Exacerbating the Financial Woes of Transport for London: A Long-term Impact of COVID-19

Darshini Mahadevia, Saumya Lathia, Amitkumar Dubey
Ahmedabad University
darshini.mahadevia@ahduni.edu.in
saumya.lathia@ahduni.edu.in
amitkumar.dubey@ahduni.edu.in

UCCRN Case Study Docking Station (2024)
DOI: 10.7916/1nrj-nc31

Keywords	Covid-19, London Underground, Financial Stability, Bankruptcy, Public Transport
City Population	8,945,310
City Area (Metropolitan Region)	1,572 km^2
City GDP	678.8 billion USD
Climate Zone	CfB (temperate oceanic)
ARC3.3 Linkage	COVID-19, Cities, and Climate Change Element

Introduction. Transport for London (TfL), is a local government body responsible for most of the transport networks in and across London. Since its formation in 2000, it has achieved remarkable feats such as managing the same number of daily trips in London as the rest of the country combined. Since 2000, it has successfully increased public transport usage by 65% (Badstuber, 2019), decreased carbon emissions by 7% by 2018 despite the increase in travel demand (Salisbury, 2022), supports 43,000 jobs around the UK and contributes £7bn to the UK economy (Intelligent Transport, 2022). Despite a relatively strong financial position in its first decade since its formation in 2000, reductions have occurred in its operating grants from the central government since 2010. In 2018, experts were already predicting TfL's bankruptcy should government assistance continue to decline (The Independent, 2018). The COVID-19 pandemic exacerbated TfL's financial stress and threatened its sustenance. Non-pharmaceutical intervention (NPI) like lockdown to prevent the rapidly spreading virus led to a catastrophic decline in transit ridership (90%) and total revenue (72%).

Brief History. A century before TfL's creation, London's transport system was fragmented and redundant, managed by multiple agencies competing for ridership and revenue. Intermediate measures to improve coordination and efficiency among these agencies highlighted a need for an overarching transport authority with broader jurisdiction and various functions. Hence in 2000, TfL was created as a holistic and integrated approach to London's transport system consisting of multiple elements like buses, metro-rail, light-rail, trams, ferries, and coaches. TfL is also responsible for maintaining non-motorized transport networks and carriageways of main roads and regulating congestion pricing, taxis, and freight movement.

In 2015, the Department of Transport (central transport authority in the UK) experienced a 37% resource budget cut as part of the austerity measures deployed by the UK Government, motivating it to pull back all financial support to TfL (Topham, 2015). As a result, TfL's annual operational budget (almost £700m) was entirely wiped out before 2020, leaving TfL to fund its services through commercial investment, cuts, or potentially higher fares. All 'other revenue grants' were also gradually phased out by 2020 (Table 1), making London the only metropolis in Europe without a centrally subsidized public transport system. Hence, since 2015, TfL has increased its reliance on passenger income. By late 2019, TfL had already racked up significant debt. Furthermore, pre-pandemic forecasts indicated a plausible funding gap of £500m to £1bn annually from the mid-2020s onwards.

Analysing the Impacts of COVID-19 on TfL's Financial Health. The threat of terrorist attacks in 2018 and the drop in recreation trips due to the emergence of the platform economy triggered the first ridership drop (2%) in the last two decades. The second drop in ridership (about 19%) was observed during the initial phase of the pandemic (late February 2020), mainly due to the fear of virus spread (Figure 1). From 18th March 2020, the Mayor of London (&

chair of the TfL Board), in line with the National Health Services' guideline, declared discontinuation of all activities, including all forms of "non-essential" travel. The London Buses and the London Tubes took the worst hit (Figure 1).

This fuelled a 92% decrease in transit ridership (TfL, 2020A) and a subsequent loss of GBP 500 million (Infrastructure Intelligence, 2020). The loss due to the pandemic worsened an already dire financial situation for TfL, threatening its operative capacity. After several negotiations with the central government, the first round of financial support - sanctioned on 15th May - allowed TfL to function with 70% capacity, despite a 90% loss in revenue stream (TfL, 2020-B).

To contain the spread of the COVID-19 post-lockdown (between the first and the second wave), TFL took several Non-Pharmaceutical Intervention (NPI) measures to ensure safe and contactless trips. One critical intervention was to strengthen route and schedule information sharing. As non-motorized transport emerged as the safest mode for essential trips, TfL created extensive walking and cycling maps with live footfall tracking so users could make informed decisions on 'safe' route (uncrowded) selection. TfL also ran its Santander bikes program (its Public Bike Sharing program with around 12,000 rental bikes at 750 docking stations) on a limited capacity, with rigorous sanitization regimes. All public transit route maps were supplemented with robust time estimates and alternative routes (with footfall) to allow passengers to choose the least crowded paths. It consolidated multiple routes to avoid frequent interchange (of transport modes) and promoted transit usage during off-peak hours. Other initiatives included an extensive "Safer Travel Guideline," which detailed safety precautions practiced by TfL for zero contamination, including accounts of hygiene and sanitization regimes, degree of ventilation, social-distancing measures, and sanitizing stations. Apart from the direct loss in ridership due to the lockdown, such actions further delayed restoration to pre-COVID levels. London Underground and London Buses received a gradual increase in ridership to about 40% of their pre-pandemic levels (Figure 1) by early 2021.

In absence of the pandemic, TfL would have started generating a surplus from 2022-23 onwards, even without government assistance (Refer to Table 1, Row C). As per TfL's projections pre-pandemic, it would continue to incur debt till the year 2022, and transition towards financial sustainability from 2022 onwards. The steep decline in ridership (first 19%, then up to 92%) caused by the NPIs derail of all financial contingency measures, pushed TfL to the verge of bankruptcy, and the pandemic deepened TfL's projected debt of 493 million pounds (for 2020-21) to about four times in actual (Refer to Figure 2). TfL's forecast projected an additional £1bn gap annually as the pandemic's long-term impact. As a result, TfL was in receipt of massive COVID-19 relief government grants throughout the pandemic.

Although the reduction in transit ridership has emerged as a common trend across major metropolises worldwide, its impact on TfL varies. Post-withdrawals of government grants since 2015, TfL chose an unsustainable finance model for its operations; 72% of TfL's total income came from passenger revenue streams (higher than most global metropolises). Hence, the pandemic-induced decline in ridership directly affected TfL's operations. Even the reduction in operating

(Figures in £m)	2019-20	2020-21	2021-22	2022-23	2023-24
A. Total Cumulative Income	**7044 (100%)**	**7147 (100%)**	**7765 (100%)**	**8609 (100%)**	**9064 (100%)**
A.1 Passenger Income	4970 (70.56%)	5123 (71.68%)	5412(69.70%)	5996 (69.5%)	6414 (70.76)
A.2 Other Operating Income	1007 (14.30%)	1045 (14.62%)	1356 (17.46%)	1599 (18.57%)	1718 (18.95%)
A.3 Business Rate Retention	954 (13.54%)	968 (13.54%)	986 (13.54%)	1003 (11.65%)	921 (10.16%)
A.4 Other Revenue grants	113 (1.6%)	11 (0.15%)	11 (0.14%)	11 (0.13%)	11 (0.12%)
B. Total Cumulative Cost	**7351 (100%)**	**7640 (100%)**	**8280 (100%)**	**8521 (100%)**	**-8767 (100%)**
B.1 Operating Costs	-6419 (87.32%)	-6618 (86.62%)	-7064 (85.31%)	-7249 (85.07%)	-7492 (85.46%)
B.2 Financing Costs	-452 (6.15%)	-487 (6.37%)	-551 (6.65%)	-572 (6.71%)	-568 (6.48%)
B.3 Capital Renewals	-480 (6.53%)	-535 (7%)	-665 (9.03%)	-700 (8.21%)	-707 (8.06%)
C. Net Cost of Operations (Deficit/ Surplus)	**-307**	**-493**	**-515**	**88**	**297**

Table 1: *Cost Projections Pre-COVID*
Source: TFL Business Plan, 2019

costs owing to limited services (during NPIs) could not compensate for the loss from reduced ridership.

Although the reduction in transit ridership has emerged as a common trend across major metropolises worldwide, its impact on TfL varies. Post-withdrawals of government grants since 2015, TfL chose an unsustainable finance model for its operations; 72% of TfL's total income came from passenger revenue streams (higher than most global metropolises). Hence, the pandemic-induced decline in ridership directly affected TfL's operations. Even the reduction in operating costs owing to limited services (during NPIs) could not compensate for the loss from reduced ridership.

The Way Forward. Since its conception, TfL has been an inspiration for transport authorities across the globe due to its commendable achievements in increasing transit dependence, promoting sustainable and safe mobility for all, and paving the way for good governance. TfL's deep commitment to carbon reduction and enhanced mobility sets an exemplary example for climate change mitigation in cities. TfL also had

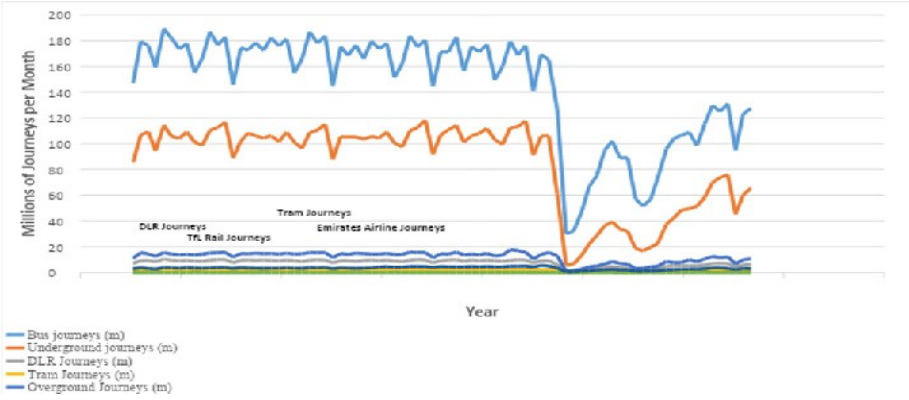

Figure 1: *Change in ridership of various TfL modes due to COVID-19 Pandemic*
Source: Transport for London, 2022

one of the most holistic coping mechanisms during the pandemic, which prioritized the safety and accessibility of its users. Yet, its financial sustainability during the pandemic serves as a cautionary tale for cities worldwide. The overreliance of TfL on a large user-base, which is the foundation for achieving operation financial stability and surplus generation, has proven to be a less than ideal approach to sustaining a metropolitan transport service of the scale of TfL (TfL, 2020-C). It also highlights the need for the government and administration to look at public transport systems as more than just a venture and evaluate as well as fund them as a necessary utility that enables a city to achieve its economic and social goals.

The pandemic sheds light on two crucial areas of concern for TfL's sustenance: its revenue streams and public transit ridership retention. These are issues for other public transport entities as well. Climate change is likely to increase future risks such as health crises like pandemics - as climate change may increase zoonotic spill-overs (WHO Europe, 2022) – and other disasters (IPCC, 2021), against which robust resilience needs to be built into the planning. One of the important aspects of resilience is the financial sustainability of public transport. While the national governments may step in to meet revenue short-falls for once-in-a-while mega disruptions such as the COVID-19 pandemic, planning for long-term financial sustainability is required. The TfL and other public transport entities need to explore other viable revenue streams such as real estate, advertisements, and corporate funding, besides national government grants. At the same time, attention needs to be paid to the infrastructure quality and preparedness against pandemics and extreme weather events to retain ridership during such periods. Lastly, learning from the TfL, the public transport entities need to also engage with other

options of mobility such as supporting non-motorized transport and facilitating their use through information and communication during disaster times.

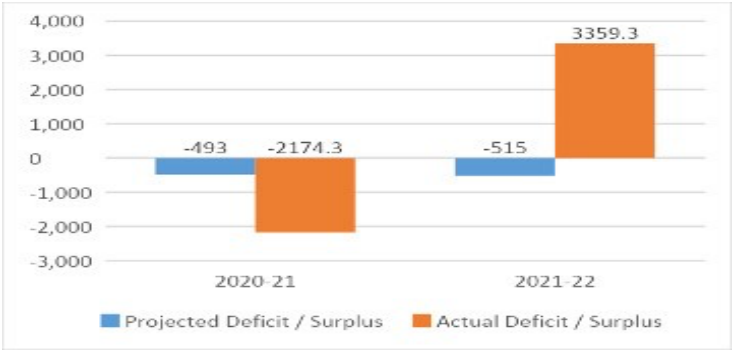

Figure 2: *Actual vs Projected Deficit / Surplus for TfL group in m£* (Source: (i) Projected Deficit / Surplus based on "TfL 2019 Business Plan"; (ii) Actual Deficit / Surplus based on "TfL Draft Statement of Accounts 2021-22")

References

Badstuber, N. (2019). Why are fewer people riding the Underground? The reason is not what you think. *The Developer.* https://www.thedeveloper.live/opinion/opinion/why-are-fewer-people-riding-the-underground-the-reason-is-not-what-you-think-

Bulman, M. (2018). Drop in London Underground Passengers Caused by Terrorism. *The Independent*. https://www.businessinsider.com/drop-in-london-underground-passengers-caused-by-terrorism-and-neTFLix-2018-1?IR=T

A health perspective on the role of the environment in One Health. (2022). Copenhagen: WHO Regional Office for Europe. https://apps.who.int/iris/handle/10665/354574

Intelligent Transport. (2021). *Jobs across the UK in danger due to lack of transport for London funding.* https://www.intelligenttransport.com/transport-news/132223/jobs-danger-uk-transport-for-london

O'Connor, R. (2020). *Transport for London reveals 19% drop in tube passengers as Coronavirus fears take hold.* Infrastructure Intelligence. http://www.infrastructure-intelligence.com/article/mar-2020/transport-london-reveals-19-drop-tube-passengers-coronavirus-fears-take-hold Infrastructure Intelligence, March 16, 2020

Stone, J. (2020). Transport for London could declare bankruptcy if government refuses further support. *The Independent*. https://www.independent.co.uk/news/uk/politics/transport-of-london-could-go-bankrupt-if-government-refuses-further-support-b2018883.htmlTFL

Summary for Policymakers. (2021). In: *Climate Change 2021: The Physical Science Basis. Contribution of Working Group I to the Sixth Assessment Report of the Intergovernmental Panel on Climate Change* [Masson-Delmotte, V., P. Zhai, A. Pirani, S.L. Connors, C. Péan, S. Berger, N. Caud, Y. Chen, L. Goldfarb, M.I. Gomis, M. Huang, K. Leitzell, E. Lonnoy, J.B.R. Matthews, T.K. Maycock, T. Waterfield, O. Yelekçi, R. Yu, and B. Zhou (eds.)]. In Press.

Topham, G. (2015). Transport suffers deepest cuts after London subsidy axed. *The Guardian*. https://www.theguardian.com/politics/2015/nov/25/spending-review-transport-deepest-budget-cut

Transport for London. (2020). *Press Release: Transport for London to place 7,000 staff on furlough to help safeguard vital transport services*. https://tfl.gov.uk/ info-for/media/press releases/2020/april/transport-for-london-to-place-7-000-staff-on-furlough-to-help-safeguard-vital-transport-services

Acknowledgements

We would like to extend our gratitude to Ken Doust, Director at Windana Research Pty Ltd. for providing valuable feedback on the case study.

Additional Data

- **Gross National Income (GNI):** 47,800 USD (High Income)
- **Population Density:** 5,690 people/km^2
- **Gini Coefficient:** 35.1
- **Human Development Index (HDI):** 0.940 (Very High)
- **Type of Climate Intervention:** Mitigation