Britain: Farepak collapse ruins Christmas for tens of thousands

Jean Shaoul
20 November 2006

Farepak, one of the largest Christmas hamper and savings clubs in Britain, has collapsed, robbing at least 300,000 families of their Christmas savings worth up to £150 million. Some families lost up to £1,500 when Farepak went into liquidation four weeks ago.

For many poor people it will mean a bleak festive season without the presents they had paid for. Alternatively, they could be forced into the arms of the loan sharks and high-priced debt from which regular savings schemes were supposed to protect them.

The scale of the scandal and its wider ramifications are only just beginning to emerge, and the estimates of those affected have soared.

The collapse of this little-known firm exposes the semi-criminal activities, arrogance and cynicism—not of some backstreet outfit—but of Britain's financial and corporate elite. It also reveals the precarious financial situation of hundreds of thousands of families.

Farepak, like many traditional savings clubs, relied on a network of 35,000 local agents to recruit savers and collect their weekly contributions. In return, they were paid in vouchers for Christmas hampers (baskets), as well as gifts and shopping vouchers from well-known stores and supermarkets such as Marks and Spencer, Tesco and Sainsbury's. The agents, who typically collected from their friends, family and neighbours, would receive 2.5 percent commission or up to 25 percent off the cost of a hamper.

As one of the agents, Hilary Astley, said, "The guilt we feel is unimaginable. Along with the other families, we have lost £1,461.25, £900 of which was what we had put away for Christmas. It was £140 a month, which is hard to get. When you've got disabled kids they look forward to Christmas so much. It breaks your heart that we can't give them what we had planned."

Farepak's parent company, European Home Retail (EHR), had made a disastrous £35 million takeover of a book sales firm, DMG, in 2000 with borrowed money. By 2003, sales fell and profits turned into losses, leading EHR to sell DMG for just £5 million.

Its problems mounted this year when the retail stores, whose hampers, gifts and vouchers it was purchasing on behalf of its customers, demanded payment upfront.

On June 30, EHR warned investors and the Stock Exchange that it was facing financial problems: its funding would run out by autumn, and it was seeking extra funding to ensure its survival. It assured the Hamper Industry Trade Association (HITA) that the extra funding would be forthcoming. But on August 23, it was suspended from trading on the Stock Exchange.

On October 13, when the firm's bankers, Halifax/Bank of Scotland (HBOS), refused to lend it £1.5 million, EHR went into administration.

The company continued to send out letters demanding payments right up to October 13. The administrators have said that there is little chance that the customers would get any of their money back

MPs claimed in the House of Commons under parliamentary privilege that EHR had been "siphoning off" Farepak's customers' money to repay its debts to the bank. Jim Devine, MP for Livingston in Scotland, whose constituents had been badly affected by the scandal, called for the Serious Fraud Office to investigate the affair.

Labour MP Frank Field said, "HBOS took in £40 million of savers' money over many months to pay off company debts, knowing that the money would be lost." He tabled a motion for the House of Commons, signed by 44 MPs, criticising the bank and alleging that Halifax "allowed Farepak to continue trading while it clawed back something like £1 million a week of people's savings to offset the company's overdraft with the bank."

It has taken this scandal for the public to learn that, unlike banks and building societies, hamper clubs and other savings schemes are unregulated. They do not fall within the remit of the Financial Services Authority because their contributions are made not in return for interest, but for goods and services. In the last few years, thousands of customers have been left out of pocket when companies such as the furniture store Courts and the gift company Red Letter Days collapsed before goods, which had been paid for, were delivered. Farepak's victims are not viewed as savers but as unsecured creditors and will be the last in line to be paid when all the firm's assets have been auctioned off. The recent Companies Act, essentially another piece of deregulatory legislation, ignored the issue.

The trade association HITA, of which Farepak was a member, offers no protection either in terms of policing its members or in providing compensation for the victims of its members' actions. It has a Code of Practice, but it is entirely voluntary. Farepak claimed that it adhered "to the HITA Code of Practice to ensure the security of your savings and the safe delivery of your hampers and gifts," but this is not enforced.

According to HITA's web site, the £100,000 annual membership fee was nothing more than "a commitment of good intent by each member [to honour the Code of Practice] and was never intended to compensate agents and customers should a situation like Farepak arise.” HITA claims that the annual fee was purely to keep “cowboy operators out of the sector and gave rise to no obligation to the firm’s customers.”

It now appears that the company did not keep proper records of its customers’ savings, and no one really knows how many customers EHR had or how much they had paid, raising questions about the quality of the external annual audit in previous years. According to the *Guardian,* the administrators, BDO Stoy Hayward, were stunned to discover that Farepak had no detailed records of how much money it held and had no list of its customers’ names. They have had to ask customers to lodge claims for repayment in an attempt to work out how much the firm owes.

Devine said he believed—based on the evidence given to him by 100 people who reported at a public meeting in his constituency about the Farepak scandal that they had lost £100,000—that the number of customers could be double the official estimates. They were likely to be at least 300,000, and even as many as 500,000. This would put the firm’s losses anywhere from £65 million to £120 million, not the £40 million originally suggested.

While the most vulnerable members of society have been hurt by this scandal, the company’s directors have gone unscathed. The chairman of HER was Sir Clive Thompson, a former chairman of the Confederation of British Industry. Before joining EHR, he was chief executive and later chairman of the giant services company, Rentokil, where as the highest CEO in the country he earned up to £1.4 million a year with £11.4 million in shares. He became known as the “meanest boss in Britain” when it emerged in 1998 that 10,000 of his staff would need pay rises in order to reach the minimum wage, and compared trade unions to the pests his company chased. He was paid £100,000 a year as a consultancy fee for the last six years at HER.

The chief executive, William Rollason, had an annual salary of £275,000, as well as a bonus of £75,000. He pulled the company out the Direct Selling Association because it required members to insure customers against collapse. He is now being paid to advise Findel plc, the company that has bought a share in EHR after it became insolvent.

Farepak boss Nicholas Gilodi-Johnson, the son of the firm’s founder, received £62,000 a year, plus an estimated share dividend of nearly £445,000. He has a £1.5 million London home and will inherit the £75 million family fortune, believed to be held in offshore trusts and a tax-free fund in Lichtenstein. It took him more than four weeks to make a public statement lamenting the affair and say how “gutted” he was.

The EHR directors who presided over the failed DMG takeover were given golden handshakes when they resigned. The former managing director received a £680,000 payoff, while finance director Chris Hulland netted £250,000. They and a further six directors will have their generous pensions underwritten by the government’s recently introduced Pension Protection Fund, which is set to make good the estimated £500,000 pension shortfall.

The directors have attempted to deflect criticisms from themselves by blaming the bank, HBOS, for failing to support the company. Sir Clive Thompson claimed that EHR had put six different rescue packages to save the firm to HBOS, which turned them all down.

Furthermore, he said it was HBOS that had knowingly taken customers’ money, twice rejecting proposals that such money be ring fenced (protected from risk). “They pulled the plug over what we believed was a really small amount of money,” he said. Such an amount was indeed loose change for these people. He and his co-directors could have personally written checks for that amount.

HBOs flatly contradicted Thompson. It said that there was no money to ring fence as the funds had been used up as “working capital” to develop the business. It said that the so-called rescue plans were proposals and were not considered “viable and durable” solutions. “The situation was complicated by the fact that the owners declined to contribute any more cash to support the business,” a spokesman said.

The Labour government’s Minister of Consumer Affairs, Ian McCartney, has refused to help the victims of the collapse. He called on MPs to sacrifice a day’s pay to help Farepak’s victims and urged the big corporations to contribute to a charity fund to help the families affected. “The fund is about the spirit of Christmas,” he said. Now running at just £4.5 million, it shuts in 10 days’ time and payouts may not be made until December 18.

The giant high street stores have promised money. Tesco has pledged £250,000. Sainsbury’s has agreed that Farepak’s customers can get 25 percent of the value of their savings in Sainsbury’s vouchers. Marks and Spencer has said it will contribute, as has Argos and the Park Group, which owns High Street Gift Vouchers, one of the products sold by Farepak, and Findel, the home shopping firm that bought some of the business assets of EHR. HBOS has pledged £2 million—which is more than the £1.5 million Farepak needed to stave off bankruptcy. The high street stores have their own unregulated savings clubs, and they are anxious that Farepak does not discredit the whole industry.