Summary: Intervention and Options

Cost of Preferred (or more likely) Option (in 2019 prices)			
Total Net Present Social Value	**Business Net Present Value**	**Net cost to business per year**	
-£19.4m	-£2.09m	0.01	

At Bill Stage Impact Assessment, the government identified and, where appropriate, monetised the potential costs and benefits associated with the Subsidies or Schemes of Interest and Particular Interest Regulations and included these within the estimation of costs.

Under the government's preferred option for the Subsidies of Interest and Particular Interest definition, the estimated costs are substantially similar to the costs estimated at Bill Impact Assessment Stage. The government has therefore not produced an additional Impact Assessment as the impacts have already been captured within the estimates in the Bill Stage Impact Assessment.

To aid Parliamentarians in their scrutiny of these regulations, and to present in depth analysis of a greater range of options the **government has published this document as standalone analysis rather than as a formal Impact Assessment**. The Impact Assessment template is used to aid understanding for Parliamentarians who may be familiar with this format for analysing the impacts of regulations.

What is the problem under consideration? Why is government action or intervention necessary?

The Subsidies or Schemes of Interest (SSoI) and Particular Interest (SSoPI) regulations determine which subsidies or schemes have access to an independent review by the newly established Subsidy Advice Unit. For SSoPI this review will be mandatory; for SSoI this will be optional.

These regulations are designed to add an additional layer of non-binding independent scrutiny for a small number of subsidies where there may be a potential for substantial negative effects on domestic competition or investment and /or on international trade and investment. Accordingly, they further ensure that these subsidies comply with the Subsidy Control Principles and therefore minimise these effects as far as possible.

What are the policy objectives of the action or intervention and the intended effects?

The regulations have been made on the basis of a clear set of objectives. Specifically:

- That only those subsidies or schemes which may potentially pose a substantial risk of negative effects on domestic competition or investment, and/or international trade and investment are subject to review; and
- That the criteria are clear and easy for public authorities to interpret and apply

The first objective reflects the intended effect that the negative impacts of these subsidies are minimised and once minimised that these are offset by benefits. The second reflects the intended effect that this first effect is achieved whilst minimising the administrative cost to businesses and public authorities.

What policy options have been considered, including any alternatives to regulation? Please justify preferred option (further details in Evidence Base)

At Bill stage Impact Assessment, the Department for Business, Energy and Industrial Strategy (BEIS) considered non-regulatory options to manage the potential substantial risk of negative effects on domestic competition or investment, and / or international trade and investment[1]. BEIS has also consulted on specific and detailed options for the approach to Subsidies or Schemes of Interest and Particular Interest[2]. In broad terms the options considered were:

- A 'do nothing' counterfactual option – where no regulations are made, and no subsidies are reviewed other than those called in by the Secretary of State through their powers in the Subsidy Control Act
- A do minimum option – where criteria are set narrowly to capture very few (less than 5) subsidies or schemes per year
- A preferred option – where criteria are based on the monetary value, sector and category of subsidy (and capture 26 per year)
- A do maximum option – where criteria are set wider to capture many more (greater than 50) subsidies or schemes per year

Across these options we have considered, through the consultation, further sub-options with greater detail on how regulations will be defined and function in practice. We have analysed the impacts of features of these regulations that may lead to costs for public authorities and businesses to 'identify' whether a subsidies or scheme fits within the definitions of SSoI and SSoPI.

There is a trade-off between detailed specific criteria that may be costly to administer but more precisely capture subsidies where a review may be more warranted, versus simpler criteria that may fail to capture the 'right' subsidies. Under the preferred option the government believes the right balance is struck between simplicity and ensuring that the thresholds and criteria capture the subsidies and schemes for which a review of the public authorities' assessment against the principles is most warranted.

Is this measure likely to impact on international trade and investment?		Yes		
Are any of these organisations in scope?	**Micro: Yes**	**Small: Yes**	**Medium: Yes**	**Large: Yes**
What is the CO_2 equivalent change in greenhouse gas emissions? (Million tonnes CO_2 equivalent)		**Traded: NA**	**Non-traded: NA**	

I have read the analysis and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the leading options.

Signed by the responsible Minister: Jane   Date: 22/08/2022

[1] https://bills.parliament.uk/bills/3015/publications see pp 50 - 63 of 14th March 2022 Subsidy Control Bill Impact Assessment

[2] https://www.gov.uk/government/consultations/subsidies-and-schemes-of-interest-and-of-particular-interest

Summary: Analysis & Evidence

Preferred Option

Description:

FULL ECONOMIC ASSESSMENT

Price Base Year 2019	PV Base Year 2020	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low: -65.4	**High: -8.6**	**Best Estimate:** -20.8

COSTS (£m)	**Total Transition** (Constant Price)	Years	**Average Annual** (excl. Transition) (Constant Price)	**Total Cost** (Present Value)
Low	0.0		1.0	**8.6**
High	0.0		7.6	**65.4**
Best Estimate	0.0		2.4	**20.8**

Description and scale of key monetised costs by 'main affected groups'

The majority of the costs (£15.8m in the central scenario) fall on the government for financing the Subsidy Advice Unit (SAU) to undertake reviews. There are £2.7m for public authorities to undertake in depth assessments of SSoI and SSoPI. Finally, there are costs (£2.2m in the central scenario) for a small number of potential recipients for monitoring the process, and potentially receiving independent expert counsel on the implications of the process.

Other key non-monetised costs by 'main affected groups'

We have identified potential changes in judicial costs across each of the affected groups identified above – these are likely to be small, and may be positive or negative depending on the impact of the regulations on judicial case load.

BENEFITS (£m)	**Total Transition** (Constant Price)	Years	**Average Annual** (excl. Transition) (Constant Price)	**Total Benefit** (Present Value)
Low	0.0		0.0	**0.0**
High	0.0		0.0	**0.0**
Best Estimate	0.0		0.0	**0.0**

Description and scale of key monetised benefits by 'main affected groups'

It was not possible or appropriate to monetise any of the benefits of the SSoI and SSoPI process. This is because they depend on the specific nature of subsidies and schemes that public authorities choose to award and it is not possible or appropriate to predict or model these over any appropriate appraisal period.

Other key non-monetised benefits by 'main affected groups'

The key benefit to the SSoI and SSoPI process is more effective, and more efficient subsidies achieved through increased scrutiny. The nature of these benefits will depend on the subsidies awarded by public authorities, but across all subsidies are likely to include positive effects on domestic competition or investment and/or international trade or investment. These benefits will impact society as a whole, including businesses that compete with recipients, consumers and the broader economy.

Key assumptions/sensitivities/risks	**Discount rate**	3.5

As the benefits could not be monetised there is a risk that the definition of SSoI and SSoPI capture too few or too many subsidies. There is a related risk that the definition may be too simple or too complex to accurately capture subsidies where the SSoI and SSoPI process is net beneficial. The government has mitigated these risks by conducting sensitivity analysis and putting in place an extensive monitoring and evaluation plan.

BUSINESS ASSESSMENT (Preferred Option)

Direct impact on business (Equivalent Annual) £m:		
Costs: 0.0	**Benefits:** 0.0	**0**

Evidence Base

Problem under consideration and rationale for intervention

1. When used effectively, subsidies can have clear benefits as they can improve the ability of a public authority to deliver a policy objective that addresses a market failure or equity rationale. However, as they influence investment and market decisions, all subsidies have the potential to lead to negative effects on domestic competition or investment and/or international trade or investment. There is a clear rationale for intervention because these impacts of a subsidy 'spill over' and affect the broader UK economy, and its relationship with trading partners, not just the public authority and recipient directly involved in the subsidy[1].
2. For the majority of subsidies, the requirements and principles set out in the Subsidy Control Act[2] provide a clear framework to assess these spillover effects, minimise where possible and to assure that subsidies are not awarded where there is not sufficient evidence of net benefit.
3. For a small number of subsidies and subsidy schemes, there is a greater potential of negative spill over effects on domestic competition or investment and/or international trade or investment. These subsidies may have greater potential for negative effects, because of their impact on recipient and competitors' behaviour and because of the market conditions of the recipient[3]. For these subsidies, the greater potential for negative effects provides a rationale for a further level of independent scrutiny of the public authorities' assessment against requirements and principles set out in the Subsidy Control Act.
4. As these potential negative effects are mitigated by the public authorities' assessment of compliance against the Subsidy Control Act, these regulations will primarily and directly place requirements on a small number of public authorities who award or make subsidies or schemes captured by the definition of Subsidies or Schemes of Interest (SSoI) or Particular Interest (SSoPI). The regulations will place indirect requirements on recipients of these subsidies or schemes, who may have to provide additional administrative information or look to seek independent advice on the project's compliance, and all public authorities that award any subsidy who may have to familiarise themselves with the guidance and develop administrative processes to ensure that their subsidies or schemes do not meet the relevant criteria where appropriate.

Rationale and evidence to justify the level of analysis used in the document (proportionality approach)

5. The analysis in this analytical document is informed by the evidence base presented and received as part of the consultation on the Subsidy Control Bill, Bill Stage Impact Assessment and Consultation on Subsidies or Schemes of Interest and Particular Interest.
6. This document updates the analysis included in the Bill Stage Impact Assessment, on the Subsidies or Schemes of Particular Interest. As the definition of Subsidies or Schemes of Particular Interest was yet to be set out when the Bill Stage Impact Assessment was published, the analysis presented at that stage relied on early policy

[1] As these regulations impact public authorities rather businesses directly the rationale for intervention can be seen as a 'government failure' rather than a market failure (for a rationale on incentives and 'spillovers' for public authorities see for example, Persson, T., & Tabellini, G. (1992). *Federal Fiscal Constitutions: Part 1: Risk Sharing and Moral Hazard*. IIES.)
[2] https://bills.parliament.uk/bills/3015
[3] https://www.oxera.com/insights/agenda/articles/state-aid-competition-economic-framework-european-commission/ and http://www.oft.gov.uk/shared_oft/reports/comp_policy/oft750.pdf

assumptions about the number and nature of subsidies or schemes captured. This analytical document removes this uncertainty by analysing the specific impact of the SSoI and SSoPI regulations alongside specific policy options.

7. As the Subsidies of Interest and Particular Interest process is a new feature of the UK's domestic subsidy control regime and there are no direct international comparators, it was not possible to directly measure the relevant impacts of the regulations. In lieu of this, BEIS has used the following types of evidence:

   - Consultation responses from and engagement with the public and effected stakeholders – public authorities and potential recipients of subsidies and legal and economic experts.
   - Academic and practical evidence related to subsidies and other competition areas.
   - Standard cost modelling, and evidenced-based assumptions taking precedent from previous Impact Assessments and related analysis.

8. Using these evidence sources, it was possible to estimate, quantify and monetise the associated costs of each of the options. As it was not possible to directly measure the relevant impacts, BEIS has used a broad range of evidence and has applied generous sensitivity testing to demonstrate the full range of costs. These costs have been quantified and monetised in accordance with Green Book and Better Regulation Framework guidance – a 10-year appraisal period is used with a 2019 Price Base Year discounted to a 2022 Present Value Base Year.

9. As identified in the Bill Stage Impact Assessment the benefits of the SSoI and SSoPI process are broad and will differ for each subsidy or scheme being assessed. The process adds two additional layers of scrutiny: public authorities will be encouraged via guidance to undertake a further in-depth assessment of compliance against the principles and the Subsidy Advice Unit (SAU) will provide independent scrutiny of this assessment. Both stages will strengthen the public authorities' understanding and assessment of how the subsidy or scheme in question complies with the relevant subsidy control principles. This has the direct impact of reducing the likelihood of challenge, and should increase investor confidence in government projects. Indirectly it may lead to better designed subsidies, which are more effective at meeting their policy objective whilst minimising the costs including potential negative effects on domestic competition or investment and/or international trade or investment. In extreme cases, some subsidies or schemes where these negative effects are unlikely to outweigh the costs may even be reconsidered by the public authority altogether following the SSoI and SSoPI process. In effect the process is likely to increase the net benefits associated with the individual subsidies or schemes that are captured within the SSoI and SSoPI process.

10. It is not possible or appropriate to quantify or monetise these broad benefits, because the benefits relate to the impact the regulations have on the costs and benefits of the subsidies that are actually awarded, rather than the costs and benefits directly associated with the regulations. Whilst the government believes that these benefits will be proportional to the size of the subsidy and the potential for negative effects associated with the subsidy, there are challenges associated with quantifying these impacts:

    a. The regulations are not prescriptive about the specific subsidies that are allowed or not allowed so a direct link cannot be drawn. Moreover, it is hard to predict future government/public authority policy over any appropriate evaluation period and harder still to predict how this may change with respect to any feature of these regulations. This means that the largest impacts are highly uncertain and indirect, and it has not been possible to quantify these impacts.

    b. Even if the link between these regulations and subsidies awarded could be established, it is hard to evaluate the impacts of the regulations as a whole because in many cases it is difficult to establish causation and predict the impact of an alternative scenario. Rodrik (2004)[4] explains that this is because the objectives of an individual subsidy are usually to do with broad economic factors – such as availability of skilled labour or productivity – and it is not possible to evaluate regimes and associated regulations whilst also controlling for these factors.

11. The use of qualitative descriptions for the broad, societal, and macroeconomic changes stemming from overarching rules and regulations is standard in government analysis. This is because the level of uncertainty and challenge to disaggregate causal impact means that quantitative assessments can be misleading. This analysis follows the precedent of the Impact Assessment for the creation of the Competition and Markets Authority (CMA)[5],which used qualitative descriptions to describe the expected impact from changes in regulation or oversight.

12. In light of this difficulty in assessing the benefits, BEIS has set out a robust Monitoring and Evaluation section of this analytical document and the Bill Stage Impact Assessment.

Description of options considered

13. As part of the consultation on the definition of SSoI and SSOPI the government set out several overall approaches alongside a preferred option. In broad terms the options considered are summarised in the following table:

Table 1

Option	**Description**	**Number of unique subsidies or schemes per year captured**
Do nothing counter factual option	No regulations are made, and no subsidies are reviewed other than those called in by the Secretary of State through their powers in the Subsidy Control Act	0
Do minimum option	Definition is based on very high monetary thresholds and minimal additional criteria	5 total across SSoI and SSoPI
Preferred option	Definition is based on the monetary value, sector and category of subsidy	26 total – across 15 SSoPI and 11 SSoI
Do maximum option	Definition is based on a lower threshold with many additional criteria	50 total across SSoI and SSoPI

14. Subsidies can be awarded as standalone subsidies or as part of scheme, which may allow multiple subsidies within scheme-level criteria and parameters. As set out in the Subsidy Control Act for schemes, referrals are made once at scheme level and subsidies

[4] Rodrik, D. (2004). Industrial Policy for the Twenty-First Century. Discussion Paper No. 4767. Centre for Economic Policy Research.
[5] https://www.legislation.gov.uk/ukpga/2013/24/impacts/2013/1066

can be awarded underneath this scheme as normal without need for further referral as long as they meet the criteria and parameters of the scheme. We have therefore counted each unique scheme or standalone subsidy as one referral for the purposes of estimating volumes captured by each of the broad options analysed.

15. At consultation, the government proposed an overall approach that takes into account that subsidies in different categories will differ in their potential to be substantially distortive, while establishing a clear set of rules for public authorities. This approach is comprised of three main parts that are designed to balance these objectives:

- General £ value thresholds for SSoI and SSoPI which apply in the majority of cases
- A specific lower SSoPI £ threshold for subsidies which concern sensitive sectors
- 'Category' based criteria which define some types of subsidy as Subsidies of Particulat Interest or Subsidies of Interest regardless of £ value

16. The government included a sectoral approach at consultation stage, rather than rely solely on one or several monetary thresholds, to identify subsidies that have the potential to be distortive based on available evidence, including historic WTO cases[6], past theoretic[7] and case study evidence[8] on subsidies as well as current Green Book guidance[9]. These provide clear evidence that subsidies awarded within certain sectors (such as aerospace and steel) and those with certain market and design characteristics – such as the size and level of concentration of the market relative to the size of the subsidy, and whether the subsidy is open to all competitors or just a single enterprise – have the potential to be substantially distortive, both to competition or investment within the UK and / or to international trade and investment. The government proposed the use of monetary thresholds at consultation stage to ensure that the criteria for identifying SSoPI's are clear and easy for public authorities to interpret and apply. The regulations set out the monetary thresholds that will determine whether a subsidy is a Subsidies of Interest or a Subsidy of Particular Interest:

- Subsidies granted outside of sensitive sectors are Subsidies of Particular Interest if they are over £10 million.
- All other subsidies of between £5 to £10 million which do not meet the Subsidy of Particular Interest criteria are Subsidies of Interest.
- In addition, the government has proposed lower monetary thresholds for subsidies granted in sensitive sectors, which will be Subsidies of Particular Interest if they are over £5 million, as these subsidies can be assumed to be more likely to have a distortive effect than those of an equivalent value granted outside of sensitive sectors.

17. Recognising their unique characteristics, the government has developed a bespoke approach for rescue and restructuring subsidies. Restructuring subsidies will be Subsidies of Particular Interest, given the higher risk of market distortions that may be consequent to government intervention in such cases.

18. All rescue subsidies will be Subsidies of Interest for the same reason - but taking into account that, because an enterprise may almost certainly go out of business without the expedited receipt of a rescue subsidy, mandatory referral may not be appropriate in all

[6] https://www.wto.org/english/tratop_e/dispu_e/dispu_agreements_index_e.htm

[7] https://www.oxera.com/insights/agenda/articles/state-aid-competition-economic-framework-european-commission/ and http://www.oft.gov.uk/shared_oft/reports/comp_policy/oft750.pdf

[8] https://ec.europa.eu/competition/publications/ex_post_evaluations.html

[9] https://www.gov.uk/government/publications/green-book-supplementary-guidance-competition

cases. The government will set out in guidance an expectation that rescue subsidies should be referred to the SAU wherever feasible.

19. Regarding subsidy schemes, if the parameters of the scheme allow a subsidy award to be given under that scheme that meets the definition of a Subsidy of Particular Interest then that scheme will be defined as a Scheme of Particular Interest. Similarly, a scheme which would allow a subsidy award of a Subsidy of Interest is defined as a Scheme of Interest. For example, if a scheme allowed subsidy awards of above £10m then that scheme would be a Scheme of Particular Interest.

20. In broad terms the government has three clear alternatives to the proposal set out at consultation stage, a 'do nothing' option a 'do minimum' option and a 'do more option'. These options have been identified in accordance with Green Book guidance on options analysis.

21. The Act does not require the Secretary of State to make regulations defining SSoPI and SSoI, and therefore the 'do nothing' option is to not define SSoPI and SSoI. Under this option no subsidies or schemes would systematically be required or have the option to be referred to the SAU. The SAU would only carry out referrals made as part of the SoS call in power set out in the Subsidy Control Act. As set out in the Green Book we use the 'do nothing' option as the counterfactual baseline, from which we compare the costs and benefits of the alternative options.

22. The 'do minimum' option is based on a definition for SSoI and SSoPI that has higher monetary thresholds and minimal additional criteria such as specific requirements for subsidies in different sectors or categories. This broad option would capture less than 5 subsidies or schemes per year across SSoI and SSoPI.

23. The 'do maximum' option is based on making a definition for SSoI and SSoPI that would be more expansive – such as lower monetary thresholds and further additional criteria such as specific requirements for subsidies in different sectors or categories. This broad option would capture more than 50 subsidies or schemes per year across SSoI and SSoPI.

24. Whilst each of these broad options could theoretically include a number of specific 'sub options' each with different monetary thresholds and criteria, the costs of each sub option will be proportional to the volume of subsidies and schemes captured by the definitions. BEIS has therefore grouped together these sub options into broad options based on the volume of subsidies or schemes captured and therefore the volume of impacts.

25. BEIS has considered and presented separately in this analytical document further analysis for features of the criteria or regulations where additional 'identification' impacts have been identified. In particular this covers:

- The use of £ value thresholds
- The application of cumulation rules
- The application of the Sensitive Sectors Test
- Definitions based on the category of subsidy in question such as Rescue, Restructure and Relocation Subsidies
- Subsidies of Interest design features

Policy objective

26. The government has developed the approach and criteria proposed in the consultation and considered the alternative options on the basis of a clear set of objectives. Specifically:

    - That the criteria capture only those subsidies or schemes which may potentially pose a substantial risk of negative effects on domestic competition or investment and/or international trade or investment and are therefore more likely to benefit from a review by the SAU.
    - That the criteria are clear and easy for public authorities to interpret and apply.

27. These objectives may compete in practice. Overly simple criteria would not take into account the occasionally complex nature and features of subsidies that might increase their likelihood of distorting competition or investment within the UK and / or international trade or investment; more complex criteria, however, that varied depending on the exact circumstances of each individual subsidy would be complicated for public authorities to navigate and may lead to uncertainty on their part over whether a subsidy or scheme is captured by the criteria.
28. The government recognises this trade-off and believes that the approach described in the consultation and set out in the regulations strikes the right balance between simplicity, on one hand, and ensuring that the thresholds and criteria capture the subsidies and schemes for which a review of the public authorities' assessment against the principles is most warranted, on the other.

Summary and preferred option with description of implementation plan

29. Based on evidence set out in this analytical document and accompanying Consultation Response, the government has retained the preferred option set out in the consultation (as described in the previous section). This approach strikes the right balance between simplicity and ensuring that the thresholds and criteria capture the subsidies and schemes for which a review of the public authorities' assessment against the principles is most warranted.
30. The government will implement this preferred option through secondary legislation with accompanying guidance to help public authorities navigate the criteria and requirements when awarding subsidies and making schemes.
31. In the interim period the awarding of subsidies and schemes will continue to be undertaken under the interim regime[10] that has been in place since January 1.
32. After implementation, consistent with provisions in the Act, subsidies will still be able to be granted under 'legacy schemes' – that is, schemes that were established prior to the regime's commencement[11]. Neither these schemes nor individual subsidy awards given under them will be subject to the SAU referral process. Certain modifications – known as 'permitted modifications' may be made to these legacy schemes without requiring any further assessment or referral – however, other modifications of the scheme may require it to be assessed against the relevant subsidy control principles as an entirely new scheme[12].

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[10] Guidance on this regime is found here: https://www.gov.uk/government/publications/complying-with-the-uks-international-obligations-on-subsidy-control-guidance-for-public-authorities/technical-guidance-on-the-uks-international-subsidy-control-commitments
[11] See section 48 of the Subsidy Control Act.
[12] See section 81 of the Subsidy Control Act.

33. Consistent with the rest of the Subsidy Control regime public authorities awarding subsidies or making schemes will be responsible for the ongoing application of the SSoI and SSoPI definitions. The SAU will be responsible for the application of the referral process, and the review of referred subsidies or scheme assessments. Enforcement of the regulations will be undertaken by the Competition Appeals Tribunal (CAT) consistent with the provisions in the Subsidy Control Act.
34. To enable the definitions to be tested against the experience on actual cases, and based on up-to-date evidence, BEIS has developed a robust monitoring and evaluation plan. This will allow the application, process and outcome of the regime, including these regulations, to be reviewed no later than 3 years after implementation and in regular periods afterwards.

Monetised and non-monetised costs and benefits of each option (including administrative burden)

35. At Bill Stage Impact Assessment the government identified and where possible quantified and monetised the costs and benefits associated with the SSoPI and SSoI process. Specifically, the government has used a unit cost approach to identify and monetise the benefits that for all the government, through public authorities and to finance the operation of the SAU and for potential recipient businesses.

36. This analytical document has also considered additional administrative costs to public authorities and potential recipient businesses associated with specific features of the definition. In particular this covers:
    - The use of £ value thresholds
    - The application of cumulation rules
    - The application of the Sensitive Sectors test
    - Definitions based on the category of subsidy in question such as Rescue, Restructure and Relocation Subsidies
    - Subsidies of Interest design features

Unit Costs

37. Following the methodology and evidence presented at the Bill Stage Impact Assessment, the costs and benefits identified in the previous section have been analysed first by identifying the ‘unit cost’ per SSoI or SSoPI and then by scaling these costs by the volume of SSoI or SSoPI under each option.
38. At the Bill Stage Impact Assessment we identified several costs that fall on public authorities giving or making SSoI or SSoPI, a small number of businesses who may be potential recipients of SSoI or SSoPI and the government who funds the SAU that will review SSoI or SSoPI. Whilst the SSoI process is voluntary on behalf of both public authorities and the SAU, it is not possible or appropriate to model the behaviour of public authorities or the SAU over any appropriate appraisal period. As a conservative assumption we assume that all SSoIs will be referred and that the SAU will accept all of these referrals – wide sensitivities are modelled to account for this uncertainty. The unit cost per SSoI is therefore estimated to be the same as the cost per SSoPI.
39. Since publishing the Bill Stage Impact Assessment, the government has consulted on the approach to SSoI and SSoPI[13]. We have used evidence from this consultation to bolster the evidence base used to calculate the unit costs and sense check the approach taken.

[13] https://www.gov.uk/government/consultations/subsidies-and-schemes-of-interest-and-of-particular-interest

40. The cost per subsidy or scheme that goes through the SSoI or SSoPI process is estimated to be £93k in the central scenario with £173k and £49k as sensitivities in undiscounted 2019 prices. These costs primarily fall on the government, for financing the SAU, which make up £71k of the costs in the central scenario. The cost for public authorities per SSoI or SSoPI is estimated to be £12k in the central scenario with the cost for potential recipient business estimated to be £10k. The unit cost estimates described in more detail in the following sub-sections for each of the relevant parties are summarised in the following table:

Table 2 Cost per SSoI or SSoPI in 2019 £ terms

		Central	Low	High
Cost for government: public authorities	Familiarisation costs	£80	£46	£104
	Administrative costs	£10,989	£6,698	£13,698
	Cost to interact with SAU	£967	£590	£1,206
	Potential judicial costs	Not monetised	Not monetised	Not monetised
	Total	**£12,037**	**£7,334**	**£15,008**
Cost for potential recipient businesses	Familiarisation costs	£89	£71	£106
	Legal and monitoring costs	£9,742	£6,190	£16,846
	Potential judicial costs	Not monetised	Not monetised	Not monetised
	Total	**£9,831**	**£6,261**	**£16,952**
Cost for government: SAU	Salary	£44,237	£22,118	£88,473
	Overhead	£6,249	£3,124	£12,498
	Contingency	£20,194	£10,097	£40,388
	Total	**£70,680**	**£35,340**	**£141,359**
Total Costs	**Total**	**£92,547**	**£48,934**	**£173,319**

41. The following sub-sections describe the cost estimates and related methodology for each of the unit costs identified in the above table, the next sections use these unit costs to estimate the cost of each option based on the volume of Subsidies or Schemes of Interest and Particular Interest associated with each option.

Unit Cost for government: public authorities

42. The government has estimated the unit cost for public authorities following the same methodology set out at the Bill Stage Impact Assessment. The government has identified the following costs for public authorities associated with Subsidies or Schemes of Interest and Particular Interest Process:

a) Familiarisation costs associated with understanding the requirements of the Subsidies or Schemes of Interest and Particular Interest Process
b) Administrative costs related to undertaking a more-in depth assessment of compliance against the principles ahead of referral.
c) Cost to interact with SAU during the referral process
d) Potential judicial costs for recommending an additional process.

43. We follow the Standard Cost Model for familiarisation and administrative costs for public authorities. As the SSoI and SSoPI process only applies to a small number of subsidies[14] it is assumed that only public authorities and businesses that award or are awarded subsidies will familiarise themselves with the guidance specific to the SSoPI Process. We use the same wage assumptions in the low, central, and high scenarios as set out in the Bill Stage Impact Assessment[15]. Specifically, as a central estimate for the grade, it is assumed that it would be Grade 7 (G7) Civil Servants that would familiarise themselves with the guidance. For sensitivities we have assumed that this would be Higher Executive Officer (HEO) for the lower bound and Grade 6 (G6) as an upper bound. Salaries have been uplifted by 21.72 percent to account for non-wage costs[16]. The equivalent hourly rate is calculated by taking the uprated median salary, dividing by 52.2 (weeks in a calendar year) and dividing by the number of full-time hours (assumed to be 37 per week). Whilst the exact details of the further detailed assessment will be set out in guidance, the current Green Book guidance[17] has been taken as an illustration for the length of guidance and we have sense checked this against the current internal draft of the guidance. We assume that it takes 75 words per minute to be familiar with this guidance taking the low point of the technical guidance estimates provided in the Business Impact Target Appraisal Guidance. We have adjusted the familiarisation costs upward to take into account the additional guidance needed to identify whether to refer SoI based on their design features following the methodology paragraph 106. Evidence from the consultation on SSoPI and SSoI also confirmed that familiarisation costs are likely to be small and in line with these estimates, under the preferred option. There was at least 77% agreement with the overall approach proposed (17 out of 22 respondents who answered the questions in the overall approach section agreed with each question), which included simplicity and clarity as key objectives for the definition of SSoPI and SSoPI. Taken together these assumptions lead to a cost of £80 per subsidy in the central assumption for the cost to public authorities and £46 and £104 for the sensitivities.

44. For the administrative cost the time taken per in-depth assessment is taken from an OECD survey of competition impact assessments that currently apply across the OECD[18] – a figure of 0.17 FTEs is taken from this source. Whilst this is not a direct international comparison to the SSoPI and SSoI process, this data source is used as the requirements are similar to the in-depth assessment recommended for SSoPI and SSoIs and there is no similar evidence base on the time taken to undertake the similar UK specific competition assessments that currently exist. To apply this time figure to the UK context we assume that the central, high and low wage per year is consistent with paragraph 43. A 21.72% wage uplift is applied to this to account for accommodation and related non-labour costs. Using these assumptions the administrative burden for undertaking further technical assessments of the principles is £12k per subsidy in the central scenario, with £7k and £15k as the low and high scenarios respectively.

45. In addition, public authorities may need to engage with the SAU to assist it in completing its report either to provide additional information or to help verify information that the SAU may include within its report. The reporting period is taken to be 35 working days as set

[14] See the Bill Stage Impact Assessment for background data on the number and type of subsidies awarded within the UK
[15] Paragraphs 72 to 79: https://www.gov.uk/government/publications/subsidy-control-bill-2021-bill-documents
[16] Civil Service median salaries by grade as at the end of 2019 financial year, uplift by 21.72 percent (based on Labour Force Survey, 2020) to include employer's National Insurance and pension contributions, allowances, overtime and performance payments. Median across all employees https://www.gov.uk/government/statistics/civil-service-median-salary-by-uk-region-and-grade-2020
[17] https://www.gov.uk/government/publications/green-book-supplementary-guidance-competition
[18] Figure 13, Competition IA FTE, page 35) https://www.oecd.org/daf/competition/Comp-Assessment-ImplementationReport2014.pdf

out in the Subsidy Control Act. The proportion of time the CMA engages with parties to a merger in 'state of play' discussions during Phase I merger investigations has been used to pro-rate the total 'reporting period'. It is estimated public authorities will spend one-eighth of the 35 working days engaging with the SAU (3 days). It is assumed that Grade 7 Civil Servants are responsible for demonstrating compliance (see paragraph 43) and, therefore, also liaise with the SAU. For sensitivities we have assumed that this would be HEOs for the lower bound and Grade 6 as an upper bound, with all staff costs uplifted by 21.72 percent to include non-wage costs. An illustrative estimate for the total unit cost to public authorities of engaging with the SAU on advice is produced by multiplying together the length of engagement in hours and the hourly cost of that engagement within each category of subsidy and cost scenario. This leads to a central estimated engagement cost per subsidy of scheme referred of approximately £970 with £590 and £1200 as sensitivities.

46. It was not possible or appropriate to quantify or monetise the change in case numbers and therefore costs arising from setting out definitions of SSoPI and SSoI. The effect that these definitions have on the number of cases is likely to be small and could be negative or positive. The process may reduce the number of court cases as it adds an additional layer of transparency and independent scrutiny it may decrease the likelihood of challenge for subsidies and schemes that are defined as SSoPI or SSoI, lowering the judicial costs. However as the consequences of incorrectly not referring a SSoPI to the SAU is that the subsidy is prohibited, and open to legal challenge on this basis then defining subsidies or schemes as SSoPI does create an additional reason for court cases to be brought.

47. The Bill Stage Impact Assessment set out the potential judicial costs of the regime as a whole based on precedent from the EU State aid regime. As the Subsidies or Schemes of Interest and Particular Interest process is not part of the EU State aid regime it is not possible or appropriate to disaggregate these estimates and attribute the volume of cases associated with this process specifically. As the government estimated at Bill Stage Impact Assessment that the overall number of court cases over the whole regime was 23 per year, and this is just one additional process within the broader regime, the government anticipates the *additional* change in the number of court cases associated with this process is likely to be negligible.

Across the four categories of cost, and based on the assumptions and evidence set out in this sub-section the government estimates that the total cost to public authorities per Subsidies or Scheme of Interest and Particular Interest is £12k in the central scenario, £7k in low and 15k in high.

Unit costs for potential recipient businesses

48. The government has estimated the unit cost for business that may be receive SSoI or SSoPI following the same methodology set out at the Bill Stage Impact Assessment. The government has identified the following costs for public authorities associated with Subsidies or Schemes of Interest and Particular Interest Process:

a) Familiarisation costs associated with understanding the effects of the requirements of the Subsidies or Schemes of Interest and Particular Interest process
b) Monitoring costs of the tracking Subsidies of Schemes of Interest and Particular Interest through the process
c) Cost to seek expert advice including legal counsel on the process and likely outcome
d) Potential judicial costs for recommending an additional process.

49. As the Subsidies of Interest process only applies to a small number of subsidies it is assumed that only businesses that are awarded subsidies will familiarise themselves with the guidance relating to SSoI and SSoPI. Following the methodology set out in the Bill Stage Impact Assessment, we have assumed that three FTEs per business will familiarise themselves with this guidance.

50. The Government assumes conservatively that the guidance will need to be read by corporate managers or directors, the 2019 median wage for whom was £24.35 per hour[19]. This has been uplifted by 17.10 percent to account for non-wage costs, giving an estimate of £28.51 per hour.

51. We have assumed that business would require the same amount of time to familiarise themselves with the guidance as set out for public authorities in paragraph 43. We have adjusted the familiarisation costs upward to take into account the additional guidance associated with SoI design features and the Sensitive Sectors test following the methodologies in paragraphs 107, and 100. Taken together, for businesses, the familiarisation cost per subsidy is £80 in the central scenario, £46 in the low scenario and £104 in the high scenario.

52. Further to this cost there may also be an indirect cost to business that go through the Subsidies of Interest Process as they may wish to seek legal counsel on the process and likely outcome. Following the methodology set out in the Bill Stage Impact Assessment we have based our estimate of legal fees on the inflation uprated solicitors' guideline hourly rates[20]. For this we have assumed the London Grade 1, Band A[21] because anecdotal evidence indicates that large businesses applying for subsidies are likely to involve larger legal firms. We have assumed that two Band A solicitors or legal executives would be involved[22]. The estimated cost per business would be £960 per hour, updated to 2019 prices and that they would be required for the equivalent of one day in the central scenario, half a day in the low scenario and two days in the high scenario. These assumptions have been used in the absence of empirical data on the business response to a new process. This gives a cost of £7k per SSoI or SSoPI under the central scenario, £3.5k under the low scenario and £14k under the high scenario.

53. In addition to this cost there may also be an indirect cost to business of hiring and interacting with legal counsel and monitoring the SSoI and SSoPI process. Consistent with the methodology set out in the Bill Stage Impact Assessment, it is assumed that for a business this will require the equivalent of half of a full time 'business manager' over half of a working month to undertake. This wage rate is taken from the Annual Survey of Hourly Earnings[23] and has been uprated by 17.10% to account for non-wage costs. These assumptions have been used in the absence of empirical data on the business response to a new process. Using these assumptions, the cost to business for monitoring this process is approximately £3k.

54. It was not possible or appropriate to quantify or monetise the change in case numbers and therefore costs arising from setting out definitions of SSoPI and SSoI. The effect that these definitions have on the number of cases is likely to be small and could be negative

[19] ONS ASHE 2019 (Revised) table 14.5a Hourly Pay - Gross - For FTE jobs - Median wage for 'corporate manager or director'.
[20] https://www.gov.uk/guidance/solicitors-guideline-hourly-rates – uprated to 2019 prices. Fee per hour of £409 for Grade 1, Band A for 2010, uprated to £480 in 2019 prices.
[21] https://www.gov.uk/guidance/solicitors-guideline-hourly-rates – uprated to 2019 prices. Fee per hour of £409 for Grade 1, Band A for 2010, uprated to £480 in 2019 prices.
[22] Pay band A: Solicitors and legal executives with over 8 years' experience.
[23] ONS ASHE 2019 (Revised) table 14.5a Hourly Pay - Gross - For FTE jobs - Median wage for 'corporate manager or director'.

or positive. The process may reduce the number of court cases as it adds an additional layer of transparency and independent scrutiny it may decrease the likelihood of challenge for subsidies and schemes that are defined as SSoPI or SSoI, lowering the judicial costs. However, as the consequences of incorrectly not referring a SSoPI to the SAU is that the subsidy is prohibited, and open to legal challenge on this basis then defining subsidies or schemes as SSoPI does create an additional reason for court cases to be brought.

55. The Bill Stage Impact Assessment set out the potential judicial costs of the regime as a whole based on precedent from the EU State aid regime. As the SSoI an SSoPI process is not part of the EU State aid regime it is not possible or appropriate to disaggregate these estimates and attribute the volume of cases associated with this process specifically. As the government estimated at Bill Stage Impact Assessment that the overall number of court cases over the whole regime was 23 per year, and this is just one additional process within the broader regime, the government anticipates the *additional* change in the number of court cases associated with this process is likely to be negligible.

Across the four categories of cost, and based on the assumptions and evidence set out in this sub-section the government estimates that the total cost to potential business recipients per Subsidies or Scheme of Interest and Particular Interest is £10k in the central scenario, £6k in low and £17k in high.

Unit costs for government: SAU

56. At Bill Stage Impact Assessment, the government followed a unit cost approach to estimate the cost to the SAU based on evidence from precedent bodies and related Impact Assessments and anticipated volume of referrals. Accordingly, these estimated costs will differ over each of the options considered to define SSoPI. At Bill Stage Impact Assessment the following costs to government were identified in order for the SAU to undertake its review function:

a) Staff costs – to undertake and administer the review process

b) Overhead costs – associated with the IT, HR and general processes, such as estate costs, needed to undertake and administer the review process

c) Contingency costs – to cover uncertainty in estimates, fluctuations in the demand for reviews and differences in overhead costs depending on location: the CMA have staff in London, Edinburgh, Belfast and Cardiff.

57. Following the methodology set out the Bill Stage Impact Assessment the government has used information from comparable independent bodies to estimate the unit cost to undertake the SAU's review function. In particular, estimates for the headcount needed to undertake the review are informed from the accounts of the Regulatory Policy Committee (RPC) and key assumptions on the staff and overhead costs associated with this headcount is taken from the Impact Assessment of the Bill that established the Office for the Internal Market as this is a comparable body that sits within the CMA.

58. We have used precedent from the RPC to estimate the headcount per review based on information from their 2018-19 and 2019-20 financial year accounts[24]. In these years the RPC had an average staff count of 34 FTE who reviewed on average 78 Impact Assessments. We have conservatively assumed that the review conducted by the SAU will be twice as resource intensive as an RPC review, for the reasons outlined in the Bill

[24] https://www.gov.uk/government/collections/rpc-corporate-reports

Stage Impact Assessment. Based on these assumptions we estimate that the average headcount per review is 0.7 FTE in the central scenario, we have extended the sensitivity analysis presented at the Bill Stage Impact Assessment to account for uncertainty around the resource requirements of a new process, in the high scenario we assume that review would require 1.4 FTE and in the low scenario we assume it would require 0.3 FTE.

59. As set out at the Bill Stage Impact assessment, data from precedent public bodies suggest that staff costs (including salaries, national insurance and pensions) will be the body's biggest expense. Staff costs have been taken from the UK Internal Market Bill Impact Assessment[25] which provides an estimate for the average annual cost of staff at the Office for the Internal Market (OIM).

60. We have used this as a best estimate of staff costs as the OIM is a comparable body that also resides in the CMA. In the absence of a more robust estimate and for simplicity, it is assumed that the grade and skills distribution within the OIM are identical to that of the body. This gives an indicative average salary of approximately £64,000 per FTE[26]. Based on these assumptions and the estimated headcount set out in paragraph 58 we estimate that the average salary cost per review is £44k in the central scenario £88k in the high scenario and £22k in the low scenario.

61. To provide an indicative estimate of the body's overhead costs, the total additional headcount is multiplied by per capita uplifts taken from the UK Internal Market Bill Impact Assessment[27] and used to estimate the running costs of the OIM for the following categories:

- IT: Includes network user licences, laptops, mobiles, email service help desk
- SSCL: Includes contract charges, Oracle licences, bank charges, payroll
- General: Human resources, DDTS, procurement, finances, estates

62. This increases the additional cost to run the SAU by approximately £6k per review in the central scenario, with £12k and £3k as high and low sensitivities respectively.

63. Given the degree of uncertainty surrounding these estimates, the figures provided should be treated with appropriate caution. They are indicative estimates which are based on high level analytical assumptions. It may be that the SAU requires more specialists (i.e. more legally qualified professionals or economists), or staff of a higher grade to support its work, which is not reflected in the precedent bodies used: this would place upward pressure on the estimate via per capita staff costs. To account for these factors, a 40% contingency adjustment is applied to reflect the significant degree of uncertainty inherent in these estimates.

Across the three categories of cost, and based on the assumptions and evidence set out in this sub-section the government estimates that the total cost to government of operating the SAU per Subsidies or Scheme of Interest and Particular Interest is £71k in the central scenario, £141k in the high and £25k in the low scenario.

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[25] https://publications.parliament.uk/pa/bills/cbill/58-01/0177/UK%20Internal%20Market%20Bill%20Impact%20Assessment%2008092020.pdf

[26] Rounded to the nearest thousand.

[27] https://publications.parliament.uk/pa/bills/cbill/58-01/0177/UK%20Internal%20Market%20Bill%20Impact%20Assessment%2008092020.pdf

Do Nothing

64. As explained in paragraph 21, it would be possible for the government to not make regulations to define SSoPI or SSoI. The 'do nothing' option is therefore not to make regulations and for SSoPI and SSoI to remain undefined.
65. Under this option, no subsidies or schemes will have or be able to access the SAU's review function, unless called-in by the Secretary of State. As set out at Bill Stage Impact Assessment it is not possible to estimate the volume of subsidies or schemes associated with function as it is entirely novel, within the context of domestic and international subsidy control regimes. Moreover, it is anticipated that this power will only be used in the most exceptional of circumstances.
66. By definition there are no costs and benefits associated with this option. To compare the impacts of other options we assume that in the baseline no subsidies or schemes are reviewed and therefore all of the impacts associated with the volume of referrals are netted off of the impacts identified in the other options.

'Do Minimum'

67. For the 'Do Minimum' option the government has grouped together any option that would capture fewer than 5 SSoI or SSoPI per year. In broad terms this option would involve very high monetary thresholds and few or no additional criteria to capture subsidies below this threshold.

68. It is not possible or appropriate to estimate the exact number of subsidies or schemes that would be captured by any criteria as it is not possible to predict future public authority behaviour over any appropriate appraisal period. To account for this, in the central scenario the government assumes that this option would capture 5 SSoI or SSoPI per year with 3 and 7 taken as sensitivities.

69. Using these estimated case volumes and the unit cost methodology in the previous section this option would lead to public authority costs of £0.5m with £0.2m and £0.9m as sensitivities, government SAU operating costs of £3.0m with £0.9m and £8.5m as sensitivities and cost to potential recipient businesses of £0.4m with £0.2m and £1.0m as sensitivities in NPV terms over the 10 year appraisal-period. A full breakdown of these costs and a comparison with the other options is given in table 3 below.

Preferred option

70. We have used data from the EU State aid regime[28] and interim regime to estimate the number of subsidies or schemes that would have been captured as SSoI and SSoPI per year.
71. Whilst the government has analysed both datasets, the government has based this analysis on data from the interim regime as it is more informative of public authority behaviour under a principles-based system that more closely resembles the new regime that the Subsidy Control Bill will establish in legislation. Analysis of data from the EU State aid regime leads to a similar estimate for the number of standalone subsidies or schemes captured per year – a summary of the historic data is included in the Bill Stage Impact Assessment.

[28] The estimates in this analytical document are based on a review of the European Commission Transparency Grant Module – available from July 2016 to 31 December 2020 https://webgate.ec.europa.eu/competition/transparency/public?lang=en

72. Based on analysis from the interim regime the government anticipates that a SSoPI threshold of £10m for subsidies granted for activities outside of sensitive sectors, and £5m for subsidies for activities within sensitive sectors and specific criteria for restructuring and relocation subsidies, would have captured 15 unique subsidies or schemes per year, before taking account the exemptions to the referral process such as for those made as Streamlined Routes. The SSoI criteria would have captured 11 unique subsidies or schemes per year before taking account the exemptions to the referral process and the public authorities' decision whether to use the voluntary referral process. This analysis estimates that the criteria would have captured 26 total subsidies, with 11 as SSoI and 15 as SSoPI. We use this figure for the central scenario number of referrals.

73. These estimates of volume have been supported by evidence from the SSoI and SSoPI consultation. Analysis on the same basis was included in the consultation as evidence for the monetary thresholds proposed in the consultation, which 14 of the 15 responders (92%) who answered the relevant question agreed with.

74. Actual behaviour[29] by public authorities may differ once these regulations come into force and trends in the number, size and scope of subsidies granted may change over time. Accordingly, we have included a range of sensitivities of volumes of cases captured. Based on precedent in the Bill Stage Impact Assessment we apply wide sensitivities, in the low cost scenario we assume that 20 subsidies or schemes would be captured as either SSoI or SSoPI and in the high cost scenario we conservatively assume 40 would be captured as either SSoI or SSoPI.

75. Using these estimated case volumes and the unit cost methodology in the previous section this option would lead to public authority costs of £2.6m with £1.4m and £5.2m as sensitivities, government SAU operating costs of £15.8m with £6.1m and £48.7m as sensitivities and cost to potential recipient businesses of £2.2m with £1.1m and £5.8m as sensitivities in NPV terms over the 10 year appraisal-period. A full breakdown of these costs and a comparison with the other options is given in table 3 below.

Do Maximum

76. For the 'Do Maximum' option the government has grouped together any option that would capture fewer than 5 SSoI or SSoPI per year. In broad terms this option would involve very low monetary thresholds combined with many additional criteria to capture subsidies below this threshold.

77. It is not possible or appropriate to estimate the exact number of subsidies or schemes that would be captured by any criteria as it is not possible to predict future public authority behaviour over any appropriate appraisal period. To account for this, in the central scenario the government assumes that this option would capture 50 SSoI or SSoPI per year with 60 and 40 taken as sensitivities.

78. Using these estimated case volumes and the unit cost methodology in the previous section this option would lead to public authority costs of £5.0m with £2.7m and £7.8m as sensitivities, government SAU operating costs of £30.4m with £12.2m and £73.0m as sensitivities and cost to potential recipient businesses of £4.2m with £2.2m and £8.7m as sensitivities in NPV terms over the 10 year appraisal period. A full breakdown of these costs and a comparison with the other options is given in table 3 below.

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[29] Across both datasets the government has removed subsidies or schemes that were explicitly in response to Covid-19 as this is a highly unusual circumstance which may not be representative of a typical period once the regime is in force. However, the indirect impact that it may have on the wider subsidy giving behaviour of public authorities is not possible to account for.

Identification costs associated with specific criteria

79. In addition to the impacts described above that are borne per SSoI or SSoPI once identified, the government has identified several specific costs that public authorities or potential recipient businesses would bear to identify whether a subsidy or scheme is or is not a SSoI or SSoPI.
80. These costs are additional to the costs identified in each of the broad options analysed above, and would be associated with each of these broad options depending on the specific option chosen. For example, a 'do maximum' option that defined all subsidies or schemes as SSoPIs would not require additional identification costs, whereas a 'do minimum' option that only captured a small amount of subsidies or schemes due to complicated criteria and exemptions would be associated with a number of identification costs.
81. We have based the analysis in this section on the set of criteria used to define SSoI and SSoPI in the preferred option. Whilst different criteria may have moderately different impacts, the impacts set out in this section are illustrative of all design criteria that may be used to define SSoI and SSoPI.

£ value thresholds

82. Under the preferred option, for the majority of subsidies the public authority and recipient will be able to assess whether the subsidy is of interest or of particular interest based on the monetary value of the award alone.

83. For most subsidies or schemes the value of the award should be trivial to calculate and already known by the recipient and public authority. In these instances, the government assumes that this information will be readily accessible by both parties and the cost to identify whether a subsidy or scheme will be non-additional to the standard requirements associated with Managing Public Money and subsidy control.

84. For some measures the subsidy value may be more complicated to calculate. However, the cost to do this is likely to be minimal and public authorities would have had to calculate these values to ensure compliance against other aspects of the subsidy control regime. As this cost is incurred due to the provisions in the Act rather than these regulations an assessment of the administrative cost associated with ensuring compliance against this and other Subsidy Control requirements was included in the Bill Stage Impact Assessment.

85. The government has therefore concluded that there are no additional costs to public authorities or potential recipients from using £ values to identify SSoI or SSoPI.

Cumulation

86. As stated in the consultation the government believes that rules which determine whether subsidies to the same enterprise cumulate towards monetary thresholds are necessary for any definition of SSoI or SSoPI to properly function.

87. In the preferred option the government has included a definition of 'related subsidies' so that public authorities and subsidy recipients can determine when two or more non-tax subsidies should cumulate together, and when they should not. The overall effect of these provisions is that public authorities should cumulate previous subsidies for the purpose of determining whether the latest subsidy is a Subsidy of Interest or Subsidy of Particular Interest when they are:

- given to the same enterprise by any public authority;

- are for the same or substantially same project, costs or activities;
- are for the same or substantially the same specific policy objective under Principle A of Schedule 1 to the Subsidy Control Bill; and
- have been given within the last three financial years

88. The latest subsidy, that 'tips' the enterprise above the relevant SSoPI threshold is only considered a Subsidy of Particular Interest if it is above £1m. This is to ensure that small subsidies, whose assessment of compliance against the principles may not benefit from an independent review are not referred to the SAU as Subsidies of Particular Interest and to minimise the administrative burden of applying the cumulation rules for small subsidies.

89. These cumulation rules are unique to the SSoPI regulations so the cost for public authorities and businesses to familiarise themselves with and administer these rules will be additional to the wider requirements of the Subsidy Control Act. As this is a new feature of the Subsidy Control regime it is not possible or appropriate to directly measure these costs. The government has instead used anecdotal evidence and the evidence from wider subsidy control requirements set out in the Bill Stage Impact Assessment to estimate these costs.

90. We have used the initial draft of guidance to estimate that these cumulation rules may add 1-5 pages to the guidance. This guidance will include suggest text to include within the schemes parameters or conditions that could be used to apply the cumulation rules – this will reduce the administrative costs associated with administering a cap (as analysed in paragraph x). We use the methodology for the wider familiarisation costs for public authorities set out in paragraph 43 and assume that this would add 3 pages in the central scenario, 1 in the low scenario and 5 in the high scenario. We assume that there are no additional 'training' or wider familiarisation costs associated with applying these cumulation rules as they are based on concepts and features that are also part of wider Subsidy Control requirements. Application of cumulation rules will apply for all standalone subsidies and schemes that are or allow subsidies between the minimum tipping point of £1m and the relevant SSoPI thresholds. However, we anticipate that all public authorities awarding subsidies or schemes will choose to become familiar with these rules to understand whether the rules should have to be applied. Using the analysis of the EU State aid regime set out in the Bill Impact Assessment we assume that this will impact 60 standalone subsidies or schemes per year and that public authorities will familiarise themselves with the requirements each time they award a subsidy or make a scheme. Using the methodology set out in paragraph 43 these assumptions lead to a cost of £0.01m in the central scenario, £0.00m in the low scenario and £0.03m in the high scenario and.

91. We assume that potential recipients will only become familiar with the cumulation rules at the point that they receive a subsidy or bid into a competitive scheme that has included cumulation rules as part of the requirements to receive the subsidy or scheme. Public authorities would only need to include these requirements if the subsidy was above the minimum tipping point of £1m and the relevant SSoPI threshold. The number of businesses affected will depend on the thresholds chosen, but as these costs are small and the number of potential sub-options across each of the broad options is large it was not appropriate or proportionate to model these costs for each broad option. Instead we have modelled the central scenario using the thresholds in the central option and provided large sensitivities to capture the potential cost for each of these sub options. Using evidence from the Interim regime there were 18 standalone subsidies or schemes between the £1m threshold and the SSoPI threshold of £5m for Sensitive Sectors and

£10m in all sectors. We assume in the low scenario 5 businesses will become familiar with the cumulation, to capture 'do maximum' options where the monetary thresholds are so low that nearly all subsidies or schemes would be SSoPI before taking into account cumulation; conversely in the high scenario we assume that all 1300 recipients of subsidies per year would become familiar with these rules to capture 'do minimum' options where very few subsidies or schemes are captured as SSoPI. Using these assumptions and the method set out in paragraph 51 the familiarisation cost for businesses for familiarise themselves with the cumulation rules is £0.01m in the central scenario, with £0.00m and £0.38m as sensitivities.

92. We have used the evidence and method set out in the Bill Stage Impact Assessment to estimate the administrative cost of applying the cumulation rules. The Bill Stage Impact Assessment used evidence from the interim regime to estimate that the time taken to undertake all administrative tasks associated with the regime other than the principles assessment was half a day on average. To understand the additional time that is needed to administer the cumulation rules we have engaged with BEIS teams responsible for administering large subsidies and note that for large awards, the cost to undertake this assessment may be negligible as public authorities would usually identify 'related subsidies' received by the recipient businesses as part of standard 'due diligence' processes. Through the consultation process, some public authorities indicated that the cost to identify related subsidies and apply the cumulation rules may be additional to their current 'due diligence' procedures. Considering this anecdotal evidence it is clear that the cost will differ substantially across different public authorities offering different subsidies. In light of this variation we have conservatively assumed that this would take the same time as the wider administrative costs – half a day – because these requirements are similar in nature; given the uncertainty we have provided large sensitivities in line with the Bill Impact Assessment of 2 hours to 1 day. Using these time assumptions and the wage and non-wage cost assumptions set out in paragraph 43 we estimate that the administrative costs to public authorities is £0.0m in central scenario, with £0.0m and £0.3m as sensitivities.

93. As the public authority will not always have the required information to undertake this assessment, they will require information from the potential recipient business on any potential related awards to assess whether the cumulation rules have been met. Using anecdotal evidence set out in the previous paragraph, for larger awards this is likely to be non-additional as the public authority may require this information to undertake standard 'due diligence' procedures. In some instances, this information may not be required for these procedures so there may be an additional administrative cost to provide this information for the purpose of cumulation. As an extremely conservative assumption we assume that the recipient business may require the same amount of time as estimated for public authorities in paragraph 92 to identify 'related' subsidies or schemes and provide this information to the public authority. Using these time assumptions, the assumptions on number of businesses effected in paragraph 91 and the wage and non-wage costs set out in paragraph 50 we estimate that the administrative costs to business is £0.0m in the central scenario with £0.0m and £4.6m as sensitivities.

Sensitive Sectors Test

94. The preferred option includes a different, lower £5m SSoPI threshold for subsidies and schemes that concern sensitive sectors.

95. Under the preferred option the government proposes a test to determine whether a subsidy concerns a sensitive sector. The first limb of the test requires that the subsidy is given to an enterprise which is engaged in a specified economic activity – defined by Standard Industrial Classifications (SIC codes) or an 'input activity'. The draft regulations

define ‘input activity’ to mean an economic activity that involves the provision of goods or services for the purpose of a specified economic activity. This definition is intended to capture wider supply chain activities which fall outside the specific SIC codes identified above but which are linked to those activities.

96. The second limb of the test is based on the concept of ‘economic advantage’. This requires that the subsidy confers, directly or indirectly, an economic advantage on an enterprise which is engaged in a specified economic activity in relation to that activity. It is not sufficient, therefore, that the recipient is merely engaged in an input activity or a specified economic activity. The effects of the subsidy must also be considered.

97. This test is unique to the SSoPI regulations and is administered by public authorities so there is an additional administrative and familiarisation cost for public authorities to apply this test. This test is unlikely to require self-assessment on the part of businesses, however there may be additional familiarisation costs for potential business at the point that they receive SSoPIs.

98. As the application of this test is likely to be similar in its requirement for public authorities as the cumulation test we estimate that per case the administrative and familiarisation costs will be the same as set out in paragraph 90 and 92. Specifically following the methodology in paragraph 90 we assume that all public authorities will familiarise themselves with the guidance, and the total familiarisation cost is estimated to be £0.00m in the central scenario with £0.00m and £0.03m as sensitivities.

99. The administrative cost of applying these tests will only apply to subsidies or schemes between the lower sensitive sectors threshold and the higher general threshold – the requirements do not apply to subsidies below this level and subsidies above the higher general threshold will be SSoPI regardless of sector so public authorities will not have to determine whether a subsidy concerns a sensitive sector to determine whether it is a Subsidy of Particular Interest. Accordingly, the exact number of subsidies or schemes affected will depend on the exact sub-option chosen, and it would not be appropriate or proportionate to model all sub-options for the reasons set out in paragraph 91. Similarly, we use the thresholds considered in the preferred option to create the central scenario and to account for sub-options we apply wide sensitivities. Using evidence from the EU State aid regime we have estimated that there are 7 standalone subsidies or schemes between £5m and £10m, we take 1 and 60 (the average annual number of unique subsidies or schemes in the EU State aid database) as sensitive. Using these assumptions, the administrative cost to apply the sensitive sectors test is £0.00m in the central scenario with £0.00m and £0.03m as sensitivities.

100. As potential subsidy recipients will only have to interact with the sensitive sectors test at the point that the public authority has deemed that the subsidy or scheme is a SSoPI, we assume that only recipients of SSoPIs will familiarise themselves with this test. Using the assumptions set out in paragraph 51 and 91 we estimate that this would cost £0.00m in the central scenario with £0.00m and £0.00m as sensitivities per business. As this is a ‘unit cost’ based on the number of referrals, we have included this in the ‘unit cost’ for businesses set out in paragraph 51.

Rescue, Restructure and Relocation Subsidies

101. Under the preferred option, subsidies or schemes there is a separate definition of So(P)I for certain categories of subsidies defined in the Subsidy Control Act: subsidies for the purposes of rescue or restructure or permitted subsidies conditional on relocation.

102. Whilst there is an administrative cost associated with identifying whether or not a subsidy falls within these categories, and therefore whether the relevant SSoI or SSoPI definitions apply, the Act already requires public authorities to do this to determine whether the subsidy in question fall outside of the related prohibitions and meets the relevant conditions for awarding subsidies within these categories. The cost for public authorities and businesses to familiarise themselves with this guidance and the administrative cost of ensuring that the subsidy in question falls within these categories was therefore included in the Bill Stage Impact Assessment and is not affected by the option to use these categories within the definitions.

Subsidies of Interest design features

103. Under the preferred option for most subsidies – not given for the purposes of rescue or conditional on relocation – subsidies of interest are all subsidies between £5m and £10m that are not otherwise subsidies of particular interest.

104. For these subsidies the government will set out in guidance certain design features that the public authority should consider before choosing whether to refer the SSoI to the SAU. These design features are not set out elsewhere within the Subsidy Control Act or wider requirements, but as they have been chosen to identify subsidies that may have the potential of substantial negative effects on domestic competition or investment and/or international trade or investment then it is likely that public authorities would have considered these design features when completing their principles assessment.

105. As the design features do not require a legal test, and only guide the use of a voluntary referral process, the administrative cost to public authorities or potential recipients to determine whether the subsidy in question has one or more of the specified design criteria is likely to be negligible.

106. However, including design features in guidance will increase the length of guidance that public authorities and business will have to familiarise themselves with. We have used initial draft of guidance to estimate that these cumulation rules may add 1-5 pages to the guidance. We use the methodology for the wider familiarisation costs for public authorities set out in paragraph 43 and assume that this would add 3 pages in the central scenario, 1 in the low scenario and 5 in the high scenario. It is assumed that all public authorities offering SoI would familiarise themselves with this guidance. Accordingly, this is a 'unit cost' based on the number of SoIs delivered under each option – whilst this will depend on the exact sub-option chosen we have assumed that half of the subsidies or schemes captured in each option will be SSoI (rather than SSoPI). Using these assumptions and methodology set out in paragraph 43, we estimate the familiarisation costs to public authorities per subsidy is £25 with £5 and £51 as sensitivities. As this is a 'unit cost' based on the number of referrals, we have included this in the 'unit cost' for public authorities set out in paragraph 43.

107. Similarly, we assume that businesses will only familiarise themselves with this guidance at the point that they are awarded an SoI. Using the assumptions of volume of subsidies and length of guidance in paragraph 106 and methodology set out in paragraph 51 we estimate the familiarisation costs to potential recipient businesses is £22 with £7 and £36 as sensitivities. As this is a 'unit cost' based on the number of referrals, we have included this in the 'unit cost' for businesses set out in paragraph 51.

Cost Benefit Comparison

108. In total, across the unit costs and identification costs, the 'do minimum' option is estimated to cost £4.0m in NPV terms over the appraisal period in the central case, the preferred option is estimated to cost £20.6m and the do maximum is estimated to cost £39.6m on the same basis. A breakdown of the estimated costs in the central case is summarised in the table below:

Table 3

Estimated Cost over 10-year Appraisal Period in Central Case (£M NPV)

		Do Nothing	Do Minimum	Preferred Option	Do Maximum
Cost for government: public authorities	Familiarisation costs	0.0	0.0	0.0	0.0
	Administrative costs	0.0	0.5	2.5	4.7
	Cost to interact with SAU	0.0	0.0	0.1	0.2
	Potential judicial costs	0.0	Not included in NPV	Not included in NPV	Not included in NPV
	Identification costs - cumulation	0.0	0.1	0.1	0.1
	Identification costs - sensitive sectors	0.0	0.0	0.0	0.0
	Identification costs - SoI design features	0.0	0.0	0.0	0.0
	Total	**0.0**	**0.7**	**2.7**	**5.1**
Cost for potential recipient businesses	Familiarisation costs	0.0	0.0	0.0	0.0
	Legal and monitoring costs	0.0	0.4	2.2	4.2
	Potential judicial costs	0.0	Not included in NPV	Not included in NPV	Not included in NPV
	Identification costs - cumulation	0.0	0.0	0.0	0.0
	Identification costs - sensitive sectors	0.0	0.0	0.0	0.0
	Identification costs - SoI design features	0.0	0.0	0.0	0.0
	Total	**0.0**	**0.5**	**2.2**	**4.3**
Cost for government: SAU	Salary	0.0	1.9	9.9	19.0
	Overhead	0.0	0.3	1.4	2.7
	Contingency	0.0	0.9	4.5	8.7
	Total	**0.0**	**3.0**	**15.8**	**30.4**
Total Costs	**Total**	**0.0**	**4.2**	**20.8**	**39.8**

109. As set out in paragraph 10 it is not possible or appropriate to quantify or monetise the benefits associated with each option. As identified at Bill Impact Assessment Stage, economic theory and policy knowledge would suggest that defining subsidies as SSoPI

or SSoI would lead to a greater consideration of the potential negative effects of subsidies on domestic competition or investment and/or international trade or investment – and therefore subsidies that may have potential for substantial negative effects would be more likely to be redesigned to reduce the risk of this distortion or not awarded all together. Further, as the review will focus on each subsidy control principles – included the balancing test – subsidies may be redesigned to better meet each of these principles, for example they could be better targeted at the policy objective or designed in a way to do so whilst minimising further costs. Earlier sections of this analytical document and the Bill Impact Assessment set out the academic evidence on the ways that subsidies impact competition – and the associated impacts that these have on businesses and consumers, as well as the wider costs and benefits associated with subsidy use.

110. In general terms the options that capture more subsidies or schemes will lead to more potentially substantially distortive subsidies being reviewed and therefore greater benefits in terms of positive competition and trade effects and broader benefits of better designed subsidies. There is, however, insufficient data on the behavioural impact that further assessment would have on public authority behaviour and there is no existing evidence on the overall quantitative cost that a distortive subsidy may have to society.

111. As indicated by using the unit cost approach, in broad terms the costs of defining a subsidy or scheme as a SSoI or SSoPI are fixed. Regardless of the volume of subsidies or schemes defined as SSoI or SSoPI, public authorities, businesses and the SAU have to undertake the same processes and bear the associated costs identified and monetised in this analytical document. The potential benefits however are not fixed; the potential benefits are higher for subsidies with greater potential for substantial negative effects on domestic competition or investment and/or international trade and get smaller as less potentially substantially distortive subsidies or schemes are captured.

112. To illustrate the trade-off between the costs and the benefits, the total unit cost, taking into account the cost to government for operating the SAU, public authorities and potential recipient businesses per referral is estimated to be £93k in the central scenario. For a subsidy of £10m – that just met the threshold for subsidies that do not relate to sensitive sectors in the preferred option – then a review would be value for money if the benefits, in terms of improved subsidy design and potential non-award of subsidies that cannot be re-designed, are greater than 1% of the value of the subsidy. In short, these subsidies would have to be at least 1% more efficient at delivering their intended objectives or minimising the costs and potential negative effects post independent review in comparison to if the review had not taken place. The government believes, based on the evidence, that the broad benefits from the SSoI and SSoPI process are likely to outweigh these costs.

113. In contrast, for subsidies that do not relate to sensitive sectors the government - does not believe that the benefits of the SSoI and SSoPI process are likely to be greater than 10% of the value of the subsidy even in instances where it is awarded an enterprise who has already received related subsidies. For example, if a recipient has previously received subsidies worth £9.9m in the relevant period and received a second ‘related’ subsidy of £500k, without a minimum value for referral, this second subsidy would be a SSoPI based on the cumulation rules in the preferred option. For this referral to be value for money, then the potential benefits in terms of better designed subsidy would have to be approximately 20% of the value of the subsidy to outweigh the total cost of referral. As the government believes that the benefits of a referral are unlikely to be larger than 10% of the value of the subsidy (unless it is for the purposes of rescue or restructuring), the government believes that introducing the minimum £1m limit for referrals captured by the

cumulation rules is justified to prevent referrals where the benefits of referral are unlikely to outweigh the costs.

114. The benefits of a review will depend on the potential for substantial negative effects that span from the subsidy or scheme whose assessment is being reviewed, these will differ based on monetary thresholds and other features of subsidies such as the sector and purpose of the subsidy. To reflect this the government has developed its preferred option to capture subsidies that may have potential for negative effects on domestic competition or investment and/or international trade or investment based on the available evidence, including historic WTO cases[30], past theoretic[31] and case study evidence[32] on subsidies as well as current Green Book guidance[33]. Evidence from the consultation also supports that the subsidies captured by the preferred option are those with greater potential for negative effects on competition and distortion. The consultation set this out a key objective for the policy, and at least 77% (17 out of 22) of responders who answered the relevant questions agreed with the overall approach and specific monetary thresholds used.

115. Based on this evidence, the potential benefits of defining subsidies or schemes as SSoPI or SSoI are likely to be largest for the subsidies captured by the preferred option. The do minimum option would be associated with lower costs to businesses, public authorities and the SAU but would not capture all of the subsidy types and categories that existing evidence suggests are likely to benefit from the SSoPI and SSoI process. In contrast, the do maximum option would capture these subsidies or schemes but would also capture some subsidies or schemes where the potential benefits are small but the cost of the review remains the same.

116. The government therefore believes that the preferred option strikes the right balance between realising the benefits of the SSoI and SSoPI process and minimising the associated costs. The government notes the uncertainty in the options comparison caused by the inability to monetise or quantify the key benefits – the government has accordingly set out a robust monitoring and evaluation plan that covers the definition of SSoI and SSoPI within this analytical document.

Risks and assumptions

117. As the estimates set out in this analytical document follows the same methodology on the Bill Stage Impact Assessment, the risks and assumptions are largely the same. These are set out in full in the Bill Stage Impact Assessment but we have summarised the assumptions and risks most relevant to this analytical document below.

118. The key assumption is that the volume and nature of cases under the EU State aid or Interim regime will be similar in the regime introduced by the Subsidy Control Act and related regulations. As this regime provides different incentives for public authorities and recipients it is highly likely that subsidy awarding behaviour under this regime will differ from the comparator regimes. This assumption effects the volume of subsidies or schemes that are captured by each option, and the volume of subsidies, schemes and recipients that have to undergo the identification costs. The government has mitigated against this uncertainty by stress testing analysis using data from both regimes and providing wide sensitivity tests across each of the broad options analysed.

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[30] https://www.wto.org/english/tratop_e/dispu_e/dispu_agreements_index_e.htm

[31] https://www.oxera.com/insights/agenda/articles/state-aid-competition-economic-framework-european-commission / and http://www.oft.gov.uk/shared_oft/reports/comp_policy/oft750.pdf

[32] https://ec.europa.eu/competition/publications/ex_post_evaluations.html

[33] https://www.gov.uk/government/publications/green-book-supplementary-guidance-competition

119. As the SSoI and SSoPI process is new and unique to the regime introduced by the Subsidy Control Act and related regulations we have had modelled the costs per case based on comparator administrative tasks, rather than using empirical data based on the exact tasks that the regulations introduce. This methodology relies on the assumption that these tasks are sufficiently similar to the tasks being analysed and effects the cost per subsidy, scheme or recipient effects. The government has mitigated against this uncertainty by stress testing analysis using a variety of comparator administrative tasks and providing wide sensitivity tests across each of the broad options analysed.

120. As explained in paragraph 10 and in the Bill Stage Impact Assessment, due to the counterfactual problem and inability to predict the behaviour of each public authority in the UK over any relevant appraisal period, it was not possible or appropriate to quantify or monetise any of the benefits of the policy. In lieu of this the government has relied on available evidence including historic WTO cases[34], past theoretic[35] and case study evidence[36] on subsidies as well as current Green Book guidance[37] to qualitatively describe the benefits and compare between the broad options analysed.

121. These uncertainties, particularly around the benefits, highlight two competing risks. Firstly, the definition of SSoI and SSoPI may be too broad and capture some subsidies or schemes where the benefits of the SSoI and SSoPI process do not outweigh the costs. Conversely the definition could be too narrow, and the definitions may fail to capture some subsidies or schemes where the benefits of the SSoI and SSoPI process would have outweighed the costs.

122. There is a similar but subtler trade off in terms of the identification costs. A complex definition for SSoI and SSoPI may lead to a more precise identification of subsidies or schemes whose assessment may benefit from a review but this would lead to a greater administrative cost to public authorities and businesses to identify whether any given subsidy or scheme meets this definition. Simpler definitions would minimise these costs but may less precisely identify subsidies or schemes that would benefit from a review.

123. The consequence of failing to refer a subsidy or scheme that meets the definition of SSoPI is that the subsidy or scheme is prohibited and therefore open to challenge on this basis. There is therefore a potential unintended consequence that there is an increased judicial cost from additional challenges, and/or caution in awarding subsidies or schemes that meet or appear to meet the definition of SSoPI.

124. The government has mitigated these key risks and uncertainties, ahead of choosing its preferred option, firstly by utilising a wide variety available evidence, and secondly through broad and open public consultation on the draft regulations. After implementation the government's key mitigation is an extensive monitoring and evaluation plan with a specific focus on the definition of SSoI and SSoPI and operation of the process. The monitoring and evaluation plan is set out in the final section of this analytical document.

Impact on small and micro businesses

125. As these regulations directly apply to public authorities awarding subsidies – rather than businesses receiving subsidies – the impact on all businesses is limited.

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[34] https://www.wto.org/english/tratop_e/dispu_e/dispu_agreements_index_e.htm
[35] https://www.oxera.com/insights/agenda/articles/state-aid-competition-economic-framework-european-commission / and http://www.oft.gov.uk/shared_oft/reports/comp_policy/oft750.pdf
[36] https://ec.europa.eu/competition/publications/ex_post_evaluations.html
[37] https://www.gov.uk/government/publications/green-book-supplementary-guidance-competition

Where there are impacts on businesses these will be limited to those that are receiving SSoI or SSoPI.

126. Whilst there is no data on the number of small and micro businesses (SMBs) that may receive subsidies that meet the definition of SSoI and SSoPI due to the monetary value of the subsidies in question it is highly unlikely that recipients of these subsidies will be SMBs. This is confirmed by a qualitative review of the EU State aid database and the UK's Transparency database.

127. For this reason, SMBs are *de facto* exempted from these regulations. Whilst the government has considered formally exempting SMBs from the process, this would likely impose an 'identification' cost on SMBs – similar to those analysed under the 'identification' cost section of this analytical document – as public authorities may have to verify information with all businesses including SMBs to assess whether the exemption could apply. Academic evidence[38] suggests that the potential for a subsidy to lead to substantial negative effects on domestic competition or investment and/or international trade or investment decreases when the recipient is small compared to the market rather than small in absolute terms. Therefore, in the unlikely event that an SMB received n Subsidy of Interest or Subsidy of Particular Interest the government believes that the benefits of the SSoI or SSoPI process would likely outweigh the costs. Based on this evidence, it is highly unlikely that there are any impacts of this policy on SMBs and explicitly excluding SMBs is unlikely to be value for money and may inadvertently place an increased burden on SMBs.

Wider impacts (consider the impacts of your proposals)

128. The Bill Stage Impact Assessment set out the wider impacts of the regime on competition, trade, regional, equality and environmental impacts of the regime more broadly.

129. As the definition of SSoPI and SSoI will affect subsidies that are for a variety of purposes – such as Levelling Up and Net Zero – there are likely to be impacts across all these areas arising from the SSoPI and SSoI process.

130. Specifically, as the benefit of the SSoPI and SSoI process is the potential that it may lead to better designed subsidies or schemes, then this could lead to a knock-on effect in terms of the subsidies or schemes meeting their objectives more efficiently or effectively. For subsidies or schemes whose objectives are aligned with wider impacts then this will likely lead to positive effects in these areas. It is not possible to monetise or quantify these impacts as they stem from the subsidies being given by public authorities rather than the SSoPI and SSoI definitions specifically.

131. As the definition of SSoI and SSoPI are specifically designed to capture subsidies where there is evidence of potential for substantial negative effects on domestic competition or investment and/or international trade or investment there are likely to be positive effects in each of these areas. It is not possible to monetise or quantify these impacts as they stem from the subsidies being given by public authorities rather than the SSoPI and SSoI definitions specifically. The specific competition and trade impacts will depend on the subsidies being given as Subsidies of Interest or Subsidies of Particular Interest and it would not be appropriate or possible to assess the competition or trade impacts of each Subsidy of Interest or Subsidy of Particular Interest given over any appropriate appraisal period.

[38] https://www.oxera.com/insights/agenda/articles/state-aid-competition-economic-framework-european-commission / and http://www.oft.gov.uk/shared_oft/reports/comp_policy/oft750.pdf

A summary of the potential trade implications of measure

132. As set out at the Bill Stage Impact Assessment it is not possible or appropriate to produce a full trade assessment on an overarching policy that affects a large number of subsidies and therefore markets.

133. Nevertheless, the regulations go beyond the UK's international obligations on subsidies as set out in the WTO and Free Trade Agreements – see the Bill Stage Impact Assessment for a fuller description of the UK's international obligations on subsidies.

134. As the definition of SSoI and SSoPI are specifically designed to capture subsidies where there is evidence of potential for substantial negative effects on domestic competition and / or investment and international trade and investment there are likely to be positive trade effects arising from this policy. It is not possible to monetise or quantify these impacts as they stem from the subsidies being given by public authorities rather than the SSoPI and SSoI definitions specifically. The specific trade impacts will depend on the subsidies being given as Subsidies of Interest or Subsidies of Particular Interest and it would not be appropriate or possible to assess the competition or trade impacts of each Subsidy of Interest or Subsidy of Particular Interest given over any appropriate appraisal period.

Monitoring and Evaluation

135. The Bill Stage Impact Assessment included a comprehensive Monitoring and Evaluation plan. This plan covers the following key areas:

a. The objectives of the regime as a whole, including SMART objectives

b. Past research on the objectives of the regime and how these are impacted by subsidy control arrangements

c. Purpose of the various strands of monitoring and evaluation review, methods and approach, and expected end users

d. Proportionality, resourcing and data collection.

136. The Monitoring and Evaluation of the SSoI and SSoPI definitions is covered within this wider Monitoring and Evaluation plan. Specifically, as the objectives of the SSoI and SSoPI definitions are consistent with the broader objectives of the regime – facilitating interventions to deliver on the UK's strategic interests, maintaining a competitive and dynamic market economy, protecting UK competition and investment and acting as a responsible trading partner – the broad approach set out at the Bill Stage Impact Assessment is particularly well suited to monitor and evaluate the definition of SSoI and SSoPI.

137. The department has since built within this plan several features that are specifically designed to aid the monitoring and evaluation process for SSoI and SSoPIs. Specifically the department has:

- Plans to require public authorities to indicate whether the subsidy or scheme that they upload to the transparency database is a SSoI or SSoPI to allow for quantitative monitoring of SSoI and SSoPI
- Indicated in its consultation response that the SAU's first review should include detail on sensitive sectors and the wider definition of SSoI and SSoPI based on case work knowledge that they would have built up through undertaking reviews.
- Built within its internal monitoring of subsidy case work an indicator for SSoI and SSoPI referrals to aid process evaluation.