

Finance Committee

Date: 18 October 2017

Item: Finance Report – Period 5, 2017/18

This paper will be considered in public

1 Summary

- 1.1 The Finance Report sets out TfL's financial results for Period 5, 2017/18 – the period ending 19 August 2017.

2 Recommendation

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

3 Financial Reporting to the Board and Committees

Finance Report – Period 5, 2017/18

- 3.1 Where possible, feedback received from Board and Committee 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 Committee 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 5, 2017/18

List of Background Papers:

None

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Transport for London finance report

Period 5 2017/18



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 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 who 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 2017 was published in September 2017.

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

Management results

Operating account

Period 5 – the four weeks ending 19 Aug 2017

(£m)	Period 5				Year to date			
	Actuals	Budget	Variance to budget	% variance to budget	Actuals	Budget	Variance to budget	% variance to budget
Fares income	346	354	(8)	-2%	1,798	1,831	(33)	-2%
Other operating income	51	56	(5)	-9%	266	283	(17)	-6%
Total operating income	397	410	(13)	-3%	2,064	2,114	(50)	-2%
General grant	18	18	-	0%	88	88	-	0%
Business rates retention	-	-	-	0%	308	308	-	0%
Other revenue grants	6	5	1	20%	22	23	(1)	-4%
Total income	421	433	(12)	-3%	2,482	2,533	(51)	-2%
Operating cost	(465)	(490)	25	-5%	(2,291)	(2,405)	114	-5%
Net operating surplus	(44)	(57)	13	-23%	191	128	63	49%
Depreciation and amortisation	(83)	(83)	-	0%	(420)	(415)	(5)	1%
Net cost of operations before financing	(127)	(140)	13	-9%	(229)	(287)	58	-20%
Net financing costs	(32)	(32)	-	0%	(159)	(162)	3	-2%
Net cost of transport operations	(159)	(172)	13	-8%	(388)	(449)	61	-14%

Income

Cumulative total income is £51m (-2.0%) below budget and £12m (-2.8%) lower in the period, a result of lower fares and other income:

- LU fares income is £36m (-3.4%) lower than budget in the year to date and £8m (-4.1%) adverse in the period. Passenger volumes are cumulatively 17 million (-3.2%) lower than budget. Fares yield shows a small decrease against budget in the period (-1.3%); year-to-date yield remains broadly in line with budget
- Bus fares income is £12m (2.2%) favourable to budget in the year to date and £1m (0.9%) better than in the period. Passenger volumes are cumulatively 26 million (3.1%) higher than budget, principally a result of stabilised bus speeds and improved bus reliability which has meant that passenger volumes have stopped falling year on year. Average ticket yield is £0.01 (-1.0%) lower than budget

- Other operating income is £17m (-6.0%) adverse to budget in the year to date. Commercial development is £7m behind budget, a result of challenging market conditions which have affected advertising income (£9m)
- Congestion Charge and roads enforcement income is £8m behind budget, which is a result of lower traffic volumes – particularly in central London – and reduced enforcement income, a result of fewer penalty charge notices
- Roads direct operating costs are £14m (-7.9%) lower than budget, a result of a change in accounting treatment for Metropolitan Police equipment (£5m) – which has been transferred to the capital account – and lower Congestion Charge contract costs (£2m), with expected savings of £5m over the full year
- Bus operating costs are £3m (0.4%) higher than budgeted, principally as a result of later than expected contract savings

Costs

Operating costs are cumulatively £114m (-4.7%) lower than budget with further reductions of £25m (-5.1%) this period:

- LU direct operating costs are cumulatively £41m (-4.9%) lower than budget. This is as a result of lower staff costs (£13m) – driven by ongoing recruitment controls – and cost savings on some lift contracts and stations maintenance (£3m). Some project costs (£20m) have been rephased, including Central line trains overhaul, station improvements and modernisation programmes
- Rail direct costs are £11m (-5.1%) lower than budget in the year to date, a result of £5m higher profit share from the previous London Overground operator (LOROL) and delays to Brondesbury station accessibility works (£1m)
- Commercial Development direct operating costs are £10m (-45.5%) lower than budget, driven by deferred consultancy spend for property development (£4m) – which is expected to reverse in forthcoming periods – and lower employee costs (£3m) from delayed recruitment
- Other operations direct costs are £17m (-19.9%) lower than budget. This is driven by the deferral of costs for Crossrail 2 (£6m) – pending central Government’s response to the Strategic Outline Business Case – to later this year and savings from the Bakerloo line extension (£2m)
- Indirect operating costs are cumulatively £26m (-9.9%) lower than budget. Cost reductions (£11m) include lower staff costs (£5m) and supplier contract savings relating to merchant fees and Oyster cards (£6m). Some £11m of costs, principally for projects, have been deferred to later in the year

Capital account

(£m)	Period 5				Year to date			
	Actuals	Budget	Variance to budget	% variance to budget	Actuals	Budget	Variance to budget	% variance to budget
Capital renewals	(41)	(56)	15	-27%	(195)	(259)	64	-25%
New capital investment	(95)	(99)	4	-4%	(465)	(512)	47	-9%
Crossrail	(118)	(94)	(24)	26%	(567)	(508)	(59)	12%
Total capital expenditure	(254)	(249)	(5)	2%	(1,227)	(1,279)	52	-4%
Financed by:								
Investment grant	-	-	-	0%	346	346	-	0%
Third-party contributions	4	2	2	100%	12	12	-	0%
Property income	-	35	(35)	-100%	13	39	(26)	-67%
Crossrail funding sources	11	12	(1)	-8%	51	58	(7)	-13%
Other capital grants	17	22	(5)	-23%	75	81	(6)	-7%
Total	32	71	(39)	-55%	497	536	(39)	-7%
Net capital account	(222)	(178)	(44)	25%	(730)	(743)	13	-2%

Cumulative capital expenditure is £52m (-4.1%) lower than budget:

- LU capital costs are £34m lower than budget. Some £32m of costs have been rephased to later this year, driven by slow mobilisation of station improvements and renewals programmes. In addition, there have been contractor delays on some stations construction including Bank and Victoria. A further £24m of costs have been deferred to later years, including signalling and train renewals, modernisation programmes and the Bank station upgrade
- Rail capital costs are cumulatively £25m higher than budget. Crossrail

construction costs are £59m higher, a result of higher than budgeted costs for Systemwide main works, stations – with works at Whitechapel completed later than expected. This has been offset by the deferred contribution to Network Rail for the Gospel Oak to Barking line electrification works, which is 11 months behind schedule (£15m). There has been some slippage on DLR Custom House station upgrade (£4m), a result of delayed design approval which may result in a delay to the station re-opening (December 2017). Other areas of lower spend include the delayed Barking Riverside extension (£5m) and lower spend on trains, station improvements works and system projects totalling £7m

- Roads is £12m lower than budget in the year to date, principally from in-year rephasing of the capital renewals programme (£11m) which is expected to catch up by year end
- Cumulative Bus capital expenditure is some £7m lower than budget, a result of 18 new buses where delivery was accelerated into last year. Over the full year this will be partly offset by accelerated NOx abatement initiatives to improve air quality
- Commercial development investment is £3m less than budgeted, a result of deferred costs on the advertising partnership programme (£2m), roadside advertising underpass project (£2m) – with work now begun and expected to complete by March 2018 – and later than expected capital investment in the Earls Court development, which is currently funded through a Homes & Communities Agency (HCA) Loan
- Other operations capital costs are some £21m lower than budget in the year to date. Some £11m of project costs have been deferred to later this year, including £5m on data and technology projects, £3m on ticketing – a result of rescheduled milestones – and £3m for the Stratford office hub, where work has begun and is likely to complete on time
- Property income is £26m lower than budget in the year to date, principally owing to the deferred sale of Bond Street station development (£35m)

Headcount

Full-time equivalent (FTE) employees	End of 2016/17 actuals	Prior periods' net (leavers)/ joiners	Period 5 net (leavers)/ joiners	Period 5 actual	Period 5 budget	Variance to budget	% variance to budget
Underground	20,121	(641)	72	19,552	20,101	(549)	-3%
Rail	465	(18)	8	455	538	(84)	-16%
Buses*	786	(21)	(112)	653	800	(147)	-18%
Roads*	1,860	(161)	41	1,741	1,795	(55)	-3%
Other operations	1,370	42	(9)	1,403	1,496	(92)	-6%
Professional services	3,606	400	17	4,023	4,672	(649)	-14%
Commercial Development	179	(2)	2	178	219	(41)	-19%
Crossrail	803	(46)	2	759	807	(48)	-6%
Total FTEs	29,189	(446)	20	28,763	30,427	(1,665)	-5%

*End of 2016/17 actuals are restated to reflect the recategorisation of 238 enforcement staff from Roads to Buses

Employee costs (£m)	Period 5				Year to date			
	Actual	Budget	Variance to budget	% variance to budget	Actual	Budget	Variance to budget	% variance to budget
Permanent	(141)	(157)	17	-11%	(725)	(760)	35	-5%
Non-permanent Labour (NPL)	(8)	(12)	4	-31%	(41)	(64)	24	-37%
Total employee costs	(149)	(170)	21	-12%	(766)	(825)	59	-7%

Headcount levels are down 426 in the year, a result of continued recruitment controls, reduced usage of non-permanent labour and the Transformation programme.

- LU headcount is 22 lower than last year – after adjusting for commercial and finance staff who have transferred to central professional services – despite the recruitment of 118 new stations staff following last year's station review. In Period 5, headcount increased by 72, mainly station staff

- Headcount in other operations has increased by 33 this year, principally driven by recruitment of some Taxi & Private Hire compliance officers. Recruitment has slowed slightly as a result of staff vetting checks.

Employee levels are 1,665 (5%) lower than budget at the end of the period. This reflects recruitment controls, staff reductions from the Transformation programme – where the short-term effects on headcount were not included in the budget – and continued reductions in temporary staff.

Cash

Cash flow summary

(£m)	Period 5				Year to date			
	Actuals	Budget	Variance to budget	% variance to budget	Actuals	Budget	Variance to budget	% variance to budget
Net cost of transport operations	(159)	(172)	13	-8%	(388)	(449)	61	-14%
Non-cash depreciation	83	83	-	0%	420	415	5	1%
Net capital expenditure	(222)	(178)	(44)	25%	(730)	(743)	13	-2%
Borrowing	-	-	-	0%	151	313	(162)	-52%
Working capital movements	27	(64)	91	-142%	935	775	160	21%
(Decrease)/increase in cash balances	(271)	(331)	60	-18%	388	311	77	25%

Cash balances

(£m)	2016/17 closing cash	Prior periods' movements	Period 5 movements	Period 5 closing cash	Variance to budget
Crossrail sponsors' funding account	510	540	(125)	925	(164)
Other TfL cash balances	1,451	119	(146)	1,424	241
Cash balances	1,961	659	(271)	2,349	77

Cash balances are £77m higher than budget at the end of the period, a result of favourable variances on both the operating and capital accounts. The deferral of £162m of planned borrowing has been offset by working capital movements of £160m.

Crossrail cash balances are £164m lower than budget, driven by lower

than budgeted contingency payments from TfL (£122m), which have not yet been required, as well as higher than budgeted construction costs (£59m).

Cash balances, excluding cash ring fenced for Crossrail construction, are £1,424m at the end of the period, £27m lower than at the start of the year.

Appendices

Appendix A: Divisional tables

London Underground

(£m)	Period 5				Year to date			
	Actuals	Budget	Variance to budget	% variance to budget	Actuals	Budget	Variance to budget	% variance to budget
Fares income	195	204	(9)	-4%	1,022	1,059	(37)	-3%
Other operating income	2	2	-	0%	9	11	(2)	-18%
Total operating income	197	206	(9)	-4%	1,031	1,070	(39)	-4%
Direct operating cost	(164)	(171)	7	-4%	(795)	(836)	41	-5%
Indirect operating cost	(31)	(34)	3	-9%	(160)	(178)	18	-10%
Net operating surplus/(deficit)	2	1	1	100%	76	56	20	36%
Depreciation	(52)	(52)	-	0%	(262)	(258)	(4)	2%
Net cost of operations before financing	(50)	(51)	1	-2%	(186)	(202)	16	-8%
Capital renewals	(30)	(37)	7	-19%	(125)	(168)	43	-26%
New capital investment	(53)	(55)	2	-4%	(272)	(263)	(9)	3%
Net capital expenditure	(83)	(92)	9	-10%	(397)	(431)	34	-8%

Rail

(£m)	Period 5				Year to date			
	Actuals	Budget	Variance to budget	% variance to budget	Actuals	Budget	Variance to budget	% variance to budget
Fares income	38	40	(2)	-5%	195	204	(9)	-4%
Other operating income	1	1	-	0%	4	6	(2)	-33%
Total operating income	39	41	(2)	-5%	199	210	(11)	-5%
Direct operating cost	(44)	(45)	1	-2%	(206)	(217)	11	-5%
Indirect operating cost	(2)	(3)	1	-33%	(13)	(14)	1	-7%
Net operating surplus/(deficit)	(7)	(7)	-	0%	(20)	(21)	1	-5%
Depreciation	(10)	(11)	1	-9%	(51)	(56)	5	-9%
Net cost of operations before financing	(17)	(18)	1	-6%	(71)	(77)	6	-8%
Capital renewals	-	(2)	2	-100%	(7)	(10)	3	-30%
New capital investment	(26)	(29)	3	-10%	(113)	(144)	31	-22%
Crossrail	(118)	(94)	(24)	26%	(567)	(508)	(59)	12%
Net capital expenditure	(144)	(125)	(19)	15%	(687)	(662)	(25)	4%

Roads

(£m)	Period 5				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	23	26	(3)	-12%	120	128	(8)	-6%
Total operating Income	23	26	(3)	-12%	120	128	(8)	-6%
Direct operating cost	(35)	(41)	6	-15%	(163)	(177)	14	-7.9%
Indirect operating cost	(6)	(7)	1	-14%	(30)	(33)	3	-9%
Net operating surplus/(deficit)	(18)	(22)	4	-18%	(73)	(82)	9	-11%
Depreciation	(11)	(11)	-	0%	(55)	(53)	(2)	4%
Net cost of operations before financing	(29)	(33)	4	-12%	(128)	(135)	7	-5%
Capital renewals	(7)	(11)	4	-35%	(37)	(48)	11	-23%
New capital investment	(6)	(5)	(1)	18%	(35)	(36)	1	-3%
Net capital expenditure	(13)	(16)	3	-17%	(72)	(84)	12	-14%

Buses

(£m)	Period 5				Year to date			
	Actuals	Budget	Variance to budget	% variance to budget	Actuals	Budget	Variance to budget	% variance to budget
Fares income	109	108	1	1%	561	549	12	2%
Other operating income	1	1	-	0%	5	4	1	25%
Total operating Income	110	109	1	1%	566	553	13	2%
Direct operating cost	(161)	(160)	(1)	1%	(809)	(806)	(3)	0%
Indirect operating cost	(5)	(5)	-	0%	(26)	(28)	2	-7%
Net operating surplus/(deficit)	(56)	(56)	-	0%	(269)	(281)	12	-4%
Depreciation	(4)	(3)	(1)	33%	(18)	(17)	(1)	6%
Net cost of operations before financing	(60)	(59)	(1)	2%	(287)	(298)	11	-4%
Capital renewals	(1)	(1)	-	0%	(4)	(5)	1	-20%
New capital investment	(1)	-	(1)		(8)	(14)	6	-43%
Net capital expenditure	(2)	(1)	(1)	100%	(12)	(19)	7	-37%

Commercial Development

(£m)	Period 5				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	15	18	(3)	-17%	88	95	(7)	-7%
Total operating income	15	18	(3)	-17%	88	95	(7)	-7%
Direct operating cost	(3)	(5)	2	-40%	(12)	(22)	10	-45%
Indirect operating cost	-	-	-	0%	-	-	-	0%
Net operating surplus/(deficit)	12	13	(1)	-8%	76	73	3	4%
Depreciation	-	-	-	0%	-	-	-	0%
Net cost of operations before financing	12	13	(1)	-8%	76	73	3	4%
New capital investment	(5)	(3)	(2)	67%	(12)	(15)	3	-20%
Capital receipts	-	35	(35)	-100%	13	39	(26)	-67%
Crossrail property receipts	1	-	1		1	-	1	0%
Net capital expenditure	(4)	32	(36)	-113%	2	24	(22)	-92%

Other operations

(£m)	Period 5				Year to date			
	Actuals	Budget	Variance to budget	% variance to budget	Actuals	Budget	Variance to budget	% variance to budget
Fares income	4	4	-	0%	20	18	2	12%
Other operating income	8	9	(1)	-11%	41	40	0	1%
Total operating Income	12	13	(1)	-8%	61	58	2	4%
Direct operating cost	(12)	(18)	6	-33%	(69)	(86)	17	-20%
Indirect operating cost	(2)	(2)	-	0%	(7)	(7)	(2)	22%
Net operating surplus/(deficit)	(2)	(7)	5	-71%	(15)	(35)	18	-51%
Depreciation	(7)	(6)	-	0%	(34)	(32)	(2)	6%
Net cost of operations before financing	(9)	(13)	5	-38%	(49)	(67)	16	-24%
Capital renewals	(3)	(5)	2	-40%	(22)	(28)	6	-21%
New capital investment	(4)	(7)	3	-43%	(25)	(40)	15	-38%
Net capital expenditure	(7)	(12)	5	-42%	(47)	(68)	21	-31%

Appendix B: Fares income, passenger journeys and fares yield

Fares income

(£m)	Period 5				Year to date			
	Actual	Budget	Variance to budget	% Variance to budget	Actuals	Budget	Variance to budget	% Variance to budget
London Underground	195	204	(9)	-4.4%	1,022	1,059	(37)	-3.5%
TfL Rail	5	7	(2)	-28.6%	31	34	(3)	-8.8%
DLR	13	13	-	0.0%	66	65	1	1.5%
London Overground	17	18	(1)	-5.6%	86	93	(7)	-7.5%
London Trams	2	1	1	100.0%	9	9	-	0.0%
Emirates Air Line	1	1	-	0.0%	3	3	-	0.0%
Buses	109	108	1	0.9%	561	549	12	2.2%
Oyster write-off and deposits	4	4	-	0.0%	20	18	2	11.1%
Total fares	346	354	(8)	-2%	1,798	1,831	(33)	-2%

Passenger journeys

Million	Period 5				Year to date			
	Actual	Budget	Variance to budget	% Variance to budget	Actuals	Budget	Variance to budget	% Variance to budget
London Underground	102	105	(3)	-3.2%	523	540	(17)	-3.2%
TfL Rail	3	4	(1)	-11.4%	17	18	(1)	-2.6%
DLR	9	9	(0)	-0.4%	47	48	(0)	-0.9%
London Overground	14	15	(1)	-6.4%	73	77	(4)	-5.5%
London Trams	2	2	0	24.3%	11	11	0	3.1%
Emirates Air Line	0.2	0.2	(0)	-6.8%	0.7	0.8	(0.1)	-10.4%
Buses	155	153	2	1.2%	866	841	26	3.1%
Total passengers	285	288	(3)	-0.9%	1,538	1,535	3	0.2%

Fares yield*

(£ per journey)	Period 5				Year to date			
	Actual	Budget	Variance to budget	% Variance to budget	Actuals	Budget	Variance to budget	% Variance to budget
London Underground	1.92	1.94	-0.03	-1.3%	1.95	1.96	-0.01	-0.3%
TfL Rail	1.47	1.83	-0.35	-19.3%	1.78	1.90	-0.12	-6.3%
DLR	1.42	1.41	0.01	0.4%	1.39	1.36	0.03	2.4%
London Overground	1.24	1.23	0.01	0.9%	1.18	1.21	-0.03	-2.2%
London Trams	0.97	0.60	0.37	60.8%	0.81	0.84	-0.03	-3.0%
Emirates Air Line	4.04	4.47	-0.43	-9.7%	4.14	4.44	-0.31	-6.9%
Buses	0.70	0.71	0.00	-0.2%	0.65	0.65	-0.01	-0.8%
Average yield	1.21	1.24	-0.02	-2.0%	1.17	1.19	-0.02	-2.0%

* Fares yield include the effects of retrospective Travelcard adjustments



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