

## **Innovation Centre Programme - OGIC**

- Following clear guidance from SFC Board at its September meeting, this paper presents a significantly revised plan which delivers on objectives of merging Oil and Gas Innovation Centre (OGIC) with the Oil and Gas Technology Centre (OGTC) more quickly and at lower cost than previously.
- This paper asks the Council Board to approve SFC's contribution to the revised OGIC Transition Plan and delegate authority to the Chief Executive to agree, with the funding partners, the final contractual arrangements, subject to Ministerial approval.

## **Recommendations**

- Approve SFC's contribution to the OGIC Transition Plan of up to £2.35M for up to three years from AY2019-20 (front loaded in first two years), and delegate authority to the Chief Executive to agree, with the funding partners, the final heads of terms and contractual arrangements.

## **Financial implications**

- This paper seeks the approval to fund the revised OGIC Transition Plan for 3 years from AY2019/20 at up to £2.6M. Making this investment is subject to approval from Scottish Ministers.



## Oil and Gas Innovation Centre (OGIC) Transition Plan.

1. SFC has supported the Oil and Gas Innovation Centre (OGIC) with £11.06 million over the last six years. This includes two costed extensions of £230,000 and £233,575 with the most recent one granted after the Board's feedback in September and was issued with the explicit condition that partners, alongside OGIC and Oil and Gas Technology Centre (OGTC) "*...will have developed a revised transition plan to be considered by SFC Board at their 7 November or 5 December meeting*". The grant letter states: "*if a plan cannot be brought forward in this timeframe then this funding would be used to allow a three month redundancy notice period and wind up would commence*".
2. OGIC is one of eight Innovation Centres (ICs). Following an independent review of the programme in 2016 by Professor Graeme Reid, SFC has been working very closely with partners (SE, HIE and SG) on the development of the programme and next phase of individual IC support, recognising that these are not SFC's but Scotland's ICs.
3. OGIC's multi-partner appraisal process concluded in May 2019 with a recommendation to **not support** an OGIC Phase 2 business plan. This reflects the re-emphasis of the IC Programme to support ICs to build consortia and leverage in other sources of competitively won R&D funding to Scotland from UKRI and elsewhere in order to achieve transformational impact.
4. The appraisal process took into account the existence of the Oil and Gas Technology Centre (OGTC) which was established with joint UK Government and Scottish Government funding as part of the Aberdeen City Region Deal in 2016 - after the establishment of OGIC. OGTC has stated that it is moving into the same space as a Phase 2 Innovation Centre of brokering and leveraging income for large R&D projects, with one hydrogen project example already resulting in a risk of competition/duplication with OGIC's phase 2 business plan.
5. The OGIC business case went to IC Programme partners (SFC, SE, HIE and SG) in May 2019 for a recommendation and due diligence advice was that the plan was not supportable. However, it was also agreed that ceasing funding in an unmanaged way and, therefore, initiating closure of OGIC was not a preferred option.
6. The partners agreed to investigate integrating the key activities of OGIC into the wider oil and gas support landscape while providing a phased reduction of public funding for OGIC to zero over a finite period of time. This would involve a closer alignment with OGTC over time, likely to be 2-3 years. This was the original proposal rejected by SFC's Board in September.
7. That proposal was for a funded transition plan to achieve merger over three years. SFC and SE funding would not have gone beyond the transition plan

period and no additional funding from SFC - such as academic to business project funding – would have been offered after year 3.

8. This timeline had been set out by OGTC's Board as the minimum time needed to test the value of OGIC to OGTC and industry, particularly given the new focus on net zero carbon with OGTC's Net Zero Carbon Solutions Centre recently established (September 2019).
9. Partners have been working closely on SFC Board's advice to deliver these objectives faster and at a reduced cost and this paper now sets out a proposal to do that. It should be noted that this will be subject to OGTC Board approval or acceptance of the public sector's total support as well as Scottish Government (Energy Directorate) approval of £0.25m in Year 1 funding. We expect both to be confirmed immediately after SFC Board. It must also be noted that we will then seek Ministerial approval of our spending over £1m.
10. The transition plan has changed significantly since the September Board meeting. OGTC and OGIC have worked closely on a plan which will ensure full merging of the organisations by 31 March 2020 and has pragmatically tackled the issue of overhead to project ratio by suggesting a far bigger project funding requirement and much reduced core cost. The plan summary is attached as an Annex.
11. The outcome we are seeking is for a fully sustainable merged OGIC/OGTC operation. However, rather than OGIC needing to prove this proposition before OGTC's Board agree to committing resource to support and merge at an 18 month point, this revised plan reduces the OGIC core resource significantly and ensures they merge fully with OGTC immediately (31 March 2020) with a further 3 years of publicly funded support provided to enable OGTC the time to understand the requirements which they may choose to maintain.
12. The opportunity this merger presents is to rationalise and simplify the innovation offering to the oil and gas sector and to, specifically, do so in support of energy transition to a net-zero economy. The contributions of the university and college sector to the new economy have been supported by the Board at its recent meeting and the plan presented to the Board in this paper is to invest in innovation work in Scotland's universities (and colleges) in a merged structure itself aimed at the decarbonisation of the industry. The role of OGIC, before during and after its merger into OGTC is fully aligned with Scottish Government expectations that SFC will support the academic community to contribute to the transition we are committed to make.

### **Transition Plan**

13. Following the conclusion of the phase 2 multi-partner appraisal process for ICs, in which it was recommended that a Phase 2 IC business plan should not be

supported, SFC and partners have been working very closely with Scottish Government colleagues in the Energy Directorate and our sponsor teams to ensure Scottish Ministers were well sighted on our proposed next steps.

14. A proposal was developed and taken to SFC's Board in September. The benefits of the approach set out here are the same in that it would manage the transition of the OGIC brand, expertise and (where needed) staff that are valued by academia, SMEs and industry. It would also protect the network and relationships with the Scottish research base.
15. There would also be additional benefits in reducing duplication and decluttering the innovation support landscape, potentially making it simpler and more straightforward for the sector to access the support it needs. It should also reduce the risk of duplication of public funding as well as potential duplication of activities across OGIC and OGTC in the short term.
16. In the medium to longer term, this approach is expected to result in a more sustainable single innovation and technology centre that reflects the key elements of both OGIC and OGTC activities to support the oil and gas sector. This also opens up an opportunity to test how a closely aligned OGIC-OGTC organisation or operation can respond to the rapidly rising imperative to support Scotland's energy transition and support the industry's net zero carbon targets.
17. The proposal from OGTC has been developed following close working with SFC, SE, HIE, SG, and OGIC.
18. Funding is being requested to support the transition of OGIC into a more aligned oil and gas innovation system allowing them the best possible opportunity to demonstrate their value to the industry, the Scottish Government and ultimately the OGTC Board in order that the two organisations are successfully merged to support OGTC's Net Zero Solutions Centre.
19. The total cost of the original Transition Plan (considered in September) to partners was £3.6m with SFC providing £3.175m and SE up to £0.425m.
20. This revised plan is for a total of £2,918,750 with an SFC contribution of £2,600,000.
21. Partner funding is expected to be:
  - £1 million in Year 1 (£750,000 from SFC and £250,000 from Scottish Government Energy Directorate)
  - £1 million in Year 2 (£1m from SFC)
  - £918,750 in Year 3 (£600,000 from SFC and £318,750 from SE)

22. Note that SE and SG funding has yet to be confirmed although we expect it to be soon after this meeting.
23. It should be noted that the details of the total funding package were shared with the OGTC Chief Executive on 27 November and will form part of their 4 December Board papers.
24. OGIC will continue with its Monitoring and Evaluation Framework in line with the Innovation Centre programme. Their quarterly reports will continue to be formally submitted by Heriot Watt University until the organisations merge with impact measures collected from companies at the beginning and end of projects. Thereafter OGTC will report directly to partners through MEF as set out in an SE contract. It is expected that SFC support for academic activities and staff support would be provided through SE.
25. Final KPIs will be refined and confirmed for this transition plan in order to give best chance of delivering key outcomes particularly with net zero focus and prior to commencement. OGTC have provided the following milestones and KPIs:

<b>Milestone</b>	<b>KPI</b>
OGTC / OGIC Merger Agreement drafted	Complete by 31 <sup>st</sup> Jan 2020
Forward business case presented to OGTC Board	Presented 5 <sup>th</sup> Feb 2020
Completion of Merger	Complete 31 <sup>st</sup> Mar 2020
Transfer and relocation of OGIC Staff (as appropriate)	Complete 31 <sup>st</sup> Mar 2020
Feeder Solution Centre established	Complete 30 <sup>th</sup> June 2020
Alignment of processes to OGTC ways of working	Complete 30 <sup>th</sup> June 2020
First projects identified - feasibility studies, project scoping and identification of partners underway as appropriate	1st call issued by July 2020 or 1st DPA being negotiated by Jul 2020
Identify projects that link to the Solution Centre Road maps and have at least 6 projects identified / in flight that aim to spend £1m in total each year (incl staff and overhead)	2 projects in negotiation by Sept 2020 2 additional projects in negotiation by Nov 2020 2 Final projects in negotiation by Dec 2020 Of which at least 2 Projects fully signed up and active by Dec 2020
Identify a further 6 projects per year at £1m investment (incl staff and overhead)	3 more signed and in execution by Feb 2021 3 more in negotiation by June 2021 8 Active Projects signed and operational within 18 months

	1 Active (&/or closed) Projects by Dec 31st 2021 22 Active (&/or closed) projects by Dec 31st 2022
Identify match funding opportunities that 100% match OGTC Investment levels	At least £1M in match funding attracted related to the feeder projects annually
Invest in projects that generate between £250m and £500m GVA over a 10 year return period	Target >£250M GVA calculated in potential value for the 22 projects targeted for feeder funding
Become a partner of choice for early TRL research on Net Zero topics with Scottish Universities	Develop a strong portfolio across Scottish Universities - speaking at min 2 university events a year

26. We have been very clear that this is a transition to merger and that there will be no further SFC funding in OGIC or OGTC (via SE) after these 3 years. In keeping with wishes of the Board we have tapered our funding down to front load support in Years 1 and 2 with less support in Year 3. There are key milestones built into the plan based on the translation from OGIC supported project to OGTC pick up and we will set these out clearly as milestones in award letter. We will also highlight a condition of grant that ensures necessary academic representation from beyond the North-East to OGTC Board particularly in Years 2 and 3.

### Recommendation

27. **Approve SFC's contribution of up to £2.6m to Transition Plan and delegate authority to the Chief Executive to sign of final details and KPIs alongside partners.**

### Publication

28. This paper will be published on the SFC website.

### Further information

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