Regulatory Policy Committee

Package Travel Directive 2015

Department of Business, Energy and Industrial Strategy

RPC rating: **fit for purpose**

Description of proposal

Package travel holidays involve the pre-arranged combination of a number of components of a holiday that are sold together. These holidays are currently regulated by the EU Package Travel Directive (PTD 1990). PTD 1990 is being updated to take account of innovations in the package travel market including:

- dynamic packages that allow travellers to customise the content of their package according to their needs;
- multi-trader packages that allow travellers to put together components of a package themselves (often online) from more than one trader, with a single sale point; and
- linked travel arrangements (LTAs) that involve separate selection and payment of each travel service, and separate contracts with the individual travel service providers

PTD 2015 will expand the scope of protection to include dynamic packages and, to a lesser extent, LTAs. Packages bought for business travel through travel management companies (TMCs) would be excluded from scope. Packages brought into scope by the regulation would have to comply with most of the previous requirements of PTD 1990. In addition, the proposal introduces changes to:

- information on provisions that sellers of packages are required to supply;
- restrictions on alterations in price after a package has been booked;
- liability for package performance and obligations to provide assistance;
- terms on cancelling packages, refunds and compensation;
- the ability for the consumer to contact the organiser of a package through the retailer; and
- mutual recognition of insolvency protection and administrative co-operation.

The assessment states that it is taking the minimum action required to implement the Directive.

Impacts of proposal

All businesses that sell package travel holidays will be directly affected. The Department's best estimate is that approximately 7,880 businesses will be in scope of PTD 2015. Of those, approximately 2,330 businesses are already in scope of PTD 1990, there are 3,180 businesses are newly in scope of PTD 2015, and 2,370 businesses facilitating LTAs. PTD 2015 includes fewer provisions for LTA businesses, therefore these will bear fewer additional costs compared to organisers of package holidays.

Costs

Transitional costs

The Department expects that a senior corporate manager will take three hours at an hourly wage rate of £26.73 (which has been uprated to include non-wage labour costs) to become familiar with the changes. The total cost for all directly affected businesses to familiarise themselves is estimated to be £632,000. The assessment bases this on evidence provided by the Civil Aviation Authority for a Department for Transport (DfT) impact assessment.

The table below shows additional transitional costs. The costs for businesses newly in scope of PTD 2015 have been uplifted by 50 per cent compared to those already in scope of PTD 1990. Businesses facilitating LTAs do not have to provide as much information as those offering packages; therefore, they face lower costs for providing information. Estimates of website redevelopment costs have been revised based on consultation responses. In total, these changes are expected to impose a one-off cost of around £620 million. This is far higher than the £11.4 million cost estimated at pre-consultation stage.

	Website redevelopment	IT system changes
Businesses in scope of PTD 1990	£2,400	£56,000
Businesses newly in scope of PTD 2015	£3,600	£84,000
Businesses facilitating LTAs	£2,400	£84,000

Ongoing costs

There is an ongoing cost of providing information over the phone. Each instance of information relayed by telephone is estimated to cost 37p, using median hourly wages for relevant staff. The assessment assumes that 10% of bookings for individuals are made over the phone, based on an estimate from the CAA. It is also assumed that packages are booked over the phone by one person for a group of four. This results in a total cost to business of £313,000 per annum. The pre-consultation impact assessment estimated a similar cost of providing information face to face, however, comments from stakeholders suggested this cost from providing information face to face would be unlikely.

PTD 2015 extends the requirement to provide insolvency protection for travellers to packages not currently in scope of PTD 1990. In addition to the estimated 3,200 businesses that organise package travel holidays newly in scope of PTD 2015, it is estimated that 500 travel agents are also newly in scope and are not currently required to provide insolvency protection for non-flight packages. The assessment uses a survey carried out by the Association of British Travel Agents (ABTA) to estimate the total cost at £15.5 million per annum. Businesses facilitating LTAs are required to provide a lower level of insolvency protection. Some stakeholders mentioned uncertainty around the cost of insolvency protection and stated that they were unlikely to sell LTAs as a result.

Businesses would also be liable for the performance of the package, for example by providing alternative arrangements if a supplier failed to fulfil their contract. The assessment estimates this will affect 10.2 million packages per year newly in scope of PTD 2015, based on Eurostat data for the total number of trips taken by UK residents in 2013. An estimate from the European Commission, derived from consultation with a range of trade bodies including ABTA, is used for the average cost to businesses of insuring their liability requirement. The estimate of £20.88 million per annum is based on an average across all Member States; the European Commission does not provide a split for individual countries. The assessment acknowledges that the cost may differ between individual countries and does not attempt to provide a more informed estimate of the UK’s share of this cost.

PTD 2015 also requires organisers of packages to assist travellers in difficulty. This will only cause additional costs to businesses newly in scope of PTD 2015. The assessment uses a European Commission estimated cost of €1-2 per traveller, (averaged across all EU countries) as a representative figure for the UK. PTD 2015 allows organisers to reclaim the cost of providing assistance to travellers in difficulties that arise through the fault of the traveller; this is assumed to be the case in 10% of situations. The total cost to businesses newly in scope of PTD 2015 is therefore reduced by 10% to £11.3 million per annum.

Non-monetised costs

The assessment includes several non-monetised costs and justifies why the impact of each relevant provision is likely to be small. For example: PTD 2015 gives travellers the ability to contact the organiser of a package through the retailer, and businesses facilitating LTAs will have to provide insolvency protection.

Benefits

PTD 2015 allows organisers to reclaim the cost of providing assistance to travellers in difficulties that arise through the fault of the traveller. This is considered a benefit for organisers that are in scope of PTD 1990, who are currently restricted from reclaiming this cost. The annual benefit is estimated to be £2.9 million.

Businesses newly in scope of PTD 2015 would face costs of £20.88 million for liability insurance to enable them to ensure proper performance of a package. It is assumed there is an equivalent benefit of £20.88 million to travellers as a result either of proper performance, or of appropriate redress. The assessment also identifies benefits to travellers from: businesses providing assistance to travellers in difficulty, and insolvency protection. The estimated costs to businesses for these provisions are £11.27 million and £15.53 million respectively. The estimated total benefit to travellers of expanding the provisions included in PTD 1990 to cover all dynamic packages is £47.68 million.

Non-monetised benefits

The assessment included several non-monetised benefits with some justifications explaining why their impacts are likely to be small. For example: the benefit to business of no longer being obliged to provide protection for business travel arranged through TMCs and the benefit of mutual recognition of insolvency protection across the EU. The assessment assumes travellers would benefit from other provisions in PTD 2015, but has been unable to monetise these. The European Commission estimated €114.9 million of UK consumer detriment from dynamic packages not covered by PTD 1990 per year; PTD 2015 seeks to address a large proportion of this.

Quality of submission

The Department has provided a detailed analysis of the impact of PTD 2015. It has attempted to gain evidence from consulting with businesses and stakeholders to test assumptions and fill gaps in knowledge. The Department also conducted a literature review and contacted specific stakeholders to improve its evidence base. It has adapted sections of the assessment based on information provided during consultation. A detailed table listing the assumptions used was also provided.

The Department has responded to the RPC's pre-consultation stage opinion by: attempting to gather more evidence on the number of businesses affected through consultations and using consultation evidence to improve estimates of familiarisation costs and the cost of businesses updating IT software and booking systems.

When calculating the cost of redeveloping websites and changes to IT systems, the assessment assumed a 50 per cent uplift for businesses newly in scope of PTD 2015, compared to those in scope of PTD 1990. Given the lack of consultation evidence, the assessment continued to use this assumption. Sensitivity analysis around this assumption would have been beneficial.

The assessment would have benefitted from attempts to monetise: the benefit from businesses no longer having to provide protection for business travel arranged through TMCs; and the benefit of mutual recognition of insolvency protection across the EU, particularly given stakeholders' comments that this would represent a considerable cost reduction. The assessment would also have benefitted from further attempts to tailor EU-wide estimates to the UK.

It would be beneficial to further discuss and justify: the assumed small impact of the changed restriction on alterations in price after a package has been booked; why the familiarisation cost is based on evidence from a DfT impact assessment; and why the travel agents in scope of insolvency protection for non-flight packages are not included in the familiarisation cost. The Department should also have considered the additional costs to businesses organising their own employees' travel, as these will be newly in scope of PTD 2015.

In reference to businesses ensuring the proper performance of packages: the assessment assumes a benefit to travellers of an equal size of the cost of insurance for liable businesses. However, the Department has not taken account of profits absorbed by the insurance industry and therefore it is likely that this benefit would be split between travellers and insurance companies. The benefit to insurance companies is indirect so the NPV and EANDCB remain unaffected.

The RPC considers the NPV calculated to be fit for purpose as the Department has attempted to monetise impacts where possible. However, it is likely the NPV does not fully capture the impact of the proposal due to benefits that have not been monetised. For example, the estimated €114.9 UK consumer detriment per annum that PTD 2015 seeks to address.

The Department is not required to conduct a small and micro business assessment because the proposal is non-domestic. However, the assessment states that 94% of businesses in the travel sector are small and micro, and that these businesses may face disproportionate costs. The Department plans to produce guidance to help minimise this impact, following stakeholders' comments that these businesses may be disproportionately affected. The RPC, therefore, recommends a fuller assessment of this impact.

Departmental assessment

Classification	Non-qualifying regulatory provision (EU)
Equivalent annual net direct cost to business (EANDCB)	£103 million
Business net present value	-£1009 million
Societal net present value	-£598 million

RPC assessment

Classification	Under the framework rules for the 2015-17 parliament: non-qualifying regulatory provision (EU)
Small and micro business assessment	Not required (EU)

Anthony Browne, Chairman