

Update to the scope of the ATOL scheme in order to partially implement the new Package Travel Directive (2015)

Department for Transport

RPC rating: fit for purpose

The IA is now fit for purpose as a result of the Department's response to the RPC's initial review. As first submitted, the IA was not fit for purpose.

Description of proposal

The statutory Air Travel Organisers' Licensing (ATOL) scheme protects consumers when a travel company becomes insolvent. Businesses selling air holiday packages are required by law to be part of the ATOL scheme. Under the scheme, licensed businesses make contributions to the Air Travel Trust Fund (ATTF), which pays out when a licensed business collapses. Businesses make contributions through the ATOL Protection Contribution (APC), which is a £2.50 levy per passenger per booking.

This proposal introduces changes to the ATOL scheme to ensure that the scheme complies with the new European Package Travel Directive (2015), when it is brought into force in 2018. The proposal focuses solely on the changes to insolvency protection in the Directive. The measure:

- changes the scope of the ATOL scheme to bring customised packages and linked travel arrangements (LTA) into the scope of insolvency protection. An LTA is formed where a customer purchases one travel component through one vendor, and another through a different vendor, within 24 hours of each other;
- imposes obligations on the travel organiser to provide information to consumers on insolvency protection both before and after a sale has been completed; and
- removes business to business sales from the ATOL scheme.

The proposal is being implemented to reflect the minimum requirements of the Directive, without any gold plating.

Impacts of proposal

Based on information provided by the Civil Aviation Authority (CAA), the Department estimates that 2,200 businesses will incur a cost of £1,200 each to update their websites to provide the additional information to consumers. This will impose a one-off cost on business of £2.6 million. In addition, the Department estimates that it will take an additional two minutes to relay information on insolvency protection to consumers, who book via the telephone. Based on the median hourly wage rate for travel agents and an estimated two million telephone bookings, the Department estimates that this will impose a cost on business of £0.8 million each year.

In addition, the Department estimates that bringing more businesses in scope of the ATOL scheme will increase contributions to the ATOL scheme by around £2.7 million each year. This is based on estimates provided by the CAA.

There is a small benefit of £0.2 million for travel operators offering business bookings from no longer paying contributions to the ATOL scheme. However, this also represents a cost to the ATTF.

At this stage, the Department has estimated the equivalent annual net cost to business (EANCB) to be £3.5 million. This will be a non-qualifying regulatory provision that will not score under the business impact target.

Quality of submission

As initially submitted, the IA did not adequately assess an alternative option whereby insolvency protection obligations would be covered entirely by the market. This meant that the RPC did not consider it to be fit for purpose. Following the RPC's initial review, the Department submitted a revised IA. The IA now provides more information as to why it would not be feasible or desirable to move insolvency protection fully into the market in time to implement the Directive on 1st January 2018.

The initial review notice also highlighted that the IA would benefit from considering whether businesses will incur familiarisation costs. The IA now recognises that businesses will need to familiarise themselves with the changes to the ATOL scheme, particularly the information provision requirements. The Department has not monetised this impact at this stage but intends to gain further information on this through the consultation. The Department needs to attempt to monetise this cost at final stage.

The RPC also noted that in estimating the costs of the information provision requirements, non-wage labour costs should be added to the basic wage rate. The IA has now been revised to take this into account.

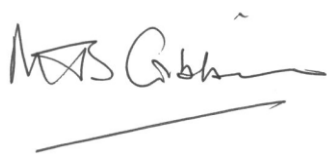
The analysis contained in the IA is adequate for this stage of the policy process. However, the Department needs to improve its estimates through consultation. At final stage, the Department needs to attempt to monetise the impact of bringing linked travel arrangements within scope of the ATOL scheme. The IA should also set out more clearly the status of the ATFF and clarify whether increases or reductions in its revenue can be considered a cost to business. The Department also needs to provide greater provenance for its estimates, for instance the number of telephone bookings each year and the time taken to relay the additional information requirements.

Departmental assessment

Classification	Non-qualifying regulatory provision (EU)
Equivalent annual net cost to business (EANCB)	£3.5 million
Business net present value	-£30.5 million
Societal net present value	-£8.5 million

RPC assessment

Classification	Non-qualifying regulatory provision (EU)
Small and micro business assessment	Not required (European origin)
RPC rating (of initial submission)	Not fit for purpose



Michael Gibbons CBE, Chairman