

## **INCREASING COSTS OF ROAD TRANSPORT**

### **INTRODUCTION**

A number of factors have been identified that will affect future transport costs. It proves that there will be a direct impact on transport costs resulting from the individual factors. Equally, there are important interactions between the various factors that will further extend costs. The principle cost drivers and their interaction is illustrated in Figure 1 below:



The following are seen as having the greatest overall effect.

### **Working Time Directive**

The Road Transport Directive comes into effect in March 2005, implementing the Working Time Directive (WTD) into the mobile road transport sector. The key provisions are:

- Non-mobile workers will be subject to a maximum working week of 48 hours; although it will be possible for workers to temporarily opt-out;
- Mobile and non-mobile workers will be entitled to four weeks paid holiday; and,
- Mobile 'night workers' will be entitled to health checks and the right to transfer to non-night work if there is a health detriment.

The most important issue concerning the recovery of waste is the 48-hour week. While waste collection operations are unlikely to be affected to any great extent, subsequent journeys to recyclers are generally over longer distances. Operators may face increased costs because of the need for additional drivers and vehicles to compensate for lost driving hours. At the same time, driver's wages are set to increase due to a shortage of drivers (see below).

Various macro-economic estimates have been made of the costs associated with the WTD to the road transport sector. The Road Haulage Association (RHA) believes that operational costs in the road haulage sector will increase by £3.8 billion in 2005. The Department for Transport (DfT, 2003a) in their Regulatory Impact Assessment (RIA) on the WTD estimates that it will cost the haulage industry approximately £1 billion.

### **Congestion**

Costs directly attributable to congestion are difficult to calculate since the cost basis is, in itself, imprecise and dynamic in response to external influences, for example, fuel costs, wage rates, government policy, etc. The time and cost consequences of congestion also have to be considered in conjunction with additional future time costs that will be imposed by the WTD and other measures that the Government are considering, for example extending congestion charging.

Because each vehicle on a congested road both imposes and suffers from the impacts of that congestion, there are two types of costs involved. Firstly, the internal costs that are borne by the road user. Secondly, the external costs that a vehicle imposes on other road users.

For each journey, operator costs can be expressed in a relatively simple equation for a journey:

$$\text{Operator cost}_{ij} = (\text{value of time} \cdot \text{time}_{ij}) + (\text{vehicle operating costs} \cdot \text{Dist}_{ij})$$

Although this is essentially a simple equation, getting at the precise figure for the value of time ( $V_t$ ) and vehicle operating costs ( $V_c$ ) is not at all straightforward.

As McKinnon (1998) has pointed out, “most companies are unable to quantify the indirect costs of congestion because of the problems of:

- Separating the effects of congestion from other schedule ‘disturbances’;
- Allowing for variations in logistical process times; and,
- Establishing the importance attached to congestion in investment decisions.”

Given that congestion will rise by between 11-21% by Government calculations (DfT, 2003b), even if all the 10 Year Plan measures are introduced (which seems unlikely), there will be an increasing cost arising from congestion.

### **Congestion Charging**

Congestion is set to get worse for the foreseeable future, and the main policy identified by the Government for dealing with congestion is demand management through road pricing.

A number of operators have calculated the cost of the London Congestion Charge to their businesses. TNT believes it will cost around £300,000 per year, whilst Tibbet & Britten estimate costs at £70,000 per year (Gordon, 2003). The cost of having one vehicle entering the charging zone every working day is approximately £1,250 per year. Clearly, waste recovery and recycling transportation on LA business will be unaffected. However, vehicles undertaking collections for recovery of commercial wastes will be liable to pay the charge.

Other cities are likely to follow London’s lead and introduce their own road user charges in the future.

### **Driver Shortages**

Driver shortages are causing severe difficulties for the haulage industry. In 2001 the FTA estimated that the industry had a shortage of 50,000 HGV drivers, with the greatest shortages being experienced in the southeast.

The problem is likely to increase with the introduction of the WTD. In their work on the WTD, the RHA concluded that at least an additional 60,600 drivers would be required to meet the shortfall.

The FTA believes that the seriousness of the driver shortage is further compounded by the fact that the goods vehicle driver population is ageing, and there is lack of younger drivers entering the profession.

In economic terms, a shortage in supply of drivers, coupled with an increase in driver demand due to the WTD and other factors being evaluated in this project will inevitably lead to increased wage levels.

There are regional and sectoral differences in driver shortages. The waste sector may suffer worse than others because of negative perceptions regarding the industry and the lack of mobility of the labour force.

### Insurance Costs

Vehicle insurance can vary greatly between fleets, depending on claims history and operating conditions. Insurance premiums have been escalating for a number of years as illustrated in Figure 2 below. Between 1997 and 2003, insurance rates have increased by 150%.

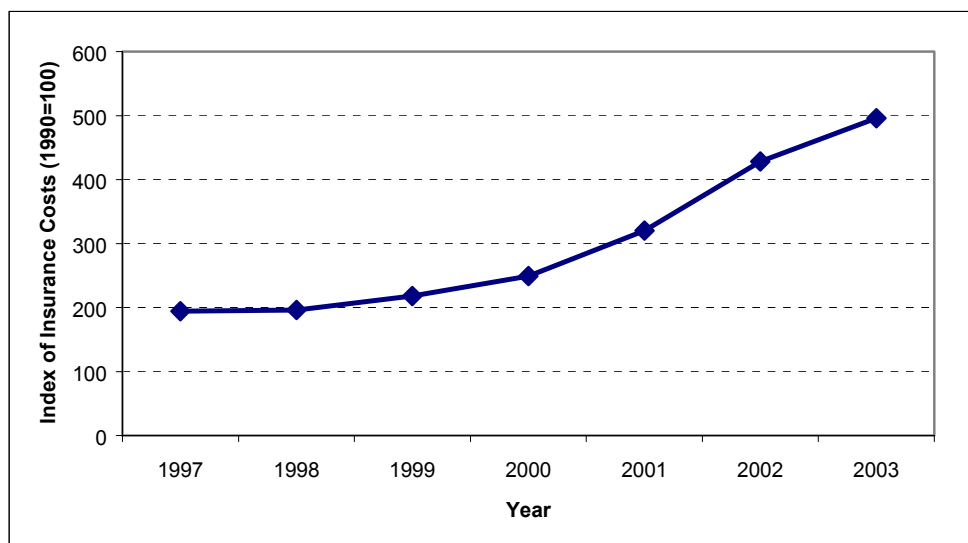


Figure 2: Index of Vehicle Insurance Costs. Source: DFF International, 2003.

### Local Authority Planning

Local Authority policies on transport and air quality are likely to increasingly affect the haulage industry in the future, particularly in urban areas. Under the Transport Act 2000, LAs are required to prepare five-year Local Transport Plans (LTPs), in which freight issues must be addressed. The mandate requires detailed consideration of issues such as

HGV access and routing, air quality, climate change, noise, and disturbance of local communities and requires the promotion of rail and waterborne freight.

### **Others**

In addition to the factors outlined above there are a number of other factors that may increase overall recovery and recycling supply chain costs, for example:

- Fuel prices
- Vehicle Excise Duty
- Speed Limitation Directive
- Road Haulage User Charging
- Drivers Hours Regulations

### **REFERENCES**

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