

Subsidy Advice Unit Report on a proposed subsidy to Newry, Mourne and Down District Council for the Mourne Mountain Gateway Project

Referred by Belfast City Council

12 January 2024

Subsidy Advice Unit

Part of the Competition and Markets Authority

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1. Introduction

- 1.1 This report is an evaluation prepared by the Subsidy Advice Unit (SAU), part of the Competition and Markets Authority, under section 59 of the Subsidy Control Act 2022 (the Act).
- 1.2 The SAU has evaluated Belfast City Council's (BCC) assessment of compliance, in relation to a subsidy proposed to be given to Newry, Mourne and Down District Council (NMDDC) for the Mourne Mountain Gateway Project (MMGP) visitor attraction, with the requirements of Chapters 1 and 2 of Part 2 of the Act (the Assessment).¹
- 1.3 This report is based on the information provided by BCC in the Assessment and evidence submitted relevant to the Assessment.
- 1.4 This report is provided as non-binding advice to BCC. The purpose of the SAU's report is not to make a recommendation on whether the subsidy should be given, or to directly assess whether it complies with the subsidy control requirements. BCC is ultimately responsible for giving the subsidy, based on its own assessment, having the benefit of the SAU's evaluation.
- 1.5 A summary of our observations is set out at section 2 of this report.

The referred subsidy

- 1.6 BCC is proposing to give NMDDC £30 million in funding for MMGP, a new visitor attraction that will consist of a gondola-style cable car from Donard Park in Newcastle, Co. Down, to a proposed new visitor centre at Thomas Quarry. The subsidy is part of the Belfast Region City Deal (BRCD), a £1 billion investment programme that aims to boost economic growth and job creation in the Belfast region. BCC will be receiving funding for this project from the Northern Ireland Executive's Department for the Economy (DfE) under the agreed terms of the BRCD.
- 1.7 The total capital investment cost of the project is £44 million which, in addition to the £30 million subsidy from BCC, includes a further £14 million contribution from NMDDC. BCC explained in the Assessment that the subsidy does not include any funding for operational costs.

¹ Chapter 1 of Part 2 of the Act requires a public authority to consider the subsidy control principles and, if applicable, the energy and environment principles, before deciding to give a subsidy. The public authority must not award the subsidy unless it is of the view that it is consistent with those principles. Chapter 2 of Part 2 of the Act prohibits the giving of certain kinds of subsidies and, in relation to certain other categories of subsidy, creates a number of requirements with which public authorities must comply.

- 1.8 The subsidy will be provided to NMDDC over the delivery period of the project (2024 to 2030) and will be conditional on the project meeting certain contractual milestones.

SAU referral process

- 1.9 On 21 November 2023, BCC requested a report from the SAU in relation to the subsidy.
- 1.10 BCC explained² that the subsidy is a Subsidy of Particular Interest because its value exceeds £10 million.
- 1.11 The SAU notified BCC on 27 November 2023 that it would prepare and publish a report within 30 working days (ie on or before 12 January 2024).³ The SAU published details of the referral on 28 November 2023.⁴

² In the information provided under section 52(2) of the Act.

³ Sections 53(1) and 53(2) of the Act.

⁴ [Referral of the proposed subsidy for the Mourne Mountain Gateway Project by Belfast City Council - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/news/referral-of-the-proposed-subsidy-for-the-mourne-mountain-gateway-project-by-belfast-city-council).

2. Summary of the SAU's observations

- 2.1 The Assessment is drafted in line with the four-step process described in the Statutory Guidance for the United Kingdom Subsidy Control Regime (the [Statutory Guidance](#)) and as reflected in the SAU's Guidance on the operation of the subsidy control functions of the Subsidy Advice Unit (the [SAU Guidance](#)).
- 2.2 In summary, the following are our main observations:
- (a) Although we consider that the Assessment clearly explains the policy objectives of the subsidy under Step 1, it does not clearly delineate between the market failures and the equity objectives which the subsidy seeks to address. If BCC considers it appropriate to describe a market failure, it should clearly explain what it considers that market failure to be and link it to the policy objectives of the subsidy.
 - (b) In relation to Step 3, we consider that the Assessment could be improved by providing a clearer explanation of how the subsidy is proportionate. In addition, while the Assessment provides some information about factors that might be relevant to an assessment of how the subsidy minimises any negative effects on competition and investment, in our view its explanations lack detail in places and the Assessment would be strengthened if it reached clear conclusions about how negative effects are minimised.
 - (c) BCC has carried out a balancing test under Step 4, weighing up the benefits of the subsidy against its negative effects, and we consider it to have arrived at a well-reasoned conclusion. The Assessment could be strengthened by providing further analysis of any potential effects on international visitor attractions, including in the Republic of Ireland.
- 2.3 Our report is advisory only and does not directly assess whether the subsidy complies with the subsidy control requirements. The report does not constitute a recommendation on whether the subsidy should be implemented by BCC. We have not considered it necessary to provide any advice about how the proposed subsidy may be modified to ensure compliance with the subsidy control requirements.⁵

⁵ Section 59(3)(b) of the Act.

3. The SAU's Evaluation

3.1 This section sets out our evaluation of the Assessment, following the four-step framework structure used by BCC.

Step 1: Identifying the policy objective, ensuring it addresses a market failure or equity concern, and determining whether a subsidy is the right tool to use

3.2 The first step involves an evaluation of the Assessment against:

- (a) Principle A: Subsidies should pursue a specific policy objective in order to (a) remedy an identified market failure or (b) address an equity rationale (such as local or regional disadvantage, social difficulties or distributional concerns); and
- (b) Principle E: Subsidies should be an appropriate policy instrument for achieving their specific policy objective and that objective cannot be achieved through other, less distortive, means.⁶

Policy objectives

3.3 The Assessment refers to the policy objective of the subsidy being 'to sustainably grow the revenue value of tourism in Northern Ireland', by encouraging more visitors to Northern Ireland, who stay longer and spend more. It is explained that the subsidy also seeks to 'spread the economic benefit of that increased tourism market more equitably across the region.'

3.4 The MMGP visitor attraction forms part of the BRCD programme, whose ambition is stated to be the delivery of 'inclusive economic growth that delivers more and better jobs, a positive impact on the most deprived communities and a balanced spread of benefits across the region.' It is noted in the Assessment that the Belfast region suffers from persistently high economic inactivity and low levels of productivity.

3.5 The Assessment explains that the subsidy is also aligned with DfE's longer-term economic vision for Northern Ireland to help deliver 'a positive impact on NI's economic, societal and environmental wellbeing', as outlined in the '*10X Economy*' policy document.⁷

⁶ Further information about the Principles A and E can be found in the [Statutory Guidance](#) (paragraphs 3.32 to 3.56) and the [SAU Guidance](#) (paragraphs 4.7 to 4.11).

⁷ [10x Economy - an economic vision for a decade of innovation | Department for the Economy \(economy-ni.gov.uk\)](#).

3.6 In our view, BCC has set out clearly the policy objectives of the subsidy. However, given the relatively broad nature of the policy objectives, BCC might have considered if the Assessment could have been strengthened overall by expressing the policy objectives more narrowly in a way that focused on the MMGP visitor attraction in particular.

Market failure and equity objectives

3.7 The Statutory Guidance sets out that:

- (a) Market failure occurs where market forces alone do not produce an efficient outcome.⁸
- (b) Equity objectives seek to reduce unequal or unfair outcomes between different groups in society or geographic areas.⁹

3.8 The Assessment outlines that the subsidy would give rise to several ‘positive externalities’, such as job creation, income generation, diversification of income sources, greater accessibility, and environmental preservation / conservation awareness.

3.9 Overall, we consider that the Assessment outlines at least two equity objectives, which are linked to the policy objectives of the subsidy:

- (a) the investment in the MMGP visitor attraction would create ‘a pipeline of sustainable jobs [...] in an area of social and economic disadvantage’ (the Assessment provides good supporting evidence to show that the Belfast region suffers from persistently high economic inactivity and low levels of productivity and, within this, the NMDDC area suffers from particularly high levels of economic inactivity); and
- (b) the gondola-style cable car will provide a new means of transport to access the Mourne Mountains, which will allow visitors ‘of all ages and abilities to safely access and enjoy one of Northern Ireland’s most iconic natural assets.’

3.10 However, in our view the Assessment does not delineate clearly between what is considered to be an equity objective and what is considered to be a market failure. This conflation of objectives makes it difficult to understand in particular what BCC considers to be a market failure.

3.11 For example, the Assessment explains that the tourism industry in Northern Ireland underperforms relative to the rest of the UK and the Republic of Ireland, and that there is a ‘recognised market failure in the area of investment in demand generating tourism attractions.’ The Assessment also explains that there is an

⁸ [Statutory Guidance](#), paragraphs 3.35-3.46.

⁹ [Statutory Guidance](#), paragraphs 3.49-3.53.

imbalance in the distribution of the benefits of tourism within Northern Ireland (with higher tourism spending in the Causeway Coast and Glens area in comparison with the NMDDC area), as well as challenges in recruiting and retaining staff due to the seasonal nature of tourism in the area. These geographic and seasonal imbalances are also described as examples of 'inequity' which the subsidy aims to address.

- 3.12 While the examples of 'positive externalities' identified by the BCC may be benefits of the subsidy and they are prerequisites for the existence of market failures,¹⁰ we consider that the Assessment could have explained more clearly the market failures which BCC found to exist (eg why, in the presence of these externalities, existing market forces were not producing efficient outcomes for society). We consider that the Assessment would be strengthened by clearly explaining what BCC considers to be market failures and linking this to the policy objectives of the subsidy. Alternatively, BCC might consider whether it is necessary to refer to both market failures and equity objectives.

Consideration of alternative policy options and why a subsidy is the most appropriate and least distortive instrument

- 3.13 In order to comply with Principle E, public authorities should consider why the decision to give a subsidy is the most appropriate instrument for addressing the identified policy objective, and why other means are not appropriate for achieving the identified policy objective.¹¹
- 3.14 BCC explained that the policy objective could not be met by pursuing means other than a subsidy. For example, given NMDDC's proposed contribution (of £14 million) and its other commitments, it was explained that it could not repay a loan and service the interest on a loan raised on commercial terms. The Assessment also states that NMDDC would not have been able to increase funding by way of equity, given its status as a public authority without any subsidiaries.
- 3.15 In our view, the Assessment would be strengthened if it provided a more precise explanation of why the MMGP visitor attraction could not be funded, at least in part, using private sector capital. The Assessment could have explained in more detail why NMDDC could not have set up a subsidiary to attract private sector capital.¹²

¹⁰ [Statutory Guidance](#), paragraphs 3.33-3.40.

¹¹ [Statutory Guidance](#), paragraphs 3.54-3.56.

¹² Under Step 3, in relation to proportionality, we say that the Assessment could have considered in more detail whether there were further measures that could have been taken to improve the project's profitability (which, in turn, might have increased its attractiveness to private sources of funding).

Step 2: Ensuring that the subsidy is designed to create the right incentives for the beneficiary and bring about a change

- 3.16 The second step involves an evaluation of the Assessment against:
- (a) Principle C: First, subsidies should be designed to bring about a change of economic behaviour of the beneficiary. Second, that change, in relation to a subsidy, should be conducive to achieving its specific policy objective, and something that would not happen without the subsidy; and
 - (b) Principle D: Subsidies should not normally compensate for the costs the beneficiary would have funded in the absence of any subsidy.¹³

Counterfactual assessment

- 3.17 In assessing the counterfactual, the Statutory Guidance explains that public authorities should assess any change against a baseline of what would happen in the absence of the subsidy (the ‘do nothing’ scenario).¹⁴ This baseline would not necessarily be the current ‘as is’ situation (the ‘status quo’) but what would likely happen in the future – over both the long and short term – if no subsidy were awarded.
- 3.18 Under Step 1, the Assessment explains that NMDDC could not deliver the MMGP visitor attraction without the subsidy. In particular, the private sector would not provide the capital investment required to deliver the MMGP visitor attraction on any scale over the short or long term. The Assessment also notes that alternatives, such as a smaller site, were considered but did not demonstrate value for money or delivery of net benefits.
- 3.19 In our view, the Assessment explains why the MMGP visitor attraction would not be constructed in the counterfactual scenario. It also presents the challenges of using private sector financing (debt in particular) to fund the entire MMGP visitor attraction, and the Assessment considers alternative scenarios in its Outline Business Case (OBC) before discounting them.

Changes in economic behaviour of the beneficiary

- 3.20 The Statutory Guidance sets out that subsidies must bring about something that would not have occurred without the subsidy.¹⁵ In demonstrating this, public authorities should consider the likely change or additional net benefit.

¹³ Further information about the Principles C and D can be found in the [Statutory Guidance](#) (paragraphs 3.57 to 3.71) and the [SAU Guidance](#) (paragraphs 4.12 to 4.14).

¹⁴ [Statutory Guidance](#), paragraphs 3.60-3.62.

¹⁵ [Statutory Guidance](#), paragraph 3.64.

- 3.21 The Assessment states that the investment in the MMGP visitor attraction will only be delivered with the subsidy, and the subsidy will change the beneficiary's behaviour by enabling NMDDC to deliver the MMGP visitor attraction and achieve the policy objectives.
- 3.22 In our view, the Assessment sufficiently demonstrates that the change in the beneficiary's behaviour is the delivery of the MMGP visitor attraction to achieve the policy objectives compared to the counterfactual in which the MMGP visitor attraction is not built.

Additionality assessment

- 3.23 According to the Statutory Guidance, 'additionality' means that subsidies should not be used to finance a project or activity that the beneficiary would have undertaken in a similar form, manner, and timeframe without the subsidy.¹⁶
- 3.24 The Assessment refers to the OBC, which explains that the subsidy will not fund operational costs. The Assessment states that the subsidy will provide a capital grant that funds the initial investment to build the attraction and will cover eligible capital costs from the design development stage to construction, such as professional fees, surveys, statutory fees, and construction costs. The cost estimate was prepared by quantity surveyors based on the concept design and was verified by the Construction and Procurement Delivery team (CPD) (part of the Northern Ireland Executive's Department of Finance) during the OBC approval process to ensure the cost estimates were robust. Furthermore, in its clarification response, BCC stated that the BRCD team undertook a high-level overview of the capital cost estimates to ensure these looked realistic, and CPD undertook a verification exercise on behalf of DfE, which involved an external review of the costs by different professional quantity surveyors.
- 3.25 We consider that the Assessment clearly explains the 'additionality' that the subsidy will provide. The conclusions in the Assessment are supported by the steps taken by BCC to ensure that the capital costs of the subsidy were reasonable and that the subsidy will not fund operating/business-as-usual costs. However, as noted under Steps 1 and 3, the Assessment could have demonstrated that BCC fully exhausted alternative means of partially funding the capital costs.

Step 3: Considering the distortive impacts that the subsidy may have and keeping them as low as possible

- 3.26 The third step involves an evaluation of the Assessment against:

¹⁶ [Statutory Guidance](#), paragraphs 3.63-3.67.

- (a) Principle B: Subsidies should be proportionate to their specific policy objective and limited to what is necessary to achieve it; and
- (b) Principle F: Subsidies should be designed to achieve their specific policy objective while minimising any negative effects on competition or investment within the United Kingdom.¹⁷

Proportionality

- 3.27 The Assessment refers to the financial projections and includes considerations relevant to proportionality in the other review steps (eg references in Step 2 to analyses of ‘an appropriate market price’ for tickets and other revenue sources of the attraction). In our view it would be strengthened if it provided, under Step 3, a more detailed explanation of how the size of the subsidy was determined to be proportionate. In particular, rather than simply describing each of the characteristics of the subsidy, BCC could have provided an examination of whether and to what extent the different subsidy characteristics have been redesigned to ensure proportionality or why a further redesign would not lead to the policy objectives being achieved.
- 3.28 For example, the Assessment could have been improved if it had explained the extent to which any alternative options were considered which might have increased profitability (eg providing an analysis of the likely impact of raising prices on overall profitability), or otherwise to incentivise private sector investment in the project. We consider that the inclusion of such examples would support the conclusion that the size of the subsidy is proportionate to the policy objectives.

Design of subsidy to minimise negative effects on competition and investment

- 3.29 The Assessment provides a description of the subsidy characteristics in line with the Statutory Guidance.
- 3.30 We consider that this description provides a commensurate level of detail in its explanations of the size of the subsidy, the timespan over which the subsidy is given, performance criteria, ringfencing, and monitoring and evaluation. However, in our view, more detail could have been provided in relation to the other subsidy characteristics. In addition, we consider that the Assessment would have been improved if it had included a clearer explanation of how the subsidy was designed to minimise negative effects on domestic competition and investment. For instance, the implications of important aspects related to the subsidy characteristics (such as the selection process which led to the decision to fund

¹⁷ Further information about the Principles B and F can be found in the [Statutory Guidance](#) (paragraphs 3.72 to 3.108) and the [SAU Guidance](#) (paragraphs 4.15 to 4.19).

MMGP)¹⁸ on minimising negative effects, could have been explained in more detail. We also note that the Assessment omits consideration of additional characteristics (eg the relative size of the subsidy)¹⁹ which are relevant for Subsidies of Particular Interest.

Assessment of effects on competition or investment

3.31 The Assessment does not consider market characteristics as set out in the Statutory Guidance. However, we note that such an analysis was carried out during preparation of the OBC²⁰ and that the Assessment refers to some of the conclusions drawn from this analysis under Step 4. We consider that it may have been adequate and commensurate to the size and potential distortive impact of the subsidy to reproduce this analysis under Step 3, conclude on which third parties (if any) may be particularly affected by the subsidy, and consider the relevant market characteristics.²¹

Step 4: Carrying out the balancing exercise

3.32 The fourth step involves an evaluation of the Assessment against subsidy control Principle G: subsidies' beneficial effects (in terms of achieving their specific policy objective) should outweigh any negative effects, including in particular negative effects on: (a) competition or investment within the United Kingdom; (b) international trade or investment.²²

3.33 The Assessment explains that the subsidy is expected to boost the tourism market in Northern Ireland by attracting new visitors and encouraging existing visitors to stay for longer. It highlights that the subsidy will encourage tourism in an area that visitors might previously have overlooked, spreading spending and creating economic opportunities in an area of social and economic disadvantage.

3.34 The Assessment identifies that distortive effects may arise from displacement of visitors from other attractions in Northern Ireland, the rest of the UK, the Republic of Ireland, and other parts of the world. It also references potential negative externalities arising from MMGP, primarily relating to the impact of a major visitor attraction on a rural area and its local infrastructure.

3.35 The Assessment determines that the potential negative effects of the subsidy are outweighed by the socio-economic benefits of the visitor attraction. While acknowledging the likelihood of some displacement of visitors from other

¹⁸ See [Statutory Guidance](#) (paragraphs 3.83 to 3.86).

¹⁹ See [Statutory Guidance](#) (paragraphs 17.7 to 17.20).

²⁰ Appendix 6 - Cogent Review of MMGP OBC.

²¹ See Annex 3 of the Statutory Guidance.

²² See [Statutory Guidance](#) (paragraphs 3.109 to 3.117) and [SAU Guidance](#) (paragraphs 4.20 to 4.22) for further detail.

attractions, it cites the 'Signature Projects'²³ in the 2000s as evidence of previous large-scale investment in Northern Ireland tourism delivering an overall increase in visitor numbers rather than displacing visitors from elsewhere. The Assessment notes a number of mitigations designed to minimise displacement, including comparable pricing to other tourist attractions in Northern Ireland and the Republic of Ireland. Finally, the Assessment suggests that the distortive effects of the subsidy are likely to be small given its size relative to the large and growing tourism markets in Northern Ireland, the rest of the UK, and the Republic of Ireland.

- 3.36 In our view, the Assessment balances the benefits of the subsidy against its negative effects, and we consider it to have arrived at a well-reasoned conclusion.
- 3.37 Although the Assessment states that the MMGP visitor attraction may displace visitors from tourist attractions in the Republic of Ireland and the rest of the world, provides an estimate of this displacement, and notes its potential to create distortive effects, we consider that the Assessment could be improved with some analysis of these potential effects on international visitor attractions, including in the Republic of Ireland.

Other Requirements of the Act

- 3.38 This step in the evaluation relates to the requirements and prohibitions set out in Chapter 2 of Part 2 of the Act, where these are applicable.²⁴
- 3.39 BCC confirmed that it has not found any of the requirements of Chapter 2 to be relevant to its Assessment.

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²³ These included Titanic (Maritime) Belfast and the Giant's Causeway Visitor Centre, among others.

²⁴ [Statutory Guidance](#), Chapter 5.