

AIR TRAVEL TRUST

Report and Accounts

31 March 2000

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**Air Travel Trust
CAA House
45-59 Kingsway
LONDON
WC2B 6TE**

5 July 2000

Secretary of State for Environment, Transport and the Regions
Great Minster House
76 Marsham Street
London SW1P 4DR

Sir

In accordance with clause 15 of the Trust Deed dated 28 January 1986 and with the Direction to the Trustees dated 30 March 1987, I submit herewith the Report and Accounts of the Air Travel Trust for the year ended 31 March 2000.

A handwritten signature in black ink, appearing to read 'C Senior', with a small dot at the end of the line.

C Senior
Chairman

Air Travel Trust

CAA House
45–59 Kingsway
London
WC2B 6TE

TRUSTEES

Mr C Senior (Chairman)
Mr D Andrew
Mr R J Britton
Mr A G Herron

OFFICIALS

Mrs H M Simpson, Secretary
Mr M Ashby, Treasurer
Miss S Springett, Assistant Secretary

BANKERS

National Westminster Bank plc
Bloomsbury Parr's Branch
214 High Holborn
London WC1V 7BX

Bank of Scotland
38 Threadneedle Street
London EC2P 2EH

AUDITORS

Deloitte & Touche
Hill House
1 Little New Street
London EC4A 3TR

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Report of the Trustees

CONSTITUTION AND TERMS OF REFERENCE

The Air Travel Trust Fund exists to provide financial protection for holidaymakers and continues to be an integral part of the Air Travel Organisers' Licensing system managed by the Civil Aviation Authority.

As a condition of being granted an Air Travel Organiser's Licence each firm must provide a bond. If the travel organiser then ceases to trade its bond is used to repatriate customers who are abroad at the time of its failure and to provide refunds to those who have made payments in advance. The Fund's role is to stand behind individual bonds which prove to be insufficient to meet all claims made upon them.

The Trustees are all Board Members and officials of the Civil Aviation Authority, appointed ex officio. At the invitation of the Trustees and as the nominated representative of the Air Travel Trust Committee, Mr Martin Brackenbury attends Trust meetings. One meeting was held during the year, in May 1999.

The Trust's terms of reference are contained in the Trust Deed which has been reproduced at Appendix 1 to this Report.

REVIEW OF THE YEAR

There were early concerns that 1999 might be more difficult for the travel industry than recent years due to a downturn in the general economic outlook and the Balkan crisis. In the event the number of failures was the lowest since 1992 and more importantly financial assistance from the Trust was only sought on four occasions.

The Fund's opening position was a deficit of £7.39 million. During the year there was £325,000 expenditure and provisions on new failures, plus a

further liability arising from the failure of Evergreen Travel Service Limited which had occurred in the previous year. Additionally there was a liability in excess of £451,000 in respect of accrued interest on borrowings plus minor administration expenses. The expenditure was offset to a small extent through liquidation dividend receipts; the return of prior year advances; and the release of prior year provisions. By the year end the deficit had increased by a net £644,000 to £8.03 million.

REPLENISHMENT OF THE TRUST FUND

The Fund was set up in 1976 under the management of the Air Travel Reserve Fund Agency. It was originally financed by a levy on holidays and after 1978 its only income came from investments. During summer 1996 the Fund's assets were finally exhausted and it moved into deficit. Since then it has continued to meet its liabilities through commercial borrowing backed by a Government Guarantee. The facility negotiated by the Trustees with the Bank of Scotland stands at £21 million inclusive of bank charges and interest.

The Trustees, the CAA and the Air Travel Trust Committee have constantly reminded the Secretary of State of the need for legislation to provide levy powers and they all continue to emphasise the urgency. Even though the year's results were exceptionally good with only four failures resulting in a call on the Fund, it still deteriorated by over £644,000 due to the ever increasing interest burden. It is only reasonable to expect that the level of the deficit will continue to rise as a result of further failures as well as the accumulating interest, and prolonging the introduction of long term arrangements will only increase the impact of any future levy which the industry and travelling public will have to meet. Since the Fund moved into deficit it has incurred almost £1.32 million in interest charges and this represents 16.4% of the deficit at the year end.

The Trustees are satisfied that they are in a position to continue to meet claims arising from failures based on the existing guarantee and the assurances received from DETR Ministers that Government remains totally committed to standing behind the ATOL system and that Government will extend their guarantee if the need arises. The Trustees reiterate however that deficit financing is not an acceptable basis for a public protection scheme and urge Government to recognise the need for legislation to provide levy powers without any further delay.

THE FLIGHT COMPANY (UK) PLC

The Flight Company ceased trading in mid July 1996. The failure occurred during the company's peak season when there were thousands of passengers abroad as well as a substantial number of forward bookings, most of which had been paid for in full. The bond proved to be grossly insufficient and the Trust contributed around £5.8 million towards the total expenditure.

After the collapse there were indications that the information given to the CAA by The Flight Company at the March 1996 licence renewal was materially inaccurate. An independent investigation concluded that the turnover in the 1995 accounts was significantly understated and that the asset position which formed the basis of the decision to renew the company's licence was overstated. The CAA and Trustees subsequently commenced legal action against The Flight Company's auditors, Kounnis Freeman, to recover the Trust's losses. The case is expected to come to trial within the year.

BONDS CALLED IN THE YEAR UNDER REPORT

A total of 17 firms had their ATOL bonds called during the year under report. This was the lowest failure rate in absolute terms since 1992, and as a proportion of licence holders (1,784 by the mid calendar year point) the failure rate of 0.95% was the lowest since the Trust was formed.

The outturn was particularly satisfying in light of concerns at the start of the year that demand for holidays might be depressed. Passenger growth for Summer 1999 was limited to around 5%, significantly less than the volume increase in the two previous summers, but the slower growth did not lead to a higher number of failures or to failures of larger firms. Just under 700 passengers were repatriated throughout the year and a further 10,000 who had made advance payments were provided with refunds. Total expenditure from bonds and the Trust was £1.96 million.

Euroscot Express Limited ceased trading in July 1999 and was the largest company to fail in terms of the number of passengers authorised by its licence. Fortunately its principal business was the sale of flights between Bournemouth and Scotland and therefore its failure at the height of the summer season did not have the impact we would normally expect from a conventional package holiday specialist. Euroscot had provided a bond of almost £1.0 million which proved to be more than sufficient to meet customer claims.

The largest call on the Trust Fund occurred following the failure of Winterski Holidays Limited on the last day of the financial year. Winterski was a long standing licence holder which had specialised in travel by coach and air to Italy. At the time of the firm's failure, its licence which authorised the carriage of 750 annual passengers had lapsed. The Trust's liability of £200,000 was disproportionately high compared to the £36,000 bond provided, which derived from Winterski's seasonal profile and from the fact that there were a number of advance bookings which would have fallen within the period covered by the following authorisation had the licence been renewed. The liability from these outstanding bookings related to large groups which typically have a longer than average booking lead time; moreover some of the coach bookings had been switched to travel by air so that the Trust was liable to meet these claims.

The failure of Travel Trade Consultants Limited resulted in a £80,000 call on the Trust which was also disproportionate to its bond of £10,000. This company ceased trading in mid September 1999 and had specialised in long haul travel, particularly Australia and Malaysia. The Directors attributed the failure of the company to the loss of a contract with the Malaysian Government, combined with the adverse effects the Indonesian forest fires had on their package holiday business. The timing of the failure occurred when Travel Trade Consultants had accepted substantial bookings and payments in respect of a special promotion to celebrate the Millennium.

The failures of Winterski and Travel Trade Consultants resulted in a combined call on the Trust Fund of £280,000, which represents over 86% of the year's total. There were a further two cases which each resulted in a relatively small call on the back-up fund. Details of all bonds called can be found at Appendix 2.

OVERTRADING

During the year the CAA carried out a review, including industry consultation, of the overtrading controls introduced in 1997. It concluded that the measures which had been introduced had had a significant effect in protecting the Fund but that the principal cost was greater system complexity and greater reporting by licence holders. Some minor changes were recommended to the form of directors' guarantees and to reduce reporting where that could be achieved without significant loss of control. The Trustees welcomed the improvement in controlling overtrading and recognised that monitoring activities needed to be focused on areas where they would be most effective in protecting bonds and calls on the Fund.

The Trustees remain committed to protecting the Trust Fund from abuses and will where appropriate pursue guarantors in accordance with the CAA's published statement of policy on enforcement of Deeds of Guarantee. Since the requirement was introduced, two Guarantees have been called and discharged resulting in a recovery in excess of £17,000. As at the year end, other cases were being considered.

ACKNOWLEDGEMENTS

The Trustees are grateful to the Civil Aviation Authority and its staff for the administrative services provided during the year; and to the members of the Air Travel Trust Committee for their support and advice.

**Accounts for the year
ended 31 March 2000**

AUDITORS' REPORT TO THE SECRETARY OF STATE FOR ENVIRONMENT, TRANSPORT AND THE REGIONS

We have audited the accounts on pages 11 to 15 which have been prepared under the accounting policies set out on page 13.

RESPONSIBILITIES OF TRUSTEES

The Trust Deed requires the Trustees to prepare accounts for each financial year.

The Trustees consider that in preparing these accounts, they have used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgments and estimates. The Trustees have prepared the financial statements on a going concern basis.

The Trustees are responsible for keeping proper accounting records to enable them to ensure that the accounts comply with the Trust Deed and the directions made thereunder by the Secretary of State. They are also responsible for safeguarding the assets of the Trust and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

RESPONSIBILITIES OF AUDITORS

It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the Trustees in the preparation of the accounts, and of whether the accounting policies are appropriate to the Trust's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts.

Going Concern

In forming our opinion, we have considered the adequacy of the disclosures made in Note 1 to the accounts concerning the current Government guarantee which allows the Trust to meet its current obligations. However, Note 1 refers to the Trustees' belief that the Government will continue to support the Trust either in terms of replenishing the fund or providing further guarantees if this should be needed. In view of the significance of the situation we consider that it should be drawn to your attention but our opinion is not qualified in this respect.

OPINION

In our opinion the accounts give a true and fair view of the state of the Trust's affairs at 31 March 2000 and its income and expenditure for the year then ended and have been properly prepared in accordance with the provisions of the Trust Deed and the directions made thereunder by the Secretary of State.

Deloitte & Touche
Chartered Accountants
and Registered Auditors
Hill House
1 Little New Street
London
EC4A 3TR

27 June 2000

AIR TRAVEL TRUST

FUND ACCOUNT for year ended 31 March 2000

	Note	Year to 31.3.00 £	Year to 31.3.99 £
INCOME			
Liquidation dividends	2	50,626	166,919
EXPENDITURE			
Compensation claims (paid) recovered	3	(241,663)	(1,833,779)
Administration expenses	4	(2,116)	(4,030)
Loan interest		(451,050)	(423,570)
		<u>(694,829)</u>	<u>(2,261,379)</u>
EXCESS OF EXPENDITURE OVER INCOME FOR THE YEAR		(644,203)	(2,094,460)
Taxation provision released		–	7,145
NET DECREASE IN FUND FOR THE YEAR		<u>(644,203)</u>	<u>(2,087,315)</u>
Fund at beginning of year		(7,385,491)	(5,298,176)
Net decrease in fund for the year		(644,203)	(2,087,315)
FUND AT END OF YEAR		<u>(8,029,694)</u>	<u>(7,385,491)</u>

The notes on pages 13 to 15 form part of these accounts.

AIR TRAVEL TRUST

BALANCE SHEET as at 31 March 2000

	31.3.00 £	31.3.99 £
ASSETS		
Cash	1	1
	<u>1</u>	<u>1</u>
LIABILITIES		
Compensation claims outstanding	(200,258)	(138,204)
Bank loans	(7,660,659)	(7,092,109)
Loan interest and other creditors	(168,778)	(155,179)
	<u>(8,029,695)</u>	<u>(7,385,492)</u>
NET LIABILITIES	<u>(8,029,694)</u>	<u>(7,385,491)</u>
Represented by :		
FUND ACCOUNT	<u>(8,029,694)</u>	<u>(7,385,491)</u>

C Senior, Trustee

A G Herron, Trustee

27 June 2000

The notes on pages 13 to 15 form part of these accounts.

AIR TRAVEL TRUST

NOTES TO THE ACCOUNTS for the year to 31 March 2000

1 ACCOUNTING POLICIES

(a) **Basis of preparation :**

The Trust Deed allows liabilities to be paid out of the Trust Fund at the absolute discretion of the Trustees. The Trust currently meets its day to day working capital requirements through bank loans which are secured by a Government guarantee of up to £21 million. The Trustees have been informed that the Government will continue to support the Trust Fund by continuing the loan guarantee. However, there is currently no mechanism in place to replenish the Trust Fund by means of levies authorised by legislation or otherwise.

The Trustees have prepared the financial statements on a going concern basis. The financial statements do not include any adjustments that would result from a withdrawal of support by the Government.

(b) **Accounting Convention :**

The accounts are prepared under the historical cost convention.

2 LIQUIDATION DIVIDENDS

Dividends were receivable during the year from the liquidators of ILG Travel Ltd £186, Sharman Communications Ltd £5,614, Sheridan Travel Ltd £621 and Quest Leisure Group Ltd £44,205 (1999: Sheridan Travel £1,150 and Quest Leisure Group Ltd £165,769). Monies had previously been advanced from the Air Travel Trust to meet the costs of the failures.

3 COMPENSATION CLAIMS

The compensation paid or provided (or prior advances released) during the year as a result of the failures of holders of Air Travel Organisers' Licences :

	<i>Year to</i> <i>31.3.00</i>	<i>Year to</i> <i>31.3.99</i>
	<i>£</i>	<i>£</i>
Failures prior to 31.3.99		
All Jamaica Ltd	–	(24,227)
Australia House Travel Ltd	–	(14,250)
Budget Travel Ltd	–	5,875
Dayrise Ltd	(83,031)	266,440
Evergreen Travel Service Ltd	36,278	1,599,000
Farah Travel Ltd	–	653
Global Air Travel plc	(3,095)	39,100
Imari Travel Company Ltd	(2,454)	(22,150)
International Leisure Group	–	(58,666)
Justravel Ltd	(10,000)	10,000
Marchfar Tours Ltd	–	(6,157)
Metro Travel & Tours Ltd	(4,714)	100,000
Miranda Travel Ltd	–	(4,085)
Rainbow (York) Ltd	–	(3,325)
Sheridan Travel Ltd	–	(1,196)
Sportcullis Travel Ltd	(9,812)	9,200
The Flight Company (UK) plc	(2,598)	(45,740)
Travel Plus Ltd	–	(9,293)
Uncle Sam Travel Agency Ltd	(2,480)	(7,400)
Failures since 31.3.99		
Excalibur International Travel Ltd	6,500	–
Intra Travel Ltd	36,811	–
Travel Trade Consultants Ltd	80,000	–
Winterski Holidays Ltd	200,258	–
	<hr/>	<hr/>
	241,663	1,833,779
	<hr/>	<hr/>

4 ADMINISTRATION EXPENSES

	<i>Year to 31.3.00 £</i>	<i>Year to 31.3.99 £</i>
Audit and taxation	<u>2,116</u>	<u>4,030</u>

Administration is provided by the Civil Aviation Authority.

5 POST BALANCE SHEET EVENTS

Since the balance sheet date and up to 16 June 2000, there have been no failures of holders of Air Travel Organisers' Licences.

Appendix 1 Text of the Trust Deed dated 28 January 1986

THIS DEED OF TRUST is made the *twenty - eighth*
day of *January* One thousand nine hundred and eighty-six
BETWEEN THE SECRETARY OF STATE FOR TRANSPORT of the
one part and RAYMOND COLEGATE CBE IAN EDWARD DONOVAN
THOMAS McMILLAN and GILLIAN MARY EVE WHITE hereinafter
called the "Original Trustees") of the other part

WHEREAS:—

- (A) It is intended that the Secretary of State for Transport shall by order made under Section 6 of The Air Travel Reserve Fund Act 1975 (hereinafter called "the 1975 Act") transfer all the assets presently standing to the credit of The Air Travel Reserve Fund (hereinafter called "the Fund") to the Original Trustees
- (B) The Secretary of State for Transport desires that the said assets and further money investments and property to be paid or transferred to the Original Trustees should constitute a trust fund to be applied for the benefit of the persons and in the manner hereinafter described

NOW THIS DEED WITNESSETH as follows:—

1. THE Trust constituted by this Deed shall be known as the Air Travel Trust unless and until the Trustees adopt and apply to it (as they are hereby entitled to do) some other name
2. IN this Deed the following expressions have the following meanings:
 - (1) "The Trustees" means the Original Trustees or other the trustees or trustee for the time being of this Deed namely the holders for the time being of the following Offices within the Civil Aviation Authority (hereinafter called "the CAA"): Group Director Economic Regulation; Group Director Finance & Central Services; Board Member Licensing Finance; Secretary and Legal Adviser or the holder for the time being of all or any of the offices under whichever title might be certified by the Secretary or Deputy Secretary of the CAA for the time being as applicable and "Trustee" means any one of the "Trustees"

- (2) "the Trust Fund" means and includes
- (a) any sums of money and other assets transferred to the Trustees as a consequence of an Order made under Section 6 of the 1975 Act disposing of the assets of the Fund
 - (b) all other money investments or other assets hereafter paid or transferred by any person or persons to or into the control of the Trustees and accepted by them as additions to the Trust Fund
 - (c) any property the proceeds of sale whereof are required or directed to be held upon the trusts hereof
 - (d) all other capital assets including any choses in action and capital money which hereafter by any means become or are made subject to the trusts hereof
 - (e) the investments property and other assets from time to time representing the foregoing items or any part or parts thereof
- (3) "Customer" means a person (other than an air travel organiser) who has made a payment or on whose behalf a payment has been made to an air travel organiser under or with a view to entering into an air travel contract with him for the provision of accommodation for the carriage of that person
- (4) An "en route customer" means a customer who has commenced but not completed his journey by the time the air travel organiser ceases to be able to meet his obligations under the air travel contract
- (5) "Air travel contract" means any contract for the provision of accommodation for the carriage of a customer of an air travel organiser (with or without any other persons) on a flight (whether the provision of accommodation in question is the sole subject matter of the contract or is associated with the provision thereunder of any other service accommodation or facilities) where the accommodation on the flight to which the contract relates is to be made available in such circumstances that the making of it available constitutes an activity in respect of which the air travel organiser is required to hold an air travel organiser's licence

- (6) "Air travel organiser" means a person whose activities consist of or include activities in respect of which he is required by virtue of any regulations for the time being in force under Section 71 of the Civil Aviation Act 1982 (hereinafter called "the 1982 Act") to hold an air travel organiser's licence
- (7) "The Specified Period" means the period beginning at the date of this Deed and enduring for eighty years and the said number of years shall be the perpetuity period applicable to this Deed

3. THE Trustees shall stand possessed of the Trust Fund and the income thereof during the Specified Period upon the trusts and with and subject to the powers and provisions hereinafter declared and contained concerning the same respectively

4. (1) THE Trustees shall hold the Trust Fund and the income thereof upon trust to pay or apply the same (without making any distinction between capital and income) in their absolute discretion at any time or times during the Specified Period but subject to the provisions of Clause 6 hereof

- (a) in providing carriage by air or other means of transport for passengers (including the cost of providing food hotel accommodation the movement of baggage and other incidental expenses) in substitution for carriage which a defaulting air travel organiser has in the opinion of the trustees failed to provide in accordance with his obligations under any air travel contract and
 - (b) to or for the benefit of customers of a defaulting air travel organiser in respect of losses and liabilities incurred by them or on their behalf in connection with any air travel contract
- (2) a loss or liability incurred by or on behalf of a customer of an air travel organiser is a loss or liability incurred in connection with an air travel contract if
- (a) it is a loss incurred in respect of any payment made by or on behalf of the customer to the defaulting air travel organiser under or in contemplation of such a contract or
 - (b) it is a loss or (as the case may be) a liability incurred in consequence of a breach by the defaulting air travel organiser of any of his obligations towards the customer under such a contract

- (3) For the avoidance of doubt it is hereby declared that the Trustees may exercise their discretion hereunder in respect of claims arising from or in connection with any defaults occurring before the date hereof

5. IN default of and subject to the foregoing trusts and to the extent that the same shall not validly take effect and subject to Clause 16 hereof the Trustees shall hold the capital and income of the Trust Fund upon Trust for such persons and purposes in such shares and upon such conditions as the Secretary of State for Transport shall by Order made before the end of the Specified Period direct

6. IN exercising the discretion as set out in Clause 4 hereof

- (1) payments may only be made where the air travel organiser has failed to meet his obligations to the customer under an air travel contract in the following circumstances:
- (a) in the case of a company —
 - (i) a petition has been presented to a court for its winding up by the court under the Companies Act 1985 on the grounds that it is unable to pay its debts
 - (ii) a meeting of its creditors has been held in accordance with Section 588 of that Act
 - (iii) a meeting of its creditors has been held otherwise than under Section 588 of that Act for the purpose of considering any compromise or arrangement with respect to the debts of the company
 - (iv) a receiver or manager has been appointed over any of its property or assets
 - (v) it has stopped payment of its debts or is unable to pay its debts within the meaning of Section 518 of that Act
 - (vi) it has ceased to carry on its business as a result of being unable to pay its debt as they fall due
 - (b) In the case of an individual —
 - (i) he has committed an act of bankruptcy specified in Section 1(1) of the Bankruptcy Act 1914
 - (ii) he has stopped payment of his debts or is unable to pay his debts
 - (iii) he has ceased to carry on business as a result of being unable to pay his debts as they fall due

- (2) Payments may only be made if the air travel organiser held an air travel organiser's licence at the time of booking by or on behalf of a customer or at any time in the three months prior to the time of booking. The time of booking means the time when a payment was first made by or on behalf of a customer to the air travel organiser under or in contemplation of an air travel contract
- (3) Where any money is available under any bond or other security which has been provided or procured by the air travel organiser in accordance with any requirements applicable to air travel organisers by virtue of any regulations made under Section 71 of the 1982 Act payments may be made out of the Trust Fund before all that money which is available under the bond or security has been paid to or for the benefit of the customers in question or any class or description of the customers provided that no such payments shall be made by the Trustees unless and until the Trustees are satisfied that insufficient money will be available under the bond or security to satisfy all valid claims arising from or in connection with the default
- (4) Where any money has been available under any such bond or other security as is referred to in the previous paragraph which has been provided or procured by the air travel organiser but the amount has been inadequate to enable all en route customers of the air travel organisers to travel to their destination then any payments made out of the Trust Fund for the benefit of the en route customers shall be made only to the person or body who administered the money available under the bond or other security to be used by that person or body for the benefit of the en route customers

7. THE Trustees may during the period of 21 years from the date hereof if in their absolute discretion they think fit from time to time accumulate the whole or any part of the income of the Trust Fund by investing the same and the resulting income thereof in any investments hereby authorised and adding the accumulations to the capital of the Trust Fund

8. (1) ANY land and hereditaments situate in England or Wales which shall at any time or times hereafter become subject to the trusts hereof (and any land situated elsewhere than in England or Wales becoming so subject to which the Trustees in their discretion may decide that this provision shall apply) shall be held by the Trustees upon trust for sale with power for the Trustees in their discretion to postpone the sale of the whole or any part or parts of it for so long as they shall think fit

- (2) The Trustees shall hold the Trust Fund as to so much of it as does not consist of money and as is not held upon trust for sale Upon Trust either to retain it or any part or parts of it in its or their actual condition or state of investment for so long as the Trustees shall think fit or at any time or times in the discretion of the Trustees to sell call in and convert it or any part or parts of it into money
- (3) The Trustees shall hold the net proceeds of every sale and conversion of any part or parts of the Trust Fund and so much of the remainder of the Trust Fund as consists of money and all other capital moneys (if any) requiring investment under this Deed upon trust to lay out or invest the same in the names or under the control of the Trustees in any investments or investment of any nature authorised by this Deed with powers of any nature at any time and from time to time to vary or transpose any of such investments for or into any other investments or investment of a like nature

9. ANY money for the time being subject to the trusts hereof may be invested by the Trustees in any part of the world in any way in which they in their discretion think fit (whether or not money so invested will produce income) as if they were a sole absolute beneficial owner of the money and for the purpose of this clause the lending of money to any person with or without interest and with or without security shall contribute investment and the provisions of section 6(1) of the Trustee Investment Act 1961 shall not apply to this Deed

10. THE Trustees shall have and may exercise at any time or times the following additional powers —

- (1) Power to effect or concur in effecting any transaction concerning or affecting any part of the Trust Fund or any other property whatsoever if the Trustees think the transaction is for the benefit of the Trust Fund or the persons interested in it as if the Trustees were a sole absolute beneficial owner of the Trust Fund and for the purpose of this paragraph “transaction” includes any sale exchange assurance grant lease surrender reconveyance release reservation or other disposition and any purchase or other acquisition and any covenant contract licence option or right pre-emption and any compromise partition insurance or other dealing or arrangement and “effect” has the meaning appropriate to the particular transaction and references to property include references to restrictions and burdens affecting property;

- (2) Power to make improvements to or to develop any land or building or other structure which forms part or the proceeds of sale of which form part of the Trust Fund and in particular to erect enlarge improve or rebuild any building or other structure on such land if the Trustees think it will be for the benefit whether permanent or temporary of the Trust Fund and to pay the cost of such improvement and development and all incidental costs out of the capital of the Trust Fund;
- (3) (In addition to the powers of improving land and maintaining and repairing property conferred by law upon trustees holding land and property upon trust for sale) power to pay as they in their discretion think fit out of income or capital the cost of improving maintaining and repairing (including decorative repair) any land or property which or the proceeds of sale of which form part of the Trust Fund;
- (4) Power to keep any property whether real or personal movable or immovable forming part of the Trust Fund insured against such risks and for such amount as they think fit with an insurance office of repute and to arrange for the installation improvement repair maintenance and servicing of any system designed to protect any such property against theft or any other risk and to pay all premiums installation maintenance servicing and other charges and any other moneys which may be required for these purposes out of income or capital and to apply any money received in respect of any such insurance as if it were proceeds of sale of the property insured;
- (5) Power to borrow money for any purpose connected with the trusts hereof (including the making of investments to be held as part of the Trust Fund) and to mortgage charge assign or pledge the whole or any part of the Trust Fund by way of security for the repayment of any money borrowed in the same unrestricted manner as if the Trustees were absolute beneficial owners thereof;
- (6) Power to purchase any additional property to be held subject to the trusts hereof and for that purpose to enter into contracts and to bind themselves by promissory notes or by any other security for the purchase price and generally to acquire such additional property as fully and as freely as a beneficial owner might do;
- (7) Power in respect of any buildings or any chattel or other assets forming part of the Trust Fund;
 - (a) to grant such leases or tenancies thereof or to let or lend or hire out the same to any person or persons on such terms as the Trustees think fit;

- (b) to sell or grant options to purchase the same on terms under which the price is payable to the Trustees by instalments;

and otherwise to exploit manage and deal with the same in the same unrestricted manner as if the Trustees were the absolute beneficial owners thereof;

- (8) Power to carry on any business and for that purpose to employ in the business (as working capital or otherwise) any trust money or other trust assets and to raise money by overdraft and to make any outlay out of the capital or income of the Trust Fund;
- (9) Power at the expense of the Trust Fund to promote and incorporate or join in promoting and incorporating in any part of the world any company or companies for the purpose of conducting any business or of acquiring (with or without other property) any property comprised in the Trust Fund and of holding or developing or otherwise dealing with any such property and so that the Trustees or any of them may act as directors or director of any such company or may appoint nominees or a nominee to act as directors or director thereof on their behalf;
- (10) Power to cause or permit any company the shares or securities whereof are comprised in the Trust Fund to retain the whole or any part of its income undistributed and so that (whether or not the Trustees have a controlling interest in any such company) the Trustees shall not be under any obligation to take any step to remove directors of any such company who recommend such retention of the company's income and if any Trustee is a director thereof he may recommend such retention;
- (11) Power to permit any investments or property forming part of the Trust Fund to be held in any part of the world by or in the name or names of any nominee or nominees of the Trustees on such terms (if any) as to execution of blank transfers or declarations of trust and as to custody of the documents of title relating to such investments or property and otherwise as the Trustees may think fit and so that (but without prejudice to the generality of the foregoing) this power may be exercised for the purpose of qualifying any nominee (including any Trustee) to act as a director of any company;
- (12) Power to apply trust capital in purchasing effecting or acquiring by any other means policies of insurance (whether life policies or endowment or sinking fund policies or policies of any other kind) and annuities perpetual or terminable and for lives or any other periods and power in relation to any insurance policy effected by the Trustees to surrender exchange sell charge or otherwise deal with the same in the same unrestricted manner as if they were the absolute beneficial owners thereof;

- (13) Power in connection with the investment and changing of investments of trust money
- (a) to obtain and pay for the advice of such broker or other persons as the Trustees may think fit and
 - (b) to employ any banking or merchant banking company or firm or other person or persons to manage such investments and to delegate to such manager or managers all or any of the duties or powers of the Trustees in respect of the investments or changing of investments of trust money;
- (14) Power in respect of any trust capital or income which becomes the property of or payable or applicable to or for the benefit of any person who is for the time being under the age of eighteen years to apply the same in any manner which the Trustees consider to be for the benefit of that person;
- (15) Power to appoint any one or more of the Trustees to be the agents of the Trustees for the purpose of operating any bank or building society account of the Trustees or for the purpose of collecting any rents or income of or managing or administering any property (in any part of the world) comprised in the Trust Fund or for any other purpose for which the Trustees may appoint agents;
- (16) Power (without prejudice to the jurisdiction of the Court) to decide what money or property represents income and what represents capital and how as between the capital and income of the Trust Fund any expenses or costs shall be borne or provided;
- (17) Power to agree to any scheme for amalgamation or reconstruction of any company in which shares stocks or securities are held by the Trustees or any other scheme relating to any such company
- (18) Power for the purpose of the trusts hereof to enter into any arrangement or contract notwithstanding that the person or persons with whom or on whose behalf the arrangement or contract is made are or include one or more of the Trustees;
- (19) Power to make rules and regulations for the management and administration of the Trust Fund or any part thereof and for matters connected therewith as the Trustees from time to time may think fit and from time to time revoke and replace all or any such rules or regulations;

- (20) Power to appoint such persons as the Trustees may think fit or convenient to act in connection with such management or administration and (pursuant to the general power for that purpose conferred by sub-clause (19) of this clause) to make amend revoke and replace rules and regulations for the purpose of defining the functions and powers of any such persons and power also (if the Trustees think fit) to pay an honorarium fee or salary to and the expenses of any persons;
- (21) Power to delegate from time to time to any such persons all or any of the powers and duties of the Trustees hereunder;
- (22) Power to insure the Trust Fund against claims for payments arising as a result of the inability of one or more air travel organisers to meet their financial commitments or for sharing with insurers the burden of payment of such claims;
- (23) Power to pay the expenses incurred by the Air Travel Reserve Fund Agency ("the Agency") between 28th February and 30th June 1986 in performing their duty under paragraph 9 of the Schedule to the 1975 Act in preparing a statement of accounts in respect of the period of account ending with 31st March 1986 and in making a report to the Secretary of State on the performance of their functions during that period and to pay any remuneration or allowances to the members of the Agency between 28th February and 30th June 1986.

11. THE statutory provisions about the appointment retirement and discharge of trustees shall apply to the trusts hereof subject to the following provisions of this clause

- (1) Upon retiring from or otherwise vacating any of the offices of the CAA referred to in clause 2(1) hereof and subject to the provisions of that clause the Trustee who until retirement or otherwise held the relevant offices in the CAA shall automatically cease to be a Trustee hereof and the vacant office of Trustee shall devolve on the person appointed to fill the vacant office in the CAA provided that in the event of a delay in the appointment of person to the vacant office of the CAA the remaining Trustees can act notwithstanding a vacancy in their number
- (2) The remaining Trustees shall have power to vest the Trust Fund in the new Trustee so that thereafter
 - (a) the new Trustee shall have all the same powers and discretions as are hereby conferred on the Trustees in relation to the Trust Fund and the income thereof;

- (b) subject to paragraph (a) of this sub-clause all property held by such new Trustees and all property retained by the Trustees shall remain subject to the same trusts powers and provisions as if no new trustees had been appointed

12. ANY act or decision by two of the Trustees shall have the same force and effect as if it were the act or decision of all of them

13. THE Trustees may in the execution of any of the trusts of this Deed or in the exercise of any of the powers given to them by this Deed or by law sell property or lend money to or buy property or borrow money from or carry out any other transaction with the trustees of any other trust or the executors or administrators of any estate notwithstanding that the Trustees or any of them are or is the same person as those trustees executors or administrators or any of them and where the Trustees are the same persons as those trustees executors or administrators the transaction shall be binding on all persons then or thereafter interested under this Deed though effected and evidenced only by an entry in the accounts of the Trustees

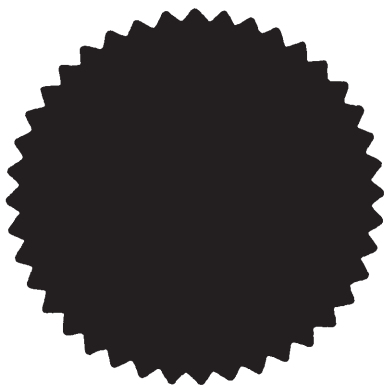
14. IN the professed execution of the trusts and powers hereof no Trustee shall be liable for any loss to the Trust Fund arising by reason of the failure depreciation or loss of any investments made in good faith or for the negligence or fraud of any agent employed by him or by any other Trustee hereof although the employment of such agent was not strictly necessary or expedient or by reason of any mistake or omission made in good faith by any Trustee hereof or by reason of any other matter or thing except wilful and individual fraud or wrongdoing on the part of the Trustee who is sought to be made liable

15. THE Trustees shall keep proper accounts and proper records in relation to accounts and shall prepare in respect of each period of account a statement of accounts in such form as the Secretary of State may direct and shall arrange for the accounts to be audited in such manner as the Secretary of State for Transport may direct and shall make to the Secretary of State within a period to be specified by him at the end of each period of account a report on the performance of their functions during that period and to include in that report a copy of the Statement of accounts prepared in respect of that period in accordance with this clause and any report made by the auditors on the statement or on the accounts; and in this clause "period of account" means the period beginning with 28th February 1986 and ending with 31st March 1987 and any subsequent period of twelve months ending with the 31st March in any year

16. THE Trusts of this Deed shall be varied or terminate upon an Order to that effect being made during the Specified Period by the Secretary of State for Transport who may in his complete discretion direct the Trustees to dispose of the Trust Fund as he thinks fit

IN WITNESS whereof the Original Trustees have caused their Corporate and Common Seals to be hereunto affixed and The Corporate Seal of The Secretary of State for Transport has been hereunto affixed the day and year first above written

THE CORPORATE SEAL of
THE SECRETARY OF STATE FOR
TRANSPORT hereunto affixed is
authenticated by:--



David Rowlands
An Assistant Secretary

Authorised by The Secretary of State
for Transport

SIGNED SEALED AND DELIVERED
by the said RAYMOND COLEGATE CBE
in the presence of:--

Raymond Colegate



Helen Lydon

SIGNED SEALED AND DELIVERED
by the said IAN EDWARD DONOVAN
in the presence of:--

I. E. Donovan



Helen Lydon

SIGNED SEALED AND DELIVERED
by the said THOMAS McMILLAN
in the presence of:--

Thomas McMillan



Helen Lydon

SIGNED SEALED AND DELIVERED
by the said GILLIAN MARY EVE WHITE
in the presence of:--

Gillian M E White



Helen Lydon

Appendix 2 Details of Bond Calls and their effects,

<i>Licence Holder</i>	<i>Date Bond Called</i>	<i>Licensed Passengers</i>	<i>Licensed Revenue</i> <i>£'000</i>
Focali Turizm Ltd	09 Apr 99	21,394	6,629
Intra Travel Ltd	14 Apr 99	3,420	1,075
Planit Travel Ltd	11 May 99	2,600	505
Excalibur International Travel Ltd	28 May 99	1,290	276
Euroscot Express Ltd	09 Jul 99	48,590	3,471
Munha Marketing & Leisure Services Ltd	11 Aug 99	13,750	3,943
Travel Trade Consultants Ltd	15 Sep 99	6,810	3,432
Millwest Ltd	15 Sep 99	4,000	1,000
Seriously Travel Ltd	16 Sep 99	6,695	1,356
Trinifold Travel Ltd	22 Sep 99	2,030	594
Swain B A	22 Sep 99	1,347	313
Gill S, Gill E	23 Sep 99	1,533	681
Business Travel World Ltd	10 Nov 99	1,500	320
Allegro Holidays Ltd	19 Nov 99	7,600	2,324
Rising Star Travel Ltd	20 Jan 00	1,700	765
The ILB Partnership Ltd	18 Feb 00	942	920
Winterski Holidays Ltd	31 Mar 00	750	230
Total (17)		125,951	27,833

NOTES

- 1 The administration of all the cases above may not have been completed. Administration costs which were incurred in paying passengers' refunds have been included in the Cost of Refunds.
- 2 The figures for Total Expenditure and any call on the Air Travel Trust reflects amounts already spent and estimated further expenditure.
- 3 Where a call on the Air Travel Trust is indicated this is the difference between expected total expenditure and available bond monies. The call on the Air Travel Trust may include the expenditure of accrued interest.

April 1999 to March 2000

<i>Bond Amount</i>	<i>Number Repatriated</i>	<i>Cost of Repatriation</i>	<i>Number Refunded</i>	<i>Cost of Refunds</i>	<i>Total Expenditure</i>	<i>Call on Air Travel Trust</i>
<i>£'000</i>		<i>£'000</i>		<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
1,326	30	9	4,150	839	848	0
110	0	0	596	149	149	39
76	60	1	345	75	76	0
31	35	0	283	38	38	7
966	0	0	2,500	135	135	0
18	0	0	150	18	18	0
10	0	0	95	90	90	80
642	0	0	37	14	14	0
271	360	74	590	124	198	0
54	0	0	1	1	1	0
35	95	1	69	16	17	0
14	0	0	0	0	0	0
37	77	16	220	21	37	0
621	0	0	176	39	39	0
216	0	0	15	17	17	0
138	0	0	42	50	50	0
36	11	1	665	235	236	200
4,601	668	102	9,934	1,859	1,962	325

Appendix 3 Historic Movement of Reserve Fund Against Industry Turnover

Year ended 31 March	Turnover £'m	Holidays '000	Bonds Called During Year	Calls on Reserve Fund During Year £'m	Total Fund at Year End £'m	Calls as % of Turnover	Calls as % of Fund at Start of Year	Fund as % of Turnover
1979	574	4,173	2	0.08	14.78	0.01		2.57
1980	813	5,304	2	0.02	16.10	0.00	0.14	1.98
1981	1,200	6,165	2	0.00	18.05	0.00	0.00	1.50
1982	1,488	6,662	9	3.02	15.64	0.20	16.73	1.05
1983	1,595	7,067	11	3.10	16.61	0.19	19.82	1.04
1984	1,893	7,938	9	0.58	19.44	0.03	3.49	1.03
1985	2,004	8,623	20	1.91	19.52	0.10	9.83	0.97
1986	2,123	8,662	18	1.36	22.10	0.06	6.97	1.04
1987	2,406	9,849	8	2.20	22.75	0.09	9.95	0.95
1988	3,118	12,598	16	1.23	23.18	0.04	5.40	0.74
1989	3,629	14,490	9	0.28	23.44	0.01	1.21	0.65
1990	3,704	13,982	21	0.40	23.71	0.01	1.70	0.64
1991	3,807	13,083	22	11.61	26.70	0.30	48.95	0.70
1992	3,253	10,110	16	0.73	5.01	0.02	2.75	0.15
1993	4,436	13,575	24	6.66	9.84	0.15	132.83	0.22
1994	5,180	14,528	20	1.58	8.82	0.03	16.07	0.17
1995	5,966	16,678	23	3.51	5.65	0.06	39.77	0.09
1996	6,874	18,812	31	4.10	1.87	0.06	72.65	0.03
1997	8,318	22,176	26	7.60	(5.26)	0.09	405.69	(0.06)
1998	9,426	25,673	21	0.36	(5.30)	0.004	(6.76)	(0.06)
1999	11,211	26,284	20	2.01	(7.39)	0.018	(37.98)	(0.07)
2000	11,982	27,824	17	0.33	(8.03)	0.003	(4.40)	(0.07)
2001	13,155	29,675						

Note

- 1 Turnover and Holiday figures represent the total value and number of holidays authorised by all Air Travel Organiser Licences at the start of the year. The figures exclude all trade sales between ATOL Holders.
- 2 Calls on Reserve Fund are retrospectively adjusted figures indicating the cost of failures occurring during each year. The figure for Total Fund at year end is taken from the Air Travel Trust accounts and thus incorporates provisions based on estimates at the time of audit; figures are not adjusted retrospectively to show actual expenditure.
- 3 Calls as % of turnover uses the base of turnover in the same year as the calls. Fund as % of turnover applies the Fund at each year end to the turnover licensed for the year following.