as a direct result of the Covid-19 pandemic. The UK government provided support to limit the financial impact but TfL's net debt/EBITDA ratio still declined to around 14x from around 8x. Fitch expects improvement through its rating case, factoring in the expectation of continued government support. However, we do not expect sufficient improvement to reach pre-pandemic levels in the medium term.

DERIVATION SUMMARY

Under its GRE Criteria, Fitch classifies TfL as an entity linked to the UK sovereign and applies a top-down approach based on its assessment of the strength of linkage with and incentive to support by the UK. TfL's GRE support score is assessed at 40, reflecting a combination of a Strong Status, Ownership and Control, Strong Support Track Record,

Strong Socio-Political Implications of Default and Very Strong Financial Implications of Default.

The company's 'bbb+' SCP also reflects peer comparison. The SCP assessment combined with a GRE Score of 40, results in the application of a 'top-down minus one' approach and leads to TfL's 'A+' IDRs.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

- An upgrade of the UK sovereign.
- A positive change in the expected financial profile through the cycle, specifically a sustained improvement in the net adjusted debt/EBITDA ratio to below 12x under Fitch's rating case.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

- A multiple-notch downgrade of the UK sovereign.
- A change in the assessment of the strength of linkage or incentive to support factors under the GRE Criteria accompanied by a sustained weakening in TfL's financial profile SCP under the Revenue Supported Entities Criteria.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Sovereigns, Public Finance and Infrastructure issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of three notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>.

LIQUIDITY AND DEBT STRUCTURE

TfL had cash and liquid deposits of GBP1.7 billion at end-FY21, around GBP40 million is ringfenced for crossrail. TfL has a policy to maintain cash and liquid assets of at least 60 days' worth of operating expenditure, currently about GBP1.2 billion, although it would generally maintain levels above this.

TfL generally has ample access to external liquidity. Along with other local authorities, it may borrow from the Public Works Loan Board (PWLB, a statutory body operating within the UK Debt Management Office), which provides easy and direct access to funding at very short notice. PWLB will lend any amount to TfL within authorised borrowing limits set by the mayor, at a rate of Gilts + 80bp. Funds would be credited to TfL within five days of a request.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

PUBLIC RATINGS WITH CREDIT LINKAGE TO OTHER RATINGS

TfL's rating is linked to the UK sovereign rating.

ESG CONSIDERATIONS

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit

www.fitchratings.com/esg

RATING ACTIONS

ENTITY/DEBT	RATING			PRIOR
Transport for London	LT IDR	A+ Rating Outlook Stable	Affirmed	A+ Rating Outlook Stable
●	ST IDR	F1+	Affirmed	F1+

ENTITY/DEBT	RATING		PRIOR	
●	LC LT IDR	A+ Rating Outlook Stable	Affirmed	A+ Rating Outlook Stable
● senior unsecured	LT		Affirmed	

[VIEW ADDITIONAL RATING DETAILS](#)

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APPLICABLE CRITERIA

[Government-Related Entities Rating Criteria \(pub. 30 Sep 2020\)](#)

[Public Sector, Revenue-Supported Entities Rating Criteria \(pub. 01 Sep 2021\) \(including rating assumption sensitivity\)](#)

ADDITIONAL DISCLOSURES

[Dodd-Frank Rating Information Disclosure Form](#)

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Transport for London

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