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Transport for London

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Transport for London (United Kingdom)

New Crossrail delay is credit negative, with peak impact in fiscal 2021 and 2022

On 25 April, Crossrail Limited announced a further delay to the opening of the central section of the Elizabeth line – which will extend from Paddington station to Abbey Wood – to between October 2020 and March 2021, two years later than originally scheduled.[1] We estimate that the delay will cost Transport for London (TfL) (Aa3 stable), which wholly owns Crossrail, around £1 billion in lost Elizabeth line passenger revenue between fiscal 2020 (ending 31 March 2020) and 2022 (around £300-£400 million more than anticipated in TfL's 2018 business plan). However, the net impact is expected to be lower due to some avoided operating costs and abstracted revenue added back to other TfL services.[2] We expect TfL to manage the lost revenue by accelerating its cost-savings programme, delaying capital expenditure and applying more of its mayoral business rates to its operating budget.

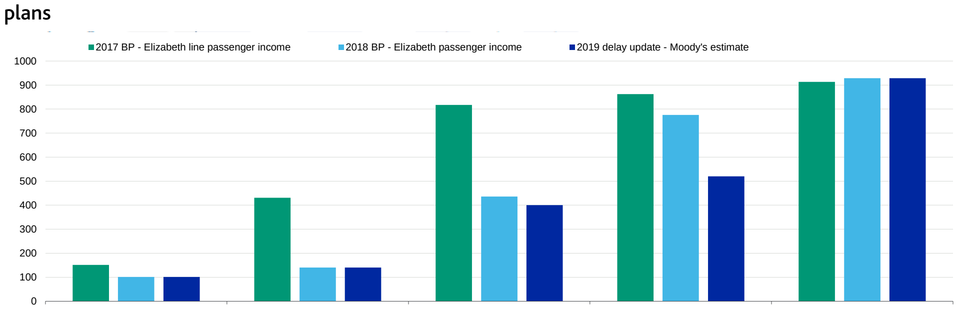
» **The two-year delay will exert significant pressure on TfL's operating budget between fiscal 2020 and fiscal 2022.** We estimate the gross impact of the delay on Elizabeth line passenger revenue to be around £1 billion or approximately 5% of total TfL operating revenue in these years.

» **TfL has a number of options it can use to manage the financial impact of the delay**, including accelerating its cost-savings programme and delaying capital expenditure, which would also allow it to use more business rate revenue within its operating budget. However, the delay will limit its ability to counteract unexpected revenue or spending shocks over the pre-opening period.

Exhibit 1

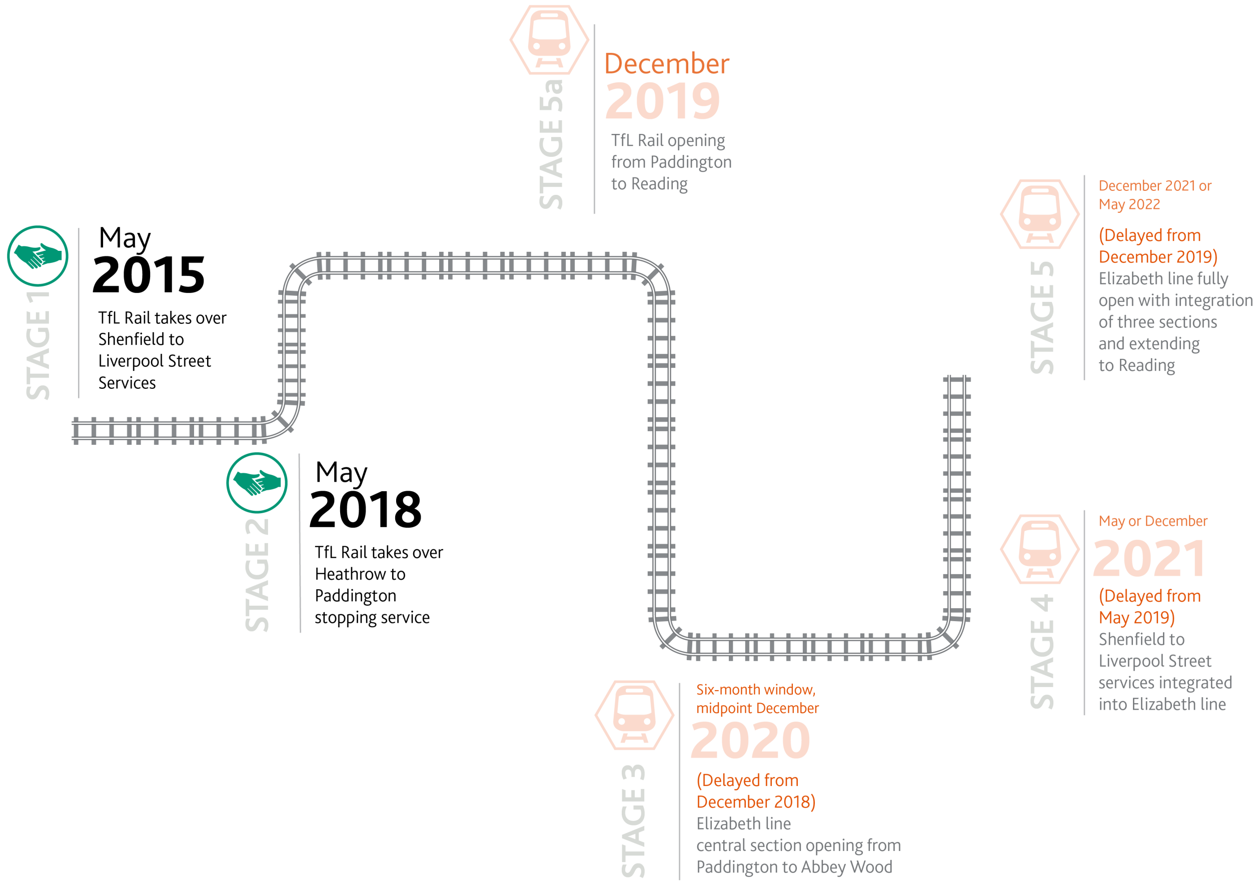
The two-year delay to the opening of the Elizabeth line will cost TfL around £1 billion in gross Elizabeth line passenger revenue between fiscal 2020 and fiscal 2022

Moody's estimate of Elizabeth line passenger revenue (£ million) compared to TfL's 2017 and 2018 business plans



Source: TfL 2017 and 2018 Business Plans, Moody's estimates

Exhibit 2
New opening schedule for the Elizabeth line (Stages 4 and 5 are Moody's estimates)



*Opening dates for Stage 4 and Stage 5 of the Elizabeth line are Moody's estimates and are unconfirmed by Transport for London
Source: Transport for London, Moody's

The two-year delay will exert significant pressure on TfL's operating budget between fiscal 2020 and fiscal 2022

The central section of the Elizabeth line (Stage 3) is now expected to open within a six-month window with a midpoint of December 2020, compared to its original opening schedule of December 2018. Stages 4 and 5 will open consecutively depending on the precise opening date of Stage 3. There has been no official confirmation of the opening of the full line, so our assumptions on lost passenger revenue are based on our estimate of a latest date of May 2022. In addition, we note that there has been no confirmation of when the Elizabeth line's Bond Street station will open, and it is likely that this station will not be included in the opening of the central section in late 2020/early 2021.

TfL is relatively insulated from the delay's capital cost, which is expected to remain within the new £17.6 billion funding envelope agreed with the UK government in December 2018. Its liability for the capital cost overrun is currently limited to a £750 million loan facility which will be made available to TfL from the Department for Transport if the cost overrun exceeds £1.7 billion.

However, the operating impact of the delay will be felt heavily by TfL. We estimate that the gross Elizabeth line passenger revenue shortfall will be around £1 billion between fiscal 2020 and fiscal 2022 compared to TfL's 2017 business plan, or around £300-£400 million worse than TfL's 2018 business plan. The total shortfall accounts for approximately 5% of total operating revenue over this period. The net impact to TfL is likely to be somewhat lower, due to some avoided operating costs and abstracted revenue added back to other TfL services.

The operating impact of the delay will add to the other budgetary challenges that TfL faces in the medium term, which include (1) a reduction in operating grant from 29% of total operating income in fiscal 2014 to 18% in fiscal 2018; (2) stagnant passenger numbers; and (3) the continuing impact of the Mayor's fare freeze, which affects around half of TfL's passenger revenue.[3]

TfL has a number of options it can use to manage the financial impact of the delay

TfL could accelerate its cost-savings programme and delay or cancel parts of its capital programme, which would allow it use more business rates revenue within its operating budget. TfL has already introduced a number of these options in its 2018 business plan to mitigate other budgetary challenges, including the previously announced Crossrail delay.

In fiscal 2020, TfL will receive some £1.9 billion in non-ring-fenced business rates from the Greater London Authority (unrated), which it can either apply to its operating or capital budget. In order to address existing operating challenges, in TfL's 2018 business plan it announced delays to the Camden Town station upgrade and the signalling upgrade of the Piccadilly line to enable it to apply more business rates to its operating budget. TfL has a number of other short-term, flexible projects and programmes which it could delay within the scope of this business plan that extends to fiscal 2024.

TfL has performed well on its transformation programme, which is aimed at removing £1.2 billion of annual operating costs from the organisation by fiscal 2023. Its recently published budget showed that its full year net cost of operations in fiscal 2019 will be £468 million lower than initially budgeted (£500 million vs. £968 million), indicating that savings are being generated earlier than anticipated.

We do not expect TfL to materially weaken its cash balance to counteract the impact of the delay, and it continues to maintain a policy of maintaining a minimum level of cash of 30 days of operating cost on average (representing approximately £550 million for fiscal 2019).

Moody's related publications

» **Credit Opinion**: Transport for London (United Kingdom): Update to credit analysis, March 2019

» **Issuer In-Depth:** Transport for London (UK): Crossrail delay adds to budgetary challenges, but project remains critical to TfL's financial sustainability, November 2018

» **Issuer Comment**: Transport for London (UK): Crossrail overspend is credit negative, but manageable; Elizabeth Line opening schedule remains on target, July 2018

» **Methodology**: Mass Transit Enterprises Methodology, December 2017

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.

Endnotes

1 Crossrail Limited (April 2019)

2 Abstracted revenue relates to passenger journeys that were previously expected to transfer from other TfL services to the Elizabeth line central section when it opened. They will now remain within other TfL services in the pre-opening period.

3 Transport for London (UK) Crossrail delay adds to budgetary challenges, but project remains critical to TfL's financial sustainability.

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