

AIR TRAVEL TRUST

Report and Accounts

31 March 1999

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

8 July 1999

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 1999.

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 from March 1999)
Mr D Andrew (Chairman until March 1999)
Mr R J Britton
Mr A G Herron
Mr R E Birdseye (until January 1999)

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

INVESTMENT MANAGERS

Legal & General Investment Management Limited
Bucklersbury House
3 Queen Victoria Street
London EC4N 8EL

AUDITORS

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

Contents

	<i>Page</i>
Report of the Trustees	1
Report of the Auditors	9
Fund Account	11
Balance Sheet	12
Notes to the Accounts	13
Appendix 1: Text of the Trust Deed dated 28 January 1986	17
Appendix 2: Details of Tour Operator Bonds Called, April 1998 – March 1999	30
Appendix 3: Historic Movement of Reserve Fund Against Industry Turnover	32

Report of the Trustees

CONSTITUTION AND TERMS OF REFERENCE

The Air Travel Trust remains an integral part of the Air Travel Organisers' Licensing system managed by the Civil Aviation Authority. Each travel organiser, as a condition of grant of a licence, must provide a bond. If the travel organiser then ceases to trade its bond is used for the benefit of its customers in repatriating those abroad and refunding others who have booked and made payments in advance. If an individual bond proves to be insufficient to meet that firm's total liabilities to its customers after failure then the Trust is available to meet any shortfall.

The Trustees are all Board Members and officials of the Civil Aviation Authority and the Trust's terms of reference are contained in the Trust Deed which has been reproduced at Appendix 1 to this Report. Mr Martin Brackenbury as the nominated representative of the Air Travel Trust Committee continues to attend Trust meetings.

Mr Raymond Birdseye retired as a Trustee at the end of January 1999 on his retirement as the Civil Aviation Authority's Board Member for Licensing and Finance. The Trustees wish to record their gratitude to Mr Birdseye for the valuable contribution made during his six years in office. Mr Colin Senior was appointed as his successor and became a Trustee ex officio on 1 February 1999.

During the year the Civil Aviation Authority reviewed the composition of the Economic Regulation Group and it recognised that the Group's principal functions had diverged into two separate areas of activity: consumer protection and economic regulation/competition issues. As a result the Consumer Protection Group was formed on 1 February 1999 to manage and develop the CAA's consumer protection responsibilities. Traditionally the Group Director Economic Regulation Group has held the position of Chairman of the Air Travel Trust. However, following the formation of the Consumer Protection Group the Trustees concluded that it would be more appropriate for the Board Member for Licensing and

Finance to be the Trust's Chairman and Mr Senior accepted the role of Chairman of the Air Travel Trust.

The Trust met three times during the year, in May and September 1998 and March 1999.

REVIEW OF THE YEAR

This is the third Report and Statement of Accounts of the Air Travel Trust showing the Fund in deficit, its assets having been exhausted during the summer of 1996. The Government guarantee, which was increased in November 1996 from £11 million to £21 million inclusive of charges and interest, remains in force and continues to support the facility negotiated by the Trustees with the Bank of Scotland.

Expenditure arising from failures during the year was heavier than it had been in the previous year, although the total number of failures and the number of occasions the Trust was required to contribute were smaller. The increased expenditure resulted largely from the failure of the package holiday specialist Evergreen Travel Service Limited towards the end of summer 1998.

At the beginning of the year the Fund was in deficit by £5.3 million. The expenditure and provisions in relation to the year's failures amounted to just over £2.0 million and there was a liability of around £424,000 in respect of accrued interest on borrowings as well as administration charges. Total expenditure was offset to a small extent by the receipt of liquidation dividends; a final repayment of £59,000 from TOSG Trust Fund of monies advanced to them in respect of the administration of the International Leisure Group which failed in March 1991; the return of prior year advances; and the release of prior year provisions. At the year end the Fund's deficit had increased by a net £2.1 million and stood at £7.4 million.

REPLENISHMENT OF THE TRUST FUND

The Fund was originally set up in 1976 under the management of the Air Travel Reserve Fund Agency and was financed by a levy on holidays. The Fund's assets were exhausted in summer 1996 and the Trustees and the CAA, fully supported by the Air Travel Trust Committee, have repeatedly stressed the urgency of a levy. The borrowings continue to accrue substantial interest, and the year's charge of £424,000 represented an increase of 17.4% over last year. It is inevitable that any further delay in putting in place long term arrangements will only increase the pressure on borrowings as well as the impact of any future levy.

Late in the year, there appeared to be a good prospect of a legislative slot in the 1999/00 Parliamentary Session; however, this prospect did not materialise. The CAA and the Trustees have made it very clear to the Department of the Environment, Transport and the Regions that if a loss of public confidence in the system is to be avoided, it is their view that other legislative routes must be investigated without further delay. This is particularly so in the light of growing concern that summer 1999 will not be as profitable as previous summers as a result of both the general economic outlook and the Balkan crisis which has seriously affected bookings to Turkey and Greece.

In this climate, and in the absence of immediate legislation, the Trustees and the CAA have sought reassurance from Government that a further guarantee to enable increased borrowing will be forthcoming if the need arises. DETR Ministers have confirmed that the Government is totally committed to standing behind the ATOL/ATTF system as the means of repatriating and refunding holidaymakers in the event of default of tour organisers. They have also said that if it becomes necessary to seek an extension to the guarantee they will not hesitate to do so, not only to maintain confidence in the industry and the public but also to meet the UK's obligations under European law. DETR officials have additionally stated that they have prepared the ground in case the guarantee needs to be extended at short notice.

Further borrowing as a solution to the current problem is clearly inferior to that of levy powers, which would enable the ATOL system to function independently of Government and the taxpayer and to recoup its total costs from the industry and the holidaymaker. However, until that point is

reached, the Trustees are satisfied in the light of the assurances received from DETR that there is no likelihood of their being unable to meet claims arising from failures.

BONDS CALLED IN THE YEAR UNDER REPORT

During the year 20 firms failed or had their ATOL bonds called and half of these failures occurred within the third quarter of the year. The failure rate in pure number terms had not been lower since 1992 and as a proportion of the number of firms who held Air Travel Organisers' Licences (1,771 by the mid year point) the failure rate of 1.13% was the lowest since the Air Travel Trust was formed. As a result of the year's failures 11,600 people were repatriated by the Civil Aviation Authority and refunds were made to a further 24,500 who had advance bookings. Total expenditure from bonds and the Air Travel Trust amounted to £6.8 million.

The largest failure of the year, in terms of the size of the company, was that of Frequent Guide Limited whose main trading name was Connections. Connections sold packages and flight-onlys world-wide and had been authorised to carry 80,250 passengers during the year. The Directors of the company attributed the reduced demand for overseas travel and the company's subsequent collapse in early December 1998 to a number of factors including the fear of a recession, the threat of war and the football World Cup. Fortunately, Connections ceased trading when its peak period was coming to its end and as a result the £2.2 million bonds provided should be more than sufficient to meet total expenditure.

The single largest call on the Trust of £1.6 million, representing 79% of the year's total calls, arose following the failure of Evergreen Travel Service Limited. Evergreen had been licensed to carry 65,500 passengers and operated packages to Spain, the Canary Islands and Cyprus. Its failure occurred in mid September when the holiday season was still at its peak and at a time when it had over 4,000 passengers abroad. The company's records indicated that there were in excess of 22,000 people with forward bookings and a substantial proportion – in excess of 13,000 passengers – subsequently sought refunds from the bond and Trust.

Dayrise Limited, which specialised in packages and flight-onlys to Cyprus and Greece, failed two weeks after Evergreen. Dayrise was a smaller

operator and had just under 1,770 passengers abroad at the time and a further 3,200 passengers who had paid in advance. The call on the Trust has been estimated to be £266,000.

The only other significant call on the Trust during the year was that of Metro Travel & Tours Limited. Metro sold flight-onlys to the Caribbean and it failed just before the Christmas peak when customer liabilities were at their highest. The call on the Trust of £100,000 is mainly due to the timing of the failure, which caused repatriation costs to be high because of a shortage of aircraft capacity during the Christmas break.

The above three cases accounted for 97% of the Trust's expenditure on failures during the year. There were a further three smaller failures which resulted in calls on the Trust totalling £58,000. Full details are at Appendix 2.

The Trustees consider that the package of measures introduced by the CAA in 1997 to prevent companies trading in excess of bond levels, which included a requirement for directors and principals of licence holders to provide personal guarantees indemnifying the Trust Fund for its expenditure, continue to be generally effective. However, there were nevertheless a few instances in the year where overtrading had occurred, and in these cases the Trustees pursued the Guarantors in accordance with the CAA's published statement of policy on enforcement of Deeds of Guarantee. They remain committed to doing so to protect the Fund from abuses.

YEAR 2000 DATE CHANGE

The Trustees are confident that the Year 2000 date change issue will not have a significant impact on the internal systems of the Trust. However, the potential for the Year 2000 date change to have an impact on companies whose activities are covered by the Trust is not a matter the Trustees can comment upon.

ACKNOWLEDGEMENTS

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

**Accounts for the year
ended 31 March 1999**

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

We have audited the accounts on pages 11 to 16 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 judgments 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 1999 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

1 July 1999

AIR TRAVEL TRUST

FUND ACCOUNT for year ended 31 March 1999

	<i>Note</i>	<i>Year to 31.3.99 £</i>	<i>Year to 31.3.98 £</i>
INCOME			
Income from cash deposits	2	–	3,514
Liquidation dividends	3	166,919	203,368
		<hr/>	<hr/>
		166,919	206,882
		<hr/>	<hr/>
EXPENDITURE			
Compensation claims (paid) recovered	4	(1,833,779)	122,830
Administration expenses	5	(4,030)	(3,985)
Loan interest		(423,570)	(360,880)
		<hr/>	<hr/>
		(2,261,379)	(242,035)
		<hr/>	<hr/>
EXCESS OF EXPENDITURE OVER INCOME FOR THE YEAR		(2,094,460)	(35,153)
Taxation provision released		7,145	–
NET DECREASE IN FUND FOR THE YEAR		<hr/>	<hr/>
		(2,087,315)	(35,153)
		<hr/>	<hr/>
Fund at beginning of year		(5,298,176)	(5,263,023)
Net decrease in fund for the year		(2,087,315)	(35,153)
		<hr/>	<hr/>
FUND AT END OF YEAR		(7,385,491)	(5,298,176)
		<hr/>	<hr/>

The notes on pages 13 to 16 form part of these accounts.

AIR TRAVEL TRUST

BALANCE SHEET as at 31 March 1999

	31.3.99 £	31.3.98 £
ASSETS		
Cash	1	1
Liquidation dividend receivable	–	201,880
	<u>1</u>	<u>201,881</u>
LIABILITIES		
Compensation claims outstanding	138,204	73,104
Bank loans	7,092,109	5,297,753
Loan interest and other creditors	155,179	122,055
Taxation	–	7,145
	<u>7,385,492</u>	<u>5,500,057</u>
NET LIABILITIES	<u>(7,385,491)</u>	<u>(5,298,176)</u>
Represented by :		
FUND ACCOUNT	<u>(7,385,491)</u>	<u>(5,298,176)</u>

C Senior, Trustee

A G Herron, Trustee

1 July 1999

The notes on pages 13 to 16 form part of these accounts.

AIR TRAVEL TRUST

NOTES TO THE ACCOUNTS for the year to 31 March 1999

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.

(c) **Income from Investments :**

Income from bank deposits is accounted for on an accruals basis.

2 INCOME FROM CASH DEPOSITS

Income is stated gross of tax and comprises :

	<i>Year to</i> <i>31.3.99</i> <i>£</i>	<i>Year to</i> <i>31.3.98</i> <i>£</i>
Bank deposits and interest on repayment of tax	–	3,514
	<u> </u>	<u> </u>

3 LIQUIDATION DIVIDENDS

Dividends were receivable during the year from the liquidators of Sheridan Travel Ltd £1,150 and Quest Leisure Group Ltd £165,769 (1998 : Sunseeker Leisure £201,880 and ILG Travel £1,488).

4 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>31.3.99</i>	<i>Year to</i> <i>31.3.98</i>
	<i>£</i>	<i>£</i>
Failures prior to 31.3.98		
All Jamaica Ltd	(24,227)	(22,450)
Australia House Travel Ltd	(14,250)	(76,687)
Bradley & Vaughan (Overseas) Ltd	-	(9,512)
Budget Travel Ltd	5,875	(7,904)
Euro Express Ltd	-	(2,087)
Farah Travel Ltd	653	1,000
Go Air Ltd	-	(43,342)
Imari Travel Company Ltd	(22,150)	151,563
International Leisure Group	(58,666)	-
Leisureflights Ltd	-	(8,433)
Marchfar Tours Ltd	(6,157)	135,000
Miranda Travel Ltd	(4,085)	50,000
Onkar Travel Services Ltd	-	(2,763)
Rainbow (York) Ltd	(3,325)	(197,500)
Roskell & Sibcy Ltd	-	(135)
Sheridan Travel Ltd	(1,196)	24,000
Springways Travel Ltd	-	(34,686)
Stephenson G.	-	(554)
Sunbeach Holidays Ltd	-	(9,111)
Sunstyle Flights & Accommodation Ltd	-	(5,580)
The Flight Company (UK) plc	(45,740)	(65,012)
Transamerica Holidays Ltd	-	(37,301)
Travel Plus Ltd	(9,293)	16,120
Uncle Sam Travel Agency Ltd	(7,400)	26,150
USA Travel Centre Ltd	-	(2,261)
Villmar Travel Ltd	-	(1,345)
Failures since 31.3.98		
Dayrise Ltd	266,440	-
Evergreen Travel Service Ltd	1,599,000	-
Global Air Travel plc	39,100	-
Justravel Ltd	10,000	-
Metro Travel & Tours Ltd	100,000	-
Sportcullis Travel Ltd	9,200	-
	<hr/>	<hr/>
	1,833,779	(122,830)
	<hr/>	<hr/>

5 ADMINISTRATION EXPENSES

	<i>Year to 31.3.99 £</i>	<i>Year to 31.3.98 £</i>
Audit and taxation	<u>4,030</u>	<u>3,985</u>

Administration is provided by the Civil Aviation Authority.

6 POST BALANCE SHEET EVENTS

Since the balance sheet date and up to 16 June 1999, there have been 4 failures of holders of Air Travel Organisers' Licences. These failures are likely to result in calls on the Trust of £158,000.

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-exemption 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

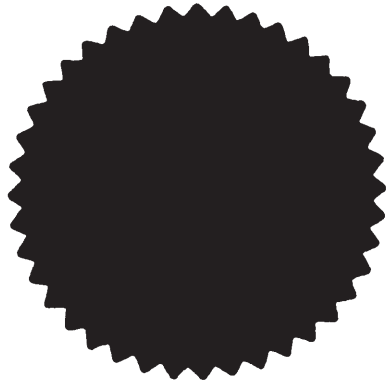
14. IN the professed execution of the trusts and powers hereof no Trustee shall be liable for any loss to the Trust Fund arising by reason of the failure depreciation or loss of any investments made in good faith or for the negligence or fraud of any agent employed by him or by any other Trustee hereof 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. Edward 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 Mary Eve 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>
Continental Travel Overseas Ltd	01 Apr 98	500	200
Phoenix Tours UK Ltd	20 Apr 98	1,130	367
Conference and Incentive Group Services Ltd	12 Jun 98	300	259
Sportcullis Travel Ltd	18 Jun 98	1,904	881
Justravel Ltd	07 Jul 98	5,740	1,014
Global Air Travel plc	10 Aug 98	730	284
Evergreen Travel Service Ltd	11 Sep 98	65,500	14,261
Dayrise Ltd	25 Sep 98	30,000	5,157
Multitours (UK) Ltd	22 Oct 98	2,945	885
Airlink Worldwide Ltd	12 Nov 98	515	80
Woodcock Travel Ltd	18 Nov 98	5,860	2,640
Sunny Places Ltd	19 Nov 98	2,240	560
Italian Impressions Holidays Ltd	23 Nov 98	1,789	230
Frequent Guide Ltd	08 Dec 98	80,250	22,000
Travel Supply Ltd	14 Dec 98	268	309
Metro Travel & Tours Ltd	21 Dec 98	1,180	448
In Touch Holidays Ltd	24 Dec 98	4,380	1,354
Treasures Ltd	29 Dec 98	10,439	1,910
International Tourist Promotions Ltd	08 Jan 99	12,700	4,295
Rendezvous Holidays plc	26 Mar 99	24,265	6,926
Total (20)		252,635	64,060

NOTES

- Administration costs which were incurred in paying passengers' refunds have been included in the Cost of Refunds. Where a call on the Air Travel Trust is indicated this is the difference between expected total expenditure and available bond monies, although the final figure may be subject to minor amendments after any accrued interest on bond monies has been added back.
- The administration of all the cases above have not yet been completed. The figures for Total Expenditure and any call on the Air Travel Trust reflect amounts already spent and estimated further expenditure.

April 1998 to March 1999

<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>
16	0	0	29	16	16	0
193	0	0	0	0	0	0
39	0	0	0	0	0	0
128	0	0	248	138	138	9
152	155	14	1,044	148	162	10
30	0	0	307	69	69	39
1,658	4,052	755	13,097	2,502	3,257	1,599
1,031	1,665	332	3,153	966	1,298	266
122	0	0	69	28	28	0
10	0	0	18	3	3	0
129	0	0	250	67	67	0
75	0	0	21	5	5	0
30	0	0	45	13	13	0
2,227	5,000	78	1,800	468	546	0
46	0	0	78	39	39	0
95	340	108	200	87	195	100
191	45	15	85	28	43	0
325	0	0	49	3	3	0
648	240	86	1,300	334	420	0
1,038	62	10	2,666	462	472	0
8,182	11,559	1,398	24,459	5,375	6,773	2,024

Appendix 3 Historic Movement of Reserve Fund Against Industry Turnover

Year ended 31 March	Turnover (£'m)	Holidays (Licensed at Start of Year) '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 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	6,875	18,813	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	0.39	(5.30)	0.004	(7.35)	(0.06)
1999	11,211	26,284	20	2.02	(7.39)	0.018	(38.20)	(0.07)
2000	11,982	27,824						

Note

- 1 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.
- 2 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.