

Brexit blues

The EU referendum, and subsequent debate about how exactly the UK will detach itself from the European Union, is likely to mean the country facing considerable uncertainty throughout 2017. John Challen looks at transport operators' likely lot

For many, 2016 will live long in the memory, but maybe not for the right reasons. Arguably, the biggest event of the year was June's EU referendum, which saw the UK finally decide to cut its long-held ties with mainland Europe. The result sent shockwaves through social, economic and political spheres. Five months later, as we go to press, arguments over when to trigger Article 50 and whether a soft or hard Brexit is the forward continue. The transport industry, meanwhile, carries on.

Going into 2016, the UK was experiencing a GDP annual growth rate of 1.7%, but the International Monetary Fund (IMF) had already revised growth predictions for the year downwards from 2.3% to 2.2%. In fact, GDP expanded 2.3% year-on-year in the third quarter (Q3), increasing from 2.1% in the previous period. As the RHA's Haulage Cost Movement 2016 report states: "Despite widely predicted doom and gloom, it would appear that in broad terms the UK hasn't been doing too badly in the months following the vote." In fact, by November last year, GDP had increased every quarter since Q1 2013.

In the transport sector, five consecutive quarters of growth in truck registrations above 6 tonnes came to an end in Q3 2016. The SMMT (Society of Motor Manufacturers and Traders) recorded a decline of 3.6%, compared with the corresponding quarter in

2015 (11,242 vs 11,660 vehicles registered). The year-to-date figure, however, was more encouraging, with a 6.6% improvement on 2015, taking it to 32,676 registrations. Demand for rigid vehicles increased in Q3 but, continuing a trend set earlier in the year, registrations of three-axle tractor units fell by 17.3% following growth of 38.6% in the segment during 2015.

In 2015–16, the number of HGVs on the road grew by 34,074, bringing the total to 377,748 vehicles. But, while the figure for O licences increased again after a decline in 2014–2015, at 77,002 it still lags considerably behind 2013–2014 (recorded as 77,732).

At the other end of the market, light commercial vehicle registrations rose by 2.5% in November 2016 (vs November 2015) to 29,784 units – the highest for 20 years. The big increases were in lighter vans (2–2.5 tonnes) and pick-ups. But despite a slight dip in the 2.5–3.0-tonne van sector, overall year-to-date figures for 2016 were up 2.1% at 348,448 units. Pundits believe the introduction of Euro 6 vans helped growth, but with all manufacturers now having completed range revisions, registrations are expected to drop off a little throughout 2017.

Looking specifically at operator costs, the RHA's (Road Haulage Association) annual survey of movements calculates an increase of 2.79% in the year to 30 September 2016, excluding fuel.

When fuel is added into the equation, that forecast increase reduces, but only marginally – to 2.73%.

Much like the rest of British industry in the wake of the EU referendum, uncertainty remains likely for the coming months. Hence, industry commentators, economists and political figures are finding it hard to predict the next 12 months. As the SMMT says, for success in vehicle registrations to continue, a stable economy is essential. Analysts are not confident: they predict that 2017 will be challenging, with the IMF forecasting growth slowing to 1.1% next year. The key reason: economists expect the finances of both consumers and businesses to come under increased strain in the coming months.



ECONOMIC BACKDROP

In contrast to 2015, when the country experienced long periods of deflation, 2016 saw a moderately rising CPI (consumer price index) from 0.3% to 1% by September 2016. October saw a surprise fall back to 0.9% – just when economists were predicting 1.1% due to the collapse in value of sterling post-Brexit.

"After initially pushing up prices of raw materials, the recent fall in the value of the pound is now starting to boost the price of goods leaving factories," says the ONS (Office for National Statistics).

Operator costs for 2016: LCVs to 3.5 tonnes gvw

“However, aside from fuel, there is no clear evidence that [currency] pressures have so far fed through to prices in shops.”

Meanwhile, following a seven-year low of 5.3% in the three months to September 2015, unemployment continued to fall throughout 2016, reaching 4.8% in the three months to September 2016 (1.6 million jobless). However, although the number of people in work reached a record high (31.8 million), the Bank of England warned that uncertainty over Brexit would likely lead to increasing unemployment in 2017.

That said, average earnings grew by 2.3% in the year to October 2016 (2.4% including bonuses) and this is likely to continue, thanks to increases in the minimum wage, which took effect on 1 October 2016.

Finally, after eight years languishing at 0.5%, there was movement in the UK’s base rates. However, while *Transport Engineer* reported last January experts expecting an interest rate rise last spring, in fact the Bank of England moved to a new low. On 4 August 2016, the base rate was cut to 0.25% as part of a package of measures “designed to provide additional monetary stimulus”.



TYRES

Last year we reported 2015’s tyre prices largely unchanged, partly due to lower oil prices modifying production costs. 2016 saw a slight increase at 1%. Interestingly, 87% of RHA members are now monitoring tyre wear. As a result, they report increased mileage, lower fuel consumption and reduced risk of blowouts, leading to less downtime.

Contract PPK (price per km) plans were mentioned by 20% of respondents to RHA’s survey, with most operators still choosing only to buy tyres when required. New tyres on tractors and remoulds on trailers is the most common approach.



FUEL COSTS

In recent years, oil and fuel prices have fallen away, but last year saw a change in fortunes. The 16.35% reduction seen between September 2014 and October 2015 has been replaced by an increase of 2.55% for the period to September 2016 (86.69ppl vs 88.9ppl for bulk fuel).

Using that closing number, RHA estimates an average 44-tonne 6x2 truck travelling 73,000 miles a year and returning 8 mpg would cost £36,878 (ex VAT) in diesel. As last year, this figure equates to just under

27.5% (27.41%) of the vehicle’s total operating cost.

While fuel pricing started the year low, 2016 saw a gradual and steady increase, peaking in October when OPEC (Organisation of Oil Producing Countries) agreed to in-principle production cuts. However, after three weeks, price increases tailed off until OPEC’s November meeting saw production cuts firmed up and a new fuel spike, with 1.5ppl added to diesel.

Nearly 66% of RHA members are now using fuel mechanisms to hedge costs – almost identical to 2015’s 67%.

	Car derivative vans - diesel	Vans of 3.5 tonnes gvw - diesel
General information		
Annual mileage	24,000	35,000
Life (Years)	7.0	6.0
Life (miles)	168,000	210,000
Replacement cost (£)	14,213	25,751
Fuel consumption - mpg	40.1	26.0
Annual fuel usage (litres)	2,721	6,120
Fuel price - pence per litre	90.17	90.17
Tyre life (miles)	30,000	30,000
Standing costs		
VED	235	235
Insurance	675	1,043
Depreciation	1,381	3,519
	2,291	4,797
Running costs		
Fuel	2,453	5,518
Tyres	171	452
Maintenance	1,287	2,768
	3,911	8,738
Total vehicle cost	6,202	13,535
Overheads		
Transport	1,523	1,523
TOTAL COST	7,725	15,058
ANNUAL CO ₂ FOOTPRINT (TONNES PER YEAR)	7.11	15.98

Source of data: FTA [Manager’s Guide to Distribution Costs, October 2016 update]

Operator costs for 2016: rigids 7.5-32 tonnes gvw

	7.5 tonne gvw - box or curtainsided	10 to 12 tonnes gvw - box or curtainsided	12 to 14 tonnes gvw - box or curtainsided	16 to 18 tonnes gvw - box or curtainsided	3 axle rigid vehicle 26 tonnes gvw - box or curtainsided	4 axle rigid tipper - 32 tonnes gvw
General information						
Annual mileage	40,000	50,000	40,000	60,000	60,000	55,000
Life (Years)	7.0	5.0	5.0	7.0	6.0	7.0
Life (miles)	280,000	250,000	200,000	420,000	360,000	385,000
Replacement cost (£)	42,395	50,310	53,934	70,876	90,457	98,334
Fuel consumption - mpg	16.0	13.0	13.0	12.0	10.0	8.0
Annual fuel usage (litres)	11,365	17,485	13,988	22,730	27,276	31,254
Fuel price - pence per litre	90.17	90.17	90.17	90.17	90.17	90.17
Tyre life (miles)	55,000	50,000	50,000	60,000	55,000	50,000
Standing costs						
VED and RUL	165	200	200	650	650	1,200
Insurance	1,993	1,883	1,925	2,540	2,260	2,810
Depreciation	5,148	8,150	8,737	8,100	12,061	11,800
	7,306	10,233	10,862	11,290	14,971	15,810
Running costs						
Fuel	10,248	15,766	12,612	20,495	24,594	28,181
Tyres	424	1,206	893	1,429	1,489	1,877
Maintenance	4,335	5,804	3,584	6,168	7,930	11,751
	15,007	22,776	17,089	28,092	34,013	41,809
Total vehicle cost	22,313	33,009	27,951	39,382	48,984	57,619
Employment cost of driver	25,579	27,149	27,149	31,258	32,367	33,365
Cost of vehicle and driver	47,892	60,158	55,100	70,640	81,351	90,984
Overheads						
Transport	5,044	5,566	5,566	5,566	6,805	7,553
Business	5,044	5,566	5,566	5,566	6,805	7,553
TOTAL COST	57,980	71,290	66,232	81,772	94,961	106,090
ANNUAL CO ₂ FOOTPRINT (TONNES PER YEAR)	29.68	45.66	36.53	59.36	71.23	81.62

Source of data: FTA [Manager's Guide to Distribution Costs, October 2016 update]


VEHICLE ACQUISITION

According to the RHA, outright purchase remains the most popular means of securing vehicles. Borrowing remains a low-cost option, so more than half of all vehicles are bought. Short-term rentals accounted for 20%, followed by leasing (18%) and contract hire (10%). That said, there is a gradual trend in favour of trialling

lease and other finance options.

As for absolute numbers, RHA calculates an average 44-tonne tractor unit price increase of £2,072 to just under £85,000.


ROAD TAX

Once again, there was no change in VED (vehicle excise duty) or the Road User Levy last year.

Former chancellor George Osborne confirmed the freeze in his March 2016 budget. After the referendum, doubt was cast over the Road User Levy when the RHA suggested there was to be a review.

However, the DfT (Department for Transport) later confirmed that there were no plans to alter the current HGV road charging levy, which remains subject to legal proceedings from the EC.

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INSURANCE

RHA's member survey suggests an increase of 2.5% in insurance premiums over the year,

bringing the average for a 44-tonner up from £3,760 in 2015 to £3,855 in 2016.

Following November 2015's hike in IPT (insurance premium tax) from 6.0 to 9.5%, further bad news came with last year's budget when this figure was again inflated (to 10%). In his autumn statement, new chancellor Philip Hammond confirmed that, from June 2017, IPT will rise again, to 12%, adding an average £31 to premiums.

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On a point of regulation, the Insurance Act 2015 came into force on 12 August 2016, placing further responsibility on the insured to divulge all potential influences.



REPAIR AND MAINTENANCE

Like 2015, the RHA reports a 2% increase in R&M costs last

year. Most members cite Euro 6, with the additional technology requiring attention by main dealers, as opposed to in-house workshops.

Specific issues include more sophisticated diagnostics, exhaust after-treatment equipment and high injection pressures. One-third of members advised they use contracted R&M, with another 22.2% running with a mix of contract and own maintenance. A further 25% use outside sources on a pay-as-you-go basis, while the remaining 19.5% take care of maintenance themselves.

Most (52.7%) still do not use telematics but 33.3% report that they do monitor R&M electronically. A

few are looking into or developing telematics to monitor vehicle performance and maintenance requirements.



OVERHEAD COSTS

Goods in transit insurance increased due to IPT increases, water rate rises, and hikes in phone line rental and office support, such as IT and cleaning. Electricity bills, unless on long-term deals, also increased, along with mobile phone contract costs.



DRIVER EMPLOYMENT

The national driver shortage is now estimated at close

to 45,000, making recruitment challenging. The only positive: that figure has remained static since 2015, making predictions of 60,000 by 2017 look unlikely.

As for the increase in driver costs, that averages at 3.5% against 2015, with agency drivers seeing a 5% rise. While remaining essential in the mix, the latter present a dual cost hike - being not only more expensive but also unfamiliar with the specific roles.

Meanwhile, 'Polback' is the term coined to describe foreign drivers currently working in the UK but now likely to return home as sterling's woes make wage differentials less attractive.



DRIVER CPC

While the industry remains spilt over DCPC, some believe much now depends on

Brexit. In fact, DCPC is likely to remain a legal requirement for many years to come. Additionally, organisations such as RHA, which support CPD (continuing professional development) continue to urge members to consider DCPC

training as evidence of good operator compliance.

Meanwhile, most operators spend less than 1% of revenue on DCPC training. Some believe it is a valuable tool that helps business; others consider it a box-ticking exercise.



THE FUTURE

For 2017, the industry faces a triple whammy of fuel, truck and wage inflation. Fuel

is expected to increase due to OPEC production cuts, which saw price rises for oil and petroleum fuels. Truck prices are expected to increase due to Sterling weakness resulting from Brexit.

Further cost increases seem unavoidable. In less than two years, IPT will have doubled from 2015 levels. And last October's news of changes to business rate evaluations threaten a geographical lottery from 1 April 2017, according to RHA. "It would appear that midlands and northern commercial properties would come out of the re-evaluation, [leading to] lower bills, while expensive areas especially London would be proportionately worse off."

April 2017 also sees the introduction of the apprenticeship levy. All firms with a gross payroll exceeding £3 million at group level will pay what amounts to a new 0.5% tax. This will hit haulage firms with around 80 trucks or more, or those with smaller fleets but additional activities, such as van operations, warehousing and workshops.

The National Living Wage increases by 4.2% also in April 2017 (from £7.20 to £7.50) - affecting mainly low skilled labour.

But the transport sector is resilient, as evidenced by the fact that, despite tough times and consolidation, vehicle and operator numbers have increased. And, as ever, there are deliveries to be made. **TE**

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Operator costs for 2016: tractor units and semi-trailers, 32-44 tonnes gvw

	33-tonne gvw artic: 2 axle tractor, 2 axle curtainsided semi-trailer	38-tonne gvw artic: 2 axle tractor, 3 axle curtainsided semi-trailer	38-tonne gvw artic: 3 axle tractor, 2 axle curtainsided semi-trailer	32.5-tonne gvw drawbar combination: 2 axle drawing vehicle	40-tonne gvw artic: 2 axle tractor, 3 axle curtainsided semi-trailer	44-tonne gvw artic: 3 axle tractor, 3 axle curtainsided semi-trailer
General information						
Annual mileage	75,000	75,000	70,000	60,000	70,000	85,000
Life (years) - tractor	8.0	7.0	6.0	8.0	6.0	6.0
Life (years) - trailer	11.0	11.0	11.0	12.0	11.0	11.0
Life (miles) - tractor	600,000	525,000	420,000	480,000	420,000	510,000
Replacement cost (£) - tractor	56,579	81,300	81,300	63,363	99,747	106,680
Replacement cost (£) - trailer	20,444	22,488	20,444	20,444	22,488	22,488
Fuel consumption - mpg	9.0	8.5	8.0	9.0	7.6	8.2
Annual fuel usage (litres)	37,883	40,112	39,778	30,307	41,871	47,123
Fuel price - pence per litre	90.17	90.17	90.17	90.17	90.17	90.17
Tyre life (miles) - tractor	65,000	80,000	95,000	65,000	80,000	85,000
Tyre life (miles) - trailer	80,000	70,000	80,000	60,000	70,000	70,000
Standing costs						
VED and RUL	1,200	1,200	1,200	880	1,850	1,200
Insurance	2,810	3,307	3,307	2,810	3,307	3,307
Depreciation - tractor	6,294	9,524	11,111	6,574	13,632	14,580
Depreciation - trailer	1,859	2,044	1,859	1,704	2,044	2,044
	12,163	16,075	17,477	11,968	20,833	21,131
Running costs						
Fuel	34,159	36,168	35,867	27,327	37,754	42,490
Tyres - tractor	1,614	1,478	1,471	1,417	1,366	1,514
Tyres - trailer	2,041	2,009	1,728	2,022	1,864	1,549
Maintenance - tractor	6,535	6,110	6,063	5,426	6,135	8,511
Maintenance - trailer	3,999	4,038	3,389	2,371	4,056	4,774
	48,348	49,803	48,518	38,563	51,175	58,838
Total vehicle cost	60,511	65,878	65,995	50,531	72,008	79,969
Employment cost of driver	35,803	36,438	36,438	34,059	36,438	36,438
Cost of vehicle and driver	96,314	102,316	102,433	84,590	108,446	116,407
Overheads						
Transport	8,837	9,783	9,783	8,707	9,783	9,783
Business	8,837	9,783	9,783	8,707	9,783	9,783
TOTAL COST	113,988	121,882	121,999	102,004	128,012	135,973
ANNUAL CO ₂ FOOTPRINT (TONNES PER YEAR)	98.94	104.76	103.88	79.15	109.35	123.07

Source of data: FTA [Manager's Guide to Distribution Costs, October 2016 update]