

# FACT

S E R V I C E

77 Pension scheme buyouts

78 Pay settlements  
Police vote for right to strike  
Fair tips campaign

79 Another farce of party funding

80 Directors' pay

Annual Subscription £67.50 (£57.20 for LRD affiliates)

Volume 70, Issue 20, 22 May 2008

## Pension scheme buyouts

The market for transferring pension scheme risk to an insurance company has accelerated sharply over the past six months and is expected to grow rapidly from now, according to actuaries Lane Clarke and Peacock (LCP).

At least 10 of the top 100 companies listed on the London Stock Exchange are looking to offload some or all of their pension scheme's liabilities during 2008.

The largest buyout transaction completed to date has been the £800 million deal to insure current pensioners in the P&O cruise line's scheme, but LCP's report finds that this milestone might soon be eclipsed: seven quotations have been issued by insurers for potential transactions over £1 billion.

The firm predicts that the pension buyout market in 2008 will exceed £10 billion, achieving a four-fold increase on 2007 volumes. Competitive market rates, innovative structures and the ability to partially transfer risk to an insurer without needing to close down the pension scheme are cited as key drivers for companies and trustees pursuing a buyout. LCP highlights that the potential for further growth in the market is huge – £10 billion is still less than 1%

of the potential market of private sector defined benefit (final salary) pension schemes.

The credit crunch has also stimulated market growth, allowing insurance companies to use the higher yields available on investment grade corporate debt and other assets to reduce their prices.

Clive Wellsted, partner at LCP, said that "the question is can insurers keep pace with demand from companies and trustees to offload risk."

Most defined benefit pension schemes, especially in FTSE 100 companies, are closed to new members and were already expecting to buy out with an insurer in the long term. The credit crunch caused a wobble but now conditions provide an opportunity for companies to transfer some or all of the risk away much sooner.

"It's not a question of if these schemes will buy out, but simply a question of when," said Wellsted.

Deals for the first quarter of the year back up LCP's view. Buyout deals hit a record level in Britain in the first quarter of the year, according to Aon Consulting. Deals worth a total of £2.2 billion were completed during the quarter, almost six times the £350 million for the fourth quarter of 2007.

First quarter deals included electrical components group Morgan Crucible, engineering firms TI and Powell Duffryn and leisure group Rank who have

**LABOUR RESEARCH DEPARTMENT**

Published weekly by LRD Publications Ltd, 78 Blackfriars Road, London SE1 8HF. 020 7928 3649 [www.lrd.org.uk](http://www.lrd.org.uk)

all offloaded some or all of their pension liabilities to specialist firms.

The rapid pace of deal-making seen at the end of last year was maintained in the first quarter, with 87 transactions done in the first three months of the year, with an average value of £25 million.

[www.lcp.uk.com/information/press\\_release.asp?ID=220](http://www.lcp.uk.com/information/press_release.asp?ID=220)  
[uk.reuters.com/article/UK\\_SMALLCAPSRPT/idUKL0982636020080511](http://uk.reuters.com/article/UK_SMALLCAPSRPT/idUKL0982636020080511)

## Pay settlements

Significant increases in the cost of living are not feeding through to wage negotiations in manufacturing with pay settlements falling to their lowest level for more than 12 months according to the latest data from EEF, the manufacturers' organisation.

Their latest figures for the three months to the end of April 2008 show that the average level of pay settlements fell slightly to 3.1%, the lowest figure reported since March 2007.

The latest figures for pay settlements from the LRD Payline database show a median increase of 4.0% for the three months to April, unchanged on the previous three months.

The 4.0% median applies to all sectors apart from the public sector, which is lagging behind and where settlements fell to 2.8% in April from 3.0% the previous month.

<http://www.eef.org.uk/UK/topnav/press+room/Press+Room.htm>  
[www.lrd.org.uk/index.php?pagid=18](http://www.lrd.org.uk/index.php?pagid=18)

## Police vote for right to strike

Police officers in England and Wales have voted by a big majority to lobby the government for the right to strike.

The vote followed a dispute over an annual 2.5% pay rise from the 1 September 2007 recommended by the Police Negotiating Board, but which the government only implemented from December, reducing the overall annual increase to 1.9%.

Ballot papers were sent to 140,000 police constables, sergeants and inspectors, and 60,572 of them voted – a turn-out of 43%.

Of those who voted, 93% wanted independent Police Arbitration Tribunal decisions to be made binding. And in the absence of binding arbitration, 86% said the Police Federation should lobby for officers to be allowed "full industrial rights".

An informal survey of 9,000 members of the federation in Northern Ireland produced similar results on a "satisfactory turnout".

In Scotland police officers got the full 2.5% increase backdated to September 2007. The Scottish Police Federation conference rejected the right to demand full strike action but voted narrowly in favour of seeking other industrial rights.

It's nearly 90 years since the police were banned from striking under the Police Act 1919, the legislation was renewed in 1996. The original law followed strikes in London and Liverpool during 1918 and 1919, when almost every constable and sergeant refused to go on duty. The law set up the Police Federation of England and Wales staff association and denied police officers the right to belong to the trade union the National Union of Police and Prison Officers.

<http://news.bbc.co.uk/1/hi/uk/7409679.stm>  
[www.ome.uk.com/downloads/07-4%20FEDERATED%20RANKS%20PAY%202007%20FINAL.doc](http://www.ome.uk.com/downloads/07-4%20FEDERATED%20RANKS%20PAY%202007%20FINAL.doc)  
[http://en.wikipedia.org/wiki/British\\_police\\_strikes\\_in\\_1918\\_and\\_1919](http://en.wikipedia.org/wiki/British_police_strikes_in_1918_and_1919)

## Fair tips campaign

General union Unite have linked up with the *Daily Mirror* newspaper to launch a campaign urging restaurants and hotels to sign a fair tips charter. It wants restaurants and hotels to demonstrate their commitment to ensuring tips and service charges are distributed fairly among staff.

Tony Woodley, joint general secretary of the union, said the charter "will enable people to tip with confidence". Customers want to see that the tips they leave are going to the hard-working staff who serve them.

The union wants to ensure that workers in the hospitality industry receive a decent living wage with all tips added on top as a recognition of good service.

The Fair Tips Charter states: "As an employer in the restaurant industry I pledge to:

- Pay all employees at least the minimum wage with 100% of tips added on top as a bonus with no hidden charges.
- Reach agreement on how tips are shared with

those staff directly affected.

- Make no deductions from tips or salaries to cover breakages, till shortages or customer walk-outs.

- Make all rules for the distribution of tips and service charges available in writing for staff and customers on request."

Two restaurant groups – Pizza Hut and TGI Friday's – have given a lead to the industry by signing the charter. The union now wants others within the sector to demonstrate their commitment to a fair and transparent tipping system.

**Trade union activity** Ironically Unite general union is trying to persuade Gondola Holdings, the parent company of Pizza Express, to reinstate an employee who was sacked after almost 20 years' service, a dismissal the union alleges was made because of his trade union activity.

Nabil Guirguis, a manager at a branch of Pizza Express, was sacked after joining a Unite demonstration last September which was urging restaurant customers to check what happened to the tips they left at the restaurant. The union alleges that Guirguis was sacked for talking to the media about the company practice of deducting an 8% "administrative charge" from waiters' tips that are left on customer credit cards.

The company has said its actions in sacking the manager – and its tips policy – were "fully justified". But the union has pointed out that Guirguis's actions were trade union activity, for which he should not be dismissed. It has offered to go to conciliation service Acas to try to resolve the matter.

[www.amicustheunion.org/default.aspx?page=8444](http://www.amicustheunion.org/default.aspx?page=8444)  
[www.tgwu.org.uk/Templates/News.asp?NodeID=94230](http://www.tgwu.org.uk/Templates/News.asp?NodeID=94230)

## Another farce of party funding

The issue of the funding of the main political parties has recently hit the headlines again. Members of the Conservative shadow cabinet have been taking money to run their private offices directly from commercial companies with interests in the portfolios they hold, a parliamentary report has revealed.

The donations have been declared to the political finance watchdog the Electoral Commission, but not declared by the shadow cabinet in their entries in House of Common's *Register of Members Interests*, which details the outside interests of MPs.

At least four members of the Conservative team have received money from companies connected with their briefs, according to parliamentary commissioner John Lyon.

They include the office of Alan Duncan, shadow business secretary, which is partly funded by Ian Taylor, president and chief executive of the Netherlands-based Vitol oil company, whose main business is in energy trading.

Andrew Lansley, the shadow health secretary, has received funds from London Secure Services, a company that runs two secure children's homes, and Julian Schild, owner until last year of the medical equipment company Huntleigh Technology, the largest manufacturer of NHS beds.

Jeremy Hunt, shadow culture secretary, whose brief includes tourism, has received funds from John Lewis, the chairman of the Conservative tourism taskforce, who was formerly chairman of the British Tourist Authority. Lewis is also executive chairman of two top leisure groups Cliveden plc and Principal Hotels plc, and vice-chairman of Pubmaster Group.

Grant Shapps, the party's housing spokesman, disclosed to the commissioner that he had taken tens of thousands of pounds from five different companies associated with his portfolio. They were two online mortgage brokers, Charcol and Edeus Creators; Douglas & Gordon, a west London estate agent; the Sapcote Group, a commercial property developer; and Goldsmith Williams, a firm of solicitors that specialises in conveyancing and remortgaging.

Details of the support for private offices came to light following an investigation by Lyon into why shadow chancellor George Osborne failed to declare almost £500,000 from donors to help run his office – money that had been channelled through general Conservative party funds but earmarked for his use.

The commissioner found that Osborne broke the rules, but concluded that it would not be fair and reasonable to criticise Osborne as party chiefs had sought official advice on the issue and acted in good faith in their interpretation of the disclosure rules.

However, he has ordered the entire Tory front bench to disclose details of who is funding their offices in the register.

## Directors' pay

Thirty five top executives, who were paid at least £500,000 a year in 2007, including 13 on over £1 million, feature in the table over. The figures exclude share bonuses and pension contributions except where the company has paid extra to the director on top of their salary. They are headed by Jim Nicol, chief executive of global manufacturing and engineering group Tomkins, who received just over £1.91 million last year.

Samar Brikho took over as chief executive of Amec, the international consultants and project managers to the energy and process industries, in October 2006 and in his first full year with his feet under the table got £1.84 million.

Two directors of top housebuilder Persimmon take the next spots. Chair John White was paid £1.77 million while Mike Farley, who replaced him as chief executive in early 2006, got £1.76 million.

Andrew Sukawaty, chair and chief executive officer of satellite communications company Inmarsat, completes the top five with a total pay package of £1.58 million.

Year-on-year comparisons could be made for 27 directors and 18 got a pay rise last year. They included 10 executives who got a rise of at least 10.7% at a time when average earnings in the economy as a whole were rising at just 3.7%.

Mike Farley of Persimmon got a 43.3% rise in his basic salary to go with his increased responsibilities and a 23.5% rise in his cash bonus, making for an overall rise last year of 43.4%.

Steve Siddall, finance director of Amec, received an overall rise of a third (+33.0%) helped by an annual bonus equivalent to 80% of his basic salary.

With his annual bonus more than tripling, Adrian Chedore of media agency Aegis saw his pay packet rocket by 29.5% and past the £½ million a year barrier to £601,000.

John White of Persimmon takes fourth spot with a 25.2% rise as a result of substantially increased bonus payments.

Completing the top quintet, chief operating officer of Inmarsat Michael Butler received a rise of 22.9% to £988,000 a year, after his bonus increased by almost a third (+31.0%) or £100,000.

Malcolm Harris, chief executive of house builder Bovis, took the biggest pay cut of the top executives listed – as a result of receiving no bonus in 2007 his pay package shrank by almost half (-48.1%) to £513,000. With the housing market shrinking he might slip below the £½ million a year barrier this year. Hard times!

**Netherlands** The Dutch government has provoked uproar among the country's business community by proposing laws to curb large bonuses and golden handshakes for company bosses. Finance minister Wouter Bos launched the "fat cat" crackdown following a series of scandals involving "unjustifiable" payouts to prominent business people following the sale of the Dutch bank ABN Amro last year.

However the proposals are under attack from top Dutch multinational companies, such as Philips, Shell and Unilever, whose chairmen argue they will damage Holland's international competitiveness and drive away corporate talent.

Director	Company (year end)	Pay (£000)	% rise
Jim Nicol	Tomkins (12.07)	1,907	-3.3
Samar Brikho	AMEC (12.07)	1,843	n.a
John White	Persimmon (12.07)	1,771	25.2
Mike Farley	Persimmon (12.07)	1,759	43.4
Andrew Sukawaty	Inmarsat (12.07)	1,580	13.7
Tim Breedon	Legal & General (12.07)	1,346	3.4
Michael Roney	Bunzl (12.07)	1,245	-12.4
Robert Lerwill	Aegis (12.07)	1,208	10.9
David J Illingworth	Smith & Nephew (12.07)	1,199	n.a
Adrian Hennah	Smith & Nephew (12.07)	1,063	n.a
Matthew Ingle	Galliform (12.07)	1,050	6.0
Nick Salmon	Cookson (12.07)	1,025	4.0
Peter Redfern	Taylor Wimpey (12.07)	1,011	n.a
Mike Killoran	Persimmon (12.07)	993	1.3
Michael Butler	Inmarsat (12.07)	988	22.9
Sir Christopher O'Donnell	Smith & Nephew (12.07)	874	n.a
Rick Medlock	Inmarsat (12.07)	856	6.7
Peter Johnson	Taylor Wimpey (12.07)	807	6.0
Stuart Siddall	AMEC (12.07)	782	33.0
Dennis Proctor	Hunting (12.07)	708	-3.3
David Bryant	Persimmon (12.07)	699	-7.4
Andrew Palmer	Legal & General (12.07)	674	-1.3
Ian Sutcliffe	Taylor Wimpey (12.07)	663	n.a
Brian May	Bunzl (12.07)	656	n.a
Ian Fraser	Brammer (12.07)	645	16.8
Mainardo de Nardis	Aegis (12.07)	606	n.a
Adrian Chedore	Aegis (12.07)	601	29.5
Dennis Clarke	Hunting (12.07)	591	4.4
Michael Butterworth	Cookson (12.07)	590	10.7
Patrick Larmon	Bunzl (12.07)	589	-9.1
David Verklin	Aegis (12.07)	589	-18.2
John Pollock	Legal & General (12.07)	566	11.6
Terry Gomke	Hunting (12.07)	519	1.6
Malcolm Harris	Bovis Homes (12.07)	513	-48.1
Kate Avery	Legal & General (12.07)	506	-2.7

Source: Company remuneration reports