Eighteen thousand jobs threatened at British Home Stores

By Jean Shaoul
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British Home Stores (BHS), which has debts worth £1.3 billion including a £571 million pension deficit, filed for administration Monday morning.

The 11,000 staff at the 164 stores, who were only told late Sunday evening, stand to lose not only their jobs but at least 10 percent of their pensions, as BHS hands over its commitments to the tax-payer-backed Pension Protection Fund. Around 8,000 who have already retired will see their pensions capped. The store’s collapse leaves taxpayers with unpaid VAT and other taxes, as well as the cost of redundancy and payments to BHS workers.

While BHS is in talks with Sports Direct to take over some of its stores, it will only do so without taking on the pension deficit.

BHS is the largest high street brand to fold since Woolworths, which started out around the same time as BHS, more than 80 years ago, and failed in 2008.

Business analysts have focused on BHS’s failure to keep up with the times and its outdated image. But this is a complete distortion of the truth. It is aimed at deflecting workers’ well-justified anger over the demise of yet another well-known corporation whose assets, built up by generations of workers, have been salted away or squandered by owners. Yet again, pension obligations are to be transferred to the taxpayer, while the corporate heads’ own tax obligations are wiped out, courtesy of complex debt-financed transactions and off-shore tax havens.

BHS’s collapse reflects the utter parasitism and financial skulduggery of Britain’s ruling class. Corporate bosses have proved themselves entirely unfit and incapable of running industry, trade or services in a way that satisfies the needs of their workforce, customers or society at large. In this, they are aided and abetted by government, regulators, bankers, a compliant media and trade union leaders. While workers lose their jobs and pensions, and the taxpayer foots the bill, those at the top never have to account for anything.

BHS was bought for £200 million in 2000 by billionaire Philip Green, knighted by Tony Blair’s Labour government in 2006 for “services to the retail industry.” A review of his tenure at BHS gives some indication of what these services consist of.

According to business consultancy Opus Restructuring, BHS made a tiny taxable profit over the 15 years of Green’s ownership of just £78 million, on a turnover of £11 billion. The reasons are not hard to fathom. His “business model” involved loading the company with debt payable to Green’s other companies, from whom BHS also purchased services, and using BHS’s assets to secure the loans. At the same time, he funnelled money out of BHS in the form of dividends to his wife, who resides in Monaco for tax purposes, thereby avoiding UK tax.

Around £807 million was taken from the company and funnelled to one or other of Green’s companies or family. This included £252 million paid to the parent group, Arcadia Group, which owns other well-known high street stores and concessions, for “management charges”—£141 million for ground rent, a feudal relic of Britain’s archaic land ownership arrangements, and £414 million in dividends to Green’s wife, who is the owner of the investment fund that owns the Arcadia Group.

In 2005, Green famously paid his wife £1.2 billion via a loan taken out by Arcadia, thereby reducing Arcadia’s corporation tax liability, as interest charges on the loan were tax-deductible.

A company controlled by Green provided BHS with a £19.5 million subordinated bond, earning nearly £10
million in interest payments. The list goes on.

His treatment of the Arcadia Group’s workforce, both in Britain and his suppliers overseas, attracted the attention of numerous anti-sweatshop groups such as Labour Behind the Label, No Sweat and People & Planet. In 2007, Rupert Murdoch’s Sunday Times alleged that his firm used overseas sweatshops where workers in Mauritius were paid pitiful wages. In 2010, TV Channel 4’s Dispatches programme alleged he was using factories in Britain that paid workers less than half the legal minimum wage.

Arcadia starved BHS of investment funds, leaving the stores shabby and its online services limited. While BHS’s pension fund was in surplus when Green bought the company in 2000, and had risen to £12.2 million in 2002, BHS refused to fund it adequately following the 2008 financial crash, with the result that by the time Green sold BHS last year, the scheme was massively in deficit.

In August 2010, Conservative prime minister David Cameron found that all of this made Green eminently suitable to chair a government-commissioned review of government spending. Two months later, Green’s “Efficiency Review” duly reported that if the government were a business it would fail, claiming that it wasted money on empty buildings, lazy contracts and wasteful purchasing procedures, and recommended further centralisation of government procurement to drive down costs.

In March 2015, after he had bled BHS dry, Green sold it—laden with debt and pension liabilities—for £1, while providing loans to the new owners and holding onto some of the assets as security.

Such was the state of BHS that only Retail Acquisitions Ltd, a financially dubious outfit of private investors, would touch it. Retail Acquisitions was an unknown entity, headed by Dominic Chappell, a former racing driver with no retail experience who had twice been declared bankrupt and once become personally insolvent via an individual voluntary arrangement. Chappell is linked to Clarberry Investments, an offshore company based in Panama, which he said was only set up to pursue what turned out to be a failed bid to buy a Swiss retail chain.

Despite promises to turn round BHS, the situation went from bad to worse. Last December, when the pension trustees asked for increased payments to make good the £225.6 million deficit that has now risen to £571 million, BHS refused, claiming it could not afford it.

Last month, it staved off the threat of bankruptcy by negotiating a rent reduction, selling off its property portfolio, and agreeing to a £60 million loan from private equity firm Gordon Brothers. To no avail. The property sale achieved less than expected, and the loan was ultimately refused after Green refused to relax his charge on the assets.

The trade unions have stood by for years as all this happened, without lifting a finger to defend the workforce. As the situation became ever more desperate, USDAW, the shop workers’ union, said it was “seeking urgent clarification from the company” and meekly begged BHS to begin a dialogue “at this difficult and worrying time for staff.”

The pensions’ scandal has turned the spotlight on Green, who ranks 29 in the Sunday Times’s rich list, with calls for him to be stripped of his knighthood and be summoned before the parliamentary Work and Pensions Committee. The Pensions Regulator is believed to be in talks with Green to get him to increase his paltry offer of £80 million towards the pension deficit.

Green’s attitude to all of this is one of utter contempt. The Daily Mail reported one of Green’s friends as saying, “This is all bull****. … Frank Field [who chairs the Work and Pensions Committee] is behaving like a complete a***hole, and Philip has no intention of appearing before his stupid committee.”

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