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Finance and Local Government
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airson Ionmhas agus Riaghaltas Ionadail
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Clare Haughey
Finance and Public Administration Committee
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6th October 2026

Dear Clare,

As you will be aware, Air Departure Tax (ADT) will replace UK Air Passenger Duty (APD) in Scotland from 1 April 2027.

In line with the Fiscal Framework Agreement, a Block Grant Adjustment (BGA) will be applied to the Scottish Budget to reflect that the UK Government will no longer collect APD revenues in Scotland.

Both governments have worked together constructively on agreeing the methodology for the ADT BGA baseline and I am pleased to confirm that we have reached a mutually acceptable position.

The Scottish and UK Governments have agreed that the best approach to setting the baseline is to use the outturn data from the first year of ADT (2027-28). This is in line with the approach taken when setting the Scottish Income Tax and Scottish Aggregates Tax BGAs. This will involve:

- initially setting the BGA for 2027-28 using the Scottish Fiscal Commission's latest forecast of ADT revenues;
- reconciling forecast revenues to outturn data of ADT receipts in 2027-28 (once available); and
- a deduction from the baseline to account for changes the Scottish Government is making to the Highlands and Islands exemption to comply with the UK Government's Subsidy Control regime.

The agreement takes a different approach to what is envisaged in the Fiscal Framework agreement, wherein the baseline for a BGA is normally based on outturn data in the year prior to devolution. Divergence from this approach is required as HMRC does not collect APD data at a country or airport level, which means that disaggregated data is not available for the year prior to the implementation of ADT (2026-27).

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This approach will require ADT and APD policy alignment in 2027-28 as far as is possible to provide an accurate baseline. The Scottish Government's commitment to matching APD rates and bands in Year 1, which was announced at the 2026-27 Scottish Budget in January 2026, will help to achieve this. However, the Scottish Government must make a policy change in 2027-28 to the Highlands and Islands exemption to ensure compliance with the UK Government's Subsidy Control Act 2022.

While the existing APD Highlands and Islands exemption applies to the carriage of all passengers departing from airports in the Highlands and Islands region (including international passengers), the ADT Highlands and Islands exemption will apply to:

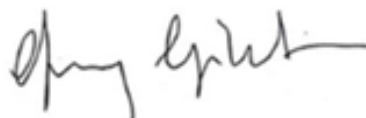
- i. the carriage of passengers on flights which begin at an airport in the Highlands and Islands region and where the final destination is an airport in the UK; and
- ii. the carriage of passengers on flights which begin at any Scottish airport and where the final destination is an airport in the Highlands and Islands region.

As the UK Government has not collected any revenues from the carriage of passengers to international destinations on flights from airports in the Highlands and Islands since 2001, setting the BGA baseline based on 2027-28 outturn data alone would artificially inflate Scotland's share of APD revenues by around £5 million to the disadvantage the Scottish Government. A commensurate reduction has therefore been agreed between the Scottish and UK Governments to the forecast and outturn BGA baseline to account for these additional revenues.

My officials will implement this approach ahead of ADT implementation, and arrangements will then be made to incorporate this methodology into the regular BGA cycle.

The Chief Secretary to the Treasury has also agreed in principle that the relevant provisions of the Scotland Act 2016 which disapply APD in Scotland will be brought into force by regulations laid by HM Treasury in the UK Parliament.

The Committee will be aware that the *Air Departure Tax (Scotland) Amendment Regulations 2026*, and the *Air Departure Tax (Administration) (Scotland) Amendment Regulations 2026* were laid on 18 September 2026. Further secondary legislation will follow in due course to support the successful implementation of ADT. I look forward to giving evidence to the Committee on these regulations on Wednesday 7 October 2026.



JENNY GILRUTH

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