Finance report

Quarter 1 results and forecast, 2022/23

Management results from 1 April 2022 – 25 June 2022

TfL Board

27 July 2022

We are on track to deliver our budget – but require further HMG revenue funding in 2022/23 and longer-term capital funding to avoid the managed decline scenario

Our progress in the year-to-date shows we are on track to deliver our budget:

1. **Total income within 1% of budget** – underlying passenger income is £5m favourable to budget with the earlier opening of the Elizabeth line partly offsetting strike impact in P3. Road User Charging (RUC) income is in line with budget, but lower volumes are offset by higher ULEZ enforcement income.
2. **Total operating costs within 1% of budget** – cost pressures from inflation and increasing RUC bad debt – due to higher levels of penalty charge notices and lower payments rates – have been mitigated by lower pension costs following the triannual valuation and continued cost control across all areas.
3. **Capital investment (excl. TTLP and Crossrail) within 1% of budget** with expenditure being marginally behind budget but with clear controls in place to manage to the budget over the full year

Our full year forecast shows that we remain on track to deliver our budget, subject to securing the £927m of further Government revenue support required due to the pandemic.

On 22 July the DfT shared a draft proposal for a Long Term Funding Settlement. We are reviewing the terms of the draft proposal and any agreement will be subject to TfL Board approval. Our Q1 forecast shows we continue to require:

1. **Revenue support** for the remainder of 2022/23 of £927m.
2. **Longer-term capital funding** to avoid the full impacts of the managed decline scenario.

Aside from funding, we still face a range of risks but we are managing these within our central contingency provision of £100m in the 2022/23 budget. Key risks include:

1. **Cost of living challenges** – inflationary pressures are reducing disposable income which is increasing bad debt levels and may reverse journey growth.
2. **Inflation** – our contractual structures means the majority of the inflation impact for 2022/23 is now ‘locked-in’, but increasing inflation still adds cost to bus and construction contracts which are let throughout the year.
3. **Interest rates** – although around 90% of our debt is based on fixed interest rates and the interest costs of our short-term commercial paper is effectively hedged by investing our cash reserves.
4. **Savings programme** – our plans are challenging, but we are committed to delivering £730m of savings to 2024/25.

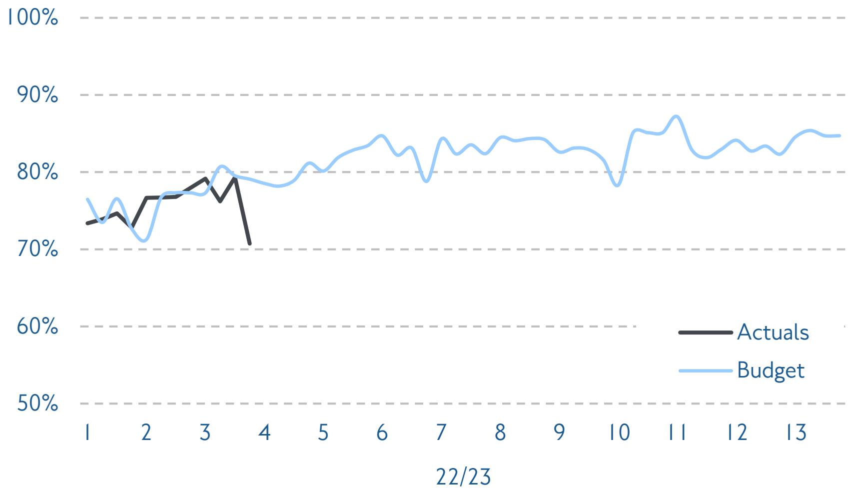
Section 1

2022/23 Year-to-date performance

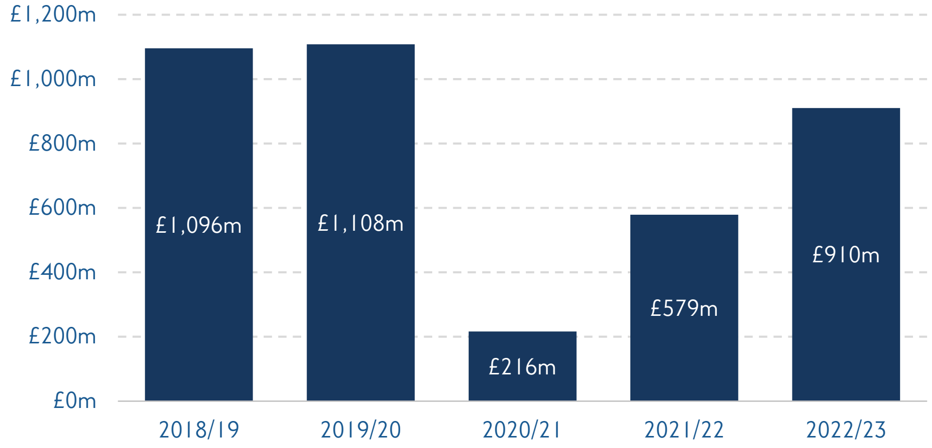
1 April 2022- 25 June 2022
(YTD Period 3)

Q1 Headlines

Total passenger journeys 76% of pre-pandemic levels in Period 3, broadly in line with prior period and up from 68% at the end of 2021/22

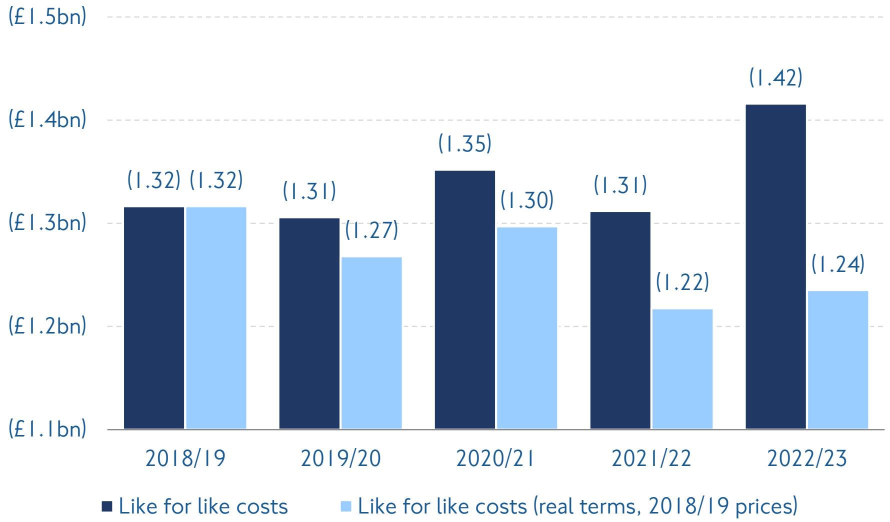


Passenger income of £910m in the year to date, over £300m better than last year; year-to-date income around £200m lower than pre-pandemic levels, averaging £65m lower per period

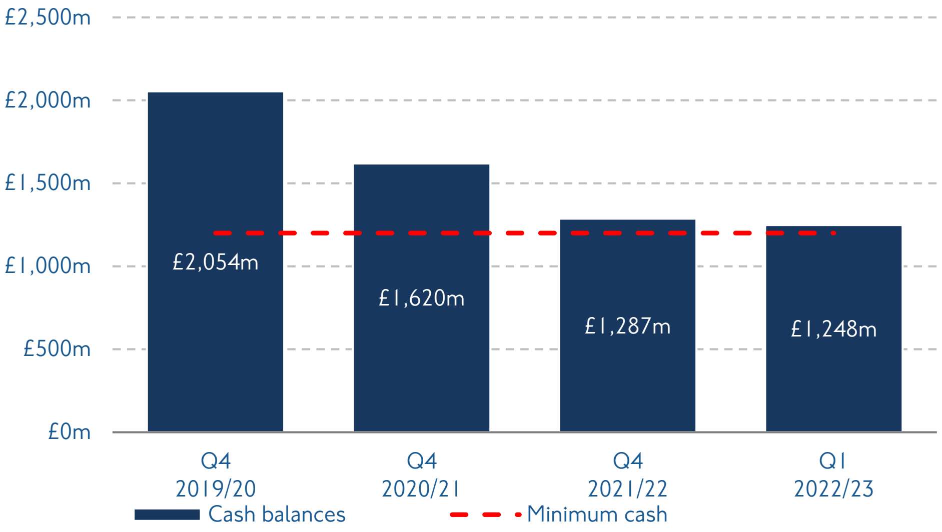


Charts show year-to-date passenger income to end of Period 3 for each year

Year to date like-for-like operating costs (adjusted for new services and one off costs) up on prior years as a result of inflationary pressures; real terms costs almost £100m lower than in 2018/19



Cash balances broadly in line with end of last year; balances around £800m lower than 2019/20 levels. Cash returned to over £1.2bn at end of previous funding deal period on 24 June.

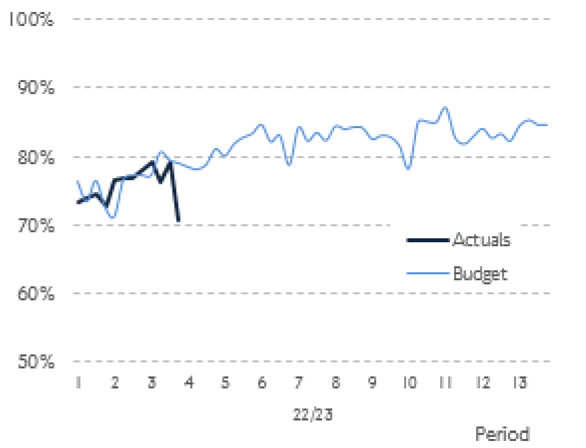


Passenger journeys

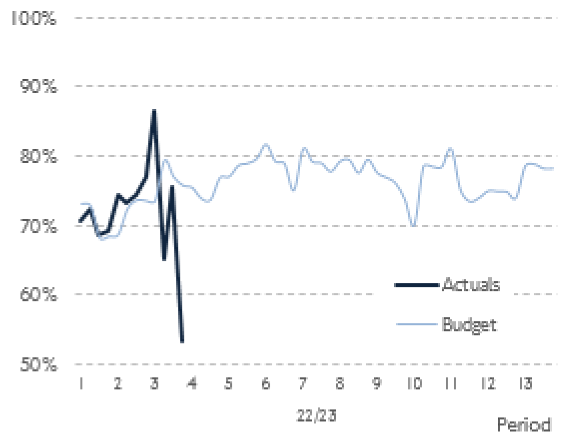
Journeys continue to recover; total journeys were 76% of pre-pandemic levels in the latest period, up from 68% at the end of last year. Journeys are only one million lower than budget so far this year. Elizabeth line journeys are 6 million higher than budget following the earlier than expected opening in May 2022.

Tube journeys were 68% of pre-pandemic levels in Period 3, a result of industrial action which saw fewer services operated.

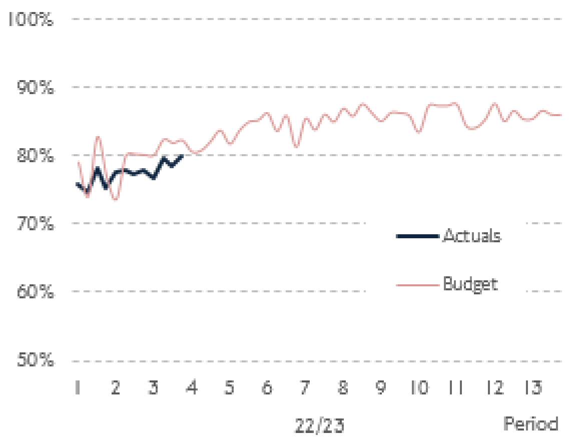
TfL	% vs Pre Covid period / budget		Absolute m		Var to Bud m
	76%	77%	P	236	-3
			Y	717	-1



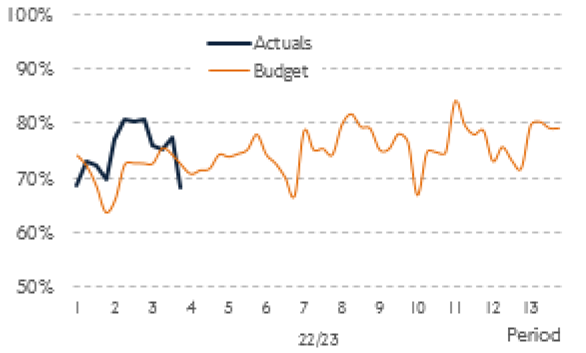
LU	% vs Pre Covid period / budget		Absolute m		Var to Bud m
	68%	75%	P	71	-7.1
			Y	227	-4.9



Bus	% vs Pre Covid period / budget		Absolute m		Var to Bud m
	79%	80%	P	138	-1.0
			Y	412	-5.5



Rail	% vs Pre Covid period / budget		Absolute m		Var to Bud m
	75%	72%	P	19	1.0
			Y	60	3.6

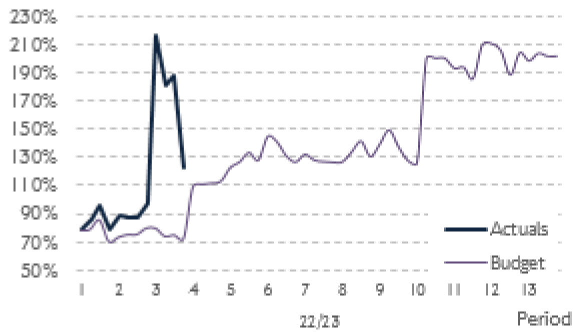


LO	% vs Pre Covid period / budget		Absolute m		Var to Bud m
	76%	70%	P	11	1.0
			Y	34	2.9

DLR	% vs Pre Covid period / budget		Absolute m		Var to Bud m
	74%	73%	P	7	0.1
			Y	21	0.9

Tram	% vs Pre Covid period / budget		Absolute m		Var to Bud m
	77%	80%	P	2	-0.1
			Y	5	-0.2

EL	% vs Pre Covid period / budget		Absolute m		Var to Bud m
	154%	74%	P	8	4.2
			Y	18	6.1



Operating account

Passenger income is £910m in Quarter 1 and broadly in line with budget. Income is £331m higher than the same time last year; underlying passenger income (after adjusting for Oyster write off income) is £5m better than budget.

Operating costs were £1,643m in Quarter 1 and are within 1% of budget. Pension costs are lower than Budget this year, reflecting recent revaluations. We have also seen cost pressures on Road User Charging, with increased bad debt from lower payment rates on penalty charge notices during the initial discounted period. Pressures have so far been offset by the pensions upside and other savings across the organisation.

	Quarter 1 year to date, 2022/23				Quarter 1 year to date, 2021/22		
£m	Actuals	Budget	Variance to Budget	% variance to Budget	Last year	Variance to last year	% variance to last year
Passenger income	910	923	(13)	-1%	579	331	57%
Other operating income	363	344	19	6%	221	142	64%
Total operating income	**1,273**	**1,267**	**6**	0%	**800**	**473**	59%
Business Rates Retention	255	255	-	0%	233	22	9%
Council tax precept	10	10	-	0%	10	-	0%
Other revenue grants	3	-	3	N/A	3	-	0%
Total income	**1,541**	**1,532**	**9**	1%	**1,046**	**495**	47%
Operating cost	(1,643)	(1,659)	16	-1%	(1,487)	(156)	10%
Net operating surplus/ (deficit)	**(102)**	**(127)**	**25**	-20%	**(441)**	**339**	-77%
Net financing costs	(101)	(101)	-	0%	(106)	5	-5%
Capital renewals	(124)	(126)	2	-2%	(90)	(34)	38%
Net cost of operations	**(327)**	**(354)**	**27**	-8%	**(637)**	**310**	-49%
Extraordinary revenue grant	293	304	(11)	-4%	640	(347)	-54%
Net cost of operations after extraordinary revenue grant	(34)	(50)	16	-32%	3	(37)	-1233%

Capital account

Total TfL capital expenditure (excluding Crossrail construction and TTLP) is (£293m) in the year to date, which is £4m lower than budget. This represents a timing difference only and not a risk to the full year budget.

	Quarter 1 year to date, 2022/23				Quarter 1 year to date, 2021/22		
£m	Actuals	Budget	Variance to Budget	% variance to Budget	Last year	Variance to last year	% variance to last year
New capital investment	(169)	(171)	2	-1%	(176)	7	-4%
TTLP capital expenditure	(6)	(44)	38	-87%	(5)	(1)	13%
Crossrail	(70)	(106)	36	-34%	(162)	92	-57%
Total capital expenditure	**(245)**	**(321)**	**76**	-24%	**(343)**	**98**	-29%
Financed by:							
Investment grant	257	257	-	0%	251	6	2%
TTLP property receipts	3	48	(45)	-94%	1	2	200%
Borrowing	(8)	-	(8)	N/A	-	(8)	N/A
Crossrail borrowing	-	-	-	N/A	74	(74)	-100%
Crossrail funding sources	101	129	(28)	-22%	110	(9)	-8%
Other capital grants	18	13	5	38%	14	4	29%
Total	**371**	**447**	**(76)**	-17%	**450**	**(79)**	-18%
Net capital account	**126**	**126**	**-**	0%	**107**	**19**	18%
Capital renewals	(124)	(126)	2	-2%	(90)	(34)	38%
New capital investment	(169)	(171)	2	-1%	(176)	7	-4%
Total TfL capital expenditure	**(293)**	**(297)**	**4**	**-1%**	**(266)**	**(27)**	**10%**

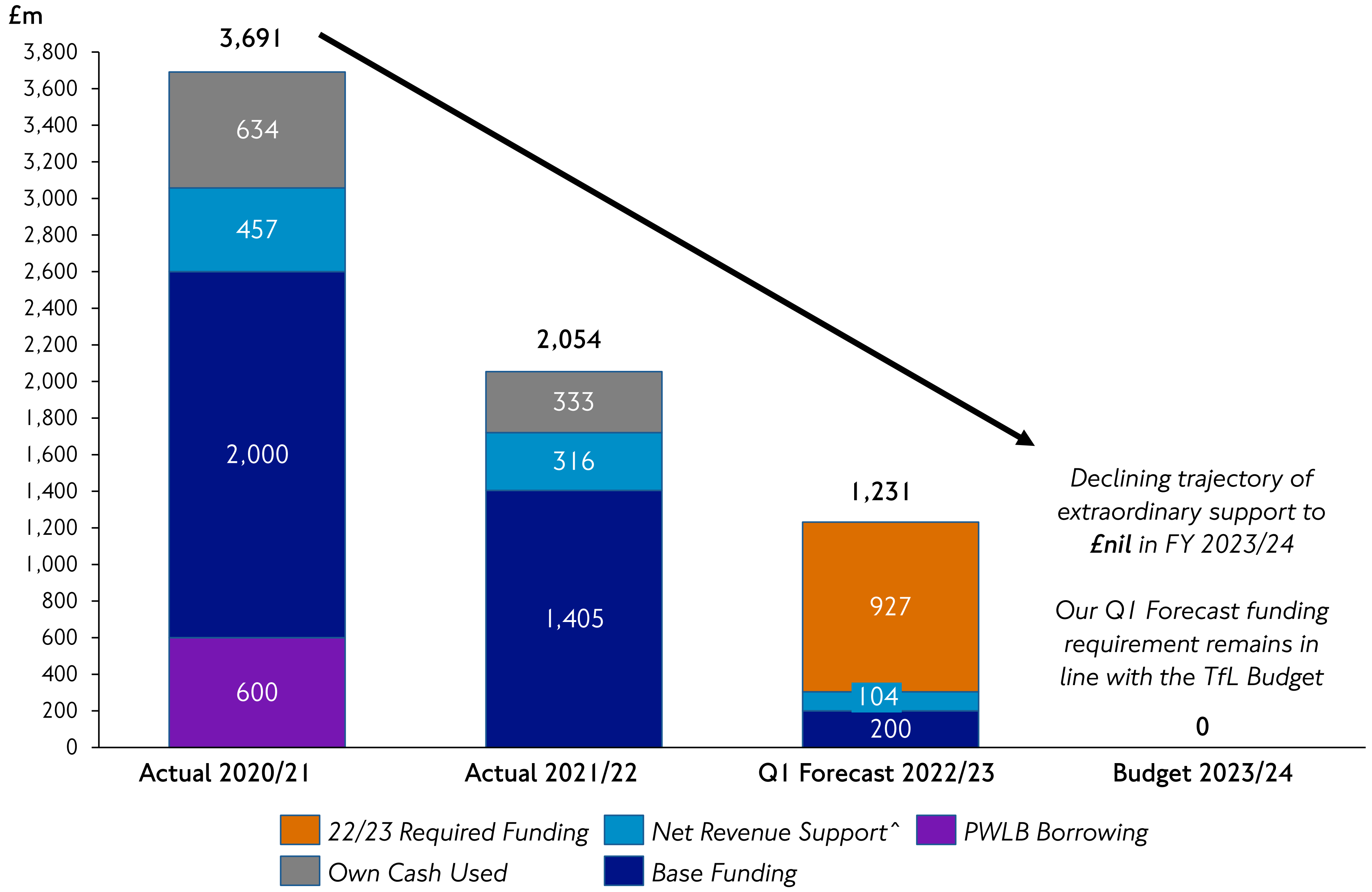
Section 2

Context

Our 22/23 budget continues the path back to financially sustainability – our Q1 forecast shows we're still on track

The combination of easing restrictions leading to recovering income, and ongoing careful cost control, has meant we are on a declining trajectory of extraordinary Government support and on track for financial sustainability from April 2023 – meaning 2022/23 is the last year we require extraordinary Government revenue support.

Total resources used to support operations since the onset of the COVID-19 pandemic (including own cash, borrowings and Extraordinary Government Support)



^ Net Revenue Support comprises revenue true-up grants less direct COVID operational cost adjustments

Note: Own Cash Used in 2020/21 includes £200m of cash used in March 2020 upon initial impact of COVID-19

However, our financial position still means we need longer-term funding to avoid managed decline

In December 2021 we set out the combination of lack of long-term funding certainty, lower income and increasing inflation meant that we were required to adopt a 'managed decline' scenario to balance our budget.

A scenario of managed decline means reducing service levels, deteriorating asset condition and no new enhancement projects. It would create a transport network similar to that experienced in London in the 1980s.

Our budget is financially balanced but is based on 'managed decline' scenario which assumes:

- *Significant, un-optimised service reductions* of 18% on the bus network and 9% on the LU and Rail networks
- *Below 'do minimum' level of asset renewals*, leading to declining asset condition, impacting the reliability and operability of our public transport and road networks
- *No new enhancement projects*, which means a failure to deliver on our policy objectives of tackling climate change, air quality, congestion and delivering our vision zero for people killed or seriously injured on our networks.

Importance of Government capital funding

To successfully deliver our plan we need longer-term funding from Government for capital investment. On 22 July the DfT shared a draft proposal for a Long Term Funding Settlement. We are reviewing the terms of the draft proposal and any agreement will be subject to TfL Board approval.

We have set out a requirement for sustainable, long-term capital funding, to replace London's strategic national transport assets and support other transport priorities. This would require c£0.5-1bn per annum over the medium- to long-term. The Government has recognised we are not able to solely fund the replacement of major assets such as rolling stock and signalling from our own operating income.

Longer-term Government funding will enable us to deliver major renewals and capital projects in a more planned, efficient and effective manner. A number of studies, including those commissioned by Government, have estimated that long-term funding can enable cost efficiencies of between 10-30%.

Securing capital funding, would also free up operating income such that we can avoid the significant service reductions required under the managed decline scenario, and create the conditions required to support long-term financial sustainability.

Once we have secured capital funding, we will produce a new Business Plan in the autumn.

Section 3

Q1 Forecast 2022/23 outturn

Summary of key forecast assumptions

HMG revenue funding	• Funding agreed up to 28 July 2022 has been included in the Q1 Forecast (£0.3bn), however we continue to require c.£0.9bn over the remainder of the financial year. The Budget and this forecast assumes this further funding is secured.
Revenue	• The planning assumption is that fares uplift in January 2023 is held in line with March budget assumptions and will be subject to a Mayoral decision. • Our current central case for pandemic recovery prudently assumes the economy grows at a slower pace of return, office workers return to 65% by the end of 2022/23 and there is a 2.5% suppression in demand over winter. Average passenger demand for 2022/23 is forecast to be around 80% of 2018/19 pre-covid actuals. • The assumptions for ULEZ are updated for latest trends of reduced volumes for both CC and ULEZ but also lower ULEZ payment rates leading to a higher level of bad debt
Service levels	• On Tube / rail, we would have to implement every service reduction by 2023/24 where there is a net cost saving, circa 9% of our services • Elizabeth line next phase expected later in 2022 and will integrate services from the east and west into the new central tunnels and stations bringing additional benefits to those travelling to and from the east and west. • On buses, the current Budget assumption is to progress with the 18% reduction, however it will be priority to use any additional funding that is secured to reverse this.
Inflation	• Our RPI assumptions have increased from 5.7% for 2022/23 in the Budget to 9.4%. However, RPI is currently running higher than these assumptions which we are holding as risk, mitigated against our central contingency.
Savings	• We will continue to deliver the committed £730m p.a. recurring savings programme • In addition, there are a range of non-recurring savings we are making across the organisation through tight cost control
Investment Programme	• Spend continues to be constrained under managed decline with renewals capped at £600m and no new enhancements schemes
Cash reserves & contingencies	• Our cash balances will operate around £1.2bn. • By year-end we rebuild our cash reserves to £1.4bn to increase our resilience as we end Government revenue support. • We have £100m operating contingency provision, calibrated on the risks we face (excluding passenger income).

Q1 Forecast summary table

We continue to forecast requiring a total of circa £1.2bn Government revenue funding in 2022/23 in line with the budget with expected cash balance at year-end of £1.4bn.

The net deficit for 2022/23 is expected to be around (£1.3bn), an improvement of almost £600m to last year as passenger income recovers with growth of 34% YoY and Other Income grows by 32%.

Total operating costs grow by 14% YoY however on a like-for-like basis after adjusting for new services and one-offs, Core costs reduce by 1% in real terms demonstrating the steps we are taking to mitigate the impact of inflation.

	Full Year 2022/23				Year on year vs. 2021/22		
£m	2022/23 Budget	2022/23 Q1 F'cast	Variance to Budget	% variance to Budget	Last year	Variance to last year	% variance to last year
Passenger income	4,300	4,237	(64)	(1%)	3,154	1,083	34%
Other operating income	1,647	1,579	(67)	(4%)	1,194	385	32%
Total operating income	**5,947**	**5,816**	**(131)**	**(2%)**	**4,348**	**1,468**	**34%**
Business Rates Retention	868	868	-	-	914	(46)	(5%)
Other revenue grants	60	64	3	5%	72	(8)	(12%)
Total income	**6,876**	**6,748**	**(128)**	**(2%)**	**5,334**	**1,414**	**27%**
Operating cost	(7,468)	(7,354)	114	(2%)	(6,475)	(879)	14%
Net operating surplus/ (deficit)	**(592)**	**(606)**	**(13)**	**(2%)**	**(1,141)**	**535**	**47%**
Net financing costs	(426)	(421)	5	(1%)	(439)	17	(4%)
Capital renewals	(603)	(603)	0	(0%)	(550)	(52)	10%
Net cost of operations	**(1,621)**	**(1,630)**	**(9)**	**(1%)**	**(2,130)**	**500**	**23%**
Capital Business Rates Retention	951	951	-	-	930	21	2%
Net cost of operations after all BRR	**(670)**	**(679)**	**(9)**	**1%**	**(1,200)**	**521**	**(43%)**
Capital investment (net, excl. TTLP)	(801)	(734)	67	(8%)	(767)	33	(4%)
Capital grants	126	98	(28)	(22%)	85	13	15%
Property & Asset Receipts (excl. TTLP)	45	42	(3)	(6%)	4	38	959%
Net surplus/(deficit) before extraordinary revenue grant	**(1,346)**	**(1,315)**	**30**	**2%**	**(1,881)**	**566**	**30%**
Extraordinary revenue grant	1,231	1,231	0	0%	1,717	(486)	(28%)
Net surplus/(deficit) before after extraordinary revenue grant	**(115)**	**(84)**	**30**	**27%**	**(161)**	**119**	**74%**

We have held the FY funding requirement at £1.2bn by mitigating almost £200m of emerging risks

We have secured circa £300m of funding to 28 July but require another circa £900m of funding for the remainder of the year.

£m favourable/(adverse)	FY 2022/23
FY funding requirement per TfL Budget	(1,231)
Inflation – current higher inflation assumptions compared to budget (avg. RPI is 9.4% up from 5.7%) driving higher bus and third party rail contract costs as well as maintenance and technology spend	(54)
Road User Charging – reduced volumes for both CC and ULEZ but also lower ULEZ payment rates leading to a higher level of bad debt	(70)
Interest rates – rolling stock lease costs driven by higher SONIA rates (including Elizabeth Line)	(7)
Passenger income – net cash impact of adverse underlying demand partially offset by the earlier opening of the Elizabeth line	(12)
Estates strategy – net impact of accelerating Head Office Strategy to secure and deliver earlier savings	(16)
CPOS – predominantly due to delays in Deployable Enforcement Camera (DEC) roll-out and changed deployment plan	(6)
Other – smaller net movements	(11)
Working capital movements	(38)
Total pressures	(214)
Pension contingent payments – rebased in line with recent triannual valuation for 31 March 2021 and interim valuation for 31 March 2022	83
Pension charge – removal of deficit recovery payment offset by small increase in future service cost (overall 33.3% down to 27.3%)	73
Specific contingencies and restructuring costs – reviewed in line with latest likelihood and timing	37
Advertising & licensing income – improved performance, mainly driven by the earlier opening of the EL	16
Staff cost reductions – owing to higher than expected attrition and slower ramp-up of recruitment	5
Total mitigations	214
FY funding requirement per latest forecast	(1,231)

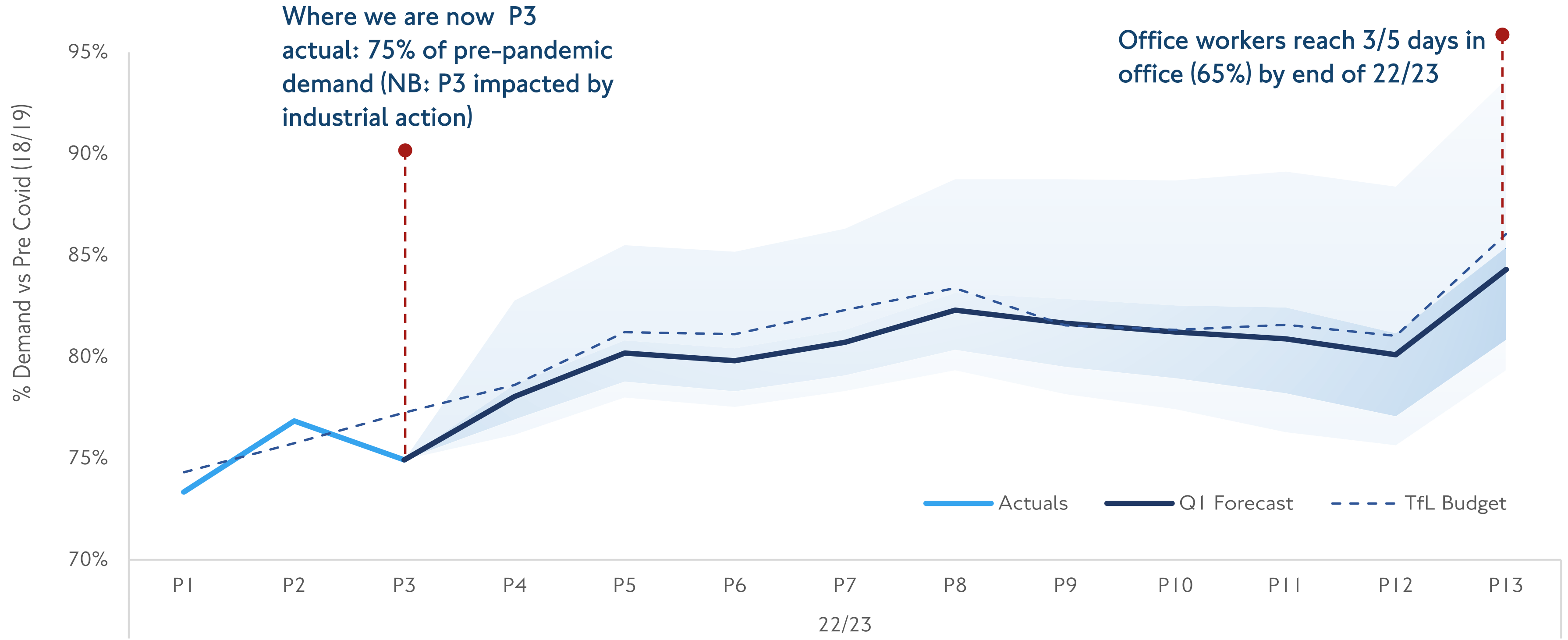
Latest passenger income forecast is in line with budget with average demand of 80% vs pre-pandemic levels

Ridership levels for 22/23 are expected to be 1% lower than the budget largely due to lower than expected Bus and Tram demand since March, all other modes have seen marginal improvements in demand. This is offset by yield improvements and the earlier opening of the Elizabeth line central section compared to budget assumptions.

There is still a great deal of variability on our forecast scenarios ranging from +£350m to (150m).

Demand vs. pre-pandemic (18/19) (excl. Elizabeth Line)

% demand vs 18/19		Passenger Income Vs TfL Budget	Risk Range
P3* 22/23	P13 22/23	22/23	22/23
75%	84%	(£12m)	+£350m – (£150m)



	P1	P2	P3	P4	P5	P6	P7	P8	P9	P10	P11	P12	P13
LU	70%	75%	68%	76%	78%	78%	78%	79%	78%	77%	75%	73%	79%
Bus	76%	78%	79%	80%	82%	82%	83%	85%	85%	85%	85%	86%	88%
Rail	71%	80%	75%	72%	75%	69%	74%	79%	77%	72%	78%	71%	79%

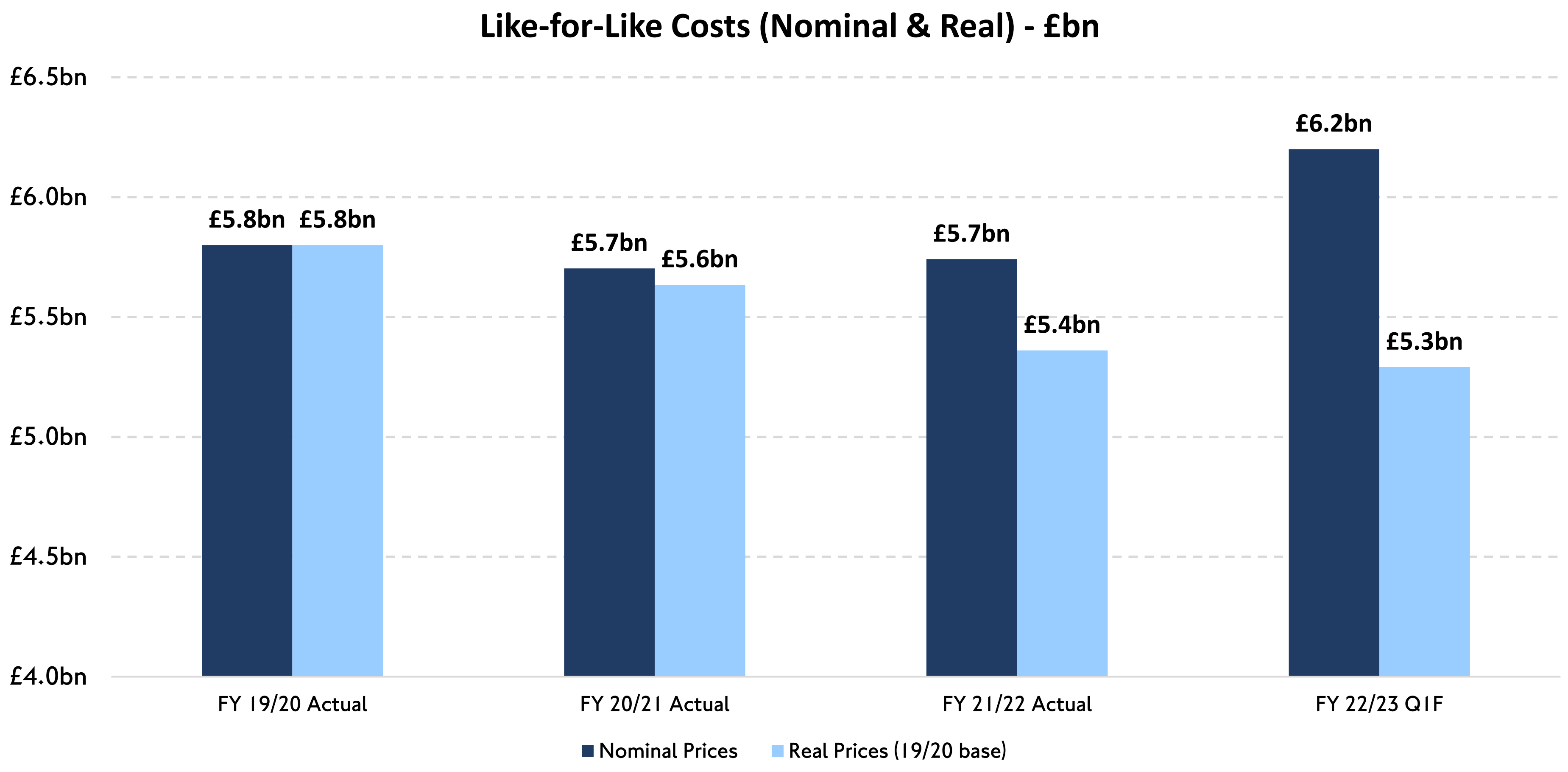
Like-for-Like costs are expected to decrease by £500m (9%) in real terms compared to a pre-pandemic cost base

Like-for-like costs exclude new services such as the Elizabeth line, NLE and the expanded ULEZ zone.

We have worked hard to keep costs as low as possible and mitigate the impact of unprecedented levels of inflation as we recover from the pandemic.

Between 19/20 & 22/23, the RPI price level is expected to grow by circa 17%.

- 3-yr Cost CAGR (Nominal) +2.3%
- 3-yr Cost CAGR (Real) -3.0%



Basis of preparation:

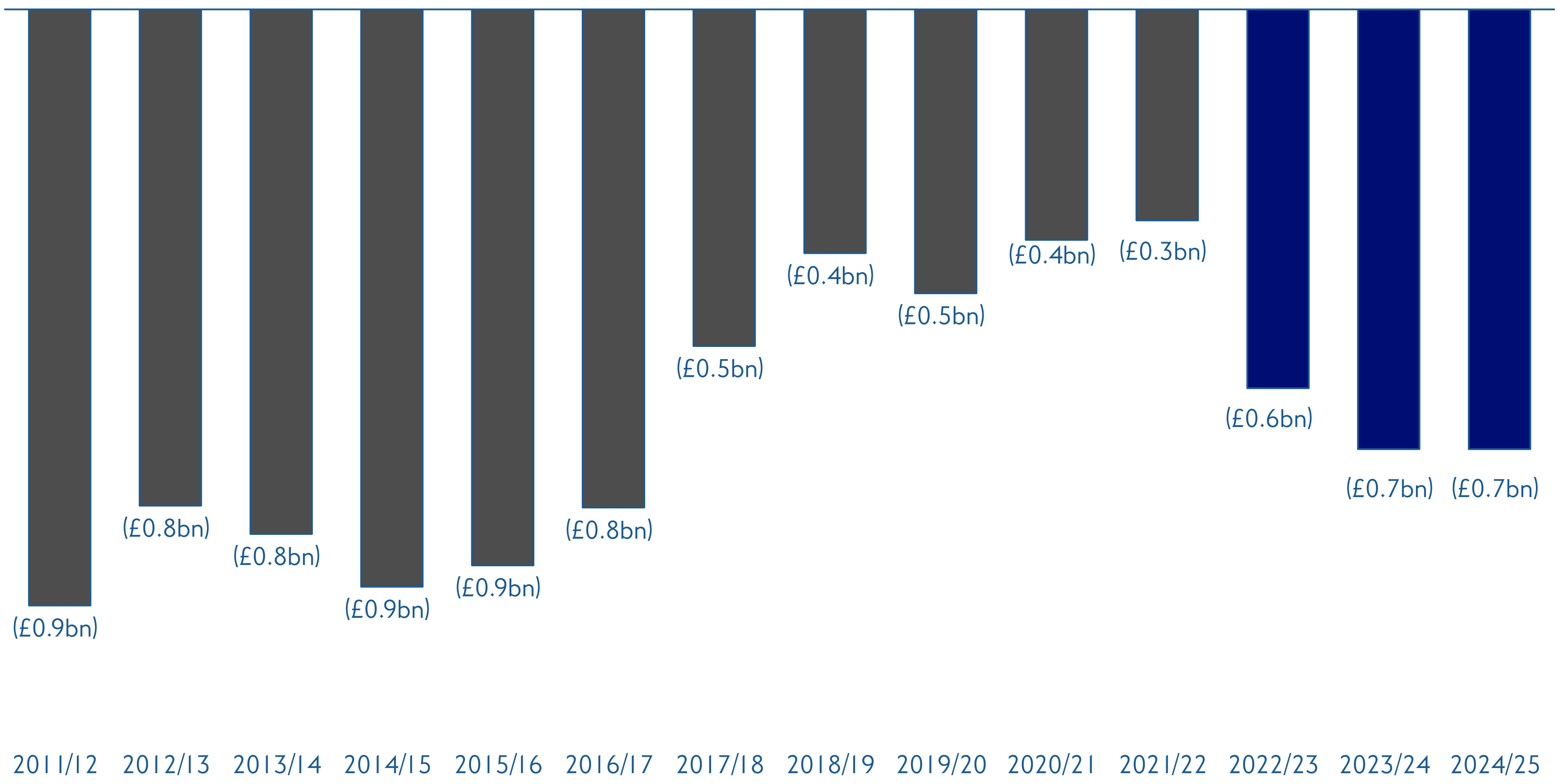
Excludes the operating costs of the Elizabeth Line
Excludes the impact of the ULEZ Expansion (commenced October 2021)
Excludes additional costs of the Northern Line Extension (opened September 2021)
Adjusts for one-off changes during the 2020/21 year owing to COVID-19 (predominantly service levels)

We have a historical renewals deficit and is being managed within a £600m envelope

Investment in renewals has dropped over the past few years, in part to allow us to start building a financial surplus and then re-commence investment on a sound financial footing.

The level of renewals has been capped at an affordable level – however this is below the long-term level required to maintain the operability of assets and the wider network.

The Q1 Forecast for 2022/23 is £603m for renewals, in-line with Budget.



Numbers presented in outturn prices with some estimation made for years prior to 15/16 when we did not report renewals spend as we do today. No allowance made for changes in methodology over the time period.

For 2022/23 a pipeline of circa £750m of critical asset renewals has been developed and we are applying an active portfolio management to ensure this work-bank approach can mitigate any unforeseen slippage on individual schemes whilst remaining within the budget envelope.

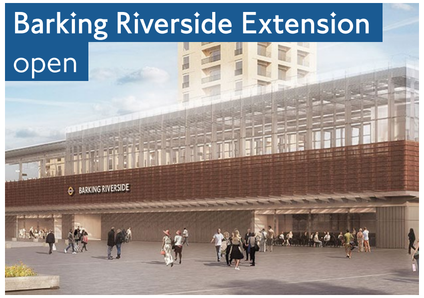
Enhancements spend on 'managed decline' basis remains on target but with some slippage due to on-going resourcing issues

We continue to deliver the enhancement schemes that were committed and in-delivery prior to the pandemic, with a number of key projects completing in 2022/23 which will support the capital's recovery from the pandemic.

The managed decline scenario remains for new enhancements, with the only new enhancement schemes being financially positive, third-party funded or the highest priority safety schemes.

2022/23 Deliverables

Elizabeth line
Central section open



Barking Riverside Extension open

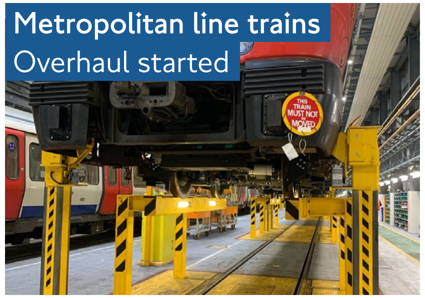
Bank Station Upgrade
Complete

Healthy Streets: Old Street
Complete

Piccadilly line trains
First car body built

DLR trains
First train starts testing

Escalators
14 replaced



Metropolitan line trains
Overhaul started

Area	Q1 Forecast	Var to Budget
Major Projects	£552m	(£3m)
LU Enhancements	£19m	£10m
Rail Enhancements	£19m	£22m
Air Quality and Environment	£11m	£1m
Healthy Streets	£48m	£3m
Surface Technology, Public Transport, Assets	£8m	£5m
Other Enhancements	£78m	£29m
Total Gross Enhancements (excl. TTLP)	£734m	£67m
Third party grants	(£126m)	(£28m)
Total Net Enhancements (excl. TTLP)	£608m	£39m

Our current forecast shows reduced net spend of £39m vs the Budget after allowing for capital grants related to externally funded projects.

The remainder of the reduction is primarily driven by slippage, mainly due to resourcing issues, on some of our major projects including the Piccadilly Line Upgrade - Phase 1, DLR Rolling Stock and GOTP cameras.

Key pressures include:

1. **Resourcing issues** - a high number of skilled employees in engineering and delivery roles are leaving the organisation to take up roles in projects with funding and tenure certainty e.g. HS2. Mitigation plans are being developed to address the issue.
2. **Higher inflation, material costs and delivery lead times –** currently being absorbed in the short term through active deferrals and supply chain savings where possible.

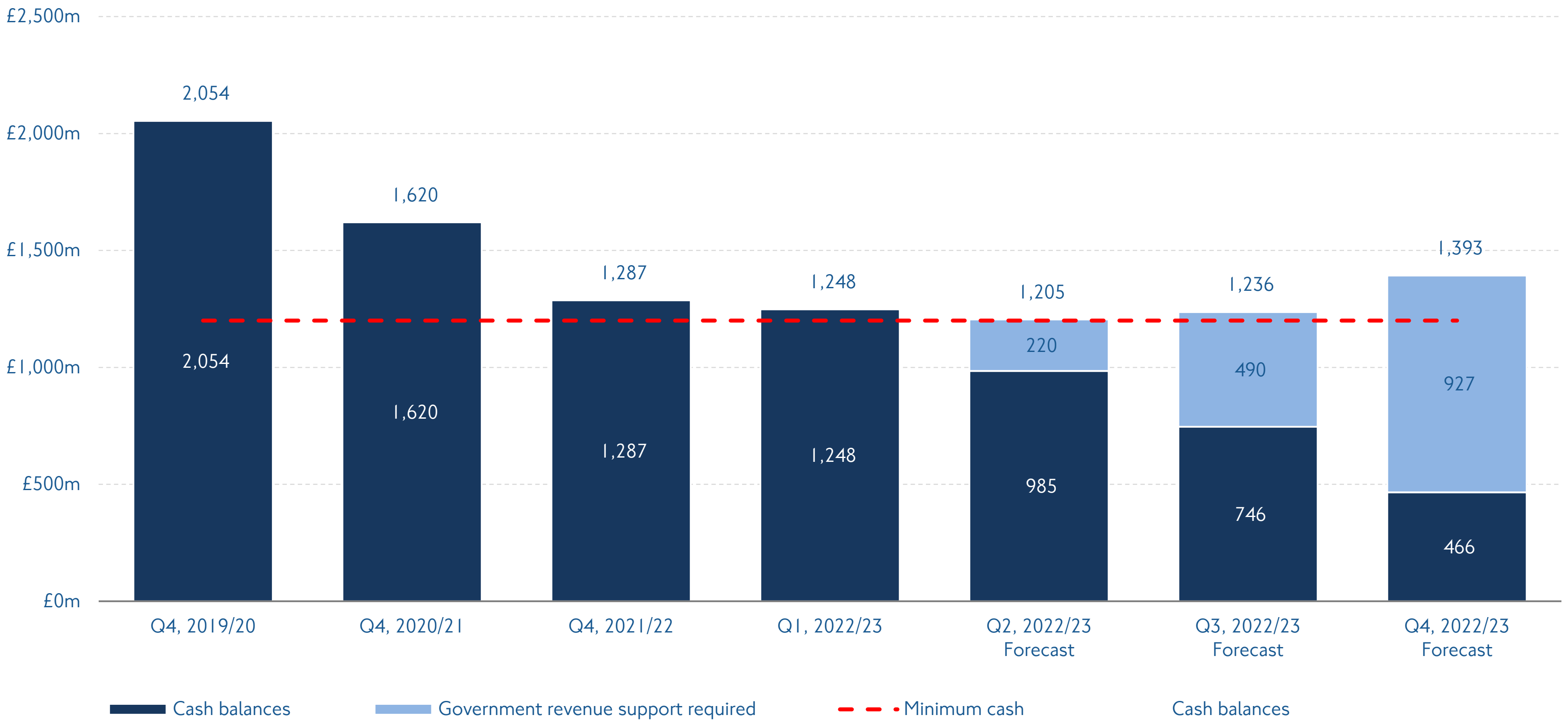
Cash is being managed around £1.2bn in line with our funding agreement

Total cash balances are just under £1.25bn at the end of Quarter 1, slightly lower than at the end of last year and (£35m) lower than budget mainly due to timing of VAT receipts now received at the start of P4.

Since the start of the pandemic in March 2019, we have used £1bn of our own cash to support operations. It has been a condition of our funding agreements to run down our cash reserves to target an average of £1.2bn cash balance rather than this being an absolute minimum.

Our cash balances are forecast to reach £1.4bn by year end – this is dependent on further government revenue support of circa £900m.

	2021/22	Quarter 1, 2022/23	Quarter 1, 2022/23 variance to Budget	2022/23 cash flow	2022/23 year end forecast	2022/23 year end Budget
TfL closing cash balances	1,287	1,248	(35)	106	1,393	1,401



Cash balances are £1,248m at the end of Q1; we need over £900m of government revenue support for the remainder of the year. If no funding is received, cash balances decline to just over £450m by year end

Our risks and opportunities remain finely balanced

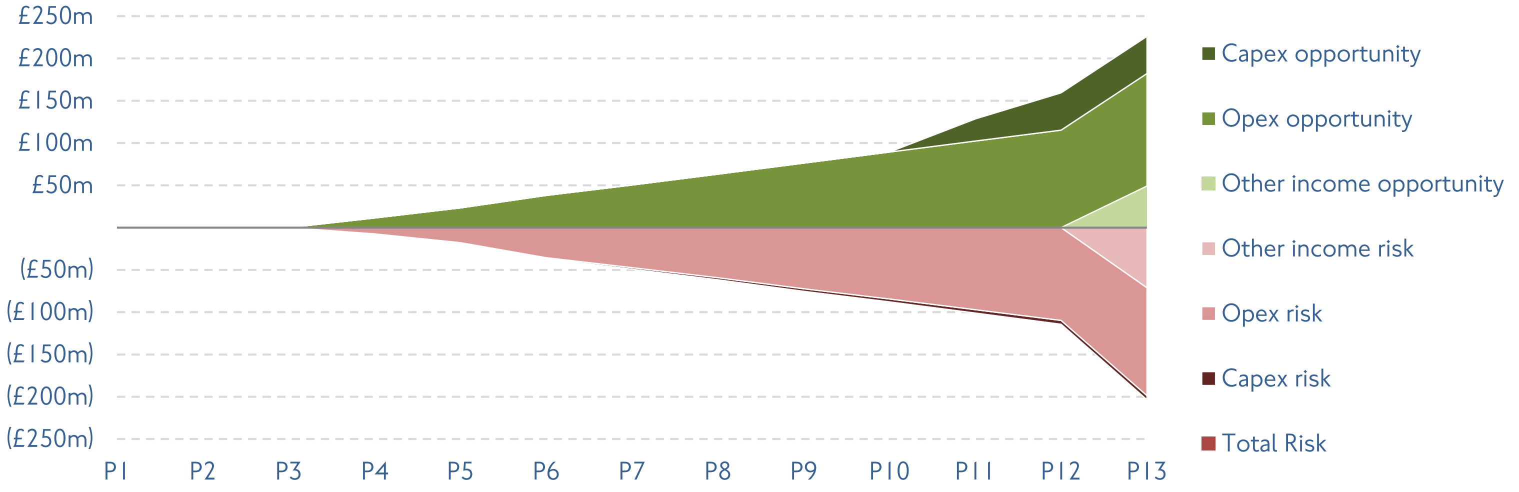
While the year to date position is broadly positive, we are starting to see risks emerging which we have now factored into our Q1 Forecast.

We are confident we can manage the remaining net risks through a combination of management action (including working capital management and cost control), contingencies and other tailwinds.

However, this analysis excludes the risk of not receiving the further Government revenue funding required for this year of circa £900m. This highlights the importance of agreeing Government funding.

Probability weighted risks and opportunities for 2022/23

Risks of almost (£200m) broadly offset by opportunities of £200m



Risks and opportunities presented on a cash basis

Key risks:

1. Passenger income – we assume revenue downside protection will continue for the remainder of the year so although not included as a financial risk, there is a strategic risk that continued strike disruption leads to a fall in customer confidence with stagnating demand in the short to medium term.
2. Inflation – Inflation continues to rise and will impact on bus contracts that renew throughout the year and some of our construction contracts.
3. Savings – there remains some risks to achieving our savings targets this year but we are committed to delivering our programme of change.

Key opportunities:

1. Contingencies – to maintain a balanced budget, we have a central contingency, weighted on a probability basis, to ensure we can manage the net risk faced such as those above.
2. Cost control – we continue to maintain tight cost control and realise further savings where possible through headcount controls, review of discretionary spend and supply chain savings.