Appendix 1

Finance Report

Quarter 3, 2023/24

Management results from 1 April 2023 – 9 December 2023

Board

7 February 2024

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 financially sustainable this year. We have successfully delivered that strategy so far this year:

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

- Cumulative journey growth of almost 7% 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 8%
- Operating costs 1% lower than Budget, mainly from contingency – held to mitigate risks on operating income which we have now retired

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

- Our headline surplus is £131m, £30m up on Budget in the year to date
- Some small risks remain – on operating income and savings delivery – but we expect to manage these. We have retired the majority of our central contingency
- 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

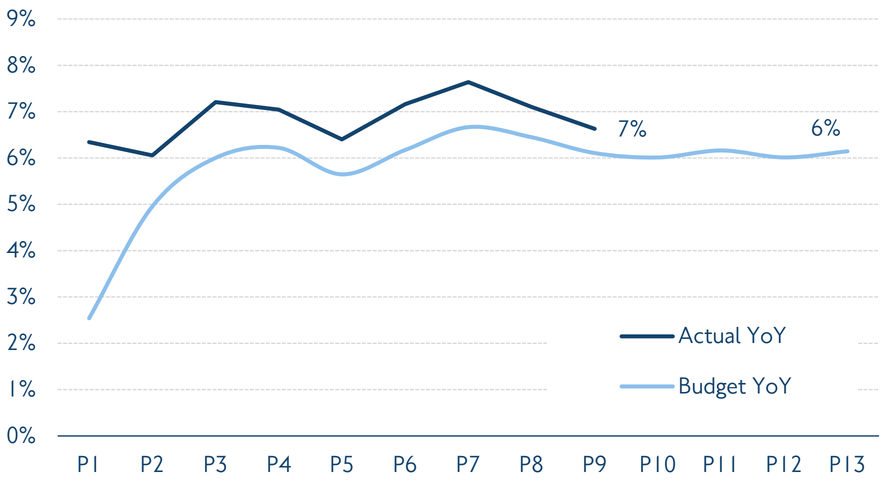
- With no inflation support provided by Government, capital enhancements expenditure has had to slip – we expect to end the year around £80m lower than Budget
- Capital renewals expected to be around £750m, with some acceleration of works in this year.
- In December 2023, the DfT confirmed a capital settlement of £250m for 2024/25. The 2024 Business Plan was revised to mitigate the £250m shortfall to our original assumption.

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.

Headlines

Total passenger journeys up almost 7% year-on-year to Quarter 3, 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

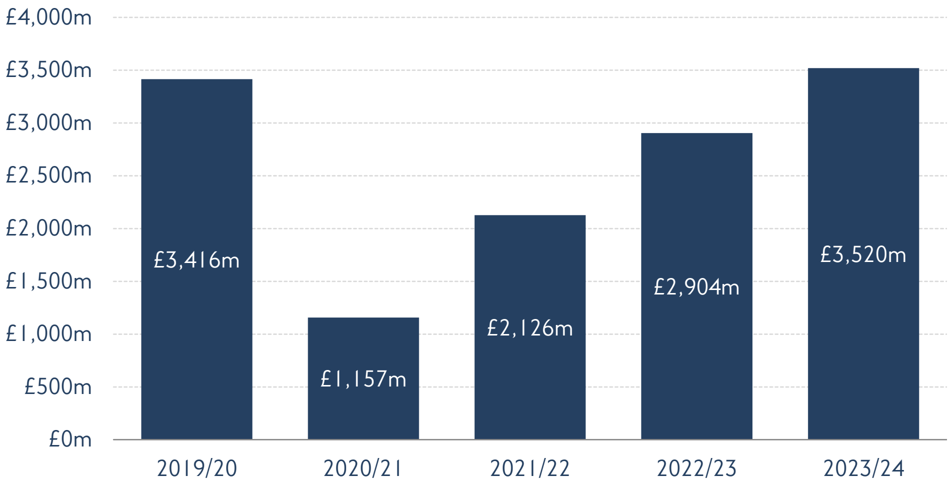
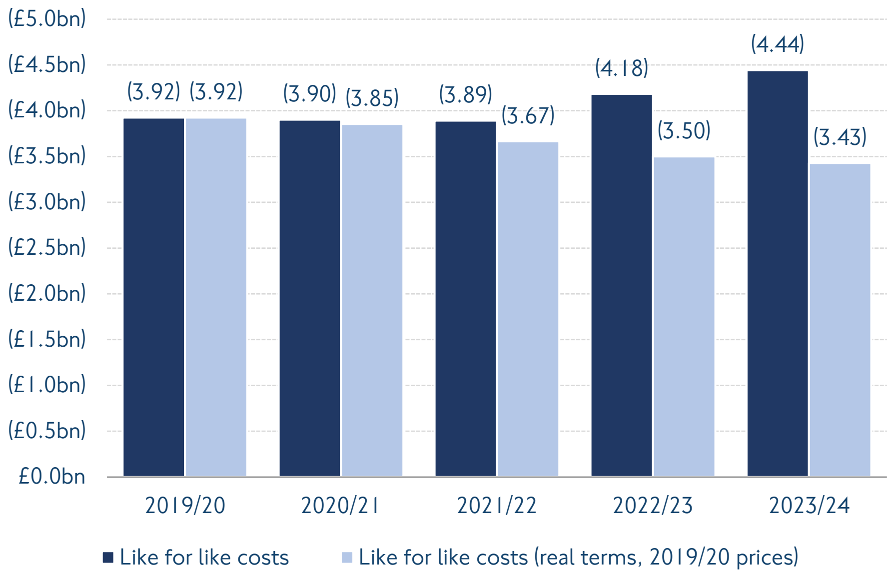
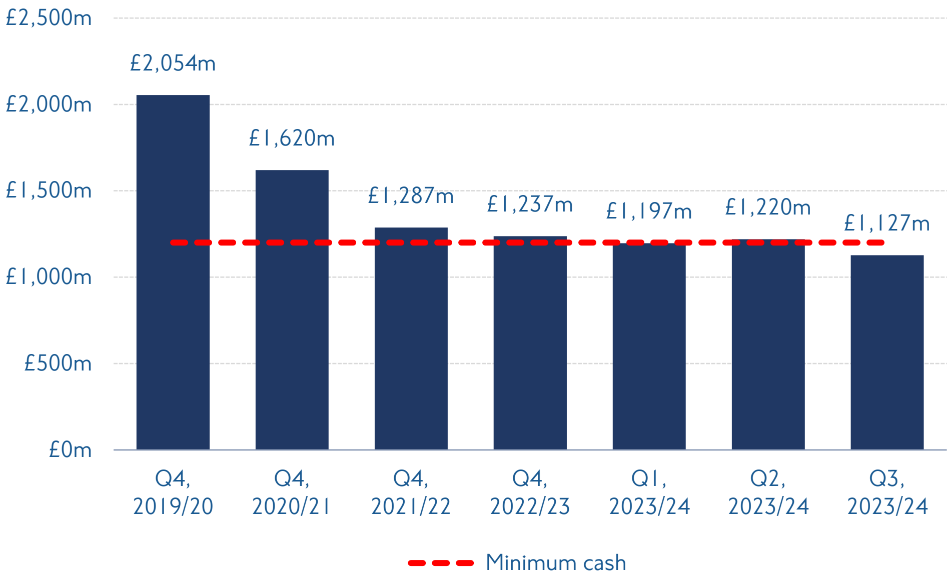


Chart shows results to end of Quarter 3 for each year

Like-for-like operating costs 6.2% higher than last year, but down in real terms as inflation at 8.4%



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 7%.

TfL passenger journeys are 12 million better than Budget. LU and Rail journeys continue to perform strongly in the year to date, offsetting slower growth on buses, where we have seen lower demand from passengers with concessionary tickets.

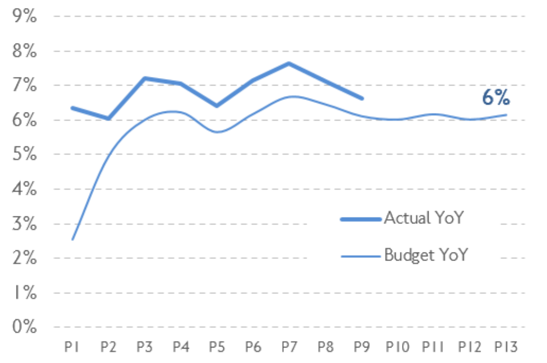
Very strong period for LU with daily journeys surpassing 4 million on 8 separate days. On Thursday 7 December, journeys were 4.4 million. The pre-covid peak was 7 December 2018 at 5.0 million journeys.

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

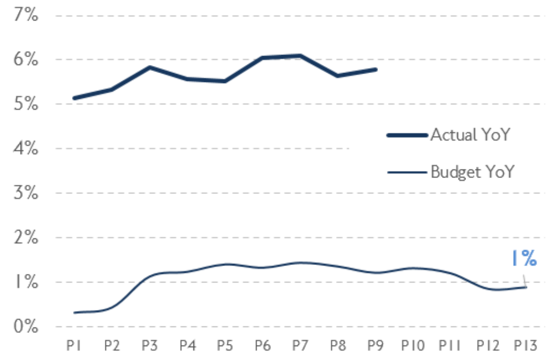
TfL	% Growth period / budget			Absolute m	Var to Bud m
	3.3%	3.7%	P	295	(1.1)
			Y	2,485	12.2

Cumulative YoY Growth



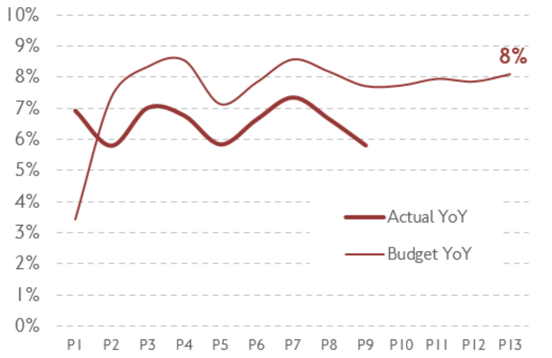
LU	% Growth period / budget			Absolute m	Var to Bud m
	7%	0%	P	102	6.4
			Y	825	35.8

Cumulative YoY Growth



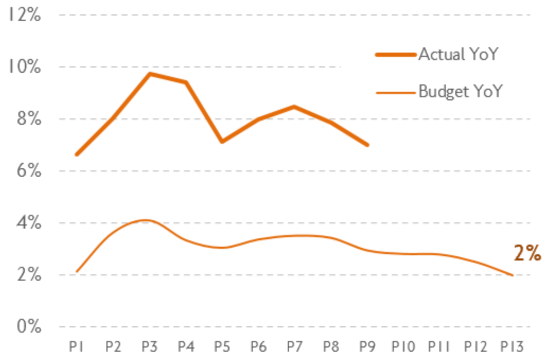
Bus	% Growth period / budget			Absolute m	Var to Bud m
	0%	4%	P	151	(6.9)
			Y	1,302	(23.5)

Cumulative YoY Growth



Rail	% Growth period / budget			Absolute m	Var to Bud m
	1%	0%	P	24	0.3
			Y	212	8.0

Cumulative YoY Growth



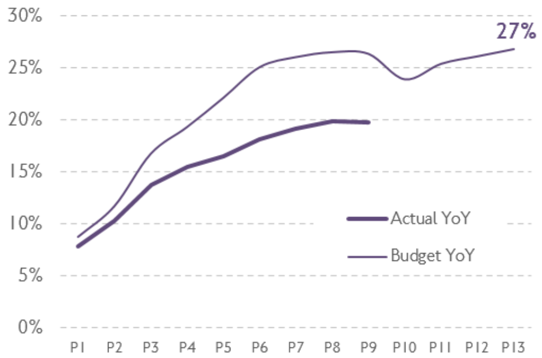
LO	% Growth period / budget			Absolute m	Var to Bud m
	4%	1%	P	15	0.4
			Y	128	4.5

DLR	% Growth period / budget			Absolute m	Var to Bud m
	-5%	-5%	P	8	0.1
			Y	70	5.5

Tram	% Growth period / budget			Absolute m	Var to Bud m
	0%	10%	P	2	(0.2)
			Y	14	(1.9)

EL	% Growth period / budget			Absolute m	Var to Bud m
	19%	25%	P	18	(1.0)
			Y	146	(8.0)

Cumulative YoY Growth



EL journeys are estimates and are subject to revision

Income statement

Total revenue is in line with Budget. Passenger income is £64m higher, which is offset by lower revenue top up from Government.

Operating costs are £27m lower than Budget. We are seeing some timing differences on savings delivery and higher ULEZ scrappage payments with the scheme expanded from £110m to £160m, which was confirmed after the Budget was approved – these costs are offset in other revenue grants) and some cost pressures from bus operators, through improved performance. These cost pressures have been offset by staff cost savings, one offs, and central contingency – held to mitigate uncertainty on other operating income – which has now been retired.

Capital renewals are £6m lower than Budget; we expect delivery to be higher than Budget this 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	3,520	3,456	64	2%	2,904	616	21%
DfT revenue top up	46	150	(104)	-70%	51	(6)	-11%
Passenger income	**3,565**	**3,606**	**(40)**	-1%	**2,955**	**610**	21%
Other operating income	1,050	1,076	(27)	-2%	1,064	(14)	-1%
Business Rates Retention	1,325	1,325	0	0%	1,290	35	3%
Other revenue grants	274	212	62	29%	671	(397)	-59%
Revenue	**6,214**	**6,219**	**(5)**	0%	**5,980**	**234**	4%
Operating costs	(5,298)	(5,325)	27	1%	(4,825)	(473)	-10%
Operating surplus before interest and renewals	**916**	**894**	**22**	2%	**1,155**	**(240)**	-21%
Capital renewals	(498)	(505)	6	1%	(380)	(118)	-31%
Net interest costs	(286)	(287)	1	0%	(295)	9	3%
Operating surplus / (deficit)	**131**	**102**	**30**	102%	**480**	**(349)**	-654%

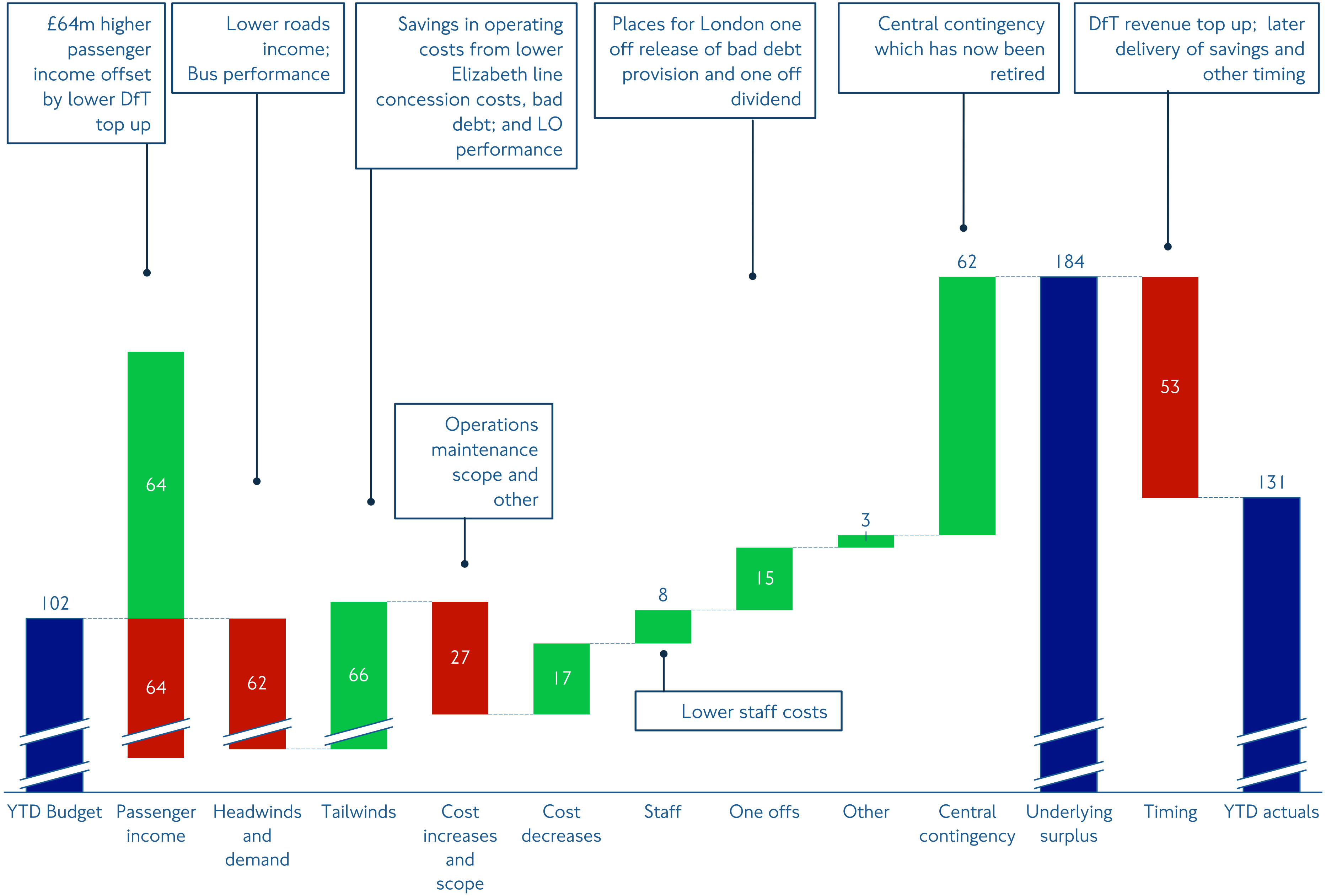
Income statement includes Places for London

Income statement

The underlying surplus – after adjusting for timing differences on savings and capital renewals - is £184m, £82m better than Budget and broadly in line with the outturn presented in our 2024 Business Plan.

Most of our central contingency – previously held for financial risks on other operating income – has now been retired, with risks and opportunities broadly balanced for the remainder of the year.

Income statement variances by cause (£m)



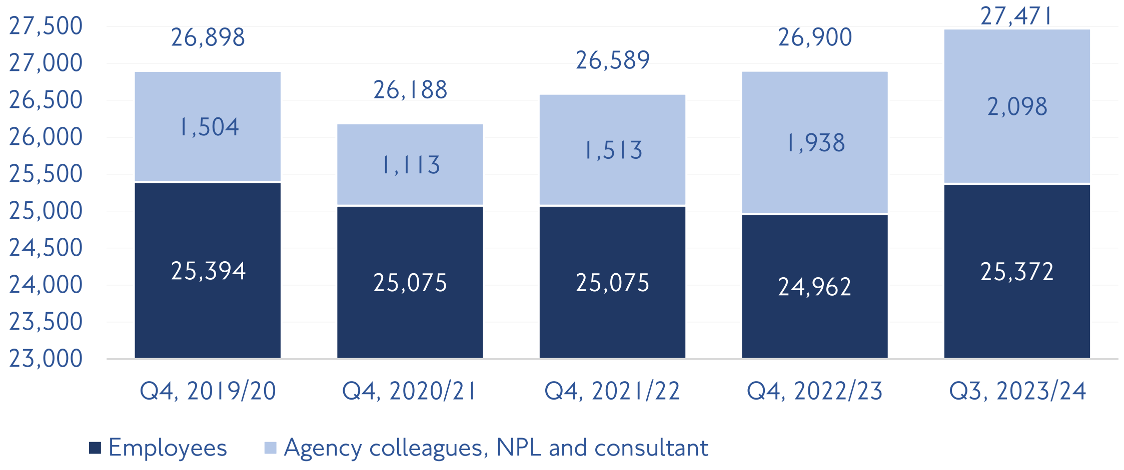
Colleagues

Total colleague numbers are now over 500 above pre-pandemic levels. This reflects the ramp up of 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 in line with pre-pandemic levels, and up on last year, driven by recruitment of graduates and apprenticeship trainees.

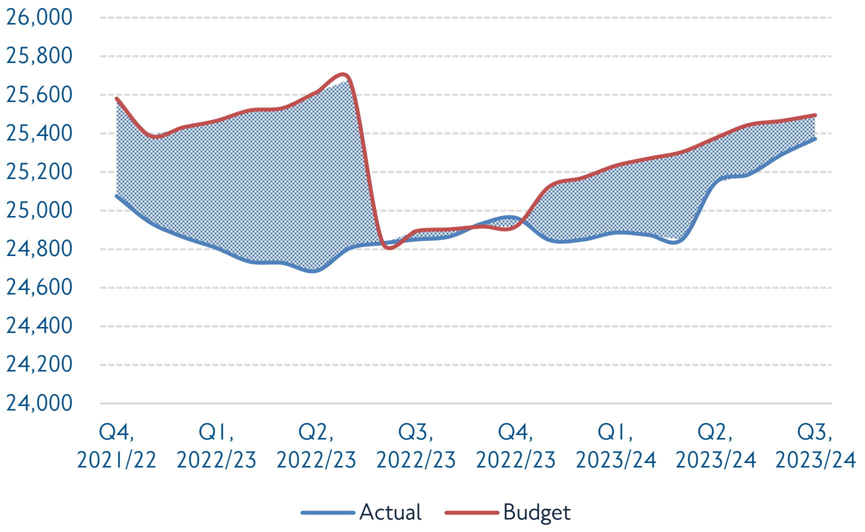
Agency and NPL colleagues have increased by almost 600 since the end of 2019/20, but remain significantly lower than 2015/16 levels. NPL offers flexibility, particularly through time of change and temporary peaks in demand.

Headcount trends since 2019/20



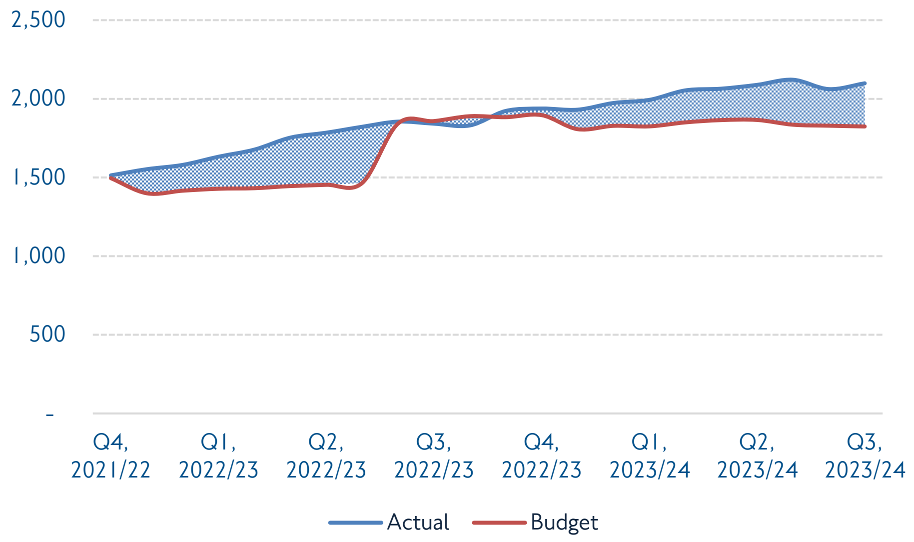
Permanent colleagues (FTE): actuals and Budget

Permanent employees up by over 400 since the end of 2022/23, mostly driven by the recruitment of graduate and apprenticeship trainees. Staff levels are below Budget in Q3, however this gap is narrowing.



Agency and NPL colleagues (FTE): actuals and Budget

Agency and NPL FTE up by 160 since the end of 2022/23, and are slightly higher than Budget in Q3. This is driven by labour market challenges.



Capital renewals

Capital renewals are £6m lower than Budget in the year to date, but significantly higher than last year. We have seen some underspend in the early periods, largely driven by historical accrual releases in Streets, Bus & RSS Renewals programme and slippage in Technology, including Enterprise Resource Planning and Payments projects.

Renewals delivery has been strong during 2023/24 and our current trajectory is to deliver £750m of spend as set out in our 2024 Business Plan.

	Year to date, 2023/24				Year to date, 2022/23		
£m	Actuals	Budget	Variance to Budget		Last year	Variance to last year	
Major Projects	**(4)**	**(3)**	**(1)**	**-27%**	**(3)**	**(1)**	**-49%**
Four Lines Modernisation	(4)	(3)	(1)	-20%	(3)	(1)	(0)
Silvertown Tunnel	(0)	0	(0)	0%	0	(0)	0%
Programmes	**(495)**	**(501)**	**7**	**1%**	**(377)**	**(117)**	**-31%**
Safe & Healthy Streets	(0)	(1)	1	100%	0	(0)	101%
Streets, Bus & RSS Renewals	(113)	(122)	9	7%	(97)	(17)	-17%
Environment	(12)	(15)	3	19%	(8)	(4)	-54%
Rail & Station Enhancements	(3)	(7)	3	47%	(5)	2	36%
LU Renewals	(271)	(246)	(25)	-10%	(197)	(74)	-38%
Technology	(86)	(102)	16	16%	(65)	(21)	-32%
Estates Directorate	(5)	(6)	1	14%	(1)	(4)	-795%
Elizabeth Line	0	0	0	0%	(1)	1	100%
Other (TPH, City Planning, Group etc)	(3)	(3)	(0)	-11%	(5)	1	30%
Total	**(498)**	**(504)**	**6**	**1%**	**(380)**	**(118)**	**-31%**

Capital enhancements

Enhancements spend is £69m lower than Budget, driven by:

- DLR RS: £28m underspend driven by Buckingham Group performance and subsequent administration delaying Maintenance Facility Building works.
- Environment: £21m underspend largely in LW-ULEZ programme driven by optimisation of cameras delivery, and recognising rapid and mobile camera response costs in Investment Programme operating costs.
- Technology: £41m 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 expecting to end the year around £80m lower than Budget, following 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	**(510)**	**(518)**	**8**	1%	**(306)**	**(204)**	-67%
Four Lines Modernisation	(70)	(69)	(0)	-1%	(82)	13	16%
DLR Rolling Stock Replacement	(146)	(173)	28	16%	(66)	(79)	-119%
Piccadilly Line Upgrade	(293)	(273)	(20)	-7%	(157)	(137)	-87%
Bakerloo Line Trains	0	0	0	0%	0	0	0%
Trams - project	(1)	(2)	1	32%	(1)	(1)	-147%
Other Enhancements	**(226)**	**(287)**	**61**	21%	**(202)**	**(24)**	-12%
Silvertown Tunnel	(6)	(11)	5	47%	(11)	5	46%
Northern Line Extension	0	(0)	0	1	(0)	0	2
Barking Riverside	(1)	4	(5)	119%	(3)	2	75%
Bank Station Capacity Upgrade	(6)	(7)	2	23%	(50)	44	89%
Elizabeth Line	(0)	(2)	2	84%	2	(2)	120%
Safe & Healthy Streets	(78)	(82)	4	4%	(42)	(36)	-86%
Environment	(66)	(87)	21	24%	(33)	(34)	-102%
Streets, Bus & RSS Renewals	0	0	0	0%	(3)	3	104%
LU Renewals	(4)	(12)	8	70%	(8)	5	58%
Estates Directorate	(2)	(2)	0	20%	(1)	(1)	-208%
Rail & Station Enhancements (excl. Trams)	(29)	(30)	1	2%	(15)	(14)	-91%
Technology	(36)	(76)	41	53%	(43)	7	16%
Network Development & Third Party Pipeline	(1)	(1)	(0)	-26%	0	(1)	0%
Other (TPH, City Planning, OP, Group etc)	2	20	(18)	88%	5	(2)	48%
London Transport Museum	(1)	(1)	1	47%	(0)	(0)	-124%
Total TfL excl Places and Crossrail	**(736)**	**(805)**	**69**	9%	**(508)**	**(228)**	-45%
Places for London	(68)	(97)	29	30%	(39)	(29)	-74%
Crossrail	(36)	(70)	33	48%	(172)	136	79%
Total	**(840)**	**(971)**	**131**	13%	**(719)**	**(121)**	-17%

Cash flow statement

Cash balances are £1.13bn at the end of Quarter 3, almost £80m lower than Budget. This was driven by lower short-term 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	(110)	(115)	-2468%	(252)	141	-56%
Closing balance	**1,127**	**(77)**	**-6%**	**1,036**	**92**	**9%**

Cash flow statement

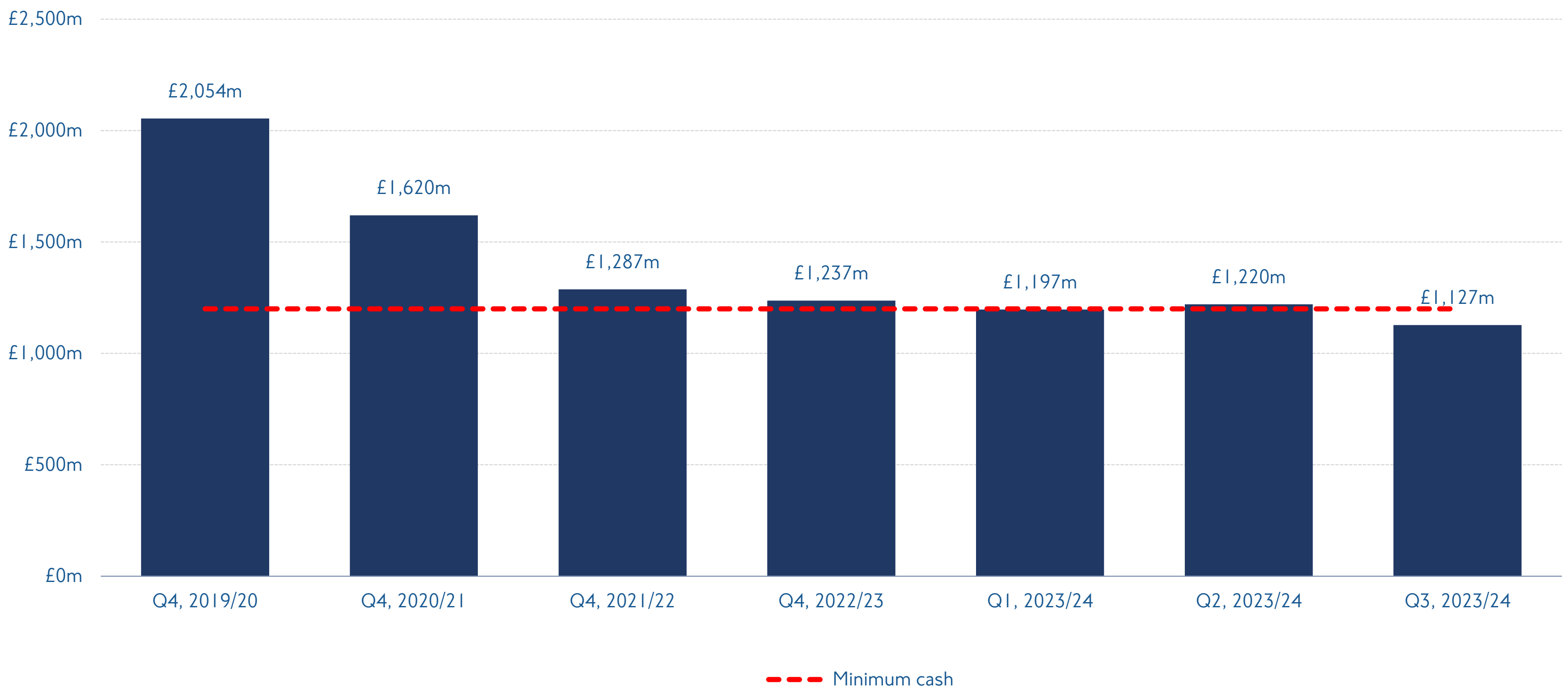
	Year to date, 2023/24			Year to date, 2022/23		
£m	Actuals	Variance to Budget		Actuals	Variance to last year	
Operating surplus before capital renewals and interest	916	22	2%	1,155	(240)	-21%
Less Places, LTIG and LTM	(30)	(15)	103%	(20)	(11)	53%
Cash generated / (used) from operating activities	***885***	***7***	*1%*	***1,135***	***(250)***	*-22%*
Capital renewals	(498)	6	-1%	(380)	(118)	31%
New capital investment	(736)	69	-9%	(508)	(228)	45%
Investment grants and ring-fenced funding	601	54	10%	49	552	1123%
Working capital movements	71	(140)	-66%	113	(42)	-37%
Cash generated / (used) from investing activities	***(562)***	***(10)***	*2%*	***(726)***	***164***	*-23%*
Free cash flow	**323**	**(4)**	-1%	**410**	**(87)**	-21%
Net interest costs	(286)	1	0%	(295)	9	-3%
Existing debt maturing	(129)	0	0%	(634)	505	-80%
New debt issued	100	6	6%	554	(454)	-82%
Short-term net borrowing change	(118)	(118)	N/A	(286)	168	-59%
Cash generated / (used) from financing activities	***(433)***	***(111)***	*34%*	***(661)***	***228***	*-34%*
Change in cash balance	(110)	(115)	-2468%	(252)	141	-56%

Cash balances

Total cash balances (excl. cash balances identified for Crossrail construction) are just over £1.1bn at the end of Quarter 3, just over £100m lower than at the end of last year.

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 are now £1,127m at the end of Quarter 3, 2023/24

Reserves

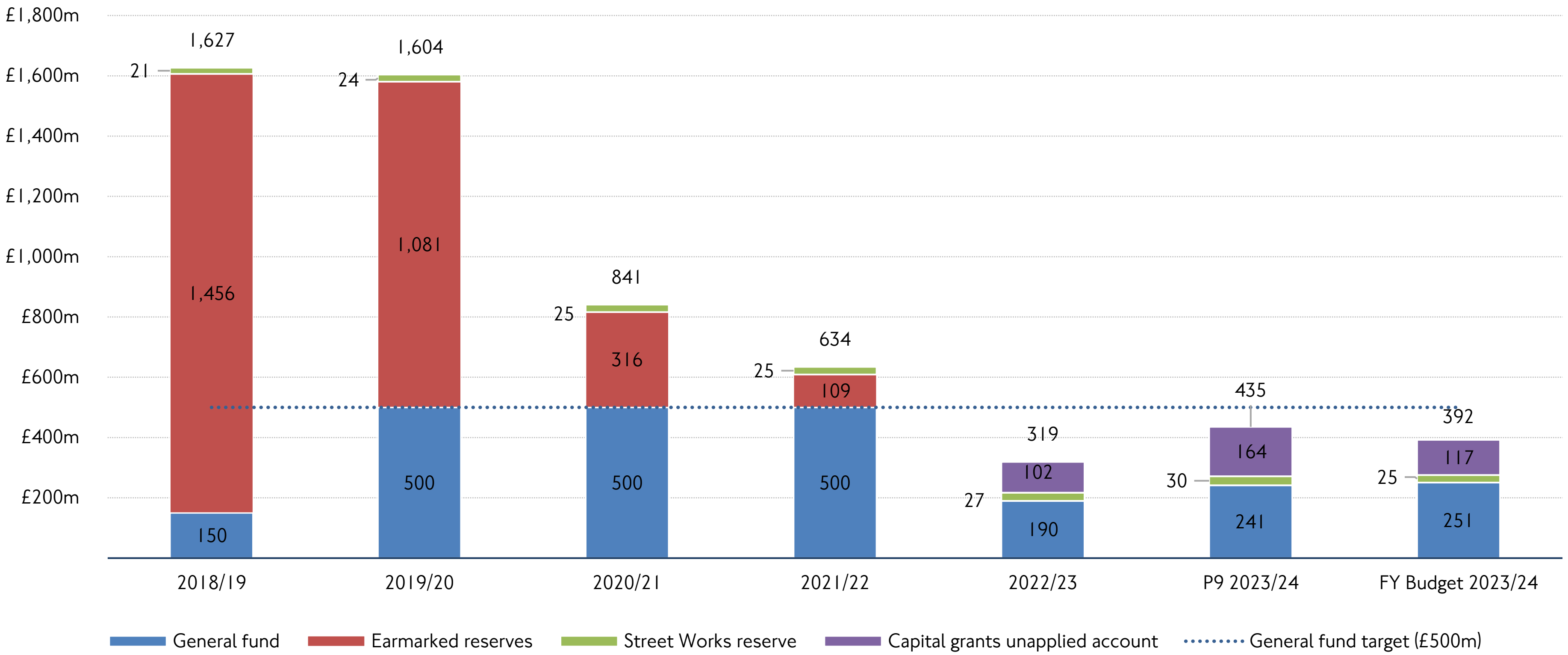
The pandemic has seen a material reduction in TfL's useable reserves, which consist of its General Fund and Earmarked Reserves.

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.

The 2024 Business Plan sets out our plan to grow useable reserves back to target levels by the end of 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 P9, usable reserves are tracking above the full year figure due to timing of the DfT capital grant receipts of £565m to P9 (of FY Budget £696m), which are recognised in usable reserves when received rather than straight lined.

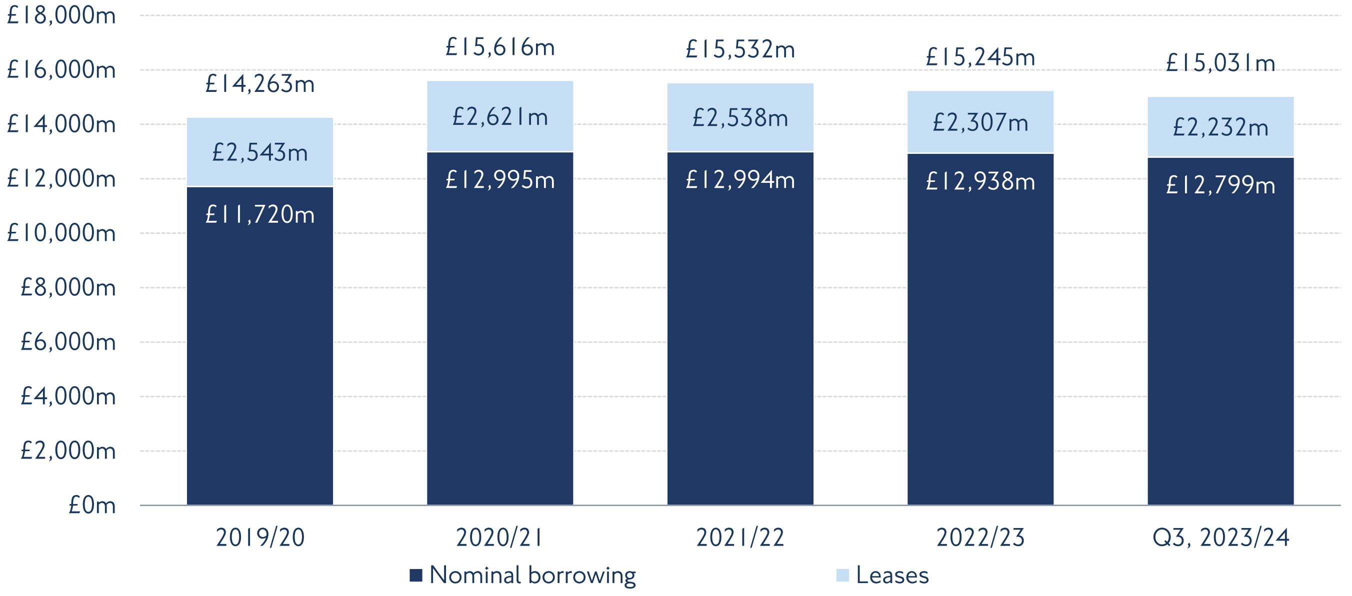
Debt

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 Quarter 3, 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.

Under the new capital funding agreement with Government in December 2023, we will receive £245m of funding before the end of the 2023/24 financial year. As a result of this, we expect to defer some borrowing planned for this year into 2024/25 as set out in our 2024 Business Plan.

Total debt (£m)



93%

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

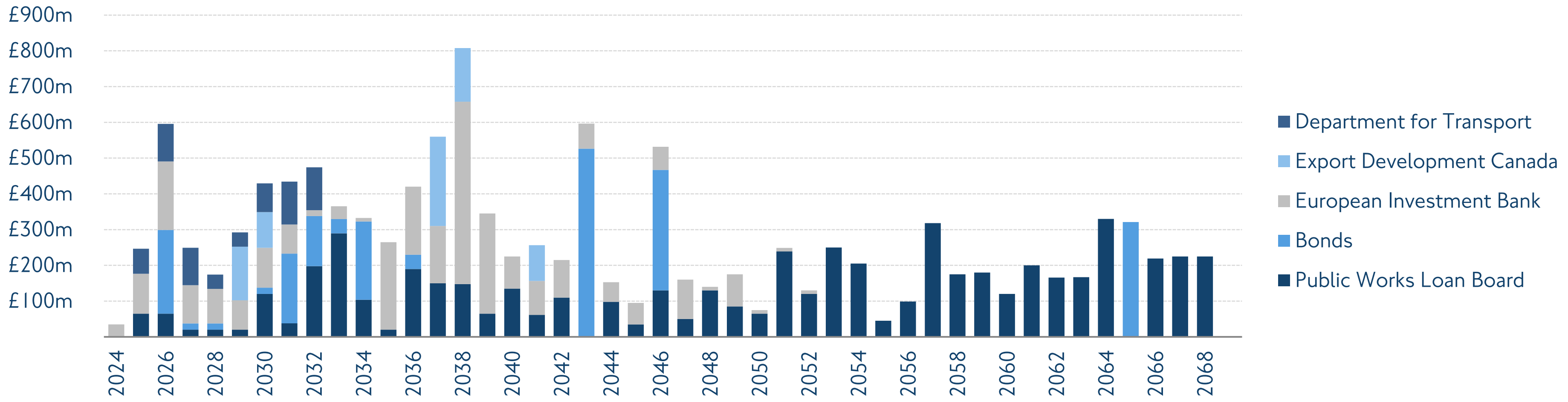
3.5%

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 £417m 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 and Fitch has reaffirmed our rating in January 2024.

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 2024

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. S&P issued the bulletin "Transport for London Fare Freeze: Yet Another Twist" on 22 January 2024. S&P confirmed the fares freeze is fully funded and their expectation that TfL will continue to improve its operating account. However, S&P are concerned over the continued lack of predictability, and the residual uncertainty over LT capital funding.

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. Fitch has reaffirmed our credit rating in January 2024.