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## Secretariat Memorandum

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Agenda item 10  
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### Impact of 'Credit Crunch' on transport users in London

#### 1 Purpose of report

- 1.1. To update members of the possible implications of the economic downturn for transport users, drawing on evidence from previous recessions and experience to date.

#### 2 Recommendations

- 2.1. Members are recommended to note this report.

#### 3 Background

- 3.1. This paper builds on the previous report to the board (LTW 298, March 2009). It highlights the possible effects of a recession on transport users and suggests ways in which the Board may wish to respond to change as it occurs.

#### 4 Commentary

- 4.1. The effects on consumers of any change in economic climate will manifest themselves in two areas. These are - travel demand and the ability of transport operators and authorities to maintain their services if fares or other income declines, and access capital to finance these operations.

- 4.2. Travel demand

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

Provisional statistics from the Department for Transport (DfT) for the first quarter of 2009 suggested that total road traffic declined by 1% compared to 2008. Car traffic declined by 1.7%, and heavy goods vehicles (HGVs) by 2%.

However, light van traffic rose by 2.8%. This was the first actual decline since the late 1970s. Statistics for the second quarter of 2009 show that overall total road traffic declined by 1.3%, with car traffic decreasing by 1%, light van traffic unchanged and HGVs down 9%.

Congestion on inter urban and urban roads in England also reduced, with average vehicle delays down from 3.9 to 3.4 minutes per 10 miles, and average vehicle journey times were 5% faster than the previous quarter in 2008. These figures correspond with a general downturn in economic activity – particularly the reduction in HGV movements. The reduction in general traffic ought to have translated into improved reliability for bus services, as well as producing better overall traffic conditions. This is consistent with previously reported reductions in traffic by Transport for London in the third quarter of 2008/09.

#### 4.3. Public transport trends

The Office of Rail Regulation (ORR) report on National Rail Trends for the whole of 2008/09 has (including a correction to previously published figures) indicated that passenger numbers on the National Rail network grew by 3.4% in 2008/09 compared to 2007/08. However, this growth is uneven with London and South East operators recording only a 2.5% increase (against 5.4% for regional operators and 4.7% for long distance ones).

In the last quarter of 2008/09 passenger volumes grew by a mere 0.3% compared to the same quarter in 2007/08 and, when looked at by sector, showed a decline of -0.1% for London and South East operators, -0.7% for long distance services and an increase of 1.5% at regional operators. Passenger revenue grew by 8.1% between 2007/08 and 2008/09, with season tickets growing by 8.8% and ordinary fares by 7.8%. Against a background of low growth or actual decline, this indicates that a substantial part of operators increased revenue came from higher ticket prices.

3The DfT's Transport Statistics bulletin for buses and light rail for the first quarter of 2009 reported that the total number of journeys by bus and light rail (in London) was 2,252million in 2008/09, up from 2,184million in 2007/08. However, the same publication reported that the seasonally adjusted figures show a decline from 161million in each of the first two quarters in 2008/09 to 160.6million in the last two quarters of 2008/09.

TfL reported that overall bus usage was neither increasing nor decreasing. However, London Underground has reported a reduction in ridership in the region of 5% in the most recent reporting period for 2009.

#### 4.4. The immediate effects of a reduction in travel demand

The previous report (LTW298) noted:

'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'.

It appears that this statement has been shown to be broadly correct, in that where operators report reductions in usage it is at off peak times when there is spare capacity. The Audit Commission, in its August 2009 report 'When it comes to the crunch,,,,', has reported that the recession has had a wide variation of local impact, but that London boroughs were generally not as badly affected as elsewhere. However, those areas that were previously deprived have suffered more.

- 4.5. So far there has not been a major decline in peak hour usage of the various networks, as in the recession of the early 1990s where traffic declined in line with reductions in employment. This has meant that there have not necessarily been any major reductions in overcrowding. It is likely that when economic growth begins again, passenger numbers will increase on the rail, bus and underground networks. This is particularly important when considering the need for congestion and overcrowding relief schemes which have long lead times, and means that these schemes need to be continued to be pursued.
- 4.6. 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. Train operators and TfL continue to announce and report the need to reduce costs and cut back on investment as a result of reduced income. In addition, many unregulated fares have increased substantially to offset reduced income elsewhere – particularly on long distance services which have been affected by a decline in discretionary travel e.g. National Express East Coast. In addition, a number of operators who previously were under an obligation to pay a premium to the DfT are now receiving subsidy as a result of the 'cap and collar' provisions contained in their franchise agreement.
- 4.7. Effects of a reduction in disposable income
- 4.7.1. 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 or rail passengers travelling to a station by car parking in adjacent streets rather than the station car park, to avoid parking charges. **Comment:** anecdotal evidence suggests that this has been happening.
  - 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. **Comment:** the high cost of fuel and the overall decline in numbers of car journeys suggests that this may not be affecting journey patterns in this recession.
  - 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). **Comment:** figures produced by the ORR indicate that the opposite effect has been happening and that sales of season tickets have continued

to increase. It is thought that this is due to very low interest rates providing no incentive for people who have cash to hold on to it.

- Increases in fraudulent travel and other criminal behaviour on the network, as passengers seek to reduce their costs by illegal means. **Comment:** London TravelWatch has as yet no evidence anecdotal or otherwise to suggest that this is happening – and crime rates on transport networks continue to decline.
- 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. **Comment:** there have been a number of instances where this has happened.

4.7.2 Traffic related to tourism has already been affected by the reduction in the value of Sterling. The reduced value of the pound has lead to a) increased inbound tourism and b) increased numbers of holidays / day trips taken within the UK by UK residents. Both of these factors may have helped offset other reductions in demand, but as stated above it is off-peak travel where operators are experiencing reductions in income. In addition, airports having previously reported reductions in demand are now reporting small increases in usage.

4.7.3 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. However, it is clear from the state of the public finances in general that it is unlikely that any reduction in costs will allow additional infrastructure projects to proceed. In addition there have been a number of recent cases of industrial action by transport staff (such as at National Express East Anglia or London Underground) over pay and conditions.

4.8. Access to capital by transport operators and authorities

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

4.8.1. Private Finance Initiatives (PFIs).

A number of transport schemes (such as the M25 widening scheme) 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 e.g. Thameslink and additional Pendolino coaches.

4.8.1. Property development schemes

This is a significant stream of funding for transport improvement schemes where otherwise funding from public sources would un available or insufficient. This usually comes about through schemes which directly involve the use of transport property, and

in the past year there has been a significant in reduction in activity on both Network Rail and Transport for London properties.

## **5 Follow up to previous recommendations**

5.1. In March 2009 the Board agreed the following recommendations:-

- That members note the likely implications of a recession on travelling patterns, and the financing and operation of the transport network.
- 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.
- 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.
- 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.
- 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

5.2. This report constitutes our monitoring of the impact of the recession on the transport network.

5.2.1. Members will be aware that in the case of operator failure the government has decided to remove the East Coast franchise from National Express because it was not able to meet its previously agreed franchise commitments, and in the meantime a government owned company will take operation of services on this route, until a new franchised operator can take over.

5.2.2 The other National Express franchises (c2c and East Anglia) continue unchanged although the government has now said that it will start a new franchise competition for the c2c / Essex Thameside route to commence when the existing franchise terminates. London TravelWatch will work closely with Passenger Focus on the passenger requirements for any new franchises that come into being.

5.3. The London bus network has been relatively stable in terms of operators, except that the East Thames Buses subsidiary of TfL has been sold to the Go-Ahead group (from 5/9/09) and will be integrated into its existing bus operations in London (London General, London Central, Metrobus, Blue Triangle and Docklands Buses).

## **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.

## **Glossary**

<b>'cap and collar' provisions</b>	profit-sharing arrangements between DfT and transport operators, with the lower limit being the 'collar' and the upper limit being the 'cap'.
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