Finance Report

Period 7, 2022/23

Management results from 1 April 2022 – 15 October 2022

TfL Board

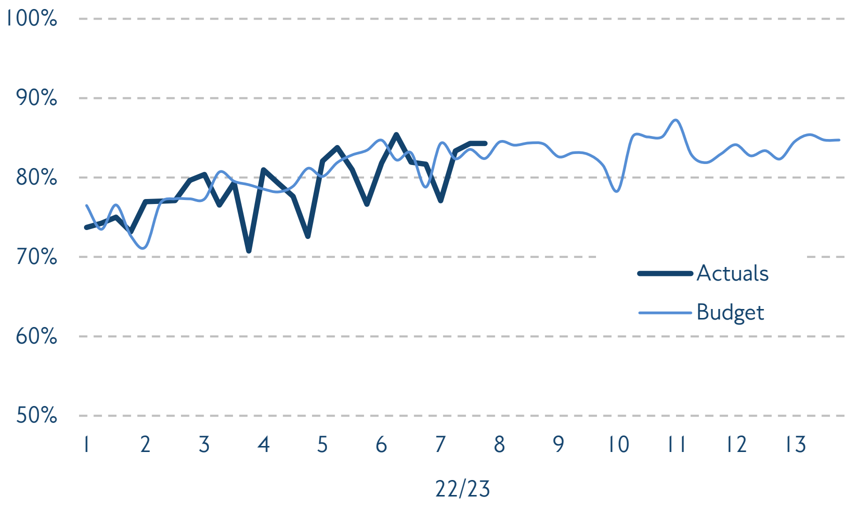
7 December 2022

We are on track to achieve operating financial sustainability in 2023/24, but still face significant risks

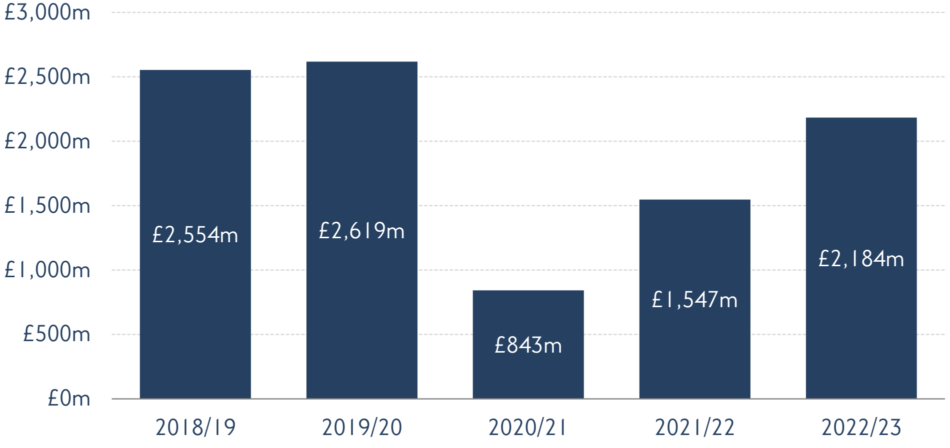
YTD financial performance	In the year to date, we remain on track to deliver our Budget that sets us on the path to financial sustainability and meet the funding conditions: • **Total income is within 1% of Budget** – journeys continue to recover, with latest journeys at 82% of pre-pandemic levels. Journeys and income are slightly lower than Budget, a result of industrial action across the national rail network and within LU, and lower ticket yield. • **Our core operating costs remain within 1% of Budget** – we have seen the risks identified in our Quarter 1 forecast – the impact of rising inflation and increasing Road User Charging bad debt – crystalise over recent periods. These pressures have been offset through lower pension deficit payments as well as other tailwinds that will support us in delivering the remaining savings that are required to close the funding gap for this year. • **Capital enhancement is within 2% of Budget** – due to slippage on third-party funded projects, largely because of factors outside our control. We are forecasting to deliver very close to the capital envelope set by the funding settlement over the full year. • **Capital renewals are 8% lower than Budget** – largely due to resource constraints, but we are actively managing our renewals portfolio and remain confident in delivering our full year £600m budget. We are challenging ourselves to deliver the higher level of renewals of £635m set by the funding settlement.
Forward look	We are, however, facing several external headwinds and risks to achieving financial sustainability especially into next year, but we are working to mitigate them: • **Economic uncertainty** – economic growth remains poor; UK GDP contracted by 0.1% from April to June. Latest forecasts suggest this may continue for a sustained period • **Inflationary pressures** on TfL cost base, including energy costs. • **Savings targets** are stretching, with a target of £230m additional savings by the end of 2023/24 following the new funding agreement with Government. The funding settlement provides protection on passenger demand volatility until March 2024. It also provides some protection on inflation, but the quantum of this for 2023/24 is uncertain. We plan to mitigate the remaining risks through active management of our remaining contingency and the GLA financing facility.

Headlines

Total passenger journeys 82% of pre-pandemic levels in Period 7, up from 68% at the end of 2021/22

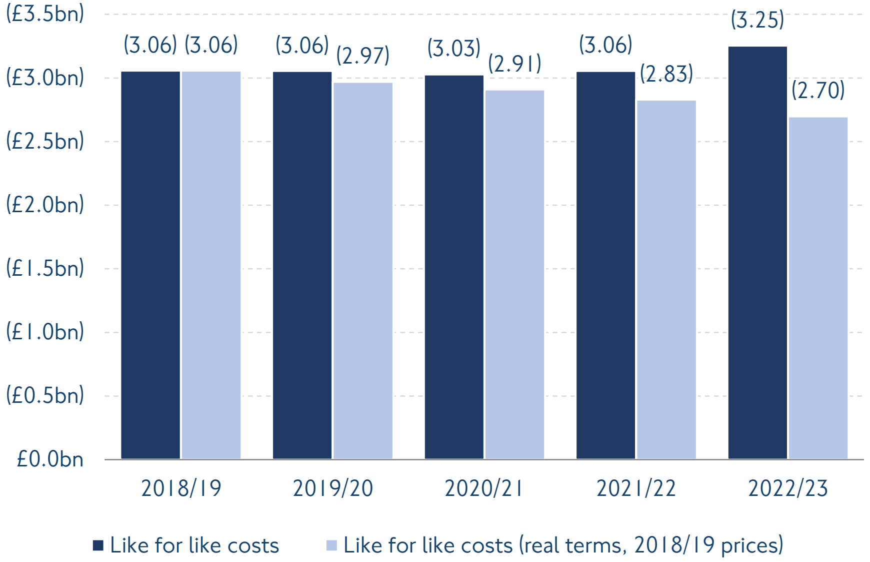


Passenger income over £600m better than last year and £1bn up on 2020/21; still £400m lower than pre-pandemic levels, averaging £60m lower per period

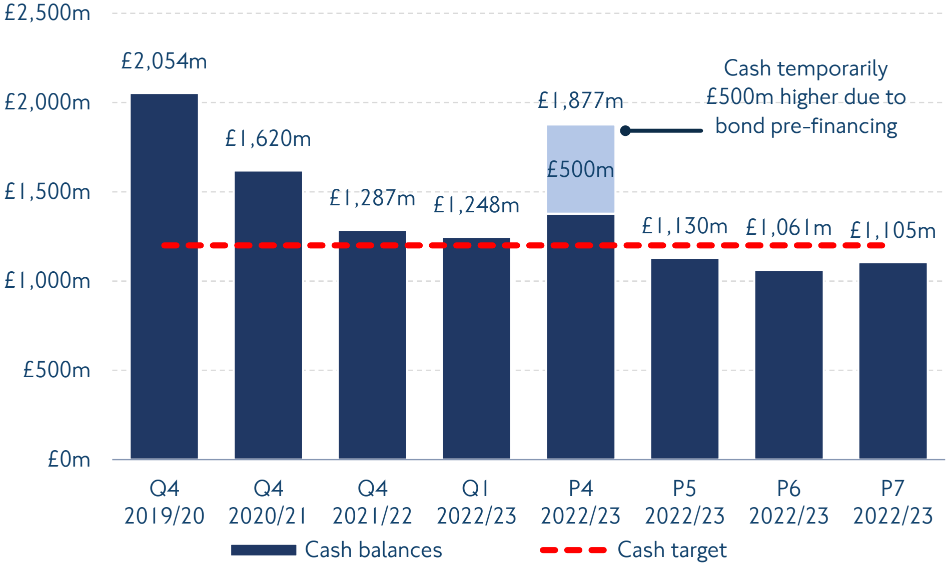


Charts show year-to-date passenger income to end of Period 7 for each year

Year to date like-for-like operating costs up on prior years as a result of inflationary pressures; real terms costs over £300m lower than in 2018/19



We continue to maintain our cash reserves at around £1.2bn on average in line with our funding settlement condition



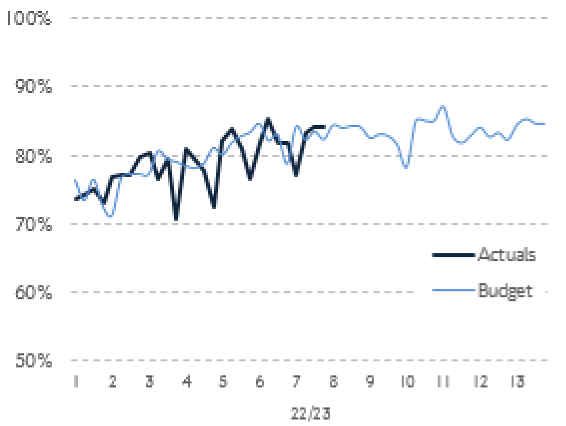
Passenger journeys

Total TfL journeys were 82% of pre-pandemic levels in Period 7, broadly in line with the prior period, but up from 68% at the start of the year.

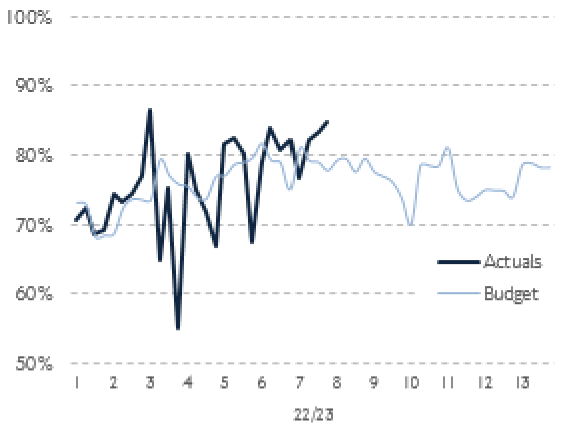
Tube journeys have increased to 82% and are broadly in line with Budget. Year-to-date journeys are slightly lower than expected from impacts of industrial action across National Rail network and LU. Bus journeys are 80% of pre-pandemic levels, slightly lower than Budget .

Journeys on the Elizabeth line (EL) have been above expectations since the opening of full services on 24 May. Journeys are 20 million better than Budget in the year to date, with income £29m higher than expected. Some of this upside is offset in other modes as customers switch services.

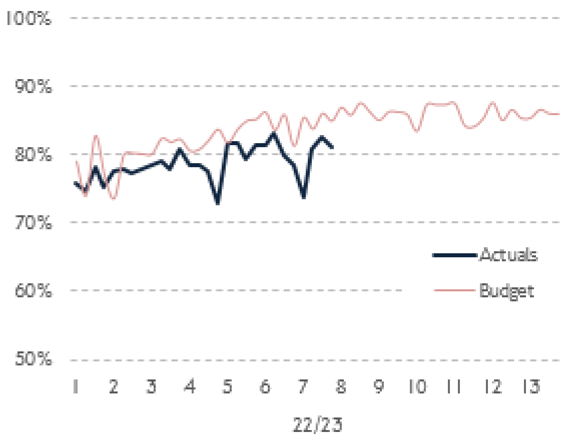
TfL	% vs Pre Covid period / budget			Absolute m	Var to Bud m
	82%	83%	P	270	-3
			Y	1707	-7



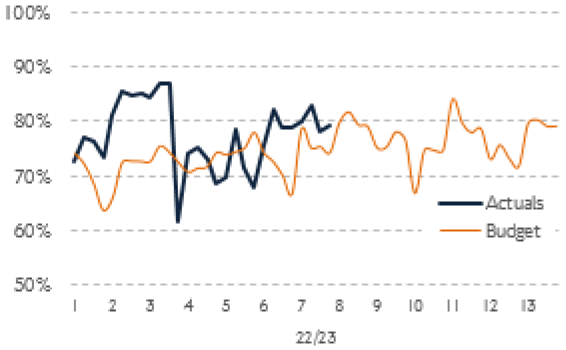
LU	% vs Pre Covid period / budget			Absolute m	Var to Bud m
	82%	79%	P	90	2.8
			Y	555	-1.6



Bus	% vs Pre Covid period / budget			Absolute m	Var to Bud m
	80%	85%	P	146	-10.2
			Y	949	-34.8



Rail	% vs Pre Covid period / budget			Absolute m	Var to Bud m
	80%	76%	P	22	1.2
			Y	143	9.5

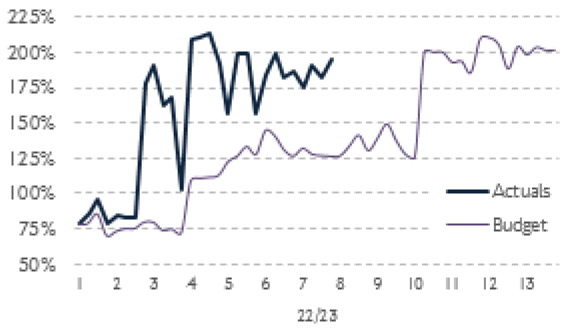


LO	% vs Pre Covid period / budget			Absolute m	Var to Bud m
	83%	78%	P	13	0.7
			Y	83	8.9

DLR	% vs Pre Covid period / budget			Absolute m	Var to Bud m
	78%	69%	P	8	0.8
			Y	48	2.3

Tram	% vs Pre Covid period / budget			Absolute m	Var to Bud m
	68%	86%	P	2	-0.4
			Y	11	-1.7

EL	% vs Pre Covid period / budget			Absolute m	Var to Bud m
	186%	128%	P	11	3.4
			Y	60	20.1



Operating account

Passenger income is over £0.6bn higher than last year, but slightly down on Budget due to the impact of industrial action. Over the full year, we expect to be on Budget.

Other operating income is £50m better than Budget, largely a result of higher advertising income and higher enforcement income from Road User Charging. This trend is expected to continue over the full year.

Operating costs are analysed in more detail overleaf.

Capital renewals are £27m lower than Budget, driven by timing differences on DLR and some technology projects, where we expect to catch up by year end. We are aiming to deliver the £635m envelope set in the funding settlement.

Extraordinary revenue grant is £107m lower than Budget, as the 30 August Funding Settlement provided less funding than assumed in our Budget.

	Period 7 year to date, 2022/23			Period 7 year to date, 2021/22			Full-year forecast, 2022/23		
£m	Actuals	Variance to Budget	% variance	Last year	Variance to last year	% variance	Q2 forecast	Variance to Budget	% variance
Passenger income	2,184	(42)	-2%	1,547	637	41%	4,306	5	0%
Other operating income	819	50	7%	528	291	55%	1,474	97	7%
Business Rates Retention	492	-	0%	518	(26)	-5%	868	0	0%
Council tax precept	26	-	0%	26	-	0%	114	62	54%
Other revenue grants	13	10	333%	12	1	8%	45	37	81%
Revenue	**3,534**	**18**	**1%**	**2,631**	**903**	**34%**	**6,807**	**201**	**3%**
Operating cost	(3,753)	162	-4%	(3,471)	(282)	8%	(7,109)	95	1%
Operating surplus before renewals & financing	**(219)**	**180**	**-45%**	**(840)**	**621**	**-74%**	**(301)**	**295**	**98%**
Capital renewals	(286)	27	-8%	(238)	(48)	20%	(635)	(32)	-5%
Net financing costs	(231)	1	0%	(242)	11	-5%	(417)	9	2%
Operating surplus / (deficit)	**(736)**	**208**	**-22%**	**(1,320)**	**584**	**-44%**	**(1,354)**	**272**	**20%**
Extraordinary revenue grant	627	(107)	-15%	1,468	(841)	-57%	865	(366)	-42%
Operating surplus after extraordinary revenue grant	**(110)**	**100**	**-48%**	**148**	**(257)**	**-174%**	**(489)**	**(95)**	**-19%**

* Other operating income and operating costs shown excl. Elizabeth line regulatory income from P7, 2022/23

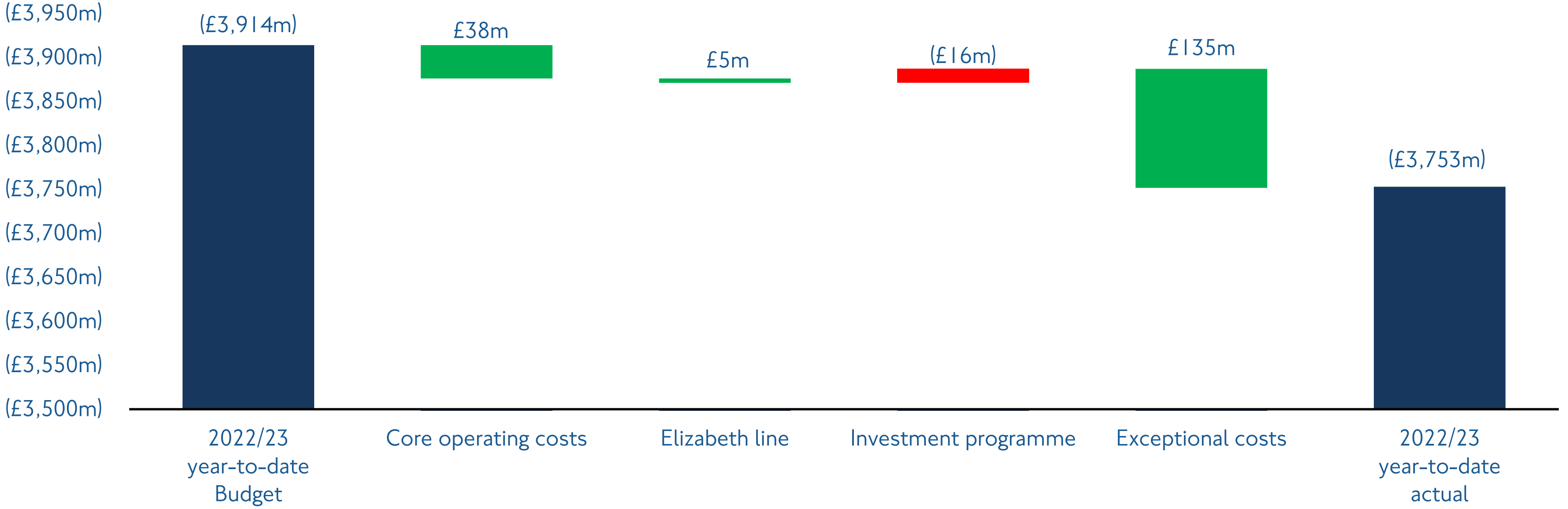
Operating costs

Total operating costs are £162m lower than Budget.

We have continued to see pressures on RUC bad debt (£61m), a result of higher ULEZ contravention rates as well as lower rates of customers paying PCNs at the initial discount rates. We are also seeing the impacts of rising inflation (£19m) on some of our external contracts, incl. rail and bus operators.

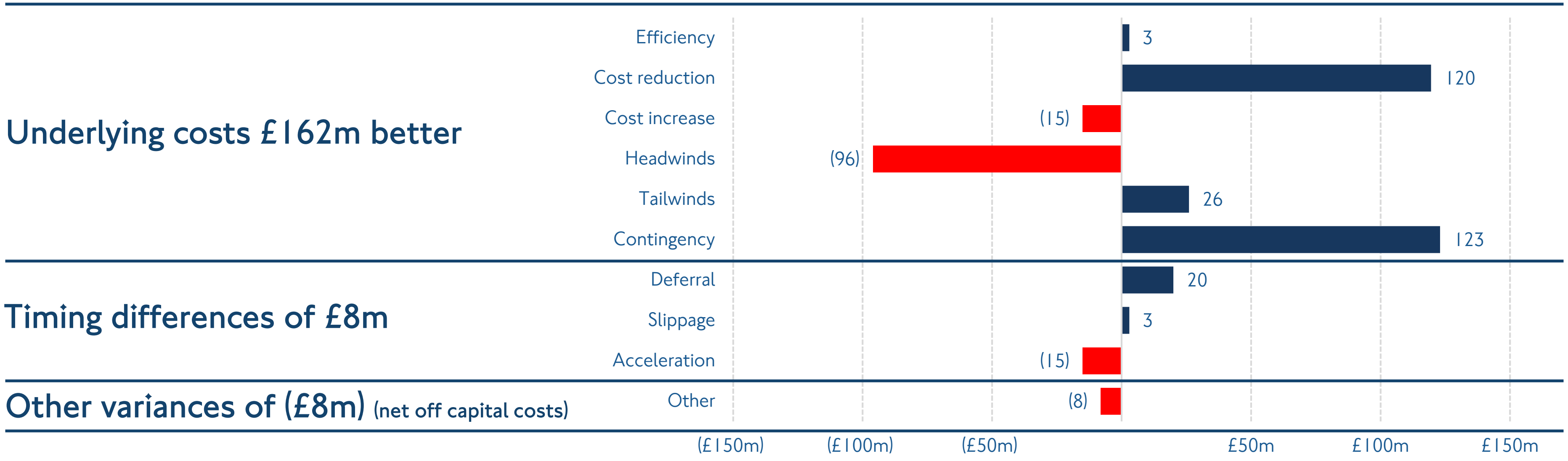
These pressures have been mitigated through contingency (£40m) and further cost reductions, the latter including lower pension deficit payments following the 2021 revaluation which was finalised after the budget was set, lower staff costs, and lower bus costs from lower mileage and industrial action.

Operating costs: drivers of year to date variances (£m)



Operating costs: types of year to date variances (£m)

Underlying costs £162m better (with headwinds of (£96m) offset by £120m of cost reductions); contingency of £123m and timing differences of £8m, which we expect to unwind over the financial year



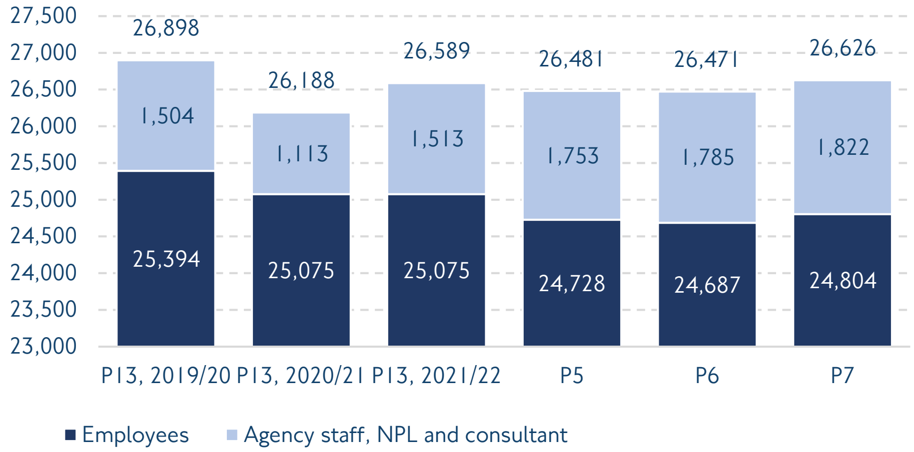
Staff

Total staff levels are just under 300 lower than pre-pandemic levels and are now slightly up from the end of last year.

Permanent employee numbers are now almost 600 lower than before the pandemic and are over 250 down from last year; ongoing labour market issues, and funding uncertainty earlier in the year hampered our ability to recruit; we have also seen an increase in resignation rates, a result of reward constraints as well as a buoyant external market.

Agency and NPL staff have increased by over 300 since the end of 2019/20, but remain significantly lower than 2015/16 levels.

Headcount trends since 2019/20



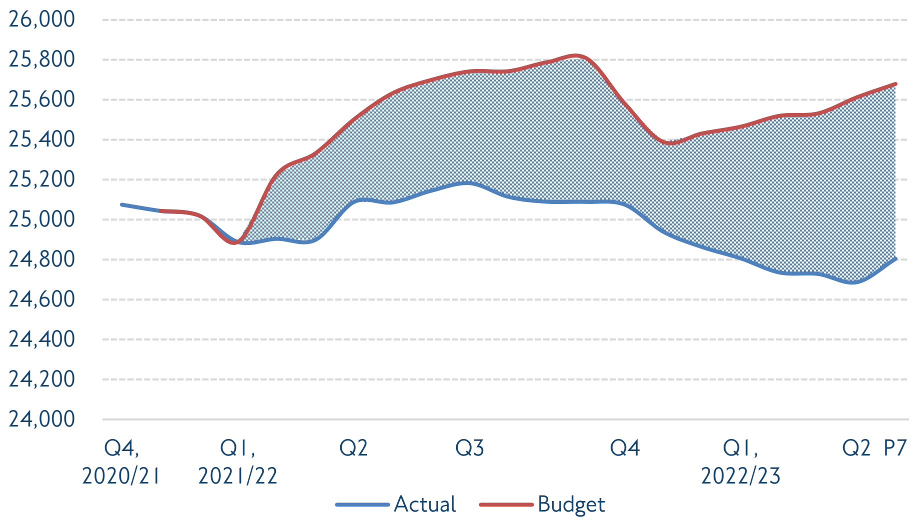
Total staff over 250 lower than pre-pandemic levels

Agency, NPL and consultants over 300 higher than pre-coronavirus levels as a result of labour market challenges

Permanent employees down by almost 600 since 2019/20 and in line with last year

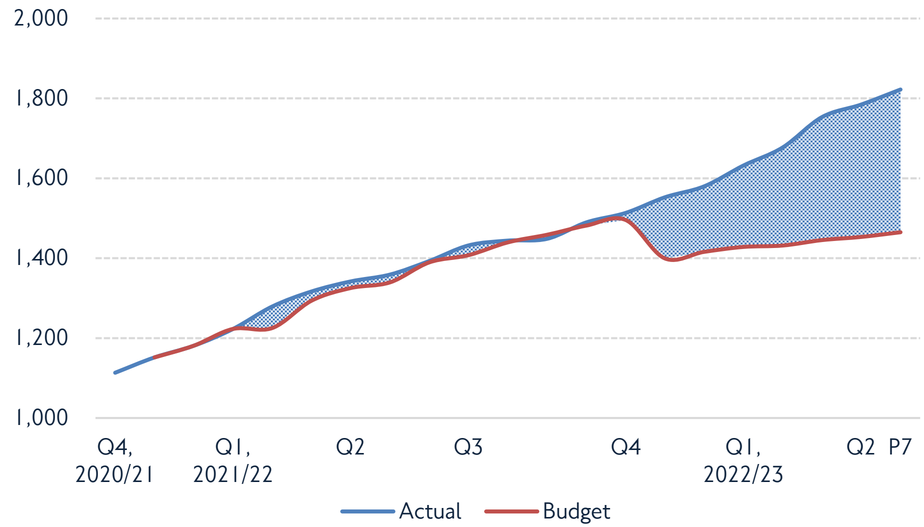
Permanent staff (FTE): actuals and Budget

Permanent employees down by almost 300 since the end of 2021/22, driven by large number of retirees and leavers. Staff levels almost 900 lower than Budget from recruitment delays, a competitive external market and higher resignation rates, with leavers averaging 170 per period.



Agency and NPL staff (FTE): actuals and Budget

Agency and NPL FTE up by over 300 since the end of 2021/22 and higher than Budget. Driven by labour market challenges and funding uncertainty.



Capital account

New capital investment remains close to budget in the year-to-date, and the full year forecast has increased due to the funding settlement.

Capital renewals are currently £27m lower than Budget, with some slippage on DLR renewals (£6m) as a result of resource shortages, and lower technology project spend on Cycle Hire modernisation and Cable Car.

We have been proactively managing our renewals workbank so we can maximise delivery within our available capital funding. We are forecasting to deliver the full envelope set in the funding settlement of £635m, but there are risks to achieving this.

TfL property and asset receipts are (£19m) lower than Budget, mainly from the timing of receipt for Woolwich over station development.

	Period 7 year to date, 2022/23			Period 7 year to date, 2021/22			Full-year forecast, 2022/23		
£m	Actuals	Variance to Budget	% variance to Budget	Last year	Variance to last year	% variance to last year	Q2 forecast	Variance to Budget	% variance
New capital investment	(393)	10	-2%	(401)	8	-2%	(832)	(31)	-4%
TTLP capital expenditure	(33)	50	-60%	(19)	(14)	74%	(138)	18	13%
Crossrail	(143)	68	-32%	(352)	209	-59%	(247)	34	14%
Total capital expenditure	**(569)**	**128**	**-18%**	**(772)**	**203**	**-26%**	**(1,217)**	**21**	**2%**
Financed by:									
Investment grant	494	-	0%	484	10	2%	951	0	0%
Property and asset receipts	1	(19)	-95%	46	(45)	-98%	33	(3)	-9%
TTLP property receipts	24	(35)	-59%	-	24	N/A	101	(2)	-2%
Borrowing							0	0	N/A
TTLP borrowing		(15)	-100%	75	(75)	-100%	0	(25)	N/A
Crossrail funding sources	187	(76)	-29%	327	(140)	-43%	312	(67)	-21%
Other capital grants	35	(7)	-17%	23	12	52%	81	(45)	-55%
Total	**741**	**(151)**	**-17%**	**955**	**(214)**	**-22%**	**1,478**	**(141)**	**-10%**
Net capital account	**172**	**(23)**	**-12%**	**183**	**(11)**	**-6%**	**262**	**(121)**	**-46%**
Capital renewals	(286)	27	-8%	(238)	(48)	-20%	(635)	(32)	-5%
New capital investment	(393)	10	-2%	(401)	8	-2%	(832)	(31)	-4%
Total TfL capital expenditure	**(680)**	**36**	**5%**	**(639)**	**(41)**	**-6%**	**(1,467)**	**(63)**	**-4%**

Capital renewals expenditure

Capital renewals (£m)	Period 7 year to date, 2022/23			Period 7 year to date, 2021/22			Full-year forecast, 2022/23		
	Actuals	Variance to Budget	% var. to Budget	Last year	Variance to last year	% var. to last year	Q2 forecast	Variance to Budget	% variance to Budget
CCO	**(93)**	**26**	**-22%**	**(72)**	**(20)**	**28%**	**(203)**	**11**	**-5%**
Four lines modernisation	(2)	1	-28%	(4)	2	-44%	(3)	2	-38%
Surface assets	(46)	4	-8%	(39)	(7)	19%	(97)	(8)	10%
Air Quality and Environment	(7)	8	-55%	0	(7)	-2185%	(13)	13	-51%
Public transport	(25)	8	-24%	(21)	(4)	19%	(60)	1	-2%
Technology	(12)	7	-36%	0	(12)	0%	(28)	7	-19%
Savings challenge and deliverability	(0)	(2)	-103%	(9)	9	-99%	(1)	(4)	-132%
COO	**(168)**	**(10)**	**7%**	**(147)**	**(22)**	**15%**	**(359)**	**(45)**	**14%**
LU	(168)	(13)	8%	(147)	(21)	14%	(354)	(47)	15%
Elizabeth line	(1)	2	-75%	0	(1)	0%	(5)	2	-29%
CCSO excluding TTLP	**(22)**	**10**	**-31%**	**(17)**	**(5)**	**28%**	**(66)**	**1**	**-1%**
Estates	(0)	(0)	0%	(0)	0	-58%	(0)	(0)	0%
CCSO incl. T&D	(22)	10	-31%	(17)	(5)	31%	(66)	1	-1%
Corporate	**(3)**	**1**	**-27%**	**(2)**	**(1)**	**74%**	**(7)**	**1**	**-13%**
Total TfL excl. TTLP	**(286)**	**27**	**-8%**	**(238)**	**(48)**	**20%**	**(635)**	**(32)**	**5%**

Capital enhancements expenditure

Capital enhancements (£m)	Period 7 year to date, 2022/23			Period 7 year to date, 2021/22			Full-year forecast, 2022/23		
	Actuals	Variance to Budget	% var. to Budget	Last year	Variance to last year	% var. to last year	Q2 forecast	Variance to Budget	% variance
Rolling Stock and Signalling	**(233)**	**(21)**	**10%**	**(184)**	**(52)**	**29%**	**(466)**	**(38)**	**9%**
Piccadilly line upgrade	(119)	(9)	8%	(74)	(45)	61%	(223)	(1)	0%
Four lines modernisation	(65)	(4)	6%	(69)	3	-5%	(117)	(8)	8%
Rail System Enhancements	(4)	(0)	6%	(3)	(1)	38%	(6)	1	-17%
MPD Savings challenge	0	(17)	-100%	0	0	0%	15	(19)	-56%
Trams	(1)	2	-74%	(1)	0	0%	(2)	1	-21%
DLR Rolling Stock replacement	(44)	8	-15%	(37)	(10)	27%	(132)	(11)	9%
Major Enhancements	**(59)**	**11**	**-16%**	**(114)**	**55**	**-48%**	**(109)**	**10**	**-8%**
Silvertown Tunnel	(6)	5	-47%	(6)	(0)	0%	(41)	(1)	2%
Northern Line Extension	(0)	2	-100%	(44)	44	-100%	(0)	3	-93%
Barking Riverside	(3)	2	-46%	(23)	20	-87%	(1)	1	-33%
Elephant & Castle Station Capacity	(6)	1	-16%	(2)	(4)	254%	(9)	2	-22%
Bank Congestion Relief	(41)	0	-1%	(31)	(9)	30%	(57)	0	0%
HS2	(0)	(0)	0%	(0)	**0**	**-100%**	(0)	(0)	0%
Elizabeth line	(3)	0	-6%	(8)	**5**	**-60%**	(1)	4	-82%
Other Enhancements	**(102)**	**19**	**-15%**	**(104)**	**5**	**-5%**	**(256)**	**(2)**	**1%**
Major stations	(1)	1	-47%	(1)	0	-23%	(2)	0	-5%
DLR RSRP HIF	(2)	2	-45%	0	2	-100%	(7)	2	-21%
Surface assets	(2)	(0)	10%	(1)	(0)	40%	(2)	(0)	9%
Air Quality and Environment (AQE)	(21)	(13)	172%	(24)	3	-14%	(68)	(56)	466%
Public transport	(5)	13	-73%	(6)	1	-10%	(11)	32	-75%
Healthy Streets	(32)	1	-4%	(23)	(9)	41%	(77)	(27)	54%
Technology	(4)	(1)	49%	(6)	2	-29%	(7)	(1)	9%
LU	(8)	2	-21%	(12)	4	-34%	(16)	8	-32%
CCSO excl. TTLP	(27)	(3)	10%	(30)	2	-8%	(60)	4	-6%
Estates	(0)	16	-99%	(0)	0	-44%	(5)	35	-87%
Corporate	(0)	1	-92%	(0)	0	-61%	(1)	1	-65%
Total TfL excl. TTLP and Crossrail	**(393)**	**10**	**-2%**	**(401)**	**8**	**-2%**	**(832)**	**(31)**	**4%**
TTLP	(33)	50	-60%	(19)	(14)	74%	(138)	18	-13%
Crossrail	**(143)**	**68**	**-32%**	**(352)**	**209**	**-59%**	**(247)**	**34**	**-12%**
Total	**(569)**	**128**	**-18%**	**(772)**	**203**	**-26%**	**(1,217)**	**21**	**2%**

Cash flow statement

Cash balances

£m	Period 7, 2022/23 Actuals	Variance to Budget		Year to date, 2022/23 Actuals	Variance to Budget		Variance to last year	
Opening balance	1,061	(129)	-11%	1,287	42	3%	(332)	-37%
Change in cash balance	44	43	6959%	(182)	(127)	230%	(216)	-62%
Closing balance	**1,105**	**(85)**	**-7%**	**1,105**	**(85)**	**-7%**	**(548)**	**-30%**

Cash flow statement

£m	Period 7, 2022/23 Actuals	Variance to Budget		Year to date, 2022/23 Actuals	Variance to Budget		Variance to last year	
Operating surplus	**132**	**79**	**152%**	**(110)**	**100**	**48%**	**(257)**	**-174%**
Less TTLP, LTIG and LTM	(3)	(1)	50%	(14)	(5)	56%	(2)	17%
Cash generated / (used) from operating activities	*129*	*78*	*153%*	*(124)*	*95*	*45%*	*(259)*	*-179%*
New capital investment (VOWD)	(58)	2	-3%	(393)	9	-2%	8	-2%
Investment grants and ring-fenced funding	82	(4)	-4%	531	(6)	-1%	(22)	-4%
Working capital movements	(93)	(67)	259%	5	(24)	-82%	309	-102%
Cash generated / (used) from investing activities	*(69)*	*(69)*	*n/a*	*143*	*(21)*	*-17%*	*295*	*-194%*
Free cash flow	**59**	**9**	**19%**	**19**	**74**	**-134%**	**35**	**-215%**
Existing debt maturing	(49)	0	0%	(634)	0	0%	(329)	108%
New debt issued	54	54	N/A	554	(80)	-13%	244	79%
Short-term net borrowing change	(20)	(20)	N/A	(121)	(121)	n/a	(166)	-369%
Cash generated / (used) from financing activities	*(15)*	*34*	*69%*	*(201)*	*(201)*	*n/a*	*(251)*	*-402%*
Change in cash balance	**44**	**43**	**6959%**	**(182)**	**(127)**	**230%**	**(216)**	**-643%**

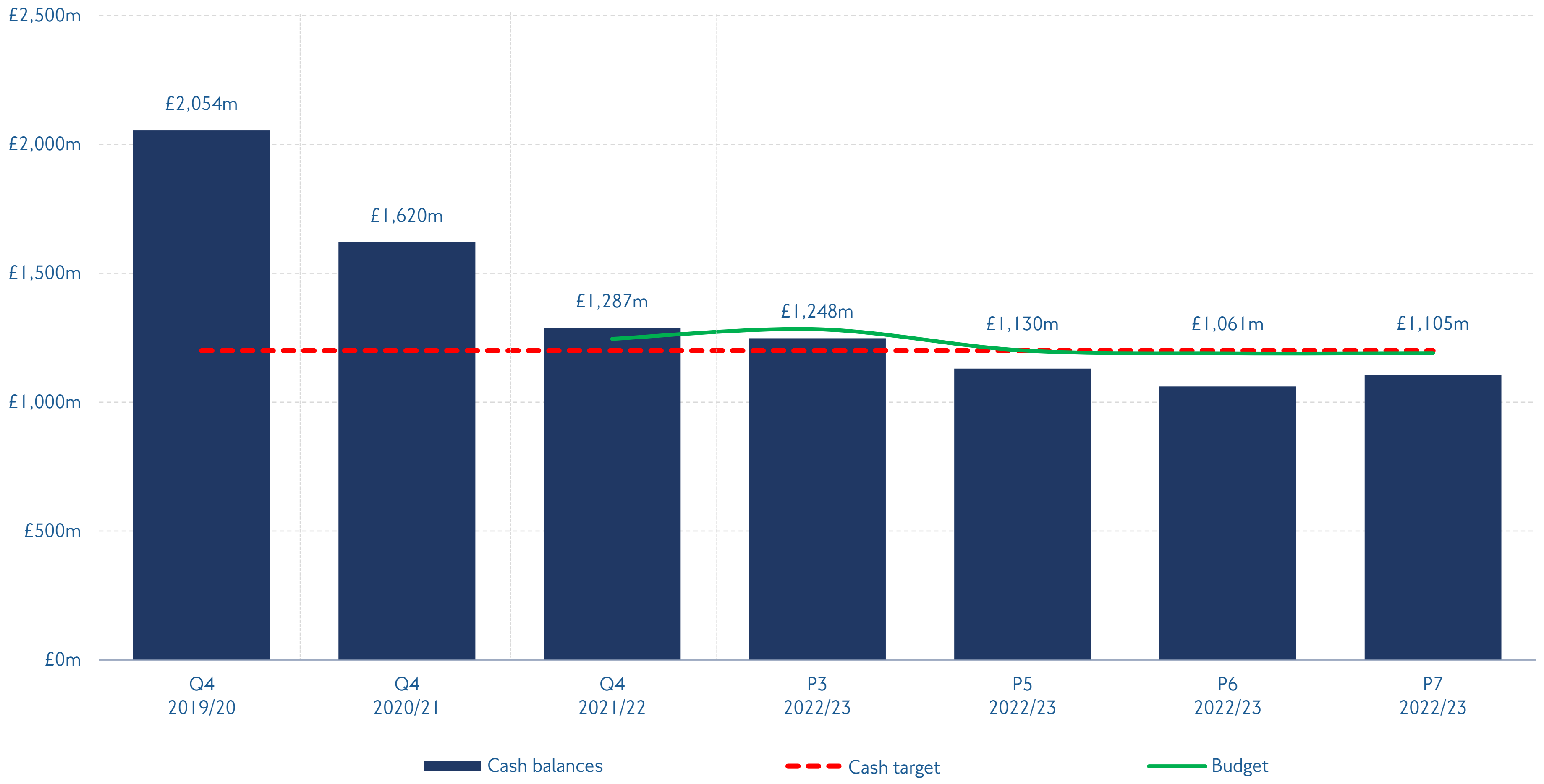
Cash balances

Total cash balances (excl. cash balances identified for Crossrail construction) are just over £1.1bn at the end of Period 7, £182m lower than at the start of the year. Cash balances are (£85m) lower than Budget, largely a result of lower levels of government support than assumed in the Budget.

A condition of the new funding agreement is that our cash balances will average no more than £1.2bn for the duration of the agreement.

	2021/22 closing cash	2022/23 cash movement	P7, 2022/23 closing cash	P7, 2022/23 variance to Budget
TfL closing cash balances	1,287	(182)	1,105	(85)

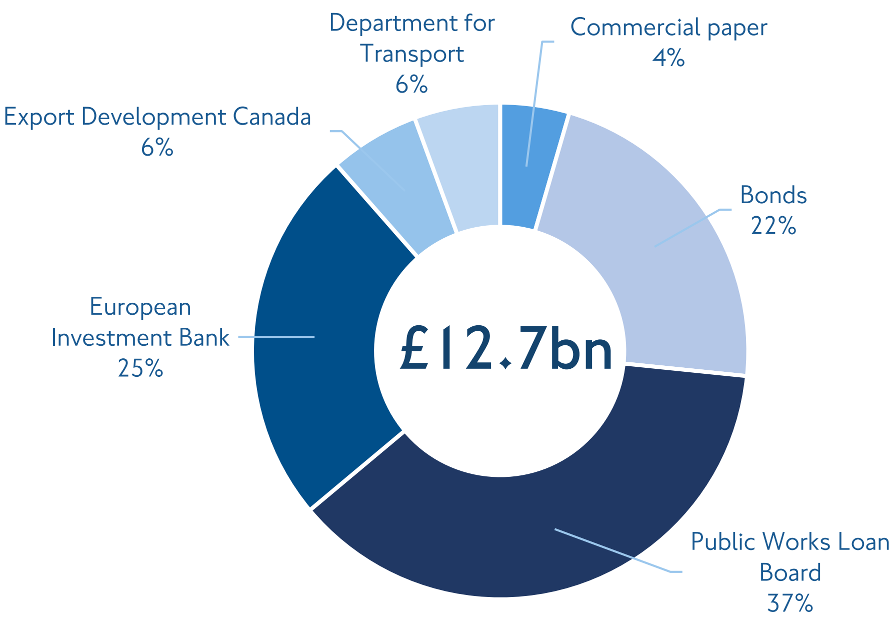
Cash balances reduced from £2,054m at the end of 2019/20 to £1,105m at the end of Period 7, 2022/23.



Debt position

We have borrowed from a range of sources in previous years to help fund our capital programme, including Crossrail and major upgrades to our tube network.

TfL total debt

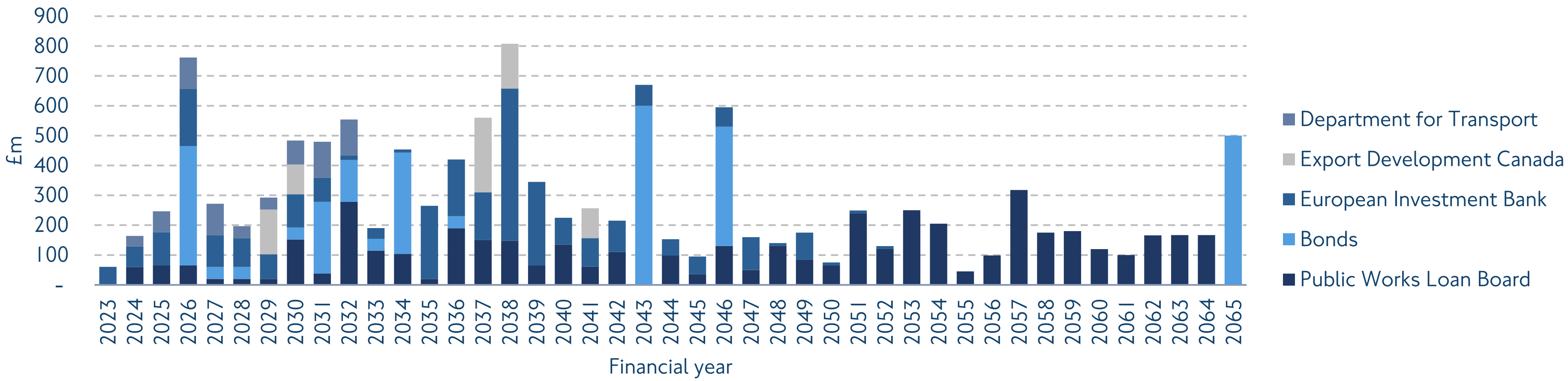


90%
Over 90% of our borrowing is at a fixed rate of interest

3.3%
The weighted average interest rate on our borrowing is 3.3%

18.3 years
The weighted average tenor of our borrowing is 18.3 years

TfL borrowing maturity profile



The debt maturity profile excludes around £500m of short-term commercial paper, which we intend to continue to re-issue on a rolling basis.

Credit ratings

	Standard & Poor's	Moody's	Fitch
Long-term rating	A+	Baa1	A+
Outlook	Stable	Stable	Stable
Short-term rating	A-1	P-2	F1+
Last changed/affirmed	May 2022	October 2022	September 2021

Standard and Poor's (S&P)

- S&P affirmed our credit rating at A+/A-1 in May 2022, which reflected its view that the government would continue to provide adequate support to TfL until performance returns to sustainable levels.
- In September 2022, S&P published a bulletin on TfL covering the recent funding settlement. It noted that the agreement with central government left a funding gap, but that it believes this could be bridged with additional cost savings or temporary support from the GLA. S&P noted that overall, it expected TfL's financial metrics to stay broadly in line with previous expectations.
- Our S&P rating was downgraded from AA- to A+ in May 2020, towards the start of the pandemic.

Moody's

- Moody's affirmed our credit rating in October 2022 and maintained the stable outlook, stating that our operating strengthening performance and protections under the funding agreement will partially mitigate economic and fiscal risks
- Moody's previously downgraded our credit rating from A3 to Baa1 in May 2022, citing its concern around the ongoing uncertainty over long-term funding arrangements, and stating that operating performance was expected to be weaker than previously predicted due to lower economic growth and higher inflation.
- In September 2022, Moody's published a research piece containing its view on the most recent funding agreement and GLA facility. It noted that the funding is credit positive, enabling TfL to balance its budget.
- Moody's had previously downgraded our rating in October 2020 (from Aa3 to A1) and June 2021 (from A1 to A3).

Fitch

- On 13 September 2022, Fitch announced that they had reviewed TfL's rating and taken no action. We expect them to perform further analysis soon.
- Our current rating from Fitch is A+, which was downgraded from AA- in May 2020.