

Introduction to the Cost Tables

The **2011 RHA Goods Vehicle Operating Cost Tables** are the twentieth in this series and have been compiled for the Road Haulage Association by DFF International.

These Cost Tables are designed to assist in the task of relating rates to costs. They have two special features:

- They result from a survey of real costs from a large range and sample of road transport companies. These have been used either directly or as the basis for discussions with manufacturers and suppliers to establish real costs.
- They make no claim to be your own costs. Space is provided to build up a parallel picture of your own vehicles and guidance is given as to how to complete it.

Attention is also drawn to the data sheets which follow actual vehicle costs on pages 25 onwards.

Annual cost changes are based on the results of the Annual Survey on Movement of Prices, based on the periods 1st October to 30th September for each succeeding year.

Results for 2011, shown on page 25, reveal that increases in non-fuel costs were 3.2% while those in fuel were 4.6% (arising from an actual increase in fuel price of 14.7%), a total of 7.8%.

THE 2011 SURVEY – RHA COMMENTARY

A tough and uncertain year

“This survey covers a third complete year since the onset of recession and the sharp reductions in demand for goods transport in 2008 and 2009 – the latter a year in which the Department for Transport suggests tonne kilometre demand for hire or reward transport fell by 27%.

Both in perception and reality, it has been another tough year for the road haulage industry and also one of uncertainty. There has been some good news and bright spots; but they have often been short-lived or illusory. Business decisions are inevitably affected by the increasing discussion of economic stagnation or worse.

General inflation figures remained high throughout the year, albeit easing very slightly in the figures for October, with the CPI index down to 5.0% from 5.2% and RPI down to 5.4% from 5.6%.

Truck registrations were up 33.3% to 4210 units in October 2011 with a rolling year average up 28% at 40,710 units, reflecting an end to the dramatic decline apparent in the rolling average since October 2008. However, this must be seen in the context of two successive worst-ever years for HGV registration and the rolling average is still well below the level seen in the last decade pre-2008.

Credit and cash-flow for medium-sized and smaller businesses (SMEs) remains a critical issue. In an RHA email survey of members linked to the Coalition’s Growth Review, these related issues were identified as the joint-most important barrier to growth in the logistics sector over the next five years. The other factor was roads and congestion and these two issues stood out clearly, well ahead of other issues.

Rising fuel prices have increased cash flow pressure, as has a tightening of HMRC policy on VAT and PAYE payments apparent since early 2011. However, the attitude of large customers continues to be an important factor. The systematic exploitation of transport companies by large companies, many of them foreign-owned, is an issue for SMEs across the economy but hits especially hard at road hauliers because of the lack of credit on diesel, a major cost, and the high proportion of cost taken up by driver pay.

This issue can seem intractable. Large customers create a climate of fear among their suppliers tempted to voice their complaints to the RHA or publicly, as they extend credit terms or take payment holidays towards their year-end. They are doing so in many cases on the widespread advice of management/financial consultancies.

THE 2011 SURVEY/ contd.

These increasingly endemic practices, in which large companies use their haulage contractors as involuntary banks, are a clear abuse of market power. They threaten the economy as a whole by undermining the SME sector.

In the past year, the RHA has had some success in driving slow payment up the government agenda, especially in regard to those involved in public sector contracts. However, we need to go further. We will be pressing for more government action and endeavouring to explain to the realities of road haulage costs to those customers who may be unaware of the damage they are doing to their supplier base.

Weakness in the sector is indicated by figures on invoice financing. Of 55,000 firms in the UK using this method of ensuring cash flow, 15,000 are in road haulage. Insolvency rates in the transport sector are worrying and evidence suggests that fuel pricing is the main reason for failure according to the Institute for Credit Management. It reports that there has been an 18% increase in overdue payment incident reports in the fuel sector compared to 2010.

Most hauliers rely on banks and we were interested to know how our respondents felt about their banks. We were re-assured to know that almost all (98%) declared themselves happy with their bank. Behind that figure clearly lies renegotiations and in a number of cases, movement to another bank over the past year. Members also commented on sharp increases in bank charges. Perhaps the approach in this area can best be described as a determination to find a satisfactory arrangement, closely linked to a grim realism over expectations.

No two transport operators costs are the same. This is a truism that nonetheless bears repeating and the same will be true of the exact increase in operating costs. Nonetheless, our survey yields a realistic averaged snapshot of year-on-year movement from 1st October 2010 to 30th September 2011. Each year, we look at the percentage movement in each one of a range of factors in operating costs. These are set out under eight headings that can be seen on the table main costs table. Fuel is highlighted and reported separately from the other seven categories due to the exceptional volatility and importance of this element of cost.

In our survey, 61% of respondents said they have a mechanism in place to adjust their fuel costs, up by six percentage points from 55% last year and confirming anecdotal evidence of a trend towards a closer linkage between haulage rates and fuel prices. However, that leaves almost 40% without such a mechanism; and many of the 61% have a fuel mechanism for only part of their work. Fuel prices remain a vitally important issue for haulage companies. Rising cost of fuel simply has to be passed on at the earliest opportunity to the customer.

An often-expressed frustration is that rising diesel costs over-shadow other cost increases, which customers will not accept being passed on in their rates. As a result, many drivers got nil increases. **Overall, the 2011 survey reveals cost inflation with associated costs involved in running a truck rising by 3.2% with fuel factoring in another 4.6% - a total of 7.8%. Diesel price increases were fuelling inflation – but other areas of cost also rose.**

Subsistence rates for nights out published by HM Revenue and Customs increased at the start of 2011, the first rise since 2009 and up from £23.06 to £24.15 – that's 4.7%.

The Future

Since our survey period closed at the end of September 2011, economic indicators and comments have fuelled uncertainty as to demand. The increase in fuel duty planned for 1 January 2012 has been deferred until 1 August 2012 when the main fuel duty rates will rise by 3.02 pence per litre.

From the end of March, investment allowances are being reduced. As confirmed in the Chancellor's Autumn Statement, the annual investment allowance is being slashed from £100,000 to £25,000 from April 2012, despite strong opposition from the RHA and others, including the manufacturing and plant hire sectors.



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It is important to note that the cost percentages in the right-hand column on the Table on page 27 will vary significantly between different sizes of vehicle, as well as between different types of operation e.g. long / short distance, tipping / general haulage and location.

A table of these varying average percentages is provided on pages 28/29, at typical annual mileages.

You should establish your own ratios in the following way:

- select the costs of the vehicle which is most similar to the one you are costing;
- substitute any of your own figures which you can identify as being different from those in the Tables;
- determine the total time-related cost per year;
- apply the distance-related costs to your own estimated annual mileage to determine the total of those costs;
- determine total costs;
- calculate each item of cost as a percentage of the total.

Using these percentages will enable you to convince your customers how much your own costs have increased (for each type of vehicle or operation) and help in obtaining the sorely needed increases in rates.

These Cost Tables are now available in fully interactive form on the RHA website. Both the RHA and DFF International are always interested in comments on the Tables, in suggestions for improvements and in queries on how to use the Tables. We will always endeavour to help.

**USERS OF THESE TABLES ARE WELCOME TO RAISE ANY QUERIES WITH BRIAN FISH
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