

Subsidy Advice Unit Report on the Mayoral Revolving Growth Fund Subsidy Scheme

Referred by the Ministry of Housing, Communities
and Local Government

07 May 2026

Subsidy Advice Unit

Part of the Competition and Markets Authority



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1. The Referral

- 1.1 On 24 March 2026, the Ministry of Housing, Communities and Local Government (MHCLG) requested a report from the Subsidy Advice Unit (the SAU)¹ in relation to its proposed Mayoral Revolving Growth Fund (MRGF) 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 The Scheme covers subsidies awarded through the Scheme from MHCLG to Mayoral Strategic Authorities (Level 1) and subsequently from Mayoral Strategic Authorities (MSAs) to eligible organisations (Level 2).
- 1.6 In our view, MHCLG has considered in detail the compliance of Level 1 subsidies, and some aspects of the compliance of Level 2 subsidies, with the subsidy control principles. In particular, we consider that the Assessment contains the following positive features:
 - (a) it appropriately describes the policy objective of the Scheme and related market failures that it seeks to address (Principle A);
 - (b) it demonstrates that it has considered other ways of achieving its policy objective (Principle E);
 - (c) it explains and clearly sets out the basis for the counterfactual (Principle C);

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

² [Referral of the proposed Mayoral Revolving Growth Fund Subsidy Scheme by the 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 or make a scheme. The public authority must not make a Scheme or 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.

(d) it considers and evidences the effect of the Level 1 subsidies on competition and investment (Principle F).

1.7 However, in relation to both Level 1 and Level 2 subsidies, the Assessment should discuss more systematically the design features of the Scheme, explaining how they help minimise distortions to competition or investment within the UK (Principle F).

1.8 We understand that the Scheme documentation requires MSAs to ensure that Level 2 subsidies comply with the Act. However, we consider that the Scheme itself should include more comprehensive rules and detailed guidance to ensure the compliance of Level 2 subsidies with certain aspects of the Subsidy Control Principles. We therefore advise that MHCLG makes the following modifications to the Scheme documentation, which should then be reflected in the Assessment:⁴

- (a) to ensure additionality: set out the due diligence process that MSAs should undertake to test the viability gap for funded projects (Principle D);
- (b) to ensure proportionality: include limits on the size of Level 2 subsidies relative to private funding or total project costs (Principle B);
- (c) to minimise distortions on competition or investment within the UK: provide more detail on the monitoring, reporting and clawback provisions and require MSAs to set out specific categories of eligible costs (Principle F); and
- (d) to assess the effects on UK competition and investment: set out more comprehensive rules and detailed guidance on how MSAs should conduct a commensurate assessment of the impact of Level 2 subsidies on competition or investment (Principle F) and ensure that benefits outweigh the negative impacts prior to awarding the subsidy at Level 2 (Principles F and G).

1.9 Alternatively, if MHCLG considers that more prescriptive Scheme rules would unduly restrain MSAs' autonomy, the Assessment should not aim to cover both Level 1 and Level 2 subsidies. In this case, MSAs should be responsible for meeting all the requirements of a public authority under the Act, including making any referral to the SAU if the relevant thresholds are met.⁵

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

⁴ The SAU has discretion pursuant to section 59(3) of the Act to give advice about how the public authority's assessment might be improved, or advice about how the proposed subsidy scheme may be modified to ensure compliance with the subsidy control requirements. This advice is non-binding.

⁵ [Statutory Guidance](#), paragraphs 3.19 and 3.20 describe a situation where a public authority may contribute funds to a second public authority, stipulating that they should be used for a general purpose or policy aim but leaving the substantive design of the subsidy to the second public authority. In these situations, only the second public authority is a subsidy giver and responsible for meeting all the requirements of a public authority under the Act.

The referred Scheme

- 1.11 The Assessment states that the MRGF is a new £500 million place-based investment programme designed to empower MSAs to accelerate investment, unlock development, and support productivity growth in key city regions in the North and Midlands. It will run from 2026 for a duration of 30 years. MHCLG announced the policy in the MRGF Policy Statement in 2025⁶ and has since worked with eligible MSAs to develop proposals aligned with MSAs' Local Growth Plans.⁷
- 1.12 The Scheme covers two levels of subsidies:
- (a) At Level 1, the Scheme will provide financial assistance to six MSAs⁸ to provide subsidies via repayable, patient capital⁹ to help unlock commercial development that supports long term productivity and economic growth. Recipient MSAs must aim to repay the capital and the associated borrowing costs for this financial assistance. The funding is structured as an investment and must be deployed by MSAs into return-generating projects and managed to deliver a portfolio-level return at the gilt rate.¹⁰ MSAs can invest this funding on commercial terms or as subsidies (the Level 2 Subsidies). Support to MSAs will be subject to a funding agreement between MHCLG and each MSA, currently in draft form (Funding Agreement). The maximum subsidy that can be awarded to a MSA is £110 million over four years.
 - (b) At Level 2, each MSA may award subsidies to eligible businesses for projects within the MSA areas in the form of financial repayable¹¹ support (Financial Transactions).¹² Financial Transactions may be used to bring forward commercial led development including the provision of high-quality office, innovation and laboratory space, manufacturing or employment space, as well as mixed use or other activities aligned with each MSA's Local Growth Plan.

Level 2 subsidies must comply with the eligibility criteria published in the MRGF subsidy scheme guidance (the MRGF Subsidy Scheme Guidance) and the Funding Agreement. Subsidies can only be given for eligible costs

⁶ [Mayoral Revolving Growth Fund: policy statement - GOV.UK](#).

⁷ Under the English Devolution White Paper (2024) all MSAs have a statutory duty to produce a Local Growth Plan (LGP) setting out an economic overview of the area, shared priorities between MSAs and central government and an investment pipeline. LGPs are intended to provide an overarching framework for public and private investment and action to drive economic growth and productivity. Further info: [UK Government Guidance on Local Growth Plans](#).

⁸ Greater Manchester, Liverpool City Region, the North East, South Yorkshire, West Midlands and West Yorkshire.

⁹ Patient capital is long-term investment capital provided in early-stage or growth businesses with the expectation of delayed financial returns.

¹⁰ This means that investments must cover the government's cost of borrowing.

¹¹ Loans, equity style investment, convertible instruments, recoverable grants or other recyclable financial mechanisms consistent with the government's Financial Transaction Control Framework [Microsoft Word - Financial Transaction Control Framework March 2025](#).

¹² Financial Transactions are also used by MSAs for non-subsidy support under the MRGF. This report covers Financial Transactions that constitute subsidies only.

that are necessary for delivery of the proposed project and must represent the minimum level of public funding required to make the investment viable. MSAs must ensure that decisions are made using objective and transparent selection criteria, consistent with their existing governance and assurance frameworks. The maximum amount that may be awarded to a single beneficiary is £110 million over four years.

- 1.13 MHCLG explained that the Scheme is a Scheme of Particular Interest because it allows for the provision of one or more Subsidies of Particular Interest (exceeding £25 million in value) to be given.¹³

¹³ Within the meaning of regulation 3 of [The Subsidy Control \(Subsidies and Schemes of Interest or Particular Interest\) Regulations 2022](#) and [The Subsidy Control \(Subsidies and Schemes of Interest or Particular Interest\) \(Amendment\) Regulations 2025](#) which set 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.¹⁴

Policy objectives

2.3 The Assessment states that the policy objective of the Scheme is to improve access to finance for commercially viable projects in regions where poor access to finance, structural barriers and weak investor confidence limit private investment.

2.4 The Assessment explains that the Scheme is designed to address persistent barriers to economic growth in city regions in the North and Midlands of England, and the resulting productivity gaps. It discusses evidence that these regions have underperformed over time, limiting local opportunity and thus constraining national productivity. It also discusses the over-concentration of economic growth in the UK in London and the South East of England, resulting in stark regional inequalities, including significant divergence in productivity, wages, skills and health outcomes.

2.5 The Assessment explains that the lack of financial and professional infrastructure outside London and the South East hinders the ability of more peripheral regions to grow. This results in a self-perpetuating cycle in which capital flows towards places perceived as safe and having liquid markets, while regions with clear economic and growth potential remain under-invested. The Assessment argues that this can prevent otherwise viable development from progressing due to low land values, high upfront costs and a lack of investor confidence contributing to structural rather than cyclical divergence.

¹⁴ See [Statutory Guidance](#), paragraphs 3.33–3.59 and the [SAU Guidance](#), paragraphs 3.6–3.10 for further detail.

- 2.6 The Assessment further explains that taking action to address underlying market failures in both the provision and pricing of finance will help accelerate investment, unlock development, and support productivity growth in key city regions. This will help to mitigate the inequitable economic and social outcomes.
- 2.7 In our view, the Assessment clearly describes the policy objective of the Scheme. However, given the Assessment focuses on economic and social outcomes, MHCLG could consider whether the policy objective also seeks to address an equity rationale, as well as remedying the market failures identified.

Market failure

- 2.8 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.¹⁵
- 2.9 The Assessment explains that the Scheme addresses persistent market failures in commercial development across major city regions outside London and the South East, in particular:
- (a) **Imperfect and asymmetric information** – where investors lack reliable information about long term demand, local market depth, or prospective returns in the underperforming markets targeted. The Assessment explains that, as a result, lenders and institutional investors apply higher risk premiums, withdraw entirely or only finance schemes capable of delivering fast payback periods, meaning that potentially viable projects do not secure finance. The Assessment explains that the Scheme will mitigate this by strengthening the financial ecosystem at sub-national level, resulting in better knowledge and stronger relationships between market participants and stakeholders.
 - (b) **Coordination failure** – as the regeneration of regional commercial centres requires multiple actors such as developers, investors, local authorities and occupiers to move together. This is because no individual party is willing to invest first because of uncertainty about whether others will follow, leading to a sub-optimal environment in which development stalls, even where the aggregate benefits would be higher if all parties coordinated investment. The Assessment explains that the Scheme will help mitigate this by crowding in private finance, unlocking developments and restoring longer term confidence.
 - (c) **Positive externalities** - which arise from the types of projects which the MRGF is expected to support. The Assessment states that the types of

¹⁵ [Statutory Guidance](#), paragraphs 3.36–3.51.

assets in which MSAs are expected to invest through the Scheme generate wider economic spillovers, such as increased productivity, agglomeration benefits and improved attractiveness to employers, which are not captured by private developers. This is because private developers do not price in these wider benefits and hence rationally under-invest despite evidence of growing demand, resulting in sub-optimal supply compared to what would be required to secure economic growth and meet the desired policy outcomes. The Assessment explains that the design of the Scheme will help mitigate this market failure by facilitating investment in commercial projects that deliver long term growth.

- 2.10 In our view, the Assessment clearly describes and evidences the market failures that the Scheme seeks to remedy.

Appropriateness

- 2.11 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.¹⁶
- 2.12 The Assessment discusses the following alternative options to a subsidy:
- (a) Previously used non-subsidy instruments such as planning reforms, local growth grants and support via institutions such as the National Wealth Fund¹⁷ (NWF, formerly the UK Infrastructure Bank), which it explains were insufficient to resolve the financial constraints experienced in regional commercial markets.
 - (b) Regulatory or grant based interventions, which it explains cannot alone resolve the core barriers to development identified¹⁸ because they relate to how capital is priced and deployed, rather than to the nature of planning systems or the availability of one-off funding.
 - (c) NWF capital, which the Assessment explains is structured more for large-scale national investments with near commercial return thresholds rather than markets characterised by information asymmetry, uncertain long-term demand and regional risk premia.

¹⁶ [Statutory Guidance](#), paragraphs 3.5r–3.59.

¹⁷ The UK National Wealth Fund is a government owned investment vehicle established to mobilize public and private capital for clean energy, industrial transformation and regional growth. For further information see [National Wealth Fund](#).

¹⁸ For example, inflated risk premia, absence of early-stage patient capital and a coordination failure in which no actor is willing to take first mover risk.

- (d) The Public Works Loan Board,¹⁹ which the Assessment explains cannot address the coordination failure or enable the strategic risk taking required to change market dynamics because it does not provide downside protection, or share risk in a way that would allow MSAs to move first in stalled markets.
- (e) Traditional grant type funding, which is considered inappropriate due to its limited ability to crowd in private sector finance at the scale required and its limited impact on wider market confidence or inflated risk premia.
- (f) Direct public provision of commercial development or public sector led delivery agencies, which were discounted due to their potential to crowd out potential private sector investment, limited impact on the wider investor confidence needed for sustained commercial market recovery and the longer-term fiscal liabilities such options would provide for UK government.

2.13 The Assessment explains that MHCLG considers the Scheme as the most appropriate option because UK government borrowing costs are significantly lower than commercial finance rates (particularly in the regions targeted), because the interest differential and long term flexible repayment terms facilitate patient investment and help build confidence (changing the behaviour of builders and developers) and provide for reinvestment of returns over the long term.

2.14 In our view, the Assessment demonstrates that MHCLG 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

2.15 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.²⁰

¹⁹ The Public Works Loan Board (PWLB) is a UK government-backed facility that provides loans to local authorities and other specified bodies in the UK for capital projects such as building, improving or maintaining public assets. For further information see [PWLB](#).

²⁰ See [Statutory Guidance](#), paragraphs 3.60–3.74 and the [SAU Guidance](#), paragraphs 3.11–3.13 for further detail.

Counterfactual

- 2.16 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).²¹
- 2.17 At Level 1, the Assessment sets out a counterfactual scenario where, absent the Scheme, MSAs’ behaviour would continue to be shaped by the same structural constraints that currently prevent them from taking on early-stage development risks. They would remain risk averse, operating as market lenders or underinvesting. The Assessment explains that this is due to balance sheet constraints, treasury rules and the absence of risk sharing tools capable of absorbing early losses.
- 2.18 The Assessment further notes that the costs covered through the Scheme are not costs that the MSA would fund in the absence of the Scheme. In support of this submission, the Assessment refers to engagement with MSAs, which confirms that, absent the Scheme, they could only make small, incremental investments with limited ability to attract private capital, and would not be able to act as the strategic first mover. The Assessment explains that despite strong pipelines of potentially viable regeneration and commercial development opportunities, MSAs are unable to invest in growth driven projects, such as Grade A workspace, high specification laboratories, and innovation facilities, due to market failures identified above.
- 2.19 At Level 2, the Assessment explains that, under the counterfactual, viable commercial projects would either stall or proceed only in heavily modified form, typically with reduced ambition, smaller scale, or significantly longer delivery timelines. The practical effect is that developers would continue to prioritise projects with short payback periods and minimal exposure to early-stage viability risks, such as, for instance, refurbishments rather than new-build Grade A development or transformative first phase regeneration. Institutional investors would maintain their preference for London and the South-East, where perceived risk is lower and exit yields are stronger. The imbalance in regional investment patterns would persist or worsen. In this environment, the market would continue to underinvest in the types of development that unlock productivity growth.
- 2.20 In our view, the Assessment clearly describes what would likely happen if the Scheme was not implemented at both Level 1 and 2. However, in relation to Level 2, it could include further evidence to support its statements relating to private investors’ and developers’ likely behaviour in the counterfactual.

²¹ [Statutory Guidance](#), paragraphs 3.63–3.65.

Changes in economic behaviour of the beneficiary and additionality

- 2.21 Subsidies must bring about something that would not have occurred without the subsidy.²² 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').²³ 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 which it can be reasonably determined would likely proceed without subsidy).²⁴
- 2.22 The Assessment presents the two Scheme mechanisms that help to bring about the change in MSAs' behaviour and ensure additionality at Level 1:
- (a) a capped first-loss guarantee on the principal, which enables MSAs to absorb early-stage risk that private investors currently avoid, thereby unlocking investment needed to make projects viable without breaching fiscal prudence; and
 - (b) a 50/50 risk sharing mechanism with HMT, which helps ensure that MSAs remain financially liable for the overall portfolio performance, whilst giving them the ability to take on a strategic risk.
- 2.23 The Assessment explains that the Scheme gives MSAs the tools and confidence needed to act as strategic investors, shifting market expectations, crowding in private finance, and unlocking long-term, spillover development. It estimates that an indicative £100 million allocation could leverage up to £500 million in additional private investment, unlocking up to 6 million square feet of commercial space.
- 2.24 The Assessment sets out that MSA pipeline teams have identified significant projects in their respective areas that would deliver employment floorspace, commercial development, and would unlock private investment and jobs. It also includes case studies relating to specific projects.
- 2.25 At Level 2, the Assessment notes that the funding agreements will require MSAs to ensure each investment does not displace investment that would otherwise have been provided²⁵ by the private sector and to confirm that the approved project has not commenced prior to the date of the funding agreement. MSAs will be required to report to MHCLG against a consistent framework set by HMT, including uniform accounting standards, a minimum target return and regular

²² [Statutory Guidance](#), paragraph 3.67.

²³ [Statutory Guidance](#), paragraphs 3.66–3.70.

²⁴ [Statutory Guidance](#), paragraphs 3.71–3.73.

²⁵ The MRGF Subsidy Scheme Guidance indicates that Financial Support may only be awarded for activity that addresses access to finance barriers that are consistent with the objectives of the Scheme.

performance reporting which will include monitoring of additionality and private leverage.

2.26 In our view:

- (a) At Level 1, the Assessment clearly explains and evidences how the Scheme would change the MSAs' economic behaviour and that the Scheme will bring about changes that would not have occurred absent the Scheme.
- (b) At Level 2, the Assessment should more systematically refer to provisions in the Scheme documentation that support its conclusions on additionality, such as provisions that MSAs may not award support for activity that has started (except under certain conditions).
- (c) The Scheme itself should include more comprehensive rules and detailed guidance to ensure compliance of Level 2 subsidies with Step 2. We therefore advise that the Scheme documentation should set out the due diligence process that MSAs should undertake to test the viability gap for funded projects, in a way that is commensurate with the size of the subsidy. This could include the type of evidence that MSAs will need to collate from the beneficiary and methodologies to test their assumptions.

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

2.27 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.²⁶

Proportionality

2.28 The Assessment explains that subsidies under the scheme at both levels are proportionate to the policy objective of reducing regional productivity gaps by enabling MSAs to act as patient investors through a devolved, recyclable fund that addresses regional barriers to accessing finance.

2.29 With regard to Level 1 subsidies, the Assessment explains that proportionality is demonstrated through the following design features:

²⁶ See [Statutory Guidance](#) paragraphs 3.75–3.112 and the [SAU Guidance](#), paragraphs 3.14–3.18 for further detail.

- (a) eligibility is limited to the six MSAs with the greatest market weaknesses and strongest delivery capability;
- (b) individual MSA allocations are capped at £110 million over four years and sized relative to each MSA's share of the total population across the six regions. The overall capitalisation of £500 million over 25–30 years represents a very minor share of the £514 billion commercial real estate stock across these regions;
- (c) the fund is time-limited, capitalised once, and recyclable, requiring MSAs to reinvest returns and ultimately repay capital plus borrowing costs;
- (d) although the final investment decisions are devolved to MSAs, the Funding Agreement requires them to submit indicative pipeline documents to UK government, which retains oversight of intended deployment across the portfolio;
- (e) in response to clarification questions, MHCLG explained that the Funding Agreement sets out that payments are subject to conditional drawdown: each tranche requires satisfaction of all conditions of the Funding Agreement, evidence that costs have been incurred or committed, and certification that the MSA remains compliant with the agreement; and
- (f) MSAs must report against a consistent government framework, with each qualifying investment reported to MHCLG and updated pipelines provided as part of ongoing monitoring, assuring UK government that deployment decisions remain proportionate.

2.30 With regard to Level 2 subsidies, the Assessment explains that proportionality is ensured through the Financial Transactions conditions which MSAs must satisfy before making individual awards:

- (a) awards must target a genuine affordability gap driven by the high cost of commercial borrowing in these markets. UK government's lower gilt-linked borrowing cost provides a marginal reduction in financing burdens, with the subsidy designed to shrink naturally as market conditions improve;
- (b) funding agreements require MSAs to ensure each investment provides additionality and does not displace private sector investment. MSAs must report to MHCLG against a consistent framework; and
- (c) individual awards are subject to a per-beneficiary funding cap of £110 million over four years. The revolving structure of the fund ensures that the same public expenditure funds multiple generations of projects, raising value for money without increasing the subsidy amount.

2.31 In our view:

- (a) At level 1, the Assessment demonstrates and evidences that the Scheme is proportionate and limited to the minimum necessary to achieve its specific policy objectives, in line with the Statutory Guidance. However, it could explain in more detail how the duration of the Scheme is proportionate to the Scheme's objectives.
- (b) At level 2, the Assessment discusses some considerations relevant to proportionality. However, we consider that, to ensure compliance with Principle B, the Scheme documentation should set out more comprehensive rules and detailed guidance on how MSAs are expected to demonstrate proportionality. This could include limits on the size of Level 2 subsidies relative to private funding or total project costs.

Design of subsidy to minimise negative effects on competition or investment

2.32 The Assessment explains that several design features minimise potential distortions of competition. It states that:

- (a) the six eligible MSAs have been selected on the basis of clear evidence of structural economic underperformance. The Assessment explains that the Scheme addresses an entrenched spatial distortion and rebalances competitive conditions rather than creating new ones, as private capital is not currently flowing into these regions;
- (b) funding flows through MSAs rather than directly to businesses, with MSAs applying transparent, criteria-based decision-making linked to their Local Growth Plans, ensuring no firm receives an undue or selective advantage and mitigating the risk of crowding out private finance;
- (c) although final investment decisions are devolved to MSAs, before funding is released, they must share an indicative pipeline of projects with MHCLG, including the total funding requirement, the public investment required from the MRGF, private sector finance to be leveraged, and growth outcomes such as jobs created and commercial floorspace unlocked;
- (d) the Scheme supports a wide range of commercial development types generating positive spillovers by delivering productivity growth, commercial space, regeneration and jobs, rather than subsidising normal market activity. Because eligibility is broad and sector neutral, the Assessment states that the Scheme does not tilt competition within specific industries, prop up failing businesses, subsidise routine operational costs, or support firms that would invest without assistance;

- (e) the fund is capitalised once and must be ultimately repaid, such that the subsidy is limited both in duration and intensity;
- (f) eligible costs must be incurred directly as a result of the project or activity, limited to those strictly necessary and time-limited to the project, and must not compensate for expenditure the beneficiary would have funded in any event. Each award must include a recovery condition for misuse or double funding; and
- (g) further to paragraph 2.29(f), Level 1 reporting requirements include performance indicators covering rate of return, additionality and private leverage. Where monitoring reveals persistent underperformance or non-compliance, UK government retains the ability to withhold funding and recall funds.

2.33 In our view:

- (a) At Level 1, the Assessment should explain how monitoring and quality assurance of MSA funding decisions by MHCLG will operate. The Assessment should also consider any safeguards to recover funds already deployed to an MSA (as distinct from merely suspending future drawdowns) where appropriate.
- (b) At Level 2, the Assessment should discuss more systematically the design features of the Scheme listed in the Statutory Guidance and explain how they help minimise distortions to competition or investment within the UK.

2.34 Further, to ensure compliance of Level 2 subsidies with Principle F, the Scheme documentation should set out more comprehensive rules and detailed guidance on:

- (a) Monitoring and clawback: the Scheme documentation should provide more detail on the monitoring, reporting, and clawback provisions in the legal agreements with Level 2 beneficiaries; and
- (b) Eligible costs: the Scheme documentation should require MSAs to set out specific categories of eligible costs.

Assessment of effects on competition or investment

2.35 The Assessment identifies two relevant markets: regional commercial development finance and the supply of high-quality commercial space. It argues that the MRGF is highly unlikely to distort competition either within or between these markets, describing a counterfactual characterised by long-standing negative distortions arising from inflated risk premia, persistent underinvestment, and structural information failures. On this basis, the Assessment explains that the

Scheme addresses entrenched spatial distortions and rebalances competitive conditions rather than creating new ones. It further argues that by correcting inflated risk pricing and enabling additional investment capacity, the MRGF is expected to improve competitive conditions over time.

- 2.36 The Assessment contextualises the scale of the Scheme against regional commercial real estate markets, noting that annual investment volumes in each of the six MSAs significantly exceed the size of the proposed fund, with MRGF deployments typically representing well below 1-3% of yearly market activity. On this basis, the Assessment states that the Scheme's impact on competition within the commercial real estate market is minimal, and its effect on the broader markets in which MSAs may invest (including innovation assets, laboratories, mixed-use regeneration and employment supporting commercial space) is smaller still.
- 2.37 The Assessment acknowledges the marginal risk that the Scheme could influence firm location decisions, with some businesses or developers potentially choosing to locate within an MSA area rather than in a nearby city without access to the same financial tools. However, it argues that this risk is limited and outweighed by the broader structural correction the scheme is intended to deliver: reducing inflated regional risk premia, restoring investor confidence in major city-region markets, and generating positive spillovers across wider functional economic areas.
- 2.38 In our view:
- (a) In relation to Level 1 subsidies, the Assessment clearly considers and evidences the effect of the Scheme on UK competition or investment, in line with Annex 3 of the Statutory Guidance.
 - (b) In relation to Level 2 subsidies:
 - (i) The Assessment should recognise that the sector neutrality of the Scheme does not mean that Level 2 subsidies will not have an impact on competition in the market in which the beneficiary is active.
 - (ii) To ensure compliance with Principle F, the Scheme documentation should set out more comprehensive rules and detailed guidance on how MSAs should conduct an assessment of the impact of Level 2 subsidies on competition or investment that is commensurate with the size of the subsidy; this should in turn inform a balancing exercise under Step 4.

Step 4: Carrying out the balancing exercise

- 2.39 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.²⁷

2.40 The Assessment sets out the following anticipated benefits of the Scheme:

- (a) Increasing commercial development and regeneration by unlocking stalled commercial schemes through the provision of early-stage finance.
- (b) Restoring private investor confidence and rebalancing national investment patterns.
- (c) Directly supporting the long-term drivers of wage and productivity convergence across the six regions, generating billions of pounds in additional economic output and thousands of high-quality jobs.
- (d) Delivering long-term value for money by recycling a single capitalisation to support multiple generations of projects over 15–20-years, reducing ongoing subsidy requirements.
- (e) Strengthening the capability of the six MSAs by building confidence in deploying patient capital, and developing the institutional foundations needed to reduce regional risk premia over time.

2.41 The Assessment also draws on supporting evidence to quantify the potential benefits of crowding in private investment, alongside the long-term recycling of capital and structural productivity benefits.

2.42 The Assessment then acknowledges the potential negative impacts of the Scheme:

- a) Whilst small, there is a possibility that, where a niche lender might have been willing to lend or invest on commercial market terms, this lender is crowded out by, or dismissed or overlooked in favour of, the MSA's investment.
- b) Concentrating investment in six MSAs may lead to differential access to finance relative to neighbouring local authorities. The Assessment considers this effect to be minor given that the six MSAs are already facing structural disadvantage in attracting investment. In MHCLG's view, this means that the policy is expected to correct an existing distortion and distributional concern (underinvestment), rather than create a new one.
- c) There is a possibility that businesses relocate from nearby local authorities into the area covered by an MSA. The Assessment considers this possibility to be minor given that funds will support commercial development, not relocation incentives, and MSAs will have to be assured that projects support additionality

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

rather than simple displacement. It notes that benefits of growth tend to cluster within wider functional economic areas, meaning spillovers are likely to strengthen rather than harm nearby local authorities.

2.43 The Assessment considers the estimated magnitude of the positive and negative effects of the Scheme and concludes that the benefits of achieving the policy objectives far outweigh the limited and manageable potential negatives.

2.44 In our view:

(a) For Level 1 subsidies, the Assessment sets out a number of positive effects of the Scheme in relation to the policy objective, and geographic and distributional impacts as well as potential negative impacts and conducts a balancing exercise between them in line with the Statutory Guidance.

(b) For Level 2 subsidies, the Assessment should refer to our evaluation under Principle F to conduct a more robust evaluation of the potential scale of negative impact of the Scheme on competition or investment in the UK, which will in turn inform the balancing exercise.

2.45 Moreover, the Scheme documentation should include mechanisms to ensure that the benefits of the Level 2 subsidy outweigh the negative impact of the Level 2 subsidy prior to its award.

Other Requirements of the Act

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

7 May 2026