

COMMITTEE	Finance, Policy & Resources
DATE	7 th June 2016
DIRECTOR	Pete Leonard
TITLE OF REPORT	Devolution of Air Passenger Duty
REPORT NUMBER	CHI/16/109
CHECKLIST COMPLETED	Yes

1. PURPOSE OF REPORT

The purpose of this report is to provide an update to Members that the Scottish Government announced a consultation on a Scottish replacement to APD (Air Passenger Duty) that closed on 3 June 2016; and to provide Members with that response.

2. RECOMMENDATION(S)

It is recommended that the Committee notes the response to the Scottish Government's consultation submitted by officers on behalf of Aberdeen City Council. The submission is provided in the annex to this report.

3. FINANCIAL IMPLICATIONS

There are no direct financial implications arising from this report.

4. BACKGROUND/MAIN ISSUES

On 14 March 2016, the Scottish Government announced a consultation on a Scottish replacement to APD. This can be found at:

<https://consult.scotland.gov.uk/fiscal-responsibility/air-passenger-duty>

The Scottish Government's proposal is to devolve APD to the Scottish Parliament, which has been agreed as part of the Smith Commission recommendations and the implementation of these in the Scotland Bill. This will then inform the Scottish Government's design of a replacement tax which supports the overall aim to improve air connectivity.

The Scottish Government has confirmed its intention to reduce APD by 50% within the term of the next Parliament, with a view to abolishing the tax when public finances allow.

The closing date for representations was 3 June 2016. Officers submitted a response to the consultation on behalf of Aberdeen City Council.

5. CONSULTATION

Officers coordinated the drafting of the response with colleagues at:

- SCDI (Scottish Council for Development and Industry)
- Aberdeen International Airport
- Aberdeen & Grampian Chamber of Commerce
- NESTRANS (North East of Scotland Transport Partnership)
- Planning and Sustainable Development, Aberdeen City Council

6. IMPACT

This report details the Council's response to the Scottish Government consultation on a Scottish replacement to APD and has no direct equality impact on the Council itself. However, depending on the detail of a Scottish replacement to APD that is introduced, there could be a number of impacts that would be analysed at that point.

Improving Customer Experience –
N/A

Improving Staff Experience –
N/A

Improving our use of Resources –
N/A

Corporate -
N/A

Public –
The consultation is of interest to the public in terms of the potential economic benefits that any reduction in APD could bring to the city and region through increased tourism and increased investment, trade and connectivity.

7. MANAGEMENT OF RISK

N/A

8. BACKGROUND PAPERS

Scottish Government Devolution of APD Consultation Document:
https://consult.scotland.gov.uk/fiscal-responsibility/air-passenger-duty/user_uploads/apd---a-consultation-on-a-scottish-replacement-to-apd.pdf-1

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Annex: ACC Response to Scottish Government Consultation on Devolution of Air Passenger Duty to Scottish Parliament

The consultation document is set out in a series of chapters with associated consultation questions. The first few chapters are related to the introduction, strategic and policy objectives, the scope and structure of the duty and exemptions.

Subsequent chapters are related to the fiscal nature of tax and tax collection. The ACC response concentrates on the early chapters of the consultation, and the responses are provided below.

Consultation Questions

Q1: (a) Do you agree with our strategic and policy objectives for improving Scotland's air connectivity? Please answer yes or no.

(b) Please explain your answer to Q1(a).

Q1(a): No.

Q 1(b): Scotland's Economic Strategy and Trade and Investment Strategy, are based upon an ambition to create a more cohesive and resilient economy that improves the opportunities, life chances and wellbeing of every citizen in Scotland. This will be contributed to by strengthening links with the global economy and the opportunities this brings for internationalisation - increasing trade, attracting investment, and collaborating to support innovation and sustainable economic growth. Improving Scotland's air connectivity can help facilitate this.

Aberdeen City Council approved a regional economic strategy for the North East of Scotland in December 2015. "Securing the Future of the North East Economy - A 20 Year Vision for the Wellbeing of the Place and Our People" focuses on four programme areas to deliver the longer term economic priorities. One of these, 'Internationalisation' aims to:

- Improve the attractiveness for international trade and investment
- Attract global talent to support the research in universities and research institutes
- Support companies to internationalise in key global markets
- Collaborate with UK and Scottish agencies to prioritise international business support, R&D and innovation.

For one of the key sectors of the North East, Scottish and UK economies, oil and gas, internationalisation is also key to maximising economic recovery of the remaining reserves in the UK Continental Shelf which vary from between 11bn and 22bn barrels of oil equivalent over the next 30-40 years which provides a continuing opportunity for export-oriented growth in the sector. Capitalising on the foundation of production and exploration remains a key priority, while we transition, through advanced technologies and innovation, to become an internationally attractive oil and gas technology base.

Maintaining global connections that provide meaningful benefits to businesses operating in key sectors of the North East economy is critical, and therefore improving air connectivity to the North East has a role and reflects the UK and Scottish Government priorities around the Aberdeen City Region Deal.

Business leaders in the North East also regularly cite connecting to international markets as critical to the region's growth.

It is important to highlight two key points:

- 1) The consultation document tends to focus on international connectivity. For the north and north east of Scotland, air links to other UK destinations are particularly important and should be recognised in the text.
- 2) The consultation document states that "*very little remains off-limits for direct air connectivity from Scotland in distance terms*". However, this may be the case for Scottish central belt but is not the case for the North East. Firstly, the degree of connectivity at Aberdeen International Airport is very limited compared to the airports in the central belt of Scotland. Secondly, in terms of accessing these airports using surface access modes, there is considerable distance between the central belt and the north east of Scotland. Both of these points should be highlighted.

It is in this context that we would not advocate the devolution of APD to the Scottish Parliament but would support the devolution of APD to individual local authorities where by the Council area where the airport operates within could make its own APD policy, collect the revenues from it and reinvest these in relevant interventions to promote internationalisation.

We also have concerns that any reduction of APD, estimated at £309m, by the Scottish Government, may impinge on public sector finances as this revenue would be 'lost' to the Scottish Government under the proposals.

We estimate that the 'Aberdeen airport share' of the total Scottish revenues could be around £6m a year and if APD was cut or abolished in Scotland it could put pressure on wider public sector or local authority funding. As Aberdeen City Council is already the lowest funded local authority in Scotland¹, any further such reductions could put additional pressure on the funding of services from existing budgets.

However the devolution of APD to the local authority to both set APD policy according to local need/ circumstances, and to collect the revenues and spend it according to local need would be a more equitable solution, and we are therefore mindful that a 'one size fits all' Scottish devolved alternative may not be the best solution to different 'airport regions'.

¹ See chart 1.2, p11. <http://www.gov.scot/Resource/0049/00494790.pdf>

2: How could a Scottish replacement to APD help achieve these objectives?

2) As stated in response to Question 1, we are not supportive of devolving APD to the Scottish Parliament to achieve these objectives. Rather we support the devolution of APD to the local authority to both set APD policy for any airport within that local authority area and to collect and spend the revenues from the duty in line with local need.

Internationalisation is a central theme of the regional economic strategy. In addition, it also highlights the importance of Aberdeen's 'global reach', and the city's network of international relationships and partnerships in the form of civic links, memoranda of understanding or with EU partners in leveraging additional funds to Aberdeen and Scotland. Aberdeen for instance is one of three EU cities that are members of the World Energy Cities Partnership.

Both direct air route access to UK and international destinations and to global hubs for Aberdeen and the wider region are critical. Globally mobile companies require direct access for key personnel to move between different offices, and in this sense the quality of air connectivity will influence trade and investment decisions. In response, the Council is supportive of Aberdeen International Airport's own investment plans.

Devolving APD and lowering APD to local authorities (in this case Aberdeen) could help increase connectivity in the North East by lowering the cost of flights that a passenger faces and increasing their demand to fly to and from a certain location. This is less important for business passengers to Aberdeen whose demand is likely to be fairly inelastic to variations in the cost of a ticket but for leisure tourists and passengers, and growth in these markets are central to the ambitions of the Council's support to the new Destination Management Organisation, Visit Aberdeenshire, and to diversify further the tourism sector and increase visitation levels and associated tourism spend.

A reduction in the cost of a return flight to Aberdeen could increase the number of tourists coming to Aberdeen and the wider area. By increasing the number of passengers on routes to and from Aberdeen, it could also stimulate:

- The number of direct destinations that Aberdeen serves as the increase in passenger numbers could be sufficient to make direct routes economically viable.
- Additional routes to airport hubs that Aberdeen serves as the increase in passenger numbers makes the route to an airport hub economically viable.
- Frequency of existing routes that Aberdeen serves as the increase in passenger numbers could be sufficient to make the increased frequency to an existing route viable.

It should be noted that any reduction in the APD burden could increase the total number of flights increasing greenhouse gas emissions which could have a negative effect on the aims of the Scottish Government to reduce greenhouse gas emissions by 80% by 2050. Evidence suggests that a time of around three hours represents in a tipping point between passengers who for

longer journeys prefer to fly versus using surface access to make their journey. Therefore, for shorter journeys of under three hours surface access journey time policy makers may wish to consider a particular APD additional band to discourage such journeys being made by flying reducing the overall greenhouse gas emissions impact.

Q5: (a) Do you think that the current UK APD destination based banding system should be retained under a Scottish replacement tax? Please answer yes or no.

(b): If you answered yes to Q5(a), should destination bands be defined by distance to capital cities or what alternative measures could be considered? What would be the optimum number and definition of bands to support the achievement of the Scottish Government's strategic objectives for a Scottish replacement tax, as outlined in Chapter 2?

5a) Yes.

5b) Since 1 April 2015 a two band structure has operated:

- *Band A destinations - countries whose capital city is 2,000 miles or less from London (see Annex A for all Band A destinations) – this includes Europe and most of Northern African, but not Egypt or the Republic of the Sudan; and*
- *Band B destinations - countries whose capital city is more than 2,000 miles from London.*

Aberdeen City Council supports the devolution of APD to individual local authorities. It is therefore robust that a measure of distance based upon the individual airport in question is used, in our case from Aberdeen. If this measure is adopted we would support defining band A destinations from Aberdeen to include Europe and the same Northern African countries as they do under the UK APD tax regime based upon distance from London.

Q8) Do you have any views on how and when the planned 50% reduction in the burden of APD should be implemented?

8) Our views are that local authority funding should not be affected by any reduction in APD. The recent and current downturn in the oil and gas sector already presents a significant challenge for Aberdeen, the North East, Scotland and the UK, as jobs are lost directly within the sector, and the wider economies leading to repercussions across Aberdeen and the North East economy in the housing market, retail and service sectors. As the lowest funded local authority in Scotland, per capita, Aberdeen City Council's budget is already under significant pressure. In light of this, as well as the wider economic challenges and resulting demand for improved infrastructure and investment, the potential implementation of the planned reduction, and how the revenues are distributed, should be considered.

Q12: (a) Do you think the current exemption for outbound flights from the Highlands and Islands region should be retained or modified under a Scottish replacement tax? Please answer “retained” or “modified” .

(b) If you answered “modified” to Q12(a), please explain your answer. In what way should it be modified?

12a) Modified.

12b) If APD is devolved to local authorities then it is for the local authority in question to set its APD policy for the airport in their boundaries.

If APD is not devolved to local authorities then we would not support the devolution of APD to the Scottish Parliament but to maintain a UK APD policy. Under the current UK APD regime flights departing from an airport in the Scottish Highlands and Islands region are not chargeable for UK APD. This is in recognition of the reliance on air travel by many people living in the Highlands and Islands region. The exemption is provided for by a legislative power allowing an exemption based on low regional population densities of 12.5 or fewer people per square kilometre.

The Highlands and Islands region is defined as:

- The Highland Region, Western Isles Area, Orkney Islands Area, Shetland Islands Area, Argyll and Bute District, Arran, Great Cumbrae and Little Cumbrae; and
- In the Moray district, the parishes of Aberlour, Cabrach, Dallas, Dyke, Edinkillie, Forres, Inveravon, Kinloss, Kirkmichael, Knockando, Mortlach, Rafford and Rothes

The basis for consideration of the defined area based on population gives rise to a number of anomalies. For example it is difficult to see the justification for an exemption for areas in the west of Moray including Forres and Kinloss or Nairn or Inverness in the Highland area, given their ease of access to Inverness Airport whilst areas in rural parts of Aberdeenshire further from Aberdeen Airport, Portsoy, Gardenstown, Whitehills, Braemar, Crathie, etc. not exempted.

Q13:(a) Do you think that the current UK APD rules relating to connected flights should form a baseline position for a Scottish replacement tax? Please answer yes or no.

(b) If you answered no to Q13(a), please explain your answer. What rules do you think should be considered instead?

13) Yes.

Q14: What situations do you think could result in double taxation after a Scottish replacement to APD is introduced, and how might double taxation in such situations be avoided?

14) After a Scottish replacement to APD is introduced if a passenger departing a Scottish airport and connecting through a UK airport before

departing abroad paid both Scottish and UK APD then this would be a form of double taxation.

To avoid this double taxation, the Scottish Government should agree with the UK Government that the principle of one (connected) flight applies to all flights originating from Scotland connecting through other UK. The aircraft operator of the **first flight** is the operator liable to account and pay for any APD due. Thus, a passenger flying from Aberdeen to Rome and connecting at Heathrow would pay the Scottish APD rate appropriate to Aberdeen to Rome and not be liable for the UK rate.

Subsequent Chapters

Subsequent chapters in the consultation discuss fiscal matters relating to the tax and its collection. As such it is suggested that the Council does not comment on these issues. They are:

- Registration
- Fiscal and Administrative representatives
- Tax returns and payment
- Record keeping
- Tax avoidance and tax evasion
- Investigatory and enforcement powers
- Penalties
- Interest
- Dispute resolution

Strategic Environmental Assessment Screening and Scoping Report

This document accompanies the consultation and sets out a proposal for a strategic environmental assessment of the APD reduction proposal. Strategic Environmental Assessment (SEA) is a process of taking into account the potential environmental impacts that may arise from the implementation of certain Plans, Programmes and Strategies. It provides a means of identifying any significant effects that may arise and documenting these in an open and transparent way at a number of distinct stages. Screening and Scoping are two initial stages in this assessment process.

We have reviewed the combined screening and scoping report and can report that the approach to the screening/scoping process adopted is sensible.