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Intelligent Transport Systems UK
Empowering Transport Technology

Submission to the Autumn Statement 2024
Intelligent Transport Systems UK

Intelligent Transport Systems UK (ITS UK) welcomes the opportunity to submit a submission to the Autumn Budget on behalf of our members.

We would be happy to provide further information on any of the submission provided below – please email **Public Affairs & PR Executive Eduardo Pitts,** at Eduardo.pitts@its-uk.org.

1. The Value of Intelligent Transport

1.1 Intelligent transport systems (ITS) is where technology meets transport. The ITS sector covers disciplines like traffic management and enforcement, demand responsive transport, road user charging, mobility as a service (MaaS), integrated transport, connected and autonomous vehicles, smart ticketing, data and AI services and much more.

1.2 The intelligent transport sector has a number of benefits:

- It is a key strategic industry of economic value to the UK. The sector is conservatively valued at £1.5bn and has the potential to generate £15bn a year for the UK economy. It supports highly skilled job opportunities across the country and is a burgeoning export, with UK expertise valued across the world.
- It provides a safer, more efficient transport network, helping deliver Vision Zero on the road network and protecting passengers on the bus and rail network.
- It enables better information and customer engagement, can give the travelling public more choice in their journeys, and better awareness of the modes and services available to them.
- The intelligent transport sector will be vital in decarbonising the transport network, by reducing congestion as well as informing and incentivising the travelling public to low carbon forms of transport.
- ITS has a key role in optimising the usage of our transport network, by making best use of current infrastructure assets. This can help the Government 'do more with less', providing cost efficiencies at a time of a constrained public purse.

About Intelligent Transport Systems UK (ITS UK)

Intelligent Transport Systems UK (ITS UK) is the national membership association for transport technology. We provide a national platform to support the roll out of technology for a cleaner, safer and more effective transport network, both at home and abroad.

ITS UK has 175+ members, from both the private and public sector, and covering all sizes and disciplines. More information on ITS UK and the intelligent transport sector can be found at www.its-uk.org

Summary of Recommendations

- Deliver a roadmap to the introduction of mobility pricing, that incentivises the fairer and sustainable use of the transport network.
- Leverage technology to achieve the UK's ambitions for the Strategic Road Network, through the maintenance and the renewal of current technology, alongside the introduction of new solutions.
- Support Demand Responsive Transport by putting it on an independent regulatory footing with equivalent VAT treatment to other modes of public transport.
- Support a different approach to the procurement of transport technology that supports funding for operational expenditure for local authorities.
- Support a strategic approach to the integration of transport, both through support for mobility as a service and smart ticketing technologies.

1. Introduction of Mobility Pricing

1.1 With the uptake in electric vehicles, road tax revenue will continue to fall, leading to what the Transport Select Committee predicted would be a £35 billion hole in fiscal revenue.[1] In particular, fuel duty will continue to reduce over the coming years, leading to a significant reduction in tax revenue, and a hole in the Government finances that will impact all public spending. Whilst it may take several years for fuel duty revenue to drop way, the ability for the Government to act will depend on public support, which will reduce as the uptake of EVs continues.

1.2 Across the UK, road pricing, clean air and low emission zones have been introduced, for various policy objectives. ITS UK believes a national system would have the biggest impact and benefit, with a distance-based smart road user charging scheme offering significant benefits across the UK in terms of reducing pollution and incentivising the public to take other forms of transport.

1.3 In order to avoid the rejection of 'another tax' and subsequent public dissent, the rollout of a national road user charging scheme will require careful consultation with the public and a comprehensive explanation of why the policy is necessary. Whilst public opinion is still critical, research carried out by the Campaign for Better Transport has shown that 'pay as you drive' policies are becoming more popular, with polling showing 60% of people believe vehicle taxation needs reforming, and 69% supporting pay as you drive if public transport was made more affordable and better connected. [2]

1.4 A strategy for a nation-wide road user charging scheme will have to consider that interoperability of payment across schemes can be implemented across cities or road networks. The administrative burden on road users having to pay multiple road network operators for a single journey can be eliminated by establishing contracts with payment service providers. This approach is taken in other countries, for example in Ireland, where

[1] https://committees.parliament.uk/committee/153/transport-committee/news/160791/road-pricing-act-now-to-avoid-35-billion-fiscal-black-hole-urge-mps/
[2] https://bettertransport.org.uk/wp-content/uploads/legacy-files/research-files/22.09.pay-as-you-drive-report.pdf

one toll payment account can be used to pay tolls on all motorways and for some other services such as parking.

1.5 The technology is readily available to implement a national road user charging scheme. Political will and public perception provide the biggest barriers to implementation. A successful scheme will need to be equitable, introduced in a gradual way that allows users to understand and trust the new system, and have effective communications with the public.

1.6 Any scheme must also ensure it supports those most in need in society, if it is to win public confidence. This Government should work with industry to begin a roadmap for the introduction of a national road pricing scheme, beginning an open and honest public discussion on why a national scheme is needed, and how a new way of road pricing can be introduced equitably.

Recommendation 1: Deliver a roadmap to the introduction of mobility pricing, that incentivises the fairer and sustainable use of the transport network.

2. A technology-led Road Investment Strategy (RIS3)

2.1 The Government is required to shortly set out its approach to the UK's Strategic Road Network for the coming funding period (RIS3), 2025 – 2030. There are a number of challenges facing the strategic road network, including (but not limited to):

- Decarbonising the construction, operation and use of the network.
- Utilising new technologies to ensure seamless journeys across the SRN and the local roads that connect it, as well as upcoming technology like automated vehicles.
- Reducing the number of Killed or Seriously Injured (KSIs) on the road network.
- Delivering increased capacity in a cost-effective way.

2.2 We believe ITS has a critical role to play in supporting the above objectives. Given the Government has stated its intention to focus on maintenance, operations and renewal of the SRN, and to limit new road building, we believe it is essential to utilise transport technology within RIS3.

2.3 The cessation of the smart motorway programme has provided questions to the sector on how we can effectively deliver technology onto the network, and the critical need to bring the public with us. ITS UK believe implementing future technology onto the network will require a funded programme of consensus building, agreement, planning and coordination and this will best be achieved through a long-term National Motorway Technology Transition Strategy. This would bring together motorway and local authorities with national and subnational bodies to provide a holistic long-term view on how emerging technologies can be integrated alongside existing ones, in a coordinated and structured way.

2.4 New technology is of little value if we are not maintaining what is currently on the network. Obsolescence of assets on the road and rail network poses a significant challenge to transport authorities. A funded programme of maintenance and renewal is critical, ensuring what we have on the transport network is maintained with a programme of managed replacement of legacy technology in a consistent manner across the UK.

Recommendation 2: Leverage technology to achieve the UK's ambitions for the Strategic Road Network, through the maintenance and the renewal of current technology, alongside the introduction of new solutions.

3. Remove the VAT for Demand Responsive Transport services using PHVs

3.1 Demand Responsive Transport (DRT) is an innovative approach to public transport that utilises technology to provide dynamic, on-demand bus services for local communities. DRT is particularly effective in providing a public transport link for those with limited transport alternatives, such as in rural areas.

3.2 The Government has funded a number of DRT schemes across the country, through the Rural Mobility Fund, although the number of schemes in the UK lags behind European counterparts. Supporting this innovative form of public transport will be increasingly important as the UK seeks to decarbonise the transport network, whilst increasing provision in hard-to-reach communities.

3.3 However, whilst other countries treat DRT as its own form of public transport – with its own rules and regulations - in the UK DRT faces difficulties from not having its own regulatory framework. A clear example of this is the current VAT system, which encourages operators to use disproportionately large vehicles. These vehicles, typically mini buses with up to 18 seats, are not adapted to the usual number of passengers who occupy a DRT vehicle – comparable services in Germany typically use minivans of six to eight seats.

3.4 In the UK, only Public Service Vehicles (PSV), defined by law as having 10 seats or more, benefit from zero-rated VAT exemption. As a result, any DRT Schemes using a vehicle with less than 10 seats, is categorised as a Private Hire Vehicle (PHV) and subjected to VAT on fares. Given the instrumental role that DRT schemes can play in providing access to public transport for rural and semi-rural communities, supplementing fixed-line public transport networks, and providing first and last mile services, applying VAT to fares collected from smaller vehicles in DRT schemes, is an unnecessary complexity for passengers and operators alike. This results in local authorities opting for larger vehicles, meaning higher capital, maintenance and operational costs, as well as a larger environmental footprint.

3.5 Additionally, the continued shortage of bus and heavy vehicle drivers is unnecessarily exacerbated, as smaller vehicles could be driven by those with standard driving licenses, for which the pool of drivers is much larger. The VAT issue requires a short-term change, which would be revenue neutral for the Treasury. Going forward, DRT should be placed on its own regulatory footing, as a designated form of public transport, allowing new services to flourish and spread around the country.

Recommendation 3: Support Demand Responsive Transport by putting it on an independent regulatory footing with equivalent VAT treatment to other modes of public transport.

4. Supporting long term, operational funding for Local Authorities

4.1 Local authorities can benefit significantly from emerging technologies, yet often, procurement processes are not set up to reap the full benefits. Large transport bodies,

often have the capabilities to invest in their data infrastructure, but this is not often the case for small public sector bodies. Because Government mostly funds capital expenditure, local authorities are encouraged to buy transport technology on an ad hoc basis for individual projects instead of building strategic capabilities.

4.2 If local authorities are to take a more strategic approach, they will require funding for operational expenditure, to provide the capabilities to keep services running. In particular, the split between capital and operational expenditure can limit local transport authorities from procuring 'software as a service' products, or from utilising innovative new products, even where – in the long term – these products and services can reduce costs.

4.3 In the long term, optimising the procurement of transport technology products, requires a change to funding models for local authorities, recognising the increasing need for recurring spend as part of building an intelligent future driven by data, systems and technology. ITS UK believe that longer funding settlements of five years or so would have a big impact on local authorities, helping provide more certainty than the current process of bidding for small innovation funding pots.

4.4 We welcome the Procurement Act coming into force in October 2024 and the shift away from 'Most Advantageous Economic Tender' to 'Most Advantageous Tender'. We believe the following principles can support the procurement of transport technology products and services:

- **Wider Economic and Societal Benefits:** Consider the broader impact beyond immediate costs. For instance, increasing road capacity through technology without physically widening roads can improve traffic flow and reduce congestion
- **Quality Over Price:** Prioritise Quality when evaluating bids. Sometimes a higher upfront cost can result in better long-term value, or vice versa.
- **Social Value:** Look beyond financial metrics. Procurement decisions should also consider local community benefits, such as job creation or environmental stewardship.
- **Whole Life Cost and Return on Investment:** Evaluate not only the initial capital expenditure but also ongoing operational costs (maintenance, energy, asset refresh etc.). Procurement should consider when the Return on Investment will be realised.

Recommendation 4: Support a different approach to the procurement of transport technology that supports funding for operational expenditure for local authorities.

5. A strategic approach to the integration of the transport network

5.1 The Government has set out its priorities to develop a more integrated transport system, particularly through the development of an Integrated Transport Strategy. ITS UK welcome the proposed Strategy, and believe a more strategic approach needs to be taken to integration, including through the use of mobility as a service and smart ticketing technologies.

5.2 Mobility as a Service (MaaS) is defined as the integration of "various forms of transport and transport-related services into a single, comprehensive, and on demand mobility service". MaaS is a way of making it easier to travel using any form of public and private transport, without having to own assets like a car, bike or scooter. It does so by combining transport services from public and private providers, typically through a unified portal or app to

create, manage and pay for the trip. A user can then pay per trip or a subscription, which offer mobility based on an individual's travel needs.

5.3 In the UK, there has been positive progress on the development of MaaS, both in the public and private sector. However, a greater strategic vision should be considered, above and beyond the funding provided. A strategic approach should determine what the role of the private and public sector will be, how current progress can be built upon and, eventually, scaled up to a UK wide approach to MaaS, and how operators and businesses can be brought together behind this vision, to ensure their buy-in.

5.4 It will require Government also to consider how it currently works, and to bridge across different and traditionally siloed transport industries to enable a more joined-up approach to decision making. This will require the Department for Transport to think increasingly at a multi-modal level, and for the decision-making process to consider all transport modes.

5.5 Similarly, when it comes to smart ticketing, there needs to be far greater roll out across the UK's nations and regions. Smart ticketing offers considerable benefits to passengers, providing greater convenience and faster access to stations as well as giving passengers great information about fares, journey times and when disruption occurs. For the operator, smart ticketing systems can give insights into passenger movements and travel patterns, allowing them to in turn better optimise their service. And, ultimately, smart ticketing is an essential pre-cursor to a truly integrated network that utilises MaaS.

5.6 Currently, smart ticketing is evolving, with the shift to Mobile Pay as You Go, where customers use their mobile phones to activate their journey and pass through a ticket gate, and with the fare price determined by the journey they make. Contactless ticketing and barcode digital tickets are only expected to grow in use over the coming years.

5.7 Independent retailers could offer their capabilities to speed up the roll out of smart ticketing systems, building upon existing PAYG apps rather than requiring the creation of new ones. This will help deliver mobile PAYG faster, in a more agile and innovative way.

5.8 Central to public support for smart ticketing is the knowledge that customers are getting the best fare price, particularly on the rail network. However, there are occasions when PAYG may not be the best rate when compared to pre-purchased tickets, due to fare capping, journey times, the particular route used or concessionary rates. It can be very difficult for customers to understand whether they are paying the best fare.

5.9 Fares reform, currently being explored by GBRTT, should be prioritised, with a shift to single leg pricing that provides a consistent and easy-to-understand approach. Fundamental to this is a commitment to fares parity across all methods of purchasing a ticket – so that you get the right fare whether you buy your ticket at a machine, online or via PAYG. The option to provide daily or weekly fare capping should be extended to all retailers, so that customers pay the right price for all vendors.

Recommendation 5: Support a strategic approach to the integration of transport, both through support for mobility as a service and smart ticketing technologies.

Intelligent Transport Systems UK
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