



Transport/Logistics

Specialist Transport & Logistics Accountants

Newsletter

Winter 2015

Introduction

Welcome to our Winter 2015 Transport & Logistics newsletter.

The ongoing transportation projects which are seeing a significant increase in both regional and international connectivity are welcome news. The sector is certainly evolving at a fast pace and the question of whether or not it fully embraces technology is an interesting discussion. In this newsletter we also review the key details of the recent Autumn Statement and what they mean for the transport & logistics sector.

In this issue we look at:

- Autumn Statement transport & logistics review
- Is the future with self-driving trucks?
- Coal-burning plants closure impact on logistics
- Ongoing transportation projects to improve UK links
- Good news as Flybe sign long-term deal at Yorkshire airport
- Strategic reporting for medium & large firms

We hope you enjoy this edition of our newsletter and, as always, please get in touch if you would like any further information.



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Hawsons are specialist transport & logistics accountants

Hawsons has a dedicated team of specialist transport & logistics accountants in Sheffield, Doncaster and Northampton. We act for a large number of clients in this sector across our three offices, ranging from hauliers to international couriers, and understand the challenges firms in this dynamic sector face. Nearly every other commercial sector is reliant on the services transport & logistics businesses provide and, in many ways, this specialist sector is the linchpin for our country's economy. With our experience in the sector and dealing with transport & logistics firms on a regular basis we are able to develop a close understanding of your business and, through active year round involvement, we can help you anticipate and deal with challenges quickly and effectively.

For more information on our transport & logistics expertise, including the services we offer and our experience, please visit: www.hawsons.co.uk/transport



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Autumn Statement transport & logistics review



Last week, on 25 November, the Chancellor delivered his latest Autumn Statement. In a year which has already seen the government commit to investing in the sector, transport & logistics firms were perhaps quite positive about what this year's Autumn Statement might bring. A spending review for UK transportation was previously promised as a key focus. In this article we summarise the key points arising from the Autumn Statement and focus specifically on what the changes may mean for the transport & logistics sector.

In summary (general):

- Tax credit cuts scrapped all together
- £12bn in targeted welfare savings to be delivered in full
- Small business rate relief to be extended for one more year
- NHS to receive £10bn more funding a year in real terms by 2020
- Basic state pension will rise by £3.35 to £119.30 a week
- New 3% surcharge on stamp duty for buy-to-let properties and second homes from April 2016
- Doubling of housing budget to £2bn a year

In summary (transport & logistics specific):

- Capital funding of transportation projects to increase by 50%
- London to get £11bn investment in transportation infrastructure
- 37% cut in Department for Transport operating budget
- Pressing ahead with construction of HS2 beginning this Parliament
- Continued devolution of transport powers to mayor-led city regions (e.g. Sheffield City Region)
- Largest road investment since 1970s
- Highways England given £15 billion for better roads
- Permanent national pothole fund announced

Autumn Statement transport & logistics impact – biggest investment in decades?

Paul Wormald, Partner at Hawsons, commented: "Overall, this year's Autumn Statement and spending review brings good news to the transport & logistics sector. As the sector is arguably the linchpin of the British economy, investing in transport is critical to our long-term economic growth. This significant additional capital funding for our road and rail networks is therefore absolutely essential and is indicative of the Northern Powerhouse. Although it must be noted that many of the big transport infrastructure projects the Chancellor spoke about had already been announced. Nevertheless, it is good to see ongoing commitment and the green light given to press ahead with plans."

"How will the big cut for the Department for Transport – actually the biggest of all government departments – impact the delivery of these transport projects? That is a question many will be asking after the department's operational budget was slashed by over a third."

Other issues

"Out of the other key announcements from this year's Autumn Statement it was good news for the smaller transport & logistics firm. The extension of the small business rate relief for another year and the introduction of an apprenticeship levy are both welcome announcements. Of course, with the apprenticeship levy, larger business will be the big losers. In conjunction with the forthcoming burden of the new National Living Wage, wage costs are rising significantly, and without much notice. One of the other issues, which was hidden away in the details, was the government's decision to 'explore the sale' of its 49% shareholding in NATS (National Air Traffic Control Service). We will have to wait and see for further details on this, but a sale looks increasingly likely."

Is the future with self-driving trucks?



The technology driving the ongoing developments of self-driving trucks is certainly not new, but given the shortage of drivers entering the sector, the continuing need to reduce environmental footprint, the likely substantial safety improvements and the considerable potential cost efficiencies that could be achieved, its journey to implementation is rapidly approaching...or is it?

In this article we look at the questions everyone involved in the sector will be asking and consider the potential benefits and potential drawbacks that self-driving trucks may bring.

Self-driving trucks and the things transport & logistics need to consider

Will self-driving trucks counteract the impact of the skills shortage?

In our previous newsletter we looked at the shortage of young drivers entering the transport & logistics sector. The figures are quite worrying and with more managing directors in the sector that are under the age of 25 than there are drivers that are, a crisis is looming. The sector is urgently looking for a solution and self-driving trucks could be the long-term answer. This could of course bring a new skills shortage though. The sector will need programmers and cyber security experts, both of which are in high demand.

Will the technology improve safety?

Whether or not self-driving trucks are going to replace or (perhaps more likely) support drivers, the potential impact on safety cannot be understated. The industry has taken great strides in improving safety in recent years with additional regulation, compliance and training, but safety is still a concern. Induced tiredness and inattention still account for many accidents on the road and self-driving trucks will likely contribute to a safer environment for all.

Will self-driving trucks save money or cost money?

A recent report by DHL considering the possible implications of the technology in logistics highlighted that self-driving trucks could actually reduce costs for freight by as much as 40% per kilometre. Self-driving trucks will certainly be more cost efficient in regards to fuel consumption. However, you could argue that self-driving trucks will actually be more expensive. Will firms now be paying more wages (drivers and programmers etc?) What impact will a self-driving truck have on the safety of goods from theft? What additional insurance policies will now be required? What non-financial impact will this have on a company's reputation if there was an accident? How much will it cost to replace a current fleet? These are all key questions to be considered when thinking about cost.

What will the impact be on environmental footprint?

The introduction of self-driving trucks is likely to reduce the environmental footprint of the transport & logistics sector due to better fuel consumption. Whether or not this reduction in carbon emissions will be marginal or substantial, however, remains to be seen.

Is the industry ready for self-driving trucks?

The simple answer to this is probably no. The technology driving self-driving trains is arguably more advanced, yet there is still reluctance to implementation. Trains are on rails - there are many more variables to consider with trucks - such as changing routes, the road infrastructure, traffic and so on...

You could also argue that the technology isn't yet ready either. Although self-driving technology is already being road tested by Daimler and Google, with encouraging results, it will have to be rigorously tested and scrutinised before any company seriously considers implications. The risks are, at the moment, far too high.

Coal-burning plants closures impact on logistics



All of the remaining UK coal-burning plants will be phased out within the next 10 years Amber Rudd, Energy Secretary, has announced. In summary, the government has announced plans to close all coal-fired power stations by 2025 and restrict their use by 2023, and this announcement is likely to have a major impact on the transport & logistic sector. Paul Wormald, Partner at Hawsons, answered some of the key questions regarding the forthcoming closure of UK coal plants and the issues for rail freight operators and hauliers with coal-based contracts.

What revenue is potentially at risk?

“In the UK almost one third of electricity is produced from coal-burning power plants. There is a lot of coal currently being transported so, potentially, there is a lot of revenue at risk. For example, coal will probably account for between 10 % and 15% of all rail freight traffic in 2015/16. The future closure of all of the UK’s coal-burning plants, in conjunction with the decline in British steel output, leaves an increasingly uncertain future for the sector. Those transporters of coal that rely heavily or solely on coal-based contracts now even face the very real threat of closure. The number of UK coal-burning plants has been steadily declining, so this is not at all unexpected, but until now there has been no fixed closure date.”

“Looking more generally at business operations – and not just in the transport & logistics sector – this announcement could have severe consequences. Coal is one of the cheapest sources of energy, and is what many of the UK’s global competitors use. The UK’s rush to stop burning coal comes as India and China announce that they are looking to double coal output by 2020. When the UK is already struggling to compete globally, this likely rise in energy prices will bring unwelcome concerns. Energy efficiency is more important than ever.”

What might this mean for investment, recruitment and staff retention plans?

“This fixed closure date, although 10 years away, will likely have an immediate impact. Of course those rail freight operators and hauliers that transport coal will now be more tentative about what the future may bring. Uncertainty lies ahead, and that makes future planning very difficult.”

“There is likely to be a knock-on effect on inward investment and staff retention plans, as they look to a more sustainable future. It also makes recruitment very difficult. Having said that, the 10 year heads-up does give firms the opportunity to evaluate and reassess their plans moving forward.”

What replacement revenue streams are available?

“During the announcement Ms Rudd said that ‘we are tackling a legacy of underinvestment and ageing power stations which we need to replace with alternatives that are reliable, good value for money and help to reduce emissions’ in the future. One of those alternatives, biomass, could yet see plants stay open and replace the current revenue streams from coal-based contracts. Biomass still faces major logistical challenges, but it has been making steady and promising progress in recent months. Biomass had been transported from North America to East Coast ports for some time now, but operations are starting to expand. Less than six weeks ago the first delivery of sustainable biomass was made by rail from the Port of Liverpool to Drax Power Station. This announcement could lead to further rapid growth in biomass.”

Is it likely that coal will be phased out?

“Successive governments have underlined the coal energy dilemma and, as a result, a series of major coal-burning power plants have been shut down in recent years. Longannet, one of the biggest coal-burning plants in Europe, announced earlier this year that it would close in 2016. The UK’s relationship with coal has been dwindling for quite some time; it’s an energy source which is not sustainable and very bad for the climate. Ms Rudd highlighted in her announcement that ‘it cannot be satisfactory for an advanced economy like the UK to be relying on polluting, carbon intensive 50-year-old coal-fired power stations’ and emphasised that ‘this is not the future’ of energy production.”

“Whilst government had made plans to go ahead a 10 year timeline can see plenty of changes in the political landscape. We will keep you updated with any ongoing developments.”

For more information please contact Paul on pw@hawsons.co.uk or 01302 367 262 or contact your local office specialist.

Ongoing transportation projects to improve UK links

The Chancellor, George Osborne, has promised to continue to make significant infrastructure improvements a key focus over the next four years through committing billions of pounds to improving the UK's transportation links. In this article we look at some of the ongoing transportation projects and comment on the potential widespread implications they may have on the transport & logistics sector, as well as the economy as a whole.

Road projects

Trans-Pennine tunnel

A major Trans-Pennine tunnel is planned to improve the connectivity between South Yorkshire and Manchester. The tunnel is likely to be built through the Peak District from the A628 Woodhead road. Following initial plans in December last year the government confirmed in July that a £1.3m contract had been awarded to assess the feasibility of the tunnel. Although no one believes that the tunnel project will happen in the short-term, it is indicative of the Northern Powerhouse aspirations held by George Osborne.

FARRRS

Construction work on the Finningley and Rossington regeneration route scheme (FARRRS) is well underway, with the opening date for the new road set for early 2016. The new highway linking from junction 3 of the M18 to the Doncaster Sheffield airport will also improve access into Rossington and Finningley and provide an alternative route into Doncaster from the South. FARRRS will make the Yorkshire airport, which is one of the fastest growing in the UK, much more accessible from the motorway and reduce journey times for passengers, particularly those travelling from the Sheffield City Region.

Rail projects

Electrification

In our previous newsletter we focused on the recommencement of plans to electrify the UK railways. Following the announcement that the rail electrification projects were to be 'paused' earlier in the year, the government and Network Rail have now confirmed that they will move forward with their original plans. Although there are, understandably, major delays to the initial completion dates, this modernisation of UK rail links is undoubtedly good news. This plan for a more modern, efficient and environmentally friendly rail service is encouraging for all.

Projects are indicative of the Northern Powerhouse – but what impact will they have?

The ongoing transportation projects in the Sheffield City Region and East Midlands areas are good news for UK companies.

The transport & logistics sector is the backbone of the UK economy and pivotal to the success in neighbouring sectors such as retail, hospitality, tourism and manufacturing. The potential benefits of a more efficient and more reliable transport network that brings greater connectivity regional, nationally and internationally cannot be understated. A recent survey found that 80% of businesses regard rail as being crucial or important to their operations. The quality of the UK's transport infrastructure is a key element to the growth of our economy. The impact of transportation projects, even before they are completed, will be widespread across a number of areas.

The 'transformational' long-term deal Flybe recently agreed at the Doncaster Sheffield airport is symptomatic of how improved transportation links (FARRRS) can boost the economy. This is just one recent example of how investments in transportation projects can boost inward investment; bringing more jobs and opportunities to local areas.

Of course the completion dates of many ongoing transportation projects are years away but, as the Flybe example shows, there will likely be big business implications prior to completion. Businesses, particularly those from the retail, hospitality, tourism and transport & logistics sectors, must start considering how ongoing and future transportation projects may impact their potential sales and supply-chains operations now.

Good news as Flybe sign long-term deal at Yorkshire airport



There was welcome news for the Sheffield City Region last month as Yorkshire's Robin Hood Airport Doncaster Sheffield signed a long-term deal with Europe's largest airline, Flybe. The airport announced on 2 November that Flybe will base two Embraer jet aircraft at the airport with services starting from the end of March 2016.

One of the fastest growing airports in the UK

The airport, which opened in 2005, is already one of the fastest growing airports in the UK and it is expected that this deal will continue to drive passenger numbers even further. Official figures earlier in the year showed that the airport achieved a 9.1% rise in passengers between March 2014 and March 2015. This figure is now expected to significantly rise over the next few years.

Managing Director of Doncaster Sheffield Airport, Steve Gill, commented: "This announcement is transformational for Sheffield City Region's airport. We are truly delighted to be welcoming Flybe in this new long-term deal. The additional seats and other forecasted growth are expected to take passenger figures from 900,000 in 2015/16 to over 1.35 million in 2016/17, an increase of around 50% year on year."

More great news for Sheffield City Region

Peter Kennan, Partner at Hawsons, who also Chairs Sheffield Chamber of Commerce Transport Forum, said: "The announcement by Flybe that they will be basing 2 Embraer jets at Robin Hood Airport Doncaster Sheffield is more great news for Sheffield City Region. It is hoped that Flybe are able to make money, as their route from DSA to Belfast didn't succeed and was withdrawn some time ago. This much greater commitment, coupled with the opening of the new M18 link road and a much more stable economic climate, means that there is every reason to believe that this will be very successful for the airline, airport and region. Really encouraging."

New routes

Flybe has announced that passengers will be able to fly to Paris, Amsterdam, Berlin, Faro, Malaga, Alicante, Jersey and Newquay. A spokesperson for Flybe said it would deliver up to 44 new flight departures a week.

Peter said: "The (Sheffield Chamber of Commerce Transport) forum believes this could have a transformational effect on the Sheffield City Region. At last we have hub connections via Paris and Amsterdam to worldwide destinations from our local airport. It is great news and Flybe must be thanked for their commitment to base two planes at Doncaster Sheffield Airport."

Strategic reporting for medium & large firms



All UK-incorporated companies are required to prepare a strategic report, as well as a directors' report, within their annual report unless they have an exemption. The Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 came into force on 1 October 2014 and apply to financial years ending on or after 30 September 2013.

As well as all of the matters previously required in the business review section of the directors' report that must now be covered in the strategic report instead, the regulation also requires report preparers to place emphasis on the business story and understanding shareholder needs. The changes are intended to provide greater insight into the business through a clear focus on strategy, development and performance. The report should also provide a forward-thinking perspective and understanding of the principal risks and uncertainties facing the company.

All strategic reports must include:

- A fair review of the company's business
- A description of the principal risks and uncertainties facing the company

A good strategic report should provide a complete and meaningful picture of the charity's strategy, development and performance; both present and future.

A strategic report should provide a balanced and comprehensive view of the company and, where appropriate, include analysis using financial (and nonfinancial for larger companies) Key Performances Indicators (KPIs).

What does a strategic report include?

The following table summarises the Companies Act 2006 strategic report requirements for large and medium-sized companies.

The emphasis of the regulatory guidance is on telling the business story and understanding shareholder needs, with greater focus placed upon the context of the business and the long-term principal risks and uncertainties underpinning the business, as well as future strategic prospects. Small companies are exempt from the requirement to prepare a strategic report.

There are also a number of requirements that are mandatory only for quoted companies. Please contact us for further information on these.

REQUIREMENT	LARGE COMPANIES	MEDIUM COMPANIES
Fair review of the business	YES	YES
Principal risks and uncertainties	YES	YES
Analysis of the development and performance of the business	YES	YES
Analysis of the position of the business	YES	YES
Analysis using financial KPIs	YES	YES
Analysis using non-financial KPIs	YES	NO
Additional explanations of amounts included in the annual accounts	YES	YES
Approval by the board	YES	YES

For more information please visit www.hawsons.co.uk/strategic-reporting or contact your local office specialist.



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Registered to carry on audit work in the UK and Ireland and regulated for a range of investment business activities by the Institute of Chartered Accountants in England and Wales.

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Find out more about how Hawsons can help your transport or logistics firm.

Please call your local office or visit:

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