GREEN SHOOTS OF RECOVERY

Confidence and growth have not featured in the economists' lexicon of late, but operators can expect to hear more of them in 2014. John Challen and Brian Tinham provide *Transport Engineer*'s guide to operating costs

Just 12 months ago, *Transport Engineer* was preparing operators for more tough times ahead but, while the good times have not yet fully returned, there appears to be bright light at the end of the tunnel. Last year's talk of triple-dip recessions has been replaced with green shoots of recovery. Indeed, at time of going to press, the British Chambers of Commerce forecasts that the UK's economy will expand at its fastest rate in seven years, during 2014.

Turning to the transport industry, the total number of 'O' licences in 2013 was 80,894 (2012: 84,072), and the number of commercial vehicles recorded was 334,262 (down from 342,473 last year). In the past three years, 'O' licence numbers have fallen by 3,453, 3,675 and 3,178. And that decline is mirrored in the reduction in vehicle numbers from the haulage sector – down 8,211 in the past year alone. Indeed, the last five years of recession/stagnation have seen nearly 47,000 vehicles stripped from the nationwide fleet, alongside 17,000 'O' licences. A heavy price.

So where is the positive news? On the one hand, commentators suggest that some of the more recent vehicle number reductions might be attributed to efficiency improvements by operators. On the other, they point to the current boom in commercial vehicle sales. The second half of 2013 saw good growth in van and truck registrations, culminating in November's sales increases of 22.7% for the month, according to the SMMT (Society of Motor Manufacturers and Traders), and a year-to-date uptick of 10.9%. Van sales increased by 19.4% for the month of November, while truck growth was recorded at a massive 39.3% – pushing year-to-date volumes to 44,867 units, 6.5% ahead of 2012.

"With engine technology developments driving up the truck market [operators are reluctant to pay for Euro 6], plus van owners and operators responding positively to this year's economic recovery, the sector is on course for its best performance in five years," comments new SMMT chief executive Mike Hawes.

What about overall increases in operator costs for 2013? These, too, have been relatively modest, with the Road Haulage Association (RHA) putting the rate at 2.3% across all categories (1.5% excluding fuel). That's a dramatic decline compared to two years ago, when the figure was 7.8% (3.2% excluding fuel). It's also an encouraging reduction against the 2012 number of 2.9% (2.5%).

RHA, in its annual survey of cost movements notes a significant increase in confidence among its members. Its view: "Little unused capacity remains among UK fleets, and members should be pushing for rate increases." On the other hand, and adding a note of caution, RHA observes: "Many sectors will find this very difficult to approach. The customer is likely to be setting rates for them, which they either have to accept or lose the work. There is no easy answer, as there is no mechanism to protect such an operator – apart from to decline [the] work."

Economic backdrop

Official economic indicators show that the rate of inflation slowed in October 2013: CPI (consumer price index) indicated 2.2%; the RPI (retail price index) figure was 2.6%; and RPIJ (the new variant of RPI) came in at 1.9%. A key reason cited for the lower numbers was falling fuel prices – in line with advice to the Treasury by FairFuel UK, following a report commissioned by the RHA in September 2012.

Looking at UK unemployment, after a slight increase to 7.9% in January 2013, figures fell back steadily throughout the rest of the year, reaching 7% in November – the lowest rate the country has seen since November 2008. Commentators widely agree that the welcome fall has been faster than expected. And they add that it gives hope that the economy will continue to recover faster than expected, too.

That is likely to be helped by the Bank of England, which pledged under new governor Mark Carney to keep the base rate of interest at 0.5% until unemployment falls to 7%, while also indicating that even reaching that target might not trigger any action to increase rates. The 0.5% rate has been with us since 2009 but, while most experts are not expecting a rise until at least 2015, few are completely ruling out the possibility of some movement even in 2014.

Tyres

Operators are being prepared for tyre prices to continue to rise, but are also advised that the rate of increase is slowing. In 2011, RHA members reported 15% increases across the board, falling to 10% in 2012. So, just over 5% last year appears modest. That said, while approximately half of the RHA membership believes tyre brand to be of key importance, some (just as in 2012) state that, when it comes to replacing original fitments, they move to cheaper 'value' alternatives.

Meanwhile, a study by Fusion Research, commissioned by Continental Tyres, suggests that reliability and value for money over the lifecycle are the most important factors for operators. Its survey suggests that big fleets (those with more than 51 vehicles) have achieved major increases in efficiency during 2013 over 2012 by taking this approach. It also indicates that tyre monitoring is on the up.

Fuel costs

Using its end-point figure of 110.83ppl (ex-VAT), RHA calculates that an average 44-tonne truck travelling 73,000 miles per annum (and achieving 8mpg) typically spends £45,976 a year on fuel. That translates to a fuel charge of 63 pence per mile – in the region of one third of average total operating costs. Ultimately, of course, that figure depends heavily on the vehicle, its duty and, importantly, how it is used and driven.

RHA data reveals that fuel prices fell by 2.8ppl between 2012 and 2013. Average price throughout its survey period came in at 112.77ppl, although real figures varied quite widely. From October 2012 the price was high, reaching 116ppl before a drop in December of that year to the low 110s.

In the New Year, prices recovered so that by March 2013 the average was 116.99ppl (less than a penny behind the highest figure ever recorded – in

Operator costs for 2013: 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	21,000	30,000	35,000
Life (years)	6.0	8.0	6.0	6.0
Life (miles)	90,000	168,000	180,000	210,000
Replacement cost (£)	10,461	10,211	17,862	22,898
Fuel consumption - mpg	30.0	38.2	17.0	26.0
Annual fuel usage (litres)	2,273	2,499	8,022	6,120
Fuel price - pence per litre	108.39	111.32	108.39	111.32
Tyre life (miles)	25,000	30,000	30,000	30,000
Standing costs				
VED	220	220	220	220
Insurance	537	537	928	928
Depreciation	1,395	868	2,560	3,129
	2,152	**1,625**	**3,708**	**4,278**
Running costs				
Fuel	2,464	2,782	8,695	6,813
Tyres	97	136	302	445
Maintenance	905	1,078	2,397	2,651
	3,466	**3,996**	**11,394**	**9,908**
Total vehicle cost	**5,617**	**5,621**	**15,102**	**14,186**
Overheads				
Transport	1,444	1,444	1,444	1,444
TOTAL COST	**7,061**	**7,065**	**16,546**	**15,630**
ANNUAL CO_2 FOOTPRINT (TONNES PER YEAR)	5.03	6.50	17.76	15.92

March of the previous year), with oil racing up to $118 per barrel. By May, fuel prices had dropped again to the high 108s with oil at one point back under the $100 a barrel mark. Since then, while fuel prices have increased again (more or less in step with oil), the overall picture has been fairly steady. Predictions remain, however, difficult.

Vehicles and depreciation

January 2014 saw implementation of the long-awaited Euro 6 European engine emissions legislation. As a result, towards the end of last year, the truck market saw increased sales of Euro 5 vehicles, buoyed by operators enthusiasm to avoid the increased cost of new Euro 6 models.

As for vehicle depreciation, RHA bases its figures on purchased, as opposed to leased, trucks, as few figures are available for the latter and variances are too great. Nevertheless, a 4.1% increase in depreciation here equates to a 0.5% uptick in the overall typical cost of a 44-tonne vehicle.

Road tax

Once again, vehicle excise duty has remained unchanged, following many years of stability. However, there have now been welcome changes to related costs. In the 2002 Budget, the then government announced plans for distance-based truck road-user charging to "...ensure that lorry operators from overseas pay their fair share towards the cost of using UK roads". This was expected in 2005/6 but, eight years later, the haulage industry will see that road-user charge finally coming in.

The HGV Road User Levy Act was enacted on 28 February 2013 and, as a result, from April 2014, UK transport companies will pay a levy alongside their VED rates. Foreign operators will henceforth have to budget for daily, weekly, monthly or annual charges.

Insurance

Actual claims experience is the key to whether or not operators can expect to see their policy premiums change, although there is a general trend – not surprisingly, upwards. The RHA reports: "One insurance broker we spoke to advised that, generally, insurers were looking to achieve 5–10% increases on commercial fleet activity, although it is entirely possible to get a better result."

One reason is the increase in flashing – where fraudulent claims are made by drivers of vehicles who 'let' drivers out but then crash into them. Forward-facing cameras and truck telematics installations are providing useful counters to that and 'cash for crash' incidents – as well as anecdotally improving driver behaviour – enabling year-on-year reduced premiums.

Repair and maintenance

There remains a clear split among operators over repair and maintenance, with some operators using independent garage services as and when needed or under R&M contract, while others work solely with in-house workshops. Whichever method is used, RHA reminds operators that it is essential to ensure well-maintained vehicles at all times – and equally important to put systems in place to monitor suppliers' compliance in this area.

"A failed MOT or inspection, be it in the workshop or at the roadside, shows a lack of maintenance and it will cost both time and money to resolve," advises RHA's annual report. "An operator's good repute is essential. Operators who are less compliant will be likely stopped and checked on a more frequent basis, often resulting in further lost time and money," it adds, alluding to the well-known impact of VOSA's (the outgoing Vehicle and Operator Services Agency) OCRS (operator compliance risk score).

Overhead costs

Overhead variance figures are wide, due to their heavy dependence on the operation itself. However, 100% of respondents to RHA's annual survey confirm that they have seen increases in their overall employee and site overheads. Some have managed to keep employee overhead increases to zero, but only one managed to do the same for site-related factors. Most stated that they were seeing steady increase in overhead costs in the range 1—5%.

Driver employment

It is widely accepted that operators have seen very low increases in driver pay over the past five years, and that perception is confirmed by RHA data. During that period, the total average increase recorded is less than 8%, meaning movement of sub 1.5% per year.

2013 saw a slight increase on that to an average of 2%, although 42% of operators still recorded no increase in driver pay. Nevertheless, a 2% hike in driver pay translates to a 0.5% increase in costs.

Driver CPC

With just nine months to go until the end of the first five-year period of the DCPC, it appears that, while a few operators still have to even consider the issue, the vast majority are either ready or currently playing catch-up – fast. Interestingly, some 55% of firms questioned by the RHA reported that they have increased their training budgets. Contrast that with the 2012 finding, which revealed that 63% of operators had not changed their spending on training compared to the previous year.

Outlook for 2014

The economic forecast for GDP growth has recently been revised up from 0.6% to 1.4% for 2013, with a prediction that 2014 will strengthen to 2.4% instead of the previous estimate of 1.8%. Further increases for the following three years are currently estimated at 2.2%, 2.6%, 2.7%.

In his 2013 Autumn Statement, the chancellor advised that the duty rise expected in September has been cancelled and that no further rises will be countenanced for the life of the current parliament. For the transport sector, this combination of a strengthening economic outlook and steady fuel duty is probably about as good as it's likely to get.

That said, with plenty of operators nervous about buying more expensive, slightly heavier and more complex Euro 6 trucks, and the resulting bubble in Euro 5 models' popularity, it is difficult to predict sales for 2014. Overall market leader DAF believes that sales will be down, compared to 2013's high point. Managing director Ray Ashworth is convinced that operators will continue to buy derogated Euro 5 trucks, while stocks last, and so save their money.

That short- to mid-term expectation is in spite of the now widely acknowledged fuel economy advantages (claimed to be up to 5%) of turning to Euro 6 trucks – very much flying in the face of early predictions for these vehicles. When new truck purchasing does recover, however, most pundits agree that operators will be tempted down the packaged R&M route for Euro 6 vehicles or move to leasing options – potentially signalling a significant shift in current buying habits.

One technology highly likely to continue to increase in popularity is telematics, as fleets aim to get even

Operator costs for 2013: Rigids 7.5–32 tonnes gvw. Source: FTA

	7.5 tonne gvw - box or curtainsided	10-12 tonnes gvw - box or curtainsided	12-14 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 (£)	35,317	45,545	49,997	54,528	68,691	85,305
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	22,276	31,254
Fuel price - pence per litre	111.32	111.32	111.32	111.32	111.32	111.32
Tyre life (miles)	55,000	50,000	50,000	60,000	55,000	50,000
Standing costs						
VED	165	200	200	650	650	1,200
Insurance	1,698	1,670	1,788	2,371	2,099	2,454
Depreciation	4,288	7,378	8,099	6,232	9,159	10,237
	6,151	**9,248**	**10,087**	**9,252**	**11,908**	**13,891**
Running costs						
Fuel	12,652	19,465	15,572	25,304	30,365	34,793
Tyres	374	1,140	883	1,404	1,475	1,857
Maintenance	3,774	5,251	3,438	6,243	7,486	11,253
	16,800	**25,856**	**19,892**	**32,951**	**39,326**	**47,904**
Total vehicle cost	**22,951**	**35,104**	**29,980**	**42,203**	**51,234**	**61,795**
Employment cost of driver	26,878	29,092	29,092	33,815	31,963	31,963
Cost of vehicle and driver	**49,829**	**64,196**	**59,071**	**76,018**	**83,197**	**93,758**
Overheads						
Transport	4,781	5,276	5,276	5,276	6,451	7,160
Business	4,781	5,276	5,276	5,276	6,451	7,160
TOTAL COST	**59,391**	**74,748**	**69,624**	**86,571**	**96,098**	**108,077**
ANNUAL CO_2 FOOTPRINT (TONNES PER YEAR)	29.56	45.47	36.38	59.12	70.94	81.28

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

more out of their vehicles and drivers. Closely monitoring fuel usage, miles driven, routing and driver behaviour underpins evidence-based efficiency improvements. "Monitoring of the man and machine will only increase as the need to maintain a tight control on fleet expenditure becomes increasingly important for the bottom line," concludes the RHA's annual report.

What about other levers for efficiency? Aerodynamics, low rolling resistance tyres and dual-fuel conversions are all on the table. And another is LSTs (longer semi-trailers), under the DfT's (Department for Transport) ongoing 10-year trial. Last September, that was given a new lease of life, with the decision to remove the equal split of licences between 14.6m and 15.65m versions. Expect to see more operators like Acumen Distribution taking advantage of the DfT's change of heart, and increasing their investment in LSTs for more efficient and environmentally friendly high-cube payloads. TE

Operator costs for 2013: 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 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	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	111.32	111.32	111.32	111.32	111.32	111.32
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	2,454	3,013	3,013	2,454	3,013	3,013
Depreciation - tractor	6,179	7,292	9,935	6,574	9,012	10,515
Depreciation - trailer	1,859	2,044	1,859	1,704	2,044	2,044
	11,692	**13,549**	**16,007**	**11,612**	**15,919**	**16,772**
Running costs						
Fuel	42,173	44,654	44,282	33,739	46,613	52,459
Tyres - tractor	1,596	1,467	1,453	1,403	1,355	1,499
Tyres - trailer	2,019	1,993	1,708	2,002	1,849	1,534
Maintenance - tractor	6,266	5,853	5,813	5,202	5,883	7,348
Maintenance - trailer	3,828	3,863	3,250	2,273	3,889	4,122
	55,882	**57,830**	**56,506**	**44,619**	**59,588**	**66,963**
Total vehicle cost	**67,574**	**71,379**	**72,513**	**56,231**	**75,507**	**83,735**
Employment cost of driver	36,081	36,691	36,691	36,081	36,691	36,691
Cost of vehicle and driver	**103,655**	**108,070**	**109,204**	**92,312**	**112,198**	**120,426**
Overheads						
Transport	8,377	9,274	9,274	8,253	9,274	9,274
Business	8,377	9,274	9,274	8,253	9,274	9,274
TOTAL COST	**120,409**	**126,618**	**127,752**	**108,819**	**130,746**	**138,974**
ANNUAL CO_2 FOOTPRINT (TONNES PER YEAR)	98.53	104.32	103.45	78.82	108.90	122.56