

Subsidy Advice Unit Report on a proposed subsidy to Mid and East Antrim Borough Council for the Gobbins Phase 2 Project

Referred by Belfast City Council

19 March 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 of its proposed subsidy to Mid and East Antrim Borough Council (MEABC) for The Gobbins Phase 2 Project (the Project), 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 to the SAU by BCC in its Assessment and evidence submitted relevant to that 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 proposed subsidy for the Project should be given, or directly assess whether it complies with the subsidy control requirements. BCC is ultimately responsible for granting 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 MEABC £12.6 million in the form of a direct grant for the Project to enhance and expand the existing The Gobbins visitor experience. 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.
- 1.7 The Gobbins visitor attraction currently consists of a cliff-top walk and a coastal walk. The Project aims to deliver:
 - (a) a staircase structure connecting the two paths to create a loop with increased capacity;
 - (b) a 'welcome hub' with visitor facilities;
 - (c) refurbishment of the cliff top path and a new rope bridge;
 - (d) a virtual reality experience at the visitor centre;

¹ Chapter 1 of Part 2 of the Act requires a public authority to consider the subsidy control principles and 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.

- (e) additional car parking to handle increased capacity; and
- (f) marketing support to promote the southern end of the Causeway Coastal Route (on which The Gobbins is located).

1.8 The total capital investment cost of the project is £13.6 million. In addition to the £12.6 million subsidy from BCC, MEABC is making a £1 million contribution to the project.

SAU referral process

- 1.9 On 31 January 2024, BCC requested a report from the SAU in relation to its proposed subsidy for the Project.
- 1.10 BCC explained² that the subsidy is a Subsidy of Particular Interest because the proposed subsidy for the Project is £12.6 million, which is over the £10 million threshold.
- 1.11 The SAU notified BCC on 6 February 2024 that it would prepare and publish a report within 30 working days (ie on or before 19 March 2024).³ The SAU published details of the referral on 7 February 2024.⁴

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 Gobbins Phase 2 project by Belfast City Council](#)

2. Summary of the SAU's observations

- 2.1 The Assessment uses the four-step structure 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) While the policy objective in the Assessment is clear, in our view it could have been expressed more narrowly, focusing on the Project in particular rather than the overall BRCD programme.
 - (b) The Assessment clearly explains the market failure that this subsidy is intended to remedy. While the Assessment also explains that the subsidy pursues equity objectives, it would be strengthened by providing further evidence to support an equity objective based on the social and economic disadvantage in the MEABC area relative to other areas.
 - (c) The Assessment could be improved if it were to include a more detailed description of the scenario most likely to occur in the absence of the subsidy (ie the counterfactual).
 - (d) The Assessment would be strengthened by providing more information on how the subsidy has been designed to be limited to the minimum necessary, and by concluding more clearly that distortion of competition is expected to be low.
 - (e) The Assessment balances the expected benefits of the subsidy against the potential negatives to arrive at a well-reasoned conclusion.
- 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 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 explains that the subsidy also seeks to 'spread the economic benefit of that increased tourism market more equitably across the region'.

3.4 The Project 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.' The Assessment notes that the Belfast region suffers from persistently high economic inactivity and low levels of productivity.

3.5 While BCC has set out a clear policy objective, it appears to relate to the BRCD tourism and regeneration programme as a whole, rather than to the Project specifically. In our view, the Assessment could have been strengthened overall by expressing the policy objective more narrowly in a way that focused more on the Project in particular.

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).

Market failure and equity objective

3.6 The Statutory Guidance sets out that:

- (a) Market failure occurs where market forces alone do not produce an efficient outcome.⁷
- (b) Equity objectives seek to reduce unequal or unfair outcomes between different groups in society or geographic areas.⁸

3.7 The Assessment describes a market failure arising from the fact that while nearby businesses would benefit from the development of visitor attractions such as the Project which attract more 'out-of-state visitors'⁹ (in the form of increased demand for other services, such as accommodation and hospitality), these businesses do not compensate the attraction for the benefit of delivering these positive externalities. For that reason, the market behaves 'inefficiently for society and does not deliver tourist attractions of scale' in Northern Ireland.

3.8 The Assessment notes by way of context that Northern Ireland has seen low investment in tourism overall, as a legacy of conflict, meaning that its tourism industry is currently driven by a small number of attractions with fewer out-of-state visitors than might otherwise be the case.

3.9 The Assessment identifies a number of equity objectives which are linked to the policy objectives of the subsidy, including that:

- (a) the enhanced visitor attraction and associated higher visitor numbers will create 'a pipeline of sustainable jobs' in an area that has seen large industrial business closures in recent years, within a wider region with persistently high economic inactivity; and
- (b) the investment in the visitor attraction will allow 'visitors of all ages and abilities to safely experience one of Northern Ireland's most iconic natural assets', whereas the coastal path is currently only accessible to visitors who are fit and able bodied.

3.10 In our view, the Assessment identifies a market failure on the basis that an attraction like The Gobbins gives rise to wider benefits for businesses in the region. These would not be fully internalised by the owner of the attraction, which risks disincentivising investment. The Assessment explains that the subsidy will address this by delivering a tourist attraction of a scale that will meet the policy objective.

⁷ [Statutory Guidance](#), paragraphs 3.35-3.48.

⁸ [Statutory Guidance](#), paragraphs 3.49-3.53.

⁹ Meaning any visitors from outside of Northern Ireland.

3.11 The Assessment also identifies a number of inequalities and explains how the subsidy will help to address these. However, the Assessment would be improved with stronger evidence to support an equity objective based on social and economic disadvantage in the MEABC area, relative to other areas.¹⁰

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

3.12 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

3.13 In the Assessment, BCC explains why it considers that the policy objective of the subsidy could not be achieved by means other than subsidy, such as a loan or equity / quasi-equity. In particular, the Assessment considers whether MEABC could have obtained private investment in order to avoid the need for a subsidy.

3.14 BCC states that there are risks associated with projects such as The Gobbins which make ‘investment in visitor attractions of this scale and nature [...] unattractive to the private sector.’ This is supported by a sensitivity analysis prepared by an external consultant. It is explained that there are also additional risks relating to the Project being ‘a high risk engineering project’.

3.15 Moreover, the Assessment explains that MEABC has undertaken ‘soft market testing’ which indicated that there are limited opportunities ‘to secure private sector investment of scale, into new or refreshed tourism projects.’

3.16 The Assessment also notes that MEABC has already contributed £12 million to the existing visitor attraction, and has committed to invest a further £1 million in the Project, in addition to underwriting any future deficits for the capital outlay, maintenance and operating costs.

3.17 In our view, the Assessment provides a clear explanation of BCC’s reasons why the project could not be delivered by way of private investment, such as loans or equity investment. Where appropriate, this reasoning is supported by evidence provided by an external consultant.

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

3.18 The second step involves an evaluation of the assessment against:

¹⁰ [Statutory Guidance](#), paragraph 3.50.

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

- (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.¹²

Counterfactual assessment

- 3.19 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).¹³ 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.
- 3.20 The Assessment states that, without a subsidy, the infrastructure enhancements would not be delivered in the short or longer term and ‘the likely scenario is that [t]he Gobbins continues as it currently operates.’ It explains that ‘current restrictions on the visitor capacities at The Gobbins impact the attraction’s ability to drive revenue and make the attraction self-sustaining.’ The Assessment states that without the investment, the true potential of The Gobbins would remain constrained and this could impact the long-term sustainability of the attraction.
- 3.21 With regard to the possibility of a third party contributing towards all or part of the cost of the project, the Assessment states that, in light of the visitor attraction not being self-sustaining, ‘it seems unlikely the private sector would intervene to provide the level of capital investment required to deliver Phase 2 of this attraction on any scale, over the short or longer-term.’
- 3.22 In our view, the Assessment could be improved by describing in more detail the most likely scenario absent the subsidy so that there is a clear baseline for assessing whether the subsidy creates the right incentives for the recipient and brings about the desired change to achieve the policy objective.¹⁴

¹² 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).

¹³ [Statutory Guidance](#), paragraphs 3.60-3.62.

¹⁴ [Statutory Guidance](#), paragraph 3.58.

Changes in economic behaviour of the beneficiary

- 3.23 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.
- 3.24 The Assessment states that ‘it is only with the benefit of this subsidy that MEABC can deliver the investment in the new infrastructure for [t]he Gobbins Phase 2.’
- 3.25 The Assessment states that, ‘MEABC have committed to contribute the balance of £1m, plus underwriting any future deficits both for the capital outlay, maintenance and operating costs, as well as covering the costs incurred to date to progress the project to the current stage of development.’
- 3.26 The Assessment refers to an external financial review by an external consultant, ‘to ensure affordability across [MEABC’s] capital programme, given [MEABC’s] significant financial commitment to three BRCD projects’; however, no other information is provided in the Assessment about the specific advice given.
- 3.27 In our view, the Assessment explains that the change in economic behaviour which the subsidy is expected to bring about is the delivery of the Project, against a counterfactual where The Gobbins continues as it currently operates.

Additionality assessment

- 3.28 The Statutory Guidance states that ‘it is important for the public authority to establish that the intended change in behaviour supports the specific policy objective being pursued.’¹⁶
- 3.29 Further, 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.¹⁷
- 3.30 With regard to whether the change in behaviour will contribute to the specific policy objective, the Assessment sets out various aims of the Project, including:
- (a) ‘Improving the attractiveness of [t]he Gobbins, the Belfast region and NI to visitors.’
 - (b) ‘[Increasing] the NI share of the tourism market, by encouraging more visitors to decide to visit NI and alter behaviours by staying longer and spending

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

¹⁶ [Statutory Guidance](#), paragraph 3.63.

¹⁷ [Statutory Guidance](#), paragraphs 3.63-3.67.

more and encouraging existing visitors to stay longer and spend more, providing significant benefits to the NI economy.’

- (c) ‘[Establishing] [t]he Gobbins as a strategic, sustainable and regional tourism signature destination ...recognised locally, nationally and internationally and as a focal point for the NI tourism industry.’ The Assessment indicates that the attraction will deliver upwards of 400,000 visitors per year, of which just over half will come from outside of Northern Ireland.
- (d) ‘Addressing inequality in the tourism market in NI by ensuring that there is a greater range of tourism products that will encourage more regional distribution of visitors by developing the southern section of the Causeway Coast Route and thus enhancing the overall tourism offering.’

- 3.31 The Assessment states that the subsidy will not compensate the beneficiary or any third-party operator for costs they would likely have funded themselves. It explains that, ‘without government intervention, the market would not justify the costs to construct a project of this scale and the project would not go ahead.’
- 3.32 In addition, the Assessment states that, ‘the subsidy will cover eligible capital costs, from design development stage to construction such as professional fees, surveys, statutory fees and construction costs.’
- 3.33 With regard to performance criteria, the Assessment states that all grant payments will be made in arrears for eligible expenditure following verification by BCC and will be monitored against achievement of key milestones.
- 3.34 In our view, the Assessment reasonably explains the change in behaviour and how this is expected to support the specific policy objectives being pursued. The additionality requirement is further supported by the fact that the subsidy only compensates for eligible capital costs rather than ongoing costs related to the normal day-to-day of running of The Gobbins.¹⁸

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

- 3.35 The third step involves an evaluation of the assessment against:
 - (a) Principle B: Subsidies should be proportionate to their specific policy objective and limited to what is necessary to achieve it; and

¹⁸ [Statutory Guidance](#), paragraphs 3.66.

- (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.¹⁹

Proportionality

- 3.36 The Assessment provides some information relevant for an assessment of how the subsidy has been designed to be proportionate. For example, the Assessment explains that the Outline Business Case (OBC) evaluated the appropriate market price, which it considered to be at the ‘top end of tourism attractions in NI’ so ‘no further price increases would be possible in order to improve cash generation and profitability.’ Another example provided is that a ‘smaller version of the attraction was considered within the OBC, with no investment in the cliff top path, however this did not demonstrate value for money or delivery of net benefits.’
- 3.37 The Assessment further explains that the contracts for the Project will be ‘procured in line with NI Public Procurement Policy, including verification by Construction and Procurement Delivery (CPD) team [part of the Northern Ireland Executive’s Department of Finance], to ensure value for money and competition on the open market.’
- 3.38 It also describes the findings of soft market testing by MEABC to determine the ‘appetite’ of the market to invest in The Gobbins ‘which found a number of small private attraction operators in NI (most tourist facilities are owned and operated by a Council or the National Trust)’ whereas ‘other operators are primarily focused on catering and hospitality and are more likely to invest in new ventures that support their core business.’ Further, ‘post Covid, operators are more risk adverse and, in the case of Northern Ireland, are more likely to be streamlining their operations rather than looking at new investment opportunities.’ It concludes that ‘this limits the opportunity to secure private sector investment of scale, into new or refreshed tourism projects.’
- 3.39 In our view, the Assessment provides some examples that address the proportionality requirement, including that a smaller version of the project was rejected because it ‘did not demonstrate value for money or delivery of net benefits.’ However, the Assessment would be strengthened by providing more information on the elements of the subsidy (including their costs and revenues) that have been designed to limit it to the minimum necessary. For example, the Assessment could explain, with reference to supporting information in the OBC, how the Project was reduced to the minimum necessary whilst also excluding components with potential commercial interest from private sector organisations.²⁰

¹⁹ 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).

²⁰ OBC, page 114.

Assessment of effects on competition or investment

- 3.40 The Assessment provides a description of certain subsidy characteristics (timespan, performance criteria, the size of the subsidy, ringfencing, monitoring and evaluation) and provides some explanation of how these subsidy characteristics contribute to minimising distortion.
- 3.41 The Assessment provides information on market characteristics in relation to the Project. For example, it identifies relevant third parties and describes the competitive effect of the Project on these third parties in terms of the degree of visitor displacement. It states that whilst the Project will lead to some displacement of visitors from existing key visitor attractions in Northern Ireland, some of these sites (Carrick-a-Rede Rope Bridge, Giants Causeway Coast and Glens, Titanic Belfast) operate at capacity during peak periods. The Assessment states that, 'given the existing capacity pressures at these sites in peak season, the subsidy can help to ease pressure on the existing tourism attractions in NI and spread the tourism benefits throughout the region, minimising the distortive impact of this subsidy.' In addition, the Assessment refers to findings from an external consultant's report that 'whilst there may be small occurrences of displacement, it will not be material at either the NI or individual C&GD²¹ region levels.'
- 3.42 In our view, BCC describes to a reasonable level of detail how the subsidy characteristics minimise distortions on competition. Furthermore, the Assessment refers to relevant information on market characteristics to describe the Project's expected effect on competition. However, the Assessment would be improved by concluding more clearly, on the basis of all information it presents, that distortion of competition is expected to be low because displacement is expected to be minimal.

Step 4: Carrying out the balancing exercise

- 3.43 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
- 3.44 The Assessment sets out the expected benefits of the subsidy. It explains that the Project is expected to improve the attractiveness of The Gobbins which will boost the tourism market by attracting new visitors and encouraging existing visitors to stay longer and spend more in Northern Ireland. It explains that, by developing the

²¹ City & Growth Deal: in Northern Ireland, these are, the Belfast Region City Deal, the Derry City and Strabane City Deal, the Causeway Coast and Glens Growth Deal and the Mid South West Region Growth Deal.

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

southern section of the Causeway Coastal Route, the Project will address the uneven distribution of visitors within the Northern Ireland tourist market.

- 3.45 The Assessment states that potential distortive effects may arise from the displacement of visitors from other tourist attractions within Northern Ireland, other regions of the UK, and the Republic of Ireland. The Assessment also references potential negative externalities primarily relating to (i) congestion and overcrowding, (ii) environmental degradation, and (iii) infrastructure strain.
- 3.46 The Assessment concludes that the potential negative effects of the subsidy are outweighed by the socio-economic benefits of the subsidy. While acknowledging the potential for displacement within the tourism market, as noted above (at paragraph 3.41) the Assessment explains why the effects of such displacement are not expected to be significant.
- 3.47 In our view, the assessment in Step 4 balances the expected benefits of the subsidy against the potential negatives, and we consider it to have arrived at a well-reasoned conclusion.

Other Requirements of the Act

- 3.48 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.²³
- 3.49 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 [Statutory Guidance](#), chapter 5.