

# Gearing up for growth?

If 2013 marked the start of economic recovery for commercial vehicle operators, 2014 was about working to make growth sustainable. John Challen and Brian Tinham cast an eye over the last 12 months, focusing on operating costs and trends, with help from the RHA, FTA and SMMT

**A**fter a period of fledgling recovery through 2013, pundits predicted better times during 2014. There were forecasts of: economic expansion at its fastest rate for seven years; a continued decline in unemployment; and respite for those who suffered through the long, harsh recession.

In fact, while growth slowed slightly during the third quarter of 2014 (Q2 and Q3 upticks were 0.9% and 0.7% respectively), the UK came in as the fastest growing of the G7 economies. Indeed, the IMF (International Monetary Fund) estimated a rise in GDP (gross domestic product) of 3.2% – the next highest being the US, at 2.2%.

Positive signs, then, but what about the transport sector? The 2013/14 annual report from the Office of the Traffic Commissioner brought mixed news. The number of commercial vehicles on the road increased by 3,308, bringing the total national CV parc to 37,570 units. However, O licence numbers declined by 3,162, following the 2012/13 fall of 3,178 and continuing a four-year trend. The reported figure for O licences in July stood at 77,732.

That said, CV registrations saw strong growth throughout 2014 – latest figures from the SMMT (Society of Motor Manufacturers and Traders) show a rise of 4.2% overall for November 2014, compared with the same month in 2013, and a year-to-date increase of 13.1%. However, vans have led growth, with new truck demand languishing in the wake of the surge in demand for Euro 5 models ahead of the Euro 6 deadline last January. And despite the SMMT predicting a return to normal truck registrations by mid year, sales remained disappointing.

In fact, this two-speed van versus truck trend was exacerbated in November: while the van sector climbed 17.1% to 26,516 units, trucks (above 3.5

tonnes) declined 49.6% to 2,729 units, which SMMT puts down to “the aftermath of new type approval legislation”. Comparing last November with the one before, registrations of rigid declined 63.9%, with those over 6.0 tonnes bearing the brunt (79% slump for 6.0–16 tonnes and 76.4% for over 16 tonnes). Meanwhile, tractor units fell 33.4%.

“Many dealers and truck operators brought their truck registrations forward in a bid to [beat] the requirement for EU type approval,” reported the National Franchised Dealers Association. In total, year-to-date registrations for trucks in November were 38,751, down 14% on the 2013 figures.

Meanwhile, fuel prices fell for the period to 30 September, providing welcome help for operators. In its latest annual survey of cost movements, the RHA (Road Haulage Association) reports a decrease in overall operator costs of 0.18%, but an increase of 2% excluding fuel.

Beyond that, RHA also observes that more operators are seeking to reduce costs, using several means. These include: driver training; aerodynamic packages; implementing fuel bonuses; and adding speed limiters. Telematics is now widely installed and used for monitoring driver and vehicle performance, covering braking, speed, idling and fuel economy.

What’s in store for 2015? SMMT expects the market to stabilise, particularly in the van sector. That said, Mike Hawes, chief executive of the SMMT, adds a caveat: “The economy is forecast to grow strongly next year, but consumer confidence is a factor, as are retail patterns. If consumer confidence does decline, due to cutbacks in public spending, for example, it could impact on spending.”



## Economic backdrop

Overall inflation in the UK increased slightly in November, with data released for the month showing a rise to 1.3%. However, this is from a five-year low, driven primarily by falling fuel and food prices. The Bank of England continues its five-year fix on base rates at 0.5%, with little sign of movement. That said, transport costs contributed to a small percentage increase – despite the falling price of Brent Crude and fuel prices reaching a four-year low.

GDP was 3% higher in Q3 2014, compared to the same quarter in 2013. The greatest contribution was from the services sector, which includes transport. Meanwhile, construction was estimated to have grown 0.8% in Q3, compared with Q2, while the annual Q3 2014 estimate shows a rise of 2.9%.

The summer months saw UK unemployment fall below 2 million for the first time since late 2008 – the start of the financial crisis. The jobless rate fell to 6% in the three months to August, from 6.2% in the quarter to July, while employment rose to 73%, a level not seen since spring 2008 and tantalisingly close to the all-time high of 73.2%.



**Tyres**

After substantial price rises in previous years – 15% in 2011 and 10% in 2012 – tyres have been reined in, with 2.3% the figure for 2014. Accordingly, many

operators report growth in brand reliance, driven by favourable long-term contracts and services, with Michelin the most quoted of the elite premium brands. Some 20% of the RHA's survey respondents are now on mileage contracts, and many comment on the importance of tyres in drivers' daily checks, not only for safety, but also to bear down on emergency downtime.



**Fuel costs**

Bulk diesel prices were 109–111ppl (ex-VAT) in the closing months of 2013 but, with American shale gas expansion, oil prices have reduced markedly throughout most of the year. Compared

with RHA's closing price of 110.83ppl in 2013, the association gives September's figure as 103.64ppl.

Using 104ppl and taking a typical 44-tonne truck travelling 73,000 miles a year at 8 mpg, the RHA estimates fuel costs at £43,142. It also notes that improving fuel economy to 8.3 mpg (3.75%) would save £1,510 per truck. Naturally, such figures depend on several factors, including the type of work, the load, road terrain, the vehicle and the driver.

Last November, news emerged that the Milford Haven refinery, in Wales, is to close, leaving the UK with six refineries and an expectation of further closures. UK and European refineries are struggling to compete with the super refineries coming on stream in the Middle East, leading observers to conclude that, longer term, the UK may move to little more than strategic fuel storage facilities.

The next issue may well concern fuel security – although lower-cost LNG/CNG (liquefied/compressed natural gas) could yet present a path to mitigation.

**Operator costs for 2014: 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
<b>General information</b>				
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 (£)	10,628	10,352	17,862	22,964
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	104.56	104.76	104.56	104.76
Tyre life (miles)	25,000	30,000	30,000	30,000
<b>Standing costs</b>				
VED	225	225	225	225
Insurance	605	605	1,017	1,017
Depreciation	1,417	880	2,560	3,138
	<b>2,247</b>	<b>1,710</b>	<b>3,802</b>	<b>4,380</b>
<b>Running costs</b>				
Fuel	2,377	2,618	8,388	6,411
Tyres	98	137	305	449
Maintenance	915	1,089	2,424	2,681
	<b>3,389</b>	<b>3,844</b>	<b>11,116</b>	<b>9,541</b>
<b>Total vehicle cost</b>	<b>5,636</b>	<b>5,554</b>	<b>14,919</b>	<b>13,921</b>
<b>Overheads</b>				
Transport	1,479	1,479	1,479	1,479
<b>TOTAL COST</b>	<b>7,115</b>	<b>7,033</b>	<b>16,397</b>	<b>15,400</b>
ANNUAL CO <sub>2</sub> FOOTPRINT (TONNES PER YEAR)	4.98	6.50	17.58	15.93



### Vehicle acquisition

RHA's latest survey concludes that most commercial vehicles are still purchased outright (64%), but also observes the increasingly popular

combination of buying and leasing vehicles across fleets. More operators than ever are now considering their options, it notes, although RHA also observes that contract hire and leasing accounted for just 19% and 17% respectively in 2014.

The arrival of Euro 6 legislation at the beginning of the year saw truck sales collapse in the early months of 2014, following high demand at the end of 2013 for lower capex Euro 5 vehicles. Many operators and contract hire firms also took options on the remaining Euro 5 stock. And the latest technology comes at a price. While the average increase in truck prices for 2014 came in at 5%, many survey participants reported double-digit premiums for some Euro 6 vehicles.



### Road tax

Annual tax for operating a truck remained largely unchanged over the year. However, the UK adopted a lower VED (vehicle excise duty) to render the new Road User Levy cost neutral for UK operators running at 12 tonnes gww or more.

While the scheme got off to a good start – generating £23.4 million in the first six months – some argue that foreign hauliers are now simply passing this tax burden on to UK importers and manufacturers.



### Insurance

In subtle contrast to last year's *Transport Engineer* operator costs report – where there was an upward trend in insurance premiums – one

broker is advising that rates in the CV market have remained broadly static throughout 2014. The pressure to increase premiums eased partly because many insurers have cleansed their books of 'high-risk' trades, such as self-drive hire and taxi fleets, which had dragged down their performance in recent years.

On the flip side, poor performing risks are still facing insurance increases, says the RHA. For fair to well-performing risks, reductions of 4–8% have been common. Meanwhile, the car transporter market is facing insurance issues, partly because QBE has withdrawn from the market (following its similar action with the waste industry), while several other players are now viewing both sectors with more concern.



### Repair and maintenance

When it comes to R&M responsibilities, there's no longer much to choose between those operators selecting contracts (46.5% of the RHA survey)

and others using their own services or third parties on an 'as and when' basis (53.5%).

However, as truck technology continues to advance, the case for full R&M packages is becoming increasingly compelling, given the perceived alternative of specialist technician training and equipment to cover diagnostics and servicing. One emerging option is for operators to retain base aspects of maintenance in-house, while using specialist services from main dealers when they reach technical and/or equipment limits.

What of R&M costs associated with the UK's increasingly ageing vehicle parc? SMMT reports slightly higher costs, but suggests that they remain fairly stable. "We aren't seeing increased labour rates or price index, which is good for business," comments Hawes.



### Overhead costs

Overheads escalating during 2014 included business rates, and water, electricity (one three-year renewal stipulated a 24% hike), cleaning and parking bills. The details vary greatly between companies, according also to employee and site costs. RHA is advising operators to apportion overheads equally between vehicles, if all one size, or to consider per-tonne carried, apportioning where vehicle combinations vary.

How will costs impact operators in 2015? SMMT says they should remain "reasonable". Hawes: "Current low inflation is heavily influenced by low oil prices, which have dropped by 20% – a reduction that has translated to the pumps. The fuel duty freeze is also good, although we have to be prepared for the rise next September."



### Driver employment costs

There have been moderate increases in drivers' wages this year. Elsewhere, however, RHA reports very real concerns – now and for the immediate future – in terms of driver shortages, which are highly likely to influence drivers' pay as the supply and demand equation unravels.

Transport secretary Patrick McLoughlin advised shoppers to start buying early for Christmas to avoid problems with parcel deliveries, if the haulage industry driver shortages stopped goods getting to the retail outlets. Nearly prophetic, as it turns out.



### Driver CPC

As expected, there was a rush for training last September, the deadline for the first five-year period of DCPC.

Since then, numbers of drivers attending courses is thought have declined. Meanwhile, a recent pay survey revealed that a high proportion of RHA members has now moved to

annual training. Such a stance is, according to the association, one sign of a good transport company.

Overall, the industry has also seen growth in demand for ‘train the trainer’ courses. These enable operators with a large enough infrastructure to tailor courses to suit the business requirements.



**The future**

The UK road haulage industry is facing a massive shortage of drivers – an issue the RHA has voiced in the national press. “As an association, we are pressing the treasury to make funding available so that would-be truck drivers can take the vocational driving and related tests to pass and qualify for driving HGVs,” explains the organisation.

Elsewhere, the welcome upturn in the UK economy is likely to drive transport cost increases

over and above the generally low figures reported for last year.

The RHA is not predicting similar low levels in 2015. In his Autumn Statement, chancellor George Osborne confirmed his intention to freeze fuel duty until after the general election in May 2015. Whether an increase follows will depend on several factors, not least the identity of the governing party.

Meanwhile, analysts are currently forecasting low oil prices to continue at least for the first few months of 2015, due to the ongoing worldwide glut. Will that translate to further falls in fuel prices? Possibly even a fuel duty cut? Few are predicting any movement ahead of the May election, despite the fact that a litre of fuel in the UK is still significantly more costly than in continental Europe, because taxes still account for around 61% of the forecourt price.

That said, and as reported earlier, operators are

**Operator costs for 2014: 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
<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
Replacement cost (£)	35,317	45,545	49,997	54,528	68,694	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	27,276	31,254
Fuel price - pence per litre	104.76	104.76	104.76	104.76	104.76	104.76
Tyre life (miles)	55,000	50,000	50,000	60,000	55,000	50,000
<b>Standing costs</b>						
VED	165	200	200	650	650	1,200
Insurance	1,792	1,787	1,826	2,422	2,145	2,686
Depreciation	4,288	7,378	8,099	6,232	9,159	10,237
	<b>6,246</b>	<b>9,365</b>	<b>10,126</b>	<b>9,304</b>	<b>11,954</b>	<b>14,122</b>
<b>Running costs</b>						
Fuel	11,906	18,317	14,653	23,811	28,574	32,741
Tyres	391	1,202	890	1,426	1,486	1,870
Maintenance	3,816	5,569	3,474	5,970	7,569	11,377
	<b>16,113</b>	<b>25,088</b>	<b>19,017</b>	<b>31,208</b>	<b>37,629</b>	<b>45,988</b>
<b>Total vehicle cost</b>						
	<b>22,358</b>	<b>34,453</b>	<b>29,143</b>	<b>40,512</b>	<b>49,583</b>	<b>60,110</b>
Employment cost of driver	25,780	25,528	25,528	32,188	33,365	34,692
<b>Cost of vehicle and driver</b>	<b>48,138</b>	<b>59,981</b>	<b>54,671</b>	<b>72,700</b>	<b>82,947</b>	<b>94,802</b>
<b>Overheads</b>						
Transport	4,895	5,402	5,402	5,402	6,605	7,331
Business	4,895	5,402	5,402	5,402	6,605	7,331
<b>TOTAL COST</b>	<b>57,929</b>	<b>70,785</b>	<b>65,476</b>	<b>83,505</b>	<b>96,157</b>	<b>109,464</b>
ANNUAL CO <sub>2</sub> FOOTPRINT (TONNES PER YEAR)	29.58	45.50	36.40	59.15	70.98	81.33

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

increasingly embracing new technology in a bid to cut fuel costs in use – with telematics and improved vehicle systems and fitments more widely accepted as making measurable differences. This trend is set to continue. Equally, the welcome relief noted during 2014, when the new raft of Euro 6 vehicles displayed better fuel economy figures than their Euro 5 forebears, is likely to stimulate some return to new truck purchasing.

No one is expecting new truck registrations to approach levels seen back in 2008. Nevertheless, any boost in confidence in new Euro 6 vehicles' ability to cut running costs is likely to drive a growth trend, despite the inescapable hike in truck capex.

Furthermore, as dual-fuel LNG/CNG conversions gain Euro 6 accreditation, 2015 might also see the start of their move towards the mainstream – and an additional stimulus to the market. **TE**

**Operator costs for 2014: 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 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
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	104.76	104.76	104.76	104.76	104.76	104.76
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	2,686	3,149	3,149	2,686	3,149	3,149
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
	<b>11,923</b>	<b>13,685</b>	<b>16,143</b>	<b>11,843</b>	<b>16,055</b>	<b>16,908</b>
<b>Running costs</b>						
Fuel	39,686	42,020	41,670	31,749	43,863	49,365
Tyres - tractor	1,609	1,474	1,467	1,414	1,362	1,509
Tyres - trailer	2,036	2,003	1,724	2,018	1,859	1,543
Maintenance - tractor	6,332	5,918	5,875	5,259	5,945	8,240
Maintenance - trailer	3,869	3,906	3,284	2,298	3,930	4,622
	<b>53,533</b>	<b>55,321</b>	<b>54,020</b>	<b>42,737</b>	<b>56,959</b>	<b>65,279</b>
<b>Total vehicle cost</b>						
	<b>65,456</b>	<b>69,006</b>	<b>70,163</b>	<b>54,580</b>	<b>73,014</b>	<b>82,187</b>
Employment cost of driver	36,160	36,772	36,772	33,365	36,772	36,772
<b>Cost of vehicle and driver</b>	<b>101,615</b>	<b>105,778</b>	<b>106,935</b>	<b>87,945</b>	<b>109,786</b>	<b>118,959</b>
<b>Overheads</b>						
Transport	8,577	9,495	9,495	8,451	9,495	9,495
Business	8,577	9,495	9,495	8,451	9,495	9,495
<b>TOTAL COST</b>	<b>118,770</b>	<b>124,769</b>	<b>125,926</b>	<b>104,846</b>	<b>128,777</b>	<b>137,950</b>
<b>ANNUAL CO<sub>2</sub> FOOTPRINT (TONNES PER YEAR)</b>	<b>98.59</b>	<b>104.39</b>	<b>103.52</b>	<b>78.87</b>	<b>108.97</b>	<b>122.63</b>