

The Rt Hon Jeremy Hunt MP  
Chancellor of the Exchequer  
11 Downing Street  
London  
SW1A 2AA

22 February 2024

Dear Chancellor,

**Open Letter: Call for VAT changes to support Demand Responsive Transport services, enabling greater mobility for rural and low-income areas**

On behalf of the intelligent mobility sector and ahead of the Spring Budget in two weeks, Intelligent Transport Systems UK (ITS UK), the industry association for transport technology, is writing to highlight how targeted changes to the VAT system could facilitate the further rollout of Demand Responsive Transport (DRT) schemes, thereby helping to enhance and decarbonise rural mobility across the UK.

DRT constitutes an innovative approach to public transport, tailor-made to meet the unique needs of UK communities. Diverging from conventional fixed-route systems, DRT utilises technology to establish dynamic, on-demand networks, enabling passengers to book rides on-the-go or schedule trips in advance, thereby offering a highly adaptable and efficient public transport solution, especially in areas with limited transport alternatives. In some areas, these services can be a more sustainable alternative to underutilised fixed-route buses and help reduce traffic through modal shift.

Numerous DRT schemes, many of which are funded by the Government's Rural Mobility Fund, have shown the potential to level up the countryside quickly and in a cost-effective manner. However, the UK continues to trail behind other European nations in the roll out of DRT schemes.

One of the key issues impeding the growth of DRT in the UK 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 expected to take advantage of DRT schemes - comparable services in places such as Germany typically use minivans with six to eight seats.

In the UK, only Public Service Vehicles (PSV), defined by law as having 10 seats or more, benefit from the zero-rated VAT exemption. Any DRT scheme that uses smaller vehicles automatically falls within the Private Hire Vehicles (PHV) rules and therefore is subject to VAT on fares. Given that DRT is currently used to supplement local fixed-line public transport networks as well as providing first-mile or last-mile service for others, applying VAT to fares for parts of a public transport service adds unnecessary complexity for passengers and operators alike.



Given these challenges, local authorities usually opt for larger vehicles. This in turn entails significantly higher purchase, operation and maintenance costs as well as resulting in a higher environmental footprint. Furthermore, the continued shortage of bus and heavy vehicle drivers in the UK is unnecessarily exacerbated since the smaller vehicles require a standard driving license for which the pool of drivers is much larger.

In light of this, we urge the Government to consider an amendment to the Value Added Tax Act. Where local authorities wish to use PHV to provide public transport services, fares should be VAT exempt, as is consistent with fares on other modes of public transport. This would not only facilitate the further rollout of DRT schemes, but also ensure more efficient use of public resources, especially at times of funding cuts. Importantly, given the current use of PSV services, this VAT change would in practice be budget-neutral for the Treasury. We're aware that the Government has proposed a consultation with industry on VAT for PSV fares, and would urge you to consider DRT schemes within these discussions.

With the Spring Budget in two weeks, we hope to gain your support for this policy change that would help in improving accessibility for local communities. This minor legislative change could be adopted by HM Treasury without primary legislation, and would therefore have an immediate, positive impact throughout the UK.

We look forward to engaging in further discussions to support the roll out of this new technology-driven solution for decarbonising rural transport.

Yours sincerely,

A handwritten signature in blue ink, consisting of the letters 'M' and 'S' followed by a long horizontal stroke.

**Max Sugarman**  
Chief Executive, Intelligent Transport Systems UK

cc: Mark Harper MP, Transport Secretary and Anthony Browne MP, Minister of State,  
Department for Transport