

PROPOSITION OF SUPPORT THAT ENABLES THE COACH TOURISM INDUSTRY TO TRADE OUT OF THE COVID-19 CRISIS.

Executive Summary

1. The COVID-19 lockdown, travel guidance, and current social distancing measures continue to place coach operators under considerable financial strain. Despite the reopening of the wider tourism sector, the current market conditions for the coach industry remain challenging for it to resume operation to any great extent.
2. The defined seating area within the coach cabin and social distancing requirements, along with continued restrictions on maximum group sizes, make it impossible to operate commercially viable services - putting the short to medium-term viability of otherwise profitable coach businesses at risk.
3. Around 80% of the coach industry's income (c. £3.3bn) is derived from tourism related activities. An inability to trade during the remaining tourism season will result in coach operators having little to no chance of meeting their current and upcoming financial commitments.
4. Many operators were successful in securing payment holidays from vehicle finance lenders (which account the bulk of an operators standing costs) however for many operators these holidays (and any extensions) have either come to or will shortly be coming to an end.
5. The cliff edge is approaching for coach operators; they will shortly have to resume payments to lenders and make increased contribution to furlough wage costs all whilst facing fleet mobilisation and COVID cleaning costs and a reduced ability to work due to social distancing on vehicles, legal definitions of maximum group sizes and reduced passenger confidence.
6. Operators want to work. However, the current economics of coach hire make it uneconomic to do so. Capacity based on 1m physical distancing is 35-50%, depending on vehicle type, social bubbling and additional mitigation factors.
7. Coach Tourism operators, on average, require a capacity of 47-53% to breakeven and begin trading.
8. We are therefore asking the UK Government to provide a scheme of compensation to the coach industry that meets a proportion of an operators fixed costs in order to reduce the breakeven percentage threshold and in turn allow operators to trade out of this crisis.

What is the impact of coach?

- The industry economy is worth an estimated £4.4bn across the UK, 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.
- There are approximately 3000 coach business in the UK, 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.
- 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 Scotland'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 current state of the industry

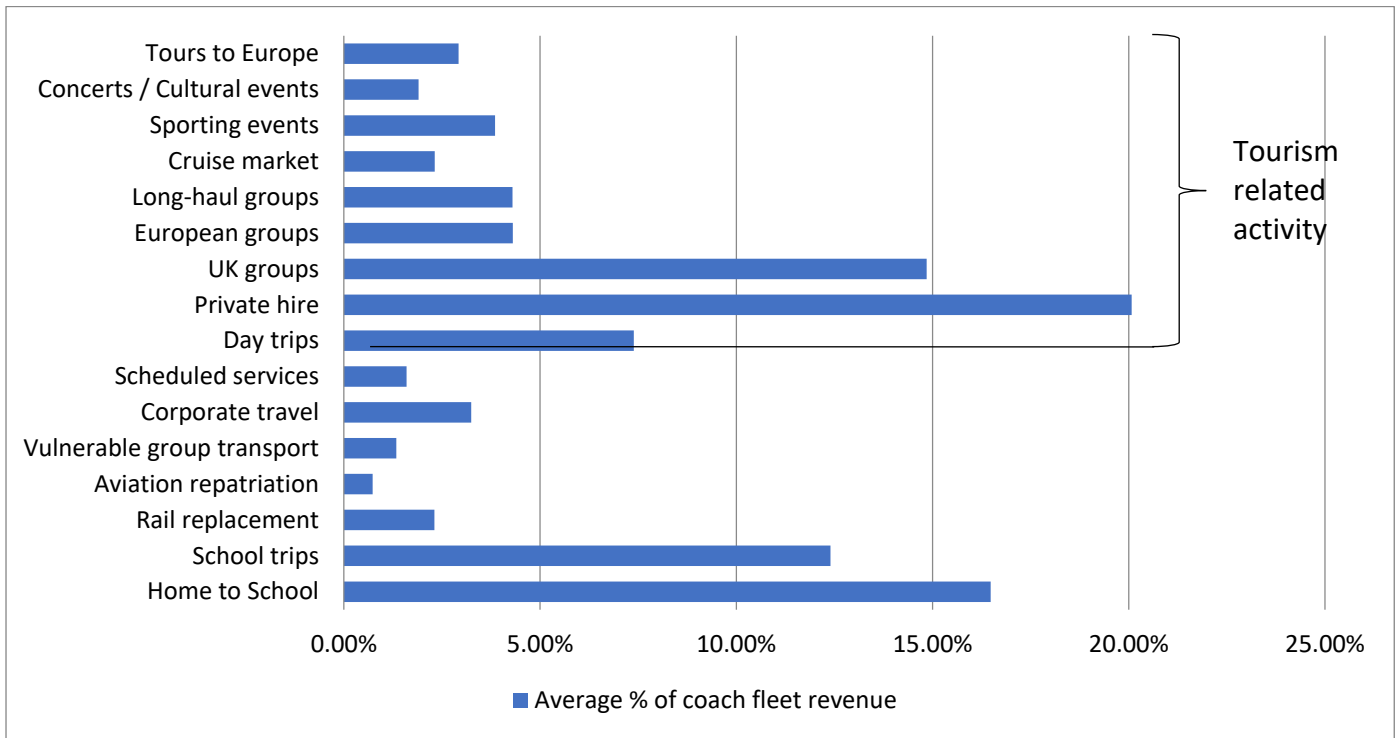
There are approximately 30,000 coaches across the UK. However, not all coaches are used for coach tourism. Some coaches are used for long distance schedule services (such as National Express, Megabus and Citylink services).

There are coach operations across the length and breadth of the UK - 77% in England, 15% in Scotland and 8% in Wales. However, cross border operation is commonplace with 20% of trips crossing a domestic border.

It is estimated that almost 62% of all coaches are used for coach tourism, accounting for approximately 80% of a coach operators' revenue.

The industry is a model of high capital and highly competitive margins; it is reliant almost entirely on cash-flow and rapid turnover to sustain it.

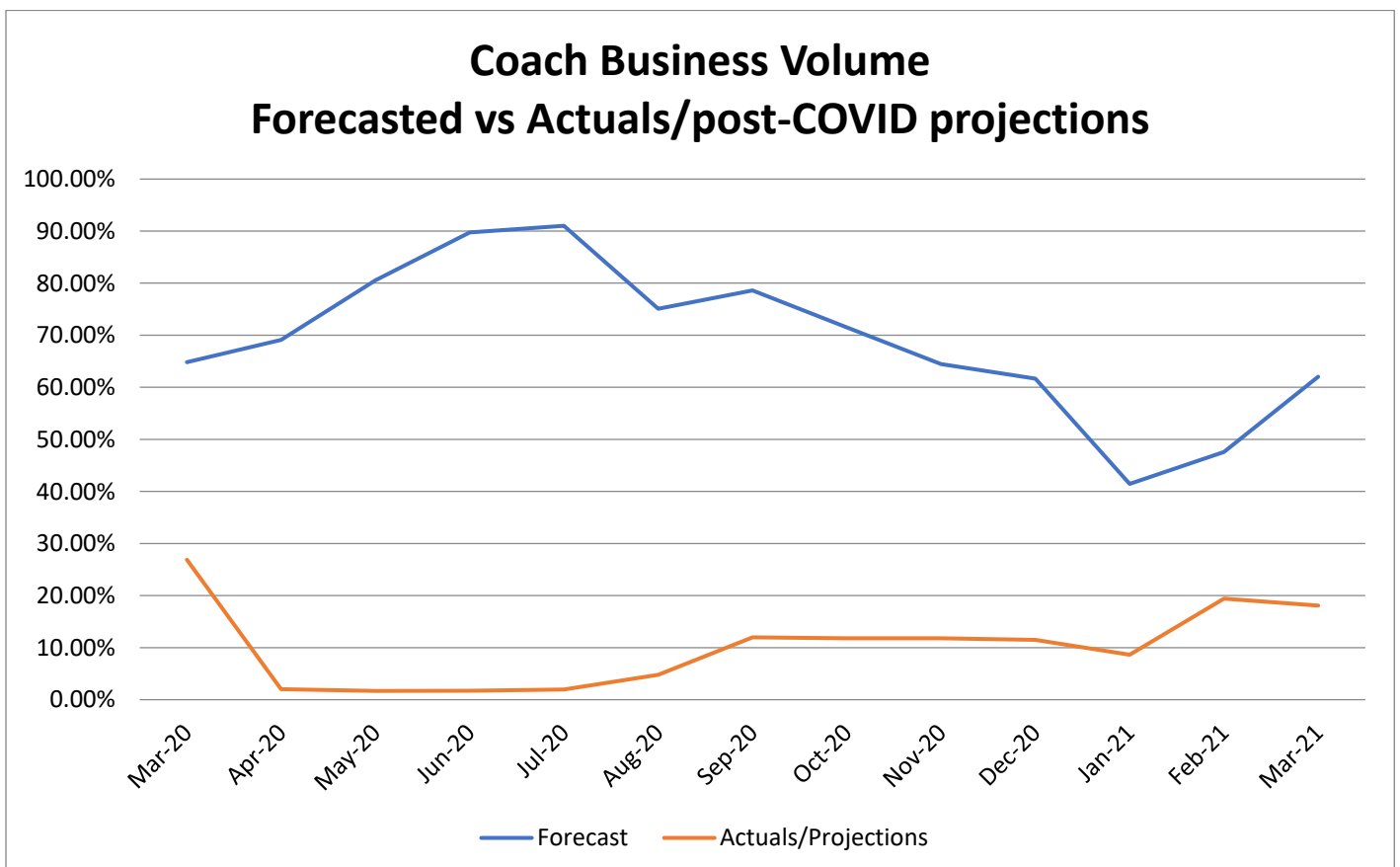
- Coaches cost typically £250-300k per vehicle.
- Very few of these newer vehicles are owned outright with monthly significant finance costs
- Depreciation on vehicles runs at a similar or higher level of cost. Tourism coaches often have a younger age profile due to the standards expected by visitors.
- The industry has been forced in recent years to increase investment significantly to meet the accelerated timetables for implementation of Low Emission Zones, (LEZ) and Clean Air Zones (CAZ). This has eroded the cash reserves of many businesses and meant an increased finance commitment for others.
- 42% of coaches are Euro 6, 25% are Euro 5
- Approximately 48.5% of all coaches are financed.
- 40.8% of operators have personal guarantees, and stand to lose their homes should businesses fail.
- Finance holidays will have come to an end for 84.6% of operators by the end of September, with the remaining agreements ending in the coming weeks until November
- Given the large capital investment underwritten by finance and the current outlook for the industry, there is little business confidence when securing further financing.



Coach companies are largely family owned or individually owned operations (81% of all operators). These are often multi-generational businesses with most, if not all, family members working for the company.

Outlook for the industry

The below chart shows the coach industry's projected business volumes against the actual / forecasted business from March 2020 to March 2021.



Like other sectors within tourism, coach tourism is a seasonal industry. Business revenues are cyclical peaking during April to July, with many companies running at a break even for much of the year either side of these peaks and likely to be running at (or close to) a loss during the winter.

The pandemic hit the coach tourism industry at the worst time. The season was just about to start, and the pandemic wiped out the entirety of the profitable season (April – July), and beyond, taking it into a second winter.

Unlike the wider tourism industry, coach operators have been largely unable to work following the reopening of the tourism sector. This is due to the incompatibility between coach seating spacing, social distancing and commercial breakeven capacity levels.

The industry will effectively suffer an 18-month winter season (autumn 2019 – spring 2021), and without immediate intervention it is likely that a significant proportion of the industry will collapse.

Operators whose businesses collapse holding significant debt due to the crisis will find it difficult to reopen when the operating conditions improve due to the “financial repute” and “fitness” conditions required to hold a PSV operator licence. Additionally, Transport Managers with these associated companies may also be prevented from being nominated on future operator licences, effectively barring them from their vocation.

A weakened coach industry with reduced operators, vehicles, transport managers and drivers will have a much wider impact on the UK than simply a reduction in tourism:

- The failure operators who currently operate home to school contracts
- The loss of available operators who could pick-up the above contracts
- Reduction in the pool of vehicles and drivers available for rail replacement
- Loss of tourism capacity, particularly for high spending international tourists
- An older, less green coach tourism sector due to repossessions on newer vehicles which are financed.

Even more concerning is the human impact for those who are connected with the business.

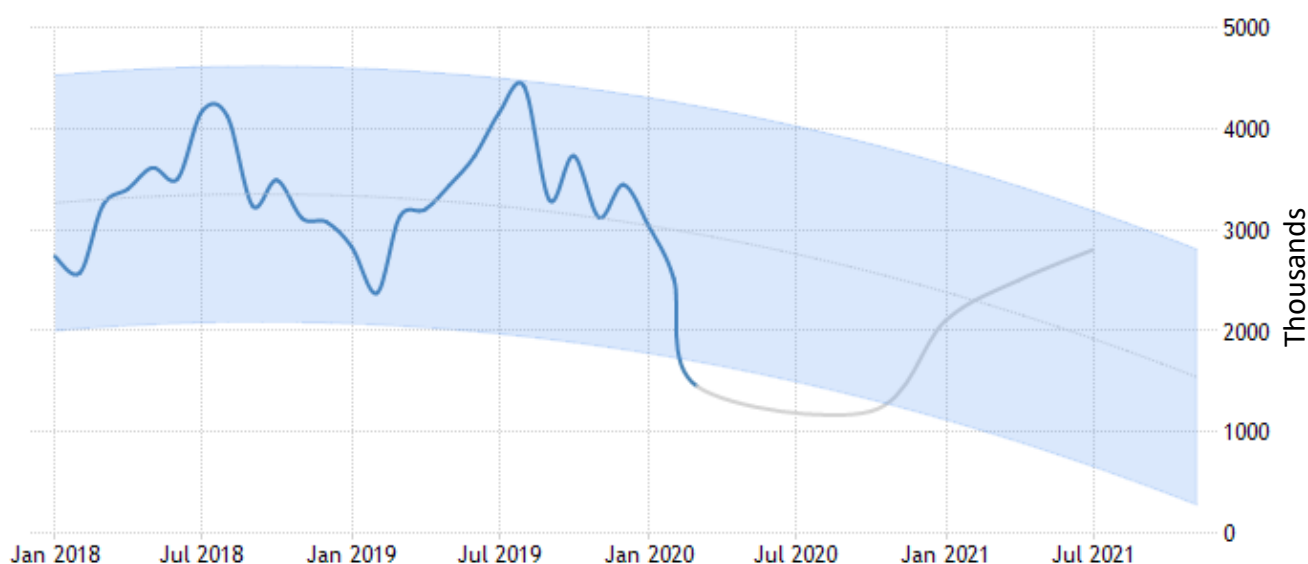
- Many operators have personal guarantees on vehicles with high-levels of finance, putting family homes at risk.
- Often these businesses are family owned with large levels of multi-generational family employment, therefore leaving no income in the family home.
- As work slows and operators seek to reduce costs, staff redundancies will soar. 8.9% of coaching staff have already been made redundant and 29% are expected to lose their jobs when furlough ends.

However, there are some promising signs that, if the industry could be supported until the beginning of the 2021 peak season, tourism may begin to return and the industry could survive.

Owing to pent-up demand from trips cancelled in 2020, the European Tourism Association (ETOA) estimates that 2021 could see a return of long-haul markets at volumes of 50-70% of those seen in 2019 - subject to the resolution of the current operational difficulties.

Additionally, Trading Economics have estimated that tourists arriving into the United Kingdom are expected trend around 2.44m per month in 2021 and 2.91m in 2022.

The UK domestic market is expected to strengthen with the staycation market; and some private hires and UK group tours will return, however without any further reduction in social distancing and the with current messaging to avoid public transport it is believed that many will opt to travel by private car.



SOURCE: TRADINGECONOMICS.COM | OFFICE FOR NATIONAL STATISTICS

What are the average daily costs to operate a coach?

CPT surveyed our coach sector members to identify operator costs. The table below outlines these costs based on a coach that is available to work. Please note that this does not include fuel as this is a variable cost.

	Average daily cost per vehicle
Vehicle insurance	£10.55
Road tax	£1.02
Engineering and testing	£7.78
Other maintenance	£6.17
Ground rents	£4.67
Property and contents insurances	£1.14
Company insurances	£1.45
Package holiday bonding	£0.82
Periodic training	£1.25
Software / licensing / services	£1.15
Telecoms	£1.33
Utilities	£1.20
Security / CCTV	£0.41
Marketing	£2.81
Professional costs	£2.49
Enhanced COVID Cleaning Costs (<i>CPT estimate</i>)	£5.00
TOTAL	£49.24

Other costs not included in proposal	Average daily cost per vehicle
Vehicle financing (repayments & interest)	£33.17
Mortgage repayments	£1.67
Staff costs	£80.76
Business rates – where relief not granted	£7.88
Operating leases	£4.23
Other borrowings	£7.02
TOTAL	£134.73

Depreciation	£35.51
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GRAND TOTAL	£219.48
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Analysing the model

The largest variance in an operator's costs is depreciation and vehicle financing. This can be due to:

- The structure of a particular vehicle finance deal
- The age and specification of the vehicle being financed (linked to Euro standard)
- The size and type of vehicle being financed (full size vehicle vs. mini-coach)
- The age profile of an operator's fleet and how long they will hold the vehicle.

Of the £219.48 average daily vehicle cost, £134.73 relates to wages or finance borrowings and would not be included in a proposed grant scheme.

The remaining £84.75 includes £35.51 depreciation which, whilst a very real cost to operators is likely extremely under-estimated due to increased supply in the used vehicle market due to COVID and is not a physical cost that has to be paid right now. Depreciation is therefore not included in this proposed scheme.

Euro standard or vehicle size has a negligible impact on the remaining costs; therefore this proposal is not based on Euro standard or vehicle size. The removal of these parameters makes the scheme much easier to administrate and enables support to reach all operators regardless of vehicle age or type.

CPT's proposed Coach Operator "Aid to Trade" Scheme

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 faced. We are seeking a dedicated support which can be allocated in an equitable manner to all coach tourism business across the country.

CPT has conducted extensive research of coach operators across the UK and has concluded that:

- Current physical distancing guidelines do not allow for vehicle capacities sufficient enough to re-start operation
- Coach Tourism operators require a capacity of 47-53% to breakeven and begin trading
- The average daily cost to sustain a business (excluding finance, depreciation and wages) when applied per vehicle, is £49.24 per day

On behalf of the Coach Tourism industry CPT requests that the UK Government create a bespoke grant to meet the non-financial and non-wage elements of a coach operators costs so that that may reach a commercial breakeven point and trade out of the crisis. These fixed costs have been identified as £49.24 per tourism coach, per day.

This grant would be used to offset the wider operating costs and therefore reduce the capacity breakeven point by approximately 11% (from 47-53% to 36-42%). When combined with reduced social distancing mitigation measures (as seen in other areas of public transport) this will allow operators to operate their vehicles, meet their financial obligations and trade out of the crisis.

Vehicle capacities, demand for coach tourism, opportunities for alternative coach work (such as a growth in demand for home to school services) are all factors subject to change in the coming weeks and months. As such, CPT proposes that any government support be reviewed on an eight-week cycle with an audit of operator costs to ensure that funding is fit for purpose.

Indicative figures

- There are approximately 30,000 coaches in the UK, of which 62% are involved in "Coach Tourism" = 18,600
- A budget based on the average daily costs of £49.24 would cost £27.5m per month
- Operators ask that this grant begins as soon as possible and is maintained until the beginning of the 2021 summer season, with a review every 2 months to ensure that operator trading conditions are such that they still require the fund.
- The total cost of the fund based on 6 months of funding is estimated to be £165m, or £8,900 per coach.

Assumptions:

- Operators claiming the grant would do so on an “open book” basis. Operators would be expected to prove coaches are used for tourism and would not expect to make a profit in any period for which a grant has been claimed.