

# Subsidy Advice Unit Report on the proposed subsidy to Vivid Housing Limited for Victory Quay, Portsmouth

Referred by Homes England

7 March 2025

Subsidy Advice Unit

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Part of the Competition and Markets Authority



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# 1. The Referral

- 1.1 On 21 January 2025, Homes England requested a report from the Subsidy Advice Unit (the SAU)<sup>1</sup> in relation to its proposed subsidy (the Subsidy) to Vivid Housing Limited (Vivid) under section 52 of the Subsidy Control Act 2022 (the Act).<sup>2</sup>
- 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.<sup>3</sup> 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:
- (a) clearly describes and evidences the specific policy objective of the Subsidy (Principle A);
  - (b) demonstrates that Homes England has considered other ways of achieving its policy objective and explains why a subsidy was the most appropriate option (Principle E);
  - (c) clearly describes and evidences what would be likely to happen if the Subsidy is not awarded (Principle C);
  - (d) 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 absent the Subsidy (Principle D); and

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<sup>1</sup> The SAU is part of the Competition and Markets Authority.

<sup>2</sup> [Referral of the proposed subsidy to Vivid Housing Limited by Homes England - GOV.UK](#)

<sup>3</sup> 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.

- (e) 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 (Principle B).

1.6 However, we have identified the following areas for improvement:

- (a) the Assessment should more clearly explain and evidence how the Subsidy will address the identified equity issues relating to limited access to green space in deprived areas, and how it will address deprivation linked to greater reliance on public transport (Principle A);
- (b) the Assessment should explain in more detail the competitive impact of the Subsidy on the shared ownership market, as well as the social rent market, given that the affordable housing units may be sold on a shared ownership basis (Principle F); and
- (c) the Assessment should consider and demonstrate whether some of the wider benefits identified, such as access to green space and promotion of public transport, relate to the specific policy objective of the Subsidy, such that they are relevant to 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 is proposing to award a grant of £19.794 million to Vivid for infrastructure and abnormal costs of a proposed development called 'Victory Quay' (VQ Project) at Tipner Lake in Portsmouth.

1.9 Homes England explained that the VQ Project will deliver 835 homes, with 30% designated as affordable homes (including social rent), alongside public open space, flexible-use community and commercial floorspace, and a public-access coastal path. It will also regenerate derelict industrial land, incorporating flood defences and ecological mitigation measures.

1.10 The Subsidy will be provided through Homes England from its Brownfield Infrastructure and Land (BIL) Fund<sup>4</sup> and will fund infrastructure and abnormal costs, including site-wide remediation, sea defences, a bird conservation area, transport infrastructure, power delivery, a foul water pumping station, nitrates

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<sup>4</sup> The Assessment explains that the BIL Fund operates to unlock strategic housing sites where brownfield, infrastructure or land projects face delivery and/or viability challenges. Further information can be found at [Brownfield, Infrastructure and Land Fund - GOV.UK](#).

mitigation, and Community Infrastructure Levy and section 106 financial contributions.<sup>5</sup>

- 1.11 Homes England explained that these costs are necessary to enable use of the site for housing development and are required as part of the planning obligations for the VQ Project.
- 1.12 In addition to the Subsidy, further public support is proposed for the VQ Project through a [£15-25 million] Affordable Housing Grant from the Affordable Housing Grant Programme 2021 to 2026 (the VH Grant).<sup>6</sup> Homes England states that the VH Grant covers distinct and separate costs from those funded by the Subsidy under the BIL Fund. Homes England explains that both the VH Grant and the Subsidy are necessary for the viability of the VQ Project.
- 1.13 Vivid will act as the developer of the housing and associated infrastructure of the VQ Project, delivering a mix of housing for market sale and affordable/social housing. The affordable homes will be retained by Vivid as a registered provider of affordable housing, either for social or affordable rent, or sold to first time buyers on a shared ownership basis. The private sale housing will be developed and sold by Vestal Development Limited, a wholly owned subsidiary of Vivid, with profits reinvested into Vivid.
- 1.14 Homes England explained that the Subsidy is a Subsidy of Particular Interest because the amount exceeds £10 million in value.

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<sup>5</sup> Planning obligations are also commonly referred to as 'section 106', as well as 'developer contributions' when considered alongside highways contributions and the Community Infrastructure Levy. These planning obligations assist in mitigating the impact of unacceptable development to make it acceptable in planning terms (see [Planning obligations - GOV.UK](#)).

<sup>6</sup> Homes England explained that the Affordable Housing Grant Programme pre-dates the Act and so grants under it are therefore considered to operate outside of the ambit of the Act.

## 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.<sup>7</sup>

#### **Policy objectives**

2.3 The Assessment states that the policy objective of the Subsidy is to increase housing supply by regenerating brownfield land (and the provision of supporting infrastructure) in the City of Portsmouth, to meet local housing needs. This in turn will facilitate:

- (a) brownfield development;
- (b) unlocking economic growth, by bringing the brownfield site into productive use and facilitating the provision of housing and linked social amenities;
- (c) maximising private sector investment;
- (d) sustainability and carbon reduction; and
- (e) diversification and innovation in the housing market.

2.4 The Assessment explains that the Subsidy is intended to facilitate the provision of major infrastructure works including land remediation, ground raising, flood wall and coastal path along the shoreline, a bird conservation area and site utilities, as required by the planning consents. The Subsidy will support the remediation of the

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<sup>7</sup> See [Statutory Guidance](#), paragraphs 3.33-3.58 and the [SAU Guidance](#), paragraphs 4.7-4.11 for further detail.

VQ Project site and provide the necessary infrastructure required to enable the VQ Project in a manner consistent with the wider policy objectives of the BIL Fund.

- 2.5 The Assessment notes that, by addressing the constraints of the VQ Project site, the Subsidy will support the VQ Project to deliver wider benefits to the area, including the provision of 30% affordable housing (with a 70/30 split between social rent and shared ownership homes). It will also support the provision of flood defences, an ecological habitat site and community facilities.
- 2.6 The Assessment refers to past political announcements of intentions to increase housing supply, specifically using a ‘brownfield first’ approach to development. In particular, it refers to the objectives of the BIL Fund and the Portsmouth City Council Housing Delivery Test Action Plan 2023-24<sup>8</sup> as evidence of the need for significantly greater housing provision in the Portsmouth City area.
- 2.7 In our view, the Assessment clearly describes and evidences the specific policy objective of the Subsidy.

### **Market failure**

- 2.8 Market failures arise where market forces alone do not produce an efficient outcome. When this arises, businesses may make investments that are financially rational for themselves, but not socially desirable.<sup>9</sup>
- 2.9 The Assessment describes challenges to Portsmouth’s housing supply and sets out various reasons as to why there is less development of housing than is needed to meet demand. It relies on evidence, such as the Portsmouth City Council Housing Delivery Test Action Plan<sup>10</sup> and Rowntree report,<sup>11</sup> to support this.
- 2.10 As well as describing these market outcomes, the Assessment sets out the following market failures which the Subsidy is intended to address:
- (a) **Positive (and overcoming negative) externalities.** The Assessment identifies wider social benefits arising from sea defences, a coastal path, ecological enhancement and improved bus transit routes. Additional wider benefits cited include the removal of blight from the derelict and contaminated nature of the VQ Project site, and the requirement for community use floorspace to serve existing needs and environmental enhancements.
  - (b) **Public goods.** The Assessment states that the VQ Project, enabled by the Subsidy, provides public goods that are consistent with the criteria of being

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<sup>8</sup> [Portsmouth City Council Housing Delivery Test Action Plan 2023-2024](#)

<sup>9</sup> [Statutory Guidance](#), paragraphs 3.36-3.50.

<sup>10</sup> [Housing Delivery Test Action Plan - Portsmouth City Council](#)

<sup>11</sup> [Why are rates of housebuilding falling? | Joseph Rowntree Foundation](#)



non-rival and non-excludable. It sets out that these public goods include: flood defences; site wide remediation that will bring the site back into productive use (including community facilities and green space areas); a new road which will eventually provide a bus route; and the ecological/biodiversity measures (increasing the size of the ecological habitat, intertidal coastal pasture and bird conservation area).

- 2.11 The Assessment states that there is an inability to pass costs for the associated infrastructure of the VQ Project on to the purchasers of the market sale properties (especially in terms of the affordable housing element) as that would make the housing unaffordable. It also notes it would not be possible to recover these costs from the wider benefiting area.
- 2.12 In our view, the Assessment describes and presents evidence of potential market failures that the Subsidy aims to remedy.
- 2.13 We note that when discussing market conditions, the Assessment provides a description of recent changes and market outcomes in the homebuilding market.<sup>12</sup> In our view, whilst this is useful context, and these outcomes could potentially be explained by market failures, they are not sufficient to demonstrate the existence of such a failure. The Assessment could more clearly explain the market failures in line with the Statutory Guidance so as to distinguish them from market outcomes.

### **Equity Objective**

- 2.14 Equity objectives seek to reduce unequal or unfair outcomes between different groups in society or geographic areas.<sup>13</sup>
- 2.15 The Assessment states that the area surrounding the VQ Project site suffers significant deprivation compared to the wider region and the UK (based on an index of multiple deprivation) and explains that the provision of affordable housing is linked to the alleviation of deprivation. It goes on to explain that there is a significant need for new affordable homes in Portsmouth to address social disadvantages and overcome the issue of residents being unable to access market housing.
- 2.16 The Assessment explains that the VQ Project, through the provision of infrastructure funded by the Subsidy, will address this need by providing affordable housing (including social rent), which will constitute at least 30% of the overall development.

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<sup>12</sup> The Assessment sets out that demand for housing has risen and that the rate of new home building has fallen, with there also being cost rises.

<sup>13</sup> [Statutory Guidance](#), paragraphs 3.51-3.55.

- 2.17 The Assessment also argues that the Subsidy will:
- (a) increase levels of green space to address inequalities arising from limited access to green space for people who live in more deprived areas; and
  - (b) support the VQ Project as a low-car exemplar project, promoting public transport via the adjacent planned transport hub (current park and ride site) and encouraging active travel options. The Assessment states that deprivation is often linked to lower car ownership, increasing reliance on public transport.
- 2.18 In our view, the Assessment clearly sets out the inequity linked to the lack of affordable housing that the Subsidy intends to address, and explains that this is achieved through the provision of necessary infrastructure by way of the Subsidy. We consider that the Assessment could better use its supporting evidence, such as statistics provided in the Full Business Case, to demonstrate the extent to which the Subsidy will help mitigate these issues through associated distributional benefits.
- 2.19 In addition, the Assessment should more clearly explain and evidence how the Subsidy will address the identified equity issues relating to limited access to green space in deprived areas, and how it will address deprivation linked to greater reliance on public transport. For example, it is not clear that the Subsidy supports any additional provision of public transport.

## **Appropriateness**

- 2.20 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.<sup>14</sup>
- 2.21 The Assessment explains that Homes England has considered the following non-subsidy means to achieve the policy objective:
- (a) Commercial loan: Homes England considered that no commercial lender would lend on this project given the lack of viability, and similarly, its own loan programmes only support viable projects.
  - (b) Equity investment in the VQ Project: Homes England considered that this was not appropriate as market costs are likely to be higher due to increased risk. Additionally, the lack of viability means that it is unsuitable for private investment and any equity investment would be non-transparent in nature and therefore difficult to quantify in advance.

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<sup>14</sup> [Statutory Guidance](#), paragraphs 3.56-3.58.

- (c) Homes England’s acquisition of the site for a ‘public sector’ led delivery alternative: this was rejected due to the substantial public cost associated with taking on the VQ Project and the exposure to cost and revenue risks. Furthermore, Homes England explained that its policy is to only deliver infrastructure on land it already owns and it would therefore need to acquire the site at an unnecessary financial and risk exposure. Additionally, Homes England explained that it already owns similar land south of Victory Quay, which has had previous housebuilders withdraw from development due to viability issues. As such, taking on the site was deemed high-risk and undesirable.

2.22 The Assessment explains that Homes England also considered negotiating planning amendments to remove high-cost items. However, it concludes this would not achieve the intended public goods and strategic planning outcomes. It also states that securing viable alternative development consent was discounted based on evidence from planning consultation responses.

2.23 In our view, the Assessment demonstrates that Homes England has considered other ways of achieving its policy objective and explains why a subsidy was the most appropriate option.

## **Step 2: Ensuring that the subsidy is designed to create the right incentives for the beneficiary and bring about a change**

2.24 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.<sup>15</sup>

### **Counterfactual**

2.25 In assessing the counterfactual, public authorities should consider what would likely happen in the future – over both the long and short term – if no subsidy were awarded (the ‘do nothing’ / ‘no subsidy’ scenario).<sup>16</sup>

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<sup>15</sup> See [Statutory Guidance](#), paragraphs 3.59-3.73 and the [SAU Guidance](#), paragraphs 4.12-4.14 for further detail.

<sup>16</sup> [Statutory Guidance](#), paragraphs 3.62-3.64.

- 2.26 The Assessment sets out a counterfactual scenario where in the absence of the Subsidy, Vivid would be unable to proceed with the VQ Project and the policy objective would not be achieved.
- 2.27 The Assessment refers to the following supporting evidence for this position:
- (a) a letter from Vivid to Homes England regarding the VQ Project's non-viability without the Subsidy to remediate and protect the site with a sea wall flood defence; and
  - (b) an evaluation by an independent consultant that states the site is stalled and cannot progress without the Subsidy and demonstrates that its provision adequately closes the viability gap.
- 2.28 The Assessment states that Homes England supports the conclusions of Vivid and the independent consultant. It explains that Homes England owns adjacent land at Tipner East which, like the VQ Project site, is similarly blighted with flood risk and land contamination from former industrial use; and over many years, several housing developers have withdrawn from proposed housing development contracts due to viability concerns, despite funds being spent to remediate and de-risk the adjacent site.
- 2.29 In our view, the Assessment clearly describes and evidences what would be likely to happen if the Subsidy is not awarded.

### **Changes in economic behaviour of the beneficiary and additionality**

- 2.30 Subsidies must bring about something that would not have occurred without the subsidy.<sup>17</sup> 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').<sup>18</sup>
- 2.31 The Assessment explains that provision of the Subsidy will address the VQ Project's viability position and enable Vivid to:
- (a) undertake infrastructure work to remediate and protect the site that is required before housing development can commence; and
  - (b) undertake the VQ Project to provide affordable housing and housing for market sale to achieve the policy objective.
- 2.32 The Assessment describes the monitoring and compliance regime for the Subsidy, including a grant funding agreement that requires grant drawdowns to occur monthly in line with an agreed expenditure profile. It also specifies that works

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<sup>17</sup> [Statutory Guidance](#), paragraph 3.66.

<sup>18</sup> [Statutory Guidance](#), paragraphs 3.65-3.69.

financed by the Subsidy will be limited to making the site suitable for the proposed VQ Project, which would not be undertaken if the site was to remain in its existing state.

- 2.33 The Assessment provides a breakdown of the works to be financed by the Subsidy and sets out infrastructure delivery milestones. For example, the first listed work to be undertaken is the construction of the sea wall flood defence on 1 May 2025, with practical completion expected on 30 October 2025.
- 2.34 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 absent the Subsidy.

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

- 2.35 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.<sup>19</sup>

#### **Proportionality**

- 2.36 The Assessment states that the Subsidy has been designed to be proportionate to the policy objective and the minimum required to achieve it, for the following reasons:
- (a) The relative size of the Subsidy is low compared to the total costs needed to deliver the overall VQ Project, and the benefits to costs ratio estimates (1.1 to 1.6) are within the BIL Fund's acceptable value for money range.
  - (b) The VQ Project's expected revenue and costs, along with the viability gap, were independently assessed, to ensure the level of the Subsidy for eligible costs is the minimum necessary to achieve the policy objective of increasing housing supply. This included verification of the baseline level of profit, which is set towards the lower end of the industry range for residential developments and set to be the minimum to induce Vivid to proceed. Furthermore, as part of assessing the proportionality of the Subsidy, the calculation of the remaining viability gap to be met by the Subsidy

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<sup>19</sup> See [Statutory Guidance](#) paragraphs 3.74-3.110 and the [SAU Guidance](#), paragraphs 4.15-4.19 for further detail.

Assessment took account of the VH Grant (see paragraph 1.12) within the VQ Project's revenue projections.

- (c) Eligible costs to be funded by the Subsidy are limited to (ringfenced) costs directly related to remediation of the brownfield site, power network and other public infrastructure (such as the sea wall and coastal path), with eligible costs needing to be proven and verified by an independent Monitoring Surveyor.
- (d) There is provision for clawback of the Subsidy, should the VQ Project's revenue and cost outturns generate a profit that exceeds the baseline profit level. The funding agreement allows for excess profit to be shared equally (50:50) between Vivid and Homes England, up to the full Subsidy amount.
- (e) There is also provision for clawback of the Subsidy, whereby Vivid would pay back 1/835th of the Subsidy for each of the 835 dwellings not delivered by 2034. Vivid will provide quarterly progress reports to enable Homes England to have oversight of the delivery of homes and sales achieved.

2.37 In our view, the Assessment 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.

### **Design of subsidy to minimise negative effects on competition and investment**

2.38 The Assessment sets out several aspects of the Subsidy (including elements mentioned above) in line with the Statutory Guidance which it states are relevant to minimising distortive impacts. This includes the nature of the instrument, breadth of beneficiaries and selection process, the size of the Subsidy, timespan over which the Subsidy is given, performance criteria, ring-fencing and monitoring and evaluation. In particular:

- (a) the BIL Fund is accessible to a range of housing-led brownfield, infrastructure and land projects, provided that they meet a number of eligibility criteria;
- (b) the Subsidy per housing unit is lower than the average for current BIL Fund contracted projects;
- (c) the relative size of the Subsidy is low compared to Vivid's turnover (and low compared to the total VQ Project costs, even when taking the separate VH Grant into consideration); and
- (d) this is a one-off subsidy for eligible infrastructure works that the grant funding agreement will state must be completed (and funding drawn down) within a time-limited period (by 31 March 2027).

- 2.39 The Assessment also considers (under Principle E) alternative options for the form of subsidy, including:
- (a) loan support to Vivid: this was rejected as it does not address the fundamental viability gap in the development. Homes England considered that even with a zero-interest loan, the requirement for capital repayment would further reduce financial viability; and
  - (b) lower amount of grant funding: this option was rejected as it would not sufficiently bridge the viability gap to enable Vivid to achieve a viable return on its investment.
- 2.40 In our view, the Assessment broadly demonstrates how design features of the Subsidy contribute to minimising any negative effects of the Subsidy on competition and investment within the United Kingdom. It identifies several subsidy characteristics identified in Chapter 3 of the Statutory Guidance<sup>20</sup> which are potentially relevant to the likelihood of distortive impacts on competition or investment in the United Kingdom.
- 2.41 The Assessment explains that Vivid’s grant application was assessed against the BIL Fund’s aim of increasing housing supply to meet unmet local need and against the selection criteria applicable to the BIL Fund. In our view, the Assessment could discuss the significance of this in demonstrating compliance with Principle F, in particular examining the extent to which the application review process had an effect similar to introducing an element of competition between both approved and rejected applications for sites in the City of Portsmouth.

### **Assessment of effects on competition or investment**

- 2.42 The Assessment identifies a number of relevant markets, including (a) residential property construction and (b) the supply of housing (for private sale, social rent and shared ownership). Its assessment of relevant markets refers to information from the CMA’s housebuilding market study reports. The Assessment briefly refers to master development, acknowledging that Vivid could act as master developer of the Project should it decide to sell remediated plots to other developers.
- 2.43 The Assessment states that Vivid is a significant registered provider of affordable housing in the South of England and developing a site of this scale would potentially reinforce that position. However, since grant support is normal across this market, the Assessment explains that the distortive impact on this market is likely to be limited.

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<sup>20</sup> [Statutory Guidance](#) paragraphs 3.78-3.110.

- 2.44 The Assessment refers to other developments in the region that could be impacted by the Subsidy. However, it sets out that impacts on competition will be minimal for the following reasons:
- (a) the relative size of the Subsidy is very low compared to the UK construction sector and there are numerous firms supplying this market;
  - (b) the relative size of the Subsidy is very low compared to the narrower UK housebuilding segment, where estimated UK revenues were around £68 billion in 2022-23; and
  - (c) there are a number of requirements on Vivid in terms of the appointment of contractors. For example, there is a fair and documented decision-making process in selecting contractors and should Vivid propose to undertake works or provide goods or services 'in-house' or assign these to a contractor connected to Vivid, this is subject to verification by the independent Monitoring Survey, with costs compared with appropriate regional benchmarks and/or estimated by qualified professionals such as a chartered surveyor.
- 2.45 Although the Assessment states that a number of firms in the UK housing market operate internationally, the impact of the Subsidy on international trade and investment is expected to be limited given that the Subsidy is considered negligible in the context of the wider market, and that expected VQ Project returns are towards the lower end of the range for residential developments (as set out in paragraph 2.36(b)) and so would be of limited interest in terms of investment from outside of the UK.
- 2.46 In our view, the Assessment considers and evidences some of the potential effects of the Subsidy on competition and investment, in line with Annex 3 of the Statutory Guidance. However, the Assessment should explain in more detail the expected competitive impact of the Subsidy on the shared ownership market, as well as the social rent market, given that the affordable housing units may be sold on a shared ownership basis.
- 2.47 The Assessment could also be improved by explaining in more detail the impact on the local land and housing market. This could include other regeneration and housebuilding projects in the City of Portsmouth and surrounding area, (drawing on information provided in the Assessment in relation to Step 4 (see paragraph 2.54) and/or firms that particularly benefit from the reduced flood risk resulting from the subsidised activities in the area around the site.



## Step 4: Carrying out the balancing exercise

- 2.48 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.<sup>21</sup>
- 2.49 The Assessment states that the Subsidy, by enabling the VQ Project, will provide significant benefits, including the delivery of 835 homes - 30% of which will be affordable housing - to help meet the local housing need in the City of Portsmouth and contribute towards housing targets outlined in the Portsmouth City Council Housing Action Plan.
- 2.50 It explains that the Subsidy will also generate wider benefits for the local economy and community, including:
- (a) unlocking housing delivery for both market sale and affordable housing;
  - (b) providing publicly accessible open space, including work on the coastal path, flood defence measures and the provision of ecological habitat; and
  - (c) facilitating the reuse of vacant and derelict brownfield land.
- 2.51 The Assessment further outlines additional wider benefits of the VQ Project, including job creation, the provision of commercial and community facilities, and economic growth in a deprived area of the South of England. It also states that the VQ Project will unlock private-sector investment and operate as a low-car project, promoting public transport via an adjacent transport hub and encouraging active travel options.
- 2.52 The Assessment considers the potential impacts on competition and investment arising from the specific advantage for Vivid, which could affect smaller developers in Portsmouth and alternative developments in surrounding areas. However, in its assessment of the local market, Homes England states that there is limited activity of this size in Portsmouth and notes that the only other residential development is Alexandra Point by Bellway Homes, located on the adjacent land owned by Homes England, which has also required public funding for remediation works. It adds that due to the lack of competing bids for the site - which Vivid owns - and the ongoing local housing shortfall, Homes England considers the risk of wider market distortion to be limited and notes that the significant public benefits outweigh these concerns.
- 2.53 The Assessment also recognises Vivid as a significant registered provider of affordable housing in the South of England and acknowledges that the undertaking

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<sup>21</sup> See [Statutory Guidance](#), paragraphs 3.111–3.119 and the [SAU Guidance](#), paragraphs 4.20–4.22 for further detail.

of the VQ Project could potentially reinforce this position. However, Homes England explained that it is normal for grant funding to be provided for developments of this nature, which private developers are less likely to be interested in, and so any impact is therefore limited.

- 2.54 It sets out that outside the City of Portsmouth, the Subsidy may impact development in areas such as Havant, Gosport, Fareham and Winchester, with these areas providing alternative options for purchasers to such developments. However, Homes England explained that this is balanced against the need for housing in the City of Portsmouth and the wider benefits it will bring to the local area.
- 2.55 The Assessment concludes that the substantial benefits of the Subsidy outweigh the potential negative effects.
- 2.56 In our view, the Assessment sets out positive effects of the Subsidy in relation to the policy objective, its geographic impacts and the potential negative impacts, in line with the Statutory Guidance. However, the Assessment should establish whether some of the wider benefits identified, such as access to green space and promotion of public transport (see paragraph 2.19), relate to the specific policy objective of the Subsidy, such that they are relevant to balancing exercise.<sup>22</sup>

## **Other Requirements of the Act**

- 2.57 Homes England confirmed that no other requirements or prohibitions set out in Chapter 2 of Part 2 of the Act apply to the Subsidy.

**7 March 2025**

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<sup>22</sup> Wider benefits that do not relate to a market failure or equity rationale must not be taken into account for the purpose of the balancing exercise. See [Statutory Guidance](#), paragraph 3.114 for further detail.