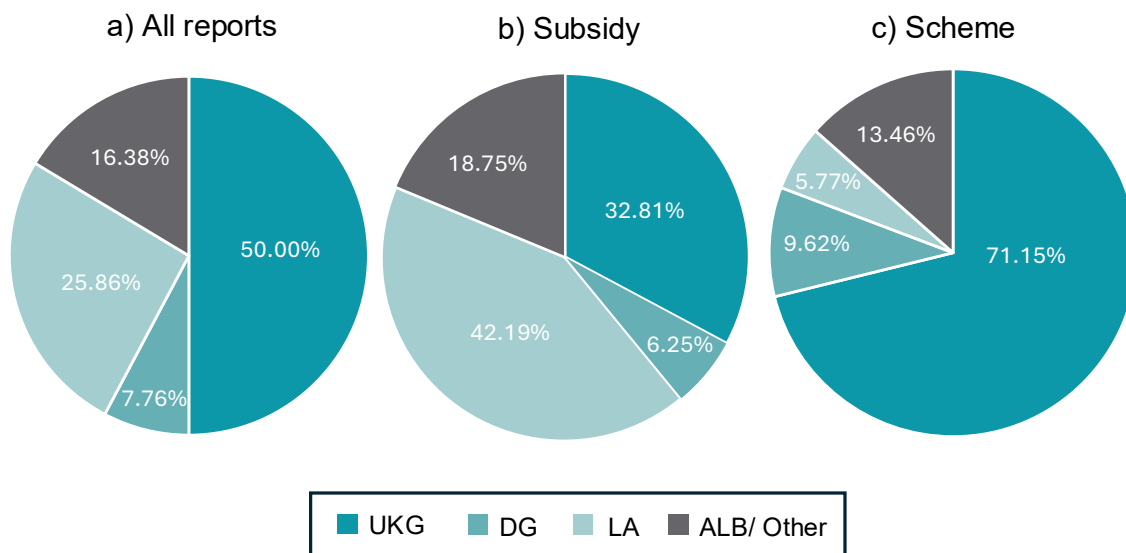


## Appendix E: Analysis of SAU Reports

- E.1 As part of its statutory responsibilities, the SAU publishes reports on subsidies that have been referred to it. These reports evaluate the relevant public authority’s assessment against the subsidy control principles set out in Act.
- E.2 An SAU report considers how well a public authority’s assessment has addressed each of the principles, including the appropriateness and level of analysis and evidence used. The report sets out where, if relevant, the assessment could or should be improved.
- E.3 Analysing these reports can provide insights into how well public authorities are carrying out their assessments and into which areas they may find particularly challenging.
- E.4 The analysis covers the 116 reports published by the CMA during the period of the review (64 standalone subsidies and 52 schemes). These were all mandatory referrals of Subsidies or Schemes of Particular Interest (SSoPIs) and so cover the larger subsidies that have been given (representing 4% of subsidies and schemes recorded on the subsidy database). Figure E.1 shows the reports by public authority type.

**Figure E.1 Reports by public authority type**



Source: SAU analysis of referrals (2023 – 2026).

### Methodology

- E.5 A typical SAU report will review each principle in line with how the public authority has carried out the assessment; this will usually follow the four-step approach recommended by the Statutory Guidance. The SAU will set out in the report its

evaluation of how the public authority has demonstrated compliance with each principle, noting where this could or should be improved.

- E.6 The language used in SAU reports has evolved over the review period (in particular the standardisation of language in terms of whether improvements to the Assessment ‘could’ or ‘should’ be made). This meant that attempting to directly compare all of the reports would have been a complex exercise as there was no straightforward way to gauge the relative strength of comparable issues raised as between earlier and later reports.
- E.7 However, the use of summaries at the start of each SAU report setting out the key areas of improvement (in later reports classified as ‘shoulds’) identified by the SAU in its evaluation has remained consistent across the review period.
- E.8 We were more easily able to directly compare reports by looking at which principles were mentioned in each summary. While these do not cover all of the issues raised, because the summaries only covered areas of key concern, this approach allows us to identify those principles which tend to require the most improvement in assessments.
- E.9 The analysis covers each of the subsidy control principles, along with the Energy & Environment (E&E) principles and SPEI requirements where relevant.<sup>1</sup> We have counted the number of times an issue relating to a specific principle has arisen. We do not go into the specific details of what needed improving (eg increased evidence or incorrect understanding).
- E.10 We also split two of the principles, where they covered more than one discrete analytical area, to help us understand more specifically where SAU evaluations found that improvements were needed:
- (a) Principle A was split into policy objective, equity rationale and market failure; and
  - (b) Principle F was split into subsidy design and market characteristics.

## Analysis

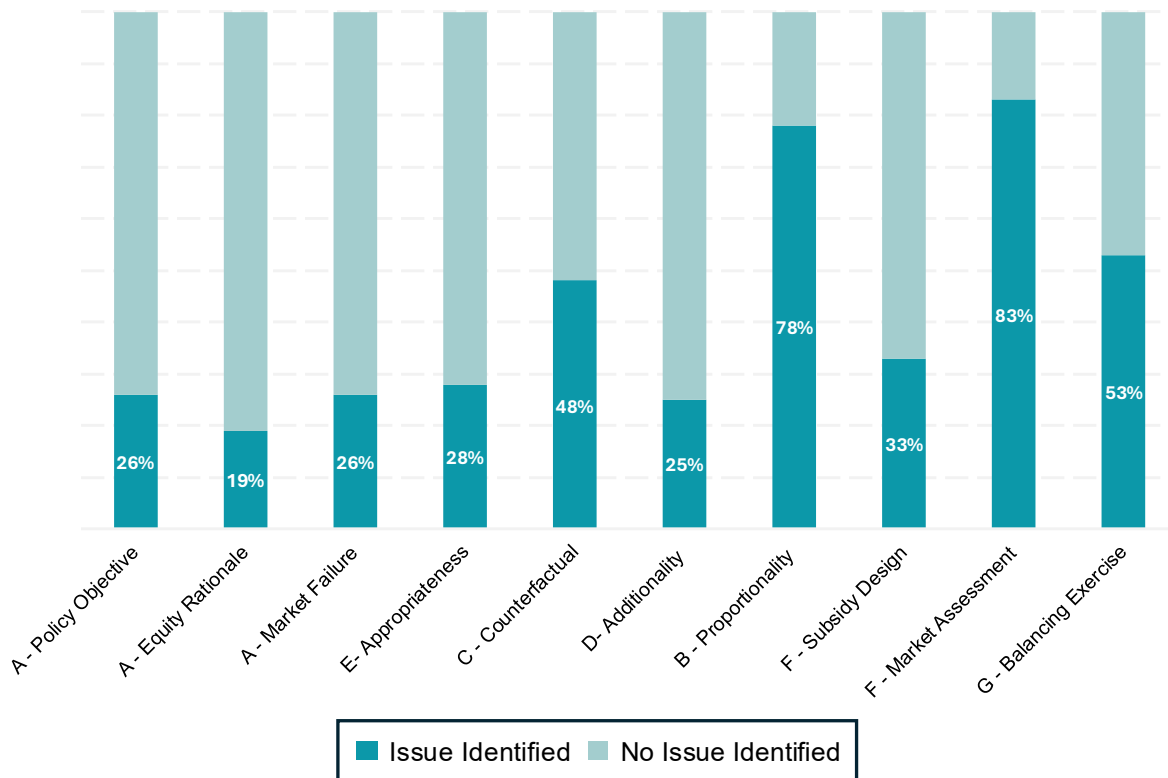
- E.11 Figure E.2 presents analysis of issues identified in the summaries of SAU referral reports, for all referrals, categorised by subsidy control Principle. Figure E.3 presents similar analysis, but distinguishing between referrals of stand-alone

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<sup>1</sup> The E&E principles apply only to subsidies where the specific policy objective of the subsidy (or one of its objectives) specifically relates to energy or the environment. SPEI requirements apply to subsidies which are for Services of Public Economic Interest.

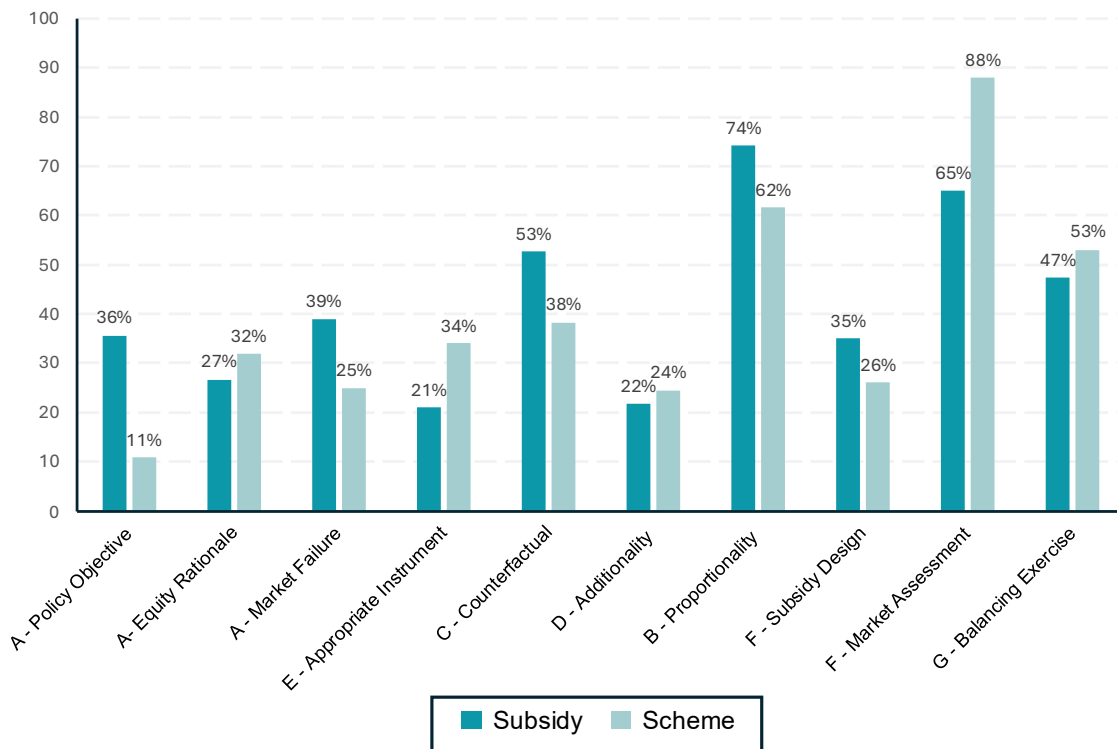
subsidies and subsidy schemes. Figure E.4 presents analysis of issues, by Principle, categorised by type of public authority.

**Figure E.2 Issues identified by principle**



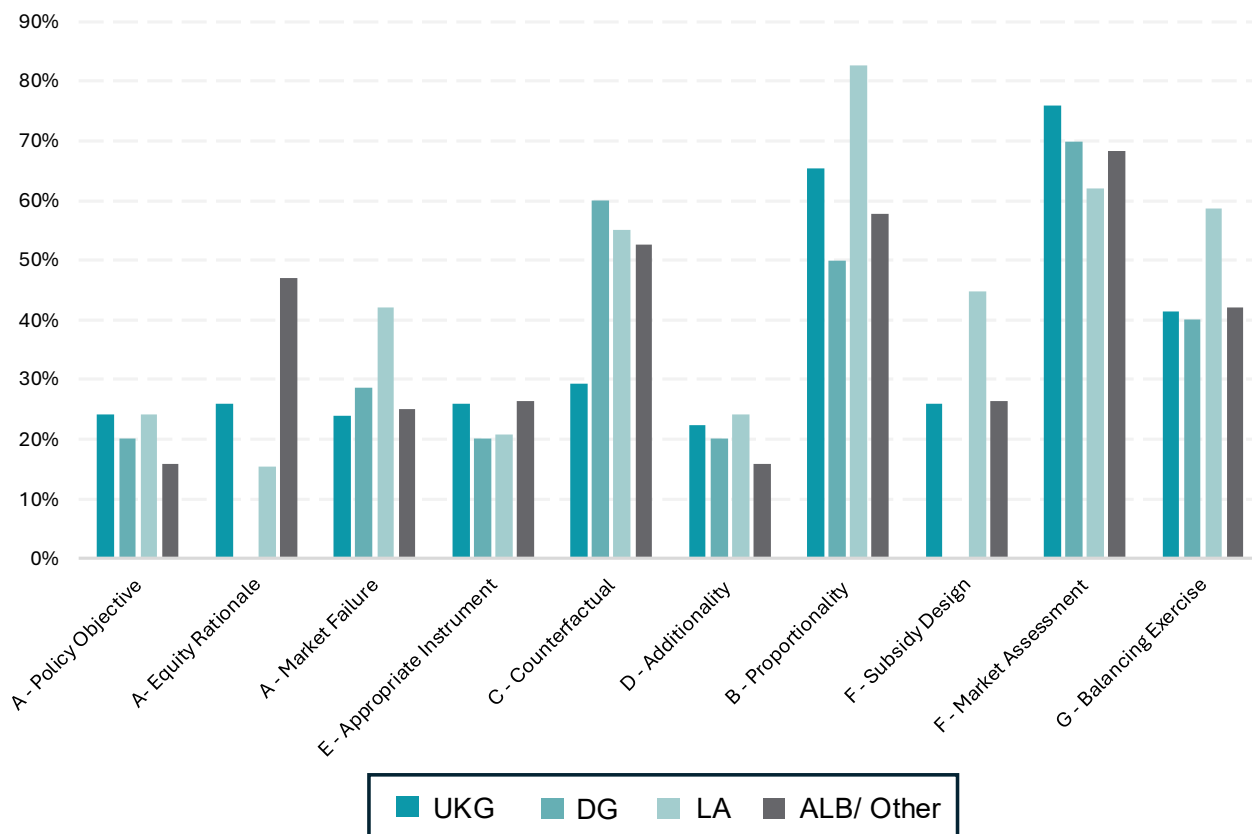
Source: SAU analysis of referrals (2023 – 2026)

**Figure E.3 Issues identified by principle: Standalone subsidies vs Schemes**



Source: SAU analysis of referrals (2023 – 2026)

**Figure E.4 Issues identified by principle: PA types**



Source: SAU analysis of referrals (2023 – 2026)

## Findings

- E.12 This analysis indicates that assessments tended to need most improvement with respect to the market characteristics element of Principle F, which was identified as needing improvement in 83% of SAU reports. This was closely followed by Principle B (proportionality), which was identified as needing improvement in 78% of reports. Both of these principles fall within Step 3 of the four-step process, dealing with similar analytical issues.
- E.13 The number of SAU reports in relation to schemes where the market characteristic element of Principle F is highlighted as needing improvement was higher than for standalone subsidies.
- E.14 Generally, we see from SAU reports that all types of public authority seem to find Principles F and B difficult. However fewer SAU reports for local authorities raise Principle F than reports for other types of public authority (approximately 60% vs 80%). This might be seen as inconsistent with concerns raised elsewhere that smaller public authorities might struggle more with areas such as competition analysis.
- E.15 Reports for arm’s length bodies / other public authorities seem to have fewer issues than those for other public authorities for Principle B with around 50% of

such reports raising Principle B compared to around 60% to 80% of reports for other public authorities.

- E.16 We also see that public authorities in general are more likely to struggle with Principle C (on the change in behaviour expected as a result of the subsidy) and Principle G (the balancing test), although we see that UK government departments appear to have fewer issues with respect to Principle C: around 30% compared to between around 50% to 70% of reports for other types of public authority.
- E.17 The frequency of issues relating to the remaining principles were all broadly similar, with between approximately 20% and 30% of reports highlighting a need for improvement. There is little variation between types of public authority for these principles, although arm's length bodies (ALBs)/other public authority types appear to struggle more with Principle A (equity rationale) than others (this might reflect a greater use of an equity rationale for policy objectives).
- E.18 We considered whether reports showed any improvements over the review period. We saw a weak downward trend in the percentage of areas in an assessment needing improvement. This may reflect both the fact the regime is still relatively new, and that referrals have involved different public authorities and different policy teams, meaning that experience remains limited.

## Energy & Environment Principles and SPEI requirements

- E.19 We also looked at the extent to which SAU reports identified the E&E principles and SPEI requirements for improvement. Both these are only required for certain subsidies, out of the 116 referrals to the SAU, 42 involved the E&E principles, and 22 involved SPEI requirements. Only around 30% of reports on referrals involving the E&E principles highlighted issues with them. However, almost 70% of reports on referrals involving the SPEI requirements advised improvements on implementing them.

**Table E.1 E&E principles and SPEI requirements**

	<b>Issue Identified</b>	<b>Referral Total</b>
E&E	13	42
SPEI	15	22