

The RHA's annual survey of cost movements predicts an overall cost increase of 3% coming in 2018, or 4.77% including fuel

Out of our hands

The upheaval and uncertainty in the UK economy caused by 2016's decision to leave the EU hasn't gone away. John Challen assesses what impact it has had on the haulage industry, with help from the RHA and FTA

After a tough 12 months for operators and the transport industry in 2016, life didn't get much easier for operators last year. The process surrounding Brexit has dragged on - at the time of going to press in mid-December, talks had only just progressed into phase two, having overcome hurdles such as the Irish border and 'divorce bill' - and there is plenty more to do. A more pressing wider issue for the future is its impact on the UK's economy, which has faltered, leading to revised growth targets, and increasing interest rate and inflation concerns.

In October 2016 the International Monetary Fund set a growth rate for Britain of 1.1% for 2017, before stronger-than-expected economic activity caused it to raise that forecast to 1.5% last January, and then to 2% three months later. However, by July, that prediction had been downgraded to 1.7%, following poor economic performance. The IMF's forecast for 2018 so far remains unchanged at 1.5%, but is dependent on those Brexit talks.

Truck registrations began last year with the momentum from 2016 (43,231 registrations). Q2 (April-June) saw the highest demand for trucks since 2008: 11,771 vehicles registered. It was a different story, however, in Q3, when there was a 5.7% reverse compared with the 2016 figure (10,597 v 11,242). September's year-to-date total of 32,774 was encouraging: a 0.3% increase on 2016. But that 2017 year-to-date advantage over 2016 had fallen from

3.5% the previous quarter, so it was also a possible sign of tough times ahead.

The number of HGVs on the road in the period April 2016-March 2017 was down 7,142 vehicles over 2015-16 to 370,606. There was a similar trend for O licence figures, which dropped 3,544 to 73,458 from the previous year.

The light commercial vehicle market could not sustain the 20-year high in registrations posted in November 2016: 29,784. November 2017 saw a 11.1% drop year on year to 26,486 registrations. The main factor was a fall in sub-2-tonne (21.7%) and 2.5- to 3-tonne vans (9.4%).

The Road Haulage Association (RHA)'s annual survey of cost movements, Haulage Cost Movement 2017, predicts an overall cost increase of 3% coming in 2018, or 4.77% including fuel.



ECONOMIC BACKDROP

In 2017, consumer price index (CPI) inflation carried on where it left off in 2016, and continued to rise steadily. Starting the year at 1.8%, by May 2017 it was up to 2.9% and eventually reached 3% in September. That figure was a five-year high, and largely attributed to the fall in the value of the UK pound, which resulted in increased costs for imported goods and services.

Having fallen steadily throughout 2016, the unemployment rate stood at 4.7% going into 2017. In the three months to September 2017, the figure was 4.3% (1.42 million unemployed) - this was in line with market

expectations and its lowest since 1975.

Average earnings increased by 2.2% in the three months to September 2017, compared with a year earlier. However, they fell by 0.5% (excluding bonuses) in real terms because the rate of increase was less than that of underlying inflation.

The Bank of England (BoE) interest rate, having been held at 0.5% since 2009, was cut to 0.25% in 2016. In 2017 there was further movement - back to 0.5% - due to what BoE governor Mark Carney described as "Brexit-related constraints". He added that "about two more interest rate increases" would be required to reach the desired levels of growth in the next three years.



TYRES

Certainly 2016 saw hardly any movement in tyre prices. So Goodyear's announcement in early 2017 that it was increasing prices by 2.85% due to rising rubber costs was a marked jump. There were deals to be had, however, if operators knew where to find them. For example, the RHA reports that Goodyear and Dunlop have been offering RHA members a rebate on top of any deal already brokered with a supplier, of up to £20 a tyre for 22.5-in rim diameters.

Last year also saw more engagement between operators and fleets to emphasise the importance of monitoring tyre pressures closely - in order to maximise fuel economy benefits - as well as manual inspections of tread levels and tyre condition.

Operator costs for 2017: LCVs up to 3.5 tonnes gvw

	Car derivative vans - diesel	Vans of 3.5 tonnes gvw - diesel
General information		
Annual mileage	24,000	35,000
Life (years)	7.0	6.0
Life (miles)	168,000	210,000
Replacement cost (£)	14,424	26,186
Fuel consumption - mpg	40.1	26.0
Annual fuel usage (litres)	2,721	6,120
Fuel price - pence per litre	96.21	96.21
Tyre life (miles)	30,000	30,000
Standing costs		
VED	240	240
Insurance	702	1,083
Depreciation	1,401	3,579
	2,343	4,902
Running costs		
Fuel	2,618	5,888
Tyres	172	456
Maintenance	1,320	2,838
	4,110	9,182
Total vehicle cost	6,453	14,084
Overheads		
Transport	1,542	1,542
TOTAL COST	7,995	15,626
ANNUAL CO ₂ FOOTPRINT (TONNES PER YEAR)	7.07	15.91

Source of data: Freight Transport Association (Manager's Guide to Distribution Costs, October 2017 update)



FUEL COSTS

The cost of fuel is rising. In percentage terms diesel costs increased 7.06% over the RHA survey year (to September 2017) or 9.4% towards the end of November. These figures are based on the average RHA bulk fuel survey price, which was 95.18ppl (pence per litre) ex VAT in September 2017, an increase from 88.9ppl the previous year.

However, fuel duty has remained at 57.95ppl since March 2011, and the planned RPI (retail prices index) increase due for April 2018 was again frozen in the recent budget.

That said, fuel costs are still rising, mostly due to OPEC restrictions that have been in place all year, and more recent concerns of increasing hostility between Saudi Arabia and Iran. A temporary high took Brent crude oil to nearly \$65 a barrel in mid-November; it has since receded a little, but remains around \$63. This was the first time Brent had gone above \$60 since July 2015.



VEHICLE ACQUISITION

Borrowing money is still cheap, but trucks are not - and with

inflation rising, the cost of credit may start to tighten. RHA members typically operate in the hire-and-reward sector, and their most commonly used vehicle is the 44-tonne 6x2 artic combination. Last year saw a change to how vehicles are typically acquired, as the share of purchase-only operators rose to 55%, up from 52%, while those using lease/contract hire options only fell to 26%, down from 28% in 2016.

The RHA report notes that previous years' vehicle prices were affected by certain truck manufacturers judged by the European Commission to have acted as a cartel. The association is currently bringing a group claim for compensation on behalf of operators against the six manufacturers named, which could impact future prices and remarketing values.



TAXATION

As in recent years, Vehicle Excise Duty (VED) and Road User Levy (RUL) charges remain unchanged. The VED rates to be amended upwards for diesel cars in 2018 won't affect HGVs, confirmed chancellor Phillip Hammond in April 2017. While trade associations were hoping for a cut to the RUL, it didn't materialise. But hope remains: "The government will work with industry to update the levy so that it rewards hauliers that plan their routes efficiently, to encourage the efficient use of roads and to improve air quality," promised Hammond.



INSURANCE

There was a 2.5% increase in insurance costs in 2016, according to an RHA member survey; however, that rate more than doubled in 2017, with 5.4% reported as the average increase. For more than two years, insurance

Operator costs for 2017: rigids 7.5-32 tonnes gvw

	7.5 tonne gvw - box or curtainsided	10 to 12 tonnes gvw - box or curtainsided	12 to 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 (£)	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
Fuel price - pence per litre	96.21	96.21	96.21	96.21	96.21	96.21
Tyre life (miles)	55,000	50,000	50,000	60,000	55,000	50,000
Standing costs						
VED and RUL	165	200	200	650	650	1,200
Insurance	2,070	1,955	1,999	2,638	2,348	2,919
Depreciation	5,169	8,168	8,737	8,106	12,061	11,800
	7,404	10,323	10,936	11,394	15,059	15,919
Running costs						
Fuel	10,935	16,823	13,458	21,869	26,243	30,070
Tyres	428	1,216	900	1,441	1,502	1,893
Maintenance	4,446	5,955	3,676	6,327	8,136	12,059
	15,809	23,994	18,034	29,637	35,881	44,022
Total vehicle cost	23,213	34,317	28,970	41,031	50,940	59,941
Employment cost of driver	26,732	28,789	28,789	33,436	32,211	33,678
Cost of vehicle and driver	49,945	63,106	57,759	74,467	83,151	93,619
Overheads						
Transport	5,107	5,636	5,636	5,636	6,890	7,648
Business	5,107	5,636	5,636	5,636	6,890	7,648
TOTAL COST	60,159	74,378	69,031	85,739	96,931	108,915
ANNUAL CO ₂ FOOTPRINT (TONNES PER YEAR)	29.55	45.46	36.37	59.10	70.92	81.26

Source of data: FTA (Manager's Guide to Distribution Costs, October 2017 update)

costs have been affected by insurance premium tax (IPT) increases - from 6% in 2015 to 12% in June 2017. But fortunately no further increases for IPT were announced in the autumn budget.

On the other hand, there was more evidence that policies are increasing levels of insurance claims excesses to keep costs down. There is also uncertainty over the Ogden

rate that defines what victims of serious road collisions could expect to be paid following an incident. In February 2017, the discount rate was cut from 2.5% to -0.75%, prompting many insurers to raise their premiums to boost their claims reserves in anticipation of larger victim payouts. However, since then, the government has agreed to reconsider the rate and how it is calculated, so insurers are now reducing charges again.



REPAIRS AND MAINTENANCE

Euro VI truck engines require significant expenditure on maintenance.

As operators continue to overhaul their fleets, they are beginning to realise the impact on the balance sheet. Last year the cost increased to 3%, such is the level of complexity and need for investment in specialised monitoring equipment.

The current driver CPC training cycle ends in September 2019, and many firms will be left exposed after not following an annual refresher system

Contracting out maintenance to a service provider may be a way of locking down costs. Such packages have grown in number and evolved in terms of product offering, with many also including telematics and tracking services.



OVERHEAD COSTS

It is important to remember that overheads consist of all of the business costs not specifically identified in the cost sheets, and normally include management costs and salaries, administration and operational overheads. Overheads are assessed as the total for the business and allocated to vehicles on a pro-rata basis. The simplest way of doing this is in proportion to vehicle gross weights.

The increases in insurance premium tax to 12%, mentioned above, are included in this, and affected goods in transit.



DRIVER EMPLOYMENT AND APPRENTICESHIPS

Costs for covering the driver position have increased again, but not quite as much as last year, according to RHA members (2.79% v 3.5%). Rising costs include any cover, national insurance, training, and so on. A shortage of drivers was reported by 49% of respondents to the RHA survey; the industry has a shortfall of around 45,000 drivers and the situation doesn't look likely to improve in the short term.

Meanwhile, after several years of campaigning, RHA finally managed to persuade HMRC to issue guidance on overnight payments to drivers in September 2017. It had complained that, in the absence of a unified national policy explaining exactly what was required, hauliers were being

advised locally about onerous receipt-keeping and auditing standards.

Also, trailblazer apprenticeships were introduced in April 2017. New funding limits of £5,000 were imposed for the Level 2 LGV driver apprenticeship. A month later, the apprenticeship levy was introduced. It requires contributions from employers with payrolls above £3 million per year.

During what was a period of uncertainty surrounding the levy, apprenticeships generally suffered. The sector has seen a considerable drop in apprenticeship sign-ups. Indeed, funding for smaller employers and training providers has been limited, or even stopped, in some cases.



DRIVER CPC

EU law will be retained post-Brexit, so changes to the CPC structure - if any - will be a long time coming. Many operators rely on in-house driver CPC training provision, which brings some economic benefit, especially when tailored to meet their drivers' actual training needs.

The current driver CPC training cycle ends in September 2019, and many firms will be left exposed after not following an annual refresher system. This failure could be related to staff retention issues. Leaving it to the last minute may reduce operators' options when booking courses.



THE FUTURE

Uncertainty looks set to continue as Brexit negotiations between the government and EU carry on; it is very difficult to predict the impact on operators without knowing what kind of deal the country is likely get from the European Union. In the meantime, costs are increasing in key areas such as wages, vehicles and fuel - the latter much less predictably than the other two.

Additionally, London is becoming a restricted market for many operators. The mayor's pollution stance threatens haulage with an earlier-than-expected implementation of the ultra low emission zone (ULEZ) in April 2019, as well as proposals to make the whole of the capital a ULEZ area from October 2020.

Landfill tax charges are also set to rise in April 2018, to £88.95 a tonne for the standard rate (from £86.10). The lower rate is moving from £2.70 to £2.80 a tonne. The waste industry needs to keep a check on the quality of recycling materials, especially where containers destined for China are concerned, so as to prevent rejection and associated costs.

On a more positive note, the government plans to reduce the Severn bridge tolls in January 2018, once the bridges come back into public ownership, and abolish them altogether at the end of 2018. This will help operators who frequently cross back and forth from England to Wales. Daily charges are currently £20 per crossing.

More good news: the Confederation of British Industry (CBI) predicted in December 2017 that unemployment would continue to fall further, to 1.5% in 2018, and then to 1.3% in 2019. "Jobs are still being created, so the strong levels of employment will support consumption growth," commented the CBI's chief economist Rain Newton-Smith.

Trucks are the lifeblood of the UK. The free flow of freight might be reduced once Brexit begins, as neither suitable customs procedures nor staff are yet in place. But there have been hurdles to overcome in the past, and no doubt these fresh challenges will also lead to new opportunities for the enterprising companies that make up the haulage industry. [TE](http://www.transportengineer.org.uk)

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Operator costs for 2017: tractor units and semi-trailers, 32-44 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	32.5-tonne gvw drawbar combination: 2-axle drawing vehicle	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	56,579	81,300	81,300	63,363	99,747	106,680
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	96.21	96.21	96.21	96.21	96.21	96.21
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 and RUL	1,200	1,200	1,200	880	1,850	1,200
Insurance	2,919	3,435	3,435	2,919	3,435	3,435
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
	12,272	16,203	17,605	12,077	20,961	21,259
Running costs						
Fuel	36,449	38,593	38,272	29,159	40,286	45,339
Tyres - tractor	1,627	1,491	1,483	1,429	1,377	1,527
Tyres - trailer	2,058	2,026	1,743	2,039	1,880	1,562
Maintenance - tractor	6,701	6,266	6,219	5,569	6,297	8,729
Maintenance - trailer	4,101	4,142	3,478	2,434	4,156	4,901
	50,936	52,518	51,195	40,630	53,996	62,058
Total vehicle cost	63,208	68,721	68,800	52,707	74,957	83,317
Employment cost of driver	35,715	36,354	36,354	34,268	36,354	36,354
Cost of vehicle and driver	98,923	105,075	105,154	86,975	111,311	119,671
Overheads						
Transport	8,948	9,906	9,906	8,816	9,906	9,906
Business	8,948	9,906	9,906	8,816	9,906	9,906
TOTAL COST	116,819	124,887	124,966	104,607	131,123	139,483
ANNUAL CO ₂ FOOTPRINT (TONNES PER YEAR)	98.50	104.30	103.43	78.80	108.87	122.53

Source of data: FTA (Manager's Guide to Distribution Costs, October 2017 update)