



## DEBATE PACK

Number CDP 2016-0183, 18 October 2016

# BHS - debate on 20 October 2016

## Summary

A backbench business debate on 20 October will debate a motion in the name of Rt. Hon Frank Field MP and others, on BHS and its pension scheme. It follows on from a report on BHS published on 25 July 2016 by the Work and Pensions and Business, Innovation and Skills Committees.

There has been considerable public and parliamentary concern surrounding the collapse of BHS. Scrutiny has concentrated upon the details of transactions which led to a change of ownership and management; the role and motivations of the previous owner (Sir Philip Green); and the poor financial position of the company's pension fund revealed post collapse.

An amendment to the motion to be debated calls for his knighthood to be removed.

Sir Philip has repeatedly denied any illegality.

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# 1. Introduction

A backbench business debate has been scheduled for [Thursday 20 October](#) on the following motion in the name of the Rt. Hon Frank Field MP and others:

That this House notes the recent joint Report by the Business, Innovation and Skills and the Work and Pensions Committees on BHS; endorses that Report's criticisms of the governance of the company and of the holding company, Taveta Investments Limited; believes that the sale of the company to Retail Acquisitions Limited for £1 was clearly not in the interests of British Home Stores' employees and pensioners; notes the failure of Sir Philip Green over many years to resolve the deficit in the BHS pension fund; and calls on him to fulfil his promise to do so forthwith.

An amendment to the motion proposes adding at the end:

and, noting that Philip Green received his knighthood for his services for the retail industry, believes his actions raise the question of whether he should be allowed to continue to be a holder of the honour and calls on the Honours Forfeiture Committee to strip him of his knighthood."

By way of response, in a [Sky News report](#) (18 October 2016) Sir Philip's response is:

A statement issued through the retail tycoon's holding company, Taveta Investments, described the findings of the joint Work and Pensions and Business committees as "bizarre" and "unsupportable".

It labelled the inquiry a "kangaroo court".

The Chair of the Committee responded:

"The conclusions and recommendations of the Report - which was agreed unanimously, without division by ten Members drawn from two different select committees - were based on the huge amounts of evidence the committees received throughout the inquiry.

## 2. Select Committee inquiry

The Work and Pensions Committee and Business Innovation and Skills Committees took evidence on BHS as part of their respective inquiries into the Pension Protection Fund and pension regulation and the sale and acquisition of BHS. The report of their inquiry on [BHS](#) was published on 25 July 2016. It summarised the chain of events that led up to the collapse of the company:

5. BHS, which was founded in 1928, was bought by Sir Philip Green in 2000. It became part of the Taveta group, which is ultimately controlled by Lady Green, in 2009. On 11 March 2015 it was sold to Retail Acquisitions Limited (RAL), owned by Dominic Chappell. BHS went into administration on 25 April 2016 and now faces being broken up: the end of a longstanding fixture of the British high street.

6. The jobs of the 11,000 employees of BHS, the majority of whom are low paid, are now at risk. Mrs Patel, who is 56 and has worked for BHS since leaving school, told us how she felt “so helpless in what is happening”. This was partly due to the prospective cuts to her pension entitlement. 20,000 current and former BHS employees face reductions to their pensions of up to 77 per cent, though the typical cut is far lower and will be felt over time. Those reduced pensions are set to be paid by the Pension Protection Fund (PPF), which is supported by a levy on 6,000 other defined benefit pension schemes with 11 million members. Many of those schemes are attached to businesses far smaller than BHS: more than 2,000 have fewer than 100 members. Other companies that are suppliers to BHS are now also under threat. More generally, Simon Walker, Director General of the Institute of Directors, said that the circumstances of the collapse of BHS were “a blight on the reputation of British business”.

7. BHS’s demise has created many losers. Its 11,000 employees face an uncertain future seeking work or facing unemployment. Its 20,000 current and future pensioners face substantial cuts to their entitlements. Their pension costs will now be met through levies paid by other pension schemes, including many attached to small companies. Companies in BHS’s supply-chain, and their employees, have already been hit too. The reputation of business, the engine of prosperity, has been damaged, to the dismay of responsible investors, owners and business leaders. The episode is not, however, without winners. Many of those closest to the decisions that led to the collapse of BHS have walked away greatly enriched despite the company’s failure.<sup>1</sup>

The Committees’ conclusions were that:

**168.** The evidence we have received over the course of this inquiry has at times resembled a circular firing squad. Witnesses appeared to harbour the misconception that they could be absolved from responsibility by blaming others. The worst example was Sir Philip Green, despite his protestations to the contrary. Sir Philip adopted a scattergun approach, liberally firing blame to all angles except his own, though he began his evidence by saying

<sup>1</sup> Work and Pensions and Business, Innovation and Skills Committees, [BHS](#), HC 54, July 2016, Introduction

he would do the opposite. The truth is that a large proportion of those who have got rich or richer off the back of BHS are to blame. Sir Philip Green, Dominic Chappell and their respective directors, advisers and hangers-on are all culpable. The tragedy is that those who have lost out are the ordinary employees and pensioners. This is the unacceptable face of capitalism.

**169.** The sale of BHS did not have to proceed as it did. The potential checks, however, proved to be inadequate. Regulatory concerns were circumvented. Advisers were heavily incentivised to progress the deal. Dominic Chappell, his friends and associates were enticed by the personal rewards on offer without having to take any of the personal risks. The Taveta group, run as a personal fiefdom by a single dominant individual, failed to provide a semblance of independent oversight or challenge.

**170.** Sir Philip Green drove the deal forward. He sought to sell a chain that had become a financial millstone and threatened his reputation. He knew that Dominic Chappell was a wholly unsuitable purchaser but overlooked or made good each of Chappell's shortcomings and proceeded with a rushed sale regardless.

**171.** Dominic Chappell was out of his depth. He was over-optimistic to the point of arrogance. He failed to recruit a retail expert despite his own lack of experience; failed to secure funding on commercial terms; failed to address BHS's property leases in a timely way; and failed to address the company's long-term underperformance. Mr Chappell has referred to the rewards for risk that are the foundations of entrepreneurship, but he was taking no risks. The rewards that he took, on the other hand, were lavish. In putting his 'home team' first, he and his fellow directors were personally enriched as BHS failed around them. In effect, he had his hands in the till. His description of £2.6 million that he personally took, in addition to an outstanding £1.5 million family loan, as "a drip in the ocean" is an insult to the employees and pensioners of BHS that he let down.

**172.** The Green family benefited significantly from BHS. In his early years of ownership, Sir Philip cut costs, sold assets and paid substantial dividends offshore to the ultimate benefit of his wife. He failed, however, to invest sufficiently in stores or reinvent the business to beat the prevailing high street competition. We found little evidence to support the reputation for retail business acumen for which he received his knighthood.

**173.** It is true these are private companies holding Green family money. BHS, however, was a major employer and the sponsor of a large and ailing pension fund. Arcadia, another Green company, is in a similar position. Sir Philip gave insufficient priority to the BHS pension scheme over an extended period. His failure to resolve its problems by now has contributed substantially to the demise of BHS. Sir Philip owes it to the BHS pensioners to find a resolution urgently. This will undoubtedly require him to make a large financial contribution. He has a moral duty to act, a duty which he acknowledges. We still do not doubt that Sir

Philip has heartfelt affection for BHS. To an extent it created him; it could also bring him down.<sup>2</sup>

The Work and Pensions Committee followed this with a further call for evidence on the regulation of defined benefit occupational pension schemes and the Pension Protection Fund.<sup>3</sup>

A PQ on 1 August 2016, on when the Government planned to report on the BHS pension scheme, produced the following response:

The right approach is to allow the Pensions Regulator to get on with its investigations into the use of its anti-avoidance powers. There is a clear legal process that must be followed and this can sometimes take a considerable amount of time. The Pensions Regulator's Chief Executive has given a commitment that it will have made significant progress by the end of 2016. It has said that when it becomes appropriate to do so it will consider publishing a report of the case under Section 89 of the *Pensions Act 2004*. The Regulator is independent and Ministers cannot become involved in its decisions on whether or not to exercise its powers or seek to influence its investigations in any way.<sup>4</sup>

The BIS Committee (now the Business, Energy and Industrial Strategy Committee) launched a further inquiry on corporate governance on 16 September 2016.

Relevant Library Briefing Papers include: SN-03917 [Overview of the Pension Protection Fund](#) (October 2016) and SN-04368 [The Pensions Regulator: Powers to protect pension benefits](#) (May 2016).

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<sup>2</sup> Ibid

<sup>3</sup> Work and Pensions Committee, [Defined benefit pensions examined following BHS inquiry](#), 8 August 2016; [Work and Pensions Committee website, Pension Protection Fund and Pensions Regulator inquiry](#)

<sup>4</sup> [PQ HL1266 1 August 2016](#)

### 3. Honours

One of the themes of the reaction to the collapse of the company and subsequent revelations is that Sir Philip Green should lose his title.

The [honours website](#) states that there are provisions to take honours away if necessary:

Someone who's been given an honour and has done something to bring the honours system into disrepute can have their honour taken away ('forfeited').<sup>5</sup>

As well as other criteria, the main examples include if someone has been:

- sentenced to imprisonment of at least 3 months for a criminal offence
- censured, struck off etc by a relevant professional or regulatory authority for something directly relevant to the granting of the honours (eg a doctor has been struck off)<sup>6</sup>

If this is the case, the case is reviewed by the Honours Forfeiture Committee:

The Honours Forfeiture Committee looks at the evidence and considers the case. If the committee makes a recommendation that an order should be forfeited, it is submitted to the Queen by the Prime Minister. The Queen decides if the honour should be forfeited.

If someone's honour is forfeited it is published in the London Gazette.<sup>7</sup>

#### **Context and criticism of Forfeiture system**

In January 2012, former Royal Bank of Scotland (RBS) CEO, Fred Goodwin, had his knighthood removed following criticism of his management of RBS in the run up to the financial crisis of 2008. The Government suggested "the scale and severity of the impact of his actions as CEO of RBS made this an exceptional case".<sup>8</sup> A number of sources, including the Public Administration Select Committee, commented that the forfeiture of Fred Goodwin's knighthood had been irregular.

106. The media storm around Fred Goodwin's knighthood was one of the reasons why his case was considered by the Forfeiture Committee, and why the decision was made to cancel and annul his knighthood. Mr Goodwin's actions did not meet the previously defined criteria for forfeiture and calls for his knighthood to be stripped had been rejected by the previous Government. The fact that the criteria for forfeiture were so obscure and narrow was unfortunate. There should be a clear and expanded criteria for the forfeiture of an honour, one of which should be damage to the

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<sup>5</sup> <https://www.gov.uk/honours/having-honours-taken-away>

<sup>6</sup> Ibid

<sup>7</sup> Ibid

<sup>8</sup> <https://www.gov.uk/government/news/goodwin-knighthood-decision>

industry or sector that the individual was originally deemed to have served so exceptionally.<sup>9</sup>

**The Government did not accept these criticisms.**<sup>10</sup> PASC also noted that there had been internal reforms to the membership of the Committee subsequently, so that it was not exclusively composed of civil servants:

107. Our evidence from Sir Bob Kerslake revealed that the Forfeiture Committee was reformed after the Fred Goodwin case, following an internal review. The membership of the Forfeiture Committee was amended, having previously been composed solely of senior civil servants: the Cabinet Secretary; the Permanent Secretaries of the Scottish Executive and Home Office; the Treasury Solicitor; and the Head of the Civil Service as Chair. The new Forfeiture Committee still includes the Head of the Civil Service and the Treasury Solicitor, but also has a majority of independent members: the Chair of the specialist Honours Committee which recommended the honour to be forfeited, and the chairs of two other specialist committees unrelated to the case or cases under consideration by the Forfeiture Committee.<sup>11</sup>

### Examples

Other examples of forfeitures include:

- Roger Casement, executed for treason in 1918
- Jack Lyons, a prominent businessman who made extensive charitable donations, but was convicted of fraud in the late 1980s
- Anthony Blunt, who lost his knighthood in 1980 after he was revealed to be a member of the Philby-Burgess spying rings, although not charged or prosecuted.
- Terence Lewis forfeited his knighthood in 1993, following the findings of the Fitzgerald inquiry into corruption in Queensland, Australia, and his subsequent conviction of corruption.

In February 2009, the Prime Minister restated the arrangements for the Committee that were announced by the then Prime Minister (John Major) in December 1994, adding information on the reporting of forfeiture and noting that the arrangements did not apply to peerages:

**The Prime Minister:** Arrangements for the Forfeiture Committee are as set out by the then Prime Minister, the right hon. Sir John Major, on 2 December 1994, *Official Report*, column 923W

“Cancellation is considered in cases where retention of the appointment or award would bring the honours system into disrepute. There are no set guidelines for cancellations, which are considered on a case-by-case basis.”

<sup>9</sup> The Honours System: The Second Report of 2012-13 August 2012  
<http://www.publications.parliament.uk/pa/cm201213/cmselect/cmpubadm/19/1910.htm>

<sup>10</sup> *The Honours System: further report* HC 727 2012-13  
<http://www.publications.parliament.uk/pa/cm201213/cmselect/cmpubadm/728/72803.htm>

<sup>11</sup> The Honours System: The Second Report of 2012-13 August 2012  
<http://www.publications.parliament.uk/pa/cm201213/cmselect/cmpubadm/19/1910.htm>

Details of forfeitures are published in the *London Gazette*. Peerages do not fall within the terms of reference of the Forfeiture Committee.<sup>12</sup>

The question tabled in 1994 also asked for information on the occasions that honours had been removed since 1979. The full response was:

**The Prime Minister:** The statutes of most orders of knighthood and the royal warrants of decorations and medals include provision for the Queen to "cancel and annul" appointments and awards. Cancellation is considered in cases where retention of the appointment or award would bring the honours system into disrepute. There are no set guidelines for cancellations, which are considered on a case-by-case basis.

Since 1979, the London Gazette has published details of cancellations of 15 appointments and awards--three knighthoods, one CBE, five OBEs, four MBEs and two BEMs.<sup>13</sup>

An historical overview of forfeiture concludes that the removal of knighthoods is comparatively rare:

Deprivations of knighthoods are rare. The most famous case is probably Roger Casement, knighted in 1911 for his services as a diplomat, and executed for treason in 1916. Joseph Kagan, knighted in 1970 and granted a life peerage in 1976, was stripped of his knighthood in 1980 after conviction for tax fraud, though, like Lord Spens, he could not be deprived of his peerage and continued to speak in the Lords until his death. There have been a number of cases where foreign heads of state awarded British knighthoods have been deprived of them for political reasons. These include Kaiser Wilhelm II, Emperor Franz Josef of Austria-Hungary and other 'enemy' Knights of the Garter, whose names were struck from the Rolls of the Order in 1915. Emperor Hirohito of Japan, was deprived of the Garter during the Second World War, but later restored, and Benito Mussolini, who was deprived of a knighthood after declaring war on Britain in 1940.<sup>14</sup>

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<sup>12</sup> HC Deb 12 February 2009 c2136W

<sup>13</sup> HC Deb 2 December 1994 c923W

<sup>14</sup> Ann Lyon, '[Deprivations of Honours: a brief history](#)', History & Policy



## 4. Press Articles

**Sunday Times, 16 October 2016**

[Philip Green hires QC to fight claim of 'plundering' BHS](#)

**Guardian, 8 August 2016**

[Sir Philip Green told to 'do the right thing' and plug BHS pension deficit](#)

**MoneyWeek, 28 July 2016**

[Sir Philip Green and the BHS scandal](#)

**Pensions and Savings blog, 25 July 2016**

[The BHS Pension Scheme – a Q & A](#), by Baroness Ros Altmann,

**Guardian 25 July 2016**

[Sir Philip Green must pay for the BHS scandal - starting with the pension fund](#), by Frank Field MP

**Daily Telegraph, 26 April 2016**

[BHS collapse: Pension all you need to know](#),

**BBC News, 13 October 2016**

[MPs to vote on stripping Sir Philip Green's knighthood](#)

**The Independent, 14 October 2016**

[Sir Philip Green could be stripped of knighthood next week after BHS scandal](#)

**The Guardian, 13 October 2016**

[MPs to vote on whether Sir Philip Green should lose knighthood](#)

**Daily Telegraph, 13 October 2016**

[MPs to vote next week on whether to strip Sir Philip Green of his knighthood](#)

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