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Chairs of the Business, Innovation and  
Skills Committee and the Work  
and Pensions Committee  
c/o Chris Shaw  
House of Commons  
London  
SW1H 9NB

14 July 2016

**BY EMAIL**

Dear Sirs

**BHS – Oral Evidence Session on 29 June 2016 and Select Committee Inquiries**

1. I refer to:
  - (a) the joint oral evidence session on Wednesday 29 June 2016 before the Business, Innovation and Skills Committee and the Work and Pensions Committee (the *29 June Session*); and
  - (b) your letter of 8 July 2016 asking questions further to the evidence I provided at the 29 June Session (the *8 July Letter*).
2. I have set out below responses to the questions raised in the 8 July Letter, and immediately below some additional points which I hope will be of assistance to the Committees.

**Questions 3038 to 3043: sale of Marylebone House**

3. In response to **question 3022**, Mr Harris referred to a copy of the valuations of Marylebone House as at June 2015 recently provided by CBRE and Cushman & Wakefield. I understand that copies of these valuations were provided to the Committees in Sir Philip's response dated 13 July 2016. The Committees will note that both valuations support the price at which Marylebone House was purchased by Arcadia Group Limited.
4. As you have heard from Mr Harris (**Q3030 and Q3117**), Mr Palos (**Q3124**) and Mr Mark Sherwood (**Q2940**), each of whom is a property expert, transactions of commercial property are often undertaken by specialists without an independent valuation. This is a point I would respectfully request

the Committees to reflect in their report as there is otherwise a risk of a misunderstanding of the relevant real estate market.

**Question 3107: the Centros report on the Ealing property**

5. In response to **question 3107**, Mr Harris referred to the Centros report. I enclose a copy with this letter. The Committees will note that the Centros report supports the £6.9m price paid to BHS by Thackeray Estates (e.g. please see the valuations on pages 24 to 28 of the report).

**Questions 2985 - 2995: solvency of BHS at the point of sale**

6. Some members of the Committees expressed surprise when I referred to BHS as being solvent when it was sold (Q2986, Q2987 and Q2995). In particular, Mr Wright said: *“I am astonished, Mr Budge, that you say the BHS was a solvent business. If it were a solvent business, why did Taveta have to give a letter of assurance to PwC to allow PwC to sign off the accounts as a going concern?”*
7. With respect to Mr Wright, the comfort letter appears to have been misunderstood and his comment is entirely mistaken. The comfort letter (which has previously been disclosed to the Committees) stated that it only applied *“whilst it [i.e. BHS] continues to be under the control of Taveta Investments (No.2) Limited”*. It is therefore not relevant to the solvency of BHS at the point at which it was sold. I note that the auditors, PwC, have also confirmed this to the Committees in their letter dated 20 May 2016 which states that *“if a sale was concluded, the assumption was that the Taveta letter of support would not continue”*.
8. When it was sold, the BHS group was instead solvent due to the very significant dowry provided by Arcadia Group Limited and the Green family, which I have described in detail in my oral evidence. As shown in the statement already provided to the Committees, Arcadia wrote off £216m of intercompany debt and made available c.£200m of cash, facilities and unencumbered properties to BHS.

**Question 3096: dividends paid by Taveta Investments Limited**

9. I would also like to correct Mr Field’s comment that: *“if you look at it, probably at a minimum, £1.6 billion was taken out of BHS and Arcadia, maybe £2.6 billion, and it went up to Lady Green”* (Q3096). This appears to be largely referring to dividends paid by Taveta Investments Limited in the years up to 2005. As explained in my letter to the Committees dated 31 May 2016, BHS was not part of the Taveta group at that time and the dividends were not in any way connected to the trading of the BHS group. BHS dividends declared and paid were £423m during 2001-05, of which the Green family received £307m.
10. Mr Field’s comments are therefore entirely mistaken. Given the context, I would respectfully request that the Committees’ report does not repeat this mistake.
11. My responses to the questions in the 8 July Letter are as follows:

*Question 1: Regarding the “dossier” that discredited Paul Sutton in Sir Philip’s eyes:*

- a) Please can you give the date when this dossier was delivered?*
  - b) Please can you provide a copy of the dossier?*
  - c) Who delivered the dossier?*
  - d) What steps did the Board take to satisfy yourselves of the content of the dossier?*
12. As I explained in my oral evidence (Q2957), discussions were discontinued with Mr Sutton on 27 March 2014. That was a commercial decision. I recall receiving information in May 2014 that discredited Mr Sutton (Q2959). That information reinforced the prior decision to discontinue discussions, and as far as I am aware that was the end of Mr Sutton’s involvement.

*Question 2: During your evidence to the Committees, you referred to a timeline of events and discussions, we would be grateful if you could share a copy with the Committees.*

13. As these were just some handwritten notes I had prepared in order to assist me while attending before the committees, I hope that I may be permitted to maintain those as personal papers. If required, I can produce a typed timeline.

*Question 3: With regards to the Project Albion business plan:*

- a) Who was involved from Taveta and BHS in drafting the business plan?*
  - b) What input did Taveta provide?*
  - c) What input did BHS provide?*
  - d) In the attached draft of the business plan, please indicate which area were drafted primarily by Taveta.*
  - e) Paul Sutton told us that you provided the attached business plan to him. Is that correct?*
  - f) Following on from Paul Sutton’s assertion, above, would it be reasonable to conclude that the business plan was primarily drafted by Taveta and/or BHS?*
14. As I explained in my oral evidence at Q2966 the Albion business plan was, to the best of my understanding, drafted and produced by John Forsyth, Paul Sutton and Peter Graf. The business plan was not produced by Taveta or BHS.
15. Gillian Hague, Chris Harris and I provided John Forsyth, Paul Sutton and Peter Graf with access to certain business information as would be routine for a prospective purchaser of a business.
16. I understand that the only input provided directly by BHS was Darren Topp taking Paul Sutton and Peter Graf to visit certain stores on 2 May 2013.

*Question 4: Peter Graff, who was involved in the 'Project Albion' bid developed with Paul Sutton, attended your meeting with Dominic Chappell on 16 July 2014, but subsequently dropped out:*

- a) Did you express any concerns about Mr Graff's involvement?*
- b) When did Mr Graff cease to be involved?*
- c) What explanation was given for Mr Graff no longer being involved?*

17. I did not express any concerns about Mr Graf's involvement.

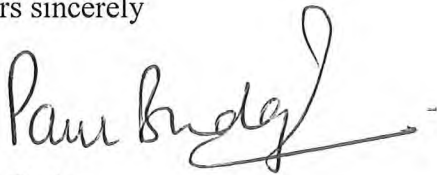
18. As I understand matters, Mr Graf ceased to be involved in August 2014 when he was no longer able to acquire a Swiss retail entity alongside the intended acquisition of BHS.

*Question 5: What additional information/ideas, access or support did you provide to Dominic Chappell to enable him to develop the business plan further?*

19. The BHS management business plan was shared with SwissRock/RAL. Their advisers reviewed the business plan and asked many questions as part of the detailed due diligence process. Those questions were answered as would be expected in the context of a sales process. A team of approximately a dozen people from Grant Thornton, led by Paul Martin, spent three to four weeks undertaking a very extensive due diligence exercise on the BHS business and produced a report.

20. I hope that the above information will assist the Committees in their ongoing inquiries and trust that they will be appropriately reflected in your report.

Yours sincerely

A handwritten signature in black ink that reads "Paul Budge". The signature is written in a cursive style with a long horizontal stroke at the end.

Paul Budge

Arcadia Group Finance Director