



Cabinet Office

# Guidance for General Grants

## Minimum Requirement Four: Business Case Development

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### Important note

- ▶ This guidance applies only to general grants made by departments and their arm's length bodies (ALBs) using Exchequer funding. It does not apply to formula grants or grant-in-aid. [Managing Public Money](#) and local guidance within government grant making organisations is applicable to those categories, and minimum requirements may be developed in future.
- ▶ Organisations' primary concern when administering grants is to have due regard to the 'Grants Functional Standard' (GovS 015) and the key documents referred to within it including [Managing Public Money](#). Nothing in this guidance is intended to contradict or supersede these. Furthermore, this guidance is not intended to be an additional spending control - departments retain accountability for decisions on grant expenditure.
- ▶ This guidance should be read in conjunction with the wider set of minimum requirements guidance documents (including the introduction). Further information and tools supporting this guidance can be found online through the [grants Centre of Excellence \(CoE\)](#). Further references and resources are highlighted throughout. It should also be read alongside organisations' internal guidance, where available, which will provide the departmental policy context.
- ▶ This guidance should be approached on a 'comply or explain' basis. It is important to consider flexibility and proportionality in adhering to the minimum requirements. As such there may be some specific instances where the requirements may not be met in full. In these instances, appropriate justification should be recorded within the business case or equivalent approval documents.

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## Minimum Requirement

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 the grants' approval process, in line with **managing public money**.

## Purpose

**Minimum Requirement Four:** business case development, and the associated guidance set out below, aims to ensure that government grant schemes are developed in line with domestic standards and the principles contained in Managing Public Money, to ensure that funding is used as intended, outcomes are optimised, and performance, expenditure and risk are managed effectively to maximise value for money (VfM). A glossary of financial terminology is included at **Annex A**.

## Grants Functional Standard: Key References

Mandatory requirements are defined by the word **shall** in the grants functional standard. The **shall** statements related to this minimum requirement have been extracted from the standard and are set out below. **Please note:** in some cases, the information has been paraphrased for conciseness, refer to the standard for the full text.

Area	Requirement(s)	Context	Reference	Page
Principles	<p>Those engaged in managing grants at scheme and award level <b>shall</b> ensure:</p> <ol style="list-style-type: none"> <li>1. grants objectives are aligned to government policy and organisational objectives;</li> <li>2. the application of this standard is proportionate and appropriate, and is reflected in the approach taken to governance, management frameworks and controls, having regard to an accepted balance of opportunity and risk;</li> <li>3. grants are made in the best interest of the public, the public purse, and operate in line with Managing Public Money;</li> <li>4. funding is administered with optimum efficiency, economy, effectiveness and prudence, to maximise value for public money;</li> <li>5. responsibilities and accountabilities are defined, mutually consistent, and traceable across all levels of management; and</li> <li>6. public service codes of conduct and ethics and</li> </ol>	<p>The purpose of the government grants functional standard is to set expectations and drive consistency in the management of grants and promote efficient and effective grant making to ensure funding is used as intended and provides value for money through high-quality delivery.</p>	<p>2. Principles</p> <p>Also refer to: <a href="#">HMT Managing Public Money</a> 1.1 Purpose of this government standard</p>	2

Area	Requirement(s)	Context	Reference	Page
	those of associated professions are upheld			
<b>Governance</b>	To facilitate governance and scrutiny, grant activity <b>shall</b> be justified and documented throughout the grant life cycle. Such evaluation should be in accordance with HM Treasury requirements (see Green Book).	Justification may be documented either in the form of a business case or other proportionate format, which should be defined in the organisation's grant governance and management framework.	4.2.2 Justification of grants  Also refer to: 5. Grant life cycle, Green Book 4.2 Decision making	8
<b>Governance</b>	If required, subsequent approval <b>shall</b> be obtained in accordance with HM Treasury, Cabinet Office policy and spend controls and GovS 006, Finance <b>shall</b> be followed.	[As above]	4.2.2 Justification of grants  Also refer to: 5. Grant life cycle, Cabinet Office controls: 2018 4.2 Decision making	8
<b>Grant Life Cycle:</b> General Grants Life Cycle	When developing general grant models and criteria for assessing individuals and organisations for a grant award, consideration <b>shall</b> be given to combinations of risk indicators, which could affect the value of the award, or whether the grant should be awarded at all.	The purpose of design and development is firstly to define the requirement for the use of a general grant as the appropriate mechanism to meet the policy objective, and then to develop a grant model which is robust, proportionate and which will deliver value for money.	5.2.1 Design and development	13
<b>Grant Life Cycle:</b> General Grants Life Cycle	A robust business case (or equivalent document), proportionate to the level of expenditure and risk <b>shall</b> be developed.	The business case (or equivalent document), should be developed progressively for each grant in three steps through the life cycle: <ul style="list-style-type: none"> <li>- strategy;</li> <li>- design;</li> <li>- final approval.</li> </ul>	5.2.1 Design and development  Also refer to: 4.2.2 Justification of grants, Green Book	13

<p><b>Grant Life Cycle:</b> General Grants Life Cycle</p>	<p>Once a business case has been developed, it <b>shall</b> be approved where it meets the requirements of the organisation's governance and approvals process.</p>	<p>[As above]</p>	<p>5.2.1 Design and development</p> <p>Also refer to: 4.2.2 Justification of grants Green Book</p>	<p>13</p>
Area	Requirement(s)	Context	Reference	Page
<p><b>Governance:</b> Assurance</p>	<p>It is recommended that new grants, which are high-value, high-risk, novel, contentious or repercussive, should be considered by an independent panel (the Complex Grants Advice Panel) to provide advice from experts on the efficiency and effectiveness of the proposed grant and the balance of opportunities versus risks associated with losses from fraud and error. Referral to the panel is <b>mandatory</b> for new grant schemes that are referenced in the government's manifesto commitments.</p>	<p>The Complex Grants Advice Panel is an independent, cross-government panel of experts, co-ordinated and chaired by the Cabinet Office, responsible for providing advice and recommendations on design and administration for applicable schemes, to the senior officer responsible for a grant.</p>	<p>4.3.2 New general grants.</p> <p>Also refer to: 4.5.1 Complex Grants Advice Panel</p>	<p>9</p>
<p><b>Supporting practices:</b> Risk and issue management</p>	<p>Organisations <b>shall</b> ensure effective risk management is established in their assurance and governance processes.</p>	<p>Risk registers should be defined, maintained and regularly reviewed by the organisation's senior officers who are accountable for grant activities.</p>	<p>6.1 Risk and issue management</p>	<p>18</p>
<p><b>Supporting practices:</b> Counter Fraud</p>	<p>An assessment of fraud risk <b>shall</b> be undertaken for every scheme proportionate to the value, sector and required activity of the scheme, and supported by mitigating actions appropriate to the identified risks.</p>	<p>The purpose of this approach is to ensure that government grant funding in respect of policy delivery and the purchase or improvement of assets is awarded safely and used for its intended purpose.</p>	<p>6.2 Counter fraud</p>	<p>19</p>

<p><b>Supporting practices:</b> Document management and record keeping</p>	<p>Information shall be retained to meet statutory and government requirements, in accordance with organisational information retention policies and legal requirements.</p>	<p>Document management and record keeping ensures necessary information, documentation, data and other records (both physical and electronic) are securely stored, distributed and retrievable when needed to support and evidence grant management practices.</p>	<p>6.6 Document management and record keeping</p>	<p>21</p>
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## Overview

1. The business case provides justification for the funded activity and facilitates appropriate and proportionate governance and scrutiny. It provides consideration of the existing arrangements, the business needs and a proposal for change. It is a key means of demonstrating that funding is administered with optimum efficiency, economy, effectiveness and prudence, to maximise value for public money – see sections 4.2.1, 4.2.2 and 5.2.1 of the grants functional standard.
2. The business case should be proportionate to the level of expenditure and associated risk, and contain estimates of: costs, benefits, risks and timescales, against which continuing viability is tested.
3. HMT Business Case Templates are available on the grants Centre of Excellence but Departments may require the use of versions developed for internal use, so check with your Grants Champion, if you're not sure which template to use.
4. Every business case, regardless of the value of the grant scheme or the associated risk, should include information on the following at a minimum:
  - purpose;
  - strategic context;
  - case for change;
  - options analysis;
  - preferred option;
  - funding and affordability;
  - management arrangements;
  - risks to delivery of the intended outcomes; and
  - justification for key decisions such as the chosen funding route, direct awards and the decision as to whether or not to refer the scheme for review by the Complex Grants Advice Panel (CGAP).

This business case should be:

- a. raised during the early stages of scheme development, at the policy formation stage – strategic development;



- b. continually reviewed and developed and used to inform each stage of the department's grants governance process;
  - c. approved in line with the organisation's governance and approvals process (refer to [Minimum Requirement Two: Governance, Approvals and Data Capture](#)) prior to running an application process or awarding a grant; and
  - d. updated throughout the grant lifecycle to reflect material changes since approval, subject to re-approval as appropriate.
5. The senior officer responsible for a grant (SOR) is responsible for justifying the grant and actively managing risk, before and during the grant scheme's implementation. Monitoring and evaluation reports on financial and delivery matters in relation to the scheme, should be owned by the SOR. Refer to [Minimum Requirement One: Senior Officer Responsible for a Grant](#), which is in accordance with HM Treasury guidance in [The Green Book](#).
  6. Business case development is likely to require input from a range of professions including policy, finance and commercial, in addition to expert input from subject experts such as legal, economists and other analysts. You may refer to [Minimum Requirement Ten: Training](#) for further guidance on capabilities, training and support.
  7. A business case development toolkit to support grant-making organisations can be found on the [grants Centre of Excellence \(CoE\)](#).
  8. New, high-risk, novel, contentious or repercussive schemes should be referred to the CGAP for review. The business case should record: the decision taken to refer (or not to refer) the scheme to the CGAP, advice given from a referral, and the department's response to the advice. Refer to [Minimum Requirement Three: CGAP](#) for further information.

## Business Case Overview

### Green Book Methodology

9. The methodology set out in the Green Book brings together: the approach to appraising public value with the Cabinet Office, the Infrastructure and Projects Authority (IPA) project assurance, and the latest commercial standards and procurement methodologies from the Crown Commercial Service (CCS). It also supports HM Treasury spending scrutiny and approval processes.
10. All grants business cases should be developed to be proportionate to value of the investment and level of risk (see paragraphs 11-12), adhere to the principles of the Green Book and to the evidence-based five case model.
  - **Strategic case:** provides evidence that the proposal is supported by a compelling case for change that provides a holistic fit with the relevant policy objectives.
  - **Economic case:** provides evidence that the proposal delivers public value to society.

- **Commercial case:** demonstrates a viable procurement route between public sector and its service providers which provides value for money.
- **Financial case:** provides evidence that the proposal is affordable.
- **Management case:** provides evidence that what is required from all parties involved in the proposal is achievable.

**Proportionality**

11. The type and format of business case or equivalent document capturing the justification of the grant activity should be proportionate to the value of the investment and level of risk.

12. With proportionality in mind, below is an illustrative table setting out the type of information that might be included in a grant business case according to different values and levels of risk.

**Note:** this 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 HMT approval required for individual grant schemes.

**Business case requirements:**

Grants below £100,000 and Low Risk	Grants £100,000 - £5 million and/ or High Risk	Grants above £5 million
Approved by the organisation's Financial Business Unit.	Approved by senior finance business partner, via the organisation's investment committee in some cases (depending on value and risk), and any other internal regulations, with input from the CGAP where required.	Approved by senior finance business partner, via the organisation's investment committee in some cases, (depending on value and risk profile) and any other internal regulations, with input from the CGAP where required.  Approved by HMT if appropriate. Please see note to table above

Specific requirements:	Further requirements:	Further requirements:
<ul style="list-style-type: none"> <li>• Named SOR/ 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>• Subsidy controls.</li> </ul>	<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>	<ul style="list-style-type: none"> <li>• Green Book based business case, requiring more robust evidence.</li> </ul>

**Note:** the table above is an articulation of what is required, with each value category building on the last, aggregating to schemes with a value of £5 million plus, covering all the requirements set out, under each of the three values.

### Funding mechanism

13. There are a number of different funding mechanisms available to organisations such as contracts, grants, endowments, loans and other financial instruments. It is important that these mechanisms are assessed, at an early stage, in order to ensure that the appropriate mechanism is chosen to deliver the required policy outcomes, so that government funds are used effectively, efficiently and transparently in compliance with Managing Public Money.
14. The most appropriate funding mechanism should be explored at the strategic outline case (SOC) and finalised at the outline business case (OBC) stage of business justification, with a preferred option identified. The determination will be made in advance of the final business case (FBC), put forward for funding approval, and the decision should be clearly evidenced and justified within the case.
15. Key considerations include the policy aims, objectives and outcomes, together with an assessment as to whether the chosen mechanism provides sufficient scope to deliver the outcomes within the timeframe and funding available. For more detailed guidance on funding mechanisms, please refer to the **Grants and Alternative Funding Options** guidance note available on the grants [Centre of Excellence](#).

### Early market engagement

16. Early market engagement is the process of contacting organisations external to government to gather information, which can help inform the design and development of grant schemes. This does not imply commercialisation of the grant process, but rather, is about raising awareness of opportunities with relevant organisations and to gain insights into the design of the grant scheme, to take account of the needs of organisations in the delivery sector, and to increase the chances of successful

delivery. Care must always be exercised to avoid giving any form of competitive advantage to any organisation through this engagement. Transparency is critical, for example, retaining an audit trail of the process, documenting the minutes of meetings, or transcripts from discussions, sharing key information via guidance for applicants and ensuring the assessment criteria do not include unreasonable restrictions, which could rule out some organisations or unfairly favour others.

17. Early market engagement will be particularly useful in developing the business case because it will help:

- increase understanding of and publicise the potential benefits of the scheme;
- develop clearer requirements and criteria to inform potential applications;
- increase understanding of the required value of the scheme and assist with funding optimisation;
- increase understanding of how funding and activity should be apportioned across the delivery period;
- manage the application and approval process, taking account of applicant needs;
- identify innovative solutions to deliver the policy objectives; and
- identify potential risks and issues related to the delivery model and mechanisms.

18. Further guidance on early market engagement can be found in [Minimum Requirement Two: Governance, Approvals and Data Capture](#).

## Responsibilities

19. The responsibility for developing the policy response and producing the business case must be retained by the organisation and owned by the senior officer responsible (SOR) – see [Minimum Requirement One: SOR for a grant](#).

20. Each stage of business case development should be fully approved by the SOR before proceeding to the next stage. For example, the SOR will be required to approve the strategic outline case, outline business case and full business case stages in sequence, ahead of submission to internal governance and approval at each stage (for more detail see the governance diagram found in [Minimum Requirement Two: Governance, Approvals and Data Capture](#)). This will include referral to the internal investment committee for applicable high-value, high-risk schemes, in line with the organisation's defined processes and financial limits.

21. It is the SOR's responsibility to ensure all appropriate information is included within the business case before submission to the relevant governance body and approval to move to the next stage.

## Key Considerations

### Value for money (VfM)

22. Value for money is the optimal use of resources to achieve intended outcomes. In this instance, optimal means the most desirable possible, given expressed or implied restrictions or constraints. Value for money is not about achieving the lowest possible cost.<sup>1</sup> The principles of VfM should be considered throughout the grant lifecycle. It should be actively considered and built into the scheme's design, from the early stages of design and development, through performance monitoring, to final reconciliation and impact evaluation. In order to justify the investment, the business case should define expected VfM and set appropriate metrics and plans for monitoring and evaluating progress against these.
23. Clearly defining, monitoring and evaluating VfM can prove challenging. However, it is important to note that without defining milestones, performance indicators and outcomes (wherever possible) within the business case, and subsequently in the grant agreement, it becomes extremely difficult to measure or evaluate the impact of a scheme, including short, medium and long-term impact, as appropriate. This presents significant risks to assessing the VfM of delivery, in line with the calculations in the original business case. These calculations should be revisited after delivery commences, to test whether the assumptions in the business case were accurate. VfM metrics should be identified in the design and development stage, to ensure that data sources are identified and data capture requirements clearly defined in the grant agreement, to support delivery monitoring, financial reconciliation and the evaluation of impact.
24. Wherever appropriate and particularly for high-value, high-risk, novel, contentious or repercussive schemes, cost-efficiency measures and indicators should be clearly defined at the outset, as part of the business case and delivery framework, to enable a view on VfM throughout the scheme's life. The knowledge and experience of the SOR and their team, undertaking the development of the business case, needs to be appropriate to enable the drafting of the economic case, including drawing on expertise from the finance function. It is recommended that where available, economists are involved in the drafting of the economic case, including undertaking VfM calculations at the appropriate stages.
25. In cases where the extension of an existing general grant funding arrangement is being considered – where such an extension is built into to the design of the scheme, including guidance and the grant agreement terms and conditions - the benefits achieved through activity delivered to date, under the existing award, should be assessed against their costs, to calculate VfM and inform the decision on the award of further funding. In cases where an award is heavily influenced by its perceived alignment to policy, the assessment of VfM should not be bypassed in the appraisal of alternative funding options. This will ensure that expenditure is directed to achieving the identified policy outcomes.

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<sup>1</sup> National Audit Office has published guidance on assessing value for money here: the [www.nao.org.uk/successful-commissioning/general-principles/value-for-money/](http://www.nao.org.uk/successful-commissioning/general-principles/value-for-money/).

26. In cases where grants have failed to achieve their intended purpose, and consequently failed to be assessed as achieving VfM, consideration should be given to identifying and learning lessons, through the formal impact evaluation, and through internal debriefing activity, to identify any weaknesses in the scheme's design. Evaluation findings should be made available across the organisation to ensure that similar schemes do not repeat any mistakes identified.
27. For larger programmes where delivery follows a standardised approach, it is good practice for a pilot phase to be initially deployed, time permitting, to assist with understanding the relative costs and benefits of the programme. This will enable more accurate quantification of the value of a potential longer-term delivery period, following and learning from the pilot phase.
28. Post-programme scheme and award impact evaluation and monitoring reports, produced during the delivery lifecycle, should directly refer to any VfM indicators that are outlined in business case. The impact evaluation should directly comment on financials, to ensure that suggested VfM strategies outlined during the design and development phase of a scheme, are not ignored.

### Value for Money (VfM) case study

The fund for 'specialist accommodation-based support and service reform' to help local areas meet the national statement of expectations with regard to domestic abuse provides 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 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 which would equate to a total cost of £48m.
- The annual fund of £7m will cover the untreated cases, therefore, offering 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.

29. The case study below provides an explanation of some of the challenges in identifying and monitoring VfM in the context of general grants. Nonetheless, the entities have sought to identify and articulate the VfM derived from the delivery of the scheme.

### Cost benefit analysis

30. The purpose of the economic dimension of the business case is to develop a scheme that delivers the best VfM, including wider social and environmental effects. Demonstrating value requires a wide range of realistic options for the grant scheme,

to be appraised (the long-list), in terms of how well they meet the spending objectives and critical success factors for the scheme; and then a reduced number of possible options (the short-list), to be examined in further detail. These options should then be subjected to cost benefit analysis (CBA) to identify the option that offers best value to society.

31. The CBA should provide a net present social value (NPSV) which demonstrates the present value of a stream of future costs and benefits to UK society that have been discounted over the life of a grant scheme by the social time preference rate.
32. The concept of proportionality should be considered when undertaking CBA for grant scheme options.

### Optimism bias

33. Optimism bias should always be considered when developing a business case. It 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 being set.
34. To redress this tendency, scheme owners should make explicit, empirically based adjustments (based on data and observations from past or similar projects), to the estimates of a project's costs, benefits, and duration. This should provide a better estimate of likely capital costs, where applicable, and the duration of the delivery period. [The Green Book guidance document](#) provides further information on optimism bias.

### Grants benefits management

35. Consideration should be given in the design and development stage of the grant lifecycle to clearly identifying the intended policy outcomes, how these will be measured and evaluated, and what success and failure looks like. This will ultimately enable the department to determine (and demonstrate) the overall effectiveness of a scheme's delivery and impact, and will provide valuable information to support subsequent decisions such as whether to continue to fund a scheme or recipient over a multi-year period and whether to award additional grant funding, subject to the rules and guidance in place for individual schemes.
36. Any cost benefits should be clearly identified at the design and development stage, with owners assigned to plan and manage their realisation. Specific benefits should be captured in the business case, which should also set out plans for monitoring and evaluating the benefits (refer to the [Minimum Requirement Eight: Performance and Monitoring](#) for further information).
37. While it will not always be possible to define measurable outcomes, there are a number of issues that can contribute to a grant failing to deliver its intended benefits. These can include:
  - business cases focused on target savings instead of expressing intended benefits or outcomes in a manner that can be clearly understood and implemented;

- business cases that contain high-level aspirational goals, or poorly defined goals, rather than specific, measurable and achievable benefits or outcomes;
- too much emphasis on deliverables, or capabilities, which on their own do not result in specific benefits or outcomes;
- a lack of plans in place for managing and realising benefits or outcomes; and
- poor fraud and risk management.

## Competition

38. The default position for government general grants is to offer the opportunity to apply for funding via a competition. Competition is vital to maximising value for money and cost effectiveness, as well as in reducing risk. As a comparison, within contract procurement the benefits of competition are proven to outweigh the costs, with studies showing that increasing competition results in a 2-15% reduction in cost for the same output. However, competition is not always appropriate for grant funding and exceptions can be approved, subject to a robust rationale, approved at the appropriate level in the organisation.
39. Further guidance on competition including subsidy control is available in [Minimum Requirement Five: Competition for Funding](#), and in the GGMF guidance note on how to increase competition in grants, available to download from the [grants Centre of Excellence](#).

## Risk management

40. Risk management is defined as a structured approach to managing risks that are identified and assessed when designing an intervention or which materialise later in the lifecycle. To optimise social value, risk must be consciously and proportionately managed - the risk management approach should be outlined in the management case of the business case.
41. In relation to risk management, the business case should:
- identify potential risks in advance and put controls in place to minimise the likelihood of the risks materialising;
  - capture agreed risks and controls in a risk register;
  - include the costs of risk avoidance, transfer and mitigation;
  - provide an assessment of how specific risks may be avoided, minimised or managed and by whom; and
  - assess fraud risks.
42. Public sector organisations should assess the risk of fraud at the scheme level and have a documented assessment of risks and mitigations, using the Fraud Risk Assessment template, available from the [Public Sector Fraud Authority](#) (PSFA).
43. Further guidance on risk and controls is available in [Minimum Requirement Seven: Risk, Controls and Assurance](#).



## Approvals

44. Approval should be provided in line with the department's governance process, management framework, financial management controls and government policy. Decisions should be taken by appropriate individuals or investment committees with the necessary delegated authority, and expert membership, according to the complexity and the level of risk of the scheme and the associated decisions.
45. While decisions may be made throughout the business case development lifecycle, it is expected that key approvals would take place prior to making significant commitments, such as deploying resource or awarding funding and exposure to risk, for example, a decision should be made on the outline business case (or other justification) - prior to launching the scheme.
46. Approval decisions should be based on accurate, up-to-date information with input from functional experts - such as grants policy, financial, commercial, legal, fraud - as appropriate and should be justified and recorded in the business case (or equivalent document). Further guidance on approvals is available in the Green Book guidance and also in [Minimum Requirement Two: Governance, Approvals and Data Capture](#).

## Dear Accounting Officer (DAO) Letter

47. A DAO letter was issued by HMT on 19 May 2016 as a result of a Public Accounts Committee (PAC) recommendation into the Kids Company. The action was to ensure an Accounting Officer gives due consideration to proposed funding, when a department is asked by another part of government to pay a grant to an external organisation, such as a charity, from its own resources. Departments must take account of the content of the 2016 DAO letter at the business case development stage, when allocating grant funding under the conditions described. More information on DAO letters, can be found here:

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

48. 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>

## Monitoring, analysis and evaluation

49. Plans for monitoring and impact evaluation should be part of the development of a grant scheme business case from the start. They are important to ensure successful implementation and the responsible, transparent management of funding. Guidance on conducting impact evaluation is contained in the [Magenta Book](#).

## Early Impact Analysis

50. It is advisable for departments to carry out some form of early-stage impact analysis to go through the outcomes of the activities being funded. This will help develop the strategic element of the business cases and will also help ensure the scheme's purpose and defined outcomes align with departmental policy objectives, and are ultimately realistic. It is recommended that departments use their social research teams (or equivalent) for advice on this area.
51. Impact analysis assesses the changes that can be attributed to a particular intervention, such as a project or programme, in terms of both the intended and unintended impacts.
52. In contrast to outcome monitoring (see [Minimum Requirement 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 the delivery of an intervention.
53. It is worth noting that impact evaluation can and should be carried out at both the grant award and scheme levels, to ensure a holistic view.

## Impact Evaluation

54. Impact evaluation helps answer key questions for evidence-based decision making such as 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 design of the grant making process.
55. The business case should use impact evaluation as a method of demonstrating there is a strong, evidence-based case for change. Impact evaluation should be seen in the wider context of stressing the importance of evidence-based decision making and used for both monitoring and evaluating the results of the delivery of grant schemes. Managing for results means focusing on outcomes (what is being achieved) and inputs (how much money is being spent).
56. A properly designed impact evaluation can answer the question of whether the project or programme 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.
57. By identifying if a grant scheme or project is working or not, impact evaluation also serves the accountability function. Therefore, the impact evaluation should be aligned with results-based management and monitoring of the contribution of grant funding towards meeting government policy outcomes.
58. Evidence of the effectiveness and impact of projects and programmes can help make departments more accountable to Parliament and to citizens and, where relevant,

partner country governments and organisations. The impact evaluation takes place throughout the grant making process, commencing in the design and development phase and should continue for an extended length of time, following programme completion, when perceived benefits are expected on a much longer-term basis.

## Further Resources

59. In line with this minimum requirement, and in addition to the references and resources highlighted earlier in this guidance, organisations may want to consider the following in particular:

- business case development toolkit for grant making organisations to produce high-quality business cases which can be accessed via the grants Centre of Excellence (link below); and
- Green Book guidance documents:

Optimism Bias	<a href="http://www.gov.uk/government/publications/green-book-supplementary-guidance-optimism-bias">www.gov.uk/government/publications/green-book-supplementary-guidance-optimism-bias</a>
Green Book	<a href="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</a>
Developing Project Business Cases	<a href="https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/749086/Project_Business_Case_2018.pdf">https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/749086/Project_Business_Case_2018.pdf</a>
HMT Checklist for Assessing Business Cases	<a href="https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/935527/Green_Book_guidance_checklist_for_assessing_business_cases.pdf">https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/935527/Green_Book_guidance_checklist_for_assessing_business_cases.pdf</a>
NAO Guidance on Assessing VfM	<a href="https://www.nao.org.uk/successful-commissioning/general-principles/value-for-money/assessing-value-for-money/">https://www.nao.org.uk/successful-commissioning/general-principles/value-for-money/assessing-value-for-money/</a>
Grants Centre of Excellence	<a href="https://gcoe.civilservice.gov.uk/sign-in/">https://gcoe.civilservice.gov.uk/sign-in/</a>

## Annex A: GLOSSARY

This glossary has been drawn from definitions in various government publications including the [Green Book](#) and [Managing Public Money](#) and therefore updates to those publications may not be immediately reflected in this guidance.

<b>Affordability</b>	An assessment of the costs of an intervention to the public sector taking into account current and expected future budgets.
<b>Allocative efficiency assessment</b>	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.
<b>Appraisal</b>	The process of defining objectives, examining options and weighing up the relevant costs, benefits, risks and uncertainties before a decision is made.
<b>Benefits management</b>	The process for identifying, defining, tracking, realising and optimising benefits
<b>Business case</b>	A management tool that records the current state of evidence and thinking concerning the development approval and implementation of a proposal. It supports the processes of scoping, analysis, appraisal, planning, monitoring, evaluating, approval and implementation of a proposal and is the repository for the evidence base.
<b>Business Justification Case (BJC)</b>	A single stage business case, using the Five Case Model, for the delivery of relatively low level spend for which firm prices are available.
<b>Cost Benefit Analysis (CBA)</b>	Analysis which compares the costs and benefits of alternative options from the standpoint of society, including social values derived according to the principles of welfare economics.
<b>Economy</b>	Minimising the costs of inputs used while having regard for quality.
<b>Effectiveness</b>	The systematic assessment of an intervention's design, implementation and outcomes.
<b>Efficiency</b>	A measure of the extent to which a project, programme or policy's associated throughputs are increased.
<b>Evaluation</b>	Evaluation is the systematic assessment of an intervention, its design, implementation and resulting outcomes both during implementation and, most importantly, afterwards.
<b>Five case model</b>	A systematic framework for the development and presentation of the business case, comprised of the strategic, economic, commercial, financial and management dimensions of the Case.
<b>Full Business Case (FBC)</b>	The completed business case and third stage in the development of a business case for a significant project, which identifies the most economically advantageous offer following procurement, confirms affordability and puts in place the detailed arrangements for successful delivery.
<b>Impact Analysis</b>	Impact analysis assesses the changes that can be attributed to a particular intervention, such as a project or programme, both in terms of the intended and unintended impacts.
<b>Impact Evaluation</b>	Impact evaluation attempts to provide a definite answer to the question of whether an intervention was effective in meeting its

	objectives. Impact can in principle be defined in terms of any of the outcomes affected by a policy (e.g. the number of job interviews or patients in treatment), but is most often focused on the outcomes which most closely match with the policy's ultimate objectives (e.g. employment rates or health status).
<b>Net Present Social Value (NPSV)</b>	The present value of a stream of future costs and benefits to UK society (that are already in real prices) that have been discounted over the life of a proposal by the social time preference rate.
<b>Optimism bias</b>	The proven tendency for appraisers to be over-optimistic about key project parameters, including capital costs, operating costs, project duration and benefits delivery.
<b>Options appraisal</b>	The process of defining objectives, examining options and weighing up the costs, benefits, risks and uncertainties of those options before a decision is made.
<b>Outline Business Case (OBC)</b>	The 'intermediate' business case and second stage in the development of a project business case, which identifies the option offering best public value, confirms the Deal and affordability, and puts in place the arrangements for successful delivery prior to taking a procurement to the market.
<b>Strategic Outline Case (SOC)</b>	The 'early' first stage in the development of a project business case for a significant project, which makes the case for change and appraises the available long list to produce a short list of options.
<b>Value for Money (VfM)</b>	Securing the best mix of quality and effectiveness for the least outlay over the period of use of the goods or services bought. It is not about minimising up front prices. Whether in conventional procurement, market testing, private finance or some other form of public private partnership, finding value for money involves an appropriate allocation of risk.