

## **Report to Partnership Board 14 September 2018**

### **RESEARCH AND STRATEGY DELIVERY**

#### **Air Policy Update**

##### **Purpose of Report**

To provide members with an update on number of issues relating to Air Policy including the Air Discount Scheme and the Air Departure Tax.

##### **Air Discount Scheme**

The Air Discount Scheme (ADS) reduces the cost of air travel for those whose permanent/main residence is in an eligible area of the Highlands and Islands. It provides a discount of 50% on the core air fare (i.e. the total fare excluding airport charges and government taxes). The support is classed as aid of a social character.

The eligible areas are:

- Caithness and North West Sutherland.
- Colonsay.
- Islay.
- Jura.
- Orkney.
- Outer Hebrides.
- Shetland.

The following are not eligible for ADS:

- Individuals whose permanent/main residence is not in an eligible area.
- Trips made on Public Service Obligation flights.
- Business trips-apart from those made by employees/volunteers of registered
- third sector organisations which are funded via De Minimus.
- NHS funded trips.

The Air Discount Scheme reduces the cost of air travel for those living in eligible geographical areas of the Highlands & Islands. It does this by providing a discount of 50% on the core air fare (i.e. excluding airport charges) on non-PSO air routes.

ADS was introduced in 2006. In April 2011 Scottish Government restricted its eligibility with ADS only applying to non-business trips. Flights made as part of an individual's work for the private, public or third sectors were no longer be eligible for ADS.

This was relaxed somewhat in July 2012 when ADS was reinstated for business trips made by those working in the third sector. Further, in April 2015 the level of discount was raised from 40% to its current level of 50%.

### **Appraisal of Inclusion of All Business Travel and Students**

In 2016, HITRANS, ZetTrans, Comhairle nan Eilean Siar, Orkney and Shetland Islands Councils, The Highland Council and Argyll and Bute Councils commissioned research to explore the potential benefits, costs and feasibility of reintroducing ADS for all types of business users.

The report concluded that grant aid can be provided to business users subject to it being consistent with the *de minimus* Regulation.

In addition, the reinstatement of ADS for public sector business travel can be supported on the basis that aid of a social character benefits final customers and that resultant savings by these public sector bodies will be reinvested in services and therefore serve the interests of the residents of the eligible areas. Also, there does not appear to be a regulatory barrier to including taxes and charges within the fare that is discounted through the ADS.

The estimated costs of reinstating eligibility at the time were:

<b>Sector</b>	<b>Estimated Cost</b>
Private sector business travel	£661,000
Public sector business travel, not including that undertaken by the NHS	£785,000
Business travel for NHS staff	£213,000

### **Appraisal of Extending Student Eligibility**

In 2017, HITRANS commissioned Reference Economic Consultants to undertake an appraisal of extending student eligibility within the Air Discount Scheme.

The research assessed the feasibility, benefits, and cost to Scottish Government of extending ADS to individuals studying in the eligible area but whose main residence-at the time of being offered a place-is elsewhere.

ADS is available for students who are studying away from home but have their main residence in an eligible area. For example, a student from Shetland who is studying at University of Edinburgh.

The report outlined that the number of non-local students in 2016-17 studying within institutions in the area was 111. Based on this Reference Economic Consultants have estimated that the annual cost to Scottish Government of extending eligibility would be around £28,000 based on 266 return flights x £105.

According to Transport Scotland the total cost of ADS to Scottish Government was £8.2 million in financial year 2016-17. Thus, the suggested extension of ADS would increase the cost to Scottish Government by less than one half of one percent.

If the number of flights per student was 50% greater than assumed, or the number of students increased by 50%, then the cost to Scottish Government would rise by around £14,000 per year (to £42,000).

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Following the completion of the previous two reports, HITRANS wrote to the previous Transport Ministers requesting that consideration be given to extending the Air Discount Scheme for

Business Travel and students studying within the eligible areas given the positive case outlined in each report. A response from Transport Scotland indicated that the request was unlikely to be considered until after the budget for 2018/19 was finalised.

Given the importance of affordable air fares to the local economies eligible for the Air Discount Scheme, it is proposed that the HITRANS Chair writes to the new Transport Minister requesting that they consider the positive case for the inclusion of all private sector business travel and the extension of student eligibility within the Air Discount Scheme.

### **Air Departure Tax (ADT)**

Air Departure Tax (ADT), is a proposed tax payable by aircraft operators and charged on the carriage of chargeable passengers on chargeable aircraft by air from airports in Scotland that will replace UK Air Passenger Duty following the inclusion of its devolution to the Scottish Parliament within the Scotland Act 2016. Following the commencement of section 17 of that Act on 23 May 2016, the Scottish Parliament obtained the power to legislate for a tax to replace Air Passenger Duty (APD) in Scotland.

As part of introducing the Air Departure Tax, the Scottish Government has set an aim to reduce the overall burden of ADT by 50% and abolish the tax when resources allow. The Government believes that these plans will help to boost Scotland's air connectivity and economic competitiveness, encouraging the establishment of new routes which would enhance business connectivity and inbound tourism and help generate sustainable growth.

The introduction of ADT in Scotland has been deferred until the issues raised in relation to the exemption for flights departing from the Highlands and Islands have been resolved, to ensure that devolved powers are not compromised. An exemption for all flights departing from H&I airports has applied under UK APD since 2001. The Scottish Government and UK Government have continued to work together to seek a solution but it has become clear that aiming to introduce the tax at the beginning of the next fiscal year, April 2019, is not possible.

The UK Government will maintain the application of Air Passenger Duty in Scotland in the interim. The current UK APD rates and bands, and Highlands and Islands exemption, will apply in Scotland from 2018-19.

HITRANS have commissioned Reference Economic Consultants to undertake research to help quantify the socio-economic evidence base supporting the current Highlands and Islands exemption. This evidence will feed into the work being undertaken by Scottish Government officials involved with implementing the Air Departure Tax. The Scottish Governments Programme for Scotland 2018/19 reiterated their commitment 'to reducing the overall burden of Air Departure Tax by 50%, abolishing the tax altogether when resources allow, and working with the UK Government to find the best possible solution for the Highlands and Islands before the tax can be introduced in Scotland'.

### **UK Aviation Strategy – Inverness City Region Deal**

The aim of the new UK Aviation Strategy is to achieve a safe, secure and sustainable aviation sector that meets the needs of consumers and of a global, outward-looking Britain.

The Department for Transport is looking at how the government, working with our partners across the sector, can help airports and the industry to grow in a way that:

- is sustainable
- increases competition

- offers consumers greater choice and a quality experience

HITRANS has already submitted a response to a consultation paper entitled 'Beyond the Horizon – The Future of UK Aviation and has invited representatives from the Department for Transport to undertake a consultation event in Inverness to help provide an opportunity for all key stakeholders from the Highlands and Islands to highlight the importance of aviation to the regions economy.

The importance of effective air access to the Highland economy is something which has been recognised within the Inverness City Region Deal and both the UK and Scottish Governments have committed to working with The Highland Council and local partners to provide supportive mechanisms for ensuring Inverness can maintain and improve the level of air access to hubs such as London, Amsterdam and other key business centres.

### **Recommendation**

Members are invited to;

1. Note the report
2. Recommend that HITRANS Chair write to the new Transport Minister highlighting the positive case for the inclusion of all private sector business travel and the extension of student eligibility within the Air Discount Scheme

### **RISK REGISTER**

#### RTS Delivery

Impact - Positive

Comment – This work supports RTS Strategic priority enhance intra-regional connectivity between island and peripheral communities and regional centres and national gateways

#### Policy

Impact - Positive

Comment – This work supports development of the Aviation policies set out in the RTS.

#### Financial

Impact – Positive

Budget line and value – An allowance has been made in the 2018/19 Business Plan for supporting this workstream.

#### Equality

Impact –neutral

Comment – The Air Discount Scheme and Air Passenger Duty exemption for the Highlands and Islands helps improve the connectivity of individuals in some of the most remote parts of the HITRANS area

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**Designation:** Partnership Manager

**Date:** 5<sup>th</sup> September 2018