

Date: 26 March 2025

Item: TfL Budget 2025/26

This paper will be considered in public.

1 Summary

- 1.1 This paper considers TfL's proposed 2025/26 Budget which builds upon our November 2024 submission into the Mayor's 2025/26 Budget. Turning it into a detailed plan, which includes the latest assumptions and outlook, against which we can track progress throughout the year.
- 1.2 Our proposed 2025/26 Budget shows that for the third year running, TfL is forecasting to deliver an operating surplus in the face of a significant number of headwinds and that we will deliver against our key goals:
- (a) Safety & security: ensuring everyone gets home safe and healthy;
 - (b) Colleague: being a great place to work for everyone to thrive;
 - (c) Customer: give people more reasons to choose sustainable travel;
 - (d) Green: tackling the climate and ecological emergency; and
 - (e) Finance: growing our income and controlling our costs to secure our future.

2 Recommendations

- 2.1 **The Board is asked to note the paper and approve the TfL Budget for 2025/26.**

3 TfL 2025/26 Budget

- 3.1 As set out in Appendix 1, this Budget confirms the progress we have made in strengthening our operating financial sustainability in 2024/25 and how we will maintain an operating surplus in 2025/26 due to:
- (a) rising passenger demand which we expect to grow 1.3 per cent year-on-year generating £320m of additional revenue;
 - (b) growing our income from other sources – this will include completing a review of all non-fares related fees and charges to ensure these are appropriate and reflective of economic conditions;

- (c) managing the impact of increasing inflation and supply-chain costs and continuing to deliver recurring operating savings;
- (d) continuing to invest in the renewal of our assets ensuring service reliability and performance;
- (e) delivering the Mayor's priorities such as planning and consulting upon the launch of new "Superloop 2" routes by the end of 2025; and
- (f) rebuilding our cash: we are now rebuilding our cash reserves and accounting reserves. We will also continue to maintain the Greater London Authority (GLA) £350m financing facility to protect against further shocks.

4 Section 25 of the Local Government Act 2003

- 4.1 Under section 25 of the Local Government Act 2003, the Chief Finance Officer of the GLA must issue a statement when agreeing their annual budget and precept to report on the following matters:
- (a) the robustness of the estimates made for the purposes of calculations; and
 - (b) the adequacy of the proposed financial reserves.
- 4.2 As a functional body of the GLA, TfL has followed the same principles and makes a statement in accordance with section 25 to support the GLA's section 25 statement. This should be read alongside the TfL 2025/26 Budget presentation in Appendix 1.
- 4.3 TfL is more dependent on fare income than similar transport authorities around the world, with fares covering around two-thirds of its operating costs. TfL's dependence on fare income was exposed during the pandemic, which had a catastrophic impact on its financial position. Prior to the pandemic, around 61 per cent of TfL's total income derived from passenger fares. Since then, TfL has rebuilt its finances, reduced the proportion of income from passenger fares to around 59 per cent and achieved its first operating surplus in 2023/24 to fund investment. TfL is on track to deliver a second operating surplus in 2024/25 and this has allowed TfL to start to rebuild its cash balances and usable reserves while restoring investment in critical asset renewals.
- 4.4 TfL does receive operating income from the Mayor through business rates retention and an element of the council tax precept. The amounts for 2025/26 assumed in the TfL 2025/26 Budget are in-line with the totals set by the Mayor's 2025/26 Budget.
- 4.5 However, like other transport authorities, TfL still needs capital funding from the Government for major asset replacements and enhancements. TfL only has confirmed £485m capital funding for 2025/26, although the Government has indicated it will work with TfL with the aim to place it on a long-term financial sustainable footing as part of the 2025 Spending Review.

- 4.6 TfL also continues to make applications for other Government grants for which it is eligible, including the Department for Transport Major Road Network Fund. This funding is assumed in the proposed 2025/26 TfL Budget, but if this funding is not secured the schemes they relate to will not be able to proceed.
- 4.7 In addition, the Budget includes costs to continue feasibility work for major growth schemes such as DLR Thamesmead, Bakerloo line extension and West London Orbital, which are subject to the agreement of future Government funding.
- 4.8 The Budget presentation outlines in more detail the following key considerations:
- (a) wider economic outlook, interest rates and inflation;
 - (b) passenger demand and fares policy;
 - (c) managing the growth in operating costs and capital investment requirements;
 - (d) our progress towards delivering on savings;
 - (e) our approach to borrowings and cash and maintaining our current level of accounting reserves; and
 - (f) the range of risks that we are managing through contingency and other mitigations.
- 4.9 In respect to robustness of estimates, the proposed TfL 2025/26 Budget incorporates the latest available inflation forecast published by the Office for Budget Responsibility (OBR) and 10-year UK gilt yields. Passenger income and other demand driven income sources rely on a mixture of OBR forecasts, market information and historical performance that is updated on a quarterly and periodic basis. Operating cost forecasts rely on the latest inflation forecast and service level assumption. Sensitivity analyses are also conducted to assess the impact of changes to cost inflation, fluctuations in ridership and other external factors.
- 4.10 TfL has a comprehensive savings programme which includes an unidentified savings target that is a similar size challenge to that we have taken in previous years. To support the delivery of revenue growth and cost reduction initiatives, we have developed a budget management plan. Progress against this management plan will be reviewed by the TfL Executive Committee on a periodic basis and reported to the Finance Committee at each meeting.
- 4.11 As set out in TfL's Treasury Management Policy, TfL aims to maintain a minimum level of cash reserves of at least 60 days' worth of forecast annual operating expenditure, on average. In respect to adequacy of accounting reserves, TfL's General Fund policy targets a balance of £500m and represents monies held for the following purposes:

- (a) a working balance to help cushion the impact of uneven cashflow and avoid unnecessary temporary borrowing; and
 - (b) a contingency to cushion the impact of unexpected events or emergencies.
- 4.12 The financial impact of the pandemic, and associated conditions of Government funding during that period, meant that TfL's General Fund reserves were depleted and reached a low of £190m in March 2023. TfL had been targeting to rebuild our General Fund reserves to £500m by 2025/26, but the headwinds we face and the lower operating surplus as a consequence in 2024/25 and 2025/26, means that we are only able to retain our General Fund at £250m – which is around the level TfL has had for the last three years.
- 4.13 However, TfL has a sufficient number of levers to absorb shocks and withstand strategic, safety and operational risks. If external or macroeconomic conditions worsen significantly, TfL may need to re-evaluate its expenditure plans or identify additional cost savings. To support TfL's ability to adjust its planned expenditure if required, additional commercial and financial controls are being introduced by the Chief Finance Officer to manage new expenditure commitments while uncertainty remains over revenue growth and cost savings delivery.
- 4.14 In the event of a large external shock, such as a significant economic downturn or increase in inflation, the £350m GLA Financing Facility has been retained. TfL also has access to other sources of borrowing such as the Public Works Loan Board.
- 4.15 It is essential that TfL keeps its budget assumptions and reserve levels under regular review throughout the financial year. The level of reserves will be reviewed by the TfL Executive Committee each period and reported to the Finance Committee and Board at each meeting.
- 4.16 In summary, the TfL Statutory Chief Finance Officer considers the level of reserves appropriate given known liabilities, risks and uncertainties facing the organisation, the robustness of the estimates used to set the proposed 2025/26 Budget and in the context of the financial mitigations it has available.

5 Next steps

- 5.1 We will report on the progress of delivering against the 2025/26 Budget to the Finance Committee and Board throughout 2025/26.
- 5.2 We will work with Government to secure a long-term funding agreement as part of the 2025 Spending Review currently underway.
- 5.3 We will continue to work collaboratively across the wider GLA Group to ensure delivery of the Mayor's strategic priorities for London.

List of appendices to this report:

Appendix 1: TfL 2025/26 Budget - presentation

List of Background Papers:

[TfL submission into the Mayor's Budget 2025/26](#)

[The Mayor's final consolidated Budget for 2025/26](#)

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