

Subsidy Advice Unit Report on the Refugee Housing Programme Scheme

Referred by the Greater London Authority

16 May 2023

Subsidy Advice Unit

Part of the Competition and Markets Authority

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1. Introduction

- 1.1 This report is an evaluation prepared by the Subsidy Advice Unit (SAU), part of the Competition and Markets Authority (CMA), under section 59 of the Subsidy Control Act 2022 (the Act).
- 1.2 The SAU has evaluated the Greater London Authority's (GLA) assessment of compliance of the Refugee Housing Programme (RHP) scheme with the requirements of Chapters 1 and 2 of Part 2 of the Act (the Assessment).¹ The evaluation is based on the information provided to the SAU by the GLA in its Assessment and evidence submitted relevant to that Assessment.
- 1.3 This report is provided as non-binding advice to the GLA. The purpose of the SAU's report is not to make a recommendation on whether the scheme should be implemented, nor to assess compliance with the subsidy control requirements. The GLA is ultimately responsible for making the scheme, based on its own assessment, having the benefit of the SAU's evaluation.
- 1.4 The SAU's approach to the evaluation report is commensurate with the circumstances of the subsidy referred.
- 1.5 A summary of our observations is set out at section 2 of this report.

The referred scheme²

- 1.6 The Department for Levelling Up, Housing and Communities (DLUHC) has made £500 million available to local authorities across England to assist with housing refugees who are homeless, at risk of homelessness or living in unsuitable temporary accommodation and who are in the UK under certain specific programmes.³
- 1.7 The GLA has secured £126,183,294 of this funding to deliver 600 affordable homes in London.⁴ This money will be made available in the form of grants aimed at addressing the financial viability gap of delivering affordable homes for refugees, covering a range of costs involved in providing new build homes or making existing buildings fit for habitation.

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

² See [SAU: Referral acceptance details](#) for a full summary.

³ See [Funding for councils: Homes for Ukraine](#).

⁴ While the accommodation will initially be available only for refugees, it will ultimately be used in the general affordable accommodation pool.

- 1.8 Grants will be available to all Greater London local housing authorities (LAs) and to non-profit and for-profit registered providers of social housing (RPs).⁵ The GLA considers that only grants to the latter two categories of beneficiary will be considered a subsidy for the purposes of the Act.
- 1.9 The grants will be made available to recipients following a competitive bidding process open both to LAs and to RPs. Bidders in the process will be required to provide details of expected costs, income, any profit and any other sources of public sector funding. The GLA will not approve a grant amount which, when accumulated with any other public sector funding in respect of the project, would be in excess of the cost/income gap in relation to the delivery of the affordable housing plus a reasonable profit for the project. Grants for any project will be limited to a maximum of 50% of the costs involved (40% for homes with fewer than 4 bedrooms) and capped at the relevant 'grant rate cap' for Inner and Outer London (unless the GLA agrees otherwise).

SAU referral process

- 1.10 On 24 March 2023, the GLA requested a report from the SAU in relation to the proposed RHP scheme.
- 1.11 The GLA explained⁶ that the RHP scheme is a 'scheme of particular interest' because it allows for one or more subsidies of particular interest to be given.⁷ In particular, under the RHP scheme, a single beneficiary may receive more than £10 million within the applicable period.
- 1.12 The SAU notified GLA on 30 March 2023 that it would prepare and publish a report within 30 working days (ie on or before 16 May 2023).⁸ The SAU published details of the referral on 3 April 2023.⁹

⁵ See [Mayor announces funding for up to 600 new homes for Ukrainian and Afghan refugees on anniversary of Russian invasion of Ukraine | London City Hall](#).

⁶ In the information provided under section 52(2) of the Act.

⁷ Within the meaning of regulation 3 of [The Subsidy Control \(Subsidies and Schemes of Interest or Particular Interest\) Regulations 2022](#) which sets out the conditions under which a subsidy or scheme is considered to be of particular interest.

⁸ Sections 53(1) and 53(2) of the Act.

⁹ [Referral of Refugee Housing Programme Scheme by the Greater London Authority](#).

2. Summary of the SAU's observations

- 2.1 The Assessment is drafted in line with the four-step process described in the *Statutory Guidance for the United Kingdom Subsidy Control Regime* (the [Statutory Guidance](#)) and as reflected in the SAU's *Guidance on the operation of the subsidy control functions of the Subsidy Advice Unit* (the [SAU Guidance](#)).
- 2.2 Overall, we found that the GLA has engaged clearly with each of the subsidy control principles outlined in the Act (the Principles) and has undertaken an assessment proportionate to the potential negative effect of the subsidy, considering the market involved and the policy objective. The policy objective in particular was well-defined and comprehensible, and reflected through the rest of the Assessment.
- 2.3 Nevertheless, we found that there were aspects of the Assessment which could have been improved:
- (a) The evidence used relates mostly to affordable housing provision generally, rather than refugee housing specifically. The Assessment could set out that it would have been disproportionate to have commissioned more tailored evidence;
 - (b) As funding for the RHP comes from a central government scheme, the GLA must ensure its approach is consistent with the requirements of that scheme. This might limit the GLA's approach in applying certain of the Principles and the Assessment could set out this limitation (see in particular paragraph 3.14);
 - (c) The counterfactual could be further developed, including the impact of using RPs as opposed to relying exclusively on LAs (see paragraphs 3.19 to 3.20);
 - (d) There could be a clearer explanation of how the GLA intends to ensure that only the minimum necessary funds are distributed, and in particular how the viability gap is taken into account (see paragraphs 3.29 and 3.34);
 - (e) While we recognise the approach taken was commensurate with the likely limited impact on competition, the competition assessment could benefit from a clearer approach to defining the market, identifying competitors and the potential impact on those competitors (see paragraphs 3.37 to 3.41); and
 - (f) The balancing test could benefit from a clearer explanation to support the conclusions that the overall balance is positive (see paragraph 3.45).

2.4 Our report is advisory only and does not directly assess whether the subsidy complies with the subsidy control requirements. The report does not constitute a recommendation on whether the RHP scheme should be implemented by the GLA.

3. The SAU's Evaluation

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

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

- 3.2 The first step involves an evaluation of the Assessment against:
- (a) Principle A: Subsidies should pursue a specific policy objective in order to (a) remedy an identified market failure or (b) address an equity rationale (such as local or regional disadvantage, social difficulties or distributional concerns); and
 - (b) Principle E: Subsidies should be an appropriate policy instrument for achieving their specific policy objective and that objective cannot be achieved through other, less distortive, means.¹⁰

Policy objectives

- 3.3 We found that the objective as set out in the Assessment is well-defined and comprehensible. There is a clear primary policy objective (addressing significant additional demand for affordable housing for a specific group of refugees). The Assessment also references other objectives, including overcoming barriers to integration facing migrant and refugee communities¹¹ and the objective for the overall DLUHC scheme (to support those local authorities facing the most significant pressures with respect to housing refugees).

Market failure and equity rationale

- 3.4 The Statutory Guidance explains that market failure occurs where market forces alone do not produce an efficient outcome. The most common cases of market failure which are relevant to subsidy control occur when at least one of the following features is present: the existence of externalities; the involvement of public goods; or imperfect or asymmetric information.¹²
- 3.5 As explained in the Assessment, the scheme is intended to address the following:

¹⁰ Further information about the Principles A and E can be found in the [Statutory Guidance](#) (paragraphs 3.18 to 3.42) and the [SAU Guidance](#) (paragraphs 4.7 to 4.11).

¹¹ As set out in the London Mayor's Social Integration Strategy ([Social integration | London City Hall](#)).

¹² [Statutory Guidance](#), paragraphs 3.21-3.32.

- (a) An identified housing market failure - the inability of the private housing market to provide affordable housing for recent cohorts of refugees and those who have recently resettled to the UK; and
 - (b) An equity concern – in the UK, refugees are at particular risk of homelessness without assistance.
- 3.6 The Assessment clearly explains the equity rationale, citing useful and relevant evidence on homelessness and the need for affordable housing in London.
- 3.7 The Assessment explains the recent pressures in the housing market leading to a need for more affordable housing and an increased risk of homelessness. It explains that demand for housing is outstripping supply causing a rapid rise in rental costs for the private rented sector. It cites a general shortfall in rental housing caused in part by a reduction in buy-to-let landlords and the increased cost of materials making building houses more expensive. The GLA states in the Assessment that an increase in the number of tenants in London receiving housing benefit, as well as a widening of the gap between housing benefit and the cost of private rented sector rents, has led to an increase in demand for affordable housing.
- 3.8 The Assessment also explains barriers to renting faced by refugees, which put them at particular risk of homelessness. These include high up-front deposits, private rental costs being above the Local Housing Allowance rate for refugees on Universal Credit, barriers in accessing English language provision and employment opportunities, and discrimination by the private rented sector towards potential tenants on benefits.
- 3.9 We found that reasonable evidence has been used to support the conclusions made by the GLA. The evidence largely relates to the need for affordable housing among wider groups facing homelessness and, accordingly, the Assessment could be improved by using evidence which is tailored to the groups of refugees. However, given the circumstances under which the scheme is being created, using existing evidence for the most part appears to be a commensurate approach to support the conclusions reached by the GLA.
- 3.10 The Assessment could have been improved by clearly explaining the market failure it has identified while referring to the Statutory Guidance for relevant terminology (for example by explaining if externalities are present and the nature of such externalities).¹³

¹³ [Statutory Guidance](#), paragraphs 3.21-3.42.

Consideration of alternative policy options and why the RHP scheme is the most appropriate and least distortive instrument

- 3.11 In order to comply with Principle E, public authorities should consider why the decision to give a subsidy is the most appropriate instrument for addressing the identified policy objective, and why other means are not appropriate for achieving the identified policy objective.¹⁴
- 3.12 The Assessment describes the GLA's approach to delivering affordable housing in London for those failed by the housing market, and concludes that other tools for delivering the policy objective (such as requirements for provision of affordable housing in major developments) have been 'maximised'. The GLA concludes therefore that further intervention is required, noting in particular DLUHC's justification for intervention at the national level.
- 3.13 We note that much of this discussion arises in relation to affordable housing in general rather than the specific policy objective (and the GLA does not explicitly make the link between DLUHC's justification and its specific policy objective). Further, the GLA does not clearly demonstrate that it has considered (and discounted) other means of delivering its specific policy objective.
- 3.14 In particular, this could include why the RHP scheme was widened to include RPs as well as LAs and other policy tools. It may be that some of these tools are not viable options for the GLA, but the Assessment could consider such options and conclude why they are not possible. This approach would make clearer why the proposed subsidy is the least distortive means of delivering the stated policy objective and that other, less distortive options are not feasible.

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

- 3.15 The second step involves an evaluation of the assessment against:
- (a) Principle C: First, subsidies should be designed to bring about a change of economic behaviour of the beneficiary. Second, that change, in relation to a subsidy, should be conducive to achieving its specific policy objective, and something that would not happen without the subsidy; and
 - (b) Principle D: Subsidies should not normally compensate for the costs the beneficiary would have funded in the absence of any subsidy.¹⁵

¹⁴ [Statutory Guidance](#), paragraph 3.42.

¹⁵ Further information about the Principles C and D can be found in the [Statutory Guidance](#) (paragraphs 3.43 to 3.57) and the [SAU Guidance](#) (paragraphs 4.12 to 4.14).

Counterfactual assessment

- 3.16 In assessing the counterfactual, the Statutory Guidance explains that public authorities should assess any change against a baseline of what would happen in the absence of the subsidy (the ‘do nothing’ scenario).¹⁶ This baseline would not necessarily be the current ‘as is’ situation (the ‘status quo’) but what would likely happen in the future – over both the long and short term – if no subsidy were awarded.
- 3.17 The Assessment outlines what would happen in a ‘no funding’ scenario, where RPs would have fewer financial resources available to deliver affordable housing in London to refugee households than if the GLA were to implement the RHP.
- 3.18 We consider that the Assessment is high level and could be improved by stating more clearly how the economic behaviour of RPs would change relative to the counterfactual. While the supporting evidence implies that the subsidy would be conducive to increasing RP provision of social housing,¹⁷ the Assessment itself does not address what would be expected to happen.¹⁸
- 3.19 We also note that, given the RHP is already open to applications from LAs (for whom awards made under the RHP are not considered by the GLA to constitute a subsidy), the Assessment could have benefitted from the inclusion of a further scenario where the RHP remains in place but is available only to LAs.
- 3.20 In the absence of an alternative counterfactual where RHP funding is available only to LAs, it is difficult to ascertain, for example, why it is necessary for RPs to be subsidised to acquire dwellings which are fit for immediate occupation (i.e. why LAs with access to grant funding could not themselves be relied upon to deliver this type of dwelling without a subsidy being necessary).

Changes in economic behaviour of the beneficiary

- 3.21 The Statutory Guidance explains that subsidies must bring about something that would not have occurred without the subsidy.¹⁹ In demonstrating this, public authorities should consider the likely change or additional net benefit.
- 3.22 The Assessment explains that, in increasing the incentive to deliver affordable housing for refugees, the subsidy encourages beneficiaries to deliver suitable affordable housing that would not have otherwise been financially viable due to

¹⁶ [Statutory Guidance](#), paragraphs 3.46-3.47.

¹⁷ See [GLA: Affordable Housing Funding Research](#)

¹⁸ In response to a clarification question from the CMA, the GLA has confirmed that it expects the grant funding to increase RP provision of social housing relative to the ‘do nothing’ counterfactual (ie that the CMA had correctly understood the GLA’s assessment in this regard).

¹⁹ [Statutory Guidance](#), paragraph 3.50.

the viability gap which has been identified.²⁰ This is supported by evidence from research commissioned by the GLA which estimates that an average subsidy of around £220,000 per home would be required in order to deliver the affordable homes that London requires.²¹

3.23 The Assessment further sets out how the RHP will target delivery of affordable housing that meets the specific needs of certain refugee groups, including through the provision of larger homes for Afghan families, as opposed to affordable housing more generally. For example:

- (a) Larger properties (four or more bedrooms) will be eligible for higher subsidies than smaller properties, in both absolute terms and on a percentage basis of total project costs basis; and
- (b) All bids will be assessed on an individual basis for strategic fit, including consideration of the delivery of homes for the eligible refugee groups, and the delivery of a portion of larger homes (four or more bedrooms) for those who have been accommodated in Home Office Bridging Accommodation.²²

3.24 We consider that the Assessment sets out positive qualitative evidence supporting the change in economic behaviour, subject to our earlier observations that the Assessment would have benefitted from stating more clearly how the economic behaviour of RPs would change relative to the counterfactual.²³

Additionality assessment

3.25 According to the Statutory Guidance, ‘additionality’ means that subsidies should not be used to finance a project or activity that the beneficiary would have undertaken in a similar form, manner, and timeframe without the subsidy.²⁴ For schemes, public authorities should also, where possible and reasonable, ensure the scheme’s design can identify in advance and exclude those beneficiaries for which it can be reasonably determined would likely proceed without subsidy.²⁵

²⁰ The GLA has commissioned research from Savills, which is focused on analysing the viability gap (referred to in this supporting documentation as a funding gap or subsidy gap) required to deliver 26,000 affordable homes annually over the next five years from 2023/4 ([GLA: Affordable Housing Funding Research](#)).

²¹ See [GLA: Affordable Housing Funding Research](#).

²² Home Office Bridging Accommodation refers to temporary bridging accommodation in the UK under two resettlement schemes, the Afghan Citizens Resettlement Scheme and the Afghan Relocations and Assistance Policy.

²³ See paragraph 3.18 of the counterfactual assessment.

²⁴ [Statutory Guidance](#), paragraphs 3.49-3.53.

²⁵ [Statutory Guidance](#), paragraph 3.55.

- 3.26 The Assessment identifies several design features of the RHP which are aimed at ensuring that the subsidy brings about additional benefits from beneficiaries and does not compensate for costs that may have been borne anyway.²⁶
- 3.27 Bids for subsidies will be reviewed on a case-by-case basis in accordance with pre-defined criteria, to ensure that each subsidy is limited to the amount required to address the viability gap to deliver an affordable home which is targeted specifically at refugee cohorts.²⁷
- 3.28 The Assessment sets out design features intended to ensure that subsidies are awarded only for the delivery of projects which would not otherwise happen and for costs that would not be funded anyway, and to exclude beneficiaries where no additional benefits would arise. These are discussed in more detail in our review of the Proportionality Assessment,²⁸ and include, for example:
- (a) limitations on the types of costs and projects that are eligible for the RHP; and
 - (b) a case-by-case review of projected costs and income, to ensure the funding provided is no higher than the cost gap for delivery.
- 3.29 While the GLA has explained that bids will be individually assessed to ensure each grant is limited to the necessary/minimum amount, we found that the Assessment would have been stronger if it had provided further detail on how this will work in practice, including in particular for dwellings fit for immediate occupancy. Although reference is made to the use of cost information and benchmarked data in appraising individual bids, it is not clear how that appraisal will be carried out. In particular, the Assessment would be improved by including detail on the relevant cost and income benchmarks, and how the viability gap that has been identified in the Assessment will be accounted for in the GLA's assessment of each individual grant.²⁹

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

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

²⁶ See [Refugee Housing Programme - Funding Guidance - April 2023](#), which at the time of the Assessment applied only to LAs and not to RPs.

²⁷ These are outlined in [Refugee Housing Programme - Funding Guidance](#).

²⁸ See paragraph 3.32.

²⁹ See paragraph 3.34.

- (b) Principle F: Subsidies should be designed to achieve their specific policy objective while minimising any negative effects on competition or investment within the United Kingdom.³⁰

Proportionality

- 3.31 The Assessment clearly explains the policy objective, as discussed in paragraph 3.3. Evidence is provided to support the Assessment's conclusion that the scheme is proportionate given the size of the intervention relative to the size of the housing market, the expected level of investment required to deliver affordable homes to meet the demand, the issues in the housing market detailed in paragraph 3.7, and the time-sensitive nature of the scheme given that existing relevant refugee schemes are coming to an end.
- 3.32 The Assessment details various elements of the scheme which by design limit the intervention:
- (a) Total value of the intervention is £126,183,294, which is small relative to the value of London's housing stock of £1,886 billion;³¹
 - (b) There are multiple caps on the grant amount, some of which are in line with other housing schemes, detailed in paragraph 1.9 and explained in the Funding Guidance;³²
 - (c) The scheme specifies it is capital funding only, and the nature of costs that the grant can cover are limited;
 - (d) Grant recipients will be required to provide details of expected and actual costs incurred, which are monitored throughout, and a clawback mechanism will apply in the event of over-compensation;
 - (e) The scheme is open to a broad set of potential applicants – LAs and RPs;
 - (f) All applicants will be required to compete for funding in a competitive process and their bids will be assessed against pre-defined criteria; and
 - (g) The scheme is time-limited to the financial year 2023/24.
- 3.33 It is also worth noting that certain elements of the scheme are constrained by DLUHC, who set the framework for intervention at a national level.³³

³⁰ Further information about the Principles B and F can be found in the [Statutory Guidance](#) (paragraphs 3.58 to 3.93) and the [SAU Guidance](#) (paragraphs 4.15 to 4.19).

³¹ 2021 figures. See Savills, [UK housing value breaks £8 trillion barrier](#).

³² See [Refugee Housing Programme - Funding Guidance](#)

³³ See [Local Authority Housing Fund](#).

- 3.34 Although the GLA has explained and evidenced why the intervention is proportionate, the Assessment would have been stronger if it had included further information on how certain design elements of the scheme limit the intervention to the minimum necessary to achieve the policy objective (in particular, to explain how the scheme caps interlink with the viability gap identified). However, whilst we note it may not be commensurate to undertake in-depth analysis on this, as the caps are in line with other schemes and the size of the intervention is limited, the Assessment should be clear that this is the case and explain why.

Design of subsidy to minimise negative effects on competition and investment

- 3.35 The Assessment states that the scheme is unlikely to have significant impacts on competition or investment in the UK for the following reasons:
- (a) Given the subsidy is small in size relative to the total value of the housing market it should have minimal impact on house price inflation;
 - (b) At a national level, grant allocation has included a number of caps, which are set by DLUHC; and
 - (c) The subsidy is targeted at local authority areas where the need is greatest.³⁴

Assessment of effects on competition or investment

- 3.36 The Assessment has conflated the proportionality and competition aspects of the third step and, as a result, the competition assessment lacks detail.
- 3.37 We found that the GLA's assumption that the subsidy will have a limited impact on house price inflation, due to it being small in size relative to the London housing market, seems reasonable.
- 3.38 The design elements of the scheme referred to by the GLA in its competition assessment are well evidenced, but in some instances the Assessment could have more clearly set out how they limit competition distortions.
- 3.39 Further, although the GLA detailed design elements of the scheme (as set out in paragraph 3.32), it is not always clear in the Assessment to which principle they relate. Many design elements relate to both Principle B and Principle F.
- 3.40 To improve the assessment, the GLA could have defined (in broad terms) the relevant market in which RPs operate, and the market structure in London for RPs, which would have helped it to identify who might be impacted by any competition distortions which arise. This could have been done at a high level,

³⁴ Determined by DLUHC using a funding formula.

using available data to look at affordable housing levels and providers in different LA areas of London.

3.41 Although the competition assessment is lacking in detail, we found that the GLA's assumption that the scheme is unlikely to have significant negative impacts on competition and investment in the UK was reasonable given:

- (a) the relative size of the intervention compared to the London housing market; and
- (b) the various design elements of the scheme which limit the risk of distortion (in particular the narrow targeting of the measure and the fact that funds are allocated through a competitive tender process).

Step 4: Carrying out the balancing exercise

3.42 The fourth step involves an evaluation of the assessment against subsidy control Principle G: subsidies' beneficial effects (in terms of achieving their specific policy objective) should outweigh any negative effects, including in particular negative effects on: (a) competition or investment within the United Kingdom; (b) international trade or investment.³⁵

3.43 The Assessment explains the benefits of the scheme in line with the overall objectives, and how the scheme provides additional benefits such as mitigating pressure on social housing resources, supporting integration, reducing temporary accommodation costs and adding to the general pool of affordable housing.

3.44 The Assessment notes that any impact on competition and investment in the UK and international trade and investment will be minimal and that the approach to funding as set out by DLUHC is designed to target areas of greatest need. As such the GLA considers that the benefits will outweigh any negative impacts relating to competition and investment in the UK and international trade and investment, citing evidence on general experience of affordable housing subsidies and interventions.

3.45 We consider that the balancing test could have been improved by, in particular, a closer adherence to the Statutory Guidance. For example:

- (a) Being clear that all negative impacts as well as the positive ones have been set out.
- (b) This would then enable a fuller discussion of how the conclusion that the benefits outweigh the negatives (or at least to support the

³⁵ See [Statutory Guidance](#) (paragraphs 3.96 to 3.98) and [SAU Guidance](#) (paragraphs 4.20 to 4.22) for further detail.

contention that the negative impact is minimal) was reached. This would ideally cover evidence supporting any conclusions, how the GLA has evaluated and measured both the expected beneficial and negative effects of the subsidy, and how the geographical and distributional impacts of the subsidy within the UK have been assessed.

- (c) Some of the supporting documentation provided – in particular the NAO report on affordable housing³⁶ – includes useful evidence with respect to DLUHC cost/benefit modelling. However, such evidence could have been better integrated into the Assessment (in particular how the identified benefits apply to this specific scheme and outweigh other negative impacts identified) and of itself does not cover all of the benefits identified.

Other Requirements of the Act

3.46 This step in the Assessment relates to the requirements and prohibitions set out in Chapter 2 of Part 2 of the Act, where these are applicable.³⁷

3.47 The GLA has identified that a subsidy given under this scheme would involve the delivery of a service of public economic interest (SPEI). Consequently, the GLA has assessed whether the requirements of section 29 of the Act would be complied with in relation to any subsidy given under the scheme. These requirements include:

- (a) The subsidy is limited to what is necessary to deliver the SPEI services having regard to costs of delivery and reasonable profits;³⁸
- (b) The subsidy is given in a transparent manner, meaning that the subsidy is given in accordance with a contract (or other legally binding instrument), which sets out the terms of the subsidy and contains certain prescribed information;³⁹ and
- (c) Arrangements are in place to regularly review the subsidy to ensure it remains limited to the minimum amount necessary and that any excess funds can be recovered.⁴⁰

3.48 The GLA has set out how beneficiaries will need to submit information on applicable costs, that only relevant costs will be covered (subject to a cap – see paragraph 1.9) and that its affordable housing project team will use a range of

³⁶ [The Affordable Homes Programme since 2015 - National Audit Office \(NAO\) report.](#)

³⁷ [Statutory Guidance](#), chapter 5.

³⁸ Section 29(2) of the Act.

³⁹ Section 29(3)-(5) of the Act.

⁴⁰ Section 29(6) of the Act.

data to assess profitability and viability. Beneficiaries will be required to maintain records of costs incurred which can be inspected by the GLA at any time, and to cooperate with the GLA should it decide to initiate a specific review to check for overpayment. The GLA will be able to 'claw back' overpayments that might arise.

- 3.49 We were not able to review the datasets used to assess profitability and suitability of bids. The approach could also be improved through closer links to the viability gap, with a clearer explanation as to how the viability gap is considered when assessing costs (for example, unless the viability gap accounted for, a cost cap could still end up higher than necessary costs).
- 3.50 With respect to the second and third requirements, the GLA explains that all beneficiaries will be required to sign an agreement which will incorporate the information required by section 29, including arrangements for monitoring and clawback. The GLA provided Heads of Terms which will form the basis of contracts. The Assessment could have been improved if the GLA had explained how the outcome of the competitive process (in particular, the 'value for money' component of the competition) for the selection of grant recipients, will ultimately be reflected in the relevant contracts.

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