

Finance Report

Period 5, 2023/24

Management results from 1 April 2023 – 19 August 2023

Board

18 October 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 so far this year, but have risks:

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

- Cumulative journey growth of just over 6% in the year to date. We are targeting 6% year-on-year journey growth over the full year, on top of the 31% increase in 2022/23
- Passenger journeys are relatively steady at 89% of pre-pandemic levels, up from 85% at the end of 2022/23
- Some pressure on roads enforcement income, but we expect to manage this
- Total revenue is in line with Budget

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

- Like-for-like operating costs falling in real terms: 7% higher than last year despite year-on-year inflation of 11%
- 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

- Operating surplus (excluding revenue top up from government) of £47m in the year to date, £85m better than Budget and up £87m from last year
- Our headline surplus is £143m, £72m up on Budget; after adjusting for timing differences, this is £25m 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

- The DfT have confirmed TfL will not receive inflationary support of £181m this year and funding for 2024/25 is uncertain
- Capital renewals are slightly lower than Budget, but we expect to be in line with available funding of £736m over the full year
- Expenditure on capital enhancements has continued to slip, partly due to funding uncertainty, and are now just over £70m lower than Budget

Maintain cash reserves to make payments and protect against shocks

- Cash balances are in line with Budget and are 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 will not receive DfT inflationary support this year, and capital funding for 2024/25 remains uncertain

2023/24 Inflation support

Our August 2022 funding settlement with government recognised the risk of rising inflation and included a mechanism for further funding if the level of inflation forecast by the Office of Budget Responsibility (OBR) increased.

Based on the OBR forecast in November 2022, our estimate of the impact of inflation increased to circa £400m. This was significantly mitigated through our active work to lock-in lower energy costs and our work with our supply chain to offset inflation, such that our claim for inflation funding submitted in February 2023 was reduced to £279m.

Our Budget for 2023/24 assumed this was partially offset by retaining £98m of additional income from the 5.9% fare rise in March 2023 based on requirements in the government funding deal, leaving a government funding requirement of £181m. As our Budget showed us achieving operating financial sustainability in 2023/24, this funding was assumed to support capital expenditure.

We submitted our inflation request covering 2023/24 in February 2023. On 26 July 2023, DfT confirmed that TfL will not receive this additional funding in 2023/24. The pressure of £181m has been partly offset by an improvement in the final revenue scenario set by DfT of £44m (£23m in 22/23 and £21m for 23/24), as compared to our 2023/24 Budget, which will lead to an increased level of revenue top-up funding.

The ability to mitigate the remainder of the £137m gap is limited by the conditions in the funding agreement and the fact that the outcome was confirmed almost five months into the financial year. This gap will need to be closed through a combination of deferring capital expenditure and short-term financing options. More details on this are set out in Part 2 of this paper, but the immediate consequences is our inability to accelerate any capital programme from 2024/25 to offset any slippage occurring in 2023/24.

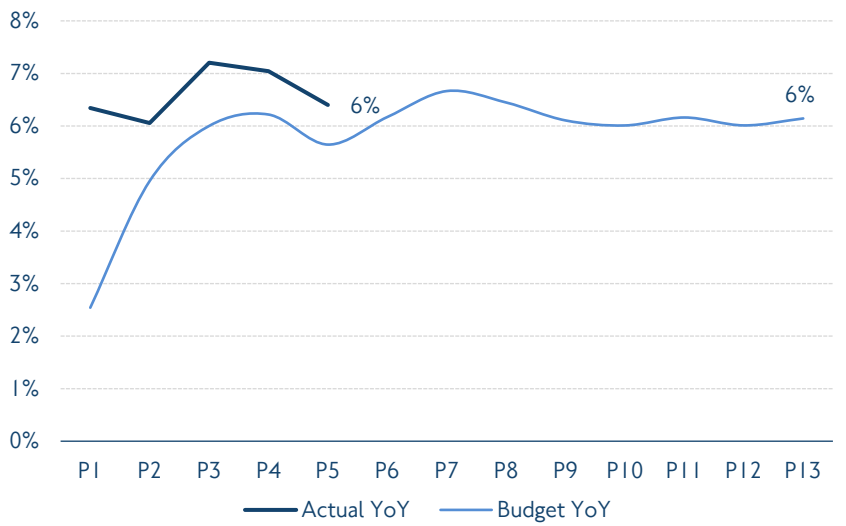
2024/25 Capital funding

Although TfL is on track to achieve operating financial sustainability, the Government has consistently recognised in the funding settlements that TfL is not expected to fund major capital projects from its operating incomes. On 22 September, TfL submitted its 2024/25 Capital Business Case to DfT and constructive discussion with HMG continues with an outcome expected in the autumn.

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 6% year-on-year to Period 5, 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 Elizabeth line services

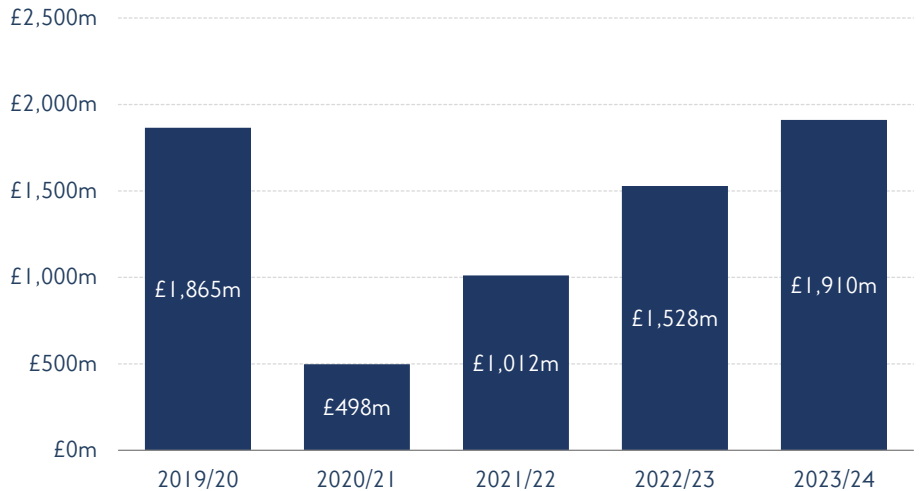
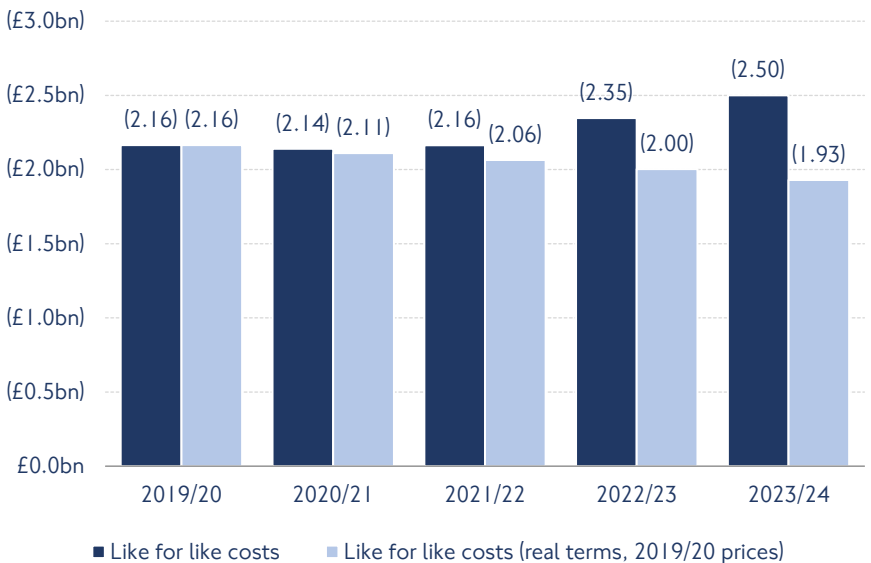
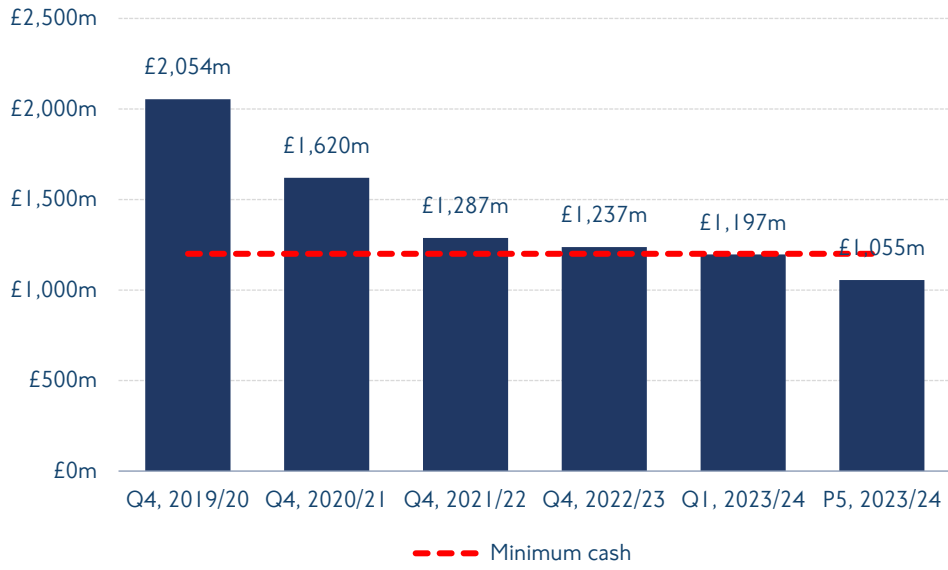


Chart shows results to end of Period 5 for each year

Like-for-like operating costs 6.6% higher than last year, but down in real terms as inflation at 10.6%



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



Passenger journeys

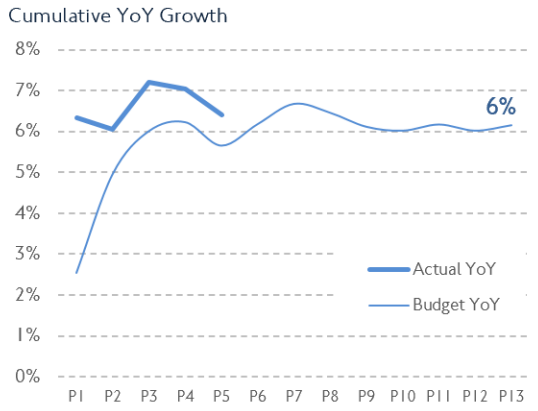
In 2023/24 we have budgeted 6% underlying year on year growth in demand. Journeys to date are positive, with cumulative growth just above 6%.

TfL passenger journeys were 10 million better than Budget. LU and Rail journeys are performing strongly in the year to date, offsetting slower growth on buses.

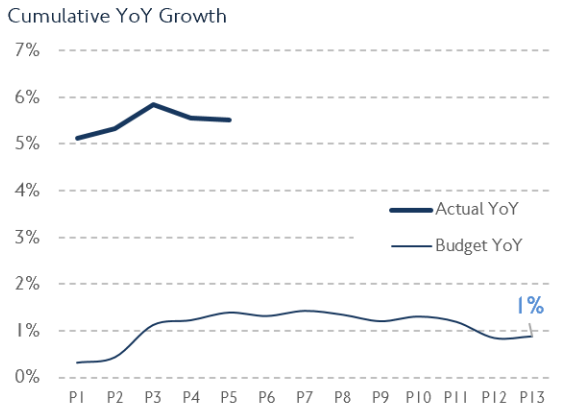
LU and DLR journeys are higher than expected as the assumed impact of Elizabeth line new services to these modes is less than expected.

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

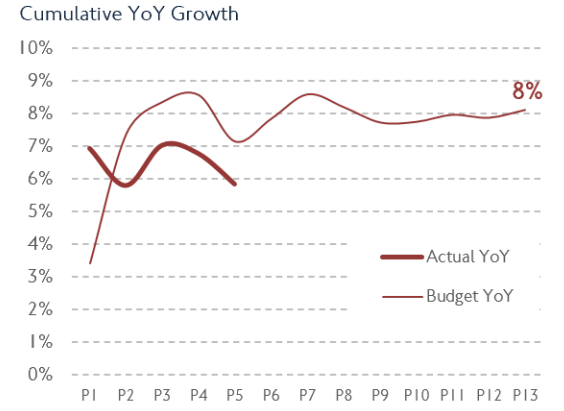
TfL	% Growth period / budget		Absolute m		Var to Bud m
			P	Y	
	3.7%	3.2%	251	1353	1.1
					9.6



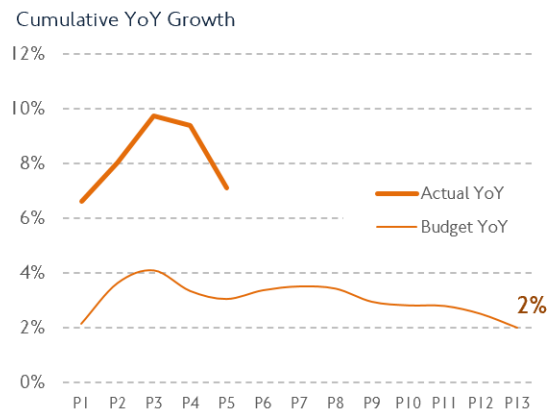
LU	% Growth period / budget		Absolute m		Var to Bud m
			P	Y	
	5%	2%	86	449	2.6
					17.6



Bus	% Growth period / budget		Absolute m		Var to Bud m
			P	Y	
	2%	1%	130	711	1.0
					(8.7)



Rail	% Growth period / budget		Absolute m		Var to Bud m
			P	Y	
	-3%	2%	20	116	(0.9)
					4.4

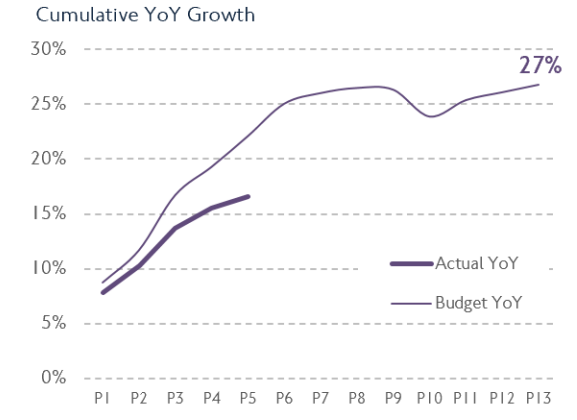


LO	% Growth period / budget		Absolute m		Var to Bud m
			P	Y	
	-5%	3%	11	69	(1.0)
					2.1

DLR	% Growth period / budget		Absolute m		Var to Bud m
			P	Y	
	2%	-2%	7	39	0.3
					3.1

Tram	% Growth period / budget		Absolute m		Var to Bud m
			P	Y	
	-3%	10%	1	8	(0.2)
					(0.9)

EL	% Growth period / budget		Absolute m		Var to Bud m
			P	Y	
	21%	34%	15	77	(1.7)
					(3.7)



EL journeys are estimates and are subject to revision

Income statement

Total revenue is in line with Budget. Passenger income is £28m higher, which is partly offset by lower revenue top up from government (favourable timing to unwind over the full year).

Operating costs are £65m lower than Budget. We are seeing some cost pressures on bus operators costs – through improved performance – as well as timing differences in delivering savings. These cost pressures have been offset by staff cost savings and one offs, as well as central contingency to mitigate uncertainty on other operating income.

Capital renewals are £11m lower than Budget. We expect to deliver to available funding over the full year.

Income statement (£m)

£m	Year to date, 2023/24				Year to date, 2022/23		
	Actuals	Budget	Variance to Budget		Last year	Variance to last year	
Underlying passenger income	1,910	1,883	28	1%	1,528	382	25%
DfT revenue top up	96	110	(13)	-12%	126	(29)	-23%
Passenger income	2,007	1,992	14	1%	1,654	353	21%
Other operating income	547	551	(4)	-1%	589	(42)	-7%
Business Rates Retention	736	736	0	0%	683	53	8%
Other revenue grants	109	121	(12)	-10%	223	(114)	-51%
Revenue	3,399	3,400	(1)	0%	3,149	250	8%
Operating cost	(2,849)	(2,913)	65	2%	(2,699)	(149)	-6%
Operating surplus before interest and renewals	550	487	64	13%	450	101	22%
Capital renewals	(245)	(256)	11	4%	(198)	(47)	-24%
Net interest costs	(162)	(160)	(3)	-2%	(166)	4	2%
Operating surplus / (deficit)	143	71	72	101%	86	57	67%
Operating surplus/ (deficit) excl. DfT support *	47	(38)	85	223%	(40)	87	218%

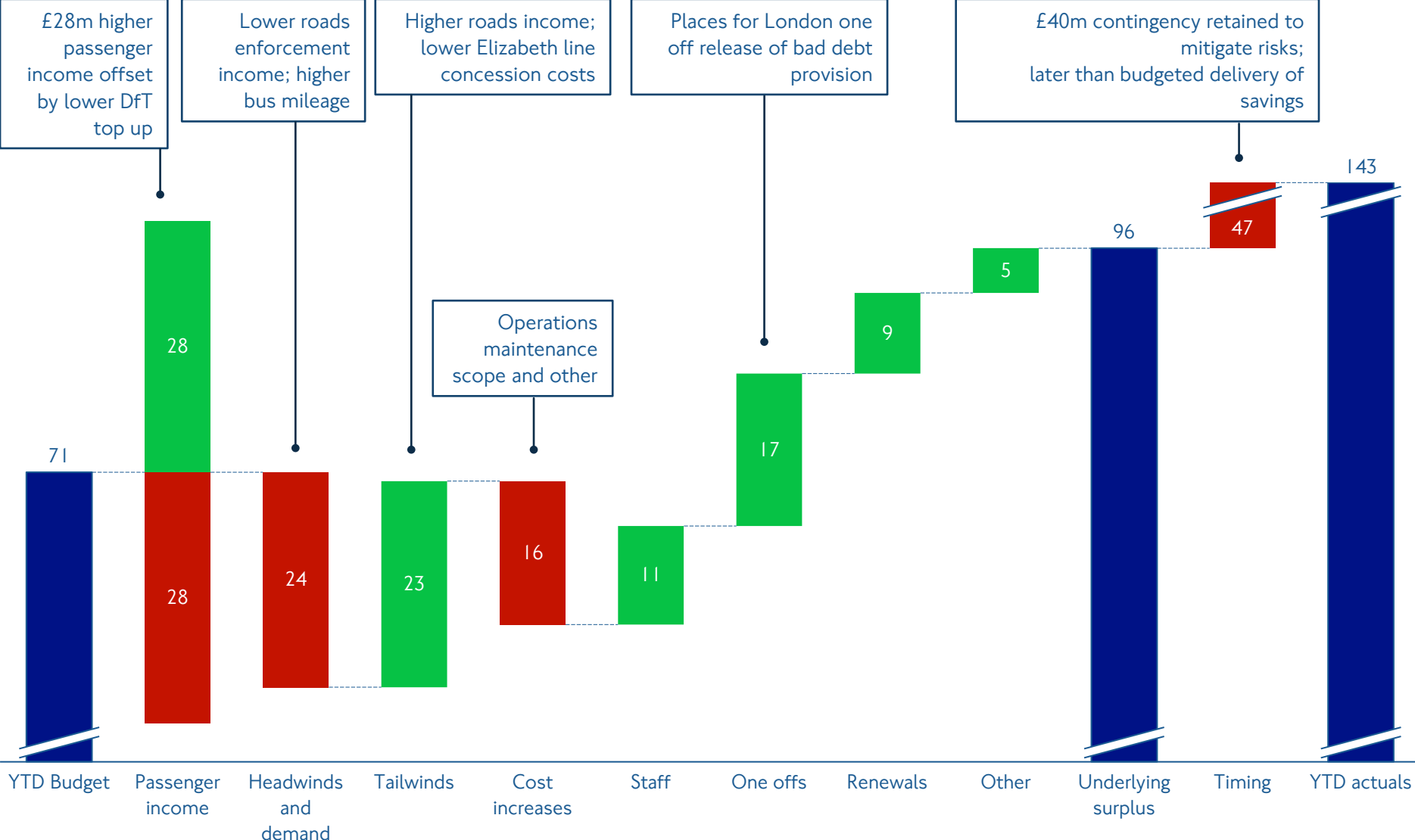
* Excluding DfT revenue top up and base funding (in 2022/23)

Income statement

The underlying surplus – after adjusting for timing differences on savings and capital renewals - is £96m, £25m better than Budget.

We need to retain £40m contingency for later this year to mitigate financial risks.

Income statement variances by cause (£m)



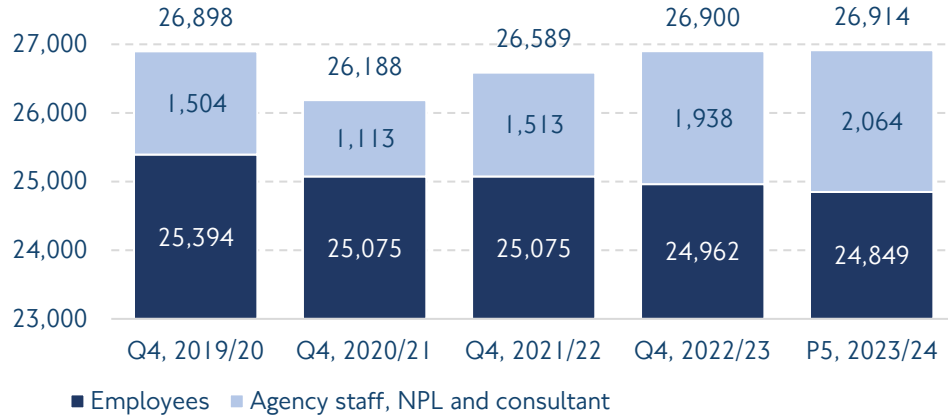
Staff

Total staff numbers are in line with pre-pandemic levels, and are in line with the end of 2022/23.

Permanent employee numbers are over 500 lower than before the pandemic and are over 100 down from the end of 2022/23. As with previous years, there are a large number of retirees at the beginning of the year.

Agency and NPL staff have increased by over 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

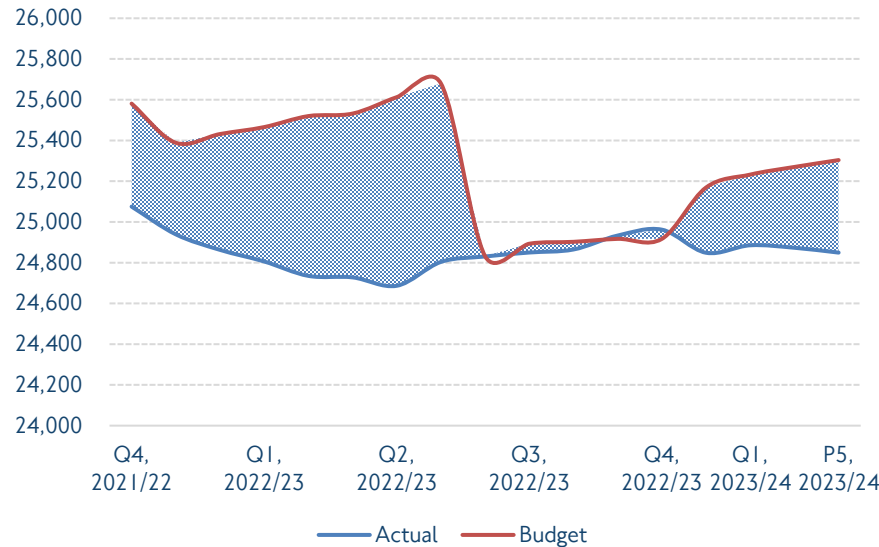


Total staff are around pre-pandemic levels

- Agency, NPL and consultants over 500 higher than pre-coronavirus levels as a result of labour market challenges
- Permanent employees down by over 500 since 2019/20 and are slightly below the end of 2022/23

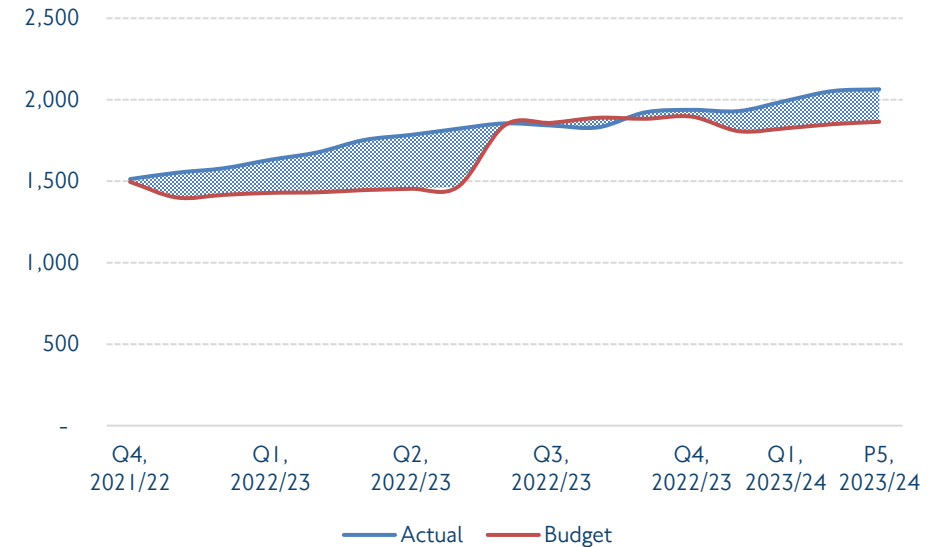
Permanent staff (FTE): actuals and Budget

Permanent employees down by over 100 since the end of 2022/23, mostly driven by large number of retirees and leavers. Staff levels are below Budget in Period 5 with the gap widening this year.



Agency and NPL staff (FTE): actuals and Budget

Agency and NPL FTE up by over 100 since the end of 2022/23 and are slightly higher than Budget in Period 5. This is driven by labour market.



Capital renewals

Capital renewals are £11m lower than Budget in the year to date, but significantly higher than last year. We have seen some underspend over the last two periods, largely driven by historical accrual releases. We are closely managing our workbank and expect to spend in line with available funding of £736m over the full year.

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

Capital renewals (£m)	Year to date, 2023/24			Year to date, 2022/23			
	Actuals	Budget	Variance to Budget	Last year	Variance to last year		
CCO	(64)	(89)	25	28%	(66)	2	4%
Four lines modernisation	(2)	(1)	(0)	-14%	(2)	(0)	-2%
Surface assets	(23)	(38)	15	39%	(33)	10	29%
Air Quality and Environment (AQE)	(6)	(7)	1	15%	(5)	(1)	-13%
Public transport	(23)	(29)	6	20%	(18)	(6)	-31%
Technology	(9)	(12)	3	22%	(8)	(1)	-13%
Savings challenge and deliverability	0	(1)	1	100%	(0)	0	100%
COO	(156)	(135)	(20)	-15%	(119)	(36)	-30%
LU	(152)	(130)	(22)	-17%	(119)	(33)	-27%
Elizabeth Line	(3)	(4)	1	28%	(0)	(3)	-16887%
Estates	(1)	(2)	0	18%	(0)	(1)	-760%
CCSO	(23)	(28)	4	16%	(11)	(12)	-112%
Corporate	(3)	(4)	2	38%	(2)	(1)	-43%
Total TfL	(245)	(256)	11	4%	(198)	(47)	-24%

Capital enhancements

Enhancement spend is £72m lower than Budget although significantly up on this time last year.

The year-to-date variance to Budget is driven by slippage on the Piccadilly Line Upgrade and DLR, a change of delivery strategy on third-party funded projects (including the Telecoms Commercialisation Project in CCSO) and a one-off upside in Bank Congestion Relief from release of provisions.

Capital enhancements (£m)

	Year to date, 2023/24				Year to date, 2022/23		
	Actuals	Budget	Variance to Budget		Last year	Variance to last year	
Rolling Stock and Signalling Replacement	(227)	(245)	18	7%	(162)	(65)	-40%
Piccadilly line upgrade	(105)	(118)	13	11%	(81)	(24)	-30%
Four lines modernisation	(37)	(39)	1	3%	(47)	10	21%
Rail System Enhancements	(1)	(3)	2	58%	(3)	2	62%
MPD Savings challenge	0	7	(7)	100%	0	0	0%
Trams	(1)	(2)	1	32%	(0)	(1)	-413%
DLR Rolling Stock replacement incl. HIF	(82)	(91)	9	10%	(31)	(51)	-166%
Major Enhancements	(8)	(14)	7	47%	(42)	34	82%
Silvertown Tunnel	(3)	(6)	3	47%	(4)	1	33%
Northern Line Extension	0	(0)	0	148%	0	(0)	41%
Barking Riverside	(1)	4	(5)	122%	(2)	1	37%
Elephant & Castle Station Capacity	(4)	(5)	0	6%	(5)	0	7%
Bank Congestion Relief	2	(6)	8	136%	(31)	33	107%
Elizabeth Line	(1)	(2)	1	37%	0	(1)	0%
Other Enhancements	(113)	(160)	48	30%	(74)	(38)	-51%
Major stations	(2)	(2)	0	24%	(0)	(1)	-360%
Surface assets	0	0	0	0%	(1)	1	146%
London Wide ULEZ	(38)	(49)	10	21%	(11)	(28)	-258%
Other AQE	(6)	(8)	3	31%	(1)	(5)	-653%
Public transport	(5)	(5)	(0)	-7%	(5)	(0)	-1%
Healthy Streets	(41)	(43)	2	5%	(26)	(15)	-59%
Technology	(4)	(8)	5	56%	(3)	(1)	-22%
LU	(5)	(7)	2	33%	(7)	2	32%
CCSO	(12)	(36)	23	66%	(21)	8	41%
LT Museum	(0)	(1)	0	74%	(0)	(0)	-35%
Estates	(1)	(0)	(0)	-152%	(0)	(0)	-493%
Corporate	(0)	(2)	2	90%	(0)	(0)	-105%
Total TfL excl. TTLP and Crossrail	(347)	(420)	72	17%	(278)	(69)	-24%
TTLP	(37)	(52)	16	30%	(10)	(27)	-273%
Crossrail	(21)	(48)	27	56%	(111)	90	81%
Total	(405)	(520)	115	22%	(399)	(6)	-1%

Cash flow statement

Cash balances are £1.05bn at the end of Period 5, just over £100m lower than Budget. This was driven by lower borrowing and temporary adverse working capital.

Cash balances	£m	Year to date, 2023/24			Year to date, 2022/23		
		Actuals	Variance to Budget		Actuals	Variance to last year	
Opening balance		1,237	37	3%	1,287	(50)	-4%
Change in cash balance		(182)	(143)	360%	(157)	(25)	16%
Closing balance		1,055	(105)	-9%	1,130	(75)	-7%
Cash flow statement	£m	Year to date, 2023/24			Year to date, 2022/23		
		Actuals	Variance to Budget		Actuals	Variance to last year	
Operating surplus before capital renewals and interest		550	63	13%	450	100	22%
Less TTLP, LTIG and LTM		(22)	(14)	168%	(12)	(9)	74%
<i>Cash generated / (used) from operating activities</i>		529	50	10%	438	91	21%
Capital renewals		(245)	11	-4%	(198)	(47)	24%
New capital investment		(347)	72	-17%	(278)	(69)	25%
Investment grants and ring-fenced funding		383	(5)	-1%	31	352	1150%
Working capital movements		(179)	(143)	396%	75	(254)	-339%
<i>Cash generated / (used) from investing activities</i>		(389)	(65)	20%	(371)	(18)	5%
Free cash flow		140	(15)	-10%	67	73	109%
Net interest costs		(162)	(3)	2%	(166)	4	-2%
Existing debt maturing		(55)	0	0%	(580)	525	-91%
New debt issued		0	(20)	-100%	500	(500)	-100%
Short-term net borrowing change		(105)	(105)	N/A	22	(127)	-577%
<i>Cash generated / (used) from financing activities</i>		(322)	(128)	66%	(224)	(98)	44%
Change in cash balance		(182)	(143)	360%	(157)	(25)	16%

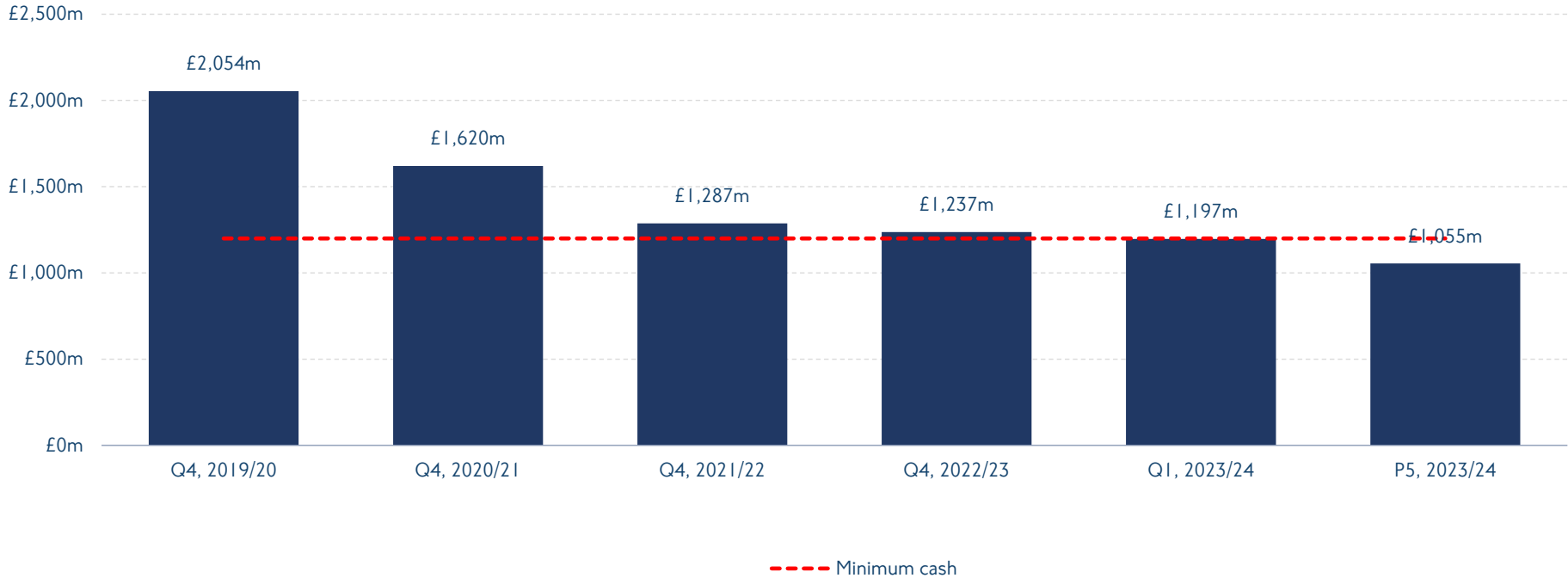


Cash balances

Total cash balances (excl. cash balances identified for Crossrail construction) are just under £1.1bn at the end of Period 5, almost £200m lower than at the end of last year. This is driven from short-term borrowing and maturing of existing debt.

A requirement 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 £1,058m at the end of Period 1, 2023/24



Reserves

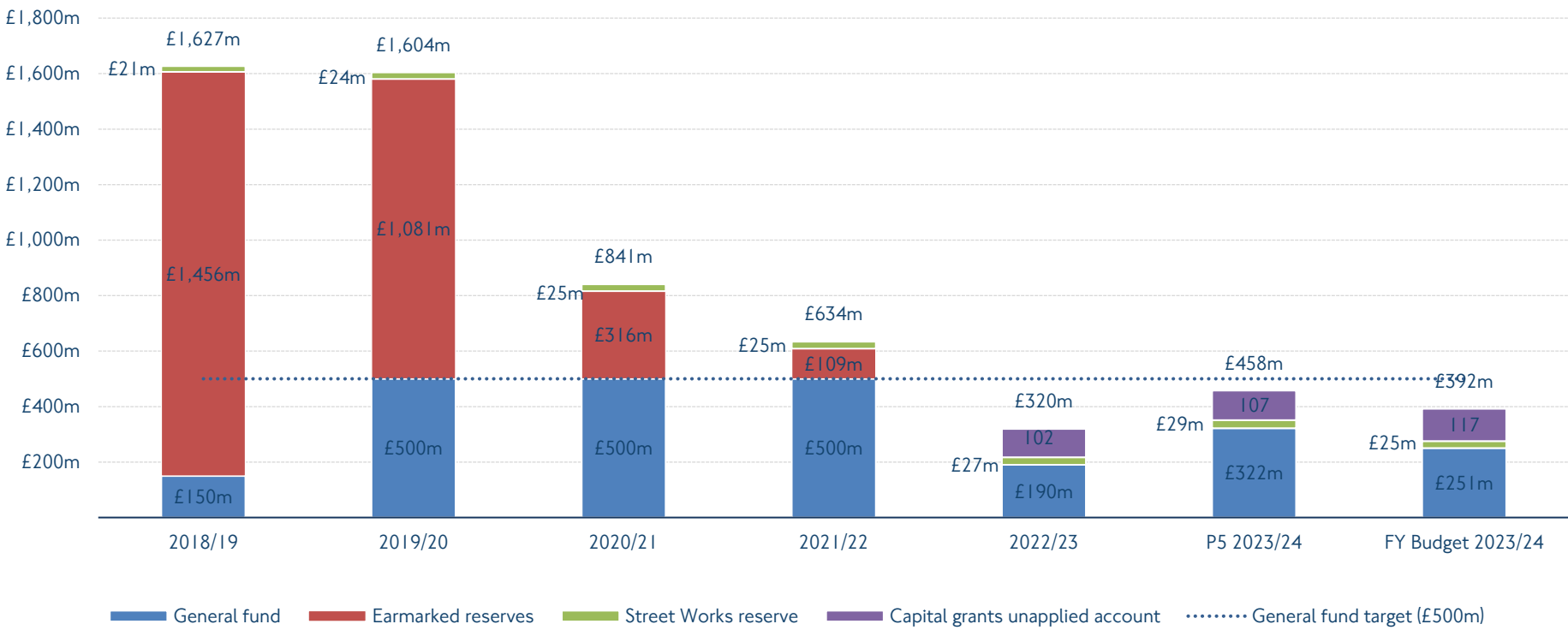
The pandemic has seen a material reduction in TfL’s useable reserves, which consist of its General Fund and Earmarked Reserves.

Usable reserves are generally lower than TfL’s cash balance, as elements of cash will be restricted for certain purposes and because cash payments are made in arrears in-line with supplier payment terms.

At the end of 2022/23, TfL’s General Fund reserves fell below our target of £500m, although this was largely driven by the purchase of the Class 378 rolling stock. The savings from this purchase will further support TfL as it rebuilds its usable reserves.

As part of the 2024 Business Plan process, we will be setting out the plan that shows useable reserves growing back to target levels by 2025/26.

Usable reserves



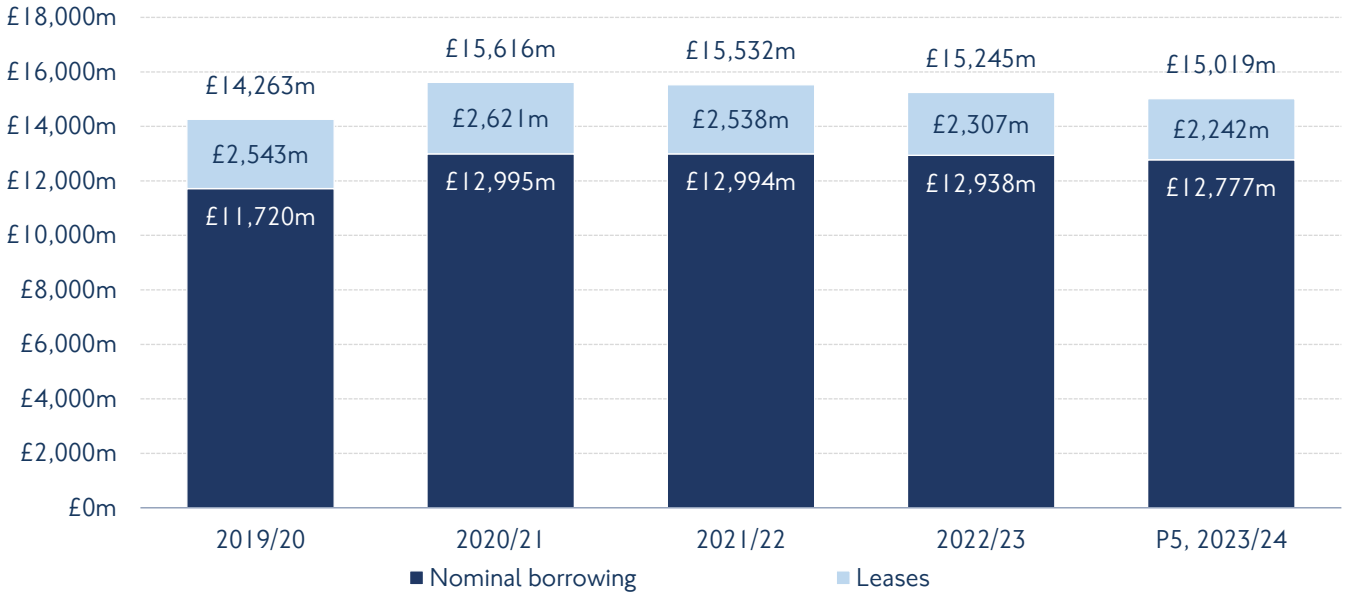
- Usable reserves of the Corporation are those that can be applied to fund future expenditure. They are made up of the General Fund, Earmarked Reserves, the Capital Grants Unapplied Accounts and the Street Works Reserve
- The General Fund represents sufficient cash-backed reserves held by the Group to cover risks that may arise. The Group has a target General Fund balance of £500m, which was increased from £150m at the start of the pandemic in March 2020
- The primary reason for falling below the benchmark at the end of the 2022/23 financial year was the transaction in March 2023 to purchase the Class 378 rolling stock for £277m. The saving in lease financing over the life of the asset will further support TfL as it rebuilds its usable reserves
- At P5, usable reserves are tracking above the full year figure due to timing of the DfT capital grant receipts of £400m to P5 (of FY Budget £696m), which are recognised in usable reserves when received rather than straight lined.

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 level of outstanding borrowing has decreased by £161m for the year up to Period 5, bringing our total borrowing balance to £12,777m. This is largely driven by a reduction in our short-term borrowing, to suit our cash and liquidity needs.

Total debt (£m)



93%

93% of our borrowing is at a fixed rate of interest

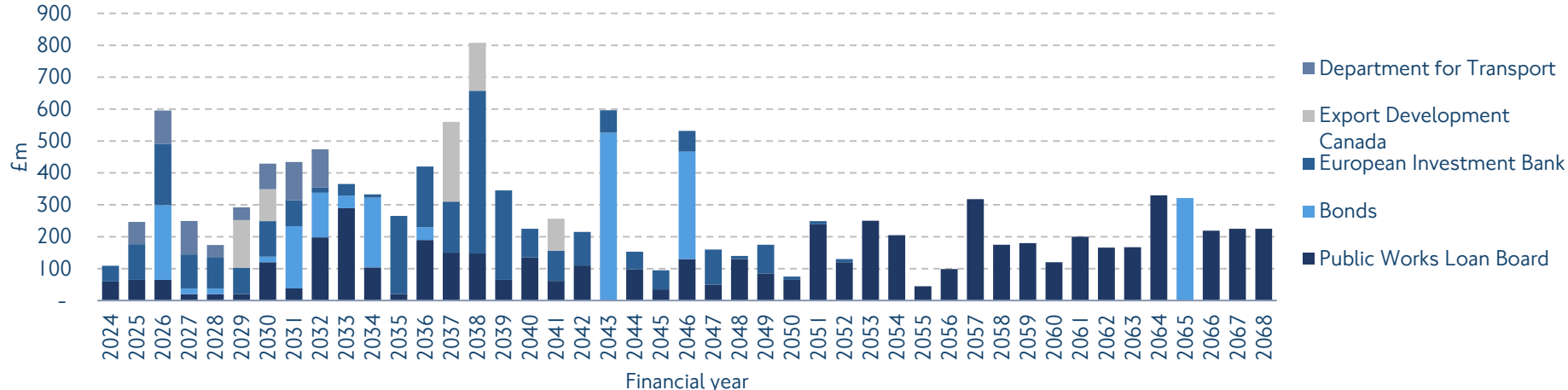
3.5%

The weighted average interest rate on our borrowing is 3.5%

19.5 years

The weighted average tenor of our borrowing is 19.3 years

TfL borrowing maturity profile



The borrowing maturity profile excludes £430m of short-term borrowing, 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.

There has been no change to our credit rating position since our last Finance Update to the Committee.

	Standard & Poor's	Moody's	Fitch
Long-term rating	A+	Baa 1	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.