

**MANCHESTER CITY COUNCIL  
REPORT FOR INFORMATION**

**COMMITTEE:** SOCIAL STRATEGY OVERVIEW AND SCRUTINY COMMITTEE  
**DATE:** 13<sup>TH</sup> DECEMBER 2006  
**SUBJECT:** COLLAPSE OF FAREPAK CHRISTMAS HAMPER FIRM  
**REPORT OF:** DIRECTOR OF ADULT SOCIAL CARE  
NEIGHBOURHOOD SERVICES

---

**PURPOSE OF REPORT**

The purpose of this report is to inform Members of the background to the collapse of Farepak and to describe practical steps to mitigate losses for customers

**FINANCIAL CONSEQUENCES FOR THE REVENUE BUDGET**

There are no financial consequences for the Revenue Budget.

**FINANCIAL CONSEQUENCES FOR THE CAPITAL BUDGET**

There are no financial consequences for the Capital Budget.

**WARDS AFFECTED** ALL

**IMPLICATIONS FOR**

**Anti-Poverty**  
Yes

**Equal Opportunities**  
Yes

**Environment**  
No

**Employment**  
Yes

**CONTACT OFFICERS**

Name	Department	Tel	Email
Neela Mody Head of Manchester Advice	Adult Social Care	0161 234 3882	nmody@manchester.gov.uk

## 1.0 INTRODUCTION

- 1.1 Farepak Hampers was a long established firm whose origins can be traced back to 1939. It developed initially as a Christmas hamper company and grew to become one of the largest Christmas savings schemes in the UK. The parent company, European Home Retail (EHR) owns a number of other companies and had made a number of problematic acquisitions in recent years, which had given rise to substantial debts.
- 1.2 Farepak provided a convenient way to save for Christmas by ordering goods in the preceding January and making weekly payments, either to an agent (who would receive commission) or directly to Farepak, who would deliver a range of vouchers for stores such as Argos, Woolworths and other major retailers, or hampers and gifts. Many agents recruited family and friends into the customer network. The company was bonded by the Hamper Industry Trade Association (HITA), which involved Farepak paying a bond to HITA in the event of the company collapsing.
- 1.3 On 30<sup>th</sup> June 2006, EHR announced on its website that existing funding would not last beyond autumn and that additional funding would be sought. This was in response to a demand by retailers supplying vouchers that payment had to be made up front, rather than in the following January as had previously been the case. HITA contacted the EHR directors and were given assurances that the extra funding required would be forthcoming.
- 1.4 On 23<sup>rd</sup> August, EHR's shares were suspended from trading on the stock market. HITA contacted the company again to ask if customers' payments would be ring fenced but were advised that this was unnecessary. In the meantime negotiations for a financial recovery plan with Halifax Bank of Scotland (HBOS) were being conducted in the background. Farepak continued to accept money from customers and agents as late as the first week in October and some commentators have estimated that EHR managed to cut its outstanding debt by up to £40 million as a result of the extra cash it pulled in.
- 1.5 On Friday 13<sup>th</sup> October BDO Stoy Hayward were appointed as administrators when HBOS rejected EHRs' recovery plan proposals. It was at this point that the full impact of Farepak's collapse became known.
- 1.6 Around 150,000 people are estimated to have lost a total of up to £50 million. The Farepak response fund which includes a £2 million donation from HBOS, stands at around £6 million with customers due to receive about 15 pence for every £1 lost. Further payments are likely to be received from the administrators sometime next year amounting to four or five pence in the pound. The HITA bond will be returned to the administrators but there is insufficient money in the bond to compensate customers for their losses.
- 1.7 In Wales, families who lost money will be able to apply for emergency loans. The Assembly Government said it would underwrite the cost of loans from credit unions for those affected by Farepak's collapse and waive the usual borrowing requirement for new credit union savers (who usually have to save for a set period of time before taking out a loan).
- 1.8 For the rest of Farepak's customers, there are few alternatives available other than resorting to doorstep lenders or loan sharks, or borrowing on credit cards, for those

families who will feel pressured to replace their losses. However some actions that can be taken are suggested below.

## **2.0 REGULATORY FAILURE**

- 2.1 Under regulatory guidelines issued by the Financial Services Authority, hamper firms such as Farepak, who send out goods and vouchers, are not covered by the requirement to ring fence customer's money and therefore there was no protection for savers when Farepak collapsed. This highlights a serious lack of consumer protection for this and similar schemes and the Treasury Select Committee chairman has called for long-term action to be taken to ensure this does not happen again.
- 2.2 The Department of Trade and Industry has launched an investigation into the collapse of Farepak looking at why it failed to ring fence savers' money and continued to solicit contributions when it knew it was in trouble.
- 2.3 When a company becomes insolvent there is a hierarchy for distribution of any assets with creditors prioritised as follows:
  - Fees for insolvency practitioners.
  - Secured creditors (if the company has borrowed against property or assets).
  - Employees, for redundancy pay.
  - Everyone else ranked equally, including the Inland Revenue and customers.

## **3.0 ACTIONS FOR AFFECTED CUSTOMERS**

- 3.1 Customers can take the following steps to try and get some or all of their cash returned:
  - Stop any automatic payments from direct debits or credit cards.
  - Make a claim from the administrators on Farepak's website, or by post, fax or email.
  - Use the Consumer Credit Act to have payments of over £100 returned by the credit card company.
  - If payments were made on a Visa debit card, use the charge back system to reclaim monies owed.
  - If customers were buying vouchers from Sainsbury's or John Lewis, these retailers have said that they will honour them (for Sainsburys, 25% of the money paid).
  - Apply to the Farepak fund for compensation.
  - Liverpool Victoria policy holders can claim £100 on a first come, first served basis.
  - Unison members can contact the welfare fund for practical or monetary help.
- 3.2 Manchester Advice can provide details and further help for customers who have lost money with Farepak by telephoning 234 5600 or through our Consumer Advice service on 234 4941 .

## **4.0 CONCLUSION**

- 4.1 This is a stark reminder of the requirement for regulating savings schemes in order to protect those who thought that they were being financially prudent by spreading the cost of Christmas over 12 months by saving with Farepak, rather than by putting money into accounts and away from the temptation to dip into savings.

4.2 Manchester City Council can provide, through Manchester Advice, information to customers who have lost money and add its voice to calls for better regulation of such savings schemes. In the longer term, development of a City wide credit Union and a Financial Inclusion strategy which includes generic financial advice, widely disseminated throughout the city, can help to prevent reliance on businesses who are running unregulated savings schemes.

**Caroline Marsh**  
**Director of Adults Social Care**  
**Town Hall Extension**  
**Manchester M60 2AF**

**Date: 4 December 2006**