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Convener
Public Audit Committee
By email: publicaudit.committee@parliament.scot

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Dear Convenor,

SCOTTISH GOVERNMENT'S APPROACH TO FINANCIAL INTERVENTIONS: LOCHABER ALUMINIUM SMELTER

Your predecessor, Richard Leonard MSP, wrote to the Permanent Secretary and myself on 24th March 20206 regarding the Government's approach to financial interventions with a particular focus on the Lochaber guarantee. I am also conscious, that in his legacy report, he recommended that the successor Committee "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."

We are committed to maintaining the Government's positive approach to transparency around our strategic commercial assets and, in that spirit, I want to address the key points raised by your predecessor. For ease of reference, I have followed the headings used in his letter.

Government Decision Making

Mr Leonard's letter records that 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". He further called on the successor committee to "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."

Under the terms of the guarantee, the GFG Alliance is committed contractually to delivering downstream investment at Lochaber, although, as Mr Leonard points out, the agreement does not specify the exact nature of this investment. Scottish Government does however maintain a regular dialogue with GFG at both a national and local level and is working to ensure that the required investment is both made and delivers long term benefits to the Lochaber operation.

As highlighted by Jeffrey Kabel, Chief Transformation Officer, in his evidence to the Committee on 25 February 2026, GFG is currently developing new investment plans, but implementation remains hindered by the financial constraints affecting the entire GFG group following the collapse of Greensill Capital. We are concerned by the lack of progress in this respect and will continue to seek to hold GFG to account for delivering its investment commitment, including through robust monitoring and a quarterly review of its business performance. I will ensure that information on the plans for future investment is shared with the Committee as and when agreement is obtained.

Mr Leonard also suggests that the “Committee considers that there were historic weaknesses in the Scottish Government’s decision-making” and 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.”

Throughout the lifetime of the intervention, the Scottish Government has actively monitored the financial, operational and commercial position and has received all guarantee premium payments due. The level of financial exposure has been subject to continuous review, with governance and assurance mechanisms in place to identify and manage emerging risks. Crucially, of course, the Scottish Government guarantee has not been called, so no public expenditure has arisen in this respect.

Scottish Government reports the status of the contingent liability annually in its Consolidated Accounts¹. The Government’s potential exposure and the valuation of the accounting provision are calculated using the requirements of IFRS 9 for Financial Guarantee Contracts. The provision was reviewed and revalued at £130m at 31 March 2025 and a further update will be published shortly in the Consolidated Accounts for the year to 31 March 2026.

Extensive reporting requirements are attached to the guarantee and these enable regular assessment supported by legal and commercial advisors. The risk attached to the Lochaber guarantee and related actions are reflected on a series of risk registers including the Scottish Government’s corporate risk register.

The Scottish Government receives an annual fee in return for the guarantee, although the carrying value of this financial asset in the accounts is zero. Audit Scotland has reviewed the Scottish Government’s accounting approach and agrees it is reasonable.

Longstanding governance and risk concerns

Mr Leonard’s letter acknowledges that some progress has been made by GFG in securing auditors for ALVANCE and SIMEC, but notes that the committee “remains seriously concerned by the continued absence of filed accounts for GFG Alliance”. He further reports the view of the Auditor General that this represents a significant gap in accountability and transparency, and that this is unacceptable for any organisation entrusted with public or investor funds”.

Responsibility for preparing and filing audited financial statements does, of course, rest solely with the directors of the relevant GFG companies, with oversight from Companies House. The Scottish Government holds no statutory role in enforcing compliance in this area. However, we continue to monitor the situation closely and have made clear to GFG that this is an unacceptable position.

¹ <https://www.gov.scot/publications/scottish-government-consolidated-accounts-year-ended-31-march-2025/>

We engage regularly with Audit Scotland who have full access to all the materials they require to audit the guarantee and advise your Committee. Some of the documentation linked to the transaction, including the valuation of the commercial assets underlying the Government's security package and the fees paid to the Government by GFG Alliance, contain sensitive commercial information that must be protected.

Mr Leonard also states that the "Committee remains unconvinced that the Scottish Government undertook adequate due diligence in 2016" and recommends strongly "that the Government learns from these shortcomings and strengthens its approach in future."

After a lengthy market engagement process Rio Tinto selected the GFG Alliance (Liberty House Group and SIMEC Group) as preferred bidders for the Lochaber business back in 2016, and they completed the sale to GFG between December 2016 and March 2017. In the context of Rio Tinto's sale, the Scottish Government conducted appropriate due diligence with the support of external legal and commercial advisors and the guarantee is structured on commercial terms. The Finance Committee was briefed on the transaction in advance and approved the contingent liability according to the agreed process between the Scottish Government and Parliament. The deal supported by Scottish Ministers in 2016 saved the UK's last aluminium smelter and safeguarded around 170 direct jobs at the site.

I agree with Mr Leonard that it is important that Scottish Government learns from its interventions. This is why we created the Strategic Commercial Assets Division which now offers a single source of expertise and advice on potential interventions, ranging from initial scoping of an opportunity through to the process of divestment.

Risk Management Approach

Mr Leonard's letter makes two points around risk management. First, that despite "some reduction in the assessed value of the Scottish Government's risk exposure over time" the Committee believes that "arrangements remain opaque, particularly given the level of risk the Scottish Government continues to carry." Second, he concludes that the Committee "remains profoundly concerned about the significant and longstanding risks the Scottish Government faces through its arrangements with the GFG Alliance"

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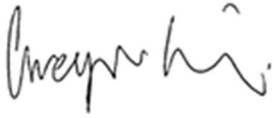
The Scottish Government's objective throughout has been to safeguard and sustain employment in Lochaber by securing the long-term future of the smelter, while ensuring that risks to the taxpayer are managed appropriately. The Scottish Government remains committed to transparency and open government, although I hope that you will accept that are circumstances where commercially sensitive information must be protected. This reflects the need to ensure that the businesses can operate competitively alongside other private sector firms, thereby supporting the achievement of the economic objectives of the intervention.

As part of the Transparency Review, we conducted in 2025 into the management of our Strategic Commercial Assets portfolio we updated the Scottish Public Finance Manual

(SPFM) to strengthen transparency arrangements regarding Shareholder Authorisations. I shared the Transparency Review with the Committee in April 2025.²

I hope that I have been able to answer the key issues raised by Mr Leonard. We continue to welcome the scrutiny and constructive challenge provided by the Public Audit Committee and Audit Scotland and look forward to engaging further in the current Parliamentary session.

Regards



Gregor Irwin
Director-General Economy

² <https://www.parliament.scot/-/media/files/committees/public-audit-committee/correspondence/2025/sca-transparency-review-dg-economy-to-pac-4-april-2025.pdf>