Falling diesel prices helped offset other rises in operating costs, as **David Wilcox** reports

Diesel to the rescue

A plummeting diesel price rode to the rescue of operating costs in 2014. Rising driver costs and higher overheads pushed costs upwards but cheaper fuel counted for more in most instances, and the higher the fuel consumption the bigger the benefit. So we calculate that most tractor unit operating costs fell on average by between 0.5% and 1% this year. For typical middleweight trucks, costs are likely to be flat or down by 0.5%. Only smaller trucks covering low annual distances saved relatively little from lower fuel bills; we calculate their operating costs rose in the order of 1%.

We have made several changes to our tables, balancing the desire for year-on-year comparison with the need to keep pace with developments in the industry. So we grasp the nettle of Euro-6, chiefly affecting capital costs. Agreed, Euro-6 trucks are still a small minority on the road but if we waited until they are in the majority our tables would be lagging behind.

The 13-tonne GVW rigid is replaced by a 12-tonner on the basis that the lighter vehicle is far more popular.

We also include the new HGV Road User Levy, applicable from 1 April for trucks of 12-tonne GVW or more. It doesn't change overall costs because reductions in excise duty rates exactly offset the levy. Excise duty rates for vans rose by £5 to £225.

In response to feedback we have upped the mpg figures of our artics. Driver training – some under the auspices of the Driver CPC – and the growth of telematics and driving-style readouts on the dash probably account for the improvements, and the proportion of trucks with limiters at 85km/h also seems to be growing. This step-change in economy shows in our costings and sets a benchmark for future years, but is not counted in our assessment of how costs moved in 2014 – it would be misleading to reflect several years of progressive improvement in a single year's headline. Operators who boosted their fleet average mpg in 2014 will have seen bigger overall cost savings than summarised above.

Fuel and AdBlue

Our average bulk fuel price for 2014 is 105.4ppl. This is 5.9ppl (5.3%) lower than 2013's average of 111.3ppl. As this is written, bulk diesel has dipped below £1/litre for the first time in four years and Brent crude oil has plummeted to around $80/barrel. The latest forecast from the US government's Energy Information Administration is for an average $82 next year. If correct, diesel should average around 101ppl next year unless we see significant changes in duty or the £/$ exchange rate.

The average price of red diesel this year was 10% lower than in 2013.

AdBlue prices have eased down by one or two pence a litre this year. There are now 11 AdBlue suppliers in the UK and some smaller players are offering particularly keen local deals, especially on 1,000-litre IBCs. Bulk supplies are typically 22ppl to 27ppl, with a 1,000-litre IBC working out at around 29ppl-35ppl. Our assumed price of 29ppl this year straddles the two supply options. It is equally difficult to fix a single AdBlue consumption rate for Euro-6, with a spectrum ranging from 2% up to 7% or 8% for SCR-only engines like Iveco's and Scania's. Our average of 3.5% is just a tad lower than last year's (Euro-5) value of 4%.

AdBlue prices are expected to remain stable in 2015, despite the arrival of Euro-6 for diesel cars and vans next September, heralding a motorists' market for AdBlue in small containers.

The Labour Research Department survey of 2014 pay settlements shows most drivers' pay awards were 2% to 3%. The national average for all employees was 1.3% (excluding bonuses) in the year to September. Drivers' pay seems certain to accelerate ahead of the curve as the driver shortage bites deeper and competition for their services grows. "For peaks we used to call on some older drivers who had retired," said one operator. "But they gave up in September when the driver CPC came in."

There was no increase this year in the tax-free amount payable to drivers for overnight subsistence – only the second time in 15 years that HMRC has not raised the limit.

Capital spending

Forecasts of a £10,000 premium for Euro-6 tractor units generally proved wide of the mark. We have heard reports of as little as £3,000 to as much as £8,000. It hinges on negotiating power and whether or not the Euro-6 model is substantially new or merely a cleaner iteration of Euro-5. We have steered a middle course, upping our tractor and 8x4 chassis-cab prices by £5,000. An extra £3,000 has gone on middleweights and £2,500 on the 7.5-tonner.

Sources suggest there have been only marginal increases in most body prices. The exception is the 8x4 tipper, where we are told that body prices have risen £1,000 to £2,000 to reflect the addition of sideguards, rear underrun and type approval.

It was a bumper year for trailermakers as fleets switched capital spending from trucks in 2013 to renewing trailers in 2014. However, we hear that a falling steel price and the pound's rising value against the euro worked in our favour, so curtainsider prices rose typically by no more than £200.

On residual values, market experts say Euro-6 trucks demonstrably different from their Euro-5 predecessors should enjoy better residuals;

those that are not are more likely to shed value at much the same rate as before. We strengthened residuals in our tables to reflect Euro-6's extra capital cost and on the basis that 2014 truck sales are weak, so this year's models will be relatively scarce in the used market.

Van residual values rose due to a shortage stemming from depressed new van sales from 2009 to 2011. This is temporary, says the National Association of Motor Auctions (NAMA); the shortage will soon be over. "Going forward, when supply and demand are in equilibrium, without the catalyst of used stock shortages, it is inevitable that prices will soften," says NAMA's October market report. It also mentions "discounts on new LCVs heading upwards at an alarming rate", so we have adjusted van prices accordingly.

Overheads

Business rates are the big one. Normally these rise each April by RPI inflation in the preceding September, but 2014/15's increase for England and Scotland was capped at 2.3% (1.9% for small businesses) rather than the RPI rate of 3.2%. It was 1.9% in Wales. News of English business rates for 2015/16 is expected in the chancellor's autumn statement on 3 December as *MT* goes to press. If the usual formula is applied the rise will be 2.3%, with the other home nations likely to follow suit.

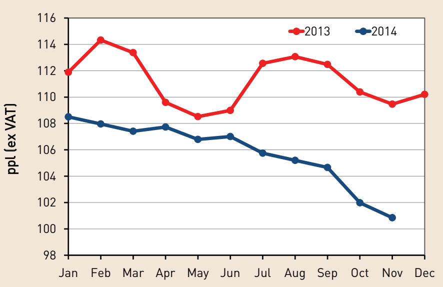
The picture for warehouse rents during 2014 is patchy according to commercial property experts. Rent rises of 5% or more are reported in south-eastern hot spots with stagnation in less-favoured regions. The average is 2%.

Electricity prices for non-domestic consumers increased by an average of about 7%. Gas prices varied far more according to consumption, so smaller consumers were hit by increases of about 8% while larger consumers saw their prices fall. Water charges for non-domestic users edged downwards by 2% or so. Goods in transit insurance premiums remained static, as usual, but employers' liability insurance is likely to have continued its steady upward trend.

Other costs

We understand franchised dealers typically added another £1.50-£2.50/hr to their labour charge-out rates this year, likely to raise their average recovery rate (outside London) to around £52 to £57/hr. However, a tendency to extend safety inspection intervals from six weeks to eight weeks or even longer saves about 90 minutes' labour for each inspection eliminated. Many new trucks are accompanied by longer warranty and/or servicing deals as part of the package. Parts prices are reported to have remained essentially static, with increases suppressed by the strength of the pound.

BULK DIESEL PRICE*



* Monthly average 2014:2013

Most truck manufacturers say Euro-6 truck R&M contract prices are no more than for Euro-5. DPF cleaning is expected so infrequently its cost has been absorbed. So scheduled costs seem to be buttoned down; only time will prove if unscheduled costs are also contained.

Natural rubber prices hit a five-year low this year but truck tyre prices hardly moved. Only selective 'realignments' sharpened prices for particular sizes and models. We are told premium brands were generally more resilient on pricing than budget Chinese brands. Apparently, the slow-down in China's growth rate puts extra emphasis on boosting tyre exports.

The cost of credit finance edged down in late 2014 as hopes faded for a rise in the base rate. Money is now cheaper than ever. The annual finance charge on a £50,000 loan over five years is £75 less than a year ago. And banks providing funding under the government's Finance for Lending scheme could cut the cost of credit by a further 25%.

Vehicle insurance premiums have risen in the main by about 5%, but the fleet's claim record is what counts most, so this trend might not ring true to some operators. Insurers' enthusiasm for on-board cameras is increasing, we are told, and not just forward-facing ones. We hear an additional camera focused on the driver allows images of the driver's actions to be reconciled with the view ahead. It is obvious why insurers like it, but is it a step too far for drivers? ■

ARTICS	32-tonne unit 4x2	38-tonne unit 4x2	44-tonne unit 6x2	Tandem-axle trailer (curtainsider)	1st triaxle trailer (curtainsider)	2nd triaxle trailer (curtainsider)
Vehicle cost (£)	64,700	66,800	78,100	17,100	18,650	18,650
Fuel cost (ppl)	105.4	105.4	105.4			
MPG	10.4	9.2	8.5			
AdBlue cost (ppl)	29	29	29			
Depreciation period (years)	6	6	6	10	10	10
Residual value (£)	8,000	12,500	15,000	1,750	2,350	2,350
ANNUAL STANDING COSTS (£)						
Driver wages and NI	33,990	33,990	33,990			
Vehicle insurance	2,812	3,286	3,635			
Establishment/overheads	20,325	20,602	22,418			
Vehicle tax (VED)	560	560	560			
HGV Road User Levy	640	640	640			
Depreciation	9,450	9,050	10,517	1,535	1,630	1,630
Finance cost (five-year term)	1,844	1,904	2,226	487	532	532
Fixed maintenance costs of 2nd trailer						621
Subtotal	69,621	70,032	73,986	2,022	2,162	2,783
Profit allowance (5%)	3,481	3,502	3,699	101	108	139
Total annual standing costs (£)	73,102	73,534	77,685	2,123	2,270	2,922
STANDING COSTS ALLOCATION						
Per week (£)	1,589	1,599	1,689	46	49	64
Per day (£)	318	320	338	9	10	13
Per hour (£)	28.89	29.06	30.71	0.84	0.90	1.16
RUNNING COSTS (P/MILE, 80,000 MILES/YR)						
Fuel	46.1	52.1	56.4			
AdBlue (at 3.5% of fuel consumption)	0.4	0.5	0.5			
Tyres	1.8	2.0	2.4	1.5	2.3	
Maintenance and repairs	7.1	7.5	8.2	3.2	3.6	
Subtotal	55.4	62.1	67.5	4.7	5.9	
Profit allowance (5%)	2.8	3.1	3.4	0.2	0.3	
Total (p/mile)	58.2	65.2	70.9	4.9	6.2	
CHARGE PER MILE (P)						
60,000 miles/yr	180	188	200	8.4	10.0	4.9
80,000 miles/yr	150	157	168	7.5	9.0	3.7
100,000 miles/yr	131	139	149	7.0	8.5	2.9

VANS

VANS	1.6-tonne GVW (550kg payload)	2.1-tonne GVW (750kg payload)	2.8-tonne GVW (1-tonne payload)	3.5-tonne GVW (1.4-tonne payload)
Vehicle cost (£)	9,100	11,600	15,500	17,600
Fuel cost (ppl)	105.4	105.4.	105.4	105.4
MPG	47.0	43.0	36.0	30.0
Depreciation period (years)	5	5	5	5
Residual value (£)	1,700	2,400	3,400	4,050
ANNUAL STANDING COSTS (£)				
Driver wages and NI	23,660	23,660	23,660	23,660
Vehicle insurance	1,030	1,130	1,340	1,490
Establishment /overheads	5,080	5,080	5,080	5,080
Vehicle tax	225	225	225	225
Depreciation	1,480	1,840	2,420	2,710
Finance cost (five-year term)	259	331	442	502
Subtotal	31,734	32,266	33,167	33,667
Profit allowance (5%)	1,587	1,613	1,658	1,683
Total annual standing costs (£)	33,321	33,879	34,825	35,350
STANDING COSTS ALLOCATION				
Per week (£)	724	737	757	768
Per day (£)	145	147	151	154
Per hour (£)	13.17	13.39	13.76	13.97
RUNNING COSTS (P/MILE, 30,000 M/YR)				
Fuel	10.2	11.1	13.3	16.0
Tyres	0.5	0.6	0.9	1.2
Maintenance and repairs	3.3	3.9	4.3	4.7
Subtotal	14.0	15.6	18.5	21.9
Profit allowance (5%)	0.7	0.8	0.9	1.1
Total (p/mile)	14.7	16.4	19.4	23.0
CHARGE PER MILE (P)				
20,000 miles/yr	181	186	194	200
30,000 miles/yr	126	129	136	141
40,000 miles/yr	98	101	107	111

NOTES

There are twice as many trailers as tractor units in the UK. We account for the standing costs of all those spare trailers in our '2nd trailer' category. If your trailer-to-unit ratio is 1:1 our 1st trailer category takes care of all trailer costs. If the ratio is 2:1, include the 2nd trailer too, covering its standing costs of depreciation, finance and non-distance-related maintenance costs such as safety inspections and annual test. For ease of calculation, all distance-related trailer costs such as maintenance and tyres are carried by the 1st trailer: adding the charge per mile for both trailers accounts for two trailers for each tractor unit.

1 All costs exclude VAT.

2 Fuel cost: bulk diesel (full loads), 2014 average.

3 Residual value: after depreciation period.

4 Finance cost: representative annual interest charges on loan to purchase vehicle (2.85% flat rate, five-year term).

5 Fixed maintenance cost of second trailer: non-distance-related costs, such as safety inspections and annual test.

6 Standing costs allocation: per week assumes 46 weeks/yr; per day assumes five days/wk; per hour assumes 11 hours/day.

7 32-tonne unit taxed for tandem-axle trailer; 38- and 44-tonne units taxed for triaxle trailer.

RIGIDS

RIGIDS	7.5-tonne GVW (curtainsider)	12-tonne GVW (curtainsider)	18-tonne GVW (curtainsider)	26-tonne GVW 6x2 (curtainsider)	32-tonne GVW 8x4 (tipper)
Vehicle cost (£)	41,325	45,800	62,250	79,650	104,700
Fuel cost: (ppl)	105.4	105.4	105.4	105.4	105.4
MPG	17.0	15.3	13.0	10.5	7.5
AdBlue cost: (ppl)	29	29	29	29	29
Depreciation period: (years)	5	5	5	5	7
Residual value: (£)	7,750	9,500	14,500	22,000	23,000
ANNUAL STANDING COSTS (£)					
Driver wages and NI	27,080	28,400	29,415	30,500	30,500
Vehicle insurance	1,760	1,900	2,110	2,580	3,165
Establishment /overheads	6,880	10,085	13,410	14,085	18,170
Vehicle tax (VED)	165	95	300	300	560
HGV road user levy	0	105	350	350	640
Depreciation	6,715	7,260	9,550	11,530	11,671
Finance cost (five-year term)	1,178	1,305	1,775	2,270	2,984
Subtotal	43,778	49,150	56,910	61,615	67,690
Profit allowance (5%)	2,189	2,458	2,846	3,081	3,385
Total annual standing costs (£)	45,967	51,608	59,756	64,696	71,075
STANDING COSTS ALLOCATION					
Per week (£)	999	1,122	1,299	1,406	1,545
Per day (£)	200	224	260	281	309
Per hour (£)	18.17	20.40	23.62	25.57	28.09
RUNNING COSTS (P/MILE, 60,000 M/YR)					
Fuel	28.2	31.3	36.9	45.6	63.9
AdBlue (at 3.5% of fuel consumption)	0.3	0.3	0.4	0.4	0.6
Tyres	2.0	2.3	2.4	3.0	6.9
Maintenance and repairs	6.1	7.9	8.0	9.0	13.5
Subtotal	36.6	41.8	47.7	58.0	84.9
Profit allowance (5%)	1.8	2.1	2.4	2.9	4.2
Total (p/mile)	38.4	43.9	50.1	60.9	89.1
CHARGE PER MILE (P)					
40,000 miles/yr	153	173	199	223	267
60,000 miles/yr	115	130	150	169	208
80,000 miles/yr	96	108	125	142	178

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