

A year like no other

After a global pandemic, how much more disruption to work and life could people take? As it turns out, quite a lot, reports John Challen

Think back to 12 months ago: the threat of COVID-induced lockdowns still loomed large and vehicle and component supply shortages hampered the transport sector. However, back then, Russia's presence in Ukraine was limited to the southern region of Crimea, the economy was looking stable and there was reason for optimism.

Fast forward a year and the former standoff escalated quickly, leaving the latter two to become a 'cost of living crisis'. Rapidly rising inflation, rocketing fuel costs and industrial action are three of the biggest factors that have not so much hampered growth, but essentially rendered it impossible. Meanwhile, political uncertainty and multiple leadership changes have only exacerbated the situation.

GDP continued its recovery in Q4 2021, with an increase of 1.3% for the period. However, in 2022, things slowed down, starting with growth of just 0.7% for



© Tomasz Zajda - stock.adobe.com

Q1 2022. The combination of events outlined above continued to affect GDP in the first half of the year and minimal growth in Q2 (0.2%) was followed by a shrinkage of GDP in Q3 (-0.2%). The negative figure was the worst performance since Q1 2021 (-1.4%), but experts are predicting tougher times ahead and the country being in recession until the middle of 2023.

New truck registrations were up 12.9% year on year in 2021, which left hope that 2022 was going to be another positive period. However, Q1 saw 9,937 HGVs registered, down 2.3% on Q1 2021. While the Q2 figure

was slightly lower than that (9,533 units), it was actually up 0.4% compared with the same period in 2021. There was further positive news in Q3, which saw 10,034 registrations, a huge 30.1% up on Q3 2021, which, admittedly, was affected by pandemic-related supply issues. At that point, year-to-date numbers were up 7.8%, but down 18.4% on pre-pandemic levels.

Having seen an increase in the number of trucks - and also O licences - in 2020-2021, there was a further improvement in the 2021-22 period. The UK vehicle parc totalled 378,287 trucks - up 9,615 - and there were

70,319 O licences in use (up 791 from 69,528).

The RHA's annual survey of cost movements (Haulage Cost Movement 2022), which informs this text, calculates the overall increase for 2022 was 11.6% (19% including fuel). Tables in this article have been supplied by Logistics UK; for its commentary, see p22.



ECONOMIC BACKDROP

UK inflation had already started climbing throughout 2021 and finished the year at 5.4%, having been under 3% for years. The increases kept on coming as the war in Ukraine pushed energy prices up and

New truck registrations were up 12.9% year on year in 2021, which left hope that 2022 was going to be another positive period. However, Q1 saw 9,937 HGVs registered, down 2.3% on Q1 2021

by July the rate had gone up to about 10% (10.1%). Despite a small reverse in July the upward trend continued, reaching 11.1% by October – a 41-year high.

Transport Engineer reported last year how the UK unemployment rate fell steadily throughout 2021 – hitting 4.1% in December – and that trend continued for the first quarter of 2022, when it went down to 3.7% in March. There was a slight increase to 3.8% for the summer months before dropping to 3.6% at the end of September.

There was a slight increase in interest rates in December 2021 (to 0.25%) and 2022 saw further rises as the Bank of England tried to combat rising inflation. By May, interest rates were 1% – the highest since 2009 – and in November they reached 3%. At the time of going to press, another upward revision is expected in December, before further increases – possibly up to 5.25% – by mid-2023.



TYRES

The RHA survey stated that some members had reported numerous rises in tyre costs throughout the year. Like most goods, tyres can require global shipping, so they have been one of the many components affected by inevitable increases in costs. As well as supply timing issues, tyres for many markets were also scarce in 2022, hit by the price of oil, rubber, carbon black and steel.

Operator costs for 2022: LCVs up to 3.5 tonnes gvw

	Car derivative vans - diesel	Vans of 3.5 tonnes gvw - diesel
General information		
Annual mileage	26,000	36,000
Life (years)	6.0	6.0
Life (miles)	156,000	216,000
Replacement cost (£)	15,430	28,014
Fuel consumption (mpg)	40.0	28.0
Annual fuel usage (litres)	2,955	5,845
Fuel price (pence per litre)	140.22	140.22
Tyre life (miles)	25,000	24,000
Standing costs		
Vehicle excise duty	290	290
Insurance	838	1,219
Depreciation	1,749	3,829
	2,876	5,338
Running costs		
Fuel	4,143	8,196
Tyres	275	587
Maintenance	2,527	3,471
	6,946	12,254
Total vehicle cost	9,823	17,592
Overheads		
Transport	2,054	2,054
TOTAL COST	11,876	19,645
ANNUAL CO2 FOOTPRINT (TONNES PER YEAR)		
	7.42	14.68

Source: *Manager's Guide to Distribution Costs*, Logistics UK, October 2022



FUEL

Predicting the future of fuel pricing is notoriously difficult and recent fundamental changes in the price of oil (-20%) along with the G7-imposed \$60 cap on Russian oil with weak demand has led to prices for diesel tumbling.

At present, prices are on a par with pre-invasion wholesale rates, even though forecourt pricing is, according to the RHA, 'still too high and slow to fall into line'.

Major commentators in the finance markets still predict Brent prices for 2023 of over \$100, yet recently the US Energy Information

Administration (EIA) has predicted \$92. It will only take China to seriously modify its COVID lockdown situation for growth to start in oil pricing.

The pence-per-litre average could be much lower than predicted, potentially as much as 15ppl differential with prices perhaps 140-142ppl ex-VAT. This would include the 5ppl fuel duty gain following the one-year reduction.

Around 5% of global refining capacity was lost or mothballed during the pandemic and maintenance issues – along with the Russia/Ukraine situation – has stretched the ability for global production. This concern is ongoing and security of supply is both a national strategic issue and something companies themselves need to consider.



DIESEL EXHAUST FLUID (DEF)

AdBlue, like many other components, faced major supply issues in 2022. The production of AdBlue uses a lot of energy, and with gas prices so dramatically steep some production was simply shut down. Principal areas of urea production are both Ukraine and Russia (something like 40%), which put added strain onto other areas globally.

As a result, there were huge price increases and stories of suppliers only selling to established customers.

Operator costs for 2022: rigids 7.5-32 tonnes gvw

	7.5 tonne gvw - box or curtainsided	12 to 14 tonnes gvw - box or curtainsided	16 to 18 tonnes gvw - box or curtainsided	3-axle rigid vehicle of 26 tonnes gvw - box or curtainsided	4-axle rigid tipper - 32 tonnes gvw
General information					
Annual mileage	40,000	40,000	50,000	60,000	55,000
Life (Years)	6.0	7.0	8.0	6.0	7.0
Life (miles)	240,000	280,000	400,000	360,000	385,000
Replacement cost (£)	43,242	54,786	72,049	91,886	99,887
Fuel consumption - mpg	17.0	15.0	12.0	10.0	8.2
Annual fuel usage (litres)	10,696	12,123	18,942	27,276	30,491
Fuel price - pence per litre	140.22	140.22	140.22	140.22	140.22
Tyre life (miles)	35,000	50,000	50,000	55,000	50,000
Standing costs					
VED and RUL*	165	95	300	300	560
Insurance	2,463	2,820	3,138	2,803	3,002
Depreciation	6,126	6,339	7,205	12,251	11,986
	8,754	9,255	10,643	15,355	15,548
Running costs					
Fuel	14,999	16,998	26,560	38,246	42,755
Tyres	561	961	1,325	1,930	2,047
Maintenance	5,730	5,995	9,364	13,110	14,669
	21,290	23,954	37,248	53,287	59,471
Total vehicle cost	30,043	33,209	47,892	68,641	75,019
Employment cost of driver	30,943	34,006	38,795	42,492	42,233
Cost of vehicle and driver	60,987	67,214	86,686	111,133	117,252
Overheads					
Transport	6,799	7,504	7,504	9,174	10,183
Business	6,799	7,504	7,504	9,174	10,183
TOTAL COST	74,586	82,222	101,694	129,481	137,617
ANNUAL CO ₂ FOOTPRINT (TONNES PER YEAR)	26.87	30.46	47.59	68.53	76.60

*RUL applies to vehicles 12t gvw and above. RUL is £0.00 - suspended until 31 July 2023

Source of Data: *Manager's Guide to Distribution Costs, Logistics UK, October 2022*


VEHICLE AND DEPRECIATION

Not only did the supply of commercial vehicles and trailers continue to demonstrate large price

increases, but also long waits for deliveries. Some RHA members reported as early as April that manufacturers had closed their order books for the year and delivery was 18 months away.

Some manufacturers had vehicle and component plants in Ukraine, which was a disruptor. However, as Russia was a strong market, it was expected there would be more build space for

Europe. Steel prices greatly affected vehicle and trailer builds, especially where car transporters are concerned. One positive is that the Annual Investment Allowance, announced by

Operator costs for 2022: tractor units and semi-trailers, 33-44 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	44-tonne gvw artic: 3-axle tractor, 3-axle curtainsided semi-trailer
General information				
Annual mileage	75,000	75,000	70,000	80,000
Life (years) - tractor	8.0	7.0	6.0	6.0
Life (years) - trailer	11.0	11.0	11.0	12.0
Life (miles) - tractor	600,000	525,000	420,000	480,000
Replacement cost (£) - tractor	57,473	82,584	82,584	108,365
Replacement cost (£) - trailer	20,767	22,843	20,767	22,843
Fuel consumption - mpg	9.0	8.5	8.0	9.0
Annual fuel usage (litres)	37,883	40,112	39,778	40,409
Fuel price - pence per litre	140.22	140.22	140.22	140.22
Tyre life (miles) - tractor	65,000	80,000	95,000	80,000
Tyre life (miles) - trailer	80,000	70,000	80,000	70,000
Standing costs				
VED and RUL*	560	560	560	560
Insurance	3,291	4,099	4,099	4,099
Depreciation - tractor	6,394	9,674	11,287	14,810
Depreciation - trailer	1,888	2,077	1,888	1,904
	12,133	16,410	17,833	21,372
Running costs				
Fuel	53,120	56,245	55,776	56,661
Tyres - tractor	2,031	1,863	1,853	1,781
Tyres - trailer	2,571	2,532	2,177	1,822
Maintenance - tractor	7,967	7,445	7,388	10,530
Maintenance - trailer	4,876	4,921	4,131	5,911
	70,565	73,005	71,325	76,706
Total vehicle cost	82,698	89,415	89,158	98,079
Employment cost of driver	45,262	45,940	45,940	45,940
Cost of vehicle and driver	127,960	135,355	135,098	144,018
Overheads				
Transport	11,914	13,189	13,189	13,189
Business	11,914	13,189	13,189	13,189
TOTAL COST	151,788	161,733	161,476	170,396
ANNUAL CO2 FOOTPRINT (TONNES PER YEAR)	95.18	100.77	99.93	101.52

*RUL is £0.00 - suspended until 31 July 2023

Source of Data: *Manager's Guide to Distribution Costs, Logistics UK, October 2022*

new chancellor Jeremy Hunt, would now be at £1 million permanently.



INSURANCE

Within the RHA analysis, insurance costs

increased in 2022 by 5% compared with 2021. Its model suggests this cost ranged from between £4,776 to £5,015 for general haulage. On the whole, though, there was little mention from members regarding insurance this year apart from the individual percentage movements.



REPAIRS AND MAINTENANCE

The RHA report also

highlighted that members had complained extensively about poor-quality work and delays with servicing. The observations extended to main dealers, as well as independent sites. Quality was not the only concern, however, as the association stated that, on average, R&M costs had increased 10%.



VED AND LEVY

The HGV levy retains its COVID-

related suspension until 31 July 2023, at which point it will be reintroduced. The levy will apply to vehicles at or above 12 tonnes gross vehicle weight. It is specific to an HGV and a typical Euro VI VED and levy combination would be approximately £1,200 a year, according to the RHA.

Following an Office for Budget Responsibility (OBR) report, a 23% increase for fuel duty is potentially on the table. That would take fuel duty from 52.95ppl to 65.13ppl



OVERHEAD COSTS

Major concerns within transport operators are rising energy costs, which will impact all businesses. However, business was given a six-month stay during the brief period of former chancellor Kwasi Kwarteng. Other cost increases include administration staff wage and NI increases, cleaners, IT systems and telephone systems.



DRIVER EMPLOYMENT COSTS

Typically, RHA members either caught up with pay increases in 2021 and offered small increases in 2022, or they did not increase significantly in 2021 and have had to do so in 2022. Increased costs also cover National Insurance increases, training and, in

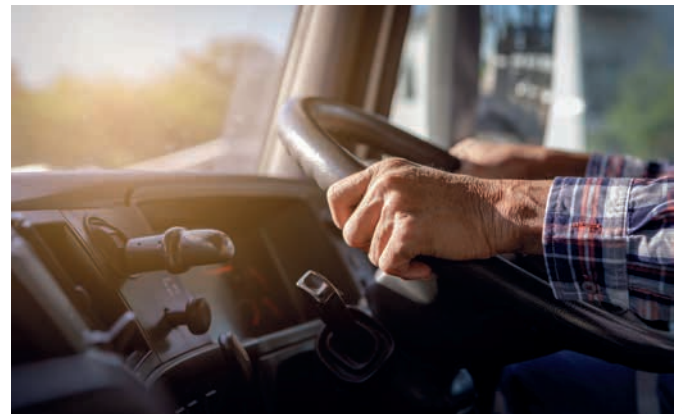
some cases, agency cover. The recent hike in the national living wage rate to £10.42 an hour will add tremendous pressure to van and rigid HGV rates at the lower end of the pay scale.



THE FUTURE

As recent years have proved, it is very difficult to predict what might come next - therefore, it is often advisable to expect the unexpected. However, the Government Energy Bill Relief Scheme is available to all UK businesses and runs until the end of March 2023. A review is currently under way to determine which sectors are eligible for support beyond that date.

In December, migration figures from the Office for National Statistics showed that 381,459 people have been given the right to work in the UK over the



© KM.Photo - stock.adobe.com

year. Most of these have been classified as sought-after 'skilled workers', with 170,000 of these appearing to be health and social care and another 140,000 other 'skilled worker' definitions. Logistics certainly needs some extra workers to ease the current shortages across all sectors of haulage and logistics operations, so such individuals might help ease the burden.

Elsewhere, there are question marks over costs,

including prices of new vehicles, alternative-fuelled trucks and residual values.

Fuel costs will continue to fluctuate; however, fuel duty was cut for one year in 2022, so the expectation is that 5ppl will be added once more in March 2023. Following a Office for Budget Responsibility (OBR) report, a 23% increase for fuel duty is potentially on the table. That would take fuel duty from 52.95ppl to 65.13ppl. [IE](#)

THE VIEW FROM LOGISTICS UK

The price of fuel was the biggest driver of vehicle operating costs in 2022, with the Russian invasion of Ukraine having a severe impact on global energy prices. Oil reached a peak of \$127 per barrel in March 2022. Although oil prices fell in Q3 2022 as the global economy slowed down and countries began to use less oil, the Organization of the Petroleum Exporting Countries (OPEC) and allies including Russia (OPEC+) decided to cut production targets to two million barrels a day from November through 2023, which will increase oil prices. Furthermore, the economic fallout of the UK's mini-budget in October resulted in a depreciation

of sterling relative to the dollar, meaning imported crude oil and other petroleum products, which are sold in dollars, increased in price domestically.

Against this backdrop, in the year to 1 October 2022, operators' diesel costs rose by 26.3%. As fuel accounts for around one-third of the cost of operating a 44-tonne artic, any upward fluctuation has a major impact on operating costs.

The acute driver shortage experienced in 2021 eased back in 2022 to 2019 levels, when there was an estimated chronic shortage of 60,000 drivers. Wage inflation is still growing, even after the record pay rises awarded to HGV drivers in 2021.

According to Logistics UK's *Manager's Guide to Distribution Costs*, in the nine months to 1 October 2022, the average basic pay award (excluding those who did not increase pay) was 7.3% and the average increase in basic pay for HGV drivers was 3.2% (these figures include employers which did not raise pay).

The HGV road user levy suspension has led to an overall 42.1% reduction in VED and RUL payments, but this is offset by increases in all other vehicle operating costs. Analysis of annual cost movements by Logistics UK of its members (to 1 October 2022) showed that tyre costs increased by

7.9% and insurance by 4.2%. Repair and maintenance also rose by 5.9%, adding around £1,000 to the cost of repair and maintenance for a 44-tonne truck.

Rising energy prices contribute to the increased price of almost all goods, which drives inflation ever upwards, as everything costs more. An increasing proportion of transport and storage firms are experiencing higher input costs while being unable to raise the prices of their services. Road freight operators typically report tight profit margins of between 1% and 4%. Facing rising costs, operators are being compelled to pass them on to customers.