Appendix 1

Finance Report

Period 7, 2023/24

Management results from 1 April 2023 – 14 October 2023

Board

13 December 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 almost 8% 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 90% of pre-pandemic levels, up from 85% at the end of 2022/23

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

- Like-for-like operating costs falling in real terms: 6% higher than last year despite year-on-year inflation of 10%
- Operating costs 1% lower than Budget, mainly from contingency we have not yet used
- We have also seen timing differences for savings delivery, but we are committed to delivery of our savings programme this year

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

- Our headline surplus is £142m, £58m up on Budget in the year to date
- Risks for the remainder of the year, but we remain on track to deliver an operating surplus in 2023/24

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

- The DfT has confirmed TfL will not receive inflationary support of £181m this year and funding for 2024/25 remains uncertain
- This has meant capital enhancements expenditure has had to be allowed to slip, and is now almost £90m lower than Budget
- Capital renewals are slightly lower than Budget, but we expect to be in line with available funding of £736m over the full year

Maintain cash reserves to make payments and protect against shocks

- Cash balances are slightly lower than Budget and are below £1.2bn as set out in the 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

2023/24 Operating financial sustainability

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

- *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. In the year to date, we were slightly behind the phasing of savings delivery, but have plans in place to deliver over the full year.
- *Other income* – although the funding settlement with Government protects TfL from risk on passenger income, there remains uncertainty on other operating income. This range is partly covered through the contingency held in the 2023/24 Budget.

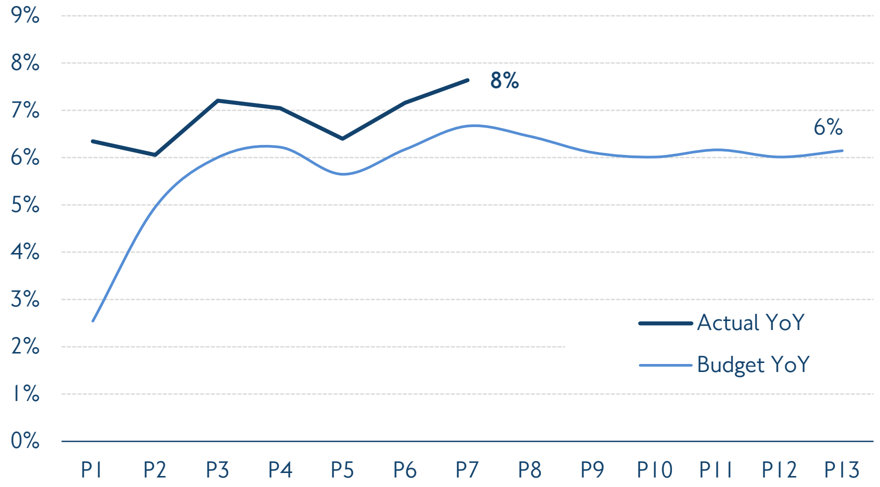
2024/25 capital funding

The primary risk to our financial sustainability in the medium term is the lack of capital funding certainty from government beyond 31 March 2024. 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 almost 8% year-on-year to Period 7, 90% 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

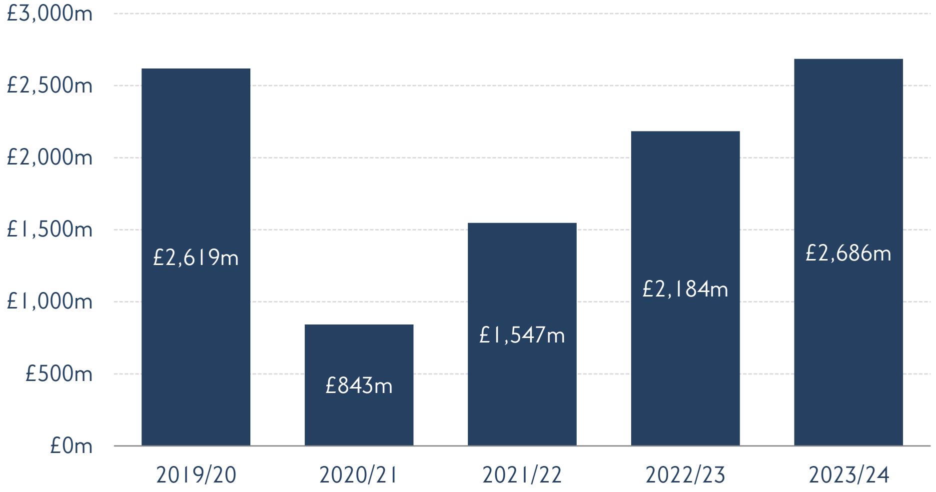
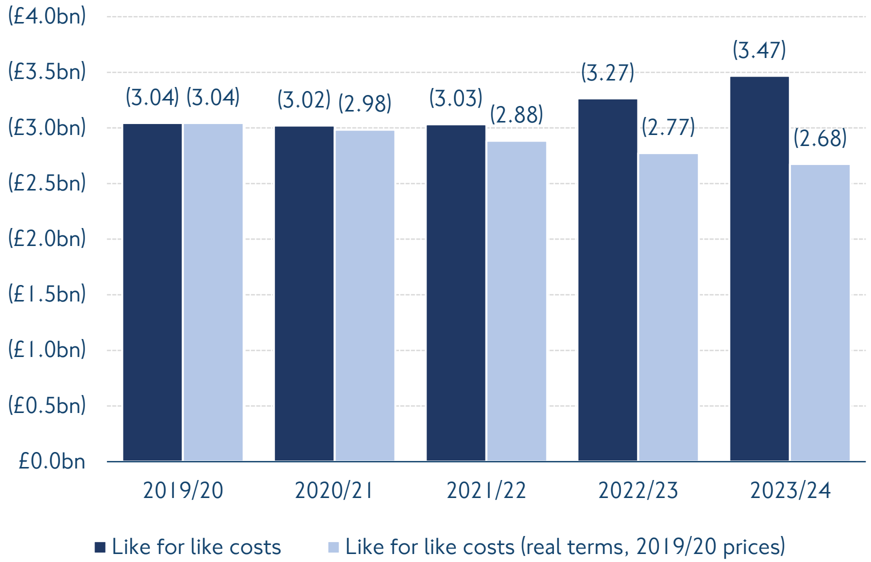
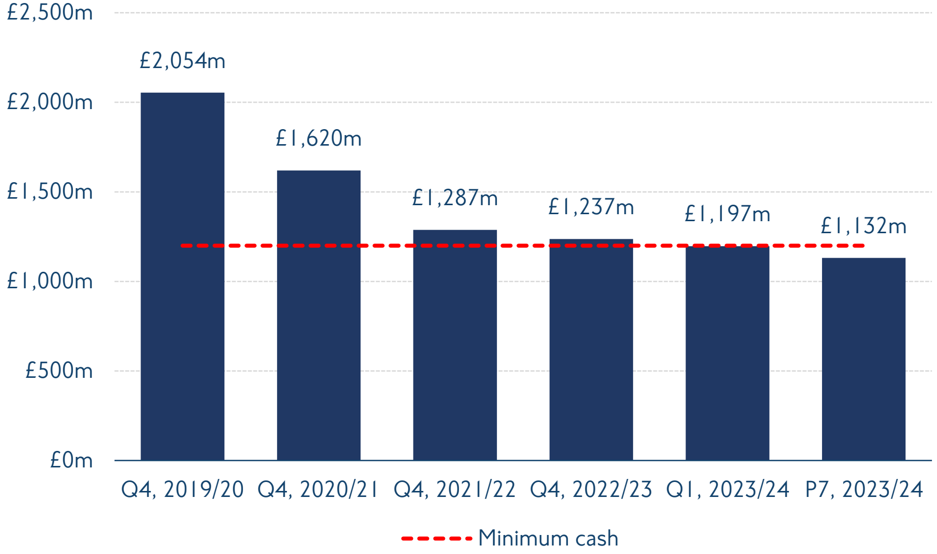


Chart shows results to end of Period 7 for each year

Like-for-like operating costs 6.2% higher than last year, but down in real terms as inflation at 10.1%



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 of almost 8%.

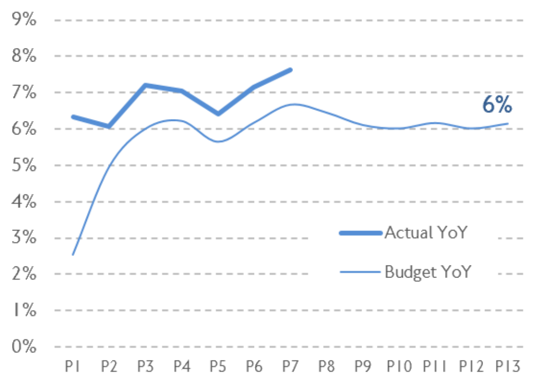
TfL passenger journeys were 17 million better than Budget. LU and Rail journeys continue to perform strongly in the year to date, offsetting slower growth on buses. On buses, we are seeing a slightly improved ticket yield, with passenger income higher than expected.

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

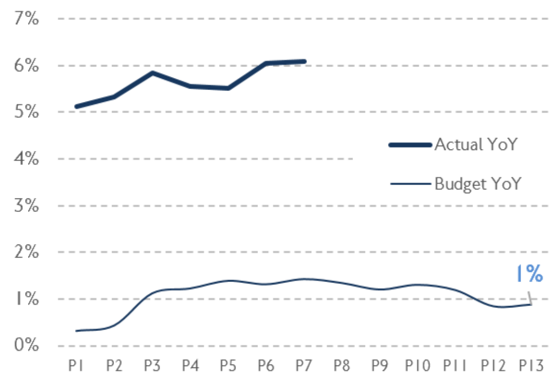
TfL	% Growth period / budget			Absolute m	Var to Bud m
	10.4%	9.5%	P	293	2.3
			Y	1907	17.2

Cumulative YoY Growth



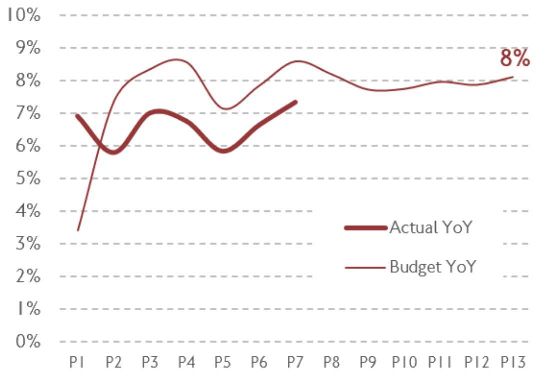
LU	% Growth period / budget			Absolute m	Var to Bud m
	6%	2%	P	94	3.8
			Y	629	27.6

Cumulative YoY Growth



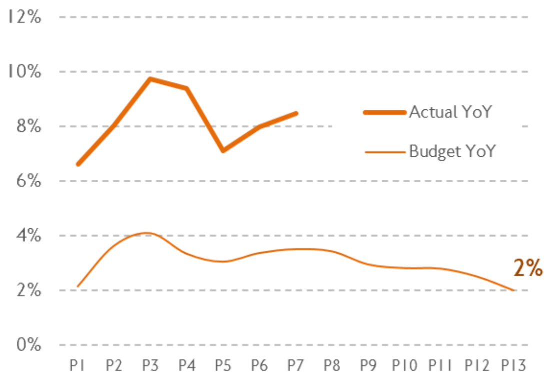
Bus	% Growth period / budget			Absolute m	Var to Bud m
	11%	13%	P	156	(2.0)
			Y	1005	(11.5)

Cumulative YoY Growth



Rail	% Growth period / budget			Absolute m	Var to Bud m
	11%	4%	P	25	1.6
			Y	163	7.5

Cumulative YoY Growth



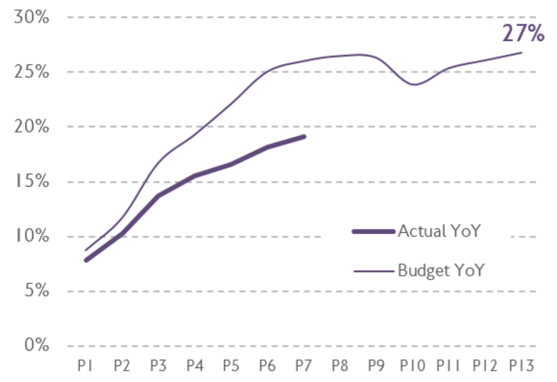
LO	% Growth period / budget			Absolute m	Var to Bud m
	15%	9%	P	15	0.7
			Y	98	3.6

DLR	% Growth period / budget			Absolute m	Var to Bud m
	8%	-7%	P	8	1.1
			Y	54	5.1

Tram	% Growth period / budget			Absolute m	Var to Bud m
	1%	18%	P	2	(0.3)
			Y	11	(1.2)

EL	% Growth period / budget			Absolute m	Var to Bud m
	24%	32%	P	17	(1.0)
			Y	110	(6.4)

Cumulative YoY Growth



EL journeys are estimates and are subject to revision

Income statement

Total revenue is in line with Budget. Passenger income is £44m higher, which is offset by lower revenue top up from Government. These variances should net off over a full year.

Operating costs are £40m lower than Budget. We are seeing some timing differences on savings delivery, higher ULEZ scrappage payments (offset by grant shown in other revenue grants) and some cost pressures on bus operators costs, through improved performance. 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. We need to retain contingency to mitigate risks over the remainder of the year.

Capital renewals are £17m lower than Budget. We expect to deliver to available funding over the full year.

Income statement (£m)

	Year to date, 2023/24				Year to date, 2022/23		
£m	Actuals	Budget	Variance to Budget		Last year	Variance to last year	
Underlying passenger income	2,686	2,642	44	2%	2,184	502	23%
DfT revenue top up	90	155	(66)	-42%	105	(15)	-15%
Passenger income	**2,776**	**2,797**	**(21)**	-1%	**2,290**	**486**	21%
Other operating income	786	786	(0)	0%	819	(33)	-4%
Business Rates Retention	1,030	1,030	0	0%	986	44	4%
Other revenue grants	202	178	24	14%	560	(358)	-64%
Revenue	**4,794**	**4,791**	**3**	0%	**4,655**	**139**	3%
Operating cost	(4,068)	(4,107)	40	1%	(3,753)	(315)	-8%
Operating surplus before interest and renewals	**726**	**684**	**42**	6%	**902**	**(176)**	-19%
Capital renewals	(360)	(376)	17	4%	(287)	(73)	-25%
Net interest costs	(224)	(224)	(1)	0%	(231)	6	3%
Operating surplus / (deficit)	**142**	**84**	**58**	70%	**384**	**(242)**	-63%

Income statement

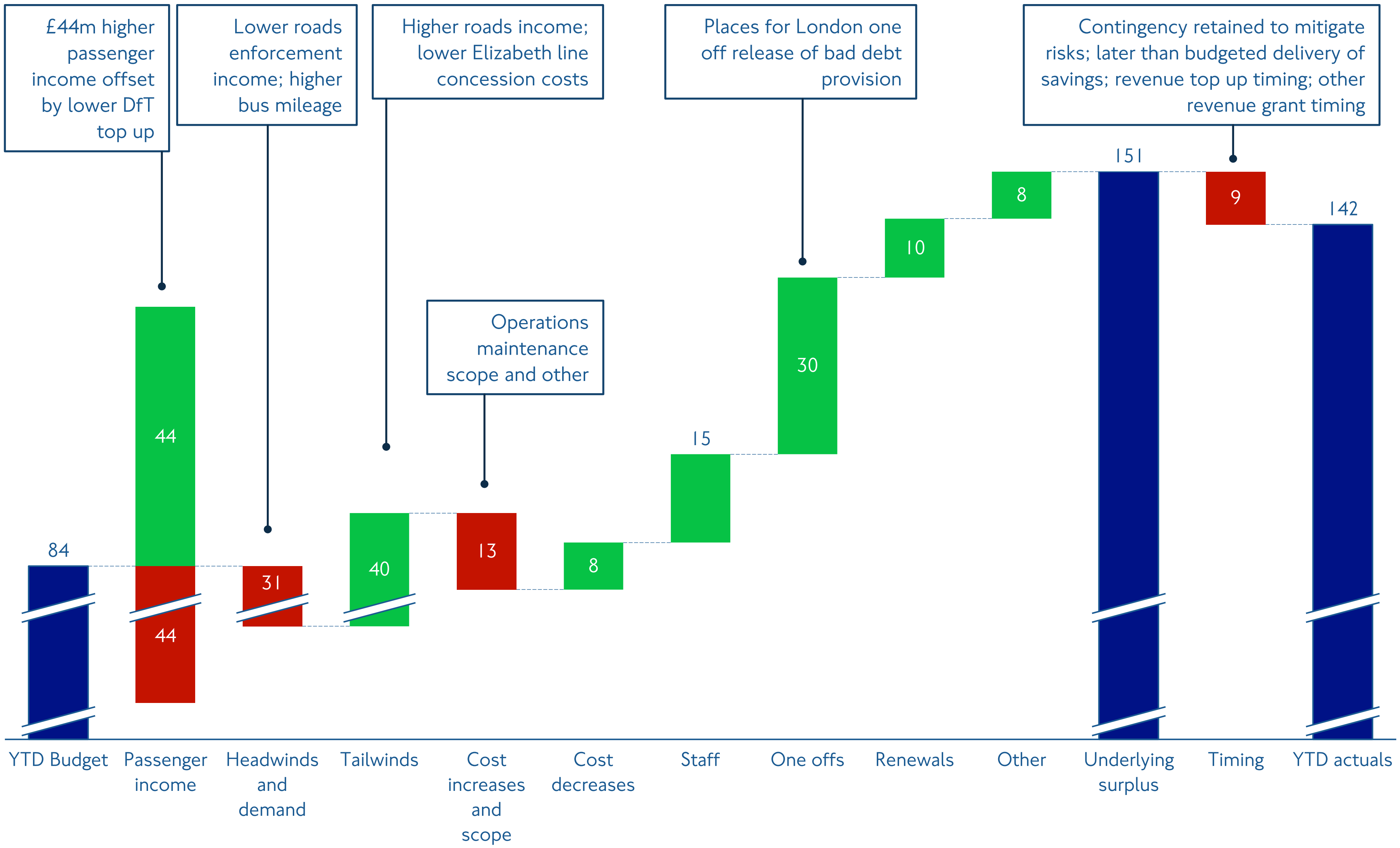
The underlying surplus – after adjusting for timing differences on savings and capital renewals - is £151m, £67m better than Budget and £37m better after adjusting for one-offs.

We need to retain contingency for later this year to mitigate the financial risks we still face.

Over the remainder of the year, we expect our favourable surplus position to trend back towards our budget target due to:

1. renewals spend ramping up to meet the funding envelope
2. some costs such as rolling stock lease payments are phased in the second half of the year
3. bus contracts renew based on a higher inflation than budgeted.

Income statement variances by cause (£m)



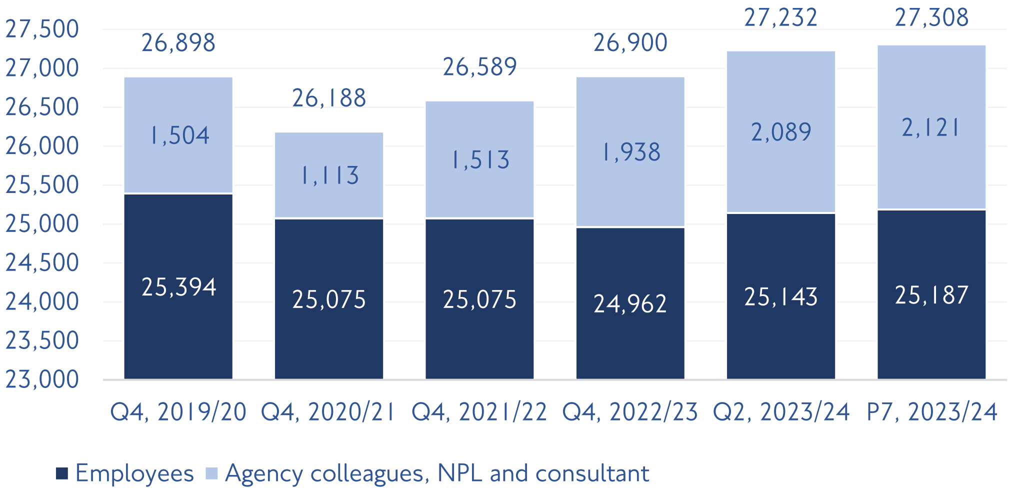
Colleagues

Total colleague numbers are now slightly above pre-pandemic levels. This reflects the ramp up our capital programme and new services introduced in the last three years, including the Elizabeth line, Northern Line Extension and Barking Riverside extension.

Permanent employee numbers are over 200 lower than before the pandemic, but are over 200 above the end of 2022/23. This is mostly driven by recruitment of graduates and apprenticeship trainees.

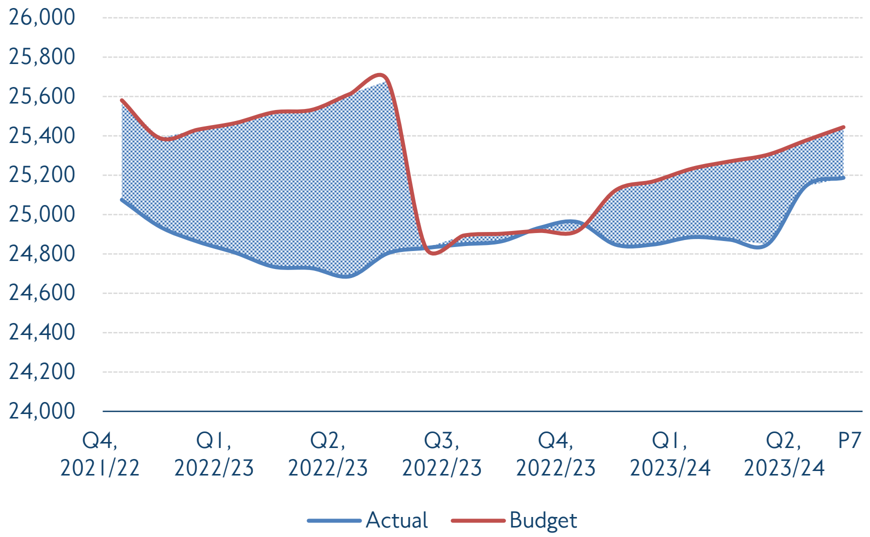
Agency and NPL colleagues have increased by over 600 since the end of 2019/20, but remain significantly lower than 2015/16 levels. NPL offers flexibility, particularly through time of change and temporary peaks in demand.

Headcount trends since 2019/20



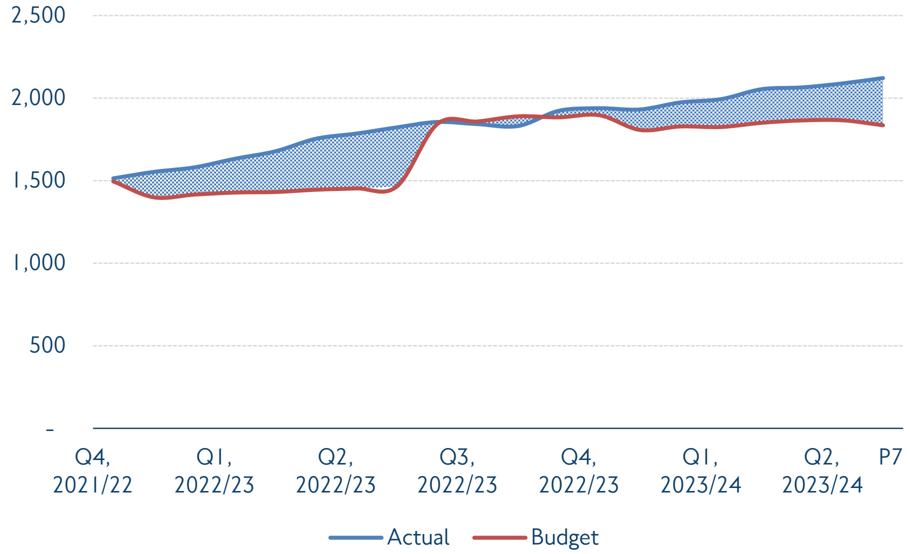
Permanent colleagues (FTE): actuals and Budget

Permanent employees up by over 200 since the end of 2022/23, mostly driven by the recruitment of graduate and apprenticeship trainees. Staff levels are below Budget in Period 7 with the gap widening this year.



Agency and NPL colleagues (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 challenges.



Capital renewals

Capital renewals are £17m lower than Budget in the year to date, but significantly higher than last year. We have seen some underspend over the first periods, largely driven by historical accrual releases in Streets, Bus & RSS Renewals programme and slippage in Technology, including ERP and Payments projects.

We are closely managing our workbank and forecast to spend in line with available funding 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 agreed to be rolled over from 2022/23.

	Year to date, 2023/24				Year to date, 2022/23		
£m	Actuals	Budget	Variance to Budget		Last year	Variance to last year	
Major Projects	**(2)**	**(2)**	**(0)**	**-10%**	**(2)**	**(0)**	**-13%**
Four Lines Modernisation	(2)	(2)	(0)	-3%	(2)	(0)	(0)
Silvertown Tunnel	(0)	0	(0)	0%	0	(0)	0%
Programmes	**(357)**	**(374)**	**17**	**5%**	**(285)**	**(72)**	**-25%**
Safe & Healthy Streets	(0)	(1)	1	100%	0	(0)	100%
Streets, Bus & RSS Renewals	(74)	(95)	21	22%	(73)	(1)	-2%
Environment	(9)	(11)	1	13%	(7)	(3)	-41%
Rail & Station Enhancements	(2)	(5)	3	52%	(4)	2	47%
LU Renewals	(203)	(182)	(20)	-11%	(151)	(52)	-35%
Technology	(62)	(74)	12	16%	(47)	(16)	-34%
Estates Directorate	(3)	(4)	0	13%	(0)	(3)	-1461%
Elizabeth Line	0	0	0	0%	(1)	1	100%
Other (TPH, City Planning, Group etc)	(3)	(3)	0	3%	(3)	0	4%
Total	**(360)**	**(376)**	**17**	**4%**	**(287)**	**(73)**	**-25%**

Capital enhancements

Enhancements spend is £86m lower than Budget driven by:

- DLR RS: £17m underspend driven by rephasing delivery of the Maintenance Facility Building to align with the contractors latest programme.
- Piccadilly Line Upgrade: £9m underspend due to delays in onboarding contractors
- Environment: slippage by £19m driven by reclassification of costs into IP Opex, rephasing of spend into later years and cost estimates adjustment
- Technology: £35m slippage largely driven by change in delivery approach of Telecoms Commercialisation Project 2 (simultaneous delivery of 4G & 5G): a third party funded project.

We are unable to mitigate this underspend given the Government's decision not to provide additional inflation support for 2023/24.

	Year to date, 2023/24				Year to date, 2022/23		
£m	Actuals	Budget	Variance to Budget		Last year	Variance to last year	
Major Rolling Stock and Signalling	**(335)**	**(363)**	**29**	**8%**	**(230)**	**(105)**	**-45%**
Four Lines Modernisation	(52)	(54)	2	4%	(65)	14	21%
DLR Rolling Stock Replacement	(109)	(126)	17	14%	(46)	(63)	-139%
Piccadilly Line Upgrade	(173)	(182)	9	5%	(119)	(54)	-46%
Bakerloo Line Trains	0	0	0	0%	0	0	0%
Trams - project	(1)	(2)	1	35%	(0)	(1)	-135%
Other Enhancements	**(177)**	**(234)**	**58**	**25%**	**(162)**	**(14)**	**-9%**
Silvertown Tunnel	(4)	(8)	4	51%	(6)	2	32%
Northern Line Extension	0	(0)	0	1	0	0	(4)
Barking Riverside	(1)	4	(6)	130%	(3)	2	56%
Bank Station Capacity Upgrade	(4)	(7)	3	41%	(41)	38	91%
Elizabeth Line	(0)	(2)	2	83%	(2)	2	83%
Safe & Healthy Streets	(60)	(65)	5	8%	(33)	(27)	-82%
Environment	(56)	(75)	19	25%	(21)	(35)	-166%
Streets, Bus & RSS Renewals	(0)	0	(0)	0%	(3)	3	99%
LU Renewals PIC Programme	(3)	(9)	6	63%	(7)	4	54%
Estates Directorate	(1)	(1)	(0)	-59%	(0)	(1)	-591%
Rail & Station Enhancements (excl. Trams)	(20)	(21)	0	1%	(12)	(8)	-63%
Technology	(27)	(63)	35	56%	(36)	8	23%
Network Development & Third Party Pipeline	(1)	(1)	(0)	-11%	0	(1)	0%
Other (TPH, City Planning, OP, Group etc)	2	14	(12)	87%	3	(1)	37%
London Transport Museum	(0)	(1)	1	69%	(0)	(0)	-67%
Total TfL excl Places and Crossrail	**(512)**	**(598)**	**86**	**14%**	**(393)**	**(119)**	**-30%**
Places for London	(57)	(75)	18	24%	(33)	(24)	-71%
Crossrail	(32)	(59)	27	45%	(143)	111	78%
Total	**(601)**	**(731)**	**130**	**18%**	**(569)**	**(32)**	**-6%**

Cash flow statement

Cash balances are £1.13bn at the end of Period 7, just over £30m lower than Budget. This was driven by lower borrowing and temporary adverse working capital.

Cash balances

	Year to date, 2023/24			Year to date, 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	(106)	(72)	212%	(182)	76	-42%
Closing balance	**1,132**	**(34)**	**-3%**	**1,106**	**26**	**2%**

Cash flow statement

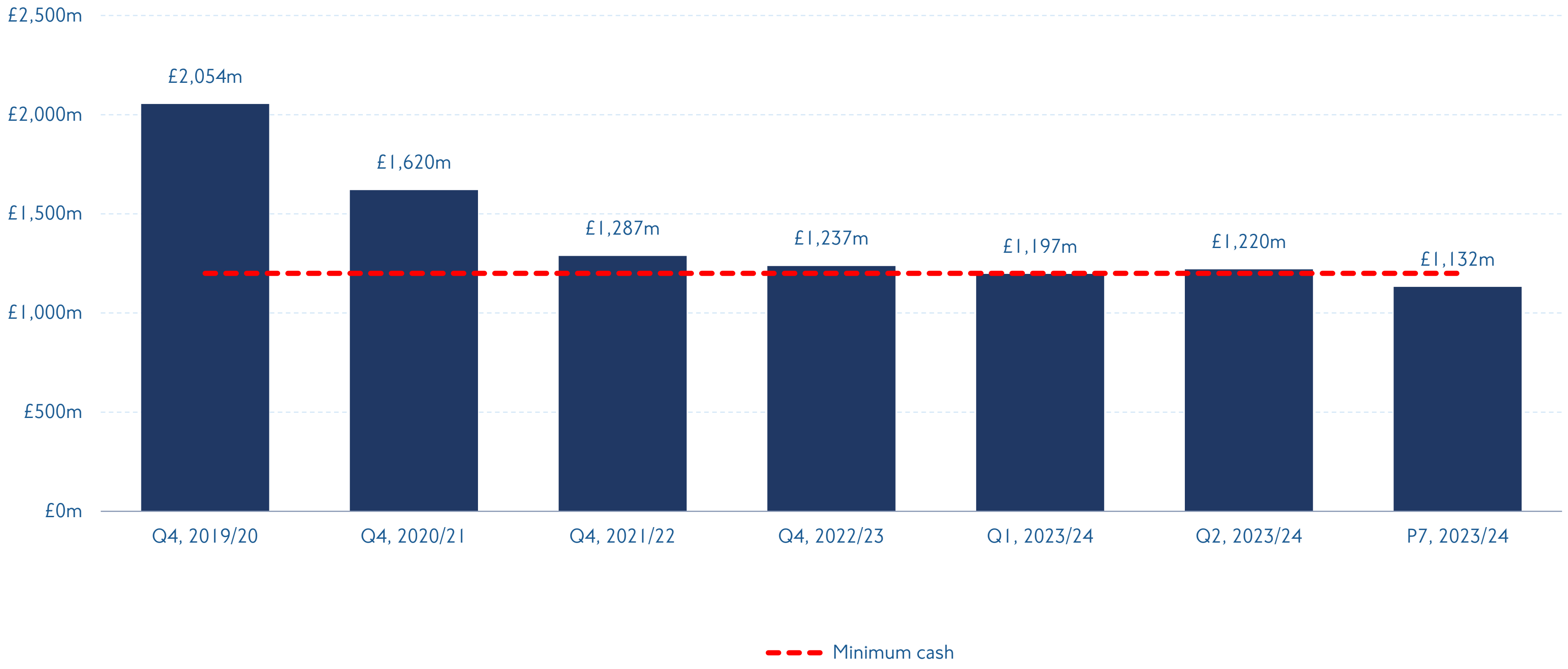
	Year to date, 2023/24			Year to date, 2022/23		
£m	Actuals	Variance to Budget		Actuals	Variance to last year	
Operating surplus before capital renewals and interest	726	42	6%	902	(176)	-19%
Less Places, LTIG and LTM	(28)	(17)	149%	(53)	25	-47%
Cash generated / (used) from operating activities	***698***	***26***	***4%***	***849***	***(150)***	***-18%***
Capital renewals	(360)	17	-4%	(287)	(73)	25%
New capital investment	(512)	86	-14%	(393)	(119)	30%
Investment grants and ring-fenced funding	503	25	5%	35	468	1324%
Working capital movements	(74)	(122)	-252%	45	(119)	-263%
Cash generated / (used) from investing activities	***(442)***	***6***	***-1%***	***(599)***	***157***	***-26%***
Free cash flow	**256**	**32**	**14%**	**250**	**6**	**3%**
Net interest costs	(224)	(1)	0%	(231)	6	-3%
Existing debt maturing	(129)	0	0%	(634)	505	-80%
New debt issued	0	(94)	-100%	554	(554)	-100%
Short-term net borrowing change	(9)	(9)	N/A	(121)	112	-93%
Cash generated / (used) from financing activities	***(362)***	***(104)***	***40%***	***(432)***	***69***	***-16%***
Change in cash balance	**(106)**	**(72)**	**212%**	**(182)**	**76**	**-42%**

Cash balances

Total cash balances (excl. cash balances identified for Crossrail construction) are just over £1.1bn at the end of Period 7, around £100m lower than at the end of last year. This is driven from timing of new borrowing and working capital.

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 £1,132m at the end of Period 7, 2023/24

Reserves

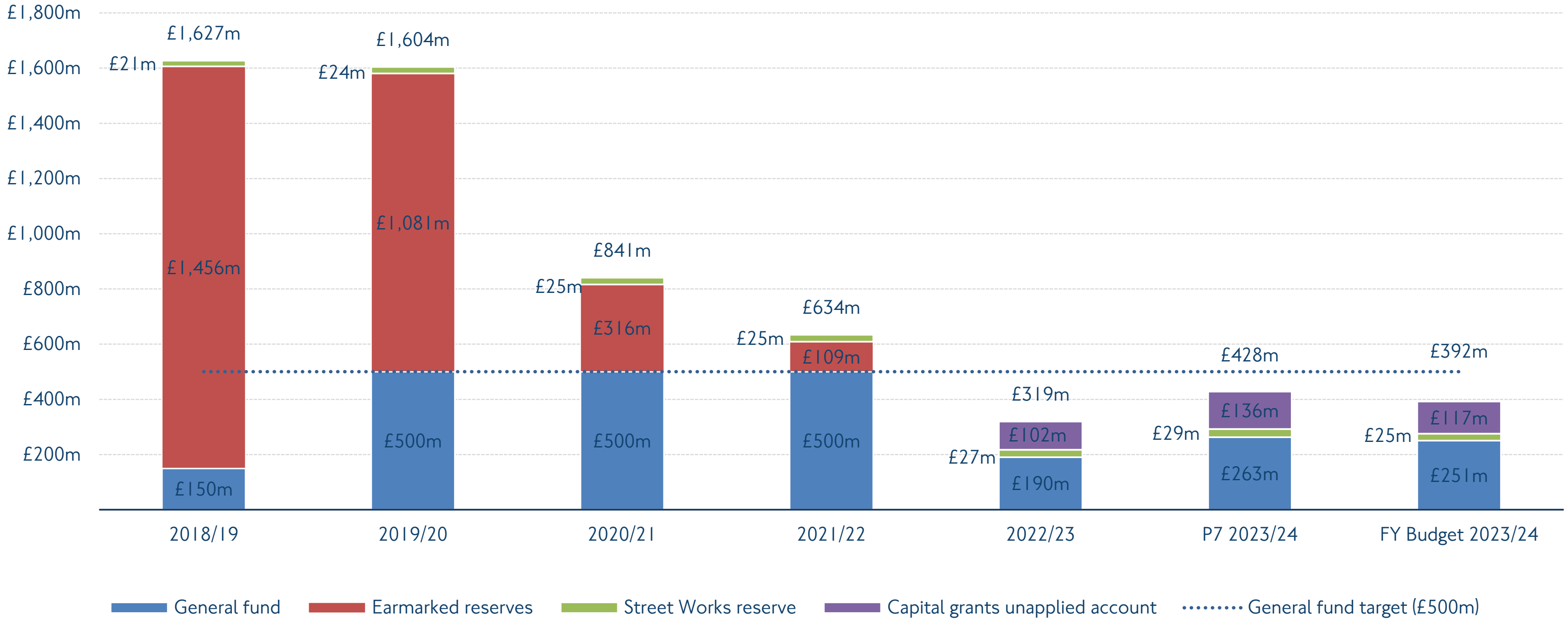
The pandemic has seen a material reduction in TfL's useable reserves, which consist of its General Fund and Earmarked Reserves.

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 (£m)



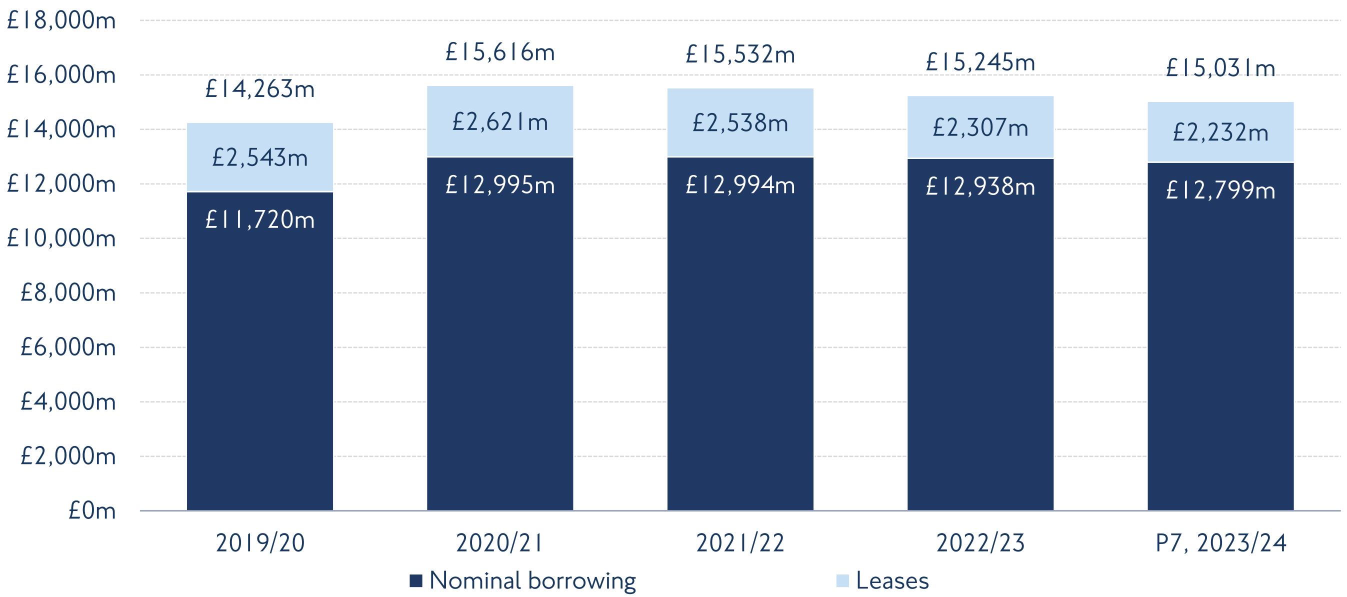
- Usable reserves of the Corporation are those that can be applied to fund future expenditure. They are made up of the General Fund, Earmarked Reserves, the Capital Grants Unapplied Account and the Street Works Reserve
- The General Fund represents sufficient cash-backed reserves held by the Group to 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 P7, usable reserves are tracking above the full year figure due to timing of the DfT capital grant receipts of £480m to P7 (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 £138m for the year up to Period 7, bringing our total borrowing balance to £12,799m. 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

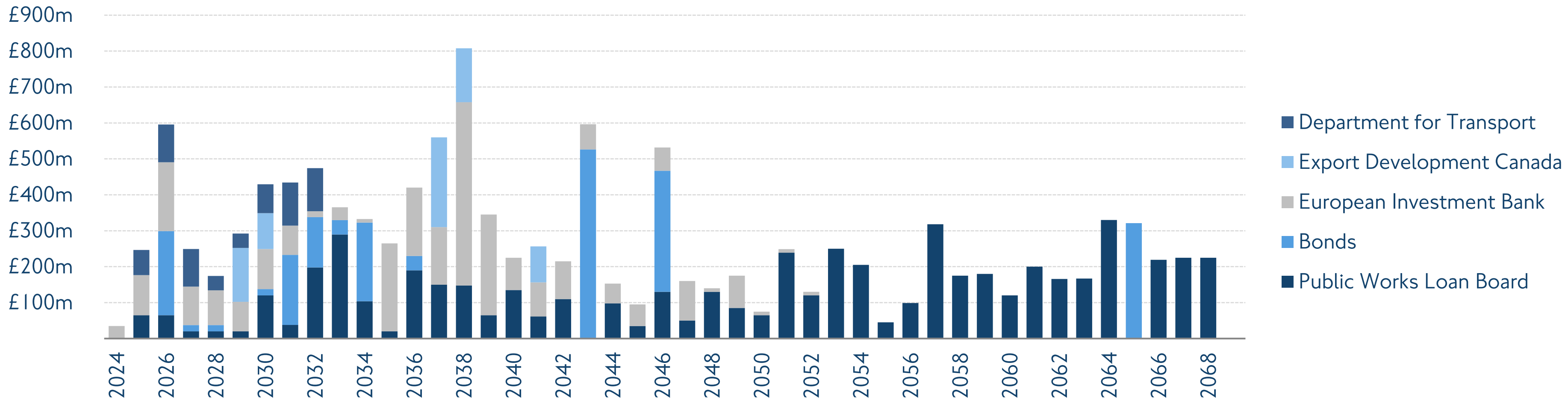
3.5%

The weighted average interest rate on our borrowing is 3.5%

19.3 years

The weighted average tenor of our borrowing is 19.3 years

TfL borrowing maturity profile



The borrowing maturity profile excludes £526m 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.

Moody's upgraded our LT rating to A3 and changed the outlook from stable to positive, in November.

There have been no other changes since our last Finance Update to the Finance Committee.

	Standard & Poor's	Moody's	Fitch
Long-term rating	A+	A3	AA-
Outlook	Positive	Positive	Negative
Short-term rating	A-1	P-2	F1+
Last changed/affirmed	May 2023	November 2023	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

- On 15 November 2023, Moody's upgraded our long-term credit rating from Baa1 to A3 and changed the outlook from stable to positive. This reflects the recovery to date and the work into achieving ongoing financial sustainability. The positive outlook reflects Moody's expectation that we will continue to build our financial surplus. A sustained improvement in operating performance and a multi-year funding agreement with government with minimal conditions could lead to a further upgrade.

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.