# Finance Report

## Period 2, 2024/25

**Management results from 1 April 2024 – 25 May 2024**

Board

24 July 2024

# We are aiming to grow our operating surplus to increase our ability to invest

We delivered an operating surplus in 2023/24, reinvesting this in maintaining and improving our network. Our 2024/25 Budget builds on this foundation, aiming to grow our surplus and increase our ability to invest. We will do this by continuing to deliver on our financial strategy:

### Grow and diversify our revenue

- Cumulative journey growth of 4% compared to last year. We are targeting 6% year-on-year journey growth over the full year, on top of the 9% we saw in 2023/24
- Despite growth on last year, journeys are 18 million lower than Budget
- Total revenue is 2% lower than Budget.

### Deliver recurring cost savings

- Operating costs are 1% lower than Budget, mainly from contingency held to mitigate risks on revenue
- We are targeting £259m of savings this year, including £130m of recurring savings. We currently expect to deliver this, although there remain some risks.

### Grow our operating surplus

- We had budgeted for an operating surplus in the year to date – lower passenger income means we have a small deficit of £2m
- Other operating income is broadly in line with Budget
- We expect to deliver an operating surplus this year, but there are risks to revenue which need to be managed.

### Fund our capital investment

- Our operating surplus funds capital investment
- Capital renewals are £142m in the year to date, £41m up on last year as we increase renewals investment to address the backlog of asset replacement
- Renewals are £10m higher than Budget, from an early ramp up in spend. We expect to hit Budget over the full year
- We continue to make the case to government for a long-term funding settlement.

### Maintain liquidity to protect us against shocks

- Cash balances are just under £1.4bn, and lower than Budget, mainly from timing of an asset sale and adverse working capital
- We aim to maintain cash balances at around £1.3bn in line with our treasury policy
- The GLA financing facility of £350m offers additional protection against shocks and risks.

# Our progress

Our underlying revenue has increased by over £900m since 2020/21, with increases from all revenue sources.

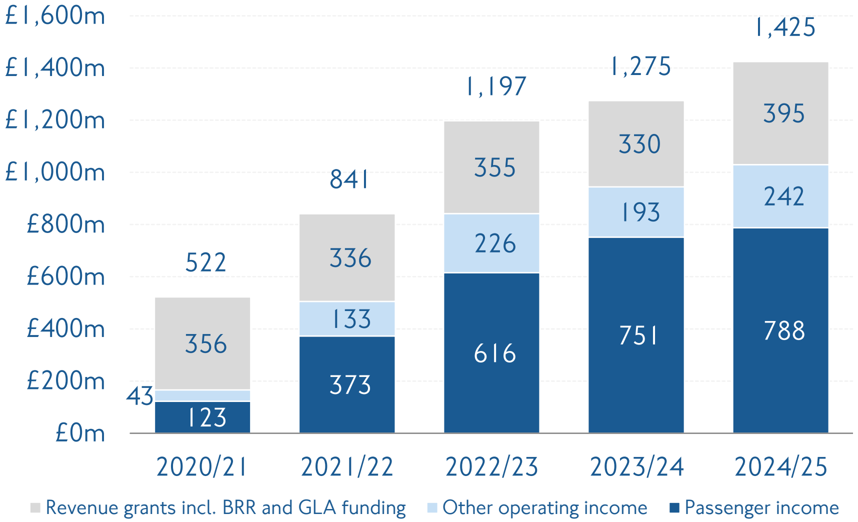
Real terms like-for-like operating costs are over £100m lower than in 2020/21.

We turned an operating deficit into a surplus in 2023/24 through revenue increases and cost control. We are currently making a small deficit, but have budgeted to make a surplus of £161m this year.

For the duration of the Department for Transport (DfT) funding agreement from August 2022 to end of March 2024, we were required to maintain usable cash below £1.2bn, and below £1.3bn at the end of Quarter 4, 2023/24. Outside of this timeframe, average cash balances have been maintained above our minimum cash requirement.

## Grow and diversify our revenue

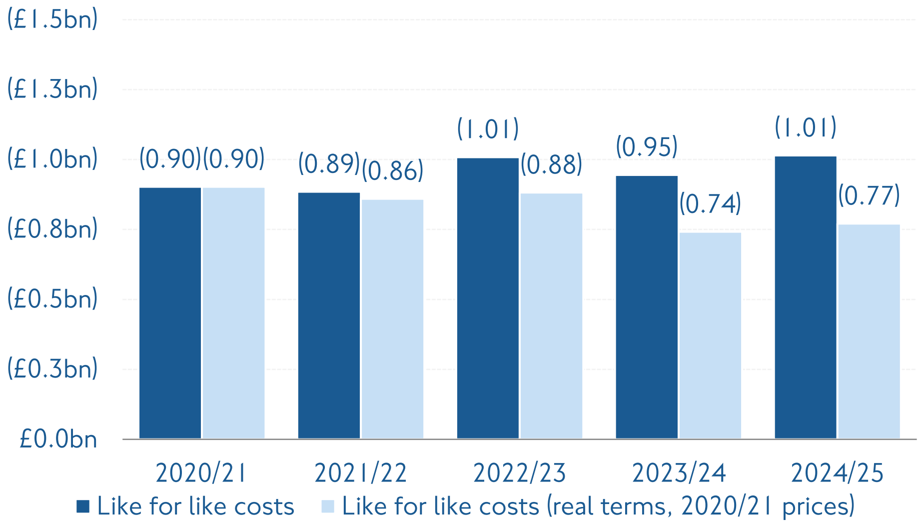
Revenue (excluding extraordinary funding) – Year to Period 2 (£m)




NB: Excludes all HMG pandemic related funding and one-off GLA funding

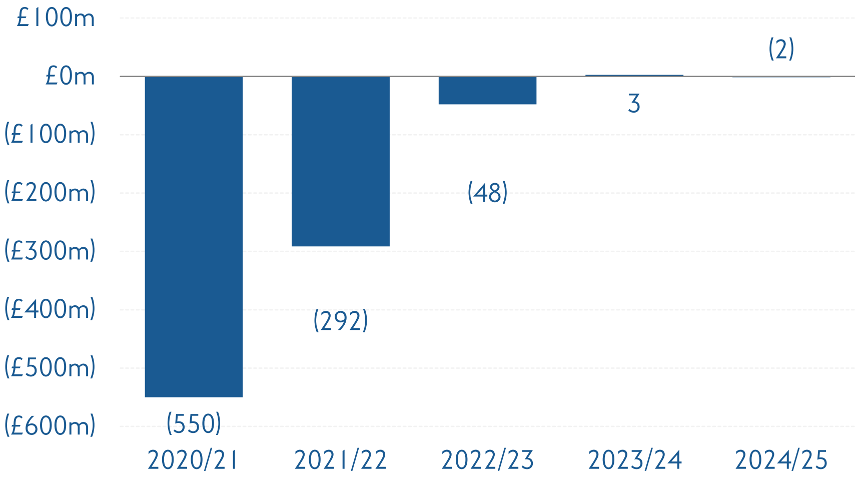
## Deliver recurring cost savings

Like-for-like costs since 2020/21 – Year to Period 2 (£bn)




## Grow our operating surplus

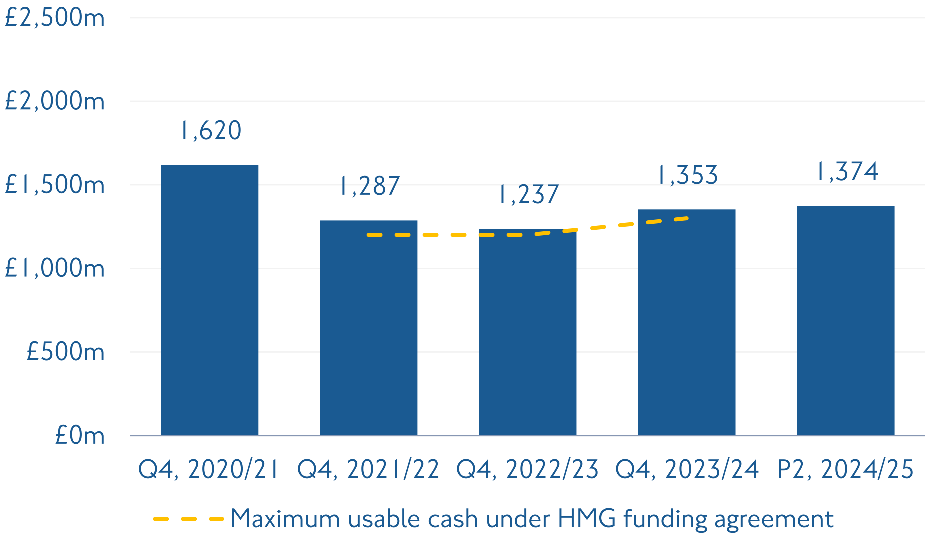
Operating surplus / (deficit) – Year to Period 2 (£m)




NB: Excludes all HMG pandemic related funding

## Maintaining liquidity to protect us against shocks

Cash balance (£m)



# Passenger journeys

In 2024/25 we have budgeted 6% year-on-year growth in demand. Journeys to date are 4% up on last year, but lower than Budget.

There are several factors thought to be impeding growth to date:

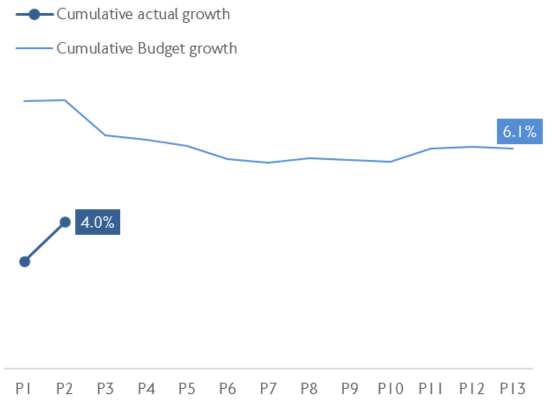
- Seasonality – timing of Easter, school holidays and the weather all have a strong influence on demand at this time of year
- National Rail strikes
- Service performance is below expectations, particularly on the Central and Northern lines
- Economy – recent indicators show weaker employment and retail sales growth within the London economy than assumed in our Budget.

We are reviewing trends each period and updating our forecasts with our latest position on the risk to Budget.

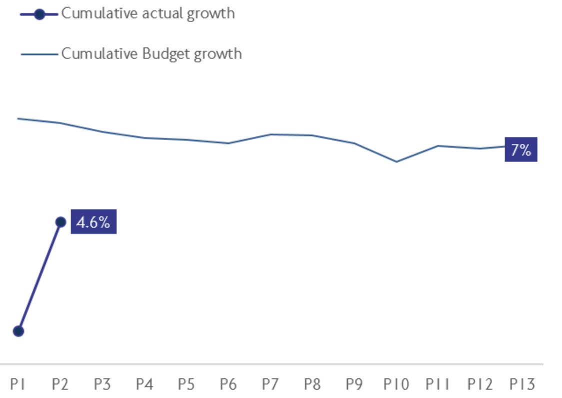


## Passenger journeys year-on-year growth and comparison to Budget

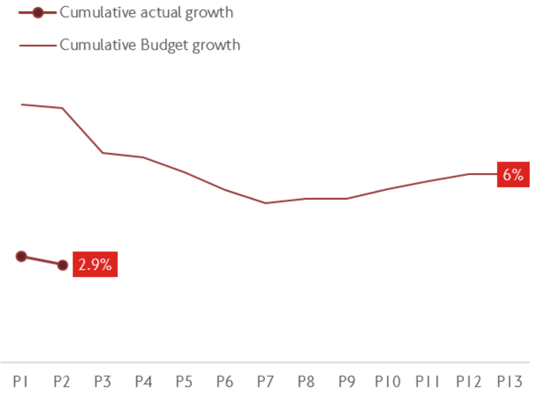
| TfL | | Absolute m | Var to Bud m | Var to Last Year (m/ %) | |
|---|---|---|---|---|---|
| | P | 287 | (6.5) | 13.8 | 5.1% |
| | Y | 549 | (17.7) | 21.3 | 4.0% |



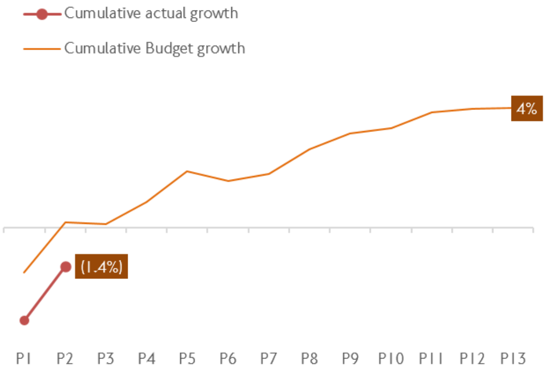

| LU | | Absolute m | Var to Bud m | Var to Last Year (m/ %) | |
|---|---|---|---|---|---|
| | P | 95 | 0.3 | 7.0 | 8.0% |
| | Y | 182 | (5.5) | 7.9 | 4.6% |




| Bus | | Absolute m | Var to Bud m | Var to Last Year (m/ %) | |
|---|---|---|---|---|---|
| | P | 151 | (6.9) | 3.9 | 2.7% |
| | Y | 288 | (12.9) | 8.1 | 2.9% |




| Rail | | Absolute m | Var to Bud m | Var to Last Year (m/ %) | |
|---|---|---|---|---|---|
| | P | 24 | (0.3) | 0.1 | 0.5% |
| | Y | 45 | (0.7) | (0.6) | -1.4% |

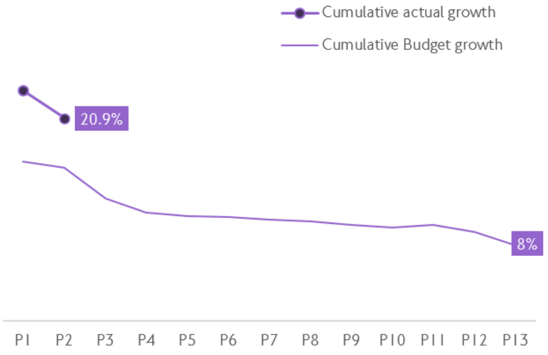



| LO | | Absolute m | Var to Bud m | Var to Last Year (m/ %) | |
|---|---|---|---|---|---|
| | P | 15 | (0.1) | 0.5 | 3.8% |
| | Y | 28 | (0.9) | 1.1 | 3.9% |

| DLR | | Absolute m | Var to Bud m | Var to Last Year (m/ %) | |
|---|---|---|---|---|---|
| | P | 8 | (0.2) | (0.2) | -2.2% |
| | Y | 15 | 0.0 | (0.7) | -4.7% |

| Tram | | Absolute m | Var to Bud m | Var to Last Year (m/ %) | |
|---|---|---|---|---|---|
| | P | 1 | (0.1) | (0.3) | -15.6% |
| | Y | 2 | 0.1 | (1.0) | -31.9% |

| EL | | Absolute m | Var to Bud m | Var to Last Year (m/ %) | |
|---|---|---|---|---|---|
| | P | 18 | 0.5 | 2.8 | 18.4% |
| | Y | 34 | 1.4 | 5.9 | 20.9% |




EL journeys are estimates and are subject to revision

# Income statement

Total revenue is £28m behind Budget in the year to date, driven by lower passenger growth than expected. Other operating income is broadly in line with Budget.

Our core operating costs are £8m higher than Budget, mainly from higher bad debt charges from roads enforcement income. Investment programme costs are £12m lower than Budget from timing of scrappage payments and a timing contribution for Ferry Lane investment. Exceptional costs are £10m lower from central contingency - this is held to mitigate revenue uncertainty in the year.

Capital renewals are £10m higher than Budget, from timing differences. We expect to meet our Budget target of £795m this year.

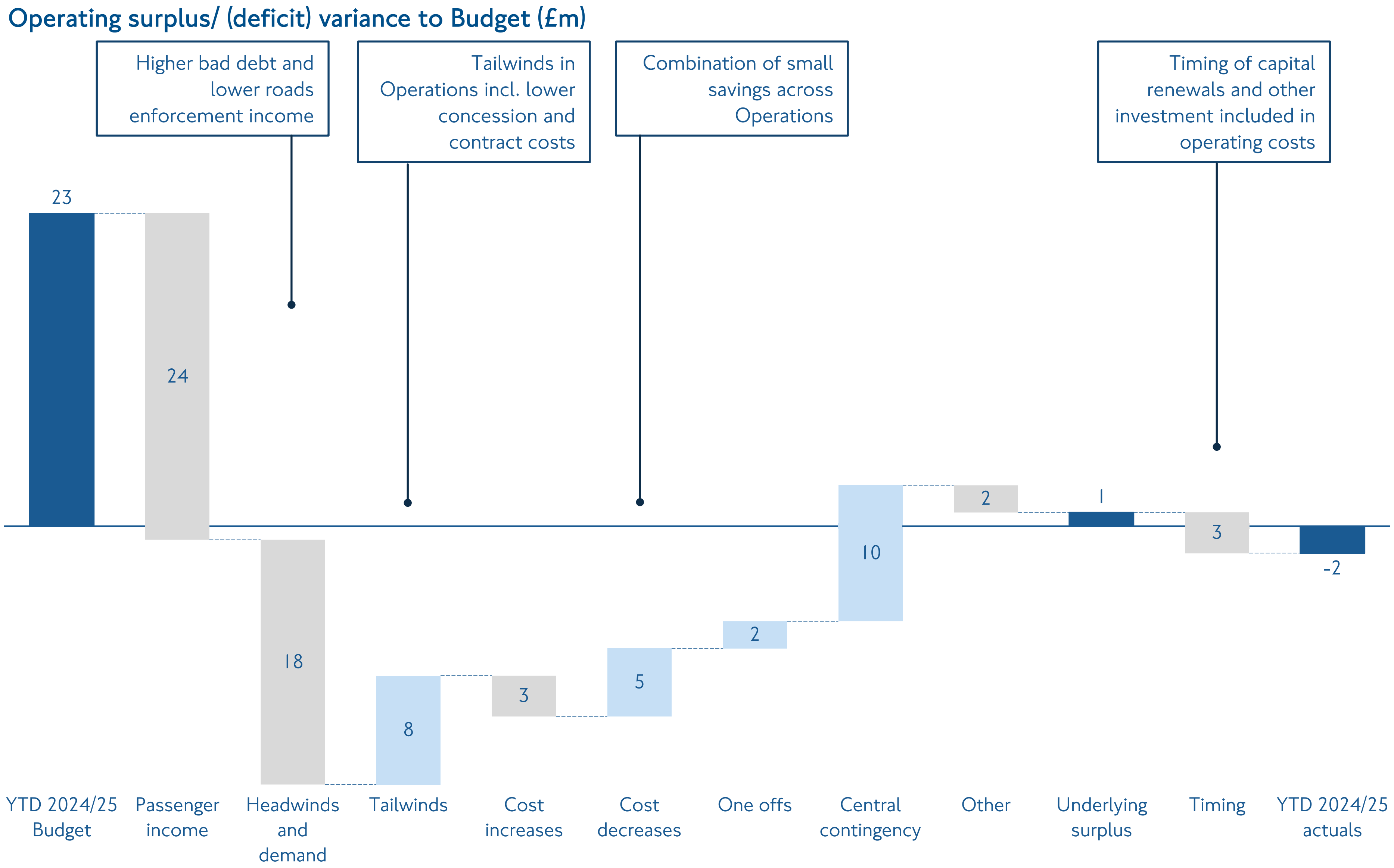
| £m | Actuals | Variance to Budget | | Variance to last year | |
|---|---|---|---|---|---|
| Underlying passenger income | 788 | (24) | -3% | 36 | 5% |
| DfT revenue top up | 0 | 0 | N/A | (52) | -100% |
| **Passenger income** | **788** | **(24)** | -3% | **(15)** | -2% |
| Other operating income | 242 | 2 | 1% | 49 | 25% |
| Business rates retention | 334 | 0 | 0% | 39 | 13% |
| Other revenue grants | 69 | (6) | -8% | 20 | 40% |
| **Revenue** | **1,432** | **(28)** | -2% | **93** | 7% |
| Core operating costs | (1,203) | (8) | -1% | (118) | -11% |
| Investment programme operating costs | (24) | 12 | 34% | 8 | 25% |
| Exceptional costs | (1) | 10 | 92% | (1) | -189% |
| **Operating surplus before interest and renewals** | **205** | **(13)** | -6% | **(18)** | -8% |
| Capital renewals | (142) | (10) | -7% | (41) | -40% |
| Net interest costs | (65) | (2) | -3% | 3 | 4% |
| **Operating surplus / (deficit)** | **(2)** | **(25)** | -17% | **(56)** | 53% |

Income statement excludes Places for London

# Operating surplus

Our operating deficit is £25m worse than Budget. After adjusting for timing differences – mainly in capital renewals and Investment Programme operating costs – we are making a small surplus of £1m, but are £22m behind Budget.

We are seeing a combined £42m pressure on our surplus from demand and volume pressures on passenger income, enforcement income and enforcement payment rates. Costs are otherwise performing better than Budget.



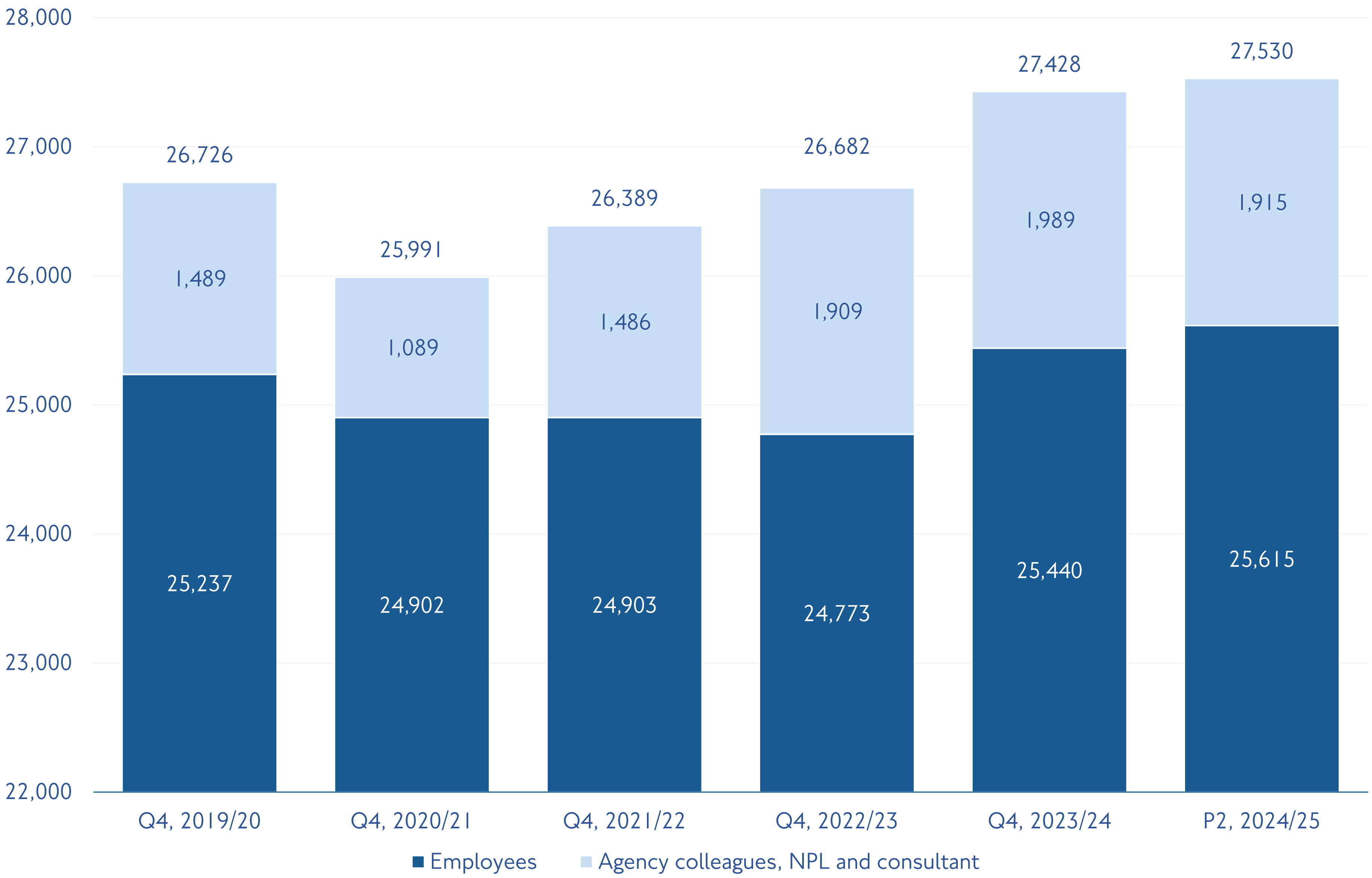
# Colleagues

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 slightly above pre-pandemic levels, and up on last year, driven by recruitment of graduates and apprenticeship trainees, and ramp up of our capital programmes.

Agency and NPL colleagues have increased by just over 400 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



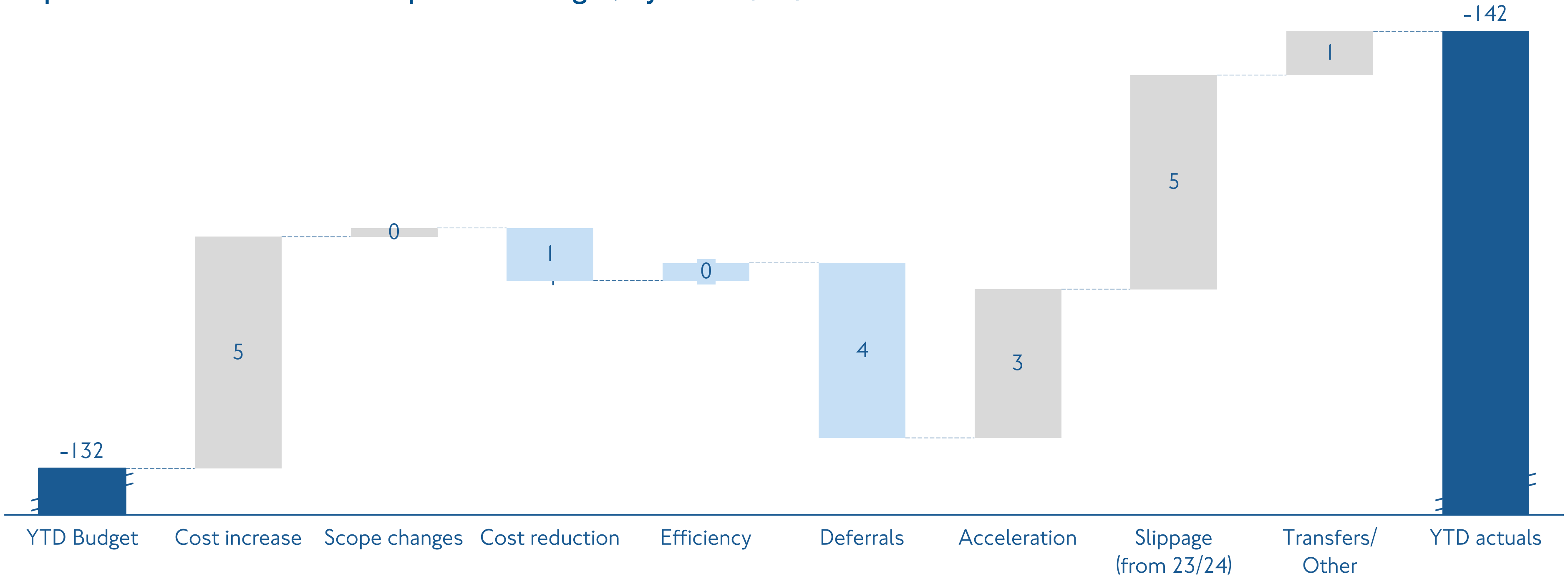
# Capital renewals

Capital renewals are £142m in the year to date, £41m up on last year as we increase renewals investment to address the backlog of asset replacement.

Renewals spend is £10m higher than Budget in the year to date, largely a result of acceleration of LU renewals (civils, track maintenance and staff welfare) spend into earlier in the year. We expect to hit our Budget by year end.

| £m | Actuals | Variance to Budget | | Variance to last year | |
|---|---|---|---|---|---|
| Four Lines Modernisation | (1) | 0 | 26% | (0) | (0) |
| Silvertown Tunnel | (0) | 0 | 80% | (0) | 0% |
| Streets, Bus & RSS Renewals | (38) | (3) | -9% | (18) | -85% |
| Environment | (4) | (0) | -10% | (2) | -135% |
| Rail & Station Enhancements | (0) | (0) | N/A | 0 | 54% |
| LU Renewals | (75) | (7) | -11% | (16) | -27% |
| Technology | (19) | 2 | 9% | (3) | -20% |
| Estates Directorate | (3) | (0) | -11% | (3) | -795% |
| Other (TPH, City Planning, Group etc) | (1) | (1) | 264% | 1 | 60% |
| Total | (142) | (10) | -7% | (41) | -40% |

## Capital renewals variances compared to Budget, by cause (£m)



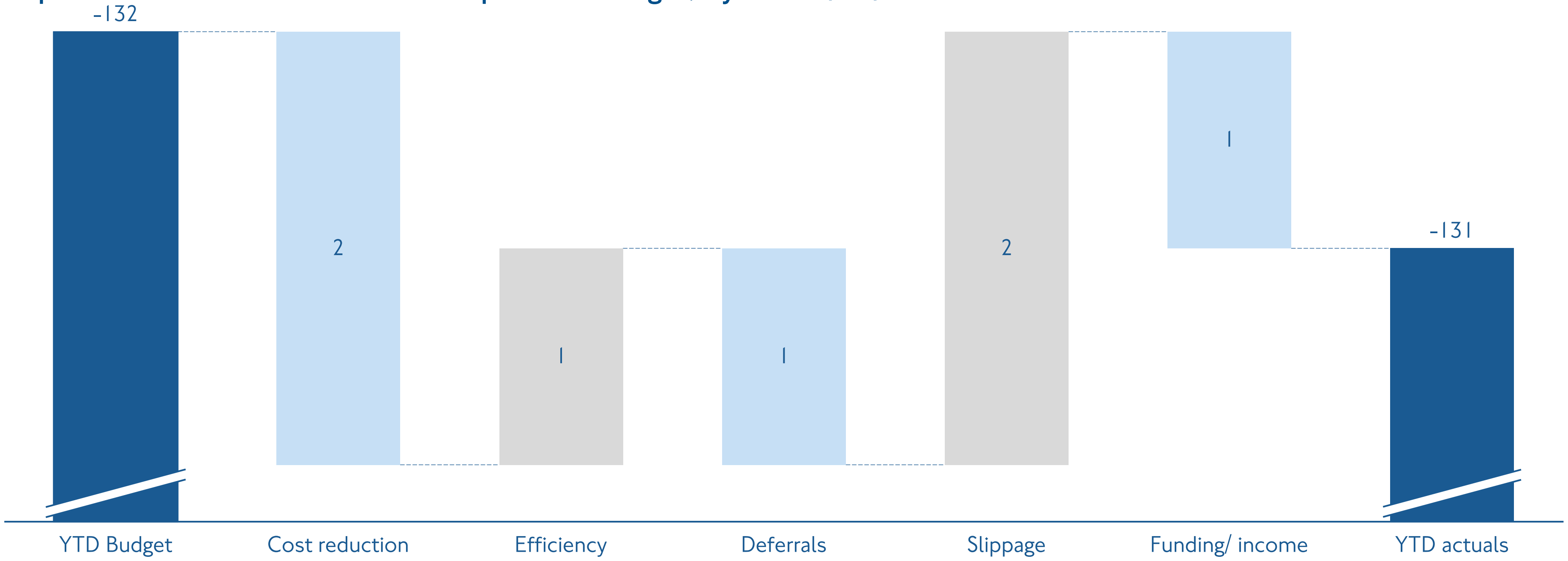
# Capital enhancements

Capital enhancements £131m in the year to date, £5m lower than last year.

Enhancements spend is in line with Budget in the year to date, with £5m of Barking Riverside income claims now expected in Quarter 2, and some slippage on cycling and bus schemes in Safe & Healthy Streets.

| £m | Actuals | Variance to Budget | | Variance to last year | |
|---|---|---|---|---|---|
| Four Lines Modernisation | (11) | 2 | 15% | 5 | 32% |
| DLR Rolling Stock Replacement | (35) | 1 | 3% | 0 | 1% |
| Piccadilly Line Upgrade | (43) | 0 | 1% | (1) | -3% |
| Bakerloo Line Trains | (0) | 0 | 53% | (0) | -231% |
| Trams replacement | (0) | 1 | 65% | (0) | -24% |
| Silvertown Tunnel | (1) | 2 | 56% | 1 | 41% |
| Other Enhancements | (40) | (5) | -16% | 0 | 0% |
| **Total TfL excl. Places and Crossrail** | **(131)** | **0** | 0% | **5** | 4% |
| Places for London | (14) | 7 | 33% | 12 | 46% |
| Crossrail | (3) | 7 | 70% | 7 | 69% |
| **Total** | **(148)** | **15** | 9% | **25** | 14% |

## Capital enhancements variances compared to Budget, by cause (£m)



# Cash flow

Cash balances are just over £1.35bn at the end of Period 2, over £140m lower than Budget and slightly up on last year.

Our cash balances are lower than Budget mainly as a result of a delayed asset sale - which is now expected in Quarter 2 – and adverse working capital, the latter from the final DfT revenue top up payment, which was received after the end of Period 2.

Our Treasury policy is to ensure we have on average 60 days of operating costs as our minimum cash balance, which will allow us to meet our payment obligations.

We maintain other sources of liquidity including an overdraft facility, a short-term financing facility and the £350m GLA financing facility to absorb any shocks and withstand strategic, safety and operational risks.



## Cash balances

| £m | Actuals | Variance to Budget | | Variance to last year | |
|---|---|---|---|---|---|
| Opening balance | 1,353 | (56) | -4% | 115 | 9% |
| Change in cash balance | 21 | (85) | -80% | (18) | -46% |
| **Closing balance** | **1,374** | **(141)** | -9% | **97** | 8% |

## Cash flow statement

| £m | Actuals | Variance to Budget | | Variance to last year | |
|---|---|---|---|---|---|
| **Operating surplus before capital renewals and interest** | 205 | (13) | -6% | (18) | -8% |
| Less LTIG and LTM | 0 | 0 | 164% | (1) | -84% |
| *Cash generated / (used) from operating activities* | ***205*** | ***(13)*** | *-6%* | ***(19)*** | *-8%* |
| Capital renewals | (142) | (10) | -7% | (41) | -40% |
| New capital investment | (131) | 0 | 0% | 5 | 4% |
| Investment grants and ring-fenced funding | 31 | (78) | -71% | (154) | -83% |
| Working capital movements | (138) | (42) | -45% | (26) | -23% |
| *Cash generated / (used) from investing activities* | ***(379)*** | ***(129)*** | *-52%* | ***(215)*** | *-132%* |
| **Free cash flow** | (174) | (142) | -455% | (234) | -388% |
| Net interest costs | (65) | (2) | -3% | 3 | 4% |
| Net borrowings | 260 | 59 | 30% | 213 | 454% |
| *Cash generated / (used) from financing activities* | ***195*** | ***57*** | *42%* | ***216*** | *-1,029%* |
| **Change in cash balance** | 21 | (85) | -80% | (18) | -46% |

# Reserves

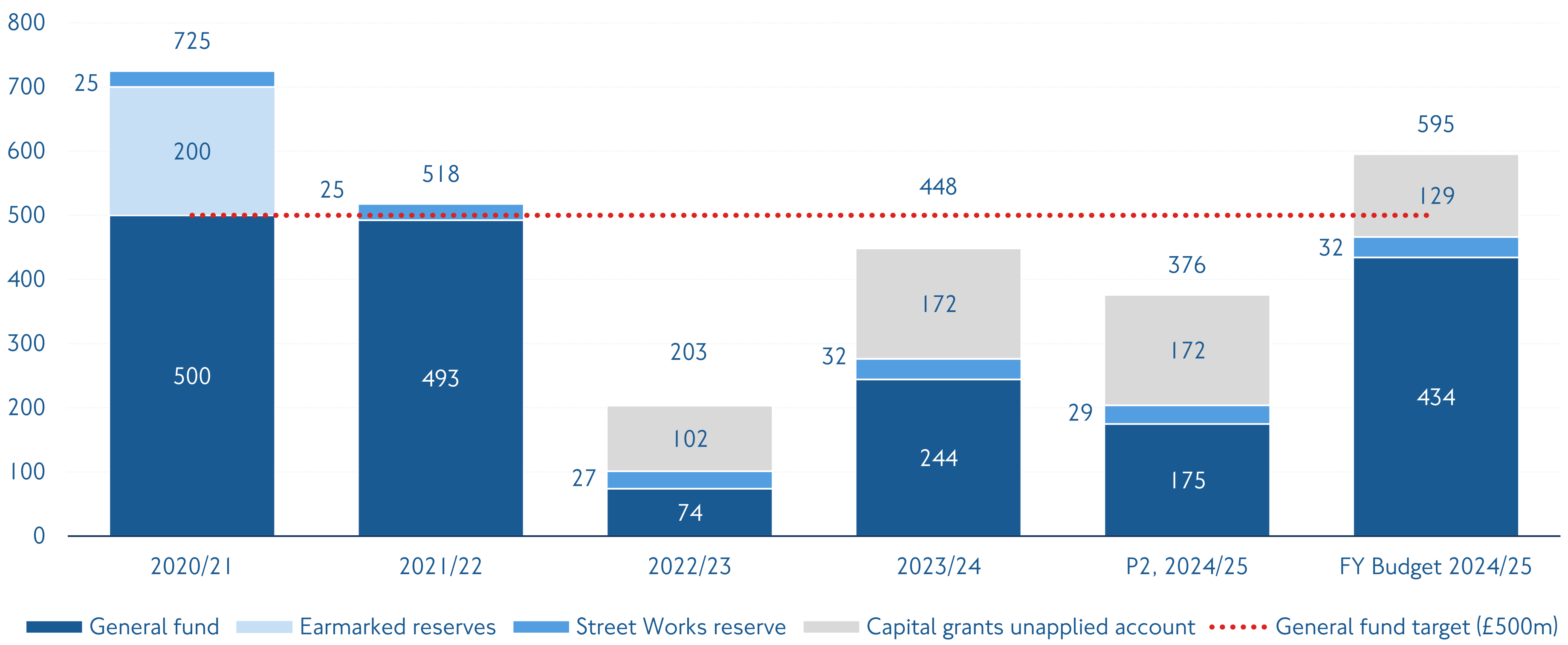
The pandemic has seen a material reduction in TfL's usable reserves, which primarily consist of its General Fund, Earmarked Reserves and Capital Grants Unapplied.

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 set 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
- Usable reserves at the end of 2023/24 were higher than Budget due to the December 2023 capital settlement from the DfT.
- Usable reserves at the end of P2 2024/25 decreased by £72m primarily due to adverse working capital movements.

# Debt

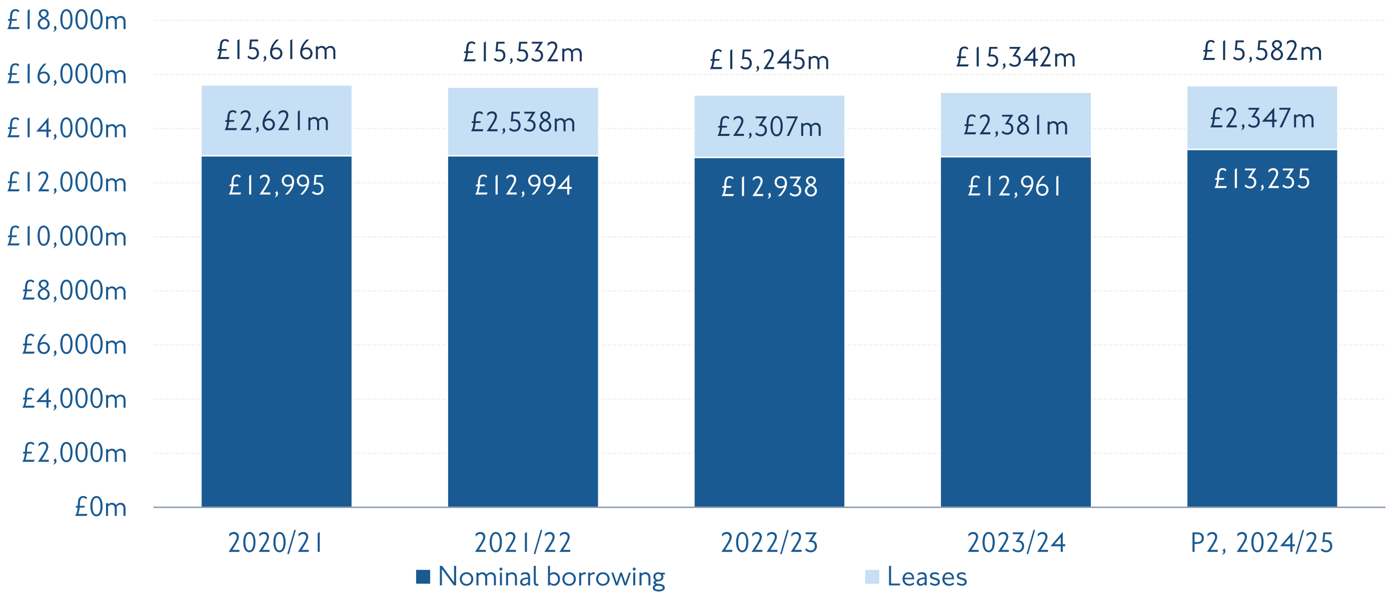
We have borrowed from a range of sources to help fund our capital programme, including Crossrail and major upgrades to our tube network.

Our level of outstanding borrowing has increased by £274m for the year, bringing our total borrowing balance to £13,235m. This is driven by an increase in our long and short-term borrowing, to suit our cash and liquidity needs.

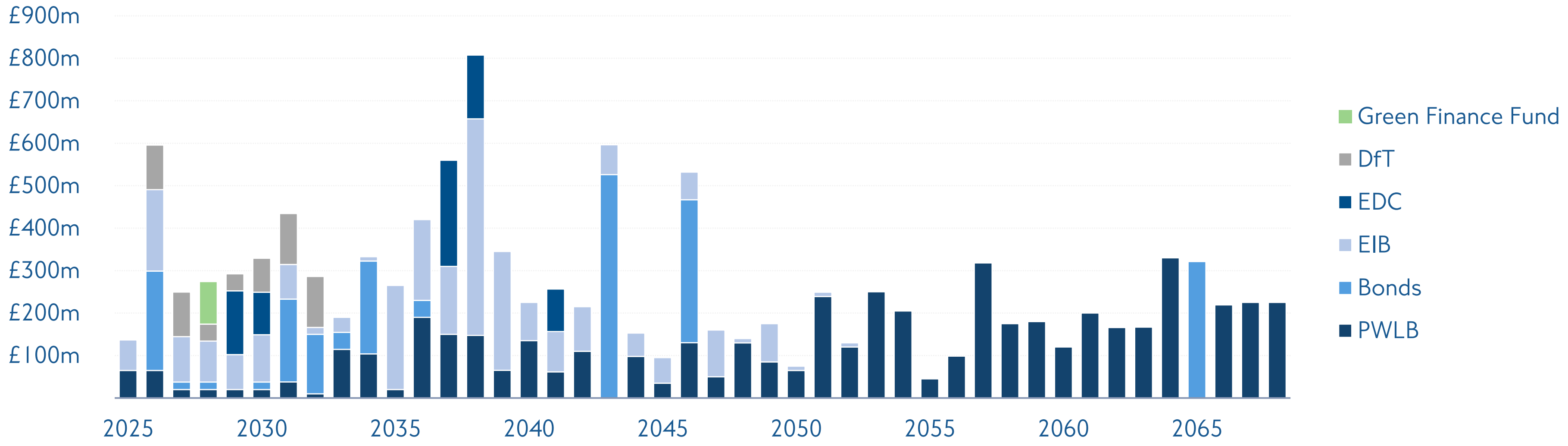
Our total debt is forecast to increase in later this year as we borrow to fund our investment programme and the Silvertown Tunnel opens and comes on balance sheet.

| Prudential indicator debt limits | £m |
|---|---|
| Nominal borrowing | 13,235 |
| Operational boundary | 13,454 |
| Authorised limit | 14,654 |

## Total debt (£m)




## TfL borrowing maturity profile




**90%**

90% of our borrowing is at a fixed rate of interest

**3.6%**

The weighted average interest rate on our borrowing is around 3.6%

**19-years**

The weighted average tenor of our borrowing is around 19 years

# 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 both the long-term and short-term ratings by one notch to A2/P-1 in July 2024 and changed the outlook to stable.

There have been no other changes since our Quarter 4 update to the Board.

| | S&P | Moody's | Fitch |
|---|---|---|---|
| **Long-term rating** | AA- | A2 | AA- |
| **Outlook** | Stable | Stable | Stable |
| **Short-term rating** | A-1+ | P-1 | F1+ |
| **Last changed/affirmed** | May 2024 | July 2024 | Apr 2024 |

## S&P

On 20 May 2024, S&P upgraded TfL's long-term credit rating to AA- from A+ and the short-term credit rating to A-1 from A-1. The outlook is stable. The key drivers for S&P include the post-coronavirus pandemic recovery in passenger demand, which S&P expects to remain high, cost-efficiency measures, supporting our ability to cope with external shocks and rebuild flexibility within our operations and the expectation of a gradual increase in capital investments and the quality of services.

## Moody's

On 15 July 2024, Moody's upgraded TfL's long-term credit rating to A2 from A3 and the short-term credit rating to P-1 from P-2. The outlook was changed to stable from positive. The rating is based on "significant improvements in TfL's operating performance" which Moody's expect to be sustained with growing operating surpluses over the medium term. Moody's stated the following as key drivers for this - the recovery in passenger revenue post-pandemic, new revenue sources and TfL's robust governance practices, particularly its focus on cost control, which have eliminated the need for any financial support from the central government to fund operations.

## Fitch

Fitch reaffirmed our credit rating in January 2024 and upgraded the outlook from negative to stable on 15 April 2024, reflecting the change in the UK rating (with which our rating is equalised).