Finance Report

Quarter 4, 2022/23

Management results from 1 April 2022 – 31 March 2023

Board

7 June 2023

We are delivering on our financial strategy to rebuild our finances

Our 2023 TfL Business Plan set out our strategy for rebuilding our finances, improving efficiency and helping to secure our future. These results show we are successfully delivering that strategy:

Actively grow passenger demand, while creating new sources of revenue to reduce our reliance on fares income

- Passenger journeys 85% of pre-pandemic levels in Period 13, up from 68% at the end of 2021/22
- Passenger journeys are 31% up on 2021/22 and broadly in line with Revised Budget
- Passenger income increased by over £1bn year on year
- Strong growth in property and advertising income in the year, seeing year-on-year increases of £20m and £40m respectively
- Total revenue is within 1% of our Revised Budget

Continue to deliver recurring cost savings to remain affordable for customers and taxpayers

- Year-on-year savings of over £220m in 2022/23, including £92m of recurring savings
- Like-for-like operating costs are down in real terms, seeing a 6.6% increase in the year, compared to average inflation of 12.9%
- Operating costs are within 1% of Revised Budget
- Operating costs are £54m lower than Revised Budget, driven by underlying savings of £99m, partly offset by changes in accounting treatment

Create and grow an operating surplus based on our own sources of income

- Underlying operating deficit (excluding extraordinary revenue grant from government) is over £900m lower than last year
- On track to deliver an underlying operating surplus in 2023/24, as all government base funding is allocated to capital investment

Fully fund our capital programme with a long-term government settlement and an affordable level of debt

- Capital renewals are 2% lower than Revised Budget – renewals were £624m in the year, up over £70m on 2021/22 and within 2% of our Revised Budget
- Capital enhancement is within 3% of Revised Budget
- Total debt (including leases) reduced by £186m compared to 31 March 2022

Maintain cash reserves to make payments and protect against shocks

- Cash balances are £1.2bn at year end, in line with government funding conditions
- The GLA financing facility of £500m has been maintained for additional protection against shocks and risks

We are on track to achieving operating financial sustainability in 2023/24, but risks remain

Our Budget for 2023/24 is to deliver an operating surplus of £79m, demonstrating our achievement of financial sustainability.

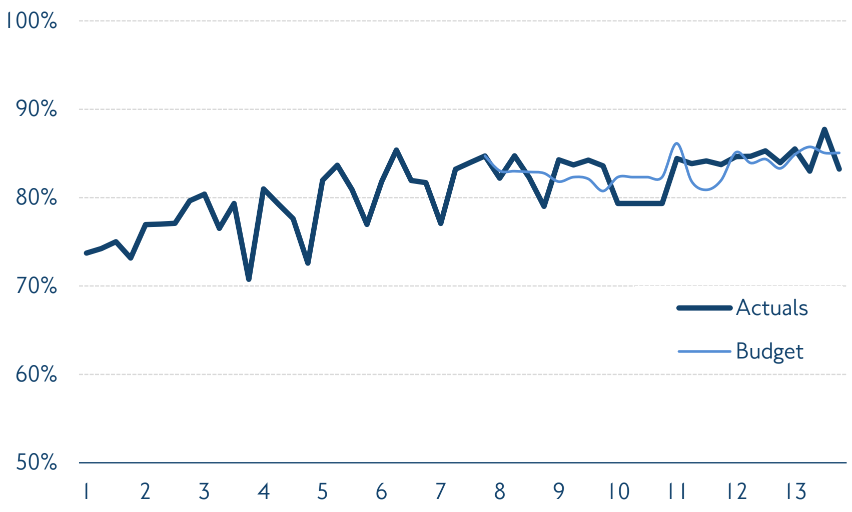
- **Economic uncertainty** – economic growth remains poor, but latest indicators give some ground for optimism. The latest Office for Budget Responsibility (OBR) forecast from March 2023 indicated the economy will shrink in 2023/24, but avoid a technical recession. The risk on passenger income is protected by the funding settlement to March 2024.
- **Savings targets -** are stretching, with a target of £229m incremental recurring savings set out in our 2023/24 Budget. However, we have a strong track record of delivering savings and managing to budget.
- **Other income** – there is a range of uncertainty around compliance levels for London-wide ULEZ as well as underlying Congestion Charge volumes and payment rates. This range is partly covered by through the contingency held in the 2023/24. Budget.

However, we will need the support of government to mitigate risks we do not have direct control over:

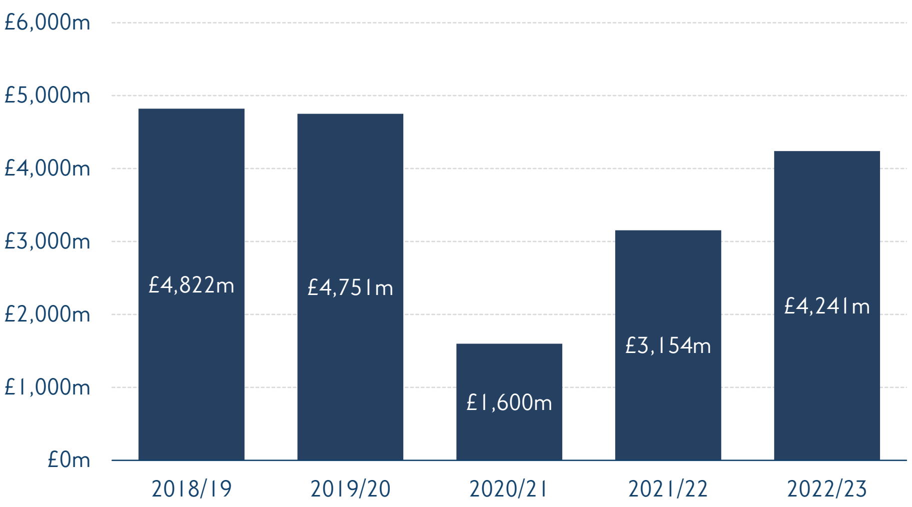
- **Inflationary pressures on TfL cost base –** our current forecast is that higher inflation will drive £180m net pressure in 2023/24. We submitted our inflation request covering 2023/24 in February 2023, with KPMG completing their assessment in mid-March 2023.
- **2024/25 capital funding** – the primary risk to our financial sustainability in the medium term is the lack of capital funding certainty from government beyond 31 March 2024. Failure to confirm this well in advance of March 2024 would force TfL to have to reprioritise its Business Plan, undoing the progress made under the current funding agreement and mean TfL would again need to start making difficult choices relating to reducing service levels, asset renewals and delaying non-committed investment.

Headlines

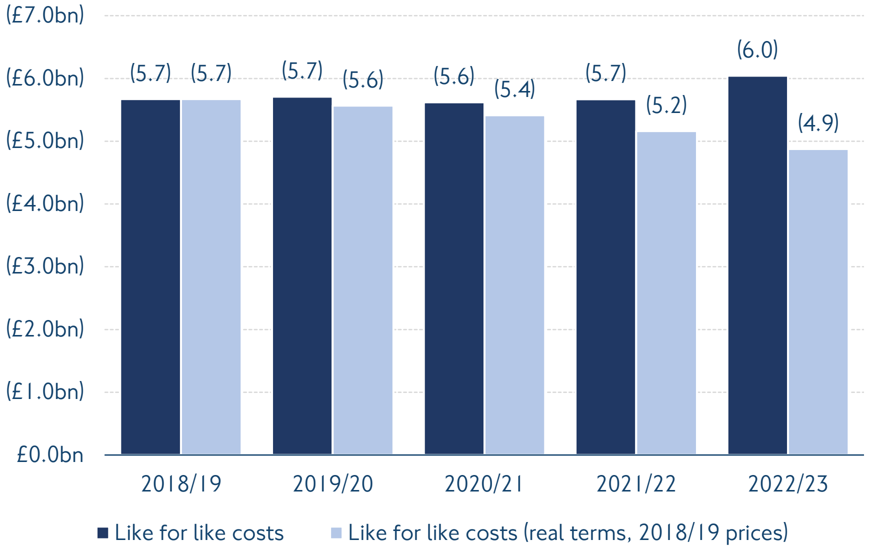
Total passenger journeys 85% of pre-pandemic levels in Period 13, up from 68% at the end of 2021/22



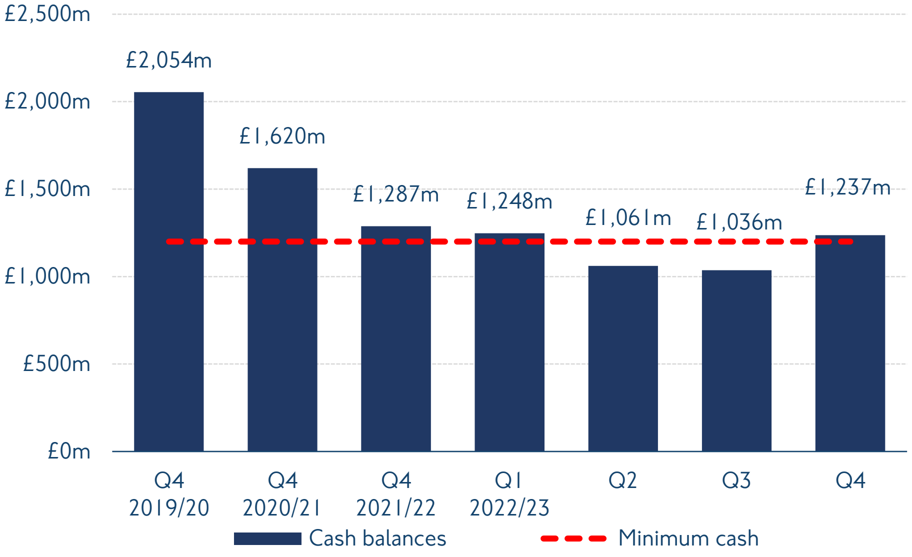
Passenger income almost £1.1bn higher than last year, but £550m lower than pre-pandemic levels



Full year like-for-like operating costs up on prior years as a result of inflationary pressures; real terms costs £800m lower than 2018/19



We continue to maintain average cash balances below £1.2bn in line with the funding settlement condition



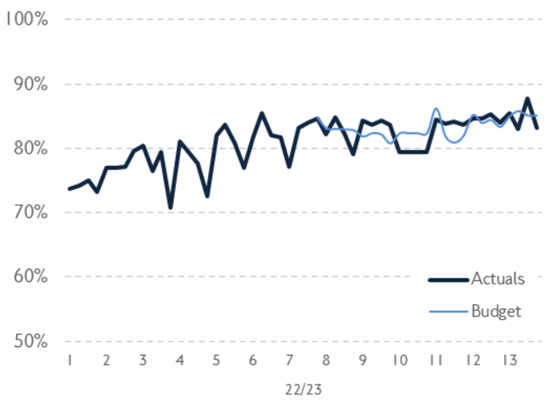
Passenger journeys

Journeys grew 31% year on year, up from 2.5 billion in 2021/22 to 3.3 billion in 2022/23. Passenger income has increased by over £1bn (34 per cent) since last year, with latest journeys at 85 per cent of pre-pandemic levels.

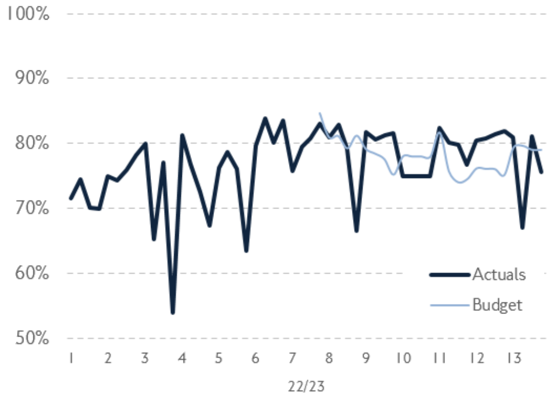
Journeys are broadly in line with the Revised Budget, notwithstanding impacts from industrial action.

Passenger journeys compared to Budget and pre-pandemic levels

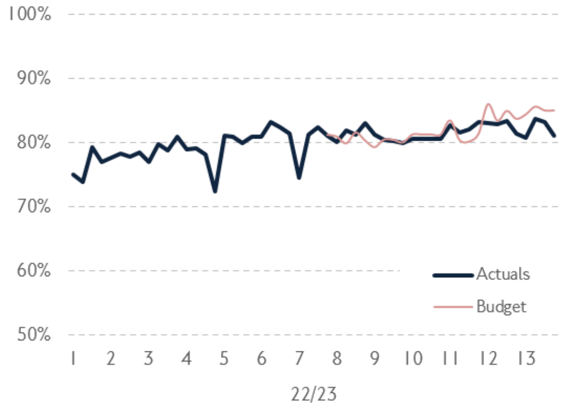
TfL	% vs Pre Covid period / budget			Absolute m	Var to Bud m
	85%	84%	P	267	1
			Y	3,252	4



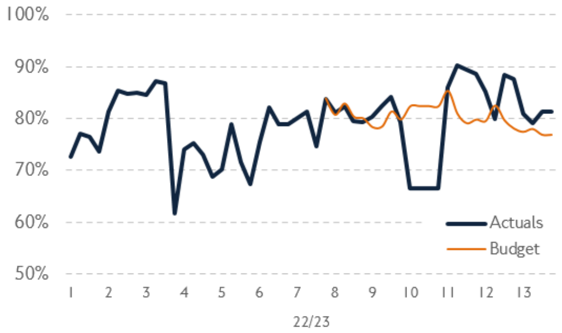
LU	% vs Pre Covid period / budget			Absolute m	Var to Bud m
	76%	79%	P	83	-2.7
			Y	1,063	1.3



Bus	% vs Pre Covid period / budget			Absolute m	Var to Bud m
	86%	85%	P	149	2.3
			Y	1,782	-1.3



Rail	% vs Pre Covid period / budget			Absolute m	Var to Bud m
	77%	74%	P	21	0.9
			Y	270	1.9

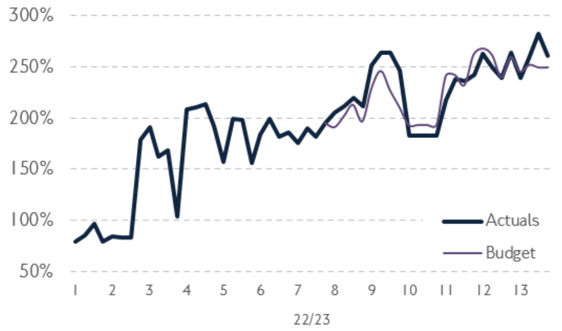


LO	% vs Pre Covid period / budget			Absolute m	Var to Bud m
	82%	79%	P	12	0.4
			Y	157	0.9

DLR	% vs Pre Covid period / budget			Absolute m	Var to Bud m
	83%	77%	P	8	0.6
			Y	92	2.3

Tram	% vs Pre Covid period / budget			Absolute m	Var to Bud m
	78%	84%	P	2	-0.1
			Y	21	-1.4

EL	% vs Pre Covid period / budget			Absolute m	Var to Bud m
	273%	258%	P	14	0.8
			Y	138	2.1



Income statement

Total revenue is £101m (1%) better than the Revised Budget. Passenger income is £1bn higher than last year, but (£65m) lower than expected.

Other operating income is up by over £400m from last year, driven by higher Road User Charging (RUC) income (2022/23 reflected a full-year's ULEZ expansion to North and South circulars), property and advertising income. Income is £111m up on Budget, from higher RUC income as well as Network Rail compensation for industrial action.

Operating costs are £54m lower than Revised Budget for the full year (see slide 5 for additional detail).

Capital renewals are covered on slide 8.

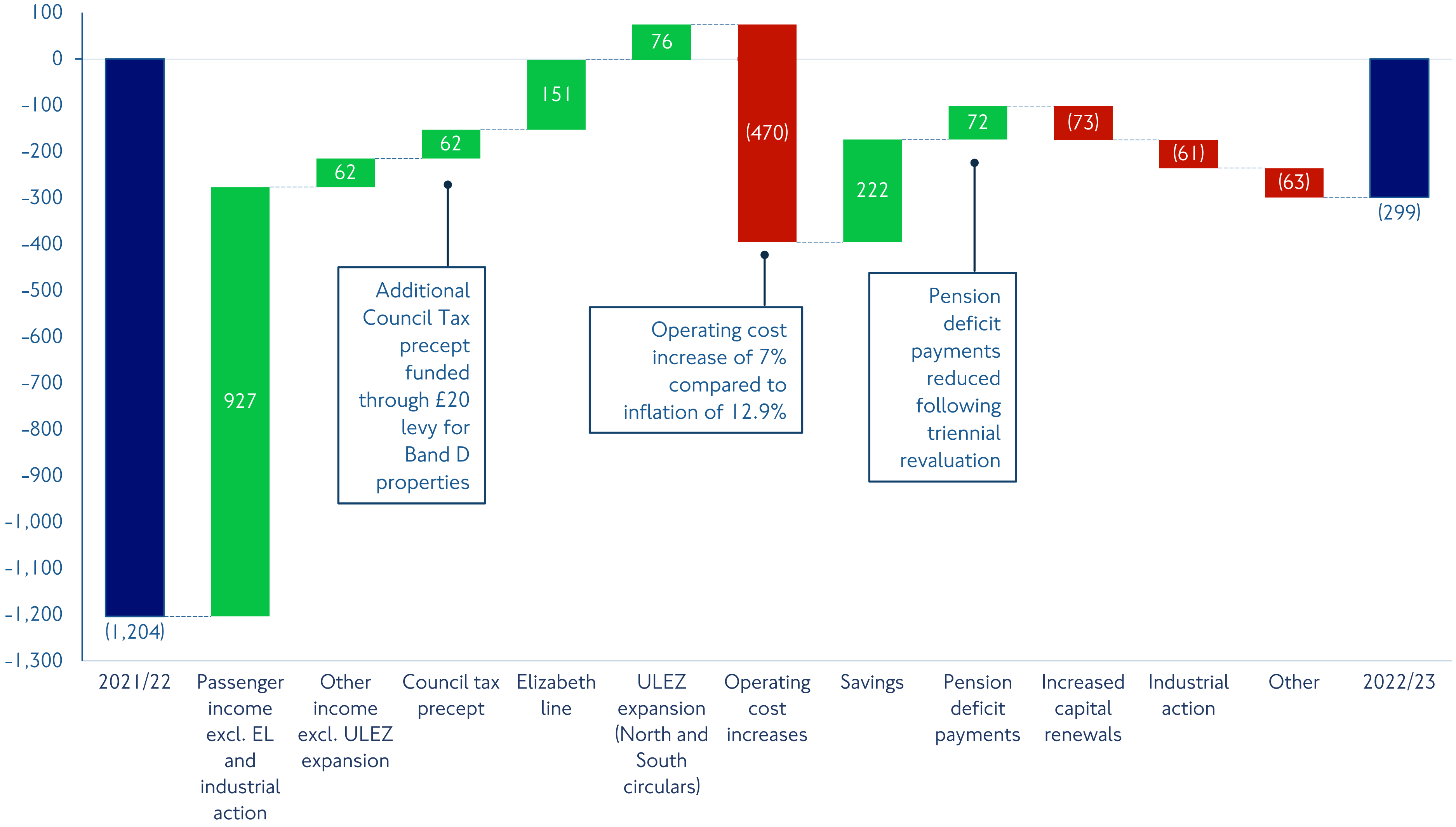
Income statement (£m)

	Full year, 2022/23				Full year, 2021/22		
£m	Actuals	Revised Budget	Variance to Revised Budget	% variance to Revised Budget	Last year	Variance to last year	% variance to last year
Passenger income	4,241	4,306	(65)	-2%	3,154	1,087	34%
Other operating income	1,585	1,474	111	8%	1,178	407	35%
Business Rates Retention	1,819	1,819	0	0%	1,844	(25)	-1%
Other revenue grants	1,079	1,024	55	5%	1,789	(710)	-40%
Revenue	**8,724**	**8,623**	**101**	**1%**	**7,965**	**759**	**10%**
Operating costs	(7,055)	(7,109)	54	1%	(6,462)	(593)	-9%
Operating surplus before renewals & financing	**1,669**	**1,514**	**155**	**10%**	**1,503**	**166**	**11%**
Capital renewals	(624)	(636)	12	2%	(551)	(73)	-13%
Net financing costs	(424)	(417)	(7)	-2%	(439)	15	3%
Operating surplus / (deficit)	**621**	**461**	**160**	**35%**	**513**	**108**	**21%**
Underlying operating surplus/ (deficit) excl. extraordinary revenue grant	**(299)**	**(404)**	**105**	**26%**	**(1,204)**	**905**	**75%**

Year-on-year operating deficit

We reduced our underling operating deficit by £905m in 2022/23 from strong revenue growth, new services and operating savings

Underlying net operating deficit – movement between 21/22 and 22/23 (excl. government extraordinary funding)



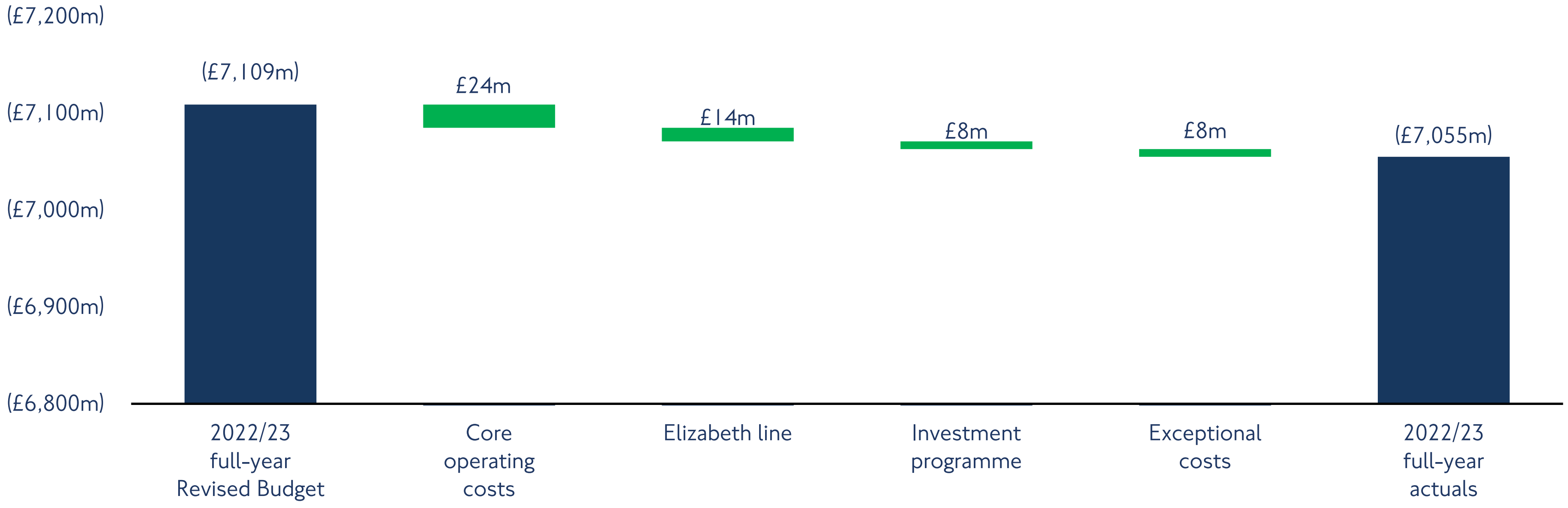
Operating costs

Total operating costs are £54m lower than Budget.

Underlying costs after adjusting for timing, and accounting changes relating to RUC bad debt recognition, are £99m better than Budget, through cost reductions of £75m – from lower staff, property and insurance costs – and tailwinds of £41m, the latter mainly driven from lower bus performance payments. We have also seen some cost pressures from escalating bad debt in RUC.

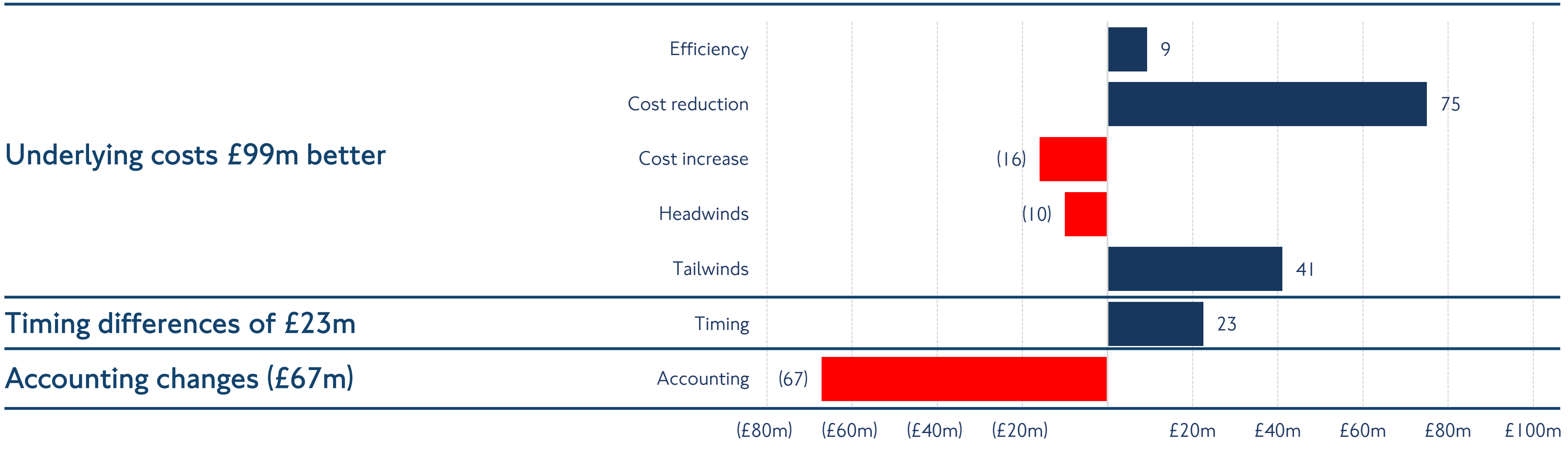
Accounting changes totalling (£67m) are mainly driven by bad debt costs for LEZ and DVS, which was previously included in other operating income.

Operating costs: drivers of full year variances (£m)



Operating costs: types of full year variances (£m)

Underlying costs £99m better than Revised Budget - with headwinds of (£10m) and cost pressures of (£16m) offset by £75m of cost reductions, £41m from headwinds and £9m from efficiencies. Other variances from timing (£23m) and accounting changes of (£67m).

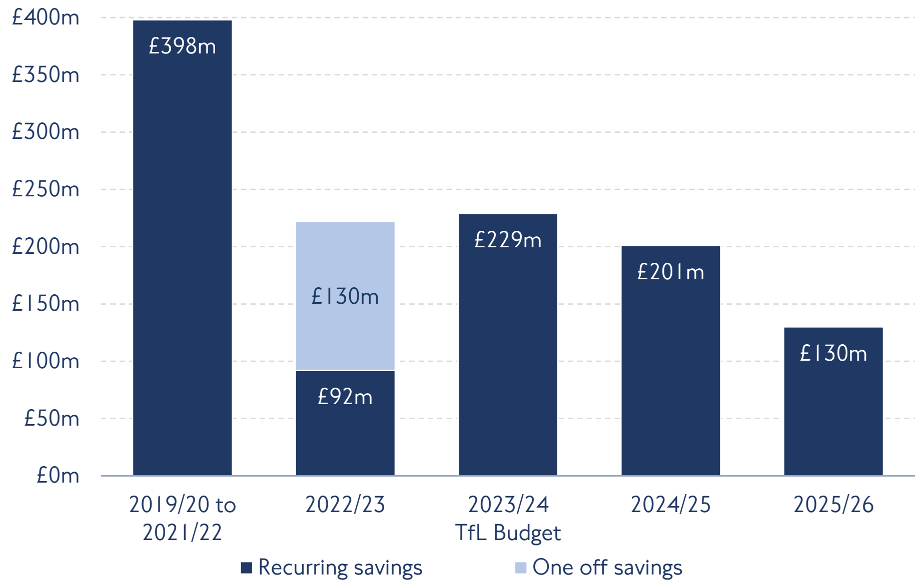


Operating cost savings

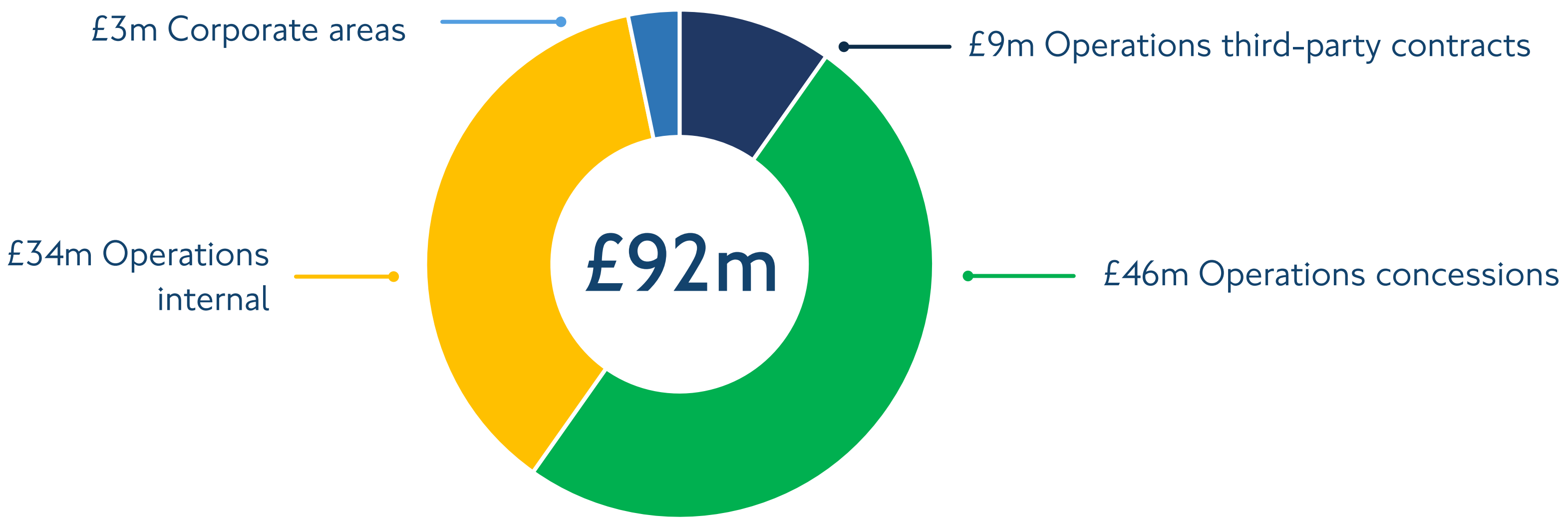
Delivered almost £500m of recurring savings since 2019/20, as well as an additional £130m of one off savings in 2022/23.

We are targeting further savings totalling £560m by the end of 2025/26.

Savings planned and delivered since 2019/20 (£m)



Recurring savings totalling £92m delivered in 2022/23



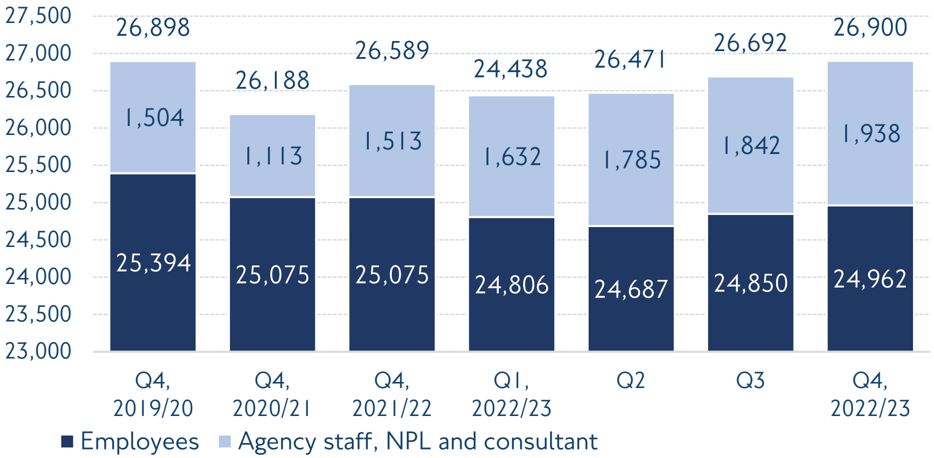
Staff

Total staff levels have now returned to pre-pandemic levels and are 300 up from the end of last year. Elizabeth Line operations, Northern line extension and other additional services have driven this increase in the year. Increases in capital works in 2022/23 have also required additional staff.

Permanent employee numbers are over 400 lower than before the pandemic and are slightly 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 staff leaving the organisation, largely a result of reward constraints as well as a buoyant external market.

Agency and NPL staff have increased by over 400 since the end of 2019/20, but remain significantly lower than 2015/16 levels.

Headcount trends since 2019/20



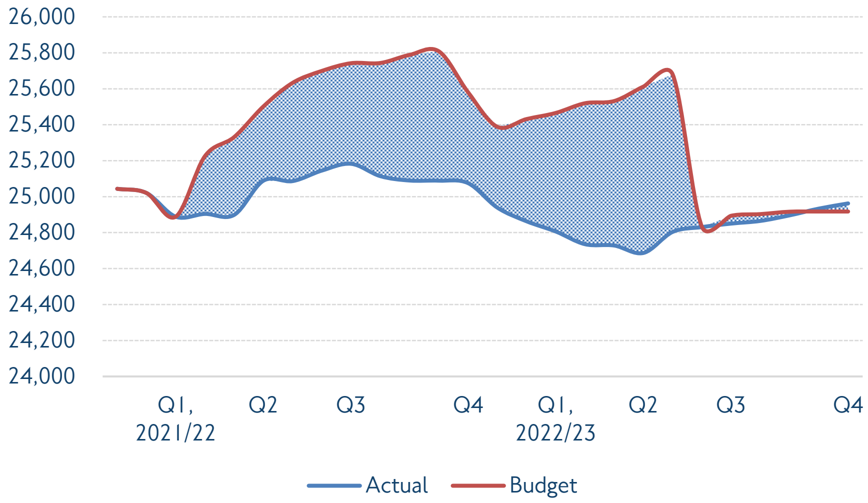
Total staff have reached pre-pandemic levels

Agency, NPL and consultants over 400 higher than pre-coronavirus levels as a result of labour market challenges

Permanent employees down by over 400 since 2019/20 and slightly below last year.

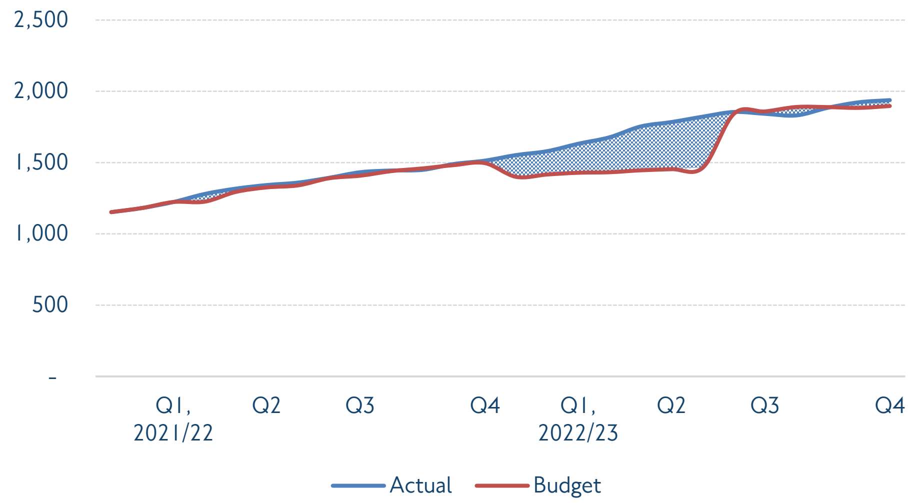
Permanent staff (FTE): actuals and Budget

Permanent employees down by over 100 since the end of 2021/22, driven by large number of retirees and leavers. Staff levels broadly in line with Revised Budget numbers at end 2022/23.



Agency and NPL staff (FTE): actuals and Budget

Agency and NPL FTE up by over 400 since the end of 2021/22 and slightly higher than Revised Budget at end of 2022/23. Driven by labour market challenges and funding uncertainty.



Capital renewals expenditure

Delivered £624m of capital renewals in 2022/23, a £73m increase on last year.

The original renewals budget was £600m, this was increased to £636m at the end of August 2022 to reflect the funding agreement envelope.

Renewals are within 2% of the Revised Budget, mainly from savings on Technology spend and slippage on Public Transport and Elizabeth line schemes.

£11m of spend is expected to be rolled over to 2023/24 as part of the funding agreement (pending DfT confirmation)

	Full year, 2022/23				Full year, 2021/22		
Capital renewals (£m)	Actuals	Revised Budget	Variance to Revised Budget	% variance to Revised Budget	Last year	Variance to last year	% variance to last year
CCO	**(195)**	**(204)**	**8**	**4%**	**(174)**	**(21)**	**-12%**
Four lines modernisation	(3)	(3)	0	6%	(6)	3	50%
Surface assets	(99)	(99)	(0)	0%	(97)	(2)	-2%
Air Quality and Environment	(12)	(13)	1	7%	(5)	(6)	-121%
Public transport	(56)	(60)	4	6%	(48)	(9)	-19%
Technology	(24)	(28)	4	14%	(17)	(7)	-42%
COO	**(359)**	**(359)**	**1**	**0%**	**(338)**	**(21)**	**-6%**
LU	(356)	(354)	(2)	-1%	(337)	(19)	-6%
Elizabeth line	(0)	(5)	4	91%	0	(0)	0%
Estates	(2)	(0)	(2)	-1010%	(1)	(1)	-151%
CCSO	**(66)**	**(66)**	**(1)**	**-1%**	**(36)**	**(30)**	**-84%**
Corporate	**(4)**	**(7)**	**3**	**45%**	**(3)**	**(1)**	**-28%**
Total TfL	**(624)**	**(636)**	**12**	**2%**	**(551)**	**(73)**	**-13%**

Capital enhancements expenditure

Capital enhancements (excl. TTLP, Crossrail and London Overground trains purchase) were within 3% of the Budget for the full year.

The unbudgeted purchase of the London Overground train fleet was completed to mitigate against various financial risks associated with leasing the trains, delivering a reduction in the whole life cost of the trains.

Underlying full-year spend on capital expenditure, is below budget, driven by Project Oval, TCP2 timing of RUC schemes and £6m cost reduction/efficiency.

	Full year, 2022/23				Full year, 2021/22		
Capital enhancements (£m)	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	**(487)**	**(473)**	**(14)**	**-3%**	**(381)**	**(106)**	**-28%**
Piccadilly line upgrade	(230)	(223)	(7)	-3%	(153)	(78)	-51%
Four lines modernisation	(115)	(117)	1	1%	(126)	10	8%
Rail System Enhancements	(6)	(6)	0	6%	(5)	(1)	-22%
Savings challenge	0	15	(15)	100%	0	0	0%
Trams	(2)	(2)	0	6%	(6)	3	60%
DLR Rolling Stock replacement	(133)	(139)	6	4%	(93)	(41)	-44%
Major Enhancements	**(108)**	**(109)**	**1**	**0%**	**(177)**	**68**	**39%**
Silvertown Tunnel	(45)	(41)	(4)	-9%	(12)	(33)	-270%
Northern Line Extension	1	(0)	2	701%	(53)	54	103%
Barking Riverside	(6)	(1)	(5)	-407%	(29)	23	80%
Elephant & Castle Station Capacity	(5)	(9)	4	43%	(4)	(1)	-17%
Bank Congestion Relief	(53)	(57)	4	6%	(67)	14	21%
HS2	(0)	(0)	0	100%	(0)	0	100%
Elizabeth line	(1)	(1)	(0)	-45%	(11)	9	87%
Other Enhancements	**(206)**	**(249)**	**43**	**17%**	**(210)**	**3**	**2%**
Major stations	(1)	(2)	0	25%	(2)	1	44%
Surface assets	(2)	(1)	(0)	-43%	(7)	6	77%
Air Quality and Environment (AQE)	(53)	(68)	15	23%	(38)	(15)	-40%
Public transport	(10)	(11)	1	9%	(9)	(1)	-7%
Healthy Streets	(71)	(77)	6	8%	(47)	(25)	-53%
Technology	(10)	(7)	(2)	-29%	(12)	3	21%
LU	(15)	(16)	1	7%	(23)	8	36%
CCSO excl. TTLP	(43)	(59)	16	27%	(69)	26	38%
LT Museum	(1)	(1)	1	49%	(1)	(0)	-43%
Estates	(1)	(5)	4	83%	(0)	(0)	-100%
Corporate	(0)	(1)	0	42%	(1)	1	58%
Total TfL excl. TTLP and Crossrail	**(802)**	**(831)**	**29**	**3%**	**(767)**	**(35)**	**-4%**
Purchase of LO trains	(281)	0	(281)	-100%	0	(281)	0%
TTLP	(90)	(138)	48	35%	(51)	(40)	-79%
Crossrail	(188)	(247)	58	24%	(568)	380	67%
Total	**(1,361)**	**(1,216)**	**(146)**	**-12%**	**(1,386)**	**25**	**2%**

Cash flow statement

We finished the year on target, with just over £1.2bn of cash.

New capital investment is (£252m) higher than Revised Budget from the purchase of London Overground train fleet.

Financing activities are broadly in line with Budget; we have taken on new borrowing to finance the London Overground train fleet purchase, and reduced short-term borrowing to manage cash balances to £1.2bn and reduce interest costs.

In 2023/24, all base funding from Government will go to fund capital investment.

Cash balances

	Full year, 2022/23			Full year, 2021/22		
£m	Actuals	Variance to Revised Budget		Actuals	Variance to last year	
Opening balance	1,287	0	0%	1,634	(333)	-21%
Change in cash balance	(50)	1	-2%	(333)	283	-85%
Closing balance	**1,237**	**1**	**0%**	**1,287**	**(50)**	**-4%**

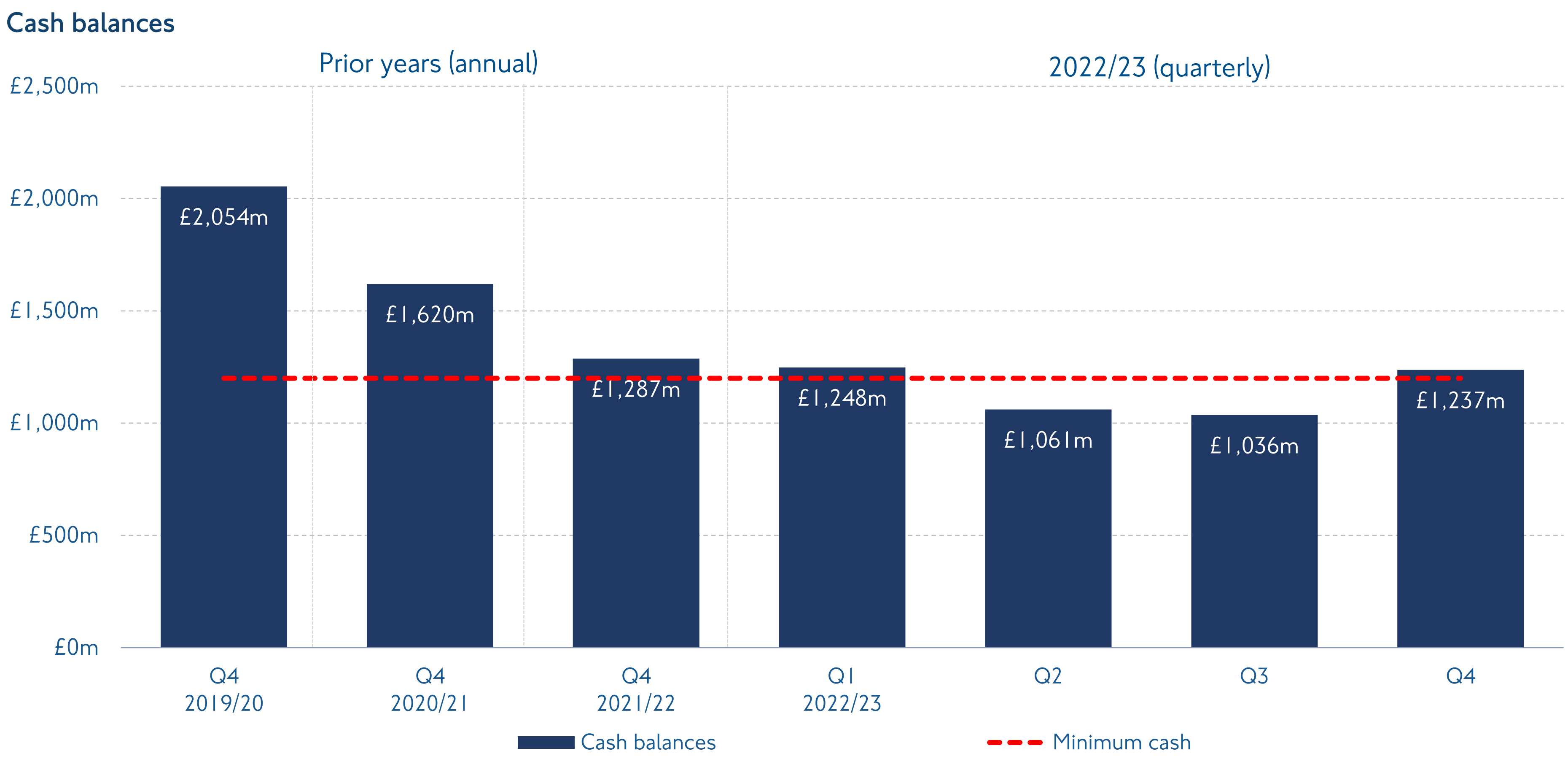
Cash flow statement

	Full year, 2022/23			Full year, 2021/22		
£m	Actuals	Variance to Revised Budget		Actuals	Variance to last year	
Operating surplus before capital renewals and interest	**1,669**	**155**	**10%**	**1,503**	**166**	**11%**
Less TTLP, LTIG and LTM	(53)	(12)	-29%	(24)	(29)	-121%
Cash generated / (used) from operating activities	**1,616**	**143**	**10%**	**1,479**	**137**	**9%**
Capital renewals	(624)	12	2%	(551)	(73)	-13%
New capital investment	(1,083)	(252)	-30%	(818)	(265)	-32%
Investment grants and ring-fenced funding	295	182	161%	246	49	20%
Working capital movements	180	(67)	-27%	(175)	355	203%
Cash generated / (used) from investing activities	**(1,232)**	**(125)**	**-11%**	**(1,298)**	**66**	**5%**
Free cash flow	**384**	**18**	**5%**	**181**	**203**	**112%**
Net interest costs	(424)	(7)	-2%	(439)	15	3%
Existing debt maturing	(1,475)	(781)	-113%	(696)	(779)	-112%
New debt issued	1,661	1,047	171%	728	933	128%
Short-term net borrowing change	(196)	(276)	-345%	(107)	(89)	-83%
Cash generated / (used) from financing activities	**(434)**	**(17)**	**-4%**	**(514)**	**80**	**16%**
Change in cash balance	(50)	1	2%	(333)	283	85%

Cash balances

Total cash balances (excl. cash balances identified for Crossrail construction) are just over £1.2bn at the end of 2022/23, £50m lower than at the start of the year. Cash balances are broadly in line with Revised Budget.

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.

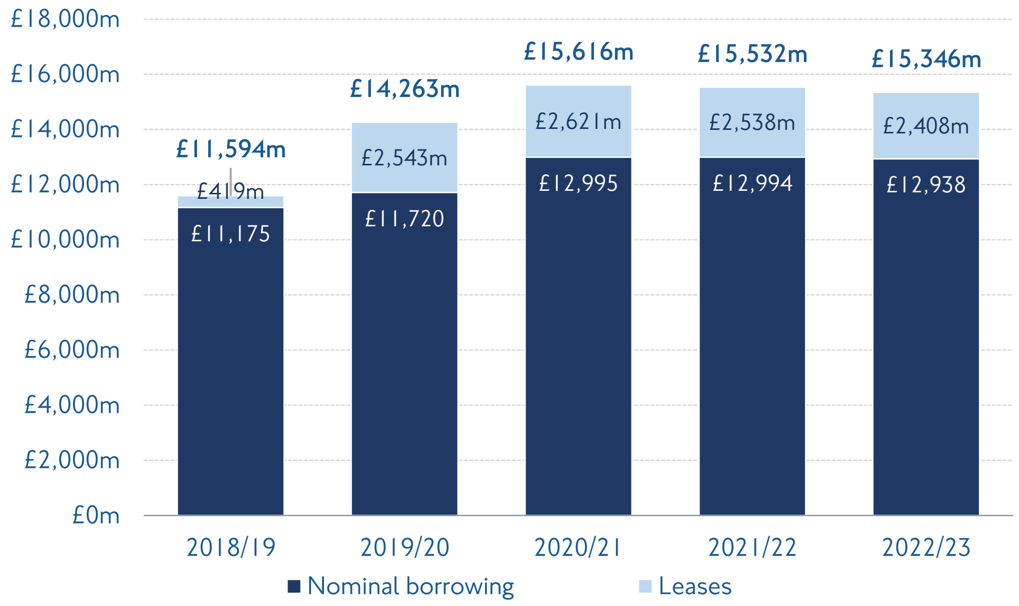


Debt

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.

The reduction in debt over the full year was driven by the impact of repurchasing and refinancing some of our outstanding bonds, the lease termination and subsequent purchase of Overground rolling stock and a decrease in our outstanding Commercial Paper balance.

Total debt (£m)



92%

92% of our borrowing is at a fixed rate of interest

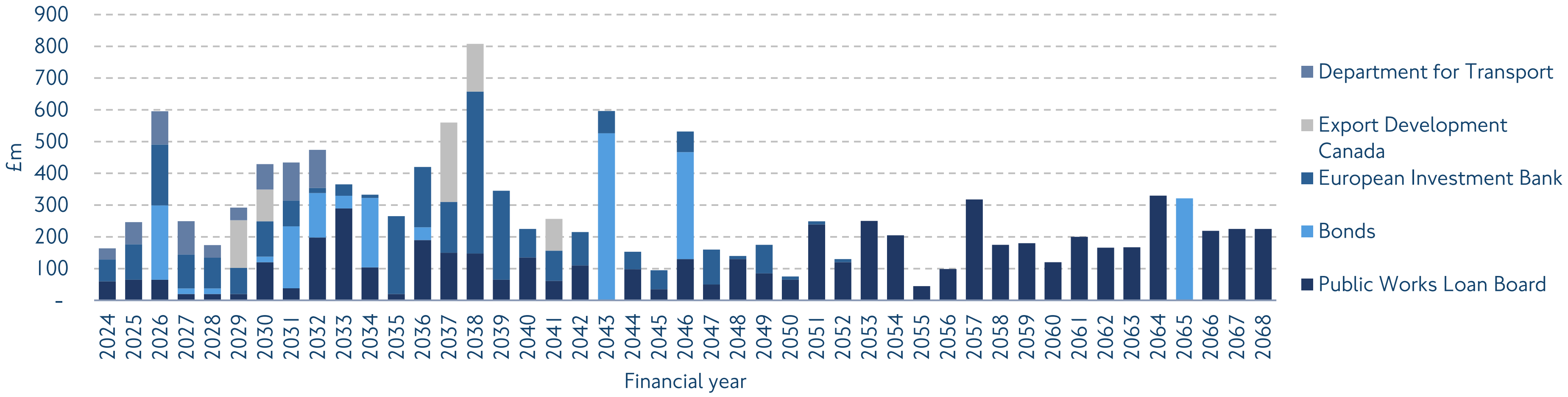
3.4%

The weighted average interest rate on our borrowing is 3.4%

19.7 years

The weighted average tenor of our borrowing is 19.7 years

TfL borrowing maturity profile



The debt maturity profile excludes £535m of short-term commercial paper, which we intend to continue to re-issue on a rolling basis.

Credit ratings

We are rated by the three major credit rating agencies. This allows us to attract interest from the widest pool of investors possible.

	Standard & Poor's	Moody's	Fitch
Long-term rating	A+	Baa1	AA-
Outlook	Positive	Stable	Negative
Short-term rating	A-1	P-2	F1+
Last changed/affirmed	May 2023	October 2022	January 2023

Standard and Poor's (S&P)

- S&P affirmed our credit rating at A+/A-1 in May 2023 and revised the outlook to positive (from stable). This is a positive movement on the outlook and reflects S&P's view that recovering ridership and cost controls should result in higher financial flexibility.

Moody's

- Moody's affirmed our credit rating in October 2022 and maintained the stable outlook, stating that our strengthening operating performance and protections under the funding agreement will partially mitigate economic and fiscal risks.
- In December 2022, Moody's published a full credit opinion, which noted that our credit profile reflects rising passenger income, the funding agreement with government and a "relatively inflexible cost and revenue base". It also noted our strategic importance as the main public transport provider in London and our strong management and governance.

Fitch

- On 26 January 2023, Fitch upgraded our long-term credit rating from A+ to AA-. This reflects our improving financial profile and Fitch's assessment of the link between TfL and the Government. Fitch have assigned a negative outlook, which reflects the negative outlook they have assigned to the Government's credit rating.