FINANCE AND CONSTITUTION COMMITTEE

AGENDA

5th Meeting, 2017 (Session 5)

Wednesday 1 February 2017

The Committee will meet at 9.30 am in the David Livingstone Room (CR6).

1. **Declaration of interests**: Liam Kerr MSP will be invited to declare any relevant interests.

2. **Decision on taking business in private**: The Committee will decide whether to take item 5 in private.

3. **Appointments to the Scottish Fiscal Commission**: The Committee will take evidence from the following nominees—

   - Professor Alasdair Smith, Inquiry Chair, Competition and Markets Authority;

   - David Wilson, Executive Director, International Public Policy Institute.

4. **Air Departure Tax (Scotland) Bill**: The Committee will take evidence on the Bill at Stage 1 from—

   - Mike Stewart, Bill Manager, James McLellan, Head of Devolved Taxes, and John St Clair, Senior Principal Legal Officer, Scottish Government;

   and then from—

   - Tim Alderslade, Chief Executive, Airlines UK;

   - Gordon Dewar, Chief Executive Officer, Edinburgh Airport;

   - Jonathan Hinkles, Managing Director, Loganair Ltd;

   - David Horne, Managing Director (East Coast Route), Virgin Trains.

5. **Appointments to the Scottish Fiscal Commission**: The Committee will consider the evidence heard at item 3.
The papers for this meeting are as follows—

**Agenda item 3**

Note from the Clerk  
FCC/S5/17/5/1

**Agenda item 4**

Note from the Clerk  
FCC/S5/17/5/2
Financial and Constitution Committee

5th Meeting (Session 5), Wednesday 1 February 2017

Scottish Fiscal Commission Nominees

1. The Cabinet Secretary for Finance and the Constitution Committee has written to the Committee with his nominations for the appointment of two new commissioners to the Scottish Fiscal Commission (SFC). His letter is attached as Annexe A along with application forms which have been redacted for data protection purposes and CVs for each nominee. The two nominees are:
   - Professor Alasdair Smith, Inquiry Chair at the Competition and Markets Authority;
   - David Wilson, Executive Director at the International Public Policy Institute

2. The SFC will become a statutory body as a Non-Ministerial Department on 1 April 2017 and will be directly accountable to the Scottish Parliament. At this point the number of commissioners will increase from three to four. One of the current non-statutory commissioners was appointed on a temporary basis until 31 March 2017. The other two non-statutory commissioners are the Chair, Lady Susan Rice who is appointed until 30 June 2018 and Professor Campbell Leith who is appointed until 30 June 2019.

3. The Cabinet Secretary will determine the period of appointment for the two nominees once the appointments have been approved by Parliament. Section 17(1) of the SFC Act allows for an initial period of appointment of up to five years.

4. Section 15(3) of the SFC Act states that the “Scottish Ministers may appoint a person as a member only if the Scottish Parliament has approved the appointment.” Prior to the Parliament being invited to approve the two appointments the Committee has the opportunity to question the nominees against the criteria which was advertised for the posts. This is attached at Annexe B. Members will recall that they received an informal briefing on the criteria for the posts from the Commissioner for Ethical Standards in Public Life in Scotland and Scottish Government officials on 5 October 2016.

5. The Committee will then report to the Parliament including whether or not to recommend that the nominees be appointed.

6. The main functions of the SFC will be to prepare reports at least twice in each financial year including its five year forecasts of receipts from —
   - the devolved taxes;
   - non-domestic rates;
   - Scottish income tax;
7. The SFC will also be required to set out its assessment of the reasonableness of the Scottish Government’s borrowing projections.

8. The Scottish Government is also consulting on extending the functions of the SFC including to prepare five year forecasts of Scottish onshore GDP.

Committee Clerks
January 2017
Dear Bruce

SCOTTISH FISCAL COMMISSION – NOMINATIONS FOR APPOINTMENT

I am writing to confirm my nominations for the appointment of two new commissioners to the Scottish Fiscal Commission.

I am pleased to confirm that Professor Alasdair Smith, Inquiry Chair at the Competition and Markets Authority (CMA), and David Wilson, Executive Director at the International Public Policy Institute (IPPI) at Strathclyde University, have agreed to be nominated for appointment as members of the Commission. I would be grateful if you could initiate the parliamentary scrutiny process to ensure that the nominated candidates, if approved by Parliament, may take up their appointments on 1 April 2017 when the Commission gains statutory footing.

I have attached redacted application forms and CV’s for each nominee for your ease of reference. Officials will provide your clerks with contact details for the nominees when requested.

I very much welcome the role of the Scottish Parliament in considering and approving these appointments to the Commission, which I believe will strengthen their independence. I await with interest the outcome of the Committee’s further consideration.

DEREK MACKAY
Application to: Scottish Fiscal Commission – Members Appointment

Please note that the Personal Information but not the Monitoring Information sections of the application form will be made available to the selection panel.

Your form will be photocopied/scanned and then read by the panel. It is therefore important that it is legible. Please complete this form electronically or if hand-written, in black ink.

Personal Information

Last Name: Smith

Title: Professor

First Name(s): Murdo Alasdair Macdonald

(please underline the name you are known by)

Home Address:

Post Code: [redacted]

Telephone number: [redacted] Mobile: [redacted]

Tel/ No. Business: [redacted]

Email: [redacted]

Address for Correspondence (if different from above):

Post Code:

Telephone number:
Declaration

Scottish Ministers must be provided with sufficient information and evidence to enable them to feel confident that the person they are appointing to the board of a public body is a fit and proper person to take up appointment.

By virtue of submitting this completed form, I declare that the information I have given in support of my application is, to the best of my knowledge and belief, true and complete. I understand that, if it is subsequently discovered that any statement is false or misleading, or that I have withheld relevant information, my application may be disqualified.

I understand that all documentation associated with this appointment round will be held by the Scottish Government for two years following any announcement of this new appointment for the purposes of audit, diversity monitoring, management information for appointment round monitoring and for the investigation of any complaint. I understand that if my application is successful, my application will be held for the duration of my appointment. I agree that documentation generated during this appointment round may be accessed by a third party insofar as is necessary to ensure a fair appointment process.

By virtue of submitting this completed form, I am confirming the following:

1. That I understand the work of the body and the nature of the appointment and that I am not aware of having committed any offence or performed any act incompatible with the position I am applying for.

2. That I am not disqualified on any grounds from being appointed to this Board. (Details on disqualifications are contained in the application pack).

3. That I have read the members code of conduct for the Board, that I understand this code and that I agree to be bound by it in the event that I am appointed. (Details on how to access this document are contained in the application pack).

4. That you are declaring that your ethical conduct is, to the best of your knowledge and belief true and complete, this might include; having fully paid your tax and that your tax returns are up to date, and that there is nothing in your personal tax history, which if became public, would call into question your suitability for appointment to the Board of the Scottish Fiscal Commission.

5. That if recommended for appointment by Scottish Ministers, all or some of your Application form, CV, and summary evidence captured by the selection panel throughout the assessment process will be shared with the Scottish Parliament’s Finance Committee. Protected characteristics, which includes age, ethnic grouping, disability, sexual orientation, etc. and personal contact details will be redacted. Data from the Public Appointments Monitoring Form (page 13 of the application form will not be shared with the Scottish Parliament Finance Committee

I have read and understood the above declaration and agree to these terms.
Closing date for receipt of applications is NOON Monday 7 November 2016.

Completed applications can be returned electronically to:
paapplicationsmailbox@gov.scot

Alternatively, you can post your application to:

Scottish Government
Public Appointments Team
Area 3G (South)
Victoria Quay
Edinburgh
EH6 6QQ

Freephone: 0300 244 1898
Self Assessment – Suitability

Please study the accompanying Person Specification. Use this form to demonstrate that you have the personal qualities, skills and experience we have asked for. Address the criteria sought at each section using specific evidence to support your answers. Draw on examples from your working and/or personal life, or through your participation with a private, public, voluntary, charity or community organisation.

This is a very important part of your application. If you do not address the essential criteria that are to be tested at this stage, the selection panel will find it difficult to assess your application and may be unable to invite you to interview. **The selection panel will not make assumptions – for example from a job title – as to the personal qualities, skills and experience you have gained.** The Panel will review the evidence provided and invite for interview those applicants who most closely meet the criteria being tested at this stage of assessment. By the end of the selection process (written application and interview) you must have demonstrated that you have met all of the essential criteria to the satisfaction of the selection panel in order to be considered for appointment to this post.

**Please note** that there is a word limit highlighted at each of the sections. The evidence you provide should not exceed the total word limit indicated in each case.

**Suggested preparation**

- Take time to think about each of the criteria.
- Think about the situations you have recently been involved in.
- Think how your actions and experiences led to results that demonstrate the criteria.
- Prepare your answers – we have provided some ‘prompts’ for each of the criteria which you may find helpful in constructing your answers.

**Your examples**

- Please be clear and succinct. You may be asked to expand on your answers at interview.
- When asked for examples to demonstrate ability, please ensure that you provide specific examples describing actual events rather than a generalised description of what you would usually do.
- Draw on examples which best demonstrate your skills, knowledge or abilities in that area, but try to use different examples across the range of criteria to demonstrate a breadth of experience.
- Explain what you did and how you did it – use “I” not “we”.
- Give the outcome – what happened? How effective was the result? How influential were your role, actions and interventions?
- Where knowledge, understanding or experience is required, describe how you gained and/or used this. You may also set out the breadth/depth of your knowledge/experience and any situations where you demonstrated it. You may also set out job titles or roles held where you have gained and/or used your experience.
Essential Criteria

**Economics knowledge and skills.**
- a proven track record at a senior level in appraising economic factors and/or fiscal forecasts.
- able to critique complex information and issues that underlie economic behaviours.
- able to demonstrate an appreciation of the strategic fiscal landscape operating in Scotland.

Please provide a description/specific example of **no more than 400 words** which addresses the above. You may wish to include:

- A description of how you gained your knowledge and experience.
- The breadth/depth of your knowledge and experience.
- Specific situations/examples of where you have used this experience.

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I am an economist whose research on international trade and European integration has an international reputation; and who more recently has worked in the Competition Commission and the Competition and Markets Authority chairing groups deciding competition cases. Both in my academic work and my work on competition cases, I have developed expertise in the use of economic models to provide systematic frameworks for organizing complex and diverse information into a form that enables it to be evaluated and used to understand future scenarios.

I chaired the Barr-Britvic merger inquiry. It was necessary to quickly get a command of a mass of information of how the soft drinks sector operates and how economic behaviours were shaped by the relationships between suppliers, retailers and consumers (including differences in consumer tastes between England and Scotland) and then use this in economic and econometric models of the market in order to determine whether the proposed merger would lead to a significant lessening of competition.

On fiscal issues, I am particularly interested in long-run fiscal sustainability and the importance of not being misled by public sector accountancy rules. I have drawn on my long-term interest in intertemporal economics to write on two somewhat arcane but hugely significant issues for long-run fiscal sustainability: higher education student finance and unfunded public sector pensions.

My analysis of student finance issues was deployed in discussions between the higher education sector and the UK government in the run-up to the major changes in student funding introduced in England in 2006, when I was head of one of the university groups in virtually daily contact with ministers and officials.

My expertise in public pensions policy was drawn on by Lord Hutton’s 2010-11 Independent Commission on Public Sector Pensions, of whose advisory committee I was a member.

Drawing on my work on these issues, I have argued that the OBR should be given a stronger role in advising the UK government on long-term fiscal sustainability.

[324 words]
Essential Criteria

Independence and integrity
- able to demonstrate the use of independent judgement in order to challenge and be challenged to reach a consensus
- able to maintain discretion while performing duties objectively
- able to demonstrate an enthusiasm for public service.

Please provide at least one example which best demonstrates the above. Your full answer should be no more than 400 words. You may wish to include:
- a description of the situation and the context;
- what skills and knowledge you deployed;
- the outcome; and
- your personal contribution.

Competition cases are invariably commercially contentious, and sometimes politically controversial. Formal decisions are made by a group of independent members, who do not always agree on the right approach or answer, and the decision-making is supported by a highly professional staff who have a powerful voice both in process and in outcome. Parties to cases have their own professional advisers, who deploy strong economic and legal arguments, backed up sometimes by threats to litigate.

I have much experience of leading decision-making processes in such challenging circumstances, and I enjoy it. It is important to encourage internal challenge and to ensure all views are fully aired. Only then is it possible to move to a consensual decision which takes account of the arguments put to us, but is our own objective judgement.

These skills were tested to the full in the CMA’s retail banking market investigation.

We produced a unanimous report which both staff and members consider to make a very strong contribution to the development of public policy in the banking sector.

I previously had the experience of chairing the Armed Forces Pay Review Body during a public sector pay freeze. We had to understand the complexities of the pay structure and listen to the government’s views on pay and on affordability, but make our own independent decisions which might not conform to the pay freeze. Since pay levels in the wider economy were not rising, and the armed forces were seeking to reduce numbers very sharply, there was not a strong objective case for freeze-busting increases, but we then had to convince the members of the armed forces that we were a truly independent body which had their interests at heart. I steered the internal discussion to consensual decisions; and I also led the communications effort in our visits programme to military units at home and abroad.

[392 words]
Communication and influencing
- evidence of credibility and able to influence in your chosen field
- able to communicate complex information in accessible language.

Please provide at least one example which best demonstrates the above. Your full answer should be no more than 400 words. You may wish to include:
- a description of the situation and the context,
- what skills and knowledge you deployed,
- the outcome, and
- your personal contribution.

In the mid-1980s my colleague [name redacted] and I produced one of the pioneering studies of the economics of the single market. It was based on quite sophisticated modern economic analysis of international trade in imperfectly competitive markets; but we were able to communicate the essence of the analysis in ways that were accessible to policy-makers, so our work provided much of the intellectual underpinning of the European Commission’s own economic analysis. We had academic credibility and we also had a very strong influence on policy.

In the Retail Banking market investigation, [name redacted] My priority, given the high public profile of the inquiry, was to communicate our decisions effectively. I did this first simply by joining in the team effort of writing up material, leading by example. As a policy-oriented economist I have developed the skill of writing about complex matters in simple and clear language.

I have also developed the skill of writing short pieces on complex areas of public policy like student finance, public pensions, and the economics of the EU. Here the key to communicating effectively is having a thorough understanding of the technical complexities before embarking on the communications task. Then I’m able to focus on communicating in direct, clear language. A number of these pieces have had a real impact on public policy debates.

[260 words]
Additional Desirable Criteria

Please provide a description of how you have gained your experience and skills of one or more of the following further criteria:

1. **Financial Expertise**

   Significant financial experience

   and/or

   a professional financial qualification,

   and/or

   Experience of financial audit and risk management

2. **Media handling and social media**

   Skilled in using a range of media to convey appropriate messages to different audiences.

3. **Strategic leadership**

   Significant experience of strategic leadership.

   When providing evidence of your experience of your **Financial Expertise** and **Strategic Leadership**

   You may wish to include:

   - A description of how you gained your knowledge and experience,
   - The breadth/depth of your knowledge and experience,
   - Specific situations/examples of where you have used this experience.

   When providing evidence of your ability of **Media handling and social media**, you should provide a specific example of this. You may wish to include:

   - A description of the situations and context,
   - What skills and knowledge you deployed,
   - The outcome and your personal contribution,
   - What you learnt, how you applied this learning and what you might have done differently

If offering evidence of more than one of the following criteria, please indicate which you believe is your strongest.

Your answer should be **no more than 400 words** for each criterion:
Financial expertise

Apart from the level of a financial expertise that a practicing economist should have, I also have had the experience of being, as Vice-Chancellor of the University of Sussex, the chief executive of a business with 2000 employees and an annual turnover in the area of £150m and the public accounting officer for a significant amount of public expenditure.

I was supported, of course, by expert staff; but I acquired a good sense of what is involved in financial and risk management in a large organisation.

[86 words]

Media handling and social media (nominated as strongest of the three)

Throughout my academic career, I have been known as a good communicator. When I make speeches, I normally write my own text. I am told that I am a clear, articulate and effective public speaker.

On the Retail Banking Inquiry, I led the media communications effort at the various milestones: doing the full morning round of radio and TV interviews (including the particular challenge of the Today programme) and press briefings and interviews. This was especially demanding in the circumstances that most commentators were instinctively hostile to our report, feeling we had (usually in unspecified ways) not gone far enough. The objective of the exercise was to get across simple strong messages about our work; and the feedback I got was that this was done well.

This was followed up by equally demanding hearings with the Treasury Select Committee. In a 3 hour hearing last week, I had to answer detailed questions on the full range of what we had done in a 2 year investigation; questions often designed to trip up rather than to provide illumination. I had to be in command of all the subject matter of our inquiry, and also able to respond simply and clearly in a highly stressful environment. The objective was not to convince the Committee who made it clear from the outset that they were not there to be convinced; it was to defend in public the excellent work of the staff team, and to communicate our central messages in some detail to a wider audience outside the room – in the industry, in other regulators, and in specialist media.

(The hearing can be viewed on parliamentlive.tv.)

In both my media appearances and the TSC hearing, I feel the skill I need to develop further is responding to questions in ways that communicate our desired message without evading the question itself. My instinct is always to give a straight answer, which is not always the best way to get on to the front foot.

I am a Twitter user. On CMA business, I use Twitter in an extremely restrained way because of the need for external communications to be carefully managed and the legal risks if there is any sense of a prejudiced approach to the issues before us. However, on non-CMA issues, I find Twitter a good medium for circulating short commentaries on student finance, on pensions policy, and more recently on Brexit.

[400 words]
Strategic leadership

When I became Vice-Chancellor of the University of Sussex, I knew the university faced major challenges, centred on student recruitment. The university needed to change what it offered to students, and that meant it needed to change its internal structure quite fundamentally. It was an institution which was (rightly) proud of its successful past and therefore (wrongly) resistant to change. I led from the front, making my views and objectives quite clear, and over a period of a couple of years steered fundamental and controversial changes through the university’s decision-making machinery on an almost entirely consensual basis.

I reshaped the governance and management structure of the university and built a strong leadership team.

My objective was to prepare the university for an external environment that (for better or worse) was going to become more competitive and market-oriented.

Internal change was slower than I had hoped, and external change slower than I expected, but the University of Sussex (now nine years after I ceased to be Vice-Chancellor) has completed the transformation which I started and is in a strong and secure position.

[181 words]
Curriculum Vitae

Please also attach your full CV clearly setting out your experience, roles and responsibilities you have undertaken which demonstrate your skills, knowledge and experience relevant to this role as set out in the person specification.

Attached
Biography

For possible inclusion in a press release, please supply a short biography (up to six sentences) ensuring you outline the particular skills that you bring to the Body:

Alasdair Smith has been an Inquiry Chair at the Competition and Markets Authority since 2014, having been a Deputy Chair of the Competition Commission since 2012. He was previously Professor of Economics at the University of Sussex and was Vice-Chancellor of the University from 1998 to 2007. His academic work focused on the effects of international trade on competition, growth and the distribution of income; and he also has interests in the economics of public sector pensions and higher education. He has written extensively on the effects of the single European market and EU enlargement on competition.

Other Information

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<td>Please can you confirm to the best of your belief and knowledge that:</td>
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<td>1. All your tax returns to Her Majesty Revenue and Customs, and other taxation bodies if relevant, are currently up to date.</td>
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<td>2. Is there anything in your personal tax history, which if it became public, would call into question your suitability for appointment to the Scottish Fiscal Commission?</td>
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Referees

Please provide details of an individual whom we may approach to verify the information you have provided within your application and during the appointment process. Please select someone who will be in the best position to verify the evidence presented during the application and assessment process – for example in relation to particular roles highlighted and activities undertaken. References will only be taken up for the candidates that are selected for appointment and after you have given us your permission to do so.
Disclosure Scotland

The individuals to be appointed will be required to produce a Basic Disclosure certificate less than 12 months old, and appointment will be on a conditional basis pending receipt of a satisfactory certificate.

Please confirm if you currently have a valid Basic disclosure certificate. Please tick below:

Yes

No ✓
Conflict of Interest and Other Ministerial Public Appointments Held

Questions 1 – 8 in this section are not normally a barrier to appointment as long as they are appropriately managed and/or resolved and this will be explored at interview.

All appointments are made on merit. Holding other ministerial public appointments or working for or on behalf of a Scottish Parliamentary Commission/Commissioner would not normally be a barrier.

There will be a requirement to ensure adequate time commitment and ensure no potential conflict of interest which will be fully explored at interview.

1. Are you aware of anything that might call into question your ability to demonstrate integrity or probity or of any possible conflict of interest which might arise either personally, in relation to your employment or in relation to your connections with any individuals or organisations should you be appointed?

   No

Where yes, please detail:

2. Do you currently hold any Ministerial Public Appointments?

   Yes
   Where yes, please detail:

   I am an Inquiry Chair at the Competition and Markets Authority; and a member of the Determinations Panel of the Pensions Regulator

3. Do you currently carry out work for/or on behalf of a Scottish Parliamentary Commission or Commissioner e.g. Public Standards Commissioner, Commissioner for Ethical Standards in Public Life in Scotland (previously known as Public Appointments Commissioner), Scottish Public Services Ombudsman, Scottish Commission for Human Rights?

   No

Where yes, please detail:

4. Have you previously held a public appointment?

   Yes

   Where yes, please provide details for appointments held within the last 10 years including the name of the body, position held, date appointed and period of appointment.

   Member, Doctors and Dentists Remuneration Body, 2007-10
   Member, Senior Salaries Review Body, 2010-13
   Chair, Armed Forces Pay Review Body, 2010-13
5. We wish to promote and encourage senior officers and appointees making appropriate contributions to the work of other bodies. To ensure that there is no conflict of interest, please confirm whether you are currently a full-time senior employee, Non-Executive Director or Chief Executive of a Scottish public body?

No

Where yes, please detail:

6. Are you currently, or have been involved in any political activity in the last 5 years? (This includes holding office as a local Councillor, MSP, MP, MEP, standing as a candidate, speaking on behalf of a party or candidate, acting as a political agent, holding office of a local branch of a party, canvassing or helping on behalf of a party at elections, making any recordable donations to a political party).

No

Where yes, please detail:

7. Research - Please indicate below if you're content to be contacted in future by either the Scottish Government or the Commission for Ethical Standards in Public Life in Scotland, who may wish to seek your views on the public appointments process. If you are contacted, any information you provide will be used by the Scottish Government and the Commission for Ethical Standards in Public Life in Scotland to secure improvements to the public appointments process. Any information you provide will be held on a confidential basis.

Yes

8. Knowledge of the Selection Panel members

Please confirm if you know any of the members of the Selection Panel. The names of the Selection Panel are found in the Application Information Pack.

No

Where yes, please detail the nature of the relationship or knowledge:
Alasdair Smith

- An economist with an international academic reputation for policy-oriented research on international trade and on European integration
- An experienced competition regulator with four years' experience chairing inquiries at the UK Competition Commission and Competition and Markets Authority. Chaired seven merger inquiries, including one successfully appealed to the UK Supreme Court, three telecoms appeals, and two market investigations
- Co-authored a widely cited seminal study of the quantitative effects of the European single market
- Wrote extensively on the integration of the central and eastern European countries into the EU, with focus on the role of accession to the single market in the transition
- Developed low-tech computational models for competition analysis and trade analysis
- Expertise in public sector pensions policy
- Head of a major UK university for 9 years, deeply involved in the development of the UK higher education funding regime introduced in 2004
- Extensive media and presentational experience in high-profile competition cases, including parliamentary select committee appearances
- Interacted with ministers, civil servants and advisers up to the highest levels in higher education policy and public sector pay policy
Alasdair Smith: curriculum vitae

November 2016

Current position

Inquiry Chair, Competition and Markets Authority

(From January 2012 to March 2014, Deputy Chair, Competition Commission)

Personal

Date of birth: born [redacted] in Isle of Lewis, Scotland (UK citizen)

Married; two children

Home address: [redacted]

Telephones: [redacted]

Email: [redacted]

Twitter: [redacted]

Degrees

MA University of Glasgow, 1969, in Mathematics and Political Economy, with first class honours

MSc London School of Economics, 1970, in Mathematical Economics and Econometrics, with distinction (Ely Devons prize)


Previous positions

1970-72 Lecturer in Economics, University College, Oxford

1972-81 Lecturer in Economics, London School of Economics

1981-2012 Professor of Economics, University of Sussex, now Emeritus

1991-94 Dean of the School of European Studies, University of Sussex

1996 ESRC Senior Research Fellow, University of Sussex

1997-98 Senior Pro-Vice- Chancellor, University of Sussex
(Acting Vice-Chancellor, April-July 1998)

1998-2007 Vice-Chancellor, University of Sussex

2007-2010 Consultant, Office of the Schools Commissioner, Department for Children, Schools and Families
Visiting positions

Columbia University, NY; University of Rochester, NY; University of California, San Diego; University of Michigan; College of Europe, Bruges; European University Institute; College of Europe, Natolin, Poland

Teaching areas

International trade, microeconomics, economics of European integration

Honours

Deputy Lieutenant (DL), East Sussex, 2001

Honorary Fellow, Trinity College of Music, London (Hon FTCL), 2002

Honorary Doctorate in Economic Science (Hon DSeEcon), University of Warsaw, 2004

Honorary Doctorate of Laws (Hon LLD), University of Sussex, 2008

Competition Commission/Competition and Market Authority cases

Chaired seven merger inquiries, including Eurotunnel-SealFrance (successfully appealed to UK Supreme Court), Barr-Britvic, Cineworld-Picturehouse, three telecoms appeals, and two market investigations, Private Motor Insurance and Retail Banking.

Selected academic publications (full list available on request)


'International trade theory in vintage models', Review of Economic Studies, 43, February 1976, 99-113

'Trade, growth and consumption in alternative models of capital accumulation', Journal of International Economics, 6, November 1976, 371-384


'Intertemporal gains from trade', Journal of International Economics, 9, May 1979, 239-248

A Mathematical Introduction to Economics (Basil Blackwell, 1982) (Japanese translation, 1985; German translation, Einführung in die Volkswirtschaftslehre, R. Oldenbourg Verlag, 1987)

'Intergenerational transfers as social insurance', Journal of Public Economics, 19, October 1982, 97-106


Agenda item 3
1 February 2017

‘Trade theory and capital theory’, chapter 6 of Ronald W. Jones and Peter B. Kenen (eds.)
*Handbook of International Economics* vol. 1 (North-Holland, 1984), 289-324

‘Comparative advantage in services’, with Brian Hindley, *The World Economy*, 7, December
1984, 369-389

‘Factor shadow prices in distorted open economies’, chapter 5 of Henryk Kierzkowski (ed.),
*Protection and Competition in International Trade: essays in honor of W.M. Corden* (Basil
Blackwell, 1987), 54-67

‘Strategic investment, multinational corporations and trade policy’, *European Economic
Review*, 31, February/March 1987, 89-96, reprinted in John Dunning and Peter Robson (eds.)
*Readings on Transnationals and Regional Integration* (United Nations, 1993), and in Melvin L.
Greenhut and George Norman (eds.) *The Economics of Location* (Edward Elgar, 1995)

‘Completing the internal market in the European Community: some industry simulations’,
Richard Pomfret (ed.) *Economic Analysis of Regional Trading Arrangements* (Edward Elgar,
2003)

‘Automobiles’, with Anthony J. Venables, chapter 3 in Gary Clyde Hufbauer (ed.), *Europe
1992: an American Perspective* (Brookings Institution, 1990), 119-158

*Monitoring European Integration: the Impact of Eastern Europe*, with David Begg and others,

‘Counting the cost of voluntary export restrictions in the European car market’, with
Anthony J. Venables, in Assaf Razin and Elhanan Helpman (eds.), *International Trade and

‘The EC, the USA and Japan: the trilateral relationship in world context’, with Peter Holmes,
in David Dyker (ed.) *The European Economy* (Longman, 1992), 185-210

*Competition Policy Research: Where Do We Stand?* with Paul Seabright and Kai-Uwe Kühn,

‘The political economy of Eastern European trade with the European Community: why so

‘Strategic trade policy in the European car market’, in Paul Krugman and Alasdair Smith
(eds.), *Empirical Studies of Strategic Trade Policy* (University of Chicago Press for NBER, 1994),
67-81

Affairs*, 70, 1994, 429-444

‘Regulatory convergence between the European Union and Central and Eastern Europe’,
with Peter Holmes and Alasdair Young, chapter 7 in Jens van Scherpenberg and Ilke Thiel
(eds.), *Toward Rival Regionalism? US and EU Regional Regulatory Regime-Building* (Baden-
Baden: Nomos, 1998) 146-163

‘The competition effects of the single European market,’ with Chris Allen and Michael

Editor and contributor, with Ronnie Hall and Loukas Tsoukalis, Competitiveness and Cohesion in EU Policies (Oxford University Press, 2001)

Response to HM Treasury consultation on the discount rate used to set unfunded public service pension contributions, March 2011

‘Strategic trade policy in the mobile telecoms infrastructure market,’ unpublished paper, University of Sussex, May 2011


Commentary on public finance and accounting


‘The OBR should speak out on public investment’, Financial Times on-line, 12 July 2012

‘The Chancellor’s fantasy funding of higher education’, http://niesr.ac.uk/blog/chancellors-fantasy-funding-uk-higher-education December 2013

‘Boris Johnson’s pension logic is flawed,’ Financial Times on-line, 9 October 2014

‘George Osborne is committing to the wrong target,’ http://www.niesr.ac.uk/blog/george-osborne-committing-wrong-target 14 July 2015


Commentary on higher education policy (selected)

‘A fair and flexible tax on graduates,’ Financial Times, 6 December 2002


‘Responding to a triple whammy’, HE in Research Fortnight http://www.researchresearch.com/ June 2014
Public service and other activities

Co-ordinator of TEMPUS programme linking Sussex University, the Katholieke Universiteit Leuven (Belgium), and Warsaw University (Poland) for the development of a new international economics programme at Warsaw University, 1992-95; and of two ACE collaborative research programmes linking the same institutions

Council member, Royal Economic Society, 1993-1995


Member of Academic Council, College of Europe, Bruges, 1995-1997

Academic advisory committee on EU-US relations, European Commission DG I, 1996; academic advisory committee on state aids, European Commission DG IV, 1997-1999

Chair of the Board of Trustees, Institute of Development Studies, 1998-2008

Board Member, University of Brighton, 1998-2006

Cabinet Office Top Management Programme, 1999

Trustee of University of Sussex Pension and Assurance Scheme (a defined contribution scheme for non-academic employees, with assets of about £50m), 1999-2005

Member, South East England Regional Assembly, 1999-2003

Board Member, Universities and Colleges Employers Association, 2000-2007; Chair 2006-7


Convenor, 1994 Group of Universities, 2001-2005

Board Member, Universities UK, 2003-2007 (Member of the Business and Industry Strategy Group, the Finance and Resources Group, the Steering Group on Study of Part-Time Students, and the (Burgess) Steering Group on Measuring and Recording Student Achievement)

Member, Advisory Committee, Independent Public Sector Pensions Commission (chair: Lord Hutton of Furness), 2010-2011

Member, Determinations Panel, The Pensions Regulator, 2011-
Application to: Scottish Fiscal Commission – Members Appointment

Please note that the Personal Information but not the Monitoring Information sections of the application form will be made available to the selection panel.

Your form will be photocopied/scanned and then read by the panel. It is therefore important that it is legible. Please complete this form electronically or if hand-written, in black ink.

---

**Personal Information**

<table>
<thead>
<tr>
<th>Last Name: Wilson</th>
<th>Title: Mr</th>
</tr>
</thead>
<tbody>
<tr>
<td>First Name(s):</td>
<td>David</td>
</tr>
</tbody>
</table>

(please underline the name you are known by)

---

Home Address:

[Redacted]

Post Code: [Redacted]

Telephone number: [Redacted]  Mobile: [Redacted]

Tel/ No. Business: [Redacted]

Email: [Redacted]

Address for Correspondence (if different from above):

[Redacted]

Post Code: [Redacted]

Telephone number: [Redacted]
Declaration

Scottish Ministers must be provided with sufficient information and evidence to enable them to feel confident that the person they are appointing to the board of a public body is a fit and proper person to take up appointment.

By virtue of submitting this completed form, I declare that the information I have given in support of my application is, to the best of my knowledge and belief, true and complete. I understand that, if it is subsequently discovered that any statement is false or misleading, or that I have withheld relevant information, my application may be disqualified.

I understand that all documentation associated with this appointment round will be held by the Scottish Government for two years following any announcement of this new appointment for the purposes of audit, diversity monitoring, management information for appointment round monitoring and for the investigation of any complaint. I understand that if my application is successful, my application will be held for the duration of my appointment. I agree that documentation generated during this appointment round may be accessed by a third party insofar as is necessary to ensure a fair appointment process.

By virtue of submitting this completed form, I am confirming the following:

1. That I understand the work of the body and the nature of the appointment and that I am not aware of having committed any offence or performed any act incompatible with the position I am applying for.

2. That I am not disqualified on any grounds from being appointed to this Board. (Details on disqualifications are contained in the application pack).

3. That I have read the members code of conduct for the Board, that I understand this code and that I agree to be bound by it in the event that I am appointed. (Details on how to access this document are contained in the application pack).

4. That you are declaring that your ethical conduct is, to the best of your knowledge and belief true and complete, this might include; having fully paid your tax and that your tax returns are up
5. That if recommended for appointment by Scottish Ministers, all or some of your Application form, CV, and summary evidence captured by the selection panel throughout the assessment process will be shared with the Scottish Parliament’s Finance Committee. Protected characteristics, which includes age, ethnic grouping, disability, sexual orientation, etc. and personal contact details will be redacted. Data from the Public Appointments Monitoring Form (page 13 of the application form will not be shared with the Scottish Parliament Finance Committee.

I have read and understood the above declaration and agree to these terms.
Closing date for receipt of applications is NOON Tuesday 22 November 2016.

Completed applications can be returned electronically to:
paapplicationsmailbox@gov.scot

Alternatively, you can post your application to:

Scottish Government  
Public Appointments Team  
Area 3G (South)  
Victoria Quay  
Edinburgh  
EH6 6QQ

Freephone: 0300 244 1898
Self Assessment - Suitability

Please study the accompanying Person Specification. Use this form to demonstrate that you have the personal qualities, skills and experience we have asked for. Address the criteria sought at each section using specific evidence to support your answers. Draw on examples from your working and/or personal life, or through your participation with a private, public, voluntary, charity or community organisation.

This is a very important part of your application. If you do not address the essential criteria that are to be tested at this stage, the selection panel will find it difficult to assess your application and may be unable to invite you to interview. The selection panel will not make assumptions – for example from a job title – as to the personal qualities, skills and experience you have gained. The Panel will review the evidence provided and invite for interview those applicants who most closely meet the criteria being tested at this stage of assessment. By the end of the selection process (written application and interview) you must have demonstrated that you have met all of the essential criteria to the satisfaction of the selection panel in order to be considered for appointment to this post.

Please note that there is a word limit highlighted at each of the sections. The evidence you provide should not exceed the total word limit indicated in each case.

Suggested preparation

- Take time to think about each of the criteria.
- Think about the situations you have recently been involved in.
- Think how your actions and experiences led to results that demonstrate the criteria.
- Prepare your answers – we have provided some 'prompts' for each of the criteria which you may find helpful in constructing your answers.

Your examples

- Please be clear and succinct. You may be asked to expand on your answers at interview.
- When asked for examples to demonstrate ability, please ensure that you provide specific examples describing actual events rather than a generalised description of what you would usually do.
- Draw on examples which best demonstrate your skills, knowledge or abilities in that area, but try to use different examples across the range of criteria to demonstrate a breadth of experience.
- Explain what you did and how you did it – use "I" not "we".
- Give the outcome – what happened? How effective was the result? How influential were your role, actions and interventions?
- Where knowledge, understanding or experience is required, describe how you gained and/or used this. You may also set out the breadth/depth of your knowledge/experience and any situations where you demonstrated it. You may also set out job titles or roles held where you have gained and/or used your experience.
Essential Criteria

Economics knowledge and skills.
- a proven track record at a senior level in appraising economic factors and/or fiscal forecasts.
- able to critique complex information and issues that underlie economic behaviours.
- able to demonstrate an appreciation of the strategic fiscal landscape operating in Scotland.

Please provide a description/specific example of no more than 400 words which addresses the above. You may wish to include:

- A description of how you gained your knowledge and experience.
- The breadth/depth of your knowledge and experience.
- Specific situations/examples of where you have used this experience.

My career started as a professional economist in the Government Economic Service, with a specialism in utility regulation, energy, environmental and transport economics. Over time, I moved into broader leadership roles – mainly in areas which utilised my professional background. This gave me extensive experience of appraising economic factors at senior level. In addition, the breadth of leadership roles has helped me build on my economic expertise, to gain skills from other different perspectives and to manage the "art of the politically possible".

As Director of the International Public Policy Institute, I am leading a broad range of public policy activity across Strathclyde University. This includes building research activity on labour market outcomes, health and energy policy, cities policy and economic development. We aim to draw together the "big picture" of the strategic economic and fiscal landscape in Scotland, and communicate widely through a range of media. This builds on my extensive experience of leading policy activity in these areas.

We are establishing research activity which reflects the focus on Inclusive Growth. I am currently leading the development a Centre for Work-based Learning with Skills Development Scotland, including a process to review the relevant literature, initiate "roundtable forums" of academics and will publish research papers on future economic and labour market trends.

This current work builds on previous experience on strategic economic and fiscal matters.

- **As Director of Business**, I played a key role in developing and implementing the Government Economic Strategy and the National Performance Framework. This built on my role as lead author of Smart, Successful Scotland and its measurement framework, which provided the strategic context for the work of Scottish Enterprise and HIE.

- **As Director of Energy and Climate Change**, I led the work to deliver on the bold targets set by the First Minister. This built on my experience as Deputy Director General for Scotland at the Office of Electricity Regulation, where I led the review of the transmission price controls review of Scottish Power and Hydro-Electric. That experience had taught me the importance of precision and professionalism in the conduct of the work of a Non-Ministerial Department. In building the work of the Scottish Government's Energy Directorate, a particular challenge was the appraisal of economic factors on the costs of renewable electricity sources. I initiated the development of an Electricity Generation model, and comparative work on renewable, fossil and nuclear costs for the Council of Economic Advisers.
Essential Criteria

Independence and Integrity

- able to demonstrate the use of independent judgement in order to challenge and be challenged to reach a consensus
- able to maintain discretion while performing duties objectively
- able to demonstrate an enthusiasm for public service

Please provide at least one example which best demonstrates the above. Your full answer should be no more than 400 words. You may wish to include:

- a description of the situation and the context
- what skills and knowledge you deployed
- the outcome; and
- your personal contribution

I have gained deep skills in working with Ministers, and the Scottish Parliament. This includes the ability to build relations with Ministers, and to understand their political priorities. More broadly, a key part of senior public sector leadership is to develop trust in the role and credibility of the organisation. This is especially the case for a Non-Ministerial Department, which needs to balance its statutory role to be independent with a need for excellent working relations with the Scottish Government.

I have a clear understanding of the statutory responsibilities of public agencies, and the day to day challenges involved. As part of sponsor roles, I chaired the appointment panel for new members of the Scottish Enterprise and HIE Boards, and for the appointment of the Water Industry Commissioner, and have been a member of the Panel for a number of Chair appointments. In these appointment processes, I recognized and navigated the potential (serious) conflicts to ensure appointments based on merit and to enable the organisations concerned to adapt to changing requirements. I negotiated the smooth transfer of staff new organisations, and a number of high profile redundancies. I have considerable experience of working with statutory NDPBs, including reviewing and replacing the Management Statement for Scottish Enterprise, and implementing revised risk management arrangements for large investments. One particular example was the first formal request to Scottish Ministers for a "Direction" due to their approval of a project which in my view was poor value for money.

I have managed particularly challenging moments of political change, including the approach to coalition formation following the 2003 elections and the follow-up to the resignation of Former First Minister Salmond. I was the architect of the process for civil service support to the Coalition negotiations in 2003 and the development of the Partnership Agreement. This required building trust with politicians from competing Political Parties, and devising a process to facilitate a negotiation and mediation of areas of particular disagreement. The extensive preparations enabled a smooth process, and helped lay the basis for positive joint working between Labour and Lib Dem Ministers.

I am committed to public service, and now at Strathclyde I am building accredited qualifications on public service leadership. I completed the Civil Service High Potential Development Scheme in January 2014. This period of intensive personal development and peer to peer learning enabled me to reflect on my leadership style and reinforced the importance and contribution of public service leadership, which will be especially important as the UK leaves the European Union.
Communication and influencing

- evidence of credibility and able to influence in your chosen field
- able to communicate complex information in accessible language.

Please provide at least one example which best demonstrates the above. Your full answer should be no more than 400 words. You may wish to include:
- a description of the situation and the context;
- what skills and knowledge you deployed;
- the outcome; and
- your personal contribution.

I have been keen to match technical skills with a strong communications focus, to enable personal engagement with stakeholders and partners and to help develop and sustain a strategic narrative. I enjoy public speaking, and taking a representative role, which is the heart of managing business relationships.

In my current role as Executive Director of the International Public Policy Institute, I am leading the external engagement on public policy for Strathclyde University. We are building our profile and establishing an International lecture series and publishing regular commentaries and blogs.

As Director of Fisheries, I inherited a substantial regulatory and scientific apparatus which sought to "command and control" the fisheries industry. Unfortunately, it was ineffective at controlling, and the industry failed to be commanded. The only effective solution was to build greater industry self-regulation and more effective regulation by the Common Fisheries Policy. This required significant leadership and communication to persuade Ministers, industry and European Commission that a new approach was needed, and could be implemented in one of the most complex multilateral international agreements. One of the particular challenges was that few people understood the complexities of the Common Fisheries Policy. A key part of the reforms I led was better communications and openness in decision making. An approach based on sharing and explaining the underpinnings of marine science, the international legal treaties and the "realpolitics" of EU decision making led to improved compliance with the policy approach.
Additional Desirable Criteria

Please provide a description of how you have gained your experience and skills of one or more of the following further criteria:

1. Financial Expertise

Significant financial experience

and/or

a professional financial qualification,

and/or

Experience of financial audit and risk management

2. Media handling and social media

Skilled in using a range of media to convey appropriate messages to different audiences.

3. Strategic leadership

Significant experience of strategic leadership.

When providing evidence of your experience of your Financial Expertise and Strategic Leadership

You may wish to include:

• A description of how you gained your knowledge and experience.
• The breadth/depth of your knowledge and experience.
• Specific situations/examples of where you have used this experience.

When providing evidence of your ability of Media handling and social media, you should provide a specific example of this. You may wish to include:

• A description of the situations and context.
• What skills and knowledge you deployed.
• The outcome and your personal contribution.
• What you learnt, how you applied this learning and what you might have done differently.

If offering evidence of more than one of the following criteria, please indicate which you believe is your strongest.

Your answer should be no more than 400 words for each criterion:
Additional Desirable Criteria

I have gained considerable skills and experience on the Desirable Criteria, and in particular on Strategic Management (strongest) and Media Handling and Social Media.

3. Strategic Leadership

I have delivered on significant managerial challenges, and have become skilled at managing the wide range of people leadership issues, as well as using management techniques of good governance to deliver results and provide assurance in dealing with business risks. I have undertaken some of the most challenging Director roles in the Scottish Government, and managed relations with exacting and demanding Ministers, especially in circumstances where I took on roles where we were behind the curve in providing them with the service they required. I have a highly participative approach to leadership of teams, with a focus on coaching and capability building. This requires active coaching and mentoring, and a premium on learning and development.

Evidence:

Creation of Marine Scotland. I led, in a "Non-Executive Chair" role, the compliance and scientific services in 2 separate Agencies. Through a managed consultation programme, and active "behind the scenes" engagement, I built an alternative vision for the delivery of public services, which could de-clutter and streamline the landscape. This laid the basis for the merger of marine environment and fisheries, and developed the blueprint for what is now Marine Scotland.

Special project – organisational review of the Scottish Executive's Finance Function. I led a comprehensive organisational and functional review of the core finance function, which employs 120 people and is responsible for financial management, reporting and disbursement of approaching £20bn of public funds. Concluded that a major change programme was required involving greater clarity of responsibilities, staff changes, new IT and business process systems and human resource policies. This early blueprint led to major changes in the Finance function over subsequent years.

2. Media handling and social media

In recent years, I have built specific expertise in media and communications.

Evidence:

As Director of Communications during the Referendum on Scottish Independence. As part of the Constitutional debate, the civil service in Scotland was under intense scrutiny. I was responsible for the overall media operations, including the publication and dissemination of the White Paper, and the subsequent communications literature. A balance needed to be found between presenting the views of the Government of the Day (which was for a yes vote), while maintaining the integrity of the civil service to be able to serve future administrations. I led new approaches to our internal and external website, and the improved use of social media. This included the development of a bespoke website for the First Minister of Scotland, and changes to media support for individual Ministers to promote use of social media, viogs, Facebook etc. In hindsight, there was perhaps scope to make more extensive changes, although making such changes during a politically sensitive Referendum would have been controversial.

New media offers significant potential to enhance the process of government, and the effectiveness of the activities of Non-Ministerial Departments. It goes beyond improved communication, and enables greater engagement, dialogue and interaction with stakeholders and citizens. I am seeking to transfer this perspective into the work of the University, and would see scope for its application in the Scottish Fiscal Commission. Alongside new approaches, there remains a need to establish trust-based relationships with key journalists (as has always been the case).
Curriculum Vitae

Please also attach your full CV clearly setting out your experience, roles and responsibilities you have undertaken which demonstrate your skills, knowledge and experience relevant to this role, as set out in the person specification.

Biography

For possible inclusion in a press release, please supply a short biography (up to six sentences) ensuring you outline the particular skills that you bring to the Body:

David Wilson is Executive Director at the International Public Policy Institute (IPPI) at Strathclyde University. He joined the University in August 2015 from the Scottish Government, where he held a number of senior posts, including business and enterprise, the marine environment and higher education. David has extensive experience working as a professional economist, including the forecasting and scrutiny of energy and transport projects. Alongside these skills, he brings policy and leadership skills, covering communications and organizational development.
Other Information

Personal Taxation

Please can you confirm to the best of your belief and knowledge that:

1. All your tax returns to Her Majesty Revenue and Customs, and other taxation bodies if relevant, are currently up to date.

Yes X No

2. Is there anything in your personal tax history, which if it became public, would call into question your suitability for appointment to the Scottish Fiscal Commission?

Yes No X

Referees

Please provide details of an individual whom we may approach to verify the information you have provided within your application and during the appointment process. Please select someone who will be in the best position to verify the evidence presented during the application and assessment process – for example in relation to particular roles highlighted and activities undertaken. References will only be taken up for the candidates that are selected for appointment and after you have given us your permission to do so.

REFEEEREE:
Name:
Organisation:
Position:
Telephone number:
Email:

Disclosure Scotland

The individuals to be appointed will be required to produce a Basic Disclosure certificate less than 12 months old, and appointment will be on a conditional basis pending receipt of a satisfactory certificate.

Please confirm if you currently have a valid Basic disclosure certificate. Please tick below:
No X Application is being submitted
Conflict of Interest and Other Ministerial Public Appointments Held

Questions 1 – 8 in this section are not normally a barrier to appointment as long as they are appropriately managed and/or resolved and this will be explored at interview.

All appointments are made on merit. Holding other ministerial public appointments or working for or on behalf of a Scottish Parliamentary Commission/Commissioner would not normally be a barrier.

There will be a requirement to ensure adequate time commitment and ensure no potential conflict of interest which will be fully explored at interview.

1. Are you aware of anything that might call into question your ability to demonstrate integrity or probity or of any possible conflict of interest which might arise either personally, in relation to your employment or in relation to your connections with any individuals or organisations should you be appointed?

Yes  No

Where yes, please detail:

2. Do you currently hold any Ministerial Public Appointments?

   No

Where yes, please detail:

3. Do you currently carry out work for/or on behalf of a Scottish Parliamentary Commission or Commissioner e.g. Public Standards Commissioner, Commissioner for Ethical Standards in Public Life in Scotland (previously known as Public Appointments Commissioner), Scottish Public Services Ombudsman, Scottish Commission for Human Rights?

   No

Where yes, please detail:

4. Have you previously held a public appointment?

   No

Where yes, please provide details for appointments held within the last 10 years including the name of the body, position held, date appointed and period of appointment.
5. We wish to promote and encourage senior officers and appointees making appropriate contributions to the work of other bodies. To ensure that there is no conflict of interest, please confirm whether you are currently a full-time senior employee, Non-Executive Director or Chief Executive of a Scottish public body?

No

Where yes, please detail:

6. Are you currently, or have been involved in any political activity in the last 5 years? (This includes holding office as a local Councillor, MSP, MP, MEP, standing as a candidate, speaking on behalf of a party or candidate, acting as a political agent, holding office of a local branch of a party, canvassing or helping on behalf of a party at elections, making any recordable donations to a political party).

No

Where yes, please detail:

7. Research - Please indicate below if you’re content to be contacted in future by either the Scottish Government or the Commission for Ethical Standards in Public Life in Scotland, who may wish to seek your views on the public appointments process. If you are contacted, any information you provide will be used by the Scottish Government and the Commission for Ethical Standards in Public Life in Scotland to secure improvements to the public appointments process. Any information you provide will be held on a confidential basis.

Yes

8. Knowledge of the Selection Panel members

Please confirm if you know any of the members of the Selection Panel. The names of the Selection Panel are found in the Application Information Pack.

Yes

Where yes, please detail the nature of the relationship or knowledge:

Alyson Stafford – Colleague while working at the Scottish Government
Dame Susan Rice - Met on a number of occasions, including as part of 2020 Climate Group
Sandy Begbie – Met on a number of occasions, when he was a Non-Executive Director at the Scottish Government
David Wilson

Curriculum Vitae

Profile:

Experienced senior public service leader, with well-developed analytical, political and communications skills. Background as a professional economist, and in applying analytical tools to public policy. Expert practitioner in policy development and implementation. Main focus on public sector leadership, economic development and the business/government interface.

Career Headlines:

Strathclyde University

Executive Director of the International Public Policy Institute

Recently joined Strathclyde University to lead a step change in the level and impact of public policy engagement, both nationally and internationally. Leading the scale up of the International Public Policy Institute, with a focus on policy orientated research and teaching - including active engagement with practitioners in public service.

The Scottish Government

Director of Communications and Ministerial Support – August 2013 to August 2015

Led the Scottish Government’s external and corporate communications function, including in the run-up to the Referendum. With some 300 staff, oversaw the front line support for Ministers, in a role at the heart of Scottish Government decision making. Main focus was the presentation of Constitutional Reform, and preparations for possible “yes vote”. Since the Referendum, supported the government’s transition to a new First Minister and Cabinet team. Attended the weekly Executive Team meetings, together with the quarterly Strategic Board.

Completed the UK civil service High Potential Development Scheme – January 2013 to January 2014

Won place on the UK civil service’s top level leadership programme. A year long programme with intensive personal development opportunities and peer to peer learning.

Director of Energy and Climate Change – March 2010 to August 2013

Led an organisation restructuring to create the Energy and Climate Change Directorate. This new Directorate was later expanded to cover environment and water industry responsibilities, with some 130 staff. Provided advice and support on all energy matters to the First Minister, including significant stakeholder engagement with industry, universities, communities and NGOs. Built up the capacity and capability to lead energy policy, and negotiate and influence the UK Government. Now widely recognised as providing “public sector leadership to enable private sector success” with active engagement on UK, European and world stages.

Director of Enterprise, Energy and Tourism – February 2008 to March 2010

With the new Government, and the change in economic environment, appointed to key role of Director of Enterprise, Energy and Tourism. Oversaw major changes in governance and policy approach at Scottish Enterprise and HIE, including appointment of new Board members and Chair. Implemented major changes
in the Directorate, with successful transfer of staff to Scottish Enterprise and re-positioning as part of new Government Economic Strategy. Managed a series of crises, including the Grangemouth fuel incidents and the takeover of HBOS, with significant engagement on financial regulation.

Director of Fisheries (then Marine Director) - January 2004 to February 2008

Following a government wide Promotion Board, with Lady Susan Rice as external panel member, promoted to Director. Asked to turn round an underperforming policy area, covering sea fisheries and aquaculture. Successfully built improved stakeholder engagement with the fisheries sectors, and instigated a new approach to influencing and negotiations in Europe. Significant successes in Brussels negotiations on the Common Fisheries Policy, especially for the newly elected Government in 2007. As a "Non-Executive Chair" provided strategic direction to the compliance and scientific services in Fisheries Research Services and the Scottish Fisheries Protection Agency, with extensive engagement with Scottish universities on marine science. Instigated the merger of marine environment and fisheries, and developed the blueprint for what is now Marine Scotland.

Head of the First Minister's Policy Unit – May 2002 to December 2003

Built a successful Policy Unit, to provide Ministers, senior special advisers and senior civil service with advice on emerging priorities and cross cutting issues. Led preparations for the 2003 Election, including key role in post-Election Coalition formation. Completed strategic projects on Youth Crime, "Fresh Talent", Happiness and Wellbeing, and the Cities Review.

Head of Enterprise Networks and Tourism Division – March 2000 to April 2002

Lead author of Smart Successful Scotland, and its accompanying Measurement Framework, to provide policy framework for Scottish Enterprise and Highlands and Islands Enterprise. Responsible for sponsorship, financial monitoring and review, including the Review of the Enterprise Networks, overhaul of the governance structure for the Networks and policy on Local Economic Forums.

Special project – organisational review of the Scottish Executive’s Finance Function – January 2000 to March 2000

Led a comprehensive organisational and functional review of the Scottish Government’s finance function, which employed 120 people and was responsible for financial management of £20bn of public funds. Concluded that a major change programme was required involving greater clarity of responsibilities, staff changes, new IT and business process systems and human resource policies.

Secretary to the Independent Committee of Inquiry into Student Finance ("the Cubie Committee") – July 1999 – December 1999

Headhunted to return to the Scottish Executive to support the review of student finance. Led the Secretariat and advised the Committee on the process and political issues. Conceived and delivered an extensive consultation process, involving two consultation papers, a major programme of research, and finalised a landmark report on time. The project laid the basis for a resolution of the political disagreement and heralded substantial improvements in policy on student support.

Office of Electricity Regulation (OFER)

Deputy Director General for Scotland - February 1998 to August 1999

Following external recruitment, promoted to Senior Civil Service to be responsible for all OFER’s activities in Scotland, managing about 30 staff based in Glasgow. Reporting directly to the Director General,
Professor Stephen Littlechild, I led review of future arrangements for electricity trading in the Scottish electricity market, and price control reviews on Scottish Power and Scottish Hydro-Electric. Post involved representation of the Office, negotiation at the highest levels with the electricity industry, analysis and evaluation of industry developments and determinations of disputes and customer complaints in the industry.

**The Scottish Executive and the Scottish Office**

**Policy advice on funding of Higher Education** – May 1997 to February 1998

Managed the introduction of tuition fees and reform of Higher Education funding.

**Economic Adviser on transport policy** – May 1994 to April 1997

Led public consultation on transport policy, prepared a transport Green Paper and provided economic advice on cost benefit analysis of transport projects. Lead author of Scottish Executive contribution to report of UK wide advisory group on economic appraisal and impact of road schemes.

**Economic Adviser on Energy, Water and Environmental Protection issues** – January 1990 to April 1994

Working with Jeremy Peat, led economic advice on electricity privatisation and regulation, oil taxation, the Private Finance Initiative, and restructuring the Water sector in Scotland.

**Economic Assistant in various roles on macro-economic issues, health and energy** – September 1986 – January 1990

Advice and Ministerial briefing on the Scottish economy and manpower issues. Managed substantial research programme on skills issues.

**Education:**

**SCHOOL:**
Strathaven Academy 1974-79
Larkhall Academy 1979-81

**UNIVERSITY:**
Masters of Arts Economics/Economic History
MA (Hons) 2(i) UNIVERSITY OF EDINBURGH 1981-85
Masters of Arts Economics
MA (Econ) UNIVERSITY OF MANCHESTER 1985-86

**CONTACT:**

Work:  
Home:  
Personal Email:  
Work Email:  
Mobile:  

**REFERENCES:**
An informal reference can be sought from... at any time.

Work references available on request.

David Wilson
Background

1. The Scottish Fiscal Commission was established by Scottish Ministers in June 2014 as an independent non-statutory commission to scrutinise and report publicly on fiscal forecasts prepared by the Scottish Government. There are currently three Commissioners: Lady Susan Rice CBE (Chair), Professor Campbell Leith and Professor Charles Nolan. The Committee will recall that Professor Nolan was appointed for a fixed period up to 30 March 2017 following the resignation of Professor Andrew Hughes Hallett, pending this formal public appointment round.

2. The Scottish Fiscal Commission Act 2016 placed the Commission on a statutory footing with the Commission due to be constituted as a Non-Ministerial Department within the Scottish Administration on 1 April 2017, with primary accountability to the Scottish Parliament.

3. The remit of the statutory Commission will be to produce forecasts of revenue to be generated from all fully devolved taxes, including Land and Buildings Transaction Tax, Air Passenger Duty and Scottish Landfill Tax; revenue from Scottish Income Tax; revenue from Non-Domestic Rates; Scottish onshore Gross Domestic Product (GDP); and forecasts of spending on some demand-led social security benefits in Scotland.

4. The information in this paper is being shared with the Finance Committee in confidence, pending formal advertisement of the appointments.

Membership and appointments

5. The Act provides that there should be between three and five members of the Commission, one of whom should serve as Chair. To ensure that the Commission is appropriately resourced to discharge its expanded remit as the financial provisions of the Scotland Act 2016 are enacted, Ministers have determined that the statutory Commission should have four members, including the Chair.

6. Lady Rice and Professor Leith will become initial members of the statutory Commission under the terms of the Act and so a further two members are being recruited through a public appointment round to take up office on 1 April 2017.

7. Members of the Commission will be directly answerable to Parliament for the forecasts produced by the Commission, and so it is important that members possess significant economic and fiscal expertise in addition to the skills and experience typically expected of members of public bodies.
8. The Act also provides that appointments to the Commission should be made by Ministers, regulated by the Commissioner for Ethical Standards in Public Life in Scotland and subject to the approval of the Scottish Parliament. This means that the appointment process must be fair, open, merit based and afford equality of opportunity to a strong and diverse field of suitable applicants. These are the first statutory ministerial appointments to be regulated by the Commissioner and subject to parliamentary approval.

9. Scottish Ministers have laid an Order under the Public Appointments and Public Bodies etc (Scotland) Act 2003 before the Scottish Parliament to ensure that these appointments can be treated as regulated prior to the Commission being constituted as a statutory body.

Proposed process

10. Ministers have appointed Alyson Stafford CBE, DG Finance, to chair the appointment panel. Lady Rice and Sandy Begbie will also be members of the appointment panel, and the Commissioner has appointed Elaine Noad to oversee the appointment round in her capacity as a Public Appointments Assessor.

11. The panel has determined that the assessment process for these appointments should have two stages:

   - written application (cv and short application form seeking evidence for the key experience set out in the advert); and
   - an interview, including a verbal presentation on a topic provided by the interview panel (to be given with no visual aids),

12. Candidates will be assessed against four essential criteria (economics knowledge and skills; independence and integrity; communicating and influencing; and governance) and asked if they meet any of three desirable criteria (financial expertise; media handling; and strategic leadership). A copy of the full proposed person specification is attached at Annex A.

Fit and proper person test

13. In addition, the Code stipulates a fit and proper person test to ensure that issues of conduct and conflict of interest are rigorously explored. A copy of the proposed fit and proper person test for this appointment round is attached at Annex B.

14. Section 16 of the Scottish Fiscal Commission Act 2016 also specifies some disqualification criteria. Individuals who meet any of the following criteria are disqualified from membership of the Commission:

   - a member of the Scottish Parliament,
   - a member of the House of Commons,
   - a member of the European Parliament,
   - a member of the National Assembly for Wales,
   - a member of the Northern Ireland Assembly,
• a councillor of any local authority,
• the holder of any other relevant elective office within the meaning of paragraph 1(8) of schedule 7 to the Political Parties, Elections and Referendums Act 2000,
• a member of the Scottish Government,
• a Minister of the Crown,
• an office-holder of the Crown in right of Her Majesty’s Government in the United Kingdom,
• an office-holder in the Scottish Administration,
• a civil servant,
• is (or has been) insolvent,
• is (or has been) disqualified as a company director under the Company Directors Disqualification Act 1986 (or any analogous disqualification provision, anywhere in the world), or
• is (or has been) disqualified as a charity trustee under the Charities and Trustee Investment (Scotland) Act 2005 (asp 10) (or any analogous disqualification provision, anywhere in the world).

Nomination for appointment

15. The Code requires the minister’s appointment decision to be made on merit. It must therefore be based on the criteria for selection identified at the outset by the appointing minister, and on the results of the fit and proper person test. Only applicants who closely meet the requirements of the role, as set out in the published criteria, and who pass the fit and proper person test, are presented to the Minister as suitable for appointment.

16. Once he has considered the recommendation of the panel, the Cabinet Secretary for Finance and the Constitution will write to the Presiding Officer and to the Convener of the Finance Committee to notify Parliament of his recommendations, which will then be subject to parliamentary scrutiny and approval.

Conclusion

17. The Committee is invited to comment on the proposals for the appointment round set out above and detailed at Annexes A and B.

Scottish Government
3 October 2016
Person Specification

<table>
<thead>
<tr>
<th>CRITERIA SOUGHT</th>
<th>WILL BE TESTED AT</th>
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<tr>
<td></td>
<td>Application</td>
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<tr>
<td><strong>Essential Skills:</strong></td>
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<tr>
<td>1. Economics knowledge and skills</td>
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<tr>
<td>• a proven track record at a senior level in appraising economic factors and/or fiscal forecasts</td>
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<td>• able to critique complex information and issues that underlie economic behaviours.</td>
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<td>• able to demonstrate an appreciation of the strategic fiscal landscape operating in Scotland.</td>
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<td>2. Independence and integrity</td>
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<td>• able to demonstrate the use of independent judgement in order to challenge and be challenged to reach a consensus.</td>
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<tr>
<td>• able to maintain discretion while performing duties objectively.</td>
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<tr>
<td>• able to demonstrate enthusiasm for public service.</td>
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<td>3. Communicating and influencing</td>
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<tr>
<td>• evidence of credibility and able to influence in your chosen field</td>
<td>x</td>
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<tr>
<td>• able to communicate complex information in accessible language.</td>
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<tr>
<td>4. Governance</td>
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<tr>
<td>• Able to demonstrate an understanding of the principles of effective corporate governance and public accountability, which may include Board or Committee experience at a strategic level.</td>
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### Additional Desirable Criteria

Please indicate if you meet **one or more** of the following further criteria.

<table>
<thead>
<tr>
<th><strong>Financial Expertise</strong></th>
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<tr>
<td>Significant financial experience</td>
<td>x</td>
<td>x</td>
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<tr>
<td><strong>and/or</strong></td>
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<tr>
<td>a professional financial qualification,</td>
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<td><strong>and/or</strong></td>
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<tr>
<td>Experience of financial audit and risk management</td>
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<tr>
<th><strong>Media handling and social media</strong></th>
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<tr>
<td>Skilled in using a range of media to convey appropriate messages to different audiences.</td>
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<td>x</td>
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<tr>
<th><strong>Strategic leadership</strong></th>
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</thead>
<tbody>
<tr>
<td>Significant experience of strategic leadership.</td>
<td>x</td>
<td>x</td>
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</table>
Fit and Proper tests

The selection panel must provide sufficient information and evidence to the Scottish Ministers to enable them to feel confident that the person they are appointing to the board of the public body is a fit and proper person to take up the appointment. In the context of public appointments this is an individual who is suitable for appointment because they meet the requirements of the role and because their past or present activities and/or behaviours do not render them unsuitable for a given appointment. This is an ongoing process with various checks built into the stages of the appointment round, designed to gather the appropriate information and evidence required. For this appointment round, the verifications in place for the fit and proper person tests are:

Verification of relevant information provided by the applicant:

- Evaluation of the evidence provided by you in relation to the skills, knowledge and experience required for the role will be tested in the application and CV and further probed at interview should you be invited. Those invited for interview, will be asked to prepare a short verbal presentation to an opening question the panel will ask on a topic relevant to the role. Further information will be available for those invited to interview.

- If applicants provide information in support of meeting any of the criteria which details roles or qualifications held which is material to the selection panel’s decision making, this information may be checked as part of the final assessment.

- References will may be taken up for the candidate that is selected for appointment to verify the information they have provided during the application and assessment process. We will not approach any referee without first seeking the candidate’s permission to do so.

Ensuring that the applicant’s conduct to date has been compatible with the public appointment in question:

- Confirmation that you understand the work of the body and the nature of the appointment and that you are not aware of having committed any offence or performed any act incompatible with the position that you are applying for forms part of the declaration statement of the application form. By virtue of submitting the completed form you are declaring that the information provided is, to the best of your knowledge and belief, true and complete.

- If appointed you will be required to produce a Basic Disclosure certificate less than 12 months old, and appointment will be on a conditional basis pending receipt of a satisfactory certificate. Please see page 12 for more information on this.

- Applicants will also be subject to a social media review.
Confirmation that the applicant has no inappropriate or unmanageable conflicts of interest incompatible with their appointment:

- You are asked in the application form to complete questions about potential conflicts of interest.

- If invited for interview, further assessment will be through questioning that you understand what is meant by a conflict; asking you to confirm that, to the best of your belief, you do not have any conflicts that are incompatible/unmanageable; or seeking additional information if you have declared a conflict in your initial application.

- As part of the Commissioner’s Code, you will also be asked at the application stage to declare if you have had any political activity in the past five years.

Determining that the applicant’s appointment is not barred by reference to the constitution of the body concerned by way of, for example, criminal offences or other relevant matters:

- Information on disqualifications is provided in the application pack material and you are asked to review this prior to submitting your application. Confirmation that you are not disqualified on any grounds from being appointed to this Board forms part of the declaration statement of the application form. By virtue of submitting the completed form you are declaring that the information provided is, to the best of your knowledge and belief, true and complete.

Ensuring that the applicant agrees to apply the Principles of Public Life in Scotland and be bound by the members’ code of conduct for the body concerned:

- You are referred to the Model Code of Conduct for Board Members in the application pack material and you should review this prior to submitting your application. Confirmation that you have read the Model Code of Conduct for the Board, that you understand this Code and that you agree to be bound by it in the event that you are appointed forms part of the declaration statement of the application form. By virtue of submitting the completed form you are declaring that the information provided is, to the best of your knowledge and belief, true and complete.

- Applicants are expected to embrace the Principles of Public Life in Scotland. These are highlighted within the application pack. If invited for interview, you will be asked to confirm your understanding of, and agreement to, applying these principles.

Establishing that the individual is able to meet the time commitment required:

- The publicity for the role sets out the time commitment involved for the role. If invited for interview, this will be fully explored with you to ensure that you can offer the appropriate assurance that you can undertake the commitment required of the role.
Dual Scrutiny – Confirming that the applicant agrees to the sharing of personal data with the Scottish Parliament Finance Committee:

- By virtue of submitting your application you are declaring your agreement of your Application form and CV, and the candidate summary evidence captured by the selection panel throughout the assessment process, being shared in the public domain at the Scottish Parliament Finance Committee, should you be one of the Minister’s recommended candidates for appointment. (Home addresses, DOB and contact details will be redacted). Monitoring data however, will not be shared with the Scottish Parliament Finance Committee.
Purpose

1. The purpose of this paper is to provide information in relation to the Air Departure (Scotland) Bill given that this meeting is the first evidence session the Committee has held on the Bill. The Committee will take evidence from two panels of witnesses. Firstly, from the Scottish Government officials who will be able to answer questions on the policy and technical aspects of the Bill. Secondly, from representatives of Edinburgh Airport, Loganair Ltd, Virgin Trains and Airlines UK.

2. The Scottish Government introduced the ‘Air Departure Tax (Scotland) Bill’ on 19 December 2016. The Bill, and its accompanying documents, can be accessed at—
   http://www.scottish.parliament.uk/parliamentarybusiness/Bills/102778.aspx

3. The Scottish Government consulted on ‘proposals for a tax to replace Air Passenger Duty’ in the 2016. An analysis of the consultation responses received was undertaken, by Craigforth, for the Scottish Government and the Executive Summary from the report on the consultation responses received is at Annex A. The full report can be accessed at—
   http://www.gov.scot/Publications/2016/03/3238

4. Written evidence for the evidence session with the second panel of witnesses has been received from Edinburgh Airport, Loganair Ltd and Virgin Trains. The written evidence is at Annex B of this paper. Lastly, SPICe have produced a briefing on the Bill which can be accessed at Annex C.
Executive Summary

This report presents an overview of findings from analysis of responses to the Scottish Government’s policy consultation on a Scottish replacement to Air Passenger Duty. The consultation sought views on proposals for a tax to replace Air Passenger Duty (APD) in Scotland from April 2018. The final number of submissions received was 160, including 76 submitted by group respondents and 84 by individuals.

The Principle of APD Reduction

The majority of respondents used their written submissions to make some comment on the reduction in APD, and most of these respondents expressed an objection to or raised concerns around the potential impact of the reduction in APD. This was primarily around the negative environmental impact of an increase in air travel as a result of the reduction in APD. These respondents also raised concerns around loss of funding to public services, the potential negative impact on other lower carbon transport modes, and the extent to which a reduction in APD will achieve the stated objectives.

Individual respondents accounted for the majority of those objecting to the policy, although more than a quarter of group respondents expressed similar concerns. It was clear that for a substantial number of respondents, objections to the reduction in APD had a significant impact on their response to the main body of the consultation.

Strategic and Policy Objectives

Around half of respondents agreed with the strategic and policy objectives set out in the consultation document. Group respondents were more likely than individuals to agree with the objectives, and individual respondents accounted for a large majority of those opposed.

The majority of those who supported the strategic and policy objectives highlighted the potential economic benefits associated with increasing Scotland’s international connectivity. This was in relation to the ability of Scottish airports to maintain existing routes (including making marginal routes more viable), and also securing new direct routes (both domestic and international connections). Potential benefits for tourism in Scotland were also cited by a substantial number of respondents - both in terms of inbound tourism and the benefits associated with outbound tourism. A small number of those expressing support for the overall strategic and policy objectives raised some concerns around specific aspects of the proposed policy, including the extent to which the proposed reduction or abolition of APD would be effective in delivering the objectives.

Objections to the proposed 50% reduction in APD were a significant factor for those who disagreed with the strategic and policy objectives; nearly all of those providing comment in opposition to the objectives raised issues regarding the
proposed reduction in APD. The environmental impact of an increase in Scotland’s air connectivity was the issue most commonly raised by these respondents. Questions were also raised around whether the proposed reduction or abolition of APD will achieve the stated objectives, including the likely extent of any increase in air connectivity and suggestions that the reduction in APD is unlikely to result in a net increase in tourism for Scotland. The potential negative impact on other transport modes, potential loss of funding available to public services, and concerns regarding the “fairness” of the strategic and policy objectives (and the reduction in APD specifically) were also cited by a substantial number of those who disagreed with the objectives.

Scope and Structure of Duty

A large majority of those providing a view agreed that the current UK APD definitions of ‘chargeable passenger’ and ‘chargeable aircraft’, and the per-passenger charging model should be retained for the Scottish APD replacement tax. Those in favour of the current definitions and charging model referred to these being familiar to and well understood by airlines and others, having proven a simple and effective approach for administration and compliance, and the importance of minimising the administrative burden for current UK APD taxpayers. Most of those who disagreed with retention of the current definitions and/or charging model were individual respondents. This included some whose objection was based on a preference for the removal of all APD charges immediately once powers over APD are transferred to the Scottish Parliament. However, a substantial number of those objecting to the per-passenger charging model specifically, suggested that it may be appropriate to consider alternative models. This included some who expressed a preference for taxation of air travel to seek to reduce carbon emissions.

The majority of those providing a view agreed that the current UK APD destination-based banding system should be retained for the Scottish APD replacement tax. Reflecting views on definitions and charging models, most of these respondents referred to the destination-banding system being well understood, simple and effective, and its retention minimising disruption to taxpayers’ systems. Most suggested that banding should be based on the distance between capital cities, where this is measured from Edinburgh (and with an increase in the band A distance threshold to allow for this change). However, a small number of those who supported destination banding suggested bands based on a specific set of destinations, rather than distance.

More than a quarter of respondents disagreed with the retention of current destination-based banding, most of these being individual respondents. This included some respondents who indicated a preference for a banding system with a closer link to environmental impacts of flights. A number of specific alternatives were suggested.

The majority of those providing a view agreed that the current UK APD rates system should be retained for the Scottish APD replacement tax. Again, for most respondents this support was based on the rate structure being familiar to and well understood by airlines and others, including suggestions that consistency with the current UK APD structure will be important for future administration of the two taxes.
These respondents also saw the rate structure as relevant to passengers’ experience (and ability to pay) across flight classes. Most of those in favour of the current rate structure felt that the rate definitions are appropriate to the Scottish market, and few suggested a need for change to the definitions.

A quarter of respondents disagreed with the retention of the current UK APD rates system, and individuals accounted for the large majority of these respondents. The most common reason given for an objection to the current rates system was a preference for a replacement tax which addresses the environmental impact of air travel, and/or takes greater account of passengers’ ability to pay.

Respondents’ views on how a reduction in APD should be introduced were clearly linked to wider views on the principle of a reduction in APD. Those in favour of the reduction in APD typically focused on how its implementation could best achieve the anticipated benefits to Scotland’s connectivity and economic growth – for example through the full 50% reduction being introduced as soon as possible. In contrast, those opposed to the APD reduction focused on how its implementation could best mitigate environmental impacts and ensure that economic benefits are shared – for example through an incremental introduction to allow for further work to assess and plan for the impacts of the reduction in APD.

**Exemptions**

A large majority of those providing a view agreed that the current UK APD passenger and flight exemptions should be retained for the Scottish APD replacement tax. Those in favour described the current exemptions as having been beneficial for air travel across the UK. Current exemptions for children under the age of 16, and for connecting flights and transit passengers were seen as particularly significant. The importance of minimising complexity for taxpayers and potential confusion for customers was also highlighted.

Around 1 in 5 of those providing a view indicated that they disagreed with the retention of current passenger and/or flight exemptions; individuals accounted for nearly all of these respondents. Most of those objecting to the current exemptions suggested specific reductions in current exemptions and/or broader changes to the approach to the Scottish APD replacement tax. This included several respondents who wished to see a significant reduction in flight exemptions as part of an approach which linked taxation of air travel to environmental impacts.

A large majority of those giving a view agreed that the current UK APD exemption for flights from the Highland & Islands region should be retained for the Scottish APD replacement tax. Most of these respondents made reference to the social and economic benefits of air connectivity, and specifically in relation to the low population density and relative remoteness of the region. A small number of respondents based in the region also provided detailed submissions which made reference to specific benefits, including supporting “marginal” air routes, incentivising airlines to consider new services, and benefits for local economies and communities associated with air travel. These respondents suggested that removing the exemption would have a significant detrimental effect on the region.
Around 1 in 5 respondents indicated that they wished to see the current Highland and Islands exemption modified. Most of these respondents suggested that the “lifeline” status could not be applied to all flights from the region, and wished to see a reduction or removal of the exemption for Highlands & Islands flights. This included a specific focus on flights from Inverness to destinations outwith the Highlands and Islands region (most commonly flights to “ski and sun” destinations).

Connected Flights

The majority of those giving a view agreed that the current UK APD connected flight rules should be retained for the Scottish APD replacement tax. Most of these respondents re-stated the benefits set out in the consultation document, including for example protecting the status of UK hub airports. Some also emphasised the importance of maximising consistency with UK APD to minimise confusion for passengers and ensure administrative simplicity for taxpayers. Around a quarter of respondents indicated that they disagreed with retention of current UK APD connected flight rules. Most of these respondents saw the connected flight rules as inequitable, and cited specific examples where the application of an APD exemption across all parts of a journey was seen as unfair. A substantial proportion of those who did not support retention of current connected flight rules wished to see APD applied to subsequent parts of all connected flights.

A minority of respondents commented on the circumstances where “double taxation” might apply following introduction of a Scottish APD replacement tax. Some of these respondents suggested that this issue would be minimised if the current connected flight rules are retained – although it was also suggested that the extent of any double taxation would also be dependent on decisions taken by the UK Government. However, respondents referred to a range of specific examples where double taxation is currently an issue and/or where the introduction of a Scottish replacement tax could exacerbate the issue. These respondents most commonly referred to passengers purchasing separate tickets for unconnected flights currently being subject to a higher APD charge than those able to purchase a single through ticket. This was raised as a specific issue in the context of the growing role played by low cost operators reliant on point-to-point tickets and where connected flights are not available. In this context, a small number of respondents suggested that an agreement is made with the UK Government on circumstances where the principle of connected flight rules could be applied to unconnected flights.

Administrative Aspects of the Replacement Tax

The consultation sought views on a range of other issues regarding the administration of a Scottish APD replacement tax. Relatively few respondents commented on these aspects of the consultation document, perhaps reflecting the extent to which proposals for the administration of the replacement tax are most relevant to those who will be liable to account for and pay the Scottish APD replacement tax.

The majority of those providing comment agreed with the range of proposals set out in the consultation document relating to the administration of the replacement tax. This included the proposed approach for registration for the
replacement tax, tax return and payment arrangements, record keeping, tackling tax avoidance and tax evasion, investigatory and enforcement powers, and dispute resolution. To the extent that these proposals were based on approaches to current UK APD or other devolved taxes, respondents saw benefits in these approaches having proven effective to date and in simplifying compliance for taxpayers currently subject to UK APD.

For those respondents who did not support aspects of the proposed approach to the administration of the Scottish APD replacement tax, this was most commonly linked to an objection to any reduction in APD in Scotland. Few respondents suggested changes to specific proposals set out in the consultation document, and where changes were proposed by respondents these were typically for relatively minor modifications.
Annex B – Written Submissions

LOGANAIR

Finance and Constitution Committee: Air Departure Tax (Scotland) Bill

Air connectivity is a key economic driver for the Scottish economy, not just in the terms of the aspirational new international routes to emerging markets, but for the current international and domestic networks which support the movement of passengers and freight from regional and city airports from/to and within Scotland. Any policy objectives should equally seek to ensure the continuance of existing connectivity and support the retaining and development of better frequency and/or capacity to markets currently served. A strong domestic network feeding into key regional Scottish hubs ensures that any economic gain from new international connections reverberates beyond the initial destination and into the diverse geographical areas of Scotland’s economy.

A tax which doesn’t impede the movement of passengers by placing an uncompetitive levy on their travel will encourage greater use of air services which in turn supports the commercial strategy of an airline in their network planning, whether it be an increase in frequency on a route, the size of the aircraft deployed, or looking for emerging opportunities in an economically strong environment.

The success of the commercial carrier in serving existing markets will generate confidence in the ability for a strong market to mitigate the commercial risk of opening a new route; said route becoming a catalyst for economic growth.

Loganair is therefore encouraged and supports the initiative of the Scottish Government’s commitment to reducing the overall tax burden of Air Departure Tax by 50%.

The key concepts proposed follow the familiar, proven and effective approach of the established UK Air Passenger Duty scheme, and thus the principles of a per passenger charging model based on the definition of chargeable passengers, chargeable aircraft and distance related tax bands are supported by Loganair. Key to the acceptance of this model is the continuance of the current exemptions applying to aircraft flying on PSO designated services, and the passenger exemptions including those related to connecting passengers (adopting the same reference to connecting passengers in terms of a booking transaction, and not same agreement for carriage), children under 16, and passengers carried on flights departing from airports in the Scottish Highlands and Islands region as currently defined.

Though the detail on the exemptions will be delivered later it is worth citing the rationale for the retention of these exemptions once more;

Connecting passengers
The connecting passenger exemption ensures that passengers travelling via Scottish hubs to/from Scotland’s peripheral destinations aren’t further disadvantaged with a double levy of ADT. If the strategy is to further develop non-stop air connectivity from Scotland’s main cities, domestic traffic feed
onto these services will be crucial to aid that success, and in turn ensure that inbound economic growth is spread out to the wider parts of the Scottish economic landscape.

PSO routes
A Government subsidised route by virtue of a PSO should continue to be exempt as the fare level is already capped to ensure that the service, supported by public funds due to the peripheral nature of the location or the economic importance of the route to the regional economy, is sustainable.

Highlands and Islands exemptions
The peripherality of the Highlands and Islands implies a greater reliance on air connectivity for the populace of these regions, and therefore the objective must be to keep the cost of air travel down. The Highlands and Islands (excl Inverness) are supported via the Scottish Government's Air Discount Scheme initiative through til March 2019 with a recent increase in the percentage discount from 40% to 50%; it therefore makes no sense to counter this initiative by foregoing the current APD exemption.

In addition, the current exemption of outbound flights from the Highlands and islands region should be further modified to include travel to the islands. In recognising the support for local business and island resident travel to the Scottish mainland, the benefit could be further extended by relieving the taxation on travel to the islands for the returning local island populace and others. In addition, the waiver of the ADT for travel to the islands would help stimulate the rural tourist economy. Passengers connecting from overseas travelling to the islands currently are exempt from the tax under the connection ruling, though tourists from the Scottish mainland (or those connecting passengers with a break in their journey) currently pay the duty. To stimulate travel out to the islands from both a business and leisure tourism perspective, and encourage Scottish mainland support for island localities, then the exemption should be modified to include travel to the Highlands and Islands also i.e. the entire route should be ADT exempt by designating all routes from/to Highlands and Islands airports exempt.

In respect of the administration of the tax, the overriding principles of an efficient and convenient mechanism of tax collection is evident in the proposed online return, and a quarterly submission would be appropriate. The lead time in the introduction of the policy and its effective date is key to ensuring an administrative burden isn't placed on the airline as schedules are on sale +340 days in advance. Planning is therefore key to ensure there is no manual intervention required to short circuit the planned outcome in terms of a reduced tax for those customers that may already have pre-purchased their ticket.
VIRGIN TRAINS

Introduction

1. Virgin Trains welcomes this opportunity to provide the Finance and Constitution Committee (FCC) with written evidence to support its inquiry into the proposed Air Departure Tax (Scotland) Bill.

Executive summary

2. The abolition or reduction in air passenger duty (APD) could have a significant impact on rail passenger numbers which have grown significantly over the last 20 years, particularly between Scotland’s Central Belt and London.

3. The benefits of reducing APD – stimulating trade, tourism and inward investment – do not apply on routes where rail competes with air, as it would simply stimulate a negative modal shift to domestic air travel.

4. With both the Scottish and UK governments obliged to reduce emissions to meet targets on both a national and European level, boosting rail passenger numbers further has and will continue to play an important role in building a greener transport network.

5. Figures produced by the Association for Train Operating Companies (ATOC) show that rail produces 74% less CO2 per passenger km than domestic air.

6. From 2018, 65 new Azuma trains will be introduced to the East Coast Main Line. On a typical journey between London and Edinburgh, an Azuma train will emit 84% less CO\textsubscript{2} per passenger km than the corresponding domestic flight.

7. If APD were abolished however, as much as 33% of the southbound rail market would switch to air.

8. A cut in APD on domestic flights could therefore have a significant detrimental impact on growing rail passenger numbers further and building the market further towards the commencement of high speed rail services to Scotland.

9. The objectives of continuing to grow and invest in cross-border rail while boosting international connectivity are not incompatible.

10. But a policy is required which distinguishes between domestic and international routes.

About Virgin Trains

11. Stagecoach and Virgin are working in partnership to operate the East Coast and West Coast inter-city routes under the Virgin Trains brand. We are committed to delivering a high speed, high frequency service, offering shorter journey times, more comfortable travel and excellent customer service.
12. The two businesses provide 92% of train services connecting Scotland to London and also connect Scotland to the northern cities of England.

13. We have been running the West Coast franchise for nearly 20 years. In that time we have more than doubled passenger numbers, cut journey times, expanded our timetable and grown our passenger satisfaction scores. We want to repeat the success of the West Coast franchise in our new East Coast franchise.

14. We were awarded the East Coast franchise in March 2015. As part of a £140 million investment programme, we have completed a refurb of our entire existing fleet.

15. May 2016 saw the launch of 42 additional services (22,000 extra seats) per week between Edinburgh and London. In December 2016 a further three Edinburgh-London services were added at the weekend.

16. 2018 will see the first of 65 new Azuma trains enter service. The fleet will provide 12,000 extra seats for a new and expanded timetable, increasing capacity into King’s Cross by 28% during peak time.

17. The new Azuma fleet will enable regular Edinburgh-London journeys to be accelerated to around four hours, departing every hour.

Strategic objectives of the ADT Bill

18. Virgin Trains supports the Scottish Government’s overall objective for the Bill in terms of a replacement tax for Air Passenger Duty in light of the Scottish Parliament’s new devolved powers and in relation to the Scottish Government’s objective to boost international connectivity.

19. Virgin Trains would be supportive of reforms to APD which recognise the objective of creating a tax regime that incentivises a positive modal shift from air to rail on routes where these modes compete, recognising the benefits to the economy, environment and customer choice that this would deliver; similarly, it would oppose reforms that run counter to this principle by incentivising a negative modal shift from air to rail, irrespective of timing. However, if considering reforms that do negatively impact on the rail market by incentivising domestic air travel, it is important that the Scottish Government gives due consideration to the consequences of such a policy. These include:

- Reducing the value to the UK Government of the next West Coast passenger franchise, due to begin in 2018 and subsequent EC and WC franchises - directly reducing the amount of funds available to the UK and Scottish Governments to invest in maintaining and improving the rail network
- Impact on Virgin Trains’ ambition to achieve a 50/50 modal shift against airlines on the Edinburgh-London corridor by 2023, an increase on around 1/3 of the market rail currently holds
• Impact on long-term Government investment in rail by reducing the value (to Government) of cross-border rail franchises

• Potential negative impact on the business case for developing a high speed rail network between England and Scotland by dampening cross-border rail growth.

Impact of reducing the rate on domestic air travel

20. Given the price-sensitivity of customers travelling between Scotland’s central belt and London, it is likely that even a 50% reduction in APD, if applied to this route, could have a pronounced effect on the air/rail market share.

21. Virgin Trains’ own initial modelling suggests that as much as a third of the southbound Edinburgh-London rail market could be lost to air APD were abolished on this route and the tax reduction was passed on in reduced fares. This would represent a negative modal shift, lead to a significant increase in carbon emissions, reduce funds available to Government through franchise payments and undermine the long term growth of the cross-border rail market and business case for developing a high speed rail network to Scotland.

The appropriateness of the proposed structure for the tax

22. Virgin Trains does not have a firm view on the optimal banding structure for a reformed Scottish APD and recognises that this would have to balance competing priorities such as achieving simplicity and efficient administration of tax collection.

23. However, the Government can avoid inadvertently harming the domestic rail sector once the ADT is levied by differentiating between journeys made domestically and those made internationally such as applying a cut to ADT to only Band B journeys (over 2,000 miles) for example.

24. A reduction on APD in this band could thus target long haul flights without having a negative impact on the Glasgow/Edinburgh to London corridors.
Finance and Constitution Committee: Air Departure Tax (Scotland) Bill

Submission from Airlines UK

Airlines UK welcome the opportunity to submit evidence to the Scottish Parliament’s Finance and Constitution scrutiny of the Air Departure Tax (Scotland) Bill.

Airlines UK is the trade body for UK-registered airlines. Our eleven members - British Airways, CargoLogicAir, DHL, easyJet, Flybe, Jet2.com, Monarch, Thomas Cook, Thomson Airways, Titan Airways and Virgin Atlantic – employ 76,000 people and served 144 million passengers and carried one million tonnes of cargo in 2015.

Nearly all of our 8 scheduled passenger airline members operate in Scotland. Together, they serve 14 Scottish airports, providing important air links within Scotland and throughout the rest of the UK as well as operating flights to numerous overseas destinations.

We respect the UK Government’s decision to devolve Air Passenger Duty / Air Departure Tax to Scotland and welcome the Scottish Government’s commitment to halve and then abolish the tax.

We have commended the Scottish Government on its recognition of the importance of aviation and the role it can play. We also agree that UK APD is damaging for Scotland and places it at a competitive disadvantage.

We have been an active member of the Scottish Government’s APD Stakeholder Forum and are grateful for the positive and constructive engagement shown by the Scottish Government.

By increasing the cost of an air ticket from between £13 to £150 per journey, depending on the class of travel and destination, APD acts as a major barrier to increasing trade, business investment and tourism.

Despite recent positive reforms to exempt children and abolish the two furthest long-haul bands, UK APD remains the highest tax on air travel in Europe and one of the highest in the world. Most countries do not tax air travel and countries such as Ireland and the Netherlands have abolished their equivalent tax.

The Scottish Government recognises that UK APD is holding the Scottish economy back. Reducing the tax by 50% as an initial step would make a big difference to businesses and families. We urge that the reduction be implemented in full in 2018 to maximise the advantages of the change.

The economic evidence to support the case against APD is extremely strong and thorough and has been well-documented. PwC produced a report on the economy and tax revenues if APD were abolished in 2013. The report found that abolition would boost GDP, leading to thousands of new jobs and higher tax receipts, to such an extent that abolition would actually be self-funding. In 2015, Airlines UK published a further study by PwC that updated...
their 2013 report, with new analysis taking into account APD policy changes since 2013, recent economic studies by the UK Government and PwC’s own work for the Airports Commission. Their study for the Airports Commission looked at the relationship between the aviation sector and GDP and found a stronger link than the evidence used in the 2013 study. This suggested that the advantages of abolition had been underestimated and are even greater than previously thought.

The economic model has been updated to take into account this new evidence and has produced a new set of results suggesting that:

- APD abolition could boost UK GDP by around 0.5% in year one, with continuing positive advantages up to 2020;
- the economy could be 1.7% bigger by 2020 than would be the case if APD were to remain unchanged;
- the increased economic output associated with abolition could lead to the creation of 61,000 jobs by 2020 – 1,000 more than the 2013 report found, despite policy changes, and:
- additional tax revenue would be raised from other taxes than is lost from abolition, with a net £570m in extra tax receipts in year one, and positive gains through to 2020 that could add up to as much as £2bn in additional tax receipts compared with the status quo.

In short, the evidence suggests that abolition would boost growth, help create jobs, and more than pay for itself through increased revenue from other taxes.

The modelling suggests that the boost to GDP from abolition would come from three main sources:

- airline investment to offer new routes and maximise existing capacity to meet an estimated 10% in the demand for air travel;
- higher productivity, international trade and investment from increased business and leisure travel, and;
- a 7% net increase in foreign inbound tourism passengers by 2020 – equating to approximately 200,000 extra inbound tourist arrivals to the UK.

APD/ADT is not an environmental tax and treating it as one in such a global industry as aviation by increasing rates will simply result in passengers, jobs and growth being lost to continental airports. This will increase carbon emissions while reducing Scotland’s connectivity.

In an independent report produced for Airlines UK by Steer Davies Gleave in March 2016, it was calculated that a cut of 50% in UK rates in Scotland would positively affect Scotland’s tax competitiveness and all the advantages that result from that. Scotland would improve its standing by 38 places over the rest of the UK in the global competitiveness league for tax on short-haul economy travel. Scotland would rank 9th highest for tax on long-haul economy travel, leaving England and Wales at the top of the league with the most uncompetitive tax
of its type in the world. While this means that Scotland would still be less competitive than most EU countries, it would have a huge competitive advantage over the rest of the UK.

We agree with the strategic and policy objectives for improving Scotland’s air connectivity. Aviation is a crucial element in creating and supporting connectivity and the resulting economic growth and prosperity which emanate from that. Faster, more frequent services to a greater number of destinations is a positive for consumers, businesses, investors and tourists. Countries with high levels of air connectivity gain enormously, especially in a globalised economy.

UK APD is uncompetitive and a barrier to trade, investment and tourism. Air Departure Tax, as proposed by the Scottish Government, with a 50% cut ideally taking place at once in April 2018 will help make Scotland a more attractive destination and place to do business. We believe such a cut would act as a positive signal to carriers and encourage them in making future decisions about increasing capacity and developing new destinations and routes.

It is sensible and practical for the meaning of ‘chargeable passenger’ and ‘chargeable aircraft’ to be the same in Scotland as in the rest of the UK. The destination bands should continue to be defined by the distance to capital cities as this is both already clearly understood by stakeholders and is incorporated into existing IT and booking systems. We also support retaining the existing two band structure as additional complexity would result in a greater administrative burden and cost as well as potential market distortion.

The existing definitions for UK APD passenger exemptions are appropriate and relevant for Scotland. The recent introduction of the exemption for children under 16 should be retained as should those pertaining to passengers on connecting and transit journeys. Passenger exemptions under Scottish ADT would ideally remain consistent and compatible with those of the UK regime in order to minimise complexity and confusion.

All our members recognise that aviation growth must go hand in hand with action to tackle carbon emissions. Airlines UK is a member of Sustainable Aviation – a unique alliance of the UK’s airlines, airports, aerospace manufacturers and air navigation service providers working together to deliver cleaner, quieter, smarter aviation – and we believe we are making progress in improving our environmental performance.

UK airlines have invested in more than 470 new aircraft since 2005, at a cost of over £37 billion, helping the industry to reduce its carbon emissions by 20 million tonnes. A further 400 aircraft are on order and are due to enter into service in the coming years. Overall we are exceeding the industry target for improving our performance on carbon reduction, with an increase in fuel efficiency of 12% over the past decade. Government data shows that in 2015, jet fuel deliveries to UK airports, for UK and non-UK airline operations, were 10% lower than in 2006, despite 20 million more passengers being carried. In short, for the first time, growth in UK aviation has been delivered without any increase in CO₂ emissions.

Globally, airlines now have a target to cut CO₂ emissions from all journeys by 50% of their 2005 levels, by 2050. To achieve this, Governments, industry and civil society have worked
with the International Civil Aviation Organisation (ICAO) to develop a carbon offsetting and reduction scheme for international aviation.

Our members are fully engaged and are working with Revenue Scotland as they develop the administrative arrangements for the payment, collection and management of the tax.

In order to achieve maximum impact on return on the Scottish Government’s policy, the reduction should be made as soon as possible and in one go, ideally with immediate effect for travel from April 2018 and across all bands and both standard and premium rates. A gradual phasing in of the 50% reduction over a period of years will not meet the objectives of the Scottish Government’s policy and will fail to deliver greater connectivity and economic growth. A ‘big bang’ approach, with accompanying media and industry engagement by the Scottish Government will have a major impact and attract global attention.

The industry has consistently requested that the devolved tax, including confirmation of new rates and the banding structure, should be communicated to airlines and other stakeholders as soon possible – ideally at least 12 months in advance of the change coming into effect, to allow enough time to make necessary changes to ticketing and booking systems. We are therefore disappointed that the implementation timetable has been compressed, with no confirmation as yet as to the proposed rates and banding.

We would be happy to submit further written evidence, following the witness session in front of the Committee on 1 February.

Airlines UK
January 2017
Air Passenger Duty
Scottish Government consultation submission

Date: Thursday June 2, 2016

Prepared by: Gordon Robertson and Erik Geddes

Externally ratified by: BiGGAR Economics
Air Passenger Duty Reduction - Economic Impact Note

1 Background

The note has been prepared by Edinburgh Airport and verified by BiGGAR Economics to inform the consultation response from Edinburgh Airport, in particular quantifying the potential economic and exchequer impacts that could result from a reduction in APD in Scotland.

The key findings of our independently ratified analysis shows a 50% cut to APD in one move will mean an additional 18 million passengers using Scotland’s airports by 2021. This will create nearly 10,000 new jobs in Scotland, add more than £300 million Gross Value Added per year to the Scottish economy and generate a range of tax revenues that will comfortably exceed the cost of the cut.

2 Air Passenger Duty (APD) – background and historical reports

2.1 Even though Scotland is an island nation on the western periphery of Europe, our Air Passenger Duty is the highest air tax in the world.

2.2 APD being high in Scotland means airlines invest in other European countries and Scotland misses out with fewer routes and less choice - and fewer people in Europe have the opportunity to visit Scotland. Importantly, this means Scotland misses out on economic activity it could benefit from.

2.3 A report compiled by York Aviation in 2015 estimated that the reduction of 50% would help create around 3,800 new jobs by 2020, and boost Scotland’s international connectivity. The report concluded this would generate economic activity worth £200 million per year.

2.4 The York Aviation findings are further backed up by PwC, who in their 2015 update on the economic impact of air passenger duty demonstrated how abolition of APD across the UK could raise more than a net £500 million in extra tax receipts, crucially showing that the initial fiscal costs of APD abolition would be fully offset.

3 Air Passenger Duty (APD) – the opportunity

3.1 Edinburgh Airport supports the abolition of APD. It has campaigned for many years to bring parity to UK aviation and backs the Scottish Government’s plans to reduce APD by 50% and to abolish the tax it as soon as resources allow.

3.2 The most up to date calculations are based on modelling from Biggar Economics’ recent Economic Impact study of Edinburgh Airport show that confirmation of a 50 % cut in one move in April 2016 will mean an additional 18 million passengers using Scotland’s airports between the cut being confirmed and the end of 2021.

3.3 This translates to the creation of nearly 10,000 new jobs in tourism and gives rise for new opportunities via an increase in direct routes enabling the opportunity to promote our country and its competitiveness on the international stage.
3.4 A 50% cut in April 2018 will also deliver a net increase in Scottish Government income – through more passengers paying APD and wider tax receipts arising from new jobs and increased economic activity.

3.5 The suggested plan to spread the 50% cut over the course of the next parliament will not deliver the gains that a 50% cut in one move will.

3.6 This ‘salami slicing’ will not attract the airlines to invest in more direct routes and will therefore not deliver more passengers beyond otherwise expected growth. Crucially – it will not see the revenues generated that a bolder cut of 50% would.

3.7 The airlines have confirmed this. EasyJet is planning to dramatically increase the number of flights to Scotland – but only if a 50% cut is made in one move - increasing passenger numbers from 5.5 million to 7 million a year. Ryanair has made similar commitments – and other airlines are watching with great interest.

4 Scenarios

In 2016 BiGGAR Economics was commissioned to undertake an economic impact study of Edinburgh Airport and consider the implications of the future growth in passenger numbers. This study included four passenger mix scenarios for this future growth, which generated a range of potential economic impacts over the next five years.

We are using this report as it is the most up to date and relevant economic impact analysis of aviation in Scotland.

This analysis of the impact of changes to APD on the economy has built on this analysis and models two different passenger mixes:

- Scenario A - the growth in passenger numbers associated with changes to APD reflects the current passenger breakdown at Edinburgh Airport;
- Scenario B - the growth in passenger numbers associated with changes to APD is split equally between inbound and outbound passengers.

5 Sources of Impact

The impacts that have been considered in this note cover the implications for the both the economy and the exchequer, based on the evidence from the Edinburgh Airport economic impact study.

A reduction in APD would lead to a decrease in APD tax revenues, if there was no change to passenger numbers. The income to the Scottish Government from APD is approximately £240 million, equivalent to an average of £16 per passenger. A reduction of this by 50% would therefore imply an initial decrease in government revenues of £120 million.

Discussions between Edinburgh Airport and airlines have suggested that there would be significant demand increases in the event of a sharp reduction in APD. A 50% decrease in APD by 2018 is
expected to result in 4.6 million additional passengers per year passing through Scottish Airports by 2021.

Edinburgh Airport currently accounts for just under 40% of passengers at all Scottish airports. This analysis models the economic impact of passenger growth at Edinburgh Airport, based on a 40% share of the projected growth, as well as for all Scottish airports.

While the analysis is based on a 50% reduction in APD in 2018, some impacts would also be expected in 2017, as airlines respond to the announcement of the changes.

<table>
<thead>
<tr>
<th>Additional Passengers (m)</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>All Scottish Airports (m)</td>
<td>1.50</td>
<td>4.00</td>
<td>4.20</td>
<td>4.40</td>
<td>4.60</td>
</tr>
<tr>
<td>Edinburgh Airport (m)</td>
<td>0.60</td>
<td>1.60</td>
<td>1.68</td>
<td>1.76</td>
<td>1.84</td>
</tr>
</tbody>
</table>

*Source: Edinburgh Airport Forecasts*

Increases in passenger numbers passing through Scottish Airports would lead to increased economic activity in the tourism sector and beyond. The increased economic activity would in turn, increase the revenues paid to the exchequer through other taxes and could reduce the number of individuals who require assistance through the benefits system.

The increased economic activity stimulated by the additional passengers would be expected to result in increases in exchequer revenues through:

- **APD** - while there would be a direct reduction in APD associated with the baseline number of passengers, there would be APD revenues from the additional passengers;
- **Value Added Tax (VAT)** - VAT is applied to most goods and services traded in the UK economy at 20%. A study by Oxford Economics\(^1\) found that of a foreign visitor spend of £18.3 billion, £3.0 billion was captured through VAT, equivalent to 16.4% of all spend;
- **Corporation Tax** - companies involved in the tourism sector and its supply chain will contribute a proportion of their profits to the exchequer through Corporation Tax and increases in turnover associated with new passengers will create new opportunities for profits within these companies. A study by Oxford Economics\(^2\) found that £300 million was paid in Corporation Tax by tourism sector companies from a total expenditure of £18.3 billion, equivalent to 1.6% of all tourism spend; and
- **Employment taxes** - increases in employment and hours worked by employees will also have positive impacts for the exchequer as these jobs would increase the income from employment taxes. A study by Oxford Economics\(^3\) found that the 1.7 million employees in the generated £900 million in revenues from Income Tax and £1.3 billion in Revenues from National Insurance. This is equivalent to £1,294 per job.

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\(^1\) Oxford Economics & Deloitte (Nov 2013), *Tourism: Jobs and Growth - The economic contribution of the tourism economy in the UK*

\(^2\) Ibid

\(^3\) Ibid
The exchequer would also benefit from reduced costs associated with unemployment in addition to these direct benefits associated with increased tax revenues from greater economic activity. Increased economic activity and the jobs associated with increases in tourism expenditure will reduce the number of people who are unemployed and claiming associated benefits. These benefits will include:

- **Jobseekers Allowance (JSA)** - this analysis considered the implications of bringing people into employment who had previously claimed JSA (a benefit paid while an individual is actively looking for employment);

- **Housing Benefit** - this is paid to the unemployed and those on low salaries in order to support their housing costs. Not all individuals who gain employment will be able to stop claiming housing benefit and therefore some newly employed people considered in this analysis will still claim Housing Benefit; and

- **Council Tax Benefit** - this is a benefit paid to decrease the council tax liability on the unemployed and those on low salaries.

Some of the employment created by the additional tourism expenditure will not result in those currently in claiming benefits moving into employment. The industries in which tourists spend their money, such as in hospitality and retail, have a significant proportion of part time employment. Therefore a proportion of the employment impact will result in part time employees becoming full time. In addition to this, not all of the employment needs will be met through domestic channels and there are likely to be individuals who move to Scotland in order to work in these newly created opportunities. Studies have found that 11.1% of the employment in industries of tourism expenditure is comprised of recent migrants. These individuals are unlikely to have otherwise been claiming benefits and therefor have been excluded from this section of the analysis. As a result of these assumptions, this implies that approximately two thirds of all employment created will result in a decrease in welfare expenditure.

### Table 2 – Benefits and Unemployment Assumptions

<table>
<thead>
<tr>
<th>Assumption</th>
<th>Value</th>
<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proportion of employment from recent migrants</td>
<td>11.1%</td>
<td>Migration Observatory&lt;sup&gt;4&lt;/sup&gt;</td>
</tr>
<tr>
<td>Proportion of employment from expanded hours</td>
<td>25.0%</td>
<td>BiGGAR Economics</td>
</tr>
<tr>
<td>Average Weekly JSA Claimant</td>
<td>£62.55</td>
<td></td>
</tr>
<tr>
<td>Average Weekly Housing Benefit</td>
<td>£93.99</td>
<td></td>
</tr>
<tr>
<td>Average Weekly Council Tax benefit</td>
<td>£19.27</td>
<td></td>
</tr>
<tr>
<td>Proportion of housing benefits paid to those in employment</td>
<td>18.0%</td>
<td></td>
</tr>
</tbody>
</table>


<sup>5</sup> Office for Budget Responsibility (2104) *Welfare Trends Report: October 2014*
5 Economic Impact by Scenario (All Scottish Airports)

The economic impacts associated with the reduction in APD have been calculated based on the outputs of the BiGGAR Economics Edinburgh Airport economic impact study. The economic impacts have been based on the spending of different types of visitors and the associated gross value added (GVA) and employment impacts of this spending. These impacts are net additional impacts to the Scottish economy.

The exchequer impacts have been calculated based on the assumptions set out in the previous section of this note.

Scenario A: Growth Based on Existing Edinburgh Airport Passenger Mix

In Scenario A the growth in passenger numbers associated with changes to APD reflects the current passenger breakdown at Edinburgh Airport, with each additional passenger spending an average of £77 in Scotland and generating an additional GVA impact of £46.

This would result in an additional £197.4 million GVA and 5,932 jobs created by 2021 and a net additional benefit to the exchequer of £2.8 million, for all Scottish airports (Table 3).

The Edinburgh Airport share of this would be a GVA benefit of £79.0 million and 2,373 jobs created by 2021 and a net additional benefit to the exchequer of £1.1 million (Table 4).

Table 3 - Scenario A (All Scottish Airports): Existing Edinburgh Airport Passenger Mix

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
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<tbody>
<tr>
<td>Additional Passengers</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Additional Passengers (m)</td>
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<td>4.00</td>
<td>4.20</td>
<td>4.40</td>
<td>4.60</td>
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<tr>
<td>Economic Impact</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Additional spend (£m)</td>
<td>115.1</td>
<td>307.0</td>
<td>322.3</td>
<td>337.7</td>
<td>353.0</td>
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<tr>
<td>GVA (£m)</td>
<td>64.4</td>
<td>171.6</td>
<td>180.2</td>
<td>188.8</td>
<td>197.4</td>
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<tr>
<td>Jobs</td>
<td>1,934</td>
<td>5,158</td>
<td>5,416</td>
<td>5,674</td>
<td>5,932</td>
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<tr>
<td>APD Revenue Lost (£m)</td>
<td>0.0</td>
<td>-120.0</td>
<td>-126.0</td>
<td>-132.0</td>
<td>-138.0</td>
</tr>
<tr>
<td>APD Revenue Gained (£m)</td>
<td>24.0</td>
<td>32.0</td>
<td>33.6</td>
<td>35.2</td>
<td>36.8</td>
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<tr>
<td>VAT Receipts (£m)</td>
<td>18.9</td>
<td>50.3</td>
<td>52.8</td>
<td>55.4</td>
<td>57.9</td>
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<tr>
<td>Employment Taxes (£m)</td>
<td>2.5</td>
<td>6.7</td>
<td>7.0</td>
<td>7.3</td>
<td>7.7</td>
</tr>
<tr>
<td>Corporation Tax (£m)</td>
<td>1.9</td>
<td>5.0</td>
<td>5.3</td>
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<td>5.8</td>
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<tr>
<td>Benefits saved (£m)</td>
<td>10.7</td>
<td>28.4</td>
<td>29.8</td>
<td>31.3</td>
<td>32.7</td>
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<tr>
<td>Net Exchequer Impact (£m)</td>
<td>57.9</td>
<td>2.4</td>
<td>2.6</td>
<td>2.7</td>
<td>2.8</td>
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</table>

Source: BiGGAR Economics
Table 4 - Scenario A (Edinburgh Airport): Existing Edinburgh Airport Passenger Mix

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
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<td>Additional Passengers (m)</td>
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<td>1.60</td>
<td>1.68</td>
<td>1.76</td>
<td>1.84</td>
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<tr>
<td>Economic Impact</td>
<td></td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Additional spend (£m)</td>
<td>46.0</td>
<td>122.8</td>
<td>128.9</td>
<td>135.1</td>
<td>141.2</td>
</tr>
<tr>
<td>GVA (£m)</td>
<td>25.7</td>
<td>68.7</td>
<td>72.1</td>
<td>75.5</td>
<td>79.0</td>
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<tr>
<td>Jobs</td>
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<td>2,063</td>
<td>2,166</td>
<td>2,269</td>
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<tr>
<td>APD Revenue Lost (£m)</td>
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<td>-48.0</td>
<td>-50.4</td>
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<td>-55.2</td>
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<td>APD Revenue Gained (£m)</td>
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<td>13.4</td>
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<td>VAT Receipts (£m)</td>
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<td>21.1</td>
<td>22.1</td>
<td>23.1</td>
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<tr>
<td>Employment Taxes (£m)</td>
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<td>2.8</td>
<td>2.9</td>
<td>3.1</td>
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<tr>
<td>Corporation Tax (£m)</td>
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<td>Benefits saved (£m)</td>
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<tr>
<td>Net Exchequer Impact (£m)</td>
<td>23.2</td>
<td>1.0</td>
<td>1.0</td>
<td>1.1</td>
<td>1.1</td>
</tr>
</tbody>
</table>

Source: BIGGAR Economics

Scenario B: Growth Based on Equal Split of Inbound and Outbound Passengers

The growth in passenger numbers at Scottish airports is unlikely to reflect the current passenger mix. Indeed, recent trends at Edinburgh airport have seen a disproportionate growth in international passenger numbers relative to domestic passengers. For example, in April 2016, international passenger numbers increased by 18.4% compared with a year earlier while domestic passenger numbers decreased by 2.2%. In March 2016 international passenger numbers increased by 37.6% compared with a 0.2% increase in domestic passengers. And in February 2016 international passenger numbers increased by 30.4% compared with a 0.7% increase in domestic passengers.

The Edinburgh Airport economic impact study found that international flights tended to be associated with higher numbers of high impact passengers and so growth in such flights will have a disproportionately large impact on the economy.

Scenario B therefore considers a change in the passenger mix, with the growth in passenger numbers associated with changes to APD coming from an equal split of inbound and outbound passengers, with each additional passenger spending an average of £115 in Scotland and generating an additional GVA impact of £66.

This would result in an additional £305.4 million GVA and 9,484 jobs created by 2021 and a net additional benefit to the exchequer of £58.6 million, for all Scottish airports (Table 5).
The Edinburgh Airport share of this would be a GVA benefit of £122.1 million and 3,794 jobs created by 2021 and a net additional benefit to the exchequer of £23.4 million (Table 6).

Table 5 - Scenario B (All Scottish Airports): Equal Split of Inbound & Outbound Passengers

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
</tr>
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<tbody>
<tr>
<td>Additional Passengers</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Additional Passengers (m)</td>
<td>1.50</td>
<td>4.00</td>
<td>4.20</td>
<td>4.40</td>
<td>4.60</td>
</tr>
<tr>
<td>Economic Impact</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Additional spend (£m)</td>
<td>172.2</td>
<td>459.3</td>
<td>482.3</td>
<td>505.2</td>
<td>528.2</td>
</tr>
<tr>
<td>GVA (£m)</td>
<td>99.6</td>
<td>265.5</td>
<td>278.8</td>
<td>292.1</td>
<td>305.4</td>
</tr>
<tr>
<td>Jobs</td>
<td>3,093</td>
<td>8,247</td>
<td>8,659</td>
<td>9,072</td>
<td>9,484</td>
</tr>
<tr>
<td>Exchequer Impact</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>APD Revenue Lost (£m)</td>
<td>0.0</td>
<td>-120.0</td>
<td>-126.0</td>
<td>-132.0</td>
<td>-138.0</td>
</tr>
<tr>
<td>APD Revenue Gained (£m)</td>
<td>24.0</td>
<td>32.0</td>
<td>33.6</td>
<td>35.2</td>
<td>36.8</td>
</tr>
<tr>
<td>VAT Receipts (£m)</td>
<td>28.2</td>
<td>75.3</td>
<td>79.1</td>
<td>82.8</td>
<td>86.6</td>
</tr>
<tr>
<td>Employment Taxes (£m)</td>
<td>4.0</td>
<td>10.7</td>
<td>11.2</td>
<td>11.7</td>
<td>12.3</td>
</tr>
<tr>
<td>Corporation Tax (£m)</td>
<td>2.8</td>
<td>7.5</td>
<td>7.9</td>
<td>8.3</td>
<td>8.7</td>
</tr>
<tr>
<td>Benefits saved (£m)</td>
<td>17.0</td>
<td>45.4</td>
<td>47.7</td>
<td>50.0</td>
<td>52.2</td>
</tr>
<tr>
<td>Net Exchequer Impact (£m)</td>
<td>76.1</td>
<td>50.9</td>
<td>53.5</td>
<td>56.0</td>
<td>58.6</td>
</tr>
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</table>

Source: BIGGAR Economics
Table 6 - Scenario B (Edinburgh Airport): Equal Split of Inbound & Outbound Passengers

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Additional Passengers</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Additional Passengers (m)</td>
<td>0.60</td>
<td>1.60</td>
<td>1.68</td>
<td>1.76</td>
<td>1.84</td>
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<tr>
<td>Economic Impact</td>
<td></td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Additional spend (£m)</td>
<td>68.9</td>
<td>183.7</td>
<td>192.9</td>
<td>202.1</td>
<td>211.3</td>
</tr>
<tr>
<td>GVA (£m)</td>
<td>39.8</td>
<td>106.2</td>
<td>111.5</td>
<td>116.8</td>
<td>122.1</td>
</tr>
<tr>
<td>Jobs</td>
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<td>3,299</td>
<td>3,464</td>
<td>3,629</td>
<td>3,794</td>
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<tr>
<td>Exchequer Impact</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>APD Revenue Lost (£m)</td>
<td>0.0</td>
<td>-48.0</td>
<td>-50.4</td>
<td>-52.8</td>
<td>-55.2</td>
</tr>
<tr>
<td>APD Revenue Gained (£m)</td>
<td>9.6</td>
<td>12.8</td>
<td>13.4</td>
<td>14.1</td>
<td>14.7</td>
</tr>
<tr>
<td>VAT Receipts (£m)</td>
<td>11.3</td>
<td>30.1</td>
<td>31.6</td>
<td>33.1</td>
<td>34.6</td>
</tr>
<tr>
<td>Employment Taxes (£m)</td>
<td>1.6</td>
<td>4.3</td>
<td>4.5</td>
<td>4.7</td>
<td>4.9</td>
</tr>
<tr>
<td>Corporation Tax (£m)</td>
<td>1.1</td>
<td>3.0</td>
<td>3.2</td>
<td>3.3</td>
<td>3.5</td>
</tr>
<tr>
<td>Benefits saved (£m)</td>
<td>6.8</td>
<td>18.2</td>
<td>19.1</td>
<td>20.0</td>
<td>20.9</td>
</tr>
<tr>
<td>Net Exchequer Impact (£m)</td>
<td>30.4</td>
<td>20.4</td>
<td>21.4</td>
<td>22.4</td>
<td>23.4</td>
</tr>
</tbody>
</table>

Source: BiGGAR Economics

6 Summary and Conclusions

Drawing on the evidence from the BiGGAR Economics report on the economic impact of Edinburgh airport, the economic impacts from an increase in passenger numbers associated with a reduction in APD will be positive, as increased expenditure will create jobs and GVA in the tourism economy. The magnitude of this impact will be dependent on the breakdown of additional passengers associated with this tax decrease.

While a reduction in APD would have the effect of decreasing revenues from APD, the growth in passenger numbers and the associated economic impacts would be expected to result in an increase in revenues from a number of other taxes, including VAT, employment taxes (income tax and National Insurance) and corporation tax and savings from benefits that would no longer have to be paid.

Even based on conservative assumption that the passenger mix associated with the growth would be similar to the existing passenger mix at Edinburgh airport, the economic impact associated with an additional 4.6 million passengers by 2021 could be an extra £197.4 million annual GVA in the Scottish economy and 5,932 jobs created and a net additional benefit to the exchequer of £2.8 million.

Recent trends at Edinburgh Airport and expectations based on discussions with airlines, suggest that the passenger mix is likely to change, with a disproportionate increase in international flights, which tend to be associated with higher impact passengers.
If the growth in passenger numbers comes from an equal split of inbound and outbound passengers, the economic impact for the Scottish economy could be £305.4 million annual GVA by 2021 with 9,484 jobs created and a net additional benefit to the exchequer of £58.6 million. Approximately 40% of this benefit is expected to be associated with Edinburgh Airport.

7.0 Air Passenger Duty (APD) – case studies

7.1 IRELAND

The Irish Government abolished APD in April 2014, and as a direct result sparked a major boost in passenger numbers at all Irish airports in 2015, which was a year of record growth for Irish tourism, with traffic rising by 3.3m to 29.8m annual customers.

The Irish government’s removal of traffic tax in April 2014 triggered traffic growth at the country’s airports and an 8% increase in tourism last year while the number of Northern Ireland residents flying from Dublin increased by 52% in the first year.

7.2 NETHERLANDS

In 2008, as a measure designed to ‘green’ the tax system, the Government of the Netherlands implemented an air passenger tax for passengers departing from Dutch airports.

Much the present UK tax the Netherlands had two rates: for destinations in EU member countries, and other destinations located a maximum of 2,500 flight kilometres from the Netherlands, the tax rate was €11.25; for all other destinations the tax rate was €45.00.

Reports from airports across the border in Germany and in Belgium showed that the number of Dutch residents taking flights from those two countries had risen dramatically – giving no net green benefit whatsoever.

A Government study estimated that the tax had cost the Dutch economy some €1.3 billion in lost revenue. The tax was abolished on 1 January 2010 and growth to the tourism industry in the Netherlands has returned.

7.3 NORWAY

Ryanair has just this week confirmed that it will reduce its Norwegian traffic by 50% following confirmation from the Norwegian Government that the 80NOK tax will be introduced on all departing passengers.

Ryanair’s Chief Commercial Officer, David O’Brien said: “This tax will severely damage Norwegian tourism, particularly around regional airports. The Norwegian Government has instantly made Norway uncompetitive and less attractive to airlines and tourists.”
This briefing summarises the background to the Air Departure Tax (Scotland) Bill including the current Air Passenger Duty regime and key elements of the Bill as introduced. The Bill does not set Air Departure Tax rate amounts.

The Finance and Constitution Committee is the lead Committee tasked with scrutinising the Bill.
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EXECUTIVE SUMMARY

The Air Departure Tax (Scotland) Bill was introduced to the Scottish Parliament on 19 December 2016. If passed, the legislation will introduce an Air Departure Tax (ADT) to replace the current UK Air Passenger Duty (APD). The replacement tax will be introduced in April 2018. At the same time, the current APD will be switched off and will cease to operate in Scotland. Much of the purposive effect of the ADT Bill achieves the same outcome as the existing APD legislation. However, tax bands, tax rate amounts and tax exemptions are not covered in the Bill and will be delivered at a later date. This differs significantly from APD exemptions, tax bands and tax rate amounts which are provided for in current primary APD legislation.

The Scottish Government has a commitment to reducing the overall tax burden of ADT (and therefore ADT revenues) by 50% by the end of Session 5. It is currently undertaking a Strategic Environmental Assessment in relation to the environmental impacts of its plan.

A block grant adjustment will be subtracted from the annual block grant to reflect the switch-off of UK APD in Scotland from 1 April 2018 as set out in the fiscal framework.

Revenue Scotland will be responsible for the collection and management of ADT.

The SFC will be responsible for preparing official tax receipt forecasts for ADT for the Draft Budget 2018-19 onwards.

The Finance and Constitution Committee is the lead committee scrutinising the legislation and will begin taking evidence on the Bill, at Stage One, in February. It has issued a call for evidence on the Bill closing on 10 February 2017.
INTRODUCTION

The Air Departure Tax (Scotland) Bill (the “ADT Bill”) was introduced to the Scottish Parliament on 19 December 2016. If passed, the legislation will introduce Air Departure Tax (ADT), a tax levied on aircraft operators on the carriage of “chargeable passengers” on “chargeable aircraft” that fly out from airports in Scotland. The definition of flights, chargeable passengers, aircraft and chargeable aircraft and destination bands are broadly the same as under APD (Scottish Government 2016a) - see the Annexes for more detail.

The Scottish Government will be responsible for ADT policy and legislation, including the setting of rates. The tax will be collected and managed by Revenue Scotland.

ADT will be introduced on 1 April 2018 and will replace the current UK Air Passenger Duty (APD) which will be “switched off” and cease to operate in Scotland. APD will continue to operate in the rest of the UK.

The ADT Bill, as introduced, and the accompanying documents including Policy Memorandum, Explanatory Notes and Financial Memorandum can be accessed at:

http://www.parliament.scot/parliamentarybusiness/Bills/102778.aspx

The Scottish Government ran two consultations on the replacement of APD in relation to the current Bill:

- A consultation on a Scottish replacement to Air Passenger Duty
- A Scottish replacement to Air Passenger Duty - Strategic Environmental Assessment Screening and Scoping Report

The Scottish Parliament Finance and Constitution Committee (“the Finance and Constitution Committee”) is the lead committee scrutinising the legislation and will begin taking evidence on the Bill, at Stage One, in February. It has issued a call for evidence on the Bill closing on 10 February 2017.

This briefing first considers the current APD regime which will be largely replicated for Scotland. It then discusses the devolution of APD to Scotland, the Scottish Government’s consultations on an air passenger tax in Scotland and the Scottish Government’s policy proposals on ADT rates. Finally it covers the ADT Bill in detail.

THE CURRENT APD REGIME

BACKGROUND

APD came into effect on 1 November 1994 and is an excise duty which is levied on the carriage, from a UK airport, of chargeable passengers on chargeable aircraft. The primary law on APD is in the Finance Act 1994, as amended.

The amount due is dependent on the final destination and class of travel of the chargeable passenger – chargeable passengers are those who are not exempt (see Annex 3). APD takes into account where a passenger’s journey starts and ends. “Journey” means the journey from the passenger’s original place of departure to the final place of destination. The original place of departure and the final place of destination mean the places indicated on the ticket(s) (therefore unexpected stops are not taken into account). However, if the journey includes 2 or more
flights, and any of those flights is not followed by a connected flight, then the journey ends where the first flight that is not followed by a connected flight ends.

APD is payable by the operator of the aircraft and collected and managed by Her Majesty’s Revenue and Customs (HMRC). Operators with chargeable aircraft used for the carriage of chargeable passengers must register and make APD returns – chargeable flights are those that are not exempt (see Annex 4).

**APD RATE CATEGORIES AND RATES**

The rates of APD are different for flights originating in Northern Ireland (see Annex 2) and the rest of the UK (rUK). There are 3 rates of APD for each destination band depending on the class of travel: reduced, standard and higher. The higher rate was introduced on 1 April 2013. Table 1 shows the rate categories.

**Table 1  APD rate categories**

<table>
<thead>
<tr>
<th>Reduced</th>
<th>Standard</th>
<th>Higher</th>
</tr>
</thead>
<tbody>
<tr>
<td>Apply where the passengers are carried in the lowest class of travel on any flight unless the seat pitch exceeds 1.016 metres (40 inches), in which case, whether there is one or more than one class of travel the standard rates apply</td>
<td>Apply where passengers are carried in any class of travel other than the lowest or where the seat pitch exceeds 1.016 metres (40 inches), unless the conditions for the higher rate are met.</td>
<td>Applies if passengers are carried on aircraft with an authorised take-off weight of 20 tonnes or more and equipped to carry fewer than 19 passengers</td>
</tr>
</tbody>
</table>

Table 2 shows the rates from 1 April 2017 for flights originating from UK airports, excluding Northern Ireland and the Scottish Highlands and Islands region (see Annex 4).

**Table 2  APD rates from 1 April 2017**

<table>
<thead>
<tr>
<th>Destination Bands</th>
<th>Reduced rate</th>
<th>Standard rate</th>
<th>Higher rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Band A</td>
<td>£13</td>
<td>£26</td>
<td>£78</td>
</tr>
<tr>
<td>Band B</td>
<td>£75</td>
<td>£150</td>
<td>£450</td>
</tr>
</tbody>
</table>

Band A rates remained the same in 2016-17 and 2017-18, whereas Band B rates rose by 2.74% between 2016-17 and 2017-18.

Further details on APD can be found in *Excise Notice 550: Air Passenger Duty* including how airline operators flying chargeable aircrafts should register for APD, payment and penalties.
TRENDS IN UK APD

Figure 1 shows UK APD receipts from 1999-00 to 2015-16.

**Figure 1 APD Receipts (£ million), cash terms, UK, 1999-00 to 2015-16**

In 2015-16 APD raised £3.08 billion in the UK. Figure 2 shows the annual percentage increase in UK APD receipts from 2000-01 to 2015-16.

**Figure 2 Annual increase in APD cash Receipts (%), UK, 2000-01 to 2015-16**

The sharp rises in receipts in 2007-08 and from 2010-11 onwards, and the decrease in 2015-16 have all been related to policy changes including rate, exemption and banding changes (HMRC 2016b). APD were frozen from April 2001 to February 2007 and were then doubled from 1 February 2007 (Seely 2012).

APD receipts are also dependent on passenger numbers. The Office for Budget Responsibility (OBR) showed that the number of air passengers departing from UK airports fell sharply during the late 2000s recession before returning to pre-recession levels in 2015-16 (Figure 3).
APD receipts tend to rise in summer months and fall during winter, other than an upturn in January receipts, reflecting increased travel during December (HMRC 2016b).

**SCOTTISH APD RECEIPTS**

Figure 4 shows APD receipts from 1999-00 to 2015-16 in Scotland, which follow a very similar pattern to APD receipts in the UK as a whole (Figure 1).

**Figure 4 APD Receipts (£ million), cash terms, Scotland, 1999-00 to 2015-16**

In 2015-16 Scottish APD raised £296 million. APD receipts in Scotland rose by just over 260% in cash terms between 1999-00 to 2015-16, compared to just under 250% in the UK as a whole over that period of time.
Figure 5 shows APD receipts from 1999-00 to 2015-16 in Scotland in real terms (2015-16 prices).

**Figure 5 APD Receipts (£ million), real terms (2015-16 prices), Scotland, 1999-00 to 2015-16**

APD receipts in Scotland rose by just over 160% in real terms between 1999-00 to 2015-16 compared to 154% in the UK as a whole.

Figure 6 shows Scotland’s annual percentage share of UK APD receipts from 1990-00 to 2015-16.

**Figure 6 Scottish share of UK APD Receipts (%), 1999-00 to 2015-16**

The Scottish share of UK APD fell from 2007-08 to 2012-13 but has increased steadily in recent years - from 8.2% in 2012-13 to 9.6% in 2015-16.
To estimate Scotland’s share of APD, HMRC uses unpublished data from the Civil Aviation Authority (CAA) on the number of passengers departing from UK airports, with adjustments based on the latest CAA International Air Passenger Route Analysis data and the ONS international passenger survey for the flight band and exemptions for interconnecting passengers.

The Scottish Government also estimates Scottish APD receipts. It uses CAA data but makes slightly different assumptions about the composition of the flight bands and interconnecting passengers (OBR 2016). Table 3 compares HMRC and Scottish Government APD receipts.

Table 3 APD Receipts (£ million), cash terms, Scotland, HMRC and Scottish Government estimates, 1999-00 to 2015-16

<table>
<thead>
<tr>
<th></th>
<th>HMRC</th>
<th>Scottish Government</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999-00</td>
<td>82</td>
<td>77</td>
</tr>
<tr>
<td>2000-01</td>
<td>88</td>
<td>81</td>
</tr>
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<td>2001-02</td>
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<td>2009-10</td>
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<td>2012-13</td>
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<td>2013-14</td>
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<td>270</td>
</tr>
<tr>
<td>2014-15</td>
<td>300</td>
<td>290</td>
</tr>
<tr>
<td>2015-16</td>
<td>296</td>
<td>275</td>
</tr>
</tbody>
</table>

Source: Scottish Government 2016g

HMRC’s estimates tend to be higher, and in 2015-16 HMRC were £21 million or 7.6% higher than the Scottish Government’s.

Using Scottish Government data, Figure 7 shows Scottish APD receipts in 2015-16 in comparison to other tax revenues devolved to Scotland including under the Scotland Act 2016.
APD revenues were a third smaller than LBTT revenues in 2015-16 and 87% higher than Landfill Tax revenues.

DEVOlUTION OF APD

The devolution of APD formed one of the recommendations of the 2009 Calman Commission report *Serving Scotland Better: Scotland and the United Kingdom in the 21st Century*.

In 2014, the *Smith Commission* stated that:

> “the power to charge tax on air passengers leaving Scottish airports will be devolved to the Scottish Parliament. The Scottish Government will be free to make its own arrangements with regard to the design and collection of any replacement tax, including consideration of the environmental impact.” (Smith Commission 2014)

The Smith Commission also recommended that, if a replacement for APD were introduced, the Scottish Government would reimburse the UK Government for any costs incurred in “switching off” APD in Scotland. In addition, a “fair and equitable share of associated administrative costs” would be transferred to the Scottish Government (Smith Commission 2014).

The UK Government Command Paper *Scotland in the United Kingdom: An enduring settlement* specified that “coincident with a new tax being introduced by the Scottish Parliament, the existing APD scheme will no longer apply to such passengers” (UK Government 2015).

Sections 17 and 19 of the Scotland Act 2016 (“the 2016 Act”) devolves to the Scottish Parliament responsibility for taxes charged on the carriage of passengers by air from airports in Scotland. Following the commencement of section 17 of the 2016 Act on 23 May 2016, the Scottish Parliament has had the power to legislate for a tax which will replace APD in Scotland (Scottish Government 2016a).

As part of the legislative measures required to “switch off” APD in Scotland from 1 April 2018, the 2016 Act will (once certain other provisions of that Act are commenced) amend Chapter 4 of Part 1 of the Finance Act 1994 and revokes Air Passenger Duty (Designated Region of the United Kingdom) Order 2001 (S.I. 2001/808).
The Scottish Government announced in its Programme for Government 2016-17 that a Bill would be introduced in the first year of the fifth session of the Scottish Parliament establishing a tax to replace APD in Scotland (Scottish Government 2016d) and the ADT Bill was introduced on 19 December 2016.

CONSULTATIONS ON REPLACING APD

The Scottish Government ran two public consultations in relation to the devolution of APD.

A consultation on a Scottish replacement to Air Passenger Duty sought views on how a new tax replacing APD should be structured and operated, and how it could generate sustainable growth by boosting international connectivity. This included a Screening and Scoping report which set out the likelihood of significant environmental effects and outlined the proposed methodology of the Strategic Environmental Assessment (SEA) to be undertaken. A consultation analysis report and the responses received to the consultation were published (where permission was given) and can be accessed at:

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

The consultation informed the structure of ADT. For instance, in the ADT Bill’s Policy Memorandum, the Scottish Government states it considered but chose not to either incorporate “premium economy” class travel within the definition of the standard tax rate category, or introduce a new tax rate category for premium economy class travel pitched at a level between the standard and premium categories. This had been requested by a number of stakeholders and respondents to the Government’s consultations on the basis that the current tax treatment of premium economy class under UK APD – the standard rate - does not reflect the difference in service and ticket cost between standard economy and premium economy classes (Scottish Government 2016a).

Finally, the option of introducing a “frequent flyer” model was also ruled out on the basis that it was “likely to involve significant additional implementation and on-going costs (for both Revenue Scotland and taxpayers) compared to a tax similar in structure to APD” (Scottish Government 2016a).

The Scottish Government also considered the application of a tax on a per-plane charging model outwith the competence of the powers devolved to the Scottish Parliament in the Scotland Act 2016 amending section 80L of the Scotland Act 1998: “A tax charged on the carriage of passengers by air from airports in Scotland is a devolved tax.”

The Scottish Government ran a second consultation: a Scottish replacement to Air Passenger Duty - Strategic Environmental Assessment Screening and Scoping Report which set out and sought views on the proposed scope and methodology of the APD Strategic Environmental Assessment.

In addition, the Scottish Government has convened a stakeholder forum “to provide expert input into the development of policy and legislative proposals for ADT” (Scottish Government 2016d). Membership includes airlines, airports, travel organisations, business representatives, tax accountancy and legal professional bodies and environmental organisations. Papers and notes from the forum can be accessed at:

The Scottish Government views APD as “an increasing burden on airports, airlines and passengers which holds back air route development” (Scottish Government 2016a & 2016c).

In Scotland’s Economic Strategy published in March 2015, the Scottish Government stated that the devolution of APD:

“will enable the Scottish Government to design a replacement tax which better supports our objective to improve connectivity.” (Scottish Government 2015a)

In a Scottish replacement to Air Passenger Duty - Strategic Environmental Assessment Screening and Scoping Report, the Scottish Government specifically sought views on how a replacement to APD could best achieve the following objective:

“generating sustainable growth by boosting Scotland’s international air connectivity.” (Scottish Government 2016b)

The Policy Memorandum to the ADT Bill states that:

“…the Scottish Government will design and structure ADT in a way which boosts Scotland’s air connectivity and economic competitiveness, encouraging the establishment of new routes which will enhance business connectivity and tourism. The Scottish Government is also keen to create an environment which encourages airlines to base more aircraft in Scotland, which not only creates new routes but creates new jobs, including flight crew, cabin crew, engineering and ancillary support roles. Scotland’s airports are competing on a world stage to secure new routes and capacity. Cutting the tax burden helps ensure a more level playing field with many other European airports competing to secure the same airlines and similar routes.” (Scottish Government 2016a)

The Business and Regulatory Impact Assessment (BRIA) and Policy Memorandum further note in relation to ADT that:

“Internationalisation is one of the four priorities for sustainable growth which underpins [Scotland’s Economic Strategy].” (Scottish Government 2016a & 2016c)

The Scottish Government has a commitment to reducing the overall tax burden of ADT (and therefore ADT revenues) by 50% by the end of Session 5. The Policy Memorandum of the Bill states:

“A fundamental part of the Scottish Government’s plans for ADT is a commitment to a 50% reduction in the overall tax burden by the end of the fifth session of the Scottish Parliament, starting to implement that reduction in 1 April 2018 when it is proposed that the tax will come into effect, and also abolishing the tax when resources allow. This would help to generate new direct air routes, sustain existing routes and increase inbound tourism.” (Scottish Government 2016a)

The Scottish Government is currently undertaking a SEA in relation to the environmental impacts of its plan and has already carried out the statutory consultation with the three consultation authorities (Scottish Natural Heritage, Historic Environment Scotland and the Scottish Environment Protection Agency) (Scottish Government 2016a).
Section 1(1)(b)(i) of the Environmental Assessment (Scotland) Act 2005 requires that a consultation be carried out before a public plan or programme which falls within the scope of that Act is submitted to a legislative procedure for adoption.

SCOTTISH GOVERNMENT POLICY OBJECTIVES

ADT BILL

PRINCIPLES OF LEGISLATION

In 2012, then Finance Secretary John Swinney set out the Scottish Government’s four principles that would underpin its proposals for the future of taxation in Scotland. These are based on Adam Smith’s four maxims with regard to taxes, set out in Inquiry into the nature and causes of the Wealth of Nations (Smith, 1776), and are:

- Be proportionate to the ability to pay.
- Provide certainty to the taxpayer.
- Provide convenience / ease of payment.
- Be efficient.

In the Scottish Parliament Finance Committee’s inquiry A Scottish approach to taxation, a joint written submission from the Association of Taxation Technicians (ATT), the Chartered Institute of Taxation (CIOT) and the Low incomes Tax Reform Group (LITRG) summarised the views of 165 of their members, including whether each individual tax aligned with each tax principle. Table 4 shows the percentage of responses that stated APD was in line with each principle.

Table 4 ATT, CIOT and LITRG surveyed members’ views on the alignment of ADT with each tax principle

<table>
<thead>
<tr>
<th>Principle</th>
<th>Ability to pay</th>
<th>Certainty</th>
<th>Convenience</th>
<th>Efficiency</th>
</tr>
</thead>
<tbody>
<tr>
<td>% respondents who say APD aligns with principle</td>
<td>22%</td>
<td>53%</td>
<td>64%</td>
<td>41%</td>
</tr>
</tbody>
</table>

Source: Scottish Parliament 2016a

Aberdeen City Council is one of few other respondents to the written for evidence who also assessed APD against the principles. Their views are summarised in Table 5.

Table 5 Aberdeen City Council’s view on APD in relation to each tax principle

<table>
<thead>
<tr>
<th>Principle</th>
<th>Proportionate to ability to pay?</th>
<th>Certainty to taxpayer?</th>
<th>Ease of payment?</th>
<th>Efficient?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Comment</td>
<td>Progressive to the extent that lower classes of travel are set at lower rates of tax.</td>
<td>Tax rates clearly defined in advance, and included in total cost of flights.</td>
<td>Included within booking cost of travel.</td>
<td>Yes</td>
</tr>
</tbody>
</table>

Source: Scottish Parliament 2016a
Furthermore, three respondents to the inquiry including the Law Society cautioned against using much of existing UK tax legislation as a basis for Scottish law. Alan Barr wrote:

“In my view, a significant amount of perceived problems already becoming evident in Scottish tax law derives from accepting what might be seen as an old fashioned form of drafting tax legislation deriving from Westminster. Our most significant piece of substantive tax legislation, the Land and Buildings Transaction Tax (Scotland) Act 2013, involved utilising unchanged a considerable proportion of the analogous stamp duty land tax legislation. The same applies to significant amounts of the Revenue Scotland and Tax Powers Act 2014.” (Scottish Parliament 2016)

While the structure and layout of the provisions of the ADT Bill differ from the sections of the Finance Act 1994 that cover APD, ADT and APD are very similar in practice, reflecting a similar legislative underpinning in most areas.

ADT BILL PROVISIONS

Coverage of the Bill

The Bill comprises 42 sections and three schedules. The sections are arranged in five Parts:

- Part 1 establishes ADT.
- Part 2 deals with the key concepts underlying the tax including the meaning of chargeable passengers and chargeable aircraft.
- Part 3 sets out the tax rates structure, and provides for tax bands and tax rate amounts to be set by regulations.
- Part 4 provides for the payment, collection and management of ADT.
- Part 5 makes further provisions, including in relation to subordinate legislation.

Schedule 1 of the Bill sets out the rules for determining which flights are to be treated as connected for ADT purposes. Schedule 2 sets out a number of consequential and technical amendments to the RSTPA 2014. Schedule 3 provides an index of all terms and expressions that are defined or otherwise explained in the Bill.

Much of the purposive effect of the ADT Bill achieves the same outcome as the existing APD legislation, although the structure and layout of the provisions are different. Most of the key differences between APD and ADT relate to the collection and management of the tax. The core structure of the taxes are similar, reflecting the views of the majority of the respondents to the Scottish Government's consultation.

This briefing does not describe each part of the bill in detail as this is covered in the accompanying documents of the Bill. It picks out the major differences between APD and ADT such as tax management and collection, and legal treatment of exemptions. At the outset, it is worth noting that:

- Tax bands, tax rate amounts and tax exemptions are not covered in the Bill.
- Detail on passenger exemptions, aircraft exemptions, tax bands and tax rate amounts will be delivered at a later date. Exemptions, tax bands and tax rate amounts are provided for in current primary APD legislation.
Tax bands and tax rate amounts (Section 10)

Section 10 makes provision for the Scottish Government to set the rates and bands and change the structure of the tax. Setting tax bands and tax rate amounts in subordinate legislation is consistent with the approach so far adopted in relation to other devolved taxes in Scotland.

Regulations defining tax bands and setting tax rate amounts will be subject to the affirmative procedure. This means they require the approval of the Parliament to allow the provisions to come into force or to remain in force.

Payment arrangements (Part 4)

Revenue Scotland

Revenue Scotland will be responsible for the collection and management of ADT. The Revenue Scotland and Tax Powers Act 2014 (“the RSTPA 2014”) provides for Revenue Scotland’s general and particular functions, sets out the process for issuing penalties in respect of non-compliant behaviour, contains provisions for debt enforcement and provides for the establishment of the Scottish Tax Tribunals to hear appeals against devolved taxes including ADT. Revenue Scotland has been responsible for collecting and managing Land and Buildings Transaction Tax (LBTT) and Scottish Landfill Tax since these taxes came into effect in Scotland on 1 April 2015.

The proposed legislative framework for the collection and management of ADT is Part 4 of the ADT Bill and the Revenue Scotland and Tax Powers Act 2014, as amended by schedule 2 of the ADT Bill.

The ADT Bill states that chargeable operators must register with Revenue Scotland no later than 30 days after the relevant flight takes off. APD returns are currently made on a standard monthly frequency to HRMC whereas the ADT Bill requires that ADT returns be made on a quarterly basis (with exceptions for operators with an estimated ADT liability of less than £5,000 per year who can make returns on a flight-by-flight basis) (Revenue Scotland 2017). The standard quarterly accounting periods cover 1 January to 31 March, 1 April to 30 June, 1 July to 30 September and 1 October to 31 December.

Revenue Scotland intends to use a wholly online system to collect and manage the tax, and will develop a portal for ADT for these purposes (Revenue Scotland 2017).

As with APD, the ADT Bill allows taxable persons to apply to Revenue Scotland to use a special accounting scheme for the purposes of completing the tax return (for instance, if the taxable person has encountered, or expects to encounter, difficulties in obtaining or recording information about passengers and their agreements for carriage). An administrative representative can be appointed to only be responsible for keeping and preserving records on behalf of the operator in relation to APD.

Tax representatives

Currently, the UK Government require that operators without a fixed base in the UK and who are liable to register for APD appoint a UK-based tax representative. A fiscal representative is responsible for ensuring that an operator meets all its obligations and discharges all liabilities in relation to APD.

Under ADT, aircraft operators without a business or fixed establishment in an EEA State (unless they are only making occasional tax returns) must appoint a tax representative (Scottish Government 2016a).
Exemptions

The ADT Bill does not identify any exemptions for ADT but includes a regulation-making power under which passenger and aircraft exemptions may be made. The Policy Memorandum states that:

- The detail on exemptions, tax bands and tax rate amounts will be delivered at a later date.
- It is not expected that island communities will be adversely affected by the tax compared to other communities in Scotland (Scottish Government 2016a).

This is a notable difference from APD legislation where Sections 29A (chargeable aircraft exceptions) and Section 31 (chargeable passenger exceptions) of the Finance Act 1994 set out APD tax exemptions. This also differs from the LBTT (Scotland) Act 2013 which lays out exemption for LBTT within the primary legislation.

ADT AND THE FISCAL FRAMEWORK

Paragraph 26 of the agreement between the Scottish Government and the United Kingdom Government on the Scottish Government’s fiscal framework (“the fiscal framework”) states that APD will be devolved in April 2018 (UK Government 2016a).

An annual adjustment will be made to the block grant to account for the loss of revenues to HM Treasury from ADT in Scotland from 2018-19 onwards. This involves:

- A “baseline adjustment” that will be used to calculate the block grant adjustment (BGA) the first year of devolution (“Year 1”).
- An indexation mechanism will be used to calculate the BGA for subsequent years. The purpose of the indexation mechanism is to provide a measure of the rate at which comparable revenues have grown in rUK between any two years.

The baseline adjustment will be equal to APD revenues in Scotland in the year prior to devolution, 2017-18 (“Year 0”). The Scottish Government\(^1\) and HMRC both have different methodologies to calculate APD revenues in Scotland, though both are based on an apportionment of a share of UK APD revenues to Scotland. The baseline adjustment will equal the average of both their estimates. Initially, the estimates will be based on forecast receipts. This will be reconciled to outturn based on outturn UK receipts.

Each year’s BGA in relation to APD will be indexed to the previous year’s BGA using the change in APD receipts in the rest of the UK (rUK). This will provide a proxy for what APD revenues in Scotland would theoretically have been if APD had not been devolved and if APD revenues in Scotland followed the same trajectory as UK APD revenues.

During a transitional period up to and including 2021-22, two formulas will be used to calculate the BGA each year. These formulas are referred to as the “Indexed Per Capita” (IPC) method and the “Comparable Model (Scotland’s share)” (“the Comparable Model”). They differ in the way that they treat differences in relative population growth between Scotland and rUK. The Scottish budget would “lose out” from relatively slower population growth which is not the case with the IPC model. If there is a difference between the two, the result of the calculation using the IPC model will be used.

The IPC model calculates adjustments to the block grant as follows:

\(^1\) As laid out in Government Expenditure and Revenue Scotland.
Percentage change in the equivalent UK Government tax receipts per head \times \text{Scottish population growth} 

The Comparable Model calculates adjustments to the block grant as follows:

| Changes in UK Government revenues from tax devolved to the Scottish Parliament | \times | Scotland’s population share | \times | Comparability factor |
|---|---|---|---|

The comparability factor is Scotland’s APD revenues per head as a share of the average APD revenues per head in rUK in Year 0. It will initially be based on a forecast, but will be revised to reflect outturn figures in Year 0, and will subsequently be revised following any devolution of corresponding tax revenues to another administration within the UK, for example the devolution of Stamp Duty Land Tax and Landfill Tax to the Welsh Assembly (UK Government 2016b).

**FINANCIAL MEMORANDUM**

The Financial Memorandum (FM) accompanying the Bill sets out the anticipated costs relating to the introduction of ADT within three categories:

- Costs for the Scottish Administration
- Costs for Local Authorities and other public sector bodies
- Costs on other bodies, individuals and businesses

Table 6 summarises the costs expected to arise from the ADT Bill.

**Table 6 Summary of costs (£) expected to arise from the ADT Bill**

<table>
<thead>
<tr>
<th>Set-up costs</th>
<th>Annual running costs</th>
<th>Tax revenue 2018-19</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue Scotland</td>
<td>1,455,000</td>
<td>555,000</td>
</tr>
<tr>
<td>Scottish Fiscal Commission</td>
<td>75,000</td>
<td>55,000</td>
</tr>
<tr>
<td>Scottish Government</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Local Authorities</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Aircraft Operators(^2)</td>
<td>-</td>
<td>75,000</td>
</tr>
</tbody>
</table>

\(^2\) This is the total estimated cost to the industry is estimated at £75,000 assuming that the annual administrative cost per aircraft operator is £745 and there are 100 aircraft operators.
COSTS ON THE SCOTTISH ADMINISTRATION

In respect of the Scottish Administration, three areas are covered by the FM:

- Tax administration costs – Revenue Scotland
- Forecasting ADT receipts – the Scottish Fiscal Commission (SFC)
- ADT receipts

Revenue Scotland

Set-up costs

Set-up costs are those estimated to be incurred during the development of a business case and establishment and management of the programme from April 2016 to 1 April 2018. These do not include the costs of legislating to bring ADT into existence. This is consistent with FMs of other bills introducing new taxes.

Under the terms of the fiscal framework, the Scottish Government will reimburse the UK Government for any net additional costs wholly and necessarily incurred in “switching off” APD in Scotland. The FM states HMRC has confirmed that there are no net additional costs in switching off APD (Scottish Government 2016f).

The total set-up costs cover the period from 1 April 2016 to 1 April 2018 and are summarised in Table 7.

Table 7 Revenue Scotland set-up costs (£ ‘000s)

<table>
<thead>
<tr>
<th></th>
<th>2017-18</th>
<th>2018-19</th>
<th>Total Set-up costs</th>
<th>Further information</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Staff costs</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Programme</td>
<td>130</td>
<td>630</td>
<td>760</td>
<td>1.75 full-time equivalents (FTE) in 2016-17 10.25 FTE in 2017-18</td>
</tr>
<tr>
<td>Operations</td>
<td>80</td>
<td>270</td>
<td>350</td>
<td>1.25 FTE in 2016-17 5.75 FTE in 2017-18</td>
</tr>
<tr>
<td><strong>Non-salary costs</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Programme</td>
<td>35</td>
<td>65</td>
<td>100</td>
<td>Includes training, office equipment etc.</td>
</tr>
<tr>
<td>Operations</td>
<td>25</td>
<td>65</td>
<td>90</td>
<td></td>
</tr>
<tr>
<td>Other costs</td>
<td>10</td>
<td>25</td>
<td>35</td>
<td>Includes Gateway Reviews, stakeholder events, travel and subsistence etc.</td>
</tr>
<tr>
<td>IT costs</td>
<td>-</td>
<td>120</td>
<td>120</td>
<td>Development of new ADT module on Revenue Scotland’s existing tax collection system</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>280</td>
<td>1,175</td>
<td>1,455</td>
<td></td>
</tr>
</tbody>
</table>

Source: Scottish Government 2016f
Total set-up costs are expected to be £1.46 million. In comparison, the estimated set-up costs £1.66 million for the Scottish Environment Protection Agency in relation to the Scottish Landfill Tax (Burnside & Barlow 2013) and £1.66 million for Revenue Scotland in relation to Land and Buildings Transaction Tax.

**Annual running costs**

Table 8 sets out the costs to collect and manage the tax in the first year, 2018-19.

**Table 8 Revenue Scotland annual running costs (£ ‘000s)**

<table>
<thead>
<tr>
<th></th>
<th>2018-19</th>
<th>Further information</th>
</tr>
</thead>
<tbody>
<tr>
<td>Staff costs</td>
<td>450</td>
<td>9.75 FTE</td>
</tr>
<tr>
<td>Non-salary costs</td>
<td>60</td>
<td>Includes travel and subsistence, training, office equipment etc.</td>
</tr>
<tr>
<td>Other costs</td>
<td>25</td>
<td>Includes travel and subsistence, stakeholder events etc.</td>
</tr>
<tr>
<td>IT costs</td>
<td>20</td>
<td>Estimated running costs for new ADT module on Revenue Scotland's existing tax collection system</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>555</td>
<td></td>
</tr>
</tbody>
</table>

Source: Scottish Government 2016f

Annual running costs as set out in Table 8 are estimated at £555 million. In comparison, estimated annual running costs for Scottish Landfill Tax were £300,000 (Burnside & Barlow 2013) and £740 million for LBTT (Hudson & Evans 2013). The FM states that there will be additional costs to those in Table 8 for 2018-19, comprising staff costs of closing down the programme after the introduction of tax (£125,000, 1.75 FTE) and the associated non-staff costs (£20,000). This means that the total costs for ADT in 2018-19 are estimated at £700,000.

**Scottish Fiscal Commission**

The SFC will be responsible for preparing official tax receipt forecasts for ADT for the Draft Budget 2018-19 onwards.

**Set-up costs**

Table 9 shows estimated set-up costs for the SFC in 2017-18 in preparation for forecasting ADT revenues from 2018-19 onwards as set out in the FM.

**Table 9 SFC set-up costs (£ ‘000s)**

<table>
<thead>
<tr>
<th></th>
<th>2017-18</th>
<th>Further information</th>
</tr>
</thead>
<tbody>
<tr>
<td>Staff costs</td>
<td>66</td>
<td>Based on 0.75 FTE B3 and 0.4 FTE C1</td>
</tr>
<tr>
<td>Non-salary costs</td>
<td>10</td>
<td>Based on 5% of SFC projected total non-staff costs Includes travel and subsistence, training, office equipment etc.</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>75</td>
<td></td>
</tr>
</tbody>
</table>
Annual running costs

Table 10 shows estimated SFC running costs for the first year of ADT.

Table 10 SFC annual running costs (£ ‘000s)

<table>
<thead>
<tr>
<th></th>
<th>2018-19</th>
<th>Further information</th>
</tr>
</thead>
<tbody>
<tr>
<td>Staff costs</td>
<td>45</td>
<td>Based on 0.75 FTE B3 and 0.4 FTE C1</td>
</tr>
<tr>
<td>Non-salary costs</td>
<td>10</td>
<td>Based on 5% of SFC projected total non-staff costs</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Includes travel and subsistence, training,</td>
</tr>
<tr>
<td></td>
<td></td>
<td>office equipment etc.</td>
</tr>
<tr>
<td>Total</td>
<td>55</td>
<td></td>
</tr>
</tbody>
</table>

FORECASTING RECEIPTS AND THE SCOTTISH BUDGET

As explained in the section on ADT and the fiscal framework, a BGA will be subtracted from the annual block grant to reflect the switch-off of UK APD in Scotland from 1 April 2018. The BGA is not discussed in the FM.

All costs detailed in the FM are based on a scenario whereby the tax banding and tax rate structure, exemptions and tax rate amounts for ADT are similar to those under APD (Scottish Government 2016f).

The Office for Budget Responsibility (OBR) has forecast APD revenues in Scotland from 2018-19 to 2020-21 (Figure 8). This assumes the share of APD revenue raised in Scotland remains the same throughout the forecast period. The share of APD revenue raised in Scotland was estimated by using the mid-point between the 2015-16 estimates presented by HMRC (9.6%) and the Scottish Government (9.1%) in the Scottish Government's Government Expenditure and Revenue Scotland (“GERS”) publication.

HMRC estimated that 2015-16 outturn was £296 million and the Scottish Government's estimate presented in GERS is £275 million. The OBR forecast uses a baseline centred on the average of these two estimates and should be interpreted accordingly.

Figure 8 OBR forecast for Scottish APD revenues (£ million). 2018-19 to 2021-22

Source: OBR 2016
Table 11 shows the annual change in Scottish APD revenues from 2017-18 to 2021-22.

### Table 11 Annual percentage growth (%) in APD forecast revenues, 2017-18 to 2021-22

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>3.6%</td>
<td>4.2%</td>
<td>4.9%</td>
<td>5.3%</td>
<td>5.0%</td>
</tr>
</tbody>
</table>

The OBR assumes that:

- The change in passenger numbers is correlated with GDP growth.\(^3\)
- The tax rate amount rises in line with the Retail Prices Index forecast (OBR 2016).

The OBR’s forecast includes a separate adjustment in the model for the increasing trend over time in the share of passengers using low-cost operators.

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\(^3\) Historically, receipts as a proportion of GDP have generally followed nominal receipts (HMRC 2016b).
ANNEXES

ANNEX 1 – APD DEFINITIONS

The definitions covered below are broadly the same for APD and ADT. Only rate categories differ between APD and ADT: the reduced, standard and higher categories (Table 1) in APD are called standard, premium and special under ADT.

Chargeable passengers

Since 1 April 2013 a “chargeable passenger” is anyone carried on a chargeable aircraft who is not covered by an exemption, irrespective of whether the passenger has paid for their transport or not (see Annex 3 for APD exemptions).

Chargeable aircraft and flights

Chargeable aircraft, unless otherwise specified, are fixed-wing aircrafts designed or adapted to carry passengers, with a maximum take-off weight of 5.7 tonnes or more and which are fuelled by kerosene (see Annex 4 for exemptions). This excludes helicopters and fixed-winged aircrafts not designed or equipped to carry passengers.

Chargeable aircrafts which are used for the carriage of chargeable passengers from any UK airport, including Northern Ireland (even if these are direct long haul flights from Northern Ireland – see below) must register for APD. Aircrafts that are not chargeable include (see Annex 2 for more details):

- Emergency/Public Service flights such as military and search and rescue flights.
- Short pleasure flights (under 60 minutes).
- Flights from airports in the Scottish Highlands and Islands.
- NATO flights.

If the first flight of a connected journey is made on a non-chargeable aircraft, then the whole journey is exempt from APD.

Destinations

Destinations under APD are split into different bands based on the distance of a country/territory’s capital city from London. The exception is the Russian Federation, which is split east and west of the Urals.

Until 31 March 2015 there were 4 destination bands (A, B, C and D). Since 1 April 2015 there have only been 2 bands as bands B, C and D were merged into a single band B. Band A remained the same.

Band A (Table 12) covers destinations where the destination country/territory’s capital city is 0 to 2,000 miles from London. Band B (Table 13) covers destinations where the destination country/territory’s capital city is over 2,000 miles away from London. Flights that do not leave the UK are always band A.
<table>
<thead>
<tr>
<th>Country/Territory</th>
<th>Capital City</th>
</tr>
</thead>
<tbody>
<tr>
<td>Albania</td>
<td>Tirana</td>
</tr>
<tr>
<td>Algeria</td>
<td>Algiers</td>
</tr>
<tr>
<td>Andorra</td>
<td>Andorra la Vella</td>
</tr>
<tr>
<td>Austria</td>
<td>Vienna</td>
</tr>
<tr>
<td>Belarus</td>
<td>Minsk</td>
</tr>
<tr>
<td>Belgium</td>
<td>Brussels</td>
</tr>
<tr>
<td>Bosnia and Herzegovina</td>
<td>Sarajevo</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>Sofia</td>
</tr>
<tr>
<td>Corsica</td>
<td>Ajaccio</td>
</tr>
<tr>
<td>Croatia</td>
<td>Zagreb</td>
</tr>
<tr>
<td>Cyprus</td>
<td>Nicosia</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>Prague</td>
</tr>
<tr>
<td>Denmark</td>
<td>Copenhagen</td>
</tr>
<tr>
<td>Estonia</td>
<td>Tallinn</td>
</tr>
<tr>
<td>Faroe Islands</td>
<td>Torshavn</td>
</tr>
<tr>
<td>Finland</td>
<td>Helsinki</td>
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<tr>
<td>France</td>
<td>Paris</td>
</tr>
<tr>
<td>Germany</td>
<td>Berlin</td>
</tr>
<tr>
<td>Gibraltar</td>
<td>Gibraltar</td>
</tr>
<tr>
<td>Greece</td>
<td>Athens</td>
</tr>
<tr>
<td>Greenland</td>
<td>Nuuk</td>
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<tr>
<td>Hungary</td>
<td>Budapest</td>
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<td>Iceland</td>
<td>Reykjavik</td>
</tr>
<tr>
<td>Ireland</td>
<td>Dublin</td>
</tr>
<tr>
<td>Isle of Man</td>
<td>Douglas</td>
</tr>
<tr>
<td>Italy</td>
<td>Rome</td>
</tr>
<tr>
<td>Kosovo</td>
<td>Pristina</td>
</tr>
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<td>Latvia</td>
<td>Riga</td>
</tr>
<tr>
<td>Libya</td>
<td>Tripoli</td>
</tr>
<tr>
<td>Liechtenstein</td>
<td>Vaduz</td>
</tr>
<tr>
<td>Lithuania</td>
<td>Vilnius</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>Luxembourg</td>
</tr>
<tr>
<td>Macedonia</td>
<td>Skopje</td>
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### Table 12 APD Band B destinations

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<tr>
<th>Country/Territory</th>
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<tr>
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<td>Vietnam</td>
<td>Hanoi</td>
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</table>
ANNEX 2 - APD IN NORTHERN IRELAND

Flights originating from Northern Ireland are treated differently from rUK since the power to set APD rates on “direct long-haul flights” departing from airports in Northern Ireland was devolved to the Northern Ireland Assembly (NIA) in the Finance Act 2012. A flight is a direct long-haul flight if:

- The passenger’s journey begins from an airport in Northern Ireland.
- The first part of the journey is to a destination outside Band A.
- That part of the journey is direct and does not connect elsewhere beforehand.

If these conditions are met, connections beyond the first part of the also attract the devolved rate.

With effect from 1 January 2013, the NIA have set rates for direct flights at nil. Table 14 shows APD rates for flights originating from Northern Ireland from 1 April 2017.

Table 13 Northern Ireland APD rates from 1 April 2017

<table>
<thead>
<tr>
<th>Destination Bands</th>
<th>Rates (reduced/standard/higher)</th>
</tr>
</thead>
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<tr>
<td></td>
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<td>Band A</td>
<td>£13/  £26/  £78</td>
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<tr>
<td>Band B</td>
<td>£0/ £0/ £0</td>
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</tbody>
</table>

ANNEX 3 PASSENGERS EXEMPT FROM APD

Passenger exemptions include:

- Persons carrying out certain duties e.g. pilots.
- Children under the age of 16.
- Passengers carried under statutory duties e.g. Civil Aviation Authority flight operations inspectors.
- Passengers on connecting flights may be exempt from APD depending on the origin and destination of the flights, and the nature of the connection.

Persons carrying out certain duties

These are:

- Flight crew.
- Cabin attendants.
- Persons not carried for reward who are:
  - Escorting a passenger or goods.
Undertaking repair, maintenance, safety or security work.
Ensuring the hygienic preparation and handling of food and drink.

These people are also exempt if they carry out the above duties within 72 hours of the flight ending. The same exemption applies to people who begin a return journey within 72 hours after performing any of the above duties provided that they are returning to base, that is the place where they are normally stationed or from where they normally operate.

**Children**

Children below the age of 2 years who are not allocated a separate seat before boarding the aircraft are not chargeable passengers. If a seat is purchased for the infant then APD is chargeable.

In addition, since 1 March 2016 children who are under the age of 16 years on the date of the flight, and in the lowest class of travel, are not chargeable passengers. Children 16 years and over years, or travelling in any other class, are chargeable passengers and APD is due.

**Passengers carried under a statutory obligation**

APD is not due on the carriage of passengers who are carried free of charge under a statutory obligation (for example persons refused admission to the UK and required to be repatriated at the airlines expense) or to inspect aircraft or crew (for example Civil Aviation Authority flight operations inspectors).

**Transit passengers**

Any APD liability applies to the journey as a whole. When an aircraft makes a stop ‘en route’ and passengers do not change aircraft then no additional duty becomes due for the leg of the journey immediately after the stop.

**Passengers on connecting flights**

Connected flights are treated as “one journey” and APD is charged according to a passenger’s final destination irrespective of the number of flights that they take to reach this, provided the flights are connected. If the first flight of a connected journey is made on a non-chargeable aircraft, then the whole journey is exempt from APD. Rules differ according to:

- Whether the first flight is international or domestic.
- Whether the second flight is international or domestic.
- What time of day it is when the planes land/take off.
- The duration between two flights.
- The nature of the plane tickets.
ANNEX 4 FLIGHTS EXEMPT FROM AP

Emergency/Public Service flights

The following flights are excluded from APD:

- Aircraft whose operation is related to military flights performed by military aircraft, police, customs, search and rescue flights.
- Humanitarian flights and authorised emergency medical service flights.
- Flights operated under a public service obligation.
- Flights operated for research and training purposes.

Short pleasure flights

Passengers carried on flights which are intended to be of 60 minutes duration or less, including taxiing time, and which begin and end at the same aerodrome or airport are not chargeable passengers.

Scottish Highlands and Islands

Passengers carried on flights departing from airports in the Scottish Highlands and Islands region are not chargeable passengers. This is defined as:

- The Highland Region, Western Isles Islands 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

Table 15 shows the main airports in the Scottish Highlands and Islands.

**Table 14 Main airports and airfields in Scottish Highlands and Islands**

<table>
<thead>
<tr>
<th>Airport/airfield</th>
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<tr>
<td>Barra</td>
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<td>Campbeltown</td>
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<td>Dounreay</td>
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<td>Fetlar</td>
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<td>Hoy</td>
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<td>Isle of Skye</td>
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<td>Unst</td>
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<td>Wick</td>
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<td>Dornoch</td>
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<td>Eday</td>
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<tr>
<td>Glen Forsa</td>
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<tr>
<td>Inverness</td>
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</tbody>
</table>
This list may not be exhaustive.

Passengers carried on flights from other areas of the UK to airports in this region are chargeable passengers and subject to APD at the appropriate rate.

**Circumstances beyond the control of the airline**

If the flight details or destination changes, for example due to bad weather or mechanical failure, the liability remains the same as if the original planned event had taken place.

Malfunctioning of an aircraft or bad weather may result in passengers being transferred to another aircraft, not necessarily operated by the same airline in which case any APD liability is chargeable to the new operator.

**NATO flights**

NATO visiting forces and NATO International Military Headquarters (IMHQ) are relieved from duties under an extra-statutory concession. APD is not due on flights made for official purposes by members of a NATO visiting force or members of a NATO IMHQ.
SOURCES


Revenue Scotland (2017), Air Departure Tax FAQs. Revenue Scotland website. Available at - https://www.revenue.scot/air-departure-tax-faqs


Scottish Government (2016f) Air Departure Tax (Scotland) Financial Memorandum. Available at -

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