

Air Travel Trust

Annual Report & Accounts 31 March 2018

Contents

	Page
<u>Contact Details</u>	3
<u>Report of the Trustees</u>	4
<u>Principal Risks and Uncertainties</u>	11
<u>Independent Auditor's Report</u>	12
<u>Statement of Financial Activities</u>	15
<u>Statement of Financial Position</u>	16
<u>Statement of Cash Flows</u>	17
<u>Notes to the Financial Statements</u>	18
<u>Appendix 1 – Text of the Trust Deed</u>	30
<u>Appendix 2 – Details of ATOL Holder Failures</u>	38

Contact Details

Central Address

CAA House
45 – 59 Kingsway
London
WC2B 6TE

Bankers

Lloyds Bank plc
25 Gresham Street
London
EC2V 7HN

Chair

Mr M G Medicott

Auditor

Deloitte LLP
1 New Street Square
London
EC4A 3BZ

Trustees

Mr M G Medicott
Mr R J Moriarty (*retired 5 June 2018*)
Mr P A Smith (*appointed 5 June 2018*)
Ms C R Staples
Mr C J Tingle

Secretary

Ms F Jonghani

Report of the Trustees

Constitution and terms of reference

ATOL, which is managed by the Civil Aviation Authority ('CAA') is a statutory licensing scheme which also provides financial protection to consumers of licensable air travel. As a licensing scheme it ensures that only businesses regarded as financially robust and fit can sell licensable travel, and as a financial protection scheme it ensures that if an ATOL holder fails, affected consumers are either repatriated or receive a replacement holiday or a refund. The Air Travel Trust ('ATT' or 'the Trust') funds the costs of administering the financial protection scheme (the licensing scheme being separately funded from ATOL licence fees charged by the CAA), under its primary purpose to provide compensation to consumers. The ATT was created by the Secretary of State for Transport and its purpose and the Trustees' scope to act are contained in the Trust Deed, which is at [Appendix 1](#). The Trustees are all Board Members or officials of the CAA, appointed in accordance with the Trust Deed. The Trustees met seven times during the year.

During the year two of the Trustees, Michael Medlicott and Richard Moriarty, were also members of the Air Travel Insolvency Protection Advisory Committee ('ATIPAC'). ATIPAC was created by the Secretary of State for Transport to provide advice to Government, the CAA and the ATT on financial protection arrangements for air travellers and customers of air travel organisers. Its membership includes senior travel industry figures, as well as consumer representatives and independent members. Mr John Cox OBE, an independent member and Chair of ATIPAC, is invited to attend meetings of the ATT for agenda items that do not include commercially confidential information. On 1 July 2018 Ms Sandra Webber will become the Chair of ATIPAC, replacing Mr Cox.

On 24 May 2018, Richard Moriarty was appointed to the position of CAA Chief Executive Officer, and he subsequently resigned as a Trustee on 5 June 2018. At the same time, Paul Smith was appointed as a Trustee in his place.

The CAA performs the administrative functions of the ATT and there is an agreement in place between the two parties which governs that relationship. The CAA acts as the ATT's agent in the exercise of its powers, including repatriating consumers and refunding them for losses they have incurred as a result of the failure of an ATOL holder. In administering the ATT's funds, the CAA applies the ATT's Payment Policy which sets out how the Trustees exercise their discretion to make payments for the benefit of consumers.

The failure of the Monarch Airlines Group

The Monarch group entered administration on 2 October 2017. Although most group sales were made by the airline and hence were not ATOL protected, two of the group companies, Monarch Holidays Ltd and Avro Ltd, both held ATOLs and sold flight-inclusive packages direct to consumers and through the trade. A small number of seat-only sales were also ATOL protected having been sold through First Aviation Ltd, the third of the group's ATOL holders.

Report of the Trustees (*continued*)

The failure of the Monarch Airlines Group (*continued*)

Upon entering administration all operations ceased with immediate effect and all Monarch aircraft were grounded, with the expectation of around 110,000 passengers needing to be repatriated. The UK Department for Transport instructed the CAA to mount a two-week operation to repatriate all UK residents who would otherwise have had to find alternative means of returning home. This was primarily because the available spare capacity on other existing services would have been insufficient to satisfy this surge in demand. The costs of the repatriation were shared between the Government and the Trust, each paying a fair share of costs based *pro-rata* on the number of non-licensable and licensable passengers respectively.

The overall repatriation exercise (including ATOL and non-ATOL protected passengers) was the largest air repatriation in UK history. Over the two weeks, the CAA contracted with 24 airlines to create a fleet of over 60 aircraft, operating over 560 repatriation flights. In the end, 98% of passengers were flown home on the same day they were originally booked to return.

Given the high volume of consumers that were affected by the group's failure – reported at over 600,000 – the Trust was keen to ensure that those consumers who had ATOL protection were able to claim and receive compensation with as little delay and unnecessary distress as possible.

The CAA had been able to obtain high quality booking data from the group and so a new 'streamlined' claims process was put in place. Consumers were sent an electronic claim form by email, which they could complete and return with far less paper-based evidence than would normally be required. By the end of 2017 around 80% of consumers had submitted claims and around 80% of those claims had been fully repaid.

The Package Travel Directive 2015

The Department for Transport has now laid new ATOL Regulations before Parliament to come into effect on 1 July 2018. Among other things, the new Regulations incorporate relevant aspects of the Package Travel Directive 2015 into ATOL. The Regulations make two changes that will change the scope of licensable business covered by the Trust, including a new definition of a package and the removal of Flight-Plus as a category of licensable business. In broad terms, the new definition of a package will cover sales that would previously have been classified as Flight-Plus.

The new Regulations also include provisions requiring businesses that are established in the UK and making available licensable products in the European Economic Area to licence those sales under ATOL, so from 1 July 2018 the Trust will additionally protect those sales.

Report of the Trustees *(continued)*

The Package Travel Directive 2015 *(continued)*

The Package Travel Directive 2015 introduced a new category of protected sale called “Linked Travel Arrangements”. This category of sale has not been incorporated into the new ATOL Regulations so Linked Travel Arrangements will not be protected by the Trust, except to the extent that a licensable sale forms part of a Linked Travel Arrangement, in which case the Trust will protect that licensable element only.

The new ATOL Regulations include provisions that make it explicit that businesses which act as the agent of the consumer are to be treated as making available flight accommodation and must licence those sales unless an exemption applies. In light of this, the CAA has given notice to businesses selling on that basis and participating in the APC Credits arrangement, that this arrangement will cease from 1 July 2018.

Resilience of licensing arrangements protecting the Trust

During the year the CAA completed the introduction of the changes first proposed in its 2014 consultation “Rebalancing ATOL”, including new financial tests and the introduction of the ATOL Reporting Accountant arrangements. The arrangements are now applicable to all ATOL holders and over the coming years the CAA will monitor the impact of these changes on failure rates and calls on the ATT for different groups of licence holders.

In the year ahead the CAA, with the help of funding from the ATT, will be looking at new ways of improving the resilience of ATOL/ATT arrangements including the potential development of an online “eATOL Certificate” system, in time replacing the current paper-based system. This would be expected to mitigate against mistakes or fraud in APC reporting, enable more streamlined claims processes, enable more effective repatriation exercises, give consumers additional visibility of, and confidence in, the protection afforded to them by ATOL, and give the CAA additional visibility of market conditions enabling them to spot risky travel businesses earlier.

Repatriation capability building

During the year the ATT funded expenditure with the CAA to further develop the Trust’s ability to mount successful repatriation exercises. This included negotiating improved contracts with various airlines that could be used as a source of replacement flying, contracting with additional airlines, and entering into similar arrangements with various suppliers of ground handling services.

Report of the Trustees (*continued*)

The travel market

The UK economic environment for travel continues to reflect a degree of caution. Potential risks stem from tightening consumer budgets if real wage growth remains weak or negative, a weak Sterling relative to the Euro and US Dollar, and uncertainty surrounding interest rates, political agendas and Brexit negotiations. However, there are more recent signs of consumer confidence returning following a period of squeeze to disposable income. In the first three months of 2018 the rate of inflation has been falling and wages rising which together are helping to restore consumer confidence.

Consumers continue to regard holidays as a high priority. Overall, in the last twelve months the volume of ATOL protected departures from the UK has increased and recent surveys suggest that consumer demand remains resilient. There is cautious optimism within the sector, with bookings set to increase year-on-year for Summer 2018.

Recent travel trends reveal consumers are increasingly focused on value for money; all-inclusive holidays are growing in popularity and consumers are more prepared to trade down to shorter holiday durations to better manage their budget.

Last year it was reported that there had been a major capacity shift to Western Mediterranean destinations, notably Spain. The increased demand for accommodation in these destinations led to increases in costs for many ATOL holders, which in turn impacted profit margins. Although Spain continues to rank as the number one holiday destination for 2018, there has been a significant resurgence in demand to the popular Eastern Mediterranean destinations of Turkey and Egypt. This may help to alleviate some pressure on ATOL holders' margins during 2018.

ATT Insurance

On 30 April 2018, the ATT extended its existing insurance cover to 31 March 2020. Cover is provided by a panel of insurers and the annual limit is £400 million.

The Trust Fund

The Trust has returned a surplus on its activities for a seventh year. Despite minimal interest rates, the Trust continues to capitalise on its positive cash position by way of interest income and minimal financing costs, further strengthening its ability to provide financial protection for the consumer.

Report of the Trustees (*continued*)

Incoming resources

ATOL Protection Contributions ('APC') are collected under the powers set out in The Civil Aviation (Contributions to the Air Travel Trust) Regulations 2007, as amended ('ATT Regulations'). The current rate of APC is £2.50 per passenger booked (2017: £2.50). Total contributions (before accounting for APC credits) received during the year amounted to £63,039,078, relating to 25,215,631 passengers booked (2017: £62,305,391, relating to 24,921,648 passengers). The Trustees operate a policy of pursuing penalty interest payments from ATOL holders who fail to pay their APC on time.

The Trust takes all reasonable steps to ensure that companies or individuals are held to account for any losses that they cause the ATT to incur. It takes appropriate steps to recover amounts from the liquidation of failed companies or through Her Majesty's Court Service. During the year the Trust received £nil (2017: £38,329) from liquidation dividends and £2,180 (2017: £nil) from Court orders.

The Trust actively employs an investment strategy of notice and term deposits in line with an investment policy that ensures that there is limited risk to liquidity. This adds value to the fund by way of interest receipts which in turn adds value to the financial protection for the consumer. Interest income during the year amounted to £642,940 (2017: £549,364).

Resources expended

The number of ATOL holder failures has decreased in number this year to 9 (2017: 19), and despite the cost of these being greater than 2017 the total value is manageable from current reserves. The total value of expected claims on the Trust is £21,342,869 (2017: £14,749,721) (see [note 7](#)).

Like for like administrative costs and expenditure on professional services have increased slightly on last year, in part due to increased insurance premiums and Insurance Premium Tax and greater marketing costs, totalling £14,226,854 (2017: £13,665,653). Expenses charged by the CAA under its agreement with the ATT amounted to £640,596 (2017: £573,720), in respect of the operational management of the Trust's affairs in collecting APC, arranging banking and insurance facilities, claims handling and day-to-day financial and secretariat services (see [note 6](#)). During the year, £44,791 (2017: £25,637,194) was spent on contingency planning and capability building activities.

The Trust Fund remains in surplus for a sixth year and is not reliant on the borrowing facilities available to it. Bank fees and charges for the year were £251,773 (2017: £270,317).

Report of the Trustees (*continued*)

Details of failures during the year

The number of ATOL holder failures in the year was the lowest for over ten years, but the number of consumers affected was the highest since 2011/12. The failure of the Monarch Airlines Group is detailed above; the other sizeable failure of the year was Chadwell Travel Ltd, who traded as A1 Travel. They predominantly sold Flight-Plus bookings which meant that in most cases consumers held a valid scheduled airline ticket and the Trust could therefore put in place 'fulfilment' arrangements with another ATOL holder – Broadway Travel – to re-contract hotels and other services to enable consumers to continue with their original holiday plans. This arrangement saves the ATT from having to refund consumers for the full cost of their holiday and so provides a benefit to both the Trust and to consumers alike. This failure is currently expected to cost the Trust approximately £4.5 million.

Nine ATOL holders failed during the year. The total cost to the Trust of failures over the year, net of any reduction in provisions for prior years' failures, was £19,884,562 (2017: £14,125,696).

In total, 19,322 passengers of failed ATOL holders required repatriation and a further 73,553 customers, all with bookings to travel at a later date, were due refunds for amounts paid in respect of their bookings.

Failure amounts provided for and released

The Trust recorded calls on its funds of £21,342,869 (2017: £14,746,323) in respect of six of the nine ATOL holder failures during the year. For prior year failures, where further information has become available after the reporting period, the Trust has not been required to record any additional calls on its funds (2017: £3,398). This amount represents both amounts paid in the year and estimated balances payable and provided for at the year end.

For prior year failures, where all expenditure has been concluded, or forecast expenditure has been revised due to the availability of more accurate information and/or claims being lower than forecast, the Trust has been able to release £1,458,307 (2017: £624,025) back to the fund.

Provisions for failures are made with careful consideration given to IAS37 *Provisions, contingent liabilities and contingent assets* and the Trust's recognition and measurement criteria, as stated in note 2.1, to provide in full based on information available at the time. Any excess provisions are released as a consequence of the final calls on the Trust being lower than anticipated, or at any time when further information becomes available and the estimates of expenditure can be revised.

Report of the Trustees (*continued*)

Going concern

The financial statements are prepared on a going concern basis. The Trustees have carefully considered current financial models for the forecast of income and expenditure, including sensitivity analysis towards large failures, for the next three years. These factors, in the context of the cash balances, banking facilities and insurance arrangements available to the Trust, have given reasonable assurance to the Trustees that the Trust has adequate resources to continue in operational existence for the foreseeable future, being not less than twelve months.

Acknowledgements

The Trustees are grateful to the CAA for the continued administrative support and secretariat services provided during the year. They would also like to thank the CAA for the work of its staff relating to the administration of the APC and management of the Trust's activities.

In particular this year, Trustees are very grateful to the large number of CAA staff who worked without question to run and support the Monarch repatriation exercise, over a much longer period of time than would be visible to the public. Over 250 staff contributed to this together with numerous individuals from other government agencies, partner organisations in the UK and overseas, as well as directly affected members of Monarch staff who also continued working to ultimately support their customers. It was the efforts of all these individuals and organisations that made the repatriation exercise so successful.

The Trustees would also like to express their sincere thanks to Mr John Cox OBE and his contribution to the ATT. John was a member of the old "Air Travel Trust Committee", which was independent of the Trust, and then acted as Chair of ATIPAC since its formation in 2000. He has attended almost all the regular ATT meetings since then, and has contributed significantly to the affairs of the ATT throughout that time.

Principal Risks and Uncertainties

The Trustees continually review and monitor material risks and uncertainties which could affect the Trust's ability to fulfil its role in supporting the ATOL scheme. The following list highlights what the Trustees consider to be the principal risks and uncertainties together with actions taken or considered to mitigate any adverse consequences on the Trust.

Area	Description of Risk	Mitigating Actions
Economic factors	- Reduced passenger numbers and hence lower APC income - Greater number of failed ATOL holders and calls on Trust - Failure of major ATOL holder - Unfavourable market movements caused by economy-wide changes and/or dislocation as a result of the UK's stated intention to leave the EU	- Increased borrowing facilities - Insurance policies held - Cash and liquid resources held
APC reporting	ATOL holders incorrectly report passenger numbers and reduce payments of APC	- Regular CAA monitoring of returns and submissions - CAA compliance unit monitors ATOL holders' compliance with ATOL Standard Terms - Introduction of ATOL Reporting Accountants scheme, in conjunction with all the major UK accountancy bodies - Independent assurance on ATOL holder returns - Potential introduction of online "eATOL Certificate" system
Claims provisions	Higher numbers or value of claims than originally estimated on an individual failure	- CAA monitoring of returns - Regular review of claims progress and provision levels - CAA engagement with systems providers to obtain high quality information at failure
Insurance policy	Insurers refuse to pay out on claim due to technicality or breach of terms	CAA continuous internal monitoring of compliance with policy terms

Independent Auditor's Report

Independent Auditor's Report to the Secretary of State for Transport and the Trustees of the Air Travel Trust (the 'Trustees')

Opinion

In our opinion the financial statements:

- give a true and fair view of the state of the Trust's affairs as at 31 March 2018 and of its incoming resources and application of resources and the cash flow for the year then ended;
- have been properly prepared in accordance with the provisions of the Trust Deed and the directions made thereunder by the Secretary of State for Transport; and
- have been properly prepared in accordance with International Financial Reporting Standards.

We have audited the financial statements of the Air Travel Trust (the 'Trust') which comprise:

- the statement of Financial Activities;
- the statement of Financial Position;
- the cash flow statement; and
- the related notes 1 to 19.

The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Trust in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the Trustees' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the Trustees have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Trust's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.