

Rebalancing ATOL: CAA's decision on consultation proposals to ensure a fair and proportionate scheme

CAP 1277



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Enquiries regarding the content of this publication should be addressed to: Civil Aviation Authority, CAA House, 45-59 Kingsway,
London WC2B 6TE

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Introduction

In June 2014, we issued a consultation on proposals to rebalance the regulatory approach that we use and to extend a risk-based approach to all businesses that we regulate within the ATOL scheme.¹

The aim of the proposals was to reduce the likelihood that consumers buying from ATOL holders would be affected by insolvency and suffer inconvenience and financial detriment as a result of it. An important component of rebalancing ATOL is the introduction of the financial test for all to ensure that the ATOL badge is not associated with businesses that are trading while inadvertently undercapitalised. To this end, the proposals aimed to strengthen protection against calls on the Air Travel Trust (ATT), relating mostly to firms that are authorised to conduct less than £5 million licensable revenue.

It was proposed that this could be achieved through:

- the withdrawal of the Small Business ATOL (SBA) scheme;
- the introduction of a more risk-based approach to financial assessment for firms which conduct less than £5 million of ATOL business (as well as the introduction of a requirement to have paid up ordinary share capital of £50,000 and, where required, an increase in the level of minimum bonding to £75,000);
- revised assurance reporting arrangements from accountants so we have greater confidence in the information provided to us by ATOL holders and their accountants; and
- the introduction of an online self-assessment facility and reporting tool.

The consultation period closed in October 2014 and we received 167 responses.² We have considered the responses carefully and none of them have led us to conclude that the problems identified in our consultation do not exist, or that they do not need addressing.

¹ <http://www.caa.co.uk/docs/33/CAP%201190%20Rebalancing%20ATOL.pdf>

² <http://www.caa.co.uk/default.aspx?pageid=16785>

Taking into account the information we received from respondents to the consultation this document sets out our conclusions and our next steps.

Key decisions

We will rebalance ATOL by implementing most, but not all, of the proposals that we consulted on. We believe these decisions constitute a proportionate way to extend the risk-based approach to all businesses that we regulate under ATOL.

We have decided not to remove the SBA category ATOL licence as the best means of introducing a financial test for all. Instead everyone applying for an ATOL, including those applying for or renewing an SBA, will have to pass a financial test. Most businesses that currently have an SBA will be eligible to remain an SBA. New applicants will have to meet certain requirements for paid up ordinary share capital and bonding levels.

With effect from 1 October 2015, a minimum share capital requirement of £30,000 will apply to all firms applying for an ATOL for the first time, which is lower than the £50,000 proposed in the consultation. Bonding will continue to apply to new applicants and others who are required to provide bonds.³

We have decided to implement the revised assurance reporting arrangements for reporting accountants proposed in the consultation (although involving a broader range of accountancy bodies), and we have decided to implement an online self-assessment facility.

In reaching these decisions we have recognised that by pursuing most, but not all of our proposals, the remaining set of measures will still make considerable progress towards achieving the intended goals. The arrangements set out in this document will meet the original objective of providing a reasonable balance between giving consumers the confidence that they are unlikely to be affected by the insolvency of the ATOL holder with which they are booking, so reducing the exposure of the ATT, while allowing new, financially resilient, operators to enter the travel business.

Businesses with a high risk of insolvency, or which are trading with a balance sheet deficit, should not be licensed in an industry based on taking customer money in advance. Having in place a series of financial measures which ensure businesses are solvent and are sufficiently capitalised is a proportionate solution to reduce the likelihood of failure (and the resulting consumer

³ <http://www.caa.co.uk/application.aspx?catid=33&pagetype=65&appid=11&mode=detail&id=5435>
<http://www.caa.co.uk/application.aspx?catid=33&pagetype=65&appid=11&mode=detail&id=5436>

detriment) occurring in the first place and to reduce potential costs to the ATT. We are also of the view that third party reporting must be sufficiently competent so that financial reports are accurate and therefore licences are issued on the basis of accurate financial information.

Table 1 sets out a summary of the decisions we have made. More detail and explanation of the changes is set out in the following chapters.

Table 1 - Summary of changes

	Financial assessment	PUC	Bonding	Licence limits (eligibility criteria)
Current SBAs	Solvency test	No minimum set	No change to existing levels (subject to existing policy)	<500 passengers and <£1 million ⁴ licensable revenue
New Applicant SBAs	Solvency test	£30,000	Higher of £50,000 or 15% Year 1 £40,000 or 12.5% Year 2 £30,000 or 10% Year 3 £20,000 or 7.5% Year 4	<500 passengers and <£1 million licensable revenue
Standard ATOLs	Financial tests	£30,000	For new applicants, the higher of £50,000 or 15% Year 1 £40,000 or 12.5% Year 2 £30,000 or 10% Year 3 £20,000 or 7.5% Year 4	<£5 million licensable revenue
All ATOL holders	ATOL Reporting Accountants (ARAs) Members of Professional Accountancy Bodies ('ATOL Reporting Accountants') to be registered with their respective professional bodies to sign-off ATOL reports between October 2015 and 31 March 2016. ARAs required to be designated by their respective professional bodies to sign-off reports from 1 April 2016.			

⁴ This figure has been chosen because it achieves the objective of protecting the ATT from excessive exposure relating to the failure of businesses with very large revenues. We take the view that £1 million is an appropriate turnover ceiling for the SBA scheme. Setting the limit at this level it affects the top 5% of current SBAs. This ceiling means that those firms with licensable revenue greater than £1 million will be required to undertake more stringent financial tests.

CHAPTER 1

The future of the SBA scheme

The SBA scheme will be retained but we will apply some of the proposed financial testing and restrict eligibility.

Theme of responses

Some respondents supported the removal of the SBA scheme, but there was more support for its retention. Views expressed included issues over the affordability of the alternative options to comply with the ATOL scheme and concerns over barriers to entry to the market being too high.

Some SBAs indicated that the proposed introduction of financial tests could make it difficult for them to continue to operate within the scope of ATOL.

There was some acceptance among respondents that ATOL holders should be subject to a degree of financial vetting, proportionate to the size of their business.

The consultation had suggested that current SBA holders that did not want to hold standard ATOLs issued by the CAA could instead become members of 'Accredited Bodies'. Some small specialist tour operators advised us that Accredited Bodies are not currently a viable option through which they can provide consumers with ATOL protection.

In addition to considering consultation responses we discussed our intentions with the CAA's Consumer Panel⁵. The Panel advised us to be mindful of the impact any decisions may have on competition in the holiday market, from which consumers also benefit, as well as the impact those decisions might have on incentives for firms to stay within the scope of ATOL.

⁵ <http://www.caa.co.uk/default.aspx?catid=2488&pagetype=90>

Discussion and conclusions

Feedback from the consultation has led us to conclude that we can introduce a more limited set of the proposed changes and still achieve our policy objectives.

Although there was some support for the removal of the SBA scheme from the travel industry, there was far more opposition to it as a measure. We also have regard to the advice of the CAA's Consumer Panel that we should consider the impact of the decision on the consumer benefits that arise from competition among a large number of small businesses. We have concluded that we can reflect the industry's reservations about the removal of SBA by retaining it as a form of ATOL, while continuing with the other proposed measures. The measures were always intended to have an impact as a set: we believe that the set of those measures we have decided to introduce will achieve a broadly similar impact.

We have decided to:

- Retain the SBA but alter eligibility. Businesses will only be able to apply for or renew an SBA if they take bookings for no more than 500 passengers in a year and have licensable revenue less than, or equal to, £1 million. This is in recognition of the higher exposure to the ATT represented by larger businesses. Businesses with licensable revenue in excess of £1 million will be required to apply for a standard ATOL, in line with the original proposal. Fewer than 5% of SBAs have more than £1 million licensable revenue.
- Introduce a requirement for all SBA businesses to meet a basic solvency test. This will apply to both new entrants and existing businesses.
- For companies applying for an SBA for the first time, we will introduce a minimum level of paid up share capital of £30,000. This is lower than the £50,000 proposed in the consultation and reflects responses to the consultation, while also seeking to ensure that firms are adequately capitalised.
- Bonding will continue to apply to new applicants and others who are required to provide bonds, although the minimum level will increase to £50,000⁶ for new applicants and will reduce over four years i.e. £50,000, £40,000, £30,000 and £20,000. This is lower than the £75,000 minimum proposed in the consultation but reflects inflation since the current arrangements were introduced.

⁶ This amount broadly reflects the accumulative CPI increase from 2008. The actual number, which is based on forecasted ONS data, is £50,365.

- For firms with an SBA already operating in the market we will not now proceed with the proposal for them to have a minimum level of PUC. We believe that the basic solvency test will be adequate for businesses already trading.

We believe that these measures, taken with the other measures set out in this document, will provide adequate safeguards against unjustifiably high calls on the ATT, and give consumers the confidence that they are unlikely to be affected by the insolvency of smaller ATOL holders, while continuing to enable small businesses to trade within ATOL.

We will announce the details of the basic solvency test affecting SBAs and the new ratios affecting other ATOL holders (see Chapter 2) in May 2015. These measures will then become effective from 1 October 2015. As regards the future of the SBA scheme, this means:

- All existing SBAs will need to satisfy the solvency test when they next renew their licence after this date, and thereafter.
- Firms which will no longer be eligible for an SBA because of the level of licensable revenue they conduct will be required to meet the £30,000 paid up share capital requirement from 1 October 2015.

There will be no changes to the fees applicable to SBA applicants during 2015/16. The next Schedule of Charges consultation will follow the usual pattern and start in November.

Finally, we are in discussion with a number of organisations regarding new arrangements along the lines of existing Accredited Bodies, which may better suit small specialist tour operators. Accredited Bodies provide member benefits which often have commercial value. The benefits vary but can include access to credit card facilities with less security than would normally be required, automated production of ATOL Certificates, and access to systems that perform routine administrative functions for the member. These benefits can reduce the costs and risks associated with entering the market for new firms. We would welcome discussions with any other businesses which believe they may be able to provide solutions that broaden the options for firms to provide their customers with ATOL protection.

CHAPTER 2

Introduction of a more sophisticated financial test

We will introduce a more sophisticated financial assessment of firms which conduct less than £5 million of ATOL business.

Theme of responses

There were few responses to the proposals for an enhanced financial assessment. There was little outright opposition to the principle of improved ratios; at the same time there was little specific support.

Discussion and conclusions

We will continue with the development of a range of tests that will measure the strength of a firm's financial resilience. The details of these tests will be announced in May 2015. However they are likely to broadly consist of a series of financial tests that will help assess financial stability/solvency, liquidity/cash flow and profitability. These tests will enable us to determine the financial resilience of a business and help inform our view of the level of risk that a business poses to consumers and the ATT. Our intention is for the requirements to become effective from 1 October 2015.

The purpose of introducing new tests is not to increase the overall burden on the industry, but to provide a more targeted way to identify businesses at risk of insolvency.

CHAPTER 3

Assurance from reporting accountants

Reporting accountants must demonstrate their competence to their professional accountancy bodies.

Themes of responses

ATOL holders were concerned that this proposal could lead to higher accountancy costs, but very few examples were provided of what these costs could be.

Responses from professional accountancy bodies and their members generally supported the proposals. They identified the benefits of improved quality of reporting by the training of their members, and they saw this proposal as a positive requirement.

Discussion

We believe it is essential that we can place confidence in the accuracy of reports reviewed and submitted on behalf of ATOL holders, by third parties (accountants / auditors). In the consultation we expressed concern that in some cases accountants are not sufficiently knowledgeable about the industry or the specific requirements of ATOL to provide the required assurance. We have seen examples of inaccurate third party reporting and, consequently, if the protection scheme is to continue to provide confidence to consumers and the travel industry in general, then a more professional regime is necessary. Having in place a more professional regime that focuses on the demonstration of competence is a better way for the CAA to have confidence in the financial and reporting information that it receives, rather than reverting to more intrusive forms of regulation.

This is to mitigate the risk that licences could be issued on the basis of incorrect information, potentially exposing consumers to an unacceptable level of risk or detriment, and also that incorrect amounts of ATOL Protection Contributions are paid.

The issue has caused concern among professional accountancy bodies that wish to improve standards of reporting in this area and they are keen to work with us to minimise any such risks among their members.

Conclusions and decision

We will introduce similar requirements but with a broader range of professional accountancy bodies for greater assurance from reporting accountants, as we set out in the consultation.

We have been in discussion with professional accountancy bodies in addition to the ICAEW with a view to developing a number of acceptable ways to comply. As the scheme has been broadened, we are changing the name from "Licensed Practitioner". Accountants who are designated by their professional accountancy body to perform ATOL reporting will be known as "ATOL Reporting Accountants" (ARAs) instead. To date, we have engaged with four such organisations (see Table 2) and arrangements are expected to build upon the existing continuing professional development requirements of those organisations, with training for accountants to provide effective ATOL reporting.

We remain willing to enter into discussions with other accountancy bodies who wish to provide similar arrangements to their members.

Table 2 - Professional Accountancy Bodies' contact details

Organisation	Contact details
ACCA	Technical advice for ACCA members: Tel: +44 (0)20 7059 5920 Email: members@accaglobal.com
ICAEW	Members Advisory helpline: Tel: +44 (0)1908 248250 Email: generalenquiries@icaew.com Main UK Office: Tel: +44 (0)20 7920 8100
ICAS	Main ICAS contact details: Tel: +44 (0)131 347 0100 Email: enquiries@icas.org.uk
IFA	Main IFA contact details: Tel: +44 (0)1732 458 080 Email: mail@ifa.org.uk

Subject to the outcome of our discussions with professional accountancy bodies, we envisage this requirement will become effective from 1 October 2015. From that date, the CAA will accept reports only from members of professional bodies who have registered to perform ATOL reporting with their professional accountancy body under the CAA Scheme (even if their training is not complete).

From 1 April 2016, the CAA will accept reports only from trained and designated ATOL Reporting Accountants.

This will be reflected in an amendment to the ATOL Standard Terms.

CHAPTER 4

Introduction of an online self-service facility

We will introduce an online self-service facility, which in most cases will allow ATOL holders to submit financial reporting and applications.

Themes of responses

There was overwhelming support for a move to online processes and services, provided the system is secure and easy to use.

Respondents said it would help ease their administrative burden.

Discussion and conclusions

We will continue to develop an online solution as part of a broader programme of IT improvements within the CAA, and will provide more information on this as development of the system progresses.

As well as ATOL holders and applicants, ATOL Reporting Accountants will also have access to the online facility, as the system will help with the implementation of greater assurance from reporting accountants and the introduction of a more robust financial test.

It is expected that the online system will deliver cost savings and other benefits to businesses by way of reduced administrative burdens. We also foresee that an on-line facility will help free up our resources which will enable us to focus those resources on identifying and working with businesses where there are specific compliance issues.

Subject to the development timescales we hope to conduct trials with the help of the trade during the mid to latter part of 2015.

CHAPTER 5

Timetable for implementation of proposals

We will proceed now with plans to implement changes, as indicated in this document.

Themes of responses

Some respondents, including those from trade associations, suggested that we delay implementing any changes so that they could take place alongside implementation of a new directive on Package Travel and Assisted Travel Arrangements (PTD).

Conclusions

We understand that the proposal for a new PTD may be agreed later this year and any subsequent implementation will take effect at least two years after that. If we were to wait until then, it would mean the imbalances in the ATOL system and the consumer detriment arising from financially weak SBAs would remain until early 2018. Other risks around assurance reporting and the risk that licences could be issued incorrectly due to misleading or inaccurate third party reporting, means that it is not appropriate to wait until 2018 to tackle this consumer detriment. Having identified ways in which existing risks to consumers can be reduced, it is necessary for us to start taking steps to redress this and implement proportionate changes now.

CHAPTER 6

Impact of changes

The impact falls most heavily on undercapitalised businesses, through a need for them to recapitalise.

Discussion

The assessment of regulatory impact is included at Appendix 1, and has been updated with feedback received in response to the consultation.

Some of the key figures are impossible to estimate with any degree of certainty, notably the impact on ATT calls of the package of measures proposed. It is also relevant that the projections cannot yet take account of new arrangements which may apply from 2017/18 as a consequence of the new Package Travel and Assisted Travel Arrangements (PTD). However, the following points can be made:

- The intention of the package of measures proposed is not to reduce the net burden of regulation but to redistribute it more fairly. The data shows how the burden of additional requirements falls on undercapitalised businesses and new businesses providing small bonds for very large licensable revenue.
- As regards the costs arising from financial testing applied to SBAs for the first time, the main cost burden falls on undercapitalised businesses: the more undercapitalised the business, the greater the cost burden. Sample testing indicates that the majority of SBAs are already able to pass a basic solvency test and will therefore be unaffected.
- There will also be a material impact on businesses that have held a licence for fewer than four years and which are conducting over £1 million of licensable revenue, as their bonding requirement as standard ATOL holders will increase materially.
- The costs of the ATOL Reporting Accountants' scheme fall across the whole industry. The estimates indicate that cost per annum might be in the order of £1.2 million per annum (see Note 3). We believe that this is a vital component of the package of measures to help ensure that financial information reported to the CAA is accurate and that correct amounts of APC are paid.

Appendix A

Accountability for Regulators - assessment of regulatory impact

This appendix sets out data assessing the impact and benefits of this proposal. It has been revised to reflect feedback from the consultation.

The data illustrates how the decisions announced in this document affect individual groups of businesses. This reflects the very different impact that the proposals will have on different groups of businesses, mostly depending on whether they are trading on inadequate balance sheets or not, and whether they must transfer from an SBA to a standard ATOL.

The table in this appendix shows the main groupings of businesses affected. The groups are defined by whether they already hold an ATOL or not, by whether they would still continue to qualify for an SBA as a result of the licensable revenue limit, and by whether they would need recapitalising as a result of the application of new financial ratios.

For example, the first group of businesses shown in the table represents businesses which already hold an SBA, which have licensable revenue of £1 million or less, and which would pass a basic solvency test on the basis of their existing balance sheet.

For each group of businesses, the data shown is an estimate of the cost impact on a typical business in that group. These are averages, and the exact impact will differ materially for different businesses, depending on their own circumstances.

Precise data is often not available, and where this is the case estimates are illustrative. The projections are shown for ten years, but this is without prejudice to potential changes that may be a consequence of the arrangements made to implement the new PTD. All financial data is assumed to be at constant prices.

Accountability for Regulators – available data showing impact on business														
Costs – per business					Notes	Additional costs – constant prices assumed								
Incumbent / new application	Current ATOL type	New ATOL type				Year								
						1	2	3	4	5	6	7	8	9
Incumbent	SBA	SBA	Passes solvency test	Fees	1	0	0	0	0	0	0	0	0	0
				Recapitalisation	2	0	0	0	0	0	0	0	0	0
				ARA	3	600	600	600	600	600	600	600	600	600
				Bond cost	4	0	0	0	0	0	0	0	0	0
				Total		600	600	600	600	600	600	600	600	600
			Fails solvency test	Fees	1	0	0	0	0	0	0	0	0	0
				Recapitalisation	2	60,000	0	0	0	0	0	0	0	0
				ARA	3	600	600	600	600	600	600	600	600	600
				Bond cost	4	0	0	0	0	0	0	0	0	0
				Total		60,600	600	600	600	600	600	600	600	600
		Standard	Passes new financial ratios	Fees	1	550	550	550	550	550	550	550	550	550
				Recapitalisation	2	0	0	0	0	0	0	0	0	0
				ARA	3	600	600	600	600	600	600	600	600	600
				Bond cost	4	8,000	6,500	5,000						
				Total		9,150	7,650	6,150	1,150	1,150	1,150	1,150	1,150	1,150
			Fails new financial ratios	Fees	1	550	550	550	550	550	550	550	550	550
				Recapitalisation	2	65,000	0	0	0	0	0	0	0	0
				ARA	3	600	600	600	600	600	600	600	600	600
				Bond cost	4	8,000	6,500	5,000	0	0	0	0	0	0
				Total		74,150	7,650	6,150	1,150	1,150	1,150	1,150	1,150	1,150
	Standard		New financial ratios	Fees	1	0	0	0	0	0	0	0	0	0
				Recapitalisation	2	0	0	0	0	0	0	0	0	0
				ARA	3	600	600	600	600	600	600	600	600	600
				Bond cost	4	500	500	500	0	0	0	0	0	0
				Total		1,100	1,100	1,100	600	600	600	600	600	600

Accountability for Regulators – available data showing impact on business														
Costs – per business					Notes	Additional costs – constant prices assumed								
Incumbent / new application	Current ATOL type	New ATOL type				Year								
						1	2	3	4	5	6	7	8	9
New applicant	SBA	All	All	Fees	1	0	0	0	0	0	0	0	0	0
				Recapitalisation	2	30,000	0	0	0	0	0	0	0	0
				ARA	3	600	600	600	600	600	600	600	600	600
				Bond cost	4	500	500	500	500	0	0	0	0	0
				Total		31,100	1,100	1,100	1,100	600	600	600	600	600
	Standard	All	All	Fees	1	0	0	0	0	0	0	0	0	0
				Recapitalisation	2	0	0	0	0	0	0	0	0	0
				ARA	3	600	600	600	600	600	600	600	600	600
				Bond cost	4	500	500	500	500	0	0	0	0	0
				Total		1,100	1,100	1,100	1,100	600	600	600	600	600
Potential benefits - aggregate														
		Improvements in ATT for SBAs and <£5million			5	200,000	400,000	600,000	1,600,000	1,600,000	1,600,000	1,600,000	1,600,000	1,600,000
		Improvements in ATT for >£5million			6	400,000	800,000	800,000	800,000	800,000	800,000	800,000	800,000	800,000

Notes

Note 1: Additional ATOL fees

For existing SBA holders eligible to remain as SBAs, the additional cost would be zero. For SBA holders that would need to become standard ATOLs, this represents an estimate per business of the net increase in ATOL fees that would be payable to 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, in the future the CAA may consider a fee based on turnover rather than passenger numbers (in which case it would consult on that proposal in the annual CAA Charges Scheme consultation).

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 will be announced in May 2015. There are different impacts for businesses remaining as SBAs and those required to become standard ATOLs.

For incumbent businesses remaining as SBAs, it is assumed that they will have to return to at least a break-even position in shareholders' funds. The sample suggests that about 85% of SBAs will be unaffected. For the approximately 15% of businesses requiring recapitalisation, the average requirement is £60,000: in the sample the actual injection varied between £400 and £245,000.

For incumbent businesses required to become standard ATOL holders, the CAA's new test is not yet specified. For the purposes of this illustration, the test will require the following condition to be met: shareholders' funds (rather than PUC) should be at least equal to the higher of £50,000, and 3% of turnover. This exact formulation is almost certain not to be the actual outcome, but it shows the impact of applying a more exacting financial test on current SBA balance sheets. For the approximately 60% of businesses in this group requiring recapitalisation, this produced an estimated required strengthening of

£65,000 per business, with the sample showing a minimum injection of £8,000 and a maximum of £370,000.

Where incumbent businesses are standard ATOLs but subject to the new test, the CAA's intention is that the impact will be neutral, and a zero impact has therefore been assumed.

For new applicants for SBAs, the data shows the future requirement to have at least £30,000 of PUC: this is a worst case scenario in that some new businesses may have that anyway, but it is a minority. New applicants for standard ATOLs are unlikely to be affected.

Note 3: ATOL reporting accountants' scheme per business

The CAA has been advised that for a typical firm the additional costs of the additional work required would cost approximately £600. This applies to all ATOL holders, though different ARAs will make different charges for different businesses.

Note 4: Bonding costs

Throughout the estimates here it is assumed that bonds will cost businesses 5% of the face value of the bond per annum.

Incumbent SBAs which remain SBAs will have no additional bonding cost.

For incumbent SBAs which become standard ATOLs, the required bond will increase for any remaining years they are required to provide a bond, to the levels currently required of standard ATOLs. The illustrative data shows an estimated cost for a business that has three more years in which it must provide bonds, although in reality the majority of ATOL holders will be unaffected. The estimate is based on the average impact on a sample of SBAs with turnover that exceeded £1 million. The sample showed an impact varying from £3,000 to £18,000.

For incumbent businesses which are standard ATOLs already, the required bond will also increase for the remaining years (if any) they are required to provide a bond, by exactly £10,000 each year. The illustrative data shows an estimated cost for a business that must provide a bond for three more years, whereas in reality most ATOL holders will be unaffected.

New applicant SBAs will be required to obtain bonds of £10,000 more than current requirements. This will apply for four years, the period during which bonds are required.

New applicant standard ATOLs will be required to obtain bonds that are £10,000 more than current requirements, unless their licensed revenue is high enough that the turnover rule applies instead, in which case they will be unaffected. The average across all cases is small and no cost is shown here.

Note 5: Reduction in APC calls for SBA and <£5 million cases

This estimate is illustrative. CAA analysis has suggested that over 5 years SBAs and businesses licensed for under £5 million have each 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, an improved set of financial ratios on failure rates with any degree of precision. The same data is therefore shown as was shown in the consultation: that the changes taken together will produce an outcome where the situation is brought into balance - overall, the businesses in this category would pay as much APC as the cost of calls on the ATT caused by this category. Since some of the proposed measures are not now being introduced, the outcome is likely to be less favourable for the ATT than it would have been, but there is no way of assessing how much.

Note 6: Improvement in ATT position from standard ATOL holders >£5 million licensable revenue

This estimate is intended to cover the benefit from the ATOL Reporting Accountants scheme, as it relates to businesses licensed for more than £5 million per annum. The benefits relating to smaller businesses are already taken into account in Note 5, which captures the total gap between APC payments and ATT payouts, arising from both new financial tests and accurate reports from their designated ARA, operating under the CAA scheme for ATOL Reporting Accountants.

The estimate is illustrative. In the 5 year period for which the CAA examined data, there was one failure in which poor quality accounting and reporting was a major factor. With better quality auditing, the amounts of APC paid would have been higher and, more significantly, the CAA would have been better placed to take appropriate licensing action against the business. There is no analytical way of establishing how much lower the cost would have been and it is assumed that the ATT would have saved 20% of the costs that were incurred. This has been converted into an annualised figure by splitting it out over the 5 year period in question.