Transport and Logistics Insight

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HAWSONS CHARTERED ACCOUNTANTS

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Introduction

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Welcome to our first transport and logistics Newsletter of the year. Since our last edition in the winter of 2019 a lot in the world has changed. The UK has officially left the EU and the coronavirus outbreak has caused significantly disruption in the economy.

In this newsletter we will be looking at the impact of the coronavirus pandemic on both rail, and haulage. Plus we will be summarising the Chancellor's recent Summer Statement, and we will be covering how your business could save money through a valuable tax relief.

We hope you enjoy the articles in this newsletter and as ever if you have any questions about any of these articles please do not hesitate to ask.

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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 this dynamic sector faces.

Nearly every other commercial sector is reliant on the services transport and logistic businesses provide and, in many ways, this specialist sector is the linchpin for our country's economy.

With our experience in the transport and logistics sector 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.

How has COVID-19 affected the haulage industry?

In this article, we will be covering how COVID-19 has affected the haulage industry. The data we will be using in this article is from a series of surveys undertook by the Road Haulage Association (RHA) in April 2020. In this survey, the RHA surveyed 4,500 firms in the haulage industry and the survey results can be found here.

How many trucks are inactive?

In the first survey, the RHA asked respondents how many trucks they had inactive. The RHA categorised these results by sector. The sectors where there were the most trucks inactive include, removals (96% inactive), car transporting (89% inactive), and, somewhat surprisingly, medical (75% inactive). Whilst these were the worst affected haulage sectors in the UK, initially, a total of seven haulage sectors have seen over 50% of their trucks become inactive due to COVID-19. This was believed to be due to health and safety reasons, or a lack of demand for products in these sectors. The least affected sectors include agriculture & fishing (22% inactive), food (32% inactive), waste management (33% inactive).

Across the whole industry, 25% of drivers were furloughed, and 46% of trucks were inactive during the early part of lockdown.

Cash Flow

With such disruption to activity, it was inevitable that the finances of many haulage firms would suffer a negative impact. 15% of haulage operators surveyed had applied for the Coronavirus Business Interruption Loans Scheme (CBILS), but 95% had their applications rejected. This left many haulage operators struggling to survive with only 8% seeing their cash flow as normal. 73% have seen their cash flow significantly reduced, 23% reduced to an unsustainable level, and 13% of firms have said that they are using their overdraft. 56% of operators were intending to or have accessed funds from the coronavirus job retention scheme.

If you would like any advice on how to effectively manage your cash flow, please read our cash flow article here.

Work Volume

In the survey, the RHA also asked hauliers how their volume of work had been affected. Only 5% reported their work volume was normal, and 22% of hauliers had zero work. A massive 83% reported that volume had significantly reduced or worse.

88% of haulage businesses reported that backloads had significantly reduced or worse which was a further hit to operating efficiency.

Conclusion

To conclude, the haulage sector has been hugely affected by the coronavirus pandemic. A very small amount of firms reported that it was business as usual. 5% reported a normal work volume, and 8% reporting a normal cash flow. The survey responses suggest many haulage firms have seen a drop in demand due to COVID-19. Very few respondents saw very little hope for the long term future.

Paul Wormald transport partner at Hawsons commented: “This is a very illuminating piece of research carried out by the RHA and it illustrates the way a key industry for the whole economy operates on a knife-edge. With only 12% of respondents saying that could survive in the long term at the volumes of work seen earlier in the summer, it is clear that the sector has faced some major challenges. Although activity may have increased since April, the economic future remains uncertain, and with furlough schemes set to end in the autumn, and paydays beginning to fall due for self-assessment, VAT, and various government-backed loan schemes during the first part of 2021, it is imperative that haulage firms plan their cash flow through what is sure to be an equally challenging period of time.”

COVID-19 sends rail off the rails

The Covid-19 pandemic has had far-reaching implications for many business sectors and on our way of life generally. Its impact on the rail industry has been particularly acute in the short-term, and although the long-term ramifications have yet to emerge with any certainty, these may well be significant on both a strategic and operational level. This is likely to be the case for train operators and consequently for those in the supply chain for the industry.

Passenger Trains

Annual passenger numbers had risen consistently since privatisation to 1.7 billion journeys, but these collapsed by 95% during the early months of lockdown. As a result, the Emergency Measures Agreement had to be implemented at the staggering cost of £900m per month to effectively re-nationalise the passenger network.

As things stand the Emergency Measures Agreements are due to be replaced in September and a revised model for Train Operators contracts will need to be in place by then. Given the timescale, it is likely that these will need to be extended.

But what will the railways look like in a post COVID world, or worse, a COVID interlude world?

Health concerns and social distancing measures have caused a drop in passenger numbers in the short-term, and led to a restriction on the capacity available on trains. Add to this the realisation by a newly born “zoomteams” generation that the new normal needn’t involve a daily commute to the office and suddenly the economics of running passenger trains in the future looks different. The relative certainty of EMA’s should help the Train Operating Companies, but the ongoing cost to the taxpayer means that this cannot continue indefinitely. Either the Train Operating Companies will have to adapt their operations, or a more fundamental change in the industry may be required.

In the world of open access operations, where EMA funding is not available, only one of the East Coast Main Line operators is currently looking to restart its services which highlight the challenge of being able to operate profitably at this time.

Freight Sector

In the freight sector, loadings were reported to be down around 30% during lockdown, but these have recovered to around 85% of normal activity recently. The biggest drops were due to a fall in construction activity and a reduction in the volume of imported intermodal traffic. Interestingly whilst the volume of traffic dropped by around a third, it was conveyed on around 50-60% of the trains – the fall in passenger traffic allowed longer trains to be run on lines where freight paths are normally at a premium.

On the infrastructure front, the reduction in the number of trains moving has allowed projects to be undertaken. Looking forward, this area would seem ripe for providing the “shovel ready” projects that the government seems keen to espouse, but it is a concern that Rishi Sunak did not mention any rail projects in his recent summer statement. In addition, reports emerged in late June that further revisions to the HS2 project were being considered that may involve the dropping of the eastern arm serving the East Midlands and South Yorkshire in favour of a Trans-Pennine route from Manchester to Leeds via Bradford.

Overall the picture remains very uncertain for a key component in the nation’s economy.

Summer Statement Summary

On the 9th July the Chancellor announced his Summer Statement to kick-start the economy. Rishi Sunak has pledged to “protect, support and create jobs” and get pubs and restaurants “bustling again”

Hospitality

The Chancellor has announced a 50% discount for diners to increase restaurant demand. Additionally, a large VAT cut has been confirmed for hospitality and tourism sectors.

VAT on certain items will decrease from 20% to 5% from 15 July to 12 January 2021. However, this reduced rate is only available on the following items:

Food
Non-alcoholic drinks
Accommodation
Attractions

Every UK citizen will receive a “eat out to help out” discount. This discount will be valid from Monday to Wednesday in August from participating businesses. It will be a discount of 50% of up to £10 per head.

Stamp duty holiday

The Chancellor announced on Wednesday 8 July 2020 that the threshold for stamp duty in England and Northern Ireland would be temporarily raised from £125,000 to £500,000 until 31 March 2021. The aim of this is to increase activity in the property market. This will also help house buyers that have been financially affected by a coronavirus.

The Government says that “the average stamp duty bill will fall by £4,500. And nearly nine out of 10 people buying a main home this year, will pay no stamp duty at all.”

Jobs and training

Job retention bonus: The Government will pay employers £1,000 for every furloughed employee brought back to work by the end of January 2021. It has been calculated that if every furloughed worker is brought back to work the scheme will cost £9 billion. For employers to be valid for this scheme, the employee must earn a monthly average of more than £520 in November, December, and January.

£2bn Kickstart Scheme: This scheme will create jobs for unemployed young people, which will enable employers to offer young people between the age of 16-24 years old a six-month placement. The Treasury will cover the National Minimum Wage for each young employee a company employs for up to 25 hours a week. With companies topping up workers' pay if they choose to employ them for longer hours.

The government is also investing in traineeships and apprenticeships. The government will offer £1,000 per trainee to businesses. (Capped at 10 jobs per firm).

New apprentice under 25 years old: Businesses will receive grants of up to £2,000 for each new apprentice employed.

New apprentice over 25 years old: Businesses will receive grants of up to £1,500 for each new apprentice employed.

The National Careers Service will receive a funding increase of £32m over the next two years.

The Environment

Rishi Sunak announces £2bn home insulation scheme

The Chancellor has announced a £2bn grant scheme for homeowners for energy-saving home improvements, this is part of a wider £3bn project to cut emissions. The Treasury has said that this funding would help support over 100,000 jobs. Households will receive vouchers for up to £5,000 and the poorest households will receive up to £10,000 for their energy-saving home improvements.

The scheme known as the Green Homes Grant will mean that the government will cover two-thirds of home improvement costs that will save energy. This scheme will start in September.

Conclusion

It is clear to see that the Chancellor's priority is to kick-start the economy after the coronavirus pandemic, by protecting, supporting, and creating jobs. He is also attempting to create demand in the hospitality sector by offering UK citizens the "eat out to help out" discount. However, all of this has resulted in the government borrowing more money to fund the restart of the UK economy, which could cost the country more in the long run.

R&D Tax Relief could give your business a cash boost

Coronavirus: R&D Tax Relief could give your business a cash boost
Tax savings and cash flow are more important than ever right now. As companies look for new sources of cash to replace lost revenues, we are seeing an increase in the number of enquiries about R&D tax relief. We can help your company to claim a welcome cash boost from HMRC by obtaining a rebate for funds you have spent on innovative projects. Make sure you don't miss out.

What is R&D tax relief?

R&D tax reliefs are HMRC incentives created to encourage innovation and technological advances in the UK. For more information, read our R&D Tax Relief guide.

Am I eligible?

Many companies carry out eligible R&D activities without realising that this work qualifies for relief.

R&D tax incentives are not just for niche sectors – eligible companies can be in any sector, any size, and can even be loss-making. A common misconception is that R&D incentives are only for those who undertake scientific research in a laboratory, but this is certainly not the case.

How we can help

We have extensive experience of making successful R&D tax relief claims. If you would like to discuss whether your company may be eligible to claim R&D relief, please get in touch with us.

Get in touch...

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