



House of Commons

Business, Innovation and Skills
Committee

**Sheffield
Forgemasters:
Government Response
to the Committee's
Second Report of
Session 2010–11**

**Second Special Report of Session
2010–11**

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Business, Innovation and Skills Committee

The Business, Innovation and Skills Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of the Department for Business, Innovation and Skills.

Current membership

Mr Adrian Bailey MP (*Labour, West Bromwich West*) (Chair)
Mr Brian Binley MP (*Conservative, Northampton South*)
Paul Blomfield MP (*Labour, Sheffield Central*)
Katy Clark MP (*Labour, North Ayrshire and Arran*)
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The following members were also members of the Committee during the parliament.

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Jack Dromey MP (*Labour, Birmingham, Erdington*)
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Powers

The Committee is one of the departmental select committees, the powers of which are set out in House of Commons Standing Orders, principally in SO No 152. These are available on the Internet via www.parliament.uk.

Publication

The Reports and evidence of the Committee are published by The Stationery Office by Order of the House. All publications of the Committee (including press notices) are on the internet at www.parliament.uk/parliament.uk/bis. A list of Reports of the Committee in the present Parliament is at the back of this volume.

The Reports of the Committee, the formal minutes relating to that report, oral evidence taken and some or all written evidence are available in a printed volume.

Additional written evidence may be published on the internet only.

Committee staff

The current staff of the Committee are James Davies (Clerk), Charlotte Pochin (Second Clerk), Louise Whitley (Inquiry Manager), Neil Caulfield (Inquiry Manager), Anita Fuki (Senior Committee Assistant), Jennifer Kelly (Committee Assistant) and Jim Hudson (Committee Support Assistant).

Contacts

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Second Special Report

The Committee published its Second Report of Session 2010–11 on 14 December 2010. The Government's Response was received on 16 February and is appended to this Report.

Government Response

The Government welcomes the Committee's Report on its inquiry into the Government's decision not to proceed with the loan to Sheffield Forgemasters for the purchase of a 15,000 tonne press to make large components for the civil nuclear industry.

Conclusions and Recommendations of the Committee

Set out below are the Government's responses to the Committee's conclusions and recommendations, under headings adopted by the Report. These are listed in the order in which they appear in the Report.

Affordability: the absence of available funds

It is clear that the loan was subject to the normal procedures within the Department, and approved by the then Permanent Secretary and HM Treasury. Therefore, we are convinced that former Ministers signed off the loan in the full knowledge that it could be funded. (Paragraph 16)

1. The Government notes the Committee's conclusion which is a matter for the previous administration.

Affordability: a comparative choice

The Secretary of State was working in the context of in-year cuts demanded by HM Treasury and therefore tough decisions had to be made. At short notice the Department had to deliver significant savings and decide where to allocate its limited resources. While we disagree with the process, we recognise that it was the Department's responsibility to deliver these savings. (Paragraph 25)

Some DBIS projects requiring government funds were reapproved even in the absence of any contractual commitment. A choice could therefore have been made by Ministers on where the axe would fall. We do not believe that any substantial comparative cost-benefit analysis was undertaken on those non-contractually committed projects under review. Rather it appears to be the case that the Sheffield Forgemasters loan was identified as an easy cost saving. While this is a legitimate way to proceed, the Department should have been more transparent in articulating this process and not hidden behind the simple defence of affordability. Furthermore we did not receive any detailed explanation of how the Sheffield Forgemasters project was chosen ahead of the other non-contractually committed projects sponsored by the Department. (Paragraph 26)

2. The Government welcomes the Committee's acknowledgement that budget cuts were unavoidable and that the Department had tough decisions to make. However, the Government does not accept that the Sheffield Forgemasters loan was identified as an easy cost saving. The project re-approval process was about making the books balance for the current financial year. The Government was not able to bear the cost of all the commitments made by the previous Government. This meant that it had to take a very difficult decision regarding the affordability of the loan. This decision was not taken lightly, and was taken on grounds of affordability.

Dilution of Equity

It is clear that a level of equity in the company would have been transferred out of the company as a condition of the Government loan to Sheffield Forgemasters. It is also clear that board Members were willing to agree to such a transfer. We conclude that a dilution in equity did not represent an obstacle to providing the loan. (Paragraph 31)

3. The Government notes that the Committee concurs with the view expressed by the Secretary of State in his oral evidence to the Committee.

Looking to the Future

We welcome the fact that the Department has continued to consider other avenues for funding for Sheffield Forgemasters even if those discussions have not come to a successful conclusion. The establishment of such a large press would have enabled the United Kingdom to take a significant lead in this important industry. For that reason we urge the Government to continue in its efforts to secure funding for this project—whether by public or private funds—so that an opportunity to take a lead in this important industry is not lost. Therefore, we welcome the undertaking given to us by the Secretary of State that he would “entertain” a fresh loan application from Sheffield Forgemasters. Should the company make a further application, we would expect the Secretary of State to honour that undertaking. (Paragraph 40)

4. The Government has always made clear that the withdrawal of the loan was no reflection on the company, its management, its staff or on the project itself, and that the benefits of the loan would probably have outweighed the costs, had it been affordable.

5. As the Secretary of State made clear in his oral evidence to the Committee, Sheffield Forgemasters would be welcome to apply for support under the Regional Growth Fund (RGF). The RGF is a competitive fund, but any new bid from SFIL would be considered on its merits against the objectives of the RGF (creating sustainable private sector lead growth and employment in an area which currently has a high dependency on the public sector) without prejudice.