

Cabinet Secretary for Wellbeing Economy, Fair Work  
and Energy  
Rùnaire a' Chaibineit airson Eaconamaidh do Mhath  
Dhaoine, Obair Chothromach is Cumhachd  
Neil Gray MSP  
Niall Gray BPA  
T: 0300 244 4000  
E: [scottish.ministers@gov.scot](mailto:scottish.ministers@gov.scot)



Scottish Government  
Riaghaltas na h-Alba  
[gov.scot](http://gov.scot)

Kenneth Gibson MSP  
Convener  
Finance and Public Administration Committee  
The Scottish Parliament  
Edinburgh  
EH99 1SP  
[FPA.committee@parliament.scot](mailto:FPA.committee@parliament.scot)

16 November 2023

Dear Kenneth,

## **LOCHABER GUARANTEE CONTINGENT LIABILITY**

With the laying of the Scottish Government's Consolidated Accounts for 2022/23 in Parliament I wanted to draw the Committee's attention to the increased accounting provision relating to the Lochaber Guarantee and, in line with previous years, reassure the Committee that this does not impact the Scottish Government's funding position.

The accounting provision was assessed at £114 million for the 2021/2022 accounts. The new accounting provision has been assessed as £135 million, an increase of £21 million. The provision is calculated using the requirements of IFRS 9 (International Financial Reporting Standards) for Financial Guarantee Contracts. The Auditor General has stated that the Scottish Government's approach to setting the level of provision against the potential exposure through the guarantee is reasonable.

The provision is informed by a technical assessment of a range of credit risk scenarios carried out by independent advisers. The change in provision is an accounting adjustment only and has no impact on Scottish Government spending. The Guarantee has not been called and the Scottish Government continues to earn the expected income in the form of Guarantee fee payments from the GFG Alliance which are up to date.

The provision is not a forecast of likely outcomes in respect of the Guarantee. The provision remains under annual review and is therefore subject to change.

For planning rather than accounting purposes, the Scottish Government assesses the Lochaber guarantee exposure in line with HM Treasury Green Book guidance.

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

St Andrew's House, Regent Road, Edinburgh EH1 3DG  
[www.gov.scot](http://www.gov.scot)

**INVESTORS IN PEOPLE**<sup>™</sup>  
We invest in people Silver



However, international financial accounting standards require the Scottish Government to take a more prudent view on the calculation of the potential liability and the value of the underlying security.

The reduction in the provision has been influenced by a reduction in the value of the primary asset.

## **Security**

As previously advised the Scottish Government is the guarantor of the PPA revenue stream to the bondholders while the primary payment obligation rests on the smelter to pay for the power it consumes.

Should the Scottish Government require to make any payment under the Lochaber Guarantee and Reimbursement Agreement, it is thereafter entitled to recover the full amount of any such payment from other members of the Liberty / Simec Groups by virtue of a series of cross-guarantees.

The Scottish Government maintains security over the smelter, the Fort William hydro-electric power station and substantial land holdings in support of its guarantee. This means that in any potential default scenario, the Scottish Government would be able to utilise these assets to recover any amounts it had required to pay.

## **Economic return**

The Scottish Government's guarantee has helped to provide a future for aluminium and renewable energy production in Lochaber and supports many high-skilled jobs. I am pleased to note that this year employment increased at Lochaber to 214 jobs, including several graduate apprenticeships. The combined smelter, hydro-electric power station and estates businesses are operating profitably and support a valuable supply chain with hundreds of associated jobs.

It was absolutely right for the Scottish Government to provide the financial guarantee to protect jobs in the region, underpin additional investment at the site, and promote industry in Scotland.

Should the Committee require anything clarified further I would of course be happy to provide more information.

Yours sincerely,

**NEIL GRAY**

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

St Andrew's House, Regent Road, Edinburgh EH1 3DG  
[www.gov.scot](http://www.gov.scot)

**INVESTORS IN PEOPLE™**  
We invest in people Silver

