**GRANT ASSISTANCE TO THE PRIVATE, VOLUNTARY AND COMMUNITY SECTORS – CONSIDERATION OF THE QUALITY OF MANAGEMENT AND ORGANISATIONAL STRUCTURE IN THE ASSESSMENT OF VIABILITY**

**Introduction**

1. A number of Divisions in DETI provide financial assistance to the private, voluntary and community sectors through the payment of grant. This guidance is intended to amplify existing DFP guidance on the assessment of viability at the appraisal process.

**Public Accounts Committee Context**

1. Considerations of viability arose in the Public Accounts Committee (PAC) hearing on the Bioscience and Technology Institute (BTI). BTI was established in 1998 with the primary objective of providing biotechnology incubator facilities through the development of a specialist building at Belfast City Hospital. The company was funded by a combination of public funds and debt. BTI received public funds of approximately £2.2 million over the period 1999 to 2002 from the Department; from two of its affiliated bodies (the Industrial Development Board and the Industrial Research Technology Unit); and from the International Fund for Ireland. The project did not achieve its stated objectives and the company never established the specialist fitted out building that was key to their achievement. BTI is technically insolvent and the £2.2 million funding provided to the company will be irrecoverable.
2. The PAC report recommended that:

“When providing substantial sums of financial assistance to organisations like BTI, DETI and Invest NI must ensure that comprehensive corporate governance structures are in place and are fully functional when the project starts. This must include ensuring that the Board itself possesses the appropriate range and level of skills and experience.”

1. DETI and DFP responded as follows:

“DETI and Invest NI accept this recommendation and agree with the Committee that comprehensive corporate governance structures should be in place and be fully functional at the start of the project when substantial sums of financial assistance are being provided to organisations like BTI. This is in line with the Northern Ireland Guide to Expenditure Appraisal and Evaluation which requires an assessment of viability including consideration of the proposed organisational structure and the relevant skills and experience of the key management personnel. The structures and skills and experience should be proportionate to the organisation. Governance structures will evolve in line with the development and growth of the body.”

**DFP Guidance**

1. Comprehensive guidance on the appraisal of expenditure proposals is provided by the Department of Finance and Personnel in the Northern Ireland Guide to Economic Appraisal and Evaluation (NIGEAE) <http://www.dfpni.gov.uk/index/finance/eag.htm>
2. The guidance contains a section entitled “Appraising Assistance to the Private, Voluntary and Community Sectors”. The sub section on “Viability” is reproduced at **Annex A**. Essentially this requires the viability of a firm or organisation to be assessed to help ensure that projects do not fail prematurely. Such assessment includes analysis of anticipated cash flows, planned financing, marketing and management arrangements, current financial position and the quality of management.

**Factors to Consider**

1. NIGEAE refers to the appraisal process being undertaken with appropriate and proportionate effort and this concept is also important in the assessment of viability. The Department’s response to the PAC report on BTI referred to the organisational structure and the skills and experience of key management personnel being proportionate to the organisation. The PAC report also referred to organisations in receipt of “substantial” sums of financial assistance.
2. Thus the skills and experience of the management of a small start up organisation which is seeking a relatively small amount of public sector funding would not be as developed as a more mature organisation which is seeking substantial public funding. It is difficult to provide a definitive definition of what level of funding constitutes “substantial”. As a rule of thumb, however, it is expected that where DETI proposes to provide funding in excess of £500,000, which will result in the project being considered by the DETI Casework Committee, an assessment of management and organisational structures should be made.
3. **Annex B** sets out a number of factors that should be taken into account when assessing the structure and management (including management systems) of a firm or organisation.

**Approach**

1. It will be up to each Division engaged in the provision of financial assistance to determine how it approaches this assessment. For smaller projects it is possible that sufficient expertise may be available in house. For larger projects external professional support may be required.
2. Whatever approach is taken it is important that the assessment of viability is documented. The Department’s Accountability and Casework Branch and Analytical Support Unit are available to provide advice if required.

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# ANNEX A

# 4.5 Viability

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| 4.5.1 | Project viability should be assessed to help ensure that public money is not wasted on projects that will fail prematurely. There should be evidence of sound business planning, which requires thorough analysis of:   * the anticipated cash flows, and * the planned financing, marketing and management arrangements. |
| 4.5.2 | In cases where the aims are primarily economic, assistance should be given only to firms which are themselves considered to be viable. This requires appraisal of:   * the firm's financial position; and * the quality of its management,   both in general terms and with specific regard to those charged with carrying out the project. Any previous track record may help to inform judgement of viability. |
| 4.5.3 | If assistance is awarded, it should generally be just sufficient to enable the project cash flows including subsidy to satisfy commercial investment criteria. In these cases, a viable project is one which, having received assistance on a once for all basis, is expected to earn sufficient profits to be self-sustaining without continuing subsidies other than those available as of right to all eligible enterprises. There should be a strong presumption against projects receiving assistance more than once, because this would encourage grant-dependency and poor management in both the assisted firm and the responsible Department. |
| 4.5.4 | In the case of financially-assisted projects pursued primarily for social or environmental rather than economic aims, the viability criterion applies less strictly, to the extent that such projects need not be expected to achieve overall financial profitability. However:   * any commercial elements of social or environmental projects should still be expected to achieve financial profitability; and * in all cases it should be confirmed that there is sound business planning and specifically that adequate arrangements for finance and management are in place. |

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| 4.5.5 | Sustainability should be considered. Where funding is awarded for a limited period, consideration should be given to a suitable 'exit strategy'. In particular, the assumptions about subsequent funding should be made clear. If it is assumed that funding will continue, confirmation of agreement to this should be provided from the relevant funding body. |
|  | Business Plan |
| 4.5.6 | Applications for grant assistance should generally be supported by a Business Plan in addition to an Economic Appraisal, covering the following key elements:  **Management Plan**  The key management personnel, their roles, their relevant experience and qualifications, and the proposed organisational structure should be identified and explained fully.  **Financial Projections**  The estimated financial costs and revenues arising from the proposal should be set out year-by-year over its life. This should be disaggregated to show all individual cost and revenue items. All financial assumptions should be stated.  A financial NPV should be calculated and viability should be assessed by reference to the commercial returns achieved by comparable businesses facing a similar level of risk. Currently the normal range of rates is 5-10% but rates as high as 15% may be appropriate for the very highest risk businesses.  **Funding Plan**  The financial position of the applicant should be analysed, including assessment of its ability to contribute own funds to the proposal. Where applicable, the most recent statement of accounts should be supplied.  All sources of funding should be identified, including names of relevant funding bodies, the corresponding amounts of funds, and their phasing. The status of each funding application should be indicated e.g. Confirmed, Awaiting, Response, etc.  **Marketing Plan**  The current and projected market for the planned products or services should be assessed. Specific planned marketing activities should be identified and costed.  **Monitoring and Evaluation Plan**  The proposed arrangements for monitoring and evaluation should be explained, including who will do these activities, what factors will be examined and when.  **Gateway Reviews**  In larger projects, the Department responsible for the assistance may wish to mandate the application of the Gateway Review process as an effective assurance mechanism. |

**ANNEX B**

## MANAGEMENT AND CONTROL

The purpose of this section is to provide information to form a judgement on the Management and control of the company which is of relevanceto the commercial assessment.

### Ownership

Provide an analysis of the main shareholdings in the company, including the parent company, if this is of relevance.

If the company is part of a group, indicate the position of the company in the overall structure by way of a chart.

### Directors and Key Management

Provide a brief pen picture of the key directors and senior managers in the company.

Check with Analytical Services Unit to determine whether any of the key directors and senior managers have been disqualified from being a director. Analytical Services Unit has access to a database which contains a wide range of information on limited companies including company accounts, returns, details of disqualified directors etc.

Check with the Insolvency Service to determine whether any of the key directors and senior managers are undischarged bankrupts. The contact is Chris Nesbitt 028 9054 8504 or extension 48504 if on the network. Details of individuals who have entered into an individual voluntary arrangement (IVA) with their creditors are on the Insolvency Service section of the DETI internet site at <http://www.detini.gov.uk/deti-insolvency-index/insolvency-iva-register.htm>.

### Management Assessment

Using your experience form a judgment and comment on the overall competence of management.

Refer to any management assessment carried out by BIS and any training programmes agreed with them.

In the case of family companies, or in other companies withreliance on key individuals, has the company addressed management succession?

Does the company have Key Man Insurance, or is there a need for this to be taken out.

Comment on the organisational structures which ensure the optimum performance of management.

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### Management Information Systems

Provide an outline of the management information system within the company, with emphasis on the information which management relies upon to make decisions.

The following should be covered:

(i) Budgetary/Forecasting System

(ii) Costing System

(iii) Monthly Management Accounts

(iv) Treasury/Cash Management Systems

(v) Measures of material and labour efficiency not formally part of financial reporting system

(vi) Sales Reporting & Management System

(vii) Extent of integration of financial systems.

Indicate whether these form part of the regular financial reporting system.

Comment on the adequacy of such systems, bearing in mind any likely increase in the scale of activity.