

Argyll and Bute Council

Economic Development Subsidy Scheme Principles Assessment



Contents

Contents	1
Project summary and subsidy award description.....	2
SUBSIDY ASSESSMENT	3
Step 1 – Policy Objective	3
1.1.i Existence and significance of the market failure and/or the equality concern the subsidy seeks to address.....	3
1.1.ii How the subsidy will remedy the market failure (provide a more efficient outcome) and/or address the equity objective (reduce an inequality).....	6
Step 1.1.iii The desired outcomes of the scheme	8
Step 1.2 – Appropriateness of the subsidy	8
Step 2.1 – Baseline analysis	9
Step 2.2 – Additionality assessment.....	10
Step 3 – Proportionality and minimising distortion within the UK [Statutory Guidance 3.72 – 3.108].....	12
3.1 The nature of the instrument [Statutory Guidance 3.80 to 3.82]	12
3.2 The breadth of beneficiaries and the selection process [Statutory Guidance 3.83 to 3.85].....	12
3.4 Timespan [Statutory Guidance 3.94 to 3.97.]	13
3.5 Nature of costs covered [Statutory Guidance 3.98 to 3.99].....	13
3.6 Performance criteria [Statutory Guidance 3.100 to 3.101]	13
3.7 Monitoring and evaluation [Statutory Guidance 3.104 to 3.106]	14
Step 4 – Balancing exercise.....	15
4.1 Negative effects	15
4.2 Benefits of the subsidies and scheme	15
4.3 Why negative effects are outweighed.....	16
APPENDIX 1 – Map of scheme area.....	18
APPENDIX 2 – Reference links and summary statistics table	19

Project summary and subsidy award description

Argyll and Bute Council is making this scheme using its powers under with section 10(3)(e) and 10(2)(a) of the Subsidy Control Act (2022) (SCA) .

The policy objective is to:

- Mitigate the regional inequality and socio-economic disadvantage experienced in Argyll and Bute, recognising the region's distinctive culture and unique challenges.
- Support the delivery of [Argyll and Bute Council's Economic Strategy 2024-2034](#) and the associated short-term [Action Plan](#), 2025-2028 (which is updated annually).
- Preserve and create new employment to retain population across the region, strengthening communities and underpinning the region's place-based approach to development.
- Contribute to the Scottish Government's National Strategy for Economic Transformation (NSET) vision for a wellbeing economy thriving across economic, social and environmental dimensions and its ambition to promote entrepreneurial activity in every sector in our economy.

The purpose of the scheme is to make a simplified route for the council to give financial assistance to enterprises operating in the scheme area. Support can take the form of investment in capital assets up to £10m, projects to build the capacity of the social enterprise sector (up to £3m), and operating support over a limited period (up to £3m). Assistance must comply with the scheme conditions.

Subsidies can be awarded as indirect, direct or repayable grants or subsidised loan, or a combination thereof. The maximum subsidy limit will be 100% of eligible costs for third and public sector organisations, 80% for SMEs, and 50% for large enterprises (enterprises employing over 250 people). The purpose, terms and conditions of each subsidy will be set out in a grant offer and legal agreement with the recipient. The subsidies will not be subject to any exemption in section 43 – 51 of the SCA and will not be subsidies of interest. Information regarding sections (q) to (x) of Regulation 3 of The Subsidy Control (Subsidy Database Information Requirements) Regulations 2022 is not provided as these are not applicable.

SUBSIDY ASSESSMENT

Step 1 – Policy Objective

[Statutory Guidance 3.32 to 3.34]

The policy objective is to:

- Mitigate the regional inequality and socio-economic disadvantage experienced in Argyll and Bute, recognising the region's distinctive culture and unique challenges.
- Support the delivery of [Argyll and Bute Council's Economic Strategy 2024-2034](#) and the associated short-term [Action Plan](#), 2025-2028 (which is updated annually).
- Preserve and create new employment to retain population across the region, strengthening communities and underpinning the region's place-based approach to development.
- Contribute to the Scottish Government's National Strategy for Economic Transformation (NSET) vision for a wellbeing economy thriving across economic, social and environmental dimensions and its ambition to promote entrepreneurial activity in every sector in our economy.

[Statutory Guidance 3.35 – 3.53]

1.1.i Existence and significance of the market failure and/or the equality concern the subsidy seeks to address.

Equality concern

Argyll and Bute Council is second largest local authority area in Scotland by landmass and is home to a rich and varied natural landscape and coastline comprising a significant expanse of Scotland's mainland, as well as the southern group of the Inner Hebridean Islands, currently consisting of 23 inhabited islands which are home to 17% of the region's population. 41.8% of Argyll and Bute's population live in rural and remote rural areas.

The local authority area is part of the wider Highlands and Islands region, which is a large landmass (52% of Scotland or 18.4% of the UK) with a small population (approx. 490,000) much of which is located in a rural environment. It has been viewed as lagging behind that of the rest of Scotland, the UK and much of Europe. Many of the issues faced in Argyll and Bute are common to this wider region, and the equality concerns discussed here (and indeed throughout the assessment) are therefore put into that wider context.

The challenging geography and the distance from key markets are amongst the issues contributing to the area as a whole facing a declining population, but there are particular challenges in Argyll and Bute. The distinctive geographical character of the region with many islands and deeply indented sea lochs creating many peninsulas creates a unique challenge for transportation. This means there is high reliance on ferries for both mainland and island communities. The overall depopulation trend and difficulties in attracting talented people to work in the region are also influenced by the lack of appropriate and affordable housing, lower than average salaries, under provision of affordable childcare and transport challenges. Conversely, some areas of the local authority are in very close proximity to the central belt, particularly Glasgow and suffer from issues such as de-industrialisation. This variety creates its own challenges.

For decades, the Highlands and Islands as a whole (including Argyll and Bute) have been subject to distinct policy approaches to alleviate some of these issues, such as the formation of distinct development and enterprise agency and a range of specific strategies such as the Scottish Government's Action Plan to address depopulation (2024).

[Argyll and Bute Council's Economic Strategy](#) recognises these challenges, for example the cost of doing business and the high cost of living, as the distinctive impact on the local authority area by recent economic shocks such as the pandemic, EU Exit, and severe weather incidents which are increasing in frequency due to climate change. It sets out a ambitious plan to meet the area's unique challenges and opportunities. It has a particular focus on arresting population decline, attracting and upskilling workers. It also emphasises investment in rural and remote communities, delivering net zero and seizing potential economic opportunities which are particularly well-suited to communities like those in Argyll and Bute.

The [Highlands and Islands Regional Economic Partnership \(HIREP\)](#) work across the wider region, and are currently preparing a short-term delivery plan to address the biggest challenges in the region. Prior to the UK's exit from the EU on 1 January 2021, the Highlands and Islands had Assisted Area status because of the lower comparative GDP and sparsely populated areas. This created a particular reliance on European funding for investment. Post Brexit, this has meant reduced funding and heightened uncertainty about future funding settlements.

Through a wide range of activity by numerous local and regional parties many of the issues impacting on the region's economy and social wellbeing have been tackled and improvements have been made in a variety of sectors and geographical areas. However challenges remain. In November 2024, the Scottish Human Rights Commission (SHRC) published a report [Economic, Social and Cultural Rights in the Highlands and Islands](#) cover the whole of the region, including four case studies within Argyll and Bute. Its findings are relevant to Argyll and Bute, and included, 'The human rights of its people...are not all being fulfilled, with big challenges to the full enjoyment of their economic, social, and cultural rights.' The Commission raised specific concerns for the following areas: lack of affordable and quality housing; limited access to sufficient and nutritious food, inaccessible health care services, fuel poverty, access to technology or poor internet connectivity, poverty related attainment gap in education, transport connectivity to essential public services and supplies.

In [2023 and 2024 Highlands and Islands Enterprise](#) gave evidence to the UK Parliament Scottish Affairs Committee highlighting issues relating to the inequality faced by the populations across the Highlands and Islands area as a whole, which are also relevant to Argyll and Bute. In addition to the issues referenced above, HIE documented challenges around cost of living; fuel costs in inhospitable climate; and lack of viability of key services resulting in part from low population density.

A number of factors negatively impact or exacerbate the cost of living in Argyll and Bute—structural disadvantage (e.g. limited access to high quality broadband), higher than average levels of fuel and transport poverty, poor and declining access to services. Work by the [Scottish Government in 2021 on a Minimum Income Standard for Remote Rural Scotland](#), concluded that the cost of living is higher in remote rural parts of Scotland than elsewhere across the UK. The dominant additional cost is the cost of travel reflecting the longer distances people must routinely travel, particularly to work.

Reliance on transport – Average fuel prices (petrol and diesel) tend to be higher in Argyll and Bute than for Scotland overall. Given the distance from and to markets and services creating higher reliance on transport, transport costs for businesses and residents are higher. Transport poverty is also a factor with a lack of alternative options to mitigate the impact of increased fuel prices. A particular issue is also the fragility of transport routes in Argyll and Bute, with ferries vulnerable to disruption and a small number of key road routes frequently closed due to landslides and flooding, creating long and difficult diversions.

Access to services – More people in rural areas are outwith a reasonable drive time to key services (e.g. GPs and shops) compared to the rest of Scotland. This puts communities in rural areas at a disadvantage even before accounting for changes and challenges as a result of the recent cost-of-living crisis.

Housing - A key issue across the region is securing quality housing. Argyll and Bute Council was the first in Scotland to [declare a housing emergency](#), in June 2023. Access to appropriate and affordable housing is a constraint to both population attraction and economic growth. High and increasing construction costs are a disincentive to housebuilding. There is a high rate of second home ownership in the area which drives up house prices and further limits supply for local residents. In addition to the inadequate supply of housing, there are issues with quality of the existing housing stock, relating to improving energy efficiency, addressing fuel poverty and contribution to reducing greenhouse gas emissions. Fit for purpose and affordable housing, across all types and tenures, in the right locations, underpins realisation of Argyll and Bute's transformational economic opportunities by ensuring that worker accommodation is available. It is also critical to community cohesion and resilience, given the importance of housing availability for residents and those providing key services.

The need for Regeneration - The low population density, demographic changes and pockets of deprivation as identified on the Scottish Index of Multiple Deprivation, can mean that despite there being a housing crisis, property and housing can be of a low market value. Combined with a lack of private investment, this can result in a lack of investment in key buildings, such as tenements, multi-use buildings, or even large community buildings such as churches, concert halls, or theatres in town centres. Many of these buildings were built at a time prior to population decline when populations were larger, or when large industries supported thriving and highly localised economies, such as tourism on the Clyde coast or fishing. These structures often contribute significantly to the public amenity of towns and are a crucial part of their historic environment – especially in small communities which have few large buildings. Often, the conservation deficit (when the cost of renovation, particularly to a high conservation standard, is greater than the buildings resulting value to its owner) will not be met by the market. Without subsidy this can result in derelict or poorly maintained buildings and a poor built environment. Although conservation deficits can be an issue in many areas, it is particularly challenging in rural areas such as Argyll and Bute which have been subject to depopulation and fewer economic opportunities than more urban, central areas.

One of the strengths of Argyll and Bute is its varied and distinctive historic environment, particularly in settlements characterised by late 19th century or 20th century tourism around the Clyde, planned historic settlements such as Inveraray or Lochgilphead, the legacy of an extensive whisky industry, or a varied range of vernacular rural buildings which reflect the agricultural history of the region. Working with partners on the ground (including private owners) to subsidise the cost of restoring a listed building may be the only way of securing its long term future – one example of this approach is the highly successful [Conservation Area Restoration Scheme](#). Delivering targeted investment also leads to the sustainable reuse and management of historic buildings. Public funding,

often in the form of grants, can be used to cover or alleviate the conservation deficit and ensure that the heritage asset is brought back into beneficial and economically viable use.

The region has distinctive cultures and enjoys well-established brand recognition with strengths in areas such as heritage and Gaelic and minority languages. However the SHRC report noted there were limited opportunities for engagement in cultural life and that these were deteriorating across the region. The [HIREP strategy](#) notes that the region has a major opportunity to build on cultural and heritage assets.

The above challenges are recognised across the region and this is reflected in the joint strategy being produced by the Highland and Islands Rural Economic Partnership (HIREP) as well as in the strategies of individual partners. Argyll and Bute Council engages collaboratively with both the other local authorities in the region and partners operating at regional and national levels.

1.1.ii How the subsidy will remedy the market failure (provide a more efficient outcome) and/or address the equity objective (reduce an inequality)

Across Argyll and Bute it is common for organisations to be established to provide activities and services supporting the economic and social wellbeing of the area. Equally, the remote, and often fragile nature of some communities means that private enterprises can become crucial to community survival and may be the only enterprises serving crucial community needs. Local solutions, utilising available partner organisations, are commonly sought to address the inequalities experienced across the region. This subsidy scheme aims to reduce the burden on such organisations by reducing administrative and financial challenges, therefore allowing focus on delivery of core activity.

The area has a long history of taking a place-based approach. The Highlands and Islands as a whole have pioneered community-led development, empowering communities to be active participants and partners in community wealth-building. As a result the region has unrivalled levels of community asset ownership, community participation and social enterprise development. This is also particularly the case for Argyll and Bute. It is not surprising therefore that the region boasts a high number of social enterprises and community organisations operating across a wide range of markets. The [SEC Scotland 2021](#) recorded 6,047 social enterprises operating in Scotland, with 257 located in Argyll and Bute, a 4.5% increase from the 246 social enterprises recorded in 2017. Commercial businesses in the region represent just 13% of all Scottish businesses. There are 30 social enterprises per 10,000 people in Argyll and Bute compared with a figure of 11 nationally. ([A+BC SEC 2021](#))

The Scottish Government has acknowledged in their [social enterprise action plan](#) and [report on inclusive and democratic business models](#) the important role of social enterprises in offering new, nimble and collaborative responses to the cost of living crisis. Social enterprises are being established in response to local market failure or to support the communities within which they live, creating businesses, securing jobs and delivering services and these organisations have an essential role to play in supporting the delivery of the outcomes in Scottish Government's National Performance Framework.

The 2021 SEC highlighted the importance of non-profit making organisations to the region with social enterprises contributed £47.3m GVA and supported 1,482 FTE

employees in Argyll and Bute ([A+BC SEC 2021](#)). Further it highlighted the wide range of sectors in which these organisations were involved increasingly reflects community asset ownership and offers new opportunities to support community wealth building.

With increasing pressure on public funds, resulting in cuts to services and in grants to those who provide external services, it is a particularly challenging time for social enterprises to remain viable. The majority of these organisations rely on public support for establishment, development and (on occasion) continuing operations. Increasingly they are being expected to accept cuts to service level agreements and from the traditional sources and search for new sources of support. 64% of Argyll and Bute social enterprises reported insecure or declining funding in 2021, a significant increase from 50% reporting this in 2017. ([A+BC SEC 2021](#)). Thus precious volunteer resources are being used to source funding and can be diverted from the core purpose of the enterprise, reducing the opportunity to contribute to the regional economy.

The SCHR report recommended that to address the inequalities it highlighted there is a need to review the impact of current policies and carefully examine how resources are used to achieve maximum impact therefore improving services and meeting core obligations. In a time of ever tightening public budgets, one way forward is for greater support of local-based solutions. SCHR report notes increasing lack of funding or complete removal of services and tendency to take a one size fits all approach. In the [Scottish Government Action Plan – Social Enterprise: Driving a Wellbeing Economy for Scotland](#) a key action was enhancing support and coordination for social enterprises looking to access funding or business support. This subsidy scheme aims to simplify access of organisations to public support.

[HIREP's strategy](#) sets out approaches to tackle the inequalities experienced across the region. In so doing it references recent work by the OECD on innovation in rural areas highlighting the powerful impact of social innovation on development in the region and solid foundation on which to build, and particularly mentioning the role of social enterprises in service provision, especially across remote mainland and island communities.

Innovative, local approaches will also often involve the private sector. In many of the remote, small or fragile communities within Argyll and Bute, close working with the private sector is essential for the sustainability of communities. The private sector in Argyll and Bute has a distinctive make-up, with a particularly high concentration of small and micro enterprises, which make up over 98% of enterprises and workplaces in the region ([NOMIS](#)). Although many of these small businesses, often based in remote locations, can be nimble and react to community demand, they can also be fragile and have limited capital for investment.

The remote nature of many communities within Argyll and Bute make them vulnerable to particular market failure. Communities may be highly reliant on private businesses delivering vital support – for example, an island community may need to rely on the local fish farm using its service vessels to undertake deliveries as a favour where there is no publicly funded car-ferry. In other areas, it may not be possible to secure contractors for building work as they may not quote to undertake works in an area which is difficult and unreliable to access. Therefore, a community may be highly reliant on a single local contractor. There may also be communities which are so small or lacking in permanent residents, that working closely with private owners and businesses is the only viable way of delivering certain developments where third-sector organisations lack capacity or are too fragile. In these cases it may also be difficult for third sector organisations to get grant funding, as funders identify them as high-risk.

At a time when there is an increasing focus in Scotland and beyond on a Community Wealth Building approach, it could be said that Argyll and Bute of Scotland has been 'ahead of the curve' with a variety of approaches taken to find local, bottom-up solutions to challenges faced working with the third, public, and private sectors. Argyll and Bute's Economic Strategy emphasises the need for collaboration and a joined up approach, working with key partner agencies and stakeholders as well as the need to take a Community Wealth Building Approach. The scheme will help sustain and develop this community-led approach.

This subsidy scheme proposes a route where the challenge of providing subsidy support is streamlined and becomes less onerous to the council by reducing the need to prepare individual Subsidy Principles Assessments. The Scheme should simplify access to public support by coordinating the information applicants need to provide when applying to multiple funders. It will also give applicants greater certainty that the subsidy received is compliant with legislation. Decisions on funding priorities and distribution will rest with both the council and bodies awarding grant, however, the scheme will support the policy objective by allowing support to beneficiaries delivering a range of activities, from health and social care to development of property assets and supporting cultural and heritage activities.

Step 1.1.iii The desired outcomes of the scheme

In summary the scheme is expected to achieve the policy objective by providing:

- A more efficient means of awarding subsidies that are considered low risk due to their predominantly local market impact and minimal displacement effect.
- Reduce the burden of bureaucracy to the Council and its partners by providing a more efficient route for assessing subsidy, as well as giving confidence which will help to plan and time-table projects.
- A practical demonstration of how public sector partners can collaborate to achieve best practice, for example taking a Community Wealth Building Approach

Step 1.2 – Appropriateness of the subsidy

[Statutory Guidance 3.54 – 3.56]

The scheme has been designed to provide a range of financial assistance including direct or indirect grants, non-financial interventions (i.e. free or subsidised training or advisory services) and subsidised loans. These are considered the most appropriate forms of subsidy for the type of client beneficiary and the range of goods, but mainly community/social services, they deliver. The following alternatives have been considered and ruled out as inappropriate.

Regulation – It is difficult to see how regulation would resolve the population and other socio-economic challenges the policy objective seeks to address. The third sector already has some tax exemptions and would benefit from further concessions (such as relief from the recent increase to ENIC) however, most of these tax-raising powers are not devolved to enable the Scottish Government to consider making them. The Scottish and UK Governments are currently consulting on investment zones, in particular NDR investment zone and on sites for defence investment to feed into the Defence Industrial Strategy. Whilst these and other regulatory approaches, such as a potential Community Wealth Building regulation may help to deliver the policy objectives set out in this assessment, they will not resolve the issues nor remove the need for subsidy on many occasions.

Direct provision – The range of social enterprise activities supported by the scheme is anticipated to be very broad – everything from local heritage, cultural and Gaelic language facilities to training and employability services, development and investment in buildings and assets, community-led tourism initiatives, community woodlands and local amenities, social care and mental health projects. Many of these could be (and perhaps were) provided by the public sector but the fact is that austerity measures and inflationary pressure over the years has meant PAs have had to withdraw direct provision or establish ALOs that can provide services more efficiently. In some cases PAs will not have the expertise nor the very localised resources needed to provide the services on the ground. More significantly, the third or private sector may be able to deliver the services more cost effectively than the public sector who generally have higher wages, pension contributions and overheads.

Equity – The nature of the eligible beneficiaries will preclude equity options. Most will not have share capital and the minority that do are unlikely to pay dividends preferring to reinvest them in the social purposes or further economic development in the local area. Such organisations are also unlikely to generate the level of return on exit that would make them an attractive proposition for public sector investment.

Step 2.1 – Baseline analysis

[Statutory Guidance 3.57 -3.62]

Community organisations and social enterprises often rely on financial support from public organisations and others. There is an increasingly challenging funding environment, where less monies are available, and they become more burdensome to access. Without access to public subsidy there would be a severe negative impact on the operation and development of social enterprises which would have a knock-on effect on delivery outcomes and, in some cases, their very existence. The social enterprise birth rate would be particularly depressed without public subsidy to support acquisition or transfer of capital assets and start-up costs.

The biennial [Social Enterprise Census](#) provides a useful barometer for the health and strength of the non-profit-distributing sector and helpful insight into their sources of income. Dependency on grant has been decreasing steadily since 2017 when it was 39.2% to 25.7% in 2021. The grant data does not differentiate between public and private sector grants, but it would be safe to assume that public grant accounts for the largest proportion ([A+BC SEC 2021](#)). Total income of the social enterprise sector was £106m in 2021, an increase of 22% compared to 2017, similar to the national trend (27%). ([A+BC SEC 2021](#)). Grant funding is the largest source of external finance (79%) for Argyll and Bute's social enterprises. ([A+BC SEC 2021](#))

In the absence of grant support and other forms of subsidy it is highly likely that the social enterprise sector will struggle to grow through diversification or expansion, which could lead to some organisations stagnating or even closing. 56% of Argyll and Bute social enterprises reported having seen costs increase between 2019 and 2021. ([A+BC SEC 2021](#)). The burden of higher costs has fallen disproportionately on smaller organisations who have more limited scope to lower fixed costs, reduce services or adjust discretionary spending.

A decline in the activity of social enterprises and community organisations across Argyll and Bute would impact on a wide range of sectors and services. The Highlands and Islands SEC 2021 lists the following key sectors as the most common areas of social

enterprise activity: community centres and halls; property, energy, utilities and land; health and social care, early learning and childcare; environment and recycling; transport. The level of community-led development across the area is high and a reduction in this activity, as a result of no or reduced subsidies, would have a detrimental effect on socio-economic performance.

Ultimately if there is a continued decline in local services, this will make remote communities less attractive places to live and work and reduce local job opportunities. These are two key factors influencing population decline which in turn will negatively impact the regional economy.

Step 2.2 – Additionality assessment

[Statutory Guidance 3.63 – 3.71]

The Scheme Guidance will reinforce the point that each subsidy should be assessed as to the extent of the additionality of the assistance and the change in behaviour it will bring about – that is, whether it is absolute (i.e. the project would not happen at all without the subsidy) or if it is partial in terms of the scale or scope of the project, the quality of the outcome or significantly bringing forward the timing. The Council will follow its own internal appraisal and recording procedures, however the scheme guidance will specify that they must ensure their additionality assessment is proportionate for the level of subsidy proposed and their rationale is clearly recorded. Ensuring a project meets the eligibility criteria of any originating grant will also be an important part of due diligence and consideration. The Council will normally include performance conditions as part of their grant offers to ensure that projects are delivered in accordance with the application and project plan – these usually include ensuring projects are completed within specified timescales and reports on outcomes are provided. The Scheme Guidance will advise that performance conditionality and monitoring requirements should be applied, but they should be commensurate with the subsidy value and project risk profile.

The beneficiaries eligible for subsidy under the scheme will mostly have a tightly defined geographic focus therefore, when the scale or scope is affected, it is more likely to influence the size or specification of a building project or the range of activities or users that can be supported. Providing subsidy timeously to prevent project delays has become increasingly important in recent years, especially in capital projects. High inflation has meant that delaying projects can lead to significant uplifts in construction tender prices which can then put the price out of reach and risk the whole project.

The scheme is eligible to all enterprises as defined in the act (7.1 – 7.5). As set out in the [statutory guidance](#) (3.90) subsidy should be considered in terms of the size of the recipient. It has been considered that the type of enterprise also has a significant potential impact on the distortive nature of any subsidy. In line with the guidance (3.92) caps have been set both as an absolute value and a proportion of costs (intervention rate). Given the extent and nature of market failure, and the need to address significant policy concerns in the area, it is often necessary to intervene at a high rate in order to deliver viable projects. This is even more urgent in the context of an increasing reliance on grant funding by many social enterprises, as well as challenging economic conditions.

For this reason the cap for third and public sector bodies has been set at 100%, recognising that subsidy should normally be the lowest amount possible to deliver the change of behaviour desired by the policy objectives. For SMEs the percentages has been capped at 80%. The statutory guidance suggests that “higher intervention rates (for example, more than 70% of project costs) are more likely to distort competition and investment within the UK, and international trade and investment”. Given the extent of

market failure in some areas and based on the experience of council officers in managing previous subsidy, the maximum cap has been calibrated in order to ensure viable projects can proceed. For large enterprises, the intervention is capped at 50%. This is to recognise that subsidy to large enterprises is far more likely to have a distortive effect on competition, particularly as they are far more likely to be trading across a wider geographical area, including internationally. In all cases, individual subsidies are capped at £10m, the limit beyond which subsidies must be referred to the CMA.

For projects assisted through Measure 1- Support for Capital Investment and Measure 2 – Support for Capacity Building, a high level of additionality is anticipated in all cases. The Council and its partners have considerable experience of providing financial assistance to social, private, and community enterprises and are confident that without the intervention of the public sector these projects would either not proceed at all or be significantly curtailed. This would severely impede the growth of the enterprises and the social value they deliver. Although there are windfarm community benefit funds available in some areas and numerous private charitable trusts targeting various charitable activities, it is rare that a project can secure 100% funding from private sources. Experience also shows that a minority of social/community enterprises generate sufficient revenue and operating profit to fully fund further development from their own resources, and they are unable to service sufficient commercial or social enterprise borrowing. Similarly, many SMEs in the area may struggle to receive private investment funding to deliver projects which have significant community benefits.

Measure 1 - Capital investment is aimed at supporting new investments for example: the acquisition, redevelopment or expansion of land or buildings; fixtures, fittings, furniture and equipment. Only initial investment costs will be eligible under this scheme measure to ensure that regular business-as-usual activity is not subsidised by this measure.

Measure 2 – Support for capacity building is aimed at supporting “one-off” or discrete projects with a defined start and end date rather than indefinite, ongoing running costs. Examples might include training initiatives, professional adviser or consultancy fees, fixed term project officers engaged to develop new project ideas, or existing staff for the time assigned to a clearly defined project. While these projects may include staff costs and overheads among the eligible costs, they will be distinguishable from business-as-usual activity as the core activities of the organisations will not be dependent on them and will not be funded through this measure.

Measure 3 - Operating Support – will provide scope to support running costs and operating losses on business-as-usual costs. This sort of subsidy is considered important and justified to support the social and community enterprises that are the target audience for the scheme, however, assisting running costs presents a greater risk of distortion than other subsidies. The scheme has been designed to mitigate this by applying a lower subsidy limit of £3m per annum to this measure. The Scheme Guidance will specify that the council should carefully assess assistance using this measure and keep a record of their justification and how this links to the scheme’s policy objective, for example:

- preserving a locally significant organisation or keeping services in the market; or
- necessary to overcome a specific business continuity event or economic shock; and
- realistic financial projections demonstrating the organisation is capable of, or will return to, being self-financing.

This scheme and measure are not intended to be used to prop up ailing and insolvent enterprises as defined in Annex 5 of the Statutory Guidance.

Step 3 – Proportionality and minimising distortion within the UK [Statutory Guidance 3.72 – 3.108]

Very few of the beneficiaries eligible for subsidy under the scheme will be operating in markets beyond their local area. A small number may offer goods or services online but usually in niche markets such as Gaelic language or small volumes of goods in buoyant market segments. The Council will assess the potential displacement impact of each application and consider the following characteristics.

3.1 The nature of the instrument [Statutory Guidance 3.80 to 3.82]

The scheme has been designed to allow a range of subsidy interventions including free/subsidised services, direct grants, repayable grants or subsidised loans. The justification for these forms of subsidy and exclusion of equity have been discussed at 1.2 setting out why direct provision and equity are not appropriate alternatives. The Council and its partners, such as funding bodies, are experienced in undertaking funding options appraisals as part of the due diligence to determine the least distortive and optimum value for money solution to give a return on the public pound. Where loan is being considered, the scheme guidance will require the Council to follow SI 2022 no. 1186 then calculating the subsidy value of the loan.

3.2 The breadth of beneficiaries and the selection process [Statutory Guidance 3.83 to 3.85]

The number of beneficiaries that will be eligible for subsidy under the scheme will be high. The range of beneficiaries is extremely broad in terms of the product and service markets they operate in, for example, tourism, culture and heritage, Gaelic language services, training and employability services, social care, community land, forestry, transport and housing and many more. Most will be micro or SMEs with a tiny minority classed as large enterprises if they are ALOs or public authorities. The Council may use the scheme in response to individual applications as well as for competitive calls for themed funding. In all cases, each application will be assessed on its own merit against the council's internal funding criteria and strategic priorities, the criteria of any relevant grant-awarding body, then the scheme criteria and contribution towards the policy objective.

3.3 Size of the subsidy [Statutory Guidance 3.87 to 3.93]

Subsidies awarded under the scheme will vary in size. The largest proportion are expected to be very small and under £100,000, with most small at under £1m but with the potential to help some large projects. The latter are likely to involve projects where cumulation of multi-agency public funding brings the combined funding to a higher level. To support this assumption an analysis of Highlands and Islands Enterprise's subsidies to the sector across the Highlands and Islands since January 2023 reveals that 83% (117) were for amounts under £100,000, 14% (19) were between £101,000 and £1m with just 3% (4) over £1m. Awards under the scheme will be capped below £10m, the Subsidies of Particular Interest threshold, and £5m for Subsidies of Interest in sensitive sectors. In other words, no awards will be given through the scheme that involve a mandatory referral to the CMA Subsidy Advice Unit for review.

The size of the subsidies will, in general, be very small relative to the relevant product or service market at a UK or international level. They may be more significant at a local

market level because they will primarily be plugging a gap or under-provision in that local market.

The larger subsidy awards given under the scheme are likely to be significant in relation to the size of the recipient for the very fact that social and community enterprises in the geographical region are predominantly SMEs and don't have the earning or equity-raising power of private sector enterprises; therefore, they require subsidy to support their development. Subsidy becomes more critical to de-risk investments and incentivise the change in behaviour the Council is seeking, to achieve the policy objective.

3.4 Timespan [Statutory Guidance 3.94 to 3.97.]

The additionality section at Step 2.2 describes the three measures and main types of subsidies that will be given under the scheme. It is anticipated that the majority of awards will be given under Measures 1 and 2 which will be time-limited to the implementation period for a capital project and a defined project period for a capacity-building support. Even with Measure 3 – Operating Support - the scheme conditions will not allow indefinite or unlimited support for running costs. Delivery objectives for the period of support will be clearly set out and financial assistance capped at the scheme limit per annum (see also 3.6). Where recurring subsidies are being considered, the scheme guidance will require the Council to fully assess the displacement effect on existing competitors as well as potential market entrants and record the outcome of their appraisal. In addition the Council will be required to assess and confirm that the subsidy provides the most efficient means of achieving the policy objective.

The scheme duration is set at ten years in anticipation that Argyll and Bute is likely to continue to have a high reliance on the voluntary, non-profit-distributing and public sectors to deliver essential community services, retain employment in disadvantaged areas and maintain a wellbeing economy. An interim review will be conducted after the first 5 years of the scheme's operation to measure its success and consider if it should continue as it is, or be amended, be discontinued or replaced.

3.5 Nature of costs covered [Statutory Guidance 3.98 to 3.99]

As discussed at 2.2 and 3.4 above, the type of costs supported through the scheme will largely comprise support for one-off capital projects, initial investments to build capacity, with a minority of investments covering operating costs which are potentially more distortive. The council also recognises that the scheme needs to include scope to support running costs, where the intervention can be justified, and any displacement is considered acceptable.

3.6 Performance criteria [Statutory Guidance 3.100 to 3.101]

The council will follow its own internal performance management procedures and issue the legal agreements typically used. The council will adhere to the [Scottish Public Finance Manual \(SPFM\)](#) which lays down certain conditions that should be attached to grant offers including:

- Grants should be subject to binding agreements ring-fencing the subsidy for a clear purpose.
- Grant offers should include standard conditions including schedules covering claims and payment arrangements.
- Grant should not be paid in advance of need unless clearly justified.
- Grant payments should not normally be issued until the recipient has incurred the expenditure and submitted a competent claim.
- Where grant is provided to acquire or improve capital assets, the grant giver's position should be protected in the event of disposal.

- Granting authorities are responsible for ensuring grants are spent for the specific purpose they were awarded for.
- Practical and proportionate steps should be taken to monitor assisted organisations progress in implementing the project and identify early warning signs of project failure or costs escalations.
- Assistance to private sector organisations should be made on clear terms within Subsidy Controls.

[Annex 2](#) of the SPFM provides a more detailed framework for performance monitoring and financial control of third-party grants. The council will also follow local and national guidance when providing funding such as the [Public Pound Code of Practice](#) and any Community Wealth Building legislation or guidance which may become applicable during the course of the scheme

In addition to the above, the scheme guidance requires the Council to specify in grant offers that the award is made under the scheme and which measure applies to the subsidy. This will enable recipients to make accurate declarations to other/future funders to ensure the scheme's cumulation thresholds are not exceeded.

3.7 Monitoring and evaluation [Statutory Guidance 3.104 to 3.106]

Monitoring and evaluation of individual subsidies given under the scheme will be the responsibility the council following its own internal policies and the SPFM framework. The method and timing of ongoing monitoring and evaluation will vary according to the nature of the project assisted, the size of the subsidy, and the obligation period applied to the assistance. For example, following a large grant towards a capital project, in addition to viewing the completed physical asset(s), there would be annual monitoring over a number of years to check that the planning activities and outcomes resulting from the investment are also being achieved. In contrast, lower value support for a training project would involve a shorter follow-up to confirm the numbers trained and applying their new skills.

As mentioned at 3.4, the intention is to evaluate the scheme at the end of year five to assess whether it should continue, be adapted or close. An evaluation will therefore take place no later than give years after the scheme commences. It will consider the following:

- All subsidies awarded under the scheme by measure type and value. The latter being crucial to monitor the total value of awards against the overall scheme budget.
- The number of unique enterprises assisted by legal entity type, market activity and geographical location.
- The actual outputs and outcomes achieved compared to those planned.
- The contribution the scheme is making to the policy objective e.g.:
 - New community and social enterprises start-ups supported.
 - New jobs created and existing jobs preserved.
 - Enterprise growth in terms of diversified activity, increased turnover.
- The experience of the council and partners of using the scheme – whether it is proving more efficient and is it providing appropriate subsidy cover.
- Satisfaction levels of subsidy recipients and whether the enterprises are finding any difference in accessing support.

Step 4 – Balancing exercise

[Statutory Guidance 3.109 to 3.117]

4.1 Negative effects

The scheme is required because the new Limb D test relating to domestic competition is capturing many more beneficiaries operating in markets which could potentially be distorted. In practice, it is anticipated that there will be very few subsidies given where the financial assistance could cause actual material harm to competitors.

Based on historic trends and evidence from the 2021 SEC, a minority of beneficiaries are likely to be involved in the production of goods. These products will span several markets and could be sold locally or beyond. The volume and value of products is so small in comparison to the size of these markets overall, HIREP has not attempted to identify every possible market and effect. In the SEC 2021, 4% of Argyll and Bute's social enterprises reported that they had exported within the last 12 months (up from 2% in 2017, but lower than the 2021 Scottish figure of 7%). ([A+BC SEC 2021](#)) It is reasonable to assume that these are predominantly active within one or more fields of tourism, heritage, festivals, arts or creative industries. For example, some Gaelic language and music provision is available online as well as genealogy services.

Most beneficiaries (68%) are providing mainly services, and 70-80% of these, within localised geographies. The SEC 2021 data shows that 54% of Argyll and Bute's social enterprises operate within a single neighbourhood or community, 14% within a local authority area, 10% across more than one LA area, 2% at a Scottish level, and 10% each at a UK and international level. ([A+BC SEC 2021](#))

Many community and social enterprises are established to fill gaps where services don't exist or preserve services that are being withdrawn by the public or private sectors, however, there is sometimes local competition or an element of activity which could foreseeably overlap with alternative local provision. For example community centres or village halls may be competing with local hotels or venues that have function space for hire, community trusts/hubs renting out office space may have some local competition, and a third sector early years and childcare (EYC) setting may be operating in an area where there are school nurseries and childminders. When it comes to community tourism and cultural heritage facilities, they will often be competing alongside other community or private provision for a share of visitors who have decided to visit Argyll and Bute. In many small communities in Argyll and Bute, SMEs may be the only enterprise providing a service locally or, be part of a small local economy which is a mixture of private and third-sector enterprises, and where subsidy that acts to drive economic development or tourism will across to benefit all enterprises and the wider economy, especially those which deliver policy or strategic objectives.

Community-led initiatives usually emerge through Local Development/Place Plans and rarely spring up without a great deal of consultation by community activists to ensure local support. In addition, applications for grant usually involve significant due diligence and the creation of project or business plans or briefs. This enables the scope of projects to be designed to mitigate harmful displacement as far as possible.

4.2 Benefits of the subsidies and scheme

These subsidies have proved successful in the past and are expected to continue to be essential in supporting local economic development and community wealth building, across a region with many of the most disadvantaged communities in Scotland and the UK. They stimulate a wide range of investments including:

- Continuing the region's proud history of community-led development and action. Local decision-making is fundamental to a successful place-based approach to socio-economic development and a powerful mechanism for population retention.
- Supporting communities and entrepreneurs to design, develop and start-up new ventures in response to local needs and opportunities.
- Helping enterprises to grow, diversify and seek appropriate commercial opportunities to ensure their financial sustainability.
- Building the capacity and resilience of community organisations through access to professional advice and training and implementing efficiencies – whether that be energy efficiency measures or adoption of digital technologies.
- Providing key local services and facilities that are the lifeblood of thriving communities – everything from village halls and sport facilities, preserving built heritage, social care, housing and cultural activities – and are essential to attract and retain population.
- Creating valuable local employment
- Preserving and exploiting our unique cultural heritage and identity by promoting the Gaelic language, celebrating our music, interpreting our rich history and archaeology and advocating responsible enjoyment of our natural landscapes.
- Nurturing a more inclusive economy for the wellbeing of communities and health of the environment.

The key benefit of this scheme will be increased efficiency and compliance with the UK Subsidy Control regime. It will provide a simplified route to the Council for awarding low-risk subsidies. As indicated in previous sections this means being able to support organisations across a broad spectrum of sector activities and often with high percentages of subsidy. A fundamental aspect to achieving the efficiencies is reducing the additional work (and time) involved in making standalone awards and preparing Subsidy Principles Assessments. In some cases these have been for subsidies below £10k, presumably where the beneficiary has no Minimal Financial Assistance available. This scheme is part of a suite of schemes developed by the Highlands and Islands Regional Economic partnership, which will be registered by relevant Pas in future. Although each scheme is slightly different to be best-suited to the relevant organisation, it will be much easier for different funders to cooperate and agree the subsidy approach given the commonalities between these schemes.

This aligned approach will simplify and streamline the process for beneficiaries applying for subsidy and provide them with greater assurance that the subsidy being offered is compliant. It should reduce instances where funders are seeking vastly different levels of information and result in quicker decisions on funding applications.

4.3 Why negative effects are outweighed

The Council considers that these subsidies will have very little foreseeable harms on international or UK competitors and local displacement will be carefully assessed to ensure it is low and manageable. The geographical scope of the scheme is wide due to the large-land mass of Argyll and Bute, however most subsidies will be awarded to support activity that will have a purely local impact. Recognition of the need to support areas lagging behind has been evidenced by the previous UKG commitment to “levelling

up” and ring-fencing of Shared Prosperity Funds and as well as the shared investment between Scottish and UK Governments in Growth Deals of which the scheme area has benefitted, including the Rural Growth Deal for Argyll and Bute. The current Government has confirmed it will honour these commitments until they establish new regeneration programmes.

The opportunity costs and distributional impacts are mitigated by budget constraints and the competing priorities PAs are faced with.

The SEC 2021 demonstrates the important contribution the social enterprise sector makes to the economy of Argyll and Bute with £47.3m GVA added in 2021, supporting 1,482. The sector is mature and strong with Argyll and Bute’s social enterprises having an average age of 22 years - 81% have been operating for over 10 years while 7% are young enterprises less than 5 years old. ([A+BC SEC 2021](#)) However they are more reliant on grant support than their counterparts across Scotland.

Without the social enterprise sector delivering vital local services and contributing to the cultural, social, health and economic wellbeing of our communities, the region will fail to stem the predicted depopulation and retain vibrant neighbourhoods.

In the foreword to [Scotland’s Social Enterprise Action Plan 2024-2026](#) Tom Arthur, Minister for Employment and Investment, said in November 2024 “*The latest social enterprise census confirms that the number of social enterprises in Scotland is growing and operating in sectors right across our economy. Social enterprises are contributing to fair, green growth with purpose: to create good jobs and promote fair work, to eradicate child poverty and improve living standards, and to boost tax revenues and sustain high-quality public services*”

APPENDIX 1 – Map of scheme area

Geographical scope of the scheme

The geographical area covered by this scheme is shown in the map below. It covers the area of Argyll and Bute local authority. The local authority is the second largest in Scotland, covering around 9% of Scotland's landmass. It is bounded by the Clyde and Loch Lomond to the east, the Mull of Kintyre to South, Atlantic Islands to the West, and the Sound of Mull and Appin to the North. It includes 23 inhabited islands, more than any other local authority. Its geography of long sea-lochs and peninsulas give it an extremely long coastline, and create unique challenges for organisations, public, bodies and enterprises operating in the area.



APPENDIX 2 – Reference links and summary statistics table

The Principles Assessment has drawn on the following references to evidence the need for the scheme.

- [Social Enterprise in Scotland – Census 2021](#) (published 2023)
- [2021 Social Enterprise Data for the highlands and Islands Region](#)
- [Scottish Human Rights Commission – Economic, Social and Cultural Rights in the Highlands and Islands](#) Nov. 2024
- [OECD Rural Discontent](#) Nov 2024
- Scottish Government review [Developing Scotland's Economy: Increasing The Role Of Inclusive And Democratic Business Models](#) September 2024
- [Social Enterprise Driving a wellbeing economy for Scotland –](#) Action Plan 2024-26 Scottish Government
- Institute of Fiscal Studies Report on [Employment and Earnings in Scotland](#) Oct 23
- [HIE Rural and Regional Disadvantage in the H&I](#) May 2022
- [HIE submission to UK parliament](#) on cost of living and rural communities June 2023
- [Cost of living: impact on rural communities in Scotland](#) Scottish Affairs Committee UK Gov first report 2023-24
- Scottish Gov [The cost of remoteness](#) – higher living costs and fuel poverty September 2021
- [HIREP Regional Economic Strategy – Draft June 2024](#)
- Scottish Government report on [Short Life Working group on Economic and Social Opportunities for Gaelic](#) (published June 2023)