

Bulletin:

# Transport for London's New Funding Agreement Addresses Short-Term Needs; Long-Term Uncertainties Remain

November 9, 2020

LONDON (S&P Global Ratings) Nov. 9, 2020--S&P Global Ratings said today that the new extraordinary funding agreement with the central government via the Department for Transport (DfT) will be sufficient to cover Transport for London's (TfL; A+/Negative/A-1) short-term revenue losses, caused by the pandemic-related disruption. However, uncertainties remain regarding the longer-term funding model of the business, especially related to the delivery of large capital projects.

The new funding agreement provides a flexible short-term solution for TfL until March 2021. It includes an initial package of £1 billion (mostly in the form of grants) that is topped up when ridership falls below 65% of prepandemic levels. As of Nov. 1, 2020, weekly ridership compared with 2019 levels stood at 36% on the Tube and 56% on the bus operations. With the mobility restrictions introduced on Nov. 5, 2020, we expect ridership to decline even further, and we anticipate that the funding package will be increased above £1 billion to top up low farebox revenue. We expect that the flexible nature of the agreement's true-up provision combined with TfL's commitment to deliver cost savings will provide the business with enough additional funding to address any further drops in ridership over the next six months.

TfL's longer-term business model remains uncertain, with TfL and DfT still in discussions over a funding settlement that will ensure that the business can return to achieving positive operating surplus, including financing costs and capital renewals, on a sustained basis. In addition, the DfT, GLA, and TfL have yet to finalize their funding arrangements for the £1.1 billion of announced cost overruns for Crossrail. We expect these negotiations to be concluded in the coming months.

Our negative outlook on TfL reflects these pressures. We might lower the rating on TfL if we observed decreased willingness from the U.K. government via the DfT or Greater London Authority to support TfL beyond the expiry of the new funding package in March 2021, or in regard to Crossrail cost overruns. Our expectation of subdued ridership over the next two years without further government support would entail pressure on TfL's revenue-generating capacity and a need for further borrowings.

**PRIMARY CREDIT ANALYST**

**Celia Franch Lopez**  
London  
+ 44 20 7176 0100  
celia.franch\_lopez  
@spglobal.com

**SECONDARY CONTACTS**

**Christopher Mathews**  
London  
+ 44 20 7176 7115  
christopher.mathews  
@spglobal.com

**Felix Ejgel**  
London  
(44) 20-7176-6780  
felix.ejgel  
@spglobal.com

**ADDITIONAL CONTACT**

**EMEA Sovereign and IPF**  
SovereignIPF  
@spglobal.com

## **Related Research**

- Greater London Authority Ratings Affirmed At 'AA/A-1+'; Outlook Negative, Sept. 18, 2020
- Transport for London Downgraded To 'A+/A-1' On Lower Ridership And Rising Debt; Outlook Negative, May 22, 2020

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