

Work and Pensions Committee & Business, Innovation and Skills Committee

Oral evidence: The Pension Protection Fund and Pensions Regulator, HC 55

Wednesday 29 June 2016

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Members present:

Work and Pensions Committee: Frank Field (Chair); Ms Karen Buck, Richard Graham; Craig Mackinlay; Jeremy Quin.

Business, Innovation and Skills Committee: Mr Iain Wright (Chair); Richard Fuller; Amanda Milling; Amanda Solloway; Michelle Thomson.

Questions 2780 - 3141

Witnesses

[I](#): Michael Sherwood, Anthony Gutman and Michael Casey

[II](#): Mark Sherwood

[III](#): Paul Budge, Chris Harris and Brett Alexander Palos

Examination of witness

Witnesses: **Michael Sherwood**, Vice Chairman, Goldman Sachs, **Anthony Gutman**, Co-Head, EMEA Investment Banking Services, Goldman Sachs, and **Michael Casey**, Managing Director, Goldman Sachs, gave evidence.

Q2780 Chair: Mr Sherwood, your firm provided us, on 1 June, with a log of activity relating to the sale and acquisition of BHS, extending to 95 items. It was very thorough and we thought it was complete. On Monday we received a letter from Goldman Sachs in which it states, "For completeness, we should also note that shortly before the transaction closed Mr Sherwood also received a call from Sir Philip Green with the request that Goldman Sachs consider extending a £40 million loan to support the transaction to be guaranteed by Arcadia". Why didn't you tell us that before?

Michael Sherwood: Unfortunately I think when I was preparing for today I was looking at some material and talking to one of my colleagues and he reminded me of it. It only occurred for a brief moment in time because immediately after we were asked to look at it we were told to stand down, so we never really spent any time working on it. I apologise for providing it to you late.

Q2781 Chair: What else haven't you told us? Is there anything else for completeness?

Michael Sherwood: There was one other call that we included in the note to you, in which, as I was watching Sir Philip Green's testimony, he remembered talking to me about who were Farallon. I said to him Farallon are a large asset manager and that was literally the end of that call.

Q2782 Chair: How can clients trust you when for completeness you failed to remember a potential £40 million transaction?

Michael Sherwood: Again, it was around for an incredibly short period of time and we were told someone else had provided the loan. We never provided any terms on the loan. It was a request that went away almost as soon as it arrived.

Q2783 Chair: But in terms of systems, of completeness of what goes on, what the firm is guaranteeing or otherwise, you are lacking here, aren't you?

Michael Sherwood: I don't think we are. It was logged in our systems. I missed it. I should have mentioned it to our lawyers when we were sitting down and talking about this.

Q2784 Chair: It was logged in the system, so the system had it but it was not retrievable to be able to provide to us for a complete log when we requested it?

Michael Sherwood: Mr Chairman, I can only apologise and I offered it to you in the spirit of full transparency. I really don't think it was a large point because it lasted for less than 24 hours.

Q2785 Chair: I appreciate that Goldman Sachs is a large firm but is £40 million just considered immaterial to you; it can be forgotten?

Michael Sherwood: Again, we never put terms on the loan, ever.

Q2786 Chair: How do you reconcile what Mr Gutman told us earlier on in our inquiry, that Goldman Sachs's role in this was informal observations? How can that view be reconciled with providing potentially a £40 million transaction?

Michael Sherwood: I think at the point where the loan was asked for, the transaction was essentially finished. It was closed.

Q2787 Richard Fuller: It is important, Mr Sherwood, because a big play was made last time by Mr Gutman about how no fees were here. In fact, it became a bit of a Committee joke that the only people who knew what was going on didn't receive any fees and yet you forgot the one thing where you would get fees in your submission. Why was that?

Michael Sherwood: Again, we never quoted any fees, we never quoted any terms. We were told that someone else was providing the loan.

Q2788 Richard Fuller: But it was another type of service. When you provide loans normally you would charge interest or fees on that, so it would have been remunerative to Goldman Sachs, wouldn't it?

Michael Sherwood: It would have been if the proposal had continued but we were not asked to provide the loan. We were asked to stand down.

Q2789 Richard Fuller: But you can understand our concern because there has been this impression created that Goldman Sachs were the gatekeepers. They are an informal adviser. They provided observations, I think was the word that Mr Gutman used, and yet you forgot in your submission the one thing that would have conveyed that there was a potential commercial transaction. I know it was only there fleetingly and I know it was not a lot of money in Goldman Sachs's world—it was only for £40 million, which probably is not a lot of money for Goldman Sachs—but it was material to the understanding of the Committee about the different roles played by informal advisers and formal advisers and how informal advice is given credibility. I would like, if I may, to go through some of the other financially remunerative transactions and relationships that Goldman Sachs has with Sir Philip Green and with his businesses. How long has Goldman Sachs had a business relationship with Sir Philip Green?

Michael Sherwood: I think the business relationship first started in about 2004 when we were one of several advisers who advised him on his bid for Marks & Spencer.

Q2790 Richard Fuller: Were you personally involved in that transaction at that time?

Michael Sherwood: I was personally involved at that time, yes.

Q2791 Richard Fuller: So you have known Sir Philip Green for well over a decade?

Michael Sherwood: Yes. I got to know him, I would say, in the early 2000s, a couple of years prior to that.

Q2792 Richard Fuller: Over that period of time, what types of services have Goldman Sachs provided to Sir Philip Green and his businesses?

Michael Sherwood: Obviously the Marks & Spencer transaction. Following that I don't think we have done anything significant on the investment banking side. We have from time to time given him views on various markets, foreign exchange, interest rates, inflation and so on with respect to Arcadia and some of the pensions, and his family has had a private wealth management relationship with the firm since 2008.

Q2793 Richard Fuller: So they are in your private client business?

Michael Sherwood: They are in our private client business managed by our private client people, yes.

Q2794 Richard Fuller: As part of that, do you provide tax advice to your private clients?

Michael Sherwood: We don't, no.

Q2795 Richard Fuller: Goldman Sachs plays no role in making recommendations to private clients about how to manage their wealth tax efficiently?

Michael Sherwood: Maybe I should qualify that, because I don't manage the account and I need to check with the person who manages it, but I am pretty certain we don't offer tax advice. We don't tend to offer tax advice, no. We are not a tax adviser.

Q2796 Richard Fuller: Maybe it would be helpful if you take a couple of minutes to explain what that division of Goldman Sachs does for its clients.

Michael Sherwood: That division manages high net worth assets. It allocates them principally between fixed income, equity and alternative and cash markets. Goldman Sachs is slightly different from other firms. We don't manage retail money. Our starting account size is larger and we are really in the high net worth business and that is all.

Q2797 Richard Fuller: I am an MP. I earn £66,000 a year. Am I high net worth?

Michael Sherwood: Not to our private wealth management business, you would not be.

Q2798 Richard Fuller: How much would I have to have in wealth?

Michael Sherwood: Several million dollars of liquid assets is where we start in that business.

Q2799 Richard Fuller: I have some way to go then. You talked about investment banking relationships. Can you explain what type of investment banking work Goldman Sachs would have completed for Sir Philip Green's companies? You mentioned British Home Stores. I think you said that that was probably the last time you did some investment banking.

Michael Sherwood: No, I said Marks & Spencer was the last time.

Richard Fuller: Marks & Spencer, my apologies.

Michael Sherwood: We have had various discussions from time to time but nothing substantive has ever come of those discussions. We really have not done any investment banking work for Sir Philip since the M&S transaction in 2004.

Q2800 Richard Fuller: Does Goldman Sachs keep records about the fees that it earns from particular businesses or particular individuals?

Michael Sherwood: Yes.

Q2801 Richard Fuller: Could you give the Committee any understanding of the amount of fees that Goldman Sachs has made from Sir Philip Green over the 12 years?

Michael Sherwood: They are very small. We can come back to you in writing but they are de minimis.

Q2802 Richard Fuller: Why do you provide that advice? You are not making any money. You have been with him for 12 years. You are not giving any services; you don't give him tax advice. He has involved you now in coming here, with tremendous reputational risks for Goldman Sachs. Why do you do it, Michael?

Michael Sherwood: We are in the business where we cover large corporations, high net worth individuals, Governments. They may not do things for a very long period of time but at particular times in their life cycle they might do significant transactions and we want to be in the goalmouth when those things happen. I was going to say hang around the hoops but I think in the goalmouth is more appropriate here. We want to be close to large transactions when they are going public, when they are selling assets, if they are doing large financings.

Q2803 Richard Fuller: It is an awfully long time to hang around the hoop for 12 years, isn't it, and only earn just a few peanuts?

Michael Sherwood: That is our business. That is the nature of our business. Unfortunately large companies do not do significant transactions that regularly.

Q2804 Richard Fuller: Goldman Sachs is happy to make an early judgment on someone because he owns a business and then spend more than a decade hanging around the hoop, not earning much money, in the hope that some day he or she will do something big. That is your business model?

Michael Sherwood: I wouldn't say we are happy but I would say we continue to assess the nature of those relationships and we put the appropriate amount of resources on them.

Q2805 Richard Fuller: You have to make money, so wouldn't it be in the nature of your relationship to want them to do something so you are always in the business of suggesting things that they should do?

Michael Sherwood: We would like them to do things that we think are in their best interest.

Q2806 Jeremy Quin: Mr Sherwood, you will be acutely aware of the Goldmans brand and what it means, not only in this country but globally. What you lend your name to gives a tremendous amount of credibility to any process and I am curious as to why you are prepared to lend your brand name in these circumstances.

Michael Sherwood: Again, as I think Mr Gutman described previously to the Committee, we formally turned down the assignment to represent Arcadia on selling the British Home Stores company. From time to time we are willing to provide informal advice to our clients as and when they ask for it and, as Mr Gutman described last time he was here, we thought our role was very simply to provide some preliminary observations about this potential transaction. I would also add one more point. When we turned down the assignment we had absolutely no idea who the buyer might be or whether there were multiple buyers. We just had no idea. We didn't think it was a piece of business for us so formally we decided to turn it down.

Q2807 Jeremy Quin: I can understand that but you ended up being half in and half out. That was the reality and in doing so you were in the situation where you think you are providing informal guidance but I think your client said "one million percent" he would not have conducted the deal with Chappell unless he was comfortable that it had been signed off by Goldman Sachs.

Michael Sherwood: I think he said if we had turned it down, but on the same point we had not told him it was okay to proceed. I think Mr Gutman had done a good job of highlighting the risks with the transaction and with the counterparty.

Q2808 Jeremy Quin: There is huge risk for all concerned if you are half in and half out of the deal, isn't there?

Michael Sherwood: I don't think there is enormous risk. The scope of work that we would have done if we were in would have been substantially more than the e-mail and call logs that we presented to you. We would have had lots of people, thousands of e-mails, dozens of meetings. We just were not that involved in this process.

Q2809 Jeremy Quin: I understand that and I should say I was principally involved in your sector and I appreciate the work that you would have put in in those circumstances, but you were still prepared to be half in and half out. The fact is that your name was used as a gatekeeper but, as I understand it, you were only gatekeeper for one party. There was one party who had the Goldman Sachs brand there in front of him, "This is a serious process, this is something I have to take incredibly seriously. I have to put my best foot forward for meeting Goldman Sachs".

Michael Sherwood: Gatekeeper was not our term. As I said, we were asked to provide preliminary observations. You will get a chance to ask Mr Budge again, but when I heard Mr Budge's testimony he described our work as preliminary observations. That was entirely consistent with what Anthony performed.

Q2810 Jeremy Quin: Do you think the disconnect is with Sir Philip, that he was thinking he was getting more than was fair?

Michael Sherwood: I think you have to ask Mr Budge. I wasn't party to the conversations between Mr Budge and Sir Philip Green.

Q2811 Chair: I am trying to understand your business model and the rationale behind the decision not to be transparently and publicly involved in the sale and acquisition of BHS. You are hanging around the goalmouth for 13 or 14 years and then a ball is crossed in and you move away into your defence. Where is the rationale behind that?

Michael Sherwood: We didn't think the transaction was for us. We thought it was too small. We thought that the potential buyer base was probably a smaller turnaround, the kind of person who ended up buying, which really did not suit our clients. We were in a busy merger market at the time and we had to allocate our resources appropriately. We didn't think this was for us on commercial reasons.

Q2812 Richard Fuller: I am sorry about the mixed metaphors—I like NBA—but you have hung round the hoop for 10 years. It is not a whale. This is not the hugest transaction. He is not trying to buy John Lewis, heaven help us, but it is something. I mean, come on.

Michael Sherwood: It is obvious to everybody there is a very significant asset that Sir Philip Green owns and at some point he may decide to do something with it. That was the transaction that we would like to hang around the hoop for. This was a transaction that we did not think was for us, for the reasons that I mentioned.

Q2813 Richard Fuller: Can you reassure us that you did not do the transaction because it was too small rather than the fact you did not do the transaction because you knew that it stunk?

Michael Sherwood: We absolutely had no idea at the time. As I said, we had no idea who a potential buyer could be for this transaction so at the time we turned it down—

Q2814 Richard Fuller: Mr Gutman gave very compelling evidence that he had done his research on Mr Chappell. He did realise the person was a bankrupt.

Michael Sherwood: But that was all after we turned it down. As you will remember, Sir Philip Green called me and said, "Would you take this transaction on?" I had one brief conversation with Mr Gutman and we went straight back to him that day and said, "We're going to turn it down" and we had no idea who the potential buyers would have been.

Q2815 Richard Fuller: So it literally was just because of size?

Michael Sherwood: Size, commercial reasons, nature of the buyer base. Those are the reasons that I mentioned previously.

Q2816 Craig Mackinlay: Mr Sherwood, thanks very much indeed. You have obviously had a long-term relationship with Sir Philip back to the M&S deal of the early 2000s, and I suppose quite understandably, given your very generous fee structure, he was probably on the phone to you from time to time. We have evidence that he called you in October 2014 with a potential sale of

BHS. It has been quite difficult for us to get to when did this spark occur in Sir Philip's mind of doing something with BHS. We know about its long-term losses and the difficulty in the retail market. I am understanding that you had an occasional relationship with Sir Philip Green. When were you first aware that this spark of a disposal was developing within him?

Michael Sherwood: Categorically or absolutely on that call. Had I been aware over previous years that if an appropriate buyer showed up he might sell it? I don't think that was as surprise to anybody.

Q2817 Craig Mackinlay: Do you recall that telephone conversation that you had in October 2014?

Michael Sherwood: I do recall that telephone conversation, yes.

Q2818 Craig Mackinlay: What was the nature of it?

Michael Sherwood: It was as we described. He couched the conversation in, "This is probably not for you but would you like to advise on the sale of British Home Stores?" I said, "You're probably right. Let me just think about it. I want to talk to Anthony". I called Anthony. We have since compared notes. It was a very short conversation. We decided it wasn't for us, for the reasons that I just suggested. I went straight back to Sir Philip and said we don't want to advise on this transaction. It was not clear to me whether he would take another adviser or not at that point.

Q2819 Craig Mackinlay: I would have thought this sort of brand name is the sort of work that Goldman would like to get involved with. You probably were aware—and you can explain whether you were or not—about the difficulties of the pension scheme. Were you aware of those? Did Sir Philip mention those in the telephone conversation?

Michael Sherwood: I was aware of the difficulties in the pension scheme. We had been following it for a few years, yes.

Q2820 Craig Mackinlay: Were you aware of this Project Thor?

Michael Sherwood: I don't think I ever knew it as Project Thor but I was aware generally about the de-risking of the pension plan and that was consistent with the ideas that our pension group had been showing him.

Q2821 Craig Mackinlay: On that telephone conversation, was it just Swiss Rock being mentioned or did you get an inkling there were perhaps others in the field?

Michael Sherwood: Again, Mr Mackinlay, there was absolutely no client mentioned, none at all. We had no idea whether it was one buyer, multiple buyers. We had no idea. I have no idea whether Sir Philip knew at that point. I really don't know.

Q2822 Craig Mackinlay: I am finding this a little bit odd at the moment. You have had a telephone conversation about a potential sale with unknown purchasers. It seems an odd conversation. I think my business interactions would be, "Hello, Michael. I'm thinking about selling. You know that. We've got difficulties with the pension. I've got this person interested. What do

you think?" I can't see that conversation would take more than about 30 seconds.

Michael Sherwood: I can't fabricate a conversation that didn't happen. I described it accurately.

Q2823 Craig Mackinlay: I am just trying to get the nature of that conversation. You had a call.

Michael Sherwood: He called me. He said, "You probably don't want to act for us on this transaction. I'm thinking about selling British Home Stores". I said, "I think you are probably right. Let me talk to Anthony and I'll come back you". That was the extent of the conversation as I remember it.

Q2824 Craig Mackinlay: So it was very short?

Michael Sherwood: A very short conversation, yes.

Q2825 Craig Mackinlay: From that conversation, you made the decision that it was not for you. It is odd that he has phoned you to tell you that it is not for you. It is an odd conversation.

Michael Sherwood: It happened.

Q2826 Craig Mackinlay: I thought, busy man, to have a conversation with you. You are a busy man. You are a huge business. To say, "I want to do this deal but it is not for you"; why make the call?

Michael Sherwood: You will have to ask him.

Q2827 Chair: Mr Gutman, welcome back. My understanding is that Sir Philip had rejected the proposal that was on the table about the middle of January on the basis of the money that had been put forward and the lack of a "credible" retail front person and he decided to market BHS out into the wider market. Were you advising against a deal at that point?

Anthony Gutman: No. As I mentioned to the Committee last time, at no stage were we either giving advice or giving a recommendation, positive or negative, for the reasons we have explained, Chairman, which is that we did not have access to any information. We had one phone call with Dominic Chappell and one meeting in this whole process. All we did was provide the observations that I took the Committee through last time, which was that there were risks attached to the proposal in light of the lack of retail experience, the bankruptcy and the highly preliminary nature of the proposals and so on and so forth.

Q2828 Chair: You were very hands off, very preliminary observations, and yet on 19 January you told Dominic Chappell that there was no deal and that BHS would be marketed. Again, how are those statements reconciled?

Anthony Gutman: Per the log, I didn't tell him on 19 January. On 19 January Paul Budge, per the log, had a discussion with Sir Philip Green, according to the e-mail traffic, and then he went back to Dominic Chappell and said there was no interest in proceeding. We were not part of any of those interactions.

Q2829 Chair: What happened and did your advice change between 15 January and 1 February?

Anthony Gutman: No.

Q2830 Chair: You always thought, "This is a bit dodgy"?

Anthony Gutman: Well, no. We gave the observations that I explained. There was no reason for us to change our observations because nothing changed. In the period you are talking about, we had no engagement, no further interactions, so this process was going on as between the principals.

Q2831 Chair: The proposal had been abandoned. It was going out to the market because Sir Philip Green wanted somebody with retail credibility but he changed his mind. Did he tell you why he changed his mind?

Anthony Gutman: No, he did not.

Q2832 Chair: You didn't ask?

Anthony Gutman: No. We were not privy to these conversations and so there was no reason to.

Q2833 Chair: But my understanding is that on 26 and 27 January you spoke to Sir Philip Green.

Anthony Gutman: Yes.

Q2834 Chair: What were the nature of those calls? What did you talk about?

Anthony Gutman: There were two calls. One call was where he referenced the fact that he was going to be progressing the transaction and he was not going to be using an adviser. In the second conversation, which was the day after as I recall, he said that they were likely to progress with Mr Chappell and that there would be a meeting on 28 January, which we then attended.

Q2835 Chair: Is not using an adviser common in transactions of this nature?

Anthony Gutman: Yes, I would say it is quite common for big corporates with a sufficiently sizeable in-house team to execute a transaction in-house reliant on lawyers and accounting advisers alongside them. That is by the way of—

Q2836 Chair: Given the preliminary observations that you provided, given that there had been a change of plan, a quite radical change of plan in terms of what Philip Green was doing, did you advise him against it? Did you say, "Given the preliminary observations that we have carried out, I would really urge caution against this"?

Anthony Gutman: He didn't actually come back to us to ask us what he should or should not be doing. As I mentioned, Chairman, we were not capable of telling him what not to do and the reason was that, per the e-mail traffic, there was significant interaction as it related to financials, pensions, due diligence. We were not part of any of that. We provided our observations based on that one meeting with Dominic Chappell and that one phone call. The rest of the picture was formed through their other work and their other interactions. What we did do, as you know from our last discussion, was we identified the risks attached to the proposal and left it to them to make their judgments.



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Q2837 Richard Fuller: Thank you very much, Mr Gutman, for coming back.

Anthony Gutman: Thank you for having me.

Richard Fuller: Maybe we will have you again. On 3 February you had a conversation with Farallon who were Swiss Rock or Mr Chappell's proposed lenders. Can you tell the Committee what your understanding was of Farallon's proposals at the end of that call?

Anthony Gutman: It was probably a 15-minute conversation at the most. We had been forwarded an e-mail from Mr Budge that outlined indicative terms. In that conversation Farallon made clear that they had made an expression of interest but that it was subject to due diligence, documentation, investment committee approval, a number of conditions. The message that I conveyed to Mr Budge off the back of that call was that Farallon was a credible financing provider, given their history, that as it related to their position right now this was still a very preliminary financing proposal.

Q2838 Richard Fuller: Did you see the term sheet?

Anthony Gutman: No.

Q2839 Richard Fuller: Did you ask to see it?

Anthony Gutman: No. I had been provided, per the e-mail log, with high level terms and that was sufficient and then we had the discussion with Farallon.

Q2840 Richard Fuller: What was the amount?

Anthony Gutman: £120 million drawn down in three tranches of £50 million each.

Richard Fuller: £40 million each, I think. Three times 40 gives 120.

Anthony Gutman: Sorry, you are right.

Richard Fuller: Maybe I can get a job at Goldman. Is three times 40, in terms of the provision of working capital, 40 or 120?

Anthony Gutman: I have no idea. Again, I am sorry to not be helpful to you but the data as provided were literally one line, three tranches of £40 million. We did not have access to working capital, projections of financials.

Q2841 Richard Fuller: No, just the basics of understanding a term sheet, which you did not see but you had this e-mail and then you were asked to validate whether it was there or not. One of the things I would like to know from a term sheet is how much money it is. My question to you is: is three times 40, 40 or 120 in terms of the capital that is being provided to a business?

Anthony Gutman: I think it depends on the timing of the £40 million.

Q2842 Richard Fuller: No, it doesn't, does it, because in the term sheet it said every tranche has to be repaid? It is not a matter of timing at all, is it?

Anthony Gutman: Okay. Again, with respect, Mr Fuller, I didn't see the term sheet at the time. I do not have any data to back it up but I can say to you—

Q2843 Richard Fuller: In not seeing one of the critical conditions, that three times 40 when you have repaid 40 is not 120 in a company that is losing

millions of pounds, where 11,000 employees' jobs are on the line about this rescue plan, how can you not ask for the term sheet and then go on and provide informal observations that Mr Budge will take with a lot of credibility because it is from Goldman Sachs?

Anthony Gutman: Let me explain. If this financing had progressed and we had been involved in it that is exactly what we would have done. We would have looked at the financing terms, we would have compared them, if we had been provided with that, with the BHS projections and we would have given our advice as to whether the financing was fit for purpose to fund BHS, as you say. We did not do that. We had a very short phone call, consistent with the testimony from Farallon, and we gave these observations. We would have subsequently done exactly as you said but we were not asked to and nor intended to, and the observations we gave were that this would require further work and due diligence, as you said.

Q2844 Richard Fuller: You must be feeling quite uncomfortable. In your log on 9 February Paul Budge suggested a call and asked you if you were happy with Farallon's funding proposals as Arcadia were now progressing to a draft heads of terms. That sounds pretty serious to me with a £600 million business. Then you indicated on 10 February that you were happy with Farallon's initial funding proposal, that you had not seen the document but they were subject to due diligence and documentation.

Anthony Gutman: Yes.

Richard Fuller: So you are providing advice to the owners of a £600 million revenue business on a funding proposal that within the terms clearly does not provide anything like the working capital needed for a turnaround and you feel it is in your position to say, "Yes, it's okay"?

Anthony Gutman: What we said was that we were happy at this initial stage that the financing proposal looked like something that could be progressed but we were also clear, per the e-mail traffic, that it had a number of conditions. It was subject to due diligence, to documentation, and that that work would need to be done in order to establish whether that financing was, as you said, okay. Just to be clear, the reference to us saying this is okay was a reference to it being okay in the context of a preliminary proposal that would need significant further work.

Q2845 Richard Fuller: If you are in a fast car driving headlong towards a brick wall and you are in the passenger seat, you don't say to the driver, "We're travelling north". You say, "Hit the brakes". Your advice carried enormous weight because Goldman Sachs has been hanging around the hoop for 10 years; they know Sir Philip Green who by all evidence is the person who drives everything in this business. You must have known that the advice that you were giving would have reinforced the momentum towards the draft heads of terms for a sale. You had not seen the term sheet, you didn't know that it was not providing sufficient working capital, and as a consequence British Home Stores ended up in the hands of a three-time bankrupt. That seems to me to be a dereliction of duty whether you are paid for it or not.

Anthony Gutman: I would say that the approach from Farallon was consistent with any other financing approach at that stage in a transaction, highly preliminary and subject to a number of conditions. All we said at that

point in time was that it was a consistent approach with market practice and that it would be up to Arcadia and their advisers to assess whether that financing proposal was fit for purpose, as you say. I don't think it is fair to describe it as a dereliction of duty.

Q2846 Richard Fuller: You may be right and I apologise if I am proven to be wrong on that, but let's talk about the conversation with Mr Budge as the next stage. Did he ask you about the details of the term sheet?

Anthony Gutman: I didn't have the term sheet. I understood that he had access to the term sheet.

Q2847 Richard Fuller: Did he ask you about the details?

Anthony Gutman: He did ask about the details. As the e-mails show, the proposal was literally four lines: £120 million to be drawn down in three £40 million tranches to be secured on the properties and subject to standard due diligence and the disposal of properties. That e-mail had been forwarded by him to me, so he had seen that. What he asked was what my impressions were, based on my short conversation with Farallon. I explained to him that my impressions were that Farallon was a credible funding provider and, therefore, to be taken seriously but that it was a highly preliminary proposal and, as I put in the e-mail, it was subject to due diligence and documentation. He subsequently asked again, "Is it subject to documentation?"

Q2848 Richard Fuller: Do you think that Mr Chappell sought to misrepresent the Farallon proposals as £120 million or do you not feel in a position to comment?

Anthony Gutman: As I said to the Committee, literally I had one phone call and one meeting with Mr Chappell so I am really not in a position to comment.

Q2849 Michelle Thomson: Good morning, gentlemen. Thank you for coming along. Mr Sherwood, I have been keeping quiet to this point but I have been sitting watching everyone's faces and, if you don't mind my saying, you look somewhat uncomfortable. I wanted to explore with you, in the light of what has come out, from a reputational risk point of view and governance how do you manage the potential reputational risk to Goldman Sachs in the light of, as Richard puts it, hanging around the block when really in general terms we all acknowledge the wheels have fallen off?

Michael Sherwood: We are very careful about which clients we take on. We have various committees and checks that we go through and we try to avoid and have very publicly turned down certain pieces of business where we thought it was inappropriate.

Q2850 Michelle Thomson: In the light of what we now know, how will you reflect that going forward in your relationship with Sir Philip Green?

Michael Sherwood: We will have to decide on whatever piece of business comes along whether it is appropriate for us and how reputationally sensitive it is.

Q2851 Michelle Thomson: Will you change what you currently do in the light of what we are now coming to understand, based on the evidence?

Michael Sherwood: I think our procedures are strong and our reputation is good.

Q2852 Chair: Do you think your reputation as a firm has been enhanced by your involvement in the sale and acquisition of BHS?

Michael Sherwood: No.

Q2853 Chair: What are you going to do to change that?

Michael Sherwood: We do a lot to enhance our reputation. As I said, we work very closely with everybody at the firm, with our regulators. We set up processes, committees and so on to make sure that we take on appropriate pieces of business. I would remind you that after the time I met Philip Green he was knighted, he was asked by the Prime Minister to do a review for the Government. This was not a person whose reputation was going down. At that point it was going up.

Q2854 Chair: But you must have processes in which high net worth individuals are subject to periodic review, "Do we want Goldman Sachs to be associated with this individual still in the light of subsequent acts?"

Michael Sherwood: We absolutely review all our clients all the time, yes.

Q2855 Chair: When was the last time you reviewed the relationship with Sir Philip Green?

Michael Sherwood: We have been reviewing it at this point as all this has come to pass.

Q2856 Chair: But you are happy to do more work with Sir Philip?

Michael Sherwood: As I said, it depends on the circumstances of the transactions.

Q2857 Craig Mackinlay: If I could concentrate on the pension side of things, when we had Dr Margaret Downes, who was the previous quite long-term chairman of the trustees for the pension fund, there was an indication that, for obvious reasons, Sir Philip was interested in the performance of the pension fund and especially after the adverse valuation in 2012. It is given that Sir Philip had advice from yourselves or took you along to meetings of the pension fund. Were one of you involved in any of those meetings? Did you go along? Was that you, Mr Sherwood?

Michael Sherwood: No. It was our pensions group.

Q2858 Craig Mackinlay: You have a pensions group?

Michael Sherwood: We have a pensions group, yes.

Q2859 Craig Mackinlay: Do you understand any of the nature of what they were doing for Sir Philip Green in attending these independent trustees meetings?

Michael Sherwood: I don't really have an understanding of which independent trustee meetings they were attending but I would say generally they were showing de-risking proposals to the pension plans.

Q2860 Craig Mackinlay: Derisking proposals, okay. There was an indication at one time that Sir Philip was quite unhappy with the investment strategy, that he didn't feel it was capable of making up the shortfall fast enough. Was there any formal advice given by Goldmans as to what would be a better investment strategy?

Michael Sherwood: I am not aware of it on the asset side, no.

Q2861 Craig Mackinlay: Do you know if Goldmans were paid for that type of attendance?

Michael Sherwood: We are not paid for that kind of work. It is a principal group that provides potential transactions and then if the trustees decide to do them they normally appoint their own adviser and the adviser decides who to do the transactions with.

Q2862 Craig Mackinlay: It seems quite a bizarre fund. We have come across so many advisers being involved. I think at one time the annual fees were £1.5 million per year across different advisers. Some of your team were going along but they were not being paid for this advice. I am trying to understand the nature of what they were doing there.

Michael Sherwood: As I said, from time to time they showed de-risking proposals to all sorts of pension plans all over the UK. The way they generate their business model is if the trustees decide to do transactions they tend to appoint their own adviser who then puts the trades out and normally the most competitive price wins. That is how the business tends to be executed.

Q2863 Craig Mackinlay: Do you know if any of the proposals by your pensions team were actually taken up and carried forward?

Michael Sherwood: I couldn't say for certain but, as I understand it, I don't think these transactions ever occurred. I don't know though.

Q2864 Craig Mackinlay: You would be aware of Project Thor, another proposal for which there were an awful lot of external advisers. How much was Goldman Sachs's role in that Project Thor? Were you aware of it? Were you just giving perhaps observations on it?

Michael Sherwood: I think Arcadia had their own pension adviser who was running the process. Our colleagues in the pension group would have given advice from time to time on that, I would say, yes.

Q2865 Craig Mackinlay: I am trying to get to the bottom of there were lots of these independent groups around the whole enterprise, of which the pension scheme is a very important one. It had a lot of advisers but even while it had all those independent advisers, Sir Philip Green always referred to yourselves to come in and give some help. Do you know why that is? It seems slightly odd that there is a huge number of advisers but you are always involved with Sir Philip Green's negotiations and interests.

Michael Sherwood: I don't know why that was. I don't know if that is true, actually.

Q2866 Craig Mackinlay: Throughout Project Thor, throughout the 2000s, you always seemed to be helping Sir Philip understand the pension situation and it now seems you were doing all that for free.

Michael Sherwood: As I said before, I think it fell into our long-term overall relationship with Sir Philip and his companies.

Q2867 Craig Mackinlay: When it was realised that Project Thor was being proposed, what input did Goldmans have into that?

Michael Sherwood: I believe at the time we commented on the proposal that directionally we felt that it was going in the right direction, but I don't think our role was more significant than that.

Q2868 Craig Mackinlay: I was wondering how much work you might have done to satisfy yourselves that it was going in the right direction.

Michael Sherwood: I don't know. I can investigate further with our pension group and come back to you but I just don't know the extent of that.

Q2869 Craig Mackinlay: I would like to know how much input your pension group was having into the pension fund over the years. Indications are it seemed to be fairly significant. You were again being the gatekeeper—and that word comes up quite regularly—for Sir Philip Green. Is that a fair assessment?

Michael Sherwood: I don't think we were a gatekeeper in either of these situations.

Q2870 Chair: Mr Sherwood, we have minutes of the pension trustees scheme and it says for 15 July 2014, "Stuart Cash—and I understand Stuart Cash works for Goldmans—said he had been speaking with Sir Philip about managing some of the BHS scheme's exposures from a markets perspective as whenever the trustees propose a change in approach Sir Philip will always ask 'What do Goldman Sachs think about this?'" He comes to you constantly for advice, advice which you give him on pensions as well as a whole range of other things, don't you?

Michael Sherwood: As I said at the very beginning, we have acted from time to time and given views on the pension fund, yes.

Q2871 Jeremy Quin: Going beyond the immediacy of this transaction, could I ask for some informal, unpaid advice and guidance from Goldman? It would be much appreciated. We have a situation here where I appreciate that the transaction value was tiny in terms of equity but there are 11,000 jobs, pension fund and the like. In your experience globally, what could be done to ensure that for assets such as this work is done to ensure that you don't suddenly sell to a buyer who three months later has a cash crisis? Is there any sort of positive recommendations?

Michael Sherwood: As Mr Gutman has explained before, if we had been the adviser and we had been involved in the ultimate sale—and there was a long period where we just were not involved at all—we would have done significant

due diligence on the potential buyer as part of the process for culminating an M&A process, but we weren't.

Q2872 Jeremy Quin: I don't want you to comment on this transaction. There are other circumstances where various opinions are required to talk about the value of the sale. From a regulatory point of view, are there recommendations that you would make that you think would make it harder for transactions to be made to buyers who are not capable of fulfilling their obligations?

Michael Sherwood: I think if we had been the adviser and a credible adviser had been there, they would have done the due diligence on the buyer.

Q2873 Jeremy Quin: And if there is a credible adviser to the acquirer, to the other side?

Michael Sherwood: Both sides, yes.

Q2874 Jeremy Quin: We are in the mind-set of recommendations on that kind of thing. Should one require advisers? Should you say boards have to consider certain things? Open field: what would you recommend to try to prevent this kind of incident happening again?

Anthony Gutman: We can give it some further consideration. From our vantage point—and I am not trying to be defensive—I think as Mr Sherwood said it is quite tough for us to give a view even generically because we don't have all of the detail. As we witness what goes on with the Pensions Regulator and the PPF we can come back and have a conversation with you.

Jeremy Quin: We are aware that things have gone wrong in this particular circumstance and the way things exist they could continue to go wrong in other circumstances. There are suggestions that others have as to how these situations can be better avoided. It is nice to learn something out of it. Thank you.

Q2875 Richard Graham: If we can go back to the pension scheme a little bit, what was your advice to Philip Green all along, Mr Sherwood, about his responsibilities to the pension scheme?

Michael Sherwood: I wasn't giving Sir Philip Green advice on his responsibilities to the pension scheme.

Q2876 Richard Graham: Who was? Anthony Gutman?

Michael Sherwood: No. I think our pension group was giving advice on how you could derisk the pension scheme and that was the extent of it.

Q2877 Richard Graham: The pensions group is Goldman Sachs asset management or the investment bank?

Michael Sherwood: The pension group is within the financing group, which is within the investment banking piece of our bank.

Q2878 Richard Graham: While you were giving Philip Green advice about the way forward on BHS the corporate, you were also introducing your pensions group in order to try to offer transactional help on the pension scheme. Would that be correct?

Michael Sherwood: Transactional help is a confusing term because transactions only happen once the trustees agree to do specific transactions. They then tend to put it to their own adviser who then tends to put it into the market. That is the way our group works and then it would move into our securities division who would offer quotes and if they were the best price they would win and if they were not they wouldn't. In this particular situation, I don't think we ever did any transactions with the BHS pension plan.

Q2879 Richard Graham: Who from the pensions group was involved?

Michael Sherwood: For a long time it was Stuart Cash, who is no longer at the firm but he ran that group.

Q2880 Richard Graham: Who was involved in the discussions with Sir Philip Green or other members of his team like Paul Budge?

Michael Sherwood: It was principally Stuart Cash.

Q2881 Richard Graham: What exactly happened? What was his proposal, what was his recommendation?

Michael Sherwood: I think all the recommendations were centred on managing long-term interest rates. It is not an uncommon problem with these schemes and with all the schemes of UK corporates, as I am sure you are aware, that stealthily interest rates at the long end of the market have gone lower and lower and that was the biggest risk factor associated with the plan. I think this was a slippery slope. Rates went lower and lower and lower and along the way we had shown derisking proposals to manage, principally, long-term interest rates and, to a lesser extent, inflation.

Q2882 Chair: Richard, forgive me for this. I am conscious of time and we touched upon this before you arrived. Mr Sherwood, it might be helpful if you could give us another log of all the work that Goldmans has carried out, both paid and unpaid, from different parts of the firm, the various teams. Would that be possible?

Michael Sherwood: Again, there is no paid work.

Q2883 Richard Graham: Chairman, I think what would be very helpful is if in the written evidence from Goldman Sachs they could be very specific about what they were recommending as a solution to the pension scheme and to whom and whether those proposals were ever put directly or indirectly to the chairman and the trustees of the pension scheme or purely to Philip Green, for example, and Paul Budge. I think it would be interesting to know to what extent that perhaps formed the basis of Philip Green's belief, as witnessed yesterday, that the solution to the pension fund was purely interest rates.

Chair: I think that is very helpful.

Michael Sherwood: If it would be helpful, I can read you one sentence that comes from our pension group where they say, "In April 2014 Arcadia was asked to comment on a proposal prepared by Deloitte as part of Project Thor in relation to the British Home Stores scheme investment strategy. Goldman Sachs supported the Deloitte proposal. In parallel, the trustees formulated their own proposal. If implemented, the trustees' initial proposal would have seen less derisking of the scheme than the one that Deloitte proposed. As a consequence

of subsequent discussions with Arcadia, Deloitte and us, the trustees enhanced their derisking proposal. GS supported that enhanced proposal.”

Q2884 Richard Graham: That implies that Goldman Sachs was present at the trustees meeting.

Michael Sherwood: None of us were. Mr Cash might have been. I will have to check and we will prepare the log for you.

Q2885 Chair: If you can find out, that would be very helpful. Mr Sherwood, I want to ask you a final few questions, if I may. When we had Sir Philip Green in front of us, my colleague Richard Fuller asked him this question: if Mr Chappell and RAL had not passed Goldman Sachs’s sniff test of their credibility, would you have done a deal with them? Sir Philip said, “We wouldn’t be sitting here, absolutely not”. Do you accept blame for this debacle?

Michael Sherwood: I absolutely do not accept blame. He never passed our sniff test. Anthony and I never told Sir Philip that he had passed the sniff test. All we highlighted was observations about the risks around Mr Chappell and the transaction.

Q2886 Chair: Would you accept any degree of blame with regard to this episode at all?

Michael Sherwood: I think our role was extremely limited. If I had a regret, which I do, I wish that we had more clearly documented our role in writing so that we could not have the subsequent confusion that we are going through today, but it was crystal clear in our minds what our role was.

Q2887 Chair: Given the concerns to your reputation, which is very important to you, what would you have done differently? You talk about written records. What are you changing to ensure that you can try to put this behind you and move forward with improvements?

Michael Sherwood: I think we will look again at the frequency with which we review clients, but we have a very robust programme that we talk to our regulator about all the time and are convinced that it works.

Q2888 Chair: But essentially you think there are strong processes in place so nothing should change?

Michael Sherwood: We have strong processes, definitely.

Q2889 Chair: So nothing should change?

Michael Sherwood: As I said to you, if I had a regret I wish we had clarified our role in writing.

Chair: Okay. Gentlemen, thank you very much for your time.

Examination of Witness

Witness: **Mark Sherwood**, former Property Director, BHS, gave evidence.

Q2890 Chair: Mr Sherwood, thank you for coming. We are very pleased that you are here to give evidence. May I begin by asking you when and how did you first come into contact with Dominic Chappell?

Mark Sherwood: About five, maybe six years ago I met him socially and then I got to know him slightly better through sailing. We both sailed together.

Q2891 Chair: What did you know about his business experience?

Mark Sherwood: I basically viewed him as an entrepreneur. All his businesses were quite diverse in terms of what he had done. I understood he had done some work in north Africa. He had some good connections in the Middle East and he had an oil project somewhere in Europe.

Q2892 Chair: What sort of impression did he give you? You said he was an entrepreneur. Did he look like a successful entrepreneur with all the trappings that that would provide?

Mark Sherwood: Yes. He wasn't at Sir Philip's level but he certainly seemed to have the appearance of someone who was successful in what they did.

Q2893 Chair: Did you think he had the potential and the credibility to be at Sir Philip's level?

Mark Sherwood: Goodness. Not many people do, do they? I think that he had the potential to go out and find deals and transact them.

Q2894 Chair: Could you just speak up a little bit? That would be very helpful for the purposes of the Committee. He was a dealmaker. Is that where you thought his strengths were?

Mark Sherwood: Yes, that was my impression.

Q2895 Chair: What did he tell you about the deal with BHS?

Mark Sherwood: He told me that he was seeking to agree terms to buy the company and he asked me to get involved in providing advice on the property side.

Q2896 Chair: What would be the specific nature of that property advice?

Mark Sherwood: The focus was very much on the value of the prime assets that he had within that portfolio.

Q2897 Chair: You moved from your job and went on secondment to RAL. Is that correct?

Mark Sherwood: No, I was employed by British Home Stores. Yes, I did move across.

Q2898 Chair: That is a big step in terms of your career and putting food on the table.

Mark Sherwood: That was a huge step.

Chair: What were the reasons for you doing that?

Mark Sherwood: It was good job. From a property perspective, it was a national portfolio, nearly all prime or good secondary properties, and there were significant issues within that portfolio. Not from an occupational point of view at

BHS but from a property director's point of view that makes for an interesting and diverse role.

Q2899 Chair: Who else were you asked to work with on this deal? Were you allowed to pick your own team or did Mr Chappell say, "I would like you to work with so and so"?

Mark Sherwood: No. Once I came in I worked for Darren Topp, so he was my line manager. We outsourced the additional resource that we needed. When we needed specialist advisers we went to specialist advisers.

Q2900 Chair: Who would those be?

Mark Sherwood: There were quite a few. We used Savills, Knight Frank, Harper Dennis Hobbs, CPP, DTZ, Jackson Criss, Vail Williams, Eric Young, and then Allsop and GL Hearn carried on doing the rates and latterly we appointed Bellrock to help on the management side.

Q2901 Chair: Forgive me, I am not a property expert by any stretch of the imagination but simply managing all those contracts seems to be a bit onerous. Is it common that you would have so many advisers doing that? Wouldn't you streamline it down to maybe two or three? What was the purpose of having so many?

Mark Sherwood: They all had different jobs. We used CPP and Jackson Criss as our main contact with the market. If you asked someone in the market who did BHS use, those are the names that would have come up.

Chair: Thank you. That is very helpful.

Q2902 Michelle Thomson: Good morning. It would also be helpful for me if you could speak up a little. Thank you. I was finding it a bit hard to hear. Just to finish off that section, what was the primary driver for you to move from your role in the LLP you were in and you had an equity also into BHS? Was it excitement or did you use it as a step up in the portfolio management side?

Mark Sherwood: It was a move into a role that I thought was very attractive. As I said, it was a good job. It was a really attractive real estate portfolio to go and work with. There are not many portfolios of that type that you get the chance to go and, as it was planned at that time, transform. It was very exciting.

Q2903 Michelle Thomson: From a remunerative perspective, in addition to your salary, were you expecting to get a bigger fee cut in terms of rebalancing the portfolio?

Mark Sherwood: No. There was a bonus scheme that was agreed with the BHS remuneration committee and that was based primarily on savings achieved within the cost base of the portfolio.

Q2904 Michelle Thomson: When you found out that Sir Philip Green wanted to sell back the BHS property portfolio that was sitting in Carmen that wasn't part of the BHS business, what sort of view did you take about the impact on the covenant of it coming back? Did you think it was going to strengthen the covenant of BHS as a brand or weaken it, or did you just look at the property?

Mark Sherwood: I really just looked at the property, but if the company has greater assets within it then that should strengthen the covenant, shouldn't it?

Q2905 Michelle Thomson: Did you have any knowledge at that time that there would be some other deals done in terms of the whole portfolio or did you expect that absolutely everything was coming, prime and dogs, if you like?

Mark Sherwood: I expected all the occupational portfolio to come across and in that due diligence period my main focus was on the assets that had the most value.

Q2906 Michelle Thomson: What access to property data were you provided with by Arcadia in advance? Were you given complete access?

Mark Sherwood: They were reasonably helpful. We got a schedule of all the properties, their tenure—whether they were freehold or leasehold—the length of leases, the rents and the square footage.

Michelle Thomson: Just the basics.

Mark Sherwood: All the headline stuff and then if you said, "Have you got any property reports?" most of the time the answer was no. They had a lot of information that people carried in their heads. If you found the right person you could get the information but you had to track it down.

Q2907 Michelle Thomson: Mr Chappell told us that you went to work in Arcadia's office for about a month prior to the acquisition to get a good grip of the property side. Is that something you would concur with?

Mark Sherwood: No. In the run-up to the acquisition Mr Chappell had spoken to Sir Philip about some of the ideas I had for the portfolio and I understand that Sir Philip had said, "We should look at doing that sort of thing anyway. Why doesn't he come and start looking at it?" I went and met with Chris Harris. We sat down and we talked through the data that was there. I didn't really need to be in their office. I needed the information, which he provided to me. I took that information and then when I needed more I went back and asked him.

Q2908 Michelle Thomson: In terms of working up the business plan developed by BHS management, which then included looking for £26 million savings from the property, how much were you involved and how much was Dominic Chappell involved?

Mark Sherwood: I wasn't involved. You are talking about the 3 March business plan, aren't you?

Q2909 Michelle Thomson: Yes. So you were not involved in that at all?

Mark Sherwood: No.

Q2910 Michelle Thomson: Did you ever meet Paul Sutton?

Mark Sherwood: Yes.

Q2911 Michelle Thomson: What was the purpose of those meetings?

Mark Sherwood: Paul Sutton came to my office with Dominic Chappell at, I think it was, the end of March 2014. He said that he was looking at

acquiring a major corporate and asked if we could help. I talked to him about the sort of services we could provide, what we did and what our experience was. He said thank you and he went away. He came back about two weeks later and he had a spreadsheet with some properties on, which made it obvious at that point that it was BHS, and he asked if we could help. He didn't engage us and he didn't provide any more data. We couldn't help. He just had a spreadsheet with a list of properties on and not very much data at all. I met him those two times and then there was a third time when he came to my office and said, "We are not going to do anything here. We are going to go to Arcadia and pick up all the information that you are telling me you need in order to take this forward".

Q2912 Michelle Thomson: When you say "we", was that your previous company because you were involved through the—

Mark Sherwood: Yes. We were advisers, so it was a reasonably normal conversation at that stage. We, as in Paul Sutton, Dominic Chappell and myself, went to Arcadia's offices and we didn't get any further than reception. At that point, or very shortly afterwards I did say to Mr Chappell that, "There are a few warning bells here. I am not sure that I really want to work with them".

Q2913 Chair: While you are pausing there slightly, Michelle, let me just interrupt. The meeting that you had in March 2014, I think you said—you may have already said this and I didn't pick it up and I apologise if you have—you knew Dominic Chappell already at this point, didn't you, in a personal capacity?

Mark Sherwood: Yes.

Chair: Did he introduce you? Did he say, "I would like to bring along Mr Sutton"?

Mark Sherwood: Yes. He said, "There is someone that I think you should meet. You could do some business with him".

Q2914 Chair: What was your assessment of the relationship between the two? Was Paul Sutton very much in charge with Dominic Chappell as very much a junior partner or someone who was subordinate, or were these people of equal standing?

Mark Sherwood: No. At that point I got the impression that Paul Sutton was in the driving seat.

Chair: I think Dominic Chappell was in the driver's seat from what we heard yesterday, but we will leave that.

Q2915 Michelle Thomson: To clarify one other point, you said that at that meeting you did not get any further than the reception of the building in Arcadia. It is picking up on something else we have been exploring. Can you outline briefly what happened when you presented at the reception?

Mark Sherwood: As is normal, you are asked to take a seat. We had been there a few minutes and then Paul Sutton disappeared off somewhere into the building and he came back maybe 10, 15 minutes later saying that, "They can't do the meeting. The Pensions Regulator is here. They are in the next room. They can't talk to us. We need to leave."

Q2916 Michelle Thomson: Going back to the buildings turnaround plan, what gave you inherently the confidence that rents could be renegotiated successfully?

Mark Sherwood: I was never confident that rents could be renegotiated successfully.

Q2917 Michelle Thomson: Perhaps then let's go back a step, talk me through the steps you were taking for the turnaround plan? Where did that come from? What steps did you take?

Mark Sherwood: The basics of the plan, which I think you can probably accept was very high, were that on the property side there would be £2.2 million from head office savings, and that was sorted out on day one, and a further £5 million in impact from the Carmen rents, and that was sorted out on day one. Then there was £7.2 million of rental savings and I was very wary about how that would be achieved, certainly in terms of negotiation. If you have a lease, as nearly all the landlords did, and someone has contracted to pay you maybe £1 million a year in rent for the next 10, 15, sometimes 70 years, why would you say, "I'll take a lesser sum"? It was something that was deeply concerning me. Mr Chappell had found a specialist firm who claimed that they did this for a living and that they regularly reduced rents by negotiation. I met with them and their fees were impressive, I thought. For us, as in BHS, it didn't work because we were very much driven by cash flow and the way they structured their fees was such that they took a percentage of the total saving on the lease. If they got us out of a particular property, any of the leases where we had a long remaining term certain, we would end up paying them sometimes two, three years rent at that moment in time. The entire focus of the business was orientated around cash flow today. That was the absolute driver for the decision-making processes.

Q2918 Jeremy Quin: That is very dangerous. Is it purely your summary that it was cash flow today that drove the thought process behind every transaction?

Mark Sherwood: No, not behind every transaction but there was an immediate need for cash flow. Certainly when Michael Hitchcock came on board and you were talking to him, he absolutely measured something by the cash flow demands and the impact in a 12 and 24-month period. I thought Michael coming on board was very helpful because there was a gap when we did not have a CFO role filled and also he was very convinced that we could negotiate down the rents. I had a conversation with him and he said that when he was at Beales he had negotiated down the rents by £3 million and that was on a much smaller portfolio, so this portfolio was wrong and we would be able to go and do it.

Q2919 Michelle Thomson: Did you believe him at that point?

Mark Sherwood: He said it with such utter conviction that I did. He then started working with me. We went out and had landlords meetings together and we had a standard routine where we talked through the business plan, the issues the company had. Michael would talk about the pension fund and then he would say something along the lines of, "You do understand, I've got this button I can push at any time and if you don't work with us then at some point we may have to push that button". We tried to pressurise landlords to reduce their rental

payments, but if you're sitting on the other side of the table and you are a landlord or you are a fund manager and you have a duty of care to your investors, it is a pretty weak argument to go to an investment panel and say, "I want to reduce the rent these guys are paying us because it is a good idea and it might help them out and they might be okay in the future". It just was not strong enough.

Q2920 Michelle Thomson: That is why I am interested that, in light of your obviously significant experience in commercial property, there was even a limited point where you believed that might be possible, given what you understand about the other side of the landlords.

Mark Sherwood: The £7.2 million needed to be reduced somehow and we had to get there, but we just had the wrong strategy, so we needed to find a different strategy in order to go forward.

Q2921 Michelle Thomson: What would have been the right strategy?

Mark Sherwood: As it turned out, the CVA. But we did not need necessarily to reduce the rents by £7.2 million. What we needed to do was take £7.2 million out of annual real estate costs. There are other ways of doing that and the strategy was orientated all around those stores that were over-rented. But we had a significant number of other stores, some of which were profit-making; some of which were not; some of which were RAA rented. But they had quite a lot of surplus space, so we started looking at means to let that surplus space, and every time you let space, it is not only rent saving, but you drop off the rates, you drop off the service charge. We needed the landlords to collaborate with us on that and I talked to the landlords about it and the landlords would do so. If you could present them a commercially viable option, then they would work with us in most cases, not all.

So we were starting to push down that route, we were exploring an LED low-energy lighting programme, which would take about £3 million out of the portfolio cost. That would not happen for three years because there was a pay-back period in it, but once again, it was another mechanism to take costs out of the portfolio.

Q2922 Michelle Thomson: So what you are describing is almost like the functional elements of it. I suppose I am still interested in understanding how you saw your role relative to the power play, if you like. So you get approached by Sutton and Chappell, who you imagine are proper entrepreneurs and have a lot of fingers in a lot of pies. You get involved in this business, potentially overrode your good judgment around what is really possible and what landlords will sign up to. At what point did you think, "I have been sold a dud"?

Mark Sherwood: You have to remember that the business plan that I was presented with, it was all about the EBITDA to 2017. The issue that we had was the timeline on delivery of those projects. At the time, in late January 2016, when we were getting to the stage where the business was struggling with its margins and we were starting to look at what we were going to do, I think we had about 25 or 26 different properties where we had ongoing discussions with the landlords about either downsizing or subletting or coming out of that property. So we were on the road, we were moving in the right direction and I thought we would still get there. My concern remained time and running out of

time, because the business, as has been clearly demonstrated, did not have that.

Q2923 Michelle Thomson: Do you think that Mr Chappell was using BHS as a kind of property portfolio to take value out of it?

Mark Sherwood: No, I thought the whole board were using the property portfolio to support the losses within the wider business.

Q2924 Michelle Thomson: Did you ever have any involvement with Sir Philip Green?

Mark Sherwood: Not hugely. I met him a bit shortly after the acquisition had gone through and he called me a few times to ask about the property side of things. I kind of shut that down and then there was a little involvement, a bit more involvement near the end. So in the middle I was pretty much left alone to get on with it.

Q2925 Michelle Thomson: What sort of questions did he ask you?

Mark Sherwood: I did not return his calls. I was quite happily working at BHS and I knew that he tended to do in every now and again with people and ask questions. I just did not want to go there. He was not very happy about that.

Q2926 Michelle Thomson: Why didn't you want to go there? What were you nervous about?

Mark Sherwood: I was in a position where I was working at BHS and he was an outsider. I did not want to be quizzed by an outsider and I assumed he was going to ring me to ask me questions about what I was doing within the business.

Q2927 Michelle Thomson: Knowing what you know now, what would you do differently next time?

Mark Sherwood: I think I would put more pressure on the board to agree to be more open about the disposals that we were planning to do. The board were very worried about the publicity they were receiving and they did not want BHS seeking to dispose of lots of stores. There was the issue of the job losses that were inevitable within the plan that we had and managing that. I think I would push to be more upfront and get it out there, because that delayed us, by not being really upfront, and as was demonstrated we ran out of time.

Q2928 Michelle Thomson: That is what you mean about moving to the CVA, because obviously what you are describing, as soon as the markets sense blood in terms of, "This is something that is distressed here", how that affects the property?

Mark Sherwood: Yes. There were a number of the properties where it would have been reasonable to expect the landlords to pay us a premium in order to exit. We agreed that on some properties, but in the majority of cases

you are looking at the guy across the table and you are thinking, "You are sitting there thinking, 'I am not going to pay you anything, I am going to wait, because you might go bust'".

Q2929 Jeremy Quin: Just back on the bigger picture stuff, we have seen the "Building blocks to get back to breaking even" and it is breaking even, which is not—

Mark Sherwood: Yes.

Jeremy Quin: Anyway, I look at the things that were going to be done on the trade side, which you were not responsible for at all, but I see there is an anticipation of a 1% margin growth and a 1% like for like growth both contributing, which is an interesting combination, but that was half of it. Going back to break even, property transactions is £27 million to break even. You have already discussed the initial impacts, the Carmen and the head office side, but it is £7.2 million target rent savings and the saving of £12.3 million from doing something with the 30 loss-makers. How much time would you have expected that to take?

Mark Sherwood: How much time did I spend on it?

Jeremy Quin: How much time did you expect it to take to turn that around? Because to get savings of £7.2 million, you have been talking about the difficulties of that, and to produce a plan to get rid of the 30 loss-makers, that is a lot of transactions and a lot of luck to get you there. I am just wondering how much time you expected it to take for that plan to come to fruition.

Mark Sherwood: Yes, we needed to get it through, so the £7.2 million we needed to get through in 2017, so there was a transition plan put in place and that was forecast to come through then. Then the £12.6 million was split between—I think we were forecasting £5 million in 2016 and then the remainder in 2017.

Q2930 Jeremy Quin: But that was the time you needed to achieve it and you had to have enough cash in the bank to have the time to do that. No one likes going into a negotiation with a gun to their heads.

Mark Sherwood: If it is on the other side, it is good, but that was the fundamental issue all the way through. We were on one agenda, which was to do things as quickly as possible, and the market was not. The market wanted to go do things in their own time. We had heads of terms agreed on a number of properties where we had agreed to put a break clause into the lease to allow the landlord the confidence to go out and work with potential tenants to come into that property. I was pretty open with them, I was saying, "Look, if you end up needing a bit more time or if you want us to come sooner or you want us to work with you, we will do that". We tried really hard to engage with the landlords to facilitate, once again, that commercial option that was going to work. So once we had agreed that with them, they would then go out and talk to tenants and try to find someone to replace us, but the landlord needed to desire to do that. I could not compel that landlord to want to do that.

Q2931 Jeremy Quin: My only observation, I am not a property person, but I think I would have anticipated that that would be the problem you would have the minute you are put in that situation. How far did you get either with

the £7.2 million or with the £12.3 million? The £7.2 million for the target rent reduction, where did you manage to get to in the course of the year?

Mark Sherwood: We had two properties where we had agreed rent reductions that were going to come in at about £600,000, £700,000, so a long way off where we needed to go.

Q2932 Jeremy Quin: Did you get anywhere on the £12.3 million?

Mark Sherwood: Yes. As I said, we had quite a lot of deals that were lining up in order to do that.

Q2933 Jeremy Quin: Yes, but they had not come through yet. That is just helpful in the context of the pressures put on you to execute property transactions, both to reduce rents and to offload 30 loss-making properties. The question in my mind is whether you ever had enough time or enough cash behind you to give you the opportunity to do that.

Can I ask some more techie questions just on some of the transactions that did happen? In March 2015, Dominic Chappell says that RAL gave permission for the sale of the West Ealing property to proceed. Were you involved in that at all? Did you have any sight on the sale of West Ealing? That was executed by the previous owners, but you were—

Mark Sherwood: Yes, not much. I think I had an afternoon to have a look at that and it was something where it was a store that did not have planning consent at the time for any other use, but clearly had development potential. As far as we could see, it seemed to be about right and I could not give them any more of a steer than that. I thought the purchasers were reasonable people.

Q2934 Jeremy Quin: That is the Thackeray Estates?

Mark Sherwood: Yes.

Q2935 Jeremy Quin: Which is Brett Palos, Sir Philip's stepson, isn't it? But you had an afternoon to have a look at that. Did you have a chance to have any valuation or was any valuation work presented?

Mark Sherwood: No.

Q2936 Jeremy Quin: No, thank you. On the two other properties, on Marylebone and on North West House, for that matter, were valuations produced on either of those properties?

Mark Sherwood: No.

Jeremy Quin: There were no valuations that you are aware of?

Mark Sherwood: No.

Q2937 Jeremy Quin: We heard yesterday that quite a lot of work was done by one party, who know their way around the London market, and they valued Marylebone at £45 million. Were you surprised that it subsequently sold for £53 million?

Mark Sherwood: No. At the time I thought that Marylebone House was worth more than that.

Q2938 Jeremy Quin: But there was no valuation done that you are aware of?

Mark Sherwood: No.

Q2939 Jeremy Quin: I appreciate you were under huge time pressure for reasons you have stated, but were there any valuations executed on North West House? You said you were not aware of a valuation on that one either?

Mark Sherwood: No.

Q2940 Jeremy Quin: Did it surprise that quite sizeable transactions were taking place without valuations being conducted?

Mark Sherwood: No, I do not think it is abnormal in the market for people to enter into transactions without a formal valuation. They would normally seek pricing advice from the investment market rather than going down the route of a formal valuation. If you are a big fund or a big property company, then you probably would require a valuation as part of it, but that is just wrapped up in the due diligence. People regularly buy because they are comfortable with the pricing without a valuation.

Q2941 Jeremy Quin: What is the cost and time implication of going down a valuation route?

Mark Sherwood: It is mainly a time implication, because most of the time the valuers are going to say they are not going to get around for a week, maybe two weeks, and then they are going to want probably another two weeks to produce their report. You can put them under a lot of pressure and get something through in five days if you have enough clout, but most of the time—

Q2942 Jeremy Quin: That is the time, but if you want to do belt and braces, if you want to say, “Look, here is the valuation. I am comfortable that that is an appropriate price” you can do it over the course of three weeks or so, from what you are saying?

Mark Sherwood: Yes.

Q2943 Richard Graham: Mr Sherwood, I am just interested in when you were describing earlier the telephone calls that Philip Green made to you, I think you used the phrase, “He used to dob in” and then you said, presumably referring to the fact that you did not take his calls, that you sort of cut that. What was going on exactly? What was his relationship with directors and with the company after BHS was sold?

Mark Sherwood: My impression was that he just could not quite let go and it was kind of his baby, I felt—it is just very much a subjective view—and he still wanted to know what was going on. It was more seeking information.

Q2944 Richard Graham: But you have seen some of the evidence given to this Committee over the last few weeks. No doubt you have seen things like Chris Martin’s minute on a telephone call from Philip Green to him, where he said, I think I quote more or less verbatim, “The boy is doing okay”, referring to Dominic Chappell. What sense does that give you of the relationship between the new buyers and the seller? Does it give you any impression, for example, that maybe the new buyers in some way were almost his people, almost his

creation, running the company once he had sold it, but with him there ready to inject liquidity when needed to sort of keep the show stumbling on? What is your take of it, once you have seen all this evidence?

Mark Sherwood: It is quite contradictory, some of evidence, isn't it? Leaving aside what other people have said, my take at the time was that he sold a business that he was emotionally attached to, that he wanted it to succeed, and whatever we were doing, he was kind of peering over our shoulder and making sure we did not make a mistake. I think to let someone else go away and get on with it was not in his nature.

Q2945 Richard Graham: At the board meetings, which you presumably attended, BHS—

Mark Sherwood: I attended on an ad hoc basis, just to report on property.

Richard Graham: —what was said about the pension scheme and its impact on the business?

Mark Sherwood: The pension scheme was normally on the agenda immediately after property, and as soon as they moved to that, I excused myself on the basis I did not need to be there. It was exceptionally dull.

Q2946 Richard Graham: What was your take when the minutes came around? What was your take of whether the pension scheme was going to play a role in the future of the company or not?

Mark Sherwood: I was not a board member, so I did not have sight of the minutes, but the pension was always there as a major issue. It was a factor in the decision-making of the company, it was a factor in any discussions we had with landlords. We tried to talk to landlords and say, "Look, we are a viable company. This is going to work, but we need help and we have issues and we need to address these". The landlords would turn around and say, "What are you doing about the pension?"

Q2947 Richard Graham: What did you say?

Mark Sherwood: I said that we had ongoing negotiations on the pension scheme. In the summer of 2015, the feeling that was being fed through from the board was that they thought a solution could be found quite shortly and it just became more and more apparent that it was one of those things where we wanted to move quickly and no one else was.

Q2948 Chair: Mr Sherwood, my assessment is that you were attracted to this because it seemed high profile, high street property, but then you became increasingly disillusioned in terms of this. Is that a fair assessment?

Mark Sherwood: I am not sure disillusioned. I think I found there were bigger challenges than I thought on the way in. But I also think that we were finding solutions to those challenges, and that is your job, isn't it? When something goes wrong, you dig in and you find another way and we were coming up with different strategies, we were finding good engagement. In January, we were starting to get really good traction with the landlords and we were getting really good traction with a number of occupiers who were coming to us and talking about their requirements at the time. We were sharing information on some of our buildings that might work with them and then

putting them together with the landlords, because we had to work with the landlords, because we did not have the money to fund any refurbishment or change to those buildings. So it was a rollercoaster: it was not a downwards disillusionment spiral, it was a rollercoaster.

Q2949 Chair: Again, my assessment is that the transformation and turnaround of BHS was going to be predicated on the successful execution of the property transaction part. Again, is that a fair assessment?

Mark Sherwood: Yes.

Q2950 Chair: That just did not work?

Mark Sherwood: It did work.

Q2951 Chair: Well, 11,000 people who were in danger of losing their jobs would suggest that it would not.

Mark Sherwood: But we achieved everything that we needed to in terms of savings by taking it through the CVA.

Q2952 Chair: I am confused. The reason we are having this inquiry is that there was a spectacular failure, which has resulted in 11,000 people losing their jobs, 22,500 pensioners in danger of losing their pension entitlements and you say it was a success. How could you say that?

Mark Sherwood: Of course it was not a success in that context, but the CVA delivered all of the savings and more that were required under the plan, that we had category 1, category 2. Do you guys know about how the CVA was structured?

Chair: Vaguely, but educate me, if not for my colleagues.

Mark Sherwood: Okay. So we had about 83 stores that were category 1 stores, where we just left them as they were and switched it to monthly rents to get the cash flow advantage. Then we had a further 21 properties where we reduced the rent by 25% and that gave us a rent reduction of about £2.7 million. We then had further category 2(b) stores, where we reduced the rent by 50% and that gave us a rent reduction of £8 million, £8.3 million. Then the category 3 stores, with about 40 properties—which goes back to that 30 that we said that we needed to exit—and those stores had losses at the time of about £12 million. So we had significantly exceeded the actual requirements in that initial business plan of delivering savings from the property side of the portfolio.

Q2953 Chair: I am really confused. Why, in your opinion, did BHS fall over?

Mark Sherwood: Because it ran out of money.

Q2954 Chair: But isn't that based upon the failure to execute the property transactions, that it just was not a credible plan?

Mark Sherwood: That is two different questions, isn't it? We executed all of the property transactions that we were asked to do. We reduced the rents by in excess of the amounts that we were asked to do and we raised more capital from property sales than was originally stated in the plan by a very significant margin.

Q2955 Chair: Talking about credibility, with the benefit of hindsight—and hindsight is a lovely, luxurious thing—did you think or do you think that Dominic Chappell had the capability to be able to transform and turn around BHS?

Mark Sherwood: I think that there is no reason why it could not have worked with Dominic as the owner of BHS. There has been a lot of talking about bringing in a big-hitting retail chairman and the business missed that. The business was frequently reactive and as a whole we were not proactive enough, we did not take charge and say, “Right, we need to get here fast and this is how we are going to do it”. We tried, but a lot of the time the business was reacting to external factors.

Q2956 Amanda Solloway: Just quickly, so at no point did it occur to anybody that in the acquisition of a retail business that retail should come to the forefront, that retail expertise should be included, it was purely around property?

Mark Sherwood: You are asking a 100% property guy, so my take was very much around the property portfolio and the options around that, but I think that all the property side did was help support financially the retail side of the business. RAL were very open when they acquired the business that they did not have huge retail experience and they were going to back the existing retailers. Darren Topp was an established retailer, he had good credibility in the market and I think there was probably a 50% change in staffing on the ops board, so there was that transition coming through in changing the retail skillsets within the business in order to enable the changes that were going to happen. But we just ran out of time.

Chair: We have run out of time too. Mr Sherwood, thank you very much for your evidence. We are grateful, thank you.

Examination of Witnesses

Witnesses: **Paul Budge**, Finance Director, Arcadia Group, and Director, Taveta Investments Limited, **Chris Harris**, Group Property Director, Arcadia Group, and **Brett Alexander Palos**, Director, Taveta Investments Limited, gave evidence.

Q2957 Chair: Gentlemen, welcome to the Select Committee. Mr Budge, Mr Harris, welcome back. Let me kick off, because I am very conscious of time. We had Paul Sutton in front of us yesterday and we have also had Robin Saunders a couple of weeks ago. She told us that she first realised that Mr Sutton was not credible as early as June 2013. You told us when you gave evidence before, Mr Budge, that you believed in the credibility of Mr Sutton as late as May 2014. Sir Philip, when he was before us, said that he thought that Paul Sutton was discredited when he had a dossier delivered to him, which was some time in August 2014. How can you reconcile these three statements?

Paul Budge: I am very sure that Paul Sutton lost credibility, as far as Philip and myself were concerned, in May 2014. I am very clear of that. We began dealing with Paul Sutton—I have a timeline—April 2013. It was on and off, on and off, did not really go anywhere; last formal meeting 27 March 2014. We decided at that time to discontinue any conversations, contact with Paul Sutton. He tried to get in touch with—those are the facts from my timeline. I think—

Q2958 Chair: But Sir Philip was very clear on a lot of things, Mr Budge.

Paul Budge: That is right. I think—

Chair: No, let me ask the question. Sir Philip was very clear on a lot of things and he said essentially work was progressing until he received this document, this dossier, in the summer of 2014, sometime around August. That is in direct contradiction to what you are saying. The deal was going on with Mr Sutton well beyond May 2014.

Paul Budge: My recollection, having checked my files, 13 May 2014 Paul Sutton discredited.

Q2959 Chair: What was the crucial point? You were thinking he was a potential player, a potential buyer and then May 2014. What happened?

Paul Budge: Very simply, we got a phone call in terms of Paul Sutton using Sir Philip's name and evidence of having a meeting in the diary with Sir Philip, which was due in May 2014. He was using that in, as I understand it, Monaco, making it very clear he was about to buy BHS, which was not true. Yes, he was looking at BHS under a non-disclosure agreement, but was not in a position at that time to be buying it, and he was using the contact of Sir Philip in terms of using that name. That was how he was discredited.

Q2960 Chair: But the thing that I cannot quite get my head around is that Paul Sutton and Dominic Chappell were working very closely together; you will have seen them together. But you told us that Dominic Chappell was starting—I think the words used were—a clean sheet. Weren't you in the least suspicious that all that was happening is that Dominic Chappell was being the frontman to what was Paul Sutton's vehicle?

Paul Budge: To answer that, when we dealt with Paul Sutton, it was very clear there were two characters who he dealt with and who we dealt with a lot, a financial adviser called John Forsythe and a Swiss retailer called Peter Graff, and that was the team. I believe we may have met Dominic Chappell once. He was very much a bit player, a minor player, in terms of this.

Q2961 Chair: He was a minor player. What happened in terms of transforming him into the person who can succeed in buying and turning around BHS?

Paul Budge: My timeline is on 13 May, Paul Sutton was discredited. Dominic Chappell got in contact on 16 July 2014. He put forward then he was interested in BHS and at that time he came and had a conversation.

Q2962 Chair: What was the nature of that conversation? Did that convince you that he was a credible player?

Paul Budge: Not at that time, no. It was something that I then talked to Sir Philip about and in terms of, "Is this someone we want to do business with?" To be clear, in my earlier evidence, I think it came out that Goldmans were the first people who told us he was bankrupt. We knew he had been bankrupt once, but unfortunately we did not know he had been bankrupt more than that. That is one of the great reasons that once we got through certain conversations we said, "Look, we are very cautious. We know you have been bankrupt. We want

you to go through a process. We want Goldmans to have observation as gatekeeper/vet. We want you to go through the Goldmans process, please”.

Q2963 Chair: Goldmans are absolutely crucial in this in order to establish the credibility of Dominic Chappell.

Paul Budge: You will see the e-mails. I brought my book today and it is interesting just how we dealt with this: 3 November 2014, my note to Dominic Chappell, which I forwarded to Mr Gutman, “From our viewpoint, we would like you to start the process with Goldman first”. 24 November, “Asked that they contact Anthony Gutman direct to set up”. 3 December, “I reiterated that SPG keen that Goldmans vet to ensure there are solid funding plans in place for them to be able to do the transaction and to run the business on an ongoing basis, that they are real with their intentions and people that we can do business with”. There is no doubt in our mind, and with respect to the Committee, from a personal viewpoint, Sir Philip was very clear, “Paul, please do not get involved. Send them to Goldmans. They must go through Goldmans”.

Q2964 Chair: We have had Goldman Sachs in front of us this morning. They flatly deny that they were gatekeepers. Have they lied to us?

Paul Budge: I think it is a very unfortunate situation. I think the benefit of hindsight, new views, what was going on with Goldmans should have been far more documented; it should have been a formal arrangement. That is what we wanted it to be. Sadly, it did not end up being that. All the evidence you have is going to end up being what myself and Mr Gutman say.

Q2965 Chair: But Sir Philip Green is a valued client of Goldmans. Surely he is saying, “Cover my backside on this. My reputation is important to me. You have to cover my backside”. That has not happened. Goldmans have failed, haven’t they?

Paul Budge: With the benefit of hindsight, I do not think Goldmans had any intention to do anything that was wrong, but we are here where we are and I am 100% with Sir Philip. If someone had said to us, “Do not deal with these people”—and I believed, all of us, Mr Chappell, RAL, I have to go through what I have said before, they are credible people. There was Olswang, there was Grant Thornton, Goldmans had a look at them. You have seen Eddie Palardorio, you have seen Stephen Bourne, you have seen Mark Tasker. We know of other people being involved who are retail professionals; you have seen Vail Williams today. There are a lot of people surrounding RAL that gave it a degree of credibility.

Q2966 Chair: In terms of that credibility and in terms of having good credible advisers, is that one of the reasons why Paul Sutton got through the door as well? Were you impressed by his advisers too?

Paul Budge: My recollection of Paul Sutton, although the conversations went on for a period of time, I think Paul Sutton got through the door because of Robin Saunders and her knowing Sir Philip and having worked with him. But Paul Sutton, again I have my timeline, and we talked for an enormous of time, but it never really went anywhere and it never got to a point where he was going to go to somewhere like Goldman Sachs to have a look at it. We started April 2013 and the talks went on and off through to 27 March 2014, so we spent a year, but

there was a bit of work and then it went cold, then there was a bit of work. I do not think that ever really got into a position where we were going to take it forward. To be fair to Mr Sutton, he did not surround himself with advisers. As I said, there were a team of three people: a finance guy called John Forsythe, who seemed very credible, did the number-crunching, worked with Gillian Hague and myself, looked at the numbers; Peter Graff, who to me looked a credible retailer. He had been with Vogeley in the late 1990s, I think he had held a very senior position there and they worked with Paul Sutton.

I will wave it at you, but I am quite happy to submit it: why we thought that they started with a clean sheet of paper was because at the end of about a year's work, John Forsythe, Paul Sutton and Peter Graff produced this, which was a pack about an Albion business plan. That is the project name they gave it. It was very much a retail-led plan. It was not talking about using the management like RAL subsequently did with people like Darren Topp. It was a business plan very predicated on retail, less on property, which was very clearly dependent upon Mr Graff to run it as the chief executive, and a guy called Joachim Stenger, who was going to be the chief buying officer. It was very much predicated on a retail approach to it. It was quite different to what ended up happening, which was more a property-based kind of plan. I am quite happy, we will put it into submission.

Q2967 Richard Fuller: I have been listening with quite a lot of interest to the things you were saying about Goldman Sachs, if I can start there, "Go to Goldman, go to Goldman, go to Goldman" because it appears that there has been a terrible misunderstanding about who was responsible for establishing credibility between yourself, Sir Philip and Goldman Sachs. Who was responsible for establishing the credibility of Chappell?

Paul Budge: I think ultimately we have to take some of the blame for this. I am not shirking away from that. It is a terrible thing that has happened, and again, I can only apologise both to our staff who have been affected and our pensioners who have been affected. Hopefully the latter we will sort out. But at the end of the day, we went to Goldmans with the best intentions, as I said, in terms of solid funding plans in place, which we believed they did, and we will talk about Farallon, but we believed there were credible finance—

Q2968 Richard Fuller: But you did not go to Goldman, you were kind of pushed to Goldman, weren't you? Sir Philip was the one, "Go to Goldman, go to Goldman" you said. Just in your opening you said, "It should have been far more documented. That's what we wanted it to be", your relationship between yourselves—

Paul Budge: As I say, with the benefit of hindsight, Mr Wright has said that earlier. It was not documented. They were doing us a favour. It was not a big enough deal for them to do. They have said those kind of things today, but at the end of the day I believe that the e-mail trail shows there was an enormous amount of work, there are a number of phone calls, there was a lot of fact-finding going on. Again, as you look towards the end of the timeline, this again was a bit on and off, because another thing the Committee needs to understand, I think the process with RAL was halted twice, one just before Christmas, one in mid-January, where it was made very clear to Mr Chappell that the business is going to be marketed for sale to other parties.

But if I did take you to something, it would be like the meeting on 28 January. Again, in the e-mail submission it was quite a comprehensive agenda that Sir Philip asked for that meeting, again covering things: proof of finance; ability to be able to do this transaction; a proposal regarding pensions; a business plan; give assurances they will run it as an ongoing business and not put it into a process. There was a long agenda.

Q2969 Richard Fuller: But none of that would have happened if after the, "Go to Goldman, go to Goldman" they had come back as, "Do not touch this". None of this would have happened.

Paul Budge: 100%.

Q2970 Richard Fuller: 100% it would not have happened. Yet for Goldman, this issue, this small business, £600 million a year, 11,000 employees, 20,000 pensioners, one of the country's greatest brand names, it is too small for them. They do not charge any fees, they do not have a contract with you. All they do is give you informal observations and now there is a disconnect between what you say and they say. Doesn't that say that the governance issues within Arcadia Group were utterly incapable of providing that important judgment about whether to take someone forward to go through the later processes?

Paul Budge: I think that is a little unfair. We were trying very much to go through a process. My recollection of it, this is very much a process that we wanted to go through. Let us be fair to Goldman, there is a long relationship here. You have heard earlier from Mr Sherwood—it was before my time in terms of the Marks & Spencer proposal back in 2004, I think, predating me in terms of being involved with that—obviously Sir Philip had used Goldmans and Mr Sherwood over many years. I can understand why we are where we are. I think the key learn from this here now is—

Q2971 Richard Fuller: Mr Sherwood did not have any fees off Sir Philip Green over those years. He said that Goldman had hardly made a penny out of him.

Paul Budge: I think that is exactly—

Richard Fuller: So there was some relationship. Clearly it was not particularly remunerative for Goldman Sachs, but they were in this trusted position. After that, they were also looking at the Farallon £120 million funding. Can you just take us back again? What specific observations did Goldman Sachs make that led you to believe that that £120 million funding was available?

Paul Budge: It was predicated on property and we knew that what was being proposed with BHS at the time, it was going to have about £197 million of potentially unencumbered property to be funded, so the £120 million could add up from that. We did appreciate—and I take your view—it said £120 million on top of the term sheet, but it was three tranches of £40 million. But if you looked at the properties that were likely to be available, and this was at an early stage, because I think this is well ahead of the points of principle that were signed off on 16 February, but if you looked, BHS in its circa £197 million worth of property had two or three key properties that were proposed to be in the deal, one the North West House, which was an office block worth £30 million to £40 million, one the Oxford Street store, which we know was sold for £50 million and had been valued at anything between £30 and £70 million, and if it had been

included in the transaction, Marylebone House. So the way the Farallon facility worked was, for example, hypothetically you would sell the Oxford Street store for £40 million. £40 million would come into the business; that could be done. You would sell North West House for £40 million, again, another £40 million, and then you would borrow against what mathematically I believe would be about £120 million worth of assets left would be the last tranche of the £40 million.

Q2972 Richard Fuller: Just for clarity of people who may be watching the Committee, that £40 million, when you say “another £40 million”, that first £40 million has already been repaid, hasn’t it, so you only have £40 million? It is always only £40 million, but it parades itself around as £120 million.

Paul Budge: But you have liquidated an asset, £40 million in the bank. You go and borrow another £40 million, you liquidate an asset, another £40 million.

Q2973 Richard Fuller: No, that is not the term sheet. Did you read the term sheet?

Paul Budge: Yes, I did. I have looked at it.

Q2974 Richard Fuller: Point 1 on tranche 2 says, “Tranche 1 repaid” so when you pay back the first £40 million, guess what, you do not have that £40 million. It is still £40 million. Maybe go and speak to Goldman Sachs and get some maths lessons.

Paul Budge: No, you have £197 million worth of property to fund.

Q2975 Richard Fuller: But the £40 million is £40 million and why would you present—if you can persuade me, Mr Budge, that that term sheet was anything other than a £40 million term sheet, then I will say you are a clear finance officer.

Paul Budge: You have £200 million worth of property.

Richard Fuller: That is not my question.

Paul Budge: No, but that is how—

Q2976 Richard Fuller: The question is the term sheet puts £120 million at the top. We all know that British Home Stores is losing millions of pounds. We all know that there are hundreds of millions of pounds of liabilities in their pension fund. This business is holding on. Your own business plan has failed for years. Somebody comes to you and says, “I have a £120 million term sheet”. You read it and it says the first £40 million has to be repaid, then you can get the next £40 million, then that has to be repaid and then you get to the next £40 million. That is £40 million, isn’t it? That was totally inadequate for British Home Stores.

Paul Budge: There was £197 million of assets that could be sold off to generate some money and the Farallon facility would have facilitated that process. I think it is very important for the Committee, I know there is a focus on Farallon and I understand that, because at a point in time that was important, of creating credibility in terms of—

Richard Fuller: It was.

Paul Budge: —RAL were able to have some credible financing. But as the actual deal moved on, what is very important, at the end of the day, £94 million

was put on the table—I know we will talk perhaps with Mr Quin in terms of that—£69 million worth of cash and £25 million of an HSBC facility gave £94 million. There was no need for Farallon, at the end of the day.

Q2977 Richard Fuller: There was, because you have talked about credibility: number one credibility, Goldman Sachs, who passed him over there, they did not bother to look at anything. They came back and said, “Well, he has been bankrupt once. Maybe he can run a multi-million pound business. I do not know”. Then you go to Farallon. They present you a £120 million term sheet for credibility, but it is a £40 million term sheet, but you seem to pass by on that. Then you go on to get £35 million that Mr Chappell has to place in escrow to show credibility. What do you know about that?

Paul Budge: As Sir Philip said when he was here, he was able to show the ability to perform and put funds in an escrow account with Olswang and he did that within three days.

Q2978 Richard Fuller: Do you know what it was for?

Chris Harris: Yes, to buy Marylebone House.

Q2979 Richard Fuller: So you knew that it was to purchase Marylebone House?

Chris Harris: Yes.

Q2980 Richard Fuller: How does that show credibility then?

Chris Harris: It shows that he can access £35 million in a few days.

Q2981 Richard Fuller: What on earth does that mean, Mr Harris? You are not talking about someone just being able to borrow money from someone for three days to show credibility. The credibility is about whether he can run the business, isn't it?

Paul Budge: I think commercially—

Richard Fuller: It is not that he has sold a business he does not own to somebody else for less than it is worth.

Chris Harris: Commercially it shows credibility, because it shows that he has access to funds. If I asked you to go and put £35 million in a bank account by Monday, I am not sure whether you can do it.

Richard Fuller: Maybe I could.

Chris Harris: I do not know.

Q2982 Richard Fuller: I do not know, but that was not the point. I am not trying to buy British Home Stores, am I?

Chris Harris: You are not, but the point I am obviously trying to make is that I think most people cannot do that.

Q2983 Richard Fuller: So if you have mates who you can sell a business or a property to that is worth £50 million, you can say, “Hold on a minute, you give me £50 million in escrow, so you can always call it back, it will earn interest, and I will give you something for £35 million so you can make a quick £10 million turn”. You say you are happy to sell a £600 million business to that person just because it proves credibility?

Chris Harris: No, that is not what I am saying at all. As I said last time, there are a number of factors that came into this. That was one of them. Could he access funds and could he do it in a short space of time?

Q2984 Richard Fuller: But we have also gone through the others, Mr Harris. We have gone through Goldman Sachs, they did not bother really to look at anything, then we went to Farallon's phony term sheet—well, not Farallon's phony term sheet. To be honest, Farallon's term sheet was quite clear and I do not mean to be insulting to Farallon. But for the people who interpreted it, there was a woeful and perhaps misleading interpretation of that £120 million just to say, "Approve credibility". Now you are walking in and saying just because someone has mates, that they can sell a property they do not own for £35 million, that somehow you can put the livelihoods of 11,000 employees on the line.

Chris Harris: "Mates" is your word, not mine. I guess what I am saying to you is there are a number of factors and £35 million into an account in a few days was one of them. That is what I am saying on that matter. I am not saying that he has mates to go and flip the property to somebody.

Q2985 Richard Fuller: Don't you think the people of this country would be very worried about one of their major companies, that the credibility tests that yourself and Mr Budge were putting them through were so transparently not providing credibility about the ability of those people to run the business?

Paul Budge: Let us put this on the table: we sold BHS as a solvent business with plenty of cash—

Chair: A solvent business?

Paul Budge: —and plenty of assets, £94 million worth of cash and facilities, £119 million worth of assets that came unencumbered over the course of the 12 months. You have heard from Mr Hitchcock himself, you have heard from Mr Topp, the issue with this business plan: first, it was ripe for turnaround, secondly, it had an opportunity to do it. Unfortunately, it was not executed quickly enough. What was intended to happen, what everybody thought would happen—and again, the benefit of hindsight—you have £94 million of cash and facilities, you have £119 million of potential unencumbered assets, you have a £216 million inter-company loan written off. Step 1, go the landlords, "I am the new owner of BHS. We need to execute a turnaround plan. We are looking for your support and some rental reductions. We need to have some impairment from you to help this business run going forward". The landlords hopefully would engage.

If they did not engage, step 2, which would be done in quite short order, would have been to have done the CVA probably nine months earlier. If that had been done, there would have been sufficient rental reductions to enable the business to go forward. The pension at that time would have gone into a PPF assessment period, as I understand; I am not a pensions expert. As a result, Project Thor would have been the rescue plan for that pension, because it had been facing insolvency, and we would not be here today. The benefit of hindsight is a wonderful thing, but gentlemen and ladies, that was always what we thought was going to happen. The turnaround plan was not executed fast enough.



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Q2986 Chair: I am astonished, Mr Budge, that you say the BHS was a solvent business. If it were a solvent business, why did Taveta have to give a letter of assurance to PwC to allow PwC to sign off the accounts as a going concern?

Paul Budge: Sorry, can I come back? A solvent business in terms of cash and assets that were given to that business and the inter-company loan was written off to give it a chance of a turnaround. When it was part of the Arcadia—sorry, the Taveta business, not the Arcadia, because as I said before, we have Taveta, you had BHS and you had Arcadia. We had to sign off a going concern letter, predominantly because it was being financed by Arcadia, and it had been losing £35 million to £40 million per annum.

Q2987 Chair: But it was not a solvent business, was it? Just accept that as you were selling it, it was not a solvent business.

Paul Budge: Sorry, I do not want to be flippant, but probably a comment: when the pension regulator came to see us on 4 March and Sir Philip was looking and was running towards a sustainable pensions solution, Project Thor, TPR saw it as being a solvent business. There was no way it was going to be an insolvent business that you could apply Project Thor to. I think, Chris, that was the understanding at that time.

Chris Harris: Correct.

Q2988 Jeremy Quin: I was just wanted to ask, why were you then considering putting it in insolvency, which is the evidence we have heard, that there was a choice of either selling it to RAL or pulling the plug?

Paul Budge: There were three choices: first, sell as a solvent going concern, which the board were unanimous that is what we wanted to do, we wanted someone to take it over, ideally with a turnaround plan that it could execute, put focus on to it, turn this business and we put in a lot of cash as a dowry, assets in terms to give every chance for that to succeed. I would reiterate you have heard from Mr Hitchcock and Mr Topp that that was possible, all right? That is very, very clear. But there were three alternatives. One would have been sell it as a solvent business; secondly, we would put it into immediate insolvency, or thirdly, which the board decided to do, was that if the sale had not proceeded, Arcadia was in a situation that it was going to have security for any future monies lent to BHS.

We knew at that time there was £151 million of unencumbered assets that could mean that again, for the immediate future, probably the next one to two years, there would have been sufficient assets to fund that business. I think over time insolvency was probably inevitable if it stayed within the Taveta business. Again, I would like the Committee to understand—and I think you have heard from Mr Sherwood this morning—Sir Philip did have an emotional attachment with this business. It had lost, as I said last time I was here, on average £35 million per annum cash for the last three or four years of our ownership.

Q2989 Jeremy Quin: That rate was accelerating and that was why unless there was enough cash in the business when it was sold, it was going to go under very quickly. We can debate projections given to your board at length, but as it was, it seeking emergency cash support within three months of the sale.

Paul Budge: I do not think it was.

Q2990 Jeremy Quin: You and I may differ on what emergency cash support is, but I think the aid provided by ACE would be exactly that.

Paul Budge: Okay. Again, from a cash position, I know in June it had money in the bank. Its critical cash position, the way the business ran, it needs to have about £80 million peak to trough in terms of working capital requirement, and the peak cash position used to occur in October, just after the September rent quarter, at the time that the business was always gearing up merchandise to be sold at Christmas. That was its peak cash position. Grant Thornton had analysed the cash as part of their due diligence in enormous amount of detail. They had a report for RAL and Mr Chappell. Their report would not have said it was going to have a cash problem in June.

Q2991 Chair: Was that report shared with you?

Paul Budge: I never saw a copy of it, although they referred to it. They came to a meeting with Sir Philip and me. In fact, Dominic and Paul Martin, I think, who was the lead partner of Grant Thornton, they did a large book of all the cash flow projections and came and saw us. They had taken projections out to October and they also had a contingency, if I recall, at that time that if trade was not so good—and again, I will take you back to my previous evidence and I think what Mr Chappell has said: to have the perfect storm, at the end of the day, you had last autumn, autumn 2015, being very poor for retailers. I think Mr Chappell says—and I know talking to Mr Hitchcock—BHS missed its sales revenues by some £30 million—

Q2992 Jeremy Quin: It is very well to try to blame Grant Thornton, but the fact is that they are not retailers, they are not property experts. If I may, if you put nonsense into one of those spreadsheets, you will get nonsense out at the end of it. I have just seen the forecasted building blocks to success for this company, which included increasing like-for-like sales and increasing margins at the same time. I am not a retailer, but that is a fairly heroic presumption in the context of what you are talking.

Paul Budge: I think Mr Price said when he was here one of the encouraging things we had in BHS was the losses began to plateau. Mr Price and his team had achieved, I believe, a plus 3% like for like in the summer of 2014.

Can I just talk about the contingency, because I think it is important, please? The contingency that Grant Thornton put in is that there was Oxford Street, which was a valuable store, worth anything between £40 and £70 million, dependent upon which property adviser you talked about. But Grant Thornton put in as the contingency plan that by October, Oxford Street would have been sold and that would have freed up and put about £50 million worth, conservatively, of cash in the business. Sadly, that did not happen, but that was the contingency plan in the projections that they were discussing with us. That would have made a huge difference, to have that £50 million on top of everything else that was given at the time of completion.

Q2993 Jeremy Quin: It is a trading entity, Oxford Street, isn't it?

Paul Budge: It is, but it was losing money, I think £2 million a year, Chris?

Chris Harris: Yes.

Q2994 Jeremy Quin: All we can look at is what your buyer had at the day you sold them the business. I know that the vendors were keen to see £120 million cash facilities, equity of sort of £30 million also and they ended up selling it to an entity with £5 million of equity, £25 million of debt availability, guaranteed by yourselves. We can go through this. I think it gets tedious to go through this and you kindly offered me the opportunity to go and sit down with your colleagues and run through it, but there are items on this £94 million that did not come in for another year or in some cases did not come in for a few months.

Paul Budge: That was £5 million for Carlisle, I believe, so in the overall scheme of things, I know that looking at it, by 25 March £80.6 million was available for the business. Those were the facts.

Q2995 Jeremy Quin: Yes, but the facts are that this is not accurate on day one. But that is the situation they found themselves in and the reality is they did not have enough time to execute the property sales while at the same time firefighting on their business plan. That became very evident very quickly.

Chris Harris: I think they did not move quick enough to execute the property plan would be my observation.

Q2996 Richard Graham: But they could not execute the property plan with a pension scheme deficit hanging around, which is precisely why that has been the white elephant in the room the whole way through this inquiry. Chairman, you will have to decide when we come back to that, but that is the crux of this whole thing.

Paul Budge: I agree that totally. Sadly, I do go back to the 4 March meeting, and as I said last time, it is no one's fault. I think the one key learn that can come out to the Committee—I see Mr Field is not here today—is the pension. We had spent the best part of £1 million on Project Thor with Deloitte. That is a large amount of money. We were not doing that for any other reason than to find a sustainable pension solution. I need to read this to you, because I think it is important, "Notes of the 4 March meeting". This is from our—

Chair: Sorry, Mr Budge, with the greatest of respect, we have a lot to get through and Jeremy was pushing you on something. We may come back to this in a moment, but Jeremy, but do you want to finish your line of questioning?

Q2997 Jeremy Quin: if I may, take you back to the board meeting that you chaired on 16 July 2015, the Arcadia Group Limited board meeting where the board approved the acquisition of Marylebone House. What was the basis of the board's decision to acquire that property? Chris was at the meeting as well.

Chris Harris: I was at the meeting. I know the property very well; I have been involved in buying and selling it for some time. Sorry. Specifically, what was your question?

Q2998 Jeremy Quin: Why?

Chris Harris: Why did we buy it?

Jeremy Quin: Yes.



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Chris Harris: Arcadia bought it because we are redeveloping our building at Colegrave House, just off Oxford Street, at the moment. We have expanded, taken on quite a few more people, and we needed some more space, so we bought it to house some of our other brands.

Q2999 Jeremy Quin: When did you decide to allocate those resources to buy Marylebone House?

Chris Harris: When did we decide to?

Q3000 Jeremy Quin: When did you decide? When did the Arcadia Group Limited decide, as a board, that they would wish to make that investment?

Chris Harris: I want to say June, I think, roughly.

Jeremy Quin: June?

Chris Harris: Yes.

Q3001 Jeremy Quin: You had decided in June, and bought it in July?

Chris Harris: Yes.

Q3002 Jeremy Quin: It had never dawned on you previously that you wished to buy Marylebone House?

Chris Harris: If we did not buy Marylebone House, we would have to find property elsewhere in London to occupy for our brands.

Q3003 Jeremy Quin: No, I am just curious as to why it was offered for sale to RAL in March.

Chris Harris: Maybe I can go back and start at the beginning, because Marylebone House was never owned by Arcadia or BHS previously. It was owned outside by the Green family. It was agreed, as part of the overall transaction to sell BHS, to sell Marylebone House to RAL for £35 million, which I think you are familiar with.

At a later date, somebody else offered us some money for it, a higher price, and we considered—in fact, agreed—a deal to sell it to them. That deal fell through. We had a significant number of other offers over the following months, but we decided to—

Q3004 Jeremy Quin: Why did the deal fall through?

Chris Harris: The buyer at the time wanted to use it as a college. They had had a preapplication meeting with Westminster Council on planning, and came to the conclusion they could not get planning for a college. It fell through. We had, as I say, three or four other offers.

Q3005 Jeremy Quin: Were they in written form?

Chris Harris: One was verbal. The other three were written.

Q3006 Jeremy Quin: Not to you?

Chris Harris: Yes, to me.

Q3007 Jeremy Quin: Why were they writing to you about the purchase of that property? You do not own it.



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Chris Harris: No, we do not own it, but the Green family do.

Q3008 Jeremy Quin: Someone wants to buy a property off the Green family, so they write to the Arcadia Group Limited?

Chris Harris: They were writing to me. I was helping facilitate a possible sale of that building.

Q3009 Jeremy Quin: I am getting confused. It says in your minute that “the company” had received approaches, and the company in this context is Arcadia Group Limited. Had the company received any approaches? I do not see how the company could have received any approaches to buy the property, because it did not own it.

Chris Harris: I had received approaches, yes, and I worked for Arcadia. Yes, in that sense the company had received approaches.

Q3010 Jeremy Quin: People wishing to buy a property from Philip Green approached you and Arcadia Group Limited, who did not own the property, to ask if they could buy that property?

Chris Harris: That is how it happened, yes.

Q3011 Jeremy Quin: Yes. You can understand why I am confused by that, can you not?

Chris Harris: Not exactly.

Q3012 Jeremy Quin: It is not your property to sell. In fact, you are looking to buy it. I approach you, asking if I can buy it?

Chris Harris: I am not looking to buy it at that stage, no. I was not going to go into all the detail in the interests of time, but maybe I should go through the detail.

Q3013 Jeremy Quin: It says in your board minute that you, the company, had received approaches, and you had not received approaches, you tell me.

Chris Harris: I had received approaches. I have told you I had received approaches. I will show them to you. Arcadia has received approaches for the property. I do not know why this is particularly relevant, but maybe you can continue with your question and I can maybe help you, but I am not sure where you are trying to get to with this.

Q3014 Jeremy Quin: The issue is it is a related party transaction because of the relationships around the organisation, and you have to be quite careful as to—

Chris Harris: Which hat you are wearing.

Jeremy Quin: —which hat you are wearing. At the moment, there is a stark confusion in your board minute, which is the board minute says that Arcadia Group Limited is comfortable about the valuation, about the money that it is paying, to buy Marylebone House, because it, Arcadia, had been approached by companies, other parties, wishing to buy Marylebone House. I wish I could buy a house on that basis.

Chris Harris: Maybe I will go all the way to the beginning, then. I helped the Green family buy Marylebone House on 1 August 2013. They bought it from the Pru. We paid £31 million, or they paid £31 million for it, and put it into an SPV called Wilton Equity Limited. That is the start of the journey.

As we then say, as part of the transaction was going to be sold, the asset was going to be sold for RAL for £35 million. That deal proved abortive because we had another offer from somebody else. For your records, it is £52 million, not the £53 million you have been quoting, but we were offered £52 million at that time for the building. That deal fell through for the reasons that I say.

We then, during the course of April and May, received three, possibly four other offers, some in writing, to myself, offering to buy the building. Yes, clearly, Arcadia do not own the building, and yes, clearly, it is still owned by the Green family, but yes, I am helping in terms of receiving those offers and reporting that back to the Green family. That is what actually happened.

Come June, we decide we are not interested in the offers, we would like to keep the building for the reasons that I gave you, and in July we duly bought the building.

Q3015 Jeremy Quin: “We would like to keep the building” is again rather confusing because it is not “we”.

Chris Harris: Arcadia decided to buy the building from the Green family.

Q3016 Jeremy Quin: You did not attach to the board minute any evidence that you had received these offers?

Chris Harris: No.

Q3017 Jeremy Quin: No. I do not doubt your word, but it was just your word to the board.

Chris Harris: If you would like to see the offers, I am sure I can redact them and send them to you.

Q3018 Jeremy Quin: I am sure they do. It would be helpful to have them. From a point of view of corporate governance—no disrespect—you are building an asset off the wife of one of your directors, and you say, “Do not worry, I have received some offers for this company”.

Chris Harris: We worked very closely as a tight-knit team. Everyone knew the offers that had been received for the building. Paul, I and Sir Philip were in constant dialogue about what those offers were. It was not that I was doing this in isolation. I had looked at the building we had bought it in the summer of 2014. I was looking at both North West and Marylebone House to see what opportunities there might be to redevelop those buildings.

Q3019 Jeremy Quin: I am sorry. It is just the fundamental principle of being a director about how you ensure that your personal interests and the company interests do not in any way conflict, and making certain that you have proper processes. That is why it is of interest. You never considered getting a valuation just so that you could tick the box and say, “Valuation has been executed”? We heard this morning you take about three weeks to do that.

Chris Harris: I do not think I have said that.

Q3020 Jeremy Quin: No. A previous witness today said it would take perhaps three or four weeks to get a valuation done on a property of this nature. I just wonder why you did not get a valuation done just to say, "Look, do not worry, guys. We know we are buying it from the wife of one of our fellow directors, but here is a bit of paper. You are in the clear. There is a valuation here".

Chris Harris: Mr Quin, the process was we bought it in August 2013 for £31 million; the Green family did.

Q3021 Chair: It is very revealing that you say "we" when you are referring to the Green family.

Chris Harris: Because, Mr Wright, I am helping or I helped in that transaction buy the building. The building was bought by the Green family for £31 million and I helped transact that purchase. Following that, in the summer of 2014, I engaged Savills. We looked at a number of different scenarios to redevelop that building. This is important because they came back with various valuations of the building depending on what you wanted to do with it: college, residential, office. One of the scenarios they came back with on office was you could do a sale on its back to BHS or you could do a sale on its back to Arcadia, and they were driving out values. You seem disinterested, but this is important. They drove out values north of £60 million. I had a valuation at that time suggesting those sorts of levels if it were sold at least back to Arcadia or BHS.

We then went through the process that I have described to you. We then get to July of 2015, and Arcadia decide to buy it, with the knowledge of the purchase at £31 million, with the knowledge of the Savills report, and with the knowledge of the offers that had been received in that intervening period. With that knowledge, which we duly all had and shared and discussed at the board meeting, we agreed to buy it for £53 million. Primarily because I have seen—

Q3022 Jeremy Quin: It had been discussed at the board meeting. Personally, if I was a director and it was discussed at the board meeting, I would be quite keen to have that recorded somewhere in the board minute because it is so important.

Chris Harris: Because you were so interested in whether we had had valuations, I got two valuations done on this building in the last couple of weeks. It does not take three weeks, it takes five days, so I have had two valuations carried out. At a June 2015 valuation date, one by CBRE at £53 million, and one from Cushman and Wakefield, who valued it at £53.5 million.

Q3023 Chair: Did the board not want you to do this at the time?

Chris Harris: We had enough knowledge of the building to understand that the true value was £53 million, and that has been supported by the valuations I got subsequently.

Q3024 Richard Fuller: No, hold on. What you said is you had an independent valuation done in 2013, and then you had a—

Chris Harris: Sorry, I did not say that.

Q3025 Richard Fuller: When was the valuation done when it was purchased, the original purchase?

Chris Harris: We did not have the valuation when we purchased the building.

Q3026 Richard Fuller: You did not have a valuation done when you purchased the building, and then you had a model that said, "If we bought it, then it would be worth £60 million because of the sale and lease back".

Chris Harris: We had a model that showed various scenarios, one of which was, if it was sold and leased back, it would be worth north of £60 million.

Q3027 Richard Fuller: What independent advice did you get on the other scenarios?

Chris Harris: Sorry, which other scenarios?

Richard Fuller: What independent advice, other than your own internal—

Chris Harris: From Savills. From Savills.

Q3028 Richard Fuller: You got it from Savills?

Chris Harris: Yes.

Q3029 Richard Fuller: They did not value the property. They just did some scenarios.

Chris Harris: They valued these different scenarios, yes. It was not a Red Book valuation. They valued various scenarios to show what value could be made from the building.

Q3030 Richard Fuller: You did not do the five-day thing of going and getting an external valuation of the property at the time.

Chris Harris: No. Again, maybe I can help shed a little bit of light here as well. We have a large property portfolio, 2,500 stores, something like that. Our rent bill is about £200 million a year; it was £300 million with BHS. I have a team of over 100 people. Many of them are RICS-qualified. We are specialists in this area. I have been doing it for 25 to 30 years. It is not as though I was just buying something off the street and I do not know what I am doing. We are familiar, and we have a large property team because we are a large property-holding company as part of the Green companies.

Q3031 Richard Fuller: Mr Harris, the question is, who are they working for? Are they working for Arcadia Group or are they working for Sir Philip Green's family?

Chris Harris: Arcadia Group. Arcadia Group Limited.

Q3032 Richard Fuller: When a transaction is between Sir Philip Green's family and Arcadia Group, who are they working for?

Chris Harris: Arcadia Group Limited.

Q3033 Jeremy Quin: The reason why we are exploring this, Mr Harris, is a board of directors has a range of responsibilities, not only to its shareholder but to a whole range of stakeholders.

Chris Harris: I understand that.

Q3034 Jeremy Quin: £50 million is a lot of money.

Chris Harris: £53 million, yes.

Q3035 Jeremy Quin: £53 million is more money, I agree.

Chris Harris: Indeed.

Q3036 Jeremy Quin: You have other responsibilities. You have pensioners, not only BHS pensioners, to worry about. I was just interested to find out what the process was about expending £53 million. You decided to do it in June. You made the acquisition in July. Given that it was a related body transaction, was there any consideration given as to holding this on a day when non-execs could be present? Paul, you chaired the meeting. Would it have not been easier if you had had a non-exec there?

Paul Budge: There was not given consideration to it. We had a quorum of directors there, and obviously we updated the non-executive directors at the subsequent board meeting, in fact.

Q3037 Jeremy Quin: At the subsequent board meeting?

Paul Budge: Yes.

Q3038 Jeremy Quin: They got full notification of the board meeting that you were planning to do this?

Paul Budge: Adam Goldman and myself went to see Lord Grabiner, I believe, regarding this as one of a number of standard agenda items that the—

Q3039 Jeremy Quin: What was the paper trail going to the non-executive directors about this transaction before it was agreed by the board? What information went to them?

Paul Budge: As I said, we had a quorum of directors at the time to sign off the transaction.

Q3040 Jeremy Quin: No, hang on. At the time. No disrespect—three executive directors of the group—but what information went out to the board before the board agreed to do this related party transaction?

Paul Budge: I believe that it was covered in the subsequent board meeting pack.

Q3041 Jeremy Quin: In the subsequent board meeting pack. You agree the deal, you pay £53 million, and then you tell the non-executive directors what you have done?

Paul Budge: I think it was reported at the next board meeting. I need to go and check that. I will come back to the Committee in writing about the—

Q3042 Jeremy Quin: I think it would be quite good because if, for example, this minute was sent out in advance of the board meeting as a draft, there is nothing in here, to my mind, to satisfy anyone that this is an appropriate or inappropriate transaction. There is just not enough detail. There is no evidence. There is no background.

Paul Budge: As Mr Harris has said, there were a number of facts known regarding Marylebone House and its value, and from the business—and it was an important commercial point from the business—at that time, we needed more

office space. The reason—I think this was covered with the board prior to acquiring Marylebone House—was that our wholesale business has become very large over the last year, and, therefore, we needed showroom space in Colegrave House, our main building, which meant that we needed further office space in Marylebone House. From that perspective, there was a very real requirement to have additional office space.

Q3043 Jeremy Quin: You may have the best commercial rationale in the world. It is just better if it had been put in the board minute.

Paul Budge: Let me come back to you with the exact time on it.

Q3044 Jeremy Quin: Just to make a final observation on this, it may be absolutely the right thing that you did, but the reality is someone closely associated with your group, intimately associated with your group, was making £22 million out of this transaction over a two-year period. I am not saying there is anything wrong with that, but it is a fact. In those circumstances—

Chris Harris: I do not think your numbers are correct.

Q3045 Jeremy Quin: In those circumstances, you can buy the head lease. There will be some value for the head lease. I accept that, so maybe a little less, but somewhere between the acquisition of £31 million, combining the head lease and then selling for £53 million. There is money to be made. Even if it is £1 million, a mere £1 million that Sir Philip was making, or Lady Green, it is still making certain that the board had information that they could then rely on subsequently to show why this is appropriate. This is incredibly important. As I say, you have other stakeholders in the Arcadia business, including pensioners.

Chris Harris: Of course, yes. I fully understand that and, as I say—I think it is worth mentioning again—we are a very small group. We work very closely together. This was not done in isolation. Everyone was aware of what was going on, and we recorded it in the board meeting.

Q3046 Jeremy Quin: That is why it is so important to have the corporate governance, because you are a small, tight working group.

Chris Harris: Indeed.

Jeremy Quin: Knowing which hat you are wearing, Mr Harris, must confuse you occasionally. It certainly confuses me.

Chair: Gentlemen, we have had real concerns about corporate governance with regards to this. Jeremy has outlined them very, very well, but I want to expand on that a little bit further, and Michelle is going to lead on this for that.

Q3047 Michelle Thomson: Good morning. How do you see the role differing of your non-exec directors compared to any other company of Arcadia Group's size?

Chris Harris: Sorry, how do I see the role of non-execs different to other companies?

Q3048 Michelle Thomson: Yes, or is it exactly the same?

Chris Harris: I cannot comment on other companies. The role in Arcadia is that the executives are experts, professionals in their areas, and are given the responsibility to perform those functions within the business, and the non-execs typically attend the board meetings on a monthly basis and challenge the overall strategy and direction of the business.

Q3049 Michelle Thomson: Clearly, they have a role in overarching corporate governance. The role of Lord Grabiner QC, then, he was a chair of TIL, AGL and Taveta 2. How often did he chair the meetings of those three companies?

Chris Harris: I cannot comment on all of them because I am not a director of all of them, but certainly he chairs the monthly board meeting of the Taveta Investments Limited board.

Q3050 Michelle Thomson: Only in some cases, but not when big decisions are to be made, such as the decision by the board on 25 June 2009 to consider and approve the acquisition of BHS or the approval of the sale to RAL on 10 March. Would you not ordinarily expect the chair of those three companies to be in attendance and to receive the papers?

Chris Harris: I can comment on the 10 March meeting because I was present. The other one I cannot. The 10 March meeting: in an ideal world, we would have invited Lord Grabiner to the meeting. To give you some background to it, it was towards the end of a very long transaction. It was a long day as well; we had been working pretty much around the clock to get the transaction to the place that we got it to. I think it was an evening meeting, from memory. It was 9.00 pm, 9.30 pm, something like that. We were discussing whether we should proceed and conclude the transaction at that meeting, and I think Brett Palos here was a non-exec present at that meeting as well.

Q3051 Chair: What was so important, so valuable, that you had to have a 9.30 pm meeting rather than a 9.30 am meeting the following day?

Chris Harris: I think we were discussing the proposal at that time, and the deal was due to be signed and conclude the next day in the morning, so we were keen to try to get a conclusion at that meeting. As Lord Grabiner has described previously, we were delegated the responsibility as a small subcommittee of the board to identify a potential purchaser and agree a sale of the business.

Q3052 Michelle Thomson: I am glad you brought that up. The subcommittee membership: Sir Philip, Mr Budge, yourself, Mr Harris, in fact Mr Palos as well. From the logs—

Paul Budge: Sorry. The subcommittee was Mr Harris, myself, Gillian Hague and Sir Philip. That was the subcommittee.

Q3053 Michelle Thomson: Thank you. In terms of the logs provided of the meetings, there is no evidence of that subcommittee meeting in the year before, or indeed before or at the time of the sale.

Chris Harris: There is no—

Q3054 Michelle Thomson: Evidence, in the logs we have had provided to date, of this subcommittee meeting. Do we just not have them, or is there further evidence that you did actually meet?

Paul Budge: The 29 January board meeting was where that subcommittee was appointed. All the directors around the table were totally aligned at wanting to find a solvent solution for British Home Stores.

Q3055 Michelle Thomson: This is 29 January, just before 11 March. It is not so far away, the setting up of the subcommittee.

Paul Budge: The subcommittee then worked literally daily from the time that the heads of terms were signed with RAL, which I think was 16 February. It almost worked 24-7 on this from 16 February to 11 March, when we signed it.

Q3056 Michelle Thomson: Any minutes from any of those meetings?

Paul Budge: There may have been no record that those people were constantly in meetings, sat together, working as a team with Sir Philip, working with RAL's advisers in terms of Grant Thornton and all the due diligence that was going on. Although no minutes will exist, those people were in constant dialogue and contact.

Q3057 Chair: Sorry to interrupt, Michelle. In terms of keeping non-exec directors up to speed with this, how did you do that during this lengthy, intense period?

Paul Budge: We are a small team. Lord Grabiner, for example, would be in relatively regular contact with both Ian Grabiner and I am sure Sir Philip in terms of verbal, but, again, going back to 29 January, the board was totally aligned to having the preferred solution, a solvent sale of BHS, to give it every chance of going forward as a going concern. Brett, you made comment on that, but we were totally aligned on that.

Brett Alexander Palos: Yes. I have not introduced myself and I have not been here before, so I am Brett Palos. I am a shareholder and a director in Thackeray Estates. I am also a non-paid, non-executive director of Taveta Investments. I am not a director of Arcadia or BHS or Taveta 2 and I have never been employed by any of those companies either. As a board, I think, going back to the beginning of the year, there was clear desire for that subcommittee to get on and find a solution to the sale of BHS as a going concern, and authority had been given to them at that point for that to be the understood case. They went ahead to deliver that task.

Q3058 Michelle Thomson: I just want to carry on and bottom out this governance consideration. Mr Palos, you are right, we have not had a chance to hear from you, but would you describe yourself as an independent non-exec?

Brett Alexander Palos: I was put on or asked to join the board of the holding company as it was seen prudent to have a second representative to the major shareholder. My role was—

Q3059 Michelle Thomson: Would you describe yourself as independent?

Brett Alexander Palos: I think I was there more as a monitor of the general health of the group, company, so that is what my role was.

Q3060 Chair: You are not independent?

Brett Alexander Palos: I am obviously there representing the shareholder, and making sure that the company was in good health.

Chair: That has answered the question.

Q3061 Michelle Thomson: You had financial skin in the game. I am struggling to understand this. Who were the people or where were the board decisions or the demonstrable board minutes where it happened that said, "No, Sir Philip, as the over-owner of absolutely everything that was going on"? Where were the people that stood up and said, "No, not happy" or reversed a decision at board level? Either non-exec, calling out, or exec.

Chris Harris: Sorry, I do not understand the question. Say that again.

Q3062 Michelle Thomson: To be clear, then, in terms of corporate governance, the normal course of events is indeed you have non-execs who are highly skilled, detail-conscious, extremely experienced, because they are the people that call out circumstances, whether it is related party transactions or not, and indeed you have execs who are often in there because they will stand up and be counted. What I am trying to understand is where, when or indeed were there ever the circumstances that anybody who was not brought into the company, who stood to financially gain from transactions, said, "No, Sir Philip, we will not do this", or indeed particularly at board level? Has that ever happened?

Paul Budge: Perhaps I can comment. I think we have Lord Grabiner. He has been on the board for a long time, and—

Q3063 Michelle Thomson: Yes, except, when he was on the board for a long time, he was not even made aware of the sale to RAL until the subsequent board meeting. He also professed he did not know the purpose of TIL and Taveta 2, the chair of the overarching board.

Paul Budge: If I can go back to the point, I think you will see it is demonstrated that since he has been involved with the company he has always chaired the monthly meetings, and you have seen him. He is a person of gravitas, and he will often disagree with Sir Philip if there are areas. 90% of the time it is great because people are aligned, but people do disagree sometimes. That has happened at board meetings. That has happened with people like Chris and myself with Sir Philip. It does happen.

Q3064 Chair: Give us an example, Mr Budge, of where Lord Grabiner has said, "You are doing this wrong, Sir Philip", and Sir Philip has changed his mind and altered course.

Paul Budge: Just trying to think of a recent—sorry, just in terms of healthy debate around—

Q3065 Chair: Good example. We have a great, healthy debate, a lot of different opinions are outlined, and then Sir Philip gets his way.

Paul Budge: Commercially, in terms of America, we have been expanding Topshop and Topman in America. We have about 10 stores. We also have a big presence with Nordstrom. There has been a lot of debate as to how

we should structure our US operation and, at times, Ian Grabiner, our chief executive, and Lord Grabiner, our chairman, have had a different view—indeed, I think, Baroness Brady as well—as to how we should go about that, and there has been a healthy debate in terms of that. That is a good example.

Q3066 Chair: There was a debate, but has the strategic direction and operational execution been changed as a result?

Paul Budge: The issue had been whether we should employ people in America like someone to run the country totally, as opposed to running it from the UK.

Q3067 Chair: I did not realise Sir Philip Green has had that influence with deciding who is going to run the United States.

Paul Budge: All joking aside, big decisions about how we are going to run that, in terms of should we have a full management team over there? Also, should we go faster? Should we go slower, in terms of expansion? On part of the board there is a view that we should go faster.

Q3068 Michelle Thomson: With all due respect, these are just decisions. I am not hearing any evidence, to be frank, of any corporate governance from a protection point of view that will stop things happening where you have strong board members, whether it is execs or non-exec, who will call things out. We have seen issues with that in RBS previously, where it was referred to as, “Sir Fred says”. Is this simply that Green is keen and you all fall into line and, critically, with cataclysmic outcomes in terms of BHS?

Chris Harris: No, it is not. It is not. It obviously makes a good story, and that is why you are asking the question, but no, it is not. Clearly, we are a board, and there are board decisions made. It is not a Sir Philip Green decision, it is a board decision, and that is the way that it is set up. I am struggling to think of examples because we are in this environment, but—

Q3069 Michelle Thomson: I will leave it there. If you can find in your evidence any example where a decision has been made by Sir Philip and the board has subsequently overwritten it, I would like to hear that or see it.

Paul Budge: One key debate, and I think it is relevant to this, is that there are people around the board table who have found it very difficult as to why the shareholder would continue to support BHS for so long. It was acquired in 2009. It started losing money 2010 onwards. There has been very much healthy debate around whether BHS business should continue to be supported. Philip has always been very keen and shareholders have been keen to do that. Others around the board table are saying, “We should not do this anymore”. It was losing money for many, many years. Again, a healthy debate was had on that, yes.

Q3070 Richard Graham: Gentlemen, can I come back to the issues of Taveta 2 Investments’ decision-making and so on? Chris Harris, you made a comment earlier that the role of the independent directors, the non-exec, was to challenge and question the decision-making and so on. Who was the secretary for the Taveta Investments board?

Chris Harris: Adam Goldman.

Q3071 Richard Graham: Did he take the minutes, circulate the paper and so on?

Chris Harris: Indeed.

Q3072 Richard Graham: How did he circulate notice of meetings?

Chris Harris: By e-mail and post.

Q3073 Richard Graham: Whenever there was a meeting of Taveta Investments, then all the directors would receive the same e-mail alerting them to the meeting?

Chris Harris: Yes. The meetings are planned out throughout the year so everyone can diarise them and make sure they can attend, and then the papers are sent out. In fact, we have one tomorrow, so the papers for tomorrow were sent out yesterday.

Q3074 Richard Graham: Lord Grabiner told us that the most important aspect of his role as chairman was to chair the meetings, and for that he received £125,000 a year, but that he received no notice at all of the meeting where the decision was taken by Taveta to sell your main asset, which was BHS. How could he not have received the papers? Was that because Adam Goldman did not circulate notice of the meeting or left him off the e-mail or there was a malfunction on his computer?

Chris Harris: As I said earlier, yes, in an ideal world, that is exactly what would have happened, and I understand and accept that that is the way it would happen. In the real world, when we are going through a transaction as we did, working around the clock to try to get to a conclusion, looking to sign the deal in the morning, we felt that we had a quorum of the board sat in the building at the time. We pulled everyone together. In fact, Brett was in the building at the time as well, so we called him as a non-exec and we discussed it. Because it was also quite a property-orientated decision to be made and, as you will hear shortly, Brett has some good experience in that area, we felt that it was helpful to have his input into that decision.

Q3075 Richard Graham: Who was there at the time where you decided that you had a quorum of Taveta Investment directors?

Chris Harris: Sorry, who was in the meeting? Sir Philip, Paul Budge, myself, Brett, and I believe Adam Goldman was there to take the minute.

Q3076 Richard Graham: At the earlier meeting on 29 January, where the board decided to appoint a sub-group to look at options for selling the business, was it also decided then that that sub-group could decide whom to sell it to without any reference to the board, that there would be no need for a formal board meeting?

Chris Harris: It was decided that we were delegated the task of trying to find a buyer who would take the business forward on an ongoing basis, and that is—

Q3077 Richard Graham: That is not quite the same thing, is it? My question was: was it agreed to delegate the decision to sell the business to the sub-group?

Chris Harris: I cannot recall exactly.

Q3078 Richard Graham: Mr Budge, do you remember?

Paul Budge: The board were very clear that they wanted to find a solvent solution in terms of someone who would take this business forward and would run it as a going concern.

Q3079 Richard Graham: Yes, but did it formally delegate the decision to sell the business and the decision ultimately to decide whether the new buyer was someone who could take the business forward and whether it would be solvent and so on to the sub-group?

Paul Budge: My understanding was that sub-group was given total authority to find a suitable buyer in terms of—

Q3080 Richard Graham: And sell the business without reference to the main board?

Paul Budge: That sub-group had that power, the executive directors.

Q3081 Richard Graham: The sub-group had that power, so there was no need for Lord Grabiner, in fact, in terms of chairing the meetings or playing a role in Taveta Investments. He had delegated the authority, had he, formally to the sub-group to make that decision entirely for themselves?

Chris Harris: As I keep saying, I think in an ideal world we would have had Lord Grabiner at that meeting.

Q3082 Richard Graham: Mr Harris, forget the ideal world. What we are interested in is how the decision was made and who took it.

Chris Harris: I think we have explained that.

Q3083 Richard Graham: Neither of you have quite confirmed what the Taveta Investments last board meeting before the sale of the company was in terms of the authority given to the sub-group.

Paul Budge: Clearly, to find a buyer that would run it as a going concern, which we found. The board knew that there were a number of parties interested. As I said previously when I came here, there were six people who came forward. Four would have put it into an immediate insolvency situation. One came forward who was not going to be credible to run it. RAL, with the benefit of hindsight, sadly, an army of advisers around them in terms of looking at a very credible organisation, with a business plan, which, given enough cash in terms of the £94 million, the £119 million of unencumbered assets, had a chance of doing it, and I think—

Richard Graham: Thank you.

Chair: I am conscious of time.

Q3084 Richard Graham: Exactly. That is why I am trying to focus on the questions. Just to be clear, there is no formal record of Taveta Investments

having delegated the decision to sell the business to a sub-group. The sub-group did not keep minutes of their decisions. Therefore, there is no formal assessment of whether the buyer was appropriate, the business was solvent or the business would be taken forward, and the rest of the board were presented with a fait accompli, or were there telephone conversations and meetings going on with Lord Grabiner so that he knew who you had decided to sell it to and was comfortable with that beforehand? Which of those two?

Brett Alexander Palos: From my recollection—as I am not as daily involved as everybody else, because obviously I am not there as often and I am not involved in the disposal or sale of BHS—it was very clear that the most relevant people in the executive team on the board were definitely given a task to go and find a solution to sell BHS as a going concern. Therefore, I think at that point—

Q3085 Richard Graham: The chairman did not need to be involved in the decision.

Brett Alexander Palos: The chairman was very involved in that decision at that time. These are the people that were going to go and do the job, and there was not going to be a board member that would not have supported their decision. We had chosen them to find a solution.

Q3086 Richard Graham: Why do you say there would not have been a board member who would not have supported that decision?

Brett Alexander Palos: Whether it was me as a non-executive that night for the quorum or somebody else, the same decision would have been made and ratified.

Q3087 Richard Graham: Everybody would agree?

Brett Alexander Palos: They found the solution and they—

Q3088 Richard Graham: Why would everyone have agreed?

Chair: Richard, I am conscious of time.

Q3089 Craig Mackinlay: Mr Budge, you seem to be involved with the whole Taveta, Taveta 2, the Arcadia Group. You are very much at the core for a very long time on all of this transactional flow. I wonder if you could help out perhaps the public's perception—and it might help mine—of the number of coincidences that have happened throughout this story. We had Robin Saunders and Paul Sutton sharing an office space in London, and that is how they apparently met. You had Paul Sutton living in the same block, I understand, with Sir Philip Green some years ago, of which they may have nodded in the corridor from time to time or said hello across different restaurant tables. We then have Paul Sutton meeting Mr Chappell at a development down on the south coast. Dominic Chappell then starts driving for him.

Then, on the other hand, we have a slightly obscure funding company called ACE with the Dellals, with which Sir Philip Green had a relationship with some years ago. We understand that Dominic Chappell, with Lennart Henningson, was related through a cousin of an aunty of an in-law. As I say, a fairly obscure company. Then, lo and behold, £35 million from this company, the ACE Group, ends up with Olswang, which gives everybody every confidence,

whereby, the day after, they are going to extract a big profit out of it. I think I could have approached anybody and got that £35 million quite simply. How do you think the public is going to perceive those very strangely coincidences happening all over the place? I know London is not a big place, but it is pretty big. I am very sorry, but I am starting to think that a lot of this transactional flow is rather more like Terry McCann and Arthur Daley meeting at the Winchester Club and coming up with a deal.

Paul Budge: Let us go back to where we started this morning. We were cautious about Dominic Chappell and RAL. We asked Goldman's to vet them for us. That is why we sent them to Goldman's in the first place. That is very clear in terms of the background. In terms of the coincidences, yes, strange, I agree, but there is no doubt in my mind we sent RAL to Goldman's, as I said earlier. "Are they credible? Do they have funding? Are they people that we should do business with?" We were cautious. We sent them to Goldman's.

Q3090 Chair: Goldman's let them down, did they not?

Paul Budge: With the benefit of hindsight, Mr Wright, I think we have let ourselves down and Goldman's have let us down. Grant Thornton, Olswang: where do we go? Mr Tasker, Mr Bourne. A number of people. Alan Jacobs. How many people have been involved in this process, please?

Q3091 Richard Fuller: One person responsible, is it not? The owner of the business that let it go. You can blame everyone else but in the end it is her responsibility, is it not?

Paul Budge: I think it is a very difficult set of circumstances. We did not want to be where we are now.

Q3092 Richard Fuller: You are finger-pointing again, are you not? Is that not the core of capitalism, that we endow people with this enormous power, very wealthy people to run businesses upon which the livelihoods of thousands of people belong, and when something goes wrong, that person should be held to account? Should that not ultimately be the shareholder of that company?

Chris Harris: I think the board of Taveta took the decision to sell the business to RAL, and—

Richard Graham: The board of Taveta were not there. It was the sub-group that made the decision to sell the business. It was not the board meeting.

Q3093 Chair: Who is to blame for the debacle that has happened with regards to BHS, with the 11,000 people going to lose their jobs, and 22,500 pensioners seeing their pension entitlements reduced? Who is to blame?

Paul Budge: My view is that there a number of people to blame. It is a very sad thing that has happened. We can only apologise to the employees and want to sort out the pension, but, as you have heard this story unfold over the past any number of weeks, there are a number of people. If we had the benefit of hindsight and could do things differently, of course we would.

Q3094 Frank Field: Lyndon Johnson said, "The buck stops on my desk". Mr Budge, surely the buck stops on Sir Philip and Lady Green's desk, does it not? Throughout all our evidence, they are the people that have determined what

goes on, and although Sir Philip came and pointed at everybody by saying he was not pointing at everybody, the buck stops with him, does it not?

Paul Budge: At the end of the day, Mr Field, we gave this business enough dowry and enough unencumbered assets. It had a business plan that—you have heard from credible individuals like Michael Hitchcock, like Darren Topp—if it were done quickly enough, we would not be here today. I honestly still believe that. You heard Mr Sherwood earlier. I think you asked regarding Mr Chappell, and could it have happened? If it had been done more quickly, it could have happened, even with Mr Chappell and RAL in charge. I honestly believe that. As I go back, I think one of the first things I said today was, “Step 1, go to the landlords. We want some rental reductions”.

Q3095 Richard Fuller: Mr Budge, before you go on again, there are people who run big businesses around this country who would be holding their heads in their hands, because you are here to stand up for the thing that they put their lives into, which is the free market, into business, into growing and innovating and employing people, giving people incomes, and securing people when they leave their companies, and you are asked a straight question by the Chairman of the Work and Pensions Committee about where the buck stops. There is a clear answer, and you are not prepared to give it, are you?

Paul Budge: There are many people involved in this. Sorry. You have seen this over n weeks in terms of Olswang, Grant Thornton, giving advice to RAL. There are a number of people.

Q3096 Frank Field: Mr Budge, we know all of that, and we know they took fat fees, and we will be reflecting this in our report, but if you look at it, probably at a minimum, £1.6 billion was taken out of BHS and Arcadia, maybe £2.6 billion, and it went up to Lady Green. Surely, she and her husband are where the buck stops. They were the beneficiaries. It is all very well to say, “We left a dowry for BHS” and so on. You have seen the reports. That idea of how much money was there has just been ripped to shreds by one of our members.

Paul Budge: I do not accept that.

Q3097 Frank Field: It was smoke and mirrors.

Paul Budge: Mr Field, for the record, I do not accept that. There was £80.6 million worth of cash going into that business in short order after completion and £119 million of unencumbered assets.

Frank Field: Unfortunately, Jeremy is not here to undertake that inquiry again.

Q3098 Richard Graham: Chairman, regardless, what we have heard comprehensively—and we heard it again from Mark Sherwood this morning—is that when they were trying to do the deals on the properties, time and time again the same question came up, which was, “What about the pension scheme?” The original proposal, which you were discussing with Paul Sutton, was that the sale of BHS would be free of the pension scheme, and that happened again in talks with Dominic Chappell. Eventually, when the business was sold, the pension scheme with its £570-odd million deficit went with the business. At that stage it was inevitable—because you never saw clearance from the Pensions Regulator—that it would trigger a section 71 inquiry the very next

day after the business was sold. Thereafter, do you really think it would have been possible to have solved the problem with that pension scheme deficit hanging there? Why wasn't the pension scheme solved earlier, and why was it sold with the pension scheme despite the many claims by Sir Philip that he wanted to sort the pension scheme problem?

Paul Budge: I have no doubt that in the 4 March meeting everybody wanted—Chris, you were there—from the Arcadia side to sort that pension scheme out.

Q3099 Frank Field: It has not been sorted out, has it? It is quite easy to do it. A huge amount of money has gone out of these companies, gone to one family. That family could sort the pension out now if it wished to. It just has to come up with some money, money it has already taken out fivefold, this sum, from these companies. Literally, Mr Budge, we have heard evidence that if it was in a novel, you would get the novel thrown back at you by the publisher because it was unrealisable. It is clearly going to be made a film, the evidence that we have had. It is preposterous, what has been presented to us as joint committees, and we are left with 11,000 people's jobs being destroyed, despite all the protestation that they are the most important people in the world to Sir Philip, and 20,000 people either on their pensions now, who have suffered cuts on very modest income, or will suffer cuts in the long run.

If Sir Philip was here, we could today settle the pension issue. We are fed up with hearing, "I am about to fix it". He does not fix it. What is required is a very large cheque from the Green family, who have done so well out of the whole of this exploitation. As the Member for Bedford put it, the City is furious with your behaviour, the image you put over that everybody in business is not about creating jobs, about spreading wealth, but about nicking money off other people. That is what we have seen, and we have left very vulnerable pensioners and very vulnerable people to try to find a job in the labour market. Sir Philip could fix it today if he were serious.

Chair: Or could he not? Is he not able to write a big enough cheque?

Frank Field: Does he not have the money?

Paul Budge: I think Mr Kahn was here yesterday, and I am not going to comment any further than him. Work in progress. There was a meeting. Chris, you and I were there with the pension regulator on Monday. I am sure if Sir Philip has said he was going to fix this, he will fix it. There is work in progress with the pension regulator, but I am not going to say any further than that because it is not right.

Q3100 Frank Field: You are quite right to cite Deloitte, but we had to shoehorn out of him that he was actually at the meeting, that he may have been instrumental. We have had nothing but people coming here, trying to disguise what has really gone on. That is the truth of it, is it not? You are past masters at this, and there are a lot of vulnerable people—

Chris Harris: Mr Field, I do not think that is right, and I do not think we should be asked to sit here and take that sort of comment. We have been asked to come back here a second time. We are here. We are giving you the evidence in our honest opinion. I think that that is disrespectful, what you have just said to us.

Q3101 Frank Field: I am giving you a reflection on listening to and reading the evidence. You are stretching incredulity to the point—

Chris Harris: What, our evidence?

Q3102 Frank Field: Yes, absolutely.

Chris Harris: You think that we have been incorrect in the evidence that we have given?

Q3103 Frank Field: I think all along we have to shoehorn things out of you. We have had this morning—

Chris Harris: That is not true. We have been very open all the way through this process.

Q3104 Chair: Gentlemen, can I move on? There is a lot to discuss. I am going to give you one last opportunity because I do think it is important. I do realise that hindsight can be a luxurious thing, but in terms of where the buck stopped, in terms of who is responsible in terms of the debacle of the sale and acquisition of BHS, I will give you one last chance. Who is it? Is it Sir Philip Green?

Paul Budge: Mr Wright, I have said it previously. There are a number of people involved, all culpable in this. We are all involved in this. Olswang, Grant Thornton, Goldman Sachs, the Taveta board. It is a very, very, very sad thing that has happened. What we must do is take learnings from it, and, Mr Field, I must come back to when I was here last time. The saddest thing for me, and it is a very sad thing: on 4 March, I have no doubt—I have been in business a long time—that we were wanting to sort the pensions situation out.

Q3105 Frank Field: You have not.

Chris Harris: I am afraid that the way the pension regulation is set up—not their fault, but if it were set up in a different way, we would not be here. I think that is important.

Chair: I am very conscious of time.

Q3106 Amanda Milling: Good morning, gentlemen. Actually, afternoon, again. First of all, Mr Palos, I have a few questions for yourself. You described your role with Taveta Investments earlier on. I was just interested to understand whether you were involved in any meetings in terms of the sale of the Ealing property.

Brett Alexander Palos: No. There was a board meeting where I think the only time Ealing was mentioned was when the sale that Mr Harris was negotiating had fallen through, and I think that was in January.

Q3107 Amanda Milling: Mr Harris, can you give us a bit of clarity? Just walk us through the sale of the Ealing property and the timeframes, just for my benefit, then I will go back in some more detail.

Chris Harris: Sure. At around the time of the sale of BHS, we were keen to leave as much cash as possible on the balance sheet. Therefore, we looked to see whether there were any assets specifically that we could sell or liquidate in

order to leave that cash on the balance sheet. Ealing was a property that we had identified and in fact had been looking at since November 2013 as a possibility to do some form of redevelopment. One of my team engaged with a property company called Centros, and we instructed Centros to produce a report for us on the different redevelopment options for that building. That consisted of meeting with Ealing Council. It consisted of running a number of different redevelopment scenarios for the building, such as hotel, leisure, residential and so on. One of those scenarios, the residential one, threw out of a value of £6 million for the property. Without that redevelopment, they valued the property at £2.5 million.

The report came back from Centros. In fact, I have it here. Just because it is a weighty document, I am going to show you the diligence that we have been through on it. The report came back in around April or May time of 2014, and I then discussed with a number of parties the possibility of doing some sort of joint venture to redevelop the building. At that time, I had had a conversation—I cannot remember specifically when—with Brett about whether there was a possibility of us working together more generally to do some sort of JV on some of the assets that we had.

Anyway, the conversations were slow to progress, but I spoke to a number of parties, including Brett, over the summer period, and drew the conclusion that because of the cost of redevelopment—it was circa £35 million, something like that—versus the low return on the redevelopment, we decided that we would try to sell it. I had again a member of my team approach a number of people that we had dealt with previously to see if they were prepared to buy it, and, yes, we had it under offer I want to say at the end of 2014 to a buyer. We were trying to get a very quick sale because the buyer that we were familiar with—we had done business with them before—had a reputation for touting the property around the market and forward-selling before they bought. Therefore, we were keen to try to get it exchanged as quickly as possible.

That deal fell through. I had a brief conversation again with Brett. This must be around late 2014, so just before Christmas, about again possibly doing a JV, but, for the reasons I said before, decided not to do that. Then the purchaser that had fallen out came back in January 2015, again made an offer for the property, which I was not keen to move forward with, primarily because they had messed us around previously. Then we got into the transaction for the sale of BHS.

As we came into February 2015, we approached a number of parties about possibly buying, with the redevelopment opportunity, the Ealing store. We received another offer at £7.25 million, and at around that time I had a conversation with a guy called Antony Alberti, who works at the Thackeray Estates, about whether they wanted to buy the asset, because they had been looking at doing a JV on it. I agreed a price with Antony of £7 million, and I think it was on Sunday. I was looking at my notes. I think it was something like 22 February, that sort of date, and said it needed to happen very quickly and we wanted the cash in the business because it formed part of the larger sale of BHS. We agreed £7 million, and I also agreed with him that BHS would take a one-year lease back at no rent. The rental value was about £350,000 a year. BHS leased it back for a year, paying no rent, and continue there to that day on that basis, as I understand.

We were trying to exchange within about three days, and I think in one of those days Antony had an asbestos surveyor go round. We knew there was

asbestos in the building, we had been clear on that, and they went around and found out that there was significant asbestos in the building, about £250,000 to remove it. I agreed with Antony that we would reduce the price to £6.9 million in compensation for that.

Just before exchange, on the Monday or Tuesday—I think we exchanged on the Wednesday—I e-mailed Dominic Chappell to say, “This is the price, £6.9 million, and the buyer is Thackeray Estates”, and was he comfortable that we were selling the property at that price? He referred the e-mail to Mark Sherwood, who you saw earlier. I recall having a conversation with Mark about the deal and the history and this document. He came back to me either later that day or the next day and confirmed he was happy with the price, and I think his exact words in his e-mail were he thought Thackeray Estates were “pretty solid”.

The reason, which I have not really mentioned, of going to Antony and to Thackeray Estates is that I was keen to make sure this deal actually happened this time and we got the cash on the balance sheet, given how important it was as part of the overall sale of BHS. That is what we did, and it completed on 6 March.

Q3108 Amanda Milling: Yes. You had another purchaser in February, offering £7.25 million.

Chris Harris: Yes, who had messed me around previously, which is why I did not go with them.

Q3109 Amanda Milling: Then you approached Thackeray to say, “Are you interested?” You had that conversation again.

Chris Harris: Correct.

Q3110 Chair: You do not feel there was a potential conflict of interest there?

Chris Harris: What I am seeking to do is go to a purchaser who is known to us, a purchaser who I know will perform, and a purchaser who will get the cash on the balance sheet in a short period of time. Those were the actions I took.

Q3111 Amanda Milling: Yes. Who was involved in the decision to sell the property?

Chris Harris: Ealing? Who was involved in the decision?

Amanda Milling: Yes.

Chris Harris: I carried out the negotiations with Antony Alberti.

Q3112 Amanda Milling: Was anybody else involved? Was anybody else signing this off?

Chris Harris: Sorry, so who signed off the deal?

Amanda Milling: Yes.

Chris Harris: Myself and Ian Grabiner, our chief executive.

Q3113 Amanda Milling: Given this potential conflict, and we heard earlier on you were talking about the other sale and your involvement both from

an Arcadia perspective and also Sir Philip Green's perspective, I am still confused about whose interests you were actually—

Chris Harris: I was acting on behalf of BHS to sell the property to get the cash on the balance sheet, is what I was doing.

Q3114 Amanda Milling: You said that you were doing the report; that was back in November 2013. You had these two figures. When did you have the most recent valuation in terms of this sale of that property, Ealing?

Chris Harris: This report was produced in April 2014.

Q3115 Amanda Milling: You sold it in February the following year.

Chris Harris: 2015. Yes.

Q3116 Amanda Milling: How are you judging the value of that property?

Chris Harris: Partly by this report, partly by our experience in the market, and partly by the offers that we had already received.

Q3117 Amanda Milling: Again, is this not a case where you typically get a formal valuation before making a sale?

Chris Harris: Again, we have the knowledge of the building and we have the knowledge of the estate. We have had quite significant due diligence carried out on the property. We have had meetings with Ealing Council to understand what might and might not be possible. We have formed a view of what we think the property is worth.

Q3118 Chair: You did not appreciate the £250,000 worth of asbestos that needed to be remedied.

Chris Harris: We knew there was asbestos in the building. I guess we did not understand the extent of it until we got into that stage.

Q3119 Amanda Milling: Maybe it is with the benefit of hindsight. Given the different relationships between the organisations and the individuals involved in terms of Taveta Investment, would a formal valuation not have been a sensible, credible thing to do?

Brett Alexander Palos: Maybe I can interject just to give you a bit of the history from my side of things.

Amanda Milling: Yes, that would be probably very helpful.

Brett Alexander Palos: Chris said, he approached me at the beginning of 2004 and said, "We have a few things that we might be looking to either redevelop or come out of". He knew I was involved with a business called Thackeray Estates, where I am a shareholder and a director. That company, just to put it into perspective, basically seeks to find sites or buildings that are in need of either redevelopment, repositioning, through active asset management or planning or knock down, rebuild, complete redesign. It does that and it bids for things like this probably twice, three times a week, so it is a very typical transaction or a very typical building for Thackeray Estates to be somehow involved in. Thackeray Estates is very active. It has probably 0.25 million square feet under review, design and development currently in the market. It is very

busy doing this all day. It is quite natural for Chris to possibly ask me if I have an opinion on this site.

Q3120 Amanda Milling: But can you understand why I think there is a conflict of interest here?

Brett Alexander Palos: No. At the time he was asking me as—I am not a director of BHS, I am not on the board of BHS, I am not involved in the BHS decisions on its property portfolio. It was, literally, a piece of advice from a non-executive director and somebody who knew him to say, “Do you think this is a sensible approach to this building?”

Q3121 Chair: Do you not think this is a bit too close to home?

Brett Alexander Palos: No. No, I don’t think the decision to sell Ealing or the decision that Chris was making to sell Ealing was in any way influenced by me or any other buildings that he may or may—

Q3122 Chair: But who made that decision? Who was the decision-maker in respect of we are going to sell Ealing because, Chris, you mentioned a very interesting phrase, which is you conducted the negotiations but you did not make that decision, did you?

Chris Harris: Yes, yes.

Chair: You made the decision to sell the Ealing—

Chris Harris: Yes, if you would like clarification.

Brett Alexander Palos: Okay. If I then take you forward from there, I shared the site’s information with the team at Thackeray. I do not work in the Thackeray office but I am pretty hands-on in that business. They had a look at it. They came up with a thought that it could be a residentially-led mixed-use development, rather than just a retail shop. They thought you could put some leisure downstairs, a new retail store on the ground floor and possibly develop some residential upstairs, subject to obviously planning because planning is a big tick in the box that you need to go and do these things. We spoke a little bit briefly about it with Chris but Chris then had an offer from the market and decided he was selling the store and I suggested he go ahead. That was the end of the conversation until such time as we reengaged in January or February.

Okay, at that point Chris came back and said—he went directly back to Thackeray Estates. He had an independent relationship at this point with them after the conversations around a joint venture. He asked them whether they would want to buy the building outright, rather than be involved in a joint venture to redevelop the building. Thackeray Estates does what it does whenever it is looking at any transaction or do an appraisal. That appraisal will generally start by looking at or what we believe we might be able to build on the site and then working back with risks and costs associated and holding time to do a valuation price. We would value that internally, like we would do every bid that we put out. Like I said, two or three bids like this a week and that throughout a number of—

Q3123 Amanda Milling: Did you have a formal valuation on this property?

Brett Alexander Palos: I do, yes, but that came just after the purchase.

Q3124 Amanda Milling: Did you have a formal valuation at a time when you were buying the property because, I am sorry, it is not—

Brett Alexander Palos: Just to go over it again, Thackeray Estates buys things all the time. We form our own opinion of value, based on what we are going to do. We buy things based on what it is worth in the market on that day. If we are using a bank and there is time in between the bank will do a valuation because the bank is who lends us the money. The bank will do its own independent valuation of the site. We will then draw down against that loan in order to help us purchase the sites but we do not do the valuation. The bank chooses a valuer from their panel and they do the valuation. I have a copy of that valuation here.

Amanda Milling: You have a valuation from the bank but you did not receive until—

Brett Alexander Palos: Yes, independent valuation from the bank who we were going to be using for the finance, that Thackeray would be using for the finance of £7 million.

Amanda Milling: But you got it after the purchase.

Brett Alexander Palos: Yes, correct. That is normal.

Chris Harris: That is quite normal. That is quite normal to do. I know you are looking puzzled but that is quite a usual thing to do.

Brett Alexander Palos: The Thackeray Estates were buying the site with the intention for about a three to five-year redevelopment of that site and maybe a year or year and a half to get planning, construction, sales, so on and so forth. That is what the business model was. You would go off to the bank and you say, "This is what I am going to be doing with the site. Here is my appraisal. This is the type of money I am going to need". They send a valuer in. They choose the valuer and we are not partial to that. They produce a valuation. On 24 March, around two weeks after we bought it, Colliers produced a valuation over that site and that then opens the negotiations on what we can draw down against our banking facilities to progress with the long-term development of that site.

Q3125 Amanda Milling: You sold it four months later.

Brett Alexander Palos: Yes, I sold it in June 2015, correct.

Amanda Milling: For £10 million.

Brett Alexander Palos: That is correct.

Amanda Milling: That is quite something in four months.

Brett Alexander Palos: Again, I am happy to walk you through what happened from the date of purchase. In February we exchanged on the property. Like I said, we put together a full professional team to go ahead and try to study what the development plans for that property would be. That included architects, structural people, planning consultants, designers, rights of light consultants, surveyors and obviously the bank. The team then went off to MIPIM, which is a property conference that was going on at that point in time. We had brief conversations with Ealing Council around what our appraised vision for the site would have been. The Council seemed accepting and we were not

doing anything that they thought was completely insane, which sometimes you can get that reaction straightaway should I have wanted to put a cinema on the corner or something that they did not want, but they seemed to want housing so that was good.

At the show I would imagine the team met lots and lots of people and discussed—we have lots and lots of different holdings, it is not just Ealing, and lots of transactions and lots of information happen around that festival. The team went back to London and got on with their plans to redevelop the building and started to get their consents together. Obviously we have had a 72 notice from the regulator on this and so far we have provided them with about 850 documents on the development plans alone that were going on within Thackeray Estates for the Ealing site during the period of time that we were in contact with it. We had lots and lots of approaches from lots and lots of people, as is normal. The whole road became available for sale. Somebody bid £100 million to try to buy the whole street and then tried to include our site at that point and I think a £5 million valuation. We obviously said, no, we were not interested, we were getting on with our own plans.

Q3126 Frank Field: Brett, did you buy any properties from BHS on which you lost money?

Brett Alexander Palos: I have never bought any properties from BHS.

Frank Field: It would have been, which we would consider, part of the empire because this was a BHS shop, was it not?

Brett Alexander Palos: Yes.

Frank Field: I know there is all this business moving things around.

Brett Alexander Palos: Yes. I have never had any other dealings with BHS. I am sure Chris can confirm that for you.

Frank Field: This is the only one you have—

Brett Alexander Palos: This is the only one that Thackeray Estates happened to buy as a company that I have invested in.

Frank Field: Make the profits and—

Brett Alexander Palos: Going forward, we were fully engaged with the bank, fully engaged with all our consultants. We were working towards a plan. We had a plan that I can share the appraisals with you, if you like reading that sort of thing but it was based on around a 35,000 square foot scheme of residential, leisure and retail. We were talking to different people, supermarkets and so on and so forth about who we thought may be able to take the store. In the meantime, obviously, BHS were still there because they had a year's rent free in our negotiation with them. We were approached again by several housing associations and other people who tried to do joint ventures with us on the top floor. All of this is normal. This will be going on in any building within—

Amanda Milling: I get that but—

Brett Alexander Palos: We are approached daily in the market on everything that a proxy company owns. The market is very in touch with each other. The ending came when Strutt & Parker walked into the Thackeray offices suggesting that they had a buyer. They had a buyer that was looking for a site in Ealing. They had recently disposed of a site in Ealing and they wanted to

redeploy the capital and go through the motions of planning consents that they had recently achieved in Ealing and they would like to talk to us. Strutt & Parker are very well known to the sales director over at Thackeray Estates. He used to work for Strutt & Parker, so the connection was quite easily made. He took over those conversations. He conversed with them for around a month I think, shared some business plans and they ended up making an unsolicited approach.

Q3127 Amanda Milling: But can I just make an observation? You did all of this in the space of four months, yes?

Brett Alexander Palos: Yes.

Amanda Milling: From purchase to then to selling the property on.

Brett Alexander Palos: Yes.

Amanda Milling: There is quite a lot going on. Chris, you mentioned earlier on that you had had the first report in November 2013.

Chris Harris: No, April 2014.

Amanda Milling: Sorry, April 2014 but you started the process in November 2013, so that is 18 months. These guys managed to do all of this in four months and to make a profit of—

Brett Alexander Palos: We are a property development and investment company; that is what we do. We do not do anything other than property and development and investment. We build residential, we build commercial, we build all sorts of things. That is a very different business model to Chris.

Amanda Milling: But you were looking at joint ventures.

Chris Harris: We were considering joint venture, going with different parties. We were considering different sales with different parties. Yes, over that period of time we considered a number of different things.

Amanda Milling: You can understand where I am coming from in terms of you are trying to create some cash with this. For me, I am looking at going and get everything you could and these guys took, in four months, just over £3 million.

Q3128 Frank Field: That is why The Pensions Regulator is so interested in this too, is it not, sending for these documents?

Brett Alexander Palos: We complied completely with the regulator with regards to all of its requests with that happened from our ownership of the building. All I can say is that at the time—

Frank Field: Brett, I am not disputing it. All I am saying is, is for obvious reasons The Pensions Regulator is interested in this, is it not?

Brett Alexander Palos: All I can say is that at the time of the sale that Mr Harris made to Thackeray Estates of the building when the decision was taken Ealing was for sale, there were other offers at the same level or below that or maybe slightly above in terms of cash. But ours was definitely the best in terms of value because it offered the year's rent free. There was a valuation done 10 days later by an independent bank showing £7 million was the valuation. There was our internal appraisal done at the time, which I rely on completely because they do this all day, every day and they are professionals, at

£7 million. There was Vail Williams—who are property experts, who were referred to and requested to look at the transaction to see whether they agreed with it—who also valued it at £7 million.

Frank Field: I am keen to move on. Before I do so, just very—

Brett Alexander Palos: I just want to make the point, I think at the time of purchase that was the value of the item that was sold.

Q3129 Frank Field: Just two questions to you, Chris, if I may. No, can I just say this, please? Two questions to you, the decision to sell Ealing was yours: did you go to the board to seek approval for that?

Chris Harris: Did we have a formal board meeting? No.

Q3130 Frank Field: What engagement, in terms of the decision, did Philip Green have?

Chris Harris: Philip was aware of the buyer and the price.

Frank Field: At what point?

Chris Harris: At the time I had agreed.

Frank Field: Right, okay, thank you.

Richard Graham: Two questions, if I might—

Chris Harris: We have left that and we have not given the full facts here. Can I just have 30 seconds to say that the reason that the value has jumped from £7 million to £10 million, which nobody has asked but I think is important, is because that the assumptions that we have and that Brett was working on was on a planning consent to build 100 flats? The purchaser that bought it from Brett for £10 million had an assumption that he could get a much greater planning consent. I believe, I do not know for certain—

Brett Alexander Palos: He was very experienced in counter—as I said, he had just recently sold, which is why Strutt & Parker were instructed to come and talk to us because they knew we had another site that might be suitable for them. But he had recently gone through the process. He had recently got planning consent and he had recently sold to a housing association. He knew exactly the values and he was very bullish about what he could get on the site.

Q3131 Frank Field: But the interesting thing for us, Chris, was not this but that there was no formal meeting. There was an informal meeting and Sir Philip Green was clearly a key player in the—

Chris Harris: No, I did not say that. You are making this up now, I did not say that, did I? What I said was that I decided to sell the Ealing store. I decided not to negotiate with Thackeray Estates. I agreed a price with Thackeray Estates. I went through our normal process for approving a property sale, which is a sign-off with our chief exec. I notified others on the board, so Paul was aware. I notified Sir Philip, as I would normally do. We have agreed a price. We have agreed that the buyer is this. He was aware of that but he was not part of that decision-making process. He was aware and I was keeping him informed of what we were doing. I do not think it is right to keep referencing back to it was Sir Philip that was making the decision because he was not.



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Q3132 Frank Field: Right. If he had told you no, would it have gone ahead?

Chris Harris: If he had told me no, I guess we would have had a further conversation.

Frank Field: Might even having a formal board meeting where there would be minutes that we could ask for.

Chris Harris: Possibly.

Q3133 Richard Graham: First of all, can I thank Paul Budge and Chris Harris, both of you, for coming back to take questions? I appreciate this is not the most pleasurable activity for you both. Our role is simply to try to work out exactly what happened. That is all it is, as far as I am concerned.

Chris Harris: I will say—for what it is worth and it is probably not worth a lot—I think there are probably better ways of doing it.

Richard Graham: Paul Budge, just to go back to the decision-making on the sale of BHS from Taveta Investments, when you came back for a formal board meeting at Taveta Investments after the sale to RAL had been decided, effectively for the rubber stamping by the board, did Lord Grabiner at that stage ask any questions about the buyer and their suitability or viability or did he already know enough about the buyer not to need to ask? What was your sense of that meeting?

Paul Budge: Sorry, which meeting are you referring to? Is that 16 March one because I think we had a 16 March Taveta Investments 2 board meeting? Lord Grabiner, Adam Goldman and myself met at his chambers and that was a formal sign-off by Taveta Investments 2 of the sale.

Richard Graham: Right. That was the one where the sale was rubber stamped by Taveta Investments.

Paul Budge: That is right. Taveta Investments being the main shareholder in Taveta 2, there would be no reason not to have that done. Then we had the Taveta board meeting that I recall it is probably the last week in March where everybody was brought up to speed and the Committee have probably seen the papers. That talked through the dowry that was given in terms of the £94 million, £69 million cash and £25 million facility. The properties are guaranteed, which, if I recall, there are £110 million worth of properties. Literally, the whole detail was given at that board meeting. That was the formal report back to non-executives.

Q3134 Richard Graham: Right, thank you. In the first meeting in Lord Grabiner's office, that was the first time that he knew that BHS was sold and the first time that he knew about RAL, was it?

Paul Budge: He would verbally have known about that before but that is the first time formally.

Q3135 Richard Graham: Right. At that meeting, did he raise any questions about RAL's suitability or viability?

Paul Budge: To be honest, I do not think we even went—other than we are selling it to RAL. We had given a brief idea of what was the deal at the end of the day, the £94 million, the guarantees.

Q3136 Richard Graham: Okay, but there are no questions basically. He did not raise any questions.

Paul Budge: No. To be fair to Lord Grabiner, we know that we are going to have then the formal board meeting at the end of the month, which we—

Richard Graham: All right. Let's move to the formal meeting at the end of the month then.

Paul Budge: Also, to be clear, Taveta Investments 2—because Taveta is the main shareholder—there would be no reason not to endorse the sale for that particular board.

Q3137 Richard Graham: All right. Let's move to the formal meeting at the end of the month then where you have laid out some of the things that were covered. You did not mention the pension scheme at all, what was said about that?

Paul Budge: At that board meeting the pension scheme, to be clear, that the 4 March meeting had not gone well with the regulator, that there was a desire to have some kind of four-type proposal to sort out the pension scheme. But in the meantime, as part of the deal, Arcadia was still to pay £5 million per annum into the pension scheme for the next three years. RAL—

Q3138 Richard Graham: Where did that figure come from?

Paul Budge: Half of £10 million in terms, RAL were to pay the other £5 million.

Q3139 Richard Graham: Right, but how did that relate to the problems of the pension scheme? What was that going to solve?

Paul Budge: It was going to make sure there are contributions going into the scheme going forward.

Richard Graham: But the contributions, the scheme at this stage was already closed, both to new members and to the pool of existing members.

Paul Budge: They were the current triannual valuation contributions. I think 2012 had £10 million per annum as the contribution.

Richard Graham: Right, but it was not going to—

Chair: Richard, this is not two questions. We are going to give you one final question and then we will have to move on.

Paul Budge: Sorry, Richard, the other problem, the other key thing was £40 million fixed and floating charge was to be put forward, as I mentioned previously, to the benefit pension scheme.

Q3140 Richard Graham: Chairman, can we invite Mr Budge to write to the Committee and lay out the time process of when he and Philip Green first started discussing the pension scheme? What happened during the 2006 talks with Paternoster and why those did not come to fruition? At what stage Mr

Budge had discussions with Golden Sachs about their plans to resolve the pension scheme deficit much later on? At which stage did he and Philip Green together attend the trustees' meeting?

Chair: Mr Budge, we can all liaise as a Committee and write to you on that. Mr Budge, I am very conscious, I am sure you will want to get away.

Paul Budge: It would be good.

Q3141 Amanda Solloway: The final question, just coming back to something you said earlier that was about you wanted to have a solvent solution to take BHS forward. Just for my clarification, you sold it to RAL, which was a company that had little retail experience. In fact I think Darren Topp gave evidence to the fact that he was having to upwardly manage, rather than take note of retail because he saw that as an issue, that it had a pension liability problem, that it was sold to somebody who had been bankrupt three times and was being funded by the selling off of property and money from Arcadia. Is that where we are at?

Paul Budge: I have to go back. There was no want for this business to fail. There was no reason whatsoever. Why would we want this business to fail? We put in the £94 million. I know Mr Quin and I may disagree on it. But there was £94 million went it. They were unencumbered properties. The reality, £69 million cash, £119 million unencumbered properties, £216 million written off in intergroup loans, £110 million guarantees. Continually, through the 12, 13, 14 months we were always there to be supportive and we did not want this business to fail. We had our own concessions. It is a disaster for us that we have Dorothy Perkins and Wallis. They were in a number of those stores that, unfortunately, are ceasing to trade. With the benefit of hindsight, this is all very sad. I can only, with my colleagues here, apologise, both to the staff and the pensioners that we are where we are.

But there was no intent to get to this position. As credible people have said to this Committee, in the right hands their turnaround plan was achievable. If the CVA had been done in June or September 2014 for this business, we would not be here today. I am certain of that. I am also certain that—and I have to go on with this, I know Mr Field has now left—if the pension regulation was slightly different and did allow the four proposal, which I think was a very good right size in the pension scheme, if we could have done that at the time. I appreciate it is not The Pensions Regulator's fault. At the end of the day there are rules and regulations but the rules and regulations are very specific what they can do and what they cannot do. But with those two things we would not be here today, and that is very sad.

Chair: Mr Budge, Mr Harris, thank you for coming back. Mr Palos, thank you for attending for the first time. We appreciate your time and your evidence. Thank you.