



Northern Ireland
Assembly

Committee for Finance and Personnel

OFFICIAL REPORT (Hansard)

Air Connectivity Study: Department of
Finance and Personnel and Department of
Enterprise, Trade and Investment

9 April 2014

NORTHERN IRELAND ASSEMBLY

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Members present for all or part of the proceedings:

Mr Daithí McKay (Chairperson)
Mr Dominic Bradley (Deputy Chairperson)
Mrs Judith Cochrane
Mr Leslie Cree
Mr Paul Girvan
Mr Ian McCrea
Mr Mitchel McLaughlin
Mr Adrian McQuillan

Witnesses:

Mr John Simms	Department of Enterprise, Trade and Investment
Mr David Thomson	Department of Enterprise, Trade and Investment
Mr Tony Simpson	Department of Finance and Personnel

The Chairperson: I welcome Tony Simpson from the strategic policy division in the central finance group in the Department of Finance and Personnel; David Thomson, deputy secretary; and —

Mr John Simms (Department of Enterprise, Trade and Investment): John Simms.

The Chairperson: John Simms, who is from the Department of Enterprise, Trade and Investment as well. You are all very welcome.

If it is OK, we will go straight into questions on the study. The last update on this was in September last year. At that stage, members were told that the second and final stages of the report would be completed and presented to both Ministers by the end of the year. According to your briefing, the report — it is actually the draft report — will be completed by May of this year. Is there any reason for that delay? How can the Committee be assured that the issue is receiving enough priority from both Departments, given the lag?

Mr David Thomson (Department of Enterprise, Trade and Investment): Thank you for the opportunity to be here. I think that we told the Committee at the last session that, because there had been a number of well carried out and researched studies, we would do a literature review first. We assessed that literature review and decided that we needed to get further expertise in to help us to look at some of the Northern Ireland aspects. We then went to the market through the Central Procurement Directorate (CPD) to get aviation consultants. They have been appointed, and we are doing some modelling work with them.

We were also aware that there were developments in Europe. State aid guidelines are very tight on what you can give to airlines and airports, but there have been some movements from Europe on what you can and cannot do. We wanted to wait for that to come out so that we could take that into account in assessing what more we can do here. We got hints that there might also be something coming from the Department for Transport on route development funds and, sure enough, the Chancellor made an announcement in the Budget on that.

So we knew that there were a number of issues bubbling around, and we wanted to put those all together. We still aim to produce a report by the end of May.

The Chairperson: OK. Who are the specialist aviation consultants, and where were they sourced from?

Mr Thomson: I think the title of the organisation is York Aviation. We did that through a procurement competition with CPD.

The Chairperson: In your introduction, you referred to the Chancellor's announcement. There is obviously an intention to provide start-up support for Liverpool, Leeds and, I think, Inverness airports. Is there any indication that local airports here will be able to avail themselves of that support package? Is there any more detail on that?

Mr Thomson: Chairman, I brought John Simms with me as he is our guru on that. Without embarrassing him, I will ask him to give you a little more detail about that.

Mr Mitchel McLaughlin: And they did not even give you a wee label. *[Laughter.]*

Mr Simms: I know. I prefer it that way.

As David said, until March, we were under the previous state aid guidelines. Effectively, you could do a route development fund, but it was not worth doing so as it was purely marketing assistance. So, for the past number of years, no region has done an air route development fund. There is a regional air connectivity fund, but that is for public service obligation routes. The new state aid guidelines mean that the Chancellor has expanded that to take the new guidelines into account, which offer much more flexibility.

You asked a couple of questions. Will it apply to Northern Ireland? Yes, it will. We have been in touch with the Department for Transport and we will keep in close touch with it. We have also been in touch with the Scots and the Welsh, as they have a similar interest.

There will be a £20 million fund each year, and we are not sure whether it will be partly passed out to the regions or whether airports will apply for it directly. The Department for Transport is working with the Treasury and the European Commission to work through the guidelines.

The Chairperson: Is that £20 million across the board?

Mr Simms: It is across the UK, and I think it will be over a four- or five-year period.

There are a couple of positives in the Chancellor's announcement. First, he committed to supporting regional connectivity, which is good for us, and expanding that fund is what we wanted before. Also, there is big potential for Northern Ireland to do its own air connectivity fund, and we have put down a marker with the Department for Transport that we want to explore how we can do that. We need to do it through that Department and the Commission. There is a real potential to do things that we could not do before.

The devil will be in the detail. Given the way that the state aid guidelines are worded at the minute, airports with up to three million passengers a year can avail themselves of an air route development fund, while those with between three and five million passengers a year can do so only in exceptional circumstances. In Northern Ireland, the City of Derry Airport has 370,000 passengers and Belfast City airport has 2.5 million, so both are in the first category. Belfast International Airport has four million passengers, so it is in the exceptional circumstances category.

We have been in touch with the Department for Transport and have put down the marker that we will be making the case for being in the exceptional circumstances category. You have to fly from here to get to GB before you go anywhere else. So, we have put down that message with the Department for Transport. It is in discussions with the Commission to see what the term "exceptional circumstances" means and what exactly can and cannot be assisted. So, we are in the mix at the minute; but, from a Northern Ireland point of view, we can avail ourselves of the UK fund and are exploring the potential for —

The Chairperson: When can we expect to know the outcome of that?

Mr Simms: The Department for Transport said that it could be the summer. It will engage with airports and all the key stakeholders. It is engaging with the Commission at the minute and we are keeping in touch with it. We hope to see some initial guidance in the next few weeks.

It takes time to notify a scheme and if, for example Ministers decide that we want to have a Northern Ireland fund, we will need to get in quite quickly. The sooner that the Department for Transport can clarify what the guidance means the better.

The Chancellor mentioned Liverpool airport as part of the fund. It falls into the same category as Belfast International Airport; it has about four million passengers a year. It will also be waiting to see how it can avail of the fund.

Mr Girvan: On that point, I do not see how Liverpool is exactly the same as us. It is in a region that has easier connections to other airports and offers more opportunities within a close proximity.

I cannot get my head around the issue of state aid. We always seem to be looking for permission to do things while others seem to look for forgiveness after they have done them. I am thinking in particular of what happened in Dublin with the introduction of new routes and the accommodations that have been made to allow those routes to come. How have they been able to sidestep or bend the rules to ensure that they were able to attract new routes and new airlines?

Mr Simms: On your first point, about Liverpool; to clarify, I agree that we are in a different position to Liverpool. Liverpool is down the road from Manchester and is not that far from where the high speed rail network will be. My point was that, from the perspective of airport size, it is also caught by the new guidelines.

From our point of view, Belfast International Airport and the airport in Liverpool are the same size, and we will look at the issue not only on a case-by-case basis, and, on an exceptional cases for routes basis, we want to say that Northern Ireland is exceptional in this case.

As part of what we have been doing, we have been looking at everywhere else and asking airlines and others, "Who does things that we could be doing differently?". Are others doing route development funds and seeking forgiveness afterwards? It is not happening. The guidelines shut down that sort of open route development for the past number of years. If someone is doing something, then we are not aware of it.

From the point of view of Dublin, there is a difference between the Irish Government doing something and Dublin airport doing something. Dublin airport is publicly owned but commercially run. So, as long as it operates within those parameters, it can do route incentive funds in the same way that our airports could. For example, Edinburgh airport put together a £15 million route incentive fund, and it did that from its own operating costs and its own profits and did not seek government assistance. That is where Dublin is investing in route success.

Mr Thomson: That was one of the reasons why we decided that we needed specialist expertise. York Aviation has done a lot of work across Europe, and, clearly, it has commercial confidentialities, but it can tell us what is happening in various places. We have asked York Aviation that question about Dublin in particular, and it confirmed to us that Dublin airport operates profitably. All of its borrowings are on a commercial basis, so there is no hidden state aid in the Dublin operation.

Mr Mitchel McLaughlin: Is our own report on target for May of this year?

Mr Thomson: I hope so. We should be able to produce a report, although, as John has been flagging up, due to the developments that we were aware of coming, we do not want to produce a report and

take advice to Ministers, on the one hand, if we know that something is going to change in two months' time, while, on the other hand, we do not want to continually delay because, otherwise, we will never finish the report. So, we are aiming for a report to Ministers in May, but it may have some caveats to say that we need to look at what will happen from the Department for Transport or whatever.

Mr Girvan: Was there some mention in the Budget that there will be a look at how APD is dealt with? I appreciate that the Republic of Ireland made a decision to abolish APD, as did the majority of Europe. Unfortunately, we decided that we will keep this green tax, and I use that term because that is what it is supposed to be.

Mr Cree: It is not a green tax, as you know.

Mr Mitchel McLaughlin: It never was.

Mr Girvan: I think about using that with —

Mr Thomson: Even the Treasury has admitted that, although this might have started off as being some concept of green tax, it is a revenue-raising tax now.

Mr Simms: Previously, there were four bands. Band A was from nought to 2,000 miles, and bands B, C and D were for long haul flights. From the Northern Ireland point of view, duty on long haul flights has been devolved and eliminated. In the Budget, the Chancellor collapsed bands B, C and D. This relates to capital cities, so, if you flew from London to Washington, you were charged the band B rate, and, if you flew from London to Hawaii, you were charged the same rate because it is based on the capital city. The Chancellor has collapsed bands B, C and D into the lower rate, which does not impact on us because we already had it devolved and eliminated. He froze the rate in band A. Obviously, there is a lobby from airlines and others saying that the duty should be got rid of, but he has frozen it, and I think that this is the second year in a row that it has been frozen. So, it is still £13. There are effectively two bands now. There is one for short haul and one for long haul.

The Chairperson: On the point about APD, obviously, DFP was given costings on implementing a zero rate for the North for short haul flights if we were to have that power devolved. Is it then the case that the power itself is devolved and that there is no change to the current policy with the rate and that there is no substantive cost in simply having it devolved?

Mr Tony Simpson (Department of Finance and Personnel): If we were to seek a devolution of short haul APD, we would need to take a block adjustment broadly equivalent to the amount of tax raised. Were we to take those powers, and not change the rate, we would take a block adjustment of somewhere in the region of £60 million that we would then need to raise through recovering the tax. There would also be the matter of whatever administration costs arise from running the tax. Band B rate administration costs are quite low because we are not collecting any tax and the band is limited to a small number of airlines. So, the administration costs would be more significant, and we would be building in a bigger volatility, which is not a cost per se but a management issue.

The Chairperson: Are there any estimates of the administration costs?

Mr Simpson: No, we have not entered into those discussions with Treasury.

The Chairperson: Might that be included in this report?

Mr Simpson: No, it is not an element. Essentially, the terms of reference and the objectives of this report are to look at factors that influence passenger route-making decisions and what we could potentially do to improve our connectivity. The report does not take the next step to see what the implementation issues would be, should we be directed in any way towards APD.

The Chairperson: Surely, if you are going to devolve APD to improve air connectivity, the administration and all costs should be taken into account in a study such as this.

Mr Simpson: You are right. If we were going to pursue it, that is certainly something that we would need to investigate. At this stage, the question for us is whether ADP is even a tool, or an economic lever, that could influence connectivity.

Through the literature review, we have already seen that there is a broad range of factors; so, it is about trying to unpick those. We have the Northern Ireland Centre for Economic Policy working alongside the aviation consultants to do some economic modelling to see what the sensitivities of price are generally. That, I suppose, is the first stage for us in seeing whether this influences connectivity in any way. However, to take this to the next stage, we would need to take a more traditional business case-type approach to see what the total costs and potential benefits would be.

Mr Mitchel McLaughlin: Generally speaking, I welcome this. It is a sensible approach that appears to have a degree of momentum and I certainly like the direction of travel. We are talking about modelling the "elasticity" it says here, which is interesting:

"for the impact that price changes (including variations in the rate of Air Passenger Duty)",

and then using that information, or, at least, projections of any changes in passenger numbers, "to assess the economic impact", which, at the end of the day, really has to be the core of it.

Can we achieve our priority intention to grow the economy? This is certainly one of the elements that we will have to address in some way. The degree of urgency that seems to be reflected in your remarks, David, gives me some encouragement. We have been kind of picking at this for a long time, and at least we will now be operating, hopefully, when the report emerges, with some evidence base from which to argue the case.

On your point about the costs, I think that transferring the powers means that, until we decide to do something different we will, in effect, just be the tax collector and have to pick up any adjustment in the block as a consequence. However, there is no real cost to us until we start to apply these devolved powers, if we get them.

Mr Simpson: Well, there would be. Going back to the devolution of the long-haul rates, we had negligible administration costs because we were not collecting any tax; but, even then, HMRC told us that, if the Assembly decided that it wanted to introduce a positive rate, we could not do so immediately. There would be a lead-in time because HMRC would need to amend its systems, and we would need to bear any IT and implementation costs in that regard. If we were to go to the next stage, to band A, we would move from dealing with one scheduled airline, and, perhaps, a number of charters over the summer, to the vast majority of all flights from Northern Ireland. So, although I do not have any figures for or estimates of the implementation costs, HMRC would face a significant exercise to recalibrate its systems, and it would ask us to bear those costs.

Mr Mitchel McLaughlin: Well, it is nearly a theoretical argument. If they are not involved in collection, there are savings because they will not have to deploy people to gather them up, account for them and whatever. It is a trade-off, but we are not there yet or anywhere near it.

The literature review was very informative in this further phase. Will that be in the appendix to the report? We are very anxious to see that report when it becomes available.

Mr Simms: Yes; it will be available.

Mr Thomson: Nobody has given much thought to whether we put it as an appendix, but it will be available; yes.

Mr Mitchel McLaughlin: Well, I hope you are giving thought to it. There is a date here.

Mr Thomson: Sorry; no thought has been given to whether we will publish it as an appendix.

Mr Mitchel McLaughlin: I see. Even if it were not, could the Committee still access it if we were interested in seeing it?

Mr Thomson: Yes.

Mr Mitchel McLaughlin: OK; thanks very much. I actually find this positive. I want to be recorded as welcoming this work.

The Chairperson: Tony, you talked about IT costs and the fact that, across the water, they will have to recalibrate their systems and so on. Why is there a significant cost? You could have this debate about welfare reform or whatever as well. Surely, you should be able to adjust this on a computer just by clicking a few buttons to recalibrate an IT system as opposed to incurring significant costs?

Mr Mitchel McLaughlin: A one-off.

The Chairperson: That has not been explained generally. Do you have any sense of where that argument comes from?

Mr Simpson: Unfortunately, I am not in a position to comment on precisely what they would need to do. We are not privy to the systems they use to operate the tax. However, they have said that we will need to bear whatever costs that they incur.

Mr Mitchel McLaughlin: They would not rip us off. *[Laughter.]*

The Chairperson: I just get the sense sometimes that they throw this out there as a bit of a red herring without giving any substance to it. It is worth considering in the longer term.

Mr Simpson: If it were something to be pursued, as we have done in other areas, we would need to engage with Treasury to fully explore it. However, as has been recognised, that is down the line.

Mr McQuillan: The costs are an important part of it. It would be helpful if we could get some costs at this stage as part of the report. You cannot base a decision on cost on just hearsay. We need to know exactly what it will cost. Mitchel is saying that it will not cost anything to devolve this, but you are saying that it will. It would be helpful to have those costs now.

Mr Simpson: The only note of caution that I would exercise is David's earlier point that we are undertaking some important analysis. We want to publish that, consider it and have the debate on it. From my experience of dealing with Treasury in the past, it might not be possible to get the Treasury to scope out very quickly. If we need to return to this, the best approach might be to get the study out quickly rather than to delay it unduly.

The Chairperson: But, if the study is not going to include the cost aspect, this is something that we could look at.

Mr Simpson: It is certainly something that we could explore.

The Chairperson: Will you take that away and perhaps write back to the Committee?

Mr Simpson: Yes.

Mr McQuillan: There is no reason why you cannot take a twin-track approach: go ahead with the report and also start to project the costs.

Mr Simpson: Yes.

The Chairperson: OK, gentlemen; thank you very much. Tony, you stay where you are. *[Laughter.]*