

Subsidy Advice Unit Report on a proposed subsidy to Mid and East Antrim Borough Council

Referred by Belfast City Council

22 January 2025

Subsidy Advice Unit

Part of the Competition and Markets Authority



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1. The Referral

- 1.1 On 29 November 2024, Belfast City Council (the Council) requested a report from the Subsidy Advice Unit (the SAU)¹ in relation to its proposed subsidy to Mid and East Antrim Borough Council (MEABC) (the Subsidy) under section 52 of the Subsidy Control Act 2022 (the Act).²
- 1.2 This report evaluates the Council's assessment of compliance (the Assessment) of the Subsidy with the requirements of Chapters 1 and 2 of Part 2 of the Act.³ It is based on the information and evidence included in the Assessment.
- 1.3 This report is provided as non-binding advice to the Council. It does not consider whether the Subsidy should be given, or directly assess whether it complies with the subsidy control requirements.

Summary

- 1.4 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](#)).
- 1.5 In our view, the Council has considered at a high level the compliance of the Subsidy with the subsidy control principles. In particular, the Assessment clearly describes and evidences how the Subsidy would change the beneficiary's economic behaviour, bringing about changes that would not have otherwise occurred (Principles C & D).
- 1.6 However, we have identified the following areas for improvement:
 - (a) the Council should consider whether combining its strategic objective of increasing the level of business innovation, with the specific aim of the Subsidy, would constitute a more accurate specific policy objective for the purpose of Principle A;
 - (b) the Assessment should more fully explain and evidence its conclusion that the themes of (i) good jobs, regional balance and productivity and (ii) regeneration, constitute market failures as opposed to being desirable policy outcomes (Principle A);

¹ The SAU is part of the Competition and Markets Authority.

² [Referral of the proposed subsidy to Mid and East Antrim Borough Council by Belfast City Council - GOV.UK](#)

³ 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 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.

- (c) in relation to its consideration of positive externalities, and the existence of imperfect/asymmetric information, the Assessment should better explain and evidence how the Subsidy will achieve a more efficient outcome by describing how these factors hinder investments in the breadth of sectors and activities targeted by the Subsidy, and how this has led to an inefficient outcome (Principle A);
 - (d) the Assessment should consider more coherently and systematically potential impacts on competition or investment, particularly whether and to what extent the employment space market would be affected by the Subsidy (Principle F).
 - (e) the Assessment should consider whether the Subsidy could have an impact on international trade and investment in line with the Statutory Guidance (Principle G).
- 1.7 Overall, the Assessment should make better use of the supporting evidence, which was not well cited and referenced.
- 1.8 We discuss these areas below, along with other issues, for consideration by the Council in finalising its assessment

The referred subsidy

- 1.9 The Council is proposing to award MEABC a subsidy of £20.5 million in the form of a direct grant to build the i4C Innovation and Cleantech Centre (i4C). The i4C will provide a new physical hub including office accommodation and workspace in Ballymena, aimed at supporting future innovation activity in the Mid and East Antrim (MEA) area and future cleantech⁴ sector needs across Northern Ireland (NI). It will be fully owned by MEABC, who will appoint a third-party to manage its operation.
- 1.10 The Subsidy will provide for 85% of the capital costs to build the i4C between 2025 and 2029 (the Project). The estimated capital cost for the Project is around £24 million, including a budget of £1.26 million for the iLAB facility (iLAB).⁵ MEABC will contribute £3.5 million to the Project.
- 1.11 The Subsidy is part of the Belfast Region City Deal⁶ (BRCD), a £1 billion investment programme that aims to boost economic growth and job creation in the Belfast region.

⁴ Cleantech (or clean technology) refers to innovative solutions and technologies aimed at promoting environmental sustainability.

⁵ The Assessment explains that the iLAB will be a staffed 'makerspace' workshop to be located within the i4C building, where businesses can get hands on support from technicians.

⁶ [Belfast Region City Deal | Belfast City Council](#)

1.12 The Council explained that the Subsidy is a Subsidy of Particular Interest because it exceeds £10 million in value.

2. The SAU's Evaluation

2.1 This section sets out our evaluation of Assessment, following the four-step structure used by the Council.

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

2.2 Under Step 1, public authorities should consider compliance of a subsidy with:

- (a) 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
- (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.⁷

Policy objectives

2.3 The Assessment states that the policy objective of the Subsidy is to increase levels of business innovation activity in both the MEA area and NI, as well as to support regeneration of the Ballymena area.

2.4 The Assessment explains that this will be achieved through the development of the i4C, which will provide a physical hub for micro and small manufacturing business supporting future innovation activity, as well as providing a springboard for both the development of a cleantech hub for NI, attracting foreign direct investment (FDI) opportunities and supporting regeneration of the Ballymena area.

2.5 The Assessment states that the Subsidy will contribute to the wider strategic priorities stated in the draft Programme for Government⁸ including (i) creating good jobs, (ii) promoting regional balance, (iii) raising productivity; and (iv) reducing carbon emissions.

2.6 We consider that the stated policy objective as set out in the Assessment namely, increasing levels of business innovation activity in the region and supporting regeneration, appears more akin to a strategic objective for the Council rather than a specific policy objective for the Subsidy for the purpose of Principle A. However, the description of the aims and objectives of the i4C (see paragraph 2.4) more

⁷ See [Statutory Guidance](#), paragraphs 3.32 to 3.56 and the [SAU Guidance](#), paragraphs 4.7 to 4.11 for further detail.

⁸ [Programme for Government | The Executive Office](#).

specifically set out what the Subsidy is designed to achieve. The Council should consider whether these two elements, when taken together, would constitute a more accurate specific policy objective for the purpose of the Assessment.

Market failure

- 2.7 Market failures arise where market forces alone do not produce an efficient outcome. When this arises, businesses may make investments that are financially rational for themselves, but not socially desirable.⁹
- 2.8 The Assessment identifies as potential market failures, desired outcomes under two broad themes:
- (a) good jobs, regional balance and productivity: the Assessment explains that the Subsidy will address wage, productivity and investment disparities between NI and the UK, as well as regional imbalances within NI. It states that the Subsidy will achieve this through the provision of infrastructure (the i4C) which will allow firms to enter the cleantech sector, with the potential to create higher paid jobs, increase the levels of business innovation activity and attract FDI; and,
 - (b) regeneration: the Assessment states that the Subsidy will overcome a market failure of a lack of sufficient public sector investment at the site of the i4C.
- 2.9 The Assessment also argues, relatively briefly and in general terms, that the Subsidy will address:
- (a) imperfect / asymmetric information, namely that there is a lack of knowledge amongst larger industry players as to the skill potential of the local business base and the benefits that they can bring to the wider cleantech eco-system, as well as a lack of private equity being invested into innovative businesses in NI due to distance from mainstream UK-based private equity/venture capital suppliers; and
 - (b) spillovers and positive externalities from developing the cleantech sector in NI, such as generating further investment, improving productivity and levels of innovation, which the Subsidy will internalise.
- 2.10 In our view, whilst the beneficial outcomes of the Subsidy including its effects on jobs and investment, regional balance and regeneration are generally well-evidenced, the Assessment should more fully explain and evidence its conclusion

⁹ [Statutory Guidance](#), paragraphs 3.35-3.48.

that they constitute market failures, as opposed to being desirable policy outcomes, as set out in the Statutory Guidance.¹⁰

- 2.11 In relation to its consideration of positive externalities, and the existence of imperfect/asymmetric information, the Assessment should better explain and evidence how the Subsidy will achieve a more efficient outcome by describing how these factors hinder investments in the breadth of sectors and activities targeted by the Subsidy, and how this has led to an inefficient outcome.

Appropriateness

- 2.12 Public authorities must determine whether a subsidy is the most appropriate instrument for achieving the policy objective. As part of this, they should consider other ways of addressing the market failure or equity issue.¹¹

- 2.13 The Assessment states that the Subsidy is an appropriate policy instrument to achieve its policy objective and that this cannot be achieved through other less distortive means, (e.g. a loan or equity/quasi-equity etc).

- 2.14 The Assessment explains that there has already been investment in the wider site proposed for the i4C, including by the Department for Communities (as owners) and that these interventions, alone, have been insufficient to incentivise the development of the i4C by the private sector to achieve the desired policy outcome. It explains that the i4C has been through a rigorous selection process based on alignment with the BRCD ambitions and policy objectives, as well as a business case process which has been independently reviewed and approved.

- 2.15 In terms of alternatives to the Subsidy, the Assessment focusses on the potential for a commercial loan to be made to the beneficiary. It explains, and supports with significant evidence, that this has been rejected due to the low levels of rental values that the MEA area can command, which means that there would be insufficient cashflow to repay a commercial loan.

- 2.16 The Assessment similarly concludes that assistance by any form other than a grant would not be affordable, would render the Project unviable, and would not represent a viable alternative to the proposed grant.

- 2.17 In our view, the Assessment demonstrates that the Council has considered alternative ways of delivering the development of the i4C and evidences why a direct grant of subsidy was the most appropriate option.

¹⁰ [Statutory Guidance](#), paragraphs 3.35 to 3.48

¹¹ [Statutory Guidance](#), paragraphs 3.54-3.56.

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

- 2.18 Under Step 2, public authorities should consider compliance of a subsidy with:
- (a) Principle C: Subsidies should be designed to bring about a change of economic behaviour of the beneficiary. That change should be something that would not happen without the subsidy and be conducive to achieving its specific policy objective; and
 - (b) Principle D: Subsidies should not normally compensate for the costs the beneficiary would have funded in the absence of any subsidy.¹²

Counterfactual

- 2.19 In assessing the counterfactual, public authorities should consider what would likely happen in the future – over both the long and short term – if no subsidy were awarded (the ‘do nothing’/‘no subsidy’ scenario).¹³
- 2.20 The Assessment sets out a counterfactual scenario whereby in the absence of a subsidy, the i4C would not be built and operated and the policy objectives would not be achieved.
- 2.21 The Assessment includes economic statistics which explain the high prevalence of Small and Medium-sized Enterprises (SMEs) in the NI economy. It notes that in the experience of MEABC, the SME business base requires physical and training support to develop and that, in the absence of subsidy, there are no facilities available for location of the iLAB, no space for a cleantech cluster and no growth space.
- 2.22 In our view, the Assessment describes with some supporting evidence what would likely happen if the Subsidy was not awarded.

Changes in economic behaviour of the beneficiary and additionality

- 2.23 Subsidies must bring about something that would not have occurred without the subsidy.¹⁴ They 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 (‘additionality’).¹⁵
- 2.24 The Assessment explains that the Subsidy will deliver significant economic and social benefits for the MEA area, which has significant economic challenges, and

¹² See [Statutory Guidance](#), paragraphs 3.57 to 3.71 and the [SAU Guidance](#), paragraphs 4.12 to 4.14 for further detail.

¹³ [Statutory Guidance](#), paragraphs 3.60-3.62.

¹⁴ [Statutory Guidance](#), paragraph 3.64.

¹⁵ [Statutory Guidance](#), paragraphs 3.63-3.67.

the wider region by serving as an accommodation base and the platform for an enhanced innovation and commercialisation support ecosystem for local entrepreneurs and wider business.

- 2.25 The Assessment further explains and evidences that the Subsidy will change the economic behaviour of MEABC by enabling it to go ahead with the development of the i4C where it otherwise would not. It discusses analysis by an independent consultant, which demonstrates that the Council considered a commercial loan to finance the i4C but concluded that the project was not viable and therefore would not go ahead without the Subsidy.
- 2.26 The Assessment also uses detailed financial information as supporting evidence, with projections for the short and long term, that shows how the Subsidy will be used for the i4C's construction and fit out costs.
- 2.27 In our view, the Assessment clearly explains and evidences how the Subsidy would change the beneficiary's economic behaviour and bring about changes that would not have occurred, absent the Subsidy.

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

- 2.28 Under Step 3, public authorities should consider compliance of a subsidy with:
- (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.¹⁶

Proportionality

- 2.29 The Assessment and supporting information describe several features of the Subsidy intended to ensure that it is proportionate and the minimum necessary, including:
- (a) cost modelling of how different instruments or a larger proportion of co-financing by MEABC would not have been viable, considering the achievable return from the i4C;
 - (b) that all grant payments under the Subsidy are to be paid in arrears after the relevant BRCD Accountable Body verifies that expenditures have been

¹⁶ See [Statutory Guidance](#) paragraphs 3.72 to 3.108 and the [SAU Guidance](#), paragraphs 4.15 to 4.19 for further detail.

incurred only for eligible cost types for the delivery of the Project and, will not duplicate third-party funding for the same Project, with clawback arrangements in case the beneficiary fails to comply with these or other funding terms and conditions;

- (c) performance criteria for the delivery of the Project and arrangements for some funding to become accessible only upon completion of specific delivery conditions; and
- (d) a monitoring and evaluation plan that covers quarterly, annual and milestone reporting throughout the construction, post-completion and operating phases.

2.30 In our view, the Assessment describes and evidences that the Subsidy is proportionate and limited to the minimum necessary to achieve its specific policy objective, in line with the Statutory Guidance. However, it could better describe what other options (including smaller-sized projects and refurbishing existing buildings) were considered and why these were rejected, for example by drawing on the supporting information.

Design of subsidy to minimise negative effects on competition and investment

2.31 In addition to those covered in proportionality above, the Assessment sets out several elements of the Subsidy's design that are relevant to minimising distortive impacts, including that:

- (a) the Subsidy is limited to capital expenditure and to the duration of initial construction. Cross-subsidisation, ongoing support and support for day-to-day operations are explicitly excluded;
- (b) funding for City and Growth Deal projects was open to every council in NI, ie to a broad set of recipients, and MEABC and the Project were chosen based on a rigorous selection process;
- (c) that the i4C itself will be accessible to a broad set of businesses. In response to the SAU's request for clarification, the Council explained that the components of the i4C are designed for different target businesses, with a focus on local SMEs and/or cleantech industries; and
- (d) there is no alternative available supply of the services to be offered by the i4C in the targeted area.

2.32 In our view, the Assessment adequately describes and evidences how the design features of the Subsidy contribute to minimising any negative effects of the Subsidy on competition and investment within the United Kingdom. However, it could use the supporting documentation more effectively, particularly to better evidence that there is no alternative local supply of suitable existing employment

space and to assess the size of the Subsidy in relation to these potentially affected commercial real estate markets.

- 2.33 The Assessment could also further describe the process through which the i4C and MEABC received BRCD funding over other councils and projects.

Assessment of effects on competition or investment

- 2.34 The Assessment and supporting documentation describe relevant features of the employment space market in Ballymena, including how much supply is available for different types of employment space, the absence of available Grade A Office accommodation supply, and that such facilities are a requirement for FDI companies to invest.

- 2.35 The Assessment also identifies several product and geographic markets that it considers to potentially be affected by the Subsidy and describes how the Project could displace:

- (a) jobs from other industries in NI. However, it considers such potential displacement is outweighed by the benefits in terms of employment moving into higher-productivity jobs and into a disadvantaged area; and
- (b) cleantech activity in both NI and the rest of the UK. However, the Council considered this unlikely given the MEA area's existing leading position as a cluster for this sector in NI, and that it is too small to noticeably displace cleantech activity in other parts of the UK.

- 2.36 In our view, the Assessment sets out useful analysis of several potentially affected product and geographic markets. However, it should consider potential impacts on competition or investment more coherently and systematically, in particular whether and how the employment space market would be affected by the Subsidy. For example, the Council could draw more of the information from supporting documents and other parts of the Assessment into the competition analysis and more clearly identify relevant competitors for all affected markets and how these might be impacted.

Step 4: Carrying out the balancing exercise

- 2.37 Public authorities should establish that the benefits of the subsidy (in relation to the specific policy objective) outweigh its negative effects, in particular negative effects on competition or investment within the United Kingdom and on international trade or investment.

- 2.38 The Assessment sets out a number of expected benefits of the Subsidy, including:

- (a) the creation of a new cleantech hub in NI for industrial led innovation. The Assessment explains that the i4C will serve as a focal point for the cleantech cluster and provide shared space for networking and facilitated collaboration, working with industry leaders to support SMEs to innovate, prototype and commercialise ideas while developing supply chain linkages and showcasing technological developments;
- (b) accelerating the transformation of the St Patrick's site into a vibrant hub for innovation and economic activity, adding significant value to the regeneration of a brownfield site while attracting new FDI business through grade A accommodation;
- (c) supporting industrial led innovation within the emerging cleantech cluster;
- (d) supporting the creation of jobs (direct, indirect and induced) with the i4C, including iLAB and the hydrogen training facility, expected to support the creation of 300 permanent jobs by 2052. Additionally, the construction phase is estimated to create or sustain up to 125 direct jobs and 190 total jobs.
- (e) increased research and development in the MEA area and the region, helping to address NI's low research and development expenditure value (compared to other UK regions) and supporting approximately 350 employees through iLAB Makerspace and circa 700 employees through the iLab; and
- (f) increased annual GVA, with estimated GVA uplift reaching steady state of up to £11.6 million p.a. from 2033-34 (£157 million over 30 years).

2.39 The Assessment outlines potential negative impacts of the Subsidy, including potential impacts on competition and investment arising from the displacement of jobs and private sector investment within NI and other regions of the UK (see paragraph 2.35). It concludes that the impact of any displacement is likely to be minimal, and the benefits anticipated from achieving the policy objective outweigh any negatives.

2.40 In our view, the Assessment clearly sets out the positive effects of the Subsidy in relation to the policy objective, as well as potential negative impacts, and conducts a balancing exercise between them in line with the Statutory Guidance. However, the Council may find it helpful to revisit this Step having considered the findings set out in Step 3 (2.36) which discuss the potential competitive effects of the Subsidy.

2.41 The Assessment should also consider whether there could be an impact on international trade and investment, in line with the Statutory Guidance.

Other Requirements of the Act

2.42 The Council confirmed that no other requirements or prohibitions set out in Chapter 2 of Part 2 of the Act applies to the Subsidy.

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