The financial skulduggery behind the collapse of UK retailer BHS

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Documents and a parliamentary committee inquiry into the collapse of the high street retailer British Home Stores (BHS) highlight the criminality and gangsterism that characterises British capitalism today.

Last week, BHS' administrators announced they had received no acceptable bids for the company, which was worth more broken up than sold in its entirety. BHS will be wound down, its stores and assets sold off to pay off the creditors. The closure will leave 11,000 workers at BHS' 164 stores without jobs, up to 20,000 workers, including retired workers, with greatly reduced pensions, and unpaid taxes and redundancy costs that will cost the taxpayers around £36 million.

BHS, for long a major player on Britain's high streets, collapsed last April with debts of £1.1 billion. Its owners, Retail Acquisitions Ltd, a financially dubious outfit, was headed by Dominic Chappell, a twice bankrupt former racing driver with no previous retail experience, who was interested in acquiring—and selling—BHS' property portfolio.

Chappell had bought the financially distressed BHS from billionaire Sir Philip Green, in March 2015 for just £1, reportedly after being introduced to Green by Paul Sutton, a convicted fraudster, with whom he had had business relations.

During his 15 years at the helm, Green, who ranks 29 of 1,000 in the *Sunday Times* ' rich list, had bled the company dry. His Arcadia group starved it of much needed investment, allowed the pension fund to run up a deficit of hundreds of millions, loaded the company with debt payable to his other companies, from whom BHS also purchased services, and used BHS's assets to secure the loans. At the same time, Green funnelled money out of BHS in the form of dividends to his wife, who resides in Monaco for tax purposes, thereby avoiding UK tax.

But crucially, Green provided loans to Chappell's Retail Acquisitions and held on to £35 million of BHS' assets as security. He is now BHS' chief creditor who must be paid first, ahead of unsecured creditors, including the tax authorities and outstanding employee claims.

The promised £120 million that would secure BHS' future—the apparent basis for the deal—never materialised and the situation went from bad to worse. Despite negotiating a rent reduction and selling some of its property, BHS was unable to pay its creditors or to plug the £571 million pension deficit. After Green's Arcadia Group demanded "immediate" repayment of the £35 million loan, BHS called in the administrators, who have said that the unsecured creditors, including the pension fund, may get as little as 3 pence in the pound.

Following the outcry over BHS' collapse, two parliamentary investigations—rather tame affairs that provide an opportunity for back-benchers to grandstand while the witnesses evade their questions—were announced. Last Wednesday, the business select committee heard damning evidence about the company bosses and their business practices.

Nine BHS managers had sent a letter to the 11,000 staff—and the BBC—claiming that Chappell's Retail Acquisitions consortium had not raised "sufficient funds to keep the business going." They also alleged the group caused costs to spiral because they failed to "give confidence" to credit insurers and suppliers.

Darren Topp, BHS' chief executive, accused Chappell, BHS' former owner, of having his "fingers in the till"—a reference to the £25 million in fees, interest payments, and payments to entities related to his family that Chappell and his firm took during their 13-month ownership. Topp also claims that Chappell threatened to kill him when he questioned a transfer of £1.5 million.

Another former executive Michael Hitchcock told the committee that he had been “duped” by Chappell. He said, “I think the technical term is a mythomaniac. The layperson’s term is he was a premier league liar and a Sunday pub league retailer. At best.” He said that Chappell had promised to invest millions in the company but had failed to do so.

Chappell, for his part sought to pin the blame on BHS’ former owner. He claimed that Green had pushed BHS into administration after going “insane” and had a “crazy rant” when he found out Mike Ashley’s Sports Direct, whose nefarious business practices were the subject of another business select committee inquiry the previous day, was interested in buying it.

He went on to admit he had made an undisclosed profit on BHS and claimed to be unaware of the pension deficit until the day he bought the firm, which if true speaks volumes for his own failure and that of his financial advisors to scrutinise BHS’ finances.

The Insolvency Service and the Pensions Regulator are also investigating BHS’ financial affairs, and the Serious Fraud Office is considering launching an investigation.

The administrators reported that they had uncovered a number of financial transactions within BHS requiring further investigation, and raised questions about transactions under Green.

The parliamentary pensions committee has summoned Green to answer questions on Wednesday about his management of the company, the pension fund and his decision to sell BHS to Chappell. Labour Party MP Frank Field, who chairs the committee, has called on Green to put £571 million into the pension scheme, with other MPs saying that Green should be stripped of his knighthood if he refuses to plug the gap.

Green, who denies Chappell’s allegations and claims he was “duped” into selling BHS to him, demanded that Field resign from the inquiry, accusing him of seeking to destroy his reputation, and has refused to attend unless he does so. This was a reference to Field’s comments to the *Financial Times* on Friday that his committee “would just laugh at him” if Green offered less than £600 million.

While the press have called the revelations “extraordinary” and “shocking,” implying that the events behind the collapse of BHS are a “one-off,” these corporate practices are the norm. Refusing to maintain the value of their employees’ pension fund, paying top executives and their advisors massive salaries and fees, massive loans to fund dividend pay-outs, inter-company transactions, and takeovers and all the rest, all go under the benign term of “creating shareholder value.”

As Britain’s manufacturing continued its inexorable decline, Britain’s high street retailers became the stock market darlings. They are now revealed to be nothing more than liars, fraudsters and thugs whose chicanery takes place under the nose of the government, pension regulators, the auditors and financial advisors charged with exercising “due diligence” over takeovers, as well as their regulator, the Financial Reporting Council, the banks and a pliant media.

But none of this could happen without the criminal complicity of the trade unions that never lift a finger to protect their members against corporate skulduggery and attacks on workers’ jobs, pay, working conditions and pensions.

According to the Centre for Retail Research, there have been a massive 358 retail company failures since the 2007 recession, affecting 28,000 stores and 262,972 workers. In April, another well-known high street retailer, outfitters Austin Reed, with 155 stores, including Viyella and Country Casuals, and almost 1,000 staff, called in administrators just a few days after being taken over by hedge fund Altieri Investments and disposing of some of its stores and brand names to Boundary Mills/Edinburgh Woollen Mill.

The comments of John Hammett, general secretary of the shop workers’ union Usdaw, are typical. He said the news was devastating but not necessarily the end of the road. “There were a number of potential buyers here and the question is why they haven’t been successful,” he said. “We need to make sure that every opportunity has been covered before we accept defeat.”