



# **INVESTIGATING THE UK'S LGV DRIVER SHORTAGE**

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Kieran Smith, CEO Driver Require

# THE MAGNITUDE OF THE UK LGV DRIVER SHORTAGE

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The Government, the FTA and the RHA all agree that there is a shortage of LGV drivers in the UK...

They also agree that this shortage sits somewhere between 45,000 and 60,000 LGV drivers; these being drivers who require a Driver Certificate of Professional Competence (CPC) to legally perform their job.

The latest report by the FTA<sup>1</sup>, published in November 2019, suggests the shortage sits at 59,000 drivers — an increase of 8,000 from the same time in 2018. The work of the FTA is essential, but it's important to recognise that, when making its calculations, the FTA has to work with ONS (Office for National Statistics) estimates, which are extrapolated from a relatively small sample size and are by definition very uncertain.

**Given the variability of the statistics, we believe a more accurate estimate sits closer to 50,000.**

We believe we could be approaching a perfect storm of toxic conditions for the UK LGV driver market. The implementation of IR35 in the Private Sector in April, exacerbated by Brexit, could trigger an exodus of foreign drivers to Germany and BeNeLux countries for better pay and conditions, while British drivers may leave to pursue other careers. The result could be a rapid worsening of the LGV driver shortage to crisis point, which, in the short term, would inflate LGV driver pay to unprecedented levels.

In the longer term, if we wish to prevent chronic attrition and rebuild the LGV driver pool, we believe the only solution is an improvement in working conditions alongside maintenance of higher pay rates.

Read on to better understand the rationale behind our concerns and what we propose to mitigate the worst outcomes.

— Kieran Smith, CEO

<sup>1</sup> See Appendix A for detailed explanation of FTA estimates

# EXAMINING THE EVIDENCE

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Putting aside our debate about the magnitude of the LGV driver shortage, it is still clear that there is a deficit of drivers relative to demand. It is therefore worth examining what qualitative evidence we have seen of a driver shortage...



In regards to hard evidence, we haven't yet seen delivery failures — at least not critical or high-profile deliveries — but there is evidence of temporary agency pay and charge rate increases during peak periods. In peak periods it is likely that non-critical deliveries are being deferred in favour of critical loads.



Underlying agency driver pay rates have also recently risen to the point of making up for the effect of inflation over the last 12 years; in real terms, LGV drivers are approaching the same real income as they had in 2007.



In peak periods, haulage companies and agencies have had to offer significant pay increases and loyalty incentives to drivers, while some agencies have offered eye-watering bonuses to satisfy desperate clients. This indicates that, until recently, the shortage has not been chronic, i.e. it only occurred for short periods at peak; too short a timeframe to force the senior management of haulage operations to conclude they needed to increase basic pay rates.



We are now observing companies extend these higher rates either side of peak, so that the higher rates are becoming the norm rather than the exception.

Unless we have a drop in overall requirements — caused, for example, by a recession — we can expect the LGV driver supply shortage to become chronic and much more visible to the general public.

# EXAMINING THE EVIDENCE

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Another key indicator of a driver shortage is our growing reliance on foreign LGV drivers to help us meet demand.



Over the past 10 years we have become increasingly dependent on drivers from continental Europe, mainly from Poland and Romania, with around 40,000 foreign LGV drivers working in the UK out of a total of 320,000 currently employed, this being around 12% of the total driver workforce.



These foreign workers have helped to make up the shortfall of British drivers entering the UK LGV driver pool and are working predominantly in the agency sector.



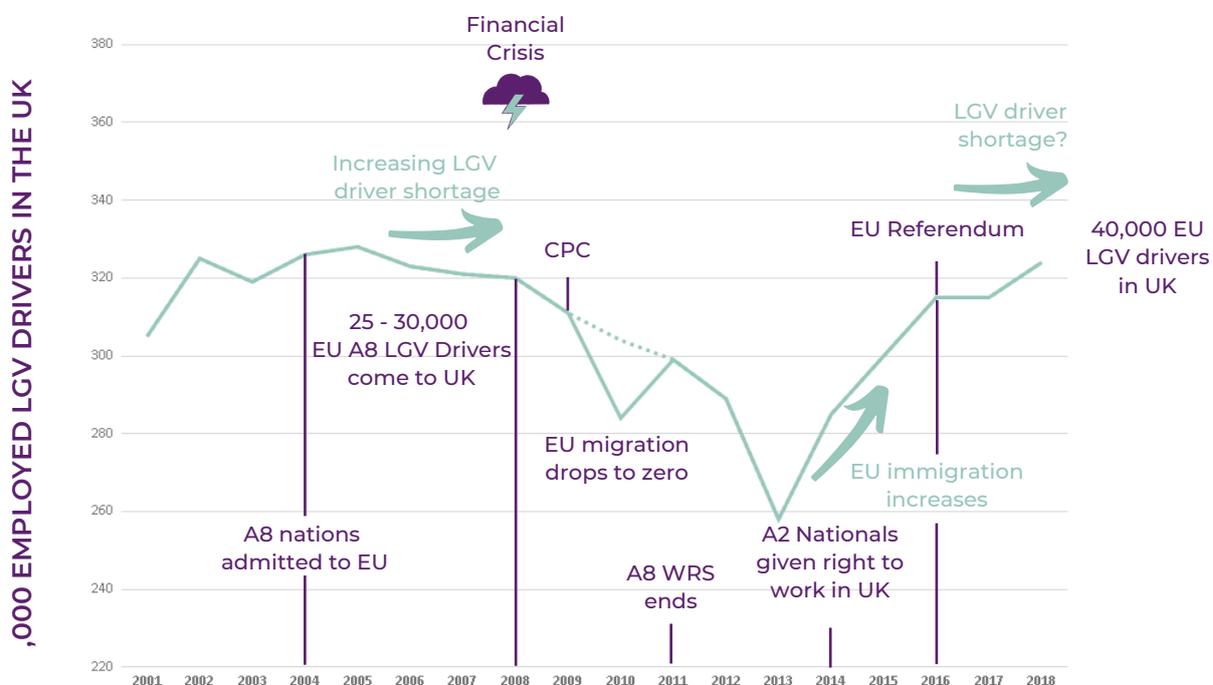
This has further contributed to peak shortages, as many Eastern European drivers are choosing to take extended time off to holiday in their home countries during peak periods, especially over the summer holidays. This has increased to the extent that we are now seeing a dip in revenues over peak periods, despite experiencing record demand.



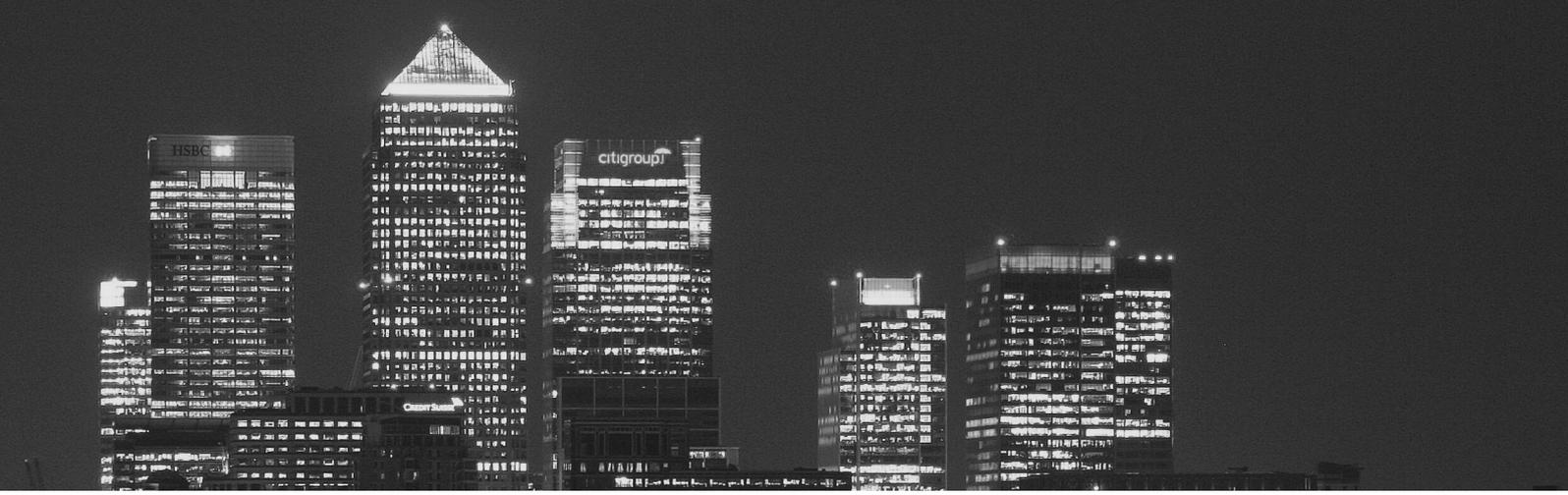
Finally, for what it's worth, the number of LGV drivers seeking Jobseeker's Allowance is at an all-time low.

# A BRIEF HISTORY OF THE UK LGV DRIVER SHORTAGE

In the infographic below, we have mapped the number of LGV drivers employed in the UK against key events that might affect supply and demand.



We will focus on two distinct periods of time: Pre-Financial-Crisis up to 2008, and Recession & Recovery (2009 onwards).



# 2000 - 2008 PRE-FINANCIAL CRISIS

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LGV driver numbers rose from around 300,000 in 2000 to nearly 330,000 in 2005...

What is interesting is that from 2005 to 2008 the number of employed drivers dropped, while the impression we all had at the time was that there was a growing shortage of LGV drivers.

From 2004, workers from the EU8 Nations were permitted to work in the UK under the Worker Registration Scheme (WRS) and, over the next four years, despite nearly 30,000 EU8 LGV drivers coming to work in the UK during this period, the overall number of LGV drivers employed in the UK dropped.

We can only assume that the number of drivers leaving the market was greater than could be made up by UK new starters combined with the incoming EU8 workers.

We recall agencies recruiting drivers directly from Poland and paying to bring them to the UK, including free English lessons, in order to satisfy their clients urgent requirements, which gives substance to this theory.



# 2008 - 2019 RECESSION & RECOVERY

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Just as the driver shortage was really beginning to bite, the Financial Crisis hit and the UK economy was plummeted into a severe recession.

This immediately averted any potential supply crisis. In fact, we saw driver numbers drop from 320,000 in 2008 to 260,000 in 2013 — a drop of 60,000 (20%) in 5 years, with a small aberration in 2010 due to the introduction of the Driver CPC in late 2009. During this time, EU8 immigration fell to almost zero.

From 2013 until now, the economy started to recover and the number of LGV drivers working in the UK increased rapidly to meet the increasing demand.

The numbers have increased from 260,000 in 2013 to approximately 320,000 today. This rapid increase was, to a degree, enabled by the decision to allow EU2 nations to work in the UK from 1st January 2014, from which time there has been a large influx of mainly Romanian LGV drivers.

The growth in the number of LGV drivers employed in the UK has levelled off over the past 2 years, however, as we've mentioned, we are seeing increasing evidence of a labour shortage. According to the latest ONS statistics, the number of Eastern European drivers coming to the UK has slowed significantly over the past couple of years, which implies that the additions to the sector from the UK labour pool aren't providing enough growth in driver numbers to meet demand.

**If demand continues to grow, we can no longer rely on foreign workers to fill the gap, and we will have to encourage more UK workers to join the LGV driving workforce.**

**This is unlikely to be something we can achieve quickly...**

# SO, WHAT ARE THE SHORT TERM THREATS TO THE LGV SUPPLY?

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We need to look at this from both a short term as well as long term perspective.

In the short term, one of the biggest threats we face is the proposed introduction of new IR35 legislation to the Private Sector in April 2020.

## The effect of the implementation of IR35 legislation to the Private Sector will be:



An increase in the cost of agency LGV drivers by around 25% in order to maintain their net pay at current levels when they move from a Ltd Company model to PAYE.



This will translate to agency charge rate increases of up to 20%.

If haulage operators resist these increases, agencies will have no choice but to pay the drivers less, which in turn will mean they earn less net income.

It is worth noting that April 2020 will also see the repeal of the Agency Worker Regulations Swedish Derogation contracts, which will legally enforce parity rates.

While this repeal may raise PAYE rates for drivers, it may not be enough to stop both UK and foreign drivers from leaving the UK driving sector to seek better rates of pay.

# SO, WHAT CAN WE DO IN THE SHORT TERM?

In the short term there is very little we can do to quickly increase the number of new drivers joining the UK LGV driver workforce.

We can, however, prevent drivers leaving the UK market by ensuring that wages and agency pay rates remain competitive in relation to other UK sectors and competing European LGV driver markets.

Germany and the BeNeLux countries are also suffering from severe LGV driver shortages and are offering increasingly attractive remuneration for agency LGV drivers. As mentioned earlier, Eastern Europeans make up a large proportion of the LGV agency workforce. As agency workers, they are able and willing to quickly move to other countries if they can obtain better rates of pay, especially if it means they are physically closer to their families.

Germany and the BeNeLux countries are currently offering net weekly pay just below the net pay that Ltd Company agency drivers can achieve in the UK. It won't take much of a drop in Ltd Company driver net pay for them to leave for greener pastures and we could potentially see an exodus of our European LGV drivers to the continent and our UK drivers to other sectors.

Brexit is just making this scenario all the more likely by weakening the £/€ exchange rate and by fuelling xenophobia — making our foreign workers feel increasingly unwelcome in our country.

**If agency rates do not rise there could be an exodus of foreign LGV drivers from the UK market:**



It could push the UK LGV driver shortage into crisis, forcing up pay and charge rates as companies fight over scarce resources. These elevated pay rates will cost the haulage sector more than if hauliers had paid a smaller wage increase to retain the drivers in the first place.

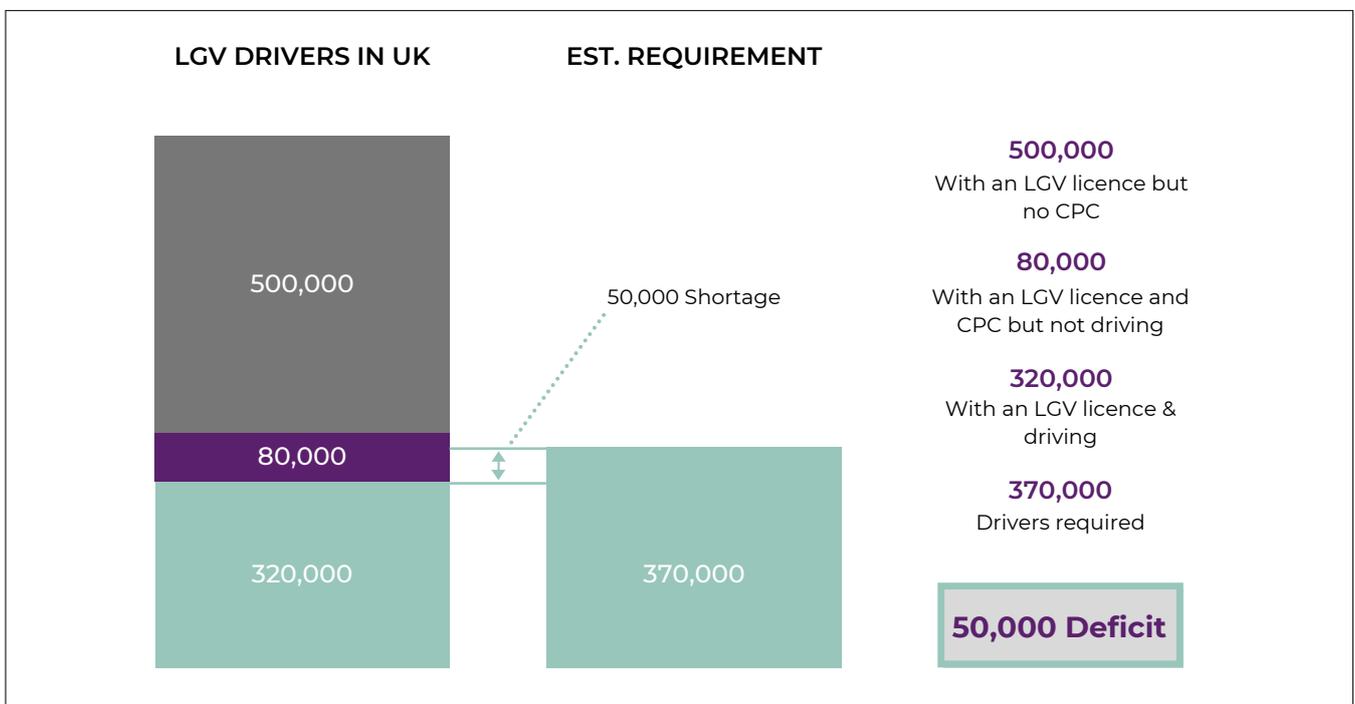


At least the effect of an excessive pay rise will be positive in the longer term, as the artificially high pay rates will attract more UK workers into LGV driving roles and workers back from the continent.

# WHAT CAN WE DO IN THE LONGER TERM?

It is revealing that, in the UK, almost two thirds of qualified LGV drivers have chosen not to drive lorries for a living.

This tells us that we have a problem with retaining workers in their profession. The graph below vividly demonstrates the stark nature of the problem.



There are approximately 900,000 people in the UK who have taken the LGV driving test and have been awarded category C or C+E on their licence, i.e. they are entitled to drive a Large Goods Vehicle (this being a vehicle over 3.5 tonnes) with no upper weight limit.

In order to legally drive an LGV for commercial purposes, a driver must be certified as well as qualified — this means that they must hold a valid CPC. Of these 900,000 qualified LGV drivers, approximately 400,000 are CPC certified and, of the 400,000 certified drivers 80,000 are not driving lorries for a living.

The FTA estimated that in 2018 the UK haulage sector needed 370,000 LGV drivers and they have now revised that figure to 380,000. This leads to the conclusion that there is a shortage of between 50,000 and 60,000 LGV drivers.

# WHAT CAN WE DO IN THE LONGER TERM?

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How can we get 50,000 of these "non-driving" drivers to return to driving lorries for a living?

After all, that's less than 10% of the 580,000 shown in the graph on the previous page. Unfortunately, it seems that it is not as simple as we'd hope.

Many experts have examined this challenge and have concluded that the vast majority of the 580,000 won't return to driving lorries. The primary reasons given are that lorry driving pay and working conditions are inferior to the pay & conditions in other careers.

Many would argue that lorry drivers are well-paid, but this must be taken in context.

## Lorry drivers often work anti-social hours:



Start times are often in the pre-dawn, early hours and, while a driver usually knows their start time, their finish time is dependent upon many factors, such as customer waiting times, unloading times and traffic conditions. They therefore rarely know when they will finish. The only constraints are that they can't drive for more than 10 hours in a shift, nor can they work more than 15 hours in any 24-hour period.



Given the variability of their working conditions they may be forced to night out on occasions, which often means sleeping in their cab. On top of this, a great deal of articulated lorry work is night work.



Many hauliers, such as the retail trade and supermarkets, operate seven days/week, so LGV drivers are expected to work weekends.



# ADDITIONAL FACTORS AT PLAY

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Admittedly, LGV drivers benefit from higher rates for overtime, night work and weekend work, and they have the option to work longer hours within the regulatory constraints. These factors combine to give them an income, estimated by the FTA, of around £30,000 per annum for a typical 48 hour week.

In the UK nowadays, we have expectations of higher living standards. As Kirsten Tisdale wrote back in 2004: one person's earnings, at least at this income level, are no longer considered enough for a family to comfortably live on; the average UK family now also relies on the spouse, or partner, to bring in a supportive income<sup>2</sup>. This remains truer today than ever before.

The continued need for two earners in a family unit means that childcare and household duties also need to be shared between partners in lieu of a full-time, stay-at-home parent. The problem in this for LGV drivers is that they don't have control over their working hours to allow them to make a meaningful contribution to family life, especially when they have young children. The unpredictability of their return times also makes it very difficult for the driver's partner to find a steady job that will provide a decent income.

In the relatively rare circumstances where a driver is permitted to cut his hours back to be able to play his role as a "family-man", his income is likely to be reduced to the point where he will realise that there are other jobs that pay more for the same hours.

Either way, the outcome is that drivers with young families are likely to be conflicted and struggle to rationalise remaining an LGV driver. These factors would make LGV driving unattractive to anyone hoping to start a family, i.e. 20 to 40-year olds — wiping out a large section of the workforce.

It also possibly explains why so many drivers seem to be passing their test and joining the workforce, yet the driver pool is not increasing at the same rate.



# ADDITIONAL FACTORS AT PLAY

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What it doesn't explain is why there are more drivers in the 30-34 age bracket than the two 5-year brackets either side (see graph on next page). One hypothesis is that most of the immigrant EU drivers are in this age bracket, which has artificially boosted the numbers. It may also be that above this age range is where we get the largest losses of drivers from the market

Before we look at this, it's worth considering other factors that may be putting drivers off LGV driving. Several studies have been conducted over the past few years and the following factors have been cited as reasons for drivers leaving the industry:



Stress is a major factor, caused by unrealistic scheduling and aggressive micromanagement by telematics, overzealous enforcement, and road conditions, combined with aggressive or distracted behaviour of other road users.



The poor quality of roadside facilities, especially at truck-stops, is a big issue but it is also worth noting that this concern applies equally to the hauliers' distribution depots as well as the receiving customers' locations.

The UK LGV driver pool is predominantly white male, so there is popular pressure to attract BAME (Black, Asian and Minority Ethnic) and women into the trade.

**The problem is that any initiatives along these lines are not going to have much success until the three key factors of remuneration, stress and employment conditions have been addressed.**

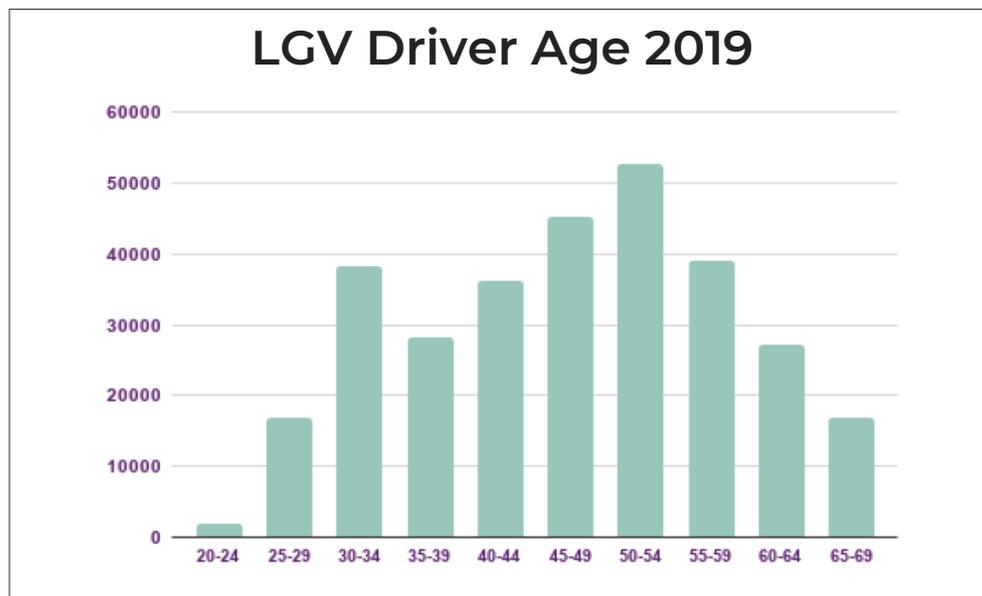
There are several other worthy initiatives — such as attracting armed forces personnel into LGV driving and training up ex-prisoners — but these will have extremely limited impact if we don't address the key factors driving people away from the industry.

# HOW BIG IS THE CHALLENGE TO RESOLVE THE DRIVER SHORTAGE??

We know what to change to attract workers into LGV driving work. The question is what are the dynamics and how long might it take to resolve??

Firstly, we can look at the number of people passing their LGV test and completing their Driver CPC. The number of new CPC acquisitions has risen from 16,000 in 2012 to the current level of around 40,000 per annum. This indicates that there is no problem with attracting new entrants to the market and that the cost of licence acquisition is not a prohibiting factor.

Then we should look at how many drivers are expected to retire each year. Below is a graph of the current age profile of UK LGV drivers.



There is a lot of talk about the average age of LGV drivers being greater than the national profile. This may be true, but if we look at the numbers in the graph, we can conclude that there are around 135,000 drivers aged over 50.

If we assume that these drivers will retire at the age of 65, we have a figure of 8000 drivers retiring per year. Even if we assume that they all retire at the age of 60 — a very conservative assumption — we get around 13,000 retiring per annum.

# HOW BIG IS THE CHALLENGE TO RESOLVE THE DRIVER SHORTAGE?

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Regardless, we end up with a net addition of approximately 30,000 additional drivers per annum.

It becomes clear that the real issue is not so much one of new passes or retirement, but one of retaining those already working as LGV drivers.

We know that in the past six years, the LGV driver pool has grown by 60,000 (i.e, by 10,000 per annum). In that same time period, approximately 60,000 should have retired, and over 200,000 new drivers have passed their test and CPC.

**We must therefore conclude that, over the last six years, 80,000 have either taken the test and decided not to take up LGV driving as a career, or have decided to stop driving to pursue a different career.**

Note that this figure does not even allow for the additional LGV drivers coming to the UK from continental Europe.

In a perfect world, where drivers remained LGV drivers until they retired, approximately 30,000 new drivers would join the LGV driver pool each year and within two years we wouldn't have a driver shortage. Even if demand for drivers continued to grow by 10,000 per annum, it would only take 2.5 years to eliminate the shortage.

Regrettably, we are not in a "perfect world" and we have to accept the reality that this is an alarming position; one that should really make all of us — hauliers, agencies, government, HMRC and regulators — sit back and think hard about what we need to do to rectify this situation.



# OUR VIEW

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Our view is that all parties must focus, with urgent priority, on raising pay levels and improving working conditions for LGV drivers in the UK.

The problem we have is that the government is unlikely to help increase salaries and benefits to LGV drivers, while HMRC is working hard to go the other way by closing the Ltd Company loophole and forcing payment of taxes.

Meanwhile, haulage companies are under extreme margin pressure from their customers and agencies are also under pressure following 10 long years of having their margins squeezed by their haulage customers.

**If IR35 is implemented in April, we can assume that few hauliers will want to accept an increase in agency charges, so we can foresee agency LGV driver net pay falling and an exodus of thousands of foreign drivers to continental Europe.**

The resulting supply crisis will force up agency pay and charge rates to extreme levels, which will be beneficial for the drivers and agencies, but harmful to most haulage operators and potentially catastrophic to some of the weaker players.

# SO, WHAT NOW?

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In the short term, if we wish to avoid a driver shortage crisis aggravated by IR35 and the possible exodus of drivers from the sector, our only choice will be to increase driver pay rates.

In the longer term, if we wish to prevent chronic attrition and rebuild the driver pool, the only solution is an improvement in working conditions alongside maintenance of higher pay rates.

**The common thread across both short and long term is an increase in pay rates.**

This will inevitably result in an increase in costs to hauliers, who are already operating on razor-thin margins. This is an unenviable position but one that needs to be addressed.

There is a stark choice, resist or embrace an increase in LGV driver pay rates.

Accepting an increase may incur higher costs in the short term, but it will help retain drivers and maintain their loyalty. Resisting could lead to drivers defecting to work for other hauliers offering better rates. Attracting them back would then require considerably higher rates again, assuming they would even be willing to return.

Ultimately, haulage operators must convince their customers to accept increased haulage costs otherwise they will be forced to cut margins further or lose work to competitors.

Perhaps LGV driver pay rates, including agency charge rates, could be factored into haulage operators' charges, in the same way as fuel costs are currently treated, i.e. as an agreed factor in the formula for calculating the haulage charge rates.

# SO, WHAT NOW?

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Whatever happens, agencies are a key enabler in the movement of LGV drivers between hauliers as well as bringing new and returning drivers into the sector.

Apart from driver pay rates, the next biggest factor preventing agencies bringing drivers back into driving for a career is Drivers' Negligence Insurance (DNI), which hauliers require for all agency LGV drivers. The problem is that DNI providers impose cover exceptions and specifically do not cover drivers with limited total or recent LGV driving experience. This prevents new passes or drivers without recent experience from entering the market through agencies. If we are to release this constraint, hauliers need to drop their demand for agencies to supply DNI.

We believe that the only condition under which a short-term crisis can be averted would be if IR35 is postponed or if a recession were to hit us quickly, in which case we wouldn't require the same volume of drivers.

If the government decides to postpone IR35, the decision needs to be made and enforced quickly — otherwise it will cause uncertainty, which could still trigger an exodus within the driver community.

**In both the short and long term, if we wish to rebuild the UK driver pool, it is vital that the issue of raising pay levels and improving working conditions for LGV drivers in the UK is addressed.**

— Kieran Smith, CEO

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*We'd love more businesses to join the conversation around the UK driver shortage.*

*If you'd like to share your point of view, or if you have any insights which conflicts with information that we have used in this report, we'd love to hear from you.*

*Please do contact me at [kieran.smith@driverrequire.co.uk](mailto:kieran.smith@driverrequire.co.uk)*

# APPENDIX A: FTA ESTIMATES EXPLAINED

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## <sup>1</sup> FTA Logistic Skills Report, 2019

The FTA's 2019 estimate of the driver shortage has been determined by taking the number of LGV drivers employed in the UK in 2007 (as estimated by the ONS at the time) and then extrapolating this to estimate today's requirement for LGV drivers, based on the assumption that demand for LGV drivers has risen at the same rate as the rest of the UK logistics sector, which has grown by 9% over the past 12 years.

The FTA then worked out the difference between their estimate of the current requirement and the ONS estimate of the current number of LGV drivers employed in the UK in 2019.

The problem with this is that the ONS estimates vary by up to 20,000 drivers from one quarter to the next. This is equivalent to a 6% movement in three months, which simply cannot be true. The ONS estimate for March 2019 is 20,000 lower than the average for 2018. It is therefore very likely that the March 2019 number (used by the FTA) is up to 20,000 too low — meaning that the actual driver shortage could be 20,000 lower than the FTA have stated, i.e. a margin of error of around 33%.