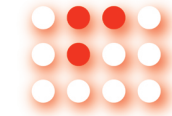


FACT

S E R V I C E



9 Rich get richer

10 Average weekly earnings
Directors' pay
Fuel poverty

11 The economy

12 PFI rip off
BP pensions holiday

Annual Subscription £67.50 (£57.20 for LRD affiliates)

Volume 70, Issue 3, 24 January 2008

Rich get richer

The outlook for inequality in Britain may depend more on the outlook for the stock market than on government tax and benefit policies, according to a recent study by the respected Institute for Fiscal Studies. Even though the current government has increased taxes on people with high incomes, this has not prevented them from racing further away from the average level of living standards across the country. In recent years, it is only in the wake of extended falls in the stock market that the incomes of the richest have fallen.

The incomes of the richest 0.1% of the population increased at an annual rate of 6.6% a year during Labour's first five years in office. They then fell by 2.7% a year on average in 2002-03 and 2003-04. They picked up again in 2004-05, the last year for data was available. But the subsequent strength of the stock market suggests that the growth in their incomes may have accelerated again over the past three years, increasing inequality further despite additional attempts by the government to help the less well off. It remains to be seen what impact recent problems in the banking sector and financial markets will have.

This analysis of high income trends is based on the Survey of Personal Incomes, constructed from income tax records by HM Revenue and Customs,

and the Family Resources Survey, which forms the basis of the government's official low income statistics: Households Below Average Income. It sheds an interesting light on the characteristics of high income individuals in Britain.

For example:

- The richest 0.1% of the British population amounts to around 47,000 people, just enough to fit into Manchester City's football ground. To get in to this group of the "very, very rich" you need an income before tax of more than £350,000 a year. This group has an average pre-tax income of £780,000 a year, of which they pay on average almost £275,000 in income tax. (The average pre-tax income of all income tax payers is around £25,000, of which they pay £4,400 on average).
- Their total pre-tax income of almost £37 billion accounts for around 4.3% of total pre-tax income across the country. This group is disproportionately likely to be male (nine out of 10 of them are male), middle aged and living in London or the South East. They are also disproportionately likely to work in finance, property or the law.
- There are a further 420,000 people – the remainder of the richest 1% of the population (roughly the population of Bristol) – with pre-tax incomes of between £100,000 and £350,000 per year. Like the very, very rich, these "very rich" individuals are more likely to be male, middle-aged and to live in London and the South East. They also work disproportionately in the same industries, although interestingly 15% of this group are in "health and so-

LABOUR RESEARCH DEPARTMENT

Published weekly by LRD Publications Ltd, 78 Blackfriars Road, London SE1 8HF. 020 7928 3649 www.lrd.org.uk

cial work" (so likely to be doctors and senior health service managers who have enjoyed relatively big pay increases under Labour).

http://www.ifs.org.uk/pr/racing_away.pdf

Average weekly earnings

Since June 2005, the official government statistician, the Office for National Statistics, has been producing an experimental measure of average weekly earnings on a sector and industrial basis.

Estimates on a sector basis are shown below. Unlike the average earnings index figures and the updated occupational figures from ASHE the figures cover part-time workers as well as full-time workers.

Average weekly earnings — November 2007		
	£ a week	% rise
Whole economy	422.60	4.9
Private sector	420.20	4.9
Public sector	432.10	4.7
Manufacturing	480.30	3.3
Services	406.40	4.9
Private services	398.70	4.9
Production	496.60	4.2

<http://www.statistics.gov.uk/StatBase/Product.asp?vlnk=14015&Pos=&ColRank=1&Rank=272>

Directors' pay

Twenty four directors who were paid at least £500,000, including 14 on over £1 million a year feature in the table below. They are headed by Richard Cousins, who was appointed chief executive of contract caterer Compass on June 2006, on £2.23 million a year.

Keith Butler-Wheelhouse, chief executive of specialty engineering group Smiths for more than a decade, is in second spot with £2.13 million.

Two directors of merchant bank Close Brothers take third and fourth spots, with joint managing director Peter Winkworth and chief executive Colin Keogh on £1.83 million and £1.7 million respectively.

Completing the top quintet is George Weston, chief executive of Twinings tea to Ryvita food group Associated British Foods (ABF), who pocketed £1.7 million last year.

Year-on-year comparisons could be made for 19 directors with 17 getting a pay rise. All but one of the rises was greater than the rise in earnings in the economy as a whole.

By dint of a huge rise in his annual bonus (+1,210.8%), George Weston topped the pay rise league with a 131.1% rise.

Two executives of transport group Go-Ahead take the next two spots. Chief executive Keith Ludeman saw his annual bonus more than quadruple and his pay rise came out at 66.8% putting him on £964,000 a year, while Ian Butcher, who stood down as finance director at the end of the financial year, left with a 64.5% rise making his final pay packet £839,000.

John Bason, finance director of ABF, got a 60.0% rise taking him to £1.2 million again as a result of a substantial rise in his annual bonus.

Peter Winkworth of Close Brothers completes the top five with a 53.5% rise.

Director	Company (year end)	Pay (£000)	% rise
Richard Cousins	Compass (9.07)	2,230	n.a
Keith Butler-Wheelhouse	Smiths Group (7.07)	2,132	2.3
Peter Winkworth	Close Brothers (7.07)	1,830	53.5
Colin Keogh	Close Brothers (7.07)	1,702	18.5
George Weston	ABF (9.07)	1,696	131.1
Gareth Davis	Imperial Tobacco (9.07)	1,659	32.4
Andrew Martin	Compass (9.07)	1,454	18.3
Stephen Hodges	Close Brothers (7.07)	1,385	16.7
Robert Dyrbus	Imperial Tobacco (9.07)	1,247	45.8
Michael Hines	Close Brothers (7.07)	1,228	-5.7
Denis Waxman	Hays (6.07)	1,201	40.5
John Bason	ABF (9.07)	1,195	60.0
David Pusinelli	Close Brothers (7.07)	1,143	15.8
Gary Green	Compass (9.07)	1,018	n.a
Keith Ludeman	Go-Ahead (6.07)	964	66.8
Dr John Ferrie	Smiths Group (7.07)	892	n.a
Paul Venables	Hays (6.07)	878	n.a
Ian Butcher	Go-Ahead (6.07)	839	64.5
John Langston	Smiths Group (7.07)	788	6.8
David Lillycrop	Smiths Group (7.07)	787	6.8
Graham Blashill	Imperial Tobacco (9.07)	687	n.a
David Cresswell	Imperial Tobacco (9.07)	671	16.1
Tim Clarke	Mitchells & Butlers (9.07)	560	-41.1
Frank Rogerson	Imperial Tobacco (9.07)	548	n.a

Source: Company remuneration reports

Fuel poverty

One in six British households is living in fuel poverty, the highest for almost a decade, according to new figures that threaten the government's target to eradicate the problem in England by the end of the decade.

Fuel poverty is defined as when a household spends more than a tenth of its income on utility bills. The consumer group Energywatch said there are now about 4.4 million of these in the UK, with just over 3 million in England alone.

Charities and other groups, led by the Association for the Conservation of Energy, are preparing a legal challenge in the next few weeks to force the government to meet the 2010 target, to which it is committed by law.

The figures came at the end of a week in which the UK's largest energy supplier, British Gas, said it was increasing bills by 15%. This month EDF Energy and Npower raised prices by up to 27%, and two-thirds of British households will have to pay higher tariffs. Other suppliers are likely to follow suit soon.

The regulator Ofgem's estimate of 4 million UK households living in fuel poverty in 2006 does not take into account the price rises announced this month. According to government figures, the last time there were as many fuel-poor households was in 1999 when the figure was 4.5 million. Numbers then fell until about 2005, when fuel poverty started increasing again.

Despite the likelihood of meeting the 2010 target becoming ever more remote, last month the government was accused of underfunding its "Warm Front" programme, which provides grants for poor households to insulate their homes. It allocated £800 million until 2010 but a government quango, the Fuel Poverty Advisory Group, says £1.3 billion is now needed.

The Warm Homes and Energy Conservation Act was passed in 2000 committing the government to the legally binding targets of eradicating fuel poverty in England among the vulnerable – pensioners, the disabled and long-term ill – by 2010. By 2016-18, the government is committed to eradicating fuel poverty entirely across the UK.

Its 2003 energy white paper made the issue one of its four principal goals. Yet in the most recent energy bill, published in January, the government made no mention of fuel poverty or how to tackle the problem.

Energywatch wants the state to force suppliers to offer subsidised "social tariffs" to poorer customers. But the government and Ofgem insist it is better to allow suppliers to offer these lower tariffs voluntarily.

According to a recent report from Energywatch, social tariffs only help one in 15 of those living in fuel poverty. Regulator Ofgem has recently had to assure Gordon Brown that it had found no evidence that energy companies were colluding to increase their prices.

<http://www.guardian.co.uk/business/2008/jan/20/utilities.householdbills?gusrc=rss&feed=networkfront>

The economy

Initial estimates for economic growth in the fourth quarter of 2007 show gross domestic product (GDP) grew by 0.6% compared with the previous quarter and was 2.9% higher than a year ago.

Year-on-year GDP grew by 3.1% – its fastest rate in three years.

Manufacturing output was unchanged on the third quarter 2007 but 0.2% higher than a year ago. In 2007, manufacturing output was 0.6% higher than the year before.

ITEM forecast The risk of a recession remains low even though UK economic growth will slow sharply in 2008, according to the Ernst & Young ITEM Club, which uses the Treasury's own model of the economy. It expects the economy to expand by 1.8% in 2008 compared with 3.1% last year.

It expects interest rates to fall to mitigate the effect of the downturn.

One factor in warding off a recession will be investment from cash-rich government controlled funds in Asia and the Middle East, it said.

"We have been living well beyond our means, lured by the offers of cheap no-questions-asked credit," the report said.

"The reversal in the credit markets in 2007 could lead to a sharp fall in economic growth, but we believe there is room for interest rates to be cut to cushion this."

Last year's credit crunch emerged as banks tightened up their lending practices when questions arose about the value of some debt – primarily debt linked to high-risk sub-prime mortgages in the United States.

The ITEM club said its forecast for gross domestic product assumed a major reduction in the cost of borrowing. It expects that the Bank of England will

cut interest rates at least three times to around 4.75% from 5.5% currently.

The report also warned that a squeeze on public spending could exacerbate the economic slowdown.

Peter Spencer, chief economic adviser to the ITEM club, said the government had left it too late to sort out deteriorating public finances which could make any tax cuts to spur the economy difficult.

<http://www.statistics.gov.uk/pdfdir/gdp0108.pdf>
<http://news.bbc.co.uk/1/hi/business/7198702.stm>

PFI rip off

Millions of pounds of public money are being wasted because contractors are charging unjustifiably high fees for making changes to active private finance initiative (PFI) projects, according to the National Audit Office (NAO).

Public authorities are typically getting "poor value for money" when they ask private sector consortia for additions to ongoing PFI projects, such as building and operating hospitals and schools, an NAO report has concluded.

More than £180 million of taxpayers' money was spent on changes to many of the 500 PFI deals in 2006. The NAO found that most private sector PFI operators charged "unjustified" extra management fees, often as high as 10%, on top of the charges made by the service providers for requested changes.

Another problem was that public authorities were frequently ill-equipped to manage PFI projects and had little idea how much changes should cost. For example, it found that the cost of adding a single electrical socket varied widely from about £30 to more than £302 in PFI projects.

Changes that cost more than £100,000 accounted for 90% of the spending, yet just under a third (30%) of those changes were competitively tendered, with the rest being awarded directly to the existing contractor.

The audit office said about another third of the changes could have gone to tender to drive down costs. For example, it said a £25 million new block at HM Prison Altcourse and £22.9 million expansion of Hexham General Hospital were among a number of schemes not competitively tendered, but which might have been suitable for such treatment.

Commenting on the damning report, Dave Prentis, general secretary of public sector union UNISON, said: "Taxpayers are paying over the odds for PFI projects that are slow, inflexible and expensive. This latest National Audit Office report reveals how companies continue to rake in the cash by charging unjustifiably high fees for making changes to contracts. These companies are abusing their position by overcharging hospitals and schools for small changes and basic maintenance.

"It's time for the government to face the fact that PFI is a fundamentally flawed system. Instead of attacking the wages of low paid public sector workers, the government should tackle the obscene profits being made by these private companies at the public's expense."

www.ft.com
<http://www.nao.org.uk/pn/07-08/0708205.htm>
http://www.unison.org.uk/asppresspack/pressrelease_view.asp?id=1085

BP pensions holiday

BP is to take a contribution holiday from its BP Pension Fund and its Burmah Castrol Pension Fund during 2008, due to a high funding level in October 2007.

Under the firm's Statement of Funding and Investment Principles (SFIP), the company is not required to contribute to the fund if the percentage of its assets as measured against its liabilities goes over 115% at the annual assessment date at the end of September. In October 2007, the funding level of the BP Pension Fund was certified at 135% and the funding level of the Burmah Castrol Pension Fund was 128%.

Although the company does not intend to contribute to the fund during 2008, the trustees, company and scheme actuary will continue to monitor the funding levels on a monthly basis. The company will resume contributions in 2009 if the funding levels of its pensions schemes have fallen beneath 115%.

Shell also announced it was to take a contribution holiday in October last year.

<http://www.employeebenefits.co.uk/item/3827/23/5/3?nl=WN>