

# Counting the cost

While 2011 brought some much needed stability to the transport sector, fears over a double-dip recession, triggered in the Eurozone, don't make for encouraging reading. John Challen analyses the costs to operators in 2011 and the implications for this year



It seems the only thing certain is uncertainty when it comes to forecasting the economics of 2012. Transport operators can be forgiven for starting the New Year with caution as their guide and it's hard to imagine many allocating much budget for shiny new trucks, vans, buses or coaches – or associated systems and services – unless reduced opex can be proven to provide a very rapid return on the capex.

The Road Haulage Association (RHA), amongst others, acknowledges that 2011 was another tough year for the road haulage industry and also one of uncertainty – and its latest members' survey suggests more of the same for 2012. Its top level figures suggest that operator costs have increased year-on-year (as at 30 September 2011) by 7.8% (3.2%, excluding increased fuel costs).

Even when there was good news to report last year, all too often it was marred by caveats. For example, road freight activity between the UK and Europe showed a modest, but slowing, increase. In Q2 2011, the 3% improvement over the same period in 2010 was still 14% lower than in 2007. New 'O' licences issued in 2010–2011 rose slightly to 5,233 from 5,006, ending the recent decline. However, the figure for last year was still 500 lower than for 2008–2009. The number of licences overall has also declined – to 87,747 from 91,200.

However, against that, the numbers of HGVs (defined as vehicles of greater than 3.5-tonnes gvw) specified on 'O' licences rose to 365,484 in 2010–2011, from 350,250, slightly ahead of the figure for two years ago. Speculation is that this reflects the marked shrinkage of the rental sector during the year. Trucks not specified on an 'O' licence nearly halved to just 24,316 from 47,859.

Meanwhile, new vehicle sales were also more encouraging, with steady increases recorded, especially in the second half of the year. Latest figures (at the time of going to press) were for

November, which, for trucks, saw a total of 4,503 registrations, up 21.5% on the previous month and bringing the total for the year to 38,333 – a year-on-year increase of 22.5%. For vans, November's year-to-date sales stood at 241,738, representing growth of 17.4% over the same period in 2010. Monthly van sales for November 2011 totalled 22,684, again up 18.6% against October.

Truck and van registrations in 2011 were 41,507 and 258,824 respectively (increases of 24.4% and 17.7%, compared with 2010). So, for the HGV market over 3.5 tonnes, these figures suggest an end to the dramatic decline apparent in the rolling average since October 2008. However, the data must be seen in the context of two successive worst-ever years for HGV registrations and the figure is still below the level seen in the decade pre-2008.



## Economic backdrop

The UK may have officially come out of recession in early 2010, but, even so, by the last quarter of that year the economy had contracted by 0.5%. Then, September 2011 brought warnings of a double-dip recession and, at the beginning of November, the National Institute of Economic and Social Research warned that there was a 70% chance of this country going into recession, if the Eurozone crisis was not resolved.

A number of issues have affected the situation, not least the risk of some EU countries defaulting on loans, triggering bail-outs, potential bankruptcies and a global financial crisis. Add to this a flat-lining lack of business and consumer confidence. Then factor in UK jobless hitting 2.62m in November – a 17-year high – as well as youth unemployment breaking the one million barrier, according to figures for the period from July to September. And with inflation also high throughout the year (albeit easing very slightly in October, with the CPI index down to 5.0% from

5.2% and RPI down to 5.4% from 5.6%), the difficulties in the way of recovery are crystal clear.

In August, Mervyn King, governor of the Bank of England, signalled that interest rates would stay on hold at 0.5% for the foreseeable future and, to date, that prediction, such as it is, has proved accurate. A favourable rate, maybe, but with limits on credit and cash, many operators – particularly medium-sized and smaller businesses (SMEs) – haven't been able to take advantage of them.



### Tyres

The cost of tyres had already started to creep up in late 2010, but the real impact was felt in the first months of 2011. Some operators were reporting tyre prices hitting 40% inflation during 2011 and availability becoming a problem.

This soaring rate was caused largely because the raw materials needed in the tyre production process – natural rubber, synthetic rubber, carbon black, steel and oil – were themselves all more expensive (with

natural rubber supplies taking a hit in the face of natural disasters around the world), while demand for tyres increased. In some cases, changing brands allowed operators to keep costs under some form of control, but the average contribution to the overall cost of running truck fleets caused by tyre price hikes was 0.4%.



### Fuel costs

After steady increases earlier in the year, April 2011 saw bulk fuel prices (ex-VAT) reaching a record 115.43p (RHA weekly fuel price survey). Diesel costs reached this peak level, despite the dollar oil price being significantly lower than in 2008, when it hit \$142 a barrel. This variation is largely explained by a fall in the value of sterling against the dollar, to 1.60 from 1.99, and an additional 7.6ppp in fuel duty.

For many firms, fuel costs will be higher than the quoted average. That will certainly be the case for those running at high mileages or pulling tall trailers, working at full weight, or in hilly terrain or

Operator costs for 2011: LCVs to 3.5 tonnes gvw. Source, FTA

General information	Car derivative vans - petrol	Car derivative vans - diesel	Vans of 3.5 tonnes gvw - petrol	Vans of 3.5 tonnes gvw - diesel
Annual mileage	15,000	17,000	30,000	35,000
Life (Years)	6.0	7.0	6.0	5.0
Life (miles)	90,000	119,000	180,000	175,000
Replacement cost (£)	10,175	10,026	17,862	22,141
Fuel consumption - mpg	30.0	36.6	17.0	24.0
Annual fuel usage (litres)	2,273	2,112	8,022	6,630
Fuel price - pence per litre	109.52	112.44	109.52	112.44
Tyre life (miles)	25,000	30,000	30,000	30,000
<b>Standing costs</b>				
VED	210	210	210	210
Insurance	443	443	775	775
Depreciation	1,357	974	2,560	3,631
	<b>2,010</b>	<b>1,627</b>	<b>3,545</b>	<b>4,616</b>
<b>Running costs</b>				
Fuel	2,489	2,374	8,786	7,454
Tyres	87	99	259	381
Maintenance	885	853	2,318	2,563
	<b>3,461</b>	<b>3,326</b>	<b>11,362</b>	<b>10,399</b>
<b>Total vehicle cost</b>	<b>5,471</b>	<b>4,954</b>	<b>14,908</b>	<b>15,015</b>
<b>Overheads</b>				
Transport	1,365	1,365	1,365	1,365
<b>TOTAL COST</b>	<b>6,836</b>	<b>6,318</b>	<b>16,272</b>	<b>16,380</b>
Annual CO <sub>2</sub> footprint (tonnes/year, kg/mile)	5.10	5.43	18.01	17.05

off-road, for example, in the forestry sector. Given the greater diesel burning common in these kinds of applications, fuel cost increases will inevitably have a disproportionately larger impact.



### Vehicles and depreciation

The cost of running commercial vehicles, including factoring in depreciation, rose by 7.2%, a significant increase, triggered in part by the depressed market of 2009–2010 holding back cost hikes that might otherwise have come through much earlier.

Purchase remains the preferred method of truck acquisition for operators, but a growing minority of operators are slowly warming to the leasing alternative. RHA data shows that outright ownership remains important to its medium-sized and smaller company members, in part as a means to sustaining longer-term profitability, retaining value in the business. Indeed, some speculate that, in the current climate, vehicle ownership has been one of the factors in certain companies' survival.

That said, RHA's data also shows that 44-tonne artic and trailer combinations make up 55% of its members' combined fleet. Distances travelled by these vehicles have stayed reliably constant from last year at 70,493 miles annually. Average fuel consumption figure is stated as 8.04mpg.

RHA members also observe a sharp increase in prices of second-hand LEZ-compliant Euro 4 and 5 trucks, with rises driven by the supply impact of two record low years for new truck sales.



### Insurance

The insurance industry currently says that it is paying out more than it is collecting: indeed, estimates indicate that £1.20 is paid out for every £1 paid in. The Association of British Insurers has welcomed government plans to reform civil litigation funding and costs, and is now working to combat organised criminal gangs who make false claims. For the time being, however, operators must continue to shop around to reduce premiums.

FTA's (Freight Transport Association) data shows that the majority of operators have seen increases in insurance premiums, but some have managed to improve deals, aided, for example, by extra claim-free years. Nevertheless, overall insurance added 0.3% to the total operating costs for hauliers last year.



### Repair and maintenance

An increase in R&M costs may reflect the fact of operators running ageing fleets, as they seek to cut costs and sweat their vehicle assets. Most

appear to have dealt with service items as they arose on at least part of their fleets, while a small segment of RHA members have been fixing their costs, opting for full maintenance contracts.

The debate over in-house versus contract maintenance continues, with medium-sized and larger fleets. Some firms are using dealers for electronic diagnoses only, on the odd occasion that more sophisticated assistance is needed. This combination of technically savvy technicians identifying problems, while time-served mechanics fix them, is a growing trend. Of the 3.2% increase in total costs for the year (excluding fuel), RHA believes that 0.7% was attributable to R&M issues – nearly double that of last year.



### Overheads

In an RHA member survey, nearly two thirds of those questioned reported that overhead costs have increased in the past year, while the vast majority of the remainder said they managed to tread water on the issue. Only one operator – long established and running more than 100 trucks – managed to report a reduction in overheads.

Members highlighted utilities as an area of increased cost, adding that bank charges, which appear to be getting more complicated, have also been rising – with additional charges buried in the detail for services previously provided free. Paying in is more expensive, and one RHA member noted a staggering 11% increase in cash and manual transaction charges.



### Driver costs

The average rate rise applied to driving staff over the past year came out at 2.1%. Some transport operators report that they are just in survival mode, while others that are now recording profits appear to have decided that continuing with nil pay uplifts (as has been the case over the past couple of years) was no longer viable.

Employers appear aware of the reduction in living standards being experienced by their drivers, due to the gap between inflation and pay awards.

Operators using agency drivers saw increases of just over 5% for this method of filling gaps. Some sectors also advise that they are having difficulty keeping staff and have to use agencies. This, they assert, can lead to further problems, including increased fuel consumption and maintenance issues.



### Driver CPC

The Driver CPC training requirement is universally agreed to be resulting in an additional overhead for employers. For those that have yet to address their

DCPC requirements, the overhead will be that bit higher when they do finally start.

The certificate is a legal requirement and it is not going to go away. The fact is that both employers and drivers will face sanctions from 2014, if they are non-compliant. That has been made clear both by ministers in public and by VOSA.

VOSA officers now routinely check drivers' DCPC status. Where newly qualified drivers (since September 2009) are not DCPC registered, fixed penalty notices are being issued and there is a follow-up with the operator.

the annual allowance is being slashed from £100,000 to £25,000, despite strong opposition.

One consequence of the investment reductions may be that own-account companies whose main business is not transport re-appraise whether they should be running trucks at all. Many might conclude that they should instead be using specialist transport operators, for which trucks are a profit centre, not a cost centre and whose focus on costs and efficiency is that bit sharper.

Individual haulage firms must decide on their charges and investments against this background, but also against the requirements of their customers. During these times of rising capital and operating costs, the easy option is to batten down the whatches further.

That said, there's a feeling that firms should invest in new trucks now ahead of the mandatory Euro 6



### Outlook for 2012

From the end of March 2012, investment allowances are being cut. As confirmed in the chancellor's Autumn Statement in November 2011,

Operator costs for 2011: 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
<b>General information</b>						
Annual mileage	40,000	55,000	40,000	55,000	50,000	40,000
Life (Years)	7.0	5.0	5.0	7.0	7.0	7.5
Life (miles)	280,000	275,000	200,000	385,000	350,000	300,000
Replacement cost (£)	35,142	45,545	49,997	54,188	68,494	85,305
Fuel consumption - mpg	15.0	13.0	13.0	12.0	10.0	8.0
Annual fuel usage (litres)	12,123	19,233	13,988	20,836	22,730	22,730
Fuel price - pence per litre	112.44	112.44	112.44	112.44	112.44	112.44
Tyre life (miles)	55,000	50,000	50,000	60,000	60,000	50,000
<b>Standing costs</b>						
VED	165	200	200	650	650	1,200
Insurance	1,575	1,543	1,762	1,869	2,170	2,470
Depreciation	4,267	7,378	8,099	6,193	7,828	9,554
	<b>6,007</b>	<b>9,122</b>	<b>10,061</b>	<b>8,712</b>	<b>10,647</b>	<b>13,224</b>
<b>Running costs</b>						
Fuel	13,631	21,626	15,728	23,428	25,558	25,558
Tyres	338	1,028	829	1,150	1,490	1,697
Maintenance	3,690	5,277	3,054	4,807	5,684	9,737
	<b>17,658</b>	<b>27,931</b>	<b>19,611</b>	<b>29,385</b>	<b>32,731</b>	<b>36,992</b>
<b>Total vehicle cost</b>						
	<b>23,665</b>	<b>37,053</b>	<b>29,672</b>	<b>38,097</b>	<b>43,379</b>	<b>50,215</b>
Employment cost of driver	20,363	24,511	24,511	29,237	26,685	26,045
Cost of vehicle and driver	<b>44,028</b>	<b>61,564</b>	<b>54,184</b>	<b>67,334</b>	<b>70,064</b>	<b>76,260</b>
<b>Overheads</b>						
Transport	4,518	4,986	4,986	4,986	6,096	6,767
Business	4,518	4,986	4,986	4,986	6,096	6,767
<b>TOTAL COST</b>						
	<b>53,064</b>	<b>71,537</b>	<b>64,156</b>	<b>77,307</b>	<b>82,256</b>	<b>89,793</b>
Annual CO <sub>2</sub> footprint (tonnes/year, kg/mile)	31.19	49.48	35.98	53.60	58.47	58.47

**Transport Engineer would like to thank The FTA and RHA for data and materials related to the CV market**

vehicles, due in January 2014, which – while even cleaner, in terms of pollution, than Euro 5s – are expected to be more expensive to buy.

Meanwhile, the addition of 1,800 longer semi-trailers under the Department for Transport’s 10-year trial, announced late last year, will have some positive impact on the transport industry. How much is, as yet, unclear. The RHA has told the DfT that permit allocations must be on an equal basis by company,

regardless of size, to maintain fair competition both among transport firms, and customers and supply chains.

One positive indicator is that next April’s CV Show 2012 is currently 35% ahead of 2011, in terms of exhibitors that have already booked to be present – hopefully, this is a sign of general improvement. Seemingly, all the industry can do right now is hold its breath and wait. **TE**

**Operator costs for 2011: Tractive units and semi-trailers: 32–44 tonnes gvw. Source, FTA**

	<b>33 tonne gvw artic: 2 axle tractor 2 axle curtainsided semi-trailer</b>	<b>38 tonne gvw artic: 2 axle tractor 3 axle curtainsided semi-trailer</b>	<b>38 tonne gvw artic: 3 axle tractor 2 axle curtainsided semi-trailer</b>	<b>32.5 tonne gvw drawbar combination 2 axle drawing 2 axle trailer</b>	<b>40 tonne gvw artic: 2 axle tractor 3 axle curtainsided semi-trailer</b>	<b>44 tonne gvw artic: 3 axle tractor 3 axle curtainsided semitrailer</b>
<b>General information</b>						
Annual mileage	75,000	75,000	70,000	60,000	70,000	85,000
Life (years) - tractor	8.0	6.0	6.0	8.0	6.0	5.0
Life (years) - trailer	11.0	11.0	11.0	12.0	11.0	11.0
Life (miles) - tractor	600,000	450,000	420,000	480,000	420,000	425,000
Replacement cost (£) - tractor	55,539	62,245	72,698	63,363	65,939	76,937
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	112.44	112.44	112.44	112.44	112.44	112.44
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>						
VED	1,200	1,200	1,200	880	1,850	1,200
Insurance	2,359	2,781	2,781	2,470	2,781	2,781
Depreciation - tractor	6,179	8,507	9,935	6,574	9,012	12,618
Depreciation - trailer	1,859	2,044	1,859	1,704	2,044	2,044
	<b>11,597</b>	<b>14,532</b>	<b>15,775</b>	<b>11,627</b>	<b>15,687</b>	<b>18,643</b>
<b>Running costs</b>						
Fuel	42,596	45,102	44,726	34,077	47,080	52,985
Tyres - tractor	1,455	1,330	1,392	1,342	1,301	1,339
Tyres - trailer	1,840	1,807	1,636	1,918	1,767	1,375
Maintenance - tractor	6,042	5,553	5,729	4,690	5,755	6,348
Maintenance - trailer	3,692	3,665	3,203	2,049	3,798	3,561
	<b>55,624</b>	<b>57,457</b>	<b>56,686</b>	<b>44,077</b>	<b>59,701</b>	<b>65,608</b>
<b>Total vehicle cost</b>						
	<b>67,221</b>	<b>71,989</b>	<b>72,461</b>	<b>55,704</b>	<b>75,388</b>	<b>84,251</b>
Employment cost of driver	31,467	32,045	32,045	32,303	32,045	32,045
<b>Cost of vehicle and driver</b>	<b>98,688</b>	<b>104,034</b>	<b>104,507</b>	<b>88,007</b>	<b>107,433</b>	<b>116,296</b>
<b>Overheads</b>						
Transport	7,917	8,764	8,764	7,800	8,764	8,764
Business	7,917	8,764	8,764	7,800	8,764	8,764
<b>TOTAL COST</b>	<b>114,522</b>	<b>121,563</b>	<b>122,035</b>	<b>103,607</b>	<b>124,962</b>	<b>133,825</b>
Annual CO <sub>2</sub> footprint (tonnes/year, kg/mile)	97.45	103.19	102.33	77.96	107.71	121.22