



Scottish Affairs Committee

Oral evidence: Sports Direct: employment practises and the sale of USC, HC 1111

Wednesday 25 March 2015

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Members present: Mr Ian Davidson (Chair); Jim McGovern; Iain McKenzie; Graeme Morrice; Pamela Nash; Simon Reeve.

Questions 1-392

Witnesses: **Dr Keith Hellawell**, Chairman, Sports Direct International, gave evidence.

Q1 Chair: Let us start this meeting of the Scottish Affairs Committee. As you will be aware, we have been looking at the closure of the warehouse in Dundonald, which has led us into a number of other things. I welcome you to this meeting. Would you start by introducing yourself and telling us where you fit into the grand order of things in Sports Direct?

Dr Hellawell: My name is Dr Keith Hellawell. I am chairman of Sports Direct and have been for five years. My responsibilities are for a FTSE 100 company: responsibility generally for the board, the strategy of the company, and the protection and interests of the shareholders—an interest in developing, improving and expanding the company.

Q2 Chair: I wonder whether I can start by asking you about the closure of the warehouse in Dundonald. I went with some staff to meet some of the staff there, some of whom had been working for the company for quite a number of years. They told us that they were sacked with 15 minutes' notice. Would you tell us the process by which that ended up being the culmination?

Dr Hellawell: If I may, I will start by setting the picture. It is very difficult to—if you think that Sports Direct is this area, Dundonald warehouse is this area. Sports Direct is a multinational company; there are 67 companies within the Sports Direct group; turnover is approaching £3 billion. It has many facets of business and we are divided into a number of parts within the business. USC was one of those parts. We endeavour to sell product to the market as cheap, or cheaper, than anyone else. That creates issues for us right across our business, particularly with the suppliers, who do

not like us selling at a cheap price. We sell at a cheap price because we believe that that is the issue—the main thing—for members of the public, which is sometimes forgotten in all of this.

As far as USC is concerned, we started that division three or four years ago, with a view to getting into a new area of business. We were in the main line sports business—sports retail and sports footwear—but we were not in what I describe as the fashion side of the business. That is an area where there was competition. We wanted to get into that competition and that is why we formed that side of the business. That is why we bought USC.

Forgive me and please bear with me because this is important: one of the principal reasons that we bought was to show the brand suppliers that we don't own—we own a number of brands—that we were quite serious about getting into the full panoply of the sports market. We have a constant issue with them in that they will refuse to supply us, or restrict the amount or type of goods that they supply to us. One of the reasons that they do that is because, unlike supermarkets, which have the power over the suppliers, in the sports retail market, the suppliers have the power over the retailers. So we have a constant battle.

One of the reasons that we started that division was to encourage the retailers to stay with us and to supply goods that they would not supply to Sports Direct into those companies and those companies that previously had that supply of particular goods. What we found, to our sadness really, was that once we went into that market and bought this premium division and started to build it, the suppliers removed their supply. They stopped supplying us with goods that they had supplied to USC and to the other companies we bought within that group. From day one, we were faced with this constant battle of trying to keep suppliers on board, even within that group of companies. Just to make it clear: we had suppliers that had been supplying USC with a particular type of product. As soon as we bought it, even though we labelled it USC and we were not going to supply those goods into Sports Direct—they were going to go through that outlet—the suppliers reduced and took away that product.

USC was losing money. In the last financial year, in terms of the generic group, we turned over £240 million; we lost £20 million. We were determined to remain in that area of the market because we believe—forgive me for repeating this—that we sell those products at the cheapest price to customers in the United Kingdom. We firmly believe that one of the reasons our suppliers reduce and take away their goods is that they do not like that, because we are selling cheaper than anyone else.

In relation to USC, we lost a number of brands. I could list them if you wish, but we lost a number of well-known brands. As soon as we took it over, they said, "We're no longer going to supply you." Over the period—they did not all go at once—a number of them started to leave. The culmination of that for us was Diesel. Diesel is very popular in those stores and is a well-known brand. Diesel said, somewhere in the middle of last year, "At the end of the year, we're no longer going to supply you." We were working with Diesel, pleading with Diesel, speaking to Diesel and having a lot of discussions with Diesel to say, "Please continue to supply us. Everything's fine." They refused. They were adamant that they were not going to supply us any more.

One of the significant things with that is that if Diesel had gone at that stage, the other brands that had remained with us would have gone with it. Running that part of the business, which was difficult, would be made even more difficult if Diesel went. If that domino effect had occurred with Diesel going, the business was worth nothing, and all our efforts to maintain the business, the supply and the product for our customers would have gone. That is where the negotiations were, leading up to Christmas. Diesel were adamant that they were not going to supply us.

Word got out that Diesel were not going to supply us. We then got feedback from other brands saying, “We’re going to go.” We also got feedback from their insurance companies, saying, “If you put your goods and your products into USC stores, we won’t insure them,” because the word was out that we had not paid our bill and that was it. That is the background. That is the big picture coming down to the small picture. That was the environment we were in, in terms of our goods, that business and the products supplied into that business. We withheld the bills from Diesel, hoping—it did not work in the end—that we could come up with some resolution that they would continue to supply us. We used it as a bargaining chip. That is the reason we did not pay Diesel.

Dundonald warehouse is a separate issue but it becomes combined later on. When we bought USC, we had a contract for the warehousing as well. The warehousing at Dundonald was never adequate. We went, as you will know if you have been, from one warehouse to virtually the whole of the site being Sports Direct or USC. It was still inadequate.

Sometime, certainly well before Christmas—I cannot remember exactly when—we made the decision that we had to make a radical change. We were dealing with an issue that was an issue and a problem. Our decision was to take all footwear out of Dundonald and use it for textiles. The footwear was going to go into a number of different warehouses across our estate. We did not do that before Christmas for obvious trading reasons—it was a very high trading period, so to try to do that prior to Christmas, causing a great deal of disruption, was not going to happen. It was planned to take place on 9 January, I think, and the staff were aware that these changes were going to take place. At that time, we had no intention of Dundonald going; what we were doing was changing the way in which we used those facilities.

As I read in the newspapers—I am sure you are all aware of this—when our vehicles turned up to remove the footwear, we were blockaded by the landlord. You would have to ask him about his motives; I can suspect what they were, but you can ask him. We were not allowed to take out our goods unless we paid £225,000, which we would describe as a ransom. Because of that problem and the issue with the landlord—the lease was up in 2016—we decided to remove everything from there. The product in there, our stock, was worth about £10 million, and it was owned by Sports Direct Retail Ltd: it was not owned by USC. It was not USC stock, and I think that is important for you to know. It was Sports Direct stock and the value of that stock was, as I say, about £10 million. That is the reason.

Running alongside this, we had pressure from Diesel—action was taken against us. We had asked for and scheduled a final meeting with them prior to Christmas. They said they could not meet us until 9 January—the date is a coincidence. We were

hoping that we could resolve the issues on 9 January, but we didn't, so—as you are aware—we appointed administrators on the 12th and went into administration on the 13th. The pre-pack agreement that we made with the administrator did not include Dundonald.

By the way, in going into administration and coming out in the way that we did, we saved 800 jobs. As I am sure you are aware, 83 people were employed at Dundonald, 25 of whom were what we call permanent salaried staff. That is basically it. We did the negotiations—if I can call it that—with the administrator, and Dundonald had never been adequate and had caused us particular problems. The relationship with the landlord had diminished or deteriorated, and therefore in doing that deal, from a business point of view, it was sensible not to include that warehouse. I hope that is a full explanation.

Q3 Chair: Can you clarify how it came about that some employees got 15 minutes' notice of dismissal?

Dr Hellawell: I think that's up to the administrator, isn't it? When we went into administration, the administrator was responsible for that, not USC or Sports Direct.

Q4 Chair: Okay. Can you clarify who owned USC? It was a wholly owned subsidiary of Sports Direct—is that correct?

Dr Hellawell: Yes.

Q5 Chair: And were USC's directors separate, or was USC run from the main board?

Dr Hellawell: It is partially that. It does not have a separate board in terms of a board structure. It will have directors, and I think the chief executive is a director of that company, but we do not have a whole host of separate boards. If we do, they are boards in name, rather than boards in the normal sense of the word.

Q6 Chair: So not only is it a wholly owned subsidiary, but it is a wholly controlled subsidiary. It is not semi-autonomous or anything like that. It is being run quite clearly from the centre.

Dr Hellawell: Yes.

Q7 Chair: Right. I just wanted to be clear about that.

May I just clarify this question of the pre-pack? When was it decided, and by whom, that that process would be begun?

Dr Hellawell: Formally, probably on the 12th. Looking back, there were some notifications on the 9th, but we formally appointed the administrators on the 12th and went into administration on the 13th.

Chair: Sorry, is this January?

Dr Hellawell: Yes, sorry.

Q8 Chair: Right. May I clarify something else? Our understanding was that you had begun consulting with Duff & Phelps on 14 November 2014.

Dr Hellawell: “Consulting” is the right word, I suppose. Every good company and every good business, when faced with the threat that we had from Diesel, would take advice, but while we were taking advice, we certainly had no view at that time of going into administration, I can assure you of that. Our emphasis and impetus all the time has been to maintain that company. Of course we would not have bought it out of administration if that was not our intention.

Q9 Chair: May I be absolutely clear about this? Certainly the papers that I have read from Duff & Phelps give me the impression that the discussion about a pre-pack began with the consultation starting on 14 November and that it was part of the ongoing dialogue from that date when they were first engaged.

Dr Hellawell: If that is the case, I do not have knowledge of it. I cannot answer that.

Q10 Chair: In that case, whose decision was it to bring in Duff & Phelps and the other firm, whose name escapes me at the moment—Gallagher, wasn’t it?

Dr Hellawell: That would have been the chief executive of the company.

Chair: The chief executive?

Dr Hellawell: Yes.

Q11 Chair: And would he do that just on his own?

Dr Hellawell: Clearly he would do that, looking at how the business is performing, but yes he has the authority to do that on his own.

Q12 Chair: You are the chairman. It just seems sensible to me that a member of staff would not start a pre-pack administration process without at least a nod and a wink to someone else, if for no other reason than to cover themselves.

Dr Hellawell: I do not know that that is really the case. We are operating across more than 60 companies. We have full confidence as a board in the chief executive. He kept

us aware of the situation in relation to USC. He had the power to do that, and the authority. When we went into administration, and when we were going into administration, clearly the board was notified, but in terms of discussions and what happened prior to that, it was within the general powers that that individual has.

Q13 Chair: So when did you first know about this then?

Dr Hellawell: Specifically about going into administration was the day—

Chair: Sorry, about the dialogue. Without getting technical, when did you first know about the dialogue, the beginning of the involvement of Duff & Phelps and Gallagher?

Dr Hellawell: I cannot say. I cannot answer that. I cannot recall.

Chair: Right, okay.

Q14 Simon Reeve: First of all, between 14 November and 31 December how many conversations were you privy to about the possibility of administration?

Dr Hellawell: None.

Q15 Simon Reeve: So you did not discuss the possibility of this company going into administration at any time during that period with anyone.

Dr Hellawell: That is a slightly different question. As a board, not just from November but from almost the time that we got involved in and built this division, we have had constant issues—

Simon Reeve: It is only 14 November onwards that I am interested in.

Dr Hellawell: Specifically in relation to those discussions, no.

Q16 Simon Reeve: And you didn't chair any meeting at which this was raised during that period?

Dr Hellawell: Are you talking specifically about the discussions that took place between—

Q17 Simon Reeve: I am asking whether you chaired a meeting between 14 November and 31 December at which any arrangements or potential arrangements for administration were raised.

Dr Hellawell: No.

Q18 Simon Reeve: When was the first time that you became aware that there had been ongoing discussions between your chief exec and others after 14 November?

Dr Hellawell: When we notified that we were going into administration.

Q19 Simon Reeve: What date was that?

Dr Hellawell: That would be 9 January or 10 January.

Q20 Simon Reeve: So the first time you were involved in a conversation about the company going into administration was the actual conversation after which it went into administration.

Dr Hellawell: No, the conversation about when we were going into administration, when we notified the court that we were going into administration.

Q21 Simon Reeve: It must have been clear to you when you had that conversation that some previous discussion had taken place with administrators and the like—you might not have known from 14 November—during the latter part of 2014.

Dr Hellawell: I was told on that date. I mean, why I set the scene—

Q22 Simon Reeve: Just give me the answer. You gave us a very long introduction. I am suggesting that there you are, the chairman of a FTSE 100 company, and you start to talk about part of that company going into administration. What you are telling us is that it then became apparent at that point that there had been some discussions with administrators during that latter part of the previous year.

Dr Hellawell: That is correct.

Q23 Simon Reeve: Did you raise with anybody the nature or extent of the arrangements and discussions that had taken place—in other words, did you say, “I am the chairman of this company. Why has no one told me that you have been talking to administrators?”?

Dr Hellawell: The conversations that I had had—and the board had had, not just me—were in relation to the problems that were facing USC and the way in which the executives were trying to resolve those problems. The administration would have been a last resort and until it came to the eleventh hour or the twelfth hour we as a board did not want the company to go into administration. It was the last thing on our minds.

Simon Reeve: I understand.

Dr Hellawell: Therefore my understanding was that the discussions that took place were in terms of good business practice, to say, “Look, this could be a possibility.” As

far as the board were concerned, we did not wish that company to go into administration and we trusted the executives to try to maintain that view.

Q24 Simon Reeve: So there were discussions during the latter part of 2014 at which the possibility of administration was raised.

Dr Hellawell: No, not specifically. That is what I am trying to say—not specifically, no.

Q25 Simon Reeve: Did the subject of administration feature in those discussions? You have already told us it did, as good business practice—that was the context in which you just put it.

Dr Hellawell: Yes—that is good business practice. But the answer to the question is no, the specific issue of administration was not raised with the board.

Q26 Simon Reeve: Well, let's not play semantics, Dr Hellawell. You were chairman of a board at which “problems with this company” were discussed during the latter part of 2014, yes?

Dr Hellawell: Yes.

Q27 Simon Reeve: In that context, among other things, the possibility of administration would also have been part of the general discussion, yes?

Dr Hellawell: The answer is no.

Q28 Simon Reeve: It was never mentioned?

Dr Hellawell: No, not in terms of that, because our intention was and the action was to make sure that this thing worked and that we didn't go into administration.

Q29 Simon Reeve: So during the time that you and your board were discussing the problems and never mentioning administration, your chief executive was talking to administrators and not mentioning that.

Dr Hellawell: Yes.

Q30 Simon Reeve: That sounds not good. Would you agree?

Dr Hellawell: It sounds not good the way you say it.

Q31 Simon Reevell: Well, the way I say it is the way it was—yes?

Dr Hellawell: Yes, but I would not expect that of the chief executive. This was one small part of dealing with a multinational business. The responsibility in our view of the chief executive was for that business to continue, however difficult it was, and to resolve the issues with Diesel. That was what.

The fact that he clearly spoke to administrators is, as I mentioned, good business practice. I don't think we needed to be notified of that.

Q32 Simon Reevell: You might not have needed to be notified, but can you think of any reason why, while all those discussions were going on about the issues with this business, he would not say, "Just so that you know, in fact I have done the sensible thing and spoken to some administrators," just so that you got the full picture?

Dr Hellawell: I think, with hindsight, that would have been helpful.

Q33 Simon Reevell: But you are quite clear that he kept that to himself and that you and the board meetings you chaired were simply not aware of it.

Dr Hellawell: I was not aware of it, no.

Q34 Chair: You suggested that this officer of the company kept it to himself but presumably it would not only have been the chief exec. He would have discussed it with other executives of the company.

Dr Hellawell: I believe he discussed it with some of our advisers, yes.

Q35 Chair: Advisers—but other executives?

Dr Hellawell: I suspect he would do, yes.

Q36 Chair: Can I just draw your attention to something? I presume you have seen this. The note we had from Duff & Phelps in the administrators' report says that on 14 November 2014 Robert Palmer of Gallagher's and Philip Duffy and Geoffrey Bouchier of Duff & Phelps met with the secured creditor—presumably Sports Direct—to discuss the debt due from the company and the available options. That seems a bit stronger than that on that day they had a wee casual chat. That seems pretty formal to me. Is that unreasonable?

Dr Hellawell: I don't think what you say is unreasonable. I am just telling you what my information and knowledge is.

Q37 Simon Reeve: Do you know the size of that debt at that time?

Dr Hellawell: No, I don't.

Q38 Simon Reeve: Was it a substantial amount?

Dr Hellawell: It was a substantial amount.

Q39 Simon Reeve: So, discussions about the security of that debt would have involved your board.

Dr Hellawell: Not necessarily, no.

Q40 Simon Reeve: So you chair a board that does not know that the chief exec is seeing administrators, does not think it necessary to involve itself in the security of a substantial debt, is having general discussions about the future of the company that in fact within a matter of weeks would be in administration via the process that the chief executive had already started.

Dr Hellawell: The board was confident in the ability of the chief executive to do his best to maintain that relationship with Diesel. The debt that was owed to Diesel was used as a bargaining ploy.

Q41 Simon Reeve: You told us a little while ago that one of the issues with your suppliers was that their goods were not insured because you had not paid your insurance policy.

Dr Hellawell: No, no. I am sorry if I have misled you on that. When it was known that we had not paid the bill to Diesel, my understanding is that the insurers of other suppliers that we would have certainly lost if Diesel had gone, were putting pressure on them not to put their goods into our stores, because they said, "Look, if this thing goes into administration, we are not going to pay for those goods."

Q42 Simon Reeve: As far as your dealings with Diesel are concerned, were you in breach of your contract with them by withholding payment?

Dr Hellawell: I haven't seen that specific contract, so I can't answer that question.

Q43 Simon Reeve: When you, as the chairman of a FTSE 100 company, make a decision to withhold moneys that you owe to a supplier, presumably you say to someone, "Are we legally entitled to do this?"

Dr Hellawell: Yes.

Q44 Simon Reeve: And were you?

Dr Hellawell: No.

Q45 Simon Reeve: So, you were in breach of your contract?

Dr Hellawell: Yes.

Q46 Simon Reeve: Right. Was there any reason why you gave the first answer that you did about not seeing the contract rather than just acknowledging that you were in breach of it?

Dr Hellawell: I haven't seen the contract.

Q47 Simon Reeve: No, but that was not what I asked you, was it?

Dr Hellawell: But as a legal entity, I am sure it would have—

Q48 Simon Reeve: So you acted in breach of contract with Diesel in order to try to bring them to the negotiating table.

Dr Hellawell: Correct.

Q49 Simon Reeve: Just as an aside, when you went to get your footwear from the warehouse and the landlord asked you for some money, you said that you felt you were being held to ransom.

Dr Hellawell: Yes.

Q50 Simon Reeve: How would you describe what you were doing to Diesel? Would you describe that in the same terms?

Dr Hellawell: Yes.

Q51 Simon Reeve: Right. So your board—the board of which you are the chairman—has a chief executive who is on a frolic of his own, talking to administrators. The board has made a decision to act in breach of contract by withholding payment owed to suppliers in order to get them to continue supplying. It is not far away from the sort of circumstances you would have investigated in the job you had some years ago, in a not dissimilar context. You have a situation where your board know that they are acting in breach of contract as far as their supply is concerned but do not know that the chief executive is talking to the administrators. Is that right?

Dr Hellawell: My answer to that would be that we asked the chief executive. The chief executive made us aware of the issues in relation to the supply and the withholding of supply, or the threat of withholding supply, by Diesel. The tactic of delaying payment, which I am sure a number of companies do but we tend not to do—it was a tactic—was supported by the board. As far as what he did in terms of good business practice, perhaps in anticipation of everything going wrong, I think he did the right thing.

Q52 Simon Reeve: How much notice did you give your employees that the company was going into administration?

Dr Hellawell: We did not know that we were going into administration until the day before we went into administration.

Q53 Simon Reeve: So how much notice did you give them?

Dr Hellawell: Well, there was no notice.

Q54 Simon Reeve: So if the administrators to whom you passed the buck for 15 minutes only gave 15 minutes' notice, they gave 15 minutes more than you.

Dr Hellawell: Yes.

Q55 Simon Reeve: The impression we have—or the impression I have; I cannot speak for everybody else—is of a FTSE 100 company acting in breach of its contracts with its suppliers to try to force them to continue supplying, while discussing the viability or otherwise of part of its business in a way that appears to be wholly unrealistic in the eyes of its chief executive, who is already talking to administrators. At the end of all this, a group of people who have worked hard for a long time get no notice of administration and 15 minutes' notice that they have lost their jobs. There does not seem to be much in all of this where it looks very good if you shine a light on it. Can you understand how I get that impression?

Dr Hellawell: I can understand that. But the potential loss—remember that this is a loss-making business that we are trying to maintain. We are trying to maintain it because we believe in selling that product at the best price to the public.

Q56 Simon Reeve: You are trying to maintain it to make a profit. You have told us a number of times that you are trying to do your best in terms of pricing for the ordinary member of the public, and that is commendable. But you are only doing it that way because if you stack it high and sell it cheap—if you get the formula right—you can make a lot of money out of it. It is not a charity, and you should not assume that we are daft enough to think that.

Dr Hellawell: I take exception to this, “stack it high, sell it cheap”. That is a newspaper term and is wholly untrue. If you go into our USC stores, you will see that it is not like that at all. Here we have, as a large company, a business that we are trying to run successfully, a business that is losing money and a business that the board, the executive and the chief executives want to maintain for a number of reasons—one being the brands and the other being, whatever you say, to sell that product cheaper than other people within the sector.

Simon Reeve: But for a profit.

Dr Hellawell: We are trying to do it. What we could have done as a board is say “Forget it; we lost £20 million in that group last year—forget it.” We didn’t. We persevered, and we are continuing to persevere with that business. That is what we did.

It is unfortunate that 83 people out of all of those numbers lost their job; and I am delighted to say I understand a number of the people at the warehouse—a substantial number—secured a job straight away. I am delighted for that. Our principle was to retain that business to do the best we could for the people within that business, and we retained 800 jobs. We could have lost the whole lot. We could have made the decision to lose the whole lot.

Q57 Simon Reeve: What you could also have done is worked more closely as a board with your chief executive, taken a long-term view of what the problems may or may not be and, rather than running two parallel courses, which end up with the business going to administration at short notice and these people losing their jobs, perhaps have allowed yourselves more time to, at the very least, plan what you did more effectively.

Dr Hellawell: Ever since we bought those businesses—acquired those businesses and worked those businesses—there has been a constant dialogue. There are a number of areas where the company is successful and does not need as much focus. That has been one that has needed focus—constant focus—in terms of actually trying to turn it around, and trying to make it work, and trying to make it profitable. We could, quite seriously, have said, “Forget it,” but we were determined to maintain that business and we have come out of it at the end of it with 800 employees still in place, the stores still in place; and we are still working hard to deal with that. We have lost Diesel, but we have retained the other people who were going to go. We have retained them and we have got longer-term contracts with them for supply.

Q58 Simon Reeve: The point I am trying to make to you, Dr Hellawell, is simply this: that while you and your board are having all these discussions about the problems, and no one is even mentioning the prospect of administration, your chief exec seems to have seen a problem a long way off and started to plan for it; and if there had been some discussion between the board and the chief executive then you may have been able to help him to help you with the way you were going, or he might have been able to explain to you the problems that he had seen. What might not have had to happen was a decision like that, over the space of a couple of days in January, where suddenly it is all gone. If you want to try and argue that

it is better for your chief executive to plan for administration without telling you than by all means do.

Dr Hellawell: No, I am not doing that. The last thing we wanted to do was to go into administration. We did not plan for administration. We did not want administration. What we actually wanted was that company to be maintained, and what we wanted was Diesel to stay on board, and clearly the other people who had left us in the past and were definitely going to leave us in the future would do it. The actual specifics of when the chief executive spoke to the administrators—my understanding was it was a preliminary discussion, and I have not seen that document you refer to.

Q59 Simon Reeve: So you have not seen it.

Dr Hellawell: The document you refer to from the administrators: I have not seen that.

Chair: It is in the public domain, and it is published by the administrators. I think when we have witnesses in front of us we normally expect them—it is not unreasonable—to prepare. Even if you did not have time to prepare, I would have thought that somebody somewhere within the organisation would have advised you that this is something that you ought to be aware of.

Simon Reeve: I only want to ask one more question, which is simply this: is your evidence to this Committee that at a time when you and your board were making a decision to act in breach of your legal obligations by withholding money to Diesel, because you were that desperate to keep them on board, that there was no discussion at all in which your chief executive informed you that he was in fact already exploring possibilities for administration?

Dr Hellawell: That is correct.

Q60 Chair: Have you subsequently discovered whether or not the chief executive discussed this with any of the other executives?

Dr Hellawell: I have not specifically. I presume that he would have.

Q61 Chair: You do not know. Okay, can I just clarify one thing? You constantly refer to USC as a business, but I tend to think of Sports Direct as a business, and it has got different bits. Sports Direct was the empire, so to speak, and USC was part of it. It was a wholly owned subsidiary.

Dr Hellawell: It is part of the premium lifestyle division.

Q62 Chair: Fine, it is a bit within a bit within a bit, in a sense. The question of being a separate business isn't quite germane in these circumstances. That is the point I want you to clarify, and I will come on to that later. Sports Direct's secured debt, as I understand it from

the figures we have been given, was £7,367,556. Do you know how much of that was recovered by Sports Direct?

Dr Hellawell: No.

Q63 Chair: Maybe you could let us know in due course, which would be helpful. Will you clarify when the firm went into pre-pack administration? As I understand it, the secret of pre-pack administration lies partly in the name. It is “pre,” so when somebody goes into administration via pre-pack they have actually, by definition, thought about it and planned for it beforehand. It certainly appears to me from the papers that I have read and everything I have heard that the pre-pack process started being an option from 14 November. Is that unreasonable? *[Interruption.]* You are nodding in agreement, but unfortunately *Hansard* does not record nodding.

Dr Hellawell: That is not unreasonable.

Q64 Chair: Do you understand why staff in Dundonald, when they now discover that pre-pack administration was being considered on a date from 14 November, were a bit aggrieved that they only got 15 minutes’ notice of dismissal?

Dr Hellawell: I can see why they would be aggrieved, but I think those discussions, whatever they were, were safeguards, “Say if all of this goes wrong, maybe there is some way around it.”

Q65 Chair: I understand that. Are you aware of the legislation on consultation in the event of possible dismissals, and so on?

Dr Hellawell: Yes.

Q66 Chair: Clearly, if from 14 November pre-pack administration was an option, and therefore dismissals were an option, why was there no consultation at all with employees or their representatives?

Dr Hellawell: Because, even where there were discussions, there was no decision by the board to go into administration.

Chair: I understand that.

Dr Hellawell: Therefore, why would you tell staff, “Look, we have these problems, and perhaps we might—might—do this. We might go into administration. We might go out of business, but we might not”? That would create all sorts of problems within the work force and all sorts of problems with the suppliers.

Q67 Chair: What is your understanding of consultation? You seem to be suggesting that you would only consult the work force on dismissal after you had actually taken a decision to

dismiss because otherwise, by definition, it is hypothetical and it might not happen. That is the whole point, surely.

Dr Hellawell: But there was never any intention in terms of the warehouse. The warehouse formed part of our business. Until we had that issue with the landlord, there was never an intention to get rid of the warehouse. Even if what you say was true, we wouldn't be saying to the warehouse staff, "Look, we're thinking of getting rid of you," because at that time we had no intention of getting rid of them.

Q68 Chair: But from 14 November you were considering doing something about USC that included pre-pack. The whole point of the law on consultation—I presume you have advisers—is to consult and make staff aware that there is the possibility of closure or that something might happen so that they can, if they wish, make observations about how the business could survive in order to help and be part of the whole process. I can see why you have difficulty. If you weren't consulted by the chief executive, I can see why you didn't feel able to consult the staff because your defence is that you didn't know. But surely the chief executive should have been making staff aware of this as a possibility. Surely the chief executive and other executives should understand the instruction that if closure is being considered, there should be some degree of discussion and consultation before a decision is made, not only as good practice but because it is actually the law.

Dr Hellawell: I repeat: closure of that warehouse was not considered at that time.

Q69 Chair: No, I heard that. I said I would park that. I am asking about what happened to USC. You did not consult with people in USC either, as I understand it. Or did you?

Dr Hellawell: My understanding is no, but the point is that what you are implying is that at the negotiations or the discussions—whatever they were—in November there was a decision or an intention actually to go into administration.

Q70 Chair: No, I am not saying that at all. I am most emphatically not saying that. I am saying that when you, or "yous", so to speak—the company, not you personally—started the discussions that was clearly one of the options. I am sure that if Duff & Phelps and your chief executive, and other executives—and the staff, had you involved them—could have come up with an alternative solution that was going to result in stemming the losses and making money you would not have done what you did.

Dr Hellawell: No.

Q71 Chair: Fine. I don't believe that you had automatically decided to close, because the executive involved would not have taken a decision to shut at that early stage without consulting—well, I hope he would not have, anyway. I want to be clear, then, coming back to the question of the law: do you accept that the law was broken by there not being a period of consultation with staff before dismissal?

Dr Hellawell: Certainly our legal advice is that that is not the case—that we did not break the law.

Q72 Chair: Fine. Could you maybe let us have a note of that? Is your defence that it was not you who broke the law? It was the administrators who broke the law?

Dr Hellawell: I did not know I was on trial or that it was my defence, but my understanding is that our advice is that we have not broken the law. Whatever the administrators have done is a question for them.

Chair: Okay, we will ask the administrators.

Q73 Simon Reeve: When you were talking about reasons not to start a consultation, the gist of which was that you were saying that you did not want to panic people, you referred to suppliers. What would be the effect in terms of your suppliers of starting a consultation period?

Dr Hellawell: You would have to ask them that.

Q74 Simon Reeve: Well, you mentioned suppliers. You obviously had in mind a number of consequences of starting a consultation period. You explained about creating uncertainty for staff and you also referred to suppliers. Could you explain, as far as suppliers are concerned, the impact of starting a consultation period?

Dr Hellawell: No, I can't.

Q75 Simon Reeve: Well, I can think of three. One is that they would not supply you any more, the second is that they would want their stock back, and the third is that they would want all the money they were owed. Are they three things that could arise if you suddenly started a consultation period?

Dr Hellawell: Yes, but—

Q76 Simon Reeve: So what did you have in mind when you referred to suppliers?

Dr Hellawell: I think just the impact that that would have on the marketplace.

Q77 Simon Reeve: What does that mean?

Dr Hellawell: I want to go back, please—I really need to—

Q78 Simon Reeve: I would just like you to answer my question. You referred to suppliers. I think you meant that if you announced that there was a consultation period it would have a financial impact.

Dr Hellawell: But we were not in the phase of a consultation period.

Q79 Simon Reeve: Let's take it in stages.

Dr Hellawell: It's a hypothetical issue.

Q80 Simon Reeve: It was raised by you, and I would like you to explain it.

Dr Hellawell: No, I was answering a question.

Q81 Simon Reeve: Yes, and you included suppliers. The potential impact as far as suppliers are concerned is financial, isn't it? Is there a non-financial impact as far as suppliers are concerned?

Dr Hellawell: The suppliers were made aware—not by us—that Diesel was going to withdraw, so whatever consultation there had been and whatever form it had taken, it would not, I think, have affected the suppliers in any way in that once the information was out the suppliers were already concerned about—

Q82 Simon Reeve: If you started a consultation period, the suppliers you were trying to keep hold of while you tried to persuade Diesel to stay might have gone. The problem then is that even if Diesel agree to stay because you are withholding their money, you have lost other suppliers—that's the sort of thing you are talking about, isn't it?

Dr Hellawell: You are implying that we kept quiet about a consultation period—

Q83 Simon Reeve: No, I'll tell you what I am implying in a minute.

Dr Hellawell: There wasn't a consultation period.

Q84 Simon Reeve: No, I know there wasn't, but the consequence of a consultation period, as far as suppliers are concerned—you raised suppliers—is that you may lose suppliers.

Dr Hellawell: Yes.

Q85 Simon Reeve: Right. Not a difficult question in the end.

Dr Hellawell: No.

Q86 Simon Reeve: The point at which all this became official and would trigger things such as consultation periods was when the board made a decision—yes?

Dr Hellawell: Yes.

Q87 Simon Reeve: And the board made a decision very shortly before administration actually took place?

Dr Hellawell: Yes.

Q88 Simon Reeve: So a coincidence of your chief executive going on a frolic of his own with administrators and not telling the board until the very last moment, after which administration comes along almost straight away, is that there are no financial problems with suppliers and all your obligations to consult effectively go out of the window. Had your chief executive kept you informed all the way along, you may well have had to make a decision earlier, at which point all those obligations and financial risks would kick in.

Dr Hellawell: You used the words “frolic of his own”—

Q89 Simon Reeve: Well, according to you, Dr Hellawell, in terms of the board he was ploughing a lone furrow, wasn't he?

Dr Hellawell: No, he wasn't ploughing a lone furrow. He is the chief executive of the company and, in terms of those discussions, he was doing what he believed to be prudent in the circumstances.

Q90 Simon Reeve: And the effect of that was that the board was not aware, so it could not make a decision. By the time it was told, the decision had to be made straight away, so financial problems with suppliers and consultation periods were completely bypassed.

Dr Hellawell: There was insufficient time for a consultation period.

Q91 Simon Reeve: Yes. Do you think that the lack of time for consultation and the absence of financial problems with suppliers, caused by the way in which your chief executive operated—you say without the knowledge of the board—is just a coincidence? Or do you think that that may have been the purpose, or partly the purpose, of his keeping you in the dark, if that is what he did?

Dr Hellawell: I think we're into semantics again. I don't think that he went on a frolic of his own. I don't think he kept us in the dark with any view to keeping us in the dark. I think he was doing what he felt was in the best interests of the business and acting with due diligence in doing what was his responsibility. His responsibility and his task was to keep that business alive and afloat. With hindsight, you could perhaps

say that what he did could have been done differently, but, to answer your question directly, I do not believe that he was misleading the board on purpose or for any ulterior motive.

Q92 Simon Reeve: I have not suggested that he misled the board. He didn't tell you anything, so he couldn't mislead you. By not involving you, he created a situation in which financial disadvantage and consultation were not part of the process because the time frame was reduced so much that they couldn't be. Do you agree with that? Whether he meant to or not, that is a consequence of his actions.

Dr Hellawell: No, it isn't a consequence. Diesel have agreed to deliver the goods that they were—how shall I put it?—contracted to deliver, but they are not going to deliver after that. The other suppliers have signed with us medium and longer-term supply agreements, which is better than we had before.

Q93 Simon Reeve: But that's all later, isn't it? He was not aware of that at the time?

Dr Hellawell: Yes.

Q94 Simon Reeve: So at the time, a consequence of what he did, whether intended or not, was to avoid any difficulty with suppliers and remove sufficient time scale for consultation?

Dr Hellawell: I think he was acting in the best interests of the company.

Q95 Simon Reeve: He may have been, but they were consequences of what he did, intentional or otherwise. You and I both know the answer, Dr Hellawell. If you do not want to give it, just say so.

Dr Hellawell: No, they were potential consequences, but it didn't happen, did it? It didn't happen.

Q96 Simon Reeve: Well, the lack of consultation period did, because your board was informed and made a decision almost straight away to call in administrators, so that was the end of that.

Dr Hellawell: That is correct. There was insufficient time for consultation, because the decision was made very close to administration. Whatever went on before that, at the time the board were unaware of.

Q97 Simon Reeve: Right, I think we are in danger of agreeing. Because the board was not informed until the point at which it had to make a decision, there was no consultation. You do not know whether that was deliberate or not, but it was a product of the way—

Dr Hellawell: I do not believe it would be.

Q98 Simon Reeve: Fine. Does your chief executive report to anyone else except you and the board?

Dr Hellawell: Not really, no.

Q99 Simon Reeve: Not really or no?

Dr Hellawell: No, he doesn't, no. He reports to the board.

Q100 Simon Reeve: Does he report to anyone else?

Dr Hellawell: No.

Q101 Simon Reeve: So he doesn't have any meetings with anyone, in terms of chain of command, who is not you or your board?

Dr Hellawell: Meetings? It is a very small executive team, but they will have meetings every day.

Q102 Simon Reeve: In terms of the executive team, who does he report to? Anyone on that team?

Dr Hellawell: Not really, no.

Q103 Simon Reeve: This man must report to someone.

Dr Hellawell: He reports to the board.

Q104 Simon Reeve: He reports to the board?

Dr Hellawell: Yes.

Q105 Simon Reeve: And no one else?

Dr Hellawell: Not in terms of reporting, no. He has discussions. The organisation is very flat, very lean. There are four or five executives who work as a team. That team will be aware of most of the issues involved on a day-to-day basis, but he does not report to them; he reports to the board.

Q106 Simon Reeve: Let us assume that you are right and he has not gone off on his own initiative, simply by himself, to do what he did. You could authorise it, but you told us that you didn't.

Dr Hellawell: No. We authorised him in terms of his responsibilities.

Q107 Simon Reeve: I am talking about 14 November, these meetings. You could authorise that, but you didn't, did you, because you didn't know about it?

Dr Hellawell: No. But I didn't think we would need to. Even now I don't think we needed to.

Q108 Simon Reeve: Your board didn't authorise it—

Dr Hellawell: No.

Q109 Simon Reeve: Because they didn't know. Correct?

Dr Hellawell: Correct.

Q110 Simon Reeve: Are there any two or three members of the board who as part of some sort of sub-group would be able to authorise?

Dr Hellawell: No.

Q111 Simon Reeve: So who else within the company would be in a position to give authorisation?

Dr Hellawell: I think the authorisation that he would take, I am certain, would be the best advice from accountants, legal consultants—

Q112 Simon Reeve: No, in terms of authorisation, who is in that position? You were in the police force. You understand that at the top of the police force in a particular area there is a chief constable, and there is a structure below that.

Dr Hellawell: Correct.

Q113 Simon Reeve: So I am trying to work out who is where in that sort of structure. I understand that if we just look at the board, as chairman of the board, you are top of that little pyramid.

Dr Hellawell: Correct.

Q114 Simon Reeve: And your chief executive sits below the board, so that tells us that the board can authorise him.

Dr Hellawell: Yes.

Q115 Simon Reeve: Right. Who is above the chief executive apart from the board?

Dr Hellawell: No one.

Simon Reeve: No one?

Dr Hellawell: He has, in the terms you used about the police force, the divisional commanders, if I can call them that, who have to operate within the strategy and the budget, but then they have autonomy. The chief executive of this company has that autonomy and authority. He obviously works within the law and within the corporate nature and strategy of the company, but he has the authority to operate. He does not report to anyone; it is not a formal structure like that.

Q116 Simon Reeve: One of the reasons I asked the question is because this Committee had correspondence from a firm of solicitors called RPC. RPC explained that, despite this Committee asking Mr Ashley to give evidence, your board felt that you would be better placed to help us.

Dr Hellawell: That is correct.

Q117 Simon Reeve: But implicit in that is that there is also a role that Mr Ashley occupies.

Dr Hellawell: Yes.

Q118 Simon Reeve: What is that?

Dr Hellawell: He is largely responsible for making deals. He is—

Q119 Simon Reeve: In what context? How would he introduce himself? You would say, “I am the chairman of the board,” and your company secretary, if that is what he calls himself, would say, “I am company secretary.” How would he introduce himself?

Dr Hellawell: I think he’d probably introduce himself as a worker. He works 50 or 60 hours a week.

Q120 Simon Reeve: So he would say, “I’m a worker,” would he?

Dr Hellawell: Sometimes he will be in the warehouse. Sometimes he will be by the computers. His key area is the strategy of the business. He's been described in a number of papers as a genius.

Q121 Simon Reeve: You know how we describe your chief executive as the chief executive, because that's what he is—

Dr Hellawell: He's the deputy chairman of the company. If you want a formal title, he's executive—

Simon Reeve: I'm sorry if I was opaque.

Dr Hellawell: If you want a formal title, he's the executive deputy chairman of the company.

Q122 Simon Reeve: So where does the executive deputy chairman sit in our pyramid?

Dr Hellawell: It's flat—it's a flat line. Below the board, it's a very flat line. It's a very, very flat line.

Q123 Simon Reeve: I don't understand your answer. How does he compare to you in terms of making decisions? If he didn't want to do something, and you did, is there a built-in role that you each have that allows you to understand whose the final decision is?

Dr Hellawell: The final decision would be the board's in relation to anything. Mr Ashley is a major shareholder. On anything—dividends, for example—I would have his vote. He would not vote on that; he would abstain.

Q124 Simon Reeve: But in terms of the things we are talking about—I am sure this is my fault—I still can't quite understand the structure. You have told us it is flat.

Dr Hellawell: Correct.

Q125 Simon Reeve: That makes it sound a bit like anybody could say to the chief executive, "There's an issue."

Dr Hellawell: It's not like that. There are four or five key people, and they work as a team. Three of them work in the same office—not nearly this size. You haven't got secretaries, PAs and all those distinctions. It is a very entrepreneurial business, with three people working in one room. It would be a discussion. They meet on Tuesday evenings.

Q126 Simon Reeve: Does that group of executives include the executive deputy chairman?

Dr Hellawell: Yes, it does.

Q127 Simon Reeve: Right. So we've got you and the board.

Dr Hellawell: Correct.

Q128 Simon Reeve: And we've got the chief executive and some other executives, and that includes the executive deputy chairman.

Dr Hellawell: Correct.

Q129 Simon Reeve: You know that your board didn't know anything about talks about administration that were being conducted by your chief executive.

Dr Hellawell: No.

Q130 Simon Reeve: But you've told us that you think he probably spoke to other executives.

Dr Hellawell: Yes.

Q131 Simon Reeve: Which would include your deputy executive chairman.

Dr Hellawell: Yes.

Q132 Simon Reeve: So—because it gets really complicated—if we just use names, Dr Hellawell and his board did not know anything about all of that. What's the chief executive called?

Dr Hellawell: David Forsey

Q133 Simon Reeve: Mr Forsey, we know, did know. We think he spoke to some other executives about it—and those other executives would include Mr Ashley?

Dr Hellawell: Yes.

Q134 Simon Reeve: Right. It sounds a bit like a parallel structure. There is a board that kind of looks the part, and a group of people who get on and do things, and they do not always tell the board what they are doing.

Dr Hellawell: That's unfair.

Simon Reeve: Is it?

Dr Hellawell: Yes.

Q135 Simon Reeve: I don't know anything about the company. That is just the impression I've got from what you've told us today.

Dr Hellawell: Sometimes I get the impression, when you look in the newspapers, that Michael Ashley is Sports Direct and that he runs Sports Direct and controls Sports Direct. That is not the case.

Simon Reeve: I accept that.

Dr Hellawell: If anyone reports to anybody in terms of the running and structure of the company, they would report to the chief executive. In terms of that, the chief executive would, to use your terms, be above Mike Ashley, if you want to put it that way.

Q136 Simon Reeve: I see. So put the board to one side and just look at these people in the office that is not as big as this room who are the executives. If there is a real locking of horns about what is going to happen, Mr—what is he called again?

Dr Hellawell: Forsey.

Simon Reeve: Mr Forsey is not going to take any nonsense off Mr Ashley. He's going to set the direction, is he?

Dr Hellawell: Yes. In the final say, yes. But if there was a locking of horns, as you describe it—if there was anything that was contentious and there was disagreement between them—within the strategy, that would come back to the board.

Q137 Simon Reeve: Right. So if, for example, Mr Forsey had an idea that it might be necessary to put a part of the business into administration in January and if he began talking to administrators on 14 November, that would come to the board only if the other executives in that room disagreed and there was a locking of horns. If everybody agrees with that, the board don't get to know.

Dr Hellawell: But the board didn't need to know.

Q138 Simon Reeve: Well, the board didn't get to know, did they?

Dr Hellawell: But they didn't need to know, in my view.

Simon Reeve: And presumably because—

Dr Hellowell: Well, we didn't get to know, because we didn't need to know. So many things—

Q139 Simon Reeve: You don't know why you weren't told, do you, Dr Hellowell?

Dr Hellowell: I don't know why I wasn't told.

Q140 Simon Reeve: No, you don't know why they didn't bring to you and share with you the discussions with the administrators that were running from 14 November.

Dr Hellowell: I—

Simon Reeve: You don't know why they didn't tell you. How can you?

Dr Hellowell: I don't know; I'm just presuming that they felt that was within their responsibility.

Q141 Simon Reeve: And the "they"—the plural—are the executives that include the deputy executive chairman.

Dr Hellowell: Yes.

Q142 Simon Reeve: Right. So there are two parallel paths. There is you and your board, with all your discussions that do not mention administration—

Dr Hellowell: Yes, but the board includes the executives. Please don't—

Q143 Simon Reeve: Yes, but the executives also work together, don't they, because that is why you—

Dr Hellowell: Well, of course they do. They—

Q144 Simon Reeve: And without telling the board. We know that, because that is why you didn't know about the meetings with the administrators. You have described the office they work in. You have told us how many of them there are.

Dr Hellowell: Yes.

Simon Reeve: Right.

Dr Hellowell: But the board has certain responsibilities and the executives have responsibilities to run the business, and they report to the board and the board acts in the way it should do in terms of the corporate strategy and responsibility to

shareholders. The board does not know, in any company I am involved with, the details and all the interrelationships between the executives.

Q145 Simon Reeve: That's a brave boast, but that is for the other companies. As far as this is concerned, the board, immediately before a decision has to be made, is told about a problem that requires part of the business to go into administration and the board then makes that decision.

Dr Hellawell: Yes.

Q146 Simon Reeve: The chief executive, along with other executives, has been—let's pick a neutral word—aware of and in discussions regarding administration since 14 November.

Dr Hellawell: That is correct.

Q147 Simon Reeve: So the chief executive, the guy who owns most of the company and some other executives say to the board, "There's a problem. It needs to go into administration," and the board make a decision like that. But the guy who owns most of the company and the guy who is the chief executive have known it's at least a possibility for the thick end of two months.

Dr Hellawell: The board have been aware of the issues and the problems associated with USC ever since we bought it. And the difficulties—

Q148 Simon Reeve: Yes, but it had never, ever occurred to the board—you have told us this—that it may necessitate administration. You have already told us—

Dr Hellawell: I didn't say that. What I said was that we did not—sorry, you will look at my words, but can I clarify myself? Our intentions and our efforts and my understanding—well, not my understanding—were that the efforts of the executives were to keep that company alive.

Q149 Simon Reeve: Yet you told us that administration was never discussed.

Dr Hellawell: No, it wasn't.

Simon Reeve: Right. So either—

Dr Hellawell: But from a common-sense point of view—if the business is going to fail, from a common-sense point of view, and it continues to lose money, there must come a point when you decide what to do with it.

Simon Reeve: Yes, but that—

Dr Hellawell: But specifically—to answer your question, specifically, nobody said to the board, “We—

Q150 Simon Reeve: And for all your discussions within the board—you have told us this already—you had never, in your meetings, discussed administration.

Dr Hellawell: Not specifically, no.

Simon Reeve: You hadn’t?

Dr Hellawell: No.

Simon Reeve: Right. So either—

Dr Hellawell: But we were aware, as I was saying, of the difficulties associated with the company.

Q151 Simon Reeve: Yes, but you had never associated the extent of those difficulties with the need for the company to go into administration.

Dr Hellawell: No.

Q152 Simon Reeve: Right. But somebody else had.

Dr Hellawell: Yes.

Q153 Simon Reeve: And by the time they told you, it was time for a decision to be made almost there and then.

Dr Hellawell: Yes.

Q154 Simon Reeve: So did your board miss something that should have been obvious?

Dr Hellawell: I don’t think so, in that we were under the impression that they would be able to do something with Diesel and that we would be able to get through this problem.

Q155 Chair: May I just come in here? Am I right in thinking, from what you have said, that some of the executives are on the board?

Dr Hellawell: Yes.

Q156 Chair: So you have two groups on the board: some people who are fully informed and some who are not. You are in the category of those who are not fully informed; Mr Ashley, as your deputy chairman, was among those who were fully informed. Essentially, they told you only when they thought they had to do so; so that, to all intents and purposes, all the meaningful discussions were going on elsewhere and you were basically just presented with a fait accompli, because by the time it reached you there was no alternative. Is that too bold a statement?

Dr Hellawell: Yes, I think so.

Q157 Chair: Okay, explain to me which bits of this I have got wrong. We are beating about the bush. You are either failing to understand what we are saying or you are being evasive. Some members of the board knew, all the way through, that these discussions were going on, such as Mike Ashley and the chief executive, who are on the board.

Dr Hellawell: Yes.

Q158 Chair: Other members of the board, as yet unnamed but including you, did not know that.

Dr Hellawell: Correct.

Q159 Chair: You knew only when it came to a decision having to be taken.

Dr Hellawell: That is correct.

Q160 Chair: Fine. So there were two categories of board members—those who were in the know and those who were not—and essentially you were there for decoration, or to rubber stamp a final decision that had already effectively been made.

Dr Hellawell: If that was the only decision and the only concern of the board of Sports Direct, you could say, putting that in context, that that would be the case. The reality is that the executive members of the board—and there are not two sides to the board; it is one board—know a great deal about so many things that are going on within the business—

Chair: Absolutely. I understand all of that.

Dr Hellawell: Please—there are so many things that are going on within the business that the board knows. Now, they did not tell us of that one thing. Looking at it now, you make that extremely significant. You are placing great emphasis on that, as if, of all of the things that they have done, they have kept that from us. I do not think that that is the case.

Q161 Chair: Okay. I understand what you think. Again, the note we have from Duff & Phelps, which you either are aware of or ought to have been aware of, says: “Robert Palmer of Gallagher’s subsequently met with the company on 17 December 2014 after a statutory demand was issued to the company by one of its creditors for outstanding invoices. The statutory demand had an expiry date of 31 December 2014, and therefore the creditor was in a position to file a winding-up petition at any time following that date.” But you did not know about that until some time in January—is that correct?

Dr Hellawell: That is correct.

Q162 Chair: Okay. The executives who are on the board would know that.

Dr Hellawell: Yes.

Q163 Chair: So that is another example of where you did not know but they did.

Dr Hellawell: Yes.

Q164 Chair: Fine. I think we’ve done this to death.

May I just clarify a couple of other things about this whole process and what happened at the end? We have already identified that Sports Direct had a floating charge on the business—sorry, on USC—of £7.3 million, and you are going to tell us how much of that they got back. Am I right in thinking that this divided up in three ways? When you had the pre-pack—again, the secret is in the name: this had been plotted and planned out beforehand—the assets went to the secured creditor, which means, basically, to Sports Direct. The debts were then left behind, so debts of approximately of £50 million—£50,184,317 is the figure I have here—that were owed to suppliers were not paid. The third category is redundancy costs, which were picked up by the taxpayer through the Insolvency Service.

Dr Hellawell: That’s correct.

Chair: All of that is correct?

Dr Hellawell: Yes.

Q165 Chair: Fine. Among the debts, there was also £575,000 owed to the taxpayer, in the form of HMRC. At the end of the day, the taxpayer got shafted, basically, by having to pick up all the redundancy costs. They got shafted by HMRC’s outstanding debt not being paid. The suppliers got shafted by not being paid. And Sports Direct walked away with the assets at a knocked-down price. You were able to do that because USC was a stand-alone company, even though it was effectively part of the group. Had it been part of the group as a whole, without having its own limited liability and autonomy, Sports Direct would have been liable for those debts, the HMRC payments and the redundancy payments to staff. Is that correct?

Dr Hellawell: Yes.

Q166 Chair: Right, okay. Can you understand why we are a bit cynical about this exercise?

Dr Hellawell: I can understand why you are cynical. You clearly do not like the pre-packed agreement. They are legal agreements. They are undertaken by a lot of people. From our point of view, we have retained 800 jobs. We have a business that is ongoing and that we are going to work hard with. That is the position of this company.

Q167 Chair: I don't have a view, actually, on pre-packed deals; I don't know enough about them. I have some reservations about how it was used in these circumstances, whereby you have managed to retain all the good bits. You've got rid of all the bad bits, and you have managed to do over the people who owed you money and do over the taxpayers as well. As taxpayers, which I presume we all are, we have ended up carrying the debt, and you have strolled off into the sunset with the money. It is good business if you can get away with it. It might be legal; it is certainly, as far as I can see, not moral.

Dr Hellawell: Since we have been a company, we have paid more than £1.3 billion in tax into this country. We do trade here. We pay our taxes here; so please, we are not immoral.

Q168 Chair: Well, you don't pay all of them here because you have just managed to dump £570,000 of them. Am I right in thinking that if USC had not been a separate company, all those debts and that payment would have had to be made out of the Sports Direct empire?

Dr Hellawell: That is the case.

Q169 Chair: Right. Can I turn to another aspect of this that I am slightly confused about? It is the question of the blockade, the landlord and whether that is holding to ransom and all the rest of it. The landlord was presumably a debtor or someone to whom money was owed by USC. Is that correct?

Dr Hellawell: Yes.

Q170 Chair: If they blockaded, they then un-blockaded. So I presume they got paid by somebody.

Dr Hellawell: Yes.

Q171 Chair: Did they get paid by USC?

Dr Hellawell: Sports Direct.

Q172 Chair: So let me just be clear: this was a debt of USC's that was paid by Sports Direct?

Dr Hellawell: Because it needed to get its stock out. Sports Direct owned stock.

Q173 Chair: I understand that. I understand why you did it, but this was a USC debt that Sports Direct paid for its own advantage. Why did Sports Direct not then pay all the other outstanding debts?

Dr Hellawell: Because that was a necessary payment to get £10 million-worth of stock out.

Q174 Chair: So if anybody else had come along and blockaded the warehouse, you would have had to pay them as well?

Dr Hellawell: That is a hypothetical question.

Q175 Chair: Yes, I know. What is the answer?

Dr Hellawell: I don't know.

Q176 Chair: You don't know. Well, if you are prepared to pay a landlord who blockades, why do you think it is hypothetical whether or not you would have paid somebody else who blockaded? If the redundancy service or if HMRC had come along and blockaded the warehouse, would they have got paid?

Dr Hellawell: I cannot answer that because I would not know. At the time, a decision would have been made.

Q177 Chair: Who by?

Dr Hellawell: It would have been the chief executive.

Q178 Chair: Right, so can I just be clear then: the chief executive decided to pay the landlord and you were not consulted.

Dr Hellawell: No.

Q179 Chair: And the board was not consulted either?

Dr Hellawell: No.

Q180 Chair: And it would be this group of executives, including Mike Ashley, that would be aware of that decision?

Dr Hellawell: I don't know who else would be aware of that decision within the executives. They do talk to each other, but I could not say specifically who was directly—

Q181 Chair: But the difficulty about you not knowing—I sympathise with you, but we were told that you would be able to answer everything, basically. We wrote and said, “We want Mike Ashley.” The board said, “Keith Hellawell, he's the man. He'll be able to answer everything.”

Dr Hellawell: Correct.

Chair: But you're patently not.

Dr Hellawell: I can't answer for conversations between other people.

Chair: Absolutely; you're just confirming that you can't answer.

Dr Hellawell: Unless—

Q182 Chair: We should have had some of the people who had those conversations in front of us then, really.

Dr Hellawell: In relation to that, you sent a list of questions that you felt ought to be answered. The board felt that I was the best person to answer that list of questions. You are now getting into detailed discussions between executives and different people—lawyers, accountants—

Q183 Chair: To be fair, that's not true. We didn't send a list of questions; we indicated three areas that we intended to cover, which is not the same thing. This area that I am now exploring is certainly part of the area of the closure of UCS—sorry I mean USC; being from Clydeside, I keep mixing up UCS and USC—and the Dundonald warehouse. It is certainly relevant to that, so I must say that I don't accept that excuse.

Dr Hellawell: No, but you were asking me about conversations between individuals. I can't answer that.

Chair: We're asking about the same sort of issue—about who would there have been consultation with. I think we are pretty clear what the answer is. We are pretty clear that either you don't know or you won't tell.

Simon Reeve: Mr Chairman, what concerns me is that some members of the board who said that Dr Hellawell will be best placed to help us would have known that he had not been privy to what they had been doing between 14 November and the meeting in January. It seems that they suggested he was best placed to help us knowing that he was unaware of

things and, before he came here today, made no attempt to make him aware of things. It rather suggests that somebody has been put up as a bit of a sacrifice on behalf of the company.

Chair: To be fair, we do not know that the board decided that, because the letter came from the lawyers.

Q184 Simon Reeve: Yes, but the lawyers inform us that the board decided.

Dr Hellawell: The board did.

Q185 Chair: That is fine. So some members of the board would know that you didn't know some of these things.

Dr Hellawell: Well, yes.

Q186 Chair: But they still put you up.

Dr Hellawell: You say "put me up". You wrote to the PR company first, asking for Mr Ashley. That PR company sent it to his lawyers because they were not sure what it was about. I see the media sitting behind me. Mr Ashley has never refused to come to the Committee. I asked the chief executive, when I read in the newspapers all this nonsense about "Mike Ashley refuses," and that you were going to hang him and bring him and all this nonsense—

Chair: So we were—

Dr Hellawell: Not you, but some of the newspapers were saying, "He's bigger than all of this," and all of that, but that is just not true. When I saw this in the newspapers, I asked the company secretary, "What is this?" He said, "We've had no formal notification." I said, "Find out what it is." We got all of that through the lawyers. We had a meeting of the board, and we discussed it—discussed what it was all about—and the decision was that I would be the best person, as the chairman of the company, to present. So it wasn't a matter of being put up; it wasn't a matter of—

Q187 Simon Reeve: The letter says: "In any event, SDI's Board considers that Dr Hellawell is likely to be in the best position to answer any questions."

Dr Hellawell: That is correct.

Q188 Simon Reeve: So "put up" means put forward, not set up.

Dr Hellawell: Yes, sorry.

Simon Reeve: It turns out that you have been set up, but you didn't know that at the time.

Q189 Chair: Can I just clarify that the reason—we are just checking this with the Clerks—we wrote to the PR company was not because we would normally deal with PR companies, but because it was the only address we could find as a contact for Mr Ashley, so I am advised by the Clerks? If they got it wrong, it reached you eventually.

Dr Hellawell: Sports Direct, as you know, is so well known that if you go anywhere on a website or in a newspaper, you can see where the head office of Sports Direct is.

Q190 Chair: We were advised that the best contact was—

Dr Hellawell: I am not being critical; I just wanted to dispel the idea—

Q191 Chair: So he is willing to come, in principle?

Dr Hellawell: He has never refused to come.

Q192 Chair: That was not what I was asking.

Dr Hellawell: So the answer to your question is yes. He has never refused to come.

Q193 Chair: He is willing to come. We will pursue that in due course. That is very helpful to clarify, because our successor Committee will undoubtedly pick that up.

Dr Hellawell: If I may be helpful, on some of the issues that you have talked about, the chief executive would be by far the better person.

Q194 Chair: We might invite them both. We will obviously discuss this. I am conscious that we want to move on to other areas as well.

We have touched on the question of the floating charge. Can I clarify who is the brand owner for USC—the name?

Dr Hellawell: Sports Direct.

Q195 Chair: Right. There was an issue. Again, it is fascinating. I did not know all these things about pre-packed bits. One of the reasons why it was thought appropriate to sell the bits of USC in the pre-pack to Sports Direct was because, as mentioned, the brand and the copyright for USC were owned by somebody else. Because you owned the brand, it was much easier to sell it to you than to somebody else, because presumably it would be sold then potentially without the brand. I understand that. That obviously potentially affected the price that could be achieved on the market and would therefore presumably affect the amount of money that could be realised for the creditors, because if USC had been sold with the brand,

much more might have been realised and the creditors might have got some of their money back instead of, as I understand it, getting nothing at all. Does that seem reasonable?

Dr Hellawell: You are making that statement—yes.

Q196 Chair: I am indeed, and you are agreeing, I think. Can I clarify why the Sports Direct stock was in the Dundonald warehouse and what the relationship is between the Dundonald warehouse and USC, about which I am still slightly confused?

Dr Hellawell: It's really just to do with buying power. With the different businesses within that fashion side of the company, Sports Direct buys the goods because it has the buying power—by buying in bulk, we get it cheaper. That is the only reason Sports Direct bought that stock.

Q197 Chair: Sorry, Sports Direct were buying that stock on behalf of USC?

Dr Hellawell: Correct.

Q198 Chair: So at some stage—

Dr Hellawell: USC would buy it from Sports Direct.

Q199 Chair: Right. But they had not bought it yet.

Dr Hellawell: No.

Q200 Chair: Okay. That is helpful. Can I clarify one final point about this? It concerns the question of the £286,000-worth of customer vouchers. What happened there?

Dr Hellawell: I do not know. I cannot answer that question, I'm sorry.

Q201 Chair: Fine. You can presumably write to us about that.

Dr Hellawell: I will.

Q202 Chair: I think you can understand why we would be a bit miffed on behalf of ordinary people if they ended up with worthless vouchers. The honourable thing for the company to do would have been to make sure that those vouchers were honoured.

Dr Hellawell: I cannot answer that question. I will write to you.

Q203 Chair: I was moving on to a second question: the question of the honourable thing to do. Would you not agree that the honourable thing to do, because this is a wholly owned subsidiary of yourselves that has gone down, would be to make sure that ordinary members of the public who bought vouchers in good faith, and then found the business being transferred to Sports Direct, did not lose out? It may be that you have already covered this and you have already done the good thing, but I want to clarify whether you intend to do so.

Dr Hellawell: I don't know. I need to look at that. I don't know what we have done, and I don't know what the situation is, so I cannot answer the question.

Q204 Chair: Who would take a decision about something like that? Would that be the board?

Dr Hellawell: It would be the executives.

Q205 Chair: It would not come to the board, then.

Dr Hellawell: No.

Q206 Chair: Is it not potentially a reputational issue?

Dr Hellawell: It is a reputational issue, but the whole thing about this clearly has not helped our reputation. This is just one minor—sorry, significant—part of it that I was unaware of.

Chair: Right. Okay. We hope you will pursue that. Do colleagues have anything else that they want to pick up on about Dundonald and the circumstances generally?

Q207 Jim McGovern: Just one point—well, two points. On the timing of what happened at Dundonald, it seems to have been flagged up as early as the middle of November, and eventually it was closed in early January. I think you mentioned the Christmas market, Dr Hellawell. Was it not just a matter of, “Let's not consult the work force, because there is money to be made here over Christmas”?

Dr Hellawell: No, not at all. I repeat, there was never an intention to close Dundonald.

Q208 Jim McGovern: That you are aware of?

Dr Hellawell: That I am aware of.

Q209 Jim McGovern: The chief executive, or the deputy chief executive, might know otherwise.

Dr Hellawell: I would not have thought—

Q210 Jim McGovern: Looking at the lucrative Christmas market that you mentioned in your introductory remarks—

Dr Hellawell: In terms of your point, as far as Dundonald was concerned, a strategic decision had been made to take the footwear out of there and use just textiles, just the clothing. I would not have thought, and it is illogical to say, that the chief executive had a view to get rid of it when we were going to all that trouble to move all the stuff about through different outlets in the group.

Q211 Simon Reeve: What was going into it? Footwear was going out of it.

Dr Hellawell: Textiles was staying in there.

Q212 Simon Reeve: Textiles was staying there but what was going into it new?

Dr Hellawell: The problem was there was insufficient—

Q213 Simon Reeve: What was being moved? Shoes were going out and textiles was staying. What was arriving—anything?

Dr Hellawell: No.

Q214 Simon Reeve: No. So, why is that an indication then of planning for the future, rather than an indication of emptying?

Dr Hellawell: They weren't emptying. We are talking about that warehouse, and those warehouse facilities were inadequate. Therefore, there was insufficient space.

Q215 Simon Reeve: Yes, but you said your chief executive would not go to all that trouble if he was going to close it. But all he has done is move the shoes out, which is exactly what he would have had to do if he was going to close it.

Dr Hellawell: Well, no, because he would have had to move all the textiles out and everything, if he was going to close it, wouldn't he? He wouldn't leave anything in.

Q216 Simon Reeve: Yes. If you were going to close it, you would have to move the shoes and the textiles. So far, at the point we are talking about, he had moved the shoes. If you are saying he is not going to close it when he has gone to all that trouble, that presupposes that shoes go, but there is an effort made to reorganise elsewhere—

Dr Hellawell: Correct.

Simon Reeve: —and new things arrive in the warehouse. But that had not happened, had it?

Dr Hellawell: It hadn't happened because it happened so quickly.

Q217 Simon Reeve: So the shoes left and next minute it is closing down.

Dr Hellawell: No, no. There was no intention to close that warehouse.

Q218 Simon Reeve: That you and your board members were aware of.

Dr Hellawell: I am certain of that.

Q219 Simon Reeve: You don't know about your execs.

Dr Hellawell: Yes, I do know.

Q220 Simon Reeve: Your execs arranged for the shoes to go, didn't they?

Dr Hellawell: The execs arranged for a rationalisation of stock across—

Q221 Simon Reeve: Your execs are talking to administrators, moving out the shoes, using main company money to settle a debt, to pay off the owner of the premises, to get the shoes out. At the very least, whatever else it is consistent with, that is consistent with a plan to shut it down.

Dr Hellawell: I disagree.

Q222 Simon Reeve: Why is it inconsistent?

Dr Hellawell: It is inconsistent because the strategy was that because that warehouse is and had been inadequate for some time and we had extended on that site, we tried to make it work. There had to be a substantial decision to continue to make it work.

Q223 Simon Reeve: Why were the physical actions inconsistent with a plan that you were not aware of to shut it?

Dr Hellawell: I don't think they were. I think if you were going to shut it, you would take everything out of it.

Simon Reeve: It started with the shoes.

Q224 Chair: Can I clarify something? Is it your view that, had other things not happened, after taking the shoes out, the textiles would have been sufficient to fill the warehouse?

Dr Hellawell: Yes. There would have been other textiles going in, to continue in terms of the supply.

Q225 Chair: Fine. So, it would have been solely a textile warehouse and would have operated to full capacity?

Dr Hellawell: That is correct. We wouldn't use footwear from there.

Q226 Chair: Fine. Can you just remind me again why it then shut? It shut as part of the closure of USC.

Dr Hellawell: It shut because of the problems we had had in terms of the refusal of the landlord to let us deal with that sort of stock. Therefore, when it came to the decision for administration, we felt that the licence for that was coming up for that next year anyway; it was inadequate, although we were making it work by using just textiles; and therefore, why continue with it? Why continue with it when we had the opportunity in a pre-pack agreement for it to go? That was the business decision.

Q227 Chair: Can you just clarify why it was the landlord's fault? You seem to be suggesting something about the landlord. As I understand it, the landlord stopped you removing textiles. Are you saying he only stopped you removing shoes?

Dr Hellawell: He stopped us removing anything.

Q228 Chair: He stopped you. That was because you had not paid him his rent.

Dr Hellawell: He wanted his rent, yes.

Q229 Chair: That is not an unreasonable point, given how you had already been dealing with Diesel, is it?

Dr Hellawell: He was clearly aware, because it was out in the marketplace. People were aware that we were indebted to Diesel. You will have to ask him; I don't know.

Q230 Chair: You say "we". That is not the royal "we" of Sports Direct. This is the USC "we" or the wee "we", so to speak—the small "we" in that regard. The big Sports Direct could very well have continued to use that warehouse for textiles and it would have been a viable operation, but you took the opportunity of a row with the landlord, who, not unreasonably, was trying to prevent you from potentially running away from paying him his

rent—quite sensibly, as it turns out, because none of the people that were owed money by you are getting any of it back. The lease was up in a year anyway, so you took the opportunity when it came along and just shut it.

Dr Hellawell: Yes.

Q231 Chair: With 15 minutes' notice.

Dr Hellawell: Well, within the administration.

Q232 Chair: Can I just clarify the extent to which the closure was an integral part of the pre-pack? Presumably, from what you are saying to us, the pre-pack was of USC and you still had a role, potentially, for the warehouse, providing storage facilities for textiles on behalf of Sports Direct.

Dr Hellawell: Yes.

Q233 Chair: So in fact, the closure of Dundonald was not driven by the pre-pack at all. You just took the opportunity to lump the two together.

Dr Hellawell: Yes.

Q234 Chair: So if you were thinking of closing Dundonald, you need not necessarily have shut it at the time that you did, and you could then have had the opportunity to consult fully with staff.

Dr Hellawell: We could have, but we didn't.

Q235 Chair: I know that. I know that you could have, but you didn't. Why did you not, when you were actually breaking the law?

Dr Hellawell: The decision to close—not for that to be part of the deal—was when we went into administration.

Q236 Chair: No, you chose to put it into the administration. You need not have done. We have already established that you need not have done so. There was a viable future in the short term, certainly, for that warehouse continuing to provide textile storage facilities for Sports Direct, so you need not have put it in with the pre-pack. You took the opportunity to do so—

Dr Hellawell: Yes.

Chair: But had you not done so you could have had the appropriate consultation with staff that the law demands.

Dr Hellawell: I would think that is true.

Q237 Chair: No, it is true, isn't it?

Dr Hellawell: *indicated assent.*

Chair: Sorry, does that mean yes? Nodding is a yes.

Dr Hellawell: Yes.

Q238 Chair: So we have established that you did, quite callously and deliberately, develop a situation where these employees got 15 minutes' notice. Earlier in our discussions, you were trying to hide behind the administrators by saying that it wasn't you and that basically a bad boy did it and ran away, but we have now established that it was solely and entirely a Sports Direct decision.

Dr Hellawell: No, I don't agree with that assessment of it.

Q239 Chair: Okay. What part of that is wrong?

Dr Hellawell: It was our intention to retain that warehouse, even given the difficulties that we had with it and the difficulties that we had had with it all the time. To actually remove footwear and reorganise not just that warehouse but other warehouses was not an easy task. When we got the relationship, or whatever you wish to call it—when the landlord refused to allow us to take our goods out, the relationship with the landlord had failed and broken down. Therefore, I believe that it was a last-minute view that, in relation to the pre-pack and administration, particularly because this warehouse, although it would be viable—I agree with you—was not ideal and the contract for it was up within a year, it would go. That was a business decision. I would not call it callous. That is a term I would object to. It was a business decision.

Q240 Chair: Okay, can I just clarify the point about the relationship with the landlord breaking down as being a contributory factor to closure? That is one of the points that you made. As I understand it, the reason why the relationship with the landlord broke down was that you were not paying him. Now, if somebody did not pay me in these circumstances, I think that my relationship with that person might very well suffer somewhat.

Dr Hellawell: Please, I'm not saying we didn't contribute to the breakdown of the relationship.

Q241 Simon Reeve: How long did you not pay them?

Dr Hellawell: I don't know. I can get that answer, but I don't know.

Q242 Chair: How many other landlords were you not paying at that time?

Dr Hellawell: I don't know. I can give you that answer. I will have to—

Q243 Chair: Are you in the habit of not paying your landlords?

Dr Hellawell: No. We are in negotiation with a large number of landlords to reduce the cost of property, particularly with the market being as it is at the moment, but I can't give you a picture of—

Q244 Chair: No, no, but there is a difference between renegotiating—

Dr Hellawell: But I can't give you the answer.

Q245 Chair: No, can I just be clear? There is a difference between renegotiating your rent downwards and not paying. Now, I am not clear, from what you said earlier about Diesel, whether or not your company conflates the two, and whether one of the ways in which you negotiate your rent downwards is simply to refuse to pay it, as you were refusing to pay what you owed Diesel. Is that a company strategy in general?

Dr Hellawell: That is not a company strategy, no.

Q246 Simon Reeve: Is it a tactic that you ever use?

Dr Hellawell: We clearly used it in those circumstances.

Q247 Simon Reeve: Have you used it in other circumstances?

Dr Hellawell: I can't answer that question.

Q248 Simon Reeve: Why?

Dr Hellawell: I don't know.

Q249 Simon Reeve: You are the chairman of a FTSE 100 company, and you are in that role because you bring credibility to its board because of your previous history as a senior police officer and well-known business man. We now understand that on at least one occasion the company has tried to renegotiate a deal by withholding rent that it is legally obliged to pay, and has tried to force a supplier to continue supplying by withholding payments it is

contractually obliged to make. That sounds like some sort of back-street outfit. I am sure you are embarrassed to discover that, because you wouldn't want to preserve the reputation of a company such as that by sacrificing your own hard-won reputation, but can you understand that we struggle to understand why reputational matters such as this are completely unknown to you, the chairman?

Dr Hellowell: Yes.

Q250 Simon Reeve: Well, will you provide us, please, with the details of the occasions on which actual or threat of non-payment of rent has been used to negotiate, and actual or threat of non-payment to suppliers has been used to negotiate, so we can understand what sort of a company yours actually is?

Dr Hellowell: Will that information be given to me by the Clerk?

Chair: Yes. What we always do at the end of this is give you a transcript, and so on, and it will be clear there what the exchange has been, as well as the Clerk writing to you.

Q251 Simon Reeve: Can I just ask, finally, what you and, under your guidance, the other non-executive directors of this FTSE 100 company intend to do about its use of those tactics? The justification for your being on the board is to control executive members, especially in relation to matters such as this.

Dr Hellowell: Clearly, I am going to ask some searching questions of the board—the executives.

Q252 Simon Reeve: And I hope that you and the non-executive members will consider which of those people are suitable to remain on the board of this company.

Dr Hellowell: Okay.

Chair: Jim, you wanted in.

Q253 Jim McGovern: There were two points that I wanted to make earlier. One has been covered, and the second may have become more and more apparent as we have listened to the evidence. I am not from a business background, but in your introductory remarks you consistently referred to Diesel, and it almost sounds—to me, anyway—like Diesel were to blame for this closure. I couldn't quite grasp that. If Diesel supply polo shirts, training shoes, shorts or whatever it may be, and your company pays for them, why would they say, "We're not giving you any more"?

Dr Hellowell: We believe—I am speaking advisedly now, because this is a legal issue—that many of the suppliers refuse to supply or limit our supply because of our pricing policy. Our pricing policy is that we rarely charge recommended retail price. We are selling Diesel goods, and all other goods—Adidas, Nike, all those brands—cheaper than other stores in this country sell them, and in many cases we are selling

them cheaper than Diesel, Adidas and Nike sell them in their own stores, so we have this constant battle. It is only because of our size that they do not cut off our supplies altogether.

For example, Diesel, for no reason—we did not stop paying the bills; this was a negotiating ploy, and whether I am comfortable with it or not is a different issue—just said, “We are going to stop supplying you at the end of the year.” There was no reason. It is not that at that stage we had any bad debts and it wasn’t that the stores were not suitable, but they were going to stop supplying us. Other brands have stopped supplying us, we believe because of our pricing policy.

Q254 Jim McGovern: I am not from a business background, and perhaps I am being oversimplistic, but presumably Sports Direct or USC were giving millions of pounds to Diesel a year—

Dr Hellawell: Yes.

Q255 Jim McGovern: And Diesel just said, “We don’t want it any more.”

Dr Hellawell: Yes, and there are other brands—I don’t want to go into it here—that have suddenly decided that. We have taken all sorts of action and questioned them, because the consumer is losing out because the consumer is having to pay a higher price for those products in other stores than we are selling them at. To take your point, Mr Reeve, yes, we are in business, but we have relatively low margins and sell some things very cheap.

Q256 Simon Reeve: Did USC buy direct from Diesel, or did Sports Direct buy from Diesel and sell to USC?

Dr Hellawell: I don’t know. Again, I will have to ask.

Simon Reeve: You can see the significance—

Q257 Chair: Sorry, you said earlier that the stock in the Dundonald warehouse was owned by Sports Direct and then sold on to USC.

Dr Hellawell: Yes, we would buy—because of the consortium, Sports Direct have a bigger buying power, so we would buy from those people.

Q258 Simon Reeve: So who owed Diesel money? Which legal entity was refusing to pay Diesel?

Dr Hellawell: I think it was USC.

Q259 Simon Reeve: USC don't buy from Diesel; Sports Direct buy and sell to USC.

Dr Hellawell: Again, please, I will have to take notice of that question and give you the answer.

Q260 Simon Reeve: But you understand the significance.

Dr Hellawell: I do, yes.

Simon Reeve: Because if what you describe is correct, Sports Direct bought from Diesel and sought to manipulate by refusing to pay in circumstances where, in fact, you were at the same time treating USC as a separate entity to try to put together a pre-pack. In other words, it is Sports Direct that is leaning on Diesel on behalf of USC, but trying to treat it as a different company.

Dr Hellawell: I really will have to take notice on that.

Q261 Simon Reeve: I do not want to repeat myself, but it really seems to me that who is actually buying goods from suppliers on behalf of this company or its subsidiaries, as they effectively are, is something that the chairman of the company ought to have at least a passing knowledge of.

Dr Hellawell: indicated assent.

Q262 Simon Reeve: Have you taken your role at this company seriously?

Dr Hellawell: I certainly have, yes. I certainly have, and I think that if you see the growth, the profits and the increased wealth in the company—

Q263 Simon Reeve: You know the part of the role that I am talking about. Have you taken your role as chairman in relation to the sort of matters that we are discussing as seriously as you should have done?

Dr Hellawell: Yes.

Q264 Simon Reeve: Then how are we here, with you not knowing these things?

Dr Hellawell: Because we are talking about the detail of issues of that perhaps—

Q265 Chair: No, sorry, we are not talking about detail. We are talking about things such as whether or not you condone a company strategy of not paying rent as a bargaining tool. We are talking about whether or not you condone not paying suppliers as a means of renegotiating. We are talking about whether or not you are aware of the transfer pricing structures and therefore the way in which, if something closes, you can avoid paying by that

element going bust. These are not minute details; this goes to the heart of the style, manner and conduct of this company. It comes back to the question of whether or not you are there for much more than decoration, it really does.

Dr Hellawell: You make a statement.

Chair: Indeed I do. I wonder if we can maybe just move on to the next section, then.

Q266 Jim McGovern: Chair, just one last question, if you do not mind. Given how big a factor it was in the closure we have been discussing, if I went into a Sports Direct shop anywhere in the UK, would there no longer be anything from Diesel?

Dr Hellawell: There won't be when they have stopped supplying, now. Whatever they supplied in the past will be in there; but there will not be new supplies.

Q267 Jim McGovern: So that deal is finished, that contract.

Dr Hellawell: Yes.

Q268 Mr McKenzie: You are trying to describe a responsible company, Dr Hellawell, and we have to ask you, in respect of the USC employees and the redundancy payments, wage arrears and holiday pay, why do you think it is the responsibility of the taxpayer to pick up that tab, and not Sports Direct?

Dr Hellawell: I think in terms of that business the decision could have been made that the whole business went, which would mean the loss of approaching 1,000 jobs and considerably more cost to the taxpayer. We endeavoured to retain that business, to retain 800 jobs and minimise the amount of damage that was caused to individuals, and the cost that issued from that.

Q269 Mr McKenzie: But we see a pattern forming here: withholding payments to a supplier; not paying a landlord; and now sidestepping your responsibilities for the USC employees as well, and passing them on to the taxpayer. Is that a responsible company's approach to business?

Dr Hellawell: The majority of the USC employees are still employed; 800 are still employed.

Q270 Mr McKenzie: But the ones who lost their job.

Dr Hellawell: Yes.

Q271 Chair: You are a multi-billion pound company. Why should the taxpayer have to pick up the cost of a small number of redundancies? You could very well afford to do that almost out of your loose change.

Dr Hellawell: But that is not the nature of business, is it? That is not the nature of business.

Q272 Chair: Sorry—explain to me what the nature of business is. You try and dump on the taxpayer anything that you can get away with: is that the nature of your business?

Dr Hellawell: I do not think a company that has paid £1.3 billion is dumping on the taxpayer, to be fair. We bought out of administration somewhere in the region of 2,500 jobs over the last four or five years, by companies that were in administration that we have rescued. So I think it is unfair when we are talking about 83 workers, which is specifically what you are talking about: we have through other acquisitions, out of administration, created—retained, saved—2,500 jobs.

Q273 Chair: But to be fair, we are also talking about the £575,000 that you have managed to avoid paying to HMRC.

Dr Hellawell: That was part of the agreement.

Q274 Chair: Indeed it was. I wonder if I can turn now to the question of zero-hours contracts. Could you just clarify for us how many employees Sports Direct has as a whole, and how many of them are on zero-hours contracts?

Dr Hellawell: In relation to the UK rather than abroad, because they are different reels, we have about 19,000 employees—that sort of region—and we have 4,300 permanent salaried staff. The remainder are casual staff. We don't call them zero hours, but they are casual staff. The average hours that they work are 15 hours a week on average, across those staff. In Scotland there are 1,340 staff employed by the company, of which 250 or 260 are permanent salaried staff.

Chair: Right, you could maybe just give us the exact detail. I appreciate you might not have got all of it.

Q275 Graeme Morrice: You said that you had a number that were casual staff and you don't call them zero-hours contracts. Does that mean that those who are casual staff are not on zero-hours contracts, therefore?

Dr Hellawell: “Zero-hours contracts”—I can use that term, but I am just saying we do not use it. We use “permanently salaried staff” and “casual staff”. You would describe them as zero hours. Zero hours for me is a bit of a misnomer. It sounds like no hours.

Q276 Graeme Morrice: “Casual” could mean a number of things, which would include zero-hours contracts. It depends what you mean by casual.

Dr Hellowell: Casual for us would be what you describe as zero-hours contracts—it is just that I don’t like the term, that is all.

Q277 Chair: We don’t like the term, but we don’t like their operation, either.

Graeme Morrice: We don’t like zero-hours contracts.

Dr Hellowell: This is semantics. Zero-hours contracts sound as if you have no hours, that is all.

Q278 Pamela Nash: No guaranteed hours.

Dr Hellowell: That is correct.

Pamela Nash: That is what we take issue with.

Q279 Mr McKenzie: Are you saying that casual staff are guaranteed a fixed number of hours?

Dr Hellowell: No. I am saying that on average across the company—I will use the term zero-hours as that will save complication—our zero-hours staff work 15 hours a week.

Q280 Simon Reeve: Sorry, you were very good—you had a precise number. How many are there?

Dr Hellowell: We have 19,000 employees and 4,350—I think I said 4,800 before—are the permanent salaried staff. The remainder are on zero-hours—

Q281 Simon Reeve: So that is about 14,000.

Dr Hellowell: Yes. It’s roughly 25% of permanent salaried staff.

Q282 Simon Reeve: Your permanent staff are about a quarter of your work force.

Dr Hellowell: Yes. Just out of interest—this may pre-empt a question—a third of our permanent staff have come from zero-hours staff.

Q283 Graeme Morrice: Are you saying that permanent staff are full time, or does that include part time as well?

Dr Hellawell: No, it includes part time.

Q284 Mr McKenzie: When did you first develop zero-hours contracts as a policy for Sports Direct?

Dr Hellawell: It has always been there from the flotation of the company and it was there in the former, private company. It is regularly used in retail business and of course in local government and—

Q285 Mr McKenzie: So from day one you had formed that zero-hours contracts policy.

Dr Hellawell: That is correct.

Q286 Mr McKenzie: What made you form that policy? Why did you think that that would be the best mix of contracts?

Dr Hellawell: The need for flexibility, really, in employment for us in terms of opening hours, in terms of the different, changing demands through the days and weeks and seasons—just good practice in terms of the way in which you are supporting the business and the cost of supporting the business.

Q287 Mr McKenzie: What about the demands of your employees and the changes in their circumstances? How often do you engage with them to see if zero-hours contracts are the best contract for them or if they would like to move on to permanent contracts or change?

Dr Hellawell: The majority—80%—of people on zero-hours are under 25. So that section of the work force are relatively young. They are there for all sorts of reasons. A lot of university students like to work hours. We have a number of people who clearly do not want to work full time, who work part time with us—they like the flexibility.

Q288 Mr McKenzie: How often do you review that with them? Who would sit down with them and review the contract that they are on?

Dr Hellawell: We wouldn't review the contract with them. If they wished to—there will be negotiations or discussions at shop level about how many hours they want to work and about the changes in the hours of work. I am sure the ones who want to become permanent members of staff will have those discussions, but that will be done by local managers. With 19,000 employees it would not be done—

Q289 Mr McKenzie: So would it be the local managers who equally would intimate to the employees their hours for the week? If so, how much warning do they get for those hours?

Dr Hellowell: On Thursday of the previous week they are given the schedule of work for the following week. So they have the opportunity, and some of them take it, to change, swap and do that sort of thing.

Q290 Chair: Can I have clarity about why you make such extensive use of zero-hours contracts? It is my impression that in the retail sector you make more use of zero-hours than anyone else that we have come across. Why is that the case?

Dr Hellowell: I think if you look at the big American chains, I do not think that McDonald's and—

Q291 Chair: To be fair, they are not in retail. I was describing them as fast food.

Dr Hellowell: Right.

Q292 Chair: I'm trying to compare like with like. Of the shops on the high street selling things to people, my impression is that you make much more use of zero-hours than anyone else in the UK. Why is that?

Dr Hellowell: I suspect that, in percentage terms, we are probably not much different from other people in the retail business. It is just that we are so big, so the numbers are quite substantial.

Q293 Chair: Who else do you think has the same number of zero-hours staff as a percentage?

Dr Hellowell: I don't know. I haven't asked.

Q294 Chair: If you haven't asked, how can you make that assertion?

Dr Hellowell: I said that I was just suggesting that. I cannot prove it. I'm saying that perhaps other companies use this facility.

Q295 Simon Reeve: You gave the impression that you believe that you have a similar percentage to other companies but that yours is more noticeable because the numbers are larger. That is what you said. You made a positive assertion. If you did not mean to do that, please withdraw it, but don't treat us as fools.

Dr Hellawell: No, please. I did not make a positive assertion, because I do not know. All I am saying is that perhaps—that would be a better word—others use the same thing. I don't know which industries use it.

Q296 Chair: Perhaps they do, perhaps they don't. I am struck dumb. Quite frankly, I am astonished that, when I ask you about why you are such large users of zero-hours contracts, you suggest that other people use them too, and it turns out that you have absolutely no evidence whatsoever to base that on. Given that zero-hours contracts are controversial, I would have thought that you would have wanted to have briefed yourself about whether other people use them to the same extent as you do. I presume that the fact you haven't done that means that your position is untenable in the sense that nobody uses them as much as you do, which is the impression I have. Unless you can contradict this, can you clarify for us why you use them more than anybody else?

Dr Hellawell: Because it works for us and it works for the individuals themselves.

Q297 Chair: Leave aside the question of the individuals. How does it work for you?

Dr Hellawell: It gives us the flexibility of the work force. We have available the staff we need at the times we need them and for the number of hours that we need them.

Q298 Chair: Can I ask about the extent to which that flexibility is utilised? I can remember having a Christmas job at a post office, for example, and I was dealing with the rush, and so on. I can see that there are genuine peaks, and so on, in jobs like that, but from week to week and season to season surely you don't have enormous fluctuations. Surely you could offer people, say, monthly contracts or three-monthly contracts, or you could hire people on short-term contracts that have a much larger core that have a constant employment pattern.

Dr Hellawell: We could, but the situation we have in terms of casual staff works for us and, up until quite recently, we hadn't had any complaints or criticism from the staff.

Chair: You could. I think it is very helpful that you just said that, yes, you could. Unfortunately, I see that the vote is being called and, in these circumstances, we have to go and vote, but we are enjoying this so much that we will come back as quickly as we can.

Sitting suspended for a Division in the House.

Q299 Chair: I am sorry about that interruption. We expect other votes later this afternoon, but not immediately. I apologise if we have to leave again at some point.

May I come back to the question about the rationale for your emphasis on zero-hours contracts? You emphasised flexibility. Why do you need such a high degree of flexibility when, to the best of our knowledge, other firms in the retail sector do not have such a

requirement for flexibility, and the vast majority of their staff are on either permanent full-time or permanent part-time contracts?

Dr Hellawell: That is a decision for them, clearly. Sports Direct finds that it works for us. It is effective, and it provides us with the most effective work force in providing products and services to the community. It is as simple as that, really.

Q300 Chair: What does “effective” mean in that regard?

Dr Hellawell: We have the people there when we need them. They are there to support customers or do whatever when the customers are there, and we meet the demands of the customers by rotation of the scheduling of staff.

Q301 Chair: Is it a lot cheaper?

Dr Hellawell: I do not know that it is particularly cheaper. We pay the—what’s the word?

Q302 Chair: National insurance?

Dr Hellawell: No, the statutory—

Graeme Morrice: The national minimum wage?

Dr Hellawell: Yes, the national minimum wage, although 25% are paid higher than that, and they can have benefits for different incentive schemes that they participate in that they can earn more money.

Q303 Chair: Can I just clarify about bonuses and incentive schemes? We will come to bonuses later on. Do incentive schemes apply to the staff who are on zero-hours contracts?

Dr Hellawell: Yes.

Q304 Chair: The incentive schemes are sales-driven, are they?

Dr Hellawell: Yes.

Q305 Chair: I was told just the other day that some zero-hours staff are told that if they do not sell a certain number of long-life bags, or “life bags”—I don’t know the exact term—their hours in the subsequent week will be cut. Is there only a positive side to the incentive scheme, or is there a negative side as well?

Dr Hellawell: Obviously that is the case, because you have been told! There is no way we would countenance that. The incentive scheme is not in any way—should not

be—detrimental, or threatening or blackmailing of the individual. If that is the case, then we would deal with it and the managers would deal with it. The sales incentive schemes are that there are targets for stores, and when they sell so many of whatever—those things—they get a reward for that.

Q306 Chair: I can understand that, but—

Dr Hellawell: If a manager or anyone is doing that—saying, “If you don’t do it, you will be penalised in your hours”—that is wrong, and that is something that we would stamp out and deal with very firmly.

Q307 Chair: But, you see, it shouldnae be the case that I have to raise that with you in a meeting like this, should it?

Dr Hellawell: Well, no. In terms of the issues that we have had over the past few months, we have put a new training programme in place within the company. We have made it very clear to all the managers and supervisors what is expected of them, and certainly the practices that they should not adopt. So it is not just me telling you we have done that.

Q308 Simon Reeve: So how are hours allocated?

Dr Hellawell: That would be determined by the local store manager.

Q309 Simon Reeve: I understand that, but by what criteria?

Dr Hellawell: I can’t answer that question. The basic criteria are to increase sales.

Q310 Simon Reeve: But you have just put in a new training programme to deal with the problems that you had. The heart of that must be the criteria to be applied when allocating hours, because the problem you are trying to solve is hours being allocated in a punitive way. So what criteria do your managers use when determining how to allocate hours?

Dr Hellawell: This has not been raised with us as a big issue, first. It isn’t as if we have had massive feedback that there are people abusing the position they are in—

Q311 Simon Reeve: But you’ve done a new training programme, so it’s been an issue. What criteria are applied for the allocation of hours?

Dr Hellawell: I don’t think the two relate to each other. The allocation of hours is determined by the manager’s view on what goods he or she has to push, in terms of the likely demands for the following week.

Q312 Simon Reeve: That is the number of people, isn't it?

Dr Hellawell: That is the hours that are allocated between the individuals.

Q313 Simon Reeve: How do you decide between John and Fred? How do you decide whether John gets four hours and Fred gets 10 hours, or none-14, or 7-all, or whatever?

Dr Hellawell: That is genuinely due to negotiation and discussion. A lot of that will come from the individual themselves, who only want to work certain hours, who only want to work outside picking up and dropping off from school, who only want to work—

Q314 Simon Reeve: Presumably, if somebody does very well, they'll be offered more hours, because you want to keep your best player on the pitch, don't you?

Dr Hellawell: Not necessarily, because many of our employees do not wish to work longer hours; they wish to restrict their hours to what they are doing.

Q315 Simon Reeve: But it's unlikely that you would prioritise your least effective salesman, in terms of allocation of hours, isn't it?

Dr Hellawell: Well, I think that is logic.

Q316 Simon Reeve: It is self-evident—right. So the hours will go first to the people who perform better.

Dr Hellawell: Not necessarily, because when someone comes for a job—there is a job advertised and we have large numbers of people applying for these jobs—they will then say what they would like to work. We say what's on offer; they will say what they'd like to work.

Q317 Simon Reeve: I understand. So your best guy only wants 20 hours; that is fine. It then trickles down to the second best guy, and by "best" I mean "able to sell", and you put your best team out first. And the less able you are to sell, the fewer hours you are likely to get. Otherwise, you'd be mad to run a scheme like this, wouldn't you?

Dr Hellawell: Yes, but in any other business if people are not selling they lose their jobs.

Q318 Simon Reeve: Yes. I'm not suggesting you're doing anything wrong; I'm just wondering why you're being so evasive about it.

Dr Hellawell: I'm not being evasive. Please—why do you say that?

Q319 Simon Reeve: Because all I've asked you is whether you prioritise the hours to the people who are best able to do the job, and I would have thought you'd say, "Yes, of course we do".

Dr Hellawell: And I said no, because the hours are prioritised in many instances by the hours that the people—particular individuals—wish to work.

Q320 Simon Reeve: Yes, and then you move on to the next person, who is the next best person, and you give them the hours they want. And so, as you move down, it's a sort of cascade effect, isn't it? The good people take the hours they want and the remaining hours cascade down on to the people who are less able.

Dr Hellawell: You can describe it like that, but I don't think it is as objective as that; I think it is much more flexible than that.

Q321 Simon Reeve: Right. Well, you tell me then—you're the chairman of the company.

Dr Hellawell: Well, I'm telling you—

Q322 Simon Reeve: How does it actually work, then?

Dr Hellawell: The baseline is that a manager will have the resources available to him or her. He or she will deploy those resources in the best times and the most efficient way to produce the product at the end of the day, which is sales. Within the mass of that, you have got different variables of the hours and the demands and all of that. You have got a number of variables as well, in terms of the work force; some workers might wish to work 40 hours a week, while some may wish to work only five. So that is the sort of melée.

I think it's logical to say that if you do come down to a choice, you would put the best people first; that's logical. But I don't think it's just as simple as saying that you work down from the best people, because, as you say, the best salespeople may not wish to work more than five hours.

Q323 Simon Reeve: And what steps do you have in place to make sure there is no discrimination against people, perhaps because they complain that they did not get enough shifts or perhaps because they raise issues of health and safety, or anything like that? How do you make sure that hours are allocated fairly—allowing for performance differences?

Dr Hellawell: That, first, is the responsibility of the managers.

Q324 Simon Reeve: But they must have some framework to work within.

Dr Hellawell: Correct. They work within a framework. Certainly the new training programme is very clear that there will not be discrimination, and there certainly will not be any penalisation of people who choose not to work or choose not to work additional hours.

Q325 Simon Reeve: And how is that monitored, because obviously a manager may not necessarily tell you that he has discriminated?

Dr Hellawell: It is monitored by human resources.

Q326 Jim McGovern: Dr Hellawell said something about not getting a great deal of feedback about people being unhappy about zero-hours contracts. How do you know that? Do you conduct an employee survey once a month or once a year?

Dr Hellawell: We have the facility for employees to give feedback without going to the manager—whistleblowing, or whatever you call it. We have that facility. We have an outside agency responsible for that, so that no one feels uncomfortable if they are going to report a manager—they can do it through an outside agency.

Q327 Jim McGovern: But on this particular question of zero hours?

Dr Hellawell: Yes, on anything.

Q328 Jim McGovern: But, presumably, if there is such a thing as a questionnaire, your organisation will decide what the questions are.

Dr Hellawell: No. In terms of the feedback, and in terms of the outside organisation that does this, it's a very broad picture. People can feed back anything that they are unhappy with. If we got feedback that zero hours or this sort of thing was a trend, the HR people would feed that back to the board, and we would clearly ask what was going on. We haven't had that specific issue fed back, hence my point that—

Q329 Jim McGovern: I see. In terms of your current contract, are you on zero hours? Do you just get paid when you're called in?

Dr Hellawell: Me?

Jim McGovern: Yes.

Dr Hellawell: Well, no. There's a provision. I'm not on zero hours. I get a salary, as chairman of the company.

Q330 Jim McGovern: And in your previous career, in the police service, it would definitely not have been zero hours?

Dr Hellawell: I was on zero hours when I worked in a shovel works. I was a coal miner for five years. I wasn't on zero hours as a coal miner, but I only got paid if I filled enough off the shift. Working in a shovel works, I was on zero hours, because I did it in school holidays. After work, I worked in a bread shop on zero hours. They asked me to go in when they wanted me. In the shovel works, I went to fill in and had to go if they wanted me, so I have been on zero hours.

Q331 Jim McGovern: I am sure you agree it is reminiscent of the docks or the boat yard, where people were told, "You're in. You're not—there's nothing here for you today."

Dr Hellawell: Yes, I've had that in the shovel works, definitely.

Q332 Jim McGovern: And were you comfortable with that?

Dr Hellawell: No, I didn't like it—of course, I didn't like it.

Q333 Jim McGovern: But you're comfortable with Sports Direct doing it?

Dr Hellawell: Because we're not doing that. If there are instances of that—and you say there are, so I accept that there are instances of that—it's wrong, it needs stamping out and it shouldn't happen. So we have a number of mechanisms—three, really. One is that the board has made it very clear through the staff that we will not tolerate that, and I've personally spoken to HR—I've been involved with this for more than 12 months. Two, we have an outside agency through which all the work force can air their grievances—it is not done through the management. Three, we have training for the management, and we have dictated to the management that this must not happen. With 19,000 employees, I am not sitting here just saying it will never happen, but it doesn't happen with the board's authority—it is totally against the ethics of this company.

Q334 Chair: On this point you make about ethics, you have to remember our previous discussions, in which it was established that you refused to pay your rent to strengthen your hand in negotiations, and there were a number of other reprehensible practices. You are telling us about your ethics, but excuse us if we do not take that entirely on board. We have to assume, not unreasonably, that a company that, as we have already established, behaves extremely badly towards its suppliers and the taxpayer is also likely to behave in a less than perfect manner towards its staff. Does that not seem reasonable to you?

Dr Hellawell: No, because you are using one set of circumstances in isolation and saying that that applies to the whole corporation and the whole company, and I don't think that's fair.

Q335 Chair: Okay. Can I ask about your staff turnover? How does it compare to industry standards?

Dr Hellawell: We are better than industry standards.

Q336 Chair: How do you know?

Dr Hellawell: Well, I asked this question because I was coming here and tried to find out. I can't give you data. It is one thing that I will come back to you on, but I am assured by HR that our turnover is lower than in other comparable industries. I am assured of that.

Q337 Chair: If you can give me data but do not have it just now, I am prepared to accept that. If you will let us have it, fine. You can see, obviously, how that is an issue. It would be helpful if we had the data divided into your full-time permanent staff and your zero-hours staff.

Dr Hellawell: There is higher turnover among zero-hours staff, clearly, than among the permanent staff.

Chair: I understand that.

Dr Hellawell: I have two grandchildren working on zero hours while they are at university. So you have that churn of people anyway.

Chair: I understand that completely. We want to clarify, though—

Dr Hellawell: Why we are better.

Q338 Chair: It would also be helpful if you tried to clarify for us some things about the make-up of your work force. I understand entirely the point about university students. You mentioned what you did when you were at school. I used to ride a Co-op message bike and worked as a tyre fitter when I was at school. That is not normal people, so to speak; that is people at a particular time in their lives.

I want to clarify your understanding of the impact of zero hours on, say, people who want to get a credit card, a mortgage or a loan and have to provide proof of earnings. Our experience from speaking to people is that they absolutely hate zero hours because they cannot produce an earnings record—certainly not one that allows them to take out a mortgage or even, in many cases, get a car loan or anything similar. How do you deal with that? It must cause difficulties for your employees. Do you just accept that people who want these sorts of thing have to go somewhere else?

Dr Hellawell: We employ a substantial number of people, and we have no shortage of people who come to work for us. That is the case, certainly, for people with certain hours, and it is difficult for them. But we are finding employment for them. Many of them would not have any employment at all if they were not employed by us.

Q339 Chair: That is absolutely correct. The lesson that I draw from that is that they have come to you because they are desperate; there is no alternative. The interesting issue is whether people would still come to you if they had a choice. I wonder whether you have fully considered that.

You seem to be admitting to us that these hours and the provision that you make do not suit people who are looking for mortgages, loans or anything similar. You are clearly able to run your business on the basis of simply short-term employment—students and the like. If that is your model, I understand that. I just want to be clear that that is what you are saying to us.

Dr Hellawell: We have people—again, I will have to give you a percentage—who are short term and some who have worked for us for a substantial period on zero hours, as it is described. Our churn is—I need to give evidence of that, but I am assured that our churn is lower than comparable companies that have used zero hours. As I say, a third of our permanent salaried staff have come from zero hours, and a number of people have worked for us for a number of years on zero hours.

Q340 Jim McGovern: Is that regarded as progress, moving from zero hours to a permanent contract?

Dr Hellawell: I suspect that it is for some people but not for others. Others would be happy to stay as they are with that flexibility and those hours.

Q341 Jim McGovern: You talked earlier about incentives. Is the incentive, “Keep your nose clean, do as you’re told, come in when we ask you to come in and you might end with a permanent contract”?

Dr Hellawell: That may be the case for some people. I could not answer that question.

Q342 Pamela Nash: You talked earlier about how the flexibility of these contracts suits both the company and staff. Personally, I am—and other Members here are—always careful to talk about the abolition of exploitative zero-hour contracts, with the recognition that sometimes zero-hour contracts suit the lifestyle of people who are on them. However, we have also seen much evidence in this Committee, and in our own constituencies and beyond, that some companies do exploit zero-hour contracts, and that staff are on those contracts because they cannot get work elsewhere. Although people might have decided to take such a job, it was out of a lack of choices. Within Sports Direct, is it possible for your members of staff who are on these contracts to switch to a guaranteed hours contract at their request?

Dr Hellawell: Not—I don't think it is. I think there is the possibility of that, yes, but it is not the laid-down policy that someone comes to work for us as a casual worker and their choice is then to become a permanent worker. That would not be their choice. I think that when the permanent worker vacancies arise, applications will come from them and, as I have said, a third of the permanent staff have come from that. So, clearly, it is an avenue of recruitment. To answer your question directly, the choice would not be the employee's to change the status of their employment.

Q343 Pamela Nash: So when those vacancies come up, would it be practice in the company primarily to recruit from existing employees in the company?

Dr Hellawell: Internal.

Pamela Nash: Okay, so they are only advertised internally.

Dr Hellawell: We do advertise, but a large proportion is done through internal promotion.

Q344 Pamela Nash: Would that procedure involve management or store managers then having conversations with the people on zero-hours contracts and asking if any of them wanted to switch to these contracts?

Dr Hellawell: The information that goes out on the web would clearly say what those vacancies are. We do advertise. I know that they put some sheets up with vacancies—I have seen them—for people to apply, if they choose.

I am satisfied that the casual work force on zero hours are made aware, and are aware, of permanent vacancies. I suspect that some of the managers will actually say to their people who they believe are very good that there is this vacancy coming up. I am presuming that will be the case.

Q345 Pamela Nash: Okay. In light of the bad publicity that Sports Direct has had on this issue recently—including, indeed, in our inquiry—is it something that you would now question in your model for employing staff? Would you consider moving towards more minimum guaranteed-hour contracts rather than zero-hour contracts?

Dr Hellawell: This issue has been debated and discussed by the board. We are awaiting a paper from the HR department on that issue. Moving forward on where we are with this and what is going to be the future, particularly with potential legislation. We comply with the law, as you know. Again—

Q346 Chair: Sorry, we have already clarified that you don't.

Dr Hellawell: In relation to labour and the rest.

Chair: Yes, all right. Okay.

Q347 Pamela Nash: Dr Hellawell, the report that you are expecting from the HR department, is that a result of consultation with all staff? Who exactly is producing that report?

Dr Hellawell: It is a result of the criticism that we have had. We did discuss some months ago whether we should have—not directly—a survey of the work force. As there are legal cases going on, our legal advice was that it would be inappropriate to do that at this time.

Q348 Pamela Nash: I am not a lawyer and cannot argue with that, but I find it difficult to see why that would interfere with it. With over 1,000 staff in Scotland in this position, and many more across the country, it would be sensible. You have said today that your belief is that these contracts suit your staff, so it would seem sensible for you, as the chair of a company, to go back and ask the staff whether it does suit them.

Dr Hellawell: This is what we have asked. The consequences of making people permanent salaried employees would definitely mean a reduction in the size of the work force. We would lose a number of jobs, which leads to questions such as, “How many?” and, “What would that mean?” Those are the issues that we are looking at.

Q349 Pamela Nash: Why would it result in a reduction? If you said that the average is 15 hours, why couldn’t you give a minimum guaranteed contract of 15 hours, which would suit many students and others?

Dr Hellawell: Just because the average is 15 hours does not mean that everyone works 15 hours. Some will work 40 hours and some will work 5 hours. Therefore, to put people on the contract that they want, rather than giving ourselves the flexibility to change the number of hours that they work, would restrict us, and we would definitely reduce the number of jobs.

Q350 Pamela Nash: It’s a minimum. We are talking about a minimum, so you could extend it.

Dr Hellawell: I’ve answered that; we are looking at the matter and the board has asked for a paper on what the consequences would be. I do not have that paper and do not have the results. What I do know is that fewer people would be employed by Sports Direct.

Q351 Chair: I think that Pamela has raised a point with you about why that would be necessary. You have established that the average would be 15 hours. However, as you say, there would be a variety. I understand completely your point that people would not be able to pick the number of hours that they worked, because everybody might then say that they wanted 40 hours. You indicated earlier that it suited some people—perhaps a mother who needs to drop her child off at school—to have a guaranteed contract of 12 hours a week or 10

hours a week or 5 hours a week. That would not automatically result in a reduction in the number of jobs, except perhaps at the margin.

Dr Hellawell: Our advice is that it would mean a reduction in the number of jobs, but this is not particularly productive for me and maybe not for you because I do not have that paper.

Q352 Pamela Nash: When is the paper due to be published?

Dr Hellawell: I can't remember. It is one of many things that are going on.

Q353 Pamela Nash: Is it the intention that it be made available to all staff?

Dr Hellawell: It is intended that the HR people report to the board in the first instance, so not at the moment for the staff.

Q354 Chair: What sort of time scale do you have for that coming to the board? I didn't catch your answer.

Dr Hellawell: I can't remember. As I say, it is one of the issues—

Q355 Chair: This year? Next year?

Dr Hellawell: It will be this year. It is not long-grass stuff.

Q356 Chair: If the Government introduce legislation to abolish exploitative zero-hours contracts, you presumably will be able to change your business model to accommodate that.

Dr Hellawell: We will be anticipating what may happen in advance of that in order that we are ready for it.

Chair: Fine. I just want to be clear—

Dr Hellawell: May I take exception to the use of “exploitative”? It's a very emotive term. We care for our staff and look after them and we employ a lot of people.

Q357 Chair: I use that expression because the Opposition have said that they would abolish exploitative zero-hours contracts, so that will presumably be reflected in the terms of the legislation. You may remember that when the national minimum wage was being mooted people suggested that if it was introduced the sky would fall in and the economy would collapse. I just want to be clear that, from your point of view as a company and leaving aside the question whether there might be adjustments at the margin, you would be able to cope with the abolition of what have been termed exploitative zero-hours contracts and that you could accommodate the new legislation.

Dr Hellawell: A, we would be able to cope. B, we would comply fully with the legislation. C, it could well adversely affect our business by reducing the number of people involved. It would also reduce flexibility, which could affect the outcome of our business.

Q358 Chair: Explain this point to me about adversely affecting the outcome of your business. What does that mean exactly?

Dr Hellawell: At the moment we have the flexibility to deal with our work force to respond to the demands of the business. Once you put people on permanent contracts where they have, as you say, maybe five, 10 or 15 hours, it takes away that flexibility.

Chair: I understand that.

Dr Hellawell: And taking away that flexibility could adversely affect the way in which we run the business.

Q359 Chair: Are you saying to us that it would add costs and it would therefore—

Dr Hellawell: Yes, it would add costs.

Q360 Chair: Right. It would add costs, affect your pricing presumably and affect—potentially—your profit, though since you are in competition with other people who would also be affected by the same legislation, if you have a comparative advantage, then that presumably could continue. If everyone is affected by the same legislation—

Dr Hellawell: The competition from other people—we are already pricing cheaper than anyone else. We could not really price any cheaper—well, we could price cheaper, but we would go out of business.

Jim McGovern: A race to the bottom.

Dr Hellawell: Yes.

Q361 Chair: My point is that if you see the abolition of zero hours as a burden, it would be a burden for everyone else as well so your relative competitive position would not be affected, presumably.

Dr Hellawell: The relative competitive position would not, but the actual position of our sales as a company would be affected. But I have said that we would embrace and support any legislation that comes out, and we would do it with good grace. One of the reasons for this paper is to anticipate what that would be and what that would mean for the company. That is it.

Q362 Chair: Those of us who support the proposed legislation are, I think, very heartened by that—that people like yourselves who have been seen to be using zero-hours contracts in this way are already planning for potential changes. That is very constructive and helpful.

May I go back a stage? You mentioned legal action. I wanted to clarify what progress you have made on fulfilling the terms of your settlement with the former Sports Direct employee Zahera Gabriel-Abraham. Is that the case to which you are referring, or is there a different case?

Dr Hellawell: There are other cases. Not in relation to this zero-hours thing, but there are other issues. Not in relation to this.

Chair: Right, not in relation to zero hours. But the—

Dr Hellawell: As far as zero hours are concerned, we revised the contract to make it clear what the responsibilities of the employer and the employee are. We posted that in all our workplaces, all of those are posted and we have put it on the net. So we have done—

Q363 Chair: So you have done all of that, then.

Dr Hellawell: We have done it, yes.

Q364 Chair: Fine. So the progress you have made in fulfilling the terms of your settlement is that you have done everything.

Dr Hellawell: We have.

Q365 Chair: Fine. That is just what I want to clarify. But why did it take the threat of legal action by a former employee to make you do all that? I think the points were to formulate and publicise policies on basic employment rights such as sick pay and holiday pay for staff on zero-hours contracts. Why did someone have to take you to court to make you do that?

Dr Hellawell: I think because that issue had not been raised. It had certainly not been raised with the board. It had not been raised by HR people. When that case was raised I spent some time with the HR people, because having run large organisations I am certainly concerned about the work force.

Q366 Chair: But wait—are you seriously telling me that the fact that you were treating your employees so badly that you lost a court case that forced you to start treating them properly had never been discussed by the HR department or raised with the board?

Dr Hellawell: May we unravel that? You said that the court found that we were treating our employees badly. The court decision was saying that as far as the contracts and the issues within the contracts were concerned, we were compliant. What we hadn't done was to make that clear to the employees. They did not say that

we should change any of the things or that the contract was wrong. What we have done is make that clear.

The point I am making is that that had not been raised. That is something I said earlier. Through all our channels, we hadn't had a groundswell of opinion or people telling us that they were unhappy or that there were issues with those contracts. That is what I am saying. As soon as that was raised, I personally got involved in it.

Chair: What that tells me is that your feedback loop clearly is not working. The fact that it had to go to court to get these things progressed is an indication that the informal mechanisms were not effective. That is the lesson that, I think, it is not unreasonable for someone such as myself to draw. Perhaps you ought to reflect on that. There are so many things you are taking back that I am sure you can take that back as well.

Q367 Jim McGovern: On the subject of the feedback from employees, we have seen an example of a contract. It almost binds any employee to some sort of code of secrecy. That seems to contradict what you are saying about how employees are allowed to speak up and say that they are not happy with things.

Dr Hellawell: I think that the contract you have seen has gone now, so it is no longer the contract.

Q368 Chair: We have seen a new one, to be fair.

Dr Hellawell: You have?

Q369 Chair: Yes. And the new one says the same thing. You have seen the new contract, I presume?

Dr Hellawell: Yes. You said bound to secrecy—

Chair: Let me just see if I can get the exact wording.

Q370 Jim McGovern: Well, let's say confidentiality. It is the same thing for me, if your boss says, "You're not allowed to criticise me."

Dr Hellawell: I don't think it says that, does it?

Jim McGovern: Those aren't the words in the contract but it is certainly the implication.

Q371 Chair: On confidential information, it says: "You shall not use or disclose to any person either during or any time after your time working for us any confidential information about business affairs, other affairs, or about any other matter which may come to your knowledge as a result of working for us." In those circumstances, the story that has come to me about having a disincentive bonus—so that if you do not sell the long-life bags you are

penalised in terms of your hours—should not have been told to me under the terms of this contract.

Dr Hellawell: The latest contract is a letter. That is the second contract, as it were. Now people get a letter.

Q372 Chair: Well, because we had a copy of the old contract, we asked your lawyers yesterday, “Is that still in operation? If not, send us the new one,” and this is what they have sent us. So it is reasonable for me to assume that this is—

Dr Hellawell: Subsequent to that is a letter.

Q373 Chair: What, subsequent to yesterday? We asked them yesterday to send us the new contract. It arrived today. Are you saying that something has happened since then?

Dr Hellawell: No.

Q374 Chair: So the lawyers didn’t send us the whole thing, then?

Dr Hellawell: They now get a letter. That is what I regard as the second contract. Now the casual staff get a letter. Let me please come back to you on that, because I do not know what the lawyers have sent you. I have seen the contract, but I do not know what the lawyers have sent you.

Chair: Okay. There are times when you feel like giving up, but, Pamela, do you want to pick up point No. 9?

Q375 Pamela Nash: Dr Hellawell, you mentioned bonus arrangements for staff earlier. First of all, can I clear this up? The figures I have from the company website are that there are 28,000 staff, but earlier you said there were 19,000.

Dr Hellawell: That is the international figure. I gave you the UK staff, which is 19,000.

Q376 Pamela Nash: Okay. The quote I have from you is that 19 million shares were distributed to around 2,000 employees.

Dr Hellawell: Just over 2,000, yes.

Q377 Pamela Nash: Is that 2,000 within the UK?

Dr Hellawell: That is within the UK, yes.

Q378 Pamela Nash: So 2,000 out of the 19,000. That is quite a small number from the 19,000. What were the criteria for staff to get that bonus?

Dr Hellawell: The share bonus scheme, if I can call it that to distinguish it from other incentive schemes that everyone is aware of, was brought in to incentivise the permanent staff. We believe it has worked. The benefits that those salaried, permanent staff gain are benefits that are normally reserved for executives and chief executives on a board. For example, on the first scheme, a £20,000 employee in a store received somewhere in the region of £75,000 or £76,000 at the end of the scheme. Life-saving sums were paid to the individuals who qualified, but first, they were permanent, salaried staff, and secondly, they had been with the company continuously for a certain amount of time when the scheme was set.

There was a great deal of discussion, because some of the investors were concerned that giving that level of shares to the employees would dilute the value of the shares, but the board felt that it was fair and equitable to the permanent staff. You can see from those figures that there is absolutely no way that it could be given at that level across the board. It is probably the best share bonus scheme of any company in the United Kingdom for those who get advantage from it. Clearly, a number of them don't get any advantage from it.

Q379 Pamela Nash: I don't doubt that, and I can't compare it. Are alternative schemes available to those who are not on it?

Dr Hellawell: Yes. As I was saying, there are incentive schemes. One recently was for selling football socks. They have targets, and if they sell those socks they get money—they get a bonus. But it is not the share bonus scheme.

Q380 Pamela Nash: On the share bonus scheme, just to be clear, you said it was not zero-hours, but flexible contracts, but even if they are working 40-plus hours a week—you indicated earlier that some of them do—they still are not entitled to it.

Dr Hellawell: If they are not permanent employees, correct.

Q381 Pamela Nash: Okay. It does seem unfair that staff who work those long hours are not entitled to something. I know you said that there are sales incentive schemes, but that is a bit different. The language used around this is particularly painful. You talk about gratitude, and how it reflects the hard work and dedication of the permanent staff. I have no doubt that they are hard-working and dedicated, but surely many of those who are on zero-hours contracts are just as hard-working and dedicated to the company.

Dr Hellawell: I can understand that. As you may know—I don't want to go into too much detail—some of those particular people you mentioned are questioning legally whether that should be the case. I don't know whether you are aware of that.

Chair: Yes.

Dr Hellawell: One of the legal cases I mentioned was that some of the casual, zero-hours staff, who worked for substantial periods for substantial hours, are taking action against us and saying exactly what you are saying. But clearly I can't comment on that.

Q382 Pamela Nash: It is quite well documented that basic employment rights are not available to people on zero-hours contracts, rather than permanent contracts. This just seems like an additional kick in the teeth. It is something else that they are not entitled to as a result of their contract, even though they are working the same hours and just as hard as many who are on permanent contracts.

Dr Hellawell: I understand, but you can understand that I can't really comment on that.

Pamela Nash: I appreciate that.

Chair: Okay. I think we understand why you can't comment on that at the moment.

Q383 Jim McGovern: On the subject of pensions, Doctor, it would appear that Sports Direct, compared with the FTSE average payment into staff pensions of £3,000 in 2014, pays on average £82 per employee into pension schemes. That sounds absolutely diabolical, to be honest. I don't know how you would justify or explain it.

Dr Hellawell: Other than the companies we have acquired that have pension schemes that have been TUPE'd across to us, we don't have a company pension scheme, but we are obviously subscribed to the national pension scheme for all employees who choose to get involved. As far as those figures are concerned, those are the figures. And as far as those figures are concerned, we comply or we are part of the national scheme and contribute to the level that we have to within the national scheme, the Government scheme.

Q384 Jim McGovern: Another race to the bottom: "How little can we get away with?"

Dr Hellawell: That is what we pay.

Q385 Chair: Yes, you did say that you pay what you have to pay.

Dr Hellawell: Yes.

Q386 Chair: But you don't pay anything that you don't have to pay.

Dr Hellawell: No.

Q387 Chair: Do you think that that is appropriate?

Dr Hellawell: I think you'll find it's the ethos—I keep using these words and you'll start having a go at me. That is the way the company operates. The chief executive is the lowest-paid chief executive among the FTSE 250 companies and maybe the FTSE 350 companies. It's a very, very low salary, and everything is based, as far as he is concerned and the executives other than Mr Ashley, on performance. That is the policy that operates throughout the company. Mike Ashley gets nothing at all. He doesn't receive anything, or expenses—nothing. Therefore, the—

Q388 Jim McGovern: Does that apply to you?

Dr Hellawell: No, I get paid.

Q389 Jim McGovern: No, are you a member of an occupational pension scheme?

Dr Hellawell: No.

Q390 Jim McGovern: But obviously you have quite a healthy pension from the police.

Dr Hellawell: The chief executive is not part of a pension scheme. The executives are not part of a pension scheme. They don't get car allowances. It's a very, very, very tight organisation in terms of finances.

Q391 Chair: But they are, presumably, in share schemes.

Dr Hellawell: The bonus scheme, but no, all the share schemes we threw away; we disbanded them. There is only one scheme, which is the bonus share scheme. The new one includes everyone, including the executives, but before, there was a work force share scheme and an executive share scheme. But the executive share scheme was harder because if they did not hit the targets in each of the three years, they got nothing, whereas the work force, if they hit the targets each year, got their benefit. There are no other share schemes, no other LTIPs, nothing. So if the chief executive and the executives, excluding Mike Ashley because he gets nothing, don't hit the targets, they get nothing.

Q392 Chair: Sorry, but I can see that a vote is being called. We have two alternatives. We have covered just about everything that we wanted to cover unless I am mistaken. I indicated before we started that if you wanted to say anything to us at the end about points that we had not covered, you could do so. We can do that very quickly now, or we would be willing to come back and hear it after the vote if you wish.

Dr Hellawell: No, I'm happy. There are many issues that you have raised that I need to take away, and I will take them away and respond to them. There are actions that

certainly I will take that have come up through this meeting. I won't say I've enjoyed it, but I think it has been very focused and in some ways helpful.

Chair: We would like to think that it has been for your own good and for the benefit of the employees and the other stakeholders in your business.