Civil Aviation Authority

Rebalancing ATOL: Consultation on proposals to ensure a fair and proportionate financial protection scheme

CAP 1190

Enquiries regarding the content of this publication should be addressed to:
Consumer Protection Group, CAA House, 45-59 Kingsway London WC2B 6TE.

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The CAA is consulting on proposals to rebalance the regulatory approaches it uses and extend the risk-based approach to all businesses it regulates. The CAA has identified a number of ways in which the likelihood that a consumer is affected by insolvency can be reduced and the protections against calls on the Air Travel Trust (ATT) can be strengthened. Some of the options identified affect all ATOL holders, and some affect only smaller ATOL holders. Nevertheless the ATT is funded by all ATOL holders and ultimately by consumers via the ATOL Protection Contribution (APC). All parties benefit to the extent that disproportionate ATT calls can be avoided.

The options being proposed are:

1. The withdrawal of the Small Business ATOL (SBA) scheme, which would require current SBAs to choose between being licensed either directly by the CAA under new criteria to be introduced in a phased manner or through membership of an Accredited Body or ATOL franchise;
2. A more risk-based analytical approach to financial assessment for ATOL holders with licensable revenue of less than £5 million, with an increased emphasis on liquidity;
3. Revised assurance reporting arrangements developed in conjunction with the ICAEW, the professional body representing chartered accountants in England & Wales; and
4. The introduction of an online self-assessment facility with which to introduce 2 and 3 above.

Other options that the CAA considered are also detailed later in this document.

The CAA expects these changes to address the issues of inadequate protection for the ATT from businesses authorised for less than £5 million licensable revenue, and a higher risk of being impacted by insolvency for consumers buying from SBAs. The online tools will provide a more streamlined experience for ATOL holders and the improved reporting will ensure that ATOL holders can be more confident that all licensees are complying with similar standards.

Who is affected by this consultation?

The following table outlines who is affected and how.

This group ….	…. are affected because of this proposal
Consumers	Withdrawal of the SBA scheme will reduce the likelihood of being impacted by insolvency.
All ATOL holders	The new arrangements will offer greater protection to the ATT.
Holders of Small Business ATOLs	Small Business ATOL arrangements will no longer be offered.
ATOL holders with licensed revenue less than £5 million	The asset turnover ratio will be enhanced with an improved financial test and there will be greater self-assessment via a web portal.
Accountants of ATOL holders	To continue providing ATOL reports it will be necessary to become a Licensed Practitioner.

A timetable for adopting these measures has not been proposed in all cases and in any event the CAA will consider an appropriate timetable in light of representations. Proposals with a planned introduction date include:

- No further grants to first-time applications for SBAs from 1 April 2015 (see Chapter 3).
- Reporting accountants to obtain Licensed Practitioner status from 1 April 2015 and, from 1 October 2015, all Annual Accountants' Reports must be provided by a Licensed Practitioner (see Chapter 3 and Appendix B).

Other measures covered in the document

This document also includes reference to other measures that the CAA is adopting with the aim of improving an ATOL holder's ability to manage its own compliance and driving improved standards across the industry. This includes the introduction of a framework of expected standards around ATOL holders' governance structures and reference to work that the CAA has been doing with business systems providers to help them understand the requirements placed on ATOL holders (see Chapter 6).

These form part of a broader review of activities that the CAA is undertaking to support the regulatory changes to ATOL that took place in 2012 and consequently are included for information only and do not form part of the consultation.

This consultation will close on 6 October 2014.

CHAPTER 1

Why is the CAA issuing this consultation?

Under The Civil Aviation (Air Travel Organisers' Licensing) Regulations 2012 ('ATOL Regulations 2012') the CAA may refuse to grant an ATOL if it is not satisfied that the resources and financial arrangements of an ATOL holder are adequate for 'discharging the actual and potential obligations in respect of the activities in which it is engaged or may be expected to be engaged' (Reg. 32(2)b).

Compliance with the ATOL Regulations is the means by which travel firms selling air holidays meet the insolvency protection obligations set down in the Package Travel Directive[1]. The cost of repatriating and refunding consumers affected by insolvency is met, in most failures, by the ATT.

One of the CAA's objectives in implementing the ATOL Regulations and running the ATOL scheme is to ensure that all businesses who meet their insolvency obligations this way benefit from a system that is broadly fair to all who contribute to it. Where individual businesses represent a higher risk they may be required to provide a bond, or put in place a similar financial arrangement.

This need for fair treatment extends more broadly to the regulatory approaches themselves. To this end, the CAA is continually reviewing its approaches to ensure that the regulatory regime that it operates is fair to consumers and the industry. This is consistent with the principles of Better Regulation – the costs of regulation should be proportionate, as far as is practicable, between different groups, and regulation should be targeted at groups where risks are higher.

For example, changes to the Regulations and to ATOL Standard Terms in 2012 were aimed at making financial protection clearer and more consistent. As well as changes to scope, measures were introduced to ensure industry best practice was adopted across the market including, among other things, agency agreements and business systems requirements, all with a view to helping to reduce the risk on the ATT of poor business management by ATOL holders.

The CAA wishes through these new proposals to capitalise on these gains and ensure that the regulatory approaches taken to all broad groupings of ATOL holders are appropriate, offer effective safeguards against calls on the ATT and ensure that the risk of being affected by insolvency is broadly consistent for all consumers.

1 Council Directive 90/314/EEC of 13 June 1990 on package travel, package holidays and package tours

The CAA is proposing the following changes:

1. The withdrawal of the Small Business ATOL scheme, which would require current Small Business ATOLs (SBAs) to choose between being licensed either directly by the CAA under new criteria to be introduced in a phased manner or through membership of an Accredited Body or ATOL franchise;
2. A more risk-based analytical approach to financial assessment for ATOL holders with licensable revenue of less than £5 million, with an increased emphasis on liquidity;
3. Revised assurance reporting arrangements developed in conjunction with the ICAEW, the professional body representing chartered accountants in England & Wales; and
4. The introduction of an online self-assessment facility with which to introduce 2 and 3 above.

CHAPTER 2

Background to the proposals

Financial assessment and Small Business ATOLs

As part of the application for a new ATOL or the renewal of an existing one, the CAA satisfies itself on the adequacy of a firm's financial arrangements (known as financial fitness) in different ways depending on the business's size. This is set out in its financial policy note, available on the CAA's website[2].

The largest firms (businesses authorised for over £5 million licensable revenue a year) are required to provide audited[3] financial statements and detailed financial and business data to the CAA for monitoring and assessment. This information is currently subject to an in-depth risk assessment. The CAA is content that this is working effectively and is not proposing any material changes to the way these firms are treated other than the new requirements on reporting accountants set out in Chapter 3.

At the other end of the scale, businesses wishing to sell fewer than 500 ATOL protected seats can currently apply for a Small Business ATOL (SBA). Firms applying for an SBA are not required to provide accounts and are not subject to financial assessment.

The CAA established SBAs almost 10 years ago. The removal of financial oversight and reduced reporting requirements was considered appropriate following analysis that suggested that the overall impact of any increase in insolvencies would be limited given the small numbers of consumers impacted. This allowed a significant number of smaller firms to obtain an ATOL to comply with changes made to the ATOL Regulations in 2004.

Number of ATOL holders in different categories (June 2014)	
Small Business ATOLs (SBAs)	950
Standard ATOLs	923
Franchise ATOLs	188
Trade ATOLs	134
Accredited Body ATOLs (1)	8
Total	2,203

(1) Over 1,000 small businesses trade as members of Accredited Bodies.

Between the two ends of the spectrum represented by 1) SBAs and 2) businesses licensed for more than £5 million revenue, most businesses are required to provide accounts when first applying for an ATOL and at licence renewal.

2 http://www.caa.co.uk/application.aspx?catid=33&pagetype=65&appid=11&mode=detail&id=5435

3 Audited accounts must include a balance sheet, a detailed profit & loss and cash flow statements with accompanying notes.

The information on projected business provided as part of the application and the financial details from the accounts are subject to a simple financial test referred to in this document as the asset turnover ratio. The outcome of the test is used by the CAA in conjunction with other information to decide whether, or on what terms, an ATOL should be granted.

This test, which has been used since the early days of ATOL, provides a basic assessment of a firm's financial position, but concentrates analysis on assets rather than liquidity or profitability. The asset turnover ratio has worked well as a relatively unsophisticated filter but, especially set against the more detailed ratio analysis applied to ATOL holders with revenue above £5 million, its lack of sophistication has recently become clearer. The CAA now believes that the use of a broader set of financial ratios will provide a more realistic picture of financial risk.

Assessment of current arrangements

In accordance with Better Regulation best practice, the CAA has reviewed whether its policy regarding SBAs has proved successful and remains appropriate.

With the APC in place, it is now possible to assess the impact of broad groups of ATOL holders on the ATT – the net position of APCs received and expenditure on failed ATOL holders.

APC payments and ATT calls for smaller groups of ATOL (2008 – 2013)				
	Less than £5 million turnover (excl SBAs)		SBAs	
	£m	% of total (pyts / calls)	£m	% of total (pyts / calls)
APC payments	10.2	4.6	2.2	1.0
ATT calls	14.1	13.7	6.1	5.9
Deficit	(3.9)		(3.9)	

As the table illustrates, failures among the smallest bandings of ATOL holders have cost the ATT nearly £8 million more than was contributed.

As failures are relatively infrequent, it is not useful to look for parity within small groupings of ATOL holders or over short periods. But this analysis suggests strongly that the arrangements made with regard to SBAs and businesses with licensable revenue less than £5 million are not providing sufficient protection for the ATT.

Calls on the ATT do not only represent a financial cost. Every call on the ATT represents consumers affected by the insolvency of their holiday company. Consumers booking with SBAs are almost 3 times more likely to be affected, needing repatriation from their holiday destination or losing their holiday altogether and needing to claim a refund. Over the last five years 1.1% of consumers booking with an SBA have been affected by insolvency, compared with 0.4% of those booking with non-SBAs.

Nor has the SBA option provided a 'nursery' from which small businesses can grow, to any material extent. The original intention was that with easier access to a regulated market, these firms would grow and become standard ATOLs. In reality this only occurs for an average of 11 SBAs per year, so although it does happen the overwhelming majority of SBAs – around 99% each year - remain as SBAs.

The scale of the calls on the ATT has arisen to some extent as a result of over-trading. Nearly £1 million of the deficit identified above was created as a result of the failure of SBAs who held bookings for more than 500 passengers, and so should not have been SBAs at all. Again, this points to a need to reform the regulatory framework for small businesses.

To address the drain on ATT resources, improve the financial assessment of these smaller firms, and introduce greater consistency into how it decides whether a firm is financially fit to hold an ATOL, the CAA proposes to discontinue the SBA scheme and apply a new assessment, based on a broader ratio analysis, for all firms which wish to remain licensed directly by the CAA for less than £5 million licensable revenue a year.

The enhanced financial assessment will not apply to businesses which trade either as a member of an Accredited Body or an ATOL franchise[4]. These arrangements will continue on the same basis as before and ATOL holders may wish to consider these as alternative licensing mechanisms. Details of these proposals can be found below, and the details of these alternative compliance options can be found at Appendix C.

Accurate reporting

Accurate reporting to the CAA is a key responsibility for all ATOL holders. In fulfilling this responsibility ATOL holders are required to use the services of an accountant, regardless of the size of the business. In reviewing the financial and business systems of failed ATOL holders, the CAA has discovered that there are a number of cases where firms have incorrectly accounted for licensed business in their books and records, meaning among other things that some ATOL holders were not making appropriate returns to the CAA, and in turn underpaying the ATOL Protection Contribution (APC).

In many instances where incorrect accounting occurs it is due to a lack of understanding, although it may in some cases be deliberate.

Reporting by ATOL holders is validated annually by their reporting accountants through the Annual Accountants' Report. While there is already a basic framework in existence between the ICAEW and the CAA, the CAA is concerned that in some cases the accountants fulfilling this important role are not sufficiently knowledgeable about the industry or the specific requirements of ATOL to provide the required assurance.

4 Some ATOL Franchise members may be subject to financial assessment by the CAA depending on the size of their business. See the CAA website for more information: http://www.caa.co.uk/default.aspx?catid=582&pagetype=90&pageid=9499

Assessment of current arrangements

The CAA has been working with the Institute of Chartered Accountants in England and Wales (ICAEW) to establish how best to ensure these professionals have the appropriate understanding and expertise in the ATOL Regulations so that they can in turn provide an appropriate service to their clients, the ATOL holders, that will lead to improved assurance for the CAA. The CAA is proposing that all reporting accountants meet a minimum standard. Details of this proposal can be found on page 18 and in Appendix B.

CHAPTER 3

The proposals

The removal of the Small Business ATOL scheme and introduction of a more flexible licensing model

The CAA believes that the SBA arrangements are no longer the best regulatory framework for small businesses in ATOL. As well as the issue of SBAs as a group drawing more from the ATT than they contribute, the CAA is aware that these arrangements are accompanied by other unsatisfactory aspects. For example, research carried out for the CAA suggests that a significant proportion of these businesses have very weak financial stability, which is unsatisfactory for a business model which takes customer money in advance of providing services. The CAA does not believe that this form of lighter regulation is justifiable any longer and is proposing a new form, by which all businesses regulated directly by the CAA face a financial assessment with similar requirements for regulatory reporting as all other ATOL holders.

To achieve this, the CAA is proposing to withdraw the SBA as a licence option. This proposal places new requirements on current SBAs, but they now have other viable compliance options. As an alternative to obtaining a licence directly from the CAA on the same basis as regular ATOL holders, current SBAs could choose between membership of an Accredited Body or an ATOL franchise.

Accredited Bodies became an established part of the regulatory framework in 2012, and ATOL franchises have been in existence for much longer. These arrangements permit small businesses to make licensable sales, but on the basis of the rules and requirements made by the third party body rather than the CAA. Different third parties make different requirements, but in addition may offer other value-added facilities to their members.

Businesses which choose to be licensed by the CAA will be assessed according to the new criteria set out below. They will no longer be limited to selling to 500 passengers a year, because the CAA is proposing to define categories of ATOL holder by annual revenue rather than passenger numbers.

Revenue is a better determinant of ATT exposure than passenger numbers and is the basis for definitions in many other industries. It will also allow greater consistency with the Companies Act where a small business is defined as having annual revenue of £6.5 million or less. The CAA categories are based on *licensed* revenue (revenue related to ATOL protected business which the ATOL holder is licensed to conduct) whereas the Companies Act definition is based on *all* revenue, but in general terms the proposals will mean that all small businesses in ATOL are treated the same.

All licence authorisations granted in future will be for at least £500,000 of revenue. All ATOL holders would have the flexibility to do up to that amount of business in any one licence year without the need to contact the CAA, vary their licence or pay additional licensing fees to the CAA.

If they wish to grow above this level they will need to vary their licence, but as the financial tests applied will be the same for all companies below £5 million the transition will be much smoother: the CAA's view is that the current sharp distinction between sub-500 seats and above 500 seats acts as an artificial barrier to growth.

The proposal is that all ATOL holders applying for licensable revenue below £5 million will be subject to the same assessment process. Under the new assessment arrangements the required level of paid up ordinary share capital will be £50,000 and the minimum free asset level will be at the same figure. A summary of the key proposed changes is at Appendix D.

The SBA charging scheme will also be withdrawn and all businesses will pay at the standard rate or, for businesses transferring to ATOL franchises, the lower charge levels applicable there. Any ATOL holder who chooses to join an Accredited Body will make no direct payment to the CAA but will need to pay the membership fees of the Accredited Body.

The CAA proposes that it will no longer grant any first-time applications made for SBAs from 1 April 2015, and that it will consider the timetable for implementation of the remainder of the new arrangements in the light of responses to this consultation. In view of the new requirement for financial testing for businesses that are currently SBAs, the CAA is minded to phase in the requirement for financial testing and is presently considering a period of three years.

If an AB or ATOL Franchise member chooses to obtain an ATOL from the CAA (if the business grows beyond the limits of these schemes for example) the CAA will take the firms history within these schemes into account when considering its application.

Alternative approaches

An alternative to removing SBAs could be to introduce a higher rate of APC for SBAs, although this is not permitted by the current Regulations. The CAA considered whether the APC should be variable when it was first introduced in 2008, but in line with industry feedback concluded that the advantages of a simple and consistent set rate outweighed the complexity of a variable rate. This argument remains.

Nevertheless, as an alternative approach to addressing this issue, the CAA has identified the levels at which SBAs would, over the period examined, have made a contribution to the replenishment of the ATT rather than depleting it. If SBA holders' APCs had been £7.50 higher, at £10.00 per passenger, the additional cost for an average SBA would have been about £1,200 higher. As a group, all other things being equal, SBAs would then have contributed more to the ATT than was drawn from it to cover SBA failures.

This is not the CAA's preferred approach. Although it would address the gap between contribution and cost for SBAs it would not deliver the desired oversight or the improved standards that the CAA are seeking, and consequently would not address the increased risk to consumers when booking with an SBA.

The CAA also considered whether it would be comfortable continuing with the status quo but concluded that improvements in consistency and standards were essential to ensure that the ATOL scheme is fair to all ATOL holders and to consumers, and achieves the necessary safeguards for the ATT.

Question 1
Do you agree that the CAA should end the SBA arrangements, given the reasons stated and the availability of alternatives?

A more risk-based analytical approach to financial assessment for ATOL holders with licensable revenue of less than £5 million, with an increased emphasis on liquidity

As stated above, the CAA proposes that all ATOL holders with licensable revenue below £5 million should be subject to the same financial assessment.

New applicants will be required to provide a bond for the first 3 years. The minimum bond amount will be 15% of licensable revenue for the first year, reducing to 12.5% in the second year and 10% in the third year.

The proposed minimum licence authorisation will be £500,000. The CAA is proposing that the minimum bond requirements will be £75,000. If a higher amount is required, it will reduce to £75,000 over that period as described in the paragraph above.

This increase in the minimum bond requirement is being sought as research by the CAA on recent SBA failures indicated that the actual average cost to the ATT per SBA was around the value of the proposed new level.

The enhanced assessment will consist of a series of financial ratios that will assess profitability, liquidity/cash flow and financial stability/solvency. A margin premium will be built in for new applicant start-up businesses to reflect the increased risk of failure of new firms.

The CAA's work has been assisted by industry experts who have undertaken a review of financial information for existing and insolvent travel firms and provided guidance on appropriate ratios to use to help to predict the risk of financial failure.

The assessment will be based on a combination of a number of measures of financial resilience. Those businesses which satisfy the ratios will be considered successful with no further measures required. This primary assessment is likely to consist of three or four financial ratios which will consider operational strength such as profitability or net working capital to revenue, solvency indicators such as total assets to total liabilities and liquidity/

cash flow ratios such as cash to current liabilities or cash from operations to short term debt.

If an applicant fails to meet the minimum requirements of this assessment, the CAA will recommend remedial measures that should be taken by the firm to satisfy the CAA of its financial fitness.

A summary bringing together the key proposed changes is included at Appendix D.

If, following this consultation, the CAA decides to pursue this proposal it will ask ATOL holders to provide further data to help calibrate the ratios and identify the most appropriate levels to employ. During this period the ratios and the mix may change as the CAA selects the most appropriate. The intention is that these more sophisticated tests are better able to identify cases that represent a higher risk of failure and allows the CAA to focus requirements for financial strengthening where it is most needed.

If the CAA decides to proceed following the consultation, the timetable for implementation will be determined in light of the responses with a minimum three year transition period.

Unincorporated businesses

The nature of unincorporated businesses means that the CAA would continue to require a statement of personal assets and liabilities for the individual(s) involved. This information will need to be recorded in the enhanced Annual Accountants' Report (AAR), with the information needed for the financial assessment.

Firms within a group

Where an ATOL holder is part of a group of companies or related companies, the CAA is proposing to maintain its current policy to base any financial assessment on the consolidated financial position of the group. The CAA will also continue to require a guarantee to confirm support to the ATOL holder and may require the ATOL holder to meet the financial criteria on a stand-alone basis in some instances.

Alternative approaches

Various options were considered when developing the above proposals, with different minimum licence requirements and treatment of financial information considered. As stated above, the CAA decided on the proposed minimum licence requirements and resulting minimum bond level based on analysis of the cost of the failure of SBAs to the Trust. Given the aims of the proposals, the CAA believes that this is the most appropriate approach.

An alternative to the proposed enhanced financial assessment could be for all firms to submit to the same level of scrutiny as those with licensable revenue over £5 million. This would provide comfort that all ATOL holders were being treated equally and that the

CAA had full visibility of the financial position of all the firms that it is providing insolvency protection for.

This approach however would be resource intensive for both the CAA and ATOL holders and would not meet the CAA's aim to ensure that the proposals are proportionate to the impact.

Again, the CAA considered continuing with the status quo but believes that it is essential that financial assessments are enhanced to improve standards and that the proposed approach is the best way to achieve this.

Question 2
Do you agree that the CAA should develop and implement a more sophisticated financial test for ATOL holders licensed for less than £5 million? The CAA is proposing to a 3 year transition period to introduce the enhanced assessment. Do you agree with this timescale?

Revised assurance reporting arrangements

In order to improve standards and gain comfort on the information provided, the CAA is proposing to incorporate the ICAEW's concept of a Licensed Practice/Practitioner into ATOL. If this proposal is taken forward, the CAA will only accept accountants' sign off on information if the reporting accountant is a Licensed Practitioner qualified under the ICAEW category for ATOL reporting to the CAA. The CAA will also work with any other professional accountancy bodies which are interested in introducing similar arrangements.

To obtain Licensed Practitioner status, the principal(s) or employees of the firm will have to successfully complete a course which would cover specific ATOL requirements. Subsequently, they would be recognised as competent to conduct ATOL reporting work by the ICAEW based on the experience and skills of the principal or employee in performing ATOL reporting work.

It is proposed that reporting accountants should obtain Licensed Practitioner status from 1 April 2015 and that Annual Accountants' Reports, including other factual confirmations and ring fence confirmations must be signed by Licensed Practitioners from 1 October 2015 onwards.

More information, including more general changes related to Professional Indemnity insurance cover, is provided at Appendix B and a summary bringing together all of the key proposed changes is included at Appendix D.

Alternative approaches

For the CAA to gain comfort that financial information and reports have been prepared correctly, it could require smaller businesses to also provide audited accounts. However, this would be more onerous for the large number of ATOL holders who are excluded from the need to provide audited accounts to Companies House, and would not provide the benefits that will be gained from ensuring that reporting accountants have specific ATOL training.

For example, as a general rule under UK Company law companies with turnover of no more than £6.5 million can be eligible for audit exemption. From a sample of ATOL holders, the fees paid for unaudited accounts by a company with turnover of £2 million to £3 million might be around £1,500 to £2,000 per annum. The impact of requiring a full audit is likely to be at least double that figure.

The alternative option of maintaining the status quo is also not desirable as it would mean that the CAA would continue to have concerns over the quality of information received, and over the validation that the accountants will provide as part of the new online financial assessment.

Question 3
Do you agree that the CAA should make a requirement that accountants reporting on ATOL regulatory information must be Licensed Practitioners?

The introduction of an online self-assessment facility

The CAA already offers an online tool for certain regulatory returns and the ability to pay by Direct Debit. The intention now is to introduce an online facility which will accommodate most applications and reporting. In terms of the subjects of this consultation, it will enable the online submission of data and feedback on whether (for below £5 million licences) the financial test has been met, and reporting by Licensed Practices/Practitioners.

For businesses with licensable revenue under £5 million, the CAA proposes to incorporate the enhanced financial assessment into an online application process in line with changes being made across the CAA to allow more automation of processing. The intention is to move entirely to an online system.

New applicants and ATOL holders will be asked to provide the financial information as part of their online application. This application process will act as a self-assessment tool and provide immediate feedback on whether the firm has met the required ratios.

As stated above, where an assessment shows the ratios to be insufficient the ATOL holder will need to take remedial steps to improve their position such as a cash injection, the subordination of short-term loans or operating a trust account.

It is also proposed to make available an on-line solution to test an ATOL holder's latest financial data against the new criteria prior to submission of renewal information. This will provide ATOL holders with time in advance of an application to determine whether or not they need to take action prior to their forthcoming licence renewal.

The financial information will need to be validated at the time of completion by the ATOL holder, new applicant, or authorised consultant. A Licensed Practitioner (as proposed by this document) will be required to report on the information as part of the online assessment. This will form part of the Annual Accountants' Report (AAR) that is currently provided in paper form at renewal: the AAR will in future be provided online.

Alternative approaches

An alternative to the above proposal would be for ATOL holders and applicants to continue submitting their financial information to the CAA and for the CAA to perform the assessment and communicate the result of the assessment back to the ATOL holder or applicant. Given the availability of technology to make this process more efficient and the benefits to ATOL holders and applicants who can use this as a quick response self assessment tool, the CAA believes that the introduction of online assessments is the best approach to adopt.

Question 4
Do you agree that the CAA should introduce an online self-service facility by which ATOL holders will be able to submit financial reporting, as part of a wider move towards online applications?

CHAPTER 4

Expected impacts and benefits of the proposals

The CAA believes that these proposals will have a positive effect on the resilience of the mutual protection arrangements and also for consumers buying from SBAs. It is aware that these proposals will have a financial impact on some travel businesses. However, the CAA is not yet in a position to fully assess the impact on businesses, and in this consultation is seeking further data to assist its assessment.

The estimates and illustrations that currently underlie the proposals are set out in Appendix E. This chapter discusses the issues more generally.

Small Business ATOLs (SBAs)

The largest group of ATOL holders affected by these proposals will be the SBAs, because for them holding an ATOL granted directly by the CAA will require them to meet additional regulatory requirements, and may, in some cases, require refinancing of their business. Acknowledging that for some SBAs the proposal will lead to increased costs, there is also an offsetting benefit that the payment of APCs would, in future, be in arrears (rather than in advance as SBAs are required to do at present) and this has cash flow benefits.

However, SBAs may not have to meet the CAA requirements as small businesses already have other options for complying with the ATOL Regulations, including getting their licence via an ATOL franchise organisation or becoming a member of an Accredited Body. Over 1,000 businesses are already members of Accredited Bodies and 186 businesses hold ATOLs via a franchise ATOL holder. Consequently, businesses will be able to choose whether to meet the membership requirements of those bodies, or continue to obtain an ATOL directly from the CAA. In light of these proposals other new Accredited Body options may be developed by third parties and the CAA will welcome applications.

The cost of finding alternative arrangements will depend on which approach is taken. The CAA does not yet have the data to estimate the cost and benefits of the different schemes, which differ for each Accredited Body and for each ATOL holder. An assessment of the overall cost is also dependent on forming a view on what proportion of businesses will choose the different compliance options.

Remaining with the CAA

The main impacts on businesses remaining with the CAA will be the payment of higher ATOL fees and a potential need to refinance their businesses.

The full scheme of ATOL charges, showing both SBA and non-SBA charges, is available from the CAA web site[5].

5 http://www.caa.co.uk/docs/33/ORS5%20No.%20295.pdf

The exact charges paid depend on other choices made by ATOL holders: those that apply early and use all of the available automated systems pay less. Taking average values, an ATOL holder might pay around £550 per annum in ATOL charges above what they are paying now.

Transferring to an Accredited Body or ATOL franchise

These third parties have a variety of different membership charges, often on different bases, and businesses transferring to one would need to meet the charges as well as other membership requirements.

As these third parties represent a market solution to the requirements of regulation, the CAA makes no requirement as to what they charge members and holds no data in this regard. This consultation therefore includes no estimate of those costs, but the CAA is inviting respondents to produce data to answer these questions.

As well as charges, Accredited Bodies and ATOL franchises provide member benefits which will often have an additional commercial value. The benefits vary by organisation, but include facilities such as access to credit card facilities with less security than would normally be required, access to discounted products made possible by bulk buying by the organisation, automated production of ATOL Certificates, and access to systems that perform some routine administrative functions for the member. Businesses which would be affected by the ending of the SBA scheme are encouraged to contact these organisations to establish the full implications of membership.

The CAA has created an environment in which more commercial solutions can be created based around certain key principles, which include the concept of 'risk sharing', already well embedded in existing Accredited Body and franchise arrangements. Any organisation interested in becoming an Accredited Body may contact the CAA to discuss their proposal.

Question 5 - For current SBA holders
If these proposals are introduced would you be more likely to remain with the CAA, or transfer to an Accredited Body or an ATOL franchise and, if possible, which one? What do you estimate the costs and benefits would be?

Question 5 - For Accredited Bodies and ATOL Franchises
What are the costs and the value of benefits for businesses joining your organisations, to potential new members?

New reporting requirements and enhanced financial assessment

All ATOL holders will be affected indirectly by the new reporting requirements, either because their accountants will need to become Licensed Practitioners, and/or because businesses previously holding SBAs have chosen to remain directly licensed by the CAA and now have to meet standard reporting requirements.

The CAA has been provided with an estimate based on the additional number of hours of work that would be required of accountants, and typical charge-out rates. This produces an estimate of additional cost of £600 per business.

The enhanced financial assessment is not expected to result in a higher regulatory burden in aggregate: the expectation is that (for businesses already affected by financial testing) any financial strengthening required by the CAA will be better targeted rather than greater.

Benefits

Consumers will benefit because there will be fewer failures among SBAs. Although their financial position is protected by ATOL, there is still a potential worry for the customers of failed ATOL holders who are in resort when the business fails. For those who have not yet travelled, there is the inconvenience of having to claim a refund and potentially not being able to rebook until that refund has been received.

The CAA believes that the industry as a whole will benefit from the reduced risk of exposure for the Fund. As noted above, since 2008, businesses in the smaller group of ATOL holders have contributed nearly £8 million less to the ATT than was caused by failures among that group. This occurred during a period when the contributions made across all ATOL holders considerably exceeded the calls, and the ATT's financial position was considerably strengthened.

Although estimating the impact of these proposals on the rates of expenditure arising from the smaller businesses cannot be done with any precision, the CAA's view is that this combination of measures may go some way to eliminate or at least improve the imbalance. This is because the measures are generally aimed at ensuring that the smaller businesses are both more financially robust and more likely to comply with the terms of their licences.

Failures are expected to be fewer; underpayment of APCs is expected to be less frequent; and CAA licensing decisions will be based on more robust information.

In addition to the creation of a more effective regulatory framework for those smaller businesses, there are other specific benefits of the new arrangements.

1. These arrangements will allow small businesses greater freedom to grow as the financial test applied to the smallest and the largest is similar, meaning that any artificial incentive to remain small is reduced.
2. The fact that the assessment will be completed online enables more automation in the licensing process, enabling the CAA to put more resources into identifying and managing high risk cases.
3. The targeted, industry-specific training provided as part of the Licensed Practitioner scheme will also add value to firms and sole practitioners in terms of the support and quality of work they can provide to their ATOL-holding clients. Improved

standards across the industry benefit all, to the extent that the cost of failures is met by the ATT.

4. The proposal in relation to professional indemnity will allow the CAA to ascertain whether it has adequate information to satisfy itself that reporting accountants have a sufficient level of Professional Indemnity insurance cover relative to the size of ATOL holder being audited or reported on for the purpose of the Annual Accountants' Report. This is particularly relevant in view of the reporting accountant's duty of care to the CAA and ATT in respect of the information provided.

5. The proposed statement of independence is expected to give the CAA additional comfort that the reports provided for decision-making purposes have been prepared objectively.

Overall impact of the changes

As noted above, the costs and benefits of the proposal are dependent on the particular circumstances of each SBA, and their decision on how to secure their future compliance.

6. On the benefits side, the changes are intended to eliminate an APC under-contribution that, between SBAs and sub-£5 million businesses, amounts to about £1.6 million per annum.

7. On the cost side, the facts that different options are available for compliance, and each of them has different cost implications for each individual business, mean that estimating the overall cost impact cannot be done with any degree of accuracy. The CAA intends to refine the estimates in the light of feedback to this consultation.

It is possible that the out-turn cost will exceed the expected benefits. It should be emphasised that the CAA's purpose in putting forward the proposals is not to reduce the overall cost burden, but to move to a model of regulation where broad sectors of the industry meet the requirements of a regulatory framework that is justifiable on its own merits.

Similarly the availability of a number of options for compliance, some of which bring other membership benefits that direct licensing by the CAA does not bring, mean that affected businesses are more free to find a way to comply that suits their circumstances.

Question 6
Do you agree with the CAA's current assessment of the costs and benefits of the proposals? Are there any other costs or benefits not identified that should be considered by the CAA when assessing the impact of the proposals?

CHAPTER 5
Responding to the consultation

The CAA is keen to ensure that the above proposals are both effective and appropriate. It is committed to incorporating the views of its stakeholders and the questions in the document provide a structure to enable this. Nevertheless respondents are also invited to submit comments on the content of the proposals that are not specifically covered by these questions and are encouraged to contact the CAA to discuss any areas of uncertainty or concern.

In addition, the CAA will be meeting stakeholders over the consultation period to discuss the proposals.

Please send any comments you have by 6 October 2014 to:

consultations@caa.co.uk

or write to:

Mark Rayner
Consumer Protection Group K3,
CAA House 45-59 Kingsway
London WC2B 6TE

The CAA will review all of the responses received and may publish them on its website (www.atol.org.uk).

This document has been sent to those parties listed at Appendix A. The CAA invites responses on this document from any source. If a response is provided on behalf of a representative body, the response should summarise the parties that body represents. If you consider the view of a stakeholder not listed at Appendix A should be sought, please notify the CAA at the address above.

CHAPTER 6
Other changes

The CAA is also undertaking other activities designed to improve an ATOL holder's ability to manage its own compliance and drive improved standards across the industry. These are covered by powers that the CAA already has, whether by existing regulations or policy changes that have already been consulted on.

Improved governance structures

When looking at improving compliance, it is essential to consider the system by which firms are directed and controlled through their corporate governance structures. An appropriate governance structure will facilitate effective and prudent risk management essential to the long-term success of an ATOL holder.

The CAA will be encouraging ATOL holders to adopt stronger corporate governance structures through the publication of a framework of acceptable requirements and a corresponding policy on how the CAA will monitor and investigate where it believes the structures in place need improvement. The framework will match requirements to the size and risk of failure, and will be based on robust analysis of the types of governance structures that best suit the industry and the expectations of industry compliance from the CAA.

The framework will cover the following areas:

- Board and managerial effectiveness;
- Internal controls;
- Risk management;
- Disclosure and transparency; and
- Legal and regulatory compliance.

The framework will be the benchmark against which businesses' governance structures will be judged, with different expectations for ATOL holders with licensable revenue less than £5 million, those with licensable revenue above £5 million and those above the £5 million which are listed companies or have significant external financing. More information on this will be available in the autumn.

Improved quality and use of business systems

It is important that a firm's system can identify and record ATOL and non-ATOL business so that ATOL Certificates are issued correctly (so consumers are informed of their protection and what to do in the event of a failure), reports produced for the CAA are correct, and information used by the CAA in the event of insolvency is up to date and accurate.

Commercial business systems, if developed and employed properly, significantly decrease the risk of an ATOL holder being non-compliant. Requirements around business systems are set out in the ATOL Standard Terms. The CAA has been working with business system providers to encourage the development and use of better quality, more compliant commercial systems.

The CAA will be publishing practical guidance for ATOL holders and system suppliers so that they can develop and improve their processes. This is being developed with the help of business system providers, a collaboration that the CAA expects to result in encouraging the development and use of better quality, more compliant commercial systems and is again expected to be available in the autumn.

The CAA will also implement procedures for investigating ATOL holders' non-compliance of the ATOL Standard Terms under which this development is taking place.

APPENDIX A
List of consultees

All ATOL holders

All Accredited Bodies

ABTA – The Travel Association

AGB Associates

Air Travel Consultancy

Air Travel Insolvency Protection Advisory Committee

All Trustees of the Air Travel Trust

ASB Law LLP

Association of ATOL Companies

Association of Chartered Certified Accountants

Association of Independent Tour Operators

British Bankers Association

Deloitte & Touche LLP

Elman Wall

Ernst & Young Global Ltd

Eventia

Federation of Small Businesses

Field Fisher Waterhouse

Gates & Partners

Guild of Travel Management Companies

Hamlins LLP

Hill Dickinson LLP

Institute of Charted Accountants in England and Wales

Institute for Small Business and Entrepreneurship

KPMG

Longi Associates

MacIntyre Hudson LLP

PricewaterhouseCoopers

Professional Trustees to Travel Ltd

Sam McKee Ltd

Scottish Passenger Agents Association

Sharman Associates

Trading Standards Institute

Travel and General Management Services

Travel Network Group

Travel Trade Consultancy

Travel Trade Management

Travel Trust Services

Travlaw LLP

UK Cards Association

White Hart Associates Ltd

APPENDIX B

Improved quality of reporting

Accountants have a key role in the assessment and monitoring of ATOL holders. The CAA must be certain that the information received from ATOL holders is accurate and of a high quality so that it can undertake appropriate risk management functions and ascertain whether an ATOL holder meets the required criteria.

To this end, the CAA needs reasonable assurance that the reporting accountant has an appropriate level of understanding of the ATOL Regulations, ATOL Standard Terms, ATOL Policy & Regulation publications, ATOL guidance and reporting requirements, as well as an appropriate understanding of the travel industry and the ATOL holder's licensable business.

Licensed practitioner / practice scheme

ICAEW has developed the Licensed Practitioner scheme to address the perceived poor quality of non-statutory audit work and the mismatch of the registered auditor scheme to the specific technical skills required to perform some non-statutory audit work. The licensed practices must comply with the Licensed Practitioner Handbook (the Handbook) that requires the licensed practises to:

- carry out licensed work with integrity;
- be competent and continue to be competent to carry out licensed work;
- be, and be seen to be, independent; and
- make sure that all principals and employees are fit and proper persons.
- As part of the proposed enhanced Annual Accountants' Report the CAA are to include a statement to be signed by the Licensed Practitioner that they have not identified any breach of ATOL Standards or ATOL Regulations during their normal 'control' checks, acknowledging their understanding of ATOL.

The CAA proposes to apply this concept to ATOL reporting and consequently only a Licensed Practice or Licensed Practitioner qualified under the category of ATOL reporting to the CAA will be eligible to sign the Annual Accountants' Report (AAR) or other factual or ring fence confirmations submitted to the CAA.

The eligibility requirements of the scheme are:

- each principal in the firm must be either an ICAEW member, an affiliate, registered for audit work under ICAEW's Audit Regulations, licensed for investment business under ICAEW's Designated Professional Body Regulations, or licensed under the ICAEW's Insolvency Regulations;

- each Licensed Practitioner must be a member of:
  - ICAEW;
  - the Institute of Chartered Accountants of Scotland;
  - the Association of Chartered Certified Accountants; or
  - the Institute of Chartered Accountants in Ireland
  - and hold a practising certificate.
- each Licensed Practitioner must have attended, and successfully completed, a course, including an assessment of knowledge and application, on Guidance Note 10 (as amended or replaced from time to time) and ATOL Standards and Regulations, to enable the reporting accountant to carry out effective ATOL reporting work, and this course and assessment has been approved by ICAEW; or
- be able to demonstrate to ICAEW that he/she is competent to conduct ATOL reporting work, based on experience.

The CAA has also approached the Association of Chartered Certified Accountants to set up a similar scheme. Once we have approved any such scheme we will amend the relevant ATOL Standard Term to show that AARs can be submitted by the participants of the scheme.

The CAA is proposing that only Licensed Practitioners, who are awarded the 'ATOL reporting work' category will be eligible to sign the Annual Accountant's Report (AAR) or other factual confirmations or ring fence confirmations submitted to CAA. It is proposed that reporting accountants will be able to apply for Licensed Practitioner status from 1 April 2015 and that AARs, as well as other factual confirmations or ring fence confirmations must be signed by Licensed Practitioners from 1 October 2015.

This scheme will be administered by ICAEW and there will be an application fee and annual fee payable to ICAEW for the duration of the licence. Licensed Practitioners are bound by the Handbook and are subject to continual monitoring and quality reviews carried out by ICAEW.

An alternative to the proposed Licensed Practitioner scheme is for all ATOL holders to undergo an audit irrespective of audit exemptions under the Companies Act 2006. This would be expected to enhance the level of assurance currently obtained in respect of ATOL holders with public sales revenue of less than £5 million. The CAA will continue to require audited accounts for ATOL holder with public sales revenue of £5 million and above.

Other changes

Updating liability cap, Professional Indemnity insurance cover and accountant independence

The current Liability Cap has been in place for a number of years and needs to be reviewed following a number of significant changes, particularly in respect of consolidation within the industry and regulatory reform. The limits and the distribution of limits between different bands of ATOL holders (relative to the size of the ATOL holder's public sales revenue) are not optimal for the current population of ATOL holders.

Despite this, the CAA does not intend to change this at present but instead concentrate on a firm's Professional Indemnity insurance (PI) cover. In the enhanced Annual Accountants' Report, the CAA proposes to seek confirmation that the firm's or sole practitioner's Professional Indemnity insurance cover is no less than the liability cap or is at least the amount specified. Alongside this, the CAA proposes to also ask the reporting accountant to sign a statement of independence to confirm that they are independent of the ATOL holder, and that the Auditing Practices Board's Ethical Standard 1 (Revised): Integrity, Objectivity and Independence has been reviewed, considered and upheld. The CAA will require these confirmations irrespective of the size of the ATOL holder being reported on.

Creating consistency in revenue recognition

ATOL holders that recognise revenue for sales made as principal at anything other than departure date are at risk of overstating profits and understating creditors (i.e. customer deposits held in advance - deferred income). The CAA requires visibility of ATOL holders' customer deposit liabilities in order to have an accurate view of liquidity risk and to understand the level of exposure faced by the ATT.

The proposed enhanced Annual Accountants' Report will seek information on deferred income and provide a reconciliation of the revenue between the financial statements and the AAR.

Expected benefits of proposed approach

The Licensed Practitioner scheme provides the CAA with a framework to meet its objective of ensuring quality reporting, with a minimum direct cost implication for ATOL holders.

The CAA believes that the targeted, industry-specific training provided as part of the Licensed Practitioner scheme will help prevent misreporting.

The proposed Licensed Practitioner scheme will also add value to firms and sole practitioners in terms of the support and quality of work they can provide to their ATOL-holding clients. This is highly relevant in the context of the on-going and planned regulatory changes and the unique challenges faced by the travel industry.

It is expected that training provided to reporting accountants through the Licensed Practitioner scheme will lead to fewer instances of non-qualified audit reports for financial statements prepared using a booking date revenue recognition policy for sales made as principal.

The proposal in relation to professional indemnity will allow the CAA to ascertain whether it has adequate information to satisfy itself that reporting accountants have a sufficient level of Professional Indemnity insurance cover relative to the size of ATOL holder being audited or reported on for the purpose of the Annual Accountants' Report. This is particularly relevant in view of the reporting accountant's duty of care to the CAA and ATT in respect of the information provided.

The proposed statement of independence is expected to give the CAA additional comfort that the reports provided for decision-making purposes have been prepared objectively.

APPENDIX C

Alternative options for ATOL holders

This appendix lists the current Accredited Bodies and ATOL franchises, to enable current SBA holders to consider whether any would be a suitable choice for future compliance.

Accredited bodies' contact details		
Advantage Travel Centres Ltd	www.advantagemanagedservices.com	020 7324 3930
Barrhead Travel Service Ltd	www.barrheadtravel.co.uk/	0871 864 2124
Broadway Travel Service (Wimbledon) Ltd	www.broadwaytravel.com/	0800 044 5108
The Freedom Travel Group Ltd	www.freedomtravelgroup.co.uk/	0844 879 8483
The Global Travel Group Ltd	www.globaltravelgroup.com/	0800 652 9808
Hays Travel Ltd	http://www.haystravel.org/	0800 408 4048
Midcounties Co-operative Ltd	http://www.coopconsortium.co.uk/	01922 234 400
Travel Counsellors Ltd	www.travelhomeworking.co.uk/	0800 093 9482

ATOL franchise contact details		
TTA Travel (The Travel Network Group)	www.traveltrust.co.uk/	01483 545 787

APPENDIX D

Summary proposed regulatory requirements for SBAs and standard ATOL holders with less than £5 million licensable business

Please see tables below.

New applicants

Summary of proposed regulatory changes in financial requirements for new applicants applying for less than £5 million ATOL revenue			
	Existing requirements		**New requirements**
	If you wish to apply for a Small Business ATOL (SBA)...	If you wish to apply for a Standard ATOL for less than £5 million ATOL revenue...	Standard ATOL less than £5 million ATOL revenue
Licence Size	500 passengers	Up to £5 million ATOL revenue	No change, except new minimum licence size of £500,000 revenue
Bond	£40,000 on initial grant reducing to nil over four years	Based on percentage of forecast annual ATOL Minimum level £40,000 on initial grant reducing to nil over four years	Based on percentage of forecast annual ATOL revenue (starting at 15% and reducing to 10% over three years) Minimum £75,000 bond
Paid Up Ordinary Share Capital	No minimum	£30,000 minimum	£50,000 minimum
Financial Information	No requirement	Audited financial statements consisting of profit and loss, balance sheet and cash flow. Two year business plan required consisting of detailed profit and loss, balance sheet and cash flow projections.	Audited financial statements consisting of profit and loss, balance sheet and cash flow. Two year business plan required consisting of detailed profit and loss, balance sheet and cash flow projections.
Financial Assessment	None	Asset Turnover Ratio	Enhanced financial assessment with further ratios on liquidity & cash flow
APC	£500 deposit paid upfront plus annual payment	No upfront deposit. Reported and paid quarterly	Reported and paid quarterly

Existing ATOL holders

	If you currently hold a Small Business ATOL (SBA)…		**If you currently hold a Standard ATOL for less than £5 million ATOL revenue…**	
	Existing requirements	**New requirements as a Standard ATOL**	**Existing requirements**	**New requirements**
Licence size	500 passengers	Based on forecast annual ATOL revenue. New minimum licence size of £500,000 revenue	Up to £5 million ATOL revenue	No change, except new minimum licence size of £500,000 revenue
Bond	£40,000 on initial grant reducing to nil over four years	No change in most cases during implementation period £75,000 minimum	Based on percentage of forecast annual ATOL revenue reducing to nil over four years £40,000 minimum	No change in most cases during implementation period £75,000 minimum
Paid up ordinary share capital	No minimum requirement	£50,000 minimum	£30,000 minimum	£50,000 minimum
Financial information	Not required	Key financial data and confirmations extracted from Financial Statements signed by a Licensed Practitioner.	Financial Statements consisting of profit and loss and balance sheet (and cash flow if compiled) and an accountants report	Key financial data and confirmations extracted from Financial Statements signed by a Licensed Practitioner.

	If you currently hold a Small Business ATOL (SBA)…		**If you currently hold a Standard ATOL for less than £5 million ATOL revenue…**	
	Existing requirements	**New requirements as a Standard ATOL**	**Existing requirements**	**New requirements**
Financial assessment	None	Enhanced financial assessment with further ratios on liquidity & cash flow	Asset Turnover Ratio	Enhanced financial assessment with further ratios on liquidity & cash flow
APC	£500 deposit paid upfront plus annual payment	No upfront deposit. Reported and paid quarterly	Reported and paid quarterly	No change
Annual Accountants' Report (AAR)	Report requiring licensable passenger numbers and related revenue	Report in a new format to be completed on-line with the additional requirement for data from Financial Statements Validation required by ATOL holder's appointed Licensed Practitioner	Report requiring licensable passenger numbers and related revenue	Report in a new format to be completed on-line with the additional requirement for data from Financial Statements Validation required by ATOL holder's appointed Licensed Practitioner

APPENDIX E

Accountability for regulators - assessment of regulatory impact

This appendix sets out the data that the CAA already holds assessing the impact and benefits of this proposal. With responses from the consultation, the assessment will be refined and will help to inform the CAA's decision.

The table includes such relevant data as the CAA already holds. Where the CAA does not hold data that would be useful in assessing the measures, such as how many existing SBAs would be likely to remain with the CAA, or transfer to which Accredited Body or ATOL Franchise, we have invited respondents to the consultation to provide relevant information.

The appendix shows first the table as it is at present, and includes notes explaining some of the elements of cost and benefit in more depth. The estimates are often illustrative, where precise data is not available. All financial data is assumed to be at current prices.

Accountability for regulators - available data showing impact on business											
		Ongoing and transitional costs - constant prices assumed									
		Year									
Costs	**Notes**	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**
Withdrawal of SBA											
Per business (SBAs only)											
Remain with the CAA											
Additional ATOL fees	1	550	550	550	550	550	550	550	550	550	550
Recapitalisation	2	13,500	13,500	13,500	0	0	0	0	0	0	0
Transfer to accredited body	3										
Costs		Data requested									
Offsetting benefits											
Transfer to ATOL franchise	3										
Costs		Data requested									
Offsetting benefits											
In total:											
Remain with the CAA	4	To be calculated									
Transfer to accredited body (net)											
Transfer to ATOL franchise (net)											
New financial arrangements for <£5 million licences (non-SBAs only)											
In total:											
Anticipated additional financial burden	5	0	0	0	0	0	0	0	0	0	0
Introduction of licenced practice/ practitioner scheme											
Per business											
Increased fee	6	600	600	600	600	600	600	600	600	600	600
In total											
Increased fee	7	To be calculated									
Total costs		To be calculated									
Benefits											
Reduction in APC calls	8	200,000	400,000	600,000	1,600,000	1,600,000	1,600,000	1,600,000	1,600,000	1,600,000	1,600,000
Net benefit / cost		To be calculated									

Notes

Note 1 - additional ATOL fees

This represents an estimate per business of the net increase in ATOL fees that would be payable to the CAA if, after SBA were withdrawn, the business chose to remain with the CAA. For details of the CAA's charging scheme, see the Schedule of Charges at:

http://www.caa.co.uk/docs/33/ORS5%20No.%20295.pdf

The estimate included is based on an average of current discounted and non-discounted fixed fees for a standard ATOL and assumes an average of 500 seats on licences. This is illustrative because future ATOL fees are not yet known: for example, the CAA may consider a fee based on turnover rather than passenger numbers.

Note 2 - recapitalisation

The CAA has conducted an analysis of available financial information for current SBAs, to determine the potential impact of new financial tests. The sample was of approximately 100 ATOL holders using 2012 financial data. In some instances only balance sheet data was available.

The estimate is illustrative because the exact impact will be determined by final financial tests, which have not yet been determined. The illustration is based on 2 key assumptions.

First, that the CAA will require the following condition to be met: shareholders' funds should be at least equal to the higher of £50,000, and 3% of turnover. This formulation is certain not to be the outcome, but we believe it is a reasonable basis for providing illustrative data on the impact of applying financial requirements on businesses presently meeting no test across a broad range of businesses. This produced an estimated required strengthening of £40,500 per business.

Second, that for businesses remaining with the CAA we would permit a transition period of three years to meet the new requirements. The impact of this is shown by including the recapitalisation costs spread over three years.

Note 3 - transfers to Accredited Bodies and ATOL franchises

No estimate is included here and data has been requested as part of the consultation. The CAA does not hold data on either of the charging schemes of these bodies, as we have no regulatory locus on their charges, or on the benefits of membership which may defray costs.

Note 4 - total costs of the withdrawal of SBA

The estimates mentioned above are based on the average impact per business. To convert estimates of impact per business into totals, it is necessary to estimate how many businesses would go for each option. The CAA has no robust basis on which to do this, and has asked for affected parties' views as part of the consultation.

Note 5 - new financial ratios on businesses that are already financially tested

The CAA's intention here is that across all businesses that are already financially tested, the impact will be neutral, and a zero impact has therefore been assumed.

Note 6 - Licensed Practice / Practitioner scheme per business

The CAA has been advised that for a typical firm the additional costs of the additional work required would come to approximately £600.

Note 7 - Licensed Practice / Practitioner scheme total

No estimate is included because businesses transferring to Accredited Bodies will not need to pay these additional charges - see Note 4.

Note 8 - reduction in APC calls

This estimate is illustrative. CAA analysis has suggested that over 5 years SBAs and businesses licensed for under £5 million have cost the ATT about £800,000 per annum more than they have contributed in APCs.

The changes proposed are all intended to address this situation, but there is no way to assess the impact of, for example, the impact of an improved set of financial ratios on failure rates with any degree of precision. It has been therefore been assumed, for the purposes of this projection, that the changes taken together will produce an outcome where the situation is brought into balance - the businesses would then pay as much APC as they caused calls.