

# ADT H&I Working Group

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## 1. Aims

The Cabinet Secretary for Finance and Constitution committed to convening a Highlands and Islands (H&I) working group at the Air Departure Tax (ADT) Stakeholder Forum on 30 November 2017.

Its aims will be to explore the H&I exemption issue with stakeholders in more detail, in a series of meetings intended to allow for dialogue and the reaching of consensus around the problem and potential solutions. This will help inform the separate ongoing work with the SG and UKG on resolving the H&I issue to enable the introduction of ADT in Scotland.

### First meeting: Background

Joint understanding of the issue: to set out for stakeholders the background to the reasons for deferral, including background to the current APD exemption, State Aid issues, and SG policy aims.

Agree terms of reference for the group .

### Second meeting: Evidence-gathering

1. Evidence – H&I region: draw on stakeholder knowledge and data to help SG understand the importance of the H&I exemption to people and businesses of the H&I region.
2. Evidence – H&I flights: to understand the importance of H&I exemption on current H&I routes and the impact to route profitability if different levels of ADT were charged on H&I flights.

### Third meeting: Solutions

To explore potential ways of delivering the same outcome as the current H&I exemption, and alternatives to a like-for-like replacement.

Any solution must deliver the best possible outcome for the H&I, be compatible with EU law, not result in financial detriment to the SG or H&I, and be affordable within the Scottish budget.

## 2. Limits to scope

The material taken to the group should not be distributed out with the forum and discussions will be held under the Chatham House Rule. Contribution to the group is not expected to constitute Regulated Lobbying under the Lobbying (Scotland) Act 2016.

The following will be considered to be out of scope:

- Sharing SG legal advice on State Aid issues.
- Direct approaches to the UK Government or European Commission.
- Interaction with Parliament or other political parties.

### **3. Membership**

Given the aims of this group, we propose that potential members be drawn from organisations more representative of and/ or involved in the affairs of the H&I, than the broad industry representation offered by the ADT Stakeholder Forum.

Experience suggests that numbers would need to be kept below 20 to enable meaningful discussion, unless break-out groups are used.

**[Redacted]**

### **4. Location and timing**

Our intention is to hold the meetings in the H&I rather than the central belt, for the convenience of the majority of attendees, and will plan for the first meeting to be in Inverness.

The first meeting will be held in early June, to allow for the timing announcement and associated comms activity.

[Redacted]

Cabinet Secretary for Finance and the Constitution

## **AIR DEPARTURE TAX – COMMUNICATIONS AND NEXT STEPS – PQ**

### **Purpose**

1. To propose the text of a Government-inspired question (GIQ) for your announcement on the timetable for introducing Air Departure Tax (ADT), [redacted] .

### **Priority**

2. Routine.

### **Background**

3. The submission follows on from your decision to defer the introduction of ADT beyond April 2019 and to make this public as discussed at Cabinet on Tuesday. This decision took into account the industry's need for certainty, Revenue Scotland's lead-in time of 12 months, and the impact of Brexit on aviation and State Aid rules. This submission asks you to approve our preparation for this announcement by means of an inspired PQ.
4. [Redacted] By following the GIQ with a letter to the Finance and Constitution Committee and a letter/ calls to members of the ADT Stakeholder Forum, you will meet your aim of updating Parliament and all stakeholders at the same time. We have also drafted a letter to the XST for your consideration which can be issued next week in advance of the announcement.

### **Text of the proposed question and answer**

5. Question:

To ask the Scottish Government what progress has been made in the discussions with the UKG on the devolution of Air Passenger Duty.

6. Answer:

*At the time of the UK Autumn Budget in 2017 we announced that the introduction of Air Departure Tax (ADT) in Scotland would be deferred until the issues raised in relation to the Highlands and Islands exemption had been resolved. The Scottish Government has been clear that it cannot take on ADT until a solution has been found to the Highlands and Islands exemption - to do so would comprise the devolved powers and risk damage to the Highlands and Islands economy.*

*The Scottish Government and UK Government have continued to work together, at both ministerial and official levels, to seek a solution to the Highlands and Islands exemption issue. Despite these efforts, and combined with the continuing uncertainty as to how Brexit might affect aviation, it has become clear that aiming to introduce the tax at the beginning of the next fiscal year, April 2019, is not possible.*

*The Scottish Government has a longstanding commitment to reduce ADT by 50%, and we are doing all we can to work with airlines and airports to help grow the direct routes which are important for our tourism sector and Scottish businesses. While we work towards a resolution to the Highlands and Islands exemption, we call on the UK Government to reduce APD rates to support connectivity and economic growth in Scotland and across the UK.*

### **Practical arrangements**

7. The Parliamentary Clerk requires two days to arrange for the GIQ to be tabled and answered. You have yet to agree a preferred date for the GIQ to be tabled and answered but we are preparing for this happening next w/c 14 May. You will also need to nominate an MSP colleague to ask the question.
8. In addition to this there is also one existing, unanswered PQ on the same subject from James Kelly (Labour) which was lodged on 1 May: *“To ask the Scottish Government on what date (a) Air Departure Tax will be introduced and (b) Air Passenger Duty will cease to apply”*. This would need to be answered on the same day as the GIQ and we propose to respond to this by referencing your answer to the GIQ.
9. We have also attached reactive press lines in Annex A which have previously been cleared by Comms and SpAds colleagues.

**[Redacted]**

## **ANNEXE A – COMMS LINES**

We have worked with Comms colleagues to develop two sets of lines for your consideration.

(i) Shorter lines for the press:

*“We are doing all we can to work with airlines and airports to help grow the direct routes which are important for our tourism sector and Scottish businesses.*

*While we continue to work towards a resolution to Air Departure Tax to protect the Highlands and Islands, we call on the UK Government to reduce UK Air Passenger Duty rates to support connectivity and economic growth in Scotland and across the UK.”*

(ii) More detailed lines:

*“Since the decision to defer the introduction of ADT in the UK Autumn Budget the Scottish Government have continued to work closely with the UK Government to find a solution to the Highlands and Islands issue.*

*The Scottish Government has been clear that it cannot take on the ADT until a solution has been found to the Highlands and Islands exemption - to do so would comprise the devolved powers and damage the H&I economy. The Scottish Government also recognises the need to give businesses more certainty on the timetable for ADT to plan ahead. Despite continued efforts a solution to the H&I exemption has not yet been found. This combined with the continuing uncertainty as to how Brexit might affect aviation means that ADT cannot be introduced in time for April 2019.*

*The Scottish Government has a longstanding commitment to reduce ADT by 50% and we are doing all we can to work with airlines and airports to help grow the direct routes which are important for our tourism sector and Scottish businesses. While we work towards a resolution to the Highlands and Islands exemption, we call on the UK Government to reduce APD rates to support connectivity and economic growth in Scotland and across the UK.”*

## MINISTERIAL ENGAGEMENT BRIEFING: DEREK MACKAY

<b>Engagement title</b>	Calls to key stakeholders following announcement on ADT timing
<b>Engagement timings</b>	1/06/2018 (to follow PQ publication at approx. 10:30 AM)
<b>Organisation</b>	Multiple – see separate contact list
<b>Venue and full address</b>	By telephone
<b>Background/Purpose</b>	You wish to inform key stakeholders in person of your decision to defer the introduction of ADT beyond April 2019.

### SPEAKING POINTS

- This call is to give you early sight of an update that I have made to the Scottish Parliament today, that the introduction of ADT will be deferred beyond April 2019.
- I value the ongoing engagement I have had with stakeholders throughout this process and recognise the need for industry certainty to enable planning.
- Although I understand that you want to see a cut to ADT as soon as possible, knowing there will be no change in the next Budget will be preferable to ongoing uncertainty.
- Since the last update I provided, the SG has continued to work closely with the UK Government to find a solution to the Highlands and Islands (H&I) exemption issue. This is not just in our gift, the process of devolution is joint with the UKG.
- We cannot take on ADT until a solution has been found to the H&I issue. This is not only to protect the H&I economy, but also as a fundamental point of principle relating to devolution: we cannot accept a power which is in a defective state.
- Combined with the ongoing uncertainty over how Brexit will affect State Aid and aviation and the lead in time for Revenue Scotland's operational readiness to collect the tax, means ADT cannot be introduced from April 2019.
- Steps to delivery to give you clarity on the process for resolving this matter:
  1. Have convened a working group from organisations with expert knowledge of the H&I economy (first meeting scheduled for 15 June).
  2. Continue to work with UKG and through the H&I Working Group, to continue to explore solutions - must deliver the best possible outcome for the H&I, be compatible with EU law and not result in financial detriment.
  3. Reach agreement with the UKG on a new introduction date, which also allows adequate time to enable Revenue Scotland to be ready to collect and administer the tax and for the required legislation on rates and bands
- The Scottish Government remains committed to a 50% reduction in ADT by the end of this Parliament, and to abolishing the tax when resources allow. We are working towards achieving this at the earliest opportunity.
- **[Redacted]**

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Bruce Crawford, MSP  
Convener  
Finance and Constitution Committee  
Rm M4.18  
The Scottish Parliament  
Edinburgh  
EH99 1SP

01 June 2018

Dear Bruce,

## **AIR DEPARTURE TAX UPDATE TO THE FINANCE AND CONSTITUTION COMMITTEE**

I am writing to update the Finance and Constitution Committee on Air Departure Tax (ADT).

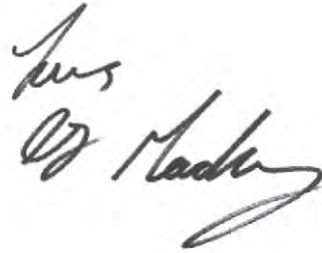
I have today announced to Parliament my intention to defer the introduction of ADT beyond April 2019. In reaching this decision, I have taken into account numerous factors. Firstly, I understand that industry stakeholders need clarity to enable them to plan for ticket sales and route development. A further factor is my understanding of Revenue Scotland's need for sufficient notice to restart the ADT programme and become operationally ready to collect the tax. The final factor is the ongoing uncertainty concerning State Aid rules (and hence the Highlands and Islands (H&I) exemption) following Brexit.

Since my last letter to you, I have continued to engage with the UK Government and with industry stakeholders. In my correspondence with stakeholders following today's announcement, I will set out the steps to delivery that will be put in place to introduce ADT in Scotland as soon as possible. This will focus firstly on the work of the new H&I Working Group that I am convening to help develop a joint understanding with key local stakeholders of the issues and the importance of the current exemption. Secondly, the ongoing work with the UK Government and through the H&I Working Group, to continue to explore solutions. Any solution must deliver the best possible outcome for the H&I, be compatible with EU law and not result in financial detriment to the SG or H&I. Thirdly, agreement will then need to be reached with the UK Government on a new introduction date that leaves adequate time for Revenue Scotland to be ready to collect and administer the tax, and to enable the required legislation on rates and bands to pass through Parliament.

The UK Government will continue to maintain the application of APD in Scotland in the interim. I have written to the Exchequer Secretary to the Treasury to confirm our agreement to delay the commencement of ADT, and that the UK Government will not make a Block Grant Adjustment in respect of ADT or lay the order to "switch off" APD in Scotland.

This means that the current APD rates and bands will apply in Scotland from 2019-20 and the current UK APD H&I exemption will also still apply, until such time as the Scottish Government and UK Government agree to resume the transition from APD to ADT.

I hope you find this information helpful and I will continue to keep the Committee and the Parliament updated.

A handwritten signature in black ink, appearing to read 'Derek Mackay', written in a cursive style.

**DEREK MACKAY**