

Date: 24 November 2021

Item: Enterprise Risk Update - Changes in Customer Demand (ER09)

This paper will be considered in public

1 Summary

- 1.1 This paper sets out our current understanding and control measures on Enterprise Risk 09: Changes in customer demand.
- 1.2 This is a very broad risk, with huge potential implication for our financial and transport strategy. The coronavirus pandemic has seen this risk realised in an unprecedented way, creating uncertainty for the medium and long term. This paper discusses the risk and how it is controlled.
- 1.3 A paper is included on Part 2 of the agenda, which contains exempt supplemental information. The information is exempt by virtue of paragraph 3 of Schedule 12A of the Local Government Act 1972 in that it contains information relating to the financial affairs of TfL. Any discussion of that exempt information must take place after the press and public have been excluded from this meeting.

2 Recommendation

- 2.1 **The Committee is asked to note the paper and the supplementary information on Part 2 of the agenda.**

3 Background

- 3.1 Demand for travel in London is highly complex. It covers all modes of transport, including public transport services run by TfL and the Train Operating Companies, and private transport modes including cars, bikes, walking, taxis/private-hire vehicles and innovations such as e-scooters. Demand for all of these modes is linked and dependent on many factors – especially economic and demographic – and is constantly evolving. TfL's unusually high dependence on fares revenue has made this a particularly significant financial risk.
- 3.2 The Mayor's Transport Strategy aims for 80 per cent of trips in London to be undertaken by active, efficient, and sustainable modes by 2041. TfL therefore has a strategic objective to encourage customer demand to change over time towards greater use of public transport, walking and cycling. We need to ensure that the transport network both encourages and can accommodate this modal shift.
- 3.3 Traditionally, the risk has been controlled by forecasting using economic and demographic factors and assessment of the financial and policy environment around transport. While these factors remain important, the coronavirus pandemic

has delivered a shock that means we need to look beyond existing forecasting methods.

- 3.4 Short-term changes in travel demand due to the pandemic were unprecedented. Demand for travel overall reduced substantially as people shifted to working from home and eliminated travel for leisure activities in accordance with Government guidance. At the start of the pandemic demand for rail travel reduced by as much as 95 per cent. The reduction on rail, including London Underground, was especially large because of rail's primary role in enabling people to access work and leisure activities in central London. Demand for private transport also reduced but by a much smaller amount, particularly in outer London, as people walked and cycled more but continued essential trips using private vehicles. The combined effect of these changes saw sustainable mode share reduce from 63 per cent in 2019 to 55 per cent in mid-2020.
- 3.5 As restrictions have eased, the vaccine roll-out has progressed and the economy and wider society started to recover, we have seen a significant recovery in public transport demand approaching 70 per cent of pre-pandemic levels. This breaks down on weekdays at around 75 per cent on Buses and 60 per cent on the Tube. Weekend demand is stronger, as a percentage of normal demand, with the Tube at around 70 per cent. This reflects a stronger recovery in trips for leisure purposes and a slower recovery in the 'commute'. The absence of international tourism is also having a significant impact, particularly on trips in central London. Confidence in public transport is also returning. Research by London Travel Watch suggests that 9 out of 10 customers feel safe on trains and 4 out of 5 customers feel safe on buses.
- 3.6 The future path for transport will be heavily influenced by how quickly businesses adapt their operations for new working patterns and by the speed with which international tourism returns. Demand for private transport has returned to near normal, but with central London traffic remaining below its pre-pandemic level.

4 Updating our forecasts

- 4.1 We have adapted our methods to accommodate continued uncertainty. Scenario-based planning and quicker, regular forecast updates have been introduced and are essential in tracking how the recovery is developing. We continue to monitor the recovery in other regions of the UK and cities across the world to see what we can learn from them.
- 4.2 We are building in new levels of detail into our forecasts. For example, we can classify Tube demand data based on the station, which allows markets and journey types to be identified. These journey types and observed changes in demand can be factored back into our forecasts (e.g. trends in peak journeys to/from the City are indicative of the wider commuting market and inform the baseline demand level for office work journeys). Bus demand insight is more geographically orientated, with analysis focused on Outer and Inner London and the Central Activity Zone, journeys to high streets and town centres, and ticket type.
- 4.3 We manage the uncertainty in our forecasts by closely monitoring trends and continuing to use a scenario-based approach. We have developed short-term

revenue scenarios that consider the range of outcomes as demand returns, and we also have medium and long-term scenarios against which to test a range of potential outcomes. Forecasts are reviewed in line with emerging actual data, with a view to remaining responsive to emerging trends.

- 4.4 The shorter-term revenue scenarios provide a range of possible trajectories, from which a 'central' scenario is used for budget and monitoring purposes. The area subject to the most scrutiny at present is the commuting market, driven by the return of workers to offices.

5 Description of risk post-pandemic

- 5.1 Public transport demand and revenue has reached around 70 per cent of pre-pandemic levels. This equates to 1-1.5bn fewer journeys and a £1.5-2bn reduction in fares income over a whole year compared to before the pandemic. Demand has been gradually and consistently growing over the summer and in particular with the return of schools and more office-based working since September. With more businesses establishing their return to office plans and robust demand for high quality office space, demand seems likely to grow further unless material Government restrictions return. We will monitor this trend closely over the autumn and winter. We will also continue to monitor international tourism as key air corridors such as the US market begin to open up.
- 5.2 Given the continuing uncertainties around future working patterns, international tourism, and the potential for restrictions in the future, it is too early to say what travel demand in London will be following the pandemic. This creates several risks as we have to plan for the transport network several years ahead. The management of risk and uncertainty is therefore embedded in our planning processes to ensure we are as resilient as possible to a range of outcomes, as described in Section 6.
- 5.3 TfL, local and national government are committed to decarbonise transport, but this will be made considerably harder if there is increased demand for travel by car. As our Financial Sustainability Plan set out, we believe that it is essential to maintain a safe, frequent and reliable turn-up-and-go public transport service and more active travel facilities to ensure that the recovery from the pandemic and beyond is not car-led.
- 5.4 There is an opportunity in the coming years to increase rates of walking and cycling, reflecting pre-existing trends as well as observed behaviour during the pandemic. This will have a positive impact on health, the environment and safety. If TfL and boroughs do not have the ability for financial, policy or legal reasons, to support these modes alongside improving public transport, then there is a risk that the potential for journeys to shift to sustainable modes will be constrained.
- 5.5 Other modes of transport make up a small proportion of total travel but have been growing in importance in recent years. These include private hire vehicles; cycle hire (both the system operated by TfL and those of other companies); e-scooters, which are currently being trialled in a number of boroughs; and other potential modes that may not exist yet. There continues to be a wide range of potential outcomes for such transport options over the coming years and we will remain sensitive to their impact on demand.

6 Response to risks

- 6.1 Looking to the medium and long term, management actions to control the risk can be grouped under four themes:

Scenario and risk-based planning

- 6.2 Last year TfL developed five scenarios looking out to 2031 to help frame our planning in the face of uncertainty caused by the pandemic. They are being refined as we learn more about the recovery.
- 6.3 In June this year we presented our findings from the latest review. This considered what outcomes remained plausible and what others such as the GLA and Office for Budget Responsibility were forecasting for London's population, employment, and economic recovery. This showed that that features of the more central scenarios were more plausible.
- 6.4 We have embedded this scenario planning in our strategic planning work over the past year. This has been used to articulate our:
- (a) Financial Sustainability Plan – potential future financial scenarios for TfL, including for passenger revenue;
 - (b) Medium-Term and Long-Term Capital Plan –capital planning scenarios, helping to inform future prioritisation of public transport schemes;
 - (c) Service Level Review – to understand the impact of the range of potential demand outcomes; and
 - (d) Scheme Assessment – to inform business case development and demand forecasting across a variety of schemes.
- 6.5 We will review the latest evidence in January 2022, and this will inform whether we need to refresh our forecasts and the five scenarios that underpin them.

Appropriately reviewing service levels

- 6.6 In September 2021, TfL submitted a Service Level Review to the Department for Transport as a condition of the June 2021 funding agreement. This review was based on our future demand scenarios and confirmed plans already set out in our Financial Sustainability Plan. This included changes to certain service levels, including a proposed four per cent reduction to bus services in central London and pausing certain future planned service increases on London Underground.
- 6.7 We will continue to monitor and analyse demand patterns in detail, and we will keep our service levels under review as our understanding of future demand grows. At an overall level, it is already clear that there will continue to be high demand for public transport in London, and that continuing to offer extensive, high quality public transport services will be essential to supporting the city's economy, quality of life and contribution to national priorities like decarbonisation. We will continue to plan our service levels to ensure we can support these goals.

Improving the quality of services

- 6.8 Even while TfL's finances are constrained, we must continue to maximise the opportunity to improve our services wherever possible. Examples include

developing a Bus Action Plan to develop and promote London's high-quality bus service. Delivery of our capital programme, including opening the Northern Line extension, the Elizabeth line, and the upgrade of Bank Underground station will improve the network as customers return, helping to attract new customers and boost the recovery of London. We must continue to improve safety on the road network for people walking, cycling, and using public transport.

Managing demand

- 6.9 We will continue our marketing and communications activity and fares policies designed to attract passengers back to public transport. The TfL Go app is helping customers to make informed travel decisions and avoid the busiest times on the network. We will also keep our road user charging systems, including the existing Congestion Charge Zone and the expanded Ultra Low Emission Zone under review to ensure they are effective at managing congestion and air quality as well as consider possible new potential options such as the Greater London Boundary Charge.

7 Overall assessment of risk

- 7.1 This is a broad risk at the heart of our business so scores extremely highly. The financial impact it can create is exceptionally high, as has been experienced over the past 18 months. It also has a fundamental influence over our relationship with customers and stakeholders and the long-term prosperity outlook for London.
- 7.2 This risk will always be large, and this is reflected in the target scores. Given the current exceptional circumstances, all four risk impact categories are considered to be outside tolerance. However, through the management actions described in Section 6 there is much we can do, and are doing, to control and mitigate the risk.

List of appendices to this report:

A paper containing exempt supplemental information is included on Part 2 of the agenda.

List of background papers:

None

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