



4.5.4.12

28 July 2021

Dear Tobias,

I am writing to inform you that the Ministry of Defence (MOD) has today launched an offer to the shareholders of Sheffield Forgemasters International Limited (SFIL). The major shareholders have agreed that the MOD will acquire the entire share capital of the company allowing it to come into Government ownership at a cost of around £2.5 million. The MOD will take on and refinance the existing indebtedness of the Group which is currently around £18 million. The MOD would then undertake a major capital investment programme of up to £400 million over the next 10 years, to secure the supply of critical components into major MOD programmes.

SFIL has unique capabilities making it an essential supplier to the MOD. It is the only UK based manufacturer with the skills and capability to produce the large scale high-integrity castings and forgings from specialist steels that are required for defence programmes. However, the current state of the company's critical plant, machinery and infrastructure is poor, and, in some cases, it is significantly past its end of life point, introducing significant risk to product delivery. Without intervention Defence programmes would be exposed to significant delivery delay risk.

SFIL is in significant financial distress and its financial viability beyond 2021 is severely at risk. It is privately-owned by current and former employees and they cannot inject the capital needed to support this investment programme. The level of capital investment required also makes the business unattractive to third party buyers or lenders. Without MOD support, SFIL is expected to be unable to repay its lending facility at the end of this year and will enter into an insolvency event.

The MOD, working with SFIL and with support from our external advisors, has evaluated and scrutinised the level of capital investment needed to secure the defence supply. The proposed recapitalisation is the minimum level of investment required to bring the risk of delay to an acceptable level. This intervention is significantly less costly than the alternatives and secures the company's defence output for the long-term future.

The Rt Hon Tobias Ellwood MP
Chair, Defence Committee
House of Commons
London
SW1A 0AA

We have not taken this action lightly; full Government Ownership is regarded as the only viable route to achieve appropriate levels of control and influence over the investment from Her Majesty's Government (HMG). Other forms of Government Ownership were considered but do not provide HMG with the levers of control and levels of transparency required for an investment of this magnitude.

Once the transaction is complete, full governance and sponsorship arrangements will be implemented, including a specific sponsorship team and additional board representation to oversee the MOD's objectives for the company. As part of these arrangements, there will be regular reporting to and monitoring by SFIL including specific arrangements focused on the recapitalisation programme to ensure sufficient oversight and scrutiny of MOD funding.

We are now focused on working with all parties to secure SFIL's future success, and ensure the supply of key defence components, with the aim of eventually returning the business to the private sector.

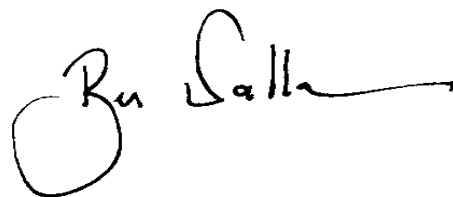
As well as its critical Defence impact, placing this specialist manufacturing company on a secure financial footing has the added benefit of maintaining the key specialist skills at SFIL, and securing future employment at the plant which currently employs around 600 people in South Yorkshire. Under Government ownership we will be able to ensure that SFIL also delivers fully against the Government's levelling up agenda, supporting high quality training and employment at the forefront of science and technology in the Defence sector.

Finally, I would like to emphasise that there is no discourtesy meant to the Speaker or any Members of Parliament in making this announcement during the summer recess. This has been necessitated by the complicated legal timelines relating to this intervention.

I am placing a copy of this letter in the Library of the House and a Written Ministerial Statement will be laid in parliament at the earliest opportunity.

Should you have further questions about SFIL over the summer recess, please email them to DefenceSecretary-Group@mod.gov.uk and we will ensure that you get a prompt reply.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Ben Wallace', with a large circular flourish on the left side.

THE RT HON BEN WALLACE MP