

Subsidy Advice Unit Report on the proposed Brownfield Housing Scheme

Referred by the Greater Manchester Combined
Authority

02 September 2024

Subsidy Advice Unit

Part of the Competition and Markets Authority



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1. Introduction

- 1.1 This report is an evaluation prepared by the Subsidy Advice Unit (SAU), part of the Competition and Markets Authority, under section 59 of the Subsidy Control Act 2022 (the Act).
- 1.2 The SAU has evaluated the Greater Manchester Combined Authority's (GMCA) assessment of compliance of the Brownfield Housing scheme (the Scheme), with the requirements of Chapters 1 and 2 of Part 2 of the Act (the Assessment).¹
- 1.3 This report is based on the information provided to the SAU by GMCA in its Assessment and evidence submitted relevant to that Assessment.
- 1.4 This report is provided as non-binding advice to GMCA. The purpose of the SAU's report is not to make a recommendation on whether the scheme should be implemented, or directly assess whether it complies with the subsidy control requirements. GMCA is ultimately responsible for making the scheme, based on its own assessment, having the benefit of the SAU's evaluation.
- 1.5 A summary of our observations is set out at section 2 of this report.

The referred scheme

- 1.6 The purpose of the Scheme is to allow GMCA to award subsidies towards the costs incurred in developing brownfield sites for housing in the Greater Manchester area. The GMCA aims to support the delivery of at least 10,000 new housing units (including affordable housing, such as shared ownership and housing for social rent) by the end of the Scheme.
- 1.7 Subsidies under the Scheme may be given in the form of grants, subsidised loans or equity. It will run from summer 2024 to summer 2029.
- 1.8 Eligible costs include, but are not limited to, those associated with site acquisition, demolition and site remediation, utilities and other infrastructure, and construction to deliver:
 - (a) new housing units; and/or
 - (b) additional social/affordable housing units; and/or
 - (c) additional low carbon housing units; and/or

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

(d) other infrastructure deemed necessary for the support of any of the above, within Greater Manchester.

- 1.9 It is anticipated that beneficiaries of subsidies under the Scheme will include housing developers and other private sector entities engaged in the delivery of housing, registered providers of social housing, Local Authorities and other public sector organisations.
- 1.10 Individual awards being made under the Scheme will be limited to a maximum of the viability gap identified, and not above £20 million per project. The overall budget for the Scheme will be up to £500 million. The sources of funding for this £500 million include £135 million from the Brownfield Housing Fund, and £150 million from the Brownfield Infrastructure and Land Funding agreement, both administered by the Ministry of Housing, Communities and Local Government (MHCLG). The remaining balance of the £500 million (£215 million) is envisaged as coming from potential future funding allocations.

SAU referral process

- 1.11 On 12 July 2024, GMCA requested a report from the SAU in relation to its Brownfield Housing Scheme.
- 1.12 GMCA explained² that the Scheme is a Scheme of Particular Interest because it allows for the provision of one or more Subsidies of Particular Interest to be given.³
- 1.13 The SAU notified GMCA on 19 July 2024 that it would prepare and publish a report within 30 working days (ie on or before 2 September 2024).⁴ The SAU published details of the referral on 22 July 2024.⁵

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

³ 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.

⁴ Sections 53(1) and 53(2) of the Act.

⁵ [Referral of the proposed Greater Manchester Combined Authority \(GMCA\) Brownfield Housing scheme - GOV.UK \(www.gov.uk\)](#)

2. Summary of the SAU's observations

- 2.1 The Assessment uses the four-step structure described in the Statutory Guidance for the United Kingdom Subsidy Control Regime (the [Statutory Guidance](#)) and as reflected in the SAU's Guidance on the operation of the subsidy control functions of the Subsidy Advice Unit (the [SAU Guidance](#)).
- 2.2 In our view, GMCA has considered the Scheme's compliance with each of the subsidy control principles. The Assessment sets out the policy objective clearly and the equity rationale is supported with appropriate evidence.
- 2.3 The Assessment should however include more detail about compliance with the subsidy control principles, including more explanation of the assumptions used and decisions made about the approach taken, and with more precise referencing and signposting to specific evidence and analysis. In this context the Assessment should be improved by:
- (a) clarifying how the Scheme interacts with the Brownfield Housing Fund and the Brownfield Infrastructure and Land Funding agreement, including whether there are any constraints imposed on the use of these funds;
 - (b) providing more detail on its approach to the evidence and evaluation of the viability gap and how GMCA will ensure, at scheme level, that only the minimum necessary funding will be provided (Principle B). This should include clarifying the extent to which the provisions within the example Grant Funding Agreement may be varied when awarding subsidies under the Scheme, and how they apply across all forms of subsidy awarded;
 - (c) including further detail and evidence to support the conclusion that brownfield site development would not proceed absent the Scheme (Principle C). Further, in more clearly setting out the expected change in behaviour, the Assessment should address how the Scheme will deliver that change;
 - (d) explaining more clearly the basis for the approach taken to ensure additionality and that subsidies are still required despite any changes that may occur (Principle D);
 - (e) giving more consideration as to how the Scheme's design minimises the impact on competition and investment (Principle F); and
 - (f) clarifying the extent to which the Assessment covers loans and equity as well as grants, including further evaluation where differences exist.
- 2.4 Our report is advisory only and does not directly assess whether the Scheme complies with the subsidy control requirements. The report does not constitute a recommendation on whether the Scheme should be implemented by GMCA.

3. The SAU's Evaluation

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

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

3.2 The first step involves an evaluation of the Assessment against:

- (a) Principle A: Subsidies should pursue a specific policy objective in order to (a) remedy an identified market failure or (b) address an equity rationale (such as local or regional disadvantage, social difficulties or distributional concerns); and
- (b) Principle E: Subsidies should be an appropriate policy instrument for achieving their specific policy objective and that objective cannot be achieved through other, less distortive, means.⁶

Policy objectives

3.3 The Assessment states that the policy objective of the Scheme is to facilitate the development of new and additional housing on brownfield sites for private or social housing. The Scheme aims to:

- (a) support the UK Government's ambition to prioritise development on brownfield land;
- (b) increase housing supply and wider growth as part of the Levelling Up Agenda; and
- (c) help create a more sustainable and affordable housing market.

3.4 The Assessment refers to the current Greater Manchester Housing Market Assessment⁷ as evidence for the need to build at least 11,392 homes per annum and that this number has only been achieved in four out of the past 15 years, meaning that housing demand is far surpassing supply.

3.5 We consider that the Assessment clearly sets out the policy objective and explains the underlying reasons for its policy aims. However, the Assessment should explain further how the Scheme and its underlying policy aims interact with the

⁶ Further information about the Principles A and E can be found in the [Statutory Guidance](#) (paragraphs 3.32 to 3.56) and the [SAU Guidance](#) (paragraphs 4.7 to 4.11).

⁷ [Greater Manchester Strategic Housing Market Assessment Update April 2021 \(greatermanchester-ca.gov.uk\)](https://www.greatermanchester-ca.gov.uk/greatermanchester-strategic-housing-market-assessment-update-april-2021)

Brownfield Housing Fund, the Brownfield Infrastructure and Land Funding agreement and any other potential funding received through other Public Authorities (and, for example, whether GMCA faces any constraints on the use of money from those sources, and whether any other conditions apply).

Equity objective

- 3.6 The Statutory Guidance sets out that equity objectives seek to reduce unequal or unfair outcomes between different groups in society or geographic areas.⁸
- 3.7 The Assessment states that the Scheme seeks to address the social and economic disadvantages that have been caused by the undersupply of housing in Greater Manchester and which have a disproportionate impact on young families, including:
- (a) a lack of affordable quality housing;
 - (b) an increased risk of poverty and homelessness;
 - (c) impacts on public health; and
 - (d) reduced civic participation.
- 3.8 The Assessment also explains that infrastructure projects supported by the Scheme will stimulate economic growth through job creation and attract businesses by providing suitable housing for the workforce. Additionally, the Scheme will assist in addressing the need to reduce energy demands across homes and buildings to achieve Net Zero goals by 2038.
- 3.9 The Assessment sets out why brownfield sites are the most appropriate means to address the equity rationale, stating that using brownfield sites optimises strategic locations while preserving greenfield areas.
- 3.10 In our view, the Assessment clearly articulates the regional inequalities arising from an undersupply of housing in Greater Manchester and provides appropriate evidence in support, including case studies from previous GMCA funded brownfield development projects over the past five years, the Government's White Paper 'Fixing Our Broken Housing Market' and the Greater Manchester Housing Strategy 2022-2024.

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

Consideration of alternative policy options and why the 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.⁹
- 3.12 The Assessment outlines that the Scheme will offer subsidies through grants, sub-commercial loans, and equity. It explains that brownfield housing developments face additional costs compared to building on greenfield land (such as land decontamination, demolition, remediation and other ground condition issues). The Assessment notes that there is national recognition that subsidies are necessary in such cases.
- 3.13 The Assessment sets out several options that were considered, including GMCA undertaking redevelopment itself as a developer, commercial loans, subsidised loans, grants and acquiring equity in companies undertaking projects. The Assessment indicated only subsidised loans, grants and acquiring equity would be suitable approaches.
- 3.14 In our view, while the Assessment considers alternative options to providing or funding housing development, it could also consider other methods to achieve the policy objective (such as changes to the tax system or affordable housing quotas).

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.¹⁰

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

⁹ [Statutory Guidance](#), paragraphs 3.54-3.56.

¹⁰ Further information about the Principles C and D can be found in the [Statutory Guidance](#) (paragraphs 3.57 to 3.71) and the [SAU Guidance](#) (paragraphs 4.12 to 4.14).

the absence of the subsidy (the 'do nothing' scenario').¹¹ This baseline would not necessarily be the current situation (the 'status quo') but what would be likely to happen in the future – over both the short and long term – if no subsidy were awarded.

- 3.17 The Assessment identifies a baseline counterfactual scenario in which the intended projects will not proceed in the near future because they are not viable absent the Scheme. It explains that brownfield sites would be left unused and undeveloped as a result of high costs or low values or a combination of both, with developers not willing to proceed without support (ie the returns to be expected from the developers' investments do not provide sufficient commercial incentive).
- 3.18 In our view, the Assessment should include further detail and evidence to support the position that development of the brownfield sites would not proceed absent the Scheme (for example, by covering the scope for other potential investment or projects on those sites). This could notably rely on elements of the discussion in the 'change in economic behaviour' and 'additionality' sections of Assessment, explaining that viability assessments will be used to demonstrate that the projects could not proceed absent the subsidy.

Changes in economic behaviour of the beneficiary

- 3.19 The Statutory Guidance sets out that subsidies must bring about something that would not have occurred without the subsidy.¹² In demonstrating this, public authorities should consider the likely change or additional net benefit.
- 3.20 The Assessment explains that subsidies provided under the Scheme will have a behaviour changing impact by making the development of brownfield land viable. It notes that the Scheme ensures this 'through the use of specific conditions in the Scheme.'
- 3.21 In our view the Assessment does not clearly explain the impact of anticipated behaviour change and should more clearly articulate the desired change in economic behaviour to demonstrate that the projects would only be delivered with the Scheme in place. For example, the Assessment could set out that the Scheme provides financial support to projects, which in turn increases the return that can be earned on the project, thereby making the project investable.

Additionality assessment

- 3.22 According to the Statutory Guidance, 'additionality' means that subsidies should not be used to finance a project or activity that the beneficiary would have

¹¹ [Statutory Guidance](#), paragraphs 3.60-3.62.

¹² [Statutory Guidance](#), paragraph 3.64.

undertaken in a similar form, manner, and timeframe without the subsidy.¹³ 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.¹⁴

- 3.23 The Assessment explains that GMCA will assess whether a project would be uneconomic and therefore would not proceed absent the Scheme, ensuring that the subsidies provided under the Scheme do not fund business as usual costs. In making its assessment, GMCA will obtain and review evidence from developers including: (i) project appraisals (evidencing what would happen with and without the subsidy intervention); (ii) funding information; (iii) details of any other subsidies being provided to the project; and (iv) valuation reports prepared by external surveyors.
- 3.24 The Assessment also sets out that projects will be monitored throughout their lifecycle to ensure that the subsidy provided under the Scheme is still needed despite any changes that may occur (eg increased value or market changes). Evidence to support ongoing monitoring may include: (i) receipts from relevant transactions; (ii) evidence of defrayed expenditure; (iii) up to date valuations and appraisals; and (iv) updated programme and quarterly monitoring forms.
- 3.25 The Assessment notes that, should any changes in circumstances arise, there is a claw-back provision in place to ensure that the subsidy is repaid. For example, where property values increase above those anticipated in the outline viability assessment, resulting in higher profits than initially identified being realised by the developer, 50% of the increase in value (as compared to the initial viability assessment) would be repaid to GMCA.
- 3.26 In our view, the Assessment benefits from the inclusion of a detailed discussion of GMCA's intention to assess each project's need for the subsidy throughout the project lifecycle, and clearly describes the types of evidence that will be obtained and assessed in support of Principle D.
- 3.27 However, the Assessment should explain more clearly the basis for the approach taken (for example, why the percentage of any uplift in value to be repaid to GMCA has been determined as 50%). This could also include a clearer explanation as to how the evidence obtained will be scrutinised. For example, the Assessment refers to GMCA's intention to test assumptions within project appraisals against market norms but is not clear who will identify market norms (eg the developer or GMCA) and how these will be tested. The Assessment could explain how those undertaking the assessment are appropriately qualified to do so (eg if the assessments will be referred to third party experts, then this should be

¹³ [Statutory Guidance](#), paragraphs 3.63-3.67.

¹⁴ [Statutory Guidance](#), paragraph 3.66.

noted). Lastly, the Assessment could benefit from a more detailed discussion of the claw-back provisions.

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

3.28 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
- (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.¹⁵

Proportionality

3.29 The Assessment explains that the relevant subsidy amount for each award under the Scheme will represent the viability gap faced by a project. Therefore, the level of subsidy in each instance is intended to be the minimum required to ensure the project proceeds.

3.30 The Assessment sets out the evidence required from the recipient prior to any subsidy award may include (but not be limited to):

- (a) an up-to-date project appraisal, including a full breakdown of cost assumptions to be tested against market norms;
- (b) details of any other subsidies being provided to the recipient for delivery of the project;
- (c) valuation reports prepared by a Royal Institute of Chartered Surveyors registered surveyor; and
- (d) an up-to-date company due diligence report.

3.31 GMCA will also consider whether the expected project return is reasonable with reference to prevailing market norms (as the extent of a project's viability gap will be driven by the project specific return required by the developer).

3.32 The Assessment provides an example Grant Funding Agreement to illustrate various design aspects of the Scheme which are intended to help minimise the amount of the subsidy needed. The Assessment also outlines how the Scheme will award subsidies based in part on an assessment of the value for money of a

¹⁵ Further information about the Principles B and F can be found in the [Statutory Guidance](#) (paragraphs 3.72 to 3.108) and the [SAU Guidance](#) (paragraphs 4.15 to 4.19).

scheme based on the level of subsidy per home that will be built (see paragraph 3.37 for more detail).

- 3.33 In our view, the Assessment demonstrates how GMCA will ensure the level of the subsidies provided under the Scheme should be the minimum necessary to achieve the stated policy objective. The Assessment also sets out a reasonable overview of the types of evidence that would be required from developers and provides an indication of how this would be assessed. However, the Assessment should provide more detail as to how the viability assessment would evidence and evaluate some of the specified elements going to viability including, the expected sales value of a development, how 'market norm' project building costs are assessed, and the project specific rate of return. This additional detail should also provide clarity over how, when assessing the viability gap, the value of subsidies awarded under the Scheme will be the right amount to generate the desired change in behaviour from beneficiaries.
- 3.34 In our view, the Assessment provides a reasonable level of detail on a number of design features that are relevant to minimising the level of the subsidy that will be provided, consistent with Statutory Guidance. However, as set out in paragraphs 3.23 to 3.27, the Assessment should provide more explanation about some of the design choices made.
- 3.35 Furthermore, given that the provided Grant Funding Agreement is described in the Assessment as an example, the Assessment should discuss how the Grant Funding Agreements may vary under different circumstances, and how in such circumstances GMCA will continue to ensure that the subsidy provided is restricted to the minimum necessary. It should also discuss how this would be applied for subsidies under the Scheme given as loans and equity, as well as grants.

Design of subsidy to minimise negative effects on competition and investment

- 3.36 The Assessment recognises that some developers receiving a subsidy under the Scheme could gain a competitive advantage over competitors who do not benefit from the Scheme, as the latter will need to fully cover the development costs themselves.
- 3.37 The Assessment notes that the Scheme design mitigates potential negative effects on competition by being open to any developers seeking to undertake a housing project on brownfield land within Greater Manchester with applications being assessed against:
- (a) deliverability: projects are assessed on their readiness to deliver via a review of information gathered on schemes through a submission of evidence by each of the Local Authorities;

- (b) value for money: projects are determined as high, medium or low value for money based on the subsidy amount per unit; and
- (c) strategic fit: projects that are more strategic in nature are given higher priorities. These are linked to whether the project sits within a Growth Location or town centre, aligns with Places for Everyone and local policies, as well as demonstrating a contribution to wider objectives (modern methods of construction/skills/environment and biodiversity).

3.38 In our view, and in line with Chapter 3 of the Statutory Guidance, the Assessment should give more consideration as to how the Scheme’s design minimises the impact on competition and investment by:

- (a) providing more clarity on the specific criteria for assessing applications that would be applied in relation to the Scheme itself (as the Assessment uses an example of assessment criteria applied to previously allocated funds);
- (b) considering whether the criteria might favour certain developers or types of developers (eg larger developers as opposed to smaller developers);
- (c) considering other characteristics which may impact competition such as, the size of the subsidy relative to the affected markets, the nature of the costs involved, and the timespan over which the subsidy is granted;¹⁶
- (d) providing more detail on the circumstances in which grants, loans or equity would be used and make clear how, if at all, the design and impact of the Scheme might differ if loans or equity investment were used; and
- (e) considering more clearly how the design will minimise the impact on investment as well as competition.

Assessment of effects on competition or investment

3.39 The Assessment sets out that impact on competition should be minimised in part because the subsidies provided under this Scheme will support delivery for the sorts of houses for which need significantly outstrips current supply.

3.40 The Assessment notes that the Scheme could potentially subsidise the price of homes sold by beneficiaries, which could in turn impact the prices at which competing developers are able to sell homes. However, the Assessment argues that any such impact will be limited on the basis that the specific provisions in the Scheme expressly state that the subsidy will be limited to a reasonably demonstrated viability gap. Furthermore, the Assessment notes that the potential for regional distortions arising from the Scheme is limited as the Brownfield

¹⁶ [Statutory Guidance](#), paragraphs 3.76-3.108.

Housing Fund is a national scheme and similar programmes are being delivered in neighbouring regions such as West Yorkshire and Liverpool City Region.

- 3.41 In our view, the Assessment is clear on why the subsidy is unlikely to materially influence the prices at which beneficiaries or non-beneficiaries are able to sell homes in the GMCA area, and that material regional distortions are unlikely.
- 3.42 However, given there is no cap on the amount that a single beneficiary can receive under the Scheme (only a cap per project), there is the potential for a small number of developers to receive multiple subsidies totalling above £20 million. Therefore, the Assessment could consider the potential for the Scheme to result in an individual or small number of developers being responsible for the supply of large share of new homes in the area.
- 3.43 We also note that the Assessment could include more detail and explanation of the impact on competition and investment overall. For example, more clarity on the expected impact on developers undertaking projects outside the Greater Manchester area, and on the market for developable land, construction materials or construction labour.¹⁷

Step 4: Carrying out the balancing exercise

- 3.44 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.¹⁸
- 3.45 The Assessment set out the anticipated benefits arising from the subsidy (10,000 new housing units by 2029 without using greenbelt land; the creation of supply chain opportunities; the addressing of inequalities caused from disused brownfield sites and housing inequalities; and building on previous public investment to deliver housing).
- 3.46 The Assessment also sets out the potential negative impacts, including on developers not in receipt of funding from the Scheme, the impact on house prices for developers arising from an increase in housing supply which may result in a decrease in profits,¹⁹ and effects on projects outside GMCA areas (including international developers).
- 3.47 The Assessment concludes that given the Scheme is open for any eligible housing developer to apply, there will be a limited negative effect on the housing developer

¹⁷ Also referred to as 'input markets' (eg raw materials, land, or labour); see [Statutory Guidance](#), paragraph 17.46.

¹⁸ See [Statutory Guidance](#) (paragraphs 3.109 to 3.117) and [SAU Guidance](#) (paragraphs 4.20 to 4.22) for further detail.

¹⁹ The Assessment notes that a rise in prices would however not be desirable.

market. Coupled with other design features aimed at limiting the negative effects on competition set out in Step 3 (limiting subsidies to: the policy objective, housing types where there has been an identified need; a reasonable demonstrated viability gap; and the availability of similar funding outside of the geographic footprint for the Scheme), the benefits are considered to 'easily' outweigh the 'very limited' potential negative effects on competition.

3.48 While the Assessment lists the benefits and negative impacts on competition and investment, it could provide more explanation of what these are (or cross-refer accordingly to relevant parts of the Assessment). For example, while it acknowledges an impact on developers undertaking projects outside GMCA area, it is not clear what this impact might be.

3.49 The Assessment should explain how GMCA reached its conclusion in determining that the benefits outweigh the negatives, for example by explaining (and where possible quantifying or evidencing) the factors to which it has attributed greater or lesser weight.

Other Requirements of the Act

3.50 This step in the evaluation relates to the requirements and prohibitions set out in Chapter 2 of Part 2 of the Act, where these are applicable.²⁰

3.51 GMCA confirmed that no other requirements or prohibitions set out in Chapter 2 of Part 2 of the Act apply to the Scheme.

2 September 2024

²⁰ [Statutory Guidance](#), chapter 5.