

Counting the c

Labelled “a grim year for hauliers and their drivers” by the RHA, 2009 is one to forget. To paraphrase Labour’s theme tune when it came to power in 1997, things can only get better. Ironically, in 2010, this may be the case, although possibly with someone else in charge, writes John Challen



Hangovers up and down the country in January 2009 were caused by much more than too much alcohol on 31st December. The desperate state of the road transport business in 2008 carried on throughout 2009, with drops in road freight activity of 12% and 9% for the first and second quarters respectively, compared with the same period in 2008, and a 7% reverse in the three months to the end of September. These figures alone, courtesy of the Department for Transport, illustrate the challenging conditions in which companies have had to operate in the past 12 months.

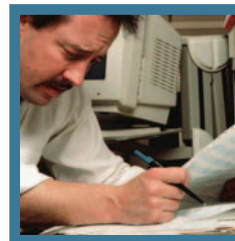
However, there are signs of encouragement, albeit only in some areas. Car haulage benefitted greatly from the scrappage scheme, introduced by the government and vehicle manufacturers, which saw car registrations increase by 31.6% in October and 57.6% in November. But many industry observers are predicting slow recovery through 2010, after truck sales reached an all-time low during 2009.

One of the key issues here will be the ever-increasing price of trucks, as well as depreciation costs. The RHA (Road Haulage Association), using a 44-tonne tractor/trailer combination as a benchmark, cites increases of 4.8% in prices. Those are due to increased technology costs linked, for example, to the now mandatory Euro 5 engines (with no equivalent to the Reduced Pollution Certificate scheme), and to the fall in the UK pound’s value versus the Euro.

In other vehicle categories, Glass’s Guide figures covering the January to October 2009 period suggest increases across the board, the majority being slightly less than the aforementioned 4.8%. The biggest increases in the commercial vehicle market are for car-derived vans, which rose

6.68% and 5.16%, for petrol and diesel models respectively. Vans of 3.5 tonnes gvw (gross vehicle weight) were 4.66% more expensive, while increases for box and curtain-sided vehicles of 7.5 tonnes gvw reached 2.5%, and 10–12-tonne models, 3.6%. Prices for three-axle rigids of 32 tonnes gvw and 32-tonne four-axle rigid trailers increased by 3.52% and 3.39% respectively.

Naturally, there will be variations experienced between organisations relating to other changes in operating conditions for 2009. The RHA calculates an average cost increase of 3.1%, excluding fuel, which is now routinely separated, given the volatility of diesel prices. For example, at the end of September, a reduction in diesel costs cancelled out the increases elsewhere but, by mid-November, overall costs, including fuel, rose by 1.2%. The Manager’s Guide to Distribution Costs 2009* (published in October), calculates an overall cost increase of 1.2% excluding fuel, broken down into a 1.4% rise in maintenance costs and a 3% increase in insurance cost – offset by a 3.6% drop in costs of vehicles and drivers.



Vehicle costings

The residual values of HGVs dropped in the first half of 2009, but operators noticed things starting to pick up towards the end of the year, as the impact of manufacturers’ decisions to scale back production runs impacted on the ever-decreasing number of registered vehicles – making them all the more valuable. Manufacturers admit that many of the deals being done are on a case-by-case basis and that the final price paid is indicative of that fact.

“Deals are still being done at attractive prices to

Cost of recession

shift stock,” conceded one manufacturer. And that’s no surprise, given figures for monthly new registrations from the SMMT (Society of Motor Manufacturer and Traders), which show trucks and vans down 54.67% for the year, as of November 2009, with just 2,063 registered in that month.

There was better news in the LCV market, where average residual values rose to their highest recorded for two years by November. Fleet and lease used LCV values rose 37% to an average of £4,344, which completed what is widely regarded as a satisfactory year, given that prices started at £3,170. Those results are also reflected in the SMMT’s new registration data, which reveals

consistent year-on-year falls for new LCV purchases, with the quarter ending in November down 16.58% on the previous year’s figures.

Steady used value increases throughout the year gave much-needed confidence to operators in the LCV sector. Their hope now must be that residuals continue on this upward trend throughout 2010 – while manufacturers continue in survival mode, waiting for the promised economic upturn and a return to at least modest growth.

Currency depreciation played a major role in depressing operators’ confidence in new vehicle purchases throughout 2009. However, manufacturers are currently saying that now is the

Operator costs for 2009: LCVs to 3.5 tonnes gvw. Source, FTA

| | Car derivative vans - petrol | Car derivative vans - diesel | Vans of 3.5 tonnes gvw - petrol | Vans of 3.5 tonnes gvw - diesel |
|--|------------------------------|------------------------------|---------------------------------|---------------------------------|
| General information | | | | |
| Annual mileage | 15,000 | 20,000 | 30,000 | 30,000 |
| Life (Years) | 6 | 5 | 6 | 5 |
| Life (miles) | 90,000 | 100,000 | 180,000 | 150,000 |
| Replacement cost (£) | 9,887 | 9,601 | 17,862 | 21,366 |
| Fuel consumption - mpg | 30 | 40 | 17 | 24 |
| Annual fuel usage (litres) | 2,273 | 2,273 | 8,022 | 5,683 |
| Fuel price - pence per litre | 89.60 | 88.35 | 89.60 | 88.35 |
| Tyre life (miles) | 25,000 | 30,000 | 30,000 | 30,000 |
| Standing costs | | | | |
| VED | 185 | 185 | 185 | 185 |
| Insurance | 678 | 678 | 1,017 | 1,017 |
| Depreciation | 1,318 | 1,306 | 2,560 | 3,504 |
| | 2,182 | 2,169 | 3,763 | 4,706 |
| Running costs | | | | |
| Fuel | 2,036 | 2,008 | 7,188 | 5,020 |
| Tyres | 104 | 116 | 262 | 262 |
| Maintenance | 829 | 940 | 2,113 | 2,295 |
| | 2,969 | 3,063 | 9,563 | 7,578 |
| Total vehicle cost | 5,151 | 5,232 | 13,325 | 12,284 |
| Overheads | | | | |
| Transport | 1,184 | 1,184 | 1,184 | 1,184 |
| TOTAL COST | 6,335 | 6,416 | 14,509 | 13,468 |
| Annual CO ₂ footprint (tonnes per year) | 5.23 | 5.98 | 18.45 | 14.94 |

best time to buy new vehicles, because production is nowhere near full capacity; when production increases to meet demand, so will prices.



Economic backdrop

UK unemployment reached 7.8% by November, up 0.1% over the quarter and 2% on November 2008. However, a peak of 7.9% unemployment (2.46 million workers) was recorded between July and

September. The Bank of England base rate, having plummeted from 5% to 2% between September and December 2008, continued to slide until March last year, when it reached 0.5%, where it has remained since. Economists suggest this rate is unlikely to change in the coming months, as UK industry attempts to drag itself officially out of recession, and boost spending within the real economy.

If there was uncertainty in the truck, van and trailer manufacturing industry, there was little cheer at dealerships, where an FTA (Freight Transport Association) survey reported in the summer of 2009 that, despite finance deals being available from most, if not all, manufacturers, operators were still not committing to purchasing new vehicles.

An increase over the average in delayed payments from customers was also reported by haulage operators, with some small firms waiting up to four months for payment. Insolvencies were up 54% during Q2 2009 – up to a quarter of which were due essentially to these late payments – compared with the same quarter in 2008.

Unlike the situation in the passenger car market, the scrappage scheme, introduced for vans that are more than 10 years old, did not have a major impact, according to the FTA. The organisation points out that its members typically replace fleet vans before they are five years old, never mind a decade. So the scheme was only ever likely to be taken up by white van man.



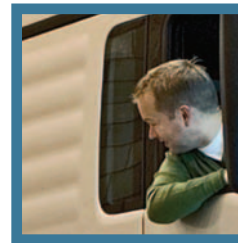
Fuel

After operators experienced increases, or in some cases minimal decreases, in the cost of bulk diesel throughout 2008, February 2009 saw prices drop under the 80p per litre mark for the first

time since September 2007 – more than 10% down on just 12 months earlier.

However, the low prices were short lived, as fuel duty increases and concerns about worldwide supply of crude oil pushed the cost steadily up

throughout the summer months to beyond 90p per litre by November 2009. Nevertheless, fuel costs were kept down, thanks to relatively depressed crude oil prices in global recessionary conditions – the average being \$60.28 per barrel for 2009, and the low, \$43.18 in February.



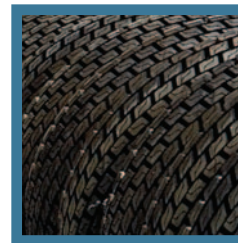
Driver costs

Many transport firms were forced to contribute to the unemployment levels due to an industry-wide drop in business. For those drivers that remained in employment, there was little to celebrate come pay

day. Data from the FTA's Manager's Guide to Distribution Costs from October 2009 indicate that 16.36% of drivers saw a reduction in their basic pay packet, while 74.55% of drivers' salaries remained unchanged.

There were pay rises of up to 2% for 5.45% of drivers, while those improving on their finances by between 2% and 3%, and more than 6% represented 1.82% of drivers for each vehicle category. Overall the figures indicate an average reduction in basic wages of 2.95%.

While this might appear beneficial to operators, the impact of mandatory investment in training, predominantly through the introduction of the Driver CPC regulation in September 2009, will offset much of any potential for operational savings going forward.

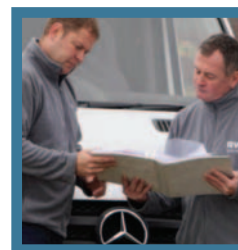


Tyres

Many fleet managers have been making use of the ContiCostCalculator, introduced by Continental's truck tyre division in May. The tool allows users to compare purchase and operating costs of CV tyres

from all major manufacturers.

Based on individual usage figures, such as distance travelled, number of trucks, use of retreaded tyres, and type of steer and axle, Continental claims that savings of more than £100,000 have been achieved by some operators.



Insurance

In most, if not all vehicle categories, the cost of insurance went up. For the average 44-tonne tractor/trailer unit, the RHA states that the increase is by as much as 10%. The hardening insurance

market, which too has suffered from the collapse of financial markets around the world, has ensured that premiums have remained on an upward, rather than downward, trend.



Haulage costs

In light of the rising duty costs and inflation, groups such as the RHA called upon British businesses to accept that they would have to pay more for road haulage in 2009. However, despite this pressure, a

study of 156 haulage rates, conducted by the Manager's Guide to Distribution Costs 2009, showed that only 28 of them had been increased,

while the remaining 128 had been either reduced or left unchanged.

"The duty on diesel is a key cost element, accounting for 20% of the total operating cost of a 44-tonne lorry," said Jack Semple, RHA's director of policy, in August 2009. "Duty is now a 25% tax on the operation of the road transport element of the supply chain of British industry."



Overheads

The RHA, in its annual Haulage Cost Movement Survey, cites an increase in overhead costs of 8.1% in 2009, against 2008. Most of those it attributes to administrative and also

Operator costs for 2009: Rigids: 7.5–32 tonnes gvw. Source, FTA

| | 7.5 tonne gvw box or curtain sided | 10-12 tonnes gvw - box or curtain sided | 12-14 tonnes gvw - box or curtain sided | 17 tonnes gvw - box or curtain sided | 3 axle rigid vehicle 26 tonnes gvw box or curtain sided | 4 axle rigid tipper 32 tonnes gvw |
|---|--|---|---|--|--|---|
| General information | | | | | | |
| Annual mileage | 35,000 | 50,000 | 50,000 | 55,000 | 60,000 | 25,000 |
| Life (Years) | 6 | 6 | 6 | 7 | 6 | 5.5 |
| Life (miles) | 210,000 | 300,000 | 300,000 | 385,000 | 360,000 | 137,500 |
| Replacement cost (£) | 35,142 | 45,545 | 49,997 | 54,188 | 68,494 | 85,305 |
| Fuel consumption - mpg | 15.5 | 14 | 12 | 13 | 10 | 8 |
| Annual fuel usage (litres) | 10,265 | 16,236 | 18,942 | 19,233 | 27,276 | 14,206 |
| Fuel price - pence per litre | 88.35 | 88.35 | 88.35 | 88.35 | 88.35 | 88.35 |
| Tyre life (miles) | 55,000 | 45,000 | 50,000 | 60,000 | 60,000 | 50,000 |
| Standing costs | | | | | | |
| VED | 165 | 200 | 200 | 650 | 650 | 1,200 |
| Insurance | 1,283 | 1,494 | 1,706 | 1,923 | 2,377 | 2,873 |
| Depreciation | 4,978 | 6,149 | 6,750 | 6,193 | 9,132 | 13,028 |
| | 6,426 | 7,843 | 8,655 | 8,766 | 12,159 | 17,101 |
| Running costs | | | | | | |
| Fuel | 9,069 | 14,344 | 16,735 | 16,992 | 24,098 | 12,551 |
| Tyres | 429 | 1,064 | 939 | 905 | 2,164 | 1,405 |
| Maintenance | 2,620 | 3,837 | 4,263 | 4,523 | 4,678 | 7,516 |
| | 12,118 | 19,244 | 21,936 | 22,420 | 30,940 | 21,472 |
| Total vehicle cost | 18,544 | 27,087 | 30,591 | 31,186 | 43,099 | 38,574 |
| Employment cost of driver | 18,800 | 20,100 | 20,100 | 23,355 | 21,955 | 22,547 |
| Cost of vehicle and driver | 37,344 | 47,187 | 50,691 | 54,541 | 65,053 | 61,121 |
| Overheads | | | | | | |
| Transport | 4,298 | 4,844 | 4,844 | 4,844 | 5,806 | 6,444 |
| Business | 4,298 | 4,844 | 4,844 | 4,844 | 5,806 | 6,444 |
| TOTAL COST | 45,940 | 56,875 | 60,379 | 64,230 | 76,666 | 74,008 |
| Annual CO ₂ footprint (tonnes per year) | 27.00 | 42.70 | 49.82 | 50.58 | 71.74 | 37.36 |

legislative issues around health and safety, quality and staff management. However, as stated, insurance rose by nearly 10% and driver rates by an average of 2.2%, mostly due to increased costs in the form of sickness and replacement drivers, but also training. The latter will rise in 2010 to reflect Driver CPC, since September 2009.

RHA also draws attention to across-the-board increases of 5% in R&M and tyre costs.

*The Manager's Guide to Distribution Costs is the FTA's annual subscription service, covering wages, warehouse prices, vehicle operating costs and haulage rates.

Transport Engineer wishes to thank the Freight Transport Association and the Road Haulage Association for their invaluable help in compiling this annual transport costs analysis.

| Operator costs for 2009: Tractive units and semi-trailers: 32–44 tonnes gvw. Source, FTA | | | | | | |
|--|--|--|--|--|--|---|
| | 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 2 axle trailer | 40 tonne gvw artic: 2 axle tractor 3 axle curtainsided semi-trailer | 44 tonne gvw artic: 3 axle tractor 3 axle curtainsided semitrailer |
| General information | | | | | | |
| Annual mileage | 60,000 | 70,000 | 70,000 | 60,000 | 70,000 | 75,000 |
| Life (years) - tractor | 7 | 6 | 6 | 6 | 6 | 5 |
| Life (years) - trailer | 11 | 10 | 11 | 12 | 10 | 10 |
| Life (miles) - tractor | 420,000 | 420,000 | 420,000 | 360,000 | 420,000 | 375,000 |
| Replacement (£) - tractor | 55,539 | 62,245 | 72,698 | 63,363 | 65,939 | 76,937 |
| Replacement (£) - trailer | 20,444 | 22,488 | 20,444 | 20,444 | 22,488 | 22,488 |
| Fuel consumption - mpg | 9.0 | 7.8 | 7.8 | 9.5 | 7.6 | 7.3 |
| Annual fuel usage (litres) | 30,307 | 40,797 | 40,797 | 28,712 | 41,871 | 46,705 |
| Fuel price - pence per litre | 88.35 | 88.35 | 88.35 | 88.35 | 88.35 | 88.35 |
| 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 | 1,200 | 1,200 | 1,200 | 880 | 1,850 | 1,200 |
| Insurance | 3,128 | 3,880 | 3,880 | 2,873 | 3,880 | 3,880 |
| Depreciation - tractor | 7,061 | 8,507 | 9,935 | 8,765 | 9,012 | 12,618 |
| Depreciation - trailer | 1,859 | 2,249 | 1,859 | 1,704 | 2,249 | 2,249 |
| | 13,248 | 15,836 | 16,874 | 14,222 | 16,991 | 19,947 |
| Running costs | | | | | | |
| Fuel | 26,775 | 36,044 | 36,044 | 25,366 | 36,992 | 41,263 |
| Tyres - tractor | 1,139 | 1,196 | 1,605 | 760 | 1,196 | 1,691 |
| Tyres - trailer | 1,441 | 1,619 | 1,890 | 1,082 | 1,619 | 1,734 |
| Maintenance - tractor | 4,477 | 5,394 | 5,664 | 5,220 | 5,394 | 6,576 |
| Maintenance - trailer | 2,737 | 3,559 | 3,164 | 2,286 | 3,559 | 3,688 |
| | 36,569 | 47,812 | 48,366 | 34,714 | 48,760 | 54,953 |
| Total vehicle cost | 49,817 | 63,648 | 65,241 | 48,936 | 65,751 | 74,900 |
| Employment cost of driver | 30,264 | 30,814 | 30,814 | 30,264 | 30,814 | 30,814 |
| Cost of vehicle and driver | 80,082 | 94,462 | 96,055 | 79,201 | 96,565 | 105,714 |
| Overheads | | | | | | |
| Transport | 7,520 | 8,241 | 8,241 | 7,365 | 8,241 | 8,241 |
| Business | 7,520 | 8,241 | 8,241 | 7,365 | 8,241 | 8,241 |
| TOTAL COST | 95,121 | 110,944 | 112,537 | 93,931 | 113,048 | 122,196 |
| Annual CO ₂ footprint (tonnes per year) | 79.71 | 107.30 | 107.30 | 75.51 | 110.12 | 122.84 |