

BUCKLE UP: enjoy the ride

Despite fluctuating growth rates throughout 2015, the UK continued its recovery post 2008, and there are now reasons to be cheerful in the year ahead. John Challen taps into RHA and FTA data and expertise, and highlights where operators might expect to spend more and also potentially less in 2016

The road back from the 2008 recession has been a long and arduous one, sadly with casualties along the way. Recovery has also been drawn out - but less painful than the dark days before it - with the UK failing to hit predicted levels of growth in 2015, largely due to poor-performing construction and manufacturing sectors. GDP (gross domestic product) grew by 0.5% between July and September 2015, according to ONS (Office for National Statistics) figures in October - down from 0.7% in the second quarter, and lower than the 0.6% growth predicted by analysts for Q3.

Some of those same analysts were predicting a slower and bumpier ride in 2016, but the vast majority has dismissed fears of the UK lurching into another recession. Indeed, the November 2015 OECD (Organisation of Economic Co-operation and Development) report for the UK states that economic growth is "projected to continue at a robust pace over the coming two years, driven by domestic demand".

Meanwhile, last July the IMF (International Monetary Fund) cut its forecast for UK growth from 2.7% to 2.4% for 2015. As we approach the end of the year (and at the time of going to press) that seems as accurate a prediction as we're likely to get. The IMF's figure for 2016 has also been revised down slightly - from 2.3% to 2.2%.

The number of HGVs on UK roads increased in 2014/15 by 6,104 (to 343,674), but O licence numbers continued to dwindle, now standing at 75,595. Although this period's decline of 2,137 was far smaller than losses seen in 2012/13 and 2013/14 (3,178 and 3,162 respectively), it continues a downward trend, which can be traced back to 2007/8, when there were close to 100,000 O licences (98,316).

According to the SMMT (Society of Motor Manufacturers and Traders), commercial vehicle registrations for November

2015 were up for LCVs and HGVs, compared with the same period in 2014 (by 15.7% and 22.3% respectively). The organisation believes that the numbers reflect returning consumer confidence led by steady growth across much of the transport market. Once again, vans led the way, with October 2015 recording a 6.2% month-on-month increase, as well as growth in nine out of the 10 months of the year. November's 29,051 registered units contributed to a year-to-date sales figure of 341,420 and represented a 9.6% increase on November 2014.

In the truck sector (vehicles over 6 tonnes), November 2015 recorded a 55.8% jump in registrations (4,252), compared with the previous November. This was to be expected, however, given that the corresponding month in 2014 coincided with the lull after changes to type approval legislation for bodied vehicles throughout the range. The November 2015 year-to-date figure for heavy vehicles was 47,184 - suggesting that breaking through the 50,000 barrier for 2015 is a distinct possibility.

Meanwhile, the SMMT currently forecasts 385,000 new LCV registrations next year, up 2.7% on the 2015 forecast volume. While no firm predictions have yet been set for HGVs, educated guesses suggest that registrations will remain closely in line with the 2015 performance.

Turning to operator costs, the RHA's annual survey of movements calculates a 1.82% average rise, excluding fuel. Once fuel (the price of which has fallen by more than 16%) is taken into account, this number drops back into negative growth territory compared to the beginning of 2015 (down by 3.36%). As we look forward to the next 12 months, however, it is unlikely that fuel costs will remain so low, meaning a growing likelihood of a financial impact for operators potentially just around the corner.



ECONOMIC BACKDROP

In contrast to 2014’s small inflation increases, 2015 has seen the CPI (consumer prices index) in deflation mode, albeit by similar sized margins. Core CPI (excluding energy and food prices) remains slightly higher at around +1%.

The Bank of England, in its inflation report for November 2015, indicated that “domestic momentum remains resilient with firm consumer confidence... Income growth is expected to be at its strongest since the 2008 financial crisis”. It also warned that “wage growth will cause cost pressures, which may be volatile and is certainly being seen in the haulage sector”.

Elsewhere in the numbers, the UK’s unemployment rate fell to a seven-year low of 5.3% in the three months to September 2015 (1.75 million jobless people), while wage growth rose. “Projected increases in labour productivity should underpin real wage growth,” says the November OECD report. “The trade deficit remained contained, but weak global trade and past currency appreciation are holding back exports. Inflation is expected to increase towards the 2% inflation target as pressures on capacity emerge.”

Turning to interest rates, the UK has become accustomed to a base of 0.5% - the record low in place since March 2009 - and there was no change in 2015. The Bank of England’s monetary policy committee voted overwhelmingly (8–1) in December to maintain the constant. What happens next is up for debate, with some experts expecting a rate rise in spring 2016, while others believe the bank will wait until 2017.



TYRES

Operators won’t be surprised to hear that tyre prices effectively stood still during 2105, with RHA members confirming that picture. This stagnation is partly explained by lower oil prices, which impacted overall costs of tyre production.

Tyres remain a largely personal choice among operators - although many now prefer popular premium brands, rather than budget versions. Anecdotally, operators report that they typically use new premium tyres on steering axles then remould and swap locations. A few vehemently reject remoulds. A growing number of operators throughout 2015 have also listed contract purchasing as their preferred tyres option, with most being on a ppk/ppm (pence per km/mile) basis.

Meanwhile, more than 80% RHA members say they operate tyre policies involving independent monthly checks on tyre condition, tread and swapping tyre pairs around. Most advise that this benefits them, with increased tyre life and reduced on-the-road problems the main benefits.



FUEL COSTS

The sudden drop in oil and fuel prices towards the end of 2014 continued into early 2015. Throughout the remainder of the year prices have remained low and, as we go to press, are

Operator costs for 2015: LCVs to 3.5 tonnes gvw. Source: FTA

	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 (£)	10,387	23,080
Fuel consumption - mpg	40.1	26.0
Annual fuel usage (litres)	2,721	6,120
Fuel price - pence per litre	87.63	87.63
Tyre life (miles)	30,000	30,000
Standing costs		
VED	230	230
Insurance	652	1,007
Depreciation	1,009	3,154
	1,891	4,391
Running costs		
Fuel	2,384	5,363
Tyres	169	449
Maintenance	1,239	2,667
	3,792	8,479
Total vehicle cost	5,683	12,870
Overheads		
Transport	1,470	1,490
TOTAL COST	7,173	14,360
ANNUAL CO₂ FOOTPRINT (TONNES PER YEAR)	7.03	15.81

falling further. Compared with 2014’s price drop of 6.5%, from September 2014 to October 2015 prices fell by 16.35%.

The average bulk price paid by RHA members, as reported in that organisation’s weekly fuel survey since October, stands at 91.7ppl and a little more for card-related diesel, at 93.4ppl. That difference represents a potential cost of nearly 2% for hauliers failing to get bulk rates.

Using its closing point figure (from 25 September 2015) of 86.69ppl for bulk fuel, RHA estimates that an average 44-tonne 6x2 truck travelling 73,000 miles a year is paying £35,962 for diesel. This figure now equates to just under 27.5% of the vehicle’s total operating cost.

Analysts are predicting that, with China’s growth slowing and Iranian oil exports coming back on stream, oversupply will continue next year and prices will remain low. Nevertheless, operators are also warned to expect fuel duty increases from April 2016. While the chancellor didn’t mention this in his latest Autumn Statement, increases in fuel duty appear visible

in the 2015 Spending Review and Autumn Statement document under the OBR (Office for Budget Responsibility) economic and fiscal outlook section.



VEHICLE ACQUISITION

RHA reports a slight increase in the cost of new vehicles, but also adds that 2015 saw large variations in these increases. Those depended not only on the manufacturer, but also the specification and model detail.

Meanwhile, despite scepticism about Euro 6 legislation in 2013 and 2014, increasing numbers of operators have been citing enhanced performance and efficiency as reasons for swapping out older Euro 5 trucks. As a result, older vehicles are increasingly being replaced earlier than originally planned.

In August 2015, the chancellor announced that, from

January 2016 the annual investment allowance - which allows businesses to deduct plant and machinery items from first year profits before tax - will be set at £200,000 for the rest of the current parliament. This is £300,000 less than the previous temporary limit.



ROAD TAX

In the March 2015 Budget, it was announced that Vehicle Excise Duty and the Road User Levy were frozen for one year from 1 April 2015. The chancellor revealed, in the Autumn Statement, a Road Investment Strategy which will have a road fund directly from VED payments to commence 2020-21.

The Road User Levy - introduced in April 2014 - continued to divide opinion throughout the year. While

Operator costs for 2015: Rigid 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 (£)	35,428	45,629	50,358	54,648	69,190	86,903
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	87.63	87.63	87.63	87.63	87.63	87.63
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	1,925	1,818	1,859	2,452	2,183	2,714
Depreciation	4,302	7,392	8,158	6,245	9,225	10,428
	6,392	9,410	10,217	9,348	12,058	14,342
Running costs						
Fuel	9,959	15,322	12,258	19,919	23,903	27,388
Tyres	413	1,203	890	1,426	1,486	1,869
Maintenance	3,896	5,590	3,454	5,938	7,562	11,314
	14,268	22,115	16,601	27,283	32,914	40,571
Total vehicle cost						
	20,661	31,525	26,818	36,630	44,972	54,913
Employment cost of driver	27,243	25,993	25,993	32,185	32,874	34,842
Cost of vehicle and driver	47,903	57,517	52,811	68,815	77,846	89,755
Overheads						
Transport	4,933	5,444	5,444	5,444	6,656	7,388
Business	4,933	5,444	5,444	5,444	6,656	7,388
TOTAL COST						
	57,770	68,406	63,699	79,703	91,158	104,531
ANNUAL CO₂ FOOTPRINT (TONNES PER YEAR)						
	29.37	45.18	36.14	58.73	70.48	80.76

government figures showed the levy generated £44 million in its first year, it was also cited by the DVSA as the primary reason behind an increase in the number of non-UK registered vehicles being sanctioned for traffic offences (13.8% of the 2,682 checked in 2013/14, to 16.3% of the 2,574 checked in 2014/15).



INSURANCE

Nearly three quarters of RHA members surveyed advised that their insurance premiums have reduced, remained unchanged, or increased by up to 5% last year. That is more or less in line with the position seen in 2014, which followed increases in

Operator costs for 2015: Tractor 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	56,579	62,245	72,698	63,363	66,653	77,936
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	87.63	87.63	87.63	87.63	87.63	87.63
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	2,714	3,194	3,194	2,714	3,194	3,194
Depreciation - tractor	6,294	7,292	9,935	6,574	9,109	10,651
Depreciation - trailer	1,859	2,044	1,859	1,704	2,044	2,044
	12,067	13,730	16,188	11,871	16,198	17,090
Running costs						
Fuel	33,198	35,151	34,858	26,558	36,692	41,295
Tyres - tractor	1,609	1,474	1,467	1,414	1,361	1,508
Tyres - trailer	2,035	2,003	1,723	2,017	1,858	1,543
Maintenance - tractor	6,296	5,886	5,842	5,228	5,911	8,193
Maintenance - trailer	3,847	3,885	3,266	2,285	3,907	4,596
	46,986	48,398	47,155	37,502	49,731	57,135
Total vehicle cost						
	59,053	62,128	63,343	49,373	65,929	74,225
Employment cost of driver	36,463	37,100	37,100	33,303	37,100	37,100
Cost of vehicle and driver	95,516	99,228	100,443	82,676	103,028	111,324
Overheads						
Transport	8,644	9,569	9,569	8,516	9,569	9,569
Business	8,644	9,569	9,569	8,516	9,569	9,569
TOTAL COST	112,804	118,366	119,581	99,708	122,167	130,463
ANNUAL CO ₂ FOOTPRINT (TONNES PER YEAR)	97.89	103.64	102.78	78.31	108.19	121.76

2013. That said, since November 2015 policies have been subject to an increased insurance premium tax, from 6% to 9.5% – a tax hike of 58%. “Members are not happy and we are not happy... On the 44-tonne insurance example [£3,760] this would work out at £124 extra on renewal,” states the RHA.

Elsewhere, the issue of false whiplash claims is now to be addressed by the government, according to its Autumn Statement. Such claims are estimated to cost the UK £2 billion a year, and a consultation is due for publication in the New Year. The stated aim is to reduce such claims by half, thus also paving the way for reduced prices.



REPAIR AND MAINTENANCE

R&M saw costs increase 2% overall. RHA states that 62% of members do not use telematics to monitor this element of cost. Meanwhile, 60% say contracts are in place for R&M, with the rest paying on demand. Just under half advise that they still have their own workshops.

This may change. With HGVs’ ever-growing sophistication, operators are increasingly indicating a preference for fixed-cost contracts, with work generally undertaken by truck manufacturers’ dealerships, using trained technicians.

Manufacturers offer a range of R&M packages, with varying levels of cover, from the basic driveline contract up to a fully comprehensive product that includes telematics-linked preventive maintenance, breakdown support, non-driveline repairs and compliance coverage.



OVERHEAD COSTS

Additional costs for offices, back room staff, rates and goods in transit insurance added an average of 2.24% to overall operator costs.

Following big jumps in 2014, particularly in terms of items such as business rates, water and electricity, last year’s increase was not as severe as many have feared.

Notable items that had pushed up costs included computer packages for payroll, computer expenses, cleaning, telephone lines and water rates.



DRIVER EMPLOYMENT

Costs for drivers are increasing, partly due to issues surrounding nationwide driver shortages. Hence, for the second year running there was an increase in associated costs. The RHA now warns that this trend is set to continue into the foreseeable future.

Figures from the ONS show that in the year to April 2015, wages rose by 1.8% to a median of £27,600. However, annual pay rises for HGV drivers were above the ‘all employment roles’ average at 3.2%. “The think tank Resolution Foundation advised that average pay had risen at its fastest since 2007 at 2.5%, as reported by *The Guardian*, in June,” says the RHA.

Elsewhere, there are concerns in transport surrounding pensions costs. Under Automatic Enrolment, the majority of

RHA members’ employees started to qualify earlier last year (in the ‘30–49 staff’ category). Others in the ‘under 30 staff’ category will become eligible early this year.



DRIVER CPC

With the first five-year period of DCPC ending in 2014, last year saw the number of uploaded hours drop by a huge 72%. In 2014, between April and October nearly seven million DCPC hours were uploaded. Over the same period in 2015 that figure reduced to less than two million.

Operators are advised to adopt a regime of a day-a-year for DCPC. However, because this does not yet reflect reality on the ground, RHA believes training “will not increase by any great margin until the latter part of 2016”. Driver training is expected to dominate closer towards the September 2019 deadline. “It is clear that some operators have yet to take on board that DCPC is a continuous cycle and that we have entered the next five-year phase,” comments RHA.

In contrast, RHA Training has seen an increase in enquiries for driver trainer training from operators considering taking DCPC in house. This approach could be best, particularly if organisations design courses to match their business and operational requirements.



THE FUTURE

Whatever the success of the UK economy and that of fleet operators in 2016, the ongoing driver shortage is likely to remain a serious problem for the foreseeable future. “Estimated at 45,000, the driver deficit is expected to rise to 60,000 as 35,000 current drivers are due to retire over the next two years,” says RHA. And the organisation adds that the average driver age is 53.

For drivers that remain – as well as transport managers – refresher training is being encouraged. Courses enable skills levels to be maintained but also improve options for cost cutting elsewhere, as drivers are reminded of their duties not only to prevent accidents but also to minimise mechanical damage to their vehicles.

As mentioned earlier, it is not known when the base rate will rise from 0.5%. When this does happen, however, many predict tougher times for operators as they look to battle the inevitable price increases of products and services. Fuel costs are also expected to rise longer term. A reduction of more than 16%, as recorded last year, is unusual. With political instability in Syria and uncertainties over other oil-producing countries’ reactions, this area of costs is one to watch.

Finally, in July 2016 a new SOLAS (Safety of Life at Sea) requirement for verified container weighing may add costs or delays to hauliers at UK ports. Arriving at port without the required weighbill is likely to incur a penalty charge so operators should raise issues with customers prior to collecting containers. Ro-Ro work is not affected by this requirement. [IT](#)