Coach industry capacity and its future ability to service essential journeys

Issue

There is a real risk that many operators of home to school transport will not be in business in the Autumn term for valuable home to school services.

The return of home to school business, even with some extra service requirements due to social distancing on buses, is unlikely to be enough to keep sufficient coach companies viable.

As it stands, there will be insufficient coaches available to service even the existing HTS requirement consistently though the Autumn term, especially from November.

Government support is required to ensure sufficient numbers of coach operators remain in business to viably deliver the much-needed home to school transport services that will be required in the Autumn.

Executive Summary

Our forecasts suggest the industry will see:

- Total of 27,000 sector job losses in period from September 2020 to April 2021
- 1050 (41% of the industry) often long established and previously viable operators go out of business, particularly those who have invested in low emission vehicles and therefore have the highest finance costs. Others reduce fleet and staff significantly
- 9,100 vehicles, many low emission, off the road and a liability to the owners (finance company or operator)
- A further 8,000 vehicles on SORN as no viable work or drivers

And the consequences of this will be:

- Insufficient viable fleet and manpower to service the existing HTS routes from September 2020 requiring 12,000 vehicles, without taking into account any potential additional requirement to help run registered bus services
- Lack of capacity for rail replacement, especially with PSVAR specification as much of that fleet will be repossessed or cancelled orders (800 less new vehicle intake in 2021)
- Manufacturer and supply industries lose 4,000 UK jobs in the next 9 months
- Not enough capacity to service returning incoming and domestic leisure and tourism
- Insufficient capacity to service major cultural, sporting and national events, Wimbledon, Glastonbury, Ascot, football supporters etc.
- Significant cost increases for home to school
- The north of England particularly hard hit with redundancies and insolvencies

Background

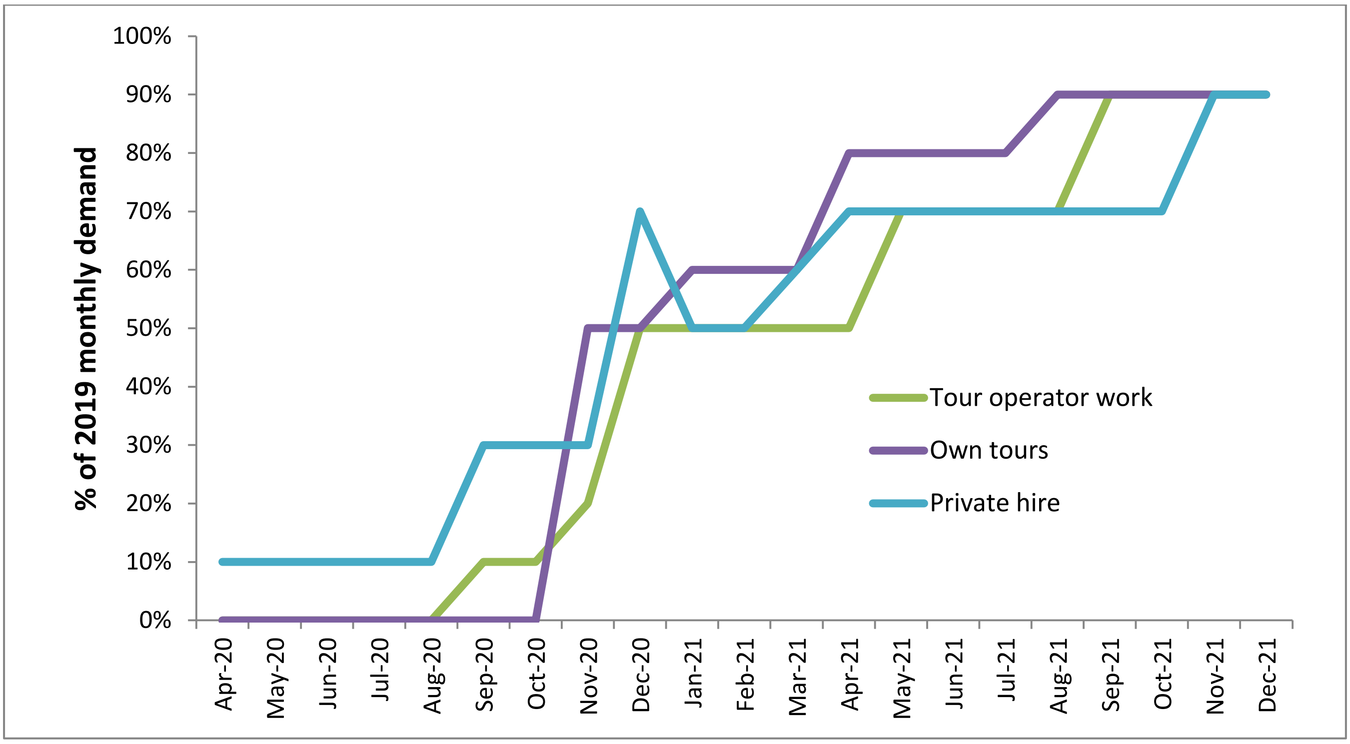
The UK coach industry has been decimated by Covid-19 with 98% of the UK fleet idle whilst still incurring significant standing and finance costs, with little or no income. This lack of revenue has occurred in the traditional peak months of April through to September, where profits are made to offset losses in the remaining months of the year.

Other than home to school journeys from September 2020, there is little prospect of additional work (which traditionally subsidises HTS journeys) before April 2021.

HTS occupies 40-50% of vehicles for a very small time on school days, but usually accounts for only around 20% of an operator's income.

HTS operators depend on revenue from associated school journeys (e.g. educational day trips, swimming lessons), and summer tourism and leisure for viability. This enables operators to keep day rates for HTS low – typically at around £200-220 per vehicle. <u>Without this non-HTS revenue, many operators will need to charge two to three times more per vehicle per day to balance the books</u>.

<u>Graph 1: Predicted demand post-Covid-19: Leisure and tourism work</u>



Operators are trying to remain solvent by:

- Around 75% of staff currently on furlough
- 98% of vehicles have been off the road to minimise costs
- 2 x 3-month deferrals of finance costs (now about to come to an end and with increased payments required)
- Some continuity of payments for HTS services
- Extremely limited access to leisure sector relief – 15% successful applications
- Some use of Government loan schemes, but CBIL's eligibility limited due to already high debt levels and traditionally adverse gearing of coach operators, given high cost capital assets
- 40% successful in accessing a bounce back loan

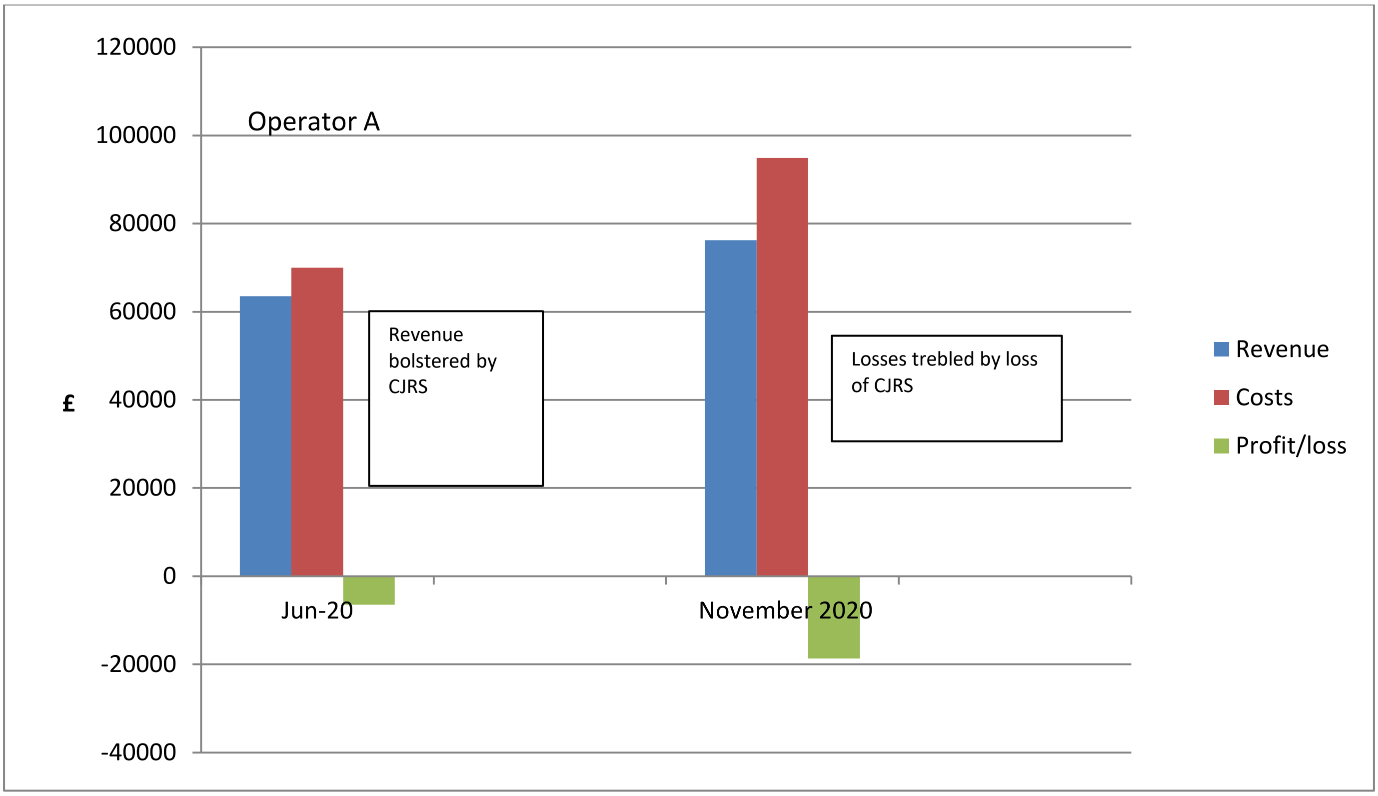
Immediate outlook

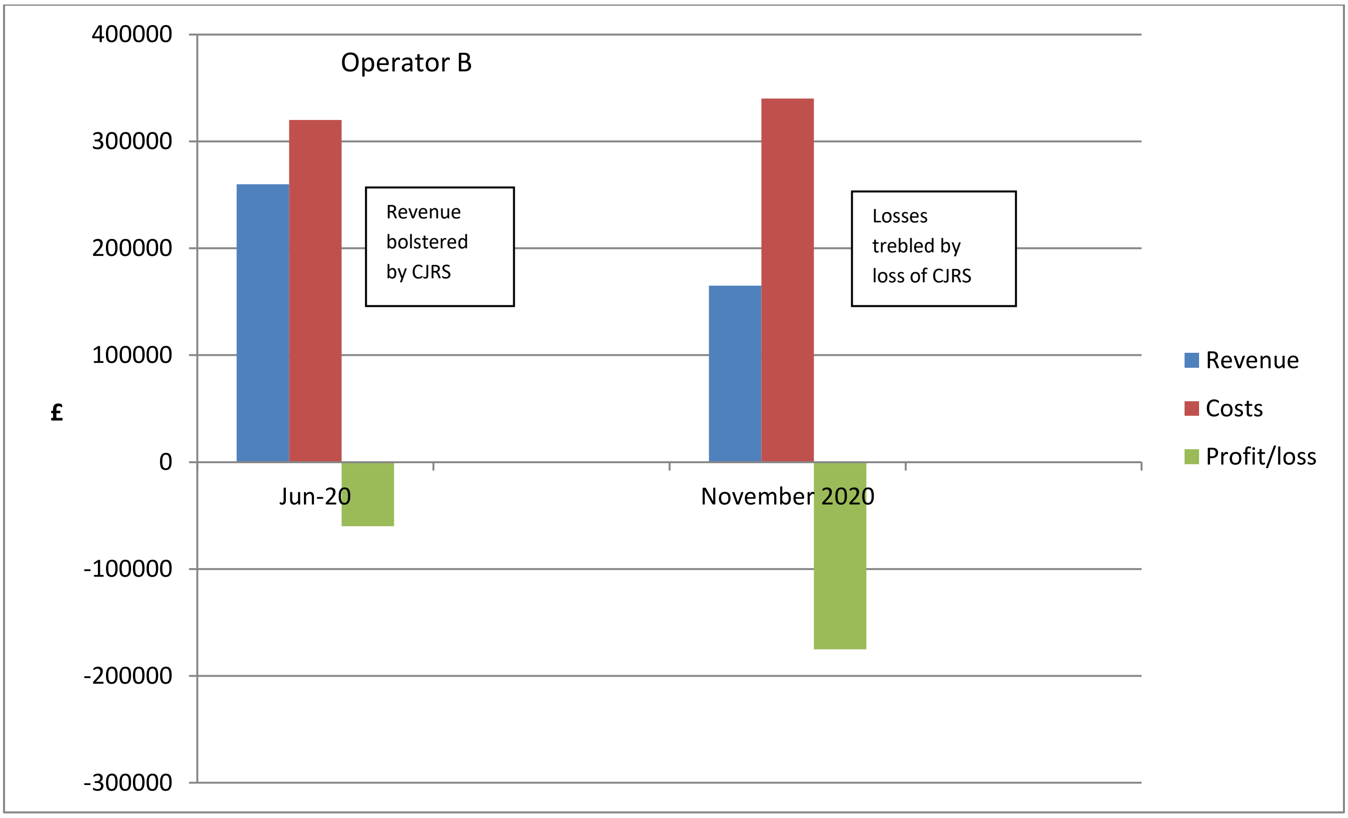
Even with the promise of returning (and possibly new) home to school business in September, operators are hitting some key 'crunch points' which puts their viability at risk.

As CJRS reduces operators are planning redundancies from early September onwards, even with the prospect of home to school restarting. 26% of members plan to reduce their workforce by more than a quarter by early

September. Taking staff off furlough to service HTS journeys will result in greater losses due to lack of infill work to cover costs and is therefore not viable. Some are thinking of handing in school contracts where lack of infill work makes them loss-making.

<u>Graphs to demonstrate revenue, costs, and profit/loss in June 2020 and forecasts for November 2020</u>





Operator B sees a reduction in revenue from June to November compared to operator A who sees an increase in revenue but one which is offset by increased costs, such that both incur significantly higher losses than in June. This is because operator A traditionally secures a larger proportion of its revenue stream from home to school (56% in 2019) compared to operator B (17%) who is more reliant on leisure and tourism (67% of 2019 revenue).

Operator A will therefore have more of its traditional revenue flowing in but will not have as much 'infill' work as usual to help cover the increased cost of running vehicles and drivers, etc. Both operators therefore expect to incur significant losses in November – three times those seen in June 2020, where revenue was CJRS payments (40-60%), a small amount of other Government support (grants/loans) plus continued payment of home to school contracts.

Finance holidays are about to come to an end for many operators adding further financial pressure and risking repossession of the vehicles, leaving them unable to service any work that might be available even were they not to go into administration. Increased monthly payments for the rolled-up capital and interest compound the problem. Some operators have personal guarantees and their home is liable to repossession.

Our analysis suggests that the forecasted effects are:

<u>August 2020</u>
Redundancy consultations to prepare for the end of CJRS in October, but many liable to be redundant in August
Many operators will be in default for the first post-holiday payments on finance agreements

<u>September 2020</u> -
10,000 directly employed staff made redundant
300 (20%) of operators in administration or voluntarily wound up
UK available coach fleet reduces by 3,600 vehicles, plus a further 8,000 on SORN with no viable work or driver
Defaults on loans mean funders are likely to secure the return of liabilities against property assets rather than vehicles which have plummeted in value

<u>November 2020</u>
A further 8,000 directly employed redundancies as Furlough finishes
Additional 350 operators in administration or wound up
UK available coach fleet reduces by a further 4,000 vehicles, plus those remaining on SORN

<u>January 2021</u>
5,000 further redundancies, post-Christmas
400 more operators go into administration or wound up
A further UK available coach fleet reduction of 1,500 vehicles plus those remaining on SORN

<u>By April 2021:</u>
Through the autumn/winter of 2020/21 direct industry work force reduced from 42,000 to 19,000 (23,000 jobs lost from September 2020)
A loss of 1,050 coach operators, 41% of the sector (previous total of 2,500 coach operators)
Total UK vehicle available parc reduces from 30,000 units to 20,900 (with 9,100 vehicles idle or repossessed and a further 8,000 on SORN with no viable work or drivers).
Operators are likely to retain older vehicles, without finance, setting back the progress made in reducing emissions with newer fleet.

May 2021 onwards
A slow recovery of the market might be expected, but the revival needed will be limited given the reduced available vehicle fleet and operators will be unable or reluctant to expand fleets for a short-term revival through the summer of 2021. Any re-employment will likely be short term seasonal staff contracts, given insufficient reserves to carry through the winter of 2021 as would be usual.

September 2021
Seasonal staff contracts finish, placing those re-employed back into a competitive jobs market
Likely further operator failures

Supplier Industry
Average annual UK new coach intake pre Covid - 1,000 units
Expected annual new coach intake in 2021 - 200 units (mostly for Express coach services sector)

Given an expected 80% reduction in new coach sales and 9,100 vehicles out of use, the supply sector can expect to make 25% of its workforce redundant in September 2020, with a further loss of jobs in the new year. In total, a loss of almost 40% of the estimated coach supply sector staff of 10,000. There have already been dealer casualties.

A potential financial support solution
We are aware that our bid for funding to cover standing costs for coach operators has not been successful. However, to survive, the coach industry will need support from the government so that it can, in turn, maintain employment, continue to provide essential journeys and make a significant contribution to the UK's transport infrastructure, including reducing emissions. This particularly benefits the elderly, the young and the less well off in society.

We believe our proposal is a value for money option, using existing COVID 19 funding mechanisms and is made up of four key parts:

1. Government assistance to postponement of Capital payments for 12 months by lender

   Government to arrange existing coach operator business finance agreements to be extended by 12 months, effective from August 2020 (for those that request inclusion in such a scheme) using existing CBIL's and/or Bounce Back loan principles.

   Interest and arrangement charges (if applicable) paid by government in line with CBIL's/Bounce Back rules up to 2.5% and a cap of £5 million for 12 months from August 2020.

   Lenders would otherwise would repossess vehicles that are impossible to sell on at remaining asset value, therefore incurring losses. Postponement means a delay, but ultimately re-payment of capital.

2. Removal of existing personal guarantees in line with CBIL's rules, including a Principal Private Residence (PPR) exclusion
   Immediate suspension of repossession orders in line with emergency Covid legislation.

3. Coach industry granted access to support available for leisure/retail industry
   This would allow the 85% of coach operators who have not had access to grant funding and business rate relief for 12 months to receive parity with those who have.

4. Government funding to top up to viable daily coach rate for existing HTS, until end of spring term 2021
   This would be necessary both for existing home to school services that will not have the infill work required to keep prices low, and also additional capacity secured to support registered bus services.

The above would ensure there are sufficient coaches to service future HTS needs and to cater for the revival of the traditional coach work portfolio during 2021. This would benefit the UK's leisure and tourism sector, as well as essential services such as HTS, rail replacement and transport for large events. It would also support the government's Green Recovery agenda, including air quality and net zero carbon goals, with one coach potentially keeping 28 cars off the road. The supplier and manufacturer infrastructure could remain in place and primed for a return of business, post Covid.

Conclusion

Without immediate government support, the coach industry will not be able to provide additional HTS services from September 2020 and is unlikely to be able to cover more than 75% of the existing HTS services. In addition, the flexible passenger transport resources required for essential journeys for rail replacement, large national events, emergencies, troop movements, non HTS educational services etc, will not be available. Support for the leisure and tourism sector will not be available with the consequential effects on those places visited. The increasing use of cars will likely overwhelm many road systems and still not provide the required number of visitors to ensure long term viability of the leisure and tourism sector and its subsequent effect on UK PLC.

We must emphasise the urgency of this matter, the Coach Industry cannot survive much longer without further direct government assistance in whatever form that might take. We are conscious of this crucial lack of time and therefore have taken the opportunity to suggest a potential solution within this paper. Appendix A (attached), gives a summary of the industry statistics related to HTS.

CPT, July 2020

Annex A: Statistics

Present daily requirement for HTS services: 12,000 coaches
Number of children/students carried: 540,000

Estimated requirement for additional services from September (DfT): 5,000 coaches
Number of children/students transferred (expected)from service buses: 225,000 (requires 5,000 coaches)

Total coach fleet requirement for HTS 17,000 coaches
Total coach fleet (overall) 20,900 (was 30,000)
Total coach fleet (available – as 8,000 vehicles on SORN) 12,900
Total available coach fleet availability for HTS (reducing to): 9,000 coaches (normal HTS = 12,000)*

Present fleet utilisation for HTS average: 40% (of 30,000 fleet)
Expected fleet utilisation from September 2020 (to April 2021) 81% (of 20,900 fleet)

*Allowing for reduced operators, fleet size, vehicle type, appropriate seating capacity, engineering capacity, other work (inc express coach network) and unavailability of coaches on SORN, with no drivers or viable work, particularly post October.

Daily HTS cost increase, to service greater requirement and higher percentage use of fleet, with no infill 150% (Average daily cost £220 to £550)

Daily additional average cost of HTS
(based on present average of £220 x 12,000 coaches) £3,960,000 per day (existing HTS only)

Additional annual cost based on a 193 days school year £76,428,000 (existing HTS only)

Number of additional cars in peak if 25% of existing HTS coach services are not covered 112,500 cars (3,000 miles of extra traffic)*
With no additional services and unable to use bus 187,500 cars (5,000 miles of extra traffic)*

300,000 additional cars on the road at peak times

*I coach = 1 lane mile of car traffic, 1.2 children per car, average HTS coach loading 45.