

## 4. Business Case Development

*A **robust business case**, proportionate to the level of expenditure and risk, shall be developed for all government grants. This should be scrutinised and approved in stages, as part of grants approval process, in line with the guidance in **Managing Public Money**.*

### Managing Public Money:

1. Departments' primary concern when administering grants is to have due regard to the guidance set out in Managing Public Money; nothing in this document is intended to contradict or override that guidance.
2. This standard is not intended to be an additional spending control; departments retain accountability for decisions on all grant expenditure.

### Important note on scope:

3. This standard applies only to **general grants** made by departments and their Arm's Length Bodies (ALBs) using Exchequer funding.
4. It does not apply to **formula grants** or **Grant-in-Aid**.
5. The term 'general grants' is broadly defined below, to assist identification:

**General Grants:** grants made by departments or their grant making ALBs to outside bodies to reimburse expenditure on agreed items or functions, and often paid only on statutory conditions. These are the grants, which are most closely related in administration to contract procurement, whilst remaining legally distinct.

### What?

6. The expectation of this Standard is that a robust Business Case shall be developed for every general grant, proportionate to the value of the grant and the perceived level of risk, which seeks to ensure that the funding is used as intended and that performance and expenditure are monitored effectively, to maximise value for money.
7. The complexity of the Business Case shall be determined by the value and perceived level of risk.

### How?

8. A toolkit has been developed to provide accessible guidance specific to developing business cases and to complement the 'Better Business Cases'

## Government Functional Standard for General Grants Guidance


training course introduced by HMT in 2014 (see below for more details).

[www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/190603/Green\\_Book\\_guidance\\_checklist\\_for\\_assessing\\_business\\_cases.pdf](http://www.gov.uk/government/uploads/system/uploads/attachment_data/file/190603/Green_Book_guidance_checklist_for_assessing_business_cases.pdf)

9. The business case should consider the following as a minimum:

- purpose;
- strategic context;
- case for change;
- available options;
- preferred option;
- funding and affordability; and
- management arrangements;

10. Again, the complexity of the Business Case will be determined by the value and perceived level of risk. Proportionality is considered in more detail in the table below:



Cabinet Office

### Business Case not optional but complexity determined by level of risk and spend

Below £100k And Low Risk	£100k - £5million Or High Risk	Above £5million
<p>Approved by FBU:</p> <ul style="list-style-type: none"><li>• Named SRO/ central approvals board</li><li>• Rationale/ strategic purpose</li><li>• Review of the scope</li><li>• Basic individual/ legal entity checks</li><li>• Financial viability</li><li>• Payment model/ treatment of assets</li><li>• Value for money</li><li>• State Aid</li></ul>	<p>Approved by Grants Approval Committee with input from NGAP</p> <p>Further requirements:</p> <ul style="list-style-type: none"><li>• Allocative Efficiency Assessment</li><li>• Affordability</li><li>• Fit with strategic context</li><li>• Economic appraisal</li><li>• Optimism bias</li><li>• Sensitivity analysis</li><li>• Benefits Realisation</li></ul>	<p>Approved by HMT</p> <ul style="list-style-type: none"><li>• Further requirements:</li><li>• Green Book based business case requiring more robust evidence</li></ul>

**Note:** the table above is illustrative and is not intended to override or replace legislation or agreements which departments have in place with HMT in relation to delegated financial authority levels or the value at which HMT approval is required for individual grants.

Allocative efficiency: in this context is defined as ensuring a good match between the requirements of the grant and the skills and experience, in terms of delivery, of the grant recipient.

## Government Functional Standard for General Grants Guidance

Optimism bias: is the term used to explain the demonstrated, systematic, tendency for project appraisers to be overly optimistic, thus leading to unrealistic or even unattainable objectives / goals being set. To redress this tendency appraisers should make explicit, empirically based adjustments (based on data from past or similar projects) to the estimates of a project's costs, benefits, and duration. This should provide a better estimate of the likely capital costs and works' duration. For more information on optimism bias:

<https://www.gov.uk/government/publications/green-book-supplementary-guidance-optimism-bias>

Benefits Realisation: is the identification, definition, planning, tracking and realisation of benefits with regard to the activities the grant will fund. Early identification helps with development of clear objectives and a shared understanding of the activities being funded can be established.

### When should the Business Case be raised?

11. The business case should be raised at the policy formation stage – strategic development – and used to inform each stage of the governance process, including the potential for submission to the New Grants Advice Panel (NGAP) where the department decides a referral to the NGAP is appropriate. For more information see explanatory notes covering standards two - Approvals, and three - NGAP.
12. Where the department selects a grant scheme for referral to the NGAP, the NGAP referral form and supporting information should be used to raise any issues and pose any questions, which the department would like the NGAP to consider – alternatively these can be recorded on the Government Grants Information System (GGIS). Any advice provided by NGAP should be recorded on the Business Case, along with the response to that advice, to ensure that the NGAP forms an integral part of the approvals process.
13. All general grants of over £5 million, or whatever value is agreed with HMT for individual departments, should follow HMT Green Book guidance and the Business Case should conform to the five case model:
  - Strategic Case;
  - Economic Case;
  - Commercial Case;
  - Financial Case; and
  - Management Case.

### Business Case Toolkit

14. The toolkit aims to help government departments and their grant making ALBs to produce high quality business cases, which can be used to assess whether a grant is the most appropriate funding mechanism. The toolkit:

## Government Functional Standard for General Grants Guidance

- provides an introduction to developing a business case;
- helps policy and grant teams think through the process; and
- provides links to further resources.

15. The toolkit can be accessed via the Grants Hub, here:

<https://grantshub.civilservice.gov.uk/> (please note you will have to register to access this site).

### Dear Accounting Officer (DAO) Letter

16. A DAO letter, (01/16) was issued by HMT on 19 May 2016. This was as a result of a PAC/ PACAC recommendation into the Kids Company grant and dealt specifically with oversight of grant expenditure as follows:

“A department asked by another part of government to pay a grant to an external organisation, such as a charity, from its own resources should ensure that its own Accounting Officer gives due consideration to the proposal before funding is committed.”

17. Departments must take account of the content of this DAO letter when allocating grant funding under the conditions described. More information on DOA letters, can be found here:

<https://www.gov.uk/government/collections/dao-letters>.

The PAC DAO letter on Kids Company can be found on GOV.UK, here:

<https://www.gov.uk/government/publications/dao-0116-accounting-officer-oversight-of-grant-expenditure>

### Value for Money

#### What is Value for Money (VfM)?

*Good value for money is the optimal use of resources to achieve the intended outcomes. ‘Optimal’ means ‘the most desirable possible given expressed or implied restrictions or constraints’. Value for money is not about achieving the lowest initial outcome.*

18. Good practice recommends that the concept and principle of VfM should run across the entire six stage process of Grant making, as it should be considered from the onset through to the on-going performance monitoring of the grant across its life cycle to final evaluation.

19. We acknowledge that departments face numerous challenges / difficulties in applying and assessing VfM measures and targets within the grant making process, not least of all applying VfM to non-commercial grants objectives. Furthermore, due to the variances in departmental objectives, we understand that there are differences in the level of quality and variation across departments in

relation to (VfM) practice. However, it is important to note that without specified VfM targets in the business case, it becomes extremely difficult to measure or correctly evaluate a grant's performance presenting a number of VfM risks.

### Good practice considerations for VfM:

20. An effective business case should present a clear course of action, informed by expected outcomes / benefits and expected costs – using the green book and other internal departmental support documents as guidance.<sup>1</sup>
21. Wherever appropriate, clear cost-efficiency measures and indicators should be outlined at the outset of a grant application to enable a view on VfM of expenditure throughout the programme lifecycle. Appropriate capability and capacity of the policy teams undertaking the development of the business case needs to be significant enough to write economic cases.
22. Economists within the departments should be utilised to undertake VfM calculations at the appropriate stages for the scheme / award in question.
23. In cases where the extension of funding is being considered, achieved benefits to date of previous activities should be assessed against their costs to inform the VfM of potential further funding.
24. In cases where an award is heavily influenced by its perceived alignment to public policy, the assessment of VfM should not be bypassed in the appraisal of alternative funding options. This will ensure that public expenditure is directed to achieving benefits in line with the policy in question that are commensurate to its value.
25. In cases where grants have failed to achieve their intended purpose (and consequently failed to achieve VfM) adequate consideration should be given to outlining a clear approach to ensure that further awards do not similarly fail.
26. Impact evaluation and review should continue or be delayed for an extended length of time following programme completion when perceived benefits are expected on a much longer-term basis.

---

<sup>1</sup> The Green Book guidance can be found here:  
[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/685903/The\\_Green\\_Book.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/685903/The_Green_Book.pdf)

27. For programmes whereby delivery follows a standardised approach, a pilot phase should be initially deployed to understand the relative costs/benefits of the programme. This will enable more accurate quantification of the value of a potential longer-term award following the pilot phase.
28. Post-programme, scheme and award evaluations and any monitoring reports during the programme lifecycle should directly refer to any VfM cost-efficiency indicators that are outlined in business cases or following addendums. Evaluations should directly comment on this to ensure that suggested Value for Money strategies outlined at the outset of a programme are not ignored.

### VfM case studies

29. We have provided a few case studies which explain the challenges in identifying and monitoring VfM in the context of Grants. You will note, that in light of the challenges the business case strives to identify and articulates the VfM derived from the grant itself.

**Case 1:** The Fund for Refuges, Specialist Accommodation Based Support and Service Reform to Help Local Areas Meet the National Statement of Expectations with regard to Domestic Abuse is an example of good VfM practice within a business case. The nature of the scheme would suggest its benefits are hard to quantify but, despite this, analysis based on external sources allowed for the cost of a domestic abuse victim in a refuge to be calculated. The scheme has been designed well so that performance can be monitored and evaluated.

- The fiscal cost of a case per year is at £8,500.
- Total cost including estimated fiscal, economic, and social costs is of around £37,000 per year.
- There are 1,300 cases untreated a year equalling a total cost of £48m.
- The annual fund of £7m will cover the untreated cases proving good VfM.

The business case explains that further analysis cannot be done due to the limitations of the data at present but this does support a push towards greater data capture.

**Case 2:** Scheme Y demonstrates good VfM practices in three of the early processes of grant making. This project has received substantial funding in the past from various departments, however it ran out of money before completion. The department assessed the application thoroughly, looking at potential benefits to the market engagement and the overall cost-benefit analysis (CBA). They commissioned an external provider to undertake the CBA exercise. The result was that they determined the project would not return good VfM. The fund was signed off anyway, so the department commissioned the provider to aid in the design of the scheme to ensure that risks were mitigated and best possible VfM would be achieved.

### Code of Conduct

30. We acknowledge that each department has its own respective Code of Conduct guidance, which must be adhered to whilst undertaking the Grant making process.

31. We have included the Civil Service Code of Conduct, the principle of this code must be considered throughout the grant making process.

Link: <https://www.gov.uk/government/publications/civil-service-code>

32. There is existing guidance on Ministerial code, setting out the standards of conduct expected of ministers and how they discharge their duties. We expect each Department to align its grant making process to the principles outlined within their respective ministerial code of conduct.

Link:  
[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/672633/2018-01-08\\_MINISTERIAL\\_CODE\\_JANUARY\\_2018\\_FINAL\\_3\\_.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/672633/2018-01-08_MINISTERIAL_CODE_JANUARY_2018_FINAL_3_.pdf)

33. There is guidance available for Managing Public Money and explains how to handle public funds with probity and in the public interest.

Link:  
[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/686462/MPM\\_2018.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/686462/MPM_2018.pdf)

34. A code of conduct for grant recipients is under consideration for publication on gov.uk in late 2018.

### Alternative funding options

35. There are various mechanisms available to award and administer government funding, which in some cases will offer a more appropriate alternative to grants. Early considerations should cover the purpose and nature of the desired impact that the funding seeks to achieve.



## Government Functional Standard for General Grants Guidance

36. The overall benefits of using the most appropriate funding option will be to ensure that government funds are used effectively, efficiently and transparently.
37. For more detailed guidance please refer to the Cabinet Office's guidance note on Grants and alternative funding options, which can be accessed via the grants hub: <https://grantshub.civilservice.gov.uk/DataSolutionLogin>.

### Challenge Panels

#### What are the grants challenge panels?

38. A challenge panel is a multidisciplinary group of individuals, based within your department that scrutinise grant proposals in a particular business area against grants good practice and the government functional standard for general grants. Whilst we encourage departments to hold challenge panels, this is not mandated within the standard nor in this guidance. Support for establishing and running challenge panels will be available through the Grants Centre of Excellence (CoE).
39. Challenge panels are a way departments could enlist some professional advice to strengthen the grant schemes they are responsible for. These panels:
- use lines of inquiry based on substantial departmental research on the biggest risks and issues with grant-making across government;
  - are owned and staffed by the grant-making department with Cabinet Office Grants Function support, including the provision of a specialist panel member and links to other services;
  - do not replace the decision makers for grants; they exist purely to advise the existing decision-maker;
  - are tailored to each business area to make sure they are useful, not burdensome; and
  - Do not question policy objectives; their focus is grant-making good practice.

#### What specific topics can they help with?

- expertise on finance and financial due diligence issues;
- expertise on commercial issues, including e.g. the suitability of funding routes like procurement;
- expertise on legal issues, including e.g. grant agreement terms;
- expertise on policy issues, including e.g. potential overlap with grant schemes in other parts of the Department;
- expertise on evaluation, monitoring and data issues, including e.g. how to monitor performance;
- expertise on economic issues, including e.g. measurement of value for money; and
- provide expertise on wider thinking on grants in Cabinet Office and across government, and external challenge. Link the Panel with wider Cabinet Office advice and services where useful, such as fraud expertise, the grants risk-



## Government Functional Standard for General Grants Guidance

flagging service, the New Grants Advice Panel or the Grants Centre of Excellence.

### Benefits of using grant challenge panel?

40. The potential benefits include:

- identifying ways to strengthen how individual grant schemes are managed;
- identifying opportunities to 'recycle'; move some money from lower-potential to higher-potential grant schemes within your portfolio;
- identifying chances to join up grant schemes with similar requirements;
- strengthening your understanding of the risk profile of grants in your portfolio; and
- access to tailored support from Cabinet Office Grants Function, e.g. software to flag high fraud risk grant applications (just completed a successful pilot), or specialist advice on whether to use a grant or a different type of funding mechanism.

### Responsibilities of the SRO being considered by the Panel

- ensure that a submission template is completed to a high standard and that it, and supporting documentation, are submitted to the Panel on time;
- attend the Panel discussion of their grant scheme unless extraordinary circumstances prevent them, and in that case appoint a deputy to attend on their behalf with delegated authority to take decisions; and
- give serious consideration to all recommendations made by the Challenge Panel, whether or not funding is made conditional.

#### Case study

Challenge panels released £3m at the Ministry of Justice during their proof of concept, which totals about 2% of their total yearly spend.

### Additional Information

41. Challenge panels can examine a variety of grants, from ongoing legacy awards through to new, novel and contentious proposals. It will depend on the department and the size of its grants portfolio to determine which grants should be reviewed by a challenge panel.

42. As mentioned above, departments own the decision on whether or not to establish challenge panels. To check if your department has one, please contact your grants champion in the first instance.

### Early Impact analysis

43. It is advisable for departments to carry out some form of early stage impact analysis, to go through the outputs and outcomes of the activities being funded.

## **Government Functional Standard for General Grants Guidance**

This should help ensure the objectives align with departmental policy goals and are ultimately realistic. It is recommended that departments use their social research teams (or equivalents) for advice on this area.

### **What is Impact analysis?**

- 44. Impact analysis assesses the changes that can be attributed to a particular intervention, such as a project or programme, both the intended and unintended impacts.
- 45. In contrast to outcome monitoring (discussed in Guidance note standard eight - Performance and Monitoring), which examines whether targets have been achieved, impact evaluation is structured to answer the question: how would outcomes have changed if the intervention had not been undertaken? Impact evaluations seek to answer cause-and-effect questions. In other words, they look for the changes in outcome that are directly attributable to a project/ programme.
- 46. Impact evaluation helps answer key questions for evidence-based decision making: what works, what doesn't, where, why and for how much? It is an important tool to improve the effectiveness of public spending as part of the initial stages of the grant making process.
- 47. It is worth noting that impact evaluation can and should be carried out at both the individual grant level and scheme level to ensure a holistic view.

### **The value of Impact evaluation**

- 48. Impact evaluation should be seen in the wider context of stressing the importance of evidence-based decision making and for both monitoring, and evaluating the results of grant awards. Managing for results means focusing on outcomes (what is being achieved) as well as outputs (what is being produced) and inputs (how much money is being spent).
- 49. A properly designed impact evaluation can answer the question of whether the project / program is working or not, and hence assist in decisions about award and scaling up. A well-designed impact evaluation can also answer questions about programme design: which parts work and which parts don't, and so provide policy-relevant information for redesign and the design of future programmes.
- 50. By identifying if a grant scheme or project is working or not, impact evaluation is also serving the accountability function. Hence impact evaluation is aligned with results based management and monitoring the contribution of grant assistance toward meeting Government objectives.
- 51. Evidence on the effectiveness and impact of projects and programmes can help make Departments more accountable to the parliament and to the UK public and citizens and, where relevant, partner country governments & organisations.

### When to do an impact evaluation?

52. Impact evaluation takes place throughout the grant making process, commencing in the design & development phase.

53. Given that impact evaluation can be resource and data intensive, it is important to give regard to the principle of proportionality. Although it may not be feasible to conduct detailed impact evaluations for all grants applications, some consideration should be given to clearly defining the objectives and intended outcomes of every grant. The following are examples of when a more detailed impact evaluation would likely be conducted:

- innovative schemes;
- pilot programs which are due to be substantially scaled up;
- programmes that are particularly large or risky;
- where the evidence base is considered to be weak and needs to be improved; and
- on a selection of other interventions across a Department's portfolio on an occasional basis.

### How to design an impact evaluation: sample questions

#	Question	Prompts
1	Have you identified what you are trying to evaluate?	a. Do you have a clear statement of evaluation aims and objectives?
2	Have you established a theory of change that can be tested in the evaluation?	a. Can you articulate the main hypotheses and effect assumptions that will be tested in the impact evaluation? b. Do you have a clear theoretical framework that can be used to interpret the impact evaluation findings?
3	Do you have a clear research strategy?	a. Can you describe how the overall research strategy is designed to meet the aims of the impact evaluation? b. Do you need to collect additional data to inform your test review? c. Can you make a convincing argument for the different features of the research strategy?
4	Do you have a well-defined sampling and / or case selection methodology?	a. Do you have a clear understanding of what can be generalised to a wider population from which your sample is drawn or case selection made? b. Do you have a clear understanding of the limitations of the design for drawing wider inference?
5	Can you demonstrate that the impact	a. Have you considered which research instruments will generate the impact evaluation data and analysis most efficiently?

## Government Functional Standard for General Grants Guidance

	evaluation is cost effective?	b. Have you established that the evaluation is fit for purpose and hasn't been over designed and over resourced?
--	-------------------------------	--

### Who conducts an impact evaluation?

54. The impact evaluation can be conducted either internally by departments or by external parties, depending on the availability of the requisite skills and resources within the Department.
55. If the evaluation is being conducted internally, it is important to consider governance arrangements e.g. reference groups, peer review, challenge panels etc. to ensure that independence can be handled effectively.

### Grants benefits realisation

56. It is important to be able to demonstrate that grants awarded ultimately realise the benefits they set out to achieve.
57. For benefits realisation to work, it is crucial to identify clear benefits (early in the change life-cycle) and to assign ownership to those responsible for planning and managing their achievement.
58. The business case should set out the basis of the investment or change. Business cases must show the value that will be achieved by the proposition in the business case, by identifying *specific* benefits that will be achieved. This is very different from simply having summary statements about planned or targeted financial savings that might be achieved.

### When grants are at risk of failing to deliver benefits

59. Grants can be at risk of failing to deliver benefits if the intended benefits are not clearly considered, defined and designed in to the grants process. Examples of activities that put benefits realisation at risk include:
- business Cases focused on target savings, instead of expressing business benefits in a manner that can be clearly understood and implemented;
  - business Cases that contain high level aspirational goals rather than specific benefits;
  - poor definition of the business goals of projects;
  - too much emphasis on deliverables, or capabilities, which on their own do not result in specific benefits; and
  - no mechanisms or structures in place to manage their realisation.

### Summary

60. In summary, in order to be able to track the realisation of benefits, consideration should be given in the design stage of the grant making process to clearly identify

## Government Functional Standard for General Grants Guidance

what the intended outcomes are, how these will be measured and what success and failure looks like.

61. This will provide valuable information to departments and enable them to make informed decisions going forward such as:
- whether to re-award an applicant additional grant funding based on their track record of performance;
  - whether to continue to grant fund a particular project / organisation over a multi-year time frame based on their demonstrated ability to achieve intended outcomes; and
  - the overall effectiveness of a given scheme in adding value and continuing to departmental objectives.

## General Data Protection Regulation (GDPR)

### What is the GDPR?

62. The General Data Protection Regulation (GDPR) is the new legislation, which came into force in May 25th 2018. It will replace the 1995 Data Protection Directive.
63. GDPR's primary aim is to give control back to citizens and residents over their personal data and to simplify the regulatory environment for international business by unifying the regulation within the EU.
64. GDPR applies if the 'data controller' or 'data processor' is based in the EU. The regulation also applies to organisations based outside the EU if they collect or process personal data of individuals located inside the EU.
65. As this is a new piece of legislation, its impact on Grants is still being assessed by way of a full data audit. Communications will be issued to appropriate stakeholders in due course

### Where can I find out more information?

66. The Information Commission Officer (ICO) will be regulating GDPR and assessing compliance. A guide to their work can be found here:  
<https://ico.org.uk/for-organisations/guide-to-the-general-data-protection-regulation-gdpr/>
67. The general view that has been published by the ICO is that if you are Data Protection Act compliant, the likelihood is that you will have less work to do to also be GDPR compliant.

## **Government Functional Standard for General Grants Guidance**

- 68. Each department will have an allocated Data Protection Officer (DPO). These are currently being appointed. The DPO will be able to offer advice on guidance on GDPR and its impact on individual departments.
- 69. Civil Service Learning is working to retrofit training modules to reflect GDPR wherever necessary.
- 70. The guidance for Standard 2 includes the Privacy Statement, for the Government Grants Information System (GGIS).