

# The waiting game

Few would disagree that the past 12 months have provided another challenging year for transport operators. However, many suggest more tough times lie ahead. John Challen brings you TE's must-read guide to 2012's operating costs, and offers insights into what to expect for 2013

**W**ith Euro 6 emissions legislation fast approaching, and the pressure on to increase operational efficiency, many operators must be wondering if the good times will ever come back. Five years after the country officially went into recession, numbers of 'O' licence holders and trucks in operation continue to fall – as does the overall number of companies involved in the business of goods transportation.

Following the drop in the number of O-licences in 2010–11 to 87,747, that trend has continued over the last 12 months, with the figure falling further to 84,072 licences. Meanwhile, the total number of vehicles over 3.5 tonnes in operation also contracted from 365,524 in 2010–2011 to 342,473 in 2011–2012, according to the RHA (Road Haulage Association). For five-year reductions, the numbers are 14,244 for 'O' licences and 38,636 for trucks.

That said, after 2011's hike in operator costs of 7.8% (3.2%, excluding fuel), there was much more encouraging news in 2012, as the total increase in costs, year-on-year, was calculated as 2.9% (2.5%, excluding fuel). Still an increase, then, but maybe not as bad as some operators might have predicted.

Nevertheless – and without wishing to sound like a broken record – efficiency continues to be the number one requirement and indeed one of the few

tools operators have at their disposal to bear down on increasing outgoings. But what price do transport professionals have to pay for improving efficiency? How many can find the investment needed to take advantage of, for example, telematics, more economical vehicles and multi-skilled labour?

Whatever the costs, many operators have found it more difficult in 2012 to fund initiatives. "Haulage firms are either short of cash or they have some cash and are reluctant to invest in what is an uncertain economy, without the right relationships with good customers," states the RHA in its 'Annual Cost of Movement' report. There are several reasons, but the RHA cites one in particular: "The reduction in first-year investment allowances in April 2012 hit firms hard. The reduction in the annual investment allowances from £100,000 to just £25,000 will have hit small hauliers especially hard."

And many RHA members looking to the financial sector for support have reported increasing dissatisfaction with banks and a growing consequent reluctance to rely on them. Part of the frustration has been borne out of a sharp increase in lending costs, as banks seek to re-capitalise. "The banking sector has confirmed a trend away from offering overdraft facilities and is replacing those with invoice financing arrangements that are generally more expensive," reports the RHA.

Much of which is reflected in the November year-to-date figure for truck and van registrations, which was down 5%, compared with the same period in 2011, at 265,959 units (42,123 commercial vehicles above 3.5 tonnes and 223,836 vans). Nevertheless, those same figures reveal that truck registrations were actually up 9.9% year-on-year – although the last available month's figures (November 2012) show a total of 3,885 trucks registered, indicating a drop of 13.7% against November 2011.

"November saw van and truck volumes fall, compounding the 5% drop in the market for the year-to-date," said outgoing SMMT (Society of Motor Manufacturers and Traders) chief executive Paul Everitt. "This year has seen the van market re-adjust after bouncing back from recession, while truck volumes have been steady," he continued. "We look forward to next year where greater stability should see the van market return to slow growth."



## Economic backdrop

During the course of 2012, the number of people in the UK in employment has been more or less steadily increasing and, by October, unemployment had dropped to just 7.8%, remaining approximately at this level in November 2012. Indeed, aside from a slight increase in August, unemployment rates have been falling since the turn

of the year, when the figure was 8.4%. By October, the number of people without a job was 2.51 million, down 82,000 on the previous quarter and 128,000 on the same period in 2011.

Meanwhile, the Bank of England base rate remained unchanged throughout 2012 at 0.5% – the same level it has been at since way back in February 2009. On the face of it, that stability works well for the vast majority of the transport industry. However, the wise might advise looking to the future with some trepidation.

Why? Several contributors, but inflation – as measured by the CPI (consumer price index) – rose from 2.2% to 2.7% between September and October 2012. It was influenced by a wide range of factors, including increased tuition fees and food prices. However, that increase has reversed an otherwise downward trend that had seen inflation fall from 3.6% in January 2012 down to the September low point. Watch this space.



## Tyres

The past two years have shown increases in tyre prices, so few were surprised by the hikes through 2012. Pundits have been advising operators

to end multi-year deals, which have pushed costs up overall, in the hope that the trend might be reversed. However, according to the RHA, fewer members have advised that their tyre costs are increasing (81% versus 91% in the previous year).

Best advice remains, however, that for 2013 and beyond, rubber prices are set to rise. Some operators have been countering that by moving away from premium brands. However, evidence continues to show that buying cheaply may be better in the short term, but is likely to impact on whole life costs.

Another concern, initially highlighted in 2011, was an increase in trucks shod with premium tyres from new, but being renewed with cheaper brands. Fine



**Operator costs for 2012: 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	18,000	30,000	35,000
Life (Years)	6.0	8.0	6.0	6.0
Life (miles)	90,000	144,000	180,000	210,000
Replacement cost (£)	10,339	10,134	17,862	22,405
Fuel consumption - mpg	30.0	36.6	17.0	24.0
Annual fuel usage (litres)	2,273	2,236	8,022	6,630
Fuel price - pence per litre	113.65	114.85	113.65	114.85
Tyre life (miles)	25,000	30,000	30,000	30,000
<b>Standing costs</b>				
VED	215	215	215	215
Insurance	455	455	840	840
Depreciation	1,379	861	2,560	3,062
	<b>2,049</b>	<b>1,532</b>	<b>3,616</b>	<b>4,117</b>
<b>Running costs</b>				
Fuel	2,583	2,568	9,117	7,614
Tyres	94	113	296	436
Maintenance	901	920	2,387	2,640
	<b>3,578</b>	<b>3,601</b>	<b>11,800</b>	<b>10,690</b>
<b>Total vehicle cost</b>	<b>5,627</b>	<b>5,133</b>	<b>15,416</b>	<b>14,808</b>
<b>Overheads</b>				
Transport	1,407	1,407	1,407	1,407
<b>TOTAL COST</b>	<b>7,033</b>	<b>6,539</b>	<b>16,823</b>	<b>16,214</b>
ANNUAL CO <sub>2</sub> FOOTPRINT (TONNES PER YEAR)	5.10	5.78	17.99	17.13



for truck owners taking the gamble, maybe; but leasers shouldn't be surprised to see a bill at handover time for replacement rubber, back to the previous specification.



**Fuel costs**

Hauliers were prepared for the worst at the beginning of 2012, having endured price increases of a couple of pence per litre (ppl) in the lead-up to Christmas 2011. Sure enough, fuel costs continued to head north until the end of March last year, when the price reached 117.66ppl.

There then followed a three-month decline and a low of 106.52ppl, with Brent crude as low as \$88 a barrel at the end of June. This price decrease was spurred on by weak European and other economies reducing demand. Of course, the inevitable did happen and increases restarted, not helped by further tensions around the world.

However, towards the end of the year, the revelation in the government's Autumn Statement that the fuel duty increase of 3ppl had not just been postponed again, but cancelled, was greeted with relief from all quarters. Using a standard truck (8mpg and 71,000 miles a year), the news translated to £1,218 per truck that does not have to be added to the cost line – and won't be for 2013.



**Vehicles and depreciation**

RHA figures suggest that the cost of running commercial vehicles, taking into account depreciation, increased by 5.93% year-on-year – down slightly from the 7.2% hike of 12 months previously.

That might be explained by reduced spend, as operators sweat their assets for longer in tougher economic times. However, in general terms, the market for new trucks may have dipped slightly in October, but over the rolling year it was up 16.3%, according to SMMT figures. The society also reported lower growth for smaller vehicles.

As for methods of vehicle acquisition, RHA numbers suggest that most members still own, rather than lease, their vehicles. In fact, 79% use purchase as an option, with 44% saying it is their only method of obtaining trucks.

Arguably, owning their trucks has helped RHA members and others pull through the recession, as vehicles could be worked harder for longer, without penalties – other than increased maintenance costs.



**Road tax**

There may have been no change in road tax, but operators can expect to benefit from lower charges overall in 2013, with the introduction of the road user levy. This is designed to reclaim some revenue from foreign registered trucks – although it might not

be instigated until 2014. The levy would cover up to £1,000 for HGVs starting at 12 tonnes and over – the cost depending on weight and axles.



**Insurance**

According to figures from the RHA, more than half of its members saw insurance costs rise during 2012.

However, with 14% indicating that they had actually seen a cut in their premiums, the onus appears to be on individuals putting in some effort and using some ingenuity to get deals that may not be easy to come by, but are available.

RHA's year-end survey provides examples of hauliers focusing on safety, for example, to achieve savings. Some, with a shrewd eye for a deal, managed to get reductions of up to 25%. Others, however, have settled for a 45% increase and 2013 looks no easier.



**Repair and maintenance**

During these challenging economic times, as vehicles are worked harder and longer, keeping vehicles in good order is even more of a priority – for both operators and drivers alike. It also remains essential when considering the effects of failures on the 'good repute' of transport managers (under EU 1071/2009) and the increased impact on operators' OCRS (operator compliance risk score), particularly in view of the recent changes by VOSA.

Proper procedures start with the drivers' daily walk-around checks, and fleet managers are being advised to ensure that these are completed, recorded and followed up correctly. The emphasis has to be on reducing roadworthiness and compliance issues. And the same applies to managing driving/working time. Advice for 2013 is the same as that in 2012: ensure that proper systems are in place, that they are being followed – and that managers fully investigate issues such as drivers 'beating the clock'.

In testing terms, VOSA reported in November 2012 that overall first-time pass rates for trucks had reached 79.9%, an increase of a few per cent on already improved figures from earlier in the year. However, there is no room for complacency.



**Overheads**

RHA data suggests that 72% of hauliers who were surveyed have seen their overheads rise during 2012. The most widely reported increases were in business rates, and water and power bills.

In response, many operators have been trying to tie these down through longer-term contracts and/or switching supplier to find better deals. Price inflation has also been reported on some items, such as goods in transit insurance.

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**Driver employment**

For 2012, Income Data Services' annual report on pay shows typical increases of between zero and 2%, which is broadly in line with RHA's own

figure for driver pay settlements in the transport sector of 1.46%.

The RHA also reports that associated costs, such as paying attendants for wide load movements, might be affected by minimum wage increase requirements. The association also adds, however, that mostly these are not relevant HGV drivers.



**Driver CPC**

The September 2014 starting date for Driver CPC is approaching fast and RHA figures show that in 2012 more operators have been reacting.

Whereas, in 2011, 24% of responding members advised that they had increased their training expenditure to deal with DCPC, in 2012 that figure had increased to 30%.



**Outlook for 2013**

Uncertainty and concern seem to be the joint themes for the coming months. While the UK is officially out of recession, this situation may have been artificially manufactured by spending and growth associated with the London Olympics.

'Triple-dip recession' became a buzz-phrase early last December. As 2012 drew to a conclusion, chief secretary to the treasury Danny Alexander stated that, despite there being a risk of such a scenario, steady growth throughout 2013 would steer the country clear of the rocks. However, he also warned

**Operator costs for 2012: 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	16 to 18 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	55,000
Life (Years)	7.0	5.0	5.0	6.0	7.0	7.0
Life (miles)	280,000	275,000	200,000	330,000	350,000	385,000
Replacement cost (£)	35,330	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	31,254
Fuel price - pence per litre	114.85	114.85	114.85	114.85	114.85	114.85
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	1,617	1,585	1,809	2,020	2,139	2,162
Depreciation	4,290	7,378	8,099	7,225	7,828	10,237
	<b>6,072</b>	<b>9,163</b>	<b>10,109</b>	<b>9,895</b>	<b>10,617</b>	<b>13,599</b>
<b>Running costs</b>						
Fuel	13,923	22,089	16,065	23,930	26,105	35,895
Tyres	341	1,186	869	1,160	1,247	1,824
Maintenance	3,756	5,372	3,421	5,698	6,566	11,204
	<b>18,020</b>	<b>28,647</b>	<b>20,355</b>	<b>30,788</b>	<b>33,919</b>	<b>48,923</b>
<b>Total vehicle cost</b>						
	<b>24,092</b>	<b>37,810</b>	<b>30,464</b>	<b>40,683</b>	<b>44,535</b>	<b>62,522</b>
Employment cost of driver	26,670	27,921	27,921	31,460	30,388	30,580
<b>Cost of vehicle and driver</b>	<b>50,763</b>	<b>65,732</b>	<b>58,385</b>	<b>72,143</b>	<b>74,924</b>	<b>93,102</b>
<b>Overheads</b>						
Transport	4,657	5,140	5,140	5,140	6,284	6,975
Business	4,657	5,140	5,140	5,140	6,284	6,975
<b>TOTAL COST</b>						
	<b>60,077</b>	<b>76,011</b>	<b>68,665</b>	<b>82,423</b>	<b>87,491</b>	<b>107,051</b>
ANNUAL CO2 FOOTPRINT (TONNES PER YEAR)	31.32	49.69	36.14	53.83	58.72	80.74



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

that the recovery would be even longer and harder than first thought.

The UK automotive market – the only one of its kind within the EU to expand in 2012 – offers some hope. However, fuel prices, as well as the increasing cost of vehicles, could count against many transport operators. Part of the anticipated price hike in 2013 is for technology that will ensure vehicle fleets are greener than ever – as per the forthcoming Euro 6

emissions regulations. With trucks meeting the new standards recording comparable – or, in some cases, even improved – fuel economy figures, some operators may be tempted. However, others will balk at the step change in price tags. Euro 6 vehicles are expected to cost many thousands of pounds more than their Euro 5 spec counterparts, so there is little incentive for operators to invest before they are legally required to do so.

**Operator costs for 2012: 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	114.85	114.85	114.85	114.85	114.85	114.85
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	2,166	3,157	3,157	2,162	3,157	3,157
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>11,403</b>	<b>13,693</b>	<b>16,151</b>	<b>11,320</b>	<b>16,063</b>	<b>16,916</b>
<b>Running costs</b>						
Fuel	43,509	46,068	45,684	34,807	48,089	54,121
Tyres - tractor	1,470	1,443	1,430	1,377	1,334	1,469
Tyres - trailer	1,859	1,960	1,680	1,968	1,813	1,509
Maintenance - tractor	6,235	5,825	5,787	4,774	5,859	7,317
Maintenance - trailer	3,810	3,844	3,235	2,086	3,867	4,105
	<b>56,883</b>	<b>59,140</b>	<b>57,816</b>	<b>45,012</b>	<b>60,961</b>	<b>68,522</b>
<b>Total vehicle cost</b>	<b>68,286</b>	<b>72,834</b>	<b>73,967</b>	<b>56,332</b>	<b>77,025</b>	<b>85,438</b>
Employment cost of driver	34,371	34,969	34,969	28,696	34,969	34,969
<b>Cost of vehicle and driver</b>	<b>102,657</b>	<b>107,803</b>	<b>108,937</b>	<b>85,028</b>	<b>111,994</b>	<b>120,408</b>
<b>Overheads</b>						
Transport	8,160	9,034	9,034	8,040	9,034	9,034
Business	8,160	9,034	9,034	8,040	9,034	9,034
<b>TOTAL COST</b>	<b>118,978</b>	<b>125,871</b>	<b>127,005</b>	<b>101,108</b>	<b>130,062</b>	<b>138,475</b>
ANNUAL CO <sub>2</sub> FOOTPRINT (TONNES PER YEAR)	97.87	103.19	102.77	78.30	108.17	121.74