Appendix 1

Finance Report

Period 7, 2024/25

Management results from 1 April 2024 – 12 October 2024

Board

4 December 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 increase our ability to invest by continuing to deliver on our financial strategy:

Grow and diversify our revenue

- Cumulative journey growth in the year to date is 1.6%, slightly down from the 2% reported in Period 5. 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 74 million lower than Budget with passenger income £111m lower than Budget.
- Our latest forecast is for passenger income to be £300m up on last year, but £188m lower than Budget.

Deliver recurring cost savings

- Total operating costs are just under Budget. Core operating costs are £59m higher than Budget, mainly from higher bad debt charges from enforcement income and pressures from higher bus retender costs. This is offset by contingency (budgeted to mitigate risks on revenue).
- Our Budget included delivery of £259m of savings this. year, including £130m of recurring savings.
- We have implemented cost saving measures to help mitigate the revenue pressure.

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 £32m at Period 7.
- Our latest forecast is for an operating surplus of £23m this year, £138m lower than Budget, but still a small growth in underlying surplus compared to 2023/24.
- Our forecast has worsened by £38m since Quarter 1, primarily a result of the impact of the recent cyber security incident.

Fund our capital investment

- Capital renewals are £445m in the year to date, £85m up on last year as we increase renewals investment to address the backlog of asset replacement.
- Renewals are £9m higher than Budget, from an early ramp up in spend and some cost increases. We expect to hit Budget over the full year.
- We have secured £485m of government capital funding for 2025/26.

Maintain liquidity to protect us against shocks

- Cash balances are £1.18bn at the end of Period 7 and are almost £230m lower than Budget, a result of revenue pressures and timing of borrowing.
- The Greater London Authority financing facility of £350m offers additional protection against shocks and risks.

Our progress

Our underlying revenue has increased by over £2.7bn since 2020/21 and over £300m on last year, with increases from all revenue sources.

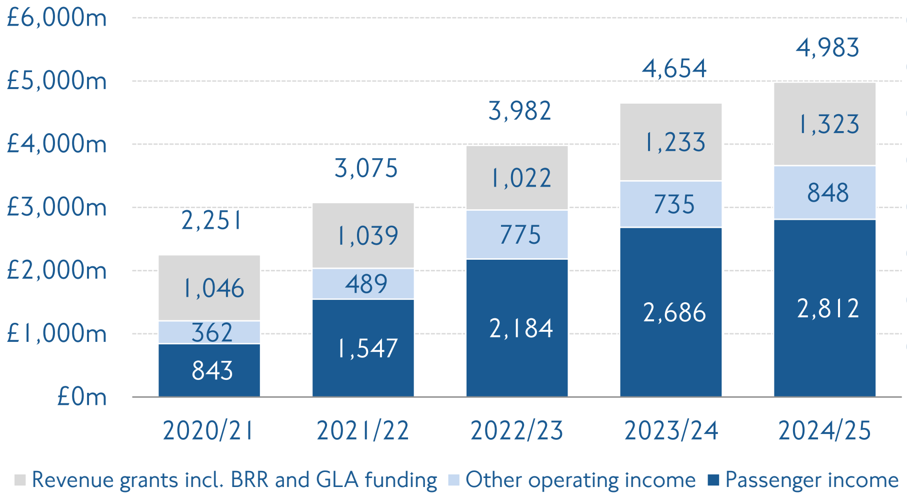
Real terms like-for-like operating costs are almost £300m lower than in 2020/21.

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 £23m. We are continuing to take steps to deliver in excess of this.

Although our cash balance is temporarily below £1.2bn mainly due to timing differences, we are still forecasting to end the year above £1.3bn of cash.

Grow and diversify our revenue

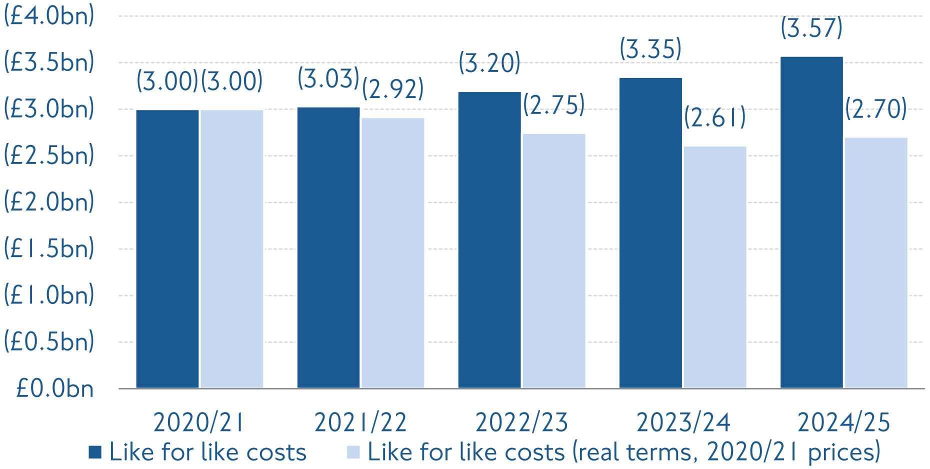
Revenue (excluding extraordinary funding) – Year to Period 7 (£m)



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

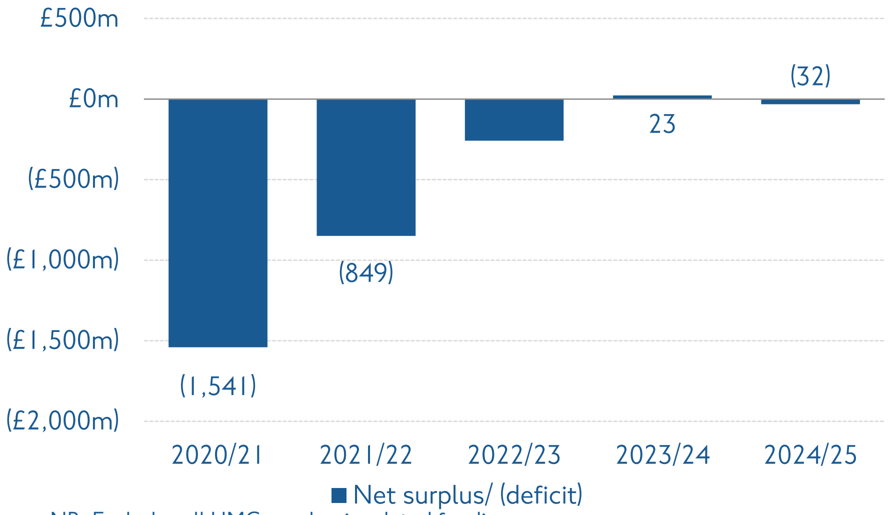
Deliver recurring cost savings

Like-for-like costs since 2020/21 – Year to Period 7 (£bn)



Grow our operating surplus

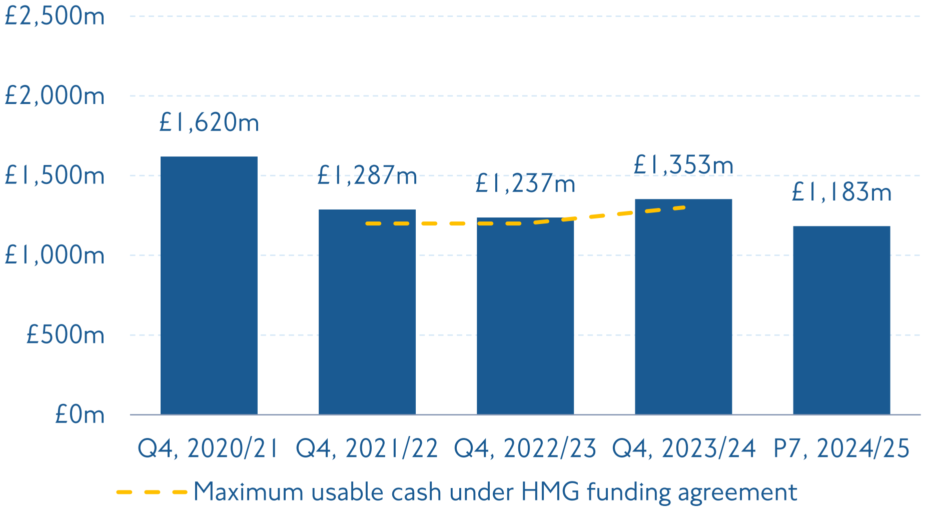
Operating surplus / (deficit) – Year to Period 7 (£m)



NB: Excludes all HMG pandemic related funding

Maintaining liquidity to protect us against shocks

Cash balance (£m)



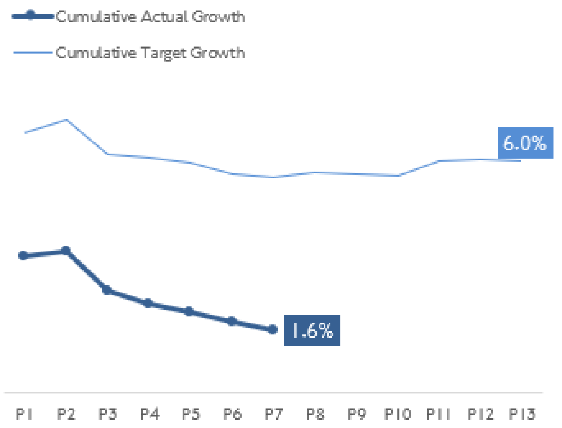
Passenger journeys

In 2024/25 we have budgeted 6% year-on-year growth in demand. In the year to date, journeys are 1.6% up on last year, but are 74 million lower than 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.

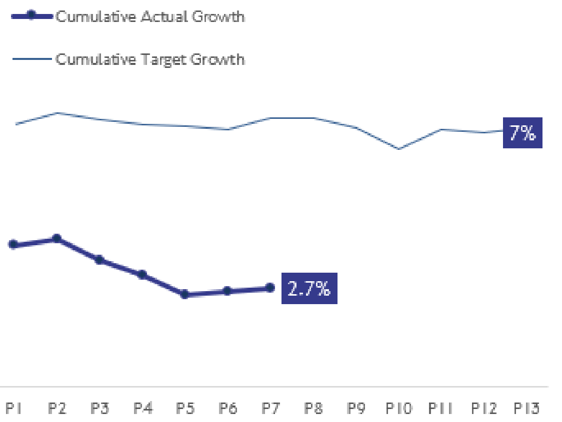
As a result of the cyber security incident, journey results are estimated based on income received. Journey data continues to be manually reconciled due to the cyber security incident; while we have confidence in passenger income, there is some uncertainty on journeys as we do not have complete demand data. This is not expected to be resolved until Quarter 3.

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

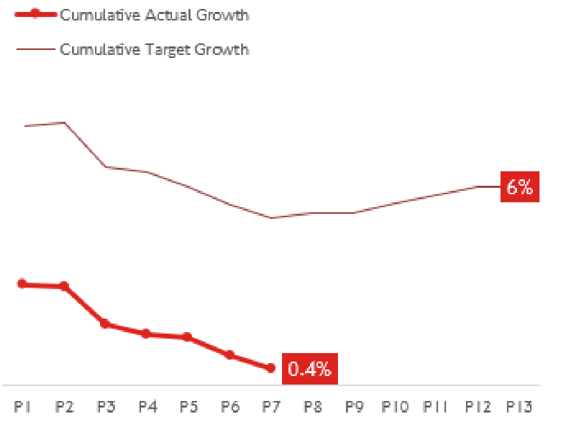
TfL		Absolute m	Var to Bud m	Var to Last Year (m/ %)	
	P	293	(13.6)	1.2	0.4%
	Y	1,925	(74.2)	30.7	1.6%



LU		Absolute m	Var to Bud m	Var to Last Year (m/ %)	
	P	96	(5.2)	3.1	3.3%
	Y	639	(28.1)	16.6	2.7%

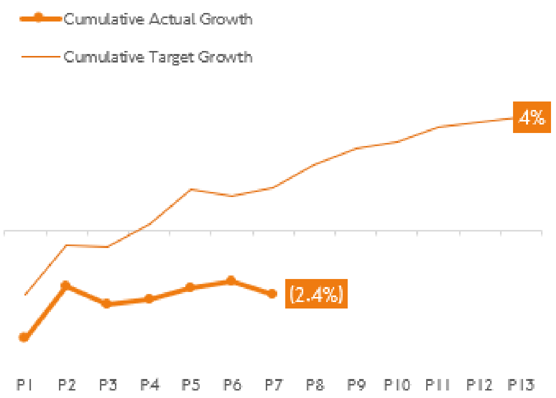


Bus		Absolute m	Var to Bud m	Var to Last Year (m/ %)	
	P	153	(6.5)	(2.4)	-1.6%
	Y	1,004	(42.2)	4.2	0.4%



security

Rail		Absolute m	Var to Bud m	Var to Last Year (m/ %)	
	P	24	(2.1)	(1.3)	-5.1%
	Y	159	(6.5)	(3.9)	-2.4%

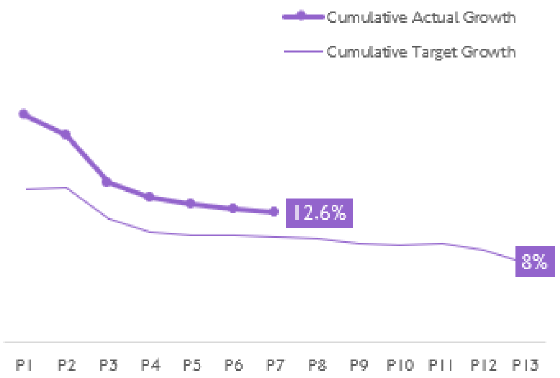


LO		Absolute m	Var to Bud m	Var to Last Year (m/ %)	
	P	14	(1.5)	(0.7)	-4.9%
	Y	97	(4.1)	(0.3)	-0.4%

DLR		Absolute m	Var to Bud m	Var to Last Year (m/ %)	
	P	8	(0.3)	(0.4)	-4.5%
	Y	52	(2.1)	(1.7)	-3.2%

Tram		Absolute m	Var to Bud m	Var to Last Year (m/ %)	
	P	1	(0.2)	(0.2)	-10.1%
	Y	9	(0.3)	(1.8)	-16.5%

EL		Absolute m	Var to Bud m	Var to Last Year (m/ %)	
	P	19	0.3	1.8	10.4%
	Y	123	2.6	13.8	12.6%



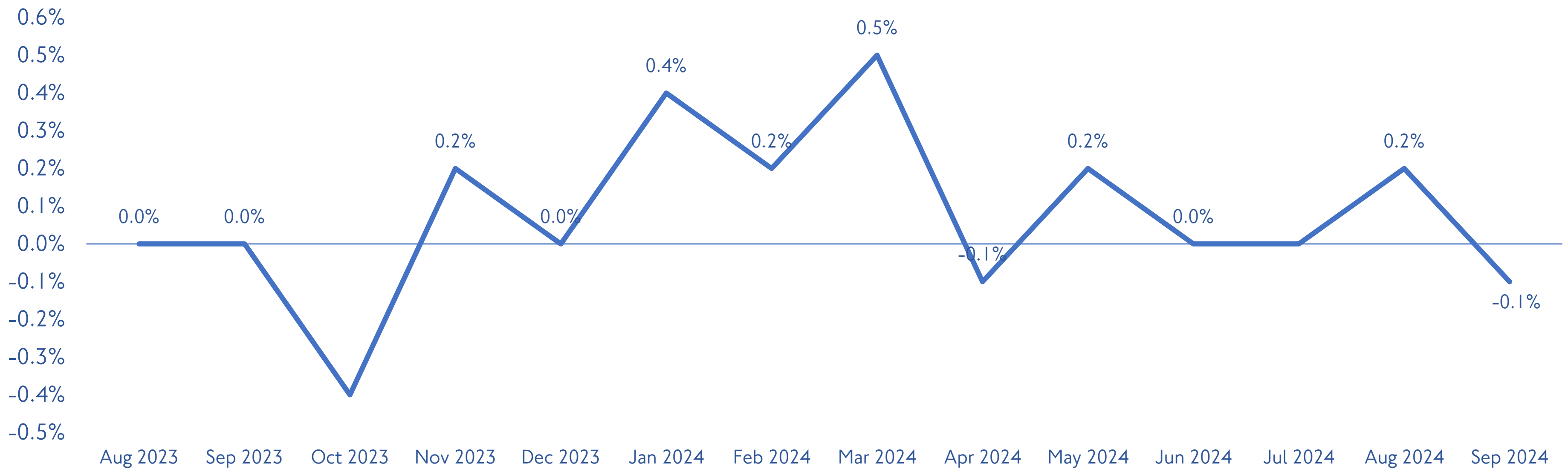
Economic context

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 been relatively flat.

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.

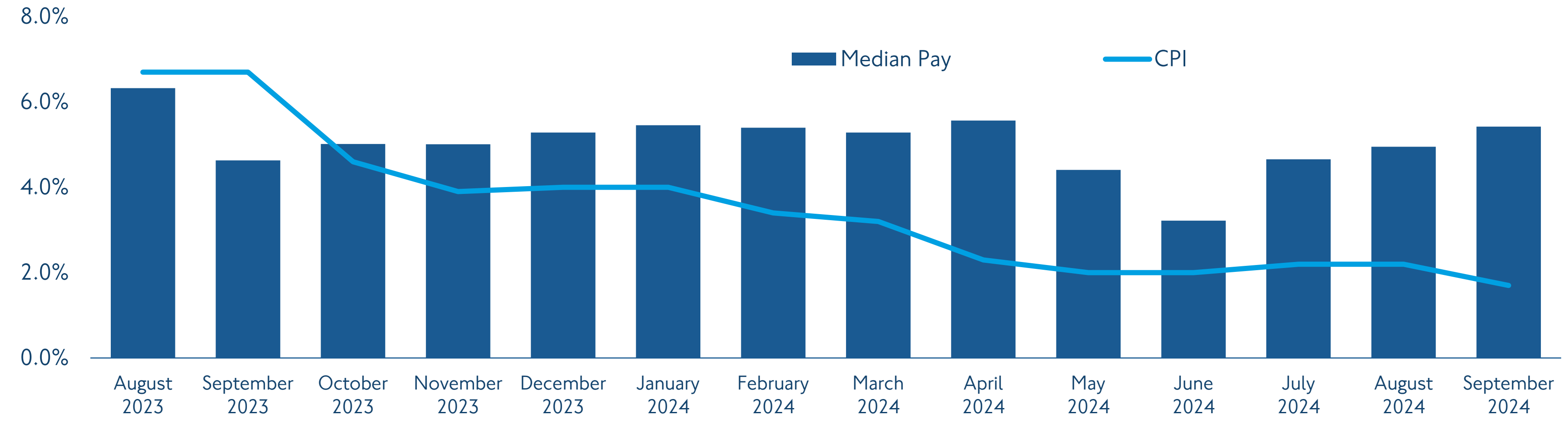
Wage growth in London is skewed by housing costs. On average, Londoners spend 17% of their income on housing costs, compared to c.10% or less in other regions of the UK. The proportion of income spent on housing has fallen significantly since the financial crisis in every region except for London.

Economic growth remains sluggish



ONS, *GDP monthly estimate, UK: September 2024 (November 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 (November 2024)*

Income statement

In the year to date we have made an operating deficit of £32m. Our latest forecast is to deliver an operating surplus of £23m, which is down from our earlier Quarter 1 forecast of £61m largely due to the financial impacts of the cyber security incident.

Passenger income is £111m lower than Budget in the year to date, driven by lower passenger growth than expected. Other operating income is £11m up on Budget from higher ULEZ enforcement income.

Our core operating costs are £59m higher than Budget, mainly from higher bad debt charges from enforcement income. Exceptional costs are £58m lower, mainly from central contingency, which was budgeted to mitigate revenue uncertainty in the year. Exceptional costs include £5m of cyber security incident costs.

£m	Actuals	Variance to Budget		Variance to last year	
Underlying passenger income	2,812	(111)	-4%	126	5%
DfT revenue top up	0	0	N/A	(90)	-100%
Passenger income	**2,812**	**(111)**	-4%	**36**	1%
Other operating income	848	11	1%	113	15%
Business rates retention	1,168	0	0%	138	13%
Other revenue grants	154	(8)	-5%	(48)	-24%
Revenue	**4,983**	**(108)**	-2%	**239**	5%
Core operating costs	(4,249)	(59)	-1%	(391)	-10%
Investment programme operating costs	(84)	8	9%	100	54%
Exceptional costs	(5)	58	91%	(3)	-124%
Operating surplus before interest and renewals	**644**	**(101)**	-14%	**(55)**	-8%
Capital renewals	(445)	(9)	-2%	(85)	-24%
Net interest costs	(231)	(7)	-3%	(5)	-2%
Operating surplus / (deficit)	**(32)**	**(117)**	-138%	**(145)**	-128%
Places for London net contribution	**18**	**3**	24%	**(11)**	-39%
Operating surplus/ (deficit) including Places for London	**(14)**	**(113)**	-114%	**(156)**	-110%

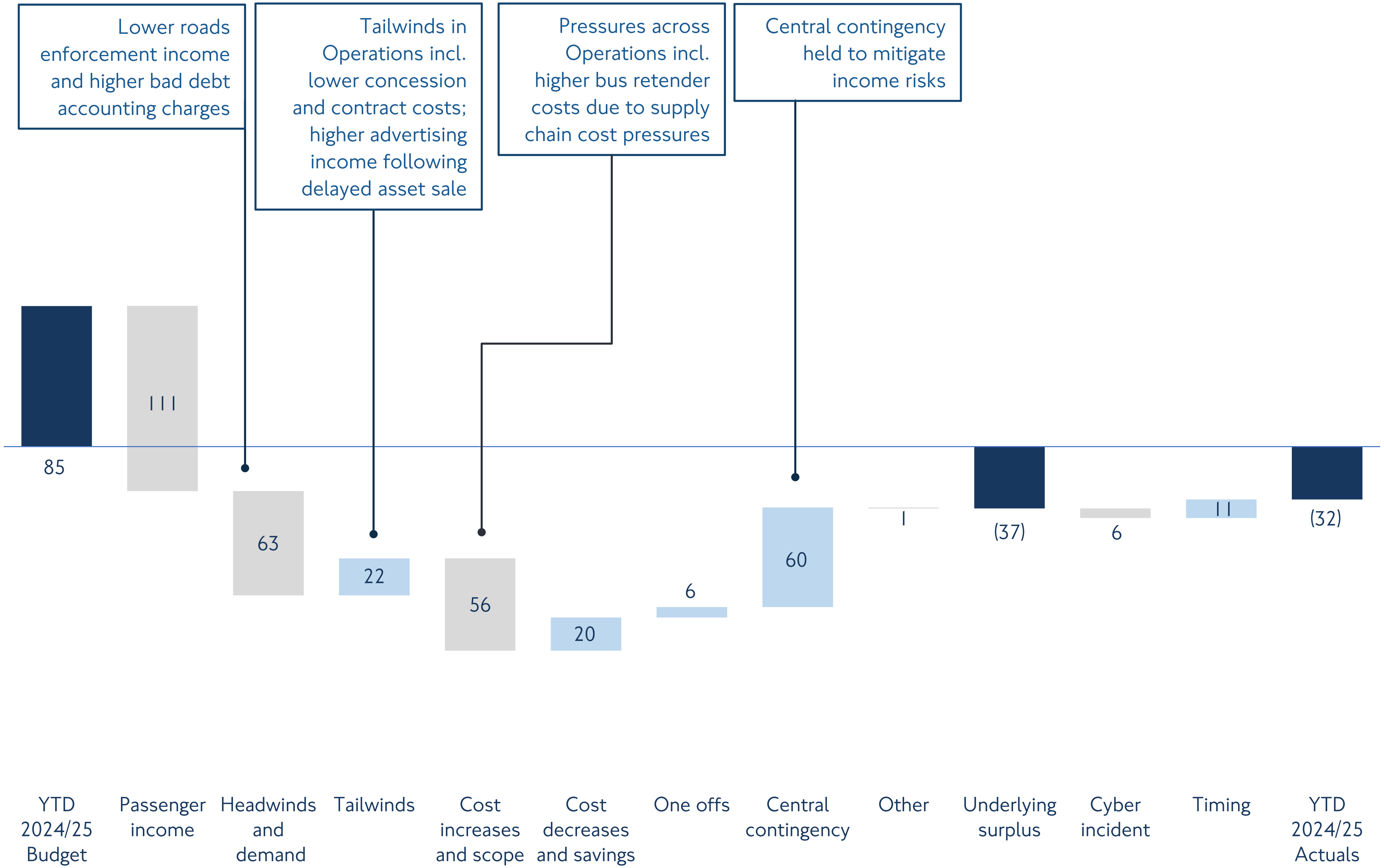
Operating surplus

We have an operating deficit of £32m in the year to date, which is £117m worse than Budget. After adjusting for timing differences – mainly in capital renewals and Investment Programme operating costs, and the impact of the recent cyber security incident – we are making a deficit of £37m, £122m behind Budget.

We are seeing a combined £174m pressure on our surplus from demand and volume pressures on passenger income, roads enforcement income and enforcement payment rates. Core costs have seen pressures from higher bus retender prices, which we have partly mitigated through savings.

The revenue pressure has been partly mitigated by central contingency, which was included in our Budget to mitigate income risks.

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



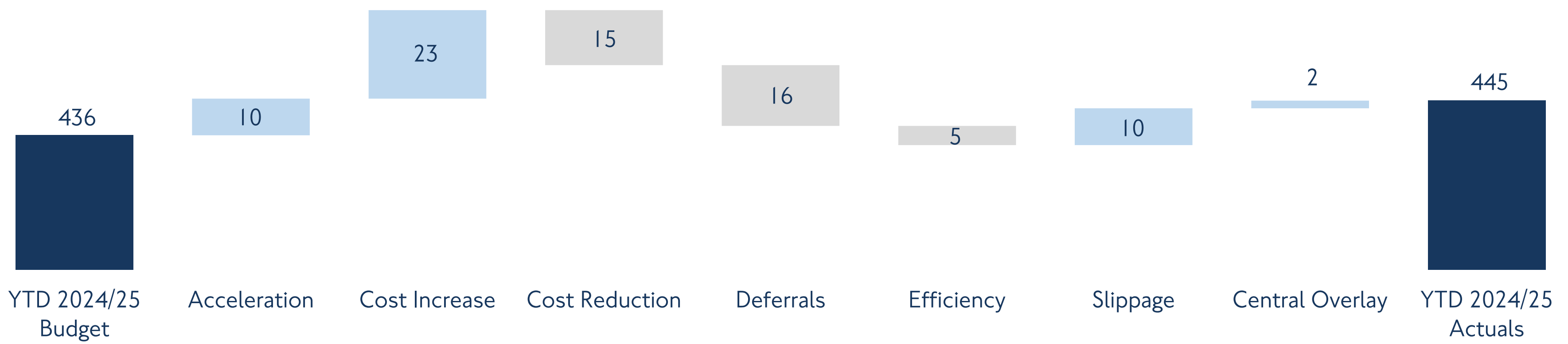
Capital renewals

Capital renewals are £445m in the year to date, £85m up on last year as we increase renewals investment to address the backlog of asset replacement.

Renewals spend is £9m (2%) higher than Budget in the year to date. This is due to a combination of cost increases across LU Renewals and Technology projects to address asset condition and acceleration of works, partially offset by some cost reductions and deferrals of works in Streets, Bus and Rail & Sponsored Services Renewals and Estates.

£m	Actuals	Variance to Budget		Variance to last year	
Four Lines Modernisation	(3)	1	19%	(0)	(0)
Silvertown Tunnel	(1)	1	62%	(1)	-487%
Streets, Bus & RSS Renewals	(96)	7	7%	(22)	-30%
Environment	(15)	(1)	-9%	(6)	-69%
Rail & Station Enhancements	(1)	(0)	-150%	2	72%
LU Renewals	(238)	(8)	-4%	(35)	-17%
Technology	(83)	(7)	-9%	(21)	-33%
Licensing & Regulation (TPH)	(3)	1	23%	0	4%
Estates Directorate	(6)	4	45%	(2)	-77%
Overlays	(0)	(6)	100%	0	95%
Total	**(445)**	**(9)**	**-2%**	**(85)**	**-24%**

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



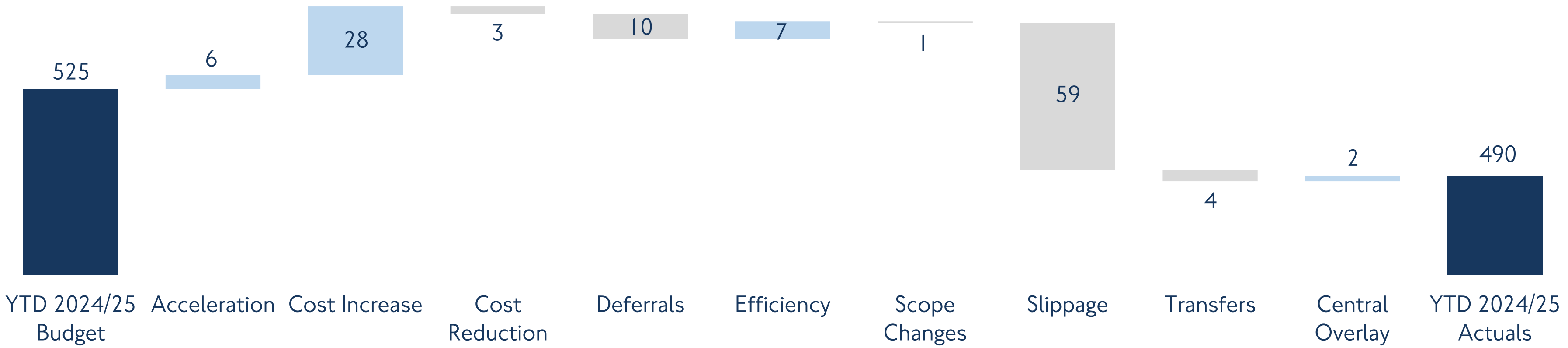
Capital enhancements

Capital enhancements (excluding Places for London and Crossrail) are £490m in the year to date, £21m lower than last year.

Enhancements spend is £34m (7%) lower than Budget in the year to date, driven largely by slippage on delivery in Piccadilly line upgrade and delays across DLR Rolling Stock programme. This slippage is partially offset by cost increases in Silvertown Tunnel and Four Lines Modernisation project prolongation.

£m	Actuals	Variance to Budget		Variance to last year	
Four Lines Modernisation	(39)	1	4%	12	24%
DLR Rolling Stock Replacement	(109)	9	8%	0	0%
Piccadilly Line Upgrade	(171)	24	12%	2	1%
Bakerloo Line Upgrade	(3)	0	11%	(2)	-303%
Trams replacement	(1)	1	36%	(0)	-40%
Other enhancements	(167)	(1)	-1%	10	5%
Total TfL excl. Places and Crossrail	**(490)**	**34**	7%	**21**	4%
Places for London	(74)	28	28%	(17)	-29%
Crossrail	(16)	16	51%	17	51%
Total	**(579)**	**79**	12%	**21**	4%

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



Cash flow

Cash balances are £1.18bn at the end of Period 7, almost £230m lower than Budget and £170m 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 adverse working capital movements.

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 are temporarily below that in Period 7, but are still forecasting to be above £1.3bn for the year-end.

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	(170)	(171)	-11175%	(64)	-60%
Closing balance	**1,183**	**(227)**	-16%	**51**	5%

Cash flow statement

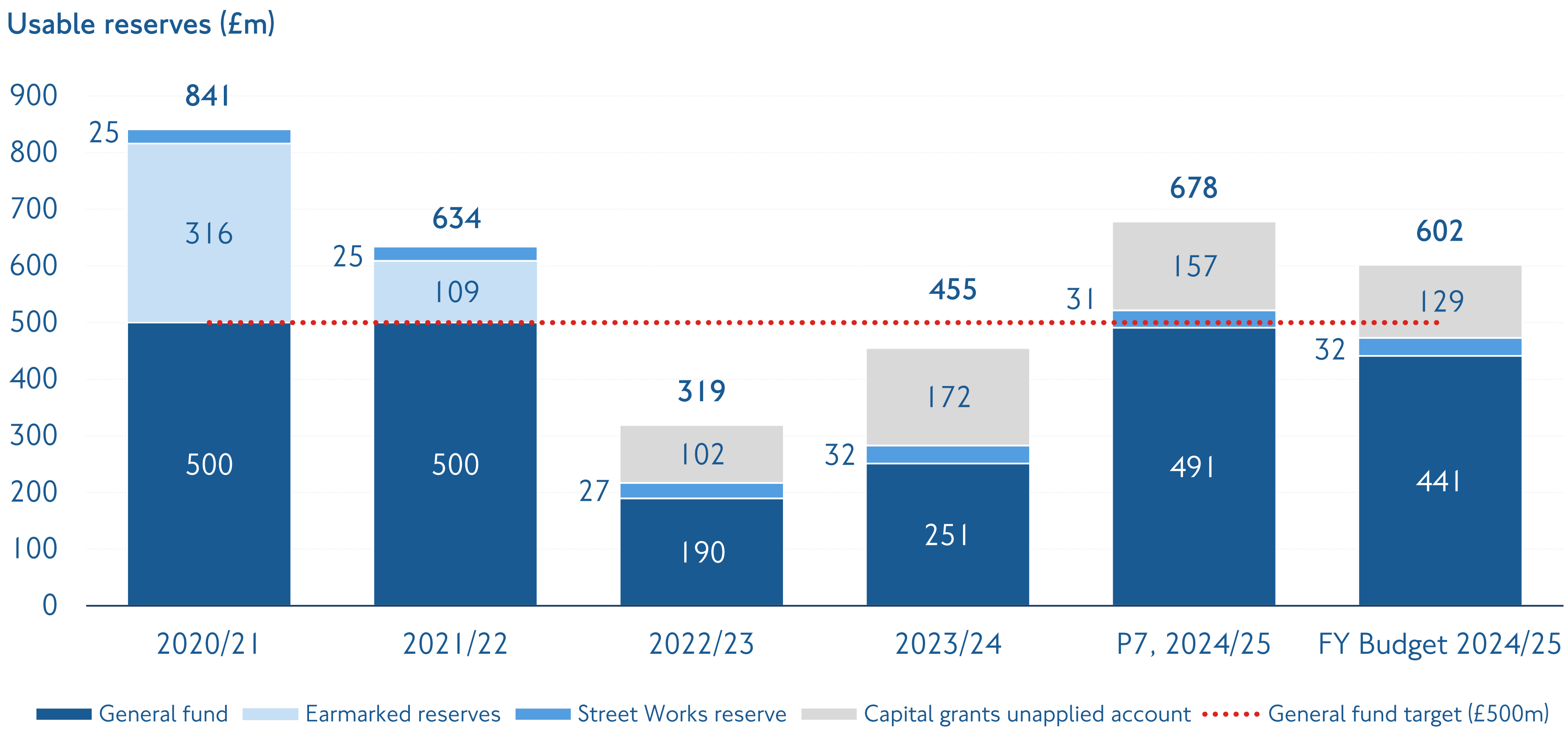
£m	Actuals	Variance to Budget		Variance to last year	
Operating surplus before capital renewals and interest	644	(101)	-14%	(55)	-8%
Less LTIG and LTM	2	3	556%	2	4594%
Cash generated / (used) from operating activities	***646***	***(98)***	*-13%*	***(52)***	*-8%*
Capital renewals	(445)	(9)	-2%	(85)	-24%
New capital investment	(490)	34	7%	21	4%
Investment grants and ring-fenced funding	135	(7)	-5%	(368)	-73%
Working capital movements	(141)	(40)	-40%	(66)	-88%
Cash generated / (used) from investing activities	***(941)***	***(22)***	*-2%*	***(498)***	*-112%*
Free cash flow	(295)	(120)	-69%	(550)	-216%
Net interest costs	(231)	(7)	-3%	(5)	-2%
Net borrowings	356	(45)	-11%	491	363%
Cash generated / (used) from financing activities	***125***	***(51)***	*-29%*	***486***	*135%*
Change in cash balance	(170)	(171)	-11175%	(64)	-60%

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 account.

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.



- Usable reserves 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 TfL to cover risks that may arise. TfL has a target General Fund balance of £500m, which was increased from £150m at the start of the pandemic in March 2020. The pandemic depleted TfL's reserves and it is now rebuilding these towards it target level.

- Capital grants unapplied account reflect where capital grants have been received in advance of expenditure being incurred on specific third-party funded projects.

Debt

We have borrowed from a range of sources to help fund our capital programme.

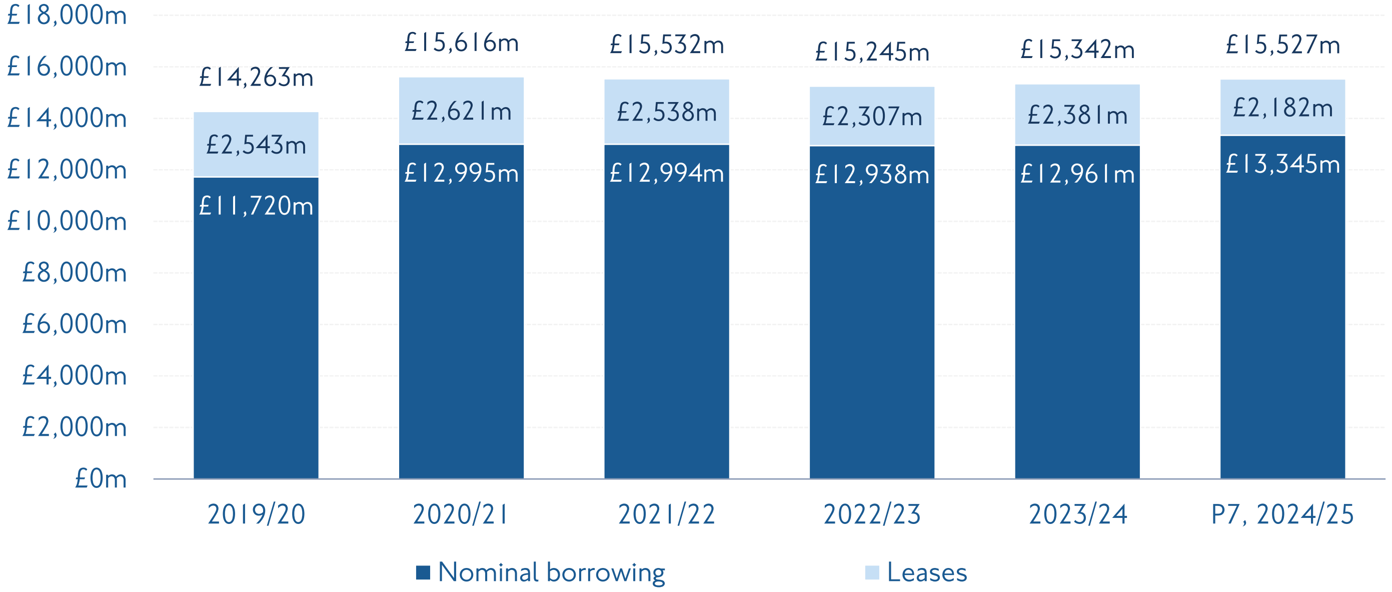
Our level of outstanding borrowing has increased by £383m for the year, bringing our total borrowing balance to £13,345m. This is driven by an increase in our long and short-term borrowing, to fund our capital spend and manage our liquidity.

Our total debt is forecast to increase later this year – in line with our budget – as we continue to borrow to fund our investment programme.

Prudential indicator debt limits *	£m
Operational boundary	13,454
Authorised limit	14,654

* Excludes PFI and long-term liabilities

Total debt (£m)



90%

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

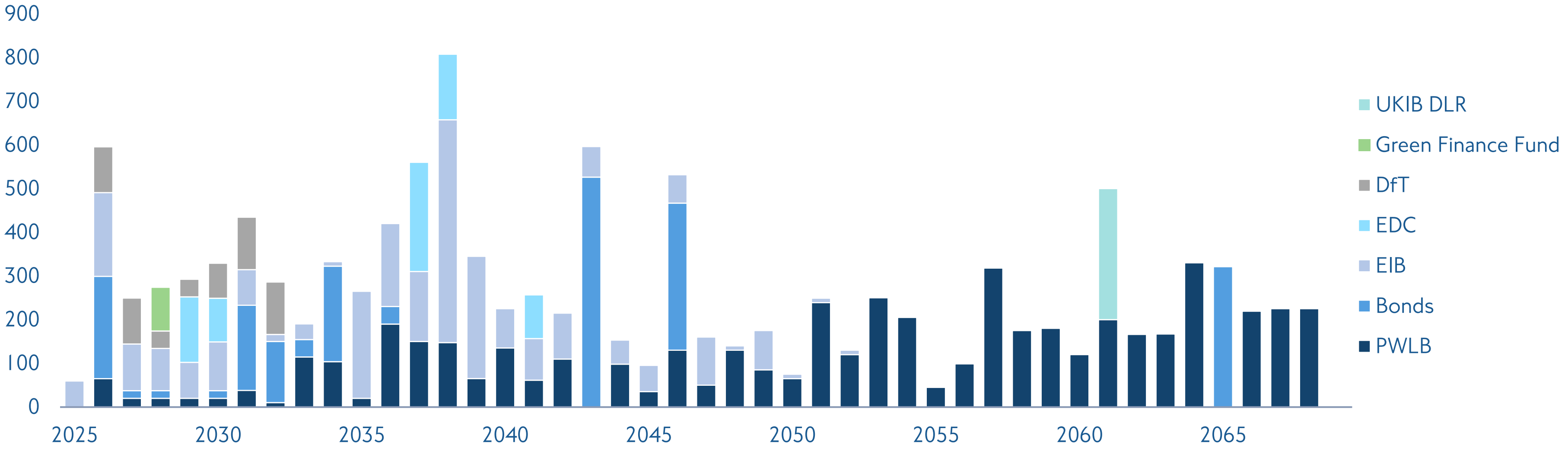
3.6%

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 (£m)



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 Period 5 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).

Q2 Forecast

During 2024-25 there have been several economic headwinds – slower economic growth, pressures on real-terms disposable income and a slower fall in inflation than anticipated. This has led to slower than expected growth in passenger demand and higher cost inflation in the supply chain.

More recently, there was the cyber security incident, throughout which TfL managed to prevent significant disruption to customers and Londoners. However, unplanned costs were necessarily incurred to ensure London could keep moving while dealing with the incident.

With a continued focus on cost control and the use of contingency included in the 2024-25 budget, the impact of these headwinds has been reduced. TfL continues to grow its operating surplus on an underlying basis compared to 2023-24 – albeit at a slower rate than previously planned.

Income Statement £m	Full-year forecast, 2024/25	Variance to Budget		Variance to last year	
Underlying passenger income	5,342	(188)	-3%	297	6%
DfT revenue top up	0	0	N/A	(188)	-100%
Passenger income	**5,342**	**(188)**	-3%	**109**	2%
Other operating income	1,540	63	4%	21	1%
Business rates retention	2,170	0	0%	256	13%
Other revenue grants	290	0	0%	(107)	-27%
Revenue	**9,342**	**(125)**	-1%	**278**	3%
Core operating costs	(7,896)	(105)	1%	(463)	6%
Investment programme operating costs	(169)	(16)	10%	144	-46%
Exceptional costs	(23)	114	-83%	19	-45%
Operating surplus before interest and renewals	**1,254**	**(132)**	-10%	**(22)**	-2%
Capital renewals	(798)	(3)	0%	(36)	5%
Net interest costs	(432)	(4)	1%	(19)	5%
Operating surplus / (deficit)	**23**	**(138)**	-86%	**(76)**	-77%
Places for London net contribution	**27**	**1**	4%	**(12)**	-31%
Operating surplus/ (deficit) including Places for London	**50**	**(137)**	-73%	**(88)**	-64%

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 above pre-pandemic levels, and up on last year, driven by recent 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 250 since the end of 2019/20, but remain significantly lower than 2015/16 levels. Due to the actions we have been taking, the numbers have reduced since the end of the last financial year 2023/24. NPL offers flexibility, particularly through time of change and temporary peaks in demand.

Headcount trends since 2019/20