

Board

Date: 19 September 2017

Item: Finance Report – Period 4, 2017/18

This paper will be considered in public

1 Summary

- 1.1 The Finance Report sets out TfL's financial results for Period 4, 2017/18 – the period ending 22 July 2017.

2 Recommendation

- 2.1 **The Board is asked to note the Finance Report.**

3 Financial Reporting to the Board and Committees

Finance Report – Period 4, 2017/18

- 3.1 Where possible, feedback received from Board Members and others has been taken into account in this latest report. Further suggested improvements will be introduced throughout the 2017/18 financial year.
- 3.2 The Finance Report describes the financial performance compared to the 2017/18 Budget approved by the Board in March 2017.

Quarterly Performance Report – Quarter 1, 2017/18

- 3.3 Since the last Board meeting, the Quarterly Performance Report for Quarter 1 has been published online. This report shows TfL's provisional results for the first three periods this year (01 April 2017 – 22 July 2017). The report can be viewed at:

<https://tfl.gov.uk/corporate/publications-and-reports/quarterly-progress-reports>

- 3.4 The Quarterly Performance Report compares Quarter 1 results with those of the last five quarters and last five years.

List of appendices to this report:

Appendix 1: Finance Report – Period 4, 2017/18

List of Background Papers:

None

Contact Officer: Simon Kilonback, Interim Chief Finance Officer
Number: 020 3054 8941
Email: SimonKilonback@tfl.gov.uk

Contact Officer: Sarah Bradley, Group Financial Controller and acting statutory Chief
Finance Officer
Number: 020 3054 7748
Email: SarahBradley@tfl.gov.uk

Transport for London finance report

Period 4 2017/18

MAYOR OF LONDON



**TRANSPORT
FOR LONDON**
EVERY JOURNEY MATTERS

About Transport for London (TfL)

Part of the Greater London Authority family led by Mayor of London Sadiq Khan, we are the integrated transport authority responsible for delivering the Mayor's aims for transport.

We have a key role in shaping what life is like in London, helping to realise the Mayor's vision for a 'City for All Londoners'. We are committed to creating a fairer, greener, healthier and more prosperous city. The Mayor's Transport Strategy sets a target for 80 per cent of all journeys to be made on foot, by cycle or using public transport by 2041. To make this a reality, we use the Healthy Streets Approach to prioritise health and the quality of people's experience in everything we do.

We manage the city's 'red route' strategic roads and, through collaboration with the London boroughs, can help shape the character of all London's streets. These are the places where Londoners travel, work, shop and socialise. Making them places for people to walk, cycle and spend time will reduce car dependency and improve air quality, revitalise town centres, boost businesses and connect communities.

We run most of London's public transport services, including the London Underground, London Buses, the Docklands Light Railway, London Overground, TfL Rail, London Trams, London River Services, London Dial-a-Ride, Victoria Coach Station, Santander Cycles and the Emirates Air Line. The quality and accessibility of these services is fundamental to Londoners' quality of life. By improving and expanding public transport, we can make people's lives easier and increase the appeal of sustainable travel over private car use.

We are moving ahead with many of London's most significant infrastructure projects, using transport to unlock growth. We are working with partners on major projects like Crossrail 2 and the Bakerloo line extension that will deliver the new homes and jobs London and the UK need. We are in the final phases of completing the Elizabeth line which, when it opens, will add 10 per cent to London's rail capacity.

Supporting the delivery of high-density, mixed-use developments that are planned around active and sustainable travel will ensure that London's growth is good growth. We also use our own land to provide thousands of new affordable homes and our own supply chain creates tens of thousands of jobs and apprenticeships across the country.

We are committed to being an employer that is fully representative of the community we serve, where everyone can realise their potential. Our aim is to be a fully inclusive employer, valuing and celebrating the diversity of our workforce to improve services for all Londoners.

We are constantly working to improve the city for everyone. This means freezing fares so everyone can afford to use public transport, using data and technology to make services intuitive and easy to use, and doing all we can to make streets and transport services accessible to all. We reinvest every penny of our income to continually improve transport networks for the people that use them every day.

None of this would be possible without the support of boroughs, communities and other partners who we work with to improve our services. We all need to pull together to deliver the Mayor's Transport Strategy; by doing so we can create a better city as London grows.

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The financial information included in the report is unaudited and does not constitute TfL's statutory accounts. TfL's last audited **Statement of Accounts** for the year ended 31 March 2016 was published on 28 July 2016.

All figures within the financial tables have been rounded to the nearest million.

Operating account

Period 4 – the four weeks ending 22 July 2017

(£m)	Period 4				Year to date			
	Actuals	Budget	Variance to budget	% variance to budget	Actuals	Budget	Variance to budget	% variance to budget
Fares income	374	377	(3)	-1%	1,452	1,476	(24)	-2%
Other operating income	55	58	(3)	-5%	215	227	(12)	-5%
Total operating income	429	435	(6)	-1%	1,667	1,703	(36)	-2%
General grant	18	18	-	0%	70	70	-	0%
Business rates retention	77	77	-	0%	308	308	-	0%
Other revenue grants	4	4	-	0%	15	19	(4)	-21%
Total income	528	534	(6)	-1%	2,060	2,100	(40)	-2%
Operating cost	(455)	(479)	24	-5%	(1,826)	(1,915)	89	-5%
Net operating surplus	73	55	18	32%	234	185	49	26%
Depreciation and amortisation	(84)	(83)	(1)	1%	(336)	(332)	(4)	1%
Net cost of operations before financing	(11)	(28)	17	-61%	(102)	(147)	45	-31%
Net financing costs	(32)	(32)	-	0%	(128)	(130)	2	-2%
Net cost of transport operations	(43)	(60)	17	-28%	(230)	(277)	47	-17%

Income

Cumulative total income is £40m (-2.1%) below budget and £6m (-1.4%) lower in the period, a result of lower fares and other income:

- LU fares income is £28m (-3.3%) lower than budget in the year to date and £4m (-1.8%) worse in the period. Passenger volumes are cumulatively 14 million behind budget, while fares yield is in line with budget. Passenger volumes have been consistently below budget in 2017/18

- Bus fares income is £10m (2.3%) favourable to budget in the year to date, £2m (1.8%) better than at the end of Period 3. Passenger volumes are cumulatively 23 million (3.3%) higher than budget, principally as a result of increased bus speeds and improved bus reliability. Average ticket yield is £0.01 (-1.0%) lower than budget

- Other operating income is £12m (-5.1%) adverse to budget in the year to date. Commercial development is £4m behind budget, a result of challenging market conditions affecting advertising income (£8m). It is anticipated this will continue throughout the financial year, with the year end outturn materially behind budget
- Congestion Charge (CC) and roads enforcement income is £5m behind budget, a result of lower traffic and reduced penalty charge notice (PCN) volumes. Improved road conditions have yet to result in an expected levelling of CC volumes

Costs

Operating costs are cumulatively £89m (-4.7%) lower than budget with further reductions of £24m (-4.8%) in Period 4:

- LU direct operating costs are cumulatively £34m (-5.1%) lower than budget. This is as a result of lower staff costs (£9m), driven by ongoing recruitment controls and a higher number of leavers, and cost reductions (£3m) across other areas, including lift contracts. Some project costs (£20m) have been rephased, including station improvement work as a result of slower recruitment than planned. We expect the majority of the work to be completed as budgeted
- Rail costs are £10m (-5.8%) lower in the year to date, a result of £5m higher profit share from the previous London Overground operator (LOROL)

- Roads direct operating costs are £8m (-5.6%) lower than budget, a result of the transfer of Metropolitan Police equipment (£5m) costs to the capital account and lower policing and Congestion Charge contract costs (£2m)
- Commercial Development direct operating costs are £9m (-50.0%) lower than budget, driven by deferred consultancy spend for property development (£3m) – which is expected to reverse in forthcoming periods - and lower employee costs (£2m) from delayed recruitment
- Bus operating costs are £3m (0.5%) higher than budgeted. This is principally a result of later than expected contract savings – which are not expected to be realised until contracts are retendered – which have been only partly offset by lower performance payments to the bus operators
- Other operations direct costs are £11m (-16.1%) lower than budget. This is driven by the deferral of costs for Crossrail 2 (£4m) – pending central Government's response to the Strategic Outline Business Case – and the Bakerloo line extension (£2m) to later this year
- Indirect operating costs are cumulatively £21m (-9.8%) lower than budget. Cost reductions of some £10m include lower staff costs (£7m) and supplier contract savings relating to merchant fees and Oyster cards (£3m). Some £11m of costs have been deferred to later in the year, including office accommodation (£3m), technology and data projects (£3m) and marketing (£2m)

Capital account

(£m)	Period 4				Year to date			
	Actuals	Budget	Variance to budget	% variance to budget	Actuals	Budget	Variance to budget	% variance to budget
Capital renewals	(41)	(58)	17	-29%	(175)	(230)	55	-24%
New capital investment	(97)	(110)	13	-12%	(347)	(385)	38	-10%
Crossrail	(110)	(97)	(13)	13%	(449)	(414)	(35)	8%
Total capital expenditure	(248)	(265)	17	-6%	(971)	(1,029)	58	-6%
Financed by:								
Investment grant	86	86	-	0%	346	346	-	0%
Third-party contributions	1	2	(1)	-50%	8	9	(1)	-11%
Property income	11	-	11	0%	13	4	9	225%
Crossrail funding sources	7	12	(5)	-42%	40	47	(7)	-15%
Other capital grants	14	15	(1)	-9%	58	60	(2)	-3%
Total	119	115	4	3%	464	465	(1)	0%
Net capital account	(129)	(150)	21	-14%	(507)	(564)	57	-10%

Cumulative capital expenditure is £58m (-5.6%) lower than budget:

- LU capital costs are £27m lower than budget. Some £35m of costs have been rephased to later this year, driven by slow mobilisation and contract award delays within power and track renewals, and station improvements, the latter including additional assurance requirements for Tottenham Hale. In addition, there have been contractor delays on some station constructions including Bank and Victoria. A further £16m of costs have been deferred to later years, including signalling and train renewals, modernisation programmes and the Bank station upgrade. It is expected that the end of year position will be £7m lower than budgeted
- Rail capital costs are £4m higher than budget. Crossrail construction costs are £35m higher, a result of higher than budgeted costs for Systemwide main works, stations - with works at Whitechapel completed later than expected as well as delays and poor productivity at Woolwich - and civils, the latter from delayed completion at Ilford Yard. This has been offset by the deferred contribution to Network Rail for the Gospel Oak to Barking line electrification works, which is behind schedule (£15m). There has been further slippage on DLR Custom House station upgrade (£3m), a result of delayed design approval
- Roads expenditure is £9m lower than budget. The capital renewals programme is some £7m lower than budget, but is expected to catch up by year end. New capital investment is £3m lower than budget, a result of slippages on cycling Quietways and Bus Priority schemes
- Bus capital expenditure is some £6m lower than budget, a result of 18 new buses where delivery was accelerated into last year
- Commercial Development investment is £5m less than budgeted, a result of delays on advertising infrastructure (£2m) due to challenging market conditions, delays on the roadside advertising underpass project (£2m) – with work now begun and expected to complete by March 2018 – and later direct investment in the Earls Court project
- Other operations capital costs are some £15m lower than budget in the year to date. Some £12m of project costs have been deferred to later this year, including £7m on data and technology projects, £3m on ticketing – a result of rescheduled milestones – and £2m for the Stratford office hub

Headcount

Full-time equivalent (FTE) employees	End of 2016/17 actuals	Prior periods' net (leavers)/ joiners	Period 4 net (leavers)/ joiners	Period 4 actual	Period 4 budget	Variance to budget	% variance to budget
Underground	20,121	(670)	29	19,480	19,921	(441)	-2%
Rail	465	(37)	19	447	522	(75)	-14%
Buses*	786	(18)	(3)	765	800	(35)	-4%
Roads*	1,860	(141)	(20)	1,699	1,790	(91)	-5%
Other operations	1,370	29	14	1,413	1,511	(98)	-6%
Professional services	3,606	501	(101)	4,006	4,661	(655)	-14%
Commercial Development	179	5	(8)	176	220	(44)	-20%
Crossrail	803	(41)	(5)	757	829	(72)	-9%
Total FTEs	29,189	(372)	(75)	28,743	30,254	(1,511)	-5%

* Reflects the recategorisation of 238 enforcement staff from Roads to Buses

Employee costs (£m)	Period 4				Year to date			
	Actual	Budget	Variance to budget	% variance to budget	Actual	Budget	Variance to budget	% variance to budget
Permanent	(142)	(148)	6	-4%	(585)	(603)	18	-3%
Non-permanent Labour (NPL)	(9)	(13)	4	-30%	(32)	(52)	20	-38%
Total employee costs	(151)	(161)	10	-6%	(617)	(655)	38	-6%

Headcount levels are down 447 this year, a result of continued recruitment controls, reduced reliance on non-permanent labour, and the Transformation programme.

- LU headcount is 93 lower than last year (after adjusting for 548 commercial and finance staff who transferred to professional services) despite 75 additional station staff recruited following last year's station review. In Period 4, headcount increased by 29 following recruitment of new station staff and Piccadilly line train operators

- Headcount in other operations has increased by 43 this year, driven by recruitment of 56 Taxi & Private Hire compliance officers, which are funded from future increases in licence fees

Employee levels are 1,511 (5.0%) lower than budget at the end of the period. This reflects ongoing recruitment controls, staff reductions from the Transformation programme – which were not included in the budget – and lower levels of non-permanent labour, principally in Professional services.

Cash

Cash flow summary

(£m)	Period 4				Year to date			
	Actuals	Budget	Variance to budget	% variance to budget	Actuals	Budget	Variance to budget	% variance to budget
Net cost of transport operations	(43)	(60)	17	-28%	(230)	(277)	47	-17%
Non-cash depreciation	84	83	1	1%	336	332	4	1%
Net capital expenditure	(129)	(150)	21	-14%	(507)	(564)	57	-10%
Borrowing	-	(50)	50	-100%	151	313	(162)	-52%
Working capital movements	276	299	(22)	-8%	909	837	72	9%
(Decrease)/increase in cash balances	188	122	66	54%	660	642	18	3%

Cash balances

(£m)	2016/17 closing cash	Prior periods' movements	Period 4 movements	Period 4 closing cash	Variance to budget
Crossrail sponsors' funding account	510	315	225	1,050	(147)
Other TfL cash balances	1,451	157	(37)	1,571	165
Cash balances	1,961	472	188	2,621	18

Cash balances are £18m higher than budget at the end of the period, driven by the deferral of £162m of planned borrowing, which is offset by favourable working capital of £72m, and surpluses on both the operating and capital accounts.

Crossrail cash balances are £147m lower than budget. This is driven by lower than budgeted contingency payments

from TfL (£122m) which have not yet been required, as well as higher than budgeted construction costs (£35m).

Cash balances, excluding cash ring fenced for Crossrail construction, are £1,571m at the end of Period 4, £120m higher than at the end of 2016/17. The increase is due to net new borrowing of £151m.

Appendices

Appendix A: Divisional tables

London Underground

(£m)	Period 4				Year to date			
	Actuals	Budget	Variance to budget	% variance to budget	Actuals	Budget	Variance to budget	% variance to budget
Fares income	215	219	(4)	-2%	827	855	(28)	-3%
Other operating income	1	2	(1)	-50%	6	9	(3)	-33%
Total operating income	216	221	(5)	-2%	833	864	(31)	-4%
Direct operating cost	(157)	(164)	7	-4%	(631)	(665)	34	-5%
Indirect operating cost	(31)	(34)	3	-9%	(129)	(143)	14	-10%
Net operating surplus/(deficit)	28	23	5	22%	73	56	17	30%
Depreciation	(55)	(52)	(3)	6%	(210)	(206)	(4)	2%
Net cost of operations before financing	(27)	(29)	2	-7%	(137)	(150)	13	-9%
Capital renewals	(27)	(39)	12	-31%	(116)	(158)	42	-27%
New capital investment	(52)	(44)	(8)	18%	(197)	(182)	(15)	8%
Net capital expenditure	(79)	(83)	4	-5%	(313)	(340)	27	-8%

Rail

(£m)	Period 4				Year to date			
	Actuals	Budget	Variance to budget	% variance to budget	Actuals	Budget	Variance to budget	% variance to budget
Fares income	41	42	(1)	-2%	158	165	(7)	-4%
Other operating income	1	1	-	0%	3	5	(2)	-40%
Total operating income	42	43	(1)	-2%	161	170	(9)	-5%
Direct operating cost	(38)	(44)	6	-14%	(162)	(172)	10	-6%
Indirect operating cost	(2)	(3)	1	-33%	(10)	(11)	1	-9%
Net operating surplus/(deficit)	2	(4)	6	-150%	(11)	(13)	2	-15%
Depreciation	(10)	(11)	1	-9%	(41)	(45)	4	-9%
Net cost of operations before financing	(8)	(15)	7	-47%	(52)	(58)	6	-10%
Capital renewals	(1)	(2)	1	-50%	(7)	(8)	1	-13%
New capital investment	(30)	(51)	21	-41%	(84)	(114)	30	-26%
Crossrail	(110)	(97)	(13)	13%	(449)	(414)	(35)	8%
Net capital expenditure	(141)	(150)	9	-6%	(540)	(536)	(4)	1%

Roads

(£m)	Period 4				Year to date			
	Actuals	Budget	Variance to budget	% variance to budget	Actuals	Budget	Variance to budget	% variance to budget
Fares income	-	-	-	0%	-	-	-	0%
Other operating income	25	27	(2)	-7%	96	102	(6)	-6%
Total operating income	25	27	(2)	-7%	96	102	(6)	-6%
Direct operating cost	(33)	(36)	3	-8%	(128)	(136)	8	-6%
Indirect operating cost	(6)	(7)	1	-14%	(24)	(27)	3	-11%
Net operating surplus/(deficit)	(14)	(16)	2	-13%	(56)	(61)	5	-8%
Depreciation	(11)	(11)	-	0%	(43)	(42)	(1)	2%
Net cost of operations before financing	(25)	(27)	2	-7%	(99)	(103)	4	-4%
Capital renewals	(7)	(11)	4	-36%	(30)	(37)	7	-19%
New capital investment	(7)	(4)	(3)	75%	(29)	(31)	2	-6%
Net capital expenditure	(14)	(15)	1	-7%	(59)	(68)	9	-13%

Buses

(£m)	Period 4				Year to date			
	Actuals	Budget	Variance to budget	% variance to budget	Actuals	Budget	Variance to budget	% variance to budget
Fares income	114	112	2	2%	452	442	10	2%
Other operating income	1	1	-	0%	4	3	1	33%
Total operating income	115	113	2	2%	456	445	11	2%
Direct operating cost	(165)	(162)	(3)	2%	(648)	(645)	(3)	0%
Indirect operating cost	(5)	(5)	-	0%	(21)	(23)	2	-9%
Net operating surplus/(deficit)	(55)	(54)	(1)	2%	(213)	(223)	10	-4%
Depreciation	(4)	(3)	(1)	33%	(15)	(13)	(1)	9%
Net cost of operations before financing	(59)	(57)	(2)	4%	(228)	(236)	9	-4%
Capital renewals	(1)	(1)	-	0%	(3)	(4)	0	-11%
New capital investment	-	-	-	0%	(8)	(13)	5	-41%
Net capital expenditure	(1)	(1)	-	0%	(11)	(17)	6	-35%

Commercial Development

(£m)	Period 4				Year to date			
	Actuals	Budget	Variance to budget	% variance to budget	Actuals	Budget	Variance to budget	% variance to budget
Fares income	-	-	-	0%	-	-	-	0%
Other operating income	19	19	-	0%	73	77	(4)	-5%
Total operating income	19	19	-	0%	73	77	(4)	-5%
Direct operating cost	(2)	(4)	2	-50%	(9)	(18)	9	-50%
Indirect operating cost	-	(1)	1	-100%	-	(1)	1	-100%
Net operating surplus/(deficit)	17	14	3	21%	64	58	6	10%
Depreciation	-	-	-	0%	-	-	-	0%
Net cost of operations before financing	17	14	3	21%	64	58	6	10%
New capital investment	(3)	(3)	-	0%	(7)	(12)	5	-42%
Capital receipts	11	-	11		13	4	9	225%
Crossrail property receipts	-	-	-	0%	-	-	-	0%
Net capital expenditure	8	(3)	11	-367%	6	(8)	14	-175%

Other operations

(£m)	Period 4				Year to date			
	Actuals	Budget	Variance to budget	% variance to budget	Actuals	Budget	Variance to budget	% variance to budget
Fares income	4	4	-	0%	16	14	2	12%
Other operating income	9	8	1	13%	33	32	1	4%
Total operating income	13	12	1	8%	49	46	3	7%
Direct operating cost	(15)	(18)	3	-17%	(58)	(69)	11	-16.1%
Indirect operating cost	(1)	(1)	-	0%	(1)	(1)	-	0%
Net operating surplus/(deficit)	(3)	(7)	4	-57%	(10)	(24)	14	-58%
Depreciation	(4)	(6)	2	-33%	(27)	(25)	(2)	7%
Net cost of operations before financing	(7)	(13)	6	-46%	(37)	(50)	12	-25%
Capital renewals	(5)	(5)	-	0%	(19)	(23)	4	-17%
New capital investment	(5)	(8)	3	-38%	(22)	(33)	11	-33%
Net capital expenditure	(10)	(13)	3	-23%	(41)	(56)	15	-27%

Appendix B: Fares income, passenger journeys and fares yield

Fares income

(£m)	Period 4				Year to date			
	Actual	Budget	Variance to budget	% Variance to budget	Actuals	Budget	Variance to budget	% Variance to budget
London Underground	215	219	(4)	-1.8%	827	855	(28)	-3.3%
TfL Rail	7	7	-	0.0%	26	27	(1)	-3.7%
DLR	13	13	-	0.0%	53	53	-	0.0%
London Overground	18	19	(1)	-5.3%	69	75	(6)	-8.0%
London Trams	2	2	-	0.0%	8	7	1	14.3%
Emirates Air Line	1	1	-	0.0%	2	3	(1)	-33.3%
Buses	114	112	2	1.8%	452	442	10	2.3%
Oyster write-off and deposits	4	4	-	0.0%	16	14	2	14.3%
Total fares	374	377	(3)	-0.8%	1,452	1,476	(24)	-1.6%

Passenger journeys

Million	Period 4				Year to date			
	Actual	Budget	Variance to budget	% Variance to budget	Actuals	Budget	Variance to budget	% Variance to budget
London Underground	109	113	(4)	-3.6%	421	435	(14)	-3.3%
TfL Rail	4	4	-	0.0%	14	14	-	-0.3%
DLR	10	10	-	0.0%	38	39	(1)	-1.0%
London Overground	15	16	(1)	-7.4%	58	62	(4)	-6.1%
London Trams	2	2	-	0.0%	9	9	-	-0.8%
Emirates Air Line	0.1	0.1	-	0.0%	0.5	0.6	(0.1)	-17.0%
Buses	181	176	5	2.9%	711	688	23	3.3%
Total passengers	320	321	(1)	-0.3%	1,252	1,247	5	0.4%

Fares yield*

(£ per journey)	Period 4				Year to date			
	Actual	Budget	Variance to budget	% Variance to budget	Actuals	Budget	Variance to budget	% Variance to budget
London Underground	1.97	1.94	0.04	1.8%	1.96	1.96	0.00	0.0%
TfL Rail	1.70	1.83	-0.12	-6.8%	1.85	1.94	-0.09	-4.7%
DLR	1.40	1.37	0.03	2.5%	1.40	1.37	0.03	1.9%
London Overground	1.25	1.21	0.04	3.7%	1.18	1.21	-0.03	-2.4%
London Trams	0.81	0.82	-0.02	-2.0%	0.84	0.82	0.01	1.6%
Emirates Air Line	4.02	4.38	-0.36	-8.3%	4.17	4.43	-0.26	-6.0%
Buses	0.63	0.64	-0.01	-1.5%	0.64	0.64	-0.01	-1.0%
Average yield	1.17	1.18	-0.01	-0.7%	1.16	1.18	-0.02	-2.0%

* Fares yield include the effects of retrospective Travelcard adjustments



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Windsor House
42–50 Victoria Street
London SW1H 0TL

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