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LondonTravelWatch

Secretariat Memorandum

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Impact of 'Credit Crunch' on transport users in London

1 Purpose of report

1.1 To advise members of the possible implications of the economic downturn for transport users, drawing on evidence from previous recessions.

2 Background

2.1 This paper seeks to highlight the possible effects of a recession on transport users and to suggest ways in which the Board may wish to respond to change as it occurs.

3. Commentary

3.1 The effects of any change in economic climate, whether for good or bad will manifest itself in two areas which will affect transport users. These are travel demand and the ability of transport operators and authorities to maintain services if fares or other income declines, and to access capital to finance their operations.

3.2 Travel demand

3.2.1 Transport usage is one of the major indicators of economic activity because transport demand is derived from other economic and social activities. For example, road traffic has consistently grown in volume over the past 50 years in the UK, with the only exceptions being in periods when the economy has entered recession.

3.2.2 Provisional statistics from the Department for Transport (DfT) suggest that total road traffic declined by 1% in 2008. Car traffic declined by 1.7%, and heavy goods vehicles by 2%. However, light van traffic rose by 2.8%. This is the first actual decline since the late 1970s.

3.2.3 Transport for London reported that traffic in the third quarter of 2008/09 traffic fell in central London by 2.4 index points; in inner London by 4.8 index points, and in outer London by 5.5 index points.

3.2.4 The Office of Rail Regulation (ORR) report on National Rail Trends for the third quarter of 2008/09 indicated that passenger numbers on the National Rail network was 0.3% lower than the same quarter in 2007/08, although passenger kilometres marginally increased i.e. fewer passengers made longer average journeys.

This is the first time this has happened since the 2001 Hatfield derailment. The ORR reported that this decline was led by a fall in season ticket sales of 0.9%, although sales of other tickets rose by 0.3%. This bears out the comments of a number of train operators that they were seeing such declines as a result of job losses in the financial sector and consequent instability in others. Interestingly, comments from some operators would suggest that, due to low interest rates, sales of Annual Season Tickets are holding up and growing, but declining for monthly and weekly tickets.

3.3 There are as yet no official statistics relating to changes in usage on the Underground, DLR, Tram or Bus networks, although none of these operations are reporting reductions in demand.

3.4 The immediate effects of a reduction in travel demand

3.4.1 It could be assumed that a reduction in road traffic or decline in rail use might lead to a reduction in congestion and over crowding on the network. This may be true at peak times if employment reduces, but in a situation where even the employed population has a reduction in disposable income, it is more likely that travel at off peak times would reduce as this is when most discretionary travel occurs. It is also true that decline will like growth not be uniform across the network, and it may be expected that some areas will continue to experience growth against the backdrop of decline generally.

3.4.2 In the recession of the early 1990s traffic on the National Rail network in London declined in line with reductions in employment, but reductions in overcrowding were in many cases followed by reductions in train lengths and train services. The reductions in overcrowding were also substantially short term in that, when economic growth began again, passenger numbers recovered and reached even greater levels than previously. It would appear that this pattern is likely to repeat itself in the current economic climate, in the medium term at least. This is particularly important when considering the need for congestion and overcrowding relief schemes which have long lead times – for instance, to abandon such schemes in response to short term and probably short lived reductions in demand would be a mistake.

3.4.3 A reduction in travel demand also means a likely reduction in revenue to operators and Transport for London (TfL), with the result that operators will in turn seek to find ways to reduce their costs.

This is the first recession in which such a sizeable proportion of the public transport system has been outsourced to the private sector, and there is little previous experience of retrenchment in this context. However, it is clear that the system of contracts and franchises means that certain areas and items will be more vulnerable than others. Several train operators, including TfL, have announced significant numbers of job losses amongst ‘back office’ roles and other areas considered less essential. In addition there are also likely to be significant reductions in areas where customer service values feature, such as in reduction in catering facilities on long distance services (National Express East Coast and East Anglia), booking office hours (South West Trains and First Capital Connect) and on train in-service cleaning (South West Trains). National Express East Coast plans e to renegotiate part of its franchise, as a result of 3-4% reduction in patronage in the third quarter of 2008, and National Express East Anglia has reported revenue of 2% below target, triggering an increase in subsidy under the terms of its franchise agreement. The likely result will be pressure from operators to be allowed to cut back less used and less profitable services, which previously they were duty bound to provide. Experience shows that this will almost certainly involve areas of high deprivation, because these are likely to be the least profitable operations.

3.4.4 Further, it seems likely that in an outsourced system, it will be less easy to adapt services to changed circumstances than when services were directly provided. Changes in service provision patterns on the public transport network are therefore more likely to happen slowly. In previous recessions British Rail and London Transport, as direct operators, were able to implement service reductions quickly in line with reductions in revenue taken. The situation today, with contracts and franchises, means that any reductions will need to be negotiated with operators and so may be less easy to achieve, and probably take longer to implement.

3.5 Effects of a reduction in disposable income

3.5.1 Previous recessions were characterised by changes in patterns to the purchasing of travel products that included

- ‘Trading down’ e.g. from First Class travel on rail to Standard class; from a Standard return to an advanced purchase tickets; or to a ‘cheaper’ mode of transport entirely, such as from train to bus or bus to walking/cycling for short distance journeys. Another example would be that of rail passengers travelling to a station by car parking in adjacent streets rather than the station car park, to avoid parking charges.

- Greater utilisation of modes where there is already a ‘sunk’ cost e.g. from public transport to car/other private transport, because the cost of fuel is the main comparator to public transport fares.

- Movement away from long-term fully priced tickets such as season tickets to discounted products such as advance purchase tickets, or those purchased with a railcard. (The low interest rates which characterise this recession may however curtail this tendency).

- Increases in fraudulent travel and other criminal behaviour on the network, as passengers seek to reduce their costs by illegal means.

- Increased calls to reduce parking and congestion charges for motorists so as to encourage ‘trade’ for retailers or to reduce the ‘burden’ on the motorist. This is also likely to manifest itself in opposition to extensions to controlled parking zones.

3.5.2 A reduction in the value of Sterling would have an effect on traffic related to tourism. Reduced value of the pound could potentially lead to a) increased inbound tourism and b) increased numbers of holidays / day trips taken within the UK by UK residents. These changes could mean both reduced demand on airport routes and increased demand on routes between main residential and tourist leisure areas within UK. Either way these could represent significant additional markets to transport operators to replace losses elsewhere.

3.5.3 Reductions in employment levels mean downward pressure on wage and contracting costs. In theory this would benefit operators as it restricts cost increases whilst allowing alternative investments to proceed where they might previously have been regarded as unaffordable.

3.6 Access to capital by transport operators and authorities

3.6.1 All operators and authorities require access to capital to fund their operations and on-going investment, which is then repaid over time.

3.6.2 In business terms, Transport operators are generally considered to be cash-rich because they have a high turnover of large numbers of small transactions, with only a tiny proportion of this being from large creditors. This means that transport operators are relatively low risk investments, with equally relatively low returns, but it does not follow that transport operators are immune from the possibility of business failure. It would be surprising if no transport operator were to fail during an economic recession, given that operators have also failed during times of economic growth, and at the time of writing there were already signs of strain amongst operators.

3.6.3 However, suppliers to transport operators may be more susceptible to the loss of credit, as witnessed by the delays to the supply of new trains by Bombardier to First Capital Connect (Class 377/5) and London Overground (class 378) which have been delayed as a result of a number of their suppliers finding it difficult to obtain credit from commercial banks. It is believed that Bombardier has taken over or taken shareholdings in a number of these companies to alleviate the problem. The new trains were intended to provide enhanced services and reduce overcrowding, but the delays in supply will mean that current overcrowding problems will persist for longer.

3.6.4 Private Finance Initiatives. There are a number of transport schemes (such as the M25 widening scheme) which are reliant on finance being raised from private institutions and financial markets. This is also the case for a number of rolling stock leasing companies on the national rail network – especially as these are substantially owned by banks. Difficulties with raising the required finance has meant that, in a number of cases, the start of schemes has been delayed (M25 PFI), or longer lead times in procurement processes have had to be allowed for (Thameslink and additional Pendolino coaches). In the case of rolling stock companies, the government has recently announced that it is creating its own train leasing company (Diesel Trains Ltd) to oversee the procurement and introduction of new diesel multiple units on the National Rail network.

3.6.5 Property development schemes. This is a significant stream of funding for transport improvement schemes where otherwise funding from public sources would not be available or sufficient. This usually comes about either through schemes which directly involve the use of transport property (e.g. redevelopment of Clapham Junction and Cannon Street stations or Aldgate Minories bus station), or where the development is such that it is deemed that it should not go ahead without significant enhancements to the transport network (e.g. the new Shepherds Bush and White City stations associated with the Westfield shopping centre or Imperial Wharf station currently under construction which is associated with the St.George residential development next to the station site). These schemes are commonly known as section 106 agreements but they are susceptible to the ups and downs of both the commercial and residential property markets. In an economic situation where it is more difficult to let or sell property, the development of such schemes will either be shelved or delayed (e.g. Aldgate Minories bus station). In extreme cases it may be that a developer refuses to complete an agreed scheme at all (e.g. the Walthamstow Queens Road to Central station pedestrian link).

4 Implications for transport users.

4.1 Reduction in travel demand

4.1.1 Any reduction in overcrowding and congestion on the transport network is welcome. However, it should be noted that experience from previous recessions would indicate that when recovery does take place it will still be necessary to have sufficient capacity in place. Infrastructure projects have often had substantial disruption to existing users whilst in progress. It would therefore seem sensible to take advantage of lower passenger numbers during a recession (and lower wage and contracting costs) by pushing ahead with construction of major infrastructure projects that would benefit users and the economy in the long term. This is a golden opportunity that should not be missed.

4.1.2 Members should expect to see an increasing number of initiatives from transport operators and authorities which will in effect reduce the capacity or the number of services available (e.g. recent Southeastern reductions in train lengths or reduced evening and weekend services), or where the level of customer service is reduced, with consequent reductions in user satisfaction. This will almost certainly result in an increased number of appeals cases lodged with London TravelWatch, where users are dissatisfied with the responses provided by operators and authorities.

4.2 Implications of a reduction in disposable income

4.2.1 Members should expect to see an increasing number of instances of behaviour outlined in paragraph 3.5.1 that has occurred in previous recessions. It should however be noted that research has found that major changes in travel behaviour are often associated with critical change events in people's lives e.g. change of job, moving house etc. In a time of rapid change in the job market this may present significant opportunities for the encouragement of movement toward modes such as walking, cycling or use of public transport. However, operators and authorities will need to be prepared up to take advantage of this, and flexible enough to respond to the need for the cost of travel to be either reduced or made better value for money.

4.3 Access to capital by transport operators and authorities

4.3.1 Members should expect that a decline in economic activity will result in delays, postponements and cancellations in transport infrastructure projects, and in some cases the failure of existing operators or franchises, with inevitable consequences for users. The board will need to be able to respond quickly to requests from authorities for comment on the expectations of any replacement operations that are procured in the event of these service failures, and may be asked about the acceptability of possible cost reduction programmes.

5 Equalities and inclusion implications

5.1 Any economic recession is likely to impact all sections of society, but will almost certainly have greater significance to those on limited incomes or who are socially excluded in any way. A reduction in investment in infrastructure schemes would mean that schemes to improve accessibility would be delayed, postponed or cancelled altogether.

5.2 Geographical and spatial confinement has long been understood as an important dimension of social exclusion and economic disadvantage in large cities. These may be exacerbated in a period of economic recession. Unemployment is frequently concentrated in particular areas of London, and availability and access to transport services may have an important part to play in securing quality of life and employment opportunities.

6 Financial implications

6.1 The contents of this report have no specific financial implications for London TravelWatch, although it should be noted that any increased workload of appeals cases may require additional resources to be devoted to that activity.

7 Legal powers

7.1 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 it 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). Section 252A of the Greater London Authority Act 1999 places a duty upon London TravelWatch (as the London Transport Users Committee) to keep under review matters affecting the interests of the public in relation to railway passenger and station services provided wholly or partly within the London railway area, and to make representations about them to such persons as it thinks appropriate.

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8 Recommendations

8.1 That members note the likely implications of a recession on travelling patterns, and the financing and operation of the transport network, as outlined in paragraphs 3 and 4 above.

8.2 That London Travelwatch continues to monitor the effects of the recession in the London area, and represents the interests of the travelling public as developments occur.

8.3 That London TravelWatch urges the Government, Transport for London and Network Rail to take advantage of any reduction in passenger or user numbers to implement or bring forward major infrastructure schemes of long term benefit, so that any disruption is minimised.

8.4 That London TravelWatch continues to urge operators to seek innovative ways of marketing their services in order to replace any lost business, retain existing custom, and attract new users, and to share information with us as to the way in which the recession is affecting service delivery.

8.5 That London TravelWatch should put in place measures to provide timely and comprehensive responses to cases of operator failure, in order to inform the procurement process for replacement operators.