

# A year to forget

The transport sector has had some major issues to cope with in recent times, but nothing could have prepared operators for what 2020 had in store. John Challen counts the costs of a global pandemic for fleets

In January 2020, one word was set to dominate conversations up and down the country for the following year: Brexit. As it happened, another word became the biggest talking point around the UK and, indeed, the world: Coronavirus.

Arriving in the UK with a vengeance in March, the global pandemic, more commonly known as COVID-19, sent the country into lockdown, caused pain and upset for thousands and led to the demise of hundreds of businesses up and down the country.

Add Brexit into the mix and it was a double whammy of uncertainty for the country in 2020. The UK officially exited the EU at the end of 2019, but spent the following 12 months in a transition period. At the time of writing in mid-December, talks to thrash out a deal are in the balance. The big hope is that 2021 is not as disruptive as 2020 - the country holds its breath and waits.

GDP figures for Q1 and Q2 2020 were -2.5% and -19.8% respectively. During the second quarter of the year the country was in a technical recession, but the economy grew in Q3 by 15.5%.

HGV registration figures were buoyant going into 2020, with new vehicle registrations for 2019 up 12.6% (year-on-year) to 48,535. Two- and three-axle artic segment saw double digit growth (19% and 14.5% respectively), while rigids in the 6-tonne to 16-tonne range were up 14.7%.

However, the good news from 2019 was soon forgotten with registrations recording a fall of 22.5% in Q1 2020,



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compared with the same quarter in 2019 and a huge drop (-73.4%) the following quarter against Q2 2019. The news was largely expected given the state of the COVID-hit UK and the uncertainty that lay ahead for operators for the remainder of the year. By the third quarter of the year, there were signs of stability as the market saw a dip of just 138 registrations (8,419 vehicles in total) compared to the comparable quarter in 2019.

The declining trend in the number of trucks operating on UK roads continued in 2019-20. The country's vehicle parc totalled 362,630 units during the latter period - a drop of more than 10,000 HGVs. In light of this news, there was an understandable drop in O-license numbers, bringing the total to 68,983.

The RHA's annual survey of cost movements (*Haulage Cost Movement*

2020) calculates that costs increased for operators by 2.77% (excluding fuel).



## ECONOMIC BACKDROP

As with many other economic indicators, inflation rates under the

Consumer Prices Index (CPI) dropped dramatically as the Coronavirus pandemic swept through the country. The effects of the pandemic on the employment market were not felt until later on in the year, largely due to the government's Coronavirus Job Retention Scheme, which saw millions of UK workers paid 80% of their monthly salary (up to £2,500). In the three months to September, there was a sharp rise in unemployment to 4.8%. With the furlough scheme in place until March

**Some respondents to the RHA survey reported extending the depreciation period of their expensive trucks to seven years**

2021, there are likely to be further rises.

Between July to September 2019 and July to September 2020, average pay growth varied depending on industry sector. The public sector saw the highest estimated growth in total pay, at 3.7%. Negative growth was seen in the construction sector, (-3.9%); wholesaling, retailing, hotels and restaurants sector, (-0.5%); and manufacturing at (-0.2%).

Having held firm at 0.75% since August 2018, interest rates fell twice in one month. On 11 March it was confirmed that the rates would drop to 0.25% and just eight days later there was a further reduction to 0.10%.



**TYRES**

RHA members advised an increase of 2% in tyre-related costs during 2020, down from 2.2%

the previous year. Much like the repair and maintenance costs, with fewer vehicles on the road and fewer miles driven, in some instances these could be a reason for lower costs in this area. It was a relatively quiet year in the tyre industry, with little in the way of new product lines or incentives or deals to report.



**FUEL**

There were a number of factors that saw fluctuating fuel prices in 2020 including – but

not exclusively – Coronavirus. March 2020 saw a dispute between Saudi Arabia and Russia over production cuts, causing oil prices to drop to close to \$20 a barrel. Around the same time the pandemic took over causing prices to fall further as demand for oil crashed all over the world. One point in May saw Brent priced at \$16 a barrel and bulk diesel costing 79p per litre, excluding VAT. Overall, respondents to the RHA survey reported a 11.78% reduction in

**Operator costs for 2020: LCVs up to 3.5 tonnes gvw**

|  | <b>Car derivative vans - diesel</b> | <b>Vans of 3.5 tonnes gvw - diesel</b> |
|--|-------------------------------------|--|
| <b>General information</b>             |                                     |  |
| Annual mileage                         | 24,000                              | 35,000                                 |
| Life (years)                           | 7.0                                 | 6.0                                    |
| Life (miles)                           | 168,000                             | 210,000                                |
| <b>Replacement cost (£) *</b>          | 15,415                              | 27,985                                 |
| Fuel consumption (mpg)                 | 40.1                                | 26.0                                   |
| Annual fuel usage (litres)             | 2,721                               | 6,120                                  |
| <b>Fuel price (pence per litre) *</b>  | 88.90                               | 88.90                                  |
| Tyre life (miles)                      | 30,000                              | 30,000                                 |
| <b>Standing costs</b>                  |                                     |  |
| Vehicle excise duty                    | 265                                 | 265                                    |
| <b>Insurance *</b>                     | 790                                 | 1,217                                  |
| <b>Depreciation *</b>                  | 1,497                               | 3,825                                  |
|  | <b>2,552</b>                        | <b>5,307</b>                           |
| <b>Running costs</b>                   |                                     |  |
| <b>Fuel *</b>                          | 2,419                               | 5,440                                  |
| <b>Tyres *</b>                         | 190                                 | 506                                    |
| <b>Maintenance *</b>                   | 1,409                               | 3,029                                  |
|  | <b>4,017</b>                        | <b>8,975</b>                           |
| <b>Total vehicle cost</b>              | <b>6,570</b>                        | <b>14,282</b>                          |
| <b>Overheads *</b>                     |                                     |  |
| Transport                              | 1,651                               | 1,651                                  |
| <b>TOTAL COST</b>                      | <b>8,221</b>                        | <b>15,933</b>                          |
| ANNUAL CO2 FOOTPRINT (TONNES PER YEAR) | 6.93                                | 15.58                                  |

Source: Logistics UK's *Manager's Guide to Distribution Costs*, October 2020 update

\* See discussion

fuel pricing – equating to nearly £5,000 less to cover the same 75,000 average in 2020, compared with 2019.



**VEHICLE AND DEPRECIATION**

According to the RHA report, some respondents reported extending the depreciation period of their expensive

trucks to seven years, or adopting higher percentage-reducing balance depreciation. The rise of Clean Air Zones – and a need for Euro VI standard vehicles – has decimated the value of the trucks being replaced, with a tractor unit worth £22,000 a few years ago now dropping to £10,000.

Another additional cost for operators working in – or going into – Greater

**Operator costs for 2020: rigids 7.5-32 tonnes gvw**

|   | <b>7.5 tonnes<br/>gvw - box or<br/>curtainsided</b> | <b>10 to 12 tonnes<br/>gvw - box or<br/>curtainsided</b> | <b>12 to 14 tonnes<br/>gvw - box or<br/>curtainsided</b> | <b>16 to 18 tonnes<br/>gvw - box or<br/>curtainsided</b> | <b>3-axle rigid vehicle<br/>26 tonnes gvw - box<br/>or curtainsided</b> | <b>4-axle rigid<br/>tipper -<br/>32 tonnes gvw</b> |
|---|---|--|--|--|---|--|
| <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  |
| <b>Replacement cost (£) *</b>                         | 43,198  | 51,163   | 54,730   | 71,976   | 91,792  | 99,786   |
| 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   |
| <b>Fuel price (pence per litre) *</b>                 | 88.90   | 88.90  | 88.90  | 88.90  | 88.90   | 88.90  |
| Tyre life (miles)                                     | 55,000  | 50,000   | 50,000   | 60,000   | 55,000  | 50,000   |
| <b>Standing costs</b>                                 |   |  |  |  |   |  |
| Vehicle excise duty and road user levy                | 165   | 200  | 200  | 650  | 650   | 1,200  |
| <b>Insurance *</b>                                    | 2,328   | 2,200  | 2,249  | 2,969  | 2,641   | 3,285  |
| <b>Depreciation *</b>                                 | 5,246   | 8,288  | 8,866  | 8,226  | 12,239  | 11,974   |
|   | <b>7,739</b>  | <b>10,688</b>  | <b>11,316</b>  | <b>11,844</b>  | <b>15,530</b>   | <b>16,459</b>                                      |
| <b>Running costs</b>                                  |   |  |  |  |   |  |
| <b>Fuel *</b>   | 10,103  | 15,543   | 12,435   | 20,207   | 24,248  | 27,784   |
| <b>Tyres *</b>  | 476   | 1,345  | 995  | 1,594  | 1,660   | 2,097  |
| <b>Maintenance *</b>                                  | 4,744   | 6,349  | 3,920  | 6,747  | 8,677   | 12,859   |
|   | <b>15,323</b>                                       | <b>23,238</b>  | <b>17,350</b>  | <b>28,547</b>  | <b>34,585</b>   | <b>42,740</b>                                      |
| <b>Total vehicle cost</b>                             | <b>23,061</b>                                       | <b>33,926</b>  | <b>28,666</b>  | <b>40,392</b>  | <b>50,115</b>   | <b>59,198</b>                                      |
| <b>Employment cost of driver *</b>                    | 28,454  | 27,586   | 27,586   | 32,768   | 35,395  | 36,522   |
| <b>Cost of vehicle and driver</b>                     | <b>51,516</b>                                       | <b>61,512</b>  | <b>56,252</b>  | <b>73,159</b>  | <b>85,509</b>   | <b>95,721</b>                                      |
| <b>Overheads *</b>                                    |   |  |  |  |   |  |
| Transport   | 5,468   | 6,034  | 6,034  | 6,034  | 7,377   | 8,188  |
| Business  | 5,468   | 6,034  | 6,034  | 6,034  | 7,377   | 8,188  |
| <b>TOTAL COST</b>                                     | <b>62,451</b>                                       | <b>73,580</b>  | <b>68,320</b>  | <b>85,227</b>  | <b>100,263</b>  | <b>112,097</b>                                     |
| ANNUAL CO <sub>2</sub> FOOTPRINT<br>(TONNES PER YEAR) |   |  |  |  |   |  |
|   | 28.94   | 44.52  | 35.61  | 57.87  | 69.45   | 79.57  |

Source: Logistics UK's *Manager's Guide to Distribution Costs*, October 2020 update

\* See discussion

London is TfL's Direct Vision Standard. The new benchmark has added to the overall cost of new vehicles, while equipment has been retrofitted on existing fleets – in some cases the cost of these additions rises to several thousand pounds for each vehicle.

The original start date for Direct Vision was 26 October 2020, but the actual enforcement date was put back to 9 April 2021 by Mayor of London, Sadiq Kahn.



### INSURANCE

Individual responses from members showed wild swings in the cost of insurance from minus 30% to plus 80% depending, of course, on claims experience. In early June, motor insurance claims during lockdown were reported to be almost half those of 'normal' times, although they started to increase again when restrictions were

lifted and traffic levels increased. RHA's partner broker said it did not expect to see any significant new capacity enter the motor market during 2021. The broker also warned, however, that there could be a change of focus in 2021 among composite insurers. These companies have been looking to reduce their reliance on motor business in recent years and the events of 2020 could cause them to re-evaluate. "The traditionally

**Operator costs for 2020: tractor units and semi-trailers, 33-44 tonnes gw**

|   | <b>33-tonne gw<br/>artic: 2-axle<br/>tractor, 2-axle<br/>curtainsided<br/>semi-trailer</b> | <b>38-tonne gw<br/>artic: 2-axle<br/>tractor, 3-axle<br/>curtainsided<br/>semi-trailer</b> | <b>38-tonne gw<br/>artic: 3-axle<br/>tractor, 2-axle<br/>curtainsided<br/>semi-trailer</b> | <b>32.5-tonne gw<br/>drawbar<br/>combination:<br/>2-axle drawing<br/>vehicle and trailer</b> | <b>40-tonne gw<br/>artic: 2-axle<br/>tractor, 3-axle<br/>curtainsided<br/>semi-trailer</b> | <b>44-tonne gw<br/>artic: 3-axle<br/>tractor, 3-axle<br/>curtainsided<br/>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  |
| <b>Replacement cost (£) - tractor *</b>               | <b>57,415</b>  | <b>82,501</b>  | <b>82,501</b>  | <b>64,298</b>  | <b>101,220</b>   | <b>108,255</b>   |
| Replacement cost (£) - trailer                        | 20,746   | 22,820   | 20,746   | 20,746   | 22,820   | 22,820   |
| 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   |
| <b>Fuel price (pence per litre) *</b>                 | <b>88.90</b>   | <b>88.90</b>   | <b>88.90</b>   | <b>88.90</b>   | <b>88.90</b>   | <b>88.90</b>   |
| 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>                                 |  |  |  |  |  |  |
| Vehicle excise duty and road user levy                | 1,200  | 1,200  | 1,200  | 880  | 1,850  | 1,200  |
| <b>Insurance *</b>                                    | <b>3,285</b>   | <b>3,865</b>   | <b>3,865</b>   | <b>3,285</b>   | <b>3,865</b>   | <b>3,865</b>   |
| <b>Depreciation - tractor *</b>                       | <b>6,387</b>   | <b>9,664</b>   | <b>11,275</b>  | <b>6,671</b>   | <b>13,833</b>  | <b>14,795</b>  |
| <b>Depreciation - trailer *</b>                       | <b>1,886</b>   | <b>2,075</b>   | <b>1,886</b>   | <b>1,729</b>   | <b>2,075</b>   | <b>2,075</b>   |
|   | <b>12,758</b>  | <b>16,804</b>  | <b>18,226</b>  | <b>12,564</b>  | <b>21,623</b>  | <b>21,934</b>  |
| <b>Running costs</b>                                  |  |  |  |  |  |  |
| <b>Fuel *</b>   | <b>33,678</b>  | <b>35,659</b>  | <b>35,361</b>  | <b>26,942</b>  | <b>37,223</b>  | <b>41,892</b>  |
| <b>Tyres - tractor *</b>                              | <b>1,800</b>   | <b>1,651</b>   | <b>1,642</b>   | <b>1,581</b>   | <b>1,524</b>   | <b>1,690</b>   |
| <b>Tyres - trailer *</b>                              | <b>2,278</b>   | <b>2,243</b>   | <b>1,929</b>   | <b>2,256</b>   | <b>2,080</b>   | <b>1,730</b>   |
| <b>Maintenance - tractor *</b>                        | <b>7,149</b>   | <b>6,681</b>   | <b>6,629</b>   | <b>5,937</b>   | <b>6,717</b>   | <b>9,314</b>   |
| <b>Maintenance - trailer *</b>                        | <b>4,375</b>   | <b>4,416</b>   | <b>3,707</b>   | <b>2,594</b>   | <b>4,440</b>   | <b>5,230</b>   |
|   | <b>49,281</b>  | <b>50,650</b>  | <b>49,269</b>  | <b>39,310</b>  | <b>51,983</b>  | <b>59,855</b>  |
| <b>Total vehicle cost</b>                             | <b>62,038</b>  | <b>67,453</b>  | <b>67,495</b>  | <b>51,874</b>  | <b>73,606</b>  | <b>81,789</b>  |
| <b>Employment cost of driver *</b>                    | <b>39,581</b>  | <b>40,231</b>  | <b>40,231</b>  | <b>41,022</b>  | <b>40,231</b>  | <b>40,231</b>  |
| <b>Cost of vehicle and driver</b>                     | <b>101,620</b>   | <b>107,685</b>   | <b>107,726</b>   | <b>92,896</b>  | <b>113,837</b>   | <b>122,021</b>   |
| <b>Overheads *</b>                                    |  |  |  |  |  |  |
| Transport   | 9,580  | 10,606   | 10,606   | 9,439  | 10,606   | 10,606   |
| Business  | 9,580  | 10,606   | 10,606   | 9,439  | 10,606   | 10,606   |
| <b>TOTAL COST</b>                                     | <b>120,780</b>   | <b>128,896</b>   | <b>128,938</b>   | <b>111,773</b>   | <b>135,048</b>   | <b>143,232</b>   |
| ANNUAL CO <sub>2</sub> FOOTPRINT<br>(TONNES PER YEAR) |  |  |  |  |  |  |
|   | 96.45  | 102.13   | 101.27   | 77.16  | 106.60   | 119.98   |

Source: Logistics UK's *Manager's Guide to Distribution Costs*, October 2020 update

\* See discussion

profitable areas of retail and property classes have been hard hit by the pandemic and fleet motor may now be re-evaluated as a more predictable and therefore more attractive revenue stream in the short term," it said.



**REPAIRS AND MAINTENANCE**

There was an increase in R&M costs reported by RHA members of 3.1%, translating to an extra £316 to run a 44-tonne truck. Lockdown led to a change in operations and driving conditions meaning that, in some cases, trucks recorded improved consumption figures, while other vehicles were left parked up due to a lack of demand and movement restrictions.

Many suppliers shut their doors and parts were purchased from motor factors rather than dealers. Increased costs for waste oils and fluids were also seen, while latex gloves, perhaps a small overall cost, were in demand because many more staff started wearing them routinely. Over the winter some operators complained about fuel clogging/clouding - sometimes this affected the bulk tank and at other times it damaged or blocked engine filters.



**OVERHEAD COSTS**

The increase in supporting costs for the fleet and business increased for the survey respondents, but by a smaller amount than in 2019 (3% versus 4%). Truck parking costs increased at some locations but not all, while other increases above the average included telephones (10%); water (9%); security (6%) and cleaning (also 6%).

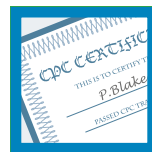


**DRIVER EMPLOYMENT COSTS**

The health of drivers - both mental and physical - has become a big issue in many businesses and

industries. Of course, drivers were applauded as part of the 'key worker' contingent during the height of lockdown, although this status was not universal. It only applied to those drivers operating in the fields of food, fuel and other essential products and services.

Driver recruitment remains a major headache for operators. Some RHA members reported that despite advertising positions, they could still not fill the vacancies with suitable candidates.



**SKILLS SHORTAGE AND APPRENTICESHIPS**

Staffing levels in 2020 have been impacted by the pandemic and Brexit, the latter leading to thousands of foreign drivers returning home or heading elsewhere in the EU for work. To address this issue, the RHA has obtained C+E (artic) and C rigid apprenticeship funding for training, working with the Institute for Training and Technical Education and the Department for Transport on the standards.

The industry remains short of some 60,000 HGV drivers and is still faced with an ageing population of current drivers. The average age is 55, while just 1% is under 25.

On 26 October 2020, the government set out additional guidance that effectively lowered the salaries required for the skilled worker visa and those on the shortage occupation lists. The skilled worker threshold was dropped by £10,000 (to £26,500), while the lesser skilled, but still in demand, jobs even less at £20,480. The HGV driver, unfortunately, has not been classed as a skilled worker.

These new arrangements take effect from 1 January 2021, once freedom of movement with the European Union (EU) ended. It will treat EU and non-EU citizens equally and aims to attract people who can contribute to the UK economy. Irish citizens can continue to enter and live in the UK as they do now.



**THE FUTURE**

From a general point of view, much of what happens with regards industry productivity and activity in 2021 depends on the arrival - and subsequent roll-out - of the Coronavirus vaccines.

Looking specifically at the transport sector and its associated costs, forecasts are difficult to make, although there are some confirmed plans. In mid-November, the Treasury announced that it was extending the Annual Investment Allowance that previously was increased in January 2019 from £200,000 to £1 million until 31 December 2021. This scheme allows for tax relief at 100% for plant and machinery capital expenditure.

During the 2020 Spending Review, chancellor Rishi Sunak allocated another £55 billion to the fighting fund for the year ahead, bringing the expected total borrowed during the 2020/21 tax year to nearly £400 billion. He also announced a £100 billion investment in infrastructure to drive forward the recovery and, with it, a greener future. Transport schemes were mentioned, but not in detail. This news came after he described how GDP would drop by 11.3% in 2020 - the largest fall in output for 300 years. **TE**

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