

Finance Report

Period 9, 2024/25

Management results from 1 April 2024 – 7 December 2024

Board

5 February 2025



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:

<p>Grow and diversify our revenue</p> <ul style="list-style-type: none">• Cumulative journey growth in the year to date is 1.6%. 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 101 million lower than Budget with passenger income £154m lower than Budget.• Our Quarter 2 forecast is for passenger income to be £300m up on last year, but £188m lower than Budget.	<p>Deliver recurring cost savings</p> <ul style="list-style-type: none">• Core operating costs are £78m higher than Budget, mainly from higher bad debt charges from enforcement income and pressures from higher bus retender costs.• To help mitigate the revenue pressure we have so far reduced non-permanent labour (NPL) by 400 this year.• The outcome of the triennial TfL Pension Fund valuation as at 31 March 2024 and the subsequent agreement with the TfL Pension Trustees, allows us to reduce the employer contributions from the current 27.3 per cent to 10.5 per cent for the next three years. This was previously assumed to take effect from 2025/26, but we have accelerated delivery into 2024/25.	
<p>Grow our operating surplus</p> <ul style="list-style-type: none">• We are making an operating surplus of £50m in the year to date. This is £151m lower than Budget as a result of revenue pressures and cyber incident impacts of £23m in the year to date.• Our Quarter 2 full-year forecast was for an operating surplus of £23m this year, £138m lower than Budget, but still a small growth in underlying surplus compared to 2023/24.	<p>Fund our capital investment</p> <ul style="list-style-type: none">• Capital renewals are £556m in the year to date, £58m up on last year as we increase renewals investment to address the backlog of asset replacement.• Renewals are £6m lower than Budget, mainly from timing differences. We expect to hit Budget over the full year.• We have secured £485m of government capital funding for 2025/26.	<p>Maintain liquidity to protect us against shocks</p> <ul style="list-style-type: none">• Cash balances are £1.36bn at the end of Quarter 3 and are almost £80m lower than Budget, a result of revenue pressures offset by lower enhancement spend and timing of borrowing.• The Greater London Authority (GLA) financing facility of £350m offers additional protection against shocks and risks.

Our progress

Our underlying revenue has increased by almost £3.5bn since 2020/21 and is almost £500m up on last year, with increases from all revenue sources.

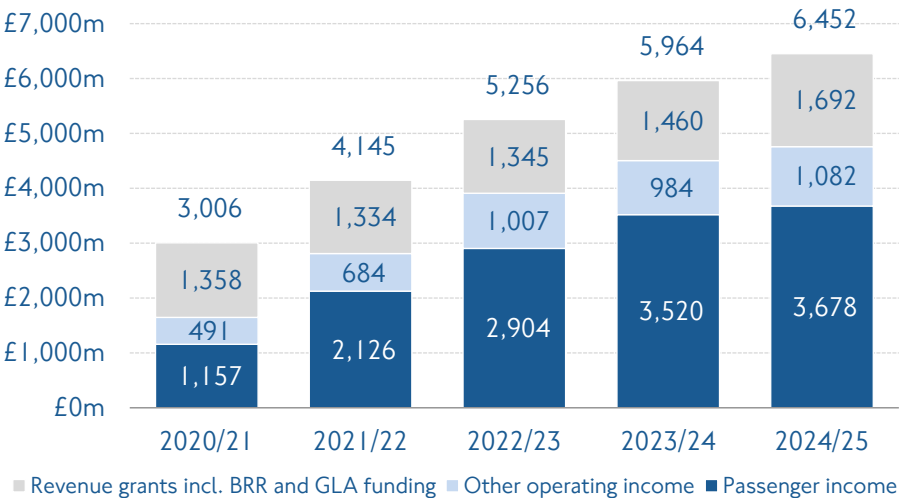
Real terms like-for-like operating costs are almost £400m lower than in 2020/21.

We turned an operating deficit into a surplus in 2023/24 through revenue increases and cost control. We are currently making a surplus, although this is lower than budgeted as a result of lower revenue growth. Our forecast surplus for this year is now £23m. We are continuing to take steps to deliver in excess of this.

Our cash balance is above our strategic minimum cash level; we are still forecasting to end the year above £1.3bn of cash.

Grow and diversify our revenue

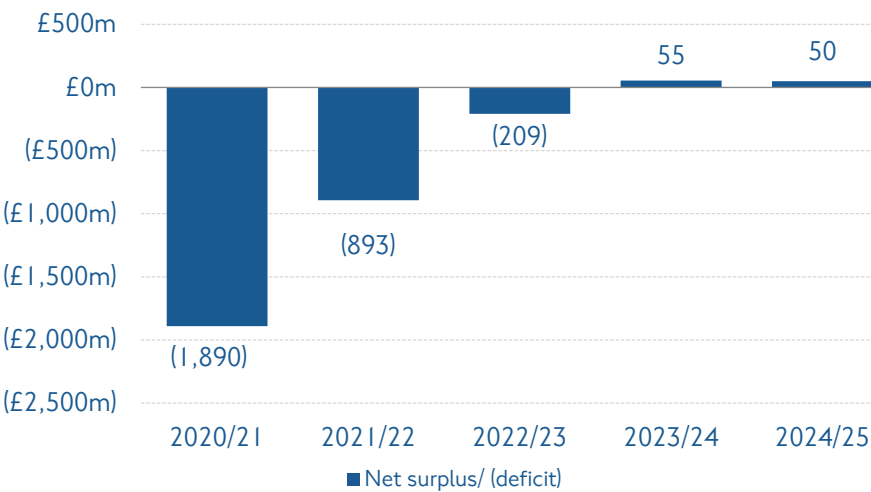
Revenue (excluding extraordinary funding) – Year to Period 9 (£m)



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

Grow our operating surplus

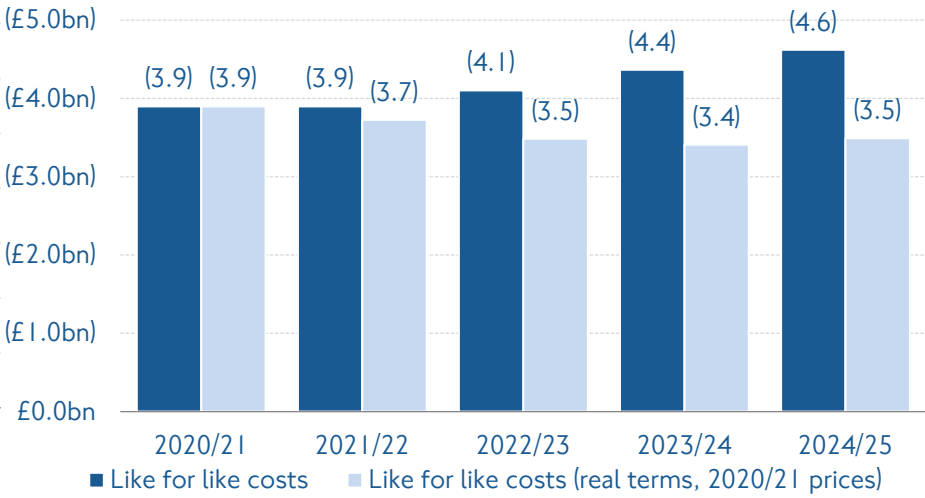
Operating surplus / (deficit) – Year to Period 9 (£m)



NB: Excludes all HMG pandemic related funding

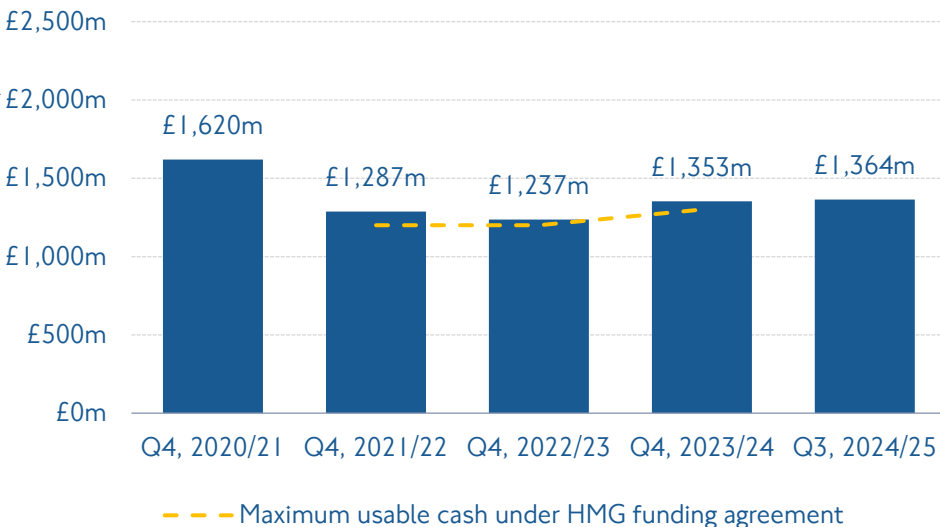
Deliver recurring cost savings

Like-for-like costs since 2020/21 – Year to Period 9 (£bn)



Maintaining liquidity to protect us against shocks

Cash balance (£m)

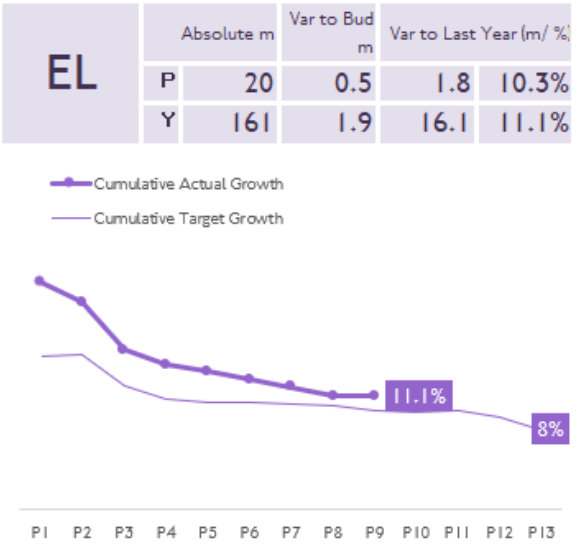
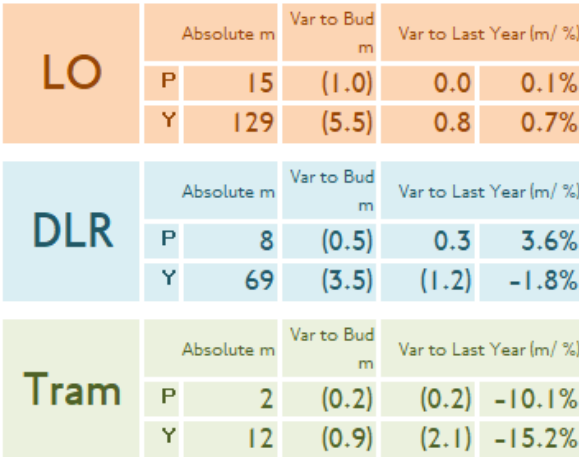
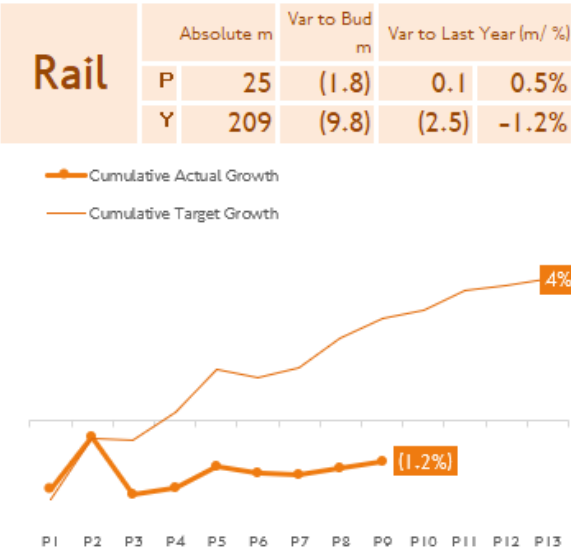
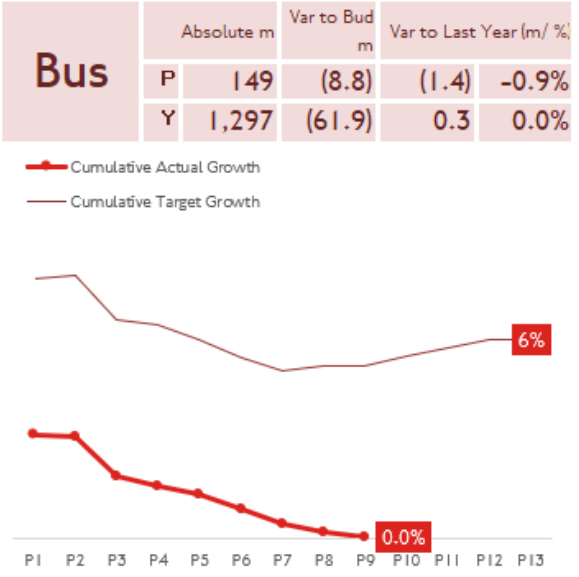
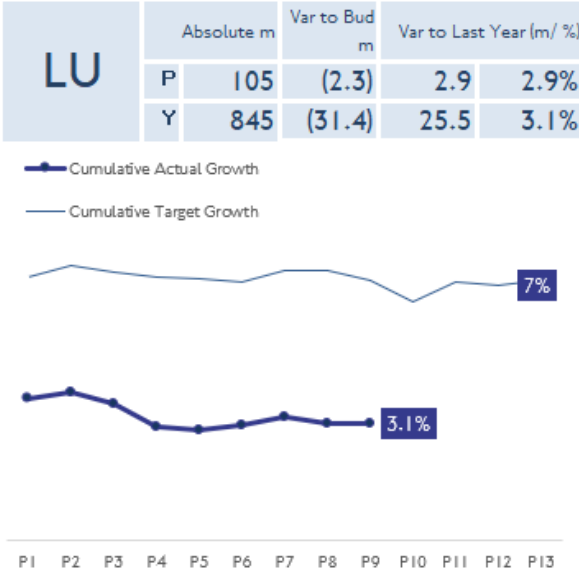
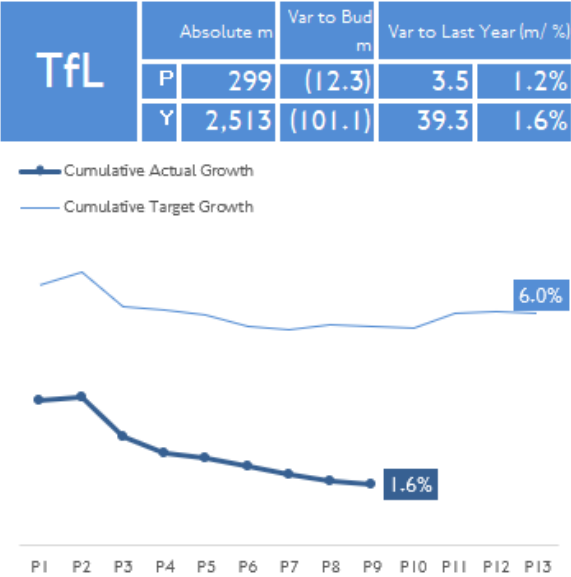


Passenger journeys

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 101 million lower than Budget. This is largely owing to a range of economic factors, which are impacting both leisure and commuting demand. There have been other factors impacting customer choices including national rail strikes.

As a result of the cyber incident we have been estimating journey volumes based on income received since period 6. We now have access to partial journey data and have, therefore, restated our previous estimates for periods 6-8. There still remains a smaller level of uncertainty with the data until it is fully restored.

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



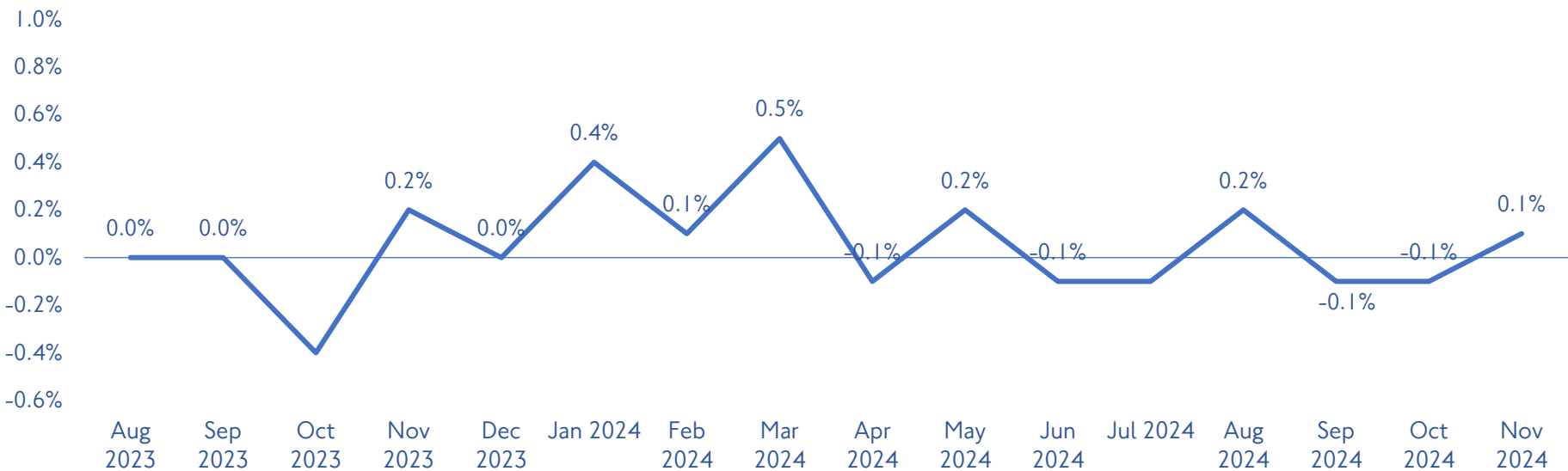
Economic context

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. GDP has shown no growth in the three months to November 2024, compared to the previous quarter.

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.

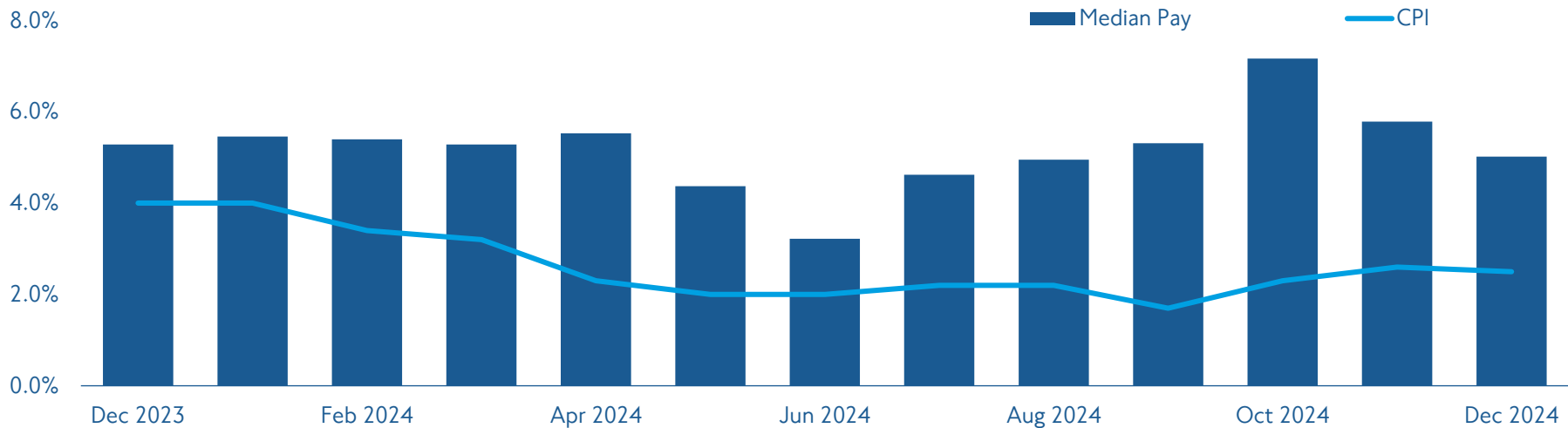
Wage growth in London is skewed by housing costs. On average, Londoners spend 17% of their income on housing costs, compared to c.10% or less in other regions of the UK. The proportion of income spent on housing has fallen significantly since the financial crisis in every region except for London.

UK GDP has been broadly flat this financial year



ONS, GDP monthly estimate, UK: September 2024 (January 2025)

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 (January 2025)

Income statement

In the year to date we have an operating surplus of £50m, reversing the deficit made earlier in the year. Our Quarter 2 forecast was for an operating surplus of £23m, which is down from our earlier Quarter 1 forecast, a result of lower passenger income and cyber incident impacts.

Passenger income is £154m lower than Budget in the year to date, driven by lower passenger growth than expected. Other operating income is £16m up on Budget from higher ULEZ enforcement income.

Our core operating costs are £78m higher than Budget, mainly from higher bad debt charges from enforcement income. Exceptional costs are £68m lower than Budget, mainly from central contingency, which was budgeted to mitigate risks on revenue and other unforeseen events.

	£m	Actuals	Variance to Budget		Variance to last year	
Underlying passenger income		3,678	(154)	-4%	159	5%
DfT revenue top up		0	0	N/A	(46)	-100%
Passenger income		3,678	(154)	-4%	113	3%
Other operating income		1,082	16	1%	98	10%
Business rates retention		1,502	0	0%	177	13%
Other revenue grants		214	0	0%	(60)	-22%
Revenue		6,476	(138)	-2%	328	5%
Core operating costs		(5,439)	(78)	-1%	(425)	-8%
Investment programme operating costs		(115)	(3)	-2%	128	53%
Exceptional costs		(19)	68	78%	(15)	-361%
Operating surplus before interest and renewals		903	(150)	-14%	17	2%
Capital renewals		(556)	6	1%	(58)	-12%
Net interest costs		(297)	(7)	-2%	(9)	-3%
Operating surplus / (deficit)		50	(151)	-75%	(51)	-50%
Places for London net contribution		24	7	39%	(7)	-23%
Operating surplus/ (deficit) including Places for London		74	(144)	-66%	(58)	-44%

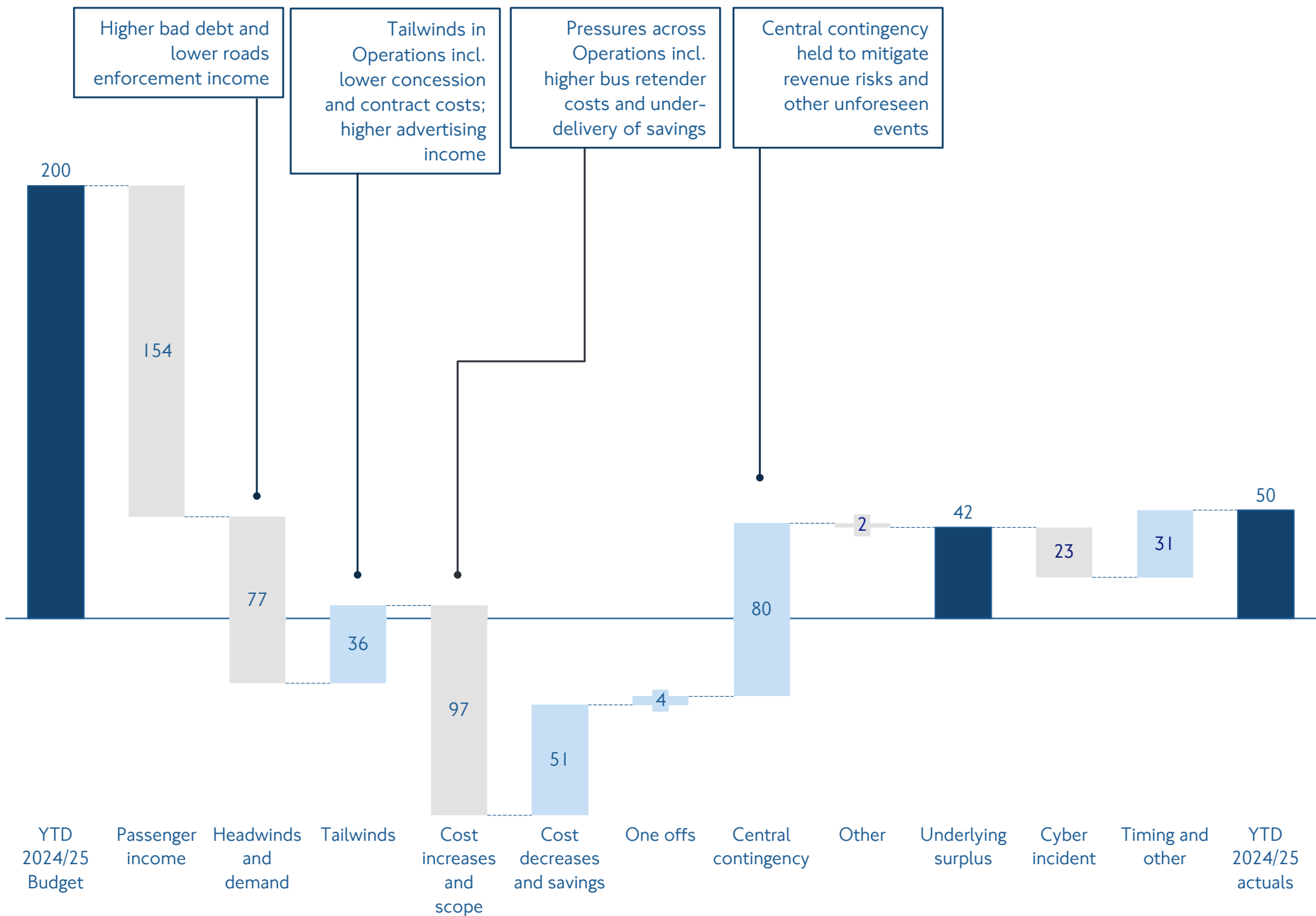
Operating surplus

We have an operating surplus of £50m in the year to date, which is £151m worse than Budget. After adjusting for timing differences we are making a surplus of £42m, £158m behind Budget.

We are seeing a combined £230m pressure on our surplus from demand and volume pressures on passenger income, roads enforcement income and enforcement payment rates. Our operating costs have also seen pressures from higher bus retender prices, which we have partly mitigated through savings.

The revenue pressure has been partly mitigated by central contingency.

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



Capital renewals

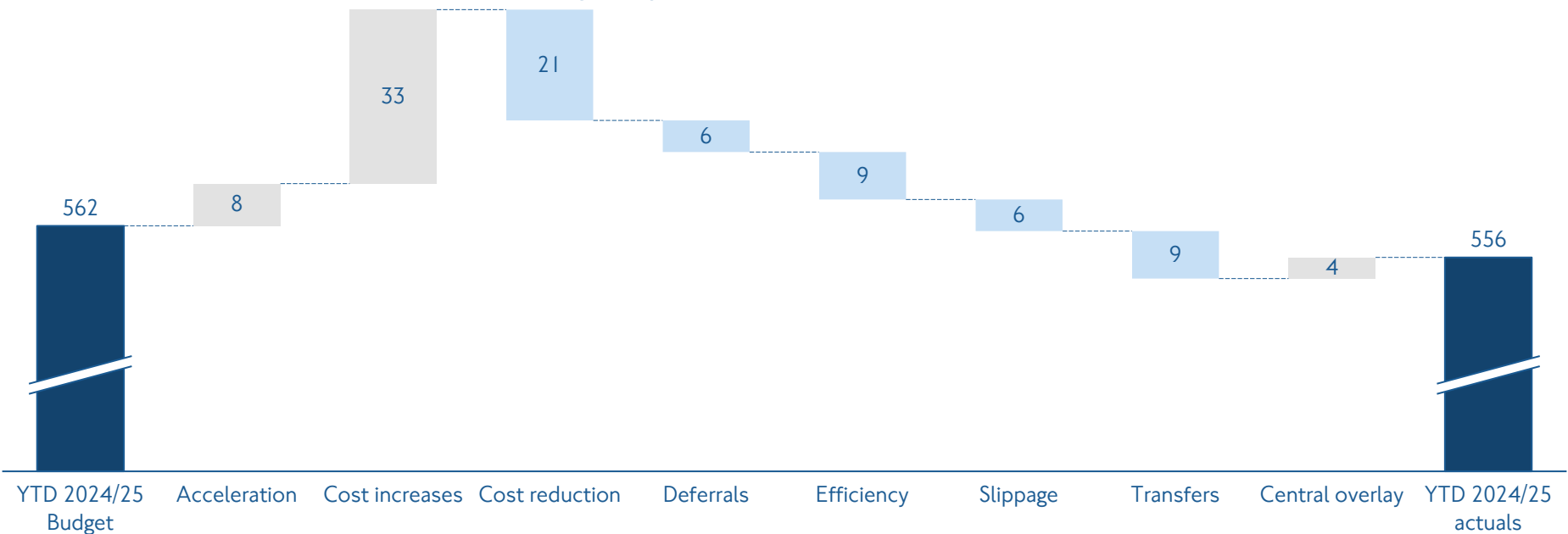
Capital renewals are £556m in the year to date, £58m up on last year as we increase our renewals investment to address the backlog of asset replacement.

Renewals spend is £6m lower than Budget in the year to date, largely driven by cost reduction in Technology projects (Payments & Hosting) and transfer to operating costs due to a move to software-as-a-service model on an IT project.

We expect to finish the year in line with Budget.

£m	Actuals	Variance to Budget		Variance to last year	
Four Lines Modernisation	(3)	1	17%	0	5%
Silvertown Tunnel	(2)	1	34%	(2)	-834%
Streets, Bus & RSS Renewals	(121)	2	2%	(8)	-7%
Environment	(19)	(0)	0%	(7)	-58%
Rail & Station Enhancements	(1)	(0)	-148%	3	78%
LU Renewals	(295)	(1)	0%	(24)	-9%
Technology	(99)	10	9%	(13)	-15%
Licensing & Regulation (TPH)	(6)	(1)	-21%	(3)	-83%
Estates Directorate	(10)	2	17%	(5)	-97%
Overlays	(0)	(8)	100%	0	97%
Total	(556)	6	1%	(58)	-12%

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



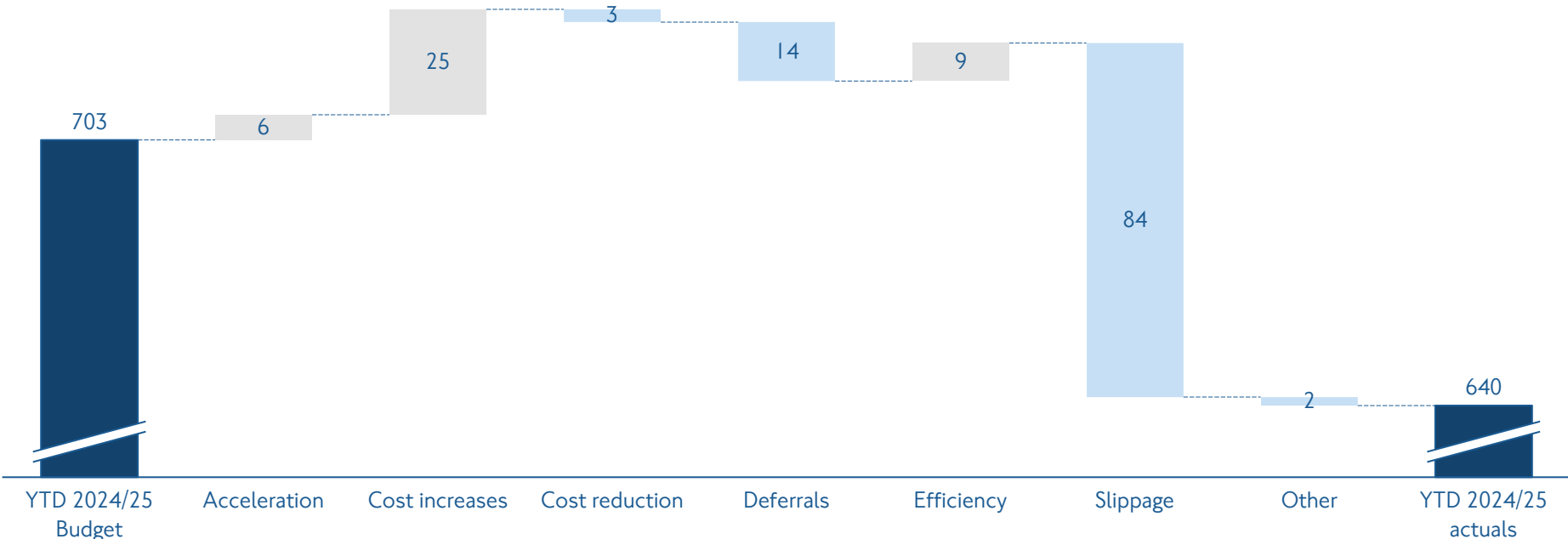
Capital enhancements

Capital enhancements (excluding Places for London and Crossrail) are £640m in the year to date, £96m lower than last year.

Enhancements spend is £63m lower than Budget in the year to date, largely driven by re-phasing on Piccadilly Line Upgrade and 4LM programmes, and delays across DLR Rolling Stock programme.

£m	Actuals	Variance to Budget		Variance to last year	
Four Lines Modernisation	(49)	4	7%	21	30%
DLR Rolling Stock Replacement	(138)	17	11%	8	6%
Piccadilly Line Upgrade	(230)	44	16%	64	22%
Bakerloo Line Trains	(3)	1	20%	(2)	-207%
Trams replacement	(2)	1	29%	(1)	-38%
Other Enhancements	(219)	(3)	-1%	6	3%
Total TfL excl. Places and Crossrail	(640)	63	9%	96	13%
Places for London	(105)	12	10%	(37)	-54%
Crossrail	(17)	19	53%	19	53%
Total	(762)	94	11%	78	9%

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



Cash flow

Cash balances are £1.36bn at the end of Quarter 3, slightly up from the end of 2023/24, but almost £80m lower than Budget.

Our cash balances are lower than Budget mainly as a result of lower revenue, timing differences on borrowing, and lower capital enhancement spend.

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 forecasting to be above the £1.3bn target 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		11	(21)	-67%	120	110%
Closing balance		1,364	(77)	-5%	235	21%

Cash flow statement

	£m	Actuals	Variance to Budget		Variance to last year	
Operating surplus before capital renewals and interest		903	(150)	-14%	17	2%
Less LTIG and LTM		1	2	233%	3	173%
Cash generated / (used) from operating activities		904	(148)	-14%	20	2%
Capital renewals		(556)	6	1%	(58)	-12%
New capital investment		(640)	63	9%	96	13%
Investment grants and ring-fenced funding		139	(17)	-11%	(461)	-77%
Working capital movements		(52)	(30)	-155%	(125)	-174%
Cash generated / (used) from investing activities		(1,109)	22	2%	(548)	-97%
Free cash flow		(205)	(126)	-164%	(528)	-164%
Net interest costs		(297)	(7)	-2%	(9)	-3%
Net borrowings		513	112	28%	657	457%
Cash generated / (used) from financing activities		216	105	96%	648	150%
Change in cash balance		11	(21)	-67%	120	110%

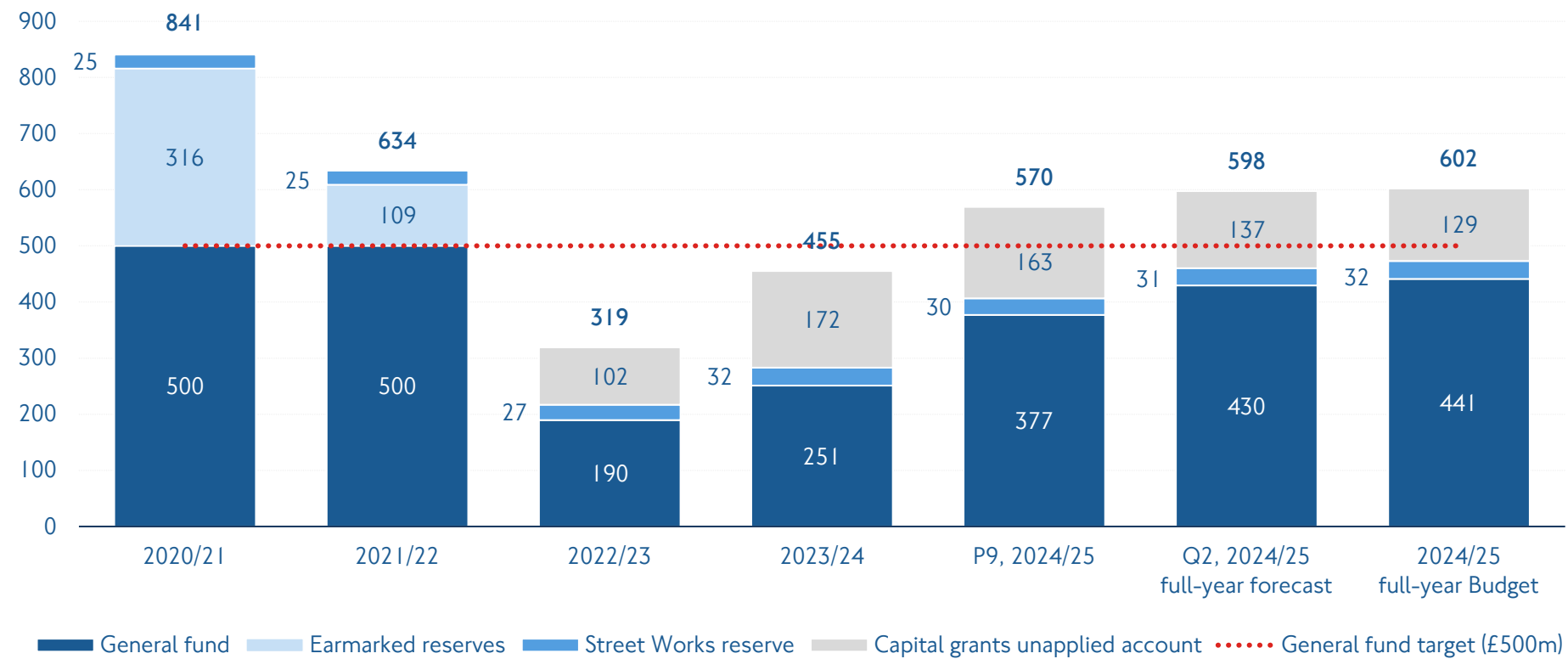
Reserves

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.

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

Our level of outstanding borrowing has increased by £526m for the year, bringing our total borrowing balance to £13,487m.

As part of preparing our submission into the 2025/26 GLA Mayor’s Budget, we have accelerated previously planned borrowing from future years into 2024/25 to help mitigate the lower than Budget operating surplus this year. This means we will exceed the operational boundary for borrowing in 2024/25, which is based on our original Budget, but our borrowing will remain within our authorised limit. This is an acceleration of borrowing only and the overall level of planned borrowing to 2027/28 remains the same as our 2024 TfL Business Plan.

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

* Excludes PFI and long-term liabilities



Total debt (£m)



89%

Around 89% of our borrowing is at a fixed rate of interest

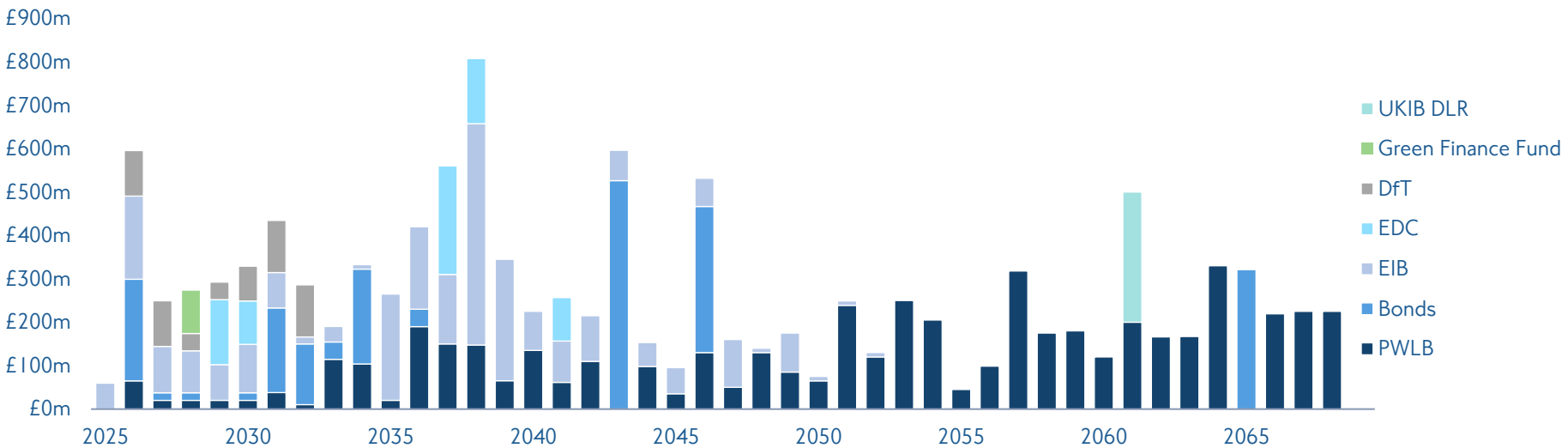
3.7%

The weighted average interest rate on our borrowing is around 3.7%

18-years

The weighted average tenor of our borrowing is just under 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 7 update to the Board.

	S&P	Moody's	Fitch
Long-term rating	AA-	A2	AA-
Outlook	Stable	Stable	Stable
Short-term rating	A-I +	P-I	FI +
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-I + from A-I. 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-I 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).

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.

Due to the actions we have been taking, NPL levels are 400 lower than at March 2024. A level of NPL is required to provide flexibility, particularly through time of change and temporary peaks in demand.

Headcount trends since 2019/20

