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Director-General Economy
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Richard Leonard MSP
Convenor
Public Audit Committee
Room T3.60
The Scottish Parliament
EDINBURGH EH99 1SP

7 February 2025

Dear Mr Leonard

Strategic Commercial Assets: Transparency Review

This letter encloses the information pack outlined in my letter of 17 January 2025.

The material attached herewith contains six reports prepared by external consultants for the Scottish Government relating to Ferguson Marine and a further evaluation report covering the Scottish Government's intervention with the BiFab business prior to its administration.

The reports contain appropriate redactions that protect commercial interests, personal information and contractual rights and legal privileges. With those protections in place the Committee is free to publish the information pack in full.

The Scottish Government will publish the information pack on the gov.scot website by the end of February 2025.

We attach the following annexes to this letter:

Annex A	Letter from First Marine International
Annex B	Summary of the information pack and redactions
Annex C	The information pack

Your sincerely,

GREGOR IRWIN

Director-General Economy
Scottish Government

Annex A

Letter from First Marine International

HASKONINGDHV UK LTD.

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Date:	06 February 2025	Contact name:	Damien Bloor
Your reference:	None		
Our reference:	PC3874		

Release of the Ferguson Marine (Port Glasgow) Limited Potential improvements study report into the public domain.

Dear Sir/Madam

Following our recent discussions regarding the release of information relating to Ferguson Marine (Port Glasgow) (FMPG) to the Public Audit Committee, I am writing to explain the scope of the two studies carried out on the shipyard by First Marine International (FMI) and the contents of the associated reports.

These studies were focussed on assisting FMPG and the Scottish Government to plan the development of the shipyard over a period of a few years. The first study, carried out in 2020/2021 for FMPG, was a benchmarking assessment of the processes and practices employed at the shipyard and the level of productivity it was achieving. The second study, carried out in 2022/2023 for the Scottish Government, was a potential improvements study that considered how the shipyard should be configured to construct its proposed future product mix upon completion of Ships 801 and 802. The findings of the two studies are presented in two different reports and there were no assessments or recommendations in either regarding the completion of Ships 801 or 802. Strategic planning of this type is undertaken by most shipyards, often with the assistance of consultants.

As you may know, FMI carries out shipyard benchmarking and development studies internationally and a proportion of these are undertaken for government departments. Consequently, the reports have occasionally been the subject of freedom of information requests. To the best of our knowledge, in no instance has such a request resulted in any sensitive shipyard or FMI information being released. This is because the type of information contained in both the FMPG reports is highly commercially sensitive and, in some instances, nationally sensitive.

The reports also contain FMI proprietary information which would be damaging to our company if released into the public domain. This information includes details of our methods, tools and benchmarking data that have been developed over many years and on which much of our business is based.

We are keen to assist the Public Audit Committee but due to the sensitive nature of the information contained in the Potential improvements study report and the Benchmarking report, we cannot consent to placing either of them into the public domain. However, we understand that your office is preparing a redacted version of the report to submit to the committee so as requested, we have attached a redacted version for your reference. We have left the contents largely intact to provide the Public Audit Committee with further insight into the scope of the report. Please note that the shipyard's permission should be sought prior to releasing any version of the report.

Yours faithfully,
For and on behalf of HaskoningDHV UK Ltd

Damien Bloor BSc(Hons) CEng FRINA FSNAME
Advisory Group Director, First Marine International
RHDHV Leading Professional for Shipyards

Summary of Information Pack

Title and Page Numbers		Date
1 – 95	**Report 1** Workstream 1: Draft Financial review	24 November 2022
Purpose		**Redactions**
• Review of yard's baseline financial forecasts for completion of vessels 801 and 802. • Assumptions and underpinning forecasts were tested and commentary made on the underlying drivers of material cost increases. Risks to complete the vessels were assessed.		*Redacting Principles* • Redactions applied to protect the privacy of individuals and businesses involved in the production of this report throughout. • Content considered potentially harmful to the commercial interests of FMPG has been redacted throughout. *Redacted Content Themes* • Insight into FMPG business policies, processes and procedures. • Details of FMPG workforce, including roles and responsibilities and workforce remuneration. • Details of analyses of forecasting costs to complete the vessels. • Details of variables and values used in scenario testing and sensitivity analyses. • Details of costs to the business such as labour, materials, overheads and other non-recoverable costs. • Narrative around commercial risks.
Title and Page Numbers		**Date**
96 – 118	**Report 2** Draft discussion document: Workstream 2 Options Analysis	12 December 2022
Purpose		**Redactions**
• An options assessment as part of the wider appraisal of value for money on the completion of vessels 801 and 802 at FMPG.		• Details used in building counterfactual scenario testing. • Details of FMPG business plan. • Assumptions made in options analyses. • Detailed financial and cost information relating to Hulls 801 and 802

Title and Page Numbers		Date
119 – 184	**<u>Report 3</u>** Potential Improvements Study	23 January 2023
Purpose		**Redactions**
• Clarification of the target product mix and target productivity and planned shipbuilding strategy. • Development of a shipyard layout that supports shipyard operations at the target levels of throughput and productivity for the product mix. • Identification of measures to improve efficiency. • High-level estimation of the timeline and capital investment required. • Determining the productivity of the yard and ways to improve productivity to establish whether to invest more capital into the yard.		• The supplier has narrated the redactions to this report and has provided a letter setting out a rationale for those redactions. The letter is attached at Annex A.
Title and Page Numbers		**Date**
185 – 260	**<u>Report 4</u>** Economic Impact Assessment	February 2023
Purpose		**Redactions**
• Economic impact assessment to understand the economic value scenarios relating to how the Ferguson Marine business contributes to the Scottish economy and how this would change if certain input assumptions were to change.		• With the exception of the *current state* of FMPG, values and variables included in scenario testing and insights into FMPG business planning have been redacted.
Title and Page Numbers		**Date**
261 – 289	**<u>Report 5</u>** Economic Impact Assessment: Scenario Update – Final Report	March 2023
Purpose		**Redactions**
• This report, which contained updated scenarios from the original economic impact assessment was used to assess the economic impact of future scenarios for Ferguson Marine and formed part of the economic advice into the value for money assessment for the future of delivering vessels at Ferguson Marine.		• Variables and values used in scenario testing which offer insight into potential new business models have been redacted.

Title and Page Numbers		Date
290 – 305	**Report 6** Draft Discussion Document: Workstream 2 Update	**18 April 2023**
Purpose		**Redactions**
• An update of assumptions used in options analysis.		• Details involved in options analyses including variables and values used in counterfactuals • Details of cost analyses and forecasting in relation to Hulls 801 and 802

Separate Report	Date
Report 7	**September 2020**
Purpose	**Redactions**
• An independent evaluation of the Scottish Government's intervention of BiFab in 2017	• No redactions

Information Pack

Scottish Government Intervention Analysis

Evaluation of BiFab Intervention

September 2024

Scottish Government
Riaghaltas na h-Alba

Scottish Government Intervention Analysis

Evaluation of BiFab Intervention

Final report prepared for the Scottish Government by

Ernst & Young LLP

EY's work was completed and reported in the period between January 2023 and June 2023 and is not reflective of events occurring after June 2023.

Overview

Established in 2001, BiFab is an engineering and manufacturing company based in Scotland. At the peak of its operations, BiFab operated three yards in Burntisland, Methil and Arnish.

The business originally focussed on the development of assets for oil and gas installations. In order to capitalise on the buoyant energy transition market in Scotland, the business targeted an entry into the renewables market in 2006. The company tendered for opportunities but was unable to position itself successfully in the market. In 2016 the business was put up for sale. BiFab engaged PwC as advisors and multiple parties noted interest. DF Barnes (and parent company JV Driver) were identified as preferred bidder and granted a period of exclusivity.

In 2017, BiFab secured contracts to support the development of the Beatrice Offshore Wind Farm (BOWL), the company's first major renewable development. However, in the summer of 2017, the Managing Director (on whom there was significant reliance) suddenly passed away. To allow BiFab to focus on stabilising operations, the sale process was paused; however, following the loss of the Managing Director, the business' financial and operational performance worsened. This eventually led in November 2017 to the Directors issuing a notice of intention (NoI) to appoint Administrators.

SG chose to intervene to prevent the business falling into administration. Over the following three years, SG provided a total of £52.4m across two distinct 'phases':

Pre-DF Barnes acquisition

SG initially agreed to provide a £15m working capital loan in November 2017 after BiFab Directors had issued an NoI to appoint administrators ('Intervention Point 1'). This triggered a ten-day period during which the intervention had to be agreed, requiring SG and advisors to work at pace.

SG's intervention sought to provide the required working capital to complete key contracts (the Beatrice contracts), supporting employment at the sites and ultimately securing the future of BiFab in Scotland through a trade sale to an interested bidder.

SG agreed to increase the working capital facility further in March and April 2018 ('Intervention Points 2 & 3'), again with the aim of allowing the company to complete the Beatrice contracts and facilitate a sale to DF Barnes. These interventions increased SG's lending to £51m, being a £41m working capital facility (of which £37.4m was drawn down by BiFab and converted to an equity stake of 32%) and a £10m restructuring loan. DF Barnes purchased BiFab in April 2018, and the Beatrice contracts were completed in May 2018.

Post-DF Barnes acquisition

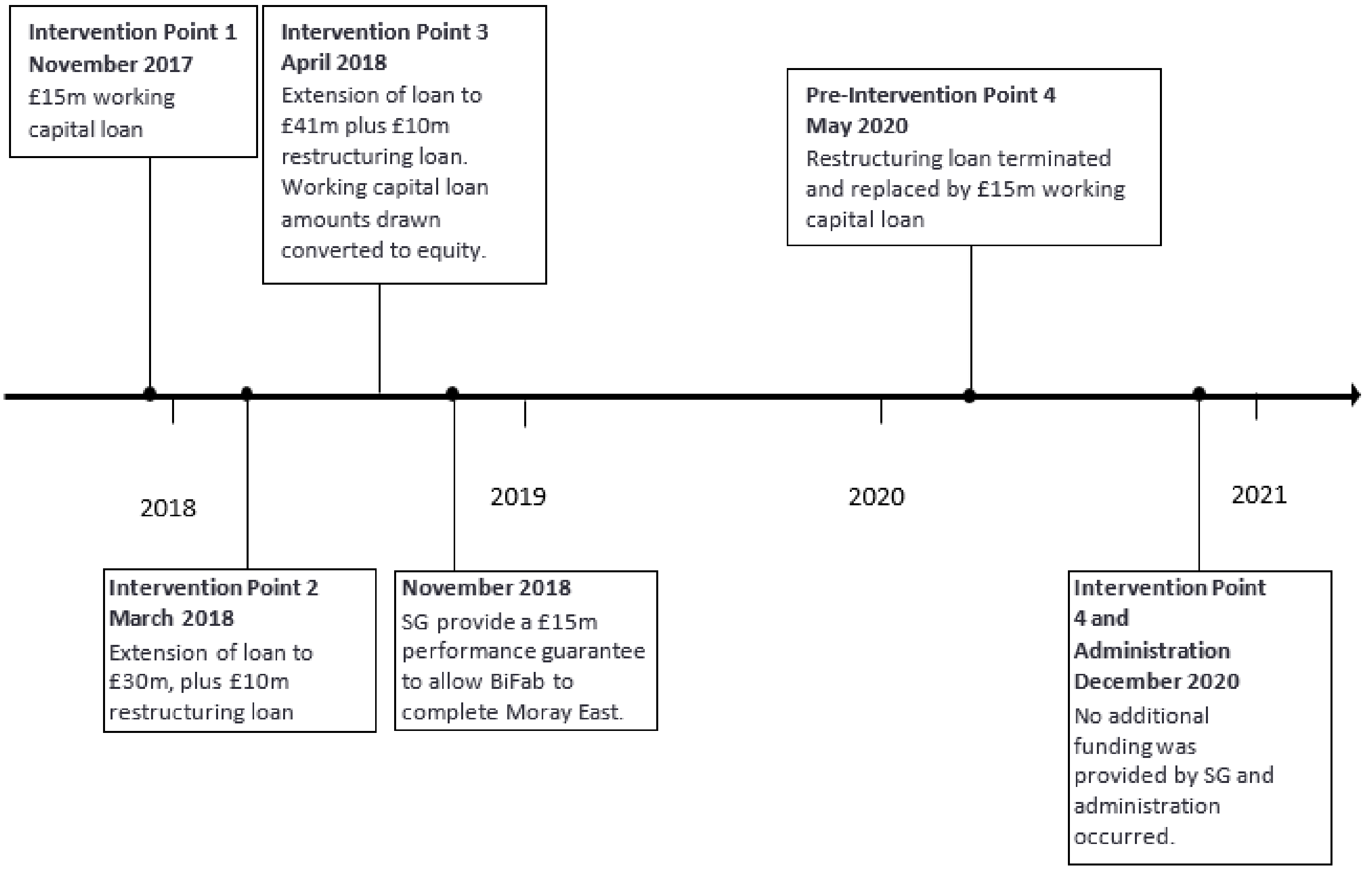
DF Barnes's business plans, which had assumed successful bids on two key projects (Moray East and Kincardine), ultimately proved not to be deliverable. While BiFab's tender responses were competitive against European competitors, East Asian sites were markedly cheaper, which limited BiFab's ability to compete and resulted in a deterioration of the financial position. DF Barnes, the majority shareholder, later chose not to adopt any further risk or exposure.

In May 2020, SG intervened again to increase working capital loan funding by £5m, to ensure short term solvency at BiFab while the company pursued a payment from a key customer. In September 2020, BiFab was again facing financial difficulty and lacked material future pipeline opportunities. At this stage the Directors chose to place BiFab into administration ('Intervention Point 4').

The timeline overleaf provides a detailed overview of the business' activities over the intervention period from 2017 to 2021.

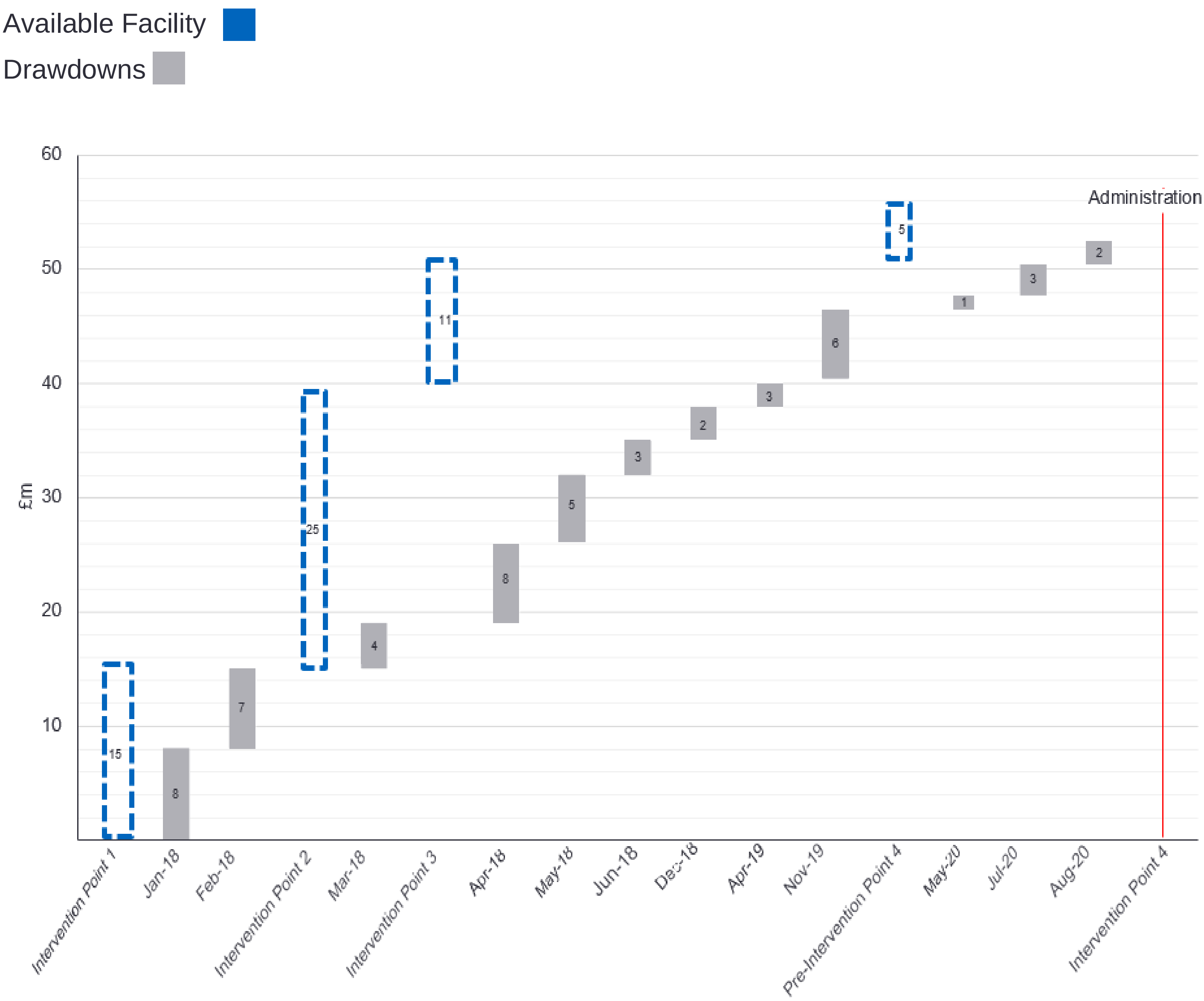
Simple Timeline

The timeline below provides an overview of each of the Intervention Points referenced throughout this report:



Summary of Intervention Funding

The graphic below illustrates how the funding offered to BiFab by SG at each intervention point was drawn over time and the resulting cumulative SG exposure. The total amount of funding offered to BiFab was £56m. £3.6m of the facilities remained unused (as the Beatrice working capital loan was only made available until December 2018) and as a result, SG provided a total of £52.4m to BiFab over the intervention period.



Purpose of this Report

EY were commissioned by SG to undertake an evaluation of the BiFab intervention following a recent Audit Scotland recommendation that SG seek to learn lessons from its experience of recent financial interventions in private companies, in line with Scottish Public Finance Manual (SPFM) guidance.

The purpose of our report is to consider the lessons learned as a result of SG's intervention in BiFab, with the aim of informing future interventions. Our evaluation is a backward looking analysis, performed in the period from January 2023 to June 2023, over five years on from the initial SG intervention. Our report makes comparisons to best practice, however we acknowledge that the significant time pressures, impact of COVID-19, challenging economic conditions and level of public interest resulted in resource constraints which may have prevented SG from following best practice in some areas. We also recognise that SG's intervention options were subject to State Aid and SPFM guidance.

Our findings are limited to a point in time. We are aware that SG has implemented operational and procedural changes in the period since the intervention which address many of the findings from our review.

Limitations

Our analysis has been limited in time and scope. Information reviewed has been limited to Ministerial briefing papers, advisor reports and discussions with SG. Our report does not reperform Market Economy Investor Principle (MEIP) or Market Economy Operator Principles (MEOP) analysis or comment on compliance.

Our work has highlighted a number of findings, summarised in the following slides. These findings have allowed us to identify lessons and proposed recommendations for change (the numbers under the recommendations headings cross-reference to the recommendations listed later in the report.)

Finding 1

The original intervention at BiFab was agreed under significant time pressure and with limited access to information.

Good Practice

- Despite the limited time allowed at Intervention Point 1, SG identified the need for financial and restructuring focussed advice and engaged advisors with the appropriate skill sets.
- Enterprise Agencies were in contact with BiFab prior to SG intervening.

Areas for Improvement

- Despite Enterprise Agency communication with BiFab, both the Enterprise Agencies and SG were not made aware of the scale of the deterioration in BiFab's financial position prior to receiving a request to intervene. As a result, SG did not have sufficient warning at Intervention Point 1 to perform detailed diligence/options appraisals.

Lessons Learned

- Advance warning of intervention requests is beneficial to allow sufficient time to appropriately consider options, perform due diligence and engage advisors.
- Continued, meaningful collaboration with Enterprise Agencies allows discussion and identification of potential issues before they arise.
- Ensuring management provide full and complete information facilitates a detailed intervention assessment.

Recommendations

1.1 1.2 1.3 1.4

2.1 2.2 2.3

Finding 2

The intervention was agreed against a backdrop of public interest and strong strategic rationale for intervention.

Good Practice

- SG documented clear strategic rationale for intervention at each stage and different intervention options were considered.
- Formal options appraisals were performed when there was sufficient time to do so at later intervention points.
- Financial due diligence was performed by financial advisors at appropriate stages and sensitivity analysis was performed which demonstrated the risk.

Areas for Improvement

- The time pressure and public interest brought a level of resource intensiveness and the intervention team was stretched.

Lessons Learned

- Providing additional resource support facilitates an appropriate level of review in the time allowed and ensures the ability to respond to public information requests.
- Building sufficient time into the process ensures options can be appropriately considered, recognising there may be a need for a streamlined process where this is not possible in reactive interventions.
- Considering completion of commercial due diligence at each intervention point may improve decision making.

Recommendations

1.1

3.3

Finding 3

SG developed a clear rationale for intervention, however, specific intervention objectives were not formally set/documented in advance of intervention, and lacked the required characteristics for use in options appraisal.

Good Practice

- SG documented clear strategic rationale for intervention.
- Many of the intervention objectives set were achieved.

Areas for Improvement

- Options appraisal focussed on strategic themes rather than specific intervention objectives.
- Objectives were not designed "SMART", which limits the ability to accurately evaluate their success in line with Green Book principles.
- Some objectives were not worded appropriately to facilitate options appraisal.
- Many of the intervention objectives that were achieved required further rounds of intervention before they were achieved.
- Intervention objectives were not revisited at each intervention point to ensure alignment with strategic themes.

Lessons Learned

- Setting specific intervention objectives prior to intervention facilitates effective options appraisal.
- Well designed objectives (e.g. with "SMART" principles) enable effective options analysis, evaluation, and ongoing monitoring. This allows for clear monitoring and challenge of the intervention.
- Revisiting intervention objectives at each intervention point ensures alignment with strategic themes.

Recommendations

3.1

Finding 4

Whilst Value for Money (VfM) was considered, economic appraisal was inconsistent with Green Book principles. Options appraisal improved throughout and was detailed in the 2nd phase of the intervention.

Good Practice

- Economic appraisal was performed and later intervention rounds performed detailed options analysis. By Intervention Point 4 this was significantly improved, however, it still fell short of performing Green Book consistent analysis.
- Advisor diligence and sensitivity analysis consistently highlighted the risk of recovery, which was documented in briefing papers and reflected in quasi-equity loan terms.
- During the second phase of the intervention (post DF Barnes acquisition), SG set clear review thresholds, prior to refinancing of the restructuring loan.

Areas for Improvement

- A non-Green Book compliant economic appraisal was performed. At Intervention Point 1 this was constrained by the time allowed.
- We have not seen evidence of clear review thresholds, e.g. what level of exposure, and overall cost of intervention SG was prepared to ultimately accept.
- Advisor scope of works were focussed on diligence and restructuring advice, and does not appear to have included an economic appraisal.

Lessons Learned

- An economic appraisal and options appraisal performed consistent with Green Book principles is beneficial when determining the most appropriate intervention action. Where time does not allow full Green Book to be followed, this could take the form of a streamlined assessment.
- Including downside scenarios and risk in economic appraisals and benefit cost analysis helps support informed decision making.
- Ongoing evaluation and update of the business case is beneficial to ensure SG is aware of, and able to react to, changing circumstances.
- Including economic appraisals and options analysis in advisor scope may reduce the resource impact on SG.
- Liaison with SG’s in-house economists ensures that wider economic benefits of relevance to SG’s wider strategic vision are captured in the economic appraisal.
- Establishing clear review thresholds, documented from the outset and revisited at each intervention point, helps inform future intervention analysis.

Recommendations

3.2 3.3 3.4 3.5 3.7 3.8

Finding 5

SG's actions and contributions were generally not matched by other equity holders.

Good Practice

- SG later negotiated an amendment of the Moray East guarantee, to reflect the parties' respective shareholdings.
- SG intervention generally leveraged contributions/ concessions from other equity holders and key customers.

Areas for Improvement

- DF Barnes did not input any equity as part of their takeover, and generally failed to provide the level of backing expected by a majority shareholder.
- Despite being a 32% shareholder, SG was asked to provide 50% of a guarantee needed to complete the Moray East pin piles contract.
- Despite assurances and commitment in their business plan, DF Barnes later adopted a low risk approach, leaving SG as the sole funder and minority shareholder.

Lessons Learned

- Understanding other shareholder/stakeholder incentives and exposure helps ensure all parties' remain motivated and interests align.

Recommendations

3.6

Finding 6

The intervention was challenged internally by SG at each Intervention Point.

Good Practice

- A level of internal challenge took place by Accountable Officers and Chief Financial Officer before submissions went to Ministers.
- SG’s finance and legal departments worked alongside unit heads, senior civil servants and subsidy control colleagues to provide an additional level of challenge.
- There was a level of SG team continuity throughout ensuring a level of consistency.

Areas for Improvement

- Standardised documentation recording some elements of the challenge process was not available.

Lessons Learned

- The Accountable Officer process and review from internal departments such as finance and legal is necessary to ensure the intervention is subject to sufficient challenge.
- The inherent subjectivity of the challenge process could be limited by introducing a standardised process with formal documentation requirements.

Recommendations

4.1 4.2

Finding 7

SG maintained close involvement with BiFab following Intervention Point 1 and put in place strong lending conditions.

Good Practice

- SG included good practice lending conditions for a transaction of this nature including:
    - Board representation rights, which were utilised.
    - Financial reporting requirements.
    - Requirement for each drawdown to be subject to an accountant's report to verify the need for funding.
    - The best security available was linked to the lending.
    - Lending leveraged equity contributions from key shareholders at Intervention Point 1 and 'unlocked' disputed customer payments.
    - Given the core aim of funding provided at interventions 1-3 was completion of the BOWL contract, SG included conditionality allowing the funding to only be used for those purposes.
    - SG also included weekly reporting requirements on these key contracts, e.g. project milestones, payments from customers.
- SG acted in a convening role with all parties, ensuring effective collaboration.

Areas for Improvement

- Civil servants took up Board meeting representation rights. It may have been appropriate for SG to seek support from external experts in order to provide constructive challenge to management. We note SG was in the process of recruiting for additional Non-Executive Directors to address this when BiFab was placed into administration.

Lessons Learned

- The inclusion of strong lending conditions on intervention funding provided is beneficial to protect SG's position.
- Board representation rights allow SG to be an 'active investor', influencing performance where possible. Ensuring the attendee has sufficient experience enables effective contribution and oversight.
- Monitoring of lending conditions ensures the appropriate levels of protection are in place and facilitates the identification of any breaches of conditions.
- SG has the ability to act in a convening role, liaising with other key industry players to potentially improve outcomes for all (including the intervention company).

Recommendations

5.1 5.2 5.3 5.4 5.5 5.6 5.7

Per the Green Book and SPFM, it is important to undertake an economic appraisal when considering intervention options. When an economic appraisal is undertaken in advance of an intervention, it helps set the basis for regular monitoring and evaluation to be conducted following the intervention, which helps analyse and assess actual impact. Although VfM was considered by SG, in the absence of a documented Green Book compliant economic appraisal, we have undertaken an ex-post economic evaluation that seeks to estimate the value of benefits delivered by the intervention.

Approach

To identify and estimate the monetary value of benefits achieved by intervention, we considered each of the four strategic themes outlined in the original strategic case for intervention. Across each of these themes, we considered:

1. How the intervention would help deliver benefits for the strategic theme.
2. The extent to which evidence provided suggests that the benefit was achieved.
3. The extent to which the benefits would have been achieved in two counterfactual cases.

The first of these steps involves developing a simplified 'Theory of Change' per strategic theme, outlining clearly how the intervention should theoretically deliver benefits of the strategic theme. This analysis is important to help establish a clear rationale for how the intervention delivers positive outcomes and impacts, that in turn deliver economic benefits.

Having established this rationale, we then considered the extent to which provided evidence suggests that the desired outcomes and impacts were actually achieved. Where there is limited evidence that the desired outcomes and impacts of the strategic theme were achieved, it is not possible to estimate monetised benefits associated with this strategic theme.

Where the evidence suggests the positive outcomes and impacts associated with the strategic theme were achieved, we conducted economic appraisal to monetise the value of these benefits. For each of these monetised benefits, we then assessed the extent to which these benefits would have been achieved in two counterfactual cases. This assessment allows us to identify the additionality of the benefit, considering the extent to which benefits associated with the intervention would have been achieved in the counterfactual cases. We summarise this in the form of a Green Book compliant VfM analysis which includes a benefit cost ratio (BCR).

Methodology

Step 1: Identify key benefits to be delivered by the intervention

Approach: Utilise strategic themes from the strategic case

Step 2: Identify rationale for how intervention delivers these benefits

Approach: Conduct Theory of Change analysis

Step 3: Assess the extend to which desired benefits were achieved

Approach: Review available evidence to assess whether key benefits were achieved

Step 4: Review the additionality of the intervention

Approach: Develop counterfactual cases to assess additionality

Economic Appraisal: Establish the Counterfactuals

To help assess the additionality of any benefits delivered by the intervention, it is important to consider a counterfactual case that reflects what would have happened in the absence of the intervention. At Intervention Point 1 (December 2017) a full options appraisal was not documented due to the lack of available time. We have therefore developed our counterfactual scenarios for this analysis. The first of which considers a scenario if BiFab were forced to go into liquidation in the absence of SG funding. The second of these scenarios considers a situation where BiFab entered a process of managed administration. Our counterfactual cases are developed from the point of the first intervention and consider what would have happened if BiFab had not received the £15m loan from SG on 12 January 2018.

Counterfactual – Liquidation

Description

- In this scenario it is assumed that BiFab enters liquidation during Q1 of 2018, without the loan that the SG provided on 12 January 2018.
- This scenario assumes that the company's operations end immediately, with the remaining assets used to pay creditors and shareholders based on the priority of their claims.

Key Assumptions

- It is assumed that during 2018 Q1, employment at BiFab reduces by 80%. Following this, employment reduces by a further 5% in each of Q2 and Q3. The final 10% of employees lose their jobs during Q4 in 2018.
- It is assumed that return to permanent employment is evenly spread across the year. The labour market was buoyant, as such we assume 25% of employment returning in Q1 and a further 25% returning in each of Q2, Q3 and Q4. Return to work for agency staff is assumed to be quicker, at 50% during Q1, 75% during Q2, with 100% returning to work by Q3. However, 50% of agency workers are assumed to find work outside of Scotland.
- It is assumed that employees take roles in less productive employment when returning to work. It is assumed that GVA per employee is at the average level for the Scottish economy. The result of which is that the spill over effects are lower, with the economic multipliers used being weighted averages for the Scottish economy.
- It is assumed that there are delays in the delivery of the BOWL contract of either three, six or nine months.

Counterfactual – Managed Administration

Description

- In this scenario it is assumed that BiFab enters administration during Q1 of 2018, without the loan that SG provided on 12 January 2018.
- This scenario assumes that an insolvency practitioner is appointed to complete the remaining contracts and the company is wound down over a 12 month period.

Key Assumptions

- It is assumed that during 2018 Q1, employment at BiFab reduces by 25%. Following this, employment reduces by a further 25% in each of Q2 and Q3. The final 25% of employees lose their jobs during Q4.
- Assumptions on return to work are the same as in the liquidation scenario.
- It is assumed that employees take roles in less productive employment when returning to work. It is assumed that GVA per employee is at the average level for the Scottish economy. The result of which is that the spill over effects are lower, with the economic multipliers used being weighted averages for the Scottish economy.
- It is assumed that there are no delays in the delivery of the BOWL contract.

Step 1: Strategic Benefit

The provision of a loan to BiFab was intended to deliver short term security to employment for BiFab staff. At the point of the first intervention, it was considered that without the loan, employment would be terminated. It was estimated that direct employment at BiFab was circa 1,400 employees at this point, which helped support a further 400 to 800 employees in the Scottish economy.

Step 2: Theory of Change

i. Strategic Driver
BiFab is close to administration, which would result in job termination

ii. Intervention
Provide loan to BiFab to prevent firm going to administration

iii. Enabling Change
This provides short-term security for employment

iv. Outcome
Direct jobs are protected

v. Impacts
Maintains jobs in wider supply chain
Maintains employment in high productivity roles

Step 3: Achievement of benefit

- Employment was maintained as part of the investment, thereby preventing short-term unemployment and protecting high value jobs.
- During the first six months of 2018, between 600 and 1,100 agency jobs were protected during the completion of the BOWL contract.
- For the majority of 2018, 2019 and 2020, it appears that 252 permanent jobs were protected.

Approach to monetising benefit and counterfactual case

- Determine number of jobs protected at BiFab between 2018 and 2020.
- Calculate indirect and induced employment effects as a result of this protection.
- Estimate number of employment impact in the counterfactual case.
- Compare the employment position between the actual and counterfactual case to estimate total employment impact.
- Calculate GVA impact of jobs protected.

Step 4: Review the additionality of the intervention

- The result of the intervention is that employment was protected in the short term. While agency workers appeared to fall with the completion of the BOWL contract, 252 permanent jobs appear to have been protected for the majority of the period. In the liquidation and managed administration case, we have assumed this employment would not have been protected. The effect of this is that the intervention helped create additional GVA in the periods where those employees would have been unemployed.

- In the counterfactual case we have also assumed that when employees return to work they return to less productive roles, the impact of which is lower GVA per employee and lower total output produced in the economy. This means that the intervention helped maintain additional output levels through maintaining employment in more productive roles. Lastly, the impact of maintaining employment in more productive roles is that the spill over effects in the economy are greater and therefore additional employment levels are higher. The intervention helped maintain a higher level of output in the Scottish Economy and therefore protected jobs in the wider supply chain.
- Manufacturing employment declined significantly between 2017 and 2019 in Scotland and there were also significant declines in Fife between 2018 and 2020, indicating the intervention may have had particular value to employment in Fife. For Eilean Siar (the location of the Arnish site), as is characteristic of the Highlands and Islands economy, the unemployment rate is below the national average. Manufacturing employment there rose between 2018 and 2020, suggesting that the employment market was comparatively stronger in this region.
- We therefore estimate that the intervention helped protect between £23.0m and £35.0m of GVA across the three years. For the liquidation case, it is estimated that the intervention case helped protect £35.0m of GVA, with £23.6m of this related to direct employment, £5.6m related to indirect employment and £5.8m related to induced employment. For the Managed Administration case, it is estimated that the intervention helped protect £23.0m of GVA, with £15.5m related to direct employment, £3.5m related to indirect employment and £3.9m to induced employment.

Step 1: Strategic Benefit

At the point of the first intervention, it was highlighted that the strategic locations of BiFab's yards were important for both current oil and gas investments, offshore wind developments and decommissioning work. It was therefore highlighted that it was important for these sites to remain operational to support these identified markets.

Step 2: Theory of Change

i. Strategic Driver
Were BiFab to go into administration, strategically important locations would be unused

ii. Intervention
Provide loan to BiFab to prevent firm going to administration

iii. Enabling Change
This ensures that strategic locations remain operational

iv. Outcome
BiFab wins contracts in these markets

v. Impacts
Domestic supply chain in these markets is protected through contracting with BiFab

Step 3: Achievement of benefit

- Intervention Point 1 kept BiFab solvent and maintained the yards for a period of circa five months. Future interventions maintained the yards for circa 2.5 years.
- Although BiFab did not secure decommissioning work, the yards were maintained until administration, when Harland & Wolff (H&W) purchased the Methil and Arnish yards.
- Intervention ensured that the assets and infrastructure were maintained and remained operational beyond the intervention period.

Approach to monetising benefit and counterfactual case

- It is not possible to quantify the importance of BiFab remaining in its strategic locations following the first intervention in 2017.
- To quantify this impact, more detailed information would be required on BiFab's contracts to help assess their relative importance in these supply chains.
- A qualitative assessment is therefore required to assess the impact of the intervention on this benefit.

Step 4: Review the additionality of the intervention

- The intervention kept BiFab in operation until 2020 and therefore maintained the yards for circa 2.5 years.
- There appears to be limited evidence that BiFab was able to take advantage of these strategic locations and reach target markets that SG had identified in the initial strategic rationale for investment. It is difficult to ascertain what would have happened in the

counterfactual cases. While the company that purchased the sites won the Neart Na Gaoithe (NnG) contract, it was unable to complete it.

- Limited decommissioning activity was delivered from the sites.
- Nevertheless, by keeping the sites open during the period of the intervention, SG did ensure that the assets and infrastructure of the sites were maintained and operational over the period between 2018 and 2020. This protected the assets for a future sale and, without the sites being operational, it is likely that alternative expenditure would have been required to maintain these value of the assets for a prospective sale.

Step 1: Strategic Benefit

SG anticipated significant growth in the offshore wind sector. As a key part of the Scottish offshore wind supply chain, BiFab was considered to be ideally placed to capitalise on the growth of this sector by bidding for a number of high value contracts. At the point of the first intervention BiFab had or was targeting contracts with the BOWL, NnG and Morll projects, which were estimated to deliver 2GW of power by 2023.

Step 2: Theory of Change

i. Strategic Driver
Offshore wind developments require BiFab support for completion

ii. Intervention
Provide loan to BiFab to prevent firm going to administration

iii. Enabling Change
Promotes confidence in the supply chain for offshore wind

iv. Outcome
BiFab complete contracts and offshore wind sites become operational

v. Impacts
Additional energy capacity is provided by the completed offshore wind sites

Step 3: Achievement of benefit

- The BOWL contract was completed by BiFab in May 2018; however, there were delays and cost overruns during completion, which meant additional SG funding was required to complete the contract.
- The completed wind farm has an installed capacity to generate 588MW of renewable electricity per year and is expected to be operational for 25 years.

Approach to monetising benefit and counterfactual case

- Determine the amount of additional offshore wind capacity created by the Beatrice Wind Farm.
- For the counterfactual case, determine assumptions for the completion of the BOWL contract had BiFab gone into administration.
- Use these assumptions to compare completion dates for the BOWL contract with the counterfactual case, to determine additional capacity delivered by the intervention.
- Estimate the potential value of delays based on the wholesale energy price.

Step 4: Review the additionality of the intervention

- By supporting BiFab in 2018, SG ensured that the company remained operational and therefore could meet requirements related to the BOWL contract. The last of the wind turbines were installed in May 2019. During 2020, Renewable Obligation Commitments highlight that 2.4m MWh of energy was generated over the period, it is assumed that a similar amount of energy was generated during 2019.

- In the liquidation scenario, we have considered the impact of a three, six or nine month delay to the project that could have occurred had BiFab gone into liquidation in 2018 and therefore could not have completed the project. This would have prevented the final installation at the Beatrice Wind Farm and would have delayed installation beyond May 2019, reducing generation capacity by either 600,174MWh, 1,200,348MWh or 1,800,521MWh across the three delay scenarios in the liquidation case. For the managed administration scenario, we have assumed there would have been no delays to project completion.
- The intervention in BiFab therefore helped advance capacity in the offshore wind supply. Had three, six or nine month delays occurred in the case of liquidation, it is estimated that the value of energy lost would have been £23.8m, £47.5m or £71.3m.

Step 1: Strategic Benefit

At the point of the first intervention, SG were aware of a potential third party acquisition of BiFab. The investor had a short term aim to crystalise tender opportunities and build BiFab's reputation, ultimately establishing BiFab as a world class fabricator serving both the domestic and international markets.

Step 2: Theory of Change

i. Strategic Driver
A world class fabricator is required to help expand offshore wind, oil and gas and decommissioning markets

ii. Intervention
Provide loan to BiFab to prevent firm going to administration

iii. Enabling Change
BiFab's future investor would expand scope and remit of company to target markets

iv. Outcome
The future contractor wins international contracts in target markets

v. Impacts
Facilitates higher growth in these markets and their related supply chains

Step 3: Achievement of benefit

- The future investor in DF Barnes secured contracts at Moray Offshore Wind Farm (£20m) and for the supply of a midwater arch for an oil and gas contract with First E&P. However it is noted that further SG interventions were required to secure these.
- Attempts to secure further contracts were less successful. BiFab was consistently priced comparatively to other European yards, but cost pressures in the offshore renewables sector resulted in competitive pricing from non-EU yards (notably Asia and the Middle East), which EU yards could not match.
- DF Barnes' pre-acquisition business plans for future growth and diversification ultimately proved to be undeliverable.

Approach to monetising benefit and counterfactual case

- DF Barnes was not able to expand BiFab's business model into target markets and BiFab did not become a world class fabricator in these markets.
- It is therefore not possible to conduct quantitative analysis into the economic impact related to this benefit, as the intervention did not result in higher growth in any of these target markets. Had the intervention resulted in such growth, the value of the contracts could have been used to estimate additional direct, indirect and induced employment and GVA, which could have provided evidence of economic impact related to the intervention.
- A qualitative assessment is therefore required to assess the impact of the intervention on this benefit.

Step 4: Review the additionality of the intervention

- The intervention in BiFab did not result in the firm becoming a world class fabricator in target markets either domestically or internationally. The intervention, therefore did not help deliver additional growth in these markets or help protect domestic supply chains.
- The future demand for local fabrication is still likely to be driven by demand in the renewables market in the UK and therefore, for the Scottish supply chain to develop a world class fabrication sector, it will be important for incumbent firms to win and deliver new contracts in this market.
- As a result of the intervention, the assets at the sites remain in a useable condition which may be attractive for future investment.

Economic Appraisal: Indicative Value for Money Assessment

Within the Green Book and the SPFM, assessing the VfM of a project is central to the appraisal process. As part of the VfM assessment, it is necessary to understand both the direct and indirect costs and benefits associated with the project, as well as understanding the wider costs and benefits the project may have on society as a whole. Where possible these costs and benefits will be monetised and used to calculate a BCR, which helps form part of the wider VfM assessment. It is not possible to monetise all benefits.

Whilst VfM was considered by SG, the wider economic appraisal was not Green Book compliant. As a result we have not seen a comprehensive breakdown of expected costs and benefits that could be associated with the intervention. Without this detailed breakdown, it is difficult to complete a comprehensive post-evaluation VfM assessment.

To provide some indication of the VfM of the intervention, we have considered the four strategic benefits from the initial ministerial briefings and have considered the extent to which they were achieved and performed high level estimates of the benefits that might have been delivered. The benefit position monetised represents the net benefit achieved and has been calculated in comparison to two counterfactual cases that might have occurred in the absence of the intervention. In the table overleaf we have summarised the four benefits and have also highlighted where quantified benefits could be included in a Green Book compliant BCR and where other quantified benefits instead should form part of the wider VfM assessment.

Benefit position

Benefit	Metric	Core Benefits		Wider VfM Considerations	
		Liquidation Case	Managed Administration Case	Liquidation Case	Managed Administration Case
Employment	Direct GVA	£23.6m	£15.5m	£23.6m	£15.5m
	Indirect GVA	-	-	£5.6m	£3.5m
	Induced GVA	-	-	£5.8m	£3.9m
Strategic Location	There appears to be limited evidence that BiFab was able to take advantage of these strategic locations and reach target markets that the SG had identified in the initial strategic rationale for investment. However, Intervention ensured that the assets and infrastructure were maintained and remained operational beyond the intervention period. It is not possible to quantify the impact of this proposed benefit.				
Offshore Wind Development	Additional Offshore wind Capacity	-	-	£23.8m - £71.3m	-
Future Investment	The intervention in BiFab did not result in the firm becoming a world class fabricator in target markets either domestically or internationally. The intervention therefore did not help deliver additional growth in these markets or help protect domestic supply chains. However, the assets at the sites remained in a useable condition as a result of the intervention, which may be attractive for future investment. It is not possible to quantify the impact of this proposed benefit.				
Total Benefit		£23.6m	£15.5m	£58.8m - £106.3m	£22.9m
Total Cost		£52.4m	£52.4m	£52.4m	£52.4m
BCR*		0.46	0.30		
Adjusted BCR**				1.14 – 2.07	0.44

* The BCR has been calculated using a discount rate of 3.5% in line with HMT's Green Book Methodology
** The adjusted BCR considers wider VFM considerations.

As previously discussed, due to the circumstances of Intervention Point 1, a Green Book compliant economic appraisal was not undertaken. Had this been done, it would have captured and quantified the forecast economic benefits in a forward looking manner. In the absence of this we have sought to perform backward looking economic appraisal to ascertain the additionality of the intervention.

We considered two counterfactual cases - liquidation and managed administration. These developed counterfactuals were modelled against the actual outcome to assess additionality.

Our analysis was focussed on the four strategic themes set out by SG in their strategic case for intervention; supporting employment, strategic location, offshore wind supply chain and future investment. Overall it was determined that SG partially met the four strategic themes initially set out.

Supporting employment

It is estimated that the intervention protected £23m of GVA compared with the liquidation case and £15m compared to the Managed Administration case.

It is estimated that the Scottish Government's intervention protected circa 250 permanent jobs at BiFab for the majority of the period between 2018 and 2020, compared to the counterfactual. The intervention also ensured that the BOWL contract could be completed, protecting circa 1,100 agency jobs for six months in 2018, compared to the counterfactual. Those employed at BiFab were employed in productive roles, resulting in higher economic output. The intervention also protected employment in the wider economy through protection of £5.6m of indirect and £5.8m of induced GVA compared to the liquidation case and £3.5m of indirect and £3.9m of induced GVA compared to the Managed Administration case. Had BiFab protected both permanent and agency jobs for the full period, these effects may have been greater.

Offshore wind supply chain

SG's intervention allowed BiFab to meet the requirements of the BOWL contract. If SG had not intervened, a delay in BOWL's operation may have resulted in the value of energy lost up to £71.3m, when compared to the liquidation and Managed Administration case.

The impact of these delays (assumed three, six or nine months) is that energy generated by Offshore wind may have reduced by either 600,174MWh, 1,200,348MWh or 1,800,521MWh during 2019. If three, six or nine month delays had occurred in the case of liquidation, it is estimated that the value of energy lost would have been between £23.8m, £47.5m or £71.3m.

Strategic location

There is limited evidence that BiFab was able to take advantage of these strategic locations and reach target markets that SG had identified in the initial strategic rationale for investment.

It is difficult to ascertain what would have happened in the counterfactual cases. While the company that acquired the rights to two sites won the NnG contract, it later terminated the contract citing cost escalation and delays had made it uneconomic. However, keeping the sites open during the intervention period ensured that the assets and infrastructure were maintained. In the case of liquidation or managed administration, if the sites had not been operational, expenditure could have been required to maintain the assets in order to facilitate investment later on.

Future investment

The intervention in BiFab did not help to deliver additional growth in target markets, however the sites' assets were maintained and remained operational to facilitate future investment.

Since the BiFab sites have been sold, new companies have won some contracts in these markets at the sites. By ensuring the assets remained operational, the assets remained in a useable condition to facilitate future investment in the sites, owned by SG's agencies Highlands and Islands Enterprise and Scottish Enterprise.

Recommendations

Each of the lessons learned set out on prior pages inform the recommendations noted below. We have organised EY's recommendations into a framework to facilitate the effective management of interventions from monitoring to management.

1. Monitoring
2. Intervention Triage
3. Intervention Appraisal
4. Review and Challenge
5. Ongoing Management

The nature of reactive intervention requests mean civil servants are often under significant pressure to produce time constrained, balanced advice against a backdrop of national interest. A standardised intervention triage & assessment framework should be established to minimise the impact of these factors. We understand the newly formed Strategic Commercial Assets Division (SCAD) has considered some of the items noted below.

1. SG should formalise monitoring of companies of strategic importance in Scotland

1.1 SCAD should identify key sectors in Scotland of strategic importance.

1.2 SCAD should continue to engage with public sector agencies across Scotland to share information and to identify where firms are in financial or operational difficulty.

1.3 SG should engage with overseas agencies such as Scottish Development International to ensure companies of strategic importance with overseas headquarters are captured and monitored.

1.4 Should a company begin to show early signs of distress, in line with its scope, SCAD should identify and engage the required advisor skillsets (e.g. legal, financial, technical) and prepare for potential intervention action.

The actions above will increase SG oversight and reduce the risk of unforeseen intervention requests arising.

2. SG should implement a standardised triage process for intervention requests to quickly establish an initial "go"/"no-go" decision

2.1 Where an intervention request is received, intervention could not be considered further without clear documentation of extenuating circumstances.

2.2 A standardised intervention information request list should be created and provided, placing the onus on the business to provide the required information and support the rationale for intervention. Where the company is unable or unwilling to provide the required information, intervention should not be considered further.

2.3 A checklist should be created to support an initial ‘go’/’no-go’ when appraising intervention decisions, including; “does the business have a viable, long term future in Scotland?’, ‘has the business considered alternative means of support?’, ‘has the business provided the required information to support due diligence?’.

3. A standardised intervention appraisal process should be put in place to ensure consistency. A ‘streamlined’ process should also be documented to allow SG to quickly assess requests in time-pressured situations

3.1 Intervention objectives should be documented in a timely manner, with “SMART” principles, and in a setting that allows input and challenge from suitably experienced civil servants to ensure appropriateness and alignment with SG’s strategic aims. SG may benefit from the development of a bank of standardised objectives, aligned to the strategic vision for consideration when rapid responses are required.

3.2 SG should document critical success factors for the intervention, and review thresholds which document clearly the aims and limits (e.g. maximum financial exposure, maximum shareholding). Progress against these can be regularly reassessed throughout the intervention, for example, if there is a further call for funding.

3.3 Options appraisals including economic appraisal and benefit cost analysis should be performed, with options being appraised against set objectives, critical success factors and review thresholds. This could be included in financial or technical advisors’ scope to reduce the resource impact on SG/SCAD, linking in to the work of SG economists. This could also include wider commercial due diligence to understand the wider market commercials.

3.4 A minimum Benefit Cost Ratio (BCR) benchmark should be agreed, below which intervention should not be pursued. This benchmark should be reflective of the risk of the transaction.

3.5 Economic appraisal and benefit cost analyses should reflect the risk and include downside sensitivities, documenting the impact on intervention value for money, investment recovery and exit strategy.

3.6 SG funding should perform stakeholder mapping to understand other shareholder/stakeholder incentives and ensure all parties’ remain motivated and interests align.

3.7 Where there is insufficient time to undertake economic appraisal prior to the intervention, a ‘streamlined’ assessment should be completed prior to intervention. More detailed analysis should still be performed retrospectively to inform strategy for intervention management and develop maximum review thresholds, i.e. documented limits and positions SG is not prepared to adopt.

3.8 The introduction of SCAD has sought to address much of this, placing additional emphasis on ensuring a consistent approach for economic appraisal, options appraisal and evaluation of interventions. Implementation of a well documented process would further enhance consistency. Further, a ‘streamlined’ process could be documented which includes standard intervention options for consideration when reactive, time-pressured interventions are required.

4. An independent panel should be established to provide challenge and review of proposed interventions

4.1 A panel of experienced civil servants could ensure that the agreed due process had been followed and provide consistent, independent challenge of the case for intervention against a clearly documented framework for investment, for example:

Is there a clear case for intervention and does it align with SG's wider strategic aims and objectives?

- Has an economic appraisal and benefit cost analysis been performed, including under 'downside' scenarios?
- Is there a viable exit strategy and clear route to recovery of SG investment?
- Is the intervention structure (e.g. equity investment, loan funding, provision of a guarantees) appropriate and within review thresholds?
- Is the intervention leveraging investment from equity holders where appropriate?

4.2 The panel could offer insight and challenge from previous interventions.

5. SG should establish a 'Shareholder' function with responsibility for managing ongoing interventions

5.1 SCAD is now responsible for ensuring the effective governance and stewardship of assets where SG has a sponsorship role. This goes some way to the establishment of a separate shareholder function within SG.

5.2 Central management and tracking of ongoing interventions by a specifically designed body will give continuity and consistency, ensuring interventions are tracked, evaluated and regularly re-assessed.

5.3 SG should continue to include enhanced reporting requirements as a condition of any intervention, including monthly provision of detailed financial information, performance vs KPIs and trading outlook.

5.4 SG should continue to be an 'active investor', where possible obtaining and utilising board representation rights to monitor and support performance. SG should also continue to identify where technical representation is required to ensure management are challenged (e.g. at Board meetings).

5.5 SG should continue to liaise with key industry players to support the company and wider industry.

5.6 SCAD should continue to provide updates to Ministers in relation to SG's interests.

Future requests for further intervention will be bolstered by the above processes, allowing SG to take informed decisions.

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