Board meeting 28.9.10

Secretariat memorandum

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LTW 362
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Overview of the impact of changes to the economic climate

1 Purpose of report

1.1 The purpose of this report is to update London TravelWatch members on the impact on transport users following the recession and to outline London TravelWatch's position on future spending on transport.

2 Recommendations

2.1 To note the potential threats to transport spending in light of the current economic climate and agree London TravelWatch's response.

3 Introduction

3.1 The impact of the recession has been felt in the transport industry in the form of reduced revenues and budgets. As London TravelWatch looks towards the Comprehensive Spending Review, due to conclude on the 20 October 2010, all parties involved in the transport industry are considering where within their budgets reductions, efficiencies and savings can be made. This report considers the following issues in preparation for the anticipated difficult decisions on transport spending:

- The impact of the recession of transport demand and revenues.
- The impact of cuts and efficiency savings that have already been committed to in the 2010/11 financial year.
- Recommendations of priority areas which London TravelWatch would want to see protected in future spending decisions and where savings or efficiencies might be sought.

3.2 London and its surrounding area are the economic heart of the British economy and public transport is central to the success and growth of the region.

- Central London employment is dependent upon the availability of transport and London as a whole contributes between £14.3bn and £19.4bn to the UK economy in the difference between public expenditure and tax paid.[1]

[1] Source: Page 102, London's Place in the UK Economy, Oct 2009, City of London

- Public transport in London has a larger modal share of trips than any other region of the UK.
- While there has been investment in transport capacity over the last ten years the average number of passengers per train, bus and tram has also risen in the same period.[2]
- The subsidy per passenger kilometre for London and the South East operators is generally lower than the rest of the UK.[3]
- Everyday 1.11 million people commute into or out of London[4], for many of these passengers rail is the only viable option available to them. It is therefore of great importance to the wider economy that rail transport quality and capacity is invested in and maintained.

4 Transport demand since the recession

4.1 The impact of the recession has been to affect the rate of growth of transport demand. This is as a consequence of macroeconomic factors such as central London employment and consumer confidence in making discretionary spending choices. The impact on the volume of public transport passenger is only one aspect of the equation. More importantly, from the perspective of transport providers, is the revenue generated. The numbers of passengers has in many cases been less affected than the types of tickets that have been purchased. The latter passenger behaviour can mean that there is a more considerable reduction in revenue than the changes in actual volumes of passengers might suggest.

5 Transport volumes on modes

5.1 Streets – traffic volumes

5.1.1 Traffic volumes have been largely falling in London in all areas of the capital. The recession added further reductions in traffic to a similar percentage change as seen elsewhere in the UK. However, the difference is that in the rest of the UK there had been traffic volume growth up until that point.

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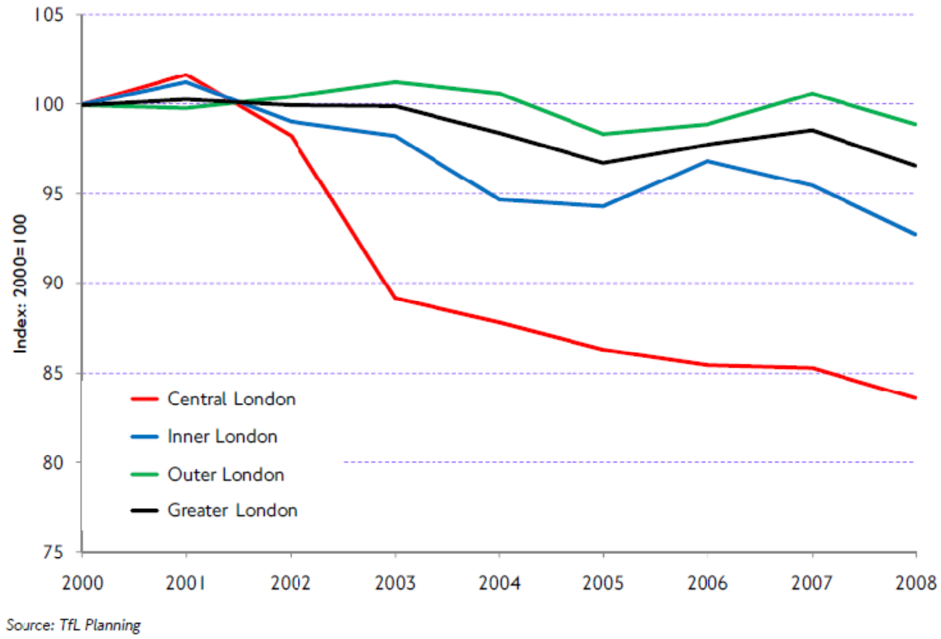
[2] Source: Travel in London Report 2, 2010, TfL
[3] Source: ORR Statistics 2008 http://www.rail-reg.gov.uk/upload/xls/nrt-tables-ch6-misc-240610.xls
[4] Source: Travel in London Report 2, 2010, TfL

Figure 1 – Trend in traffic (vehicle km), all motor vehicles in Central, Inner and Outer London, 2000 to 2008 [5]



5.2 TfL modes passenger numbers

5.2.1 The numbers of passengers carried from the most recent data available for the full year 2009/10 show that for all modes except river transport the annual target volumes were not achieved. These are only planning targets but have consequences for the budgeted revenue generated by passengers creating a funding gap between operating and capital expenditure, and revenues.

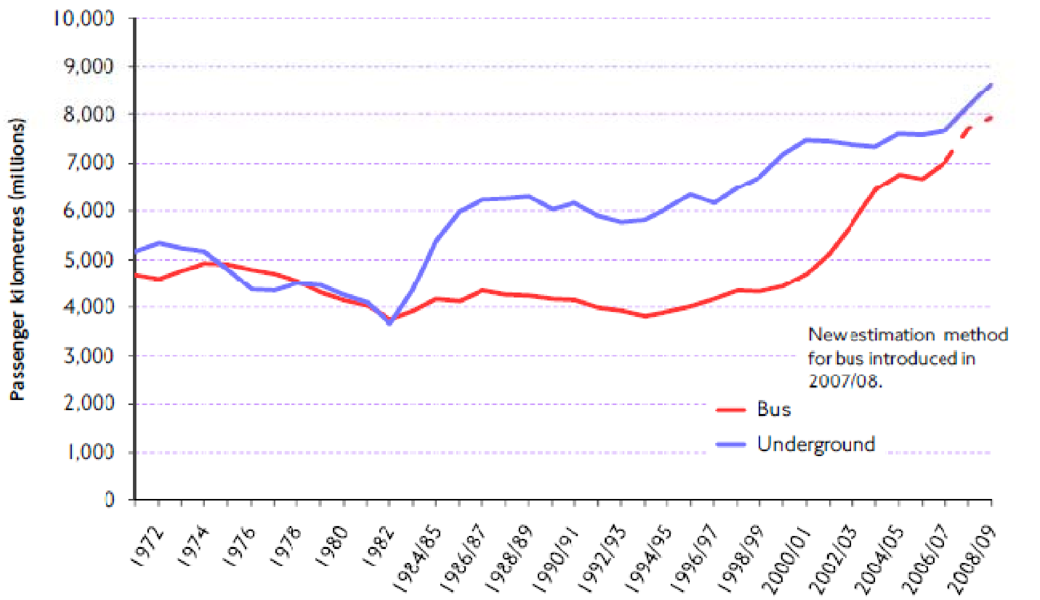
5.2.2 The consequence for the London Underground and Buses in terms of revenue was that London Underground was £57.5million below budget for 2009/10. This was still a small growth on the 2008/9 outturn figures. For London Buses revenue target was marginally exceeded by £13.6million. London Buses revenue actually grew by 5.9% compared with the year before.[6]

5.2.3 According to the 'Travel in London Report' (2010), the reduction in Underground journeys has varied across the network with greater reductions at stations in the City and Canary Wharf with smaller changes at Outer London Stations and in the West End.

5.2.4 Bus and Underground passenger kilometres have declined less than journeys – implying that journey lengths have increased. However, whether the increase in trip lengths is recession-related or a continuation of past trends, associated with an increasing shift to Oyster tickets, is as yet unclear. Bus and Underground revenues have, as a result of higher fares, been more buoyant than either passenger kilometres or journeys.

[5] Fig 2.6 – Travel in London, Report 2
[6] Source: Page 5 & 6 Operations and Financial Performance Report – Fourth Quarter 2009/10

Figure 2 – Bus and Underground Passenger Kilometres[7]

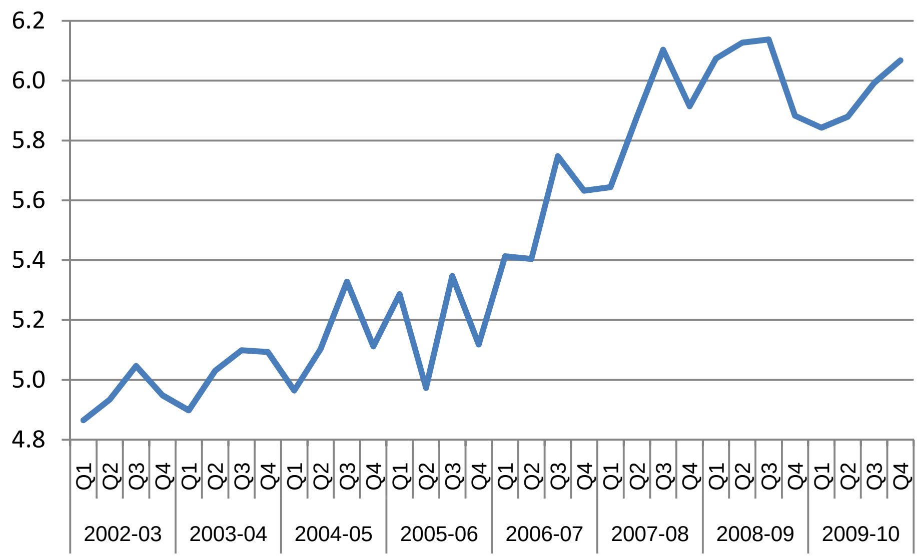


Source: TfL Service Performance data. See note following Table 2.6. The change in the method used to estimate bus passenger kilometres from 2007/08 means that comparisons with earlier years must be treated with caution.

5.3 National Rail – passenger numbers

5.3.1 The graph below shows the clear dip in the number of London and the South East passenger kilometres in the last part of 2008/9 and the first part of 2009/10. This dip was then followed by a recovery of numbers in the second and third quarter of 2009/10.

Figure 3 – London and the South East billions of passenger km 2002/03 to 2009/10[8]



5.3.2 In the short to medium term, forecasts of rail passenger growth based on current Treasury projections of gross domestic product suggest that the pre-recession

[7] Fig 2.4 – Travel in London, Report 2

[8] Source: http://www.rail-reg.gov.uk/upload/xls/nrt-yearbook-2009-10.xls

forecast will be reached approximately two years later than had been forecast prior to the recession. This might mean that smaller scale schemes can be delayed slightly, but for large schemes such as Thameslink, with a 20 year plus development and delivery period, two years is not sufficient to enable substantial cost savings by delaying the project.

5.3.3 Cost savings should not be sought from reduction or deferral of capital spending on the railways on the basis of the impact of the recession on demand. It is widely acknowledged that rail is vital to London's economic standing and London TravelWatch strongly urge that investment is not restricted because of the long-term consequences in terms of economic growth, quality of life and the environment of London and its surrounding region.

6 The impact of the recession on public funding for transport in London

6.1 Impact on central government funding

6.1.1 The DfT element of the departmental budget cuts in 2010/11 has amounted to £683 million. This breaks down as follows:

- £309 million from local authorities transport funding
- £100 million from Network Rail
- £108 million from TfL
- £112 million from the DfT's direct expenditure
- Reduction of rolling stock spending that have not already had contract signature
- Remainder to be confirmed[9]

6.2 Impact on TfL modes

6.2.1 TfL has sought savings in both the 2009/10 and current 2010/11 business plans. The percentage share of overall cuts to the surface transport budget is disproportionately large compared to the overall share of the capital and operating expenditure budget for 2010/11. TfL London Rail and London Undergrounds cuts are proportionately lower compared with their percentage share of the overall operating and capital expenditure budget for 2010/11.

6.2.2 Overall, a potential 25% cut to TfL's annual budget grant from the DfT as a result of the comprehensive spending review could represent as much as a £750m per annum cut from spending on public transport in London.

[9] Source: http://www.railnews.co.uk/news/general/2010/05/24-rolling-stock-tfl-network-rail.html

	2009/10	2010/11
All Figures in £m	**Forecast**	**Budget**
Corporate and Group Wide	55	122
London Rail	3	8
London Underground	76	171
Surface Transport	93	136
Total Gross Saving	227	438
Implementation cost	-92	-154
Total Net Savings	**136**	**284**

6.2.3 There are also other sources of public funding for public transport which include the Bus Service Operators Grant which nationally last year amounted to £393 million. The grant is given to bus operators to reimburse the majority of fuel duty. These other sources of funding amount to quite significant sums which must also be considered in the context of the comprehensive spending review.

6.2.4 The 2009/10 TfL budget had the following impact on bus services in London:

- The 2009/10 Business Plan sets out reductions in the quantity of bus service scheduled in London over the course of the TfL Business Plan up to 2017/18. However, because volumes of passenger have been higher than forecast it is currently planned to keep bus kilometres unchanged. This position may be reviewed following the comprehensive spending review, but in the meantime this is a positive development for bus passengers.

- A two point fall in bus user customer satisfaction by 2017/18.

- Bus excess waiting time on high frequency route target to increase by 0.1 of a minute.

- The percentage of scheduled services operated target will fall from 97.4% to 97%.

- TfL's investment targets for accessible bus stops was cut back from the 2008/09 business plan to reduce the target from 75% to 65% of all bus stops to be accessible by 2017/18.

6.2.5 The DLR performance targets remain unaltered but there is substantial investment in capacity of extra rolling stock and the new Stratford to Woolwich Arsenal route.

6.2.6 For London Overground the targets become more challenging for the passenger performance measure and there is the delivery of substantial investment over the period of the business plan.

6.2.7 The targets for Tramlink remain largely unchanged but with slight improvements needed to meet the levels of performance.

6.2.8 The targets for Dial a Ride are static for the period of the business plan.

6.2.9 The London Underground key performance indicators are stable or improving from the perspective of passengers. Over the course of the business plan the London Underground investment programme will deliver substantial increases in network capacity. The budget cuts that have been either implemented or suggested affect the following areas:

- Accessible platform investment budget cut
- Ticket office hours reductions proposed
- Reductions in back office staff
- Delay to some investments, for example Victoria Station upgrade delayed until 2018

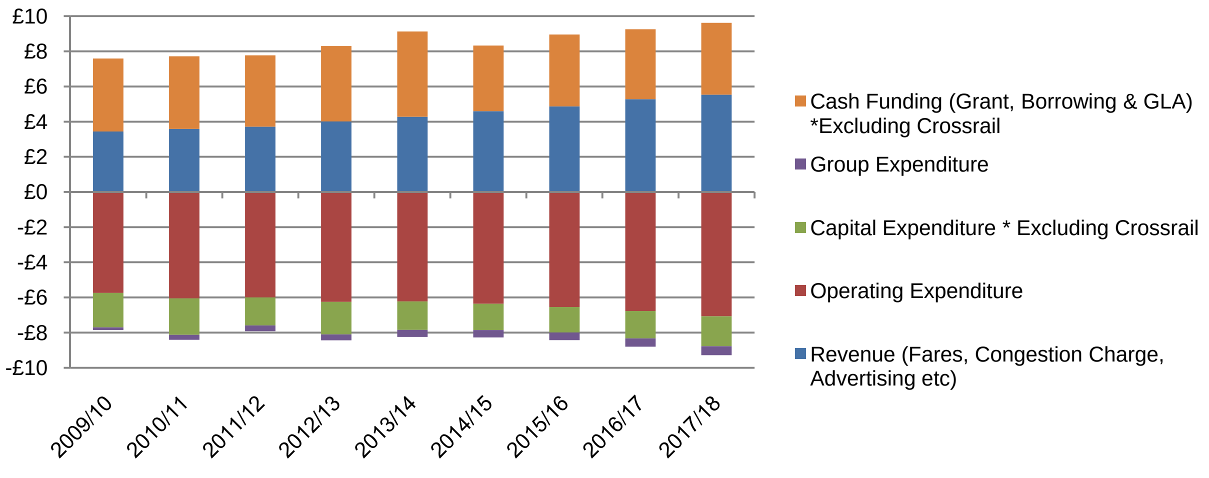
6.2.10 As an example of changes introduced by London Underground since the recession, they have increased car parking charges at their managed car parks with effect from 18 September 2010.

6.2.11 There is the potential for the TfL investment programme on the Underground to be delayed in the context of the Sub-Surface, Northern and Piccadilly line upgrades.

6.2.12 TfL's corporate functions have been identified for some of the greatest areas of savings, with £500 million savings and efficiencies identified in the period up to 2017/18.

6.2.13 The profile of TfL's income and expenditure is shown in the graph below up to the end of the current business plan. The graph is laid out to show income as positive, and the capital and operating costs as a negative figure.

Figure 4 – TfL Budget 2009/10 to 2017/8 (£ Billions)[10]



6.2.14 The profile of TfL's revenue over the course of the business plan up to 2017/18 is forecast to change so that more of TfL's income will come from its revenue from passengers, congestion charging and advertising rather than from DfT grant, borrowing and GLA funding.

[10] Source: TfL Business Plan 2009

6.3 Impact on National Rail

6.3.1 Network Rail has, thus far, had to find £100 million pounds of savings:

- £50 million cancellation of Better Rail Station investment at ten worst Category B Stations.

- £50 million covered by the release of contingency funding for CP4.

6.3.2 The Thameslink programme is in such an advanced state of construction there appears little prospect of it being cancelled outright. However, there may be delays to its completion and the numbers of trains per hour may be reduced. The Thameslink rolling stock has also been committed to cascade to other routes so the impact of its timescales have impact particularly for the First Great Western Thames Valley electrification.

6.3.3 The Secretary of State has made positive comments about Crossrail. However, it is a very large project and any delay or reduction in scope would be a concern. The funding of the Great Western electrification which has an impact on the extension of Crossrail to Reading has not been committed.

6.3.4 Rolling stock orders – 1,300 carriages under the High Level Output Statement; funding for those trains whose contracts for manufacture have not already been signed appears to be in question. The Intercity Express Programme funding decision has been delayed until the October spending review.

6.3.5 There are five franchises in London TravelWatch's remit which are in revenue support. This means that the reduction in revenue is supported by the DfT as part of the arrangements that share profits and losses. The operators in 'cap-and-collar' revenue support are South West Trains, First Capital Connect, First Great Western, National Express East Anglia and Southeastern.

6.3.6 Several train operators have announced significant numbers of job losses amongst 'back office' roles and other areas considered less essential:

- NXEA and c2c - Removal of free text services for disruption information, and customer services redundancies.

- Reduced booking office hours proposed by:

    - South West Trains

    - Chiltern

- First Capital Connect

- On train in-service cleaning (South West Trains)

- Shorter rolling stock formations on Southeastern's train services on HS1 and other services.

7 Impact on local authority funding

7.1 London TravelWatch's understanding is that any reduction in TfL grant will be passed on directly to the London boroughs. This is presently of the order of £160 million so would go down by approximately £64 million. In the context of funding stricture London TravelWatch is concerned that the strategic transport authority has devolved funding and what it might be spent on to too great an extent. We would welcome stronger guidance on London-wide priorities. For example, a London-wide approach to bus priority and bus stop accessibility to achieve better targeting of available funding.

8 Future issues and recommendations

8.1 This report makes several recommendations for the consideration of members in response to the impact of the recession, in relation to public transport as a whole, streets, buses, and underground and rail. It is important to note that London TravelWatch is suggesting these are areas for possible investigation. We are not able to quantify the impact of these suggestions.

9 Future issues for consideration, by mode

9.1 Public transport as a whole

9.1.1 Current public transport capacity to be maintained and to be expanded to meet demand. This may mean additional bus services to compensate for delayed infrastructure.

9.1.2 Revenue generation – through marketing there is the potential for transport operators to generate additional revenue at times of lower demand. Increased patronage outside the peak does not result in the same level of requirement for additional cost and resources as demand in the peak period. We believe that the following are areas in which further revenue could be generated:

- Buses – marketing on low cost recovery routes to promote ridership. This could follow the model of commercial bus operators elsewhere in the UK to advertise the potential destinations served by the route to increase revenues. This would have to be balanced against the cost of marketing. London TravelWatch is aware that TfL's marketing budget is being significantly reduced and is concerned that the potential for such revenue generation may be lost.

- National Rail – marketing and advertising campaigns such as those conducted by Southern. Its campaign promotes advanced purchase low fare tickets at times of reduced demand following similar lines to the intercity operators.

9.1.3 A strategic review of fares – we recommend a strategic fares review in London and the South East to ensure that passengers get the best value for money and that the system is fair across the whole region. This review could also be linked to the role of fares in contributing to the funding of the rail industry. This review might consider:

- The fairness and value for money of fares

- Review of Travelcard boundaries

- Value for money from the perspective of the passenger and tax payer

- Review of concessions, for example, an end to the 0930 concession for Freedom Pass, as the peak resource requirement drives the main element of cost, or a limit (albeit generous) on free children's travel concession

- These needs to be balanced with low fare policy objectives to keep London's streets moving and we would not want to see shift from public transport to private vehicles

9.1.4 TfL to achieve savings at a corporate group level by full integration within TfL's corporate structure. We are aware that TfL has already made substantial moves in this direction.

9.3 Streets

9.3.1 Retention of existing congestion charging zones and an expansion of congestion charging, but with an increasing level of sophistication. In 2010/11 congestion charging is forecast to be £378m which will fall by £51m in 2011/12 with the abolition of the Western Extension Zone. The increased sophistication could be in the form of separate zones and GPS black box technology. This technology could support more intelligent charging by varying operating hours for specific areas or charging zones. The income from congestion charging could be used to fund public transport in London, as well as reducing congestion.

9.4 Bus

9.4.1 In recognition of the role the bus plays in London's transport system the quality and volume of service should be maintained.

9.4.2 Bus priority measures should be introduced to increase the efficiency of buses. This would reduce the cost of bus operation and enable them to transport more passengers more quickly. The KPMG report reviewed bus service provision independently in London, and recommended that journey time reduction should be an objective of bus service planning and that bus priority had the potential to assist in this objective.11

9.4.3 An end to the New Bus for London project as it is presently unfunded. The additional operating costs (second crew member) would put further demand on an already-stretched bus budget.

9.4.4 An end to removal of 'bendy' buses as it costs money to withdraw them from existing routes and indeed there is a case for large capacity buses on some routes.

9.5 Underground and rail

9.5.1 Delivery of investment in the London Underground, Crossrail and Thameslink. The last recession led to delays in infrastructure spending which ultimately meant that supply did not keep pace with demand once passenger numbers started to grow.

[11] Page 74, Independent Strategic Review of Bus Services in London Bus Service Review, KPMG (2009)

Demand in 2009/10 has now started to grow following the recession. Given the long lead times for investment, delays would not be in the interest of passengers as the levels of forecast growth, while lower than prior to the recession, are showing an increasing level of transport demand over the next 20 years.

9.5.2 For London Underground and the railways, maintenance and renewals must continue in order that performance does not decline.

9.5.3 Removal of first class provision on rail services of less than one hour. This can be achieved either when trains are refurbished or new train orders. For existing services, first class can be declassified. The effect of this proposal would be to maximise capacity of the existing rolling stock and therefore make the best usage of current assets. On journeys over an hour, it may be possible to attract more people from standard class with targeted marketing and differential pricing at periods of lower demand.

9.5.4 Franchise reform to ensure that the incentives for value for money and service to the passenger are aligned across the railway industry. If carried out effectively this will give the best value for money to passengers and tax payers.

9.5.5 We recommend a gating strategy is developed for London to systematically increase revenue collection. There are a number of strategic gaps in gating in certain areas such as south east London. However, a combination of revenue support and the allocation of the London Travelcard revenue make it hard to justify individual investment by a single operator. A strategic approach by TfL or the DfT however, could capture significant volumes of currently lost revenue by looking at gating schemes across entire areas.

10 Equalities and inclusion implications

10.1 In the context of cuts in service provision and potential for increased fares or congestion charge revenue, there will be an impact on those in society least able to afford transport costs. It is very important that all levels of decision makers within Government and transport operators seek to minimise the impact on the people in society who are least able to afford rises in the cost of transport, and will be most affected by declines in quality and quantity of services.

11 Legal powers

11.1 Section 248 of the Greater London Authority Act 1999 places upon London TravelWatch (as the London Transport Users Committee) a duty to consider - and where it appears to the Committee to be desirable, to make recommendations with respect to - any matter affecting the functions of the Greater London Authority or Transport for London which relate to transport (other than of freight).

12 Financial implications

12.1 This report raises no specific financial implications for London TravelWatch.