Subsidy Advice Unit Report on the proposed Welsh Investment Zones subsidy scheme

Referred by the Ministry of Housing, Communities and Local Government

18 August 2025

Subsidy Advice Unit

Part of the Competition and Markets Authority

CONTENTS

1. The Referral

1.1 On 2 July 2025, the Ministry of Housing, Communities and Local Government (MHCLG) requested a report from the Subsidy Advice Unit (the SAU)[1] in relation to the Welsh Investment Zones subsidy scheme (the Scheme) under section 52 of the Subsidy Control Act 2022 (the Act).[2]

1.2 This report evaluates MHCLG's assessment of compliance (the Assessment) of the Scheme 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 MHCLG. It does not consider whether the Scheme should be implemented 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, MHCLG has broadly considered the compliance of the Scheme with the subsidy control principles. In particular, the Assessment:

(a) clearly describes what would be likely to happen if the Scheme was not implemented, supported by reasoning and evidence in relevant regions and industries (Principle C); and

(b) provides a detailed discussion of the potential negative effects of the Scheme and how these are mitigated by the Scheme design and other factors (Principle F).

1.6 However, we have identified the following areas for improvement. The Assessment should:

(a) assess in more detail how the scheme-level conditions and eligibility criteria give MHCLG sufficient confidence that every subsidy awarded under the Scheme will be consistent with the principles. Specifically, given that aspects

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[1] The SAU is part of the Competition and Markets Authority.
[2] Referral of the proposed Welsh Investment Zones subsidy scheme by Ministry of Housing, Communities and Local Government - GOV.UK
[3] 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.

of Scheme administration (such as appraisal of individual projects and awarding subsidies) have been devolved to accountable bodies, the Assessment should explain in more detail how additionality and proportionality will be assessed at the beneficiary level and how compliance with additionality and proportionality will be secured (Principles B and D);

(b) provide a more complete analysis of the relevant sectors and sub-sectors potentially affected and a fuller discussion of possible impacts on competition and investment in the UK (Principle F); and

(c) further explain the checks that will be used to ensure that, where any subsidies given under the Scheme to be administered by accountable bodies lead to the relocation of activities, then any such subsidies will meet the exemption criteria set out in sections 18(5) to (7) of the Act.

1.7 We discuss these areas below, along with other issues, for consideration by MHCLG in finalising its assessment.

The referred scheme

1.8 The Assessment sets out that the Scheme aims to grow strengths in key industries and boost the innovation potential of Wales and the UK by catalysing investment to support the development of economic clusters.

1.9 The Scheme, which will run for 10 years and is planned to come into effect in October 2025,[4] was jointly developed by the UK and Welsh Government. Corporate Joint Committees[5] were invited to submit proposals for Investment Zones, which were then scored using a methodology based on economic potential, innovation capacity, deprivation levels and the presence of knowledge anchors. As a result of this process, the Cardiff Capital Region, as well as Wrexham and Flintshire, were selected as the two Investment Zones in Wales.

1.10 Each Investment Zone will receive a funding envelope of £160 million over 10 years. This funding can be used flexibly between direct grants and tax incentives to target five priority sectors of the economy: (i) digital & technology, (ii) green industries, (iii) life sciences, (iv) advanced manufacturing, and (v) creative industries.

1.11 Within these priority sectors, grants may be awarded to eligible businesses for projects in Investment Zone areas that align with the Scheme's policy objectives which provide support within four types of economic activity or 'themes': skills, research and innovation, local infrastructure, and business support. The maximum

[4] This follows the implementation of the Investment Zones for England in 2024.
[5] Corporate Joint Committees are local government institutions in Wales made up of leaders of principal constituent councils, established as a framework to help strengthen regional collaboration between local authorities.

grant funding awardable to a single beneficiary for an activity over three years is capped for each theme.[6]

1.12 Public authorities can also establish tax sites within an Investment Zone, in which businesses will be eligible to receive a subsidy in the form of tax relief if they undertake certain activities.[7] The following forms of tax relief are available under the Scheme:

(a) full or partial Land Transaction Tax (LTT) relief for qualifying transactions of land and buildings bought during a fixed period of time;

(b) 100% relief from non-domestic rates (NDR) on newly occupied business premises over five years, and certain existing businesses where they expand in Investment Zone tax sites;[8]

(c) 100% first year capital allowance for companies' qualifying expenditure on plant and machinery assets for use in tax sites;

(d) accelerated relief to allow businesses to reduce their taxable profits by 10% of the cost of qualifying non-residential investment per year, relieving 100% of their cost of structures and buildings over 10 years; and

(e) zero-rate Employer National insurance Contributions (NICs) relief on salaries of any eligible new employee working in the tax site for at least 60% of their time, on earnings up to £25,000 per year, with Employer NICs being charged at the usual rate above this level. This relief can be applied for 36 months per employee.

1.13 Subsidies given under the Scheme will be administered by Corporate Joint Committees (designated as 'accountable bodies'). The Assessment describes them as the decision-makers for subsidies at project level that ensure awards are consistent with the Scheme's rules.

1.14 MHCLG explained that the Scheme is a Scheme of Particular Interest because it allows subsidies to be granted over the threshold value (£25 million).[9]

[6] The cap for skills is £20 million; the cap for local infrastructure is £45 million; the cap for R&D is £35 million; and the cap for business support is £25 million.
[7] The Assessment notes that Cardiff Capital Region has elected not to use tax relief sites.
[8] Both LTT and NDR relief incentives are devolved, with their costs being established by the Welsh Government.
[9] 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.

2. The SAU's Evaluation

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

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.[10]

Policy objectives

2.3 The Assessment explains that the policy objective of the Investment Zones programme in Wales is to provide regional partners with a set of tools that can be deployed to grow strengths in key industries, boost the innovation potential of Wales and the United Kingdom, with a strong emphasis on fair work and sustainability. It further identifies several relevant policy objectives of the Scheme which include growing clusters to boost productivity, providing more high-priority jobs in overlooked places, growing the economy, and addressing economic disparities.

2.4 The Assessment states that the Scheme aligns with the Welsh Government's Economic Mission[11] and is designed to empower regional partners in Wales and harness local sector strengths to drive productivity and leverage local talent, knowledge and networks to deliver sustainable growth that benefits local communities.

2.5 In our view, the Assessment describes policy objectives of the Scheme relating to the identified equity objective throughout the Assessment.

[10] See Statutory Guidance, paragraphs 3.33–3.59 and the SAU Guidance, paragraphs 4.7–4.11 for further detail.
[11] Economic mission: priorities for a stronger economy

Equity Objective

2.6 Equity objectives seek to reduce unequal or unfair outcomes between different groups in society or geographic areas.[12]

2.7 The Assessment states that economic growth and high-productivity firms are heavily concentrated in certain parts of the UK, especially the South East, leading to significant regional inequalities in income, health, and skills.

2.8 The Assessment explains that Wales in particular shows some of the highest disparities compared to other regions in the UK. It states that the Scheme seeks to address these imbalances by boosting productivity in Investment Zone areas.

2.9 The Assessment provides a range of statistics[13] demonstrating that both areas where the Investment Zone will be located have lower productivity than the London and the UK national average, perform below the healthy life expectancy average in England, contain some of the most deprived neighbourhoods in Wales, and contains a disproportionate number of people who are not highly skilled.

2.10 The Assessment outlines that stimulating economic activity to boost productivity is key to addressing regional inequality and improving social outcomes across the UK. It states that evidence shows that fostering innovative clusters is a major driver of long-term productivity and prosperity. Consequently, it explains that the Scheme aims to create conditions that support the growth of innovation clusters, which in turn, will benefit local communities in those areas.

2.11 In our view, the Assessment describes and evidences the equity objective that the Scheme seeks to address.

Market failure

2.12 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.[14]

2.13 The Assessment describes the benefits of economic clusters and co-location, providing relevant supporting evidence such as academic research on agglomeration externalities and the impacts of clusters on productivity and growth. It then explains that areas in which the Investment Zones will be located have failed to provide the relevant inputs[15] required in order to grow these clusters, as

[12] Statutory Guidance, paragraphs 3.52–3.56.
[13] Sources include ONS Regional Productivity Data, ONS Health State Life Expectancy Data and the Annual Population Survey.
[14] Statutory Guidance, paragraphs 3.36–3.51.
[15] Physical capital, human capital, intangible capital and financial capital as identified in the Levelling Up White Paper.

‘the market’ (ie businesses acting in their private interests) is not incentivised to do so.

2.14 The Assessment further explains there exists a cycle where these areas lack the inputs needed to attract investment, and therefore lack the investment to generate those inputs, constituting a market failure and requiring government intervention to stimulate activity.

2.15 In our view, the Assessment describes and evidences the economic benefits of clusters. However, whilst a detailed explanation of market failure is not essential given the equity objective outlined,[16] the Assessment could more clearly demonstrate how and why each area chosen for an Investment Zone lacks the necessary inputs for cluster development, and how this represents a market failure in the specific contexts of the chosen areas.

Appropriateness

2.16 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.[17]

2.17 The Assessment sets out several alternative options that were considered, explaining why their impacts would be limited in comparison to subsidy. The options included:

(a) encouraging greater networking between universities and businesses to catalyse private sector investment;

(b) providing loans instead of grants or tax relief;

(c) promoting exports and enhancing the position of the UK and Wales as an attractive destination for foreign investment;

(d) marketing the UK and Wales as locations for investment and innovation; and

(e) facilitating investment not specific to the Investment Zones.

2.18 The Assessment explains that none of these options (nor a combination of them) are sufficient to provide the financial support necessary to incentivise investment and development in the Investment Zone areas. It concludes that the nature of the market failure and equity concern require direct subsidies.

2.19 In our view, the Assessment demonstrates that MHCLG considered other ways of achieving the policy objective and explains why a subsidy scheme was identified

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[16] Statutory Guidance, paragraphs 3.33–3.34
[17] Statutory Guidance, paragraphs 3.57–3.59.

as the most appropriate option. However, given the breadth of the Scheme, the Assessment could take a more granular approach to assessing Principle E, by considering specific alternatives to the multiple different types of economic activity, sectors and potential beneficiaries supported by the Scheme and explaining why they are not appropriate.

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

2.20 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.[18]

Counterfactual

2.21 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' scenario).[19]

2.22 The Assessment sets out a counterfactual scenario where regional productivity would not grow in the manner required to meet the equity objective. It states that economic disparities between regions would persist while economic growth would remain persistently low.

2.23 The Assessment states that the clusters would, in the absence of the Scheme, lack both the financial incentives required to accelerate the delivery of the government's growth objectives and the necessary coordination to overcome the barriers to growth in each locality.

2.24 The Assessment provides two case studies of how subsidies will cause the intended behavioural change of beneficiaries in relation to the policy objectives in the two Welsh Investment Zones. These provide specific counterfactual scenarios where, respectively, businesses lack the funding to develop skills programmes or to undertake projects involving intensive research and development and therefore the policy objectives would not be met.

[18] See Statutory Guidance, paragraphs 3.60–3.74 and the SAU Guidance, paragraphs 4.12–4.14 for further detail.
[19] Statutory Guidance, paragraphs 3.63–3.65.

2.25 The Assessment also includes a case study of the West Midlands to illustrate the potential economic impact of implementing the Scheme based on a similar scheme in England. Using third-party modelling it suggests that, without the English Investment Zone Scheme, the West Midlands would likely face below-average regional growth, with negative consequences for employment and earnings.

2.26 In our view the Assessment explains the counterfactual well and clearly describes what would be likely to happen if the Scheme was not implemented, supported by reasoning and evidence (including in the form of case studies) in the relevant regions and industries.

Changes in economic behaviour of the beneficiary and additionality

2.27 Subsidies must bring about something that would not have occurred without the subsidy.[20] 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').[21] For schemes, this means that public authorities should, 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.[22]

2.28 The Assessment explains that the Scheme is designed to influence the beneficiaries to deliver an increase in economic activity that improves productivity in the two Investment Zones that would not otherwise be delivered. It takes two approaches to evidencing the change in economic behaviour: (a) location-based examples; and (b) subsidy-type examples.

2.29 The location-based examples are the Investment Zone-based examples discussed in paragraph 2.24. The 'subsidy-type' examples are in the form of 'illustrative' case studies which seek to identify how subsidies for research and innovation, business support, and local infrastructure could influence the behaviour of beneficiaries. The Assessment further describes how tax subsidies have been designed to create behavioural change.

2.30 The Assessment acknowledges that 'displacement and non-additionality is a risk with a place-based policy model', and that this is particularly the case where such policies designate specific tax-relief sites. It explains that the intention of this Scheme is not for businesses to relocate and deliver a benefit that would have just happened elsewhere. The Assessment explains that non-additionality has therefore been 'designed out' through:

[20] Statutory Guidance, paragraph 3.66.
[21] Statutory Guidance, paragraphs 3.66–3.70 and 3.74.
[22] Statutory Guidance, paragraphs 3.71-3.73.

(a) co-development of proposals for areas aiming to be selected as Investment Zones by MHCLG and the relevant accountable bodies to ensure that subsidies are not funding costs that would have been funded in the absence of subsidies;[23]

(b) a trade-off between tax site size and flexible spending management arrangements;

(c) management arrangements between Investment Zones and landowners to enable targeting of beneficiaries that would meet additionality requirements; and

(d) strict tax site selection criteria.

2.31 The Assessment explains that areas that were aiming to be selected as Investment Zones were required to provide evidence of how subsidies will create social value that would not be created in the absence of direct funding interventions, and summarises the criteria used to assess proposals. It also summarises the kinds of costs that subsidies given under the Scheme could cover and why subsidies are necessary to cover those costs.

2.32 The Assessment explains that the accountable bodies administering the Scheme will be expected to assess all projects via a ‘five-case’ business case process[24] to consider value for money, additionality, and the need to ensure the minimum amount of subsidy is used to achieve the desired outcomes. It also explains that compliance with the Investment Zone programme principles will be monitored via an annual assurance process and six-monthly reporting into the Welsh Government and MHCLG.

2.33 In our view, the Assessment explains and provides examples of how the Scheme will change the economic behaviour of the beneficiaries. However, the Assessment should consider in more detail how MHCLG will ensure the Scheme’s compliance with Principle D in light of the devolved decision-making over certain aspects of the Scheme’s design (such as appraisal criteria). For example, this could include a description of the measures that would follow an annual assurance process that found risks of non-compliance.

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

2.34 Under Step 3, public authorities should consider compliance of a subsidy with:

[23] The key criteria used to assess proposals include displacement, deadweight, leakage and substitution.
[24] (1) Strategic, (2) Economic, (3) Financial, (4) Commercial, and (5) Management.

(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.[25]

Proportionality

2.35 The Assessment states that the subsidies available under this Scheme are intended to be proportionate to the overall policy objective, and it details several Scheme conditions (required for granting a subsidy) which ensure proportionality. These include requirements for targeted funding within a growth cluster for four specific themes, a mix of grant and tax reliefs, the time limited nature of the Scheme, ring-fencing provisions, as well as caps on the grant funding for each theme and on some elements of the tax subsidies.

2.36 The Assessment states that the proportionality of subsidies to be given under the Scheme is reinforced in the selection of the Welsh Investment Zones themselves by MHCLG and the Welsh Government through a rigorous and transparent methodology. It explains that these locations were found to be the strongest pairing of places with the characteristics capable of achieving the policy objectives.

2.37 The Assessment details why the total funding envelope, as well as the individual subsidy caps and tax reliefs are considered to be proportionate:

(a) an overall subsidy of £160 million for each Investment Zone over 10 years was identified through analysis using case studies as the necessary and proportionate funding requirement to ‘kick-start’ private sector investment, incentivise match funding and secure the level of long-term investment necessary to achieve the policy objective;

(b) the different grant cap amounts for the four subsidy themes were set using information from Investment Zone proposals in both England and Wales, and based on the minimum amount of subsidy needed to bring the required changes; and

(c) the level and range of tax subsidies available under the Scheme is based on outcomes of previous regional interventions such as Enterprise Zones and Freeports, as well as wider policy experience.

2.38 The Assessment states that accountable bodies will be responsible for making decisions about awarding individual subsidies under the Scheme and must ensure they are consistent with the Scheme rules. It explains that all projects are

[25] See Statutory Guidance paragraphs 3.75–3.112 and the SAU Guidance, paragraphs 4.15–4.19 for further detail.

expected to be assessed on value for money, additionality and the need to ensure the minimum necessary intervention. There will be ongoing monitoring and performance reviews of the Investment Zones to ensure subsidies being made are having the intended outcomes and MHCLG and Welsh Government retain the right to make appropriate adjustments to grant payments (including withholding them altogether) and/or revoking or redrawing tax sites where Corporate Joint Committees annual reporting highlights any concern.

2.39 In our view, the Assessment provides some explanation on how the subsidies awarded under the Scheme will be proportionate. However, it should better explain and evidence the decision-making process for accountable bodies when they are awarding subsidies, including describing the checks and balances in place to ensure the awards constitute the minimum necessary.

Design of subsidy to minimise negative effects on competition and investment

2.40 The Assessment explains that the risk that grant funding is distortive is mitigated by the conditions of the Scheme, including limits on subsidy size for each Investment Zone area and theme, ring-fencing, the time limited nature of the Scheme and the selection process. It explains that the subsidies can be awarded to any enterprise, including research and knowledge organisations and businesses of any size, and accountable bodies must use objective and transparent selection criteria when choosing recipients.

2.41 The Assessment states that the characteristics of the tax reliefs will ensure that the subsidies have minimum distortive impact on competition, focusing on supporting capital investment rather than business as usual operating costs. It goes on to explain that all reliefs are only available on new investment into currently underdeveloped sites and where they do relate to operating costs, they only apply to costs associated with new hereditaments[26] and employees.

2.42 The Assessment notes that place-based subsidies can create specific distortions such as business relocation, talent poaching, inflated land values and 'two-tier' economic conditions, and can also disincentivise investment elsewhere. These impacts, it states, will be mitigated with project level displacement and additionality tests, and that accountable bodies must demonstrate the additional benefits of their proposals, such as job creation or investment, that would not happen otherwise, to ensure the Scheme is genuinely adding value rather than just relocating it.

[26] Hereditaments refer to any property that can be inherited.

2.43 The Assessment states that the location of the two zones and the presence of multiple subsidy themes means that the subsidies will naturally be split across different types of activity by different enterprises.

2.44 Further, the Assessment states that while a single beneficiary could benefit from subsidy across more than one theme, it is unlikely that the same enterprise will be active in skills, local infrastructure, research and innovation and business support. Similarly, the Assessment explains that while one beneficiary could apply for significant subsidy across both Welsh Investment Zones (as caps on grants apply per Zone, not across all Zones), especially those in advanced manufacturing, this is unlikely to occur because the Investment Zones are focused on more specific sub-sectors with a very limited number of businesses likely to be operating across both locations.

2.45 In our view, the Assessment demonstrates how some of the design features of the Scheme contribute to minimising any negative effects of the Scheme on competition and investment within the United Kingdom. However, it could more thoroughly discuss how the Scheme takes into account other subsidies given to the same recipients for similar purposes, as set out in the Statutory Guidance.[27]

2.46 The Assessment could also give more detail on the process for selecting beneficiaries, and in particular, how different criteria in the selection process will be weighted in order to minimise distortions.

Assessment of effects on competition or investment

2.47 To determine the impacts on competition and investment, the Assessment provides a high-level analysis of the relevant sectors and sub-sectors for which subsidies could be granted within each of the Investment Zones. These include (a) advanced manufacturing (aerospace, defence and semi-conductors); and (b) digital and technology (semi-conductors). The Assessment identifies some of the key competitors for some of these sectors or sub-sectors within each Investment Zone. It also recognises that the provision of subsidy could potentially distort competition by disproportionately favouring one over another, particularly where they are both at the same phase of development.

2.48 The Assessment also details potential positive effects on competition from the Scheme. These include mitigating uncertainties and driving complementary industries to localise together, creating ecosystems that foster innovation and productivity, as well as the potential for targeted support for collaborative innovation and development to ensure a diverse and competitive market without favouring certain players. It also states that subsidies made under the Scheme, may provide indirect benefit to businesses in areas beyond the immediate

[27] Statutory Guidance paragraph 3.95.

Investment Zones, for example by increasing the number of skilled workers in the wider area as well as attracting a wider pool of businesses and supply chains to locate there.

2.49 The Assessment states that subsidy applications are expected from SMEs, start-ups and large companies, but considers that subsidies granted to smaller businesses are likely to have a negligible impact on competition. It explains that those made to larger businesses are also unlikely to translate into a significant competitive advantage due to the targeted nature of the Scheme towards interventions that benefit the eco-system holistically and that create positive externalities.

2.50 In our view, the Assessment considers some of the effects of the Scheme on competition and investment, in line with Annex 3 of the Statutory Guidance. In particular, the use of case studies as an approach can be useful to illustrate potential distortions.

2.51 However, the Assessment should provide a more detailed explanation of the relevant sectors and sub-sectors and a fuller discussion of possible impacts on competition and investment in the UK. For example, it could include the number of businesses and the key players for each sector and sub-sector at both a UK level and within the relevant Welsh Investment Zone to understand the number and types of businesses that could benefit from the Scheme and the possible competitive impacts,[28] and/or it could include a comparison of the Scheme size with the turnover of the relevant sector or sub-sector to understand the scale of any potential distortion.

2.52 The Assessment could also give more detail on the process for identifying distortions to competition and investment in the UK at the subsidy level by accountable bodies and how that will be considered in the selection process.

Step 4: Carrying out the balancing exercise

2.53 Under Step 4 (Principle G), 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.[29]

2.54 The Assessment sets out the expected benefits of the Scheme resulting from increased economic activity, including increased employment, higher wage jobs and a higher level of skills in the Investment Zone areas.

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[28] See, for example, Annex 3 of Statutory Guidance, paragraphs 17.8 and paragraphs 17.53.
[29] See Statutory Guidance, paragraphs 3.113–3.121 and the SAU Guidance, paragraphs 4.20–4.22 for further detail.

2.55 The Assessment also considers the potential negative effects of the Scheme. These include potential distortions to international trade and investment, displacement of economic activity from other regions, impact on employment rates, disproportionate benefits for larger firms over smaller ones and agglomeration effects which may also lead to increased congestion, pollution, and housing pressures in high-growth zones.

2.56 The Assessment considers how the Scheme design and other factors will mitigate these negative impacts. It concludes that the benefits of the Scheme outweigh any potential negatives.

2.57 In our view the Assessment demonstrates that MHCLG has considered the expected benefits of the Scheme and its potential negative effects in line with the Statutory Guidance. In particular, it offers a detailed discussion of the potential negative effects of the Scheme and how these are mitigated by the Scheme design and other factors. However, the Assessment could be improved with a clearer explanation of how it weighed the benefits and negatives against each other to arrive at its conclusion, such as a more in-depth explanation of the value for money analysis to support the conclusions of the balancing exercise.

Other Requirements of the Act

2.58 MHCLG have stated that no other requirements or prohibitions set out in Chapter 2 of Part 2 of the Act apply to the Scheme.

2.59 With regard to the rule prohibiting subsidies for the relocation of activities where the subsidy is conditional on relocation and would not have occurred without the subsidy, the Assessment notes[30] that although it is not the Scheme's intention, and that subsidies will not be conditional on relocation of activities, subsidies awarded within the Investment Zone(s) could potentially influence businesses to relocate.

2.60 The Assessment also states that for any award made under the Scheme that leads to relocation, it will be required to meet the three conditions set out at sections 18(5) to (7) of the Act which, as further explained in paragraph 5.31 of the Statutory Guidance, set out the criteria for exempting such subsidies from the relocation prohibition where the prohibition in section 18(1) would otherwise apply and they have the effect of reducing social or economic disadvantage.[31]

2.61 In our view, while the Assessment provides some explanation of the Scheme's approach where relocation may result from a proposed award, it should further explain the checks that will be used to ensure that, where any subsidies given

[30] Drawing on the Statutory Guidance, paragraphs 5.23 to 5.33
[31] See sections 18(5-7) of the Act.

under the Scheme to be administered by accountable bodies lead to the relocation of activities, any such subsidies will meet those exemption criteria.

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