



E: DGEconomy@gov.scot

Richard Leonard MSP
Convener, Public Audit Committee

The Scottish Parliament
Edinburgh
EH99 1SP

Sent by email:
publicaudit.committee@parliament.scot

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Dear Convener

Thank you for your letter of 5 June following the session on 30 May regarding the role of the Scottish Government's Strategic Commercial Assets Division (SCAD). We were very pleased to have the opportunity to attend and give evidence.

We address the five questions and other points raised in your letter below.

First, on the Lochaber guarantee, the Committee requested “*further information as to how the potential value of this exposure has been determined, and to understand what factors drive the variability*”.

As part of IFRS9 accounting standards the Scottish Government instructs advisors every year to deliver a report to calculate a valuation of the guarantee for the annual accounts. Based on Deloitte's analysis of the expected credit loss, the Scottish Government identified the provision of £135 million.

The provision level considers the credit strength of the GFG Alliance, which deteriorated following the failure of Greensill Capital (UK) Limited as its principal funder in March 2021. If GFG can complete a refinancing exercise with its major global creditors, including the administrators of Greensill Capital, this would tend to improve its credit strength and support a reduction in the provision.

Another key factor that drives the provision level is the value of the businesses as measured by their projected profitability (i.e. future discounted cashflows). The Lochaber businesses trade in two products: aluminium and power. As the relative prices of these traded products change, the profitability and the hence value of the primary secured assets changes. This is then reflected in the level of the provision.

Second, the Committee asked “for further information about the cross-guarantee arrangements that are in place, including the value each company has committed to providing, should the guarantee be called on.”

Should the Scottish Government require to make any payment under the Lochaber guarantee, it is thereafter able to recover the full amount of any such payment from other members of the Liberty / SIMEC Groups. All the corporate obligors that are party to the Guarantee and Reimbursement Agreement are liable for the full amounts.

In addition, the Scottish Government holds a comprehensive suite of securities and contractual protections, including first-ranking security over the aluminium smelter, the hydro power station at Fort William and extensive land holdings, from which the Scottish Government could seek recovery.

Third, the Committee requested information on “the total revenue that has been raised through the guarantee to date, and whether revenue in future years is fixed or subject to change”.

The premium charged by the Scottish Government for providing the Lochaber guarantee and its profile over time is commercially sensitive information that is not in the public domain. However, the total discounted value of the fee premiums over the lifetime of the guarantee is £18.7 million as previously stated by the Scottish Government (see [4 Scotland Reserve - Fiscal framework outturn report: 2018 - gov.scot \(www.gov.scot\)](#)).

Fourth, the Committee asked for “details of any due diligence in relation to Lochaber Aluminium Smelter – Liberty Group that has been undertaken within the last three years”.

Due diligence relating to the Lochaber guarantee is an ongoing process led by officials in the Strategic Commercial Assets Division (SCAD) with support from external commercial advisers, Deloitte. We hold regular meetings with the business. These involve scrutiny by officials and third-party advisers of financial statements, management accounts and forecasts. Officials meet with the local managers of the Scottish businesses and their senior Group colleagues on a regular basis to discuss business performance and issues of risk management.

In addition, SCAD will from time-to-time commission additional reports such as the *Lochaber Outcomes Report* prepared by Deloitte in February 2022 to assess the best options for the Scottish Government to meet its objectives in relation to the guarantee following the collapse of Greensill Capital in 2021. A publicly available version of that report released through FOI can be found [here](#).

Fifth, the Committee sought “to establish what would happen if this investment does not materialise. The Committee remains unclear on this point however, and therefore seeks further information to this question”.

The Guarantee and Reimbursement Agreement obliges the GFG Alliance to make an investment into downstream activity of not less than £70 million. If that investment does materialise this would represent a breach of contract and the Scottish Government would have access to contractual remedies in respect of that.

Finally, the Committee sought further information on three points:

- i. **SCAD's operating costs;**
- ii. **details of the travel and subsistence allowance for the interim Chief Executive of Ferguson Marine Port Glasgow;**
- iii. **details of the total spend on external consultants in relation to the acquisition, management of, and plans to dispose of Scottish Government financial interventions in private companies. The Committee requests that this information is provided on an annual basis over the ten-year period covering 2012/13 to 2022/23, recognising that Prestwick Airport was purchased by the Scottish Government in November 2013.**

(i) SCAD operating costs

The Strategic Commercial Assets Division does not have an individual operating cost budget and instead operates under the wider budget of the Directorate for Economic Development. However, for the financial year 2022-2023 the operating cost for the division was £2,548,000 and for 2023-2024 it was £3,098,000.

(ii) Travel and subsistence allowance for Ferguson's interim CEO

The interim Chief Executive of Ferguson Marine is not relocating to Scotland as part of his appointment and therefore no relocation expenses have been included in his package. As part of his appointment, the business paid for an economy class flight for Mr Petticrew to travel from Canada to Scotland to take up his post. The interim CEO will not return to Canada within his six-month tenure. Other than a return flight, any further visits to and from his home in Canada will be paid for personally by Mr Petticrew.

As Mr Petticrew will be living away from home his hotel accommodation is paid directly by the business. The interim CEO can claim receipted expenses up to the £45 per day limit, which will be taxed at any amount above the HMRC tax free portion of £25 per day.

(iii) External consultancy costs

Prior to SCAD being established in July 2022, the Scottish Government's financial interventions in private companies were managed by a range of different Directorates and agencies. The Scottish Government publishes monthly reports of all spending over £25,000 with information arranged by payee and the Directorate responsible for the payment but a consolidated breakdown of all spending on external consultants relating specifically to financial interventions in private companies for the ten-year period 2012/13 to 2022/23 mentioned has not been created.

SCAD spend on external consultants in the last two years is shown in the table below:

Financial Year	External Commercial Consultancy Spend	External Legal Consultancy Spend	Total External Consultancy Spend
2022-23	£1,057,866.38	£983,393.14	£2,041,259.52
2023-24	£1,872,121.88	£151,801.38	£2,023,923.26

The expenditure figure for 2023-24 we quoted in the session on 30 May (£1.6 million) was based on an extract taken from our finance system on 14 May 2024 reflecting work completed in 2023-24 and invoices settled before the end of April 2024. We have settled further invoicing from external advisors since then taking the total spend on external consultants in 2023-24 to £1,872,121.88.

I trust this information is useful to you.

Regards

Gregor Irwin
Director-General Economy