

Subsidy Advice Unit Report on the proposed subsidy to Liverpool Waters Finance Limited and Peel L&P Developments Limited for Liverpool Central Docks

Referred by Homes England

14 January 2025

Subsidy Advice Unit

Part of the Competition and Markets Authority



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1. The Referral

- 1.1 On 21 November 2024, Homes England requested a report from the Subsidy Advice Unit (the SAU)¹ in relation to a subsidy to Liverpool Waters Finance Limited and Peel L&P Developments Limited (both subsidiaries of Peel L&P Holdings (UK) Limited (together 'Peel')) (the Subsidy) under section 52 of the Subsidy Control Act 2022 (the Act).²
- 1.2 This report evaluates Homes England's assessment of compliance (the Assessment) of the Subsidy with the requirements of Chapters 1 and 2 of Part 2 of the Act.³ It is based on the information and evidence included in the Assessment.
- 1.3 This report is provided as non-binding advice to Homes England. It does not consider whether the Subsidy should be given, or directly assess whether it complies with the subsidy control requirements.

Summary

- 1.4 The Assessment uses the four-step structure described in the Statutory Guidance for the United Kingdom Subsidy Control Regime (the [Statutory Guidance](#)) and as reflected in the SAU's Guidance on the operation of the subsidy control functions of the Subsidy Advice Unit (the [SAU Guidance](#)).
- 1.5 In our view, Homes England has considered in detail the compliance of the Subsidy with the subsidy control principles. In particular, the Assessment clearly describes and evidences the specific policy objective, the market failures and equity objective that the Subsidy seeks to remedy (Principle A) and clearly describes other ways of addressing its policy objective and why a subsidy was the most appropriate option (Principle E). It also clearly explains and evidences the counterfactual (Principle C), how the Subsidy would change the beneficiary's economic behaviour and how these changes would not have occurred in the same timeframe absent the Subsidy (Principle D).
- 1.6 However, in our view, the Assessment should:
- (a) provide evidence and analysis (cross-referring to specific information in the supporting documents as appropriate) to support the Assessment's

¹ The SAU is part of the Competition and Markets Authority

² [Referral of the proposed subsidy to Waters Finance Limited and Peel L&P Developments Limited for Liverpool Central Docks by Homes England - GOV.UK](#)

³ Chapter 1 of Part 2 of the Act requires a public authority to consider the subsidy control principles and energy and environment principles before deciding to give a subsidy. The public authority must not award the subsidy unless it is of the view that it is consistent with those principles. Chapter 2 of Part 2 of the Act prohibits the giving of certain kinds of subsidies and, in relation to certain other categories of subsidy creates a number of requirements with which public authorities must comply.

conclusion that the Project's internal rate of return is commensurate for a Project of this size and complexity (Principle B);

- (b) explain in more detail the process taken and checks made to refine and update the viability gap calculations following due diligence, which highlighted specific areas to address (Principles B and F);
- (c) consider in more detail the product and geographic markets potentially affected by the Subsidy and provide further information to assess the scope for distortive impacts on competition (Principle F); and
- (d) explain how Homes England considered the impact of the Subsidy on competition and investment in the balancing exercise (Principle G).

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

The referred subsidy

1.8 Homes England proposes to award a grant of £55.28 million to Peel towards various ground and infrastructure works to enable Peel to take forward a development project called 'Central Docks' in Liverpool (the Project). Homes England states that the Project is intended to deliver a minimum of 2,350 homes along with offices, retail, leisure, hotel space and green space on a ten hectares site of infilled former docks. The applicant for the Subsidy is Liverpool City Council (LCC) but, if granted, the Subsidy would be transferred (minus a small deduction for LCC's costs) to Peel.

1.9 The Subsidy will be provided through Homes England's Brownfield, Infrastructure and Land Fund (BIL) fund.⁴ Applications to BIL need to meet a series of eligibility criteria to receive funding, and will need to fit within the overall BIL programme parameters.

1.10 The Subsidy will be used toward the costs of the following works and ancillary activities:

- (a) Infrastructure works: the provision of ground, infrastructure and remediation works to remedy contamination arising from the previous use of the site,⁵ raising ground levels to mitigate flood risks, connecting the plots to the surrounding highway networks and promoting linkages with adjacent areas. These will include site clearance, fencing, drainage and service ducts,

⁴ [Brownfield, Infrastructure and Land Fund - GOV.UK](#). The primary objective of the £1.025 billion BIL fund is to tackle barriers to building housing and to support areas with the greatest potential for economic growth or with the greatest affordability pressures with a focus on brownfield land. It is intended to facilitate up to 40,000 new homes plus employment floor space.

⁵ The previous use of the site as a dock and the site of a power station.

earthworks, pavements, kerbs, footways and paved areas, electrical works, landscaping and ecology.

- (b) Additional highway infrastructure, and energy and utilities infrastructure. This includes works such as gas governor works, lighting, railings, signage, artwork, CCTV, repairs, electric vehicle charging points, cleaning, and additional equipment.
- (c) Delivery of a central park, including site clearance, planting, creation of roads, paths and paving, drainage, services and street furniture.
- (d) Ancillary costs such as preliminaries, professional fees, risk and contingency, contractor overhead and profit, inflation, marketing cost, interest and developer profit.

- 1.11 The proposed works package is expected to be completed in June 2028, with plot development to take place over the period from April 2026 to 2035. The Subsidy is expected to be expended by March 2027.
- 1.12 Peel will act as master developer for the Project.⁶ It will be responsible for the overall design of the Project, obtaining planning permission, delivering the necessary infrastructure, remediating contaminated land and then selling 'development ready' plots to the developers to construct homes and commercial units. The parent company, Peel L&P Holdings (UK) Limited is a developer and port operator. It owns the Central Docks land where the Project will be developed.
- 1.13 The Project forms part of Peel's wider Liverpool Waters project, which is a £5.5 billion project to transform Liverpool's former dockland into a waterfront community over a 30-year period. Liverpool Waters stretch 2.3 kilometres from the Pier Head to the new Everton stadium at Bramley Moore Dock. The first phase of the Liverpool Waters project was completed at Princes Dock.
- 1.14 Homes England explained that the Subsidy is a Subsidy of Particular Interest because it exceeds £10 million in value.

⁶ Master Development involves ensuring the readiness of large sites for development (eg of new homes and commercial physical and community infrastructure), delivering the main infrastructure and coordinating stakeholders to deliver the project. The site may then be sub-divided for building of the development by other parties.

2. The SAU's Evaluation

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

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.⁷

Policy objective

2.3 The Assessment states that the policy objective of the Subsidy is to regenerate the brownfield land at Central Docks, Liverpool, and increase housing supply in this area. It notes the project will facilitate the next phase of the strategic Liverpool Waters regeneration initiative.

2.4 The Assessment references various past political announcements of intentions to increase housing supply and brownfield development. In particular, it notes Homes England was formally commissioned by the Department for Levelling Up, Housing and Communities (now the Ministry of Housing, Communities and Local Government) in July 2023 to manage the BIL to tackle barriers to building housing with a focus on brownfield land. It says that in the case of this Project, public sector intervention will boost supply and address the challenges faced in the area including poor quality infrastructure and environment.

2.5 In our view, the Assessment clearly describes and evidences the specific policy objective of the Subsidy.

⁷ See [Statutory Guidance](#), paragraphs 3.32–3.56 and the [SAU Guidance](#), paragraphs 4.7–4.11 for further detail.

Market failure

2.6 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.⁸

2.7 The Assessment describes challenges to the UK's housing supply and sets out various reasons as to why there is less development of housing than is needed to meet demand. It notes that pressures associated with wages, mortgage interest rates and high deposit requirements mean house prices remain unaffordable in many parts of the country, while many housing developments (particularly those of a large scale) are unviable due to high overall development costs and low developer returns. It states that in a functioning market, increased demand would be met by increased supply from market participants. It sets out some factors cited by developers which are adversely impacting their ability to reduce prices to a level that would-be purchasers could afford, including:

- (a) reforms which have reduced the need for councils to allocate for housing, which is said to have created uncertainties which have led to developers cutting back on planning applications;
- (b) new regulatory requirements increasing build costs as well as reducing the number of units that can be delivered in a particular building footprint; and
- (c) higher interest rates which have directly impacted the profitability of developments.

2.8 As well as describing these market outcomes, the Assessment points to three market failures which could prevent development of the Central Docks site without intervention:

- (a) Negative externalities: the Assessment states that ground contamination issues evidence the existence of 'a negative externalities market failure on the site' and that the abnormal redevelopment costs associated with restoring the site to good condition present significant upfront costs that burden the development and are creating a viability gap. It explains that remediation of the brownfield land will address existing negative externalities, providing amenity and environmental benefits both on the site and for the wider area.
- (b) Public goods: public goods relate to factors that are non-rival and non-excludable. The Assessment sets out that developers do not realise the full benefits from their provision and so these goods are often underprovided by the market. The Project will see significant improvements to the physical environment that will also benefit the wider including the delivery of the

⁸ [Statutory Guidance](#), paragraphs 3.35–3.48.

Central Park, improvements to public realm, amenity and active movement facilitated by public access infrastructure. It says Peel will be unable to charge for the infrastructure use and cannot therefore directly benefit from delivering this work despite the heavy burden of cost to the development.

- (c) Positive Externalities: The Assessment states that the Project will deliver wider social benefits through transport and placemaking impacts, including an improved perception of the area, rising residential values, and improved wellbeing for local people. Many of these economic benefits, which accrue to individuals, are not captured within any market value assessments. It states that the project will provide positive amenity and environmental benefits not just on the site but for the wider area.

2.9 In our view, the Assessment clearly describes a set of market failures (relating to negative and positive externalities, and public goods) that the Subsidy seeks to remedy, although the negative externalities could be better explained.

Equity Objective

2.10 Equity objectives seek to reduce unequal or unfair outcomes between different groups in society or geographic areas.⁹

2.11 The Assessment states that Liverpool suffers from extreme levels of deprivation and inequality, and currently ranks as the fourth most deprived local authority in the country. It provides evidence that many wards in Liverpool are in the first and second national deprivation deciles (based on indices of multiple deprivation). It states that the northern part of the city are in serious need of regeneration to address the deep-seated socio-economic problems that they face. It refers to Peel's Final Business Case which indicates that regeneration in the City Centre has yet to spill into the fringe areas, particularly to the north and east, which continue to face challenges including poor quality infrastructure and environment.

2.12 It states that this Project will address the equity rationale via provision of housing in a high-need area; particularly that the Subsidy will allow Peel to deliver the planning compliant levels of market and affordable homes on the Project, and will therefore reduce social and economic disadvantage. It claims that funding significant proportions of social housing within a flagship redevelopment will stimulate wider economic growth and assist in reducing social and economic disadvantage in one of the most deprived parts of the UK. It also states the project has the potential to play a key role in supporting growth within this district, providing a mix of homes that cater for new families and the green infrastructure promoting health and wellbeing, and environmental quality.

⁹ [Statutory Guidance](#), paragraphs 3.49–3.53.

- 2.13 The Assessment notes that where a development is not viable, as in this case, developers are able to reduce or remove the policy requirement to provide affordable homes, but it states the Subsidy will secure the requirement to provide 470 affordable homes. LCC has confirmed that the Project is strongly aligned with the vision and strategic themes set out within the Liverpool Council Plan (2022-25) specifically providing ‘a strong, vibrant and fair economy for all, green and affordable housing’. The Plan confirms that exploring the delivery of the strategic development opportunity at Central Docks is a key priority within the Plan period.
- 2.14 In our view, the Assessment clearly describes and evidences the equity objective that the Subsidy seeks to address.

Appropriateness

- 2.15 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.¹⁰
- 2.16 The Assessment explains that Homes England has considered the following means to achieve the policy objective:
- (a) Brokering: this is a process in which Homes England seeks to achieve policy objectives for sites through negotiation and market knowledge by involving landowners, developers, investors, local authorities and other relevant parties, without any financial support. However, it was concluded this would not address the market failures as the viability gap necessitates capital investment.
 - (b) Loan support to a landowner/developer: this was rejected as the finance costs arising from a commercial loan would add further negative pressure to the existing viability gap, while Homes England does not currently provide subsidised loans.
 - (c) Acquisition, joint ventures and equity: Homes England considered acquisition or direct investment through equity as not appropriate, as unnecessary financial and risk exposure would arise compared to a grant, and Peel has no intention to dispose of the undeveloped site.
 - (d) Undertaking the master developer role or procuring the infrastructure works: Homes England said that as a matter of policy and practice it only undertakes direct procurement and delivery of infrastructure works on land it owns, as it does not have the capacity to manage this type of work on behalf of third parties. Therefore, Homes England would need to acquire the site from Peel,

¹⁰ [Statutory Guidance](#), paragraphs 3.54–3.56.

which was assessed as involving unnecessary financial and risk exposure, and it considered that in practice, Peel has no intention of selling the site.

- 2.17 The Assessment also outlines that a reduced development scheme (focusing on plots that can be brought to market in the short term) and a phased development scheme were considered as alternatives in developing the funding business case. However, these were considered to offer lower value for money and delayed delivery of housing.
- 2.18 In our view, the Assessment demonstrates that Homes England has considered other ways of achieving its policy objective and clearly explains and evidences why a subsidy is 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

- 2.19 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.¹¹

Counterfactual

- 2.20 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 ‘no subsidy’ scenario).¹²
- 2.21 The Assessment sets out a counterfactual scenario where Peel would continue to own the site in its current form ‘without comprehensive redevelopment’. According to Homes England, in the counterfactual, Peel would:
- (a) focus its resources on short term outcomes and returns, such as other sites within Liverpool Waters or across the wider Peel portfolio; and
 - (b) aim to undertake piecemeal development at Central Docks of the most viable elements only. The Assessment explains that this scenario would hamper the future delivery of a comprehensive redevelopment, and would fail to deliver

¹¹ See [Statutory Guidance](#), paragraphs 3.57–3.71 and the [SAU Guidance](#), paragraphs 4.12–4.14 for further detail.

¹² [Statutory Guidance](#), paragraphs 3.60–3.62.

publicly available infrastructure and affordable homes. In addition, no housing would be delivered in the near to medium term.

- 2.22 In support of the counterfactual, the Assessment notes (i) an independent report concluding that a subsidy is required to fill a viability gap, (ii) in the 18-year period in which Peel has owned the land at Central Docks, it has not progressed redevelopment, and (iii) Peel's willingness to accept a profit-sharing mechanism.
- 2.23 In our view, the Assessment describes at high level what would be likely to happen if the Subsidy was not awarded. However, the Assessment could provide more evidence in support of its assertions, for instance, Homes England's or Peel's option analysis for the site and the evidence underlying this analysis.

Changes in economic behaviour of the beneficiary and additionality

- 2.24 Subsidies must bring about something that would not have occurred without the subsidy.¹³ 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).¹⁴
- 2.25 The Assessment sets out several aspects of the grant funding agreement and of the Subsidy characteristics that help ensuring additionality, including ringfencing, payments by instalment against verifiable claims and clawback mechanisms. Homes England explained that these aspects ensure that the funds are only used for reimbursing qualifying expenditures.
- 2.26 It further sets out that the Subsidy aims to bridge a viability gap, based on the appraisal of total scheme costs (including land value, interest and other costs) and the sales value of the plots for development. It explains that Homes England has tested the viability gap at numerous stages, with the support of external consultants. The purpose of this testing has been to help establish whether a scheme which met the Homes England policy objectives was capable of being delivered without financial support, and if support was required, that the amount committed was the minimum necessary to facilitate delivery.
- 2.27 In our view, the Assessment clearly explains and evidences how the Subsidy would change the beneficiary's economic behaviour and that the Subsidy brings about changes that would not have occurred in the same timeframe absent the Subsidy.

¹³ [Statutory Guidance](#), paragraph 3.64.

¹⁴ [Statutory Guidance](#), paragraphs 3.63–3.67.

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

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

- (a) Principle B: Subsidies should be proportionate to their specific policy objective and limited to what is necessary to achieve it; and
- (b) Principle F: Subsidies should be designed to achieve their specific policy objective while minimising any negative effects on competition or investment within the United Kingdom.¹⁵

Proportionality

2.29 The Assessment explains that although the proposed Subsidy represents the majority of the costs of delivering the infrastructure required to achieve the policy objective, it is a small proportion of the overall costs of developing residential and commercial units at Liverpool Docks. The Assessment also notes that the subsidy per housing unit is marginally below the average for the BIL programme. It also states that costings and the viability gap were externally appraised.

2.30 The Assessment outlines several features that contribute to keeping the subsidy to the minimum necessary and proportionate to the policy objective including the following.

- (a) The Project's financial model (used to determine the viability gap and size of subsidy required) estimates an internal rate of return for Peel that is deemed appropriate for this market. This internal rate of return sets the maximum ceiling for the grant.
- (b) The funding agreement allows Peel to make a specific profit on the plot sales. The forecast sales volume and value of the plots is calculated by an independent review of what is achievable in the market. If realised plot sale values are less than forecast then Peel's profit target will not be achieved, therefore limiting the Subsidy to the minimum necessary.
- (c) The Subsidy payment will only be for the actual infrastructure costs incurred and the claim is subject to verification by Homes England.
- (d) There is a profit-sharing mechanism that permits Homes England to recover the majority of surplus profit in excess of the agreed profit for Peel; Homes England states this mechanism is standard for similar projects in this market.

¹⁵ See [Statutory Guidance](#) paragraphs 3.72–3.108 and the [SAU Guidance](#), paragraphs 4.15–4.19 for further detail.

2.31 Overall, the Assessment broadly demonstrates and evidences that the Subsidy is proportionate and limited to the minimum necessary to achieve its specific policy objective, in line with the Statutory Guidance. However, in our view, the Assessment should provide evidence and analysis (cross-referring to specific information in the supporting documents as appropriate) to support the Assessment's conclusion that the Project's internal rate of return is commensurate for a Project of this size and complexity. Specifically, the Assessment could better evidence what returns market participants expect for investments similar to this project by referring to national guidance on viability assessments¹⁶ and ranges for similar projects. If there were a gap in the financial returns between similar investments and this project, the Assessment could explain whether and how the risks and rewards differ.

Design of subsidy to minimise negative effects on competition and investment

2.32 The Assessment sets out several aspects of the Subsidy (in addition to the elements related to the size of the Subsidy and the nature of the costs covered discussed above) which it states are relevant to minimising distortive impacts including the nature of the instrument, breadth of beneficiaries and selection process, subsidy intensity, timespan over which the subsidy is given, ring-fencing and monitoring and evaluation, in line with the Statutory Guidance. In particular:

- (a) The BIL funding is accessible to a range of housing-led brownfield, infrastructure and land projects provided that they meet a number of eligibility criteria. Moreover, the decision to award the Subsidy to Peel went through multiple approval stages.
- (b) The funding agreement was designed to ensure that Peel has an incentive to sell the plots at their market value which would be determined by independent valuation, thus limiting Peel's ability to gain competitive advantage as master developer through the Subsidy.
- (c) The Subsidy is time limited and available only until 31 March 2027.
- (d) The grant funding agreement provides Homes England with substantial monitoring and audit powers and an entitlement to terminate and/or recover the funds should the Peel fail to meet performance criteria which are monitored and assessed on a quarterly basis.
- (e) Other elements (that were also detailed when discussing the proportionality and additionality of the Subsidy), including the size of the subsidy, the nature

¹⁶ [Viability Guidance, Ministry of Housing, Communities and Local Government.](#)

of the costs covered, and the grant recovery mechanism for surplus profit are relevant to this principle.

- 2.33 Overall, the Assessment demonstrates and evidences how design features of Subsidy contribute to minimising negative effects of the Subsidy on competition and investment within the United Kingdom.
- 2.34 However, in our view, the Assessment should explain in more detail the process taken and checks made to refine and update the viability gap calculations following due diligence, which highlighted specific areas to address. Providing specific examples of these checks to minimise the size of the subsidy would support the assessment of Principles B and F, in particular by demonstrating how the terms of the funding agreement were negotiated to maintain incentives on Peel to maximise plot sales.
- 2.35 Furthermore, we consider that the Assessment could more clearly explain how the Subsidy's safeguards (requiring disposals of development plots at market rates, see paragraph 2.30(b)) help limit the impacts on the related housebuilding market should Peel decide to continue as housebuilder for this particular site.

Assessment of effects on competition or investment

- 2.36 The Assessment identifies a number of relevant markets including master development, residential property construction and the wider construction sector (including residential and commercial property construction). It refers to previous CMA decisions (and those of its predecessor, the Office of Fair Trading) to identify relevant product and geographic markets.
- 2.37 In this Project, Peel provides master developer services (see paragraph 1.12). The Assessment states that the master developer market has features that differentiate it from the wider house building market. The Assessment then goes on to identify the competitors operating in the master developer sector including some whose business is primarily in housebuilding.
- (a) It finds only a small number of private sector entities currently active in master development activity (eight, including Homes England and Peel), however, it explains that Homes England has specifically identified an ambition to see the master development market grow.
- (b) It provides some financial information on some businesses providing master development services, relating to revenue and gross profit for 2021/22 for five master developers (not including Peel or Homes England). The Assessment notes it was not possible to distinguish the value of master development activity from wider development activity for a number of these businesses.

- 2.38 The Assessment identifies one main potential positive effect on competition arising from the Subsidy, relating to the potential for increased market participation by smaller developers outside the top 11 national housebuilders, which could occur where individual plots are made available on the open market.
- 2.39 Homes England set out in the Assessment, and in response to SAU's questions, that other potential distortive effects will be minimal for the following reasons:
- (a) There will be no residual benefit to the master developer arising from the Project that would provide it with on-going advantage in the related housebuilding market. In particular, were Peel to retain the plots and build property on them itself, it would be considered for purposes of determining the subsidy payment (calculated in accordance with the average calculation set out in the grant funding agreement) to have disposed of developed plots at market price (verified through external valuation). This requirement, and the excess profit-sharing agreement set in paragraph 2.30(d) limits the potential for Peel to gain an advantage from the Subsidy, limiting any potential impacts on the housebuilding market.
 - (b) Peel is expected to dispose of the majority or all of the plots, limiting its ongoing share in the Liverpool housing market.
 - (c) Barriers to entry by housebuilders to the master developer market to be low, referring to Homes England BIL awards as an example of this.
 - (d) The relative size of the Subsidy is low compared to the UK construction sector and there is strong competition among the numerous players in this segment.
 - (e) The relative size of the Subsidy is low compared to the narrower UK housebuilding segment, where estimated UK revenues were around £59 billion in 2022-23.
 - (f) The Project is not expected to have an adverse impact on competing private residential development schemes within the Liverpool area or other areas. It relies on supporting evidence that the Project will deliver an average 230 dwellings per annum over its lifespan which compares to the average annual target of 1,739 that the local area plan states is required from 2013 to 2033.
- 2.40 The Assessment does not address impacts on international trade, although it acknowledges some participants in the UK construction sector operate internationally.
- 2.41 In summary, the Assessment covers aspects of the effect of the Subsidy on competition and investment, in line with Annex 3 of the Statutory Guidance. However, in our view, the Assessment should consider in more detail the product

and geographic markets potentially affected by the Subsidy and provide further information to assess the scope for distortive impacts. For example, it could:

- (a) consider the relative size and scale of Peel's master development activities in the relevant market; and
- (b) identify other regeneration sites with upcoming development plots disposals and/or housing developments in close geographic areas that could be particularly impacted by the Project.

Step 4: Carrying out the balancing exercise

- 2.42 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.
- 2.43 The Assessment explains that the Project fits into the Government's objectives to prioritise brownfield development, regeneration of cities and towns, and building more housing in England focused on transport infrastructure. Homes England states that the Subsidy will provide significant benefits to the local economy through the delivery of 2,350 new homes, 20% of which will be affordable homes in line with planning permission. An economic appraisal found that on balance, the Project would deliver significant net additional social value to the UK.
- 2.44 The Assessment also states that the Subsidy has several wider benefits, including an uplift in commercial property value in the surrounding areas, a reduction in crime as well as wellbeing benefits associated with living in better quality homes.
- 2.45 In terms of negative effects, the Assessment states that it has considered the impact on competition and investment within the UK, and international trade and investment. It states that although the Subsidy may in theory fail to reward potential competitors who may be more innovative or efficient than Peel, they cannot be considered competitors given that Peel owns the site. Homes England explains that it has not identified any competitors that could step in and deliver the site. It further explains that LCC has identified the Project as important for the continued economic development of the city and region.
- 2.46 The Assessment explains that Homes England has considered whether the Subsidy could reduce Peel's incentive to innovate or invest, however it further states that in this case, the counterfactual would apply and Peel would continue to use the site for sub-optimal uses.
- 2.47 The Assessment concludes that the substantial benefits of the Subsidy outweigh the negative consequences.

2.48 In our view, the Assessment sets out the positive and negative effects of the Subsidy, quantifying where appropriate as well as conducting an economic appraisal of the expected benefits and negative effects in line with the Green Book approach. However, while the Assessment acknowledges the potential negative impacts of the Subsidy, the shortcomings of the assessment identified in Step 3 (see paragraph 2.41) affects the completeness of the balancing exercise. The Assessment should explain how Homes England considered the impact of the Subsidy on competition and investment in its balancing exercise.

Other Requirements of the Act

2.49 Homes England confirmed that no other requirements or prohibitions set out in Chapter 2 of Part 2 of the Act applies to the scheme.

14 January 2025