RailBusinessDaily

16/3 – TfL update on financial impact of coronavirus

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Transport for London (TfL) has issued an update on how the Covid-19 virus has affected its passenger numbers and how it intends to utilise its reserves to manage the forecast initial financial impact. This assessment has been based on Government scenarios for the impact of the virus on households over a number of weeks.

An underlying softness in demand and passenger revenue, largely caused by economic uncertainty, had been experienced by TfL since October 2019, with both Tube and bus revenues trending at around 2 per cent below the previous year. During February, TfL's revenue was further affected by three significant storms and a period of prolonged bad weather. This fluctuation was within TfL's usual financial forecasting tolerances.

In the week commencing 2 March, further reductions in ridership became apparent, coinciding with growing public awareness of the Covid-19 virus, starting with modest reductions in ridership of around 2 per cent compared to the same days the previous year.

Since then, a growing number of firms and individuals have changed their travel behaviour, with greater numbers of people working from home. This has led to an acceleration in the reduction in passenger numbers in the last week to around 19 per cent on the Tube and 10 per cent on buses compared to the same week the previous year.

This is made up roughly equally of fewer people travelling and those travelling making fewer journeys.

The key drivers of the reduction appear to be:

- a significant reduction in visitors to London, visible through the traffic on the Tube connecting the airports and central London;
- firms asking staff to work from home as part of their resilience planning; and
- continued underlying softness of demand, especially off-peak. This is likely to relate to consumers remaining cautious about their expenditure given the subdued economy and now the impact of Covid-19.

This is an evolving situation and the financial impact is difficult to predict. This will depend on the duration and severity of the spread of the Covid-19 virus. TfL's current forecast, based on government scenarios, suggest that this could be a reduction in passenger income of up to £500m.

The transformation of TfL in recent years has made it much more efficient and resilient to financial shocks. Tight cost control and efficiency measures have meant that TfL has reduced its deficit from £1.5bn to £200m. This has enabled it to mitigate in part the withdrawal by Government of £700m per annum in operating grant, delays to Crossrail and a softening economy. But these financial shocks have also demanded tough decisions about priorities to keep London's core transport network operating effectively, including delaying plans to upgrade the signalling on the ageing Piccadilly line. The very significant additional impact of Covid-19 will now also need to be managed.

TfL's financial policies require it to keep a minimum cash balance of £1.2bn to provide liquidity to absorb sudden financial shocks. Above this, TfL aims to hold a further £600m for other strategic risks, for example sudden reductions in passenger numbers due to pandemic. These reserves are actively monitored and managed in order to protect day to day operations.

TfL's current forecast for its end of year cash balance is expected to be more than £2bn. This means TfL is able to manage the initial impact of Covid-19. TfL will consider further budgetary flexibility to ensure it maintains its financial resilience but the Mayor and TfL will also be looking to the Government to provide appropriate financial support to ensure that the core transport network continues to operate safely and reliably to the benefit of the UK's entire economy.

TfL is following and communicating advice from Public Health England, including that there is no specific risk on public transport, and has stepped up the cleaning regime on its services and in its work environments beyond the already existing high standards.

TfL is also planning what it needs to do to recover once the pandemic has subsided.

Simon Kilonback, TfL's Chief Finance Officer, said: "Our best forecast, based on government scenarios, is that the financial impact of the coronavirus could be up to £500m. We manage our finances prudently, and have reduced our deficit hugely in recent years. This means that we can manage the impacts on our passenger numbers and finances that are currently envisaged. But, given the nature of the situation, we will be looking to the Government to provide appropriate financial support.

“We continue to follow and communicate Public Health England advice, including that there is no specific risk on public transport. We’ve also stepped up our cleaning regime from the already very high standards to give our customers and staff further reassurance.”

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