Finance Report

Quarter 3, 2022/23

Management results from 1 April 2022 – 10 December 2022

Board

1 February 2023

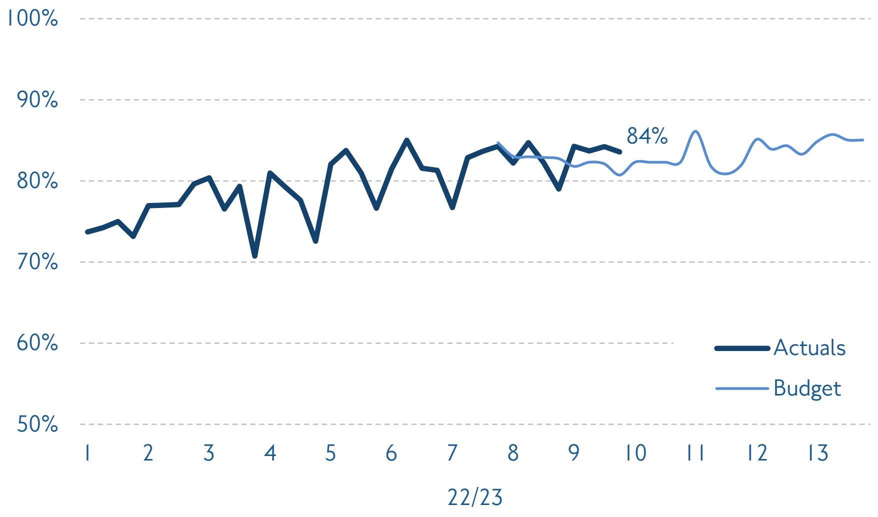
We are on track to deliver the Revised Budget set in the 2023 Business Plan.

This means we are on track to achieve financial sustainability in 23/24, but there remain significant risks.

Year to date	In the year to date, we remain on track to deliver our new Revised Budget that sets us on the path to financial sustainability as set out in the 2023 Business Plan: • **Revenue is in line with Revised Budget** – journeys continue to recover, with latest journeys at 84% of pre-pandemic levels. Journeys and passenger income are slightly better than the Budget. Extraordinary revenue grant is lower than expected, which we expect to reverse over the next quarter • **Our core operating costs remain close to Revised Budget** – the Revised Budget embedded the risks we saw materialise earlier in the year – from the impact of rising inflation and increasing Road User Charging bad debt – as well as tailwinds from lower pension deficit payments. Operating costs are £23m lower than Revised Budget, mainly from timing of, and reduction in, maintenance costs, as well as some one-off upsides • **Capital enhancement is within 1% of Revised Budget** – due to slippage on third-party funded projects, largely because of factors outside our control. The Revised Budget forecast to deliver very close to the capital envelope set by the funding settlement over the full year. • **Capital renewals are 2% lower than Revised Budget** – our Revised Budget included the ambition to deliver the higher level of renewals of £635m set by the funding settlement. We are actively managing our renewals programme to achieve this.
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 0.3% in the three months to November 2022. Latest forecasts suggest this may continue for a sustained period. The main risk this creates is on passenger income, which is protected by the funding settlement to March 2024. • **Inflationary pressures on TfL cost base,** including energy and third-party operator costs. Our current forecast is that higher inflation will drive at least £300m of extra cost into our operating expenditure for 2023/24. The latest Office for Budget Responsibility forecast for inflation published on 17 November 2022, indicates that this pressure could increase to around £400m. There is some protection on inflation risk from the funding settlement, but this is not yet confirmed. • **Savings targets** are stretching, with a target of £204m incremental recurring savings by the end of 2023/24 following the new funding agreement with Government. We maintain the GLA financing facility if this risk crystalises.

Headlines

Total passenger journeys 84% of pre-pandemic levels in Period 9, up from 68% at the end of 2021/22



Passenger income almost £800m better than last year and £1.8bn up on 2020/21; income is now £470m lower than pre-pandemic levels, averaging just over £50m lower each period

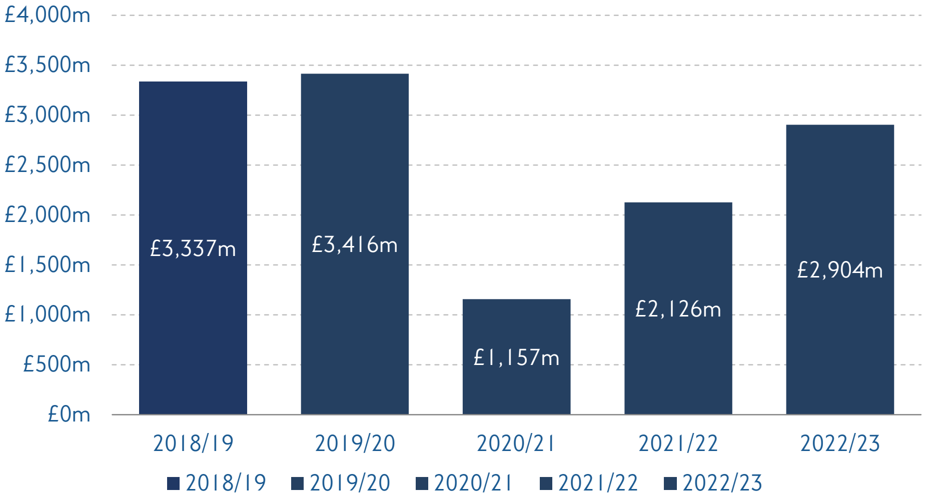
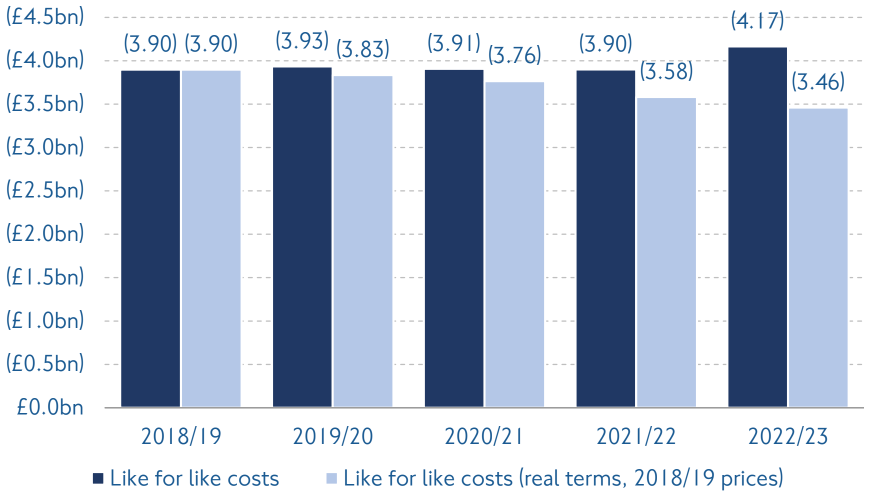
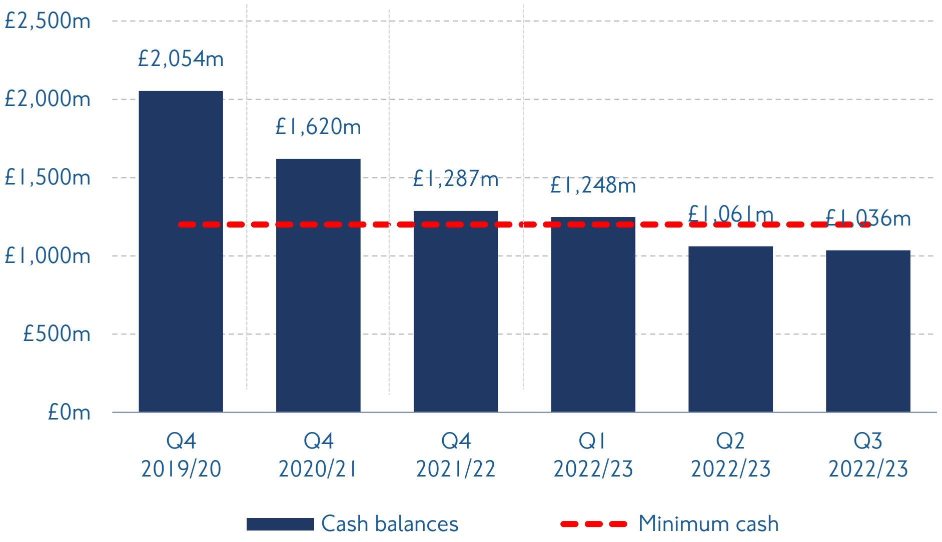


Chart shows year-to-date passenger income to end of Quarter 3 for each year

Year to date like-for-like operating costs up on prior years as a result of inflationary pressures; real terms costs over £400m lower than in 2018/19



We continue to maintain our cash reserves at no more than £1.2bn on average in line with our funding settlement condition and expect to end the year at £1.2bn



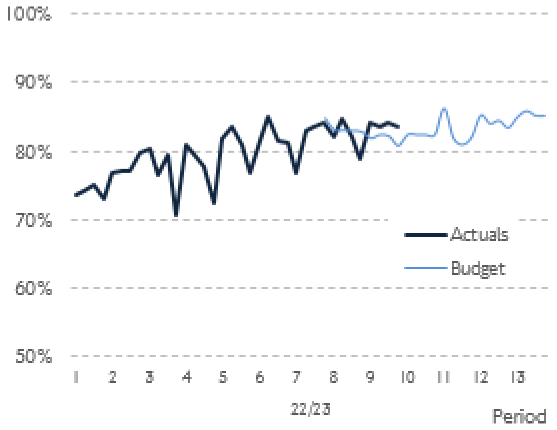
Passenger journeys

Total TfL journeys were 84% of pre-pandemic levels at the end of the Quarter, up from 68% at the start of the financial year, and with a slight improvement on the prior period (82%).

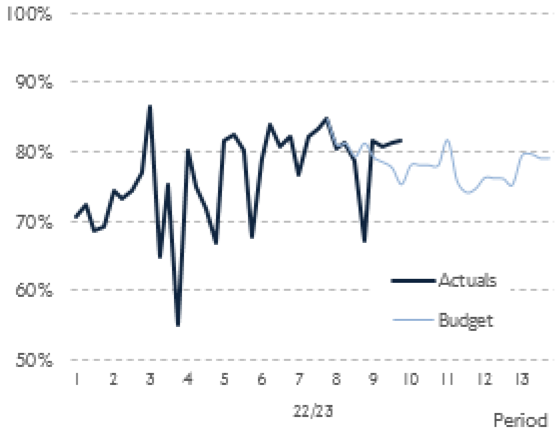
Tube journeys are relatively stable at 81% (broadly in line with our P7 report). Bus journeys are also stable at 81% and are broadly in line with forecast. However, bus journeys have remained flat since the end of Quarter 1 and there is a risk journeys (and corresponding income) may not reach the levels forecast.

Industrial action on the national rail network on Saturday 26 November saw a reduction in demand - with the exception of EL, which showed a jump in journeys - with the net impact being a small reduction of 67,000 journeys across our network (excluding buses).

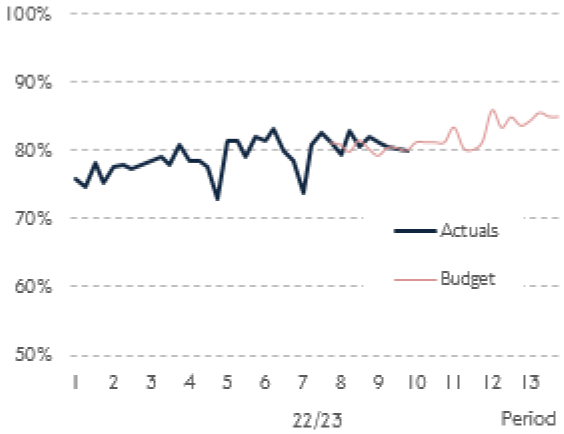
TfL	% vs Pre Covid period	% vs budget		Absolute m	Var to Bud m
	84%	82%	P	279	8
			Y	2251	5



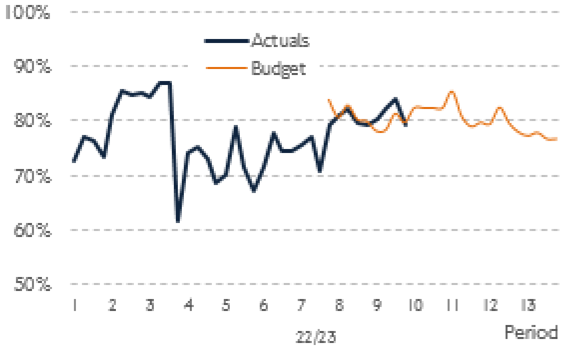
LU	% vs Pre Covid period	% vs budget		Absolute m	Var to Bud m
	81%	78%	P	95	3.7
			Y	738	-0.6



Bus	% vs Pre Covid period	% vs budget		Absolute m	Var to Bud m
	81%	80%	P	145	0.8
			Y	1237	1.5



Rail	% vs Pre Covid period	% vs budget		Absolute m	Var to Bud m
	84%	79%	P	23	1.2
			Y	189	1.1

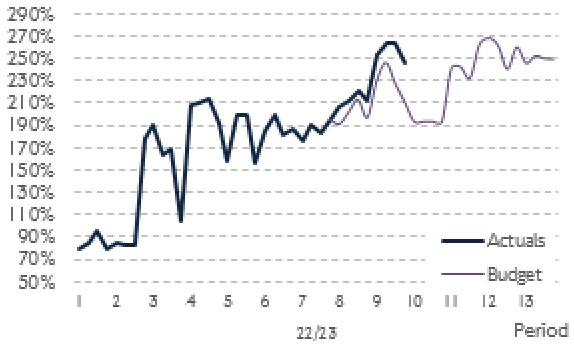


LO	% vs Pre Covid period	% vs budget		Absolute m	Var to Bud m
	92%	83%	P	14	1.4
			Y	111	1.2

DLR	% vs Pre Covid period	% vs budget		Absolute m	Var to Bud m
	75%	74%	P	7	0.1
			Y	64	0.2

Tram	% vs Pre Covid period	% vs budget		Absolute m	Var to Bud m
	68%	80%	P	2	-0.3
			Y	15	-0.3

EL	% vs Pre Covid period	% vs budget		Absolute m	Var to Bud m
	261%	228%	P	15	2.0
			Y	87	2.6



Income statement

Passenger income is 1% higher than Revised Budget and now almost £800m higher than last year.

Other operating income is £13m better than Revised Budget, largely a result of higher enforcement income from ULEZ and higher third-party income. Other revenue grants includes Extraordinary revenue grant – this is £52m lower, and is a result of phasing which we expect to reverse over subsequent periods.

Operating costs are analysed in more detail overleaf.

Capital renewals are £6m lower than Budget, driven by timing differences in LU on some technology projects. We are aiming to deliver as much of the £635m envelope set in the funding settlement as possible.

	Quarter 3 year to date, 2022/23				Quarter 3 year to date, 2021/22		
£m	Actuals	Revised Budget	Variance to Revised Budget	Variance%	Last year	Variance to last year	Variance %
Passenger income	2,904	2,883	21	1%	2,126	778	37%
Other operating income	1,064	1,051	13	1%	735	329	45%
Business Rates Retention	1,290	1,290	-	0%	1,288	2	0%
Other revenue grants	722	774	(52)	-7%	1,595	(873)	-55%
Revenue	**5,980**	**5,998**	**(18)**	0%	**5,744**	**236**	4%
Operating costs	(4,825)	(4,848)	23	0%	(4,455)	(370)	8%
Operating surplus before renewals & financing	**1,155**	**1,150**	**5**	0%	**1,289**	**(134)**	-10%
Capital renewals	(380)	(386)	6	-2%	(310)	(70)	23%
Net financing costs	(295)	(294)	(1)	0%	(309)	14	-5%
Operating surplus / (deficit)	**480**	**470**	**10**	2%	**670**	**(190)**	-28%
Operating surplus excl. extraordinary revenue grant	(187)	(252)	64	-25%	(874)	687	-79%

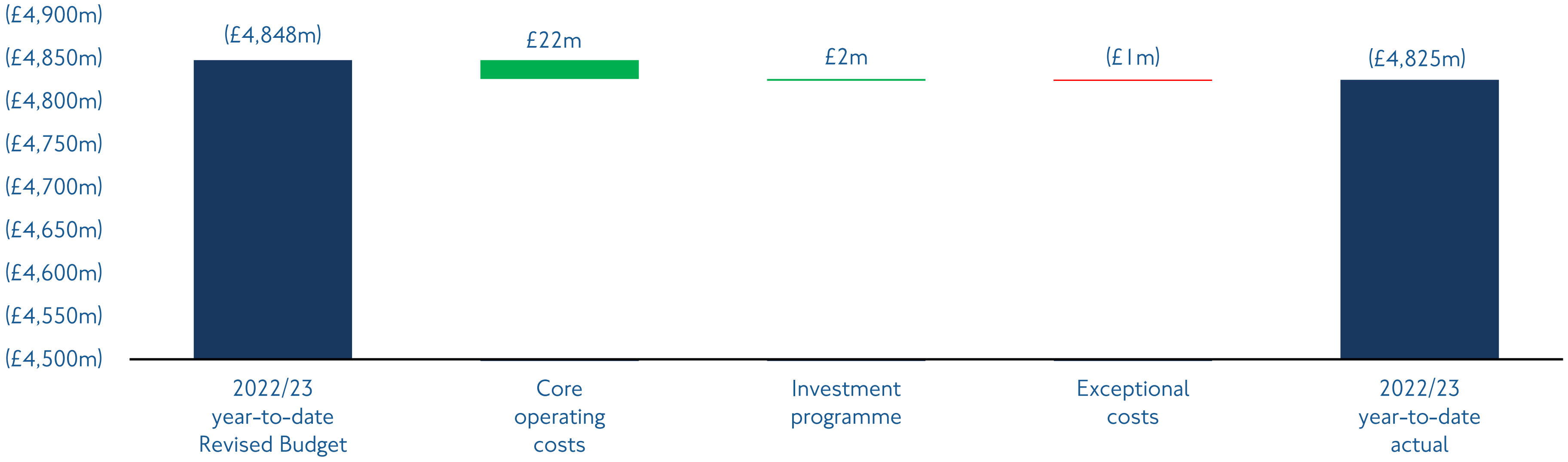
Operating costs

Total operating costs are £23m lower than Revised Budget.

Headwinds and tailwinds from earlier in the year – including bad debt from ULEZ enforcement income, inflationary pressures, and cost savings from lower pension deficit payments – have been incorporated into the new Revised Budget. We have seen a slight worsening of bad debt over recent periods, with a year to date pressure of (£6m).

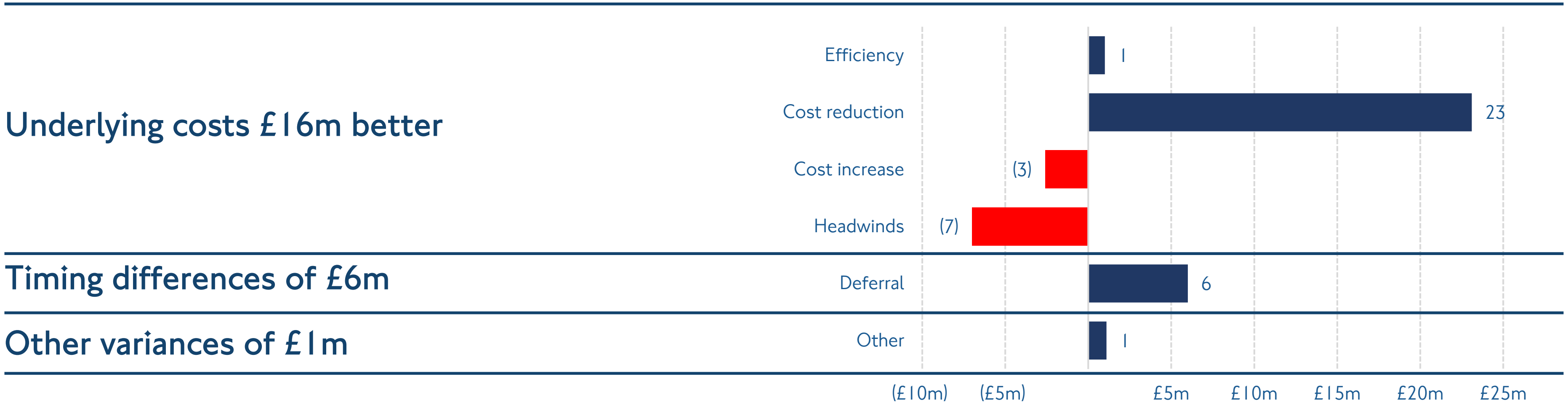
We have additionally seen cost reductions of £23m, from lower LU maintenance costs, lower performance payments in Rail, lower utilities costs and a number of one-off favourable variances.

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



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

Total operating costs £23m lower than Revised Budget: underlying costs £16m better (with headwinds of (£7m) offset by £23m of cost reductions); timing differences of £6m, which we expect to reverse by year end.

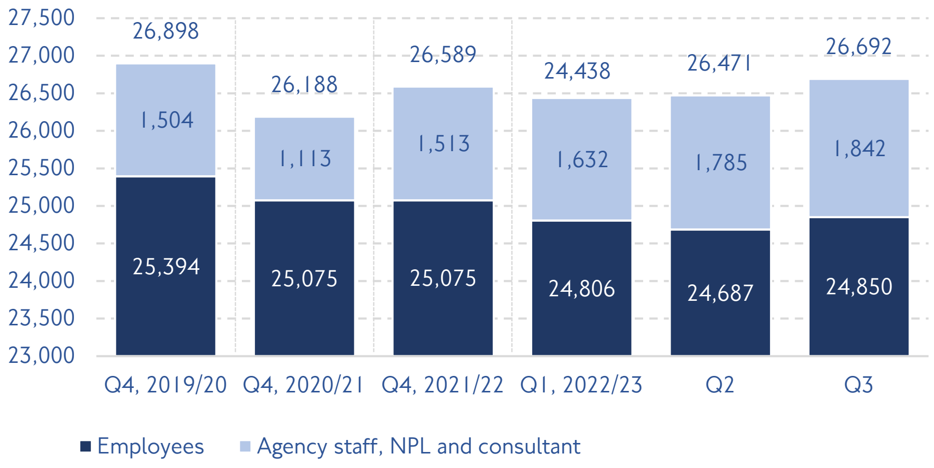


Staff

Total staff levels are just over 200 lower than pre-pandemic levels and are now slightly up from the end of last year.

Permanent employee numbers are now almost 550 lower than before the pandemic and are almost 250 down from last year. Agency and NPL staff have increased by almost 350 since the end of 2019/20, but remain significantly lower than 2015/16 levels. Ongoing labour market issues, and funding uncertainty earlier in the year hampered our ability to recruit; resignation rates have fallen slightly in the Quarter, but remain high. A buoyant external market has also contributed to these issues.

Headcount trends since 2019/20



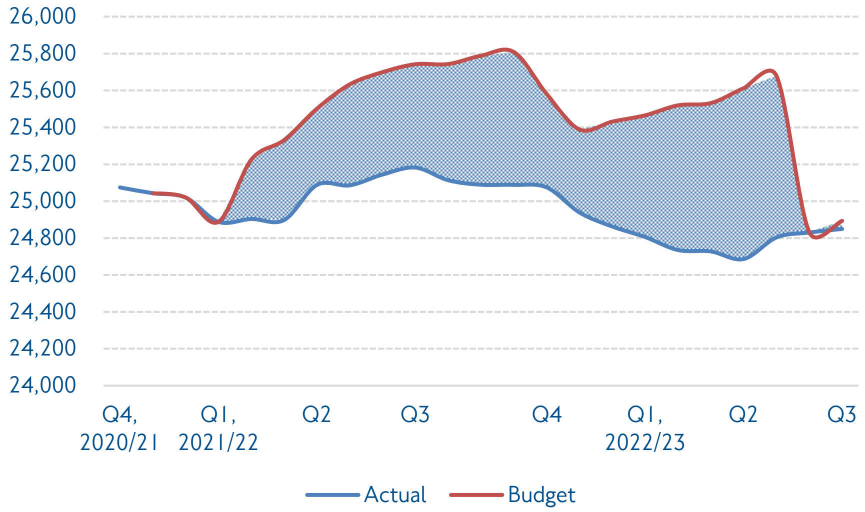
Total staff over 200 lower than pre-pandemic levels

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

Permanent employees down by around 550 since 2019/20 and in line with last year

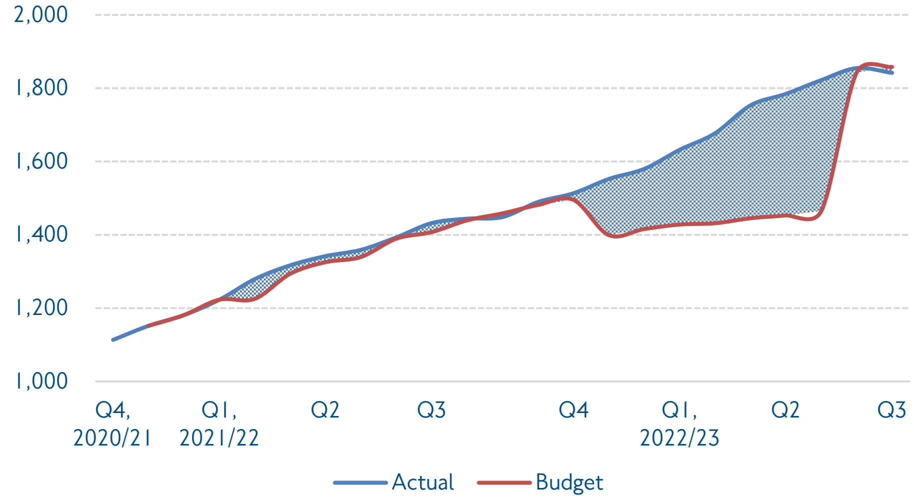
Permanent staff (FTE): actuals and Budget

Permanent employees down by almost 250 since the end of 2021/22, driven by large number of retirees and leavers, and earlier funding uncertainty. We are still seeing a competitive external market and higher resignation rates, with leavers averaging 150 per period in Quarter 3.



Agency and NPL staff (FTE): actuals and Budget

Agency and NPL FTE up by almost 350 since the end of 2021/22.



Capital renewals expenditure

Capital renewals (£m)	Quarter 3 year to date, 2022/23 Actuals	Revised Budget	Variance to Revised Budget	% variance to Revised Budget	Quarter 3 year to date, 2021/22 Last year	Variance to last year	% variance to last year
CCO	**(123)**	**(125)**	**2**	**-2%**	**(100)**	(23)	23%
Four lines modernisation	(3)	(3)	0	-4%	(5)	2	-46%
Surface assets	(64)	(62)	(2)	2%	(57)	(7)	13%
Air Quality and Environment	(8)	(8)	0	-1%	0	(8)	-3455%
Public transport	(32)	(34)	2	-7%	(28)	(4)	14%
Technology	(16)	(17)	1	-8%	0	(16)	0%
Savings challenge and deliverability	(0)	(0)	0	0%	(10)	10	-99%
COO	**(219)**	**(221)**	**2**	**-1%**	**(187)**	(32)	17%
LU	(218)	(220)	2	-1%	(187)	(31)	17%
Elizabeth line	(1)	(1)	0	-17%	0	(1)	0%
CCSO excluding TTLP	**(34)**	**(35)**	**1**	**-4%**	**(21)**	**(13)**	**59%**
Estates	(1)	(1)	(0)	184%	(1)	0	-14%
CCSO incl. T&D	(33)	(35)	2	-5%	**(21)**	**(13)**	**62%**
Corporate	**(5)**	**(5)**	**(0)**	**2%**	**(2)**	**(2)**	**91%**
Total TfL excl. TTLP	**(380)**	**(386)**	**6**	**-2%**	**(310)**	**(70)**	**22%**

Capital enhancements expenditure

Capital enhancements (£m)	Quarter 3, year to date, 2022/23				Quarter 3, year to date, 2021/22		
	Actuals	Revised Budget	Variance to Revised Budget	% variance to Revised Budget	Last year	Variance to last year	% variance to last year
Rolling Stock and Signalling	**(308)**	**(300)**	**(8)**	**3%**	**(243)**	**(65)**	**27%**
Piccadilly line upgrade	(157)	(153)	(4)	3%	(98)	(59)	60%
Four lines modernisation	(82)	(82)	0	0%	(90)	8	-9%
Rail System Enhancements	(5)	(5)	0	-5%	(4)	(1)	30%
MPD Savings challenge	0	5	(5)	-100%	0	0	0%
Trams	(1)	(1)	0	-23%	(1)	0	-31%
DLR Rolling Stock replacement	(64)	(64)	0	0%	(50)	(13)	26%
Major Enhancements	**(68)**	**(71)**	**3**	**-4%**	**(134)**	**66**	**-49%**
Silvertown Tunnel	(11)	(11)	(0)	3%	(8)	(3)	35%
Northern Line Extension	(0)	(0)	0	-13%	(48)	48	-100%
Barking Riverside	(3)	(4)	1	-14%	(26)	23	-87%
Elephant & Castle Station Capacity	(6)	(6)	(0)	0%	(2)	(4)	185%
Bank Congestion Relief	(49)	(50)	1	-2%	(40)	(8)	21%
HS2	(0)	(0)	0	0%	(0)	0	-100%
Elizabeth line	1	(1)	2	-147%	(9)	10	-107%
Other Enhancements	**(131)**	**(141)**	**10**	**-7%**	**(137)**	**6**	**-4%**
Major stations	(1)	(1)	0	-21%	(1)	0	-29%
DLR RSRP HIF	(3)	(3)	0	-8%	(1)	(2)	140%
Surface assets	(1)	(1)	(0)	14%	(4)	3	-77%
Air Quality and Environment (AQE)	(33)	(35)	2	-6%	(31)	(2)	5%
Public transport	(5)	(6)	1	-14%	(6)	1	-19%
Healthy Streets	(42)	(42)	0	-1%	(29)	(13)	43%
Technology	(6)	(6)	(0)	5%	(9)	3	-29%
LU	(10)	(11)	1	-11%	(14)	4	-28%
CCSO excl. TTLP	(31)	(36)	5	-15%	(40)	9	-22%
Estates	(1)	(1)	0	-38%	(0)	(1)	194%
Corporate	(0)	(0)	0	-36%	(0)	0	-100%
Total TfL excl. TTLP and Crossrail	**(508)**	**(513)**	**5**	**-1%**	**(515)**	**7**	**-1%**
TTLP	(39)	(69)	30	-43%	(16)	(23)	138%
Crossrail	(172)	(180)	8	-5%	(438)	265	-61%
Total	**(719)**	**(763)**	**44**	**6%**	**(969)**	**250**	**-26%**

Cash flow statement

Cash balances

£m	Year to date, 2022/23 Actuals	Variance to Revised Budget		Year to date, 2021/22 Actuals	Variance to last year	
Opening balance	1,287	-	0%	1,620	(333)	-21%
Change in cash balance	(251)	(150)	149%	3	(254)	-8471%
Closing balance	**(1,036)**	**(150)**	**-13%**	**1,623**	**(587)**	**-36%**

Cash flow statement

£m	Year to date, 2022/23 Actuals	Variance to Revised Budget		Year to date, 2021/22 Actuals	Variance to last year	
Operating surplus	**1,155**	**5**	**0%**	**1,289**	**(134)**	**-10%**
Less TTLP, LTIG and LTM	(20)	(2)	11%	(19)	(1)	5%
Cash generated / (used) from operating activities	1,135	3	0%	1,270	(135)	-11%
Capital renewals	(380)	6	-2%	(310)	(70)	23%
New capital investment (VOWD)	(508)	5	-1%	(515)	7	-1%
Investment grants and ring-fenced funding	49	(4)	-8%	67	(18)	-27%
Working capital movements	114	6	6%	(274)	388	-142%
Cash generated / (used) from investing activities	**(725)**	**13**	**-2%**	**(1,032)**	**307**	**-30%**
Free cash flow	**410**	**16**	4%	**238**	**172**	72%
Net interest paid	(295)	(1)	0%	(309)	14	-5%
Existing debt maturing	(634)	-	0%	(305)	(329)	108%
New debt issued	554	-	0%	334	220	66%
Short-term net borrowing change	(286)	(165)	136%	45	(331)	-736%
Cash generated / (used) from financing activities	**(661)**	**(166)**	**34%**	**(235)**	**(426)**	**181%**
Change in cash balance	(251)	(150)	149%	3	(254)	-8471%

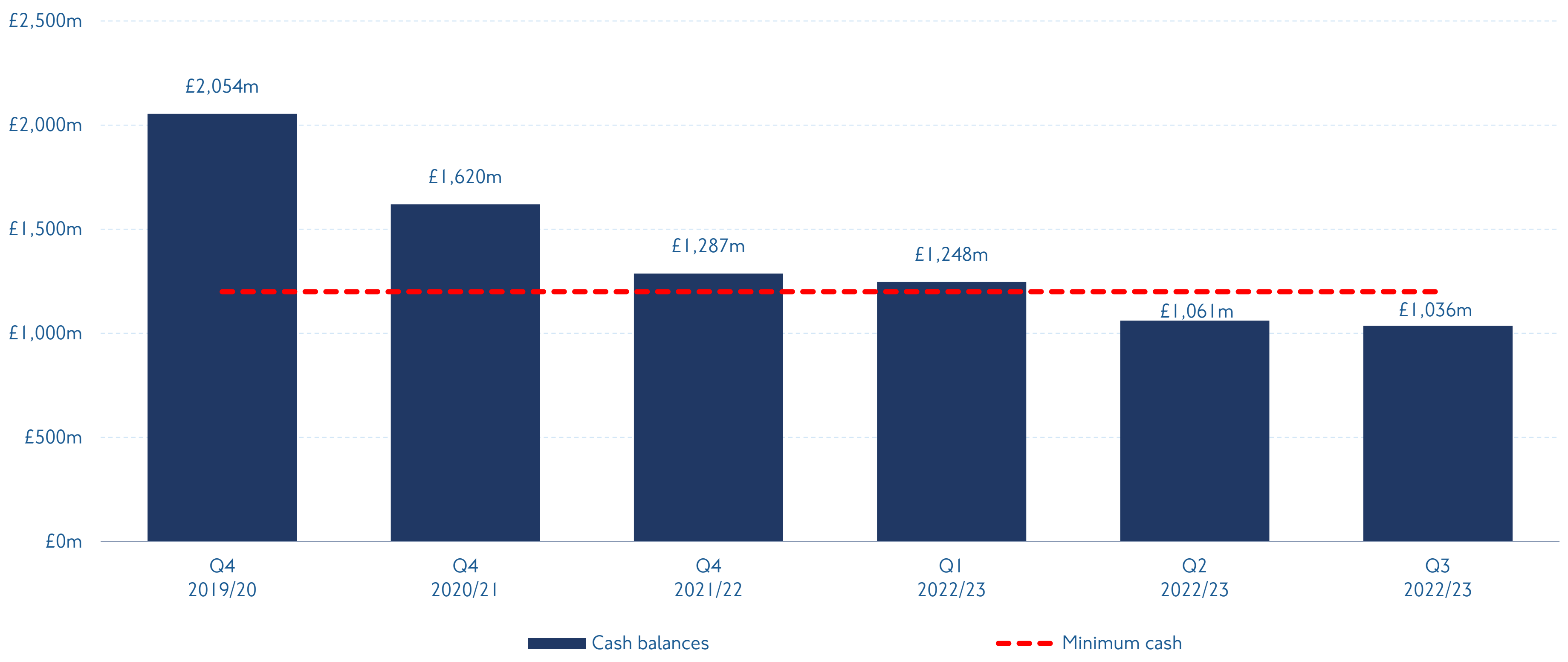
Cash balances

Total cash balances (excl. cash balances identified for Crossrail construction) are just over £1.0bn at the end of Quarter 3, £252m lower than at the start of the year. Cash balances are (£150m) lower than Revised Budget, largely a result of matured commercial paper which has not yet been re-borrowed – we expect to re-borrow this by year end while managing cash balances .

A condition of the current 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	Quarter 3, 2022/23 closing cash	Quarter 3, 2022/23 variance to Budget
TfL closing cash balances	1,287	(252)	1,036	(150)

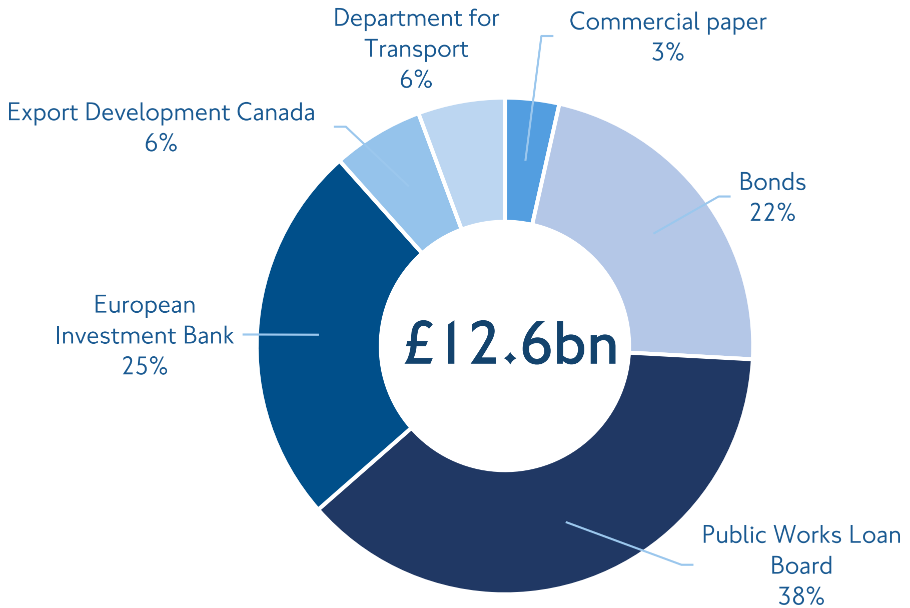
Cash balances reduced from £2,054m at the end of 2019/20 to £1,036m at the end of Quarter 3, 2022/23.



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%

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

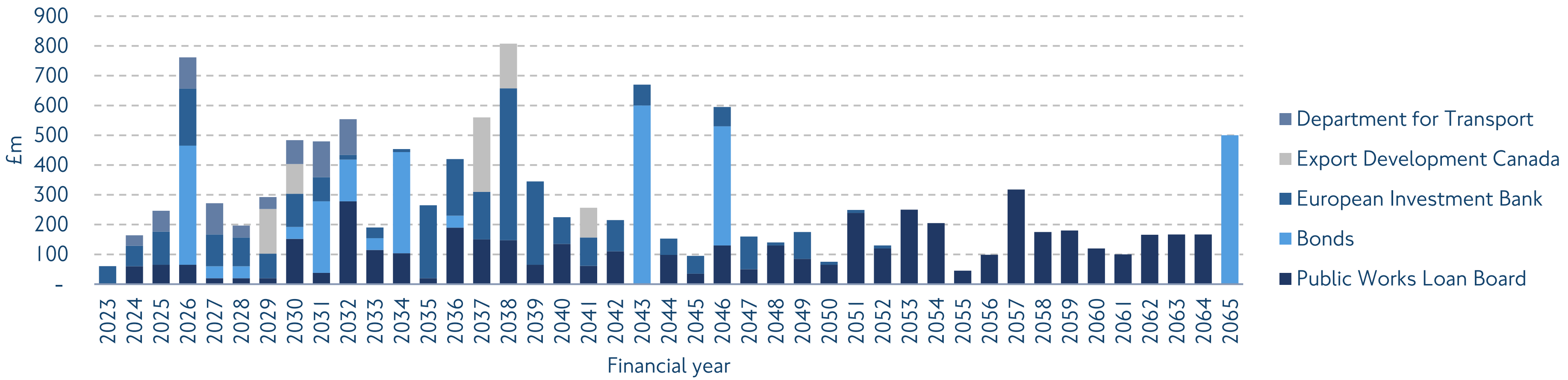
3.4%

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.
- Our current rating from Fitch is A+, which was downgraded from AA- in May 2020.