

Board

Date: 19 July 2017

Item: Finance Report – Period 2, 2017/18

This paper will be considered in public

1 Summary

- 1.1 The Finance Report sets out TfL's financial results for Period 2, 2017/18 – the period ending 27 May 2017.
- 1.2 The Report was considered by members of the Finance Committee on 5 July 2017. Members discussed:
 - (a) the work taking place to improve the reporting and monitoring of capital programme and that the Committee would receive an update on the progress made on this, along with the timetable for the preparation and agreement of the new business plan, at its next meeting;
 - (b) the ways in which Board Members could be kept informed of the aspects of business planning around Crossrail via the committees and panels at the appropriate points as the transition from a construction programme to a train service progressed; and
 - (c) how the presentation of and monitoring which lay behind the performance indicators underpinning the scorecard reporting could best be shared with Members going forward. The discussion also covered the work which Finance was carrying out to examine the factors influencing top line figures in key areas. Revenue forecasting across the different businesses was an area which it was felt could benefit from this focus.

2 Recommendation

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

3 Financial Reporting to the Board and Committees

Finance Report – Period 2, 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.

List of appendices to this report:

Appendix 1: Finance Report – Period 2, 2017/18

List of Background Papers:

None

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Transport for London finance report

Period 2 2017/18

MAYOR OF LONDON



**TRANSPORT
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About Transport for London (TfL)

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

As a core element in the Mayor's overall plan for London, our purpose is to keep London moving, working and growing, and to make life in our city better. We reinvest all of our income to run and improve London's transport services and to make it safer, modern and affordable for everyone. We play a central role in delivering the Mayor's strategy to improve air quality and public health and to make transport accessible to all.

Our operational responsibilities include London Underground, London Buses, Docklands Light Railway (DLR), London Overground, TfL Rail, London Trams, London River Services, London Dial-a-Ride, Victoria Coach Station, Santander Cycles and the Emirates Air Line.

On the roads, we regulate taxis and the private hire trade, run the Congestion Charging scheme, manage the city's 580km red route network, operate all of the Capital's 6,300 traffic signals and work to ensure a safe environment for all road users.

We are delivering one of the world's largest programmes of transport capital investment, which is building the

Elizabeth line, modernising Tube services and stations, transforming the road network and making it safer, especially for more vulnerable road users, such as pedestrians and cyclists.

We work hard to make journeys easier through effective use of technology and data. We provide modern ways to pay through Oyster and contactless payment cards, and provide information in a wide range of formats to help people move around London.

Real-time travel information is provided directly by us and through third party organisations, which use the data we make openly and freely available to power apps and other services.

We listen to, and act upon, feedback and complaints to constantly improve our services and work with communities, representative groups, businesses and many other stakeholders to shape transport provision in London.

Improving and expanding transport in London is central to driving economic growth, jobs and housing throughout the United Kingdom. Where possible, we are using our land to provide thousands of new, affordable homes. Our own supply chain creates tens of thousands of jobs and apprenticeships across the country.

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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 2 – the four weeks ending 27 May 2017

(£m)	Period 2				Year to date			
	Actuals	Budget	Variance to budget	% variance to budget	Actuals	Budget	Variance to budget	% variance to budget
Fares income	360	371	(11)	-3%	723	734	(11)	-1%
Other operating income	51	55	(4)	-7%	104	110	(6)	-5%
Total operating income	411	426	(15)	-4%	827	844	(17)	-2%
General grant	18	18	-	0%	35	35	-	0%
Business rates retention	154	154	-	0%	154	154	-	0%
Other revenue grants	4	4	-	0%	7	8	(1)	-13%
Total income	587	602	(15)	-2%	1,023	1,041	(18)	-2%
Operating cost	(465)	(476)	11	-2%	(919)	(953)	34	-4%
Net operating surplus	122	126	(4)	-3%	104	88	16	18%
Depreciation and amortisation	(84)	(82)	(2)	2%	(169)	(164)	(5)	3%
Net cost of operations before financing	38	44	(6)	-14%	(65)	(76)	11	-14%
Net financing costs	(32)	(32)	-	0%	(65)	(65)	-	0%
Net cost of transport operations	6	12	(6)	-50%	(130)	(141)	11	-8%

Income

Cumulative total income is £18m (-1.7%) below budget and £15m (-2.5%) adverse for the period, principally a result of lower fares income:

- London Underground (LU) fares income is £14m (-3.4%) lower than budget in the year to date and

£11m (-5.1%) lower in the period.

Cumulative passenger volumes are four million (-1.8%) behind budget, accounting for £7m of the shortfall. The growth in demand relating to the factors of increased population, employment and tourism has been lower than first forecast when the budget was set. Fares yield is £0.03

(-1.6%) lower than budget, partly a result of £4m of payments to the Train Operating Companies (TOCs) which is backdated to January 2016

- Bus fares income is £7m (3.2%) better than budget in the year to date and £2m (1.6%) higher in the period. Passenger volumes are cumulatively 12 million (3.5%) above budget which reflects some improvement in bus speeds, notably in inner London
- London Overground fares income is cumulatively £4m behind budget, a result of two million (-6.6%) lower passenger volumes and backdated payments to the TOCs totalling £2m. The lower passenger volumes are a combination of slower than expected recovery after the Gospel Oak to Barking line closure and generally lower demand growth
- Other operating income is £6m (-5.5%) adverse to budget in the year to date, in part the result of a shortfall in Congestion Charge income; income is 5% lower than budget and 10% down on last year. The trend shows that charges have continued to decline, and at present we are not seeing the expected levelling of volumes owing to improving road conditions. This has also led to lower Penalty Charge Notice (PCN) volumes being issued.

Costs

Operating costs are £465m in the period, £11m (-2.3%) lower than budgeted. Cumulative costs are now £34m (-3.6%) below budget:

- LU direct operating costs are £10m (-2.9%) lower than budget for the year to date, driven by lower staff costs (£5m) and some in-year project rephasing
- Roads direct operating costs are £3m (-4.2%) lower than budget in the year mainly driven by slower starts on highways maintenance, which is expected to catch up in the year
- Other operations is £5m (-13.3%) lower than budget, principally a result of deferred Crossrail 2 costs
- Commercial Development are £4m (-44.4%) below budget, mainly owing to lower staff costs, deferred consultancy costs and delayed property management projects which are expected to catch up over the year
- Indirect operating costs are £12m lower than budget owing to savings in staff costs (£2m), reduced marketing spend (£3m) and lower insurance claims (£2m) following a review by TfL's third party claim manager

Depreciation and amortisation costs are £5m (3.0%) higher than budget and financing costs are in line with budget.

Capital account

(£m)	Period 2				Year to date			
	Actuals	Budget	Variance to budget	% variance to budget	Actuals	Budget	Variance to budget	% variance to budget
Capital renewals	(28)	(47)	19	-41%	(71)	(97)	26	-26%
New capital investment	(80)	(94)	13	-14%	(183)	(208)	24	-12%
Crossrail	(113)	(107)	(6)	6%	(234)	(217)	(17)	8%
Total capital expenditure	(221)	(248)	26	-11%	(489)	(521)	33	-6%
Financed by:								
Investment grant	173	173	-	0%	173	173	-	0%
Third-party contributions	2	2	-	0%	4	5	(1)	-20%
Property income	-	1	(1)	-100%	-	1	(1)	-100%
Crossrail funding sources	8	12	(4)	-33%	22	23	(1)	-4%
Other capital grants	15	15	-	0%	31	30	1	3%
Total	198	203	(5)	-2%	230	232	(2)	-1%
Net capital account	(23)	(45)	21	-47%	(259)	(289)	31	-11%

Cumulative capital expenditure is now £33m (-6.3%) lower than budget, driven by:

- LU capital costs are £20m lower than budget: £12m of costs have been deferred to later years in the Workforce Planning, World Class Capacity and Crossrail Station Interface programmes
- Rail capital costs are £7m higher than budget. Crossrail construction costs are £17m higher, a result of Systemwide main works, stations and civils. In addition, there has been some slippage on TfL Rail station improvement works due to contractor design performance, and a further £3m of budgeted Crossrail train costs that were recognised early in 2016/17
- Roads is £6m lower than budget, a result of £2m of in-year rephasing on capital renewals projects, with delivery schedules now agreed with contractors. New capital investment is £4m lower, a result of minor slippages across a range of Healthy Streets projects, which are not expected to impact the full year outturn
- Commercial Development are £4m lower than budget, a result of some delay on Exterior's capital delivery programme and timing variances on the road advertising underpass project
- Other operations capital spend is some £6m lower than budget, partly as a result of rephasing ticketing improvements projects (£3m), including systems and ticket vending machines to later this year

Headcount

Full-time equivalent (FTE) employees	End of 2016/17 actuals	Period 1 net (leavers)/ joiners	Period 2 net (leavers)/ joiners	Period 2 Actual	Period 2 budget	Variance to budget	% variance to budget
Underground	20,121	(729)	(27)	19,365	19,801	(435)	-2%
Rail	465	(3)	(35)	427	504	(78)	-15%
Buses	548	(4)	(5)	539	557	(17)	-3%
Roads	2,098	(36)	(105)	1,956	2,028	(72)	-4%
Other operations	1,370	7	19	1,396	1,488	(92)	-6%
Professional services	3,606	479	67	4,151	4,600	(449)	-10%
Commercial Development	179	(2)	1	178	214	(37)	-17%
Crossrail	803	(29)	(1)	773	863	(90)	-10%
Total FTEs	29,189	(317)	(87)	28,785	30,054	(1,269)	-4%

Employee costs (£m)	Period 2				Year to date			
	Actual	Budget	Variance to budget	% variance to budget	Actual	Budget	Variance to budget	% variance to budget
Permanent	(143)	(147)	5	-3%	(290)	(298)	8	-3%
Non-permanent Labour (NPL)	(7)	(13)	6	-48%	(15)	(26)	11	-43%
Total employee costs	(150)	(161)	11	-7%	(305)	(324)	19	-6%

Headcount levels are down by 404 since the end of last year, a result of continued recruitment controls – including reduced reliance on non-permanent labour – and the transformation programme.

LU headcount has reduced by 756 since the end of last year. More than 500 commercial and finance employees have transferred to professional services (which have increased by a corresponding amount). In addition non-permanent labour numbers are down following the introduction of new IR35 obligations on government contractors.

Headcount in other operations shows some small increases, a result of the recruitment of Taxi & Private Hire compliance officers where 200 out of the planned 250 have so far been recruited.

Against budget, employee numbers are 1,269 (-4%) lower. This reflects ongoing recruitment controls, staff leaving as part of the Transformation programme – where the short-term effects on FTEs were not included in the budget – as well as the impact of new IR35 regulations, which has seen a further decline in contractor numbers.

Cash

Cash flow summary

(£m)	Period 2				Year to date			
	Actuals	Budget	Variance to budget	% variance to budget	Actuals	Budget	Variance to budget	% variance to budget
Net cost of transport operations	6	12	(6)	-50%	(130)	(141)	11	-8%
Non-cash depreciation	84	82	2	2%	169	164	5	3%
Net capital expenditure	(23)	(45)	21	-47%	(259)	(289)	31	-11%
Borrowing	150	150	-	0%	150	413	(263)	-64%
Working capital movements	(16)	(30)	14	-48%	597	566	30	5%
(Decrease)/increase in cash balances	201	169	32	19%	527	713	(186)	-26%

Cash balances

(£m)	2016/17 closing cash	Period 1 movements	Period 2 movements	Period 2 closing cash	Variance to budget
Crossrail sponsors' funding account	510	534	(101)	943	(102)
Other TfL cash balances	1,451	(208)	302	1,545	(84)
Cash balances	1,961	326	201	2,488	(186)

Cash balances are £2,488m at the end of period 1, £527m higher than at the end of 2016/17.

The increase in cash balances in Period 2 is principally driven by new borrowing of £150m which will be used to fund capital investment.

Cash balances are £186m lower than budget at the end of the period, principally driven by deferral of some planned borrowing until later this year.

The decrease in the Crossrail SFA is a result of lower scheduled payment from TfL (£122m) and higher than budgeted capital spend (£17m), which was partially offset by favourable working capital movements.

Appendices

Appendix A: divisional tables

London Underground

(£m)	Period 2				Year to date			
	Actuals	Budget	Variance to budget	% variance to budget	Actuals	Budget	Variance to budget	% variance to budget
Fares income	204	215	(11)	-5%	410	425	(14)	-3%
Other operating income	1	2	(1)	-50%	3	4	(1)	-25%
Total operating income	205	217	(12)	-6%	413	429	(16)	-4%
Direct operating cost	(165)	(165)	-	0%	(326)	(336)	10	-3%
Indirect operating cost	(29)	(33)	4	-12%	(57)	(66)	9	-13%
Net operating surplus/(deficit)	10	18	(8)	-44%	30	27	3	12%
Depreciation	(53)	(52)	(1)	2%	(104)	(103)	(1)	1%
Net cost of operations before financing	(43)	(34)	(9)	27%	(74)	(76)	2	-3%
Capital renewals	(15)	(30)	15	-50%	(43)	(63)	20	-32%
New capital investment	(49)	(53)	3	-6%	(109)	(110)	(0)	0%
Net capital expenditure	(64)	(82)	18	-22%	(152)	(173)	20	-12%

Rail

(£m)	Period 2				Year to date			
	Actuals	Budget	Variance to budget	% variance to budget	Actuals	Budget	Variance to budget	% variance to budget
Fares income	38	42	(4)	-10%	79	82	(3)	-4%
Other operating income	1	1	-	0%	1	3	(2)	-67%
Total operating income	39	43	(4)	-9%	80	85	(5)	-6%
Direct operating cost	(43)	(44)	1	-2%	(82)	(84)	2	-2%
Indirect operating cost	(2)	(2)	-	0%	(4)	(4)	-	0%
Net operating surplus/(deficit)	(6)	(3)	(3)	85%	(6)	(3)	(2)	72%
Depreciation	(10)	(11)	1	-9%	(20)	(22)	2	-9%
Net cost of operations before financing	(16)	(14)	(2)	12%	(26)	(25)	1	2%
Capital renewals	(2)	(2)	-	0%	(4)	(4)	-	0%
New capital investment	(15)	(17)	2	-11%	(39)	(49)	10	-20%
Crossrail	(113)	(107)	(6)	6%	(234)	(217)	(17)	8%
Net capital expenditure	(130)	(126)	(4)	3%	(277)	(270)	(7)	2%

Roads

(£m)	Period 2				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%	47	51	(4)	-8%
Total operating income	23	26	(3)	-12%	47	51	(4)	-8%
Direct operating cost	(35)	(37)	2	-5%	(69)	(72)	3	-4%
Indirect operating cost	(11)	(12)	1	-5%	(22)	(23)	2	-7%
Net operating surplus/ (deficit)	(23)	(23)	-	0%	(44)	(44)	-	0%
Depreciation	(11)	(10)	(1)	10%	(21)	(20)	(1)	5%
Net cost of operations before financing	(34)	(33)	(1)	4%	(65)	(64)	(1)	1%
Capital renewals	(6)	(9)	2	-26%	(14)	(16)	2	-14%
New capital investment	(7)	(9)	2	-22%	(14)	(18)	4	-21%
Net capital expenditure	(13)	(18)	4	-24%	(28)	(34)	6	-18%

Buses

(£m)	Period 2				Year to date			
	Actuals	Budget	Variance to budget	% variance to budget	Actuals	Budget	Variance to budget	% variance to budget
Fares income	113	111	2	2%	227	219	7	4%
Other operating income	(2)	1	(3)	-300%	2	1	1	100%
Total operating income	111	112	(1)	-1%	229	220	9	4%
Direct operating cost	(160)	(160)	-	0%	(320)	(320)	-	0%
Indirect operating cost	(3)	(3)	-	0%	(5)	(6)	1	-20%
Net operating surplus/ (deficit)	(51)	(51)	(1)	1%	(96)	(106)	9	-9%
Depreciation	(4)	(3)	(1)	33%	(7)	(7)	-	0%
Net cost of operations before financing	(55)	(54)	(2)	3%	(103)	(113)	9	-8%
Capital renewals	(1)	(1)	-	0%	(2)	(2)	-	0%
New capital investment	(2)	(5)	3	-58%	(8)	(10)	2	-23%
Net capital expenditure	(3)	(6)	3	-50%	(9)	(12)	2	-21%

Commercial Development

(£m)	Period 2				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	20	19	1	5%	36	37	(1)	-3%
Total operating income	20	19	1	5%	36	37	(1)	-3%
Direct operating cost	(2)	(4)	2	-50%	(5)	(9)	4	-44%
Indirect operating cost	-	-	-	0%	-	-	-	0%
Net operating surplus/(deficit)	18	15	3	20%	31	28	3	11%
Depreciation	-	-	-	0%	-	-	-	0%
Net cost of operations before financing	18	15	3	20%	31	28	3	11%
New capital investment	(2)	(3)	1	-33%	(2)	(6)	4	-67%
Capital receipts	-	1	(1)	-100%	-	1	(1)	-100%
Crossrail property receipts	-	-	-	0%	-	-	-	0%
Net capital expenditure	(2)	(2)	-	0%	(2)	(5)	3	-60%

Other Operations

(£m)	Period 2				Year to date			
	Actuals	Budget	Variance to budget	% variance to budget	Actuals	Budget	Variance to budget	% variance to budget
Fares income	4	4	-	0%	7	7	-	0%
Other operating income	8	7	1	14%	14	13	1	8%
Total operating income	12	11	1	9%	21	20	1	5%
Direct operating cost	(13)	(14)	1	-7%	(26)	(31)	5	-16.1%
Indirect operating cost	(2)	(2)	-	0%	(3)	(4)	1	-8%
Net operating surplus/(deficit)	(3)	(5)	2	-43%	(8)	(15)	7	-43%
Depreciation	(7)	(7)	-	0%	(16)	(13)	(3)	23%
Net cost of operations before financing	(10)	(12)	2	-18%	(24)	(28)	3	-12%
Capital renewals	(4)	(6)	2	-28%	(9)	(11)	2	-22%
New capital investment	(5)	(7)	2	-29%	(11)	(15)	4	-26%
Net capital expenditure	(9)	(13)	4	-29%	(20)	(26)	6	-24%

Appendix B: passenger journeys, fares, and yield

Fares income

(£m)	Period 2				Year to date			
	Actual	Budget	Variance to budget	% Variance to budget	Actuals	Budget	Variance to budget	% Variance to budget
London Underground	204	215	(11)	-5.1%	410	425	(14)	-3.4%
TfL Rail	6	7	(1)	-11.3%	13	13	(0)	-3.6%
DLR	13	13	(0)	-1.1%	27	27	0	0.9%
London Overground	17	19	(2)	-9.9%	34	38	(4)	-10.9%
London Trams	2	2	0	1.4%	4	3	0	6.7%
Emirates Air Line	0	1	(0)	-24.0%	1	1	(0)	-16.8%
Buses	113	111	2	1.6%	227	219	7	3.2%
Oyster write-off and deposits	4	4	0	10.6%	7	7	0	6.4%
Total fares	360	371	(12)	-3.1%	723	734	(11)	-1.5%

Passenger journeys

Million	Period 2				Year to date			
	Actual	Budget	Variance to budget	% Variance to budget	Actuals	Budget	Variance to budget	% Variance to budget
London Underground	106	109	(3)	-2.7%	211	214	(4)	-1.8%
TfL Rail	4	4	0	0.0%	7	7	0	2.2%
DLR	9	10	(0)	-3.2%	19	20	(0)	-0.3%
London Overground	15	16	(1)	-4.8%	30	32	(2)	-6.6%
London Trams	2	2	(0)	-1.9%	4	4	0	3.6%
Emirates Air Line	0	0	(0)	-22.6%	0	0	(0)	-13.5%
Buses	182	177	5	2.8%	354	342	12	3.5%
Total passengers	318	317	1	0.3%	625	619	6	1.0%

Fares yield

(£ per journey)	Period 2				Year to date			
	Actual	Budget	Variance to budget	% Variance to budget	Actuals	Budget	Variance to budget	% Variance to budget
London Underground	1.92	1.97	-0.05	-2.4%	1.95	1.98	-0.03	-1.6%
TfL Rail	1.71	1.93	-0.22	-11.3%	1.91	2.03	-0.11	-5.7%
DLR	1.40	1.37	0.03	2.2%	1.39	1.37	0.02	1.2%
London Overground	1.14	1.21	-0.06	-5.3%	1.15	1.21	-0.06	-4.6%
London Trams	0.85	0.82	0.03	3.3%	0.85	0.82	0.03	3.0%
Emirates Air Line	4.24	4.32	-0.08	-1.8%	4.30	4.47	-0.17	-3.8%
Buses	0.62	0.63	-0.01	-1.2%	0.64	0.64	0.00	-0.3%
Average yield	1.13	1.17	-0.04	-3.4%	1.16	1.19	-0.03	-2.5%



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