Finance Report

Period 5, 2024/25

Management results from 1 April 2024 – 17 August 2024

Board

16 October 2024

We are aiming to offset the impact of lower growth in demand on 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 by continuing to deliver on our financial strategy:

Grow and diversify our revenue

- Cumulative journey growth is just over 2% compared to last year. In our budget we were 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 52 million lower than Budget with passenger income £78m lower than Budget
- We are currently forecasting passenger income could be c.£150m lower than Budget by year end.

Deliver recurring cost savings

- Operating costs are 1% lower than Budget, mainly from lower contingency which was budgeted to mitigate risks on revenue
- Our Budget included delivery of £259m of savings this year, including £130m of recurring savings
- We are implementing plans to deliver more savings this year to mitigate the forecast revenue shortfall.

Grow our operating surplus

- We had budgeted for an operating surplus in the year to date – lower passenger income means we have a deficit of £16m at Period 5
- Our Quarter 1 forecast is for an operating surplus of £61m this year, £100m lower than Budget
- We are striving to deliver in excess of this forecast and are implementing plans to further this year's savings and reduce discretionary expenditure.

Fund our capital investment

- Capital renewals are £324m in the year to date, £79m up on last year as we increase renewals investment to address the backlog of asset replacement
- Renewals are £10m higher than Budget, from cost increases and 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 £1.27bn at the end of Period 5 and are over £140m lower than Budget
- We aim to maintain average 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 almost £2bn since 2020/21 and over £300m on last year, with increases from all revenue sources.

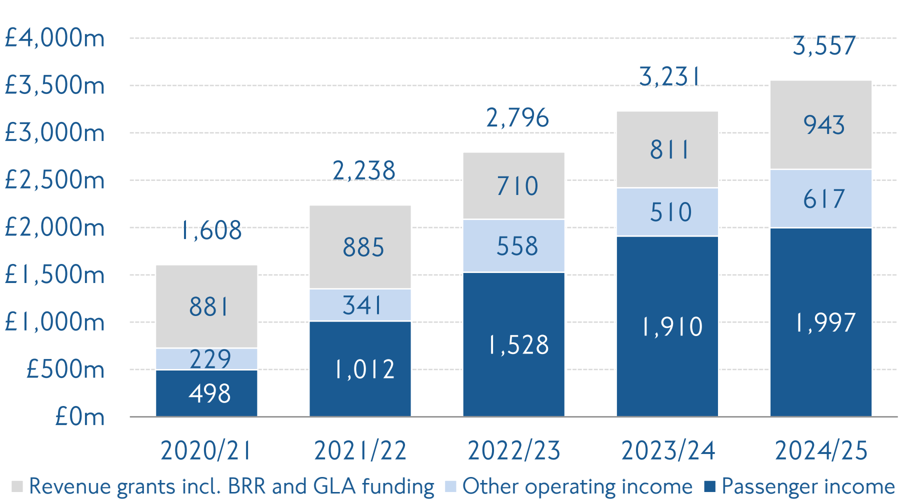
Real terms like-for-like operating costs are over £100m lower than in 2020/21.

We turned an operating deficit into a surplus in 2023/24 through revenue increases and cost control. We are currently making a deficit, a result of lower than budgeted revenue growth and higher capital renewals. Our forecast surplus for this year is now £61m, but we are taking steps to deliver in excess of this.

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.

Grow and diversify our revenue

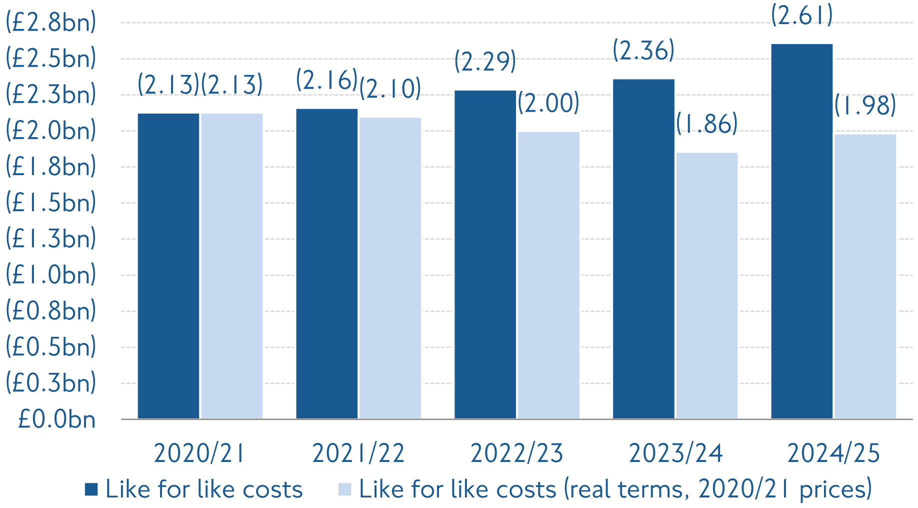
Revenue (excluding extraordinary funding) – Year to Period 5 (£m)



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

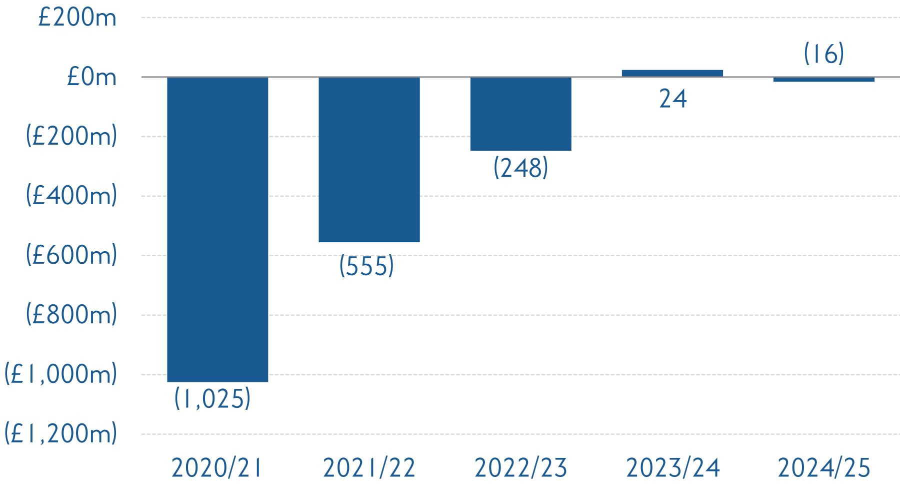
Deliver recurring cost savings

Like-for-like costs since 2020/21 – Year to Period 5 (£bn)



Grow our operating surplus

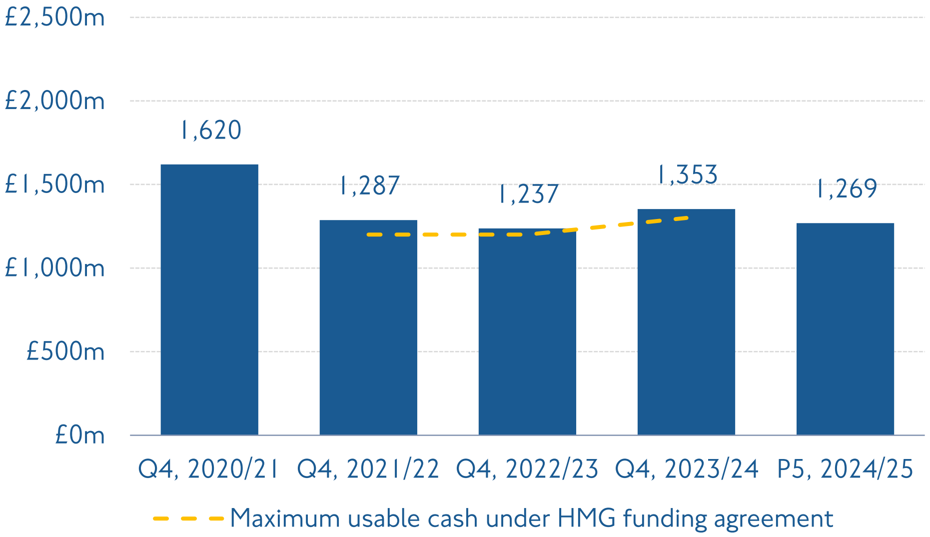
Operating surplus / (deficit) – Year to Period 5 (£m)



NB: Excludes all HMG pandemic related funding

Maintaining liquidity to protect us against shocks

Cash balance (£m)



Passenger journeys

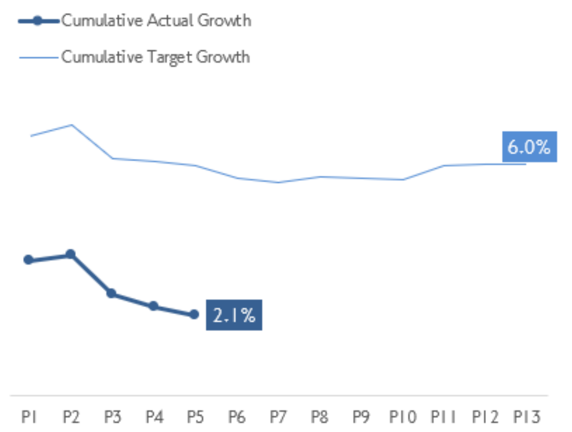
In 2024/25 we have budgeted 6% year-on-year growth in demand. Journeys to date are just over 2% up on last year and are 52 million lower than Budget.

While ridership continues to grow across our services, building on the last financial year's 9% year-on-year growth in journeys, in the early part of the financial year demand has grown by less than expected in our Budget.

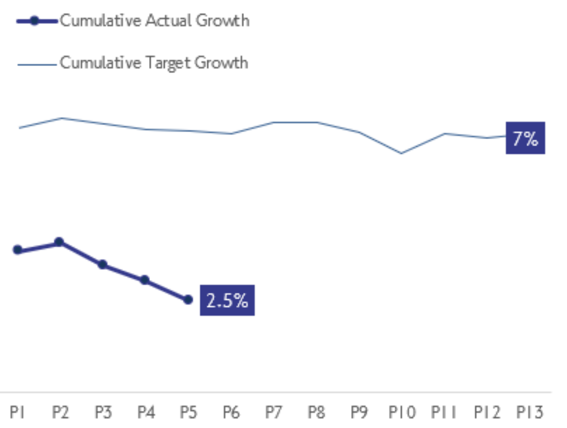
This is largely owing to a range of economic factors, which are impacting both leisure and commuting demand. There is also a range of other factors impacting customer choices including seasonality, weather and national rail strikes.

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

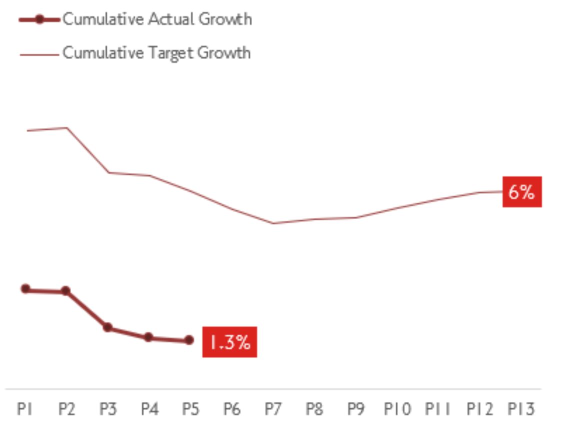
TfL		Absolute m	Var to Bud m	Var to Last Year (m/ %)	
	P	256	(10.7)	3.0	1.2%
	Y	1369	(51.7)	28.1	2.1%



LU		Absolute m	Var to Bud m	Var to Last Year (m/ %)	
	P	87	(5.7)	0.2	0.3%
	Y	456	(20.0)	10.9	2.5%



Bus		Absolute m	Var to Bud m	Var to Last Year (m/ %)	
	P	131	(3.7)	1.1	0.9%
	Y	713	(29.7)	9.3	1.3%



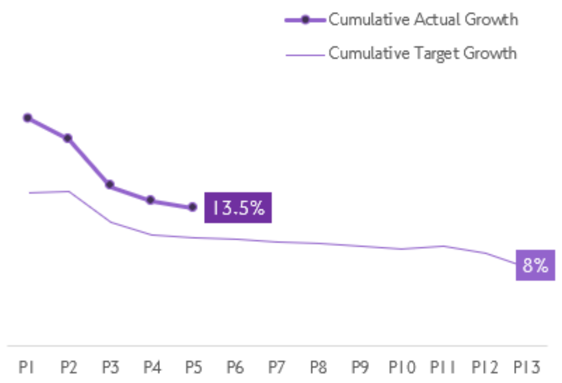
Rail		Absolute m	Var to Bud m	Var to Last Year (m/ %)	
	P	21	(1.6)	(0.0)	-0.1%
	Y	113	(4.3)	(2.5)	-2.1%

LO		Absolute m	Var to Bud m	Var to Last Year (m/ %)	
	P	12	(1.0)	0.2	1.7%
	Y	69	(2.8)	0.4	0.5%

DLR		Absolute m	Var to Bud m	Var to Last Year (m/ %)	
	P	7	(0.6)	0.1	0.7%
	Y	37	(1.4)	(1.4)	-3.5%

Tram		Absolute m	Var to Bud m	Var to Last Year (m/ %)	
	P	1	(0.0)	(0.3)	-20.4%
	Y	6	(0.0)	(1.5)	-19.3%

EL		Absolute m	Var to Bud m	Var to Last Year (m/ %)	
	P	17	0.3	1.7	11.2%
	Y	87	2.3	10.3	13.5%



EL journeys are estimates and are subject to revision

Economic context

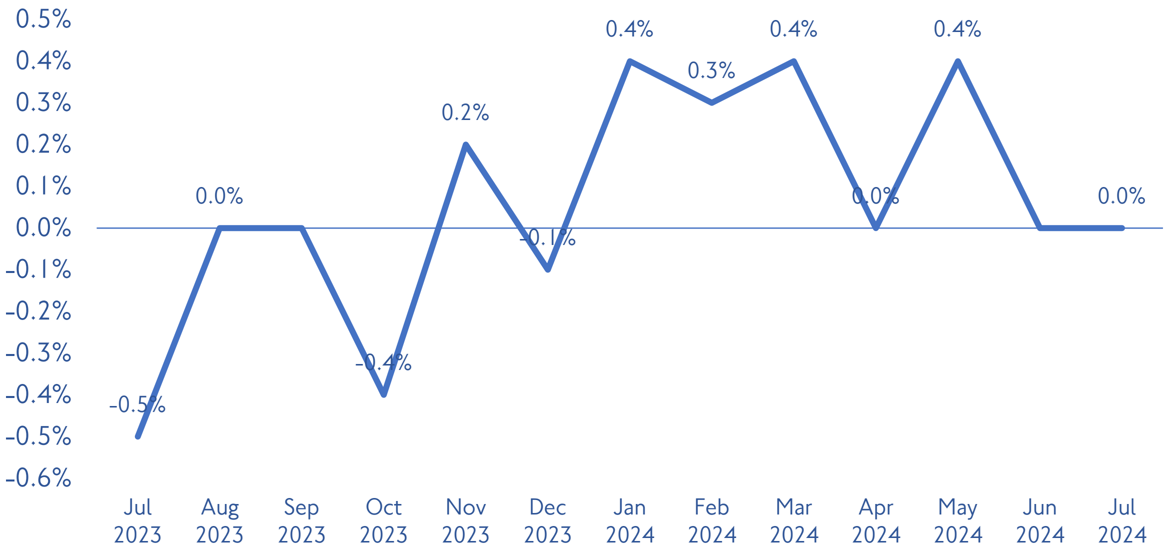
Economic growth has been lower than expected. The economic forecast that underpinned our Budget estimated gross domestic product (GDP) growth at between 1% and 1.6% this year. However, GDP has shown no growth in both June and July 2024. In the three months to July 2024, GDP has grown by only 0.5% when compared with the three preceding months.

Wages are growing in real terms, but are lower than pre-pandemic levels and affect individuals and households differently.

Younger adults, who use our services more, are seeing lower wage growth, especially relative to housing costs. Between 2019 and 2023 median income growth has been 14%, while food prices rose by 31% and energy prices by 87%.

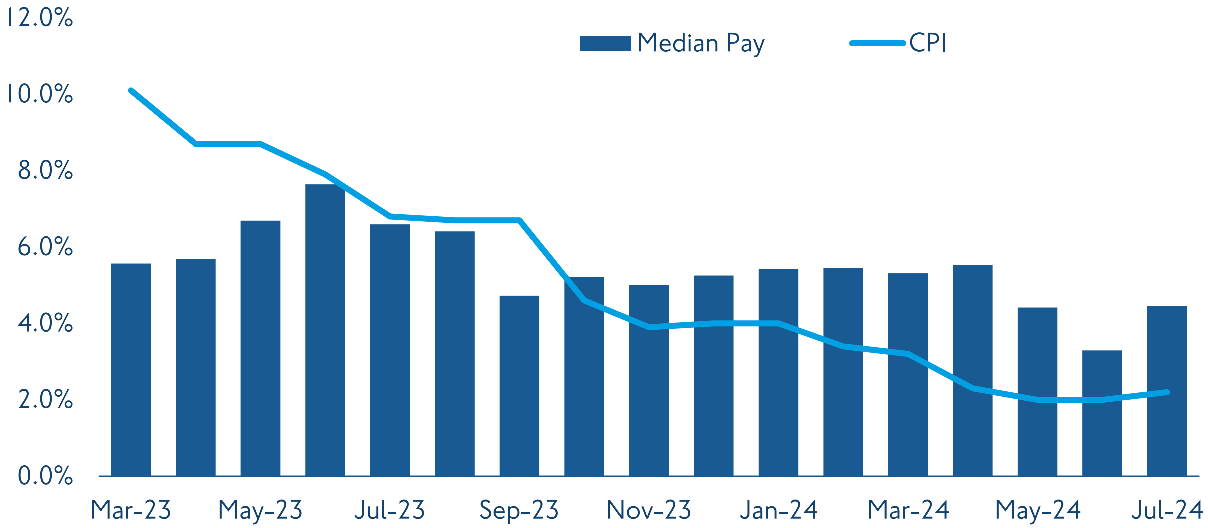
Wage growth in London is skewed by housing costs. On average, Londoners spend 17% of their income on housing costs, compared to c.10% or less in other regions of the UK. The proportion of income spent on housing has fallen significantly since the financial crisis in every region except for London.

Economic growth remains sluggish, with 3 months of flat growth this financial year



ONS, *GDP monthly estimate, UK: July 2024*

The UK is seeing real-terms wage growth, but this affects households differently



ONS, *Earnings and employment from Pay As You Earn Real Time Information, non-seasonally adjusted (September 2024)*

Income statement

In the year to date we have made an operating deficit of £16m. Period 5 covers the summer holidays when demand, and therefore revenue, is lower. Our Quarter 1 forecast is to deliver an operating surplus over the full year of £61m.

Passenger income is £78m lower than Budget in the year to date, driven by lower passenger growth than expected. Other operating income is £18m up on Budget from higher ULEZ enforcement income.

Our core operating costs are £36m higher than Budget, mainly from higher bad debt charges from enforcement income. Exceptional costs are £42m lower, mainly from central contingency, which was budgeted to mitigate revenue uncertainty in the year.

£m	Actuals	Variance to Budget		Variance to last year	
Underlying passenger income	1,997	(78)	-4%	86	5%
DfT revenue top up	0	0	N/A	(96)	-100%
Passenger income	**1,997**	**(78)**	**-4%**	**(10)**	**0%**
Other operating income	617	18	3%	107	21%
Business rates retention	835	0	0%	99	13%
Other revenue grants	123	(14)	-10%	14	13%
Revenue	**3,572**	**(73)**	**-2%**	**210**	**6%**
Core operating costs	(3,042)	(36)	-1%	(296)	-11%
Investment programme operating costs	(59)	14	19%	27	31%
Exceptional costs	(1)	42	98%	1	58%
Operating surplus before interest and renewals	**471**	**(54)**	**-10%**	**(58)**	**-11%**
Capital renewals	(324)	(10)	-3%	(79)	-32%
Net interest costs	(163)	(5)	-3%	1	1%
Operating surplus / (deficit)	**(16)**	**(69)**	**-131%**	**(136)**	**-114%**

Income statement excludes Places for London

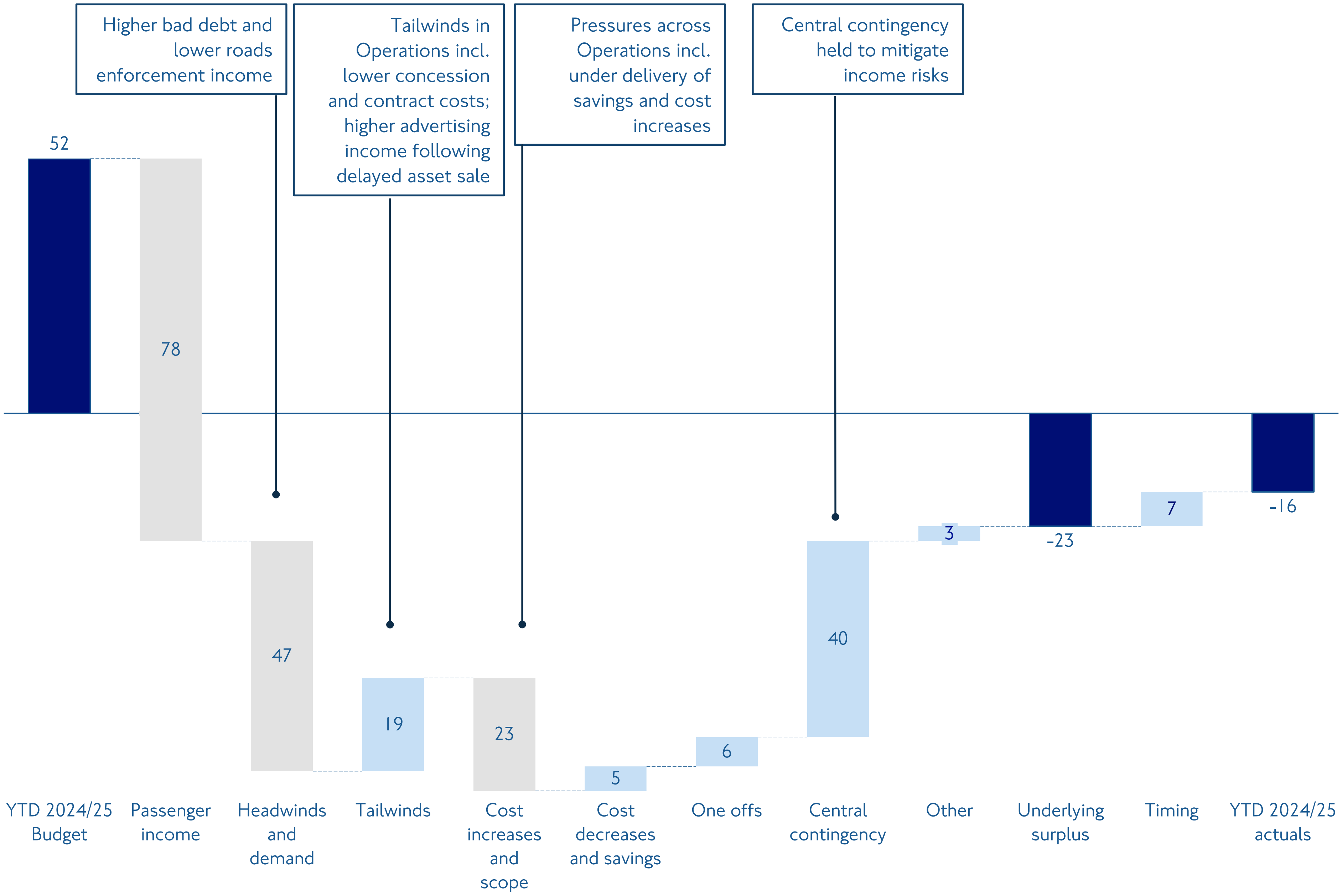
Operating surplus

We have an operating deficit of £16m in the year to date, which is £69m worse than Budget. After adjusting for timing differences – mainly in capital renewals and Investment Programme operating costs – we are making a deficit of £23m, £75m behind Budget.

We are seeing a combined £125m pressure on our surplus from demand and volume pressures on passenger income, roads enforcement income and enforcement payment rates. Our core costs – after adjusting for bad debt – are slightly better than Budget.

The revenue pressure has been partly mitigated by central contingency, which was included in our Budget to mitigate income risks. However, the magnitude of our revenue pressure will require further savings this year.

Operating surplus/ (deficit) variance to Budget (£m)



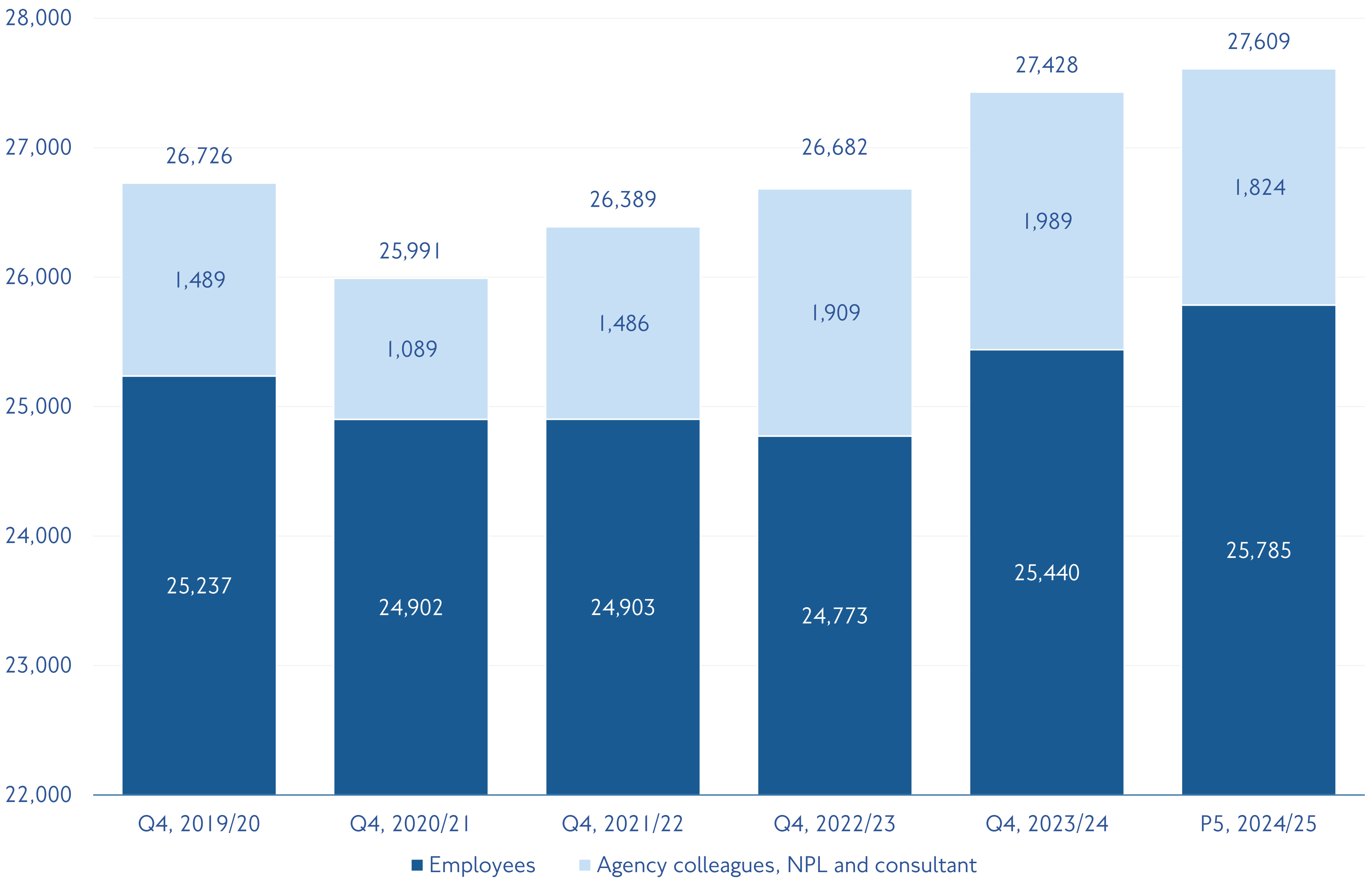
Colleagues

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 non-permanent labour (NPL) colleagues have increased by just over 300 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

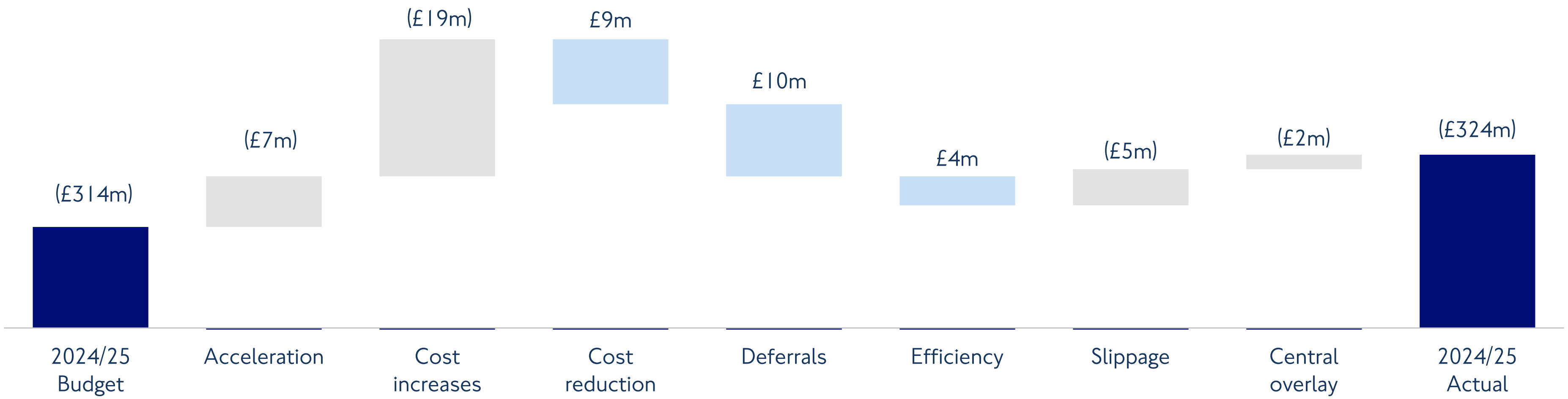
Capital renewals are £324m in the year to date, £79m up on last year as we increase renewals investment to address the backlog of asset replacement.

Renewals spend is £10m higher than Budget in the year to date, largely due to acceleration of works delivering ahead of schedule in LU renewals and cost increases in Technology and LU renewals due to asset condition prolongation and project delays.

We expect to hit our Budget by year end.

£m	Actuals	Variance to Budget		Variance to last year	
Four Lines Modernisation	(1)	1	29%	0	0
Silvertown Tunnel	(0)	1	81%	(0)	0%
Streets, Bus & RSS Renewals	(76)	3	4%	(29)	-63%
Environment	(11)	(2)	-20%	(5)	-89%
Rail & Station Enhancements	(0)	(0)	-127%	1	76%
LU Renewals	(170)	(7)	-5%	(27)	-19%
Technology	(55)	(3)	-5%	(13)	-32%
Licensing & Regulation (TPH)	(5)	(1)	-37%	(2)	-85%
Estates Directorate	(4)	4	47%	(3)	-194%
Overlays	(0)	(5)	100%	0	93%
Total	(324)	(10)	-3%	(79)	-32%

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



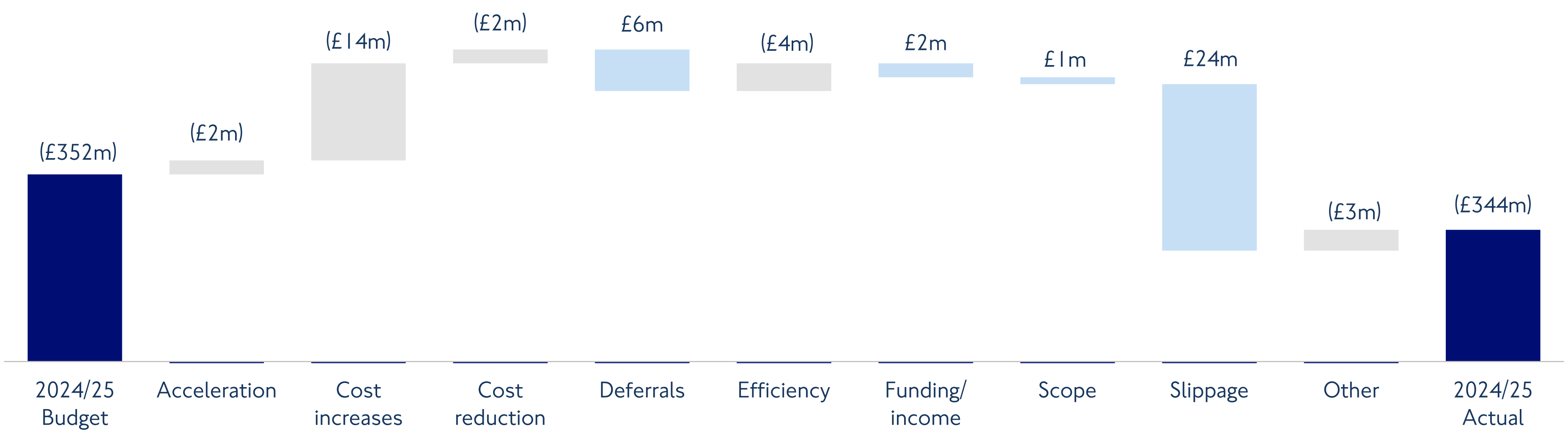
Capital enhancements

Capital enhancements are £344m in the year to date, £3m lower than last year.

Enhancements spend is £8m lower than Budget in the year to date, driven by slippage in start of programmes, design delays and in-year risk rephasing, which is partly offset by cost increases.

£m	Actuals	Variance to Budget		Variance to last year	
Four Lines Modernisation	(28)	2	6%	10	26%
DLR Rolling Stock Replacement	(81)	2	3%	1	1%
Piccadilly Line Upgrade	(116)	12	9%	(11)	-10%
Bakerloo Line Trains	(2)	0	10%	(1)	-363%
Trams replacement	(1)	1	40%	(0)	-51%
Other Enhancements	(117)	(8)	-8%	4	4%
Total TfL excl. Places and Crossrail	**(344)**	**8**	**2%**	**3**	**1%**
Places for London	(33)	13	28%	4	10%
Crossrail	(12)	13	52%	10	45%
Total	**(389)**	**34**	**8%**	**16**	**4%**

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



Cash flow

Cash balances are £1.27bn at the end of Period 5, over £140m lower than Budget and £84m lower than at the end of 2023/24.

Our cash balances are lower than Budget mainly as a result of lower revenue, timing of borrowings and a delayed asset sale which is now expected in Quarter 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	(84)	(86)	-5582%	98	54%
Closing balance	**1,269**	**(141)**	-10%	**214**	20%

Cash flow statement

£m	Actuals	Variance to Budget		Variance to last year	
Operating surplus before capital renewals and interest	471	(54)	-10%	(58)	-11%
Less LTIG and LTM	2	3	556%	2	4594%
Cash generated / (used) from operating activities	***473***	***(51)***	*-10%*	***(56)***	*-11%*
Capital renewals	(324)	(10)	-3%	(79)	-32%
New capital investment	(344)	8	2%	3	1%
Investment grants and ring-fenced funding	73	(53)	-42%	(310)	-81%
Working capital movements	(59)	166	74%	122	67%
Cash generated / (used) from investing activities	***(655)***	***110***	*14%*	***(264)***	*-68%*
Free cash flow	(182)	59	25%	(320)	-231%
Net interest costs	(163)	(5)	-3%	1	1%
Net borrowings	260	(140)	-35%	417	266%
Cash generated / (used) from financing activities	***98***	***(145)***	*-60%*	***418***	*130%*
Change in cash balance	(84)	(86)	-5582%	98	54%

Reserves

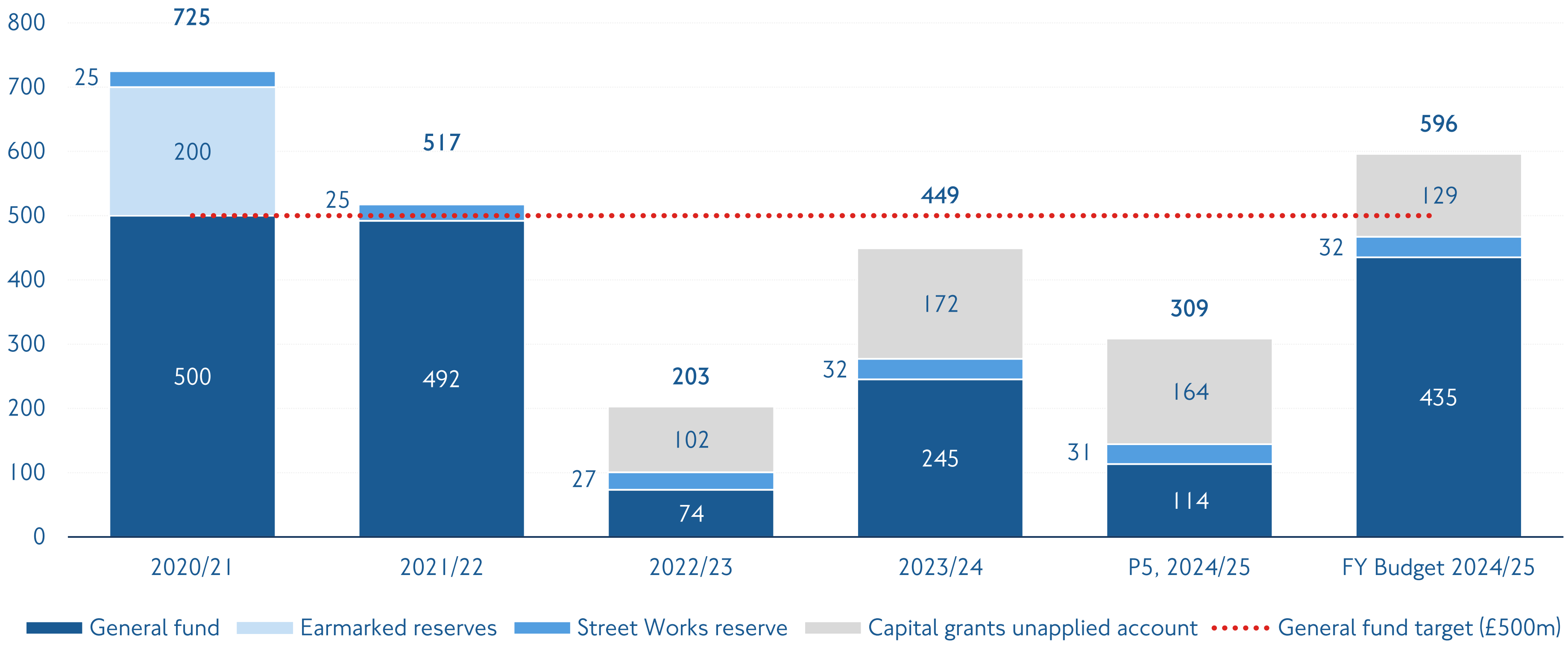
The pandemic has seen a material reduction in TfL's usable reserves, which primarily consist of its General Fund, Earmarked Reserves and Capital Grants Unapplied.

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

Debt

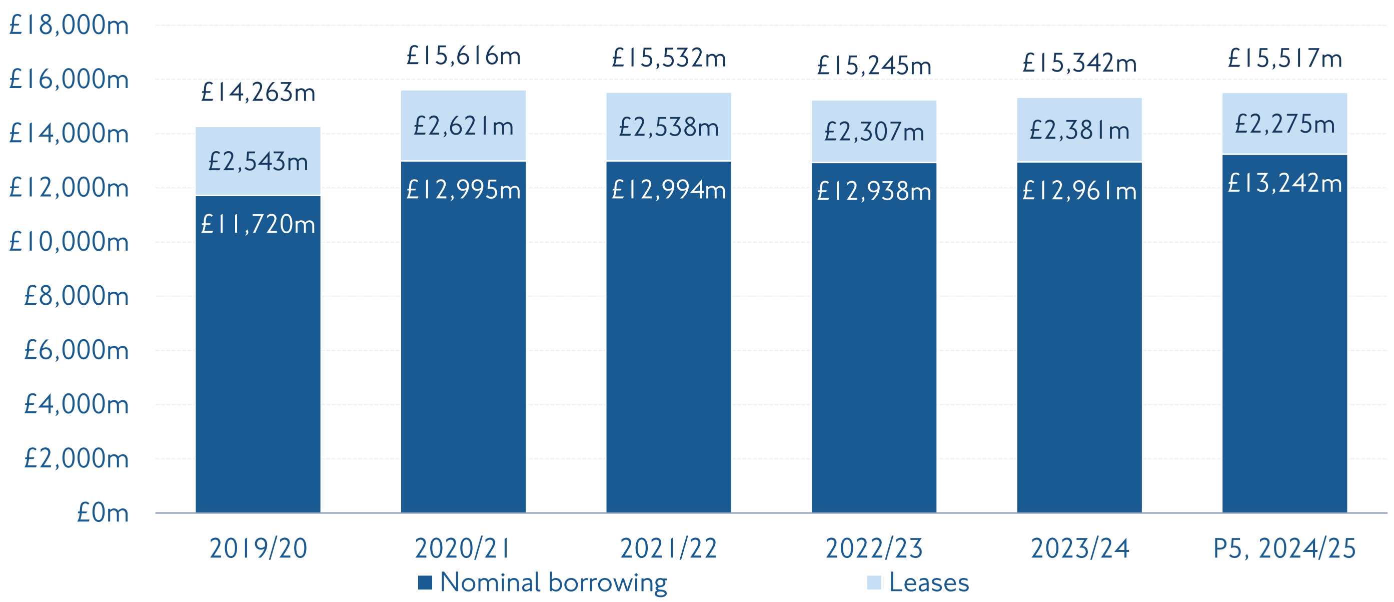
We have borrowed from a range of sources to help fund our capital programme, including Crossrail and major upgrades to our tube network.

Our level of outstanding borrowing has increased by £281m for the year, bringing our total borrowing balance to £13,242m. 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 – in line with our budget - as we continue to borrow to fund our investment programme.

Prudential indicator debt limits	£m
Nominal borrowing	13,242
Operational boundary	13,454
Authorised limit	14,654

Total debt (£m)



90%

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

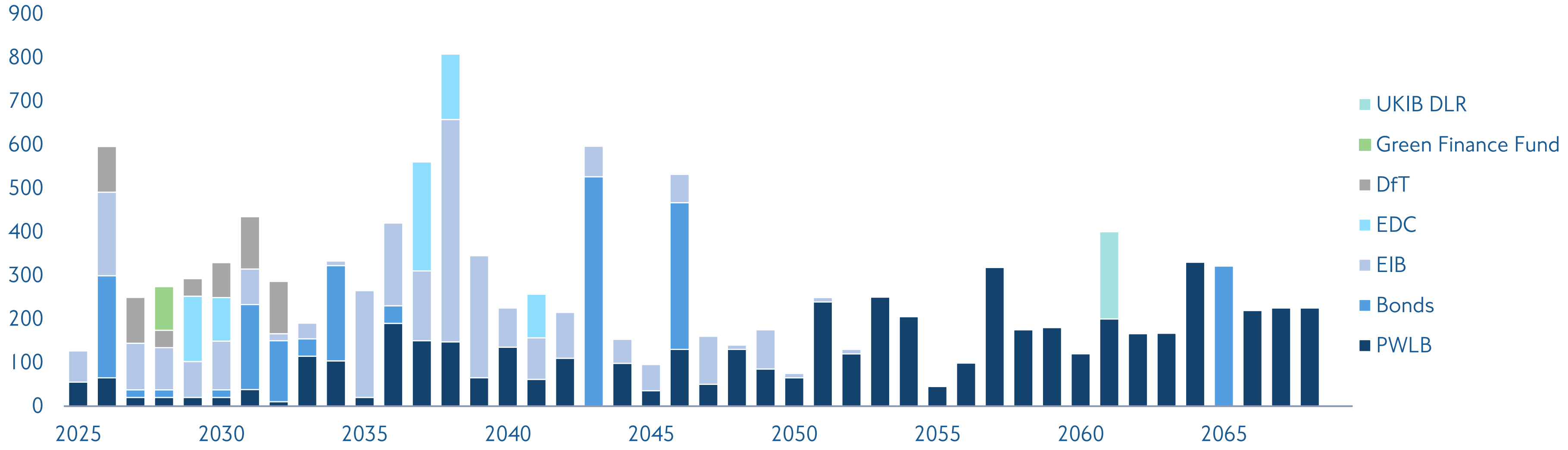
3.6%

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

18-years

The weighted average tenor of our borrowing is just over 18 years

TfL borrowing maturity profile



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 changes since our Period 2 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).