

**Permanent Secretary Briefing
Public Audit Committee
Session 24/02/2022**

P1: Lochaber Guarantee

P11: Liberty Steel Dalzell – **[REDACTED]**

P14: Liberty Steel Dalzell – Historical Transaction (2016)

LOCHABER GUARANTEE

Background

The Lochaber aluminium complex is the UK's last remaining aluminium smelter. It is a key component of Scotland's industrial capability and a major source of employment in the West Highlands. To protect jobs and ensure future development of the complex, Scottish Government entered into a Guarantee and Reimbursement Arrangement with the GFG Alliance in 2016.

In March 2021, GFG's main financier, Greensill Capital Ltd, entered administration. This had a global impact upon GFG, including reducing their working capital across their industrial sites across the UK. This in turn impacted upon GFG's credit rating, and the deterioration is reflected in the increase in the provision.

The SG's commercial advisers prepared an IFRS 9 report in September 2020. The £161m figure, a single expected credit loss, derives from one of the scenarios assessed at the time, which SG Finance specialists chose to adopt as an estimate for 2021 in light of the financial situation of GFG. This factors in estimates of future recoveries and is a judgement (as is required under IFRS) by officials based on the best available information.

Summary of Issue

Under International Financial Reporting Standard (IFRS) rules, the Scottish Government must make disclosures in its annual Consolidated Accounts relating to its financial instruments.

In the 2020-21 Consolidated Accounts, as per previous years, the Scottish Government disclosed a provision figure in relation to the Lochaber Guarantee. This increased from £33m in the 2018-19 accounts to £37m in 2019-20 and to **£161m in 2020-21**. This is the 'expected credit loss' on the financial guarantee contract. The material change between March 2020 and March 2021 (£124m increase) **reflects the wider macro credit position** with the GFG Alliance which continues to refinance and restructure following the collapse of its main financier, Greensill Capital Ltd, in March 2021.

Audit Scotland stated that “the Scottish Government’s approach to setting the level of provision against the potential exposure through the guarantee is reasonable.”

Impact

This provision figure is an **accounting adjustment only**; it is **not a forecast**; it remains under review and subject to change; and **does not impact upon Scottish Government spending or budget**.

No financial loss – or public expenditure – has been incurred to date due to the Lochaber Guarantee. No debt is owed to SG; all fees to SG are up-to-date; and GFG continues to meet its obligations in respect of Purchase Power Agreement (PPA) payments to the Bondholders and Guarantee Fee payments to Scottish Government.

The SG holds a comprehensive security package (valued by GFG in their 2019 accounts at £438m), whilst the net present value of the remaining PPA stream, as of 17 January 2022, is £284.2m. The value of the securities therefore exceeds the value of the financial exposure (contingent liability).

Actions Being/To Be Taken

- Continued daily monitoring of the GFG Alliance, at both macro/global and local business levels, by officials and external commercial/legal advisers.
- During this financial year, the SG will commission an independent advisory firm to carry out a fresh IFRS 9 assessment. This will allow SG Finance to then reassess the provision value in light of the latest macro position, and the updated figure will be reflected in the 2021-22 accounts.
- With regards to the future direction of the provision figure, in very general terms, if the position of GFG improves this would reduce the probability of default and, in turn, reduce the IFRS 9 expected credit loss. Equally, other factors (e.g. a reduction in the value of the hydro asset), could increase the expected credit loss leading to a further increase in the provision valuation

Q&A

1) Why did the Lochaber provision in the Scottish Government's 2021 Consolidated Accounts increase to £161m.

The provision in the Consolidated Accounts is based on a technical accounting assessment. It is not a forecast of likely outcomes, and does not impact Scottish Government spending.

- The increased provision that we reported in the Consolidated Accounts is based on a technical assessment of a range of credit risk scenarios.
- It is an accounting adjustment only – not a forecast of likely outcomes in respect of the guarantee; the provision remains under review and is subject to change.
- The accounting assessment takes account of the credit strength of GFG following the failure of Greensill Capital (UK) Limited as its principal funder in March 2021.
- The Scottish Government has assessed the Lochaber guarantee exposure in line with a Treasury Green Book analysis. That assessment is clear that the value of the security granted to us exceeds the present value of payments guaranteed.
- Mr McKee wrote to the Finance Committee on 16th December, the day the accounts were laid in Parliament, to ensure Committee Members we fully updated on all matters related to the Lochaber Guarantee.

2) What impact does the recent HMRC winding up petitions have upon the Guarantee at Lochaber

The HMRC court case that GFG Alliance are dealing with is of course concerning to the Scottish workforce. Officials are working with local management to understand any impact on the GFG companies in Scotland.

- This is for GFG to discuss with HMRC and resolve the matter.
- **[REDACTED]** primary customer, Bridgnorth Aluminum Ltd.
- Our concern will always be for the workforce in Scotland. The Scottish plants are not part of the winding-up petitions, but we are closely monitoring the potential wider impact

3) [REDACTED]

4) [REDACTED]

5) Why has the Scottish Government not been more transparent in its dealings with GFG Alliance in respect of the huge guarantee?

Parliament was informed of the value of the guarantee and approved it following proper due diligence.

- There are strict rules under which we are required to disclose commercially sensitive information to Parliament.
- In this case, the guarantee was disclosed – including the full value of it now reported in the media, and the total exposure and securities – to the cross-party Finance and Constitution Committee on 22 November 2016.
- Members attending that day included Labour’s Neil Bibby, and Tory members Dean Lockhart and Murdo Fraser.
- The committee had the power to say “no”. Instead they unanimously approved it.

6) Why has Scottish Government not published financial information?

We had already been publishing the yearly guaranteed value in Consolidated Accounts – as part of keeping Parliament informed.

- The Accounts have shown the amounts guaranteed vary between 14 and 32 million pounds per annum over the 25-year life of the guarantee.
- Ministers have sought to keep parties across the Chamber updated on the guarantee, with the Minister for Business meeting MSPs in August (3rd). This followed the previous Rural Economy Secretary (Mr Ewing) meeting MSPs and MPs last April (16th).
- Mr Ewing made a statement to Parliament on 23 March following the collapse of Greensill, and throughout the last 11 months Ministers have answered numerous questions on the GFG Alliance, Lochaber and Liberty Steel from elected members.

7) [REDACTED]

8) The BEIS Select Committee into Liberty Steel criticised the corporate structure and governance of the GFG Alliance

It is for the UK Government to consider the view of the UK Parliament Committee and we are aware of its response to the BEIS Committee Fourth Report.

- In November, we welcomed the Committee's recommendation for a comprehensive plan for the steel industry and recognise the importance of strong corporate governance in such a strategically important sector.
 - We understand that GFG has been undertaking activity to enhance corporate governance. As part of the UK refinancing work, the Alliance has implemented the creation of a Restructuring and Transformation Committee to engage with alternative finance strategies.
 - On UKG's rejection of funding for Liberty Steel, clearly this is a matter for UKG. No request for funding was received by the Scottish Government.
 - GFG Alliance continues to meet its obligations in respect of PPA payments to Bondholders and guarantee payments to SG.
 - We are assured that the businesses at Lochaber are operating well and we continue to focus on the jobs, investment and economic growth of the west Highlands.
- 9) **The UK Parliament Public Accounts Committee has questioned the appropriateness of GFG Alliance Management and yet Scottish Government has entered into this deal in respect of Lochaber.**

We are aware of the PAC report and noted its criticism of the British Business Bank, Department for Business, Energy & Industrial Strategy, and HM Treasury.

- Clearly it is for the Public Accounts Committee to follow-up their recommendations with the BBB to rectify the lack of due diligence.
- SG officials are closely monitoring GFG's global refinancing process.
- This is a commercial matter and could take a number of months to conclude. All of us in the SG should be aware of the need to be careful not to prejudice or undermine that process.

10) **The statutory accounts for a number of GFG entities are late. Is the inability to file accounts required under Companies Act 2006 an issue the SG is concerned about?**

- The Lochaber businesses are aware of their obligations in respect to account filing. Officials and advisers have pressed GFG on this issue.
- GFG has been undertaking activity to enhance corporate governance, including the creations of the Restructuring and Transformation Committee in the UK.

11) Given the SG's statement on the DL Historical Transactions, how can you be sure the Lochaber Guarantee is State Aid compliant?

- The guarantee is compliant with EU state aid rules and was approved by the Scottish Parliament's Finance and Constitution Committee, which has cross party representation, following appropriate due diligence.

Further general background on GFG/Lochaber

- In November 2016, the Finance and Constitution Committee approved the Scottish Government to support GFG Alliance's acquisition of the Lochaber complex. The Guarantee and Reimbursement Agreement (GRA) [REDACTED] provides for timely payment of fixed amounts of income due quarterly under a power purchase agreement (PPA) between the smelter and Simec Lochaber Hydropower Ltd. This is paid directly from GFG to the Bondholders. As part of the guarantee, Scottish Government receives a [REDACTED] fee in return for providing the guarantee.
- The SG's underlying motives for providing the Guarantee was to protect jobs in the region, both current and future; to ensure regional and Scotland-wide prosperity; to underpin additional investment at the site; and to promote industry in Scotland.
- At the time of the transaction, the SG's commercial advisers were EY and [REDACTED]
- In March 2021 GFG Alliance's main finance provider, Greensill Capital UK Ltd, entered into administration. This placed significant pressure on the Alliance and triggered a programme of global refinancing and restructuring in order to preserve the long-term viability of the Alliance resulting in [REDACTED]
- With the ongoing uncertainty regarding the financial stability of the GFG Alliance and the subsequent potential for default under the Scottish Government Guarantee, the Scottish Government reviewed the level of provision required with regards to its guarantee. The provision in the consolidated accounts increased from £37 million in 2019/20 to £161 million as at 31 March 2021.
- Audit Scotland found that "the Scottish Government's approach to setting the level of provision against the potential exposure through the guarantee is reasonable."
- The Scottish Government (undiscounted) exposure over the 25-year guarantee period (2016-2041) was £586 million. The net present value of the remaining PPA revenue stream over the remaining 20 years is £284.2m, while GFG Alliance valued the assets at Fort William as £438m in their 2019 accounts. The value of the security package SG holds therefore exceeds the financial exposure.
- SG has published information annually in its Consolidated Accounts. The Accounts have shown the amounts guaranteed vary between £14 and £32 million pounds per annum over the 25-year life of the guarantee.

- As part of providing the guarantee, SG took on a comprehensive security package consisting of the smelter, the hydro power station, extensive land holdings, and a series of other protections.
- SG has been [REDACTED] and, to date, there has been no call on the guarantee – and therefore no resulting public expenditure. GFG continues to meet its obligations in respect of power purchase and guarantee fee payments as well as being committed to investing in Lochaber to secure the future of the operations and create new high quality employment.
- GFG Alliance is in the process of global restructuring to enable the release of funds to support its businesses. While this progresses, [REDACTED]
- There is [REDACTED] Officials (with support from external advisers) are focused on [REDACTED] [REDACTED] [REDACTED].
- As to be expected with such a large financial aspect, and with it being a live issue, there is much public and political interest in the guarantee and SG's link to GFG Alliance. This is reflected in the frequency of media queries and FOIs; the intensity of requests has increased since March following the collapse of Greensill.

LIBERTY STEEL DALZELL – CONTINGENCY PLANNING

Background

In 2017, following the sale of Dalzell and Clydebridge steelworks from Tata Steel UK to GFG, which had taken place the previous year, Scottish Enterprise (SE) provided LSDL with a loan of c. £7m (current value of c. **[REDACTED]** including interest). SE received repayments and interest of £**[REDACTED]**. It is this loan and SE's status as a secured creditor that provides the ability for SE and the Scottish Government (SG) to consider an **[REDACTED]** under a 'Team Scotland' approach, **[REDACTED]**

In March 2021, GFG's primary financier and provider of credit, Greensill Capital UK Ltd, entered administration. This has led to a period of financial uncertainty and restructuring for the Group and requires a series of re-financings for several of their businesses around the world.

A Ministerial task group, of which Mr McKee was a member, was established to monitor the business and lead on SG's response to GFG's financial difficulties and potential impact on their Scottish businesses. This group has since been stood down and Mr McKee became lead Minister for SG's **[REDACTED]** relating to LSDL and other GFG assets, with Cabinet oversight from the Deputy First Minister.

Summary of Issue

In February 2022, HMRC petitioned to wind up four Liberty Steel UK businesses (based in England, owned by GFG Alliance) due to unpaid VAT and PAYE. Those four businesses are: Liberty Speciality Steels Limited; Liberty Merchant Bar PLC; Liberty Performance Steels Limited; and Liberty Pipes (Hartlepool) Limited.

While HMRC **[REDACTED]**

[REDACTED]

Impact

The **[REDACTED]**. The sister site at Clydebridge is **[REDACTED]**.
[REDACTED] [REDACTED] [REDACTED]

Actions Being/To Be Taken

[REDACTED] [REDACTED]

Advice put to Ministers on 8 February 2022 set out our findings that;
[REDACTED] [REDACTED]

Given **[REDACTED]** has been taken as far as possible, officials are entering a monitoring phase of Dalzell and the wider Liberty Steel UK businesses. Officials and external advisors will engage with the business at site and senior management level to gather information **[REDACTED]** and provide written and verbal updates to Ministers when appropriate.

Advisors are currently working to understand **[REDACTED]**. This work will also look at the potential impact to **[REDACTED]**.

Q&A

1. What is the Scottish Government's exposure to any potential insolvency at Dalzell?

The Scottish Government has no direct exposure to any insolvency of Liberty Steel Dalzell. Scottish Enterprise do have a secured loan with the business. As is standard, any insolvency process would seek to recover maximum returns for creditors.

LIBERTY STEEL DALZELL – HISTORICAL TRANSACTION (2016)

Background

On 24 March 2016, TATA Steel UK and Liberty House agreed for Scottish Government to act as an intermediary between the companies to facilitate a sale of the plants from TATA Steel UK to Scottish Government, who would immediately sell the sites to Liberty House. To facilitate this transaction, Scottish Government took ownership of the business for a short period of time whilst it transferred from TATA Steel UK to Liberty House Group, part of GFG Alliance.

With the collapse of the Greensill Capital in March 2021, a major financier of the GFG Alliance, a risk was highlighted to the steel industry in Scotland. **[REDACTED]**

Summary of Issue

The Minister for Business, Trade, Tourism and Enterprise made a statement to Parliament on 15 December 2022. This confirmed that the enduring indemnity granted by Scottish Ministers to TATA Steel in 2016 - whereby Scottish Ministers would be liable to cover the cost of certain liabilities arising from the TATA Steel's ownership of the Lanarkshire steel plants now owned by Liberty Steel - may not comply with State aid rules.

This means that Ministers will not provide any monies under that contract clause.

In the event Liberty Steel Dalzell fails and the site is repurposed to a different use then some of those liabilities - such as environmental remediation of the sites - may crystallise to the current operators of the site (Liberty Steel) and to any previous operator of the site (TATA). **[REDACTED]**

Impact

There is no impact on the public purse as there has been no call on this indemnity to date and the circumstances where this could be called upon are unlikely to materialise. No money has been paid or will be paid under this contract beyond the £1 paid to purchase the business from TATA Steel, which was immediately recouped upon its sale to Liberty House. The Scottish Government's intervention resulted in the continuation of

steel production and the employment of 140 people at Liberty Steel Dalzell.

[REDACTED]Actions Being/To Be Taken

We have notified the following parties to allow them to consider our conclusion:

- The Scottish Parliament on 15 December
- The Member State (UKG);
- Audit Scotland [REDACTED]
- TATA Steel UK [REDACTED]
- Liberty Steel UK [REDACTED]

Q&A

1. What due diligence was conducted prior to facilitating this transaction?

In facilitating the sale and purchase of the plants, officials sought external advice as the guidance of the Scottish Public Finance Manual recommends.

2. [REDACTED]

3. The State aid advice given to Ministers at the time was incorrect. Why?

Under the EU State aid regime, all matters of aid were potentially open to challenge - there is always that risk. It was never the intention that we signed up to a contractual clause that may not comply with State aid rules, but having considered the arrangements as part of the contingency planning we took further legal advice which concluded that it may not comply.

4. Has the EC been informed of the new position - that the aid provided was unlawful and what will be the consequences?

As the former member state, the UK Government has been informed of the position in detail (verbally on 14th December 2021 and in writing on 22 December) and it is for the member state to inform the EC. [REDACTED]

5. [REDACTED]

6. Why did SG decide to do a back-to-back transaction with TATA Steel and Liberty House?

To mitigate the threat of closure to the last remaining steel production sites in Scotland by protecting the jobs and restarting the operations (sites were being mothballed in 2015) at the sites which are still ongoing to this day.

7. What was the purpose of SG owning the Dalzell steelworks for a short period?

The Dalzell Steelworks were owned for a short period of time by SG to assist in the facilitation of the transfer of ownership between TATA Steel UK and Liberty House.

8. Does the SG have any liabilities under the agreement from the transaction in 2016 or on the sites?

SG does not have any liabilities relating to the 2016 transaction/sites.

9. What review SG has conducted of other transactions/interventions in light of the results of its review of the sale of the Dalzell steelworks?

We have reviewed the compliance and disclosure risks associated with interventions that SG has supported in recent years as outlined in 2020/21 Annual Accounts. On the basis of information available, there was no state aid present in any of the transactions and have assurances on the appropriate recognition and disclosure of contingent liabilities.

10. Can commercial partners put trust in SG when doing business?

As a competent government is expected to do, SG has notified TATA of our conclusions prior to the Parliamentary Statement delivered on 15 December 2021 and we are maintaining an open and ongoing dialogue with TATA on the matter.

BRIEFING FOR THE PERMANENT SECRETARY

LOCHABER ALUMINIUM SMELTER AND HYDRO STOCKTAKE

Date and time	5 July 2022, 0900 - 1230
Location	Alvance British Aluminium Lochaber Place Smelter Fort William PH33 6TH
Key message	The local business is operating well but uncertainty remains in respect of GFG's global refinancing [REDACTED] [REDACTED][REDACTED]
Who	Jeff Kabel, Chief Transformation Officer, GFG Alliance [REDACTED] , Operations Manager, ABA [REDACTED] , Financial Director, ABA [REDACTED] , Lead Engineer, ABA (tbc) [REDACTED] , Projects Manager, ABA [REDACTED]
Likely themes	Investment in the aluminium billet plant Performance of the local business Community land transaction Risks – ongoing investigations (SFO, FRC), court cases ([REDACTED]), alumina supply (sanctions, rail strikes)
Media and communications	n/a
Supporting officials	[REDACTED] (Divisional Director, Manufacturing and Industries Division) – lead policy support – [REDACTED] [REDACTED]
Attached documents	Annex A: Agenda (page 2) Annex B: Introductory Speaking Note (page 3) Annex C: Meeting Attendees (page 4) Annex D: Businesses performance (page 5) Annex E: Project Silver investment (page 6) Annex F: Supply Chain Challenges (page 7)

ANNEX A – AGENDA

- **[REDACTED]**.

Time	Length of time		Location	GFG ALVANCE Personnel
9.00-9.10	10 mins (10 mins total)	Arrival and registration at Visitors Reception – walk to office block	Visitors Reception	<ul style="list-style-type: none"> • Met and escorted to office suite by [REDACTED], Executive Assistant
9.10-9.15	5 mins (15 mins total)	Introductions	Board Room, Office Suite	<ul style="list-style-type: none"> • Jeff Kabel, Chief Transformation Officer • [REDACTED], Operations Manager, ABA • [REDACTED], Financial Director, ABA
9.15-9.25	10 mins (25 mins total)	Overview of meeting purpose (verbal - ScotGov PermSec)	Board Room, Office Suite	<ul style="list-style-type: none"> • Jeff Kabel, [REDACTED]
9.25-9.40	15 mins (40 mins total)	GFG Corporate update (verbal - Jeff K) plus discussion	Board Room, Office Suite	<ul style="list-style-type: none"> • Jeff Kabel, [REDACTED]
9.40-10.00	20 mins (60 mins total)	Lochaber business and financial performance update (PPT presentation – [REDACTED]) plus discussion	Board Room, Office Suite	<ul style="list-style-type: none"> • [REDACTED], Jeff Kabel
10.00-10.20	20 mins (80 mins total)	Development project update (PPT presentation – [REDACTED]) plus discussion	Board Room, Office Suite	<ul style="list-style-type: none"> • [REDACTED], Lead Engineer, ABA • Jeff Kabel, [REDACTED]
10.20-10.40	20 mins (100 mins total)	Informal introductions to operations support teams (at desks)	Upper floor and Lower floor, Office Suite	<ul style="list-style-type: none"> • [REDACTED] Jeff Kabel
10.40-10.50	10 mins (110 mins total)	Change in to PPE, site safety instructions	Lower floor, Office Suite	<ul style="list-style-type: none"> • J[REDACTED] Operations team, Jeff Kabel, [REDACTED]
10.50-10.55	5 mins (115 mins total)	Walk to smelter		<ul style="list-style-type: none"> • [REDACTED] + 1, Jeff Kabel, [REDACTED]
10.55-11.25	30 mins (145 mins total)	Smelter viewing gallery – process description (verbal – [REDACTED] + 1) and discussion	Smelter	<ul style="list-style-type: none"> • [REDACTED] + 1, Jeff Kabel, [REDACTED]
11.25-11.30	5 mins (150 mins total)	Walk to power generation house and control room		<ul style="list-style-type: none"> • [REDACTED] + 1, Jeff Kabel, [REDACTED]
11.30-12.00	30 mins (180 mins total)	Power generation house and control room (verbal – [REDACTED]) and discussion	Power house	<ul style="list-style-type: none"> • [REDACTED] + 1, Power house control staff (tbc), Jeff Kabel, [REDACTED]
12.00		DEPART: John-Paul Marks and [REDACTED]		
12.00		Back to Office Suite: [REDACTED]		

ANNEX B – PERMANENT SECRETARY INTRODUCTORY SPEAKING NOTE

- Thank you to GFG and the staff and management of Alvalde British Aluminium for hosting my visit today.
- I'm very much looking forward to seeing the operation first hand and gaining a feel for the business of aluminium smelting and the generation of low carbon power from the hydro.
- I recognise that the smelter and hydro are key industrial assets in the region – the last aluminium smelter in the UK – generating employment and economic input for over 90 years.
- I'm interested then to understand the context of the businesses in respect of Fort William and the broader area, including its role in supporting the local community.
- The estate lands here also provide fantastic potential for further growth and I'm keen to understand better the strategy for the estate.
- As Permanent Secretary and Principal Accountable Officer I take an overview of the Government's most significant commercial transactions to provide assurance to Ministers and Parliament around the use of public funds and the management of risk.
- Ministers have backed GFG's industrial vision in the form of a financial guarantee so I'm keen to hear of progress in delivering the investment that's needed to grow outputs and profitability.
- So, I'm very much looking forward to our discussions and the tour of the plant.

ANNEX C – MEETING ATTENDEES

GFG Alliance/Alvance British Aluminium

- Jeff Kabel, Chief Transformation Officer, GFG Alliance – corporate executive
- **[REDACTED]**, Operations Manager, ABA – local business
- **[REDACTED]**, Financial Director, ABA
- **[REDACTED]**, Lead Engineer, ABA – billet plant project
- (tbc) **[REDACTED]**, Projects Manager, ABA – billet plant project
- **[REDACTED]**, Executive Assistant & Communications Lead, ABA

Scottish Government

- **[REDACTED]** (Business Manager)
- **[REDACTED]** (Divisional Director, Manufacturing and Industries Division)
- **[REDACTED]** (Team Leader, Industrial Sectors & Projects)
- **[REDACTED]** (Policy Officer, Industrial Sectors & Projects)

ANNEX D – LOCHABER BUSINESSES FINANCIAL SUMMARY (TO YEAR END 2021)

The latest figures we have on smelter profitability (EBITDA) covering the 2021 calendar year are as follows:

[REDACTED]

- The business is currently performing well with no operating issues
- Aluminium prices remain high
- Water levels remain high in the reservoirs so that it is able to maintain a high level of pots (i.e. aluminium production) and export power to the grid
- **[REDACTED]** Investment plans have progressed and a firm appointed to deliver the **[REDACTED]** for the billet plant

ANNEX E – GFG INVESTMENT PROJECT SUMMARY – PROJECT SILVER

- The economic investment planned by GFG is the development of an aluminium billet and recycling plant, Project Silver **[REDACTED]** originally and now circa **[REDACTED]** Construction of an aluminium recycling and billet casting facility
- **[REDACTED]** Construction of an Office block
- The billet plant will increase output from the site from **[REDACTED]**a to c**[REDACTED]**
- The project development follows a **[REDACTED]** process common to processing industries.
- The local business has progressed to **[REDACTED]**
- On current plan, the feasibility study will take **[REDACTED]** to conclude.
- On conclusion, and with appropriate funding in place, the business will progress to **[REDACTED]**.
- The local management team has made good progress and is in a positive position awaiting funding from the group to progress.

ANNEX F – SUPPLY CHAIN CHALLENGES

Sanctions

- Lochaber’s alumina is sourced from the **[REDACTED]**
[REDACTED] **[REDACTED]**
[REDACTED]
[REDACTED]

[REDACTED]

From: [REDACTED]
Sent: 30 June 2022 12:24
To: [REDACTED]
Cc: [REDACTED]
Subject: RE: Permanent Secretary Stocktake - Lochaber Pre-meet and stocktake - note of actions
Attachments: Lochaber Stocktake Briefing July 2022 v0.4.docx

Hi [REDACTED],

As noted earlier, GFG has proposed some minor changes to the agenda to provide more time on the smelter & hydro elements and for any engagement the PermSec would like to have with other operations staff. The attached brief has been updated accordingly and contact details for [REDACTED] included as per your separate email today.

Thanks,

[REDACTED]

TED]

From: [REDACTED]
Sent: 30 June 2022 08:43
To: [REDACTED]
Cc: [REDACTED]
Subject: RE: Permanent Secretary Stocktake - Lochaber Pre-meet and stocktake - note of actions

Hi [REDACTED]

Please find attached a brief for the Permanent Secretary's visit to Lochaber. There may be some minor timing changes on the day to provide time for discussion and to visit the smelter & hydro operations however, the itinerary of the visit has been agreed with GFG, starting with arrival at 9am.

Please let me know if you need anything else.

Thanks,
[REDACTED]

From: [REDACTED]
Sent: 28 June 2022 16:41
To: [REDACTED]
Cc: [REDACTED]
Subject: RE: Permanent Secretary Stocktake - Lochaber Pre-meet and stocktake - note of actions

Hi [REDACTED],

Can you confirm the following below:

Timings: 0900 - 1230

For the section below, can we ensure that included in the briefing are lines for Perm Sec for his welcome/introduction. Nothing extensive, just a few bullet point lines that he can then work from?

	5 mins (20 mins total)	Overview of meeting purpose (verbal - ScotGov PermSec)	Board Room	
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Thanks,

[REDACTED]

Senior Communications and Engagement Manager

Executive Team

E: 



From: [REDACTED]

Sent: 28 June 2022 12:22

To: [REDACTED]

Cc: [REDACTED]

Subject: RE: Permanent Secretary Stocktake - Lochaber Pre-meet and stocktake - note of actions

Thanks [REDACTED]

It is understood that the following will be attending alongside the Perm Sec next week:

PermSec, [REDACTED], DGE, [REDACTED]?

I'd be grateful if you can advise of any revisions before the close of business today and I can inform GFG.

Thanks,

[REDACTED]

TED]

From: [REDACTED]

Sent: 28 June 2022 11:26

To: [REDACTED]

Cc: [REDACTED]

Subject: RE: Permanent Secretary Stocktake - Lochaber Pre-meet and stocktake - note of actions

Hi [REDACTED],

That's really helpful.

I look forward to receiving the briefing.

Thanks again,

[REDACTED]

Senior Communications and Engagement Manager

Executive Team

E: 



From: [REDACTED]

Sent: 24 June 2022 17:02

To: [REDACTED]

Cc: [REDACTED]

Subject: RE: Permanent Secretary Stocktake - Lochaber Pre-meet and stocktake - note of actions

Hi [REDACTED],

Further to your queries:

- [REDACTED], Divisional Director for the Manufacturing and Industries Division, will be attending in support. We understand that Louise MacDonald, DG Economy, will also be attending.
- The further brief is currently in draft and should be available early next week.
- In respect of HIE and a meeting with the CEO, [REDACTED] is the best contact although, when he is on leave next week, he suggested contacting corporate.relations@hient.co.uk and one of the team will be able to pick up and make the arrangements. In SG, [REDACTED] is the key contact in the Enterprise Sponsorship Team within the Regional Economic Development Division and it may be useful to include him on the copy list.

I hope this is of use.

[REDACTED]

From: [REDACTED]

Sent: 24 June 2022 14:23

To: [REDACTED]

Cc: [REDACTED]

Subject: RE: Permanent Secretary Stocktake - Lochaber Pre-meet and stocktake - note of actions

Hi both,

The schedule looks good.

In answer to the questions below:

The names and designation of officials accompanying the PermSec to ensure these are logged at the Visitors Reception in advance: - My colleague [REDACTED], Business Manager from our office will support Perm Sec. Can you confirm which DG/Director or DD will also support Perm Sec on his visit to Lochaber?

What is the view on local publicity of the PermSec visit – (i) external (media and / or social media) (ii) internal (employee communications – e.g. photo(s) and write up in the employee newsletter) – I agree with points previously raised. There is no need for media activity regarding this visit.

A few questions from myself:

Is the briefing in hand? And when can we expect to receive the completed version?
Can I can confirm that timings for the visit is – 3.5 hours (9:00 – 12:30)?
For the section below, can we ensure that lines are prepared for Perm Sec for his welcome/introduction. Nothing extensive, just a few bullet point lines that he can then work from?

	5 mins (20 mins total)	Overview of meeting purpose (verbal - ScotGov PermSec)	Board Room	
--	------------------------------	---	------------	--

On HIE CE: Perm Sec will actually be in Inverness on Thursday 7. He would like to meet with both the CE of HIE and HCC at the same time if possible. I will be going out to [REDACTED] office soon to request if she is available for a meeting. [REDACTED] - do you know who I could contact in [REDACTED] office to see if he could meet on Thursday 7? If Thursday doesn't work for him a possible back up could be that he meets with Perm Sec on Tuesday for lunch after Lochaber as Perm sec has another visit to attend in the afternoon.

Thanks for all your help so far on planning and preparing this visit.

Thanks,

[REDACTED]

Senior Communications and Engagement Manager

Executive Team

E: 



From: [REDACTED]

Sent: 23 June 2022 15:31

To: [REDACTED]

Cc: [REDACTED]

Subject: RE: Permanent Secretary Stocktake - Lochaber Pre-meet and stocktake - note of actions

Hi all,

Just to add in respect of the itinerary, colleagues at HIE are keen to introduce their new CEO and would like to understand if there is any scope for the PermSec to meet after the visit to the smelter. HIE is seeking to provide the broader, regional economic development context referencing the 2040 Masterplan.

Thanks,
[REDACTED]
TED]

From: [REDACTED]
Sent: 23 June 2022 13:07
To: [REDACTED]
Cc: [REDACTED]
Subject: RE: Permanent Secretary Stocktake - Lochaber Pre-meet and stocktake - note of actions

Thanks [REDACTED] and my apologies for the slight delay in replying.

[REDACTED] – is the schedule in the table below setting out the detail Perm Sec’s Office requires to finalise the Perm Sec’s itinerary for the day?

Also [REDACTED] highlights two questions from GFG:

1. The names and designation of officials accompanying the PermSec to ensure these are logged at the Visitors Reception in advance ^[REDACTED] – **Perm Sec’s office able to assist here?**
2. What is the view on local publicity of the PermSec visit – (i) external (media and / or social media) (ii) internal (employee communications – e.g. photo(s) and write up in the employee newsletter) – [REDACTED]

Happy to discuss.

Many thanks,
[REDACTED].

[REDACTED] (she/her)
Team Leader – Strategic Engagement & Policy | Rapid Response Unit
Strategic Commercial Interventions Division
Covid Business Resilience & Support Directorate | Scottish Government
5 Atlantic Quay | 150 Broomielaw | Glasgow | G2 8LU
[REDACTED]

From: [REDACTED]
Sent: 22 June 2022 15:26
To: [REDACTED]
Cc: [REDACTED]
Subject: RE: Permanent Secretary Stocktake - Lochaber Pre-meet and stocktake - note of actions

Hi [REDACTED],

Copying to [REDACTED] who is leading the preparations for the visit.

Following our meeting yesterday, we received the below revised itinerary from GFG providing details of personnel who will be in attendance:

PermSec visit, Tues 5 July AM – exact timing tbc by ScotGov

Time	Length of time		Location	GFG ALVANCE Personnel
	10 mins (10 mins total)	Arrival and registration at Visitors Reception – walk to office block	Visitors Reception	<ul style="list-style-type: none"> Met by [REDACTED]
	5 mins (15 mins total)	Introductions	Board Room	<ul style="list-style-type: none"> Jeff Kabel, Chief Transformation Officer [REDACTED], Operations Manager, ABA [REDACTED], Financial Director, ABA
	5 mins (20 mins total)	Overview of meeting purpose (verbal - ScotGov PermSec)	Board Room	
	10 mins (30 mins total)	GFG Corporate update (verbal - Jeff K) plus discussion	Board Room	
	15 mins (45 mins total)	Lochaber business and financial performance update (PPT presentation – [REDACTED] plus discussion	Board Room	
	15 mins (60 mins total)	Development project update (PPT presentation – [REDACTED]) plus discussion	Board Room	<ul style="list-style-type: none"> [REDACTED], Lead Engineer, ABA (tbc) [REDACTED], Projects Manager, ABA Jeff Kabel, Chief Transformation Officer [REDACTED], Operations Manager, ABA [REDACTED], Financial Director, ABA
	5 mins (65 mins total)	Walk to smelter		<ul style="list-style-type: none"> [REDACTED] Jeff Kabel [REDACTED]

	25 mins (90 mins total)	Smelter viewing gallery – process description (verbal – [REDACTED]) and discussion	Smelter	<ul style="list-style-type: none"> • [REDACTED]Jeff Kabel • [REDACTED]
	5 mins (95 mins total)	Walk to power generation house and control room		<ul style="list-style-type: none"> • [REDACTED]Jeff Kabel • [REDACTED]
	25 mins (120 mins total)	Power generation house and control room (verbal – [REDACTED]) and discussion	Power house	<ul style="list-style-type: none"> • [REDACTED]Jeff Kabel • [REDACTED]
		DEPART		

I've asked if there is sufficient flexibility to swap the itinerary if needed to have the smelter/hydro visit first.

GFG has also sought confirmation on other matters:

- The names and designation of officials accompanying the PermSec to ensure these are logged at the Visitors Reception in advance
- What is the view on local publicity of the PermSec visit – (i) external (media and / or social media) (ii) internal (employee communications – e.g. photo(s) and write up in the employee newsletter)

Are you able to follow-up with PermSec's office and [REDACTED]?

Thanks,

[REDACTED]

From: [REDACTED]

Sent: 20 June 2022 15:28

To: [REDACTED]

Cc: [REDACTED]

Subject: RE: Permanent Secretary Stocktake - Lochaber Pre-meet and stocktake - note of actions

Hello [REDACTED]

Trust this finds you well.

...finally circling-back to something that's been haunting my To Do List. The action item to check-in with you on logistics/itinerary concerning next week's Perm Sec visit to Lochaber.

Is this in hand and/or what's the current state of play? Happy to discuss – just shout.

Many thanks,

[REDACTED]

[REDACTED] (she/her)

Team Leader – Strategic Engagement & Policy | Rapid Response Unit

Strategic Commercial Interventions Division

Covid Business Resilience & Support Directorate | Scottish Government

5 Atlantic Quay | 150 Broomielaw | Glasgow | G2 8LU

[REDACTED]

From: [REDACTED]

Sent: 14 June 2022 15:16

To: [REDACTED]

Cc: [REDACTED]

Subject: RE: Permanent Secretary Stocktake - Lochaber Pre-meet and stocktake - note of actions

Good afternoon,

Following on from [REDACTED] email last week, I thought it may be helpful to give the following updates:

- Permanent Secretary Office have been asked to add Alyson Stafford, DG Scottish Exchequer, to the cast list for the pre meeting scheduled to take place on Monday 27 June at 3.30pm
- Following input from [REDACTED] is currently working on a summary paper which he is hoping to be able to share with yourselves by the end of this week. However [REDACTED], if you have any additional material please share with [REDACTED]
- [REDACTED] and **Lochaber colleagues** to prepare briefing on the current status and future scenarios based on the stocktake checklist previously issued by [REDACTED]. Papers should be issued by Lochaber team to **DG Economy by close of play on Monday 20 June** for clearance and subsequently to **Permanent Secretary Office by close of play on Wednesday 22 June**.
- To note, [REDACTED] will be attending the pre meeting on 27 June for continuity / lessons learned purposes across the three business areas, ie Ferguson Marine, Prestwick and Lochaber, in a listening capacity only. For Prestwick the pre meeting was led by [REDACTED] Likewise the Lochaber pre meeting should be led by a Lochaber representative.

I will be on leave till Tuesday 28 June but please contact [REDACTED] if you have any queries.

Kind regards [REDACTED]

Strategic Engagement and Policy Team | Rapid Response Unit | Strategic Commercial Interventions Division | COVID-19 Business Resilience and Support Directorate | Tel: [REDACTED]

Monday is my non working day.

From: [REDACTED]

Sent: 08 June 2022 17:17

To: [REDACTED]

Cc: [REDACTED]

Subject: Permanent Secretary Stocktake - Lochaber Pre-meet and stocktake - note of actions

All,

Please see a note of the actions I took from the call earlier on the Permanent Secretary Stocktake on Lochaber. Any edits / additions are very welcome. I will be on leave until next Wednesday but others from RRU / BRIU will be around to progress the actions.

- [REDACTED] is compiling briefing for the pre-meet with the Permanent Secretary on 27 June to cover the current status and future scenarios based on the stocktake checklist issued previously by [REDACTED] Papers should be issued to Perm Sec's office by 20/21 June. [Post meeting note – we felt that DG Economy will wish to review papers in advance of this so need to aim to complete by 17 June for issue to DG's office]. Assumption is that Lochaber team will issue the briefing pack unless advised otherwise.

- **[REDACTED]** to issue original Lochaber business case submission, any subsequent AO templates and key consultancy option appraisal / due diligence reports to **[REDACTED]** will then produce summary paper in HMT Green Book format to present the history of the intervention.
- All to consider the timing of the deep dive as part of the DG Strategic Assets Group. It will ideally take place after the site visit on 4 July. **[REDACTED]** to engage with DG Economy on this.
- Programme for the site visit with options for the Permanent Secretary such as meeting community groups, supply chain and logistics firms, HIE to be developed and issued to Perm Sec's office 15 June 2022. **[REDACTED]**
- Logistics to be considered in detail as well as whether or not NXDs / DG Economy will attend. **[REDACTED]**
- Actions on the back of the DG Assets Review Group were discussed. Key to consider next steps on cost benefit analysis in the context of managing consultancy spend **[REDACTED]**

Best wishes

[REDACTE

D]

[REDACTED] | Head of RRU Business Response and Insights Unit
Directorate for Covid Business Resilience and Support | Scottish Government
5 Atlantic Quay | 150 Broomielaw | Glasgow | G2 8LU
Tel: 0141 242 **[REDACTED]** ext: **[REDACTED]** | Mobile: **[REDACTED]**

[REDACTED]

From: [REDACTED]
Sent: 18 February 2022 11:50
To: Director of Economic Development; Cook C (Colin)
Cc: [REDACTED]
Subject: FW: Meeting with PermSec
Attachments: 220218 - Permanent Secretary Briefing - PAC Session - GFG Alliance - 18 Feb.docx
Categories: FOR INFO

Hi Colin,

You will be aware that PermSec had requested a session on Liberty Steel – Dalzell which we understand came off the back of DFM seeking a meeting with officials following the submission of [REDACTED] (sent 8th Feb).

Following a conversation between RRU colleagues and PermSec’s office [REDACTED] who had already linked up with DG Economy’s office, they agreed that a session that followed the same format as Wednesday with Elinor was a good way of understanding the wider picture and ensuring that PermSec is well briefed ahead of the PAC meeting next week.

This would then provide the opportunity for further sessions in respect of the wider history and more forward looking aspects of the total GFG picture ie [REDACTED] across Lochaber and Dalzell as well as the [REDACTED]

As such we think it would be sensible to share the same material provided to DG Economy (attached but slightly reordered) and follow the same agenda, as below

- GFG Alliance overview
- Lochaber Guarantee
- Liberty Steel Dalzell – Historical Transaction
- Liberty Steel Dalzell – [REDACTED]

It may be that PermSec comes back seeking a more focussed session upon the [REDACTED] at which point we can react and amend brief accordingly

Given the protocols and small cast lists covering DG, Directors and DD’s we felt it would be more appropriate coming from you (or Elinor)

If your happy, grateful if you could share the attached and proposed agenda with PermSec in the first instance (copying the respective below cast list)

Very happy to discuss

Kindest regards

[REDACTED]

From: [REDACTED]
Sent: 15 February 2022 12:49
To: Permanent Secretary <PermanentSecretary@gov.scot>; DG Economy <DGEconomy@gov.scot>; [REDACTED]
Cc: Director of Economic Development <DirectorDED@gov.scot>; [REDACTED] Director for Covid Business Resilience and Support <DirectorCOBRAS@gov.scot>; [REDACTED]
Subject: RE: Liberty Steel - [REDACTED] etc

[REDACTED]

From the DED side (who lead on the policy side of Liberty Steel and the historic transaction), the Director, DD and Unit Head are off till next Monday. This Division leads on the [REDACTED] for Liberty Steel (and did the historic work up until 2 weeks ago)

It would be better if it could be into next week as there will be the appropriate cover but you will be closer to how early this is required.

Thanks

[REDACTED] | Head of Rapid Response Unit | The Scottish Government
St Andrew's House | Regent Road | Edinburgh | EH1 3DG | T: 0131 244 [REDACTED] | M:
[REDACTED]

From: [REDACTED] **On Behalf Of** Permanent Secretary
Sent: 15 February 2022 12:16
To: Permanent Secretary <PermanentSecretary@gov.scot>; DG Economy <DGEconomy@gov.scot>; [REDACTED]
Cc: Director of Economic Development <DirectorDED@gov.scot>; [REDACTED]
Subject: RE: Liberty Steel - [REDACTED] etc

Hi All,

We are looking to slot this in on Friday 18th between 09:00-10:00. Grateful if you could please confirm the cast list and if this slot suits.

Many thanks
[REDACTED]
D]

From: [REDACTED] **On Behalf Of** Permanent Secretary
Sent: 15 February 2022 10:18
To: DG Economy <DGEconomy@gov.scot>; [REDACTED]
Cc: Director of Economic Development <DirectorDED@gov.scot>; [REDACTED]
Subject: Liberty Steel - [REDACTED] etc

Thanks [REDACTED].

Copying to [REDACTED] who will be able to make arrangements, but grateful if someone could suggest a small (we t[REDACTED])/ sensible cast list for a 30-45 minute private briefing on Liberty Steel current situation please?

[REDACTED] – if possible, suggest we (a) make a note of timing of the DFM meeting in PermSec's diary
(b) try and get the pre-brief/ private briefing sorted regardless (c) let PermSec know AO attending and keep him in the loop as to whether FM decides to join.

Thanks

[REDACTED]

CTED]

[REDACTED]

Deputy PPS | Permanent Secretary's Office | 1N-07, St Andrew's House, Regent Road, Edinburgh, EH1 3DG | [REDACTED] [REDACTED]

Scottish Ministers, special advisers and the Permanent Secretary are covered by the terms of the Lobbying (Scotland) Act 2016. See www.lobbying.scot

[REDACTED]

Private Secretary, Director General Economy
DGEconomy@gov.scot

I am currently working from home. My working pattern is 9:00 to 17:00 Monday/Tuesday/Thursday/Friday and 9:00 to 13:00 on Wednesday.

Responsibility for filing key documents and communications on the record, including those sent to DG Economy and Elinor Mitchell, rests with relevant policy and operational areas within Directorates. The DG Office Team does not keep official records of such e-mails or attachments.

From: [REDACTED] Sent: 14 February 2022 17:08 [REDACTED]

February 2022 17:08

To: Permanent Secretary <PermanentSecretary@gov.scot>; Dimitrova N (Natali) <Natali.Dimitrova@gov.scot>

Cc: DG Economy <DGEconomy@gov.scot>; Director of Economic Development <DirectorDED@gov.scot>; Rhatigan D (Dermot) <Dermot.Rhatigan@gov.scot>

Subject: RE: Fergussons Marine

Adding Colin Cook and [REDACTED] who lead on policy in relation to Liberty Steel.

[REDACTED]

Are you envisaging a pre-brief for Perm Sec or him joining the call on 24th Feb?

PS/DG Economy, can you confirm Elinor's intentions re meeting with DFM on 24th please?

Thanks,

[REDACTED]

[REDACTED] (she/her)

Deputy Director, Strategic Commercial Interventions Division
Scottish Government

4th floor, Atlantic Quay
150 Broomielaw, Glasgow
[REDACTED]

I am working from home, contactable by email, on my mobile, and on Teams.

From: [REDACTED] **On Behalf Of** Permanent Secretary

Sent: 14 February 2022 15:47

To: [REDACTED] Permanent Secretary <PermanentSecretary@gov.scot>; [REDACTED]

Cc: DG Economy <DGEconomy@gov.scot>

Subject: RE: Fergussons Marine

[REDACTED] – I know this is separate but PermSec also looking for a stand-alone session on Liberty Steel et. al.

I'm also aware DFM offered FM to join (24 February?). Can I check whether Elinor attending this regardless of FM involvement?

[REDACTED]

Deputy PPS | Permanent Secretary's Office | 1N-07, St Andrew's House, Regent Road, Edinburgh, EH1 3DG |

[REDACTED]
R E D A C T
E D]

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GFG Lochaber



Permanent Secretary Stocktake
Session –
27 June 2022



Scottish Government
Riaghaltas na h-Alba
gov.scot

Agenda

Agenda Item	Agenda Item Lead	Summary of areas to cover
1. Welcome and introductions	PermSec	<ul style="list-style-type: none">• Welcome
2. Background and history	ISP	<ul style="list-style-type: none">• GFG Group• Rationale for SG intervention• Lochaber Guarantee• [REDACTED]
3. Current state of play	ISP	<ul style="list-style-type: none">• Greensill collapse• [REDACTED]• Local business performance• Longstop and [REDACTED]
4. Strategic risks and challenges	ISP	Highlight of key risks and mitigating actions
5. Discussion	All	Challenge and questions
6. Reflections and Next Steps	All	Agreement on next steps



Item 1 - Welcome and Introductions

Responsibility for management of the Government guarantee lies with the Industrial Sectors and Projects Team, Manufacturing and Industries Division, within the Economic Development Directorate.

Director General, Economy: Louise Macdonald.

Director, Economic Development Directorate: Colin Cook.

Deputy Director, Manufacturing and Industries Division: **[REDACTED]** .

Industrial Sectors and Projects Team:-

- **[REDACTED]** – Unit head
- **[REDACTED]** – Team leader
- **[REDACTED]** – Senior Policy Officer
- **[REDACTED]** – Policy Officer



Item 3 - Background and History

- GFG Group
- Rational for SG intervention
- Lochaber Guarantee
- **[REDACTED]**



3.1 - GFG Group

- GFG Alliance (GFG) is a collection of global businesses and investments owned by Sanjeev Gupta and his father, Parduman Gupta.
- GFG is structured into three core divisions:
 - Steel - Liberty Steel (Sanjeev Gupta);
 - Aluminium - ALVANCE Aluminium (Sanjeev Gupta); and
 - Energy - SIMEC Energy (Parduman Gupta)
- Estimated to be over 100 legal entities under Gupta control.
- Prior to the collapse of Greensill Capital, GFG was reported to have global revenues of c.\$20bn and employ c. 35,000 people across 30 countries.
- In 2016, GFG purchased HydroCo (Simec Lochaber Hydropower2) and SmelterCo (Alvance British Aluminium), including various land assets in the Fort William area.



3.2 - SG Intervention

- In January 2016, Rio Tinto announced their intention to undertake a review of its assets in Lochaber:
 - the aluminium smelter,
 - the hydro-electric power stations located in Fort William and in Kinlochleven,
 - extensive estate lands located to east of Fort William
- The Lochaber guarantee was agreed in late 2016 to:
 - preserve the skills and capability necessary to produce aluminium in Scotland and
 - enhance the future sustainability of the Fort William smelter by supporting investment.
- Fort William is the last aluminium smelter in the UK with over 90 years' worth of experience of aluminium-making
 - At the time of the Ministers' intervention it was estimated that staff at the smelter accounted for around 20% of Lochaber's manufacturing employment (in FTE terms) – a critical regional asset
 - It is a national strategic industrial asset and the intervention by Ministers prevented its break-up and closure.



3.3 - Lochaber Guarantee

- Approved by the Finance Committee in November 2016
- GFG raised **[REDACTED]** Greensill bonds to fund the £330m acquisition of the Lochaber assets.
- The guarantee provides for timely payment of fixed amounts of income due quarterly under a power purchase agreement (PPA) between the smelter and Simec Lochaber Hydropower Ltd.
- SG is paid a fee quarterly, at **[REDACTED]** assessed by EY to be MEOP
- The Lochaber guarantee does not require the Scottish Government to buy electricity but to pay the bondholders if Liberty does not pay.
- Comprehensive fixed and floating security over Lochaber assets and parent company guarantees from **[REDACTED]** Scottish Government would have recourse to seek repayment from the GFG Alliance under parent company guarantees and other securities.



3.4 - [REDACTED]

- As part of the guarantee, GFG committed to investment of at least [REDACTED] in an alloy wheels plant to enhance the profitability of the smelter
- As a result of the downturn in automotive market following Brexit, GFG abandoned its plans and was [REDACTED]
- This agreement included a strengthening of [REDACTED] Long Stop Date, set at 31st March 2022
- [REDACTED] GFG committed to:
- [REDACTED]
- Construction of an aluminium recycling and billet casting facility
 - [REDACTED]
 - [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]



Item 4 – Current State of play

- Greensill collapse
- **[REDACTED]**
- Local business
- Longstop and **[REDACTED]**



4.1 – Greensill Collapse

- Greensill collapsed in March 2021 with GFG having an estimated UK 5 bn of short term Greensill debt, largely (but not exclusively) provided by Credit Suisse Asset Management and Greensill Bank.
- Since, GFG has been seeking to restructure and refinance its 3 largest operating clusters
- **Australia [REDACTED]**
- **Eastern Europe [REDACTED]**
- **UK - £50m invested into a new ABL facility to enable steel production to re start late 2021. [REDACTED]**
- GFG is under investigation from the SFO, and equivalent bodies in France regarding possible fraud
- GFG restructured its activities in 2020 into separate “groups” under Gupta family ownership, **[REDACTED]**
- SG monitors fortnightly with GFG and receives 13 week forecast cashflows for the Lochaber entities



4.2.1 – [REDACTED]

SG has identified its objectives to be used in the consideration and evaluation of the identified scenarios and outcomes in relation to its guarantee to GFG at Lochaber.

Overview

SG identified the following objectives in order to consider and evaluate the preferred outcome(s) for Lochaber.

[REDACTED]

The objectives were developed starting point the SG objectives from previous [REDACTED] exercises which took place in 2019 and SG's objectives at the time of the original transaction in 2016. These have then been updated to apply to the current GFG situation in discussion with SG.

Objectives

Four key themes have been identified alongside several sub-objectives under each theme (see right).

[REDACTED]

Additional [REDACTED]

[REDACTED]

[REDACTED] were also assessed against an additional [REDACTED] to evaluate how deliverable the outcome is from a [REDACTED] perspective.



4.2.2 – [REDACTED]

[REDACTED]

4.2.3 – [REDACTED]

Indicative NPV assessment

Possible outcomes have been evaluated against SG's strategic objectives, including an illustration of potential cashflows and the NPV for alternative scenarios should **[REDACTED]** See

[REDACTED]

4.2.4 – [REDACTED]

Evaluation of Outcomes

[REDACTED]

[REDACTED]

Source: RAG Status, SG

4.2.5 – [REDACTED] Summary

- We have considered and assessed a large number of potential scenarios.
- The preferred outcome is that GFG remains solvent, maintains ownership over the assets and invests in the long-term future of the complex through [REDACTED]
- In the event of an [REDACTED] situation, SG would seek [REDACTED]
- SG would have the potential to [REDACTED]
- There are currently some [REDACTED]
- [REDACTED]

[REDACTED]



4.3 – Local business



Operation

Profitable – combined asset

[REDACTED]

-> high LME; power export

Enhanced [REDACTED]

Grid power balance contributor

Estates

Strategic focus for GFG (Greensteel)

Huge potential – net zero

Standardising management

Community land transaction

Management

Experienced, knowledgeable and dedicated

Engages positively with regulators such as HSE

Successful planning & procurement for [REDACTED]

Community

Ancillary services

Chamber of Commerce link

Engages with local schools in delivering STEM for Curriculum for Excellence

4.4 - Grid Connection

At time of original transaction: Export, [REDACTED] (planned expansion to [REDACTED])

2022

- [REDACTED]
- [REDACTED]



- Being able to export more provides an opportunity to sustain the business as it [REDACTED].
- The grid connection is now [REDACTED]
 - [REDACTED]
 - [REDACTED]



4.5 – Longstop & [REDACTED]

- GFG was required [REDACTED]
- [REDACTED]
- [REDACTED]
[REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]



Item 5 – Risks and Challenges

- Current monitoring arrangements
- Risks

5.1 – Current Monitoring Arrangements

[REDACTED]

- [REDACTED]
- [REDACTED]
- [REDACTED]

[REDACTED]

- [REDACTED]
- [REDACTED]

[REDACTED]

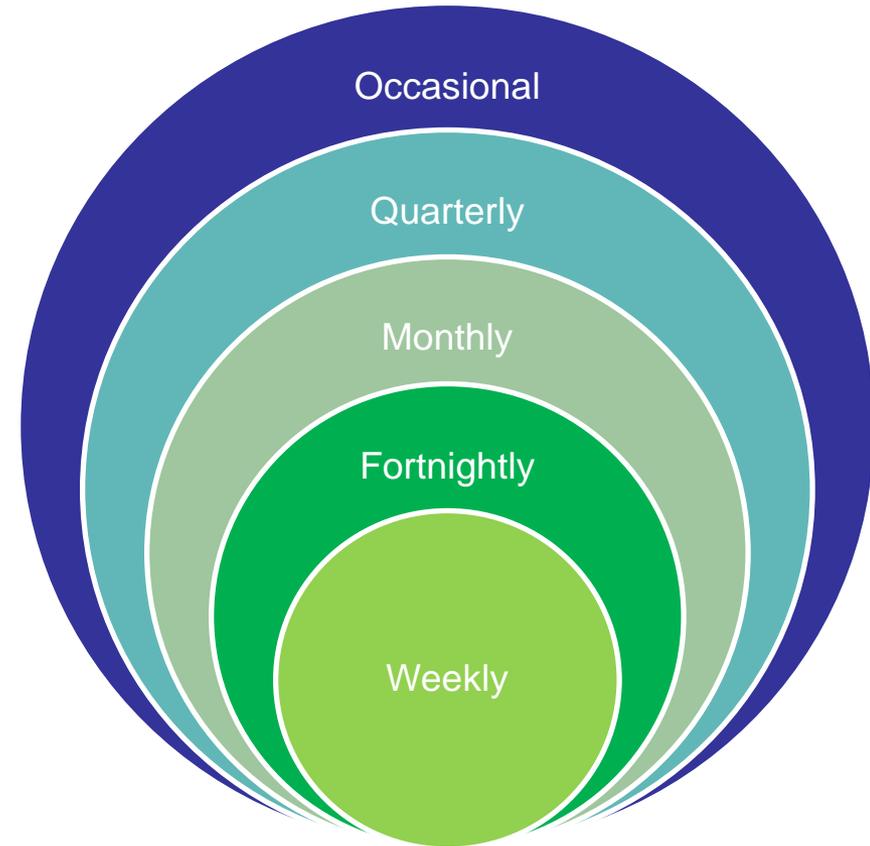
- [REDACTED]
- [REDACTED]
- [REDACTED]

Quarterly:

- Guarantee Management Meeting
- [REDACTED]
- [REDACTED]

[REDACTED]

- [REDACTED]
- [REDACTED]



5.2 – Risks

Risk [REDACTED]	Term	Likelihood	Impact	Mitigation
• [REDACTED]	• [REDACTED]	• [REDACTED]	• [REDACTED]	• [REDACTED]
• [REDACTED]	• [REDACTED]	• [REDACTED]	• [REDACTED]	• [REDACTED]
• [REDACTED]	• [REDACTED]	• [REDACTED]	• [REDACTED]	• [REDACTED]
• [REDACTED]	• [REDACTED]	• [REDACTED]	• [REDACTED]	• [REDACTED]
• [REDACTED]	• [REDACTED]	• [REDACTED]	• [REDACTED]	• [REDACTED]

5.2 – Risks continued

Risk [REDACTED]	Term	Likelihood	Impact	Mitigation
• [REDACTED]	• [REDACTED]	• [REDACTED]	• [REDACTED]	• [REDACTED]
• [REDACTED]	• [REDACTED]	• [REDACTED]	• [REDACTED]	• [REDACTED]
• [REDACTED]	• [REDACTED]	• [REDACTED]	• [REDACTED]	• [REDACTED]
• [REDACTED]	• [REDACTED]	• [REDACTED]	• [REDACTED]	• [REDACTED]



Item 6 – Discussion



Item 7 – Reflections and Next steps



Appendices

- Smelter Operations
- Hydro Operations
- Estate Lands
- SG Guarantee Exposure
- SG Security
- Freedom of Information



Appendix 1 – Smelter Operations

Smelter

[REDACTED]

- Low CO₂ footprint aluminium

[REDACTED]



- Primary product produced is slab

- [REDACTED]

-



Appendix 1 – Smelter Operations

Process flow

[REDACTED]

Appendix 2 – Hydro Operations

- Lochaber hydro scheme & power station provide power to the Lochaber Smelter and export to the grid. The site has [REDACTED] both of which are being upgraded at present
- The Scheme and catchment consists of 3 main reservoirs, Spey, Laggan & Treig with a total capacity of over [REDACTED]
- There are 3 tunnels-Spey to Laggan 3km, Laggan to Treig 8.85km and Treig to the station 24.1km
- The Laggan –Treig tunnel has 3 side stream intakes & Treig to station tunnel has 11 side stream intakes
- The catchment covers an area of approximately 85,000 hectares and owns around [REDACTED] of that under Jahama Estates.
- The Power Station was replanted in [REDACTED]
- The hydro scheme is licensed under CAR-L-1012344 and various Acts of Parliament from 1921 through to 1984 and agreements for management of compensation flow on the Spey.

The Catchment & Scheme



Appendix 2 – Hydro Operations

Asset Monitoring and Maintenance

- All reservoirs fall under Reservoirs Act
- **[REDACTED]**

Appendix 2 – Hydro Operations

Infrastructure

[REDACTED]

[REDACTED]

- [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]]

[REDACTED]



Appendix 3 – Estate Lands

JAHAMA Highland Estates

- 114,000 acres
- Mountain, moor and glen running from Loch Spey and the Corrieyairack down to the Pap of Glencoe
- 10% of Scotland's munroes
- **[REDACTED]** Residential units, including **[REDACTED]**
- **[REDACTED]** Commercial tenants, including **[REDACTED]**
- **[REDACTED]** Holiday properties
- In hand sheep farm
- **[REDACTED]** tenanted farms and **[REDACTED]** graziers
- Various heritage assets including Inverlochy Castle, Garva Barracks, Garva Bridge and Glenshero Lodge
- Includes head waters of the River Spey and part of the Rivers Spean and Lochy



Appendix 4 – Lochaber Guarantee – Financial Exposure

- The total original exposure (undiscounted) over 25 years was £586 million.
- The amounts guaranteed vary between £14m and £32m per annum over 25-years.
- There has been no call on the Scottish Government guarantee, no debt is owing to Government, and all fees due to Government are up-to-date.
- As of 17th January 2022, the Net Present Value of the remaining Purchase Power Agreement revenue was £284m.
- Since 2016 the value of the Lochaber assets has increased due to a combination of the smelter returning to profit and a jump in aluminium prices.
- SG holds a comprehensive suite of securities, including the smelter, the hydro power station and extensive land holdings, that are valued in GFG's accounts and by Deloitte at more than the outstanding amount of the guarantee.



Appendix 5 – SG Security

[REDACTED]
[REDACTED]

[REDACTED]
[REDACTED]

[REDACTED]
[REDACTED]

[REDACTED]
[REDACTED]

[REDACTED]
[REDACTED]

Appendix 6 – Freedom of Information Burden

- Since April 2021, the ISP team have received **75 FOI requests** and **39 reviews** related to GFG Alliance at Lochaber Smelter. The requests have ranged from asking for full disclosure of sensitive documents such as the GRA, Due Diligence reports, fees from the Business and information over a 6-year period.
- As of 1 June 2022, **[REDACTED]** have been granted by OSIC.
- On average, material has consisted of several large documents each over 30+ pages. This has meant it has taken colleagues between **[REDACTED]** hours to search for in scope material due to the 6-year period of the Guarantee.
- Due to the sensitivity of these documents and under the terms of the GRA, **[REDACTED]**
- Scottish Ministers are under a contractual obligation as part of the GRA to **[REDACTED]**
- Due to large volumes, resource within the team has been **[REDACTED]**

