



Department for
Business & Trade

Subsidy control principles assessment guide

Guide to assessing whether a subsidy or scheme is consistent with the principles of the Subsidy Control Act 2022.

December 2024

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Section 12 of the [Subsidy Control Act 2022](#) requires public authorities to consider the subsidy control principles and be of the view that their subsidy or scheme is consistent with those principles before giving an individual subsidy or making a subsidy scheme.

This guide is for use by public authorities preparing to give subsidies other than subsidies or schemes of interest (SSoIs) or subsidies or schemes of particular interest (SSoPIs).

There is a separate assessment guide for SSoIs and SSoPIs.

This guide is to assist with documenting your evidence, analysis and conclusions of your principles assessment for subsidies and subsidy schemes.¹ When you are completing the assessment, the rigour of analysis and the quality of supporting evidence should be proportionate to the size and potential distortive impact of the proposed subsidy or subsidies given under a scheme.

You must refer to the full requirements set out in the Act and the [UK subsidy control regime: statutory guidance](#) and in particular Annex 2.

How to use this guide

We recommend completing an initial draft of the assessment early in the policy development process so that you can apply insights from the assessment process to design a more effective and less distortive subsidy.

Structure your assessment by addressing each numbered heading.

The relevant parts of the statutory guidance are listed under each heading. You should consult these parts of the statutory guidance when drafting each section.

State what evidence has been used for each component of the assessment and reference this appropriately throughout. This may involve cross-referencing to specific sections of the associated business case or other internal or external documents.

Additionally, it is recommended that you explain your approach to:

- how you considered contradictory or inconsistent evidence in coming to conclusions under each component of the assessment
- how you decided what evidence and analysis was proportionate for the subsidy or scheme being referred

It is important to address the components of the assessment directly, describing relevant supporting evidence. You should avoid broad statements.

On some occasions, it may be useful to provide the policy context, including any central government programmes, and clearly explain how they fit with the specific policy objective.

Notes are provided for additional clarification; however, they do not form part of the statutory guidance.

¹ A scheme's consistency with the subsidy control principles is generally assessed in the same manner as for individual subsidies. The assessment should focus on the subsidies that could reasonably be given under the terms of that new scheme that have the highest risk of not complying with the principles.

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

Principle A: Subsidies should pursue a specific policy objective in order to remedy an identified market failure or address an equity rationale (such as local or regional disadvantage, social difficulties or distributional concerns).

and

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.

1.1 Policy objective

Using evidence, establish the existence and significance of the market failure and/or the inequality the subsidy seeks to address.

Provide details of the specific policy objective that you hope to achieve with this subsidy and how it addresses the market failure or inequality you have identified.

See [statutory guidance paragraphs 3.32 to 3.53](#).

Notes

The assessment can address either market failure or equity rationale, or both.

Market failure is an economic term that needs to be applied in accordance with the statutory guidance.

Make the policy objective as precise as possible, including targets and timeframes.

Clearly state the desired outcome(s) of your policy. For example, '[Public authority] wishes to remedy/mitigate the effects of this [named market failure] by achieving a [x]% increase in [y] in the given area by [z] period of time.' Or, if there is not a specific figure, then identify another means of evaluating the impact of the subsidy.

1.2 Appropriateness

Justify why a subsidy is the most appropriate instrument for addressing the identified policy objective and explain why other non-subsidy instruments have not been chosen, such as:

- (a) regulation
- (b) direct provision of the good or service by the authority
- (c) loans or equity investment on commercial terms.

State why the next-best alternative to a subsidy would not achieve the policy objective.

See [statutory guidance paragraphs 3.54 to 3.56](#).

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

2.1 Baseline no-subsidy decision

Set out the counterfactual by describing what would most likely happen in the future—over both the long and short term— if no subsidy were awarded.

See [statutory guidance paragraphs 3.60 to 3.62](#).

Notes

There may be a variety of possible counterfactuals, but you should select the one with the most realistic chance of happening.

2.2 Additionality assessment

Provide details of how the subsidy will lead to a change in the economic behaviour of the beneficiary, such as:

- (a) a project or activity being carried out, which would have otherwise not gone ahead (or at least not in a way that benefited a certain group of people or a specific geographical area)
- (b) measurable improvement in the quality of the outputs or outcomes
- (c) an increase in the scale or scope of a project or activity, for instance to extend the geographic area or number of groups benefiting from it
- (d) a project or activity occurring at a significantly earlier point than it would have otherwise

Outline how the subsidy will be conducive to achieving the policy objective identified in step 1.

See [statutory guidance paragraphs 3.63 to 3.71](#).

Notes

If in exceptional circumstances the subsidy will compensate for the costs the beneficiary would have likely funded in the absence of any subsidy (such as ‘business as usual’ costs, for example ongoing costs related to the normal day-to-day running of the business such as rent, transport costs, and personnel costs), then you must provide appropriate justification.

Step 3: Consider the distortive impacts that the subsidy may have and keep them as low as possible

Principle B: Subsidies should be proportionate to their specific policy objective and limited to what is necessary to achieve it.

and

Principle F: Subsidies should be designed to achieve their specific policy objective while minimising any negative effects on competition and investment within the United Kingdom.

3.1 Proportionality and minimising distortion

Demonstrate how the subsidy is proportionate to the policy objective identified in step 1.

Demonstrate how the subsidy has been designed to minimise any negative effects on competition and investment within the UK whilst still allowing it to meet the policy objective. This should include details of how you have considered the following subsidy characteristics:

- (a) nature of the instrument
- (b) breadth of beneficiaries and the selection process
- (c) size of the subsidy
- (d) subsidy ratio
- (e) timespan over which the subsidy is given
- (f) nature of the costs being covered
- (g) performance criteria
- (h) ringfencing
- (i) monitoring and evaluation
- (j) characteristics of the subsidy

See [statutory guidance paragraphs 3.72 to 3.108 and 17.6 to 17.28](#)

Notes

It is not enough to simply describe the subsidy characteristics. You need to clearly explain how they contribute to proportionality and/or minimising market distortion.

Step 4: Carry out the balancing exercise

Principle G: Subsidies' beneficial effects (in terms of achieving their specific policy objective) should outweigh any negative effects, including in particular negative effects on competition and investment within the United Kingdom, and international trade and investment.

4.1 Balancing exercise

Set out details of the anticipated negative effects of the subsidy, the likelihood they will materialise and the extent of the harm if they do.

Identify any:

- (a) negative effects on competition and investment within the UK
- (b) negative effects on international trade and investment
- (c) negative geographical impacts
- (d) negative distributional impacts

Set out the expected benefits of the subsidy in relation to the identified policy objective.

Explain why you are of the view that the negative effects are outweighed.

See [statutory guidance paragraphs 3.109 to 3.117](#).

Notes

All subsidies have the potential to distort competition and investment. The objective of the balancing test is to help you make an informed judgement about whether the benefits outweigh the harms. Do not downplay the harms.

It will not always be possible to quantify every element of the assessment, and therefore the balancing exercise may need to include both quantitative and qualitative elements.

Department for Business and Trade

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