

# Groundhog day

**Twelve months after the last *Transport Engineer* operator costs report, the same overriding issues remain. There is still a shortage of skilled drivers, still uncertainty in the economy (and, of course, Brexit) and still a need to be prudent. John Challen assesses the situation**

There is no doubt that the past three years in the haulage business have been tough. The version of this report from November 2018 didn't give rise to much optimism for the following year, and unfortunately the landscape hasn't shifted much.

Politically, there has been uncertainty and – arguably – chaos, which has definitely not helped the situation for transport operators. For most of the year, Brexit – and the UK government's failure to hit two deadlines to agree and engineer a satisfactory separation from the EU – has dominated proceedings. When it failed on the second deadline, at the end of October, to try to plan a way forward the decision was made (eventually) to schedule a December general election (being held as this magazine went to press).

In October 2019, the Bank of England (BoE) warned that a no-deal Brexit was threatening the economy. Confirmation came in November that the UK had avoided a technical recession after a growth of the slimmest margins. Gross domestic product (GDP) grew by 0.6% in quarter one (Q1) 2019 from the previous quarter, but, in Q2 2019, it dipped by 0.2%, before rebounding in Q3 with a 0.3% increase. Despite the growth, the Office for National Statistics (ONS) reported that the economy shows signs of slowing, with the 1% growth in Q3 2019 – compared with Q3 in 2018 – the lowest since Q1 2010.

The downward trend in truck registrations from 2016 and 2017 had continued in 2018 as the market shrunk by a further 4.3% to 43,103 (2018) from 45,045 (2017), despite more demand for tippers and skiploaders. This year, registration figures have been positive in three of four quarters.

The reverse has occurred in the number of trucks registered on UK roads. After nearly 8,000 more registrations in 2017-18 than in 2016-17, the number fell back in 2018-19 by 4,901 vehicles from the 2017-18 figure (378,456) to 373,575. Meanwhile, O licence numbers continued to drop – a trend that started in 2016-17 – with 2.5% fewer in 2018-19 compared with 2017-18's 72,547.

The RHA's annual survey of cost movements (*Haulage Cost Movement 2019*) has calculated that operators saw their costs increase by 3.85% (excluding fuel); by adding fuel into the equation, that rate reduces to 1.88% (see the 'Fuel' section, below). The report concludes that the cost of running a 44-tonne model for a year would be £151,691, based on mileage of 75,000 and fuel economy of 8.3mpg. Taking fuel and AdBlue out of the equation, the cost is £108,304. These figures are similar to, but not exactly the same, as FTA data, tabulated pp17-19.



## ECONOMIC BACKDROP

In contrast to previous years, inflation figures under the Consumer

Prices Index (CPI) fluctuated throughout the year, albeit by a relatively small amount. January 2019's figure of 1.8% rose to 2.1% by April, before falling back down to 1.5% in October, which was in line with the Bank of England's forecast. Predictions are for the rate to fall further, although there is a caveat with any movement related to Brexit developments and/or a free trade deal with the EU.

The UK's unemployment rate continued to fall throughout 2019, carrying on from 2018. The BoE has forecast the unemployment rate to continue falling in the coming years to 3.5% by 2022, which would be the lowest rate since 1973. Employment figures, meanwhile, stayed around 76%, having reached an all-time high of 76.1% in December 2018.

Provisional Office for National Statistics data released in December showed that the average full-time salary is now £36,611 and average part-time salary is £12,495. If these figures are confirmed, full-time salaries have increased by 3.6%, year on year. While median weekly earnings for full-time employees also increased – by 2.9% – in 2019 in real terms, they are still lower than in 2009.

During 2019, interest rates remained at 0.75%, the figure they had been at since August 2018, when they were increased from 0.25% – only the second raise in a decade. Back in May 2019, BoE governor Mark Carney said interest rate rises could be more frequent if the economy

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performed as expected, however, this depended on a number of factors, including Brexit.



**TYRES**

For both tractor units and trailers, tyres cause more roadside inspection failures than any other issue. According to the RHA report, what this situation indicates is that drivers are not adequately carrying out daily walk-around checks.

It is estimated that 85% of roadworthiness infringements could be avoided if the driver carries out a thorough walk-around check before each journey. The key points to focus on when looking at tyres are the remaining tread depth, correct pressures and any visible signs of distress - including bulges, cuts or any lumps and bumps. All drivers should be trained to ensure they know these basic warning signs.

Tyre condition has a significant impact on a vehicle's steering, handling and braking, with under- or over-inflated tyres increasing fuel consumption and causing wear and tear.

Operators are reminded that it is vital to monitor tyre pressures, making sure they are at the correct level for each individual axle. Running on tyres just a few psi below the manufacturer's recommended pressures will reduce a vehicle's fuel efficiency on every journey and increase costs at the same time.



**FUEL**

The year started with an immediate 'tax' rise to aid the clean air push under various obligations, namely: Renewable Transport Fuel Obligation (RTFO); Development Fuel Obligation; and Greenhouse Gas Obligation (GHG).

Each element added to the cost of a litre of diesel. The requirements of RTFO had already increased from 4.75%

**Operator costs for 2019: LCVs up to 3.5 tonnes gvw**

	Car derivative vans - diesel	Vans of 3.5 tonnes gvw - diesel
<b>General information</b>		
Annual mileage	24,000	35,000
Life (years)	7.0	6.0
Life (miles)	168,000	210,000
<b>Replacement cost (£) *</b>	15,128	27,465
Fuel consumption (mpg)	40.1	26.0
Annual fuel usage (litres)	2,721	6,120
<b>Fuel price (pence per litre) *</b>	104.19	104.19
Tyre life (miles)	30,000	30,000
<b>Standing costs</b>		
Vehicle excise duty	260	260
<b>Insurance *</b>	763	1,177
Depreciation	1,475	3,766
	<b>2,498</b>	<b>5,203</b>
<b>Running costs</b>		
<b>Fuel *</b>	2,835	6,376
<b>Tyres *</b>	180	478
<b>Maintenance *</b>	1,386	2,979
	<b>4,401</b>	<b>9,833</b>
<b>Total vehicle cost</b>	<b>6,899</b>	<b>15,036</b>
<b>Overheads *</b>		
Transport	1,626	1,626
<b>TOTAL COST</b>	<b>8,525</b>	<b>16,662</b>
ANNUAL CO2 FOOTPRINT (TONNES PER YEAR)	7.06	15.87

Source: Freight Transport Association (FTA) *Manager's Guide to Distribution Costs*, October 2019 update

\* See discussion

(biofuel share compared to fossil diesel volume purchased) to 7.25% in 2018. From January 2019 the rate increased again to 8.5%, although road fuel was set and now labelled as B7 (up to 7% biodiesel content).

The Department for Business, Energy and Industrial Strategy (BEIS) reported that demand for road diesel fell by 1.9% including biofuel in Q2 2019, while

demand for unleaded fuel also fell by 1% - attributed to a decrease in distances travelled of 0.6 billion miles, mainly for light and heavy good vehicles.

In total, translating the 'tonnes' data into litres, BEIS indicates that 30.3 million litres of diesel were consumed by road users in 2018, as well as 16.15 million litres of unleaded.

The RHA's survey fuel price in 2018

**Operator costs for 2019: rigids 7.5-32 tonnes gvw**

	<b>7.5 tonnes gvw - box or curtainsided</b>	<b>10 to 12 tonnes gvw - box or curtainsided</b>	<b>12 to 14 tonnes gvw - box or curtainsided</b>	<b>16 to 18 tonnes gvw - box or curtainsided</b>	<b>3-axle rigid vehicle 26 tonnes gvw - box or curtainsided</b>	<b>4-axle rigid tipper - 32 tonnes gvw</b>
<b>General information</b>						
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
<b>Replacement cost (£) *</b>	42,570	50,419	53,934	70,929	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
<b>Fuel price (pence per litre) *</b>	104.19	104.19	104.19	104.19	104.19	104.19
Tyre life (miles)	55,000	50,000	50,000	60,000	55,000	50,000
<b>Standing costs</b>						
Vehicle excise duty and road user levy	165	200	200	650	650	1,200
<b>Insurance *</b>	2,251	2,126	2,174	2,870	2,553	3,175
Depreciation	5,169	8,168	8,737	8,106	12,061	11,800
	<b>7,585</b>	<b>10,494</b>	<b>11,111</b>	<b>11,626</b>	<b>15,264</b>	<b>16,175</b>
<b>Running costs</b>						
<b>Fuel *</b>	11,841	18,217	14,573	23,682	28,418	32,563
<b>Tyres *</b>	450	1,273	942	1,507	1,570	1,984
<b>Maintenance *</b>	4,666	6,245	3,856	6,636	8,534	12,647
	<b>16,957</b>	<b>25,735</b>	<b>19,371</b>	<b>31,825</b>	<b>38,522</b>	<b>47,194</b>
<b>Total vehicle cost</b>	<b>24,542</b>	<b>36,229</b>	<b>30,482</b>	<b>43,451</b>	<b>53,786</b>	<b>63,369</b>
<b>Employment cost of driver *</b>	27,358	27,147	27,147	32,324	35,490	35,556
<b>Cost of vehicle and driver</b>	<b>51,900</b>	<b>63,376</b>	<b>57,629</b>	<b>75,775</b>	<b>89,376</b>	<b>98,925</b>
<b>Overheads *</b>						
Transport	5,384	5,942	5,942	5,942	7,265	8,063
Business	5,384	5,942	5,942	5,942	7,265	8,063
<b>TOTAL COST</b>	<b>62,668</b>	<b>75,260</b>	<b>69,513</b>	<b>87,659</b>	<b>103,806</b>	<b>115,051</b>
ANNUAL CO <sub>2</sub> FOOTPRINT (TONNES PER YEAR)	29.48	45.36	36.29	58.96	70.76	81.08

Source of data: FTA Manager's Guide to Distribution Costs, October 2019 update

\* See discussion

was based on 106.44ppl (ex VAT). However, at the same point in late September a year later, the bulk survey fuel average was down 2.79%. The difference was partly due to the price of diesel being highly dependent on the price of oil and, in the case of the benchmark (Brent), the average barrel price in September 2018 was \$78.85. Fast forward a year and that average dropped to \$59.70, with an average in 2019 of \$64.

Since the Brexit referendum, the exchange rate swap has been poor (or devalued) from the UK perspective, with an average 127.3 cents to the pound this year, whereas in 2016 to the end of June, the average was 143 cents. Finally, demand for oil itself is also down globally.

Last year there was concern that red diesel would be effectively removed as a tax advantage by the chancellor. Fortunately, that did not come to fruition.


**VEHICLE AND DEPRECIATION**

HGV new registration data from SMMT shows a strong year-to-November position: a total of 36,021 registrations, compared with 30,308 for the same point in 2018 – an increase of 18.8%. That comes despite the market experiencing a 3% drop in registrations in Q3, compared to the same period in 2018.

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**Operator costs for 2019: tractor units and semi-trailers, 33-44 tonnes gw**

	<b>33-tonne gw artic: 2-axle tractor, 2-axle curtainsided semi-trailer</b>	<b>38-tonne gw artic: 2-axle tractor, 3-axle curtainsided semi-trailer</b>	<b>38-tonne gw artic: 3-axle tractor, 2-axle curtainsided semi-trailer</b>	<b>32.5-tonne gw drawbar combination: 2-axle drawing vehicle and trailer</b>	<b>40-tonne gw artic: 2-axle tractor, 3-axle curtainsided semi-trailer</b>	<b>44-tonne gw artic: 3-axle tractor, 3-axle curtainsided semi-trailer</b>
<b>General information</b>						
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
<b>Replacement cost (£) - tractor *</b>	<b>56,579</b>	<b>81,300</b>	<b>81,300</b>	<b>63,363</b>	<b>99,747</b>	<b>106,680</b>
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
<b>Fuel price (pence per litre) *</b>	<b>104.19</b>	<b>104.19</b>	<b>104.19</b>	<b>104.19</b>	<b>104.19</b>	<b>104.19</b>
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
<b>Standing costs</b>						
Vehicle excise duty and road user levy	1,200	1,200	1,200	880	1,850	1,200
<b>Insurance *</b>	<b>3,175</b>	<b>3,736</b>	<b>3,736</b>	<b>3,175</b>	<b>3,736</b>	<b>3,736</b>
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
	<b>12,528</b>	<b>16,504</b>	<b>17,906</b>	<b>12,333</b>	<b>21,262</b>	<b>21,560</b>
<b>Running costs</b>						
<b>Fuel *</b>	<b>39,470</b>	<b>41,792</b>	<b>41,443</b>	<b>31,576</b>	<b>43,625</b>	<b>49,097</b>
<b>Tyres - tractor *</b>	<b>1,703</b>	<b>1,561</b>	<b>1,553</b>	<b>1,495</b>	<b>1,442</b>	<b>1,599</b>
<b>Tyres - trailer *</b>	<b>2,155</b>	<b>2,122</b>	<b>1,825</b>	<b>2,133</b>	<b>1,968</b>	<b>1,636</b>
<b>Maintenance - tractor *</b>	<b>7,032</b>	<b>6,571</b>	<b>6,520</b>	<b>5,839</b>	<b>6,606</b>	<b>9,161</b>
<b>Maintenance - trailer *</b>	<b>4,303</b>	<b>4,343</b>	<b>3,646</b>	<b>2,552</b>	<b>4,367</b>	<b>5,144</b>
	<b>54,663</b>	<b>56,389</b>	<b>54,987</b>	<b>43,595</b>	<b>58,008</b>	<b>66,637</b>
<b>Total vehicle cost</b>	<b>67,191</b>	<b>72,893</b>	<b>72,893</b>	<b>55,982</b>	<b>79,270</b>	<b>88,197</b>
<b>Employment cost of driver *</b>	<b>39,934</b>	<b>40,584</b>	<b>40,584</b>	<b>40,276</b>	<b>40,584</b>	<b>40,584</b>
<b>Cost of vehicle and driver</b>	<b>107,125</b>	<b>113,477</b>	<b>113,477</b>	<b>96,204</b>	<b>119,854</b>	<b>128,781</b>
<b>Overheads *</b>						
Transport	9,434	10,444	10,444	9,295	10,444	10,444
Business	9,434	10,444	10,444	9,295	10,444	10,444
<b>TOTAL COST</b>	<b>125,993</b>	<b>134,365</b>	<b>134,365</b>	<b>114,794</b>	<b>140,742</b>	<b>149,669</b>
ANNUAL CO <sub>2</sub> FOOTPRINT (TONNES PER YEAR)						
	98.27	104.05	103.19	78.62	108.62	122.24

Source of data: FTA Manager's Guide to Distribution Costs, October 2019 update

\* See discussion

**According to the RHA, industry has paid in more than £300 million to the Apprenticeship Levy, while only being able to draw down around £20 million**

More than half of the year-to-date registrations were for artics, making them the most popular option. This data dovetails with surveyed RHA members who say they typically operate artic/trailer combinations. In a no-deal Brexit situation these are faced with a higher import tariff of 16%, compared to rigids at 10%.

Continuing the trend from the 2018 report, RHA members are still choosing leasing for vehicle acquisition. Although 58% of surveyed members still purchase, growing numbers opt for a combination of both methods.

Alternatives to traditional internal combustion-engined vehicles are now available, but they come with a premium in initial outlay, which could be £30,000 more than diesel or gas. There is also the knowledge that fuel duty on CNG is fixed until 2032 at 24.7p/kg (circa 18.6ppl). As such, there is the potential to save over £4,000 on fuel a year at current rates.



**INSURANCE**

While the RHA survey result indicated a 4% increase for insurance costs, both its own

specialist insurer and others agree that the overall market was actually closer to 7%. Insurers are looking to gain between 4-10% in 2020 in a push to either return this class of insurance to profitability or withdraw, meaning a much more aggressive stance.

The number of insurers in the market has remained more stable in 2019 than it has been for some time. The long-awaited correction to the Ogden Rate was something of a disappointment when justice secretary and lord chancellor David Gauke disregarded the government actuary's advice to set the rate at +1%, and instead set the rate at -0.25%.

While this rate is an improvement on the widely discredited 2017 rate, it was much lower than what the industry had been told to expect.



**REPAIRS AND MAINTENANCE**

The 2018 RHA survey indicated an R&M cost increase of 2%, and

there was a slight increase on that this year, at 2.25%. For a 44-tonne model, this increase equates to an extra £225 a year. With the greater inclusion of leased vehicles on fleets, many operators are cutting out specific R&M costs, as they can be included in the package price.

The traffic commissioners continue to push for better brake testing, after cases such as the Bath disaster in 2016 brought matters to public attention for all the wrong reasons. It appears that things are improving, and the message has been passed on – for instance at RHA regional briefings – that brake tests must be meaningful and recorded.



**DRIVER EMPLOYMENT AND APPRENTICESHIPS**

The second five-year D-CPC training deadline

ended in September, which resulted in operators and drivers trying to cram in far too many training modules, instead of spreading this out sensibly over periods of 12-18 months. There may be changes in D-CPC legislation, but it is doubtful that it would reach as far as one module every 12 months.

Figures suggest the driver shortage is close to 60,000, while there is no change to the average age of the driver, who is typically a white male aged 55. Only 1% are under 25. Quite simply, there are not enough young drivers coming through to replace retirees. Coupled with that shortfall, RHA estimates there are around 60,000 non-UK EU national drivers currently supporting UK operations.

The Institute for Apprenticeships has, so far, chosen to ignore the needs of the sector for C+E driver qualifications for either articulated vehicles or rigids with trailers. This situation means that those

companies may well be paying a levy that they cannot draw down from themselves. According to the RHA, industry has paid in more than £300 million, while only being able to draw down around £20 million. However, industry is acting to accelerate the closing of the skills gap, with initial seed funding support from government already agreed; the RHA's Road to Logistics initiative is one example.



**THE FUTURE**

Shipping costs will increase because of the International Maritime Organisation's IMO2020

requirement for use of low-sulphur diesel fuel worldwide. Some ferry operators have provided a new schedule of fees, including an element to cover increases due to this, and the situation isn't too different to haulage operators using an established fuel escalator. These fees are a direct effect where shipping is concerned, but there is also a potential cost to road diesel, as more users compete for the same sort of product. It was expected that this effect would show up in fuel prices in the last quarter of 2019, but stocks remained high and global demand weak.

Another megatrend relates to warehousing. Demand for storage space has grown in preparation for Brexit. In a recent survey for trade magazine *Property Week*, some 60% of occupiers responded that they would be looking for additional space over the next two years, and 86% of investors, developers, agents and landowners believe demand will either stay the same or rise over the next year.

That's not all Brexit-related, however; much of it started with Amazon bursting on to the logistics scene, hugely accelerating the current swing to delivery via the internet. This trend has been at the expense of the health of the high street, which is now desperately struggling for survival. [IE](#)