

Bulletin:

Transport for London Can Bridge The Funding Gap In Its New Settlement With The U.K. Government

September 22, 2022

LONDON (S&P Global Ratings) Sept. 22, 2022--S&P Global Ratings said today that the funding settlement that Transport for London (TfL; A+/Stable/A-1) has agreed with the government of the U.K. (AA/Stable/A-1+) via the Department for Transport (DfT) leaves TfL with a funding gap. However, we consider the gap to be minor relative to the size of TfL's operations, and believe that TfL can bridge the gap with additional cost savings or temporary support from the Greater London Authority (GLA; AA/Stable/A-1+), if needed. We therefore expect TfL's financial metrics to stay broadly in line with our previous expectations and support the current ratings. We believe that the settlement confirms the U.K. government's commitment to support TfL to ensure that it is financially sustainable. The settlement also brings more clarity to TfL's financial and strategic planning, and more certainty to its ability to continue delivering services and capital projects and renewing assets.

On Aug. 30, 2022, the DfT and TfL agreed on a new funding settlement that runs until March 2024. This is the first medium-term settlement after a string of short-term funding deals that TfL agreed with the U.K. government to support it during the COVID-19 pandemic. We think that the new settlement gives TfL certainty about its available resources while it continues to strive for more budgetary headroom in the form of cost efficiencies and additional revenue sources. Furthermore, the settlement offers some safeguards against rising risks such as higher inflation and lower ridership. In the case of lower ridership, safeguards take the form of continued top-up grants, which are in addition to the base grant funding. We understand that this will enable TfL to largely maintain the current level of services, despite our expectation that ridership will stay below pre-pandemic levels. In addition, the GLA announced yesterday that it will provide TfL with a call-off facility of up to £500 million for TfL to meet the requirement to balance its budget, should this be required. We think that this underpins the GLA's role to provide ongoing support to TfL while the extraordinary grants from the U.K. government wind down.

While the settlement puts more focus on capital projects, both enhancements and renewals, we continue to expect that TfL's debt will remain largely stable, albeit high. Furthermore, we expect that TfL's liquidity position will remain adequate. This is underpinned by TfL's commitment to keep two months of operating expenditure--around £1.2 billion--accessible at all times. This, together with our assumption that TfL will maintain uninterrupted access to the Public Works Loan Board, continues to support our view of its liquidity position and ability to withstand future shocks at short notice.

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- Greater London Authority Outlook Revised To Stable From Negative; 'AA/A-1+' Ratings Affirmed, Sept. 16, 2022
- Transport for London 'A+/A-1' Ratings Affirmed; Outlook Stable, May 26, 2022
- United Kingdom 'AA/A-1+' Ratings Affirmed; Outlook Stable, April 22, 2022

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