

PROPOSITION FOR COVID19 SUPPORT FOR COACH OPERATORS

Executive Summary

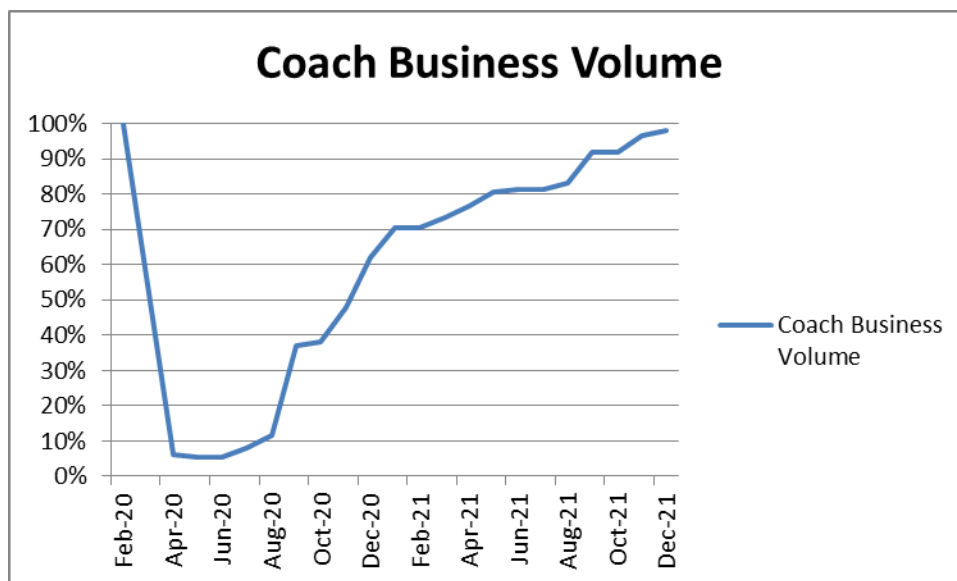
1. COVID19 has very rapidly caused coach operators severe financial difficulties, putting the long-term viability of the sector at risk. Around 80% of the coach industry's income (c. £4bn) is derived from tourism related activities, and the pandemic has meant that, at what is traditionally the beginning of the sector's busiest time of year, tourism is temporarily extinct and looks set to remain that way throughout most, if not all, of the peak summer period. In addition, only a handful of home to school journeys are still running and scheduled coach services have now ceased, leaving only around 2% of the UK fleet operational in any capacity.
2. Whilst the Coronavirus Job Retention Scheme (CJRS) and payment of many local authority contracts at pre-pandemic levels has been enormously helpful, even with all staff furloughed and its doors closed the average coach company faces around £1900 in standing costs per day (at c. £83 per coach), and refunding customers has left coach operators with severely depleted cash reserves with no revenue coming in for the foreseeable future.
3. Even as lockdown is eased, the short to medium term outlook for the coach industry continues to look bleak: social distancing requirements along with continued suppression of parts of the economy and society will make it impossible to operate commercially viable services for a while; leisure and tourism is likely to be the last sector to return to business as usual; and customer confidence in coach travel is likely to take a while to return.
4. Nevertheless, as we move to restart the country's economy we will want to bring tourists back into the country, get people back in our hotels, theatres, shops, restaurants, cafes and bars, reinstate educational trips and help those who have been forced to spend a considerable length of time in isolation get back out and about, as well as getting people to school and work. The coach industry has a vital role to play and so it is crucial that the sector is able to withstand the current crisis.
5. We are therefore asking the Government to:
 - a. Continue with the CJRS for the coach industry, recognising that they will be unable to return to 'business as usual' in the short to medium term
 - b. Provide support for the coach industry through a hardship scheme to help with the standing costs of coaches being faced by most coach operators
6. The paper that follows provides more detailed information and evidence to support this proposal. For further information contact membership@cpt-uk.org

7.

Why is the industry in this position?

- Coach Tourism is seasonal. Revenues are cyclical around a peak in April – July, many companies run at a break even for much of the year either side of the peaks and likely to be running (or close to) a loss during the winter.
- Operators have seen a total loss of business during the initial containment and delay phases.
- There has been a mass cancellation of work throughout the remainder of the 2020 season, many coach operators are reporting a total wipeout of their order book for the summer peak and most will ultimately be facing this at some stage.
- There is currently little to indicate there will tourism in any meaningful quantity for the remainder of 2020 and into 2021
- The pandemic hit the industry at the worst time. The season was just about to start and the pandemic will span the entirety of the peak coach season (April – July), and beyond, taking it into a second winter.
- The coach Industry is facing what is effectively an 18month winter – Autumn 2019 – spring 2021.

Taking account of the different categories of business, and adjusted for season, the next eighteen months look like this:-



What costs does the industry face?

The industry is a model of high capital and highly competitive margins, it is reliant almost entirely on cashflow and rapid turnover to sustain it.

- Coaches cost typically £250-300k per vehicle.
- Very few of these newer vehicles are owned outright, the average finance cost is **£900 Per month**.
- Depreciation on vehicles runs at a similar level.
- Premises, whether rented or owned, are often substantial to accommodate large vehicles.
- The industry has been forced in recent years to increase investment significantly to meet the accelerated timetables for implementation of Clean Air Zones (CAZ) and the London Low Emissions Zone (LEZ). This has eroded the cash reserves of many businesses and meant an increased finance commitment for others.

- The average coach company faces around **£1900¹** in standing costs per **DAY**, even with all staff furloughed and its doors closed.
- Fleets are now causing operators to accumulate debt. Even when travel restrictions and social distancing rules are lifted, consumer confidence will take time to return. It will be impossible for many operators to meet the minimum finance payments for many months.
- A glut of assets from failed businesses will make it very difficult to generate profits, even if passengers return, to repay loans.

What is the impact of coach?

- The types of work carried out by coaches:
 - Home to School Transport (in some cases)
 - School Trips
 - Group travel for schools, youth groups etc to Britain's towns, cities and attractions
 - Transporting "incoming" groups from all over the world
 - Rail Replacement
 - Aviation support / repatriation
 - Cruise Ship passenger transport
 - Fans to sporting events
 - Corporate travel
 - Large scale event transport (such as concerts)
 - Private hire
 - Transportation of vulnerable groups
 - Door to Door accessible transport inaccessible by other modes
- The industry economy is worth an estimated £4.4bn, directly supporting over 40,000 jobs and contributing logistics for the UK's £7.7bn tourism economy.
- Coaches are the most environmentally friendly means of passenger transport, emissions per passenger/ KM are around 4% of those journeys by car.
- The coach industry supports 40,000 jobs in around 2,500 business, businesses which were entirely viable in the pre-Covid era but which now face a bleak future as cash reserves run dry and an extended period of 18 months or more with hugely reduced or even no revenue.

Beyond COVID

- It is likely that the journey back to normality will be not be rapid, it will be gradual and the industry faces four key issues
 - Restrictions imposed by Govt which will limit its activities.
 - Within these restrictions, the industry will be forced to assess what it is capable of operating in this environment.
 - As this will almost certainly reduce capacity, restrict operating conditions, limit choice of destinations and activities etc, the industry will have to assess what is feasible/ viable to operate in this environment.
 - Consumers will ultimately dictate what they are willing to participate in, there may be a reluctance to travelling by coach and international travel – inbound and outbound – will not be returning for some time after.
- This comes against a background of:
 - the ending of the current support available – furlough, CBILS, small business support etc.
 - Reduced revenue from those services which can be operated – not just fewer services but greater separation = lower capacity per vehicle.
 - Costs which will return to the normal together with certain increased costs – increased hygiene, increased downtime for cleaning etc

¹ 26 coaches at £83 each

- Operators will not be able to meet financial obligations by selling vehicles, with a depressed market, equity in the assets will be much reduced.
- It is highly likely that much of the work undertaken by the industry in the pre-Covid environment will be restricted or will not return for some time.

What effect will this have on the UK?

The role of the industry in the UK is in providing leisure and vital logistics for a wide variety of clients – school students, incoming tourists, holidaymakers, rail passengers, commuters etc. All this is at serious risk.

- The future for tourism on the scale of the pre-Covid era is already challenging, with reduced capacity in the coach sector, it risks limiting the speed of a resurgence and may even ultimately limit the scale of it.
- The options for replacing the role of coaches will inevitably harm the climate change aspirations.
- Home to school transport engages around 40% of the vehicles in the UK coach fleet for what is often a small proportion of their time, but which provides a vital role for education.
- The requirement for PSVAR compliance on rail replacement has already challenged both the rail and coach sectors to find sufficient capacity, the current crisis will further undermine efforts to offer a fully accessible service on rail replacement.
- It's likely that the Tourism industry will see a significant reduction in passenger numbers and spend.
- There is a real danger that some of the journeys will shift to an alternative mode, most worryingly the private car (home to school transport and leisure trips), leading to a disastrous increase in:
 - Congestion.
 - CO2 and NOx emissions.
 - Ultimately challenging the UK's commitment to a low carbon future.

What are the difficulties in access to funding?

- Operators across the industry are receiving mixed messages from local authorities on the Coronavirus support funding targeted at the retail, hospitality and leisure industries. The majority of authorities are ruling that coach operators do not fall into any of these categories.
- Those businesses who were successful in accessing the Small Business Grant funding have had some respite but this has been of help to a relatively small proportion of the industry and has left others outside of any support.
- Those operators with Home To School contracts are also subjected to a postcode lottery with a very small number receiving 100% of normal payments, some are as low as 35% and the majority in the 75-80% range.
- A further blow has seen initial arrangements for payments at the upper end of the scale reduced in subsequent periods and in some cases, onerous and unnecessary conditions imposed. These HTS contracts are operated on an extremely competitive basis and need other work to supplement income in order to be viable. This work no longer exists.
- The Coronavirus Business Interruption Loan Scheme has proved challenging to access for most coach operators, primarily on account of:
 - The widespread ineligibility due to being unable to forecast revenues for the coming period of up to three years.
 - The high interest charges which have been quoted, particularly following the initial twelve month Government Guarantee period.
 - A reluctance to commit to additional debt when there is simply no way of knowing what the future incomes might be.

The Coach Tourism industry is falling through the gaps and needs a bespoke funding structure if it is to survive.

What can be done

If the industry is to survive in anything like to size and capacity it has, it needs support bespoke to its unique needs in addressing the issues and we are seeking a dedicated fund which can be allocated in an equitable manner:

- CPT has conducted extensive research among over 300 coach operators across the UK and have concluded that:
 - There is a significant proportion of the industry which currently has little or no income, including any available from the various strands of business support from which many are partially or entirely excluded.
 - Operators structure their businesses across such a wide and varied range of models, its concluded that the cost to sustain a business in 'cold storage' can most equitably be apportioned on a per coach operated basis.
 - The average daily cost to sustain a business when applied per vehicle, is in the region of £83.00 per day.

Such bespoke support would be most needed at the stage when the industry is faced with a rise in costs back to normal levels, when the current support ends and when it faces a whole new raft of challenges and we would be seeking a flexible approach to this which reflected the uncertainty of the post-Covid world, however we would be urging that this is on our considered model of funding on a per coach/ per day basis.

- This could take a number of means to apportion it among recipients:
 - Coaches are employed on a wide variety of work but those involved in the vast majority of duties will be working to EU drivers hours rules recorded by the use of a tachograph (as opposed to buses which don't require this).
 - If coach work is defined as entailing the use of a tachograph, details of those vehicles equipped with a serviceable tacho' exist in the annual PSV test records for each vehicle – this could be used as a qualifier to distribute funding on a per coach basis to operators.

CPT's Proposed Coach Operator Hardship Scheme

Licensed operators would apply for hardship grants for vehicles registered to them. To minimise overlap with CBSSG and supplier relief for public contracts, the grant could be claimed only for vehicles fitted with a tachograph.

Rates (per coach)

	Apr – Jun 2020	Jul – Sep 2020	Oct – Dec 2020
	Payable May 2020	Payable Aug 2020	Payable Nov 2020
17+ passenger seats	£7500	£6750	£3750
9-16 passenger seats	£3750	£3375	£1875

Assumptions

The CJRS continues until the end of 2020

Operators claiming the grant would do so on an "open book" basis and would not expect to make a profit in any period for which a hardship grant has been claimed.