

Transport for London



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Dear John

Further to your letter of 30 May 2012, and the Budget and Performance Committee meeting of 29 May 2012, I am writing to address the questions raised regarding TfL's borrowing plans.

TfL's legal borrowing limits (the Authorised Limit and Operational Boundary which are established in accordance with the Prudential Code) were approved by the Mayor, after consultation with the London Assembly, in March 2012. These limits are based on the additional direct borrowing TfL intends to undertake each year but also include other liabilities classified as indebtedness, such as finance lease liabilities. The limits are set out in the table below.

£'m (cash)	2012/13	2013/14	2014/15
Operational Boundary	8,070.5	8,369.7	8,926.4
Authorised Limit	9,223.5	9,522.7	10,079.4

While the above represents the legal limit on TfL's borrowing determined by the Mayor, in practice these are a reflection of the limits on TfL's additional borrowing agreed between the Mayor and the Secretary of State for Transport in the 'Spending Review 2010: TfL Funding Agreement' letter dated 20 October 2010. As you are aware, the Mayor's determination is subject to central Government's reserve powers to make regulations to cap TfL's borrowing and TfL therefore considers these pre-agreed borrowing levels to be absolute limits. The incremental borrowing agreed for each year to 2014/15 is set out in the table below.

£'m (cash)	2012/13	2013/14	2014/15
TfL Borrowing	445	345	650

It is important to note that TfL's Business Plan assumes that the borrowing limits set out above are fully utilised and therefore, any discussion regarding the feasibility of additional borrowing in the context of TfL's credit rating must recognise that the agreement of central Government would be required to implement any increase in borrowing.

The second part of your question relates to the amount by which borrowing could be increased without threatening TfL's credit ratings. TfL's credit ratings are the result of the complex interaction of a variety of both quantitative and qualitative factors. I would note the following points which TfL understands to be pivotal to its credit ratings:

- the rating agencies place significant importance on the positive and close relationship between TfL and the Department for Transport (DfT). Any decrease in actual or perceived central government support for TfL would create a risk of a ratings downgrade;
- the rating agencies consider in their analysis the relationships between outstanding debt and recurring revenue, and annual debt service to recurring revenue. The affordability of any additional borrowing and the total quantum of debt that TfL can raise are therefore linked to TfL's recurring revenue; any reduction in ridership, fares or grant income from planned levels (the Business Plan assumes RPI + 2% for fares) would reduce TfL's capacity to borrow while any increase would have the opposite effect;
- TfL's operating performance and performance in the delivery of its capital investment programme is also a key factor in TfL's credit rating as this performance is conditional to the continued provision of the Transport Grant and ultimately the amount of cash cover available for servicing TfL's significant borrowings.

TfL believes that the current planned increases in borrowing (£1.44bn over the next 3 years) will take TfL to near the maximum level of debt that would be consistent with maintaining its current rating (assuming no change in the factors outlined above) in the period to March 2015. Standard & Poor's published a report on TfL on 1 June 2012 and specifically reference high levels of debt by 2015 as one of the two main weaknesses in TfL's credit (the second being exposure to its large capital investment programme).

I will write to you separately concerning your question on efficiencies.

Yours sincerely



Stephen Critchley
Chief Financial Officer