Finance Report

Period 10, 2023/24

Management results from 1 April 2023 – 6 January 2024

Board

6 March 2024

We are on track to deliver an operating surplus in 2023/24

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
- Total revenue is within 0.2% of our budget

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

- Operating costs 1% lower than Budget, mainly from contingency – held to mitigate risks on operating income which we have now retired
- Like-for-like operating costs falling in real terms: 6% higher than last year despite year-on-year inflation of 9%

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

- Our operating surplus is £162m, £47m 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

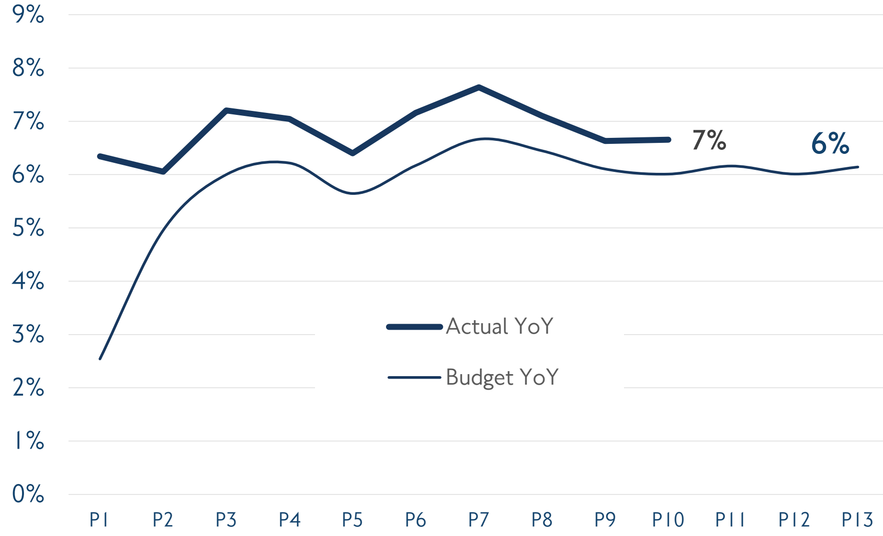
- Capital renewals within 1% of budget – the full year outturn is expected to be around £750m, with some acceleration of works in this year.
- With no inflation support provided by Government, capital enhancements expenditure has had to slip – we expect to end the year between £80m-£90m lower than Budget
- 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 required in the August 2022 funding settlement
- We are forecasting to end the year at around £1.3bn of cash, as allowed in the August 2022 funding settlement
- The GLA financing facility of £500m has been maintained (until 31 March 2024) for additional protection against shocks and risks.

Headlines

Total passenger journeys up almost 7% year-on-year to Period 10, 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

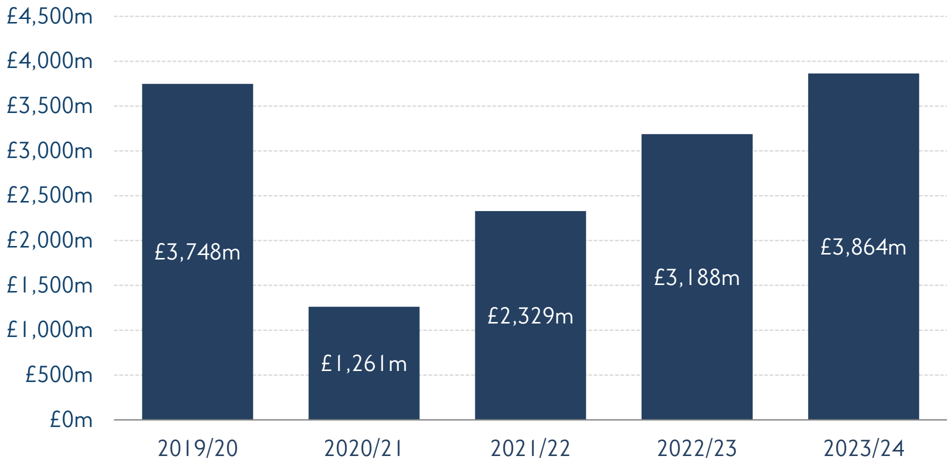
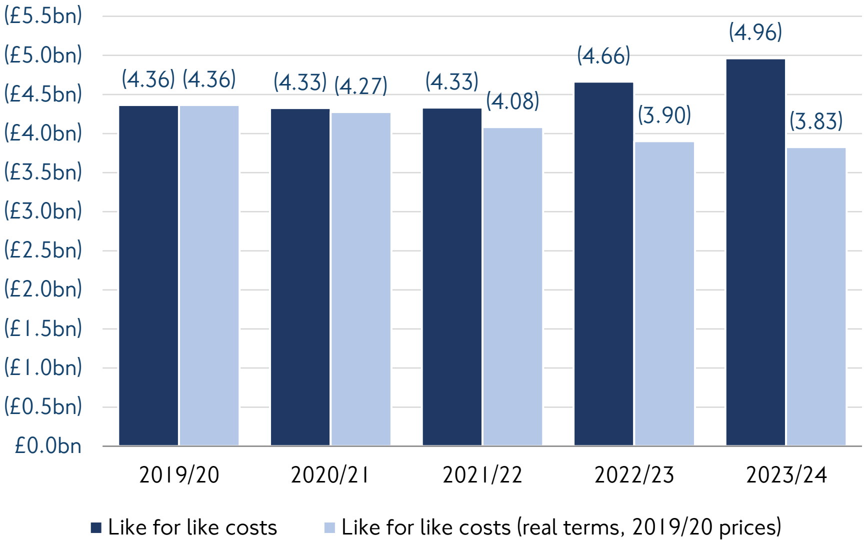
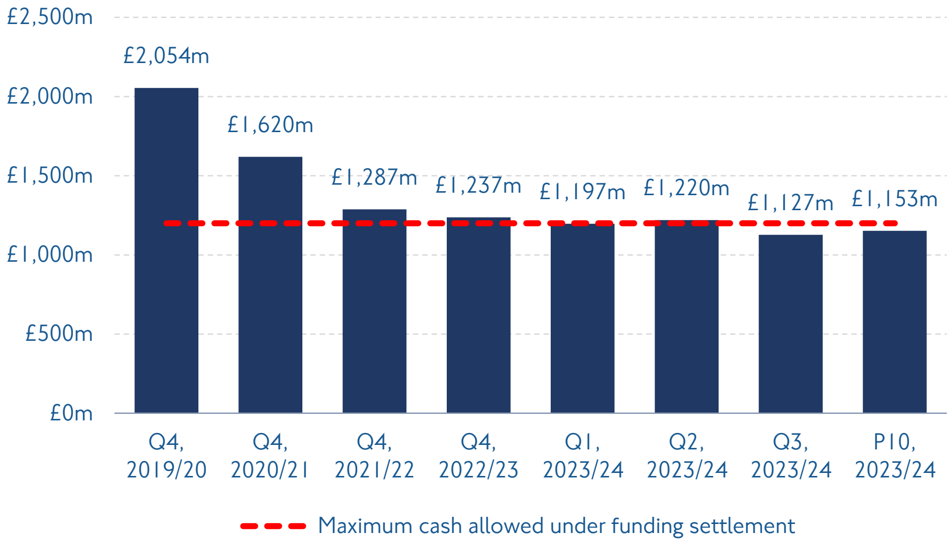


Chart shows results to end of Period 10 for each year

Like-for-like operating costs 6.4% higher than last year, but down in real terms as inflation at 8.5%



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



Passenger journeys

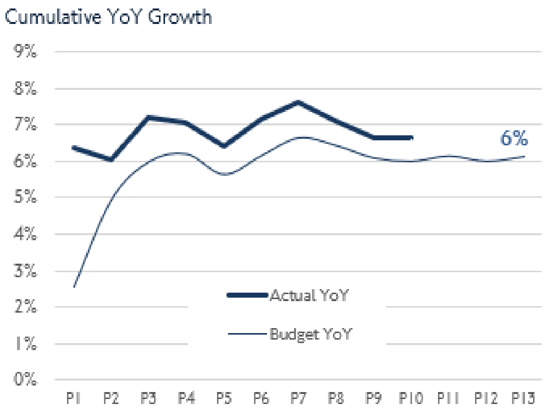
In 2023/24 we have budgeted 6% underlying year on year growth in demand. Journeys to date are positive, with cumulative growth of over 6%.

TfL passenger journeys are over 16 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.

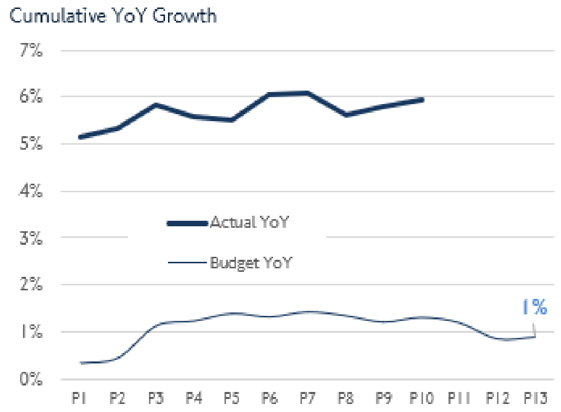
LU and DLR journeys are higher than expected as the assumed impact of Elizabeth line new services on these modes is less than expected.

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

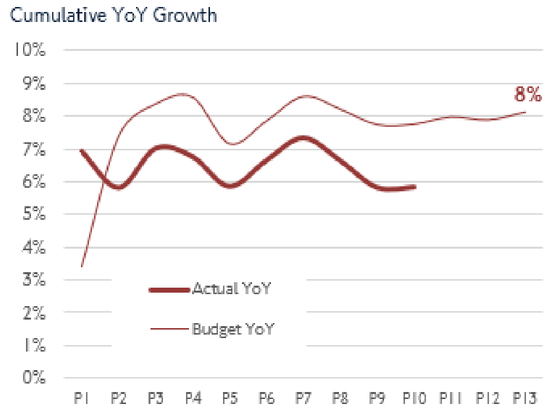
TfL	% Growth period / budget			Absolute m	Var to Bud m
	6.9%	5.0%	P	237	4.2
			Y	2,722	16.4



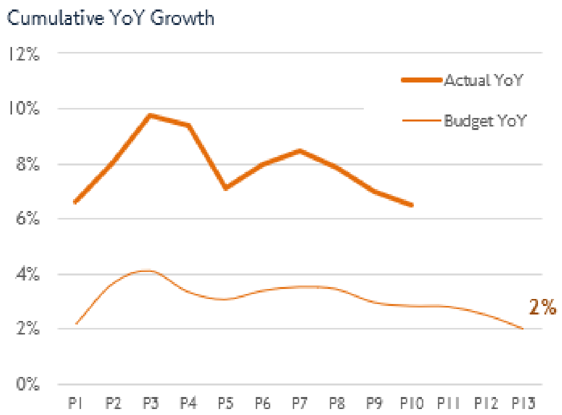
LU	% Growth period / budget			Absolute m	Var to Bud m
	7%	2%	P	80	3.7
			Y	905	39.5



Bus	% Growth period / budget			Absolute m	Var to Bud m
	6%	8%	P	124	(2.3)
			Y	1,426	(25.9)



Rail	% Growth period / budget			Absolute m	Var to Bud m
	1%	1%	P	19	(0.0)
			Y	231	8.0

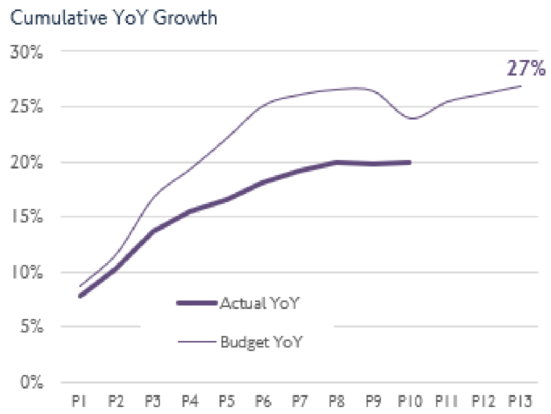


LO	% Growth period / budget			Absolute m	Var to Bud m
	5%	4%	P	12	0.2
			Y	139	4.7

DLR	% Growth period / budget			Absolute m	Var to Bud m
	-6%	-6%	P	6	0.0
			Y	76	5.5

Tram	% Growth period / budget			Absolute m	Var to Bud m
	2%	17%	P	1	(0.2)
			Y	16	(2.1)

EL	% Growth period / budget			Absolute m	Var to Bud m
	23%	-2%	P	14	2.8
			Y	160	(5.2)



EL journeys are estimates and are subject to revision

Income statement

Total revenue is broadly in line with Budget. Passenger income is £73m higher, which is offset by lower revenue top up from Government.

Operating costs are £52m 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. These cost pressures have been offset by performance savings, one offs, and central contingency – held to mitigate uncertainty on other operating income – which has now been retired.

Capital renewals are £9m 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	3,864	3,791	73	2%	3,188	676	21%
DfT revenue top up	119	223	(104)	-46%	157	(38)	-24%
Passenger income	**3,984**	**4,014**	**(30)**	-1%	**3,345**	**639**	19%
Other operating income	1,178	1,227	(49)	-4%	1,199	(21)	-2%
Business Rates Retention	1,472	1,472	0	0%	1,442	30	2%
Other revenue grants	299	235	63	27%	741	(443)	-60%
Revenue	**6,932**	**6,948**	**(16)**	0%	**6,727**	**205**	3%
Operating costs	(5,901)	(5,953)	52	1%	(5,371)	(530)	-10%
Operating surplus before interest and renewals	**1,031**	**995**	**37**	4%	**1,356**	**(325)**	-24%
Capital renewals	(552)	(560)	8	1%	(418)	(134)	-32%
Net interest costs	(317)	(319)	2	1%	(326)	9	3%
Operating surplus / (deficit)	**162**	**115**	**47**	102%	**612**	**(450)**	-1000%

Income statement includes Places for London

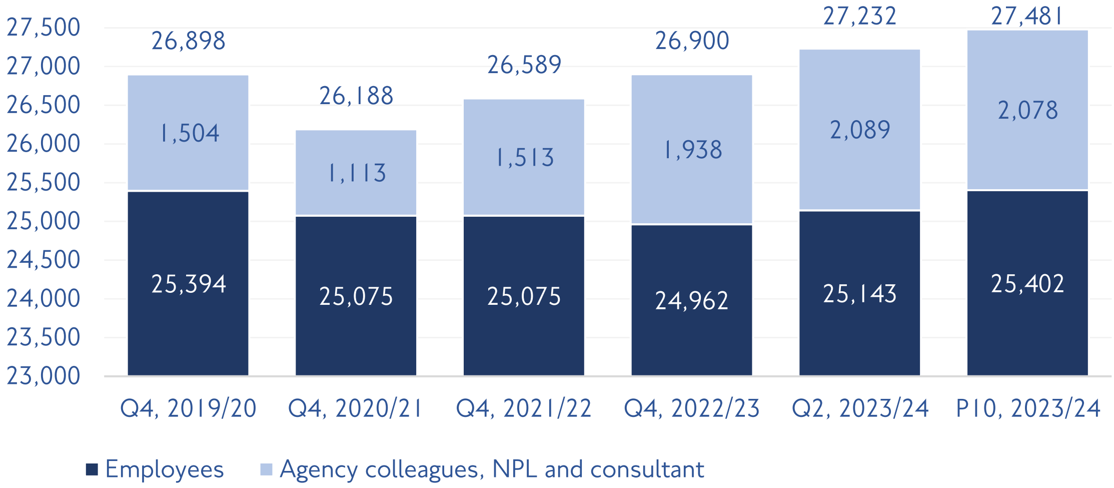
Colleagues

The increase in headcount 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.

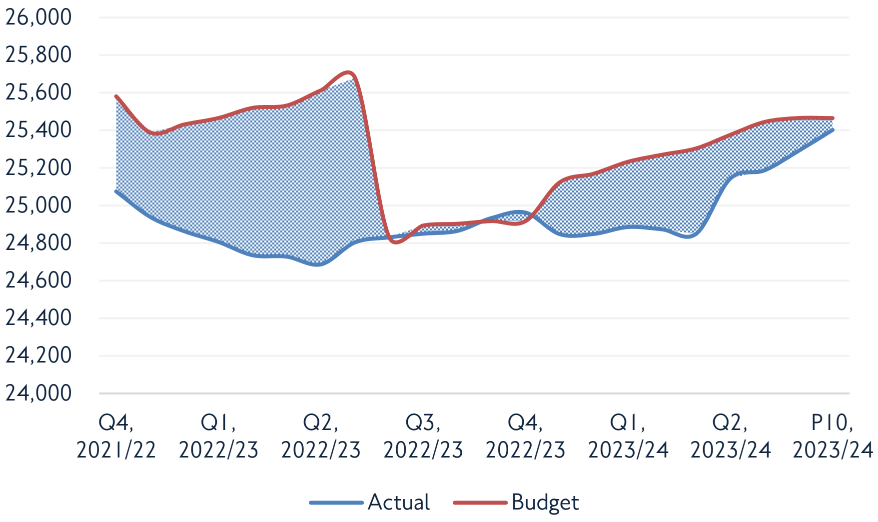
Agency and NPL colleagues have increased by almost 600 since the end of 2019/20, but remain significantly lower than 2015/16 levels. NPL offers flexibility, particularly through time of change and temporary peaks in demand.

Headcount trends since 2019/20



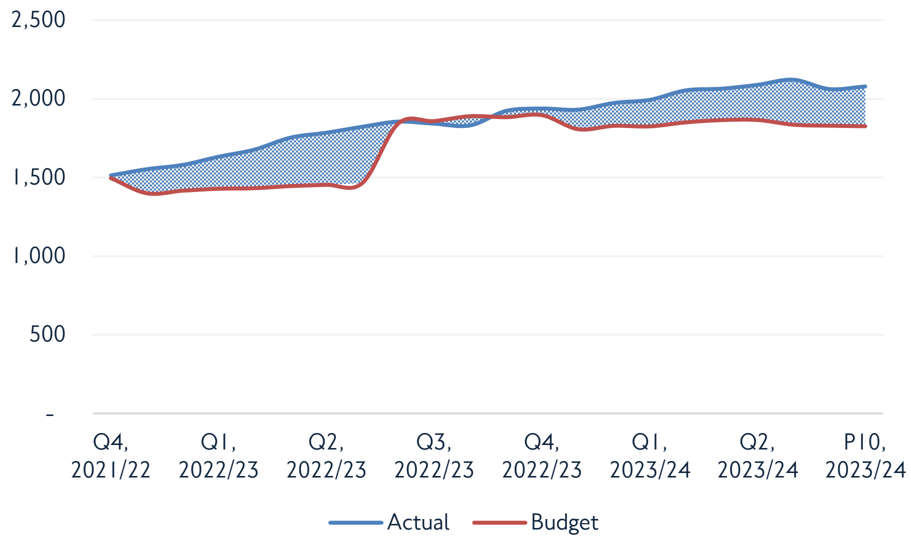
Permanent colleagues (FTE): actuals and Budget

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 P10, however this gap is continuing to narrow.



Agency and NPL colleagues (FTE): actuals and Budget

Agency and NPL FTE up by 140 since the end of 2022/23, and are slightly higher than Budget in P10. This is driven by labour market challenges.



Capital renewals

Capital renewals are £8m lower than Budget in the year to date. We have proactively managed the allocation of our available funding across our programmes to maximise delivery.

Renewals delivery has been strong during 2023/24 and our current trajectory is to deliver at least £750m for the full year as set out in our 2024 Business Plan.

This will be slightly higher than the original budget of £745m, with the early receipt of Government capital funding for 2024/25 supporting the accelerated delivery of our programme.

	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)**	**-28%**	**(3)**	**(2)**	**-61%**
Four Lines Modernisation	(4)	(3)	(1)	-17%	(3)	(1)	-48%
Silvertown Tunnel	(0)	0	(0)	0%	0	(0)	0%
Programmes	**(548)**	**(557)**	**9**	**2%**	**(415)**	**(132)**	**-32%**
Safe & Healthy Streets	(0)	(1)	1	100%	0	(0)	101%
Streets, Bus & RSS Renewals	(128)	(135)	7	5%	(107)	(22)	-20%
Environment	(13)	(17)	4	22%	(9)	(4)	-49%
Rail & Station Enhancements	(2)	(7)	5	77%	(6)	4	73%
LU Renewals	(301)	(274)	(27)	-10%	(215)	(85)	-40%
Technology	(95)	(114)	19	17%	(74)	(20)	-27%
Estates Directorate	(6)	(7)	1	16%	(1)	(5)	-975%
Elizabeth Line	0	0	0	0%	(1)	1	100%
Other (TPH, City Planning, Group etc)	(3)	(3)	(1)	-25%	(3)	(0)	0%
Total	**(552)**	**(560)**	**8**	**1%**	**(418)**	**(134)**	**-32%**

Capital enhancements

Enhancements spend is £99m lower than Budget, driven by:

- DLR RS: £34m underspend driven largely by the rephasing delivery of the Maintenance Facility Building to align with Morgan Sindall's latest programme.
- Environment: £27m underspend largely in the LW-ULEZ programme driven by timing of cameras delivery, and accounting for mobile camera response costs as operating costs.
- Technology: £43m slippage largely driven by change in delivery approach of Telecoms Commercialisation Project 2 (simultaneous delivery of 4G and 5G): a third party funded project.

We are expecting to end the year between £80m to £90m 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	**(551)**	**(585)**	**34**	**6%**	**(338)**	**(214)**	**-63%**
Four Lines Modernisation	(74)	(75)	0	1%	(88)	13	15%
DLR Rolling Stock Replacement	(160)	(194)	34	18%	(78)	(82)	-105%
Piccadilly Line Upgrade	(316)	(314)	(2)	-1%	(171)	(144)	-84%
Bakerloo Line Trains	0	0	0	0%	0	0	0%
Trams - project	(2)	(2)	1	34%	(1)	(1)	-115%
Other Enhancements	**(252)**	**(317)**	**65**	**21%**	**(219)**	**(33)**	**-15%**
Silvertown Tunnel	(6)	(11)	5	45%	(15)	9	58%
Northern Line Extension	0	(0)	0	125%	(0)	0	176%
Barking Riverside	(1)	4	(5)	120%	(4)	3	75%
Bank Station Capacity Upgrade	(6)	(8)	1	18%	(52)	46	88%
Elizabeth Line	(1)	(2)	2	75%	2	(2)	135%
Safe & Healthy Streets	(87)	(89)	2	3%	(48)	(39)	-80%
Environment	(70)	(96)	27	28%	(35)	(35)	-98%
Streets, Bus & RSS Renewals	(0)	0	(0)	0%	(2)	2	93%
LU Renewals	(4)	(13)	9	68%	(9)	5	52%
Estates Directorate	(1)	(3)	1	42%	(1)	(1)	-187%
Rail & Station Enhancements (excl. Trams)	(37)	(34)	(3)	-9%	(16)	(20)	-123%
Technology	(39)	(82)	43	53%	(43)	4	10%
Network Development & Third Party Pipeline	(1)	(1)	(0)	-21%	0	(1)	0%
Other (TPH, City Planning, OP, Group etc)	2	20	(18)	88%	5	(3)	56%
London Transport Museum	(1)	(1)	1	43%	(0)	(0)	-146%
Total TfL excl Places and Crossrail	**(803)**	**(902)**	**99**	**11%**	**(557)**	**(246)**	**-44%**
Places for London	(72)	(111)	39	35%	(41)	(31)	-77%
Crossrail	(40)	(75)	34	46%	(184)	144	78%
Total	**(915)**	**(1,087)**	**172**	**16%**	**(782)**	**(134)**	**-17%**

Cash flow statement

Cash balances are £1.15bn at the end of Period 10, almost £50m 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	(85)	(85)	-1000%	(121)	36	30%
Closing balance	**1,153**	**(47)**	**-4%**	**1,167**	**(14)**	**-1%**

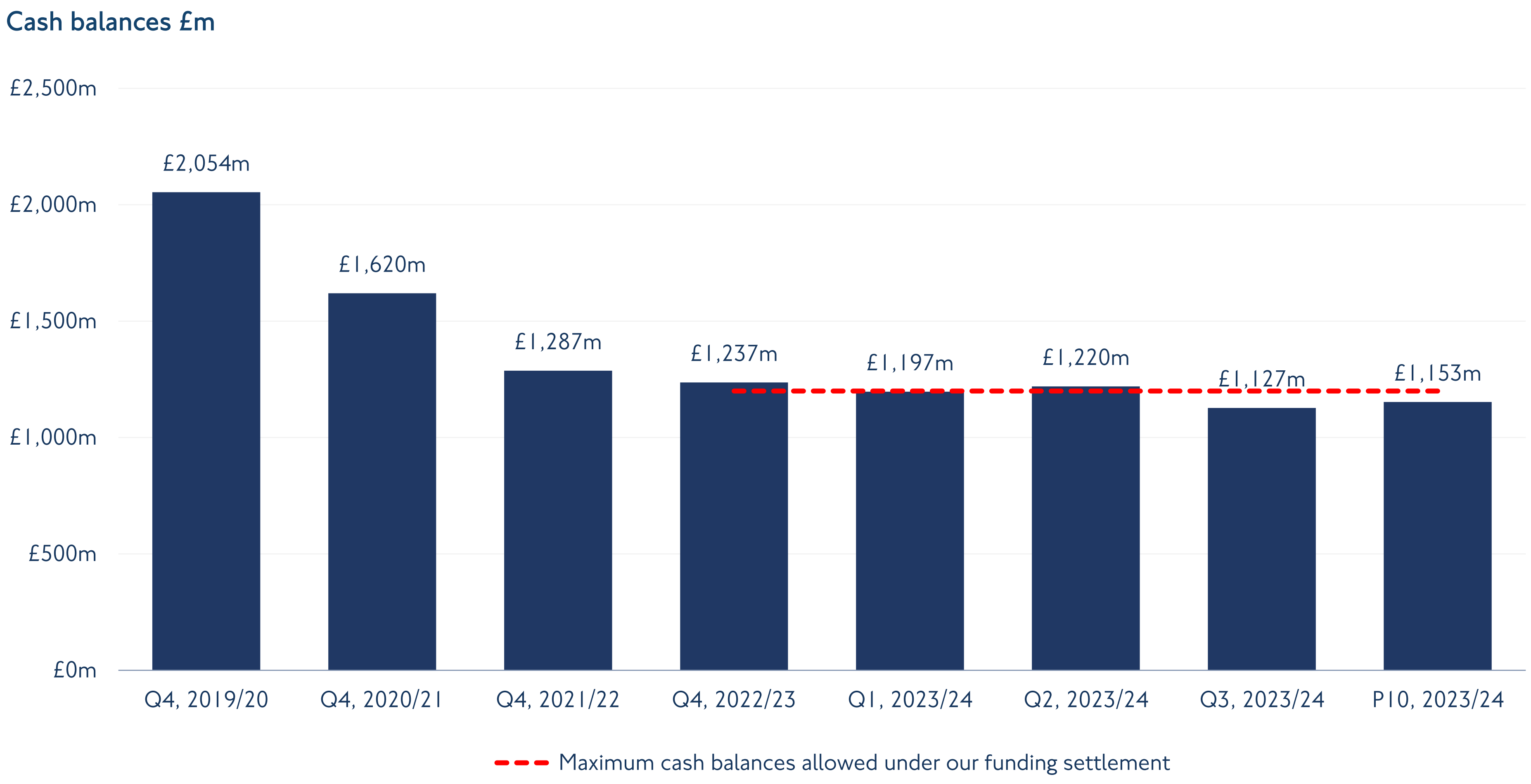
Cash flow statement

	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	1,031	37	4%	1,356	(325)	-24%
Less Places, LTIG and LTM	(32)	(15)	86%	(39)	7	19%
Cash generated / (used) from operating activities	***1,000***	***22***	*2%*	***1,317***	***(317)***	*-24%*
Capital renewals	(552)	9	2%	(418)	(134)	32%
New capital investment	(803)	99	11%	(557)	(246)	44%
Investment grants and ring-fenced funding	638	(30)	-4%	68	571	845%
Working capital movements	46	(124)	-73%	161	(115)	-71%
Cash generated / (used) from investing activities	***(670)***	***(47)***	*7%*	***(746)***	***75***	*10%*
Free cash flow	**329**	**(25)**	**-7%**	**571**	**(242)**	**-42%**
Net interest costs	(317)	2	1%	(326)	9	3%
Existing debt maturing	(129)	0	0%	(1,303)	1,174	90%
New debt issued	100	6	6%	1,223	(1,123)	-92%
Short-term net borrowing change	(68)	(68)	N/A	(286)	218	76%
Cash generated / (used) from financing activities	***(414)***	***(60)***	*17%*	***(692)***	***278***	*-40%*
Change in cash balance	**(85)**	**(85)**	**-1000%**	**(121)**	**36**	**30%**

Cash balances

Total cash balances (excl. cash balances identified for Crossrail construction) are just over £1.15bn at the end of Period 10, just over £80m lower than at the end of last year.

A requirement of the 30 August 2022 funding settlement is that our cash balances will average no more than £1.2bn for the duration of the agreement.



Reserves

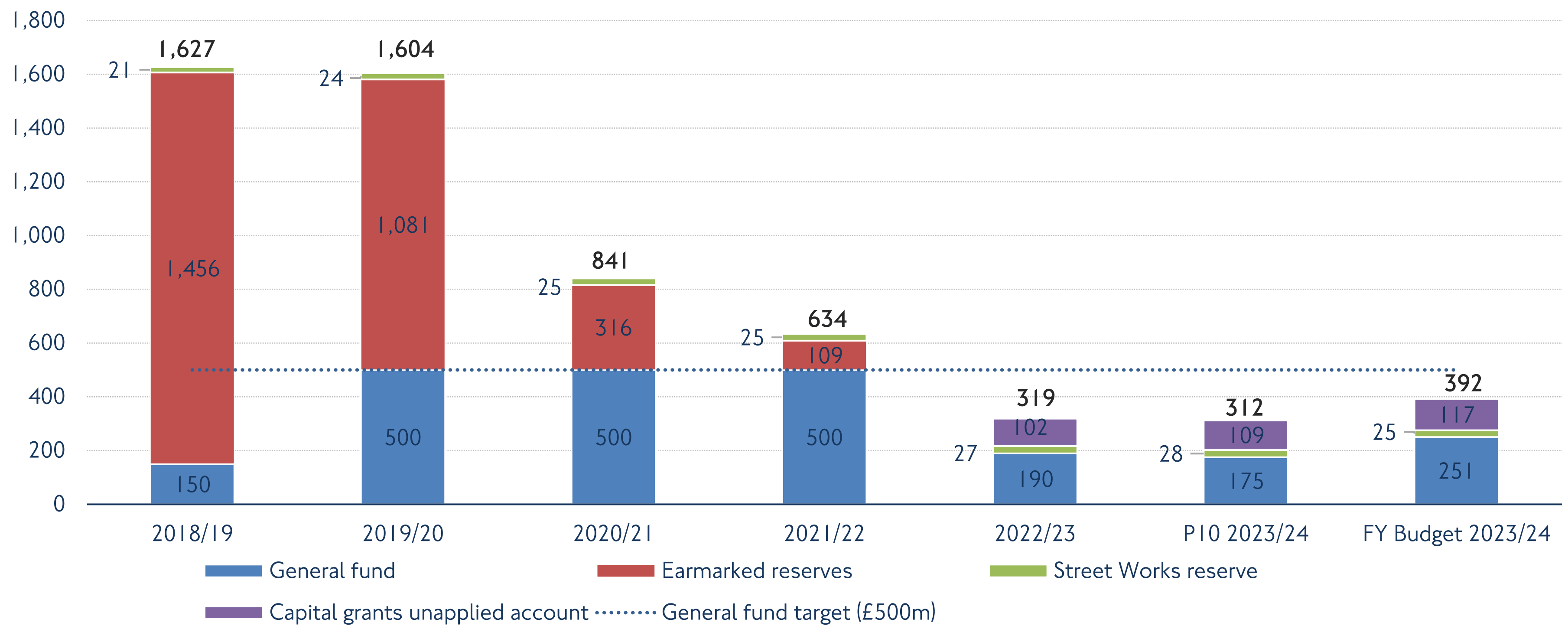
The pandemic has seen a material reduction in TfL's usable reserves, which primarily consist of its General Fund, Earmarked Reserves and Capital Grants Unapplied.

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. This was largely driven by the purchase of the Class 378 rolling stock. The savings from this purchase over the remaining life of the assets will further support TfL as it rebuilds its usable reserves.

The 2024 Business Plan sets out our plan to grow usable 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

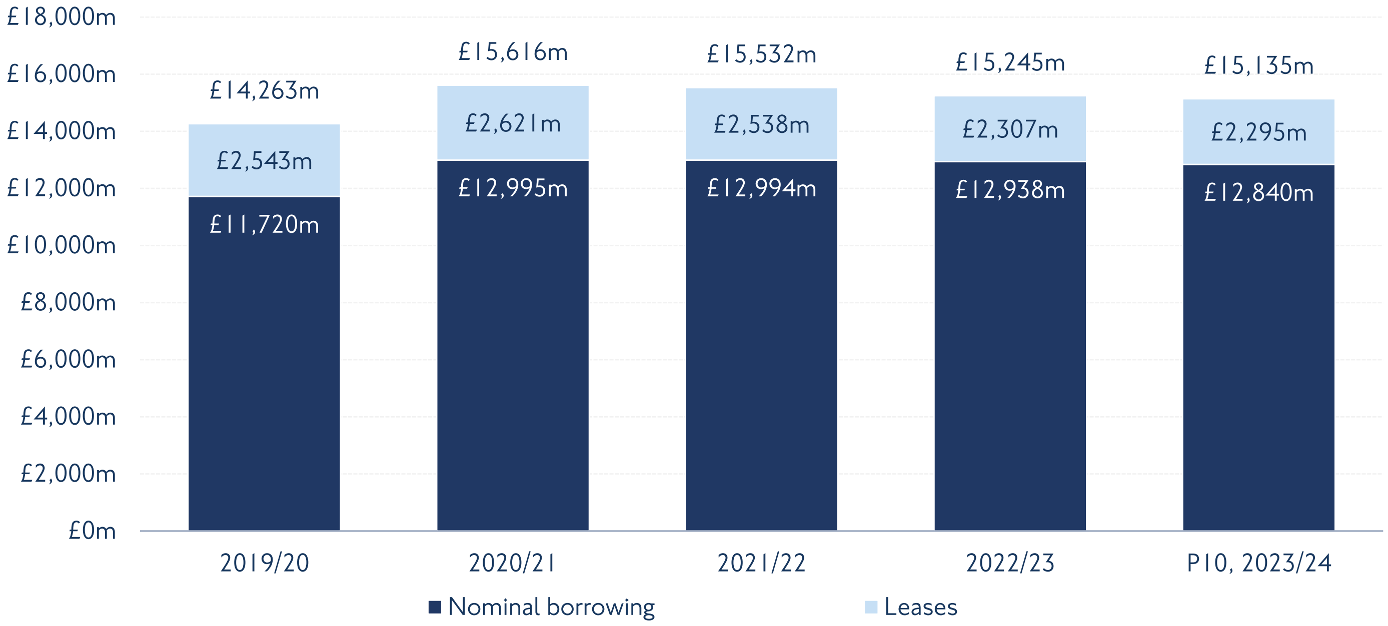
Debt

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 £97m for the year up to end of P10, bringing our total borrowing balance to £12,840m. 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 have received £100m in January and the balance of £145m will be received before the end of the 2023/24 financial year. Consequently, 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

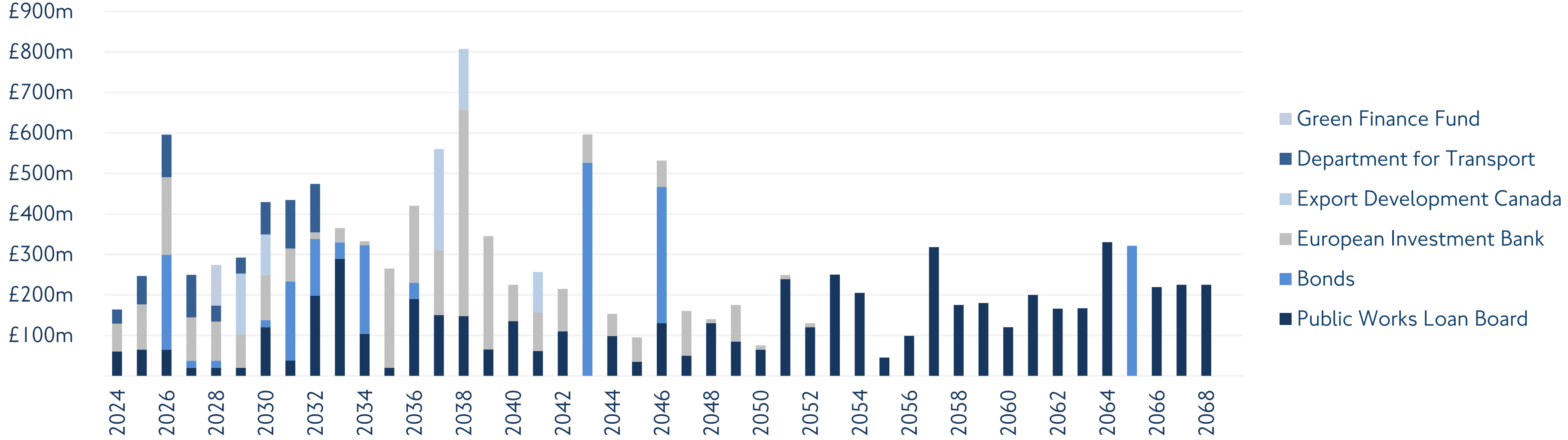
3.5%

The weighted average interest rate on our borrowing is 3.5%

19.0 years

The weighted average tenor of our borrowing is 19.0 years

TfL borrowing maturity profile



The borrowing maturity profile excludes £467m 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 have been no changes since our Q3 update to the Board.

	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.