



Department for  
Business & Trade

# **Subsidy control principles assessment guide for Subsidies or Schemes of Interest (SSols) and Subsidies or Schemes of Particular Interest (SSoPIs)**

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

December 2024

# Contents

How to use this guide	3
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	4
Step 2: Ensure that the subsidy is designed to create the right incentives for the beneficiary and bring about a change	5
Step 3: Consider the distortive impacts that the subsidy may have and keep them as low as possible	6
Step 4: Carry out the balancing exercise.	7

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 or Schemes of Interest (SSoIs) or Particular Interest (SSoPIs).

The Department for Business and Trade has identified SSoIs and SSoPIs as the subsidies that have the greatest potential to distort competition and investment. 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 scheme.

You must refer to the full requirements set out in the Act and [UK subsidy control regime: statutory guidance](#), and in particular chapter 3 and annex 3.

You are also encouraged to read the Subsidy Advice Unit guidance<sup>1</sup>. This explains the referral process and the analytical framework they will apply when reviewing your assessment.

Subsidies and schemes in relation to energy or the environment must be assessed against further principles found in schedule 2 of the Act, as well as against the subsidy control principles in schedule 1.<sup>2</sup>

## 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 and Subsidy Advice Unit guidance are listed under each heading. You should consult these parts of the 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, but 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.

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<sup>1</sup> <https://www.gov.uk/government/publications/guidance-on-the-operation-of-the-subsidy-control-functions-of-the-subsidy-advice-unit/operation-of-the-subsidy-control-functions-of-the-subsidy-advice-unit>

<sup>2</sup> See chapter 4 of the Statutory Guidance for the United Kingdom Subsidy Control Regime.

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

## **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](#) and [Subsidy Advice Unit guidance](#) (paragraph 4.11 in PDF version).

#### **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**

**Principle C:** Subsidies should be designed to bring about a change of economic behaviour of the beneficiary. 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**

**Principle D:** Subsidies should not normally compensate for the costs the beneficiary would have funded in the absence of any subsidy.

### **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 output or outcome
- (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](#) and [Subsidy Advice Unit guidance](#) (paragraph 4.14 in PDF version).

## 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, e.g. 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 Market assessment

Identify the immediate affected market(s), including the relevant product(s) and geographic scope. What are the major characteristics of the market, for example:

- (a) concentration
- (b) barriers to entry
- (c) expansion
- (d) exit
- (e) the state of growth

See [statutory guidance annex 3 paragraphs 17.31 to 17.63](#) and [Subsidy Advice Unit guidance](#) (paragraph 4.19 in PDF version).

## Notes

The market assessment is an additional component to step 3 (linked to principles F and G) that should be considered in the assessment of larger subsidies such as SSols and SSoPIs.

Identifying the relevant market(s) is a helpful preliminary to the next heading, in which you should aim to reduce the distortions caused by that subsidy to the market. It will also help with assessing the residual risk of harm in that market (in the 'balancing exercise', below).

You may also need to assess related markets if the subsidy is likely to have a significant and foreseeable impact on other markets. For example, a subsidy that lowers the production cost of a material, that is sold to a single UK enterprise, processed and sold onto a concentrated international market. In this instance it would be appropriate to consider the market for the unprocessed good in which the beneficiary operates, and the market for the processed good.

What conclusions do you draw from your analysis? Think about the harms the subsidy might cause, the types of impact you would be most concerned about (and should explore further) or those you are less concerned about.

## 3.2 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](#) and [Subsidy Advice Unit guidance](#) (paragraph 4.22 in PDF version, and 4.23 in relation to subsidies and schemes that engage energy or environmental principles).

### **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.





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**Department for Business and Trade**

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