

Subsidy Advice Unit Report on the proposed subsidy to the British Business Bank

Referred by Department for Business and Trade

20 March 2026

Subsidy Advice Unit

Part of the Competition and Markets Authority



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1. The Referral

- 1.1 On 2 February 2026 the Department for Business and Trade (DBT) requested a report from the Subsidy Advice Unit (the SAU)¹ in relation to its proposed subsidy (the Subsidy) to the British Business Bank PLC (BBB) under section 52 of the Subsidy Control Act 2022 (the Act).²
- 1.2 This report evaluates DBT'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 DBT. 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, DBT has considered in detail the compliance of the Subsidy with the subsidy control and energy and environment principles. In particular, the Assessment:
 - (a) clearly describes and evidences the information asymmetries which lead to a debt and finance equity gap for SMEs and demonstrates how, by enabling the activity of BBB, the Subsidy contributes to remedying these failures (Principle A);
 - (b) demonstrates that DBT has considered other ways of achieving its policy objective and clearly explains and evidences why a subsidy was the most appropriate option (Principle E); and
 - (c) clearly sets out the beneficial effects of the Subsidy, quantifying those benefits where appropriate, as well as outlining a range of potential negative impacts (Principle G)

¹ The SAU is part of the Competition and Markets Authority

² [Referral of the proposed subsidy to British Business Bank by the Department for Business and Trade - 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.

- 1.6 However, we have identified the following areas for improvement. The Assessment should:
- (a) explicitly identify the specific policy objective(s) of the Subsidy upfront so that it is clear what policy objectives apply when assessing the other subsidy control principles (Principle A) and then, taking account of this, update its assessment of whether the energy and environment principles are applicable;
 - (b) outline in more detail how BBB tests for additionality within its individual programmes (Principle D); and
 - (c) further examine the implications of BBB's overall funding position, relative to other operators in investment markets and consider whether there are types of private lenders or investment funds which may be particularly impacted by BBB's activities (Principle F).
- 1.7 We discuss these areas below, along with other areas where we consider the Assessment could provide more explanation and detail, for consideration by DBT in finalising its assessment.

The referred subsidy

- 1.8 BBB is an economic development bank, aimed at driving economic growth by helping smaller businesses get the finance they need to start and grow in the UK. Established in 2014, BBB is wholly owned by the UK government, with the DBT Secretary of State as the sole shareholder. It operates independently from government but aligned to a statement of strategic priorities and its operating principles.⁴ BBB has two principal activities: an investment business⁵ and a banking business.⁶
- 1.9 BBB uses a range of financial instruments including debt, guarantees and equity. Where possible, BBB seeks to lend or supply finance on commercial terms. This is the case in the large majority of its programmes. In general, the Bank operates through an indirect model, operating through a diverse range of delivery partners rather than directly providing finance to individual businesses. Where BBB considers that finance will not be provided on commercial terms and constitutes a subsidy, it will assess the compliance of that individual financing with the Act.⁷

⁴ [Statement of strategic priorities to the British Business Bank - GOV.UK](#)

⁵ These activities include fund investments, direct co-investment in UK companies and investment services.

⁶ These include delivering low-interest loans to start ups, deploying government-backed guarantee schemes and structuring wholesale funding or bespoke guarantee instruments for private lenders to increase their lending capacity.

⁷ The Assessment does not assess the compliance of individual subsidies BBB may make with the Act. Consequently, the compliance of those subsidies with the subsidy control principles is outside of the scope of this report.

- 1.10 The Subsidy will increase BBB's total financial capacity by two-thirds to £25.6 billion. The funding of BBB is provided as a loan which converts annually into new equity. In addition, broader changes are being made to BBB's operating model. DBT has referred the full capitalisation of BBB as it considers these changes to be a non-permitted modification to an existing subsidy.⁸ Currently, interactions are restricted between BBB's mandated arm, where programmes that are not considered compliant with the commercial market operator principle sit, and its service and commercial arms. These restrictions will no longer apply once the Subsidy is awarded, and BBB will manage itself as a single economic unit, delivering both subsidised and commercial interventions.
- 1.11 DBT explained that the Subsidy is a Subsidy of Particular Interest because it exceeds £25 million in value.

⁸ The establishment of BBB and its remit of activities received State aid approval from the European Commission in 2014 for a five-year period and in 2019 the approval of the funding, remit and activities of BBB was extended for a further five-year period as the applicable subsidy control regime at the time was the EU State Aid framework.

2. The SAU's Evaluation

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

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.⁹

Policy objectives

2.3 The Assessment states that 'the capitalisation of BBB will advance a wide range of DBT and HMG policy objectives by addressing relevant failures in the finance markets.' These objectives include:

- (a) the UK's Modern Industrial Strategy;¹⁰
- (b) DBT's strategy for supporting SMEs;¹¹
- (c) the government's capacity to support the economy in national emergencies;
- (d) regional development;
- (e) environmental benefits, through the Green Growth Guarantee scheme; and
- (f) expert support for meetings with national, regional and international bodies on economic policy and international collaboration.

2.4 In supporting information which DBT provided as part of its referral, it states that the policy objective of the Subsidy is 'to increase the size of its development bank with expertise in financing smaller businesses'.

⁹ See [Statutory Guidance](#), paragraphs 3.33–3.59 and the [SAU Guidance](#), paragraphs 3.6–3.10 for further detail.

¹⁰ See [The UK's Modern Industrial Strategy](#).

¹¹ See [Backing your business: our plan for small and medium sized businesses \(web version\) - GOV.UK](#).

2.5 The Assessment also states that DBT has given BBB a mission and four policy objectives in its strategic mandate.¹² The Assessment states that the Subsidy is necessary to achieve these objectives, which are to:

- (a) support promising businesses in the Industrial Strategy priority sectors to scale and stay in the UK;
- (b) make finance markets works better for smaller businesses;
- (c) unlock the potential in people and places; and
- (d) mobilise institutional capital at scale.

2.6 In our view, relevant policy objectives are set out throughout the Assessment. However, the Assessment should explicitly identify the specific policy objective(s) of the Subsidy upfront so that it is clear what policy objectives apply when assessing the other subsidy control principles. We consider that the statement which DBT provided in supporting information (see paragraph 2.4) when taken in conjunction with the Assessment’s description of BBB’s strategic mandate (see paragraph 2.5) appears to accurately and succinctly describe the specific policy objective of the Subsidy and so the Assessment could focus on this objective for the purpose of Principle A.

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.¹³

2.8 The Assessment begins by outlining that the UK government has identified persisting market failures preventing viable SMEs from accessing appropriate and suitable financing. It describes the following market failures:

- (a) Information asymmetries: The Assessment explains that information asymmetries underpin the structural market failures limiting SMEs’ access to finance. It discusses several reasons for this: i) limited information available about SMEs, which reduces their ability to demonstrate their creditworthiness, ii) less data on the performance of SME loans, which makes them more costly and lenders less willing to lend to SMEs, and iii) that these structural challenges are exacerbated by periods of wider economic uncertainty such as the Covid-19 pandemic and the UK’s exit from the EU.

¹² See HM Treasury, [Statement of strategic priorities to the British Business Bank - GOV.UK](#), 21 October 2025.

¹³ [Statutory Guidance](#), paragraphs 3.36–3.51.

(b) Imperfect information: The Assessment states that although there has been an increase in the number of alternative finance options available to SMEs, there has not been a corresponding increase in SMEs' knowledge and awareness of these options because information failures lead to inadequate awareness. As evidence for this, the Assessment provides statistics from a BBB report and survey, which demonstrate that the number of SMEs considering more than one finance provider has decreased since 2023 and that a majority of survey respondents considered smaller businesses' lack of awareness of finance options as the most significant barrier impacting their demand for finance.

- 2.9 The Assessment then explains that the outcome of these two market failures is an equity finance gap, caused by: i) high due diligence costs incurred by investors, which limit the financial viability of investments in earlier stage companies, and ii) an imbalance between the small number of investors on the supply side and high-growth potential businesses on the demand side, particularly outside of London. It outlines that a 'long established gap' has existed in the availability of equity finance from the maximum equity that can be raised at the start-up stage from angel investors and the minimum amounts that can be raised from follow-on venture capital funders, which hinders smaller and younger businesses.
- 2.10 The Assessment explains that since its inception, BBB has acted to address these market failures through its interventions and it outlines how BBB has improved access to finance for smaller businesses, with statistics demonstrating the economic benefits achieved by BBB, for example that it has funded 209,000 smaller businesses and that 84% of businesses supported were outside of London.
- 2.11 The Assessment explains that maintaining and increasing BBB's capitalisation through the Subsidy will enable BBB to drive economic growth by increasing the amount of finance available, the diversity of finance providers and encouraging private sector participation into finance for smaller businesses. The Assessment states that BBB's intervention continues to be necessary to remedy the market failures.
- 2.12 In our view, the Assessment clearly describes and evidences the information asymmetries which lead to a debt and finance equity gap for SMEs and demonstrates how, by enabling the activity of BBB, the Subsidy contributes to remedying these failures.

Appropriateness

- 2.13 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.¹⁴
- 2.14 The Assessment explains that BBB was established in response to the Breedon Review,¹⁵ which recommended the creation of a single government entity to respond to SMEs' lack of awareness of funding options and the need for a recognised source of finance for SMEs. It outlines that the report suggested that a single entity could provide more effective delivery of the range of Government programmes. The Assessment notes that DBT consider that this reasoning is still applicable. It goes on to state that while BBB has had a positive impact on UK smaller businesses' access to finance, the market failures in the debt and equity markets which required the Bank to be established still exist.
- 2.15 The Assessment then explains that DBT has considered several means to achieve the policy objective but that these options were discounted as they did not sufficiently address the market failures. The options considered were:
- (a) Regulation: The Assessment states that regulation cannot achieve the policy objective because it does not adequately address supply-side weaknesses. It explains that market gaps in SME finance result from low-risk appetites from lenders and investors, whilst financial regulation frameworks tend to reduce risky lending by focussing on financial stability and consumer protection. The Assessment also notes that regulations on lender or investor behaviour can lead to market distortions.
 - (b) Raising awareness of finance options: The Assessment explains that DBT already engages in awareness raising and providing information about finance options and that this is also part of BBB's activity, however it concludes that these interventions do not address the supply-side issues identified. The Assessment goes on to discuss proposed upgrades to BBB's information provision offering which will be supported by the Subsidy.
 - (c) Do nothing: The Assessment describes a 'do-nothing' scenario in which BBB does not exist. It concludes that this option would not achieve the policy objective as it would not address the market failures and market gaps identified.
 - (d) Keep with BBB's current size and structure: The Assessment explores the option to keep BBB at its current size and structure but explains that this would not achieve the policy objective because the scale of BBB's current

¹⁴ [Statutory Guidance](#), paragraphs 3.57–3.59.

¹⁵ Breedon Review 2012 - [Boosting Finance Options for Business](#).

activity is below what is needed to fully address the supply-side market failures. It concludes that increasing BBB's capitalisation is therefore necessary to resolve the market gaps.

- 2.16 The Assessment also states that DBT considered an alternative subsidy option: a subsidy to private sector providers. It explains that DBT discounted this option because subsidising a single private sector provider could confer a market advantage, while multiple providers would limit the ability to take a portfolio-wide view of investment or lending decisions, and private sector providers do not tend to operate in the markets affected by market failures in which DBT wishes to intervene. It also notes that private sector providers focus on profitability and so although a subsidy could partially de-risk unviable lending or investments, their business models may limit their ability as they would require a commercial return from their activities. The Assessment explains that, in contrast, a subsidy to BBB avoids these issues.
- 2.17 In our view, the Assessment demonstrates that DBT has considered other ways of achieving its policy objective and clearly explains and evidences why a subsidy was the most appropriate option.

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.¹⁶

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' scenario).¹⁷
- 2.20 The Assessment sets out a counterfactual scenario where absent the Subsidy, BBB would continue to exist in 'some form at a lower capitalisation based on investments made to date under its previous structure, unable to invest new

¹⁶ See [Statutory Guidance](#), paragraphs 3.60–3.74 and the [SAU Guidance](#), paragraphs 3.11–3.13 for further detail.

¹⁷ [Statutory Guidance](#), paragraphs 3.63–3.65.

money or respond to the new mission and objectives ministers have set it'. It explains that in this scenario it would not be possible to increase the finance it provides each year due to lack of available funds. The Assessment outlines that this would amount to a reduction in finance for smaller businesses than would be otherwise available with the Subsidy, constraining their growth potential and, in turn, negatively affecting overall UK economic growth.

2.21 The Assessment also outlines that in the absence of the Subsidy, BBB would struggle to attract private investors to provide BBB with capitalisation, as they are unlikely to be willing to operate under the governance and accountability framework required for BBB. It also explains that DBT does not want BBB to seek funding for its own operations from private sources as this would add increased complexity to BBB's operating model and impact its ability to deliver its service function to government.

2.22 In our view, the Assessment describes what DBT consider likely to happen if the Subsidy was not awarded (ie less finance available to smaller businesses from BBB). As the Assessment relates to the total financial capacity of BBB, it could explain in more detail why DBT considers the scenario where BBB is operating with lower capitalisation is the most likely counterfactual scenario rather than a scenario where BBB ceases to operate, given that the Assessment presents the latter as a 'do nothing' scenario within Principle E (see paragraph 2.15(c))

Changes in economic behaviour of the beneficiary and additionality

2.23 Subsidies must bring about something that would not have occurred without the subsidy.¹⁸ 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').¹⁹

2.24 The Assessment explains that BBB uses its programmes and products to influence economic behaviour, unlocking finance that smaller businesses would otherwise have not been able to raise. It outlines that in its commercial investments, BBB typically invests on 'pari passu'²⁰ commercial terms to influence the economic behaviour of co-investors, mobilising private capital to support the key tenets of BBB's policy objective.

2.25 The Assessment states that BBB has a 'strong focus on additionality' and has a tested approach to ensuring its programmes and investments are additional. It explains that additionality is 'embodied in the operating principles of BBB',²¹ one of

¹⁸ [Statutory Guidance](#), paragraph 3.67.

¹⁹ [Statutory Guidance](#), paragraphs 3.66–3.70.

²⁰ 'Pari passu' refers to a situation where financial assistance is given at the same time and on the same terms as a significant investment by a private operator. See also [Statutory Guidance](#), paragraph 15.63.

²¹ See HM Treasury, [Statement of strategic priorities to the British Business Bank - GOV.UK](#), 21 October 2025.

which is that the ‘bank’s activities should be additional, taking greater risk where this is necessary to crowd private capital into underserved parts of the market’. The Assessment further explains that DBT expect these standards to continue to be applied for new investments and programmes and that the Subsidy will further add additionality, rather than pose a risk to it.

- 2.26 The Assessment explains that as the additional capitalisation will be subject to the same levels of scrutiny and investment processes as the rest of BBB’s activity, it is appropriate to draw on evidence of how previous BBB programmes and initiatives have helped to address the market failure. The Assessment supports this conclusion by citing evidence of the impact of BBB’s activities to date. It notes that an evaluation of the Start Up Loans programme found that more than two thirds of the loans issued would not have been provided by mainstream lenders. It also explains that businesses established by this programme had a stronger survival rate and growth rate than comparator businesses. In addition, the Assessment highlights that the Enterprise Capital Fund programme had a significant positive effect on business growth, with supported companies experiencing annual increases in turnover and employment of 76% and 46% respectively.
- 2.27 In our view, by discussing at a high level how BBB seeks to ensure its activities are additional, the Assessment helps demonstrate how the Subsidy will be used in a way that brings about changes that would not have occurred absent the Subsidy. However, the Assessment should outline in more detail how BBB tests for additionality within its individual programmes. To do this, it could reflect further on levels of non-additionality evidenced in programmes which it operates (for example, see paragraph 2.26).

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.²²

Proportionality

- 2.29 The Assessment explains that the Subsidy will increase BBB’s total financial capacity by two-thirds to £25.6 billion, enabling an annual average of around £2.5

²² See [Statutory Guidance](#) paragraphs 3.75–3.112 and the [SAU Guidance](#), paragraphs 3.14–3.18 for further detail.

billion of funded commitments and £2.1 billion of guarantees to be provided until 2030/31.

- 2.30 The Assessment explains that the Subsidy amount is appropriate based on HMT judgement at the 2025 Spending Review, as it aligns with the Government's strategic priority to 'deliver higher and more sustained levels of business investment' through ensuring smaller businesses have access to appropriate finance. It also explains that the capitalisation reflects the 'step change in the scale and ambition of [BBB's] mandate', required under the 2025 Statement of Strategic Priorities.
- 2.31 The Assessment considers that the amount is proportionate because, while it is less than the minimum necessary to address the market gaps in finance for smaller businesses,²³ it is towards the outer limit at which BBB could deliver the maximum benefit without putting at risk both the effectiveness of spending at the given scale of BBB as an organisation and DBT's accountability obligations.
- 2.32 The Assessment explains that DBT funds BBB through a loan which converts annually into new equity. It also sets out that, under the Financial Transaction Control Framework, BBB will be required to meet a financial returns target on its portfolio of investments to 'embed commercial discipline' and ensure it handles 'public money appropriately in line with government priorities'. The Assessment states that the level of return will be set at a level that ensures BBB's returns on its portfolio of investments exceeds the government's cost of borrowing.
- 2.33 The Assessment states that BBB operates on commercial terms wherever possible and when this is not possible it will provide subsidised interventions which comply with the Act, acting in an additional manner to avoid crowding out private capital.
- 2.34 In our view, the Assessment demonstrates and evidences that the capitalisation amount is proportionate, describing how it contributes to the policy objective and is no more than the minimum necessary to address the market gap, while explaining that a larger amount would put the effectiveness of the Bank's spending and DBT's accountability obligations at risk.
- 2.35 However, the Assessment covers proportionality briefly and relevant arguments and evidence demonstrating compliance are spread throughout the Assessment. It could therefore take a more systematic approach to address proportionality more fully. For example, the Assessment could consider in more detail how BBB's financial returns target contributes to the proportionality of the subsidy.

²³ The Assessment provided estimated gaps for lending to start ups and SMEs and equity investment, including in R&D intensive sectors, and regional measures.

Design of subsidy to minimise negative effects on competition and investment

- 2.36 The Assessment states that the nature of the instrument used to subsidise BBB (capitalisation) is informed by BBB's requirements for its subsequent financing activities.
- 2.37 The Assessment outlines that alternative beneficiaries to BBB were considered, including public and private sector beneficiaries. It explains that DBT concluded that BBB is the most suitable recipient because it has the expertise, scale, governance and objectives to deliver the finance needed by smaller businesses.
- 2.38 The Assessment states that the breadth of beneficiaries and the selection processes for BBB's subsequent financing activity are relevant as it is at this level that the Subsidy 'enters the market'. It states that the breadth of BBB's onward beneficiaries limits its risk of distortion, and that it has a robust framework for selecting beneficiaries that align with the policy objective, including defining eligibility criteria to assess where and when to provide financial support.
- 2.39 The Assessment sets out how BBB's activities will be regularly monitored and evaluated to ensure interventions are suitable, additive and addressing funding gaps. It outlines that this includes a dedicated independent economics team evaluating interventions to Magenta Book standards.²⁴ The Assessment explains that DBT and BBB also agree key performance indicators as a framework for evaluating BBB's performance and progress against the Subsidy's intended purposes.
- 2.40 In our view, the Assessment discusses how design features of the Subsidy contribute to minimising negative effects of the Subsidy on competition and investment within the United Kingdom. However, the Assessment:
- (a) should reflect the factual position that BBB is the only direct beneficiary of the funding from DBT, and that the funding enters the 'investment market' when the Subsidy is provided to BBB; and
 - (b) could more fully explain how BBB's project identification and selection processes take into account any competitive impacts from those projects.

Assessment of effects on competition or investment

- 2.41 The Assessment states that BBB mitigates the risk of crowding out private capital and minimises distortion by investing on commercial terms alongside co-investors where possible and, when this is not possible, it will provide subsidised interventions which comply with the Act. It also explains that it 'acts in a strictly

²⁴ [The Magenta Book - GOV.UK](#).

additional manner throughout the lifecycle of the investments it makes to avoid crowding out private capital'. In particular, the Assessment:

- (a) states that BBB's strategy to act as a 'limited partner' (indirectly investing in venture capital funds that invest in companies) in most interventions enables it to act strictly additionally;
- (b) explains that when BBB invests more directly, acting as a 'general partner' (seeking funds from other limited partners and investing directly as the venture capital manager), it also acts additionally as it is filling a market gap. For example, one of the main policy objectives is to attract investment into projects in the UK that are currently underfunded; and
- (c) describes that, going forwards, BBB's robust governance structure, ongoing performance monitoring and evaluation by DBT, and oversight by HMT will ensure continued compliance with the Act, alignment with strategic objectives, and minimise risk of unintended negative impacts on competition.

2.42 The Assessment also recognises that, as one of several UK policy banks owned by government, BBB may potentially compete with and undermine other policy banks, contributing to a 'subsidy race'. It explains that HMT conducted a review of UK public financial institutions to understand the risk of this and concluded that this was not a substantial problem as major UK government owned investment bodies have clear and distinct mandates with little overlap, and that mechanisms for resolving overlaps have been strengthened.²⁵

2.43 In our view, the Assessment considers and evidences the effect of the Subsidy on competition and investment, in line with Annex 3 of the Statutory Guidance. However, the Assessment should:

- (a) further examine the implications of BBB's overall funding position, relative to other operators in the investment market; and
- (b) consider whether there are types of private lenders or investment funds which may be particularly impacted by BBB's activities and at the highest risk of being crowded out (eg those with similar objectives to BBB or those focusing on SMEs).²⁶

Step 4: Carrying out the balancing exercise

2.44 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

²⁵ [Launch of the UK Strategic Public Investment Forum - GOV.UK](#).

²⁶ See [Statutory Guidance](#), paragraphs 17.32–17.39 for detail on how public authorities can identify the products or services that are important competitive alternatives to the beneficiary's products and services affected by the subsidy.

effects, in particular negative effects on competition or investment within the United Kingdom and on international trade or investment.²⁷

- 2.45 The Assessment sets out the expected benefits of the Subsidy. It explains that the capitalisation of BBB will advance a range of government policies (see paragraph 2.3). The Assessment also outlines that BBB will deploy its funding in line with its five-year strategic plan, which is expected to expand SME access to finance, create approximately 370,000 new jobs, and support 1.7 million existing jobs. It also expects that BBB's activities will help reduce geographic disparities, with around 83% of supported businesses located outside London. The Assessment estimates that BBB's activity will generate £68 billion in additional gross value added, including £42 billion outside London. The Assessment also notes that the Subsidy will deliver environmental benefits through the Green Growth Guarantee Scheme and support for the UK Climate Business Hub.
- 2.46 The Assessment draws on BBB's 10-Year Impact Report²⁸ and provides several evaluations of BBB's activities as supporting evidence of the beneficiary's ability to generate positive, long-term economic impacts.
- 2.47 The Assessment then identifies the potential negative impacts of the Subsidy, including distorting market competition. It explains that BBB mitigates this risk by operating on commercial terms wherever possible and by structuring its investments to crowd-in private capital. The Assessment notes that BBB's clear and distinct mandate also reduces the risk of distorting the market by minimising overlap with other UK policy banks. It further concludes that the size of the Subsidy is appropriate and is no more than the minimum necessary that could be awarded to achieve the policy objective.
- 2.48 The Assessment further explains that BBB's robust governance structure and oversight framework minimises any non-compliance and unintended negative impacts on competition. The Assessment considers the geographical and international impacts of the Subsidy to be positive overall, as the Subsidy addresses structural weaknesses in markets across the UK and reduces pressures for businesses to relocate overseas.
- 2.49 The Assessment concludes that the beneficial effects of achieving the policy objectives of the Subsidy outweigh the potential negatives.
- 2.50 In our view, the Assessment clearly sets out the beneficial effects of the Subsidy, quantifying these benefits where appropriate, as well as outlining a range of potential negative impacts.

²⁷ See [Statutory Guidance](#), paragraphs 3.113–3.121 and the [SAU Guidance](#), paragraphs 3.19–3.21 for further detail.

²⁸ [The Power of 10: 10 Year Impact Report | British Business Bank](#).

Energy and Environment Principles

- 2.51 This section sets out our evaluation of the Assessment against the energy and environment principles.²⁹
- 2.52 DBT has conducted an assessment of the Subsidy against Principles A and B. In addition, the Assessment explains why DBT do not consider the other energy and environment principles to be relevant to the Subsidy. However, while some of BBB's activities may result in outcomes that relate to energy and the environment, given there are a number of policy objectives of the Subsidy set out throughout the Assessment (see paragraph 2.6) and most do not specifically relate to energy or the environment, DBT could explain in more detail why it considers the energy and environment principles are applicable to this Subsidy.
- 2.53 Additionally, if DBT amends how the specific policy objective of the Subsidy is described in the Assessment in light of our report (see paragraph 2.6), this may have implications for its assessment of whether the energy and environment principles are applicable to the Subsidy.

Principle A: Aim of subsidies in relation to energy and environment

- 2.54 Subsidies in relation to energy or the environment should be aimed at (1) delivering a secure, affordable and sustainable energy system and a well-functioning and competitive energy market, or (2) increasing the level of environmental protection compared to the level that would be achieved in the absence of the subsidy. If a subsidy is in relation to both energy and environment, it should meet both limbs.³⁰
- 2.55 The Assessment explains how BBB will contribute to several government commitments with respect to net zero and the environment. It explains, that while not all of BBB's financial capacity is expected to be invested as 'green finance' or for environmental sustainability, BBB will contribute to the government's investment into clean energy industries and improve the landscape for firms in these sectors. The Assessment outlines how BBB's activity could result in long-term and short-term environmental benefits including supporting the transition to net zero, enabling smaller businesses to fund investment in green assets, enabling the development of clean and climate technology and encouraging delivery partners to adopt stronger environmental practices and reporting. The Assessment discusses specific BBB programmes with a focus or impact on green technologies that are ongoing or planned³¹ and also discusses how BBB considers environmental impacts in its investments, outlining that these are considered when

²⁹ See Schedule 2 to the Act, and [Statutory Guidance](#), Chapter 4.

³⁰ [Statutory Guidance](#), paragraphs 4.19–4.28.

³¹ For example a pilot is currently being run to enhance BBB's [Growth Guarantee Scheme's](#) ability to support businesses that are investing in sustainable assets.

developing financial products and in decision-making fora on individual investments.

- 2.56 The Assessment also notes that BBB's activity, by enabling economic activity in the short term, could have a negative impact on the environment including the potential for increased greenhouse gas emissions, increased water and resource usage, increased pollution and waste, and increased environmental activity. It explains that the scale and direction of these impacts will depend on the types of businesses supported, sectors targeted, and broader changes in the economy. The Assessment states that BBB will continue to analyse environmental impacts when developing and implementing individual programmes and regularly review and report back to DBT on its overarching impact. It also outlines that BBB currently reports on its on-balance sheet financial emissions for its direct and indirect portfolio using Partnership for Carbon Accounting Financials methodology³² and that BBB's exposure to carbon-intensive sectors is limited.
- 2.57 In our view, the Assessment considers environmental impacts of the Subsidy. In particular, it recognises that BBB's activity may have both positive and negative environmental impacts. However, in any consideration of principle A, the Assessment should explain in more detail how it will be ensured that BBB's activities and its investments are compliant with this principle, including in situations where its environmental objectives and its economic growth objective may be in tension.
- 2.58 The Assessment could also engage in more detail with the individual components of the energy limb of Principle A.

Principle B: Beneficiary's liabilities as a polluter

- 2.59 Subsidies in relation to energy or the environment should not relieve the beneficiary from liabilities arising from its responsibilities as a polluter under the law of England and Wales, Scotland, or Northern Ireland.³³
- 2.60 The Assessment states that the Subsidy does not 'exempt' BBB as a company from any legal responsibilities as a polluter and explains how BBB's governance arrangements consider the environmental impact of BBB's activities.
- 2.61 The Assessment outlines that BBB's internal practices ensure that sustainable energy supply and environmental protection are considered in its day-to-day work and that BBB is taking steps to decarbonise its own operations, which is set out in the climate-related disclosures within BBB's annual report and accounts. It

³² [Partnership for Carbon Accounting Financials](#).

³³ [Statutory Guidance](#), paragraphs 4.29–4.34.

explains that BBB is required to report on climate-related financial disclosures for its own operations.³⁴

2.62 In our view, the Assessment clearly explains how the Subsidy complies with Principle B of the Energy and Environment Principles.

Other Requirements of the Act

2.63 DBT confirmed that no other requirements or prohibitions set out in Chapter 2 of Part 2 of the Act apply to the Subsidy.

20 March 2026

³⁴ As required by the [Companies \(Strategic Report\) \(Climate-related Financial Disclosure\) Regulations 2022](#).