Finance Report

Quarter 1, 2023/24

Management results from 1 April 2023 – 24 June 2023

Board

25 July 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. The 2023/24 Budget built on this, demonstrating how we will become operationally financial sustainable this year. We have successfully delivered that strategy in Quarter 1:

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

- Passenger journeys 89% of pre-pandemic levels in Quarter 1, up from 85% at the end of 2022/23
- Cumulative journey growth of just over 7% in Quarter 1. We are targeting 6% year-on-year journey growth over the full year, on top of the 31% increase in 2022/23
- Some pressure on roads enforcement income from delays to our Deployable Enforcement Camera (DEC) rollout, but we expect to manage this
- Total revenue is within 1% of our Budget

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

- Like-for-like operating costs falling in real terms: 5% higher than last year despite year-on-year inflation of 11.4%
- Operating costs 2% lower than Budget, mainly from contingency we have not yet used
- Some cost pressures from bus operator payments due to improving performance
- We have also seen timing differences for savings delivery, but we are committed to delivery of almost £230m savings this year

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

- Underlying operating surplus (excluding revenue top up from government) of £42m in the Quarter, £35m better than Budget
- Our headline surplus is £79m, £6m up on Budget; after adjusting for timing differences, this is £19m better than Budget
- We remain on track to deliver an underlying operating surplus in 2023/24

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

- Capital renewals are ahead of Budget, with work ahead of schedule
- Aiming to deliver almost £740m of renewals this year, an increase of £110m on 2022/23
- Capital enhancements have slipped in the quarter and we are just over £40m behind Budget
- Total debt (including leases) decreased in the quarter from some small maturities of existing borrowing, which have been refinanced.

Maintain cash reserves to make payments and protect against shocks

- Cash balances are in line with Budget and below £1.2bn as set out in funding agreement
- 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.

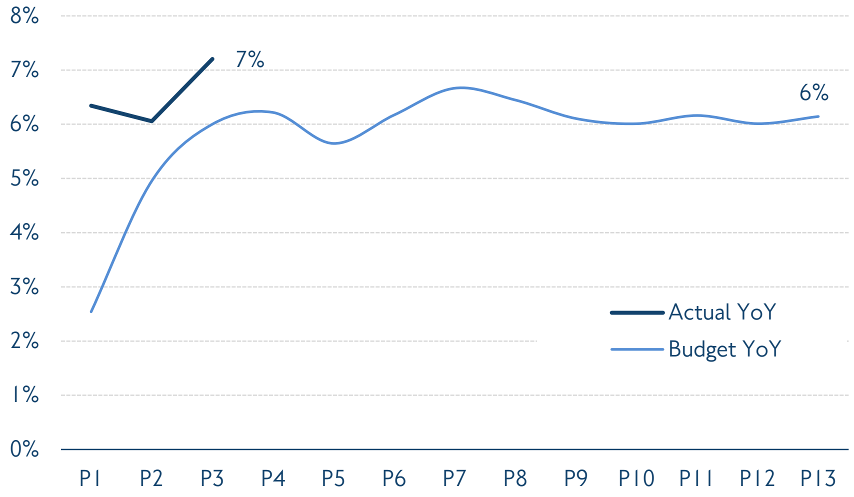
- **Economic uncertainty** – economic growth remains poor, but latest indicators give some ground for optimism. The latest Office for Budget Responsibility (OBR) forecast from March 2023 indicated the economy will shrink in 2023/24, but avoid a technical recession. Since then, the Bank of England, in its Monetary Policy Report, forecast modest but positive growth for 2023/24. The risk on passenger income is protected by the funding settlement to March 2024.
- **Savings targets** – are stretching, with a target of almost £230m incremental recurring savings set out in our 2023/24 Budget. However, we have a strong track record of delivering savings and managing to budget. By the end of Quarter 1, we were slightly behind the phasing of savings delivery, but have plans in place to deliver over the full year.
- **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 through the contingency held in the 2023/24 Budget. In addition, five local authorities have brought a judicial review of the Mayor's decision to expand ULEZ London-wide and the Mayor's decision to provide grant funding to TfL for the associated scrappage scheme. Following the Judicial Review hearing in the High Court on 4 & 5 July, we expect a decision towards the end of July and will continue installation of signs and cameras in readiness for the launch of the London-wide ULEZ on 29 August, as planned.

However, we will need the support of government to mitigate risks we do not have direct control over. Constructive discussion with HMG continue over two key risks:

- **Inflationary pressures on TfL cost base** – our current forecast is that higher inflation will drive £181m net pressure in 2023/24. We submitted our inflation request covering 2023/24 in February 2023, with the DfT's advisors 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 up just over 7% year-on-year in Quarter 1, and are at 89% of pre-pandemic levels. Targeting 6% year on year growth over the full year



Passenger income higher than pre-pandemic levels in cash terms, from combination of journey recovery and new Elizabeth line services

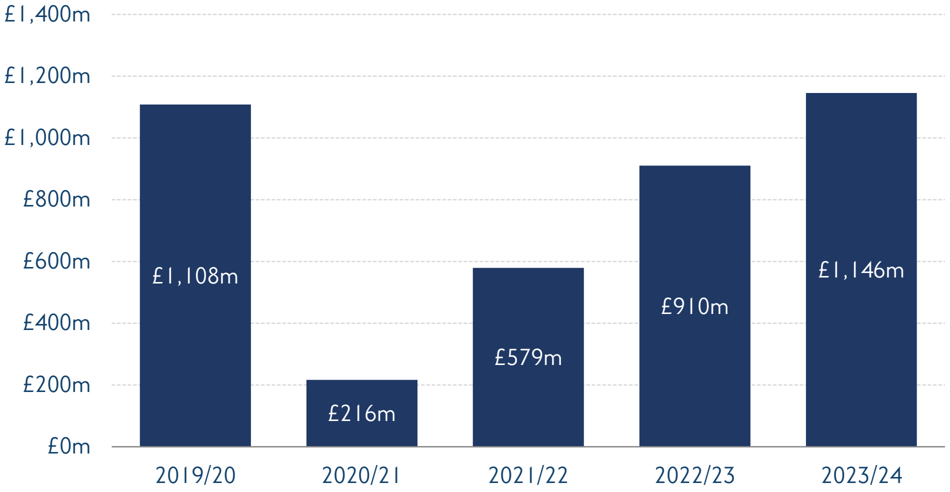
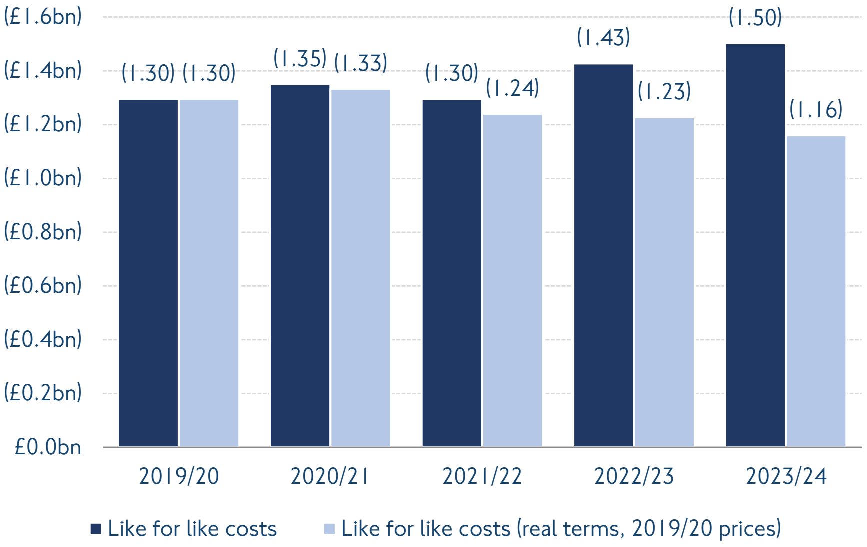
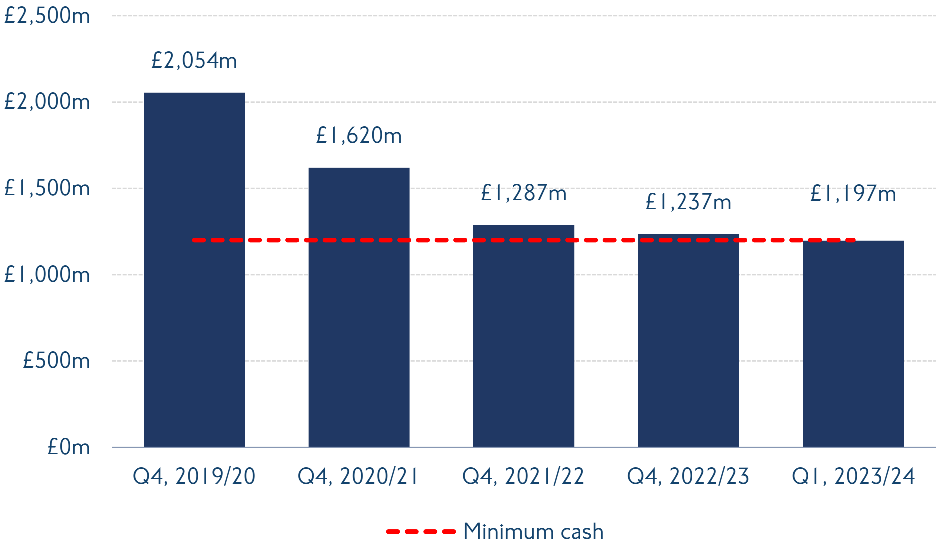


Chart shows results to end of Quarter 1 for each year

Like-for-like operating costs 5% higher than last year, but down in real terms with RPI running at just over 11%



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



Passenger journeys

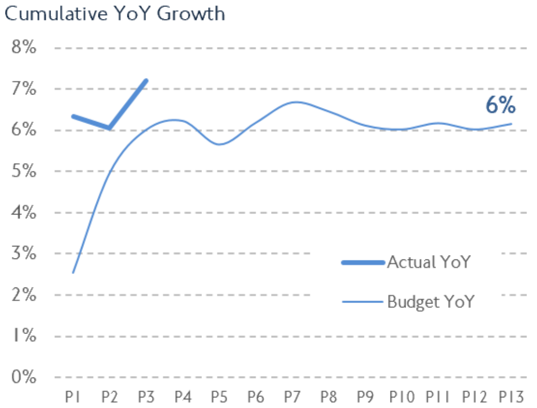
In 2023/24 we have budgeted 6% underlying year on year growth in demand.

TfL passenger demand was 9 million journeys (1%) better than Budget, with 9.5% year-on-year growth in the final period of Quarter 1. Cumulative journey growth in the quarter is at 7.2% with journeys at 89% of pre-pandemic levels.

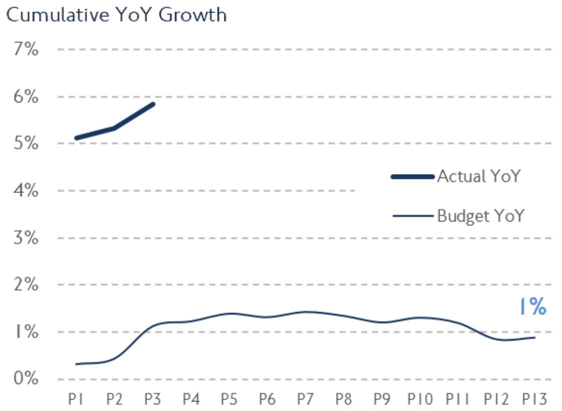
LU and DLR journeys are higher than expected as the assumed impact of Elizabeth line new services to these modes is less than expected.

Passenger journeys year-on-year growth and comparison to Budget

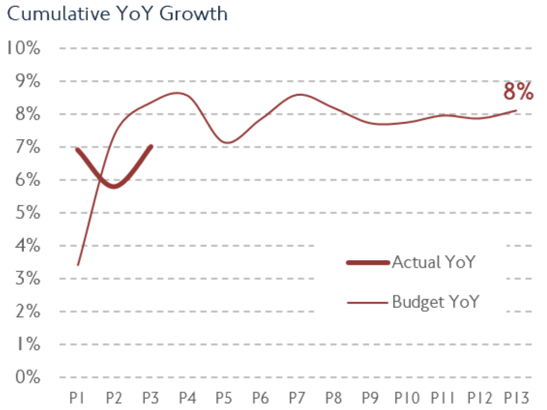
TfL	% Growth period / budget			Absolute m	Var to Bud m
	9.5%	8.1%	P	276	3.6
			Y	820	9.2



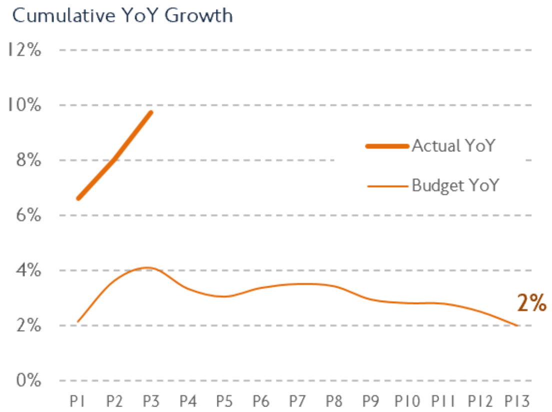
LU	% Growth period / budget			Absolute m	Var to Bud m
	7%	3%	P	90	3.7
			Y	271	12.1



Bus	% Growth period / budget			Absolute m	Var to Bud m
	10%	10%	P	146	(1.1)
			Y	433	(5.3)



Rail	% Growth period / budget			Absolute m	Var to Bud m
	13%	5%	P	24	1.8
			Y	71	3.7

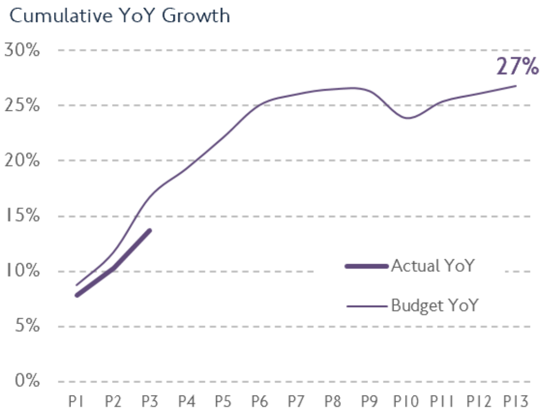


LO	% Growth period / budget			Absolute m	Var to Bud m
	18%	9%	P	15	1.2
			Y	43	2.0

DLR	% Growth period / budget			Absolute m	Var to Bud m
	6%	-3%	P	8	0.7
			Y	24	2.0

Tram	% Growth period / budget			Absolute m	Var to Bud m
	9%	16%	P	2	(4.1)
			Y	5	(0.4)

EL	% Growth period / budget			Absolute m	Var to Bud m
	21%	27%	P	16	(0.8)
			Y	45	(1.2)



Income statement

Total revenue is (£16m) (1%) lower than Budget. Passenger income is £20m up on budget and £236m higher than last year, - partly from new Elizabeth line services.

Operating costs are £33m lower than Budget. However, we are seeing some cost pressures on bus operators costs - through improved performance – as well as timing differences in delivering savings. These have been offset by central contingency (held to mitigate key risks on bus performance and London-Wide ULEZ), one offs and other smaller savings.

Capital renewals are (£8m) up on Budget. We expect to deliver to available funding over the full year.

Income statement (£m)

	Quarter 1, 2023/24				Quarter 1, 2022/23		
£m	Actuals	Budget	Variance to Budget		Last year	Variance to last year	
Underlying passenger income	1,146	1,126	20	2%	910	236	26%
DfT revenue top up	37	66	(29)	-44%	96	(59)	-61%
Passenger income	1,183	1,192	(9)	-1%	1,006	177	18%
Other operating income	326	331	(5)	-2%	353	(27)	-8%
Business Rates Retention	442	442	-	0%	512	(70)	-14%
Other revenue grants	56	58	(2)	-3%	211	(155)	-73%
Revenue	**2,007**	**2,023**	**(16)**	**-1%**	**2,082**	**(75)**	**-4%**
Operating cost	(1,678)	(1,711)	33	2%	(1,633)	(45)	-3%
Operating surplus before interest and renewals	**329**	**312**	**17**	**5%**	**449**	**(120)**	**-27%**
Capital renewals	(151)	(143)	(8)	-6%	(124)	(27)	-22%
Net interest costs	(99)	(96)	(3)	-3%	(101)	2	2%
Operating surplus / (deficit)	**79**	**73**	**6**	**8%**	**224**	**(145)**	**-65%**
Underlying operating surplus/ (deficit)*	**42**	**7**	**35**	**483%**	**(69)**	**111**	**161%**

* Excluding DfT revenue top up and base funding (in 2022/23)

Income statement

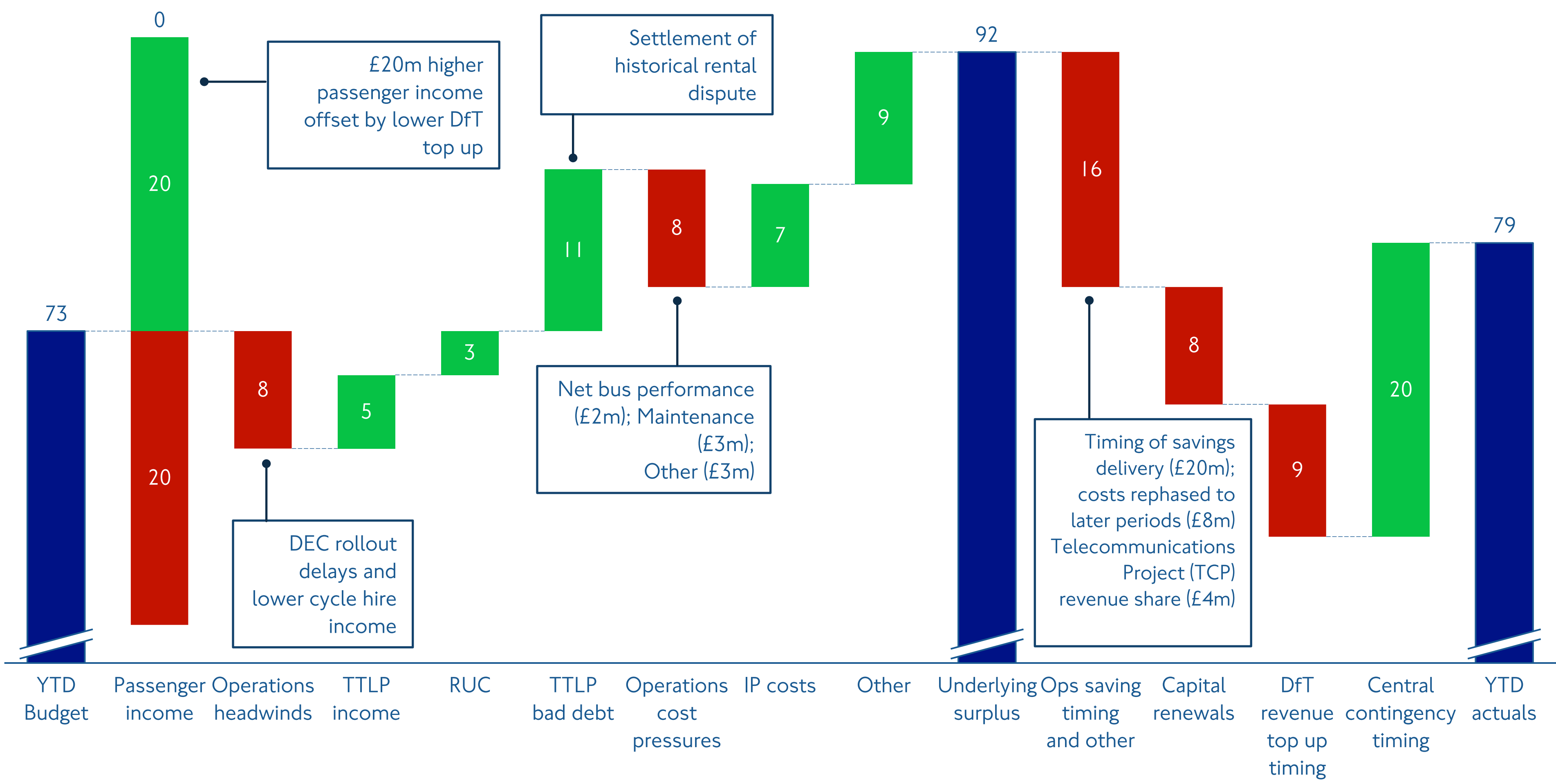
The underlying surplus – after adjusting for timing differences on savings, capital renewals, DfT top up funding and contingency release - is £92m, £19m better than Budget.

The delivery of operational savings remains a risk, but our latest plans show these being delivered later in the year.

Central contingency has been rephased to future periods to mitigate our key risks on bus performance, DEC income, and London-Wide ULEZ implementation.

We are managing our capital renewals portfolio to maximise delivery within the available funding, and will slow down delivery later in the year if required.

Income statement variances by cause (£m)



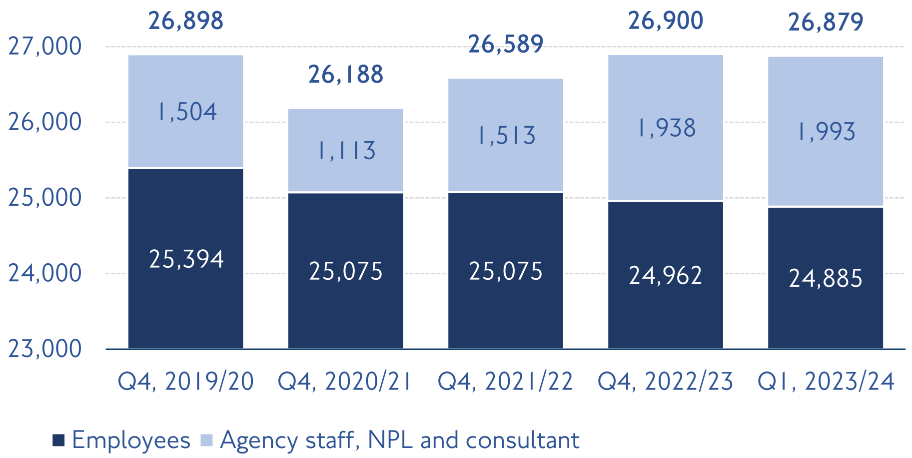
Staff

Total staff levels are almost exactly in line with pre-pandemic levels and are very slightly down from the end of 2022/23.

Permanent employee numbers are over 500 lower than before the pandemic and are nearly 200 down from the end of 2021/22; ongoing labour market issues, and funding uncertainty in the first half of last year hampered our ability to recruit; we have also seen an increase in staff leaving the organisation, a result of reward constraints as well as a buoyant external market.

Agency and NPL staff have increased by nearly 500 since the end of 2019/20, but remain significantly lower than 2015/16 levels. NPL offers flexibility, particularly through time of change and temporary peaks in demand.

Headcount trends since 2019/20



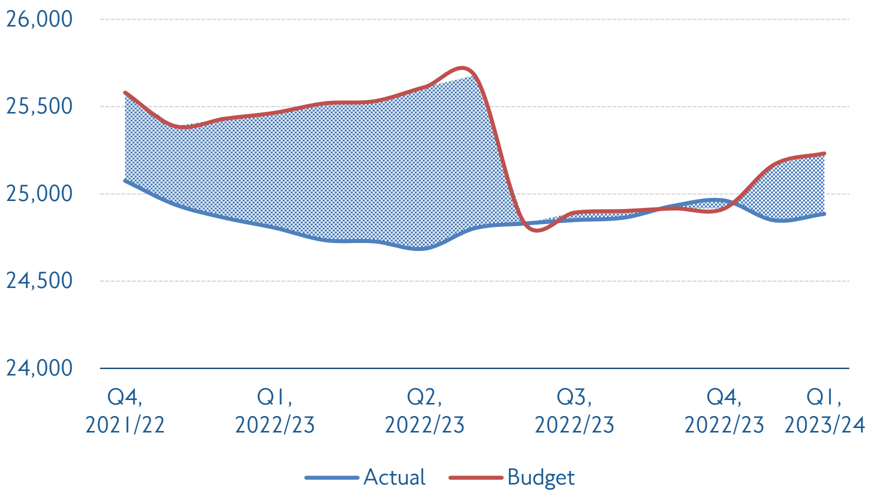
Staff have returned to pre-pandemic levels

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

Permanent employees down by over 500 since 2019/20 and roughly in line with end of last year

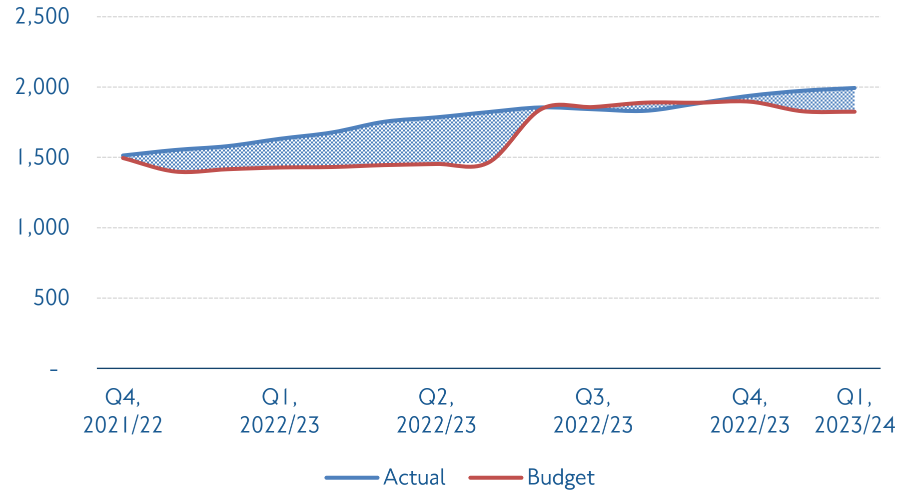
Permanent staff (FTE): actuals and Budget

Permanent employees down by almost 200 since the end of 2021/22, driven by large number of retirees and leavers. Staff levels are slightly below Budget in Q1. We are still seeing a competitive external market and high resignation rates, with leavers averaging 150 per period.



Agency and NPL staff (FTE): actuals and Budget

Agency and NPL FTE up by over 400 since the end of 2021/22 and are slightly higher than Budget in Q1. This is driven by labour market challenges and previous funding uncertainty.



Capital renewals

Quarter 1 spend is (£8m) higher than Budget, mainly from timing of LU renewals programme which is ahead of target; we are aiming to meet the available funding target of £736m over the full year.

The available funding target is made of up the £725m capital envelope from the August 2022 funding agreement, plus £11m of spend expected to be rolled over from 2022/23 (pending DfT confirmation).

Capital renewals (£m)	Quarter 1, 2023/24			Quarter 1, 2022/23		
	Actuals	Variance to Budget		Last year	Variance to last year	
CCO	**(42)**	**8**	**15%**	**(42)**	**0**	**1%**
Four lines modernisation	(1)	(0)	-16%	(1)	(0)	-10%
Surface assets	(17)	5	24%	(22)	4	20%
Air Quality and Environment	(3)	0	9%	(3)	0	6%
Public transport	(14)	0	3%	(11)	(3)	-29%
Technology	(6)	1	14%	0	(6)	0%
Savings challenge and deliverability	(0)	1	62%	(5)	5	100%
COO	**(93)**	**(18)**	**-24%**	**(75)**	**(19)**	**-25%**
LU	(91)	(18)	-25%	(75)	(16)	-21%
Elizabeth Line	(2)	0	11%	0	(2)	0%
Estates	(1)	(0)	-57%	(0)	(1)	-581%
CCSO	**(14)**	**2**	**12%**	**(6)**	**(8)**	**-139%**
Corporate	**(2)**	**1**	**21%**	**(1)**	**(1)**	**-107%**
Total TfL	**(151)**	**(8)**	**-6%**	**(124)**	**(27)**	**-22%**

Capital enhancements

Year to date spend is £41m lower than Budget, driven by release of provision from Bank Congestion, and slippage across Piccadilly line upgrade, third-party projects (including TCP and Project Oval in Customer & Strategy) and DLR rolling stock replacement.

Capital enhancements (£m)	Quarter 1, 2023/24			Quarter 1, 2022/23		
	Actuals	Variance to Budget		Last year	Variance to last year	
Rolling Stock and Signalling Replacement	(141)	5	4%	(101)	(40)	-39%
Piccadilly line upgrade	(63)	8	11%	(50)	(13)	-26%
Four lines modernisation	(24)	(1)	-6%	(30)	5	18%
Rail System Enhancements	(1)	0	14%	(2)	1	32%
Savings challenge	0	(7)	100%	0	0	0%
Trams	(1)	0	26%	(0)	(1)	-31035%
DLR Rolling Stock replacement incl. HIF	(52)	5	9%	(19)	(32)	-167%
Major Enhancements	(4)	5	54%	(26)	22	83%
Silvertown Tunnel	(3)	1	26%	(3)	1	17%
Northern Line Extension	(1)	(0)	-17%	1	(2)	170%
Barking Riverside	(1)	(5)	113%	0	(1)	627%
Elephant & Castle Station Capacity	(3)	0	7%	(3)	1	19%
Bank Congestion Relief	3	7	162%	(20)	23	113%
Elizabeth Line	(0)	2	86%	(1)	0	57%
Other Enhancements	(62)	31	33%	(42)	(20)	-48%
Major stations	(0)	1	93%	(0)	0	75%
London-Wide ULEZ	(21)	4	16%	(6)	(15)	-249%
Other AQE	(3)	2	35%	(1)	(2)	-235%
Public transport	(3)	(1)	-23%	(1)	(2)	-127%
Healthy Streets	(23)	4	14%	(15)	(8)	-51%
Technology	(1)	4	75%	(1)	0	11%
LU	(3)	(0)	-4%	(3)	(0)	-17%
Customer & Strategy	(7)	17	70%	(14)	7	48%
LT Museum	(0)	0	93%	(0)	0	78%
Estates	(0)	(0)	-145%	(0)	(0)	-669%
Corporate	(0)	1	98%	(0)	0	78%
Total TfL excl. TTLP and Crossrail	(208)	41	17%	(169)	(39)	-23%
TTLP	(30)	(3)	-11%	(6)	(24)	-405%
Crossrail	(18)	14	44%	(70)	52	74%
Total TfL	(255)	53	17%	(245)	(11)	-4%

Cash flow statement

Cash balances are broadly in line with Budget, and are £40m lower than at the end of last year, driven by working capital movements.

We have undertaken some additional short-term borrowing to offset other debt maturities and ensure sufficient liquidity during the quarter.

Cash balances	Quarter 1, 2023/24			Quarter 1, 2022/23		
£m	Actuals	Variance to Budget		Actuals	Variance to last year	
Opening balance	1,237	37	3%	1,287	(50)	-4%
Change in cash balance	(40)	(40)	N/A	(39)	(1)	2%
Closing balance	**1,197**	**(2)**	**0%**	**1,248**	**(51)**	**-4%**

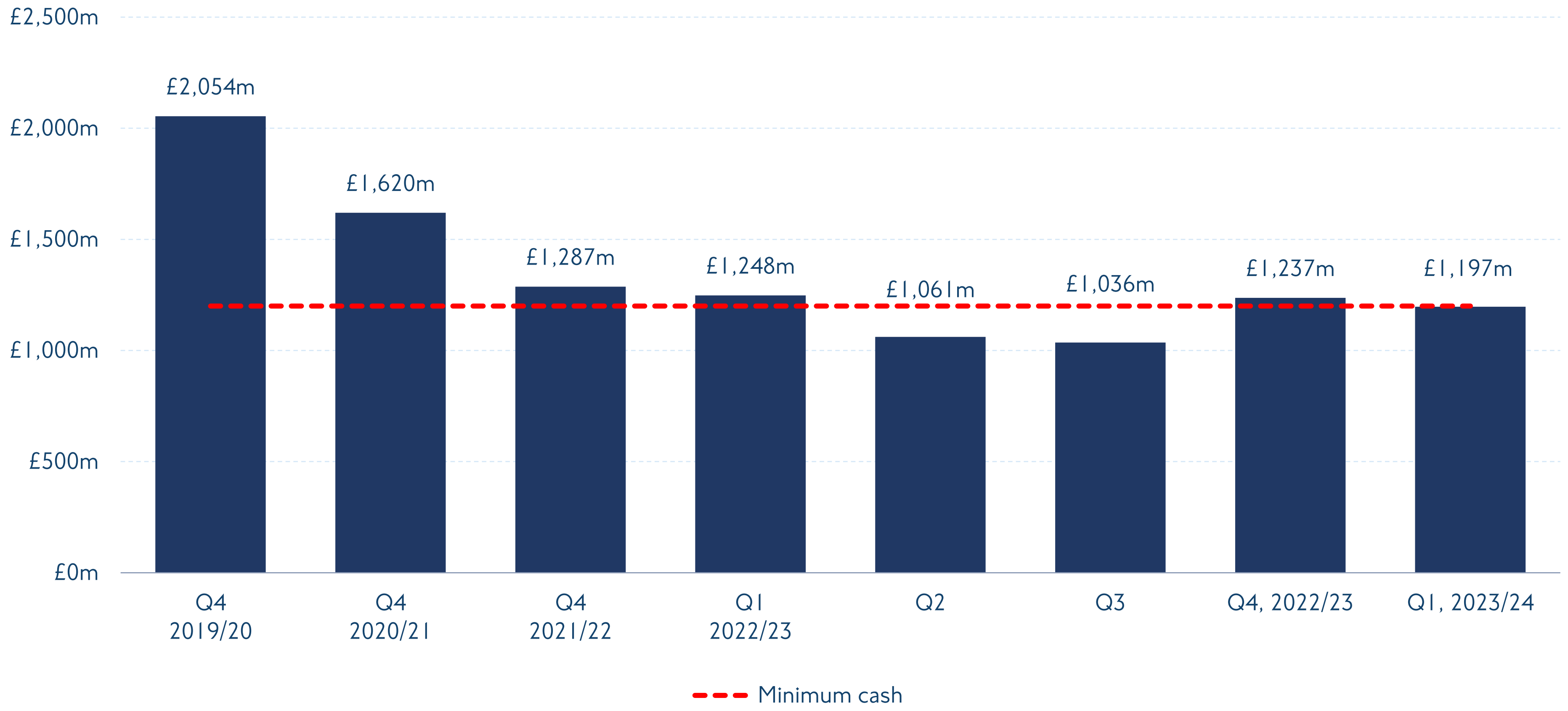
Cash flow statement	Quarter 1, 2023/24			Quarter 1, 2022/23		
£m	Actuals	Variance to Budget		Actuals	Variance to last year	
Operating surplus before capital renewals and interest	329	17	5%	449	(120)	-27%
Less TTLP, LTIG and LTM	(21)	(17)	347%	(10)	(11)	98%
Cash generated / (used) from operating activities	***308***	***-***	***0%***	***439***	***(131)***	***-30%***
Capital renewals	(151)	(8)	6%	(124)	(27)	22%
New capital investment	(208)	41	-17%	(169)	(39)	23%
Investment grants and ring-fenced funding	178	(1)	1%	21	157	884%
Working capital movements	(57)	(93)	-248%	(68)	11	-13%
Cash generated / (used) from investing activities	***(238)***	***(61)***	***35%***	***(340)***	***102***	***-30%***
Free cash flow	**70**	**(61)**	**-46%**	**99**	**(29)**	**-29%**
Net interest costs	(99)	(3)	3%	(101)	2	-2%
Existing debt maturing	(55)	-	0%	(80)	25	-31%
New debt issued	-	(20)	-100%	-	-	N/A
Short-term net borrowing change	44	44	N/A	43	1	2%
Cash generated / (used) from financing activities	***(110)***	***21***	***-16%***	***(138)***	***28***	***-20%***
Change in cash balance	**(40)**	**(40)**	**N/A**	**(39)**	**(1)**	**2%**

Cash balances

Total cash balances (excl. cash balances identified for Crossrail construction) are just under £1.2bn at the end of Quarter 1, £40m lower than at the end of last year and are in line with 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.

Cash balances



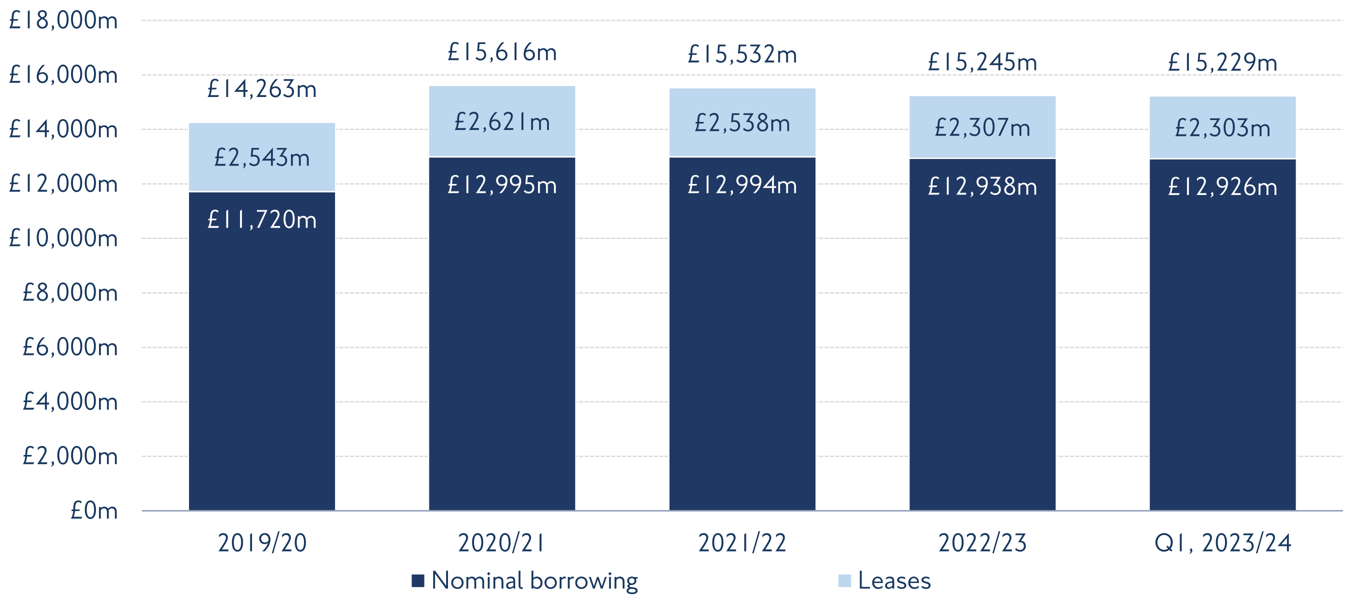
Cash balances reduced from £2,054m at the end of 2019/20 to £1,237m at the end of 2022/23 and is now £1,197m at the end of Quarter 1, 2023/24

Debt

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

Our outstanding debt decreased slightly during Quarter 1. This was primarily driven by a repayment under our facility with DfT for the purposes of Crossrail, partially offset by a small amount of new borrowing to ensure sufficient liquidity during the quarter.

Total debt (£m)



92%

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

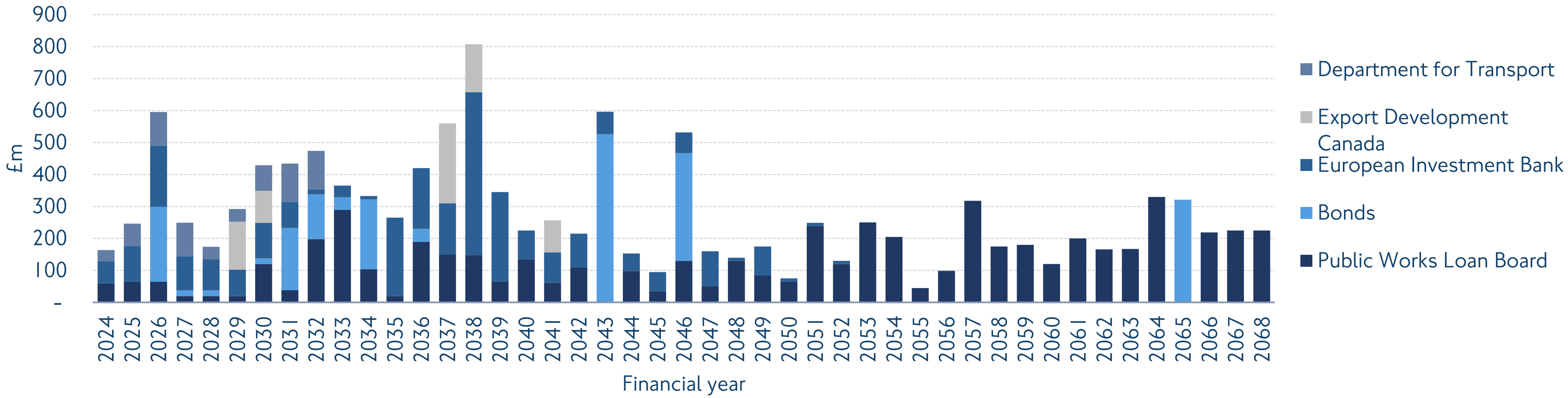
3.5%

The weighted average interest rate on our borrowing is 3.5%

19.4 years

The weighted average tenor of our borrowing is 19.4 years

TfL borrowing maturity profile



The borrowing maturity profile excludes £579m of commercial paper and other short-term borrowings which we generally continue to re-issue on a rolling basis.

Credit ratings

We are rated by three major credit rating agencies. This allows us to attract interest from a wide pool of investors and gives us access to a range of funding sources.

	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 UK Government. Fitch have assigned a negative outlook, which reflects the negative outlook they have assigned to the UK Government's credit rating.