Department for
Business, Energy
& Industrial Strategy

To: Secretary of State

From: Alex Chisholm, Permanent Secretary and Accounting Officer

Date: 11 November 2019

Dear Secretary of State,

CONTINUATION OF HMG INDEMNITY TO THE OFFICIAL RECEIVER TO PURSUE A SALE OF BRITISH STEEL LIMITED

You have considered advice relating to the continuation of the Official Receiver (OR) indemnity beyond 11 November 2019 to pursue a sale of British Steel Limited (BSL). This letter sets out my position as Accounting Officer.

As you know, BSL entered compulsory liquidation on 22 May 2019. HMG subsequently provided the Official Receiver (OR) with an indemnity to cover the costs associated with carrying out its statutory duties as liquidator of BSL.

Since May ministers have proactively pursued a number of options to assist with the sale of the whole of the business to a new owner who can demonstrate that they have a robust long-term investment plan. As Accounting Officer, I have been able to support this because of the credible nature of these proposals and the significant costs associated with managing the closure of the steelworks at Scunthorpe.

The OR issued a 10 November 2019 deadline for bidders to give the OR suitable confidence that a sale can complete shortly. Without this, the OR would commence a 23 week shut down and "make safe" process.

There are a number of wider benefits that would justify a sale of the BSL site. In particular, the closure of the steelworks at Scunthorpe will result in c3000 skilled and relatively high wage jobs being lost which would have a significant long-term impact on the local economy. In addition, the closure of the steelworks will mean the loss of the second biggest steelmaker in the UK, with a loss of 3,250k metric tonnes in the UK's steelmaking capacity, and would leave just one integrated steelmaking site in the UK. BSL currently provides steel to key strategic UK sectors, such as rail, automotive and construction, which will suffer as a result.

Significant progress has been made with Jingye. The OR and Jingye signed an Asset Purchase Agreement yesterday which has finalised terms and conditions related to the purchase and sale of BSL's assets. They have also submitted an application for Regional Growth Fund support with a business plan.

Jingye appear to be a credible buyer. As you know, they are part of the Hebei Jingye Group, a private, cross-industry company focussing on iron and steel production, as well as chemicals and hotels. They currently employ 23,500 people globally and have revenue of £10bn and £4.3bn of assets. In all their interactions with the Department and our advisers, Jingye and their advisers have been very clear of their intention to complete this transaction and make significant investments in this new venture and when we have met them, we have both been impressed by their track-record and clear commitment.

However, the Department has not yet seen a sufficiently rigorous business plan from Jingye nor seen hard evidence of where the capital funding will come from and whether the business will be sustainable. This is understandable in the time available.

I had requested a view from the Industrial Development Advisory Board on the strength of Jingye's plans and their initial view and the Board agreed with the BEIS project team assessment that, on the limited information from Jingye as it currently stands, HMG support to continue the sales process would not satisfy minimum value for money considerations.

However, the Board recognised that with further information from Jingye the position could change and in a fairly short timescale. So the Board advised that a pragmatic approach should be taken as delaying the OR's decision to close the plant by a few weeks could prevent significant costs to HMG if a deal can be agreed with Jingye and if the plan is credible enough to secure long term benefits. Noting discussions with Jingye may amount to the last chance to save the plant, the Board recommended HMG should work with the OR to delay closure for a short time and continue negotiations; and in doing so to explore all opportunities to reduce the additional spend faced by this delay.

It is my personal responsibility as Accounting Officer to ensure that the Department's resources are used effectively and deliver value for money. In particular, my value for money duties under Managing Public Money (MPM) require me to be confident the proposition involves an appropriate allocation of risk. When considering all HMG support to secure the sale, I do not have the evidence at this stage to justify the probability of a sale as being sufficiently likely or the business plans sufficiently credible that could justify a possible loss at this stage. Following the MPM rules my judgement is that continuing to fund the OR until February does not currently satisfy minimum value for money considerations. This is not to say the position may not change in the coming weeks as we gather more information.

Consequently MPM requires that if you wish to progress with the option to fund the OR whilst a sale is pursued then I will require a written direction from you to do so. I will then proceed accordingly. The Special Manager has advised that costs of continuing the business running in liquidation would involve committing now to additional costs of around £60m to the first week of January. These costs would be sunk with minimal benefit if a sale is not completed. In making this decision you will also need to be confident that there is sufficient likelihood of a sale and that any government funding is justified in the public interest.

In line with the usual process for ministerial directions, I am copying this letter to the Comptroller and Auditor General (who will inform the Public Accounts Committee once Parliament returns) and the Treasury Officer of Accounts. Given the commercial sensitivity of the transaction I would expect to keep the content of this letter and your reply confidential until after the completion of the purchase.

Yours ever,

Alex Chisholm

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