



The Scottish Parliament
Pàrlamaid na h-Alba

Public Audit Committee

Joe Griffin
Permanent Secretary

Gregor Irwin
Director-General Economy
Scottish Government

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Dear Permanent Secretary and Director-General Economy

Scottish Government's approach to financial interventions: Lochaber Aluminium Smelter

During this parliamentary session, the Public Audit Committee (the Committee) has used the Scottish Government Consolidated Accounts to carry out more in-depth inquiry work, including its scrutiny of the Scottish Government's Strategic Commercial Assets Division (SCAD), which was established in 2023 to provide support and ongoing management to private companies who have received financial intervention from the Scottish Government.

One of these interventions is the Scottish Government's provision of a financial guarantee to GFG Alliance in relation to its acquisition of the aluminium smelter at Lochaber (ALVANCE British Aluminium). The Scottish Government has guaranteed the power purchase obligations of the smelter if the business does not fulfil its obligations to pay for contracted power. This power is provided by the Lochaber hydro power plant (SIMEC), which provides the smelter with power through a private wire connection. Both ALVANCE and SIMEC are part of GFG Alliance.

The Committee took evidence from the Auditor General for Scotland (the Auditor General) on [17 December 2025](#) and the Scottish Government on [4 February 2026](#) as part of its scrutiny of the Auditor General's report on the 2024/25 audit of the Scottish Government Consolidated Accounts. The Committee's interest in these sessions lay in the due diligence undertaken by the Scottish Government in relation to its financial investment in the Lochaber smelter and how it would manage any risk to public funds, including the risks posed by the collapse of Greensill Capital (a finance lender to GFG Alliance), a Serious Fraud Office investigation into GFG Alliance and its failure to lodge audited account for over five years.

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Subsequently, the Committee took evidence on [25 February 2026](#) from the Chief Transformation Officer, Liberty Steel Group (also part of GFG Alliance) and GFG Alliance's Senior Legal Counsel. During the evidence session the Committee sought to understand the performance of GFG Alliance's business at Lochaber over the last ten years, investment plans for the smelter (the initial agreement included a commitment from the GFG Alliance to invest in the smelter plant) and the governance arrangements between the Scottish Government, the Lochaber smelter business and the wider GFG Alliance Group.

Following the evidence session on the 25 February, the Committee agreed to write to the Permanent Secretary and the Director-General Economy highlighting issues raised in evidence for the Scottish Government's attention, and importantly, drawing together the evidence so the Committee's successor Committee can continue to monitor and scrutinise the position in Session 7.

Government intervention context

Rio Tinto Alcan owned the smelter just outside Fort William, and in 2016 decided to sell it along with two hydro power plants and a portfolio of Highland estates. This was purchased by Sanjeev Gupta through GFG Alliance for £330 million with the Scottish Government providing a 25-year guarantee worth a total of £586 million at the outset of the deal. This figure was only revealed in 2021 by the Financial Times¹ after a freedom of information request, by which point the size of the guarantee had reduced to £286 million. The Scottish Government will receive premiums connected to this guarantee of £18.7 million over the lifetime of the agreement.

Liberty Steel's Chief Transformation Officer told the Committee on 25 February 2026—

“At the time of the original deal, in 2016, and subsequently, anyone who looked to acquire the Lochaber business would have shut down the smelter. Quite frankly, it is uneconomic. Even though it has low energy prices due to hydropower, it is small and it is far away.”

Government decision-making

The Director-General Economy explained in evidence on 4 February 2025, Ministers had set clear economic and social objectives in their plans for Lochaber and the 2016 Lochaber guarantee had prevented closure of the aluminium smelter. He said—

“We made that intervention to protect jobs, and it has been successful in meeting its economic objectives. The smelter continues to operate successfully. It directly employs more than 200 people, and it has taken on a number of apprentices in recent years. Hundreds more people are employed in the supply chain. That is all in a part of the country where those types of jobs are in relatively short supply.”

¹ Financial Times article, <https://www.ft.com/content/4a332e59-27bc-4f6c-9b93-f201c595b38f>

The initial agreement included a commitment from the GFG Alliance to invest in the plant, with the aim of manufacturing alloy wheels. However, this investment was abandoned by GFG Alliance. SCAD officials explained in evidence on [30 May 2024](#) this was because the market for domestically produced alloy wheels had fallen away. On 3 July 2020 the [agreement between the Scottish Government and GFG Alliance was amended to include a requirement for GFG Alliance to make an investment worth £82 million in an aluminium billet factory](#) (“Project Silver”) along with smaller investments in a port facility at Corpach and a canned mountain water business. This follow-on investment has not been made by GFG Alliance.

It is noted from the Committee’s earlier evidence session with SCAD officials on 30 May 2024, that there is not a deadline to make this investment and the commitment does not specify how GFG Alliance must invest, but it does specify that it should be in the Lochaber area. Further to this, the Scottish Government’s letter of [12 July 2024](#) explained that GFG Alliance must make an investment of not less than £70 million, failure to do so would represent a breach of contract and would mean that the Government would have access to contractual remedies. At this time, the Scottish Government had “a degree of confidence” that the follow-on investment would be forthcoming as GFG Alliance had made investments in the smelter itself over this period.

In its letters of 12 July 2024 and [10 July 2025](#), the Scottish Government said it remains confident that if the guarantee were ever called, the security arrangements and the contractual recovery from other entities in the UK arm of GFG Alliance would cover the full amount. The Scottish Government also holds security over the smelter itself, the power station in Fort William, and the estates acquired by GFG Alliance.

Liberty Steel’s Chief Transformation Officer clarified on 25 February 2026 why a decision had been taken not to progress the follow-on investment projects—

“I know that we have had a couple of goes at different projects. I am the one who killed the previous two [alloy wheels and billet factory “Project Silver”], because I thought that they were too expensive and did not create enough jobs, and the markets were very commoditised. Over the past couple of months, we have spoken with the Scottish Government in broad brushstrokes about the one that we are talking about shifting to.”

The Committee is deeply concerned that the Scottish Government entered into an agreement that set no deadlines for the required investment and placed no clear parameters around what the investment should include. It is worrying that four years after the amended commitment to invest £82 million in a billet factory, the Scottish Government still only has “a degree of confidence” that this obligation will be met. In Session 7, our successor committee should rigorously monitor whether GFG Alliance delivers the follow-on investment it agreed to make, and the steps taken by the Scottish Government if it does not. To assist our successor committee the Scottish Government should provide it with details as to the proposed form and timelines for the new proposed follow-on investment.

In the audit of the 2022/23 Scottish Government Consolidated Accounts, Audit

Scotland notes that the Scottish Government's annual exposure is between £14 million and £32 million over the lifetime of the contract. The Scottish Government make a provision in the consolidated accounts which is intended to cover the potential costs of paying the guarantee. In 2022/23 the Scottish Government increased the provision by £21 million to £135 million, and in the 2023/24 Consolidated Accounts this provision was decreased to £130 million. In the most recent consolidated accounts, 2024/25, this provision remained valued at £130 million. At present, the Scottish Government has not incurred any costs in relation to this guarantee, and has realised some income through the receipt of premiums.

In December 2025, when asked about the Scottish Government's approach to risk management and decision-making of interventions, the Auditor General said, "the arrangements in place, not only for the investment in Lochaber but for some of the other interventions, were not robust enough to enable the Scottish Government to take a rounded view of the risks and rewards of its economic interventions".

The Auditor General stressed it is for the Scottish Government to take a view as to whether it had adequate risk management arrangements in place when it first entered into the arrangement, but added that—

"There are clearly stronger and more robust arrangements in place now than there were when the interventions first started. I think that the creation of the strategic commercial assets division is partly a response to audit recommendations that more of a structure was needed around the operation of such interventions.

On 30 May 2024, SCAD officials provided background on the impetus for intervention, highlighting it "was not driven by distress; it was just that Rio Tinto had decided to focus more of its resources on upstream mining, with less focus on downstream production of aluminium."

The Committee considers that there were historic weaknesses in the Scottish Government's decision-making. The Committee observes that although the Scottish Government has not incurred any costs in relation to the Lochaber economic intervention, this appears to be more a matter of chance than by design. The Committee therefore recommends that its successor committee continues to robustly monitor both the financial risk posed by the guarantee and the income received through premiums, to ensure full transparency and protection of public money.

Longstanding governance and risk concerns

The Committee has consistently questioned whether GFG Alliance is a fit and proper organisation for the Scottish Government to use public funds due to GFG Alliance's conduct and because it faces litigation and investigation:

- the lack of progress in appointing auditors,
- the failure to submit audited accounts, and
- the ongoing investigation by the Serious Fraud Office into GFG Alliance.

Appointment of auditors and submitting audited accounts

The last time audited accounts for GFG Alliance were filed in Companies House was for 2019/2020.

In a response to a Freedom of Information request on 13 March 2025² requesting information about the resignation of King and King as auditors and the appointment of new auditors, the Scottish Government said—

“The matter of the appointment of new auditors is one for the GFG group, as a private business, to deal with. The submission of audited accounts is overseen by Companies House and any ongoing process regarding this will be between Companies House and the GFG group.”

Some information was not disclosed in the FOI response as the Scottish Government applied an exemption under section 38(1)(b) of FOISA—

“We have found that, on balance, the public interest lies in favour of upholding the exemption. We recognise that there is a public interest in disclosing information as part of open, transparent and accountable government, and to inform public debate. However, there is a greater public interest in maintaining good relations between the Scottish Government and GFG Alliance and in protecting the free exchange of information between both to ensure that we keep each other fully and regularly informed about matters of mutual interest which may impact on the Scottish Government’s guarantee or associated securities. There is no public interest in disclosing information when that will damage relationships and disrupt future engagement.”

The Auditor General reconfirmed his view on 17 December 2025 that—

“Clearly, it is a significant gap. All bodies, whether commercial, private sector or third sector, if they are required to do so, should lodge their accounts, and if they are required to have an audit, they should do that in good time. All bodies will want to demonstrate appropriate accountability either to their shareholders, their funders or the public and show that they have used the money and the resources appropriately. Clearly, there is a significant gap in this example.”

On 4 February 2026, the Director-General Economy told the Committee—

“That is the responsibility of GFG directors; we cannot force them to do that. We have made our position very clear on that: we expect that they should lodge audited accounts. It is our understanding that auditors have been engaged for the Lochaber entities and that that work is under way, but we will wait to see what actually happens.”

Liberty Steel Group confirmed in its evidence on 24 February 2026 that GFG Alliance has still not submitted audited accounts and that GFG Alliance is being prosecuted. The Chief Transformation Officer went on to say, “the management accounts have

² [GFG group senior management team correspondence: FOI release - gov.scot](#)

always been completed for all of the accounts” and that they had been engaging with Companies House—

“We actually tried to submit the accounts, but Companies House rejected them. It is well aware of my efforts to get auditors. However, I would say that we are on a good path right now.”

He added that auditors for the Lochaber smelter (ALVANCE) and for Lochaber Hydropower (SIMEC) had been obtained.

When the Committee asked why GFG Alliance has continued to have difficulties in securing an external auditor since King and King’s resignation, the Chief Transformation Officer said this was due to three principal reasons—

“Number 1, because of that issue [King & King resigned as auditors as it wanted to put a qualification on the accounts]. Number 2, because of Greensill Capital. Number 3, because of the Serious Fraud Office investigation. Frankly, there is very little audit capacity out there. There are only four big audit firms, and they have all been fined immensely over the past however many years. That means that taking on a new large conglomerate is very difficult.”

In March 2021, Greensill Capital, a major lender to GFG Alliance, went into administration³. This meant that GFG Alliance needed to refinance debt of approximately £5 billion across its companies. In May 2021, the Serious Fraud Office (SFO) in the UK launched an investigation⁴ into suspected fraudulent trading, money laundering and the finance arrangements between GFG Alliance and Greensill. In April 2022, the SFO visited several of the UK offices⁵ to collect information as part of the investigation. The case remains open, with little public updates provided so far.

The Chief Transformation Officer was asked about the restructuring and refinancing of GFG Alliance following the collapse of Greensill Capital and its potential impact on the Lochaber businesses. He said—

“All the funding, other than what I have mentioned, has come out of equity. As I said, the money that we put into the UK to keep Speciality Steel UK going and the funds going into Lochaber and Dalzell have been equity capital.”

And added—

“Greensill has interests in many of the businesses, just because of the structure of multiple countries and multiple jurisdictions, and energy businesses, steel businesses and metal businesses. However, at the end of

³ [Collapse of finance company Greensill Capital leaves thousands of steel jobs in the balance | Money News | Sky News](#) Article.

⁴ [Gupta Family Group \(GFG\) Alliance - GOV.UK](#), Serious Fraud Office investigation announced 14 May 2021.

⁵ [Sanjeev Gupta's Liberty Steel offices targeted in fraud investigation - BBC News](#) Article, 27 April 2022.

the day, it all rolls up to the fact that there must be a global settlement, so it will not be done piecemeal.”

When pressed by the Committee, during the evidence session on 4 February 2026, whether this is the kind of company that the Scottish Government wants to be dealing with, the Director-General’s view was—

“The SFO launched a number of investigations after serious allegations had been made. That was five years after the Government intervention that saved the Lochaber smelter from going out of business. Sometimes, you do not get to choose who you do business with. We are in a position in which we have to work with GFG, which we do with open eyes.”

The Committee acknowledges some progress appears to have been made in securing auditors for ALVANCE and SIMEC but remains seriously concerned by the continued absence of filed accounts for GFG Alliance. Failure to appoint auditors or file accounts is, as the Auditor General said, a “significant gap” in accountability and transparency, and is unacceptable for any organisation entrusted with public or investor funds. The Serious Fraud Office has still to complete its investigation of GFG Alliance leaving ongoing uncertainty around the Scottish Government’s financial exposure.

The Committee is at best sceptical about the Director-General Economy’s assertion that “you do not get to choose who you do business with”. The Committee remains unconvinced that the Scottish Government undertook adequate due diligence in 2016. The Committee therefore strongly recommends that the Government learns from these shortcomings and strengthens its approach in future.

Risk management approach

Through our correspondence with the Scottish Government and evidence sessions the Committee has sought to examine the Scottish Government’s developing approach to risk management and economic interventions.

One key development was the creation of the Scottish Government’s Strategic Commercial Assets Division in 2023 to provide support and ongoing management to private companies who have received financial intervention from the Scottish Government. This has been helpful to the Committee in getting a clearer understanding of how the risk and reward of economic interventions is being managed within the Scottish Government.

In relation to the risks pertaining to the Lochaber intervention, the Scottish Government’s letter of 10 July 2025 stated—

“The Lochaber guarantee has not been called so is not a liability on the Scottish Government’s balance sheet, but a significant provision has been made and reported to parliament via the Consolidated Accounts. The Government’s potential exposure to default payments is calculated using the requirements of IFRS 9 for Financial Guarantee Contracts.”

The letter further stated—

“It has been determined on a cautious basis – essentially ‘as if’ a default has occurred, and asset recoveries are assumed to be at the low end of the possible spectrum.”

The Auditor General’s report on the 2024/25 audit of the Scottish Government Consolidated Accounts outlined the Government’s current risk exposure from the Lochaber intervention, highlighted the £130 million provision, which he considered to be a reasonable valuation.

In its letter of 12 July 2024, the Scottish Government explained that due diligence of the guarantee is carried out on an ongoing basis by SCAD, with support from external commercial advisors (Deloitte). In evidence from the Scottish Government on 4 February 2026, the Director-General maintained it cannot choose its partners in rescue interventions but uses external advisers and stringent scrutiny to protect public money, despite the company’s unresolved governance problems. It described its monitoring regime as including quarterly cashflow updates reviewed by external advisers and a “robust approach to ensuring that our interests are well protected, including through the approach that we are taking to management of the suite of securities” across the smelter, hydro assets and landholdings. According to the Scottish Government’s letter of 10 July 2025, it also receives regular updates from GFG Alliance on GFG’s global restructuring and refinancing activity.

The Committee asked if any of the global entities involved provide any security or guarantees in relation to the Lochaber business or the guarantee entered into with the Scottish Government. GFG Alliance’s Senior Legal Counsel said—

“That is all in the detail of the commercial arrangements, and I must admit that I am not entirely sure whether I am able to disclose those in a public forum.”

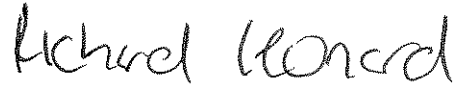
The Committee finds that despite some reduction in the assessed value of the Scottish Government’s risk exposure over time, there was a lack of transparency around this and the revenue the Government receives from this guarantee, and therefore also for the taxpayer. We find the arrangements remain opaque, particularly given the level of risk the Scottish Government continues to carry.

In conclusion, the Committee remains profoundly concerned about the significant and longstanding risks the Scottish Government faces through its arrangements with the GFG Alliance. We welcomed Liberty Steel’s participation in the evidence session and while the evidence session with it was open, and offered some reassurance regarding progress on audited accounts for the Lochaber businesses, the continuing Serious Fraud Office investigation underscores ongoing and serious doubts about GFG Alliance’s credibility as a partner of the Scottish Government.

We have recommended to our successor committee in our legacy report that it “continues to closely monitor the Scottish Government’s investments in private commercial companies and ensures that the Scottish Government is

**transparent around these investments, including continuing to publish
Shareholder Authorisations.”**

Yours sincerely,

A handwritten signature in black ink that reads "Richard Leonard". The script is cursive and fluid, with the first name and last name clearly distinguishable.

Richard Leonard MSP

Convener