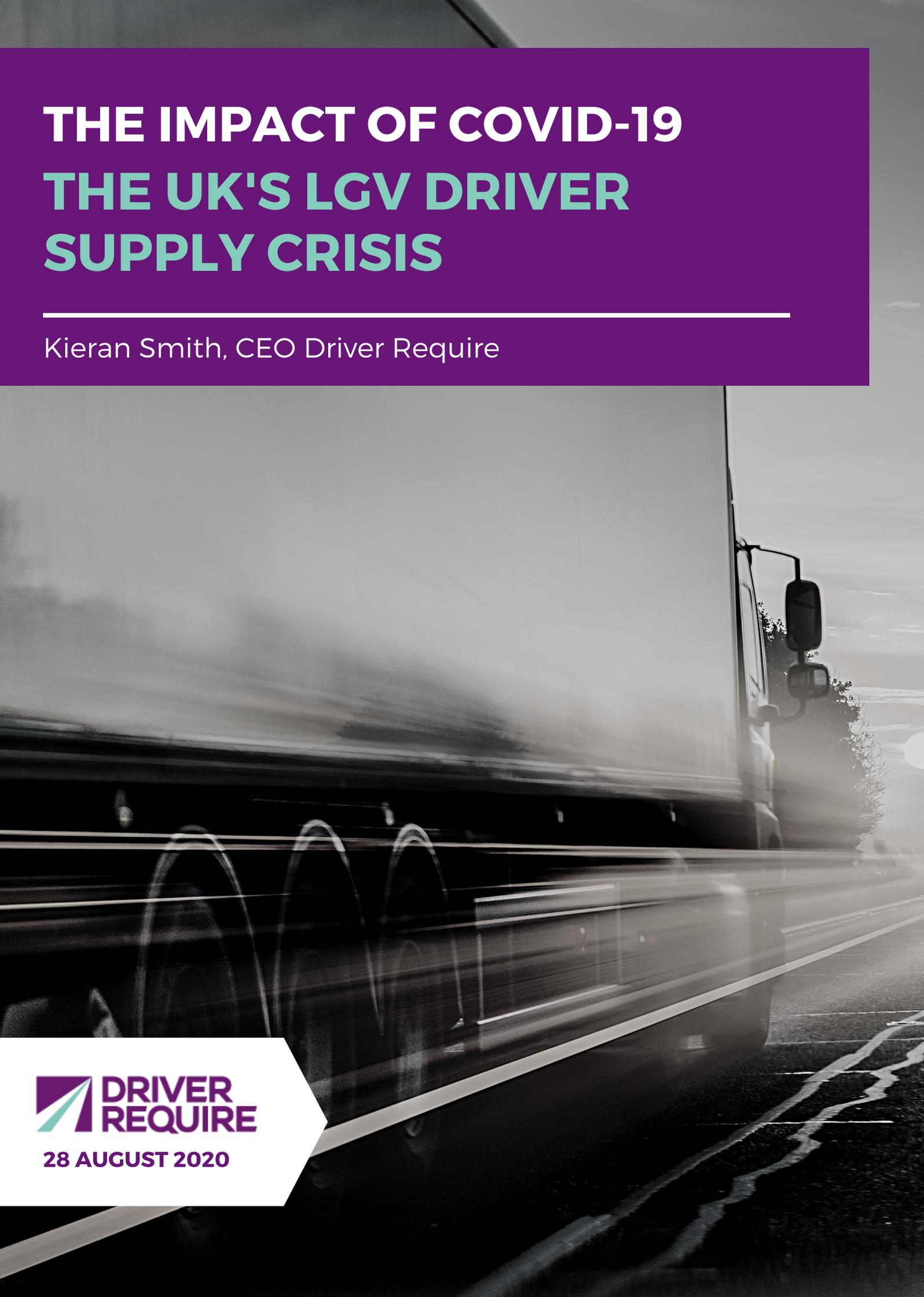


THE IMPACT OF COVID-19

THE UK'S LGV DRIVER

SUPPLY CRISIS

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THE IMPACT OF COVID-19: THE UK'S LGV DRIVER SUPPLY CRISIS

In our Driver Require Ltd report on “The Impact of COVID-19 - A Roadmap for Recovery in the UK Haulage Sector”, released in early July, I made the bold statement that we expect there will no longer be an LGV driver shortage in the UK; at least not until we are fully out of the post-COVID-19 recession, which could be more than 3 years away. I now realise that the LGV driver shortage will remain unresolved and is likely to worsen, at least in the short term.

Let me explain why.

Our report concluded that the predicted drop in GDP could cause a 10% reduction in LGV driver employment numbers (approximately 30,000 drivers) for the next couple of years. This would, in theory, go some way to offsetting the perceived pre-COVID-19 shortage of over 50,000 LGV drivers, however other factors are at play. Please refer to the Driver Require White Paper, “Investigating the UK’s LGV Driver Shortage”, for an explanation of the evidence and causes of the potential LGV driver shortage in the UK.

I now appreciate that other factors could reduce the available LGV driver pool to a greater degree than the drop in demand and also that the timing of these factors could combine to exaggerate conditions.

The size of the LGV driver pool is affected by several variables:

- In the longer-term, market forces should ensure that the driver pool adapts to match overall market demand as it fluctuates with economic activity. When demand exceeds supply, wages will rise to attract more entrants to the pool, and when there is a surplus of drivers, wages will drop until enough drivers leave to achieve equilibrium. This dynamic is however very slow, especially when there is a driver shortage, as cash-strapped hauliers on razor-thin margins are loath to offer pay rises unless necessary. Consequently, the equilibrium state will be one of chronic low-level shortage, but not so great a shortage as to prevent critical deliveries being made.
- In the short term, we have new LGV passes and foreign drivers entering the driver pool, while leaving the pool are drivers retiring or simply choosing an alternate career. A further source of LGV drivers are those leaving the armed forces to join the civilian workforce, but this has recently diminished to an insignificant level.
- In our Driver Shortage White Paper we determined that there are approximately 40,000 new passes entering the LGV driver pool and about 10,000 retiring every year. Meanwhile the pool itself has remained stable at around 320,000 drivers for the last 4 years.
- The fact that the pool has not grown over this timeframe implies that there are 30,000 drivers per annum leaving the pool prior to retirement. These are either new passes who decide not to take up driving as a career or existing LGV drivers who decide to stop driving to move into management or pursue another career.
- We examined the reasons why every year about 10% of the UK LGV driver workforce was giving up LGV driving as a career. We established several factors that contributed to this level of churn, these being: poor working conditions and roadside facilities, long unpredictable hours, stress at work, conflict between family and work commitments, especially for those with a young family and, underlying all these, dissatisfaction with pay levels relative to these working conditions.



So, we have established that we need to maintain a flow of 40,000 new entrants (new LGV passes) to keep the driving pool at its current level. What happens if those new passes dry up? This is exactly what has happened during Lockdown. Richard Simpson recently wrote an excellent article on this subject, which was published in the July issue of Transport Operator. The article confirmed that, prior to the Lockdown, approximately 900 candidates were passing

their LGV test per week. The DVSA closed all its LGV Driver Testing sites with effect from mid-March and these only started to re-open from 6th July.

I have recently spoken with one of the UK's largest independent LGV driver training schools in the UK, who operate multiple testing locations, and they have confirmed that they are still a long way off returning to previous testing levels. The reasons they quoted were that a significant proportion of DVSA test sites were operating at either a reduced capacity or had not yet opened (as at mid-August). The reduced capacity is partly due to the DVSA's precautionary measures which restrict DVSA testers to 3 tests per day compared to the pre-COVID-19 rate of 4 tests per day; that's an immediate cut of 25% capacity.

Furthermore, the DVSA has restricted the "Trainer Booker Service", which allows training schools to pre-book tests, from a 10-week horizon to six weeks. The training schools are given an Average Allocation of test slots per week and, unsurprisingly, these have been "rounded down" to reflect the lower DVSA Test Centre capacity. The difference is that, pre-Lockdown, the training schools would normally have had access to surplus ad hoc test slots, on top of their Average Allocation. Now the schools are taking their entire reduced allocation but can rarely get any more ad hoc bookings. The overall effect is to make the test booking process significantly more inefficient. This is all exacerbated by brokers who undermine the booking process and delay candidates' progress for their own financial benefit.

A further issue could be that restriction of test and training availability, along with the increased inefficiency, could force up training fees, which in turn may put off candidates who are increasingly cash-strapped due to the worsening economic conditions.

The driver training schools are therefore doubtful that testing throughput will improve much above 60% of previous levels before successful deployment of a vaccine. This could force some of the smaller schools, already struggling to make a profit, out of business – further restricting training availability.

We can now estimate how many new entrants have been “lost” over the past few months. For 16 weeks there were no tests, and we believe that, over the past 4 weeks, the testing rates have been at best 50% of previous levels. This means that we have “lost” over 16,000 new passes so far. If the training and test capacity continues at around 60% until a vaccine is successfully deployed, which is forecast to be the end of Q1 2021, we stand to “lose” another 14,000 new passes, bringing the total to about 30,000.

It is worth noting that, due to insurance constraints, nearly all new passes start their driving career as permanent employees of haulage operators rather than going through agencies. We therefore expect that, if the flow of new LGV passes dries up, the hauliers will have to rely more on agencies to keep their trucks rolling.

There are other less quantifiable factors to consider:

- There will inevitably be a backlog of candidates, but we don't know what proportion of these will give up waiting and opt for a different career, resulting in a permanent loss rather than the creation of a backlog.
- It is estimated that there are 40,000 foreign LGV drivers, mostly of Eastern European origin. Latest statistics indicate that the net immigration of Eastern Europeans has dropped substantially, and we have noticed fewer new arrivals of LGV drivers from Eastern Europe. The toxic combination of COVID-19, Brexit and the implementation of the IR35 reforms in the Private Sector could cause many of them to leave for mainland Europe.
- While the 40,000 Eastern European drivers remain working in the UK, the majority (approximately 30,000) are believed to be working through agencies. Many of these agency workers return to their home country for several weeks in late summer and over the Christmas period to be with their families during the school holidays. This causes a noticeable drop in agency driver availability during the peak periods.
- The IR35 reforms may also cause many British drivers to seek alternative careers. However, if unemployment levels rise as expected, British LGV drivers may be deterred from leaving the sector to pursue another career.

The next big question is how the timing of these fluctuations will play out.



Currently, we are experiencing an acute shortage of LGV drivers and agencies are struggling to meet demand. This is being caused by a combination of Eastern European agency drivers taking extended holidays, while many employed drivers, who delayed or cancelled their holidays during the Lockdown, are now trying to take them before the schools restart. At the same time haulage operators are busy clearing backlogs that accumulated during the Lockdown.



Once we get past the Summer peak and into September:

- Permanent staff will have returned from their holidays, while the Eastern European agency LGV drivers will have returned to the UK bolstering the agency workforce.
- We know that we have already “lost” 16,000 new LGV passes, but we don’t know if the rate of departure of existing drivers to pursue other careers may have lessened, and to what degree this may have offset the lack of new entrants.
- Another factor at play may be that COVID-19 may persuade older LGV drivers (over 55) to retire early or seek alternative “safer” employment; again, this is an unknown quantity.
- Lastly it is not clear how long it will take for hauliers to clear the backlogs.

On balance we believe that the combination of the above factors will cause demand to continue to exceed supply and that the current perceived LGV driver shortage will continue through to the end of 2020, getting more pronounced through the Christmas peak period.



Going into 2021:

Once we're past the Christmas peak, we anticipate demand for temporary agency staff to drop as we first start to feel the true impact of the recession. The backlogs will have been cleared and few permanent employees will be taking holidays. We expect the effect of the "90% Economy" to really kick in with a noticeable drop in demand for haulage services. This will be the time that hauliers will start making redundancies to reduce their costs to match their new operating levels. High unemployment rates will continue to put off full-time drivers from pursuing other careers, so hauliers will have a full complement of LGV drivers and therefore a reduced need for agency support.

As we progress through the first half of 2021, there will be great uncertainty with Brexit unravelling and IR35 reforms being implemented in April. Haulage companies should have right-sized their workforce, while IR35 is likely to have caused many to bring back in house agency drivers who were staffing their "standard operations", leaving just the variable element to the agencies.



As we move into the second half of 2021:

The LGV driver market should stabilise and this is when we expect the driver shortage to rear its head again. The combination of:

Factor	Effect (,000)	Cumul. (,000)
A reduction in demand of 30,000 LGV drivers due to the weakened economy	+30	+30
10 - 15,000 new passes (reduced from the usual 40,000)	+10 to +15	+40 to +45
Retirement of 10,000 older drivers (or more, depending on the COVID effect)	-10	+30 to +35
Drivers leaving for another career. This was more than 30,000/year over the past 4 years, but may drop due to high unemployment rates and poor economic conditions	-20 to -25	+10

The result is that, at best, the UK LGV driver shortage might improve (the deficit will decrease) by around 10,000 drivers, but this assumes that the foreign drivers remain working in the UK. This is an optimistic assumption given the mounting factors likely to alienate them: Brexit, the new immigration rules, IR35 reform and on top of all this COVID-19. We only need a quarter of these to leave to completely eliminate any easing of the shortage caused by the COVID-19 recession.

It is worth noting that, in our LGV Driver Shortage White Paper, we identified that the margin of error for the shortage calculation could be up to +/- 30,000. This renders the +10,000 largely irrelevant.

Furthermore, some of our assumptions are very uncertain so we have erred on the side of caution. It would be useful to get a better understanding of these factors and their dynamics. For example, can we:

- Identify an accurate number of the actual LGV test passes since Lockdown commenced?
- More accurately predict the number of new LGV test passes over the coming months?
- More accurately estimate the number of existing LGV drivers who might quit driving for another career?
- More accurately predict the number of Eastern European drivers who might emigrate to mainland Europe in response to IR35, Brexit and the new immigration laws?

LGV DRIVER SUPPLY: CALL TO ACTION

We are enlisting the support of industry experts and academics to try and get greater clarity on these questions. In the meantime, it is difficult to see the LGV driver shortage diminishing significantly and, if anything, it could worsen periodically over the coming 18 months unless there is determined Government intervention, for example:

- Temporary subsidy of LGV training and testing costs
- Rapid action by the DVSA to increase testing capacity and throughput
- Financial support for LGV training schools to prevent the smaller operators going out of business
- Investment in and improvement of truckstops and LGV roadside facilities
- In line with the Key Worker Status awarded to commercial delivery drivers during the COVID-19 Lockdown, perhaps introduce some form of concession that would increase LGV drivers' net income without imposing greater costs on hauliers
- Restrict working hours, for example along the same lines as in Europe where LGV drivers are prohibited from working on Sundays. This would have the effect of significantly improving working patterns but would also limit earning potential.

All the above require careful consideration and planning, and, even if some are rolled out quickly, it will take considerable time before we would see tangible benefits. The RHA and Logistics UK are already lobbying the Government and regulators on a number of these aspects with some success. The question is what more can we do and through which channels?