

Better Business Cases NI Supplementary Guidance

**Appraising assistance to the private,
voluntary and community sectors**

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1 Introduction

This Supplementary Guidance provides advice on how to appraise funding proposals from the private, voluntary and community sectors.

The scale and scope of proposals for funding from these sectors is wide-ranging due to their nature. For example, expenditure proposals could cover anything from large programme level expenditure (e.g., grant scheme development) right down to low value project level expenditure (e.g., individual grants).

This guidance has been developed with the above in mind and, therefore, the principles of proportionate effort should be applied. For example, it is likely that a proposal for large programme level expenditure will require much more detail than a small project level proposal. The same applies for project level expenditure, where a small straight forward proposal will require less detail than a risky or complex one (i.e., both the value and nature of a proposal needs to be considered). The Department of Finance's (DoF) [note on proportionate effort](#) may be useful when deciding how much effort and detail is appropriate for specific expenditure proposals.

Whilst this guidance has been written with the reviewer in mind, it is acknowledged that it could also be used by those in the process of developing funding programmes/schemes. Those responsible for the development of such programmes/schemes should ensure that a robust and proportionate business case, which aligns to Better Business Cases NI Guidance, is completed. This should mean that the overarching programme proposal is set up correctly, therefore saving time and effort at the project level.

It is important to note that this guidance is not intended to include all aspects of appraisal or business cases or as a substitute for the general Business Cases NI Guidance, but instead focuses on the key elements of guidance that are different or particularly important for this type of proposal.

For example, it may be appropriate to consider the environment/climate and wider social aspects as well as economic impacts in appraising proposals for assistance (including to the private sector) - sometimes referred to as the “triple bottom line” - as is the case for proposals involving direct government provision/expenditure. Other guidance relating to these aspects is available on [DoF’s Better Business Case website](#), including *Incorporating Environmental and Climate Considerations into Business Cases version 1* and *Incorporating Social Value into Business Cases* as well as general guidance on the five case model approach.

2 General Background Information

Proposals involving financial assistance to the private, voluntary or community sectors should be appraised and evaluated with proportionate effort by the relevant department or other funding body. Proportionate effort should be judged primarily on the total public funds (including NI, UK, and EU funds) involved over the life of the proposal under consideration.

Financial assistance should not be approved in principle, nor should commitments to funding be given (e.g., through a Letter of Offer), prior to the completion of a satisfactory business case. The importance of this to the approval process is elaborated in the separate BBCNI Supplementary Guidance for approval procedures for departmental expenditure.

The type of financial assistance offered should be tailored to the case at hand. There should be no presumption that financial assistance should take the form of grant aid in every case - alternative forms of assistance might be equally effective to tackle a particular market failure and at a lower cost to the exchequer. For instance, where market failure is restricting a firm's access to capital this might be tackled more cost-effectively with financial assistance in the form of loans or equity.

Appraisal should be applied not only to schemes for financial assistance when they are being established, but also to individual grants or other assistance subsequently paid out under such schemes. The appropriate level and type of appraisal will be different when a scheme rather than a grant is appraised, bearing in mind the principle of proportionate effort. For example, a large grant or loan application may require substantial appraisal, whereas a smaller grant or loan may be adequately appraised using a suitable application form or appraisal pro forma.

Where a proposal involves more than one source of NI public funds, the relevant funding bodies can avoid duplication of effort by co-operating to produce a single appraisal. As a rule of thumb, the funding bodies should supply resources to the appraisal broadly in proportion to their proposed shares in the funding. It is often appropriate that the major public funder takes the lead in co-ordinating and

ensuring completion of the appraisal. When it comes to the stage of assessing completed appraisals, cooperation between funding bodies is also likely to be beneficial.

Where assistance to the private sector is under consideration, there is a need to ensure an adequate private sector contribution to the funding of the proposed investment. One of the important lessons identified by the Committee of Public Accounts following their enquiry into the De Lorean project was that *"there must always be a significant contribution of risk capital from the private sector."* Further, it is an established principle that there must be at least £1 of private sector investment for every £1 of Government assistance¹.

Strictly speaking, this applies only to the private sector, not to the voluntary or community sectors. The latter operate in a different environment and may not be expected to be able to match Government funding in every case, although they should be expected to contribute according to their ability to do so. Whatever the sector being assisted, public funding should generally represent the minimum assistance necessary to bring about the investment.

It is good practice to advise applicants for assistance, from the outset, regarding the appraisal and approval procedures that will be necessary, the timescales that these may require, and the help that is available to them. Scheme documentation for applicants should contain this type of information.

2.1 Preliminary screening

It is generally appropriate for funding bodies to subject applications for assistance to preliminary screening. In its simplest form, this involves a basic assessment of the application to decide whether it is eligible for funding under the relevant scheme. More generally, preliminary screening offers the opportunity to test thoroughly the need for the project and its objectives, before committing resources to a full appraisal. It can be aided using relatively simple scoring systems, in which applications are allocated scores by reference to relevant scheme criteria.

¹ Twenty-fifth Report of Session 1983-84, HC 127. Dr Rhodes Boyson, speaking on behalf of the Government in a debate on the De Lorean case on 1 May 1985, stated that for future projects there must be at least £1 of private sector investment for every £1 of Government assistance.

Departmental economists can assist to establish suitable preliminary screening systems.

Where preliminary screening indicates that a proposal is clearly unsuitable, it should be rejected, thus avoiding nugatory expenditure on an unnecessary full appraisal. Funding bodies should be satisfied that applications are eligible and offer a reasonable prospect of success before committing resources to a full appraisal.

Preliminary screening may also be used to help decide what priority an application should carry in relation to other applications, in terms of the order in which all the eligible applications should be subjected to a full appraisal. This is particularly relevant where the resources available to undertake appraisals are scarce in relation to the numbers of eligible applications to be appraised.

2.2 Business case documentation

All proposals involving financial assistance should be supported by an independent assessment document which addresses the issues covered in this supplementary guidance. This document should confirm that proposals are economically efficient, viable, additional, and cost-effective, and should cover affordability and appropriate arrangements for management, monitoring, evaluation and benefits realisation. When submitting cases for approval, Departments should confirm that the proposals offer value for money and are affordable.

Proportionate and appropriate effort should be applied in all cases. Large expenditures may require substantial business case documents including thorough economic appraisals; this is particularly true at the programme level or when seeking approval of the total expenditure of a grant scheme. Smaller expenditures are likely to require more modest documents such as pro formas or checklists. (See [Use of Forms and Checklists](#) below).

Note that guidance on SOCs, OBCs and FBCs is designed primarily for procurement projects and does not generally suit assistance to the private, voluntary and community sectors.

A business case must be developed for all new funding programmes/schemes before expenditure can be approved. However, DoF does not generally require a separate free-standing business case document from applicants applying for financial assistance. For example, at the project level, acceptable documentation may comprise an application form, a business plan and a brief pro forma or checklist recording independent assessment of the applicant's proposals. These documents together can constitute the business case.

Many business cases have contained excessive background material on relevant policies, strategies and so on. This is an unnecessary waste of time and resources. Business cases should not generally contain more than 2 pages of this type of information. In financial assistance cases, all that is generally required is a very brief reference to the relevant programme or scheme under which the assistance is sought.

Duplication of effort and documentation is unhelpful and should be avoided. It is not necessary to repeat all the material provided in applicants' application forms or business plans in a separate business case document. While the funding body should complete a separate form, checklist, or other document to record independent assessment, duplication is discouraged. For example, if an applicant has made a case for the need for its project, the funding body should not generally need to reproduce it; it may be sufficient to record that the applicant's need assessment has been considered and that it is accepted or rejected.

Therefore, economical use of documentation is generally recommended. However, it is recognised that there may be some types of projects or individual cases for which Departments will require a more substantial business case document to be developed, such as, for example, particularly large or difficult cases. It is important that relevant advice and expertise is sought throughout the development of business cases to ensure quality and guidance requirements are met and that they are subjected to scrutiny and challenge. Depending on the scale of proposals, the latter may include use of casework committees in Departments.

Where assessment of proportionate effort deems the use of the Five Case Model appropriate, this guidance outlines potential considerations for each of the five cases.

2.3 The use of pro formas and checklists

The appraisal of financial assistance cases should be facilitated by designing application forms so that they provide as much as possible of the information that funding bodies need to appraise them. This can help reduce subsequent documentation requirements substantially.

The recommended approach in most financial assistance cases is for funding bodies to supplement information provided by applicants with brief forms or checklists recording independent assessment. Pro forma and checklists should be designed to address economic efficiency, additionality, displacement, viability and cost-effectiveness (these aspects are defined and covered in detail in later sections of this guidance). They should also allow for appropriate consideration of affordability, and arrangements for management, monitoring, evaluation, and benefits realisation.

It is normally the funding bodies who should be appraising using appraisal pro forma and checklists. Applicants may complete application forms, but they should not be expected to appraise their own proposals critically.

Appraisals in forms, checklists and (where required) separate business cases must reflect an independent and unbiased view of proposals.

Departments should be satisfied that the relevant application forms, pro forma and checklists in use for each programme or scheme contain adequate information to enable the funding body to appraise expenditures. They should also ensure that funding bodies have suitable procedures in place to appraise the information submitted by applicants.

As emphasised above, while funding bodies are encouraged to use pro forma or checklists to record independent assessment of applications, they need not duplicate material contained in applicants' documents such as application forms or business plans.

The focus of the independent assessment document should be to add value by recording assessment according to Better Business Cases NI appraisal criteria, not by regurgitating applicants' information.

2.4 The use of consultants

DoF does not recommend extensive use of external consultants to complete business cases for financial assistance cases. In-house appraisal should be sufficient for most cases, using suitable pro forma documentation or checklist-style documents. Departments should seek to reduce reliance on external consultants by this means.

There may be some cases where it is necessary to employ external consultants to assist with appraisals, for instance in large, innovative, or complex cases. However, this should only be considered when it offers VFM and following approval based on submission of an external consultancy business case in accordance with [FD\(DoF\)08/17](#), [FD\(DFP\)13/12](#) and [associated guidance](#).

2.5 Continuation funding of the voluntary sector

Bodies operating in the voluntary sector often receive financial assistance for a specified time-period. They will sometimes seek renewed funding for a further period, and in the case of well-established organisations, this process may be repeated several times over. This is commonly known as 'continuation funding'.

It is good practice to make continuation funding conditional upon a satisfactory independent evaluation of the activities undertaken during the previous funding period, in addition to a fresh forward-looking appraisal covering the term for which continuation funding is sought.

The term for the continuation funding will depend upon the individual circumstances of the project. A term of 3 years is typical for established projects that are expected to have a continuing useful life, but shorter or longer time periods may be more suitable in particular cases. Where DoF approval is required, the appropriate time-period should be agreed with the relevant DoF Supply Division.

Each fresh application for funding should be considered as a wholly new project and treated accordingly for purposes of appraisal, evaluation and delegated limits.

Accordingly, expenditure from previous funding periods should not be counted as a cost in any appraisal of future funding, nor should it be counted when deciding whether the continuation project exceeds a delegated limit. However, it should be considered when evaluating the success of the project in the previous funding period.

2.6 Ex post evaluation and benefits management/realisation

Evaluation may involve:

- Interim evaluation (carried out during the life of the programme/ project), to ensure that it is delivering as expected and that any valuable lessons learned are captured early in the process. This will be particularly important where continuation of funding is likely to be sought.
- Ex post examination of outturns (carried out after the programme/project has ended) to ensure that lessons are learned and fed back into the decision-making process.

Departments should generally have arrangements in place to measure outturns, compare them with initial estimates and use the results to consider how to improve the quality of assumptions in future appraisals, including, for example, estimates of costs, benefits, and risks. All programmes and schemes, including those involving financial assistance, should be evaluated.

However, there is room for flexibility over details of how evaluation is carried out and excessive effort should be avoided. It is good practice to record outturns for all financial assistance cases, but evaluation may in some cases be focused on programme level without conducting detailed evaluations of individual projects. Substantial free-standing evaluation reports should only be required for the largest projects. Where a programme consists of many small-scale projects or activities, it may be appropriate to select only a representative sample of them for detailed evaluation. This may apply to a number of financial assistance programmes.

Benefits management and realisation are generally important since delivery of benefits is crucial to the success of any project. Programme managers should actively seek to ensure that financially assisted projects are implemented and actually deliver the benefits claimed for them.

Again, there is room for flexibility over details and excessive effort should be avoided. Departments should note the availability of a simplified 'Benefit Profile for Small Projects' template, which can enable all the benefits of a project to be profiled on a single sheet. This is located at the [Successful Delivery NI templates page](#). For large projects, the standard 'Benefit Profile' template (available at the same page) should continue to be used for each individual benefit claimed.

2.7 The scope of the appraisal

Appraisals of applications for financial assistance should generally cover the whole of the project for which financial assistance is sought, not just the financially assisted elements of it. For instance, an appraisal should detail all the sources of funding, and should cover all the costs and all the benefits associated with the proposal, including those falling to the private, voluntary and community sectors as well as to the public sector. This is to enable a judgement of the overall value for money and viability of the proposal. The same principles apply to ex-post evaluations of financially assisted projects.

Appraisals of financial assistance to the private, voluntary and community sectors should assess VFM primarily from a broad NI perspective, like appraisals in general. Any significant impacts elsewhere in the UK should also be weighed into the investment decision. The following is structured along the lines of the five case model approach to business cases. It may not be appropriate in smaller cases to undertake a five case business case. However, appraisals should generally seek to ensure that the key areas outlined below are satisfied in all cases.

3 Providing Assistance & the Five Case Model

This section focuses on the key elements of guidance in each of the five cases that are particularly important for this type of assistance. However, it is worth pointing out that there is some element of overlap between cases and where/how certain information is presented will depend on the scale and scope of the proposal.

The table below outlines potential considerations for providing assistance and how these fit within the Five Case Model. Additional information is provided in each of the subsequent sections.

Case	Potential Consideration	Brief Explanation
Strategic Case	Displacement	May need to consider when designing options, e.g., objective to minimise displacement
	Subsidy Control or State Aid	Any subsidies or State Aid must comply with the Subsidy Control Act or the EU State Aid rules if applicable
Economic Case	Displacement , Additionality and Deadweight	Adjustments to be made for some of these issues in the appraisal where considered material and proportionate to assessment.
	Competition effect of subsidies	Potential impact on economic appraisal.
	Options appraisal	The requirement for full appraisal or otherwise.
	Cost effectiveness	Part of the economic appraisal

Case	Potential Consideration	Brief Explanation
	Viability	Commercial viability of applicants and/or the proposal ² .
Commercial Case	Commercial considerations	Contracts, MOUs, clawback arrangements.
Financial Case	Financial projections	Financial cost to Government.
	Funding plan	How assistance will be funded.
	Subsidy Control or State Aid	Once total assistance known, full assessment of implications required.
	Treatment of non-UK grants	Information on non-UK assistance
	Viability	Commercial viability of applicants and/or the proposal.
Management Case	Management plans and Gateway Reviews	Typical project management considerations
Appendix	Subsidy Control or State Aid	It is important to undertake an assessment before commencing the BC to show whether the UK Subsidy Control regime or EU State aid rules apply to a proposal.

² The Financial viability of the proposal is a key aspect of the assessment in the Financial Case but is also important to the VfM argument and therefore should be **referred to** in the Economic Case. However, viability analysis should include calculations for inflation, VAT, and depreciation, etc. Therefore, the viability analysis is more appropriately undertaken in the Financial Case.

3.1 Displacement

Displacement should be considered in appraisals for all types of financial assistance. **Displacement is the degree to which an activity promoted by government policy is offset by reductions in activity elsewhere.** Displacement reduces economic efficiency. A modest degree of displacement may be acceptable, but more substantial displacement may constitute grounds to refuse an application for assistance.

For instance, this may be the case where a proposal appears likely to succeed largely by diverting business from other NI firms or service providers. Providing assistance in such circumstances can represent poor value for money and may result in a legal challenge by competitors whose businesses are threatened. Therefore, it is generally important to identify the potential for displacement and assess its impact. The assessment should focus on displacement within NI, but if there are likely to be important displacement effects elsewhere in the UK, these should also be identified and appraised.

Displacement may occur in the product, service, or factor markets in which the applicant operates. For example, in a product or service market, assisting a firm to develop its business may cause a reduction in the business of other companies in the same sector; or development of community facilities may lead to a reduction in the use of other similar facilities in the surrounding area. Basic questions appraisals should address regarding the product/service market include:

- Who are the applicant's competitors within Northern Ireland? (They may be other firms producing similar products, or other voluntary groups or community service providers producing similar facilities/services)
- Is the market growing, and what share of the business is the applicant likely to take?
- Is the applicant's proposal likely to have a significant impact on the business of particular competitors? Will it damage their viability or threaten closure?
- Are there likely to be any important displacement effects elsewhere in the UK?

Displacement may also occur in the labour market. For example, an applicant's proposal may displace significant labour from other employers in NI labour markets. The level of displacement of an employment creation programme, or of individual proposals to safeguard jobs or that involve redundancy, should be assessed by examining the characteristics of the relevant jobs in relation to the characteristics of the local labour market. Where potentially large changes to employment are in view, a thorough analysis of the local labour market may be required. If, however, only small changes in employment are likely, then a less detailed analysis may be more appropriate.

When considering whether to offer assistance designed to safeguard employment in a particular firm, a basic consideration is whether the assistance is necessary to do this. The local labour market might also be analysed in terms of age, skills, and experience of those whose jobs are being safeguarded, and how these compare with the characteristics of the unemployed, particularly the long term unemployed, and those who have recently found employment. The analysis might also assess the likelihood of new investment in the region in the event the job losses occurred, accounting for the inflow onto the local labour market of labour with particular skills and experience.

Generally, displacement will tend to be greatest, and of most concern, under the following circumstances:

- the greater the existing excess capacity in the market;
- the larger the increase in market output arising from the project;
- the longer the excess capacity is expected to persist, that is, when it is structural rather than cyclical;
- the greater the share of the market to be served by the project which otherwise would be served by other NI suppliers; and
- the newer and more efficient the capacity that will be displaced.

Where displacement is expected to be small, it is normally enough to document its likely nature and extent.

However, where it is considered significant, the benefit stream in the relevant Net Present Social Value (NPSV) calculation should be reduced accordingly in order to provide a more meaningful calculation of the prospective stream of net benefits to the economy. It may be helpful to undertake the NPSV calculation both with and without adjustment for displacement in such cases.

Substitution is a particular form of displacement in the labour market which should be considered in relevant cases. It is the extent to which those who gain from a policy do so at the expense of an equivalent loss to others in the labour market. This may occur when a firm substitutes one activity for another similar activity to take advantage of government assistance.

For example, if an incentive is given to employ long term unemployed workers, then a firm may substitute an applicant who is in long term unemployment for another applicant who is not, leading to no overall increase in employment.

In general, substitution is undesirable and should be minimised. For instance, if substitution is significant, the net exchequer cost of the programme may be unacceptably high. However, some substitution may be acceptable when the totality of a proposal is considered. In some cases, it may even be desirable. Taking the previous example, redistribution of jobs may contribute to a specific policy aim, such as getting more of the long-term unemployed to work.

3.2 **Additionality and Deadweight**

The success of government intervention through assistance to the private, voluntary or community sectors is usually assessed in terms of its 'additionality'. This is its net, rather than its gross, impact after making allowances for what would have happened in the absence of the intervention. To put it another way, **additionality is the extent to which an activity takes place at all, or is undertaken on a larger scale, or earlier, or to a higher standard, or within a policy target area, because of public sector intervention.**

Additionality needs to be appraised to help ensure that assisted projects receive the minimum government assistance required to bring them about. Any excess over this amount is "deadweight".

Additionality should be measured at programme/scheme and project level, adjusting the form of the assessment to the nature and objective of the activity.

All public sources of financial assistance to the project should be considered when assessing its additionality.

A project is regarded as fully additional if, without assistance, it would not happen at all. However, additionality may be partial. For example, without assistance:

- the project might have been carried out in another NI location of some lower priority;
- the same project might have been carried out later; or
- a different project might have been carried out, or the same project on a smaller scale or to a lower standard of quality.

The appraiser needs to probe the claims made by the applicant regarding additionality. There are several possible avenues to pursue, as outlined below.

Direct questioning of the applicant - regarding the applicant's need for assistance, the financial resources at its disposal, its efforts to obtain other sources of funds, its contingency plans if the grant application should fail, and so on. Does the applicant make a credible case for needing the assistance?

Checking and monitoring of information supplied by the applicant - for instance, site visits to check whether the project has actually started, checks on the financial and staffing/personnel information provided. Does the applicant's behaviour match its claims?

Drawing on the knowledge of the appraiser's own organisation, where it has experience of dealing with similar applications or has had previous dealings with the applicant. Does the application stack up with past experience?

Consulting other organisations who are experienced in the relevant field of activity, or who have previous experience of the applicant - for example, partner organisations, other funding bodies, banks, and so on. Does others' experience confirm the bona fides of the application?

Whatever the methods, it is important to record reasons why the additionality criterion is considered to have been satisfied.

Accordingly, appraisal reports should:

- demonstrate the additionality of the proposal, indicating its nature and extent;
- record reasons for the proposed level of assistance, related individually to the nature, scale and timing of the project;
- summarise the negotiations with the applicant on the level of assistance;
- review the applicant's financial position and ability to fund the project from non-Government sources; and
- where relevant, assess the project's mobility, including, where possible, substantive evidence of a viable alternative location.

The effort used to appraise additionality should be appropriate for the scale of the project. The effort needed for a small grant to a community group is much less than that required for a major industrial assistance proposal. Where small sums are involved, judgement based on direct questioning of the applicant may be sufficient, or it may be possible to define the qualifying conditions in a way that ensures that any accepted proposal is additional.

In larger cases, a more in-depth analysis will be appropriate and a full examination of the financial factors driving the need for a certain level of assistance should be undertaken to ensure that any offer of assistance is the minimum required to bring about the project. Claims of lack of funds should be backed with an analysis of the applicant's ability to fund the project using internal reserves, additional equity, debt financing, or some combination of these. Where the investment in a project spans several years the applicant's future finances, and not just its current finances, will be relevant to its ability to fund the project from non-government sources.

In some cases, it will be appropriate to consider the returns to the applicant in light of the cost to it of financing the project. Broadly speaking, from the applicant's perspective a project will only be attractive if the anticipated return from the project is the same or better than the applicant's (marginal) cost of capital.

An analysis of the extent to which the project's return falls short of the applicant's cost of capital can provide valuable information on the minimum level of assistance required to bring about the project.

In summary, additionality should be appraised and documented in appropriate detail, and assertions that the additionality criterion is met should be supported by evidence and analysis. Partial additionality should be reflected in the levels of assistance offered. Assistance should not be awarded to projects that have already gone ahead without it.

When assessing additionality and displacement, appraisers may find [this guide](#) useful.

3.3 Competition Effect of Subsidies

In December 2006 the Office for Fair Trading published specific [Guidance on how to assess the Competition Effects of Subsidies](#). This guidance focuses on assessing the impact of displacement in cases where the government provides support, in the form of a subsidy, to firms engaged in the production of goods and services. A subsidy is defined in the OFT guidance as a “grant, soft-loan, loan guarantee, tax break or benefit in kind, granted through government resources that affects the costs of at least one recipient undertaking”

This guidance, which applies to subsidies of more than £500k to a firm with greater than 5-10% of the affected market, sets out several steps which must be undertaken to fully assess the likely impact of subsidies.

Should the results of this analysis indicate that the subsidy is likely to affect the competitiveness within markets these impacts must be included in the economic appraisal. Combining the results of the competition assessment into the economic appraisal will allow one of four conclusions to be reached:

- the subsidy is unlikely to distort competition significantly and the competition effects have no influence on the decision to proceed;
- the subsidy is likely to give rise to significant distortions but can be redesigned to reduce these. The redesigned subsidy would proceed if it is likely to give rise to benefits which exceed the costs;

- the subsidy is likely to give rise to significant distortions that cannot be reduced further. However, the benefits of the subsidy outweigh its costs and therefore the subsidy is justified; or
- the subsidy is likely to give rise to distortion to competition that outweigh the likely benefits and therefore the subsidy is not justified.

3.4 Options Appraisal

When appraising mainstream departmental expenditure, consideration of alternative options is regarded as vital to identify best VFM solutions. **However, in many financial assistance cases it is accepted that there can be less focus on identification and appraisal of alternative options and more emphasis on assessing the proposal put forward by the applicant.**

Note therefore formal consideration of alternative options in cases involving grant applications is not a general requirement and, in most cases, it is sufficient to base assessments on the proposal put forward by the applicant. There may sometimes be room for negotiating with applicants over the details of their proposal, but that does not require formal assessment of alternatives.

Efforts should not be wasted generating options for the sake of it. For instance, there is no need for slavish consideration of increases or decreases in the scale of the applicant's proposals. However, there should remain discretion to examine options in particular cases where it is considered appropriate to do so, for example some large or complex projects. Departments must decide for themselves when it is appropriate to do this. Note also that any procurement projects must comply with the general requirements for such projects.

Costs and benefits should generally be considered only for a single option, based on the applicant's proposal, except in those specific cases where departments consider it appropriate to examine other options. The capital and resource costs should be identified year by year in much the same way as for any project. It can also generally be useful to calculate the net present social cost (NPSC) to provide a summary indicator of project costs. However, there is room for flexibility over this. For instance, calculation of NPSCs is not regarded as necessary for small projects or any that have no significant recurring costs over time.

It should normally be sufficient to list and describe non-monetary costs and benefits. It may also be helpful to quantify them in suitable non-monetary units where it is convenient and cost-effective to do so. However, use of more sophisticated analyses such as detailed impact statements or weighted scoring should only be considered for those larger or more difficult cases where several alternative options need to be examined.

Assistance is provided in various contexts and for numerous different reasons, for instance in pursuit of economic, social, or environmental objectives. Thus, the appraisal requirements can vary from type to type, and the precise approach often needs to be tailored to suit the type of spending under consideration.

For example, DfE has specific methods for assessing assistance to industry, tourism and research and development. Likewise, DAERA has specific guidance on appraising assistance to the agricultural industry and other departments have their own guidance suited to the types of assistance they offer.

For details of the methods used in particular programmes of assistance, the relevant departmental economists should be consulted.

3.5 Cost Effectiveness

It is important that public expenditure on projects or programmes is cost-effective. This is achieved when the ratio of the outputs from a project or programme to the costs to the taxpayer of producing them is satisfactory.

Judgement of cost effectiveness is aided by benchmarking, that is, by comparing the ratios for a specific project with those for other similar projects. This helps to indicate whether the cost-effectiveness is acceptable. If the unit costs are considered too high, this should lead to redesign of the project, or to it being rejected.

Relevant indicators of cost-effectiveness should be presented. These should normally include the ratio of total public assistance to total project cost, but other measures will also be appropriate depending upon the particulars of the case, for example, cost per job, cost per m² of floor space, cost per room, cost per trainee place provided, cost per dwelling and so on.

When calculating these indicators:

- the cost element (i.e., the denominator) should generally include all sources of NI public funding (including e.g., EU and IFI funding), not just the costs to an individual budget or programme. This is particularly important where there is more than one source of funding. (It is recognised that funding bodies may also wish to monitor the unit costs to their own budgets or programmes, for their own management purposes).
- the effectiveness element (i.e., the numerator) should include the number of outputs net of displacement, so that the indicators reflect the net additional outputs arising from the activity.

It is important that all forms of assistance from public sector sources are counted. Where assistance takes the form of cash grants, this cost is obvious, but there are many other possible forms of assistance, for some of which the true cost is less transparent. Common examples include participating grants, equity finance, cheap loans, premises at low rents, and land, infrastructure, training support or advice provided free of charge.

A basic condition for cost-effectiveness is that the activity assisted should actually occur, that is, that the project should proceed and achieve the additionality claimed for it. Where a grant is paid, arrangements to secure repayment of that grant in the event of premature closure, or failure to deliver the promised outputs, should help to ensure this.

3.6 Commercial Considerations

The commercial element of proposals for assistance can vary greatly depending on the type of programme/ scheme in question. For example, there may be a need to negotiate deals for some schemes. This could involve purchasing equipment or paying for premises etc. Some proposals could also require a memorandum of understanding (MOU) or more formal contracts to be developed and agreed. Where any of these elements are involved, it will be important to ensure input from the relevant specialists.

For example, if required, has legal advice or advice from the relevant Centres of Procurement Expertise (CoPE) been sought? DAO(DoF) 05/22 provides guidance on what is classified as the procurement of supplies, services, and works and what constitutes grant funding.

3.7 Viability

The financial position of the applicant should be analysed, to help ensure that public money is not wasted on projects that will fail prematurely. There should be evidence of sound business planning, which requires thorough analysis of the anticipated cash flows, and the planned financing, marketing, and management arrangements.

In cases where the aims are primarily economic, assistance should be given only to firms or receiving organisations which are themselves considered to be viable. This requires appraisal of the firm's financial position and the quality of its management, both in general terms and with specific regard to those charged with carrying out the project. Any previous track record may help to inform judgement of viability.

If assistance is awarded, it should generally be just sufficient to enable the project cash flows including subsidy to satisfy commercial investment criteria. In these cases, a viable project is one which, having received assistance on a once for all basis, is expected to earn sufficient profits to be self-sustaining without continuing subsidies other than those available as of right to all eligible enterprises. There should be a strong presumption against projects receiving assistance more than once because this would encourage grant-dependency and poor management in both the assisted firm and the responsible Department.

In the case of financially assisted projects pursued primarily for social or environmental rather than economic aims, the viability criterion applies less strictly, to the extent that such projects need not be expected to achieve overall financial profitability. However:

- any commercial elements of social or environmental projects should still be expected to achieve financial profitability; and

- in all cases it should be confirmed that there is sound business planning and specifically that adequate arrangements for finance and management are in place.

Where a project depends on the cooperation of several partners, it is important to ensure that they are all committed to it. The strength of the commitment of all partners, including any relevant third parties, should be fully tested before funding is approved.

One means of helping to ensure commitment is the use of a Memorandum of Understanding (MOU) to record formal agreement between the relevant parties. Departments should consider using a MOU in cases that depend on the cooperation of several parties.

Sustainability should be considered. Where funding is awarded for a limited period, consideration should be given to a suitable 'exit strategy'. In particular, the assumptions about subsequent funding should be made clear. If it is assumed that funding will continue, confirmation of agreement to this should be provided from the relevant funding body.

3.8 Financial Projections

The estimated financial costs and revenues arising from the proposal should be set out year-by-year over its life. This should be disaggregated to show all individual cost and revenue items. All financial assumptions should be stated.

Where appropriate, a financial NPSV should be calculated, and viability should be assessed by reference to the commercial returns achieved by comparable businesses facing a similar level of risk. Currently the normal range of rates is 5-10 per cent but rates as high as 15 per cent may be appropriate for the very highest risk businesses.

3.9 Funding Plan

The financial position of the applicant should be analysed, including assessment of its ability to contribute own funds to the proposal. Where applicable, the most recent statement of accounts should be supplied.

All sources of funding should be identified, including names of relevant funding bodies, the corresponding amounts of funds, and their phasing. The status of each funding application should be indicated e.g., confirmed, awaiting, response, etc.

It is important to consider when several funders are involved in supporting a proposal whether conditions attached to one funder's offer could have consequences for others. For example, if one funder provides a funding allocation in line with the real Living Wage but others do not require this or offer equivalent funding. VCS Organisations as employers are responsible for setting the pay policy in their organisation and therefore flexibility for the organisation may be required.

3.10 UK Subsidy Control Regime/ EU State Aid Rules

All financial assistance to an enterprise (i.e., an entity or group of entities that engages in economic activity by offering goods or services on a market), which includes voluntary and community sector enterprises and well as private enterprises, must comply with the UK Subsidy Control Regime or the EU State aid rules (when the NI Protocol applies).

Prior to the UK's exit from the EU, public authorities only had to comply with the EU's State aid rules. However, following the UK's exit from the EU, the UK developed its own subsidy control regime, and the Subsidy Control Act (2022) sets out the legal obligations of this regime.

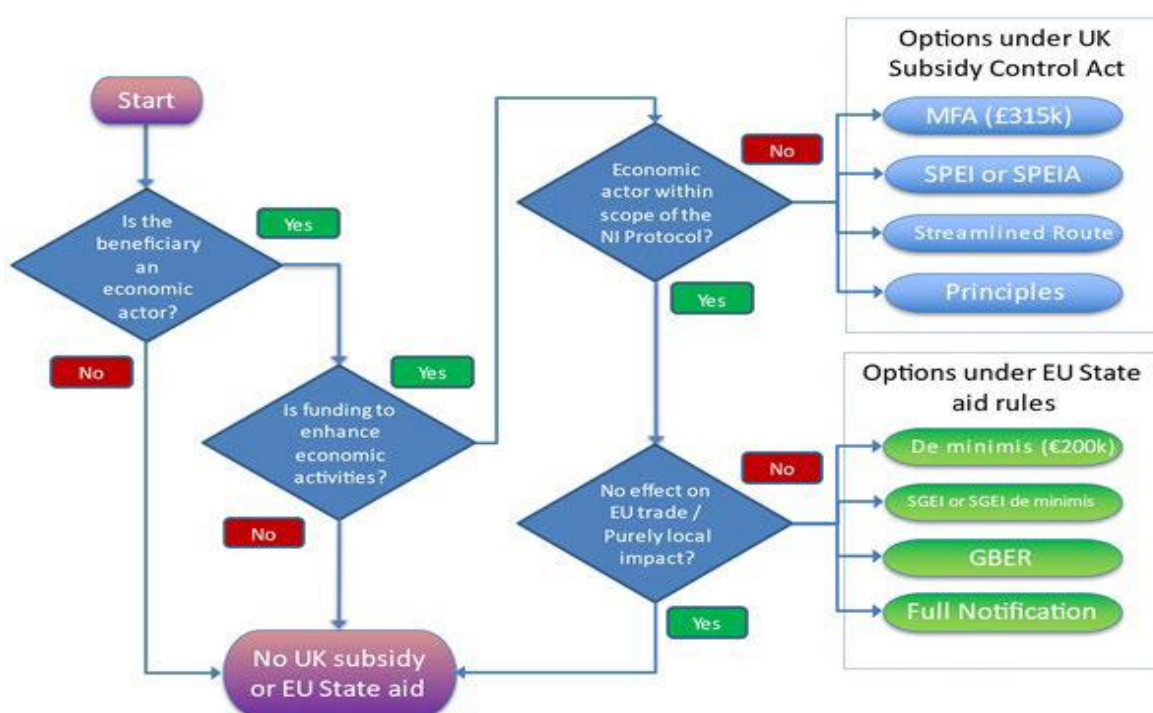
In practice, UK public authorities are no longer bound by the EU State aid rules, except when the Northern Ireland Protocol applies, and all UK subsidies must comply with the Act.

The Act received Royal Assent in Spring 2022 and was fully commenced on 4 January 2023. From this date all subsidies in the UK have had to comply with the Act or the EU State aid rules when the NI Protocol applies.

Article 10 of the Northern Ireland Protocol provides that the State aid rules (detailed in Annex 5 of the NI Protocol) will continue to apply to the UK in respect of measures which affect trade in goods between NI and the EU (including the production of and trade in agricultural products) and the production of wholesale electricity in NI (i.e., measures impacting on the Single Electricity Market).

Consequently, public authorities in Northern Ireland who are planning to provide assistance (either financial or non-financial) to an enterprise³ must consider, at the earliest stage, whether the UK Subsidy Control regime or EU State aid rules apply, and this should be fully assessed and appended as a standalone subsidy control or State aid compliance assessment. The conclusions of this assessment should then feed into the business case given the potential implications on options, risks, financing/funding, affordability and project/programme management.

Public authorities must also be aware that there are significant differences between the UK subsidy control regime and the EU State aid rules, as illustrated in the flowchart below.



³ See section 7 of the [Subsidy Control Act 2022](#)

Better Business Case NI guidance does not provide detailed guidance on the identification or assessment of subsidies or aid which falls under the UK Subsidy Regime or EU State aid rules. This is provided by DfE Subsidy Control Advice Unit (SCAU), which is responsible for raising awareness as well as providing practical advice and assistance.

For advice on whether the UK Subsidy Control regime or the State aid rules apply and for assistance on registering / notifying EU State aid or a UK subsidy scheme see DfE's [website](#) or contact DfE's [Subsidy Control Advice Unit](#) (SCAU).

Please note, DfE SCAU does not provide legal advice. Any requests for legal advice should be directed to the Departmental Solicitor's Office or your legal advisor.

Please also note that while this guidance was correct at the time of writing, this guidance may change due to the negotiations between the UK and the EU on the NI Protocol. UK Government has indicated that following the signing of the Trade and Cooperation Agreement and the development of the UK's Subsidy Control regime, the EU State aid rules are now redundant. UK Government therefore wants to disapply Article 10 and Annex 5 and 6 of the NI Protocol, so that only the UK Subsidy Control Act would apply to subsidies in the UK.

In addition, HMT is giving consideration to the treatment of subsidies and the potential impact it might have on guidance related to business cases and the Green Book. Any future changes will be reflected within this guidance in due course.

3.11 Treatment of Non-UK grants

All proposals involving EU financial assistance are subject to the general requirement to undertake appraisal and evaluation. Relevant appraisals should address the main steps of appraisal.

The nature and extent of EU assistance proposed should be clearly identified for each option under consideration. When costing options, EU grants and other forms of financial assistance should generally be treated in the same way as UK Exchequer grants and included in appraisals at their full cost.

The European Commission (Directorate General Regional Policy) has published a [Guide to Cost Benefit Analysis of Investment Projects](#) (latest version December 2014). The principles are broadly similar to those in Better Business Case NI guidance, but there are differences in the detail, for instance a requirement for a more detailed financial analysis.

Major projects should comply with this guidance. A major project generally involves EU funding of €50 million or more, but the threshold is lower for environmental projects (€25m) and instrument for pre-accession (IPA)-assisted projects (€10m). [Economic Appraisal Vademecum \(2021-2027\) guidance](#) complements the existing cost benefit analysis guidance from 2014.

Advice on applying for EU financial assistance and general EU matters is available from DoF's [European Division](#).

3.12 Management Plans and Gateway Reviews

Applications for grant assistance should generally be supported by a business plan in addition to an appraisal, covering the following key elements of proposal management.

Consideration of the organisation's capacity and governance structures such as the key management personnel, their roles, their relevant experience and qualifications, and the proposed organisational structure should be identified and explained fully.

The current and projected market for the planned products or services should be assessed. Specific planned marketing activities should be identified and costed.

The proposed arrangements for monitoring and evaluation should be explained, including who will do these activities, what factors will be examined and when.

In larger projects, the department responsible for the assistance may wish to mandate the application of the gateway review process as an effective assurance mechanism.

[The Code of Good Governance Health Check](#) is also a useful tool which provides a practical and evidence-based way to encourage and facilitate better governance and accountability on an ongoing basis in the voluntary and community sector.

4 Example pro forma for assessing assistance proposals from the private, voluntary and community sectors

*The below is just an example of what a pro forma for a funding proposal might look like. It **SHOULD NOT** be applied strictly to every proposal for public assistance and **SHOULD** be adapted to suit the scale and scope of the proposal.

Project Details / Departmental Recommendation
Policy Lead Comments
Economist Lead Comments
Commercial/ Technical Expert Lead Comments
Financial Lead Comments
Management Lead Comments
DFE Subsidy Control Advice Unit (SCAU) Comments

PROJECT DETAILS / DEPARTMENTAL RECOMMENDATION

Project Title:	
Brief Description of the project:	
Explain how the project aligns with Departmental strategy/ policy:	
Lead Partner:	
Total Cost/Funding sought:	
NI Contribution:	
DoF Supply Approval Needed (Y/N):	
Departmental Recommendation: (Balance of evidence)	

POLICY LEAD COMMENTS

Comments provided on initial receipt of applicants business plan:	
Further comments following assessment:	

Reviewer Signature:	
Job Title/Role:	
Date of Final Review:	
Indicate if content to support project (Y/N with explanation):	

ECONOMIST LEAD COMMENTS

	Yes/No (with explanation)
Is a full economic appraisal needed?	
Is the case for change established?	
Is displacement considered – with adequate supporting evidence?	
Any adjustments needed for foreign Ownership?	
Are the applicant's financial position and previous track record stated?	
Have details of the negotiations with the applicant on levels of assistance been recorded?	
What is the evidence that assistance will make a difference to the locations quality, scale, location or timing?	
Where project mobility is claimed is there substantial evidence of a viable alternative location?	
Is the proposed assistance the minimum needed to bring about the project?	
Are reasons recorded for the proposed level of assistance, related to the location, nature, scale or timing of the project?	
Would the project proceed without the funding?	
Are appropriate ratios included? E.g. total public assistance to total project cost, cost per job, other unit costs.	
Does the proposal have clear SMART objectives, targets and CSFs?	
Are there alternative options to consider?	
Are costs and benefits identified in sufficient detail?	
What are the wider costs and benefits?	
Is all public funding taken into account?	
NPSVs calculated correctly? (where required)	
Are risks and uncertainties assessed adequately?	
Is the proposal cost-effective?	

Reviewer Signature:	
Job Title/Role:	
Date of Final Review:	
Indicate if content to support project (Y/N with explanation):	

COMMERCIAL/ TECHNICAL EXPERT LEAD COMMENTS

	Yes/No (with explanation)
Is there a need for any commercial considerations such as procurements, MOUs or contracts including clawback arrangements?	
Is the project likely to have any legal implications?	
Has any technical assessment been provided (if yes, please summarise the findings and attach):	

Reviewer Signature:	
Job Title/Role:	
Date of Final Review:	
Indicate if content to support project (Y/N with comments):	

FINANCE LEAD COMMENTS

	Yes/No (with explanation)
Accounting Officer Assurance that Project Meets Programme Criteria and Offers VFM Provided	
Has eligibility for assistance been established?	
Is all public funding taken into account?	
Are anticipated cash flows set out in suitable detail?	
Will the proposed assistance enable the project to (a) cover all its costs and (b) earn a commercial rate of return?	
Are arrangements for funding clear and unambiguous?	
Is the project sustainable beyond the proposed period of funding? Is there a clear exit strategy?	
Has the applicant's financial position and ability to fund the project been examined?	

Reviewer Signature:	
Job Title/Role:	
Date of Final Review:	
Indicate if content to support project (Y/N with explanation):	

MANAGEMENT LEAD COMMENTS

	Yes/ No (with explanation)
Has a Business plan been provided?	
Are the project management arrangements clear?	
Are the key management personnel identified and do they have the right experience and qualifications?	
Is there a sound marketing plan?	
Do plans provide for suitable monitoring and evaluation?	

Reviewer Signature:	
Job Title/Role:	
Date of Final Review:	
Indicate if content to support project (Y/N with explanation):	

DFE SUBSIDY CONTROLADVICE UNIT (SCAU)

	Yes/No (with explanation)
Does the proposed assistance comply with the UK Subsidy Control Act/ State Aid rules??	

Reviewer Signature:	
Job Title/Role:	
Date of Final Review:	
Indicate if content to support project (Y/N with explanation):	

*Departmental economists should be able to advise on specific appraisal queries.
Any questions or comments about this guidance should be sent to DoF at the
email address below.*

economicappraisal@finance-ni.gov.uk