

Affordable Rural
Housing Commission
final report



final
report

Affordable Rural Housing Commission
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Executive Summary

Introduction

The Affordable Rural Housing Commission was set up in July 2005 by the Department for Environment, Food and Rural Affairs (Defra) and the Office of the Deputy Prime Minister (ODPM) – now the newly created Department for Communities and Local Government – to inquire into the scale, nature and implications of the shortage of affordable housing for rural communities in England and make recommendations to help address unmet need. It was evident from the urgency with which Ministers asked the Commission to report that both Departments shared the concern surrounding this issue, which is widely held across the political spectrum and throughout rural England.

The Commission was asked to come forward with practical solutions which would improve access to affordable housing to rent or buy for those who live or work in rural areas. They were to be evidence-based, draw on best practice and propose action which could be taken forward across public, private and voluntary sectors.

The members of the Commission were chosen to bring together a wide range of expertise, interests and viewpoints. Since October the Commission has visited all the regions of England, met representatives from the National Parks, received oral evidence from a wide range of organisations and 75 written evidence submissions. A report from the Commission for Rural Communities has been received, based on its hearings with members of the public around the country. This evidence, together with other data that has been drawn together, has helped shape the recommendations.

The Commission's investigation has shown that much good work is already being done, with many people dedicated to meeting rural housing need. However, to meet the scale of the need in rural communities in all regions, the issue must be addressed in its own right, and with urgency, rather than only after urban needs have been met.

This Executive Summary sets out our main arguments and key messages from the report. The full report provides more detail and specific recommendations.

1. The Commission's Starting Point

1.1. Vision

The Commission began with a commitment to a thriving countryside. It recognised that the countryside is one of England's most valued assets, which needs to be protected. However, the countryside is not solely about the landscape but the communities within it. This means that the needs of people, particularly a need as basic as housing, should be taken into account alongside those of the environment and the economy when taking decisions affecting future generations. Without more affordable housing, those on lower incomes will increasingly be excluded from living in many parts of the countryside, offering the next generation little choice but to move away to find homes.

Families separated by distance will be less able to support each other by providing childcare or doing shopping for elderly relatives, and local services such as schools and shops, will become increasingly difficult to maintain without a critical mass to use them. Having worked hard to make urban areas more attractive and sustainable, we will look back and find we have created rural areas which are less sustainable and increasingly socially polarised.

1.2. Definition of Terms

Affordable housing

The Government's draft definition in Planning Policy Statement 3 states that affordable housing is non-market housing provided to those whose needs are not met by the market. It can include social-rented and intermediate housing, for example shared equity, and should normally meet the needs of current and future eligible households, for example through restrictions on price, eligibility and resale. It includes private sector and unsubsidised homes that meet the definition.

Market housing

Housing sold on the open market. Market housing will not meet the affordable housing definition.

Affordability

Whether or not market housing is on offer to buy at a level which people can afford, usually defined as 3.5 to 4 times earnings. So, if prices are high and wages are low, then affordability will be low.

Rural

The Government's definition of rural areas is based on density of population. Rural areas are those with settlements with a population under 10,000. Around 19% of the English population live in rural areas. It is not always possible to get data that can be analysed for settlements under 10,000 so, where it is useful to do so, the relationship with Districts defined as rural is also explored.

2. Evidence

The Commission's inquiry has revealed an acute shortage of affordable housing in rural areas of all regions of England. The evidence for this is set out in the Commission's full report. It is drawn from existing data, new and published research, written submissions, oral evidence taken from regional visits and feedback from the Commission's website.

At both a local and regional level, the Commission has heard that the interpretation of sustainable development within the planning system has often worked against the interests of smaller rural communities. There has been an assumption that, because small rural communities have already lost some of their services, they are intrinsically unsustainable and are therefore not suitable for affordable housing. This restriction on supply, together with the limited availability of suitable sites for development and the pressure from people wanting to move to the countryside have all contributed to house prices which have risen faster, and to higher levels, in rural areas than in the towns.

The shortage of affordable housing is the less visible aspect of a countryside where the wider economy is often thriving and where many people aspire to live. However, success for some rural areas has come at a price for those living on local wages who have been priced out of the property market and for whom there is little

available rented housing. Social housing is seriously lacking in rural areas – only 5% of houses in villages are social housing compared to a national average of 23%.

The problem hits those on the lowest incomes hardest. The average income in rural areas is boosted to around the national average by the effect of people commuting from the countryside to well-paid jobs elsewhere. Workplace earnings data however, which gives a better guide to local wages, shows the average earnings in 2004/05 in the most rural districts was only £17,400 compared to £22,300 in major urban districts.

Research for Defra showed that someone earning £17,000 would only be able to afford to buy a house in 28% of rural wards, compared with 50% of urban wards. Aware of this pressing need to provide more affordable housing, the University of Cambridge and Shelter identified the need for 40,000 new social rented homes per year across urban and rural areas, which is consistent with Kate Barker's analysis. Taken as a proportion of the population as a whole, this would imply 7,600 social rented homes a year for rural areas. Given the widening affordability gap in rural areas, this could well be an underestimate of actual need. With the addition of housing provided through low-cost home ownership schemes, the Commission has concluded that a minimum of 11,000 affordable homes should be provided per year in settlements of less than 10,000. This is a starting point and should be reviewed when a more consistent way of assessing need is developed.

There will be more affordable homes provided in the future through cross-subsidy from the private sector and local authority funds, to add to the Housing Corporation's current plans for 3,000 homes each year in rural areas for the next two years in settlements of under 10,000. Analysed at district level the Housing Corporation plans to build 6,900 units in rural districts, or 22% of all planned Housing Corporation provision. 23% of the population live in these areas which suggests that rural districts are getting very close to their proportionate share of the funding. However, closer analysis shows that this is not the case in settlements of less than 10,000 population. 19% of the population live in these settlements but they will only receive 10% (3,166 per annum) of the housing units.

The report looks at how the additional housing can be funded and concludes that it should be through a mix of higher public subsidy and greater cross-subsidy from market housing development.

3. Next Steps and Recommendations

3.1. Action already in hand

Since the Commission was set up, the Government has responded to the important concerns that it has raised and published new draft planning guidelines which go a long way towards addressing the issues we have heard whilst taking evidence. These include a clear requirement for both regional and local planners to set out policies for addressing rural need, and new powers through which local planning authorities can secure affordable housing from private developments. These changes constitute an important step in the right direction. All of those involved in the provision of rural housing need to capitalise on these changes and take them further without delay.

3.2. Further Action Needed

The Commission has made recommendations targeted not just at Government but also at a wide range of other organisations which, if implemented, will make a real difference. It is not possible to reproduce every recommendation in this Executive Summary, but included in this section is a summary of the areas in which the Commission has made recommendations. It cannot be stressed strongly enough how complex and interrelated the machinery of providing affordable housing in rural areas has become. As a consequence, our recommendations are very interdependent and should, as far as possible, be taken as a whole.

3.3. The Problem and 'Meeting the Need'

Understanding need

It is essential that the level of need be established so that ways of meeting it can be planned and progress monitored. This should start from the bottom up through housing market and housing need assessments containing enough detail to identify what rural

communities have and what they require. The Commission **recommends** that a consistent means of measuring need is developed which can be operated at local, regional and national level. Progress will be hampered if the way need is assessed locally is inconsistent with Government's approach nationally.

Total need in rural areas

Making the best use of current datasets, the Commission **recommends** that 11,000 units of affordable housing should be provided per year in settlements below 10,000 population. This should be the starting point for setting the objective of meeting rural housing need.

Very recent research¹ shows that around 45% of prospective newly-forming households (aged between 16 and 35) in rural areas could not afford to set up home in the rural ward where they currently live. This amounts to some 23,000 newly-forming households per annum across all of rural England. In the South East, South West and East of England these emerging households would have to travel considerable distances, usually into urban areas, before finding locations where housing is, theoretically, affordable for them. We know these figures do not take into account the causes and effects of migration and that further work is planned to refine the approach, at which stage it could helpfully feed into decisions on future policy.

3.4. Improved Delivery by Positive Planning

The Barker Review of Housing Supply

Government has done a considerable amount of work to address affordable housing need at a national level. The Commission **recommends** that rural areas should share in the housing growth which is planned following the Government response to the Barker Review of Housing Supply. This will help deliver affordable housing through cross-subsidy from market housing and provide the next step up on the housing ladder for many.

Sustainable development

The Commission supports the continuation of urban regeneration and Government's

commitment to sustainable development. However, the Commission **recommends** that Government explicitly commits itself to seeking sustainable development in rural communities as well as urban ones. In order to implement this commitment, the Commission **recommends** an urgent review into the sustainable development criteria that have been used to appraise emerging Regional Spatial Strategies and their potential impact on the social, environmental and economic future of rural communities.

Planning

Delivering rural housing must be part of the mainstream planning system instead of being treated as an option once the bulk of needs have been met in urban areas. Whilst exception sites are a useful tool, particularly for small settlements, we suggest local need should be met predominantly through the allocation of sites for affordable and market housing in local planning documents. The Commission **recommends** a number of detailed changes designed to reinforce the direction set by draft Planning Policy Statement 3, which should give more scope for implementation by local authorities.

Good design

The quality of housing built to meet local needs can be fundamental to the way in which it is perceived. How new houses are built can greatly reduce their environmental impact, increase their acceptability to the community and enhance the built environment of rural communities. The Commission **recommends** that the Housing Corporation identifies the additional costs of rural development and adjusts its allocations so as not to penalise rural schemes.

3.5. Better Finance for Rural Affordable Housing

Housing as a sound investment

In a number of areas innovative ways have been found to bring private and other non-statutory investment into the provision of affordable housing. The Commission makes a number of **recommendations** designed to encourage the involvement of the private sector, landowners and not-for-profit organisations such as Community Land Trusts.

Supply of affordable housing

Local authorities should use all the tools at their disposal to generate more cross-subsidy from open market development for social rented and intermediate market housing. However, this is a complex area which requires much local authority resource. The Commission makes a number of **recommendations** designed to make the existing tools easier to use and provide local authorities with more of them. It also proposes more partnership working between local authorities and other local public sector partners. However, in order to preserve the long term supply of land for exception sites, the Commission does not recommend that cross-subsidy from market housing to affordable housing be permitted on them.

Housing Corporation programme

Even with a higher level of private house build, there will still be a need for substantially greater public investment. The Commission **recommends** that the Housing Corporation increase funding directed to rural areas, both to meet identified needs and to meet the higher costs of construction and eco-efficient development.

3.6. Ensuring a Supply of Sites

Re-classification of farm buildings

Technical definitions of brownfield land may be hindering the use of previously-used land for affordable housing in rural areas. The Commission **recommends** that, if there is a continuing shortage of sites, Defra and ODPM identify ways in which some previously-used agricultural buildings could be re-classified as brownfield.

Public land

A good deal of land in rural areas is owned by the public sector, some of which has become redundant from its original use. In order to make more of this available to meet local housing needs, the Commission **recommends** an extension to national partnership working between public bodies to speed up the release of such land.

3.7. Retaining and Making the Best Use of Existing Housing

Make the most of what we have

Although second-home ownership is very localised in its impact, it can have a severe effect on specific communities. Similarly, rural areas have their share of empty homes. The Commission has made a number of detailed **recommendations** for further work on ways of addressing the issue of second homes, targeted on the small number of places where their impact is high, and suggests work which could make modest gains by bringing more empty homes back into use.

Rented accommodation

The Government has set great store by people being able to move into home ownership. However, while many people living in rural areas want, if possible, to buy their own homes, there is still a continuing need for rented property. The Commission **recommends** that the Government re-affirms its commitment to ensuring that a proportion of affordable housing in rural areas remains for rent where this best meets the needs of local people.

Holding on to what we have got

We need to halt the erosion of affordable housing stock in rural areas and ensure that new development is safeguarded for future generations. For many years it has been eroded faster than it has been replenished and is now at a lower level than in urban areas. The Commission has made **recommendations** about the right to buy in rural areas which are designed to ensure that both new and existing rented and shared ownership stock remains available to meet continuing local need. It is hoped that this will also have the effect of retaining the commitment of local communities and landowners when developing affordable schemes.

3.8. Making It Happen

The Commission has identified many areas in which regional and national government need to take action, but the biggest gains are to be had from every local authority picking up and using the existing tools, and adopting the innovative approach evident in some. There is action for

elected members, council officials and other local partner organisations. The Commission **recommends** consolidation and extension of the service provided by Rural Housing Enablers, a greater role for Parish and Town Councils and a need for much more explicit action by Regional Housing Boards to ensure that their strategies are sensitive to the needs of rural areas.

4. Conclusion

There needs to be a significant increase in the provision of affordable rural housing for both rent and sale. What is proposed is the equivalent of around six new houses a year in each rural ward, most of which currently have a population of around 5,000. Obviously they will not be evenly distributed, and this figure should be viewed in the context of more market development. But the Commission believes that it can be delivered in such a way as to meet pressing need and, at the same time, maintain the character of the English countryside and the open spaces between settlements.

It must be recognised that any proposed development is often unpopular with those living closest to it. For this reason alone, it is essential that there is strong leadership at all levels to make the case for affordable housing. To have any chance of overcoming opposition, a consensus must be built from the grass roots up, embracing the wider interests of rural areas, so that people from all backgrounds are able to live there. During our inquiry, many people dedicated to the provision of affordable housing have come forward to give evidence. Individuals, such as Rural Housing Enablers, parish councillors and others have forged a consensus and, through working with local landowners and housing associations, have delivered housing that has made a real difference to their communities.

The Commission hopes that the changes recommended in this report will make it possible to deliver progress across the country, and begin to address what we are convinced is one of the biggest problems facing rural England.

Foreword by Elinor Goodman



When I was asked to Chair the Affordable Rural Housing Commission I saw it as a unique opportunity to contribute to the future wellbeing of the kind of rural communities which, to me, are as much part of a thriving countryside as the natural landscape.

I knew from my own experience of living in Wiltshire that the shortage of affordable housing in country areas causes problems not only for individuals forced to move away from their families and friends to find a decent home, but also for the future of rural communities.

Without housing which people on lower incomes can afford, rural communities will increasingly become dormitories for the better-off who work elsewhere, or places where people go to retire or visit for the weekend, rather than places where people live and work. They may continue to look picturesque but they will have lost much of their lifeblood if the next generation cannot afford to live there.

Obviously not everyone born in the countryside has an automatic right to go on living in the place where they were brought up, any more than they would in a city. But I do not believe the chance should be denied to them purely because they cannot afford to rent or buy a house on the open market. And, without a major expansion of affordable housing, it increasingly will be.

In my view, rural communities would be the poorer, and certainly much less interesting, if they didn't include a cross section of people of different ages and different backgrounds, who share a common identity.

I know the strength of opposition that often exists to new development in the countryside. I share the belief that the landscape is one of England's greatest assets, and I can understand the distress felt by those who fear the countryside immediately around them is threatened. But I believe that it is in the wider interests of the country that rural communities should be allowed to evolve as they have done in the past, with development which is in scale and in character with its surroundings.

Freezing all development, and setting a village or market town in aspic, may preserve the status quo in terms of bricks and mortar but, paradoxically, it can accelerate social change by making it increasingly difficult for those on lower incomes to live there.

Delivering the scale of affordable housing we believe is necessary will require commitment and leadership at all levels. I believe the political climate is right for such initiative, as all the main parties now say they believe there is a need for more affordable housing. The challenge is for politicians to make the case for it in rural areas when faced with opposition from those who fear the other interests of the countryside are threatened. So I urge those who care about the countryside to read this report and see it not as a threat, but as a positive contribution to the future of rural England.

Finally, I would like to thank the Secretariat and my fellow commissioners for all the work they have put into this report. The individual members of the Commission brought to our investigation a broad range of experience. To reach the consensus we believed essential, the Commission has been prepared to make difficult decisions. I hope this report will now provide the basis for a wider consensus in the countryside on the need to address this most urgent of problems.

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Chapter 1



Introduction

The Affordable Rural Housing Commission was set up in July 2005 by the Department for Environment, Food and Rural Affairs (Defra) and the Office of the Deputy Prime Minister (ODPM) – now the newly created Department for Communities and Local Government – in response to growing concern about the implications of the shortage of affordable housing for rural communities in England.

Our Brief

The members of the Commission, chosen to represent a wide range of expertise, interests and viewpoints, were asked to reach a consensus on the relevant issues around affordable housing needs in rural areas and to come forward with practical, evidence-based recommendations to improve access to affordable housing for those on low incomes who live or work in them. Our full terms of reference are at Annex A and our membership is at Annex B.

We have visited all the regions of England, met representatives from the National Parks, heard oral evidence from a wide range of organisations and received 75 written submissions. This evidence, together with the research which we have commissioned and the data we have drawn together, has helped shape our recommendations.

We hope that the consensus we have reached will provide a basis for wider agreement in the country about the need for a fundamental change in the way the need for affordable housing is addressed in rural areas. Our investigation has shown us that much good work is already being done by many people determined to meet local rural housing need despite the challenges they face in doing so. But, to address the scale of housing need in rural communities in all regions, a great deal more is required.

We were asked to carry out our work to a very tight timescale and this has necessarily limited the scope of our inquiry. We have brought together a range of recommendations which, if adopted, will make significant in-roads into the problem. Having asked us to do our work quickly, it follows that the Government must now act with equal urgency.

This introduction summarises our vision, the issues which need to be addressed and the conclusions we have drawn from the wealth of evidence we have studied. It is followed in later chapters by our detailed analysis and recommendations on the key areas in which action is required: planning, finance, land for new building, making the best of existing stock and leadership. It cannot be stressed too strongly how complex the machinery of providing affordable housing in rural areas has become.

As a consequence, our recommendations are also very interdependent and should, as far as possible, be taken as a whole.

Definition of Terms

Throughout this report we make reference to terminology often interpreted in different ways. To be clear, the definitions we have used are:

Affordable housing – The Government's draft definition in PPS3 states that affordable housing is non-market housing provided to those whose needs are not met by the market. It can include social-rented and intermediate housing, for example shared equity, and should normally meet the needs of current and future eligible households, for example through restrictions on price, eligibility and resale. It includes private sector and unsubsidised homes that meet the definition.

Market housing – Housing sold on the open market. Market housing will not meet the affordable housing definition.

Affordability – Whether or not market housing is on offer to buy at a level which people can afford, usually defined as 3.5 to 4 times earnings. So, if prices are high and wages are low, then affordability will be low.

Rural – The Government's definition of rural areas is based on density of population. Rural areas are those with settlements with a population under 10,000. Around 19% of the English population live in rural areas. It is not always possible to get data that can be analysed for settlements under 10,000 so, where it is useful to do so, the relationship with Districts defined as rural is also explored.

Our Vision

As a Commission we have a shared commitment to a thriving countryside. We recognise that it is one of England's most valued assets, and needs to be protected. For us, this is not solely about the landscape but the communities within it. This means that the needs of people, particularly basic needs such as housing, should be taken into account alongside those of the environment.

Fundamental to our vision is adequate provision of housing for people on lower incomes and with social, economic or environmental links to the area in which it is important for them to live. Without more affordable housing they will increasingly be excluded from many parts of the countryside. Not only will they be unfairly disadvantaged but our countryside will be a poorer place as a result.

Trends in Rural Housing

Rural communities face a unique combination of housing pressures. The inward migration of commuters, retirees and owners of second or holiday homes has contributed significantly to demand-led house price inflation. At the same time, Right to Buy has had a proportionately greater impact in reducing the stock of social housing in rural areas than it has in the towns, and fewer new homes have been built to replace those sold. Alongside this, planning policies have generally prioritised the protection of the environment and limited the supply of land for both market and affordable housing.

From the outset it was clear that most rural areas were suffering from an acute lack of affordable housing. Initially, we considered whether this was merely symptomatic of a problem common to the whole of England. But, as our inquiry progressed, it became clear this was not the case. Indeed, the shortage of affordable housing is undoubtedly more acute in rural areas than almost anywhere in the country apart from London and the roots of the problem are different.

Moreover, affordability has deteriorated over recent years, with average house prices rising by 73% between 2000 and 2005 in rural areas, and 68% in urban over the same period.¹

In addition, between 1998 and 2005 there was a 6% decline in the overall number of new houses built in predominantly rural districts compared with an increase of 29% in predominantly urban districts.

Compounding this, the amount of affordable housing built in predominantly rural districts has increased by only 3%, compared to 22% in

predominantly urban districts between 2001/02 and 2004/05. And, while the overall stock of housing association and local authority housing has declined in all areas, the reduction has been particularly acute in rural areas, partly because of the high take-up of Right to Buy.

This decrease would not in itself be such a problem if wages had kept pace with increasing house prices. However, while average earnings in rural areas match those elsewhere, the affluence of commuters and others masks the fact that many of England's lowest wage-earners are workers in the rural economy, and it is they who face some of the highest, and therefore least affordable, house prices.

Rural Communities Under Pressure

As we have gone round the country, we have repeatedly been told that the lack of affordable housing is undermining the sustainability of rural communities and the informal support networks which traditionally underpin them. Young people are having to move away from their friends and families, sometimes having to commute back to the countryside for work. One generation is therefore less able to support the other, and local services, like schools and shops, are coming under increasing pressure to close.

This also has implications for the wider rural economy. People performing essential jobs not covered by the public sector key worker scheme, such as those caring for the elderly, are finding it increasingly difficult to find housing. Private sector employers, in sectors like hospitality and retailing, told us the lack of housing is stifling rural enterprise because lower paid workers cannot afford to live locally.

Underlying all the arguments for more affordable housing are the basic principles of fairness and social equity. People living in rural areas do not have an absolute right to live where they were brought up, anymore than they would in a city, but the Commission believes it is wrong that they should be excluded from the countryside purely on the basis of what they earn.

And without more affordable housing, they increasingly will be. Rural settlements may remain viable in terms of being affluent and well maintained, but they will lack the social mix to make them function as communities where people of different backgrounds share a common identity.

This imbalance will also have implications for society as a whole. If more of those on lower incomes have to move out of the countryside to the cities it will increase the polarisation between town and country.

Next Steps

Since we were set up, the Government has published new draft planning guidelines, some of which have been influenced by the work of this Commission. These include a clear requirement for both regional and local planners to set out policies to address rural need and new powers for local planning authorities to secure more affordable housing from market development. We welcome these changes. But we believe that, given the scale of need, all those involved in the provision of rural housing need to go further.

We have looked at the various assessments of need developed by a range of credible sources and have concluded that, as a minimum, rural areas should get their share of the increase in affordable housing which the Government is proposing. This would imply a minimum of 11,000 new affordable homes per year.

We set out our detailed proposals in the chapters which follow and provide examples of best practice on the ground.

Conclusion

We want to see a significant increase in the provision of affordable rural housing for both rent and sale. What we seek is the equivalent of around six new houses a year in each rural ward, most of which currently have a population of around 5,000. Obviously this new housing will not be evenly distributed but will be related to need and this figure should be viewed in the

context of more market development. We are confident it can be delivered in such a way as to maintain the character of the English countryside while addressing the real social and economic need of its communities.

We recognise that proposed development is often unpopular with those living closest to it. For this reason alone, it is essential that there is strong leadership at all levels to make the case for affordable housing and its vital contribution to sustainable rural communities. This requires a clear strategic framework from Government. However, it also requires that there is a consensus at the grass roots that it is in the wider interest of the countryside and its communities that people from all backgrounds continue to live there.

During our inquiry we have seen how individuals, including Rural Housing Enablers and parish and district councillors, have forged a consensus and, by working with local authorities, landowners, housing associations and local people, have delivered housing that has made a real difference to their communities.

We hope our recommendations will make it possible to tackle what we are convinced is one of the biggest problems facing rural England.

The decisions we take now, or fail to take, will shape the future of rural communities for generations to come.

Chapter 2



The problem and meeting the need

The evidence we have gathered from rural advocates, housing professionals and representatives of the three main political parties, as well as from new and existing research and statistical data, has revealed an acute shortage of affordable housing throughout rural England. This is the other side of a countryside that is in many ways better off than the cities. But that success has come at a cost for those working in rural areas on low wages, who have been priced out of the housing market.

At the turn of the 20th century the problem was rural depopulation and decaying villages. Now the picture is generally one of increasing affluence and more people wanting to move to the countryside, thus pushing house prices beyond the reach of many.

This is in part because growth in demand has consistently outstripped that of supply. All expectations are that this will continue. Rural communities face a unique combination of housing pressures: net inward migration; the purchase of houses as second homes and holiday lets; higher impact of demographic change in terms of an ageing population; and a diminishing stock of social housing. Alongside this sit planning controls that attempt to protect the environment and have limited the supply of land for housing, thus hampering the ability to respond to even existing local need.

The constraints on supply have been quite deliberate. Since the 1950s, planning policy has been designed to protect the countryside and focus development in towns and cities. The unintended consequence of these otherwise laudable aims has, in the absence of other measures, been to deprive rural areas of the funding and development sites they require to meet local need and ensure their continued vitality.

Regional and local planning bodies have been encouraged by successive Governments to give priority to providing homes in urban areas and to minimise the number provided in rural areas. This has met the interests of the urban lobby for greater investment in the cities and of those concerned about incursion of development into the countryside. In some regions there is actually a moratorium on building in rural areas because the allocations in Regional Planning Guidance have already been met. This has been compounded by some councils failing to make the case for more housing in rural areas in the face of opposition.

Similarly, the Government's target of building at least 60 per cent of new houses on brownfield land, and the sequential approach that until the latest draft planning guidance accompanied this target, has sometimes been used as a justification not to build in the countryside where there are fewer brownfield sites.

We support the policy of urban regeneration and the use of brownfield land where possible.

If cities can be made more attractive and safer places to live, it will not only create a better environment for the people who live in them, but may also reduce the pressures on the countryside by lowering demand from those wanting to move away from the cities. However, this alone will not result in the housing needs arising in the countryside being met.

The squeeze on rural housing has been further compounded by the approach taken to sustainable development, from national through to regional, to local level. We wholeheartedly endorse the concept of sustainable development that informs so much of Government policy and seeks to weigh up the environmental, social and economic impacts of development to ensure the needs of the present are met without compromising the interests of future generations. However, in some regions the way this has been interpreted has actually undermined the sustainability of some rural communities.

Decision makers have tended to take a snapshot of communities, judging them to be sustainable or unsustainable at a single point in time, rather than looking at how all communities might be made more sustainable in the longer term. Similarly, they have often looked at the housing needs of communities in isolation, without considering how settlements relate to each other for housing, employment and other services. At a local level too, the way sustainable development has been interpreted has often worked against the interests of smaller rural communities. There has been an assumption that because small rural communities have already lost many of their services they are intrinsically unsustainable and are therefore not suitable for housing development.

The emphasis has been on conserving the landscape at the expense of the social and economic needs of the communities which live in them. Further, decision makers have often been concerned about the effect that building additional housing in rural areas would have on increasing car use. New development could lead to this if occupied by those who commute long distances to work. But there is another side: the lack of affordable development for those who work in the countryside has led to increased car use as low income families are forced to move to urban areas and commute back to their jobs.

Consequences

As a result it has been difficult for the Government to deliver in rural areas on its commitment to create sustainable communities which it defines as “places that offer everyone a decent home they can afford, in a community in which they want to live and work, now and in the future.”¹

In practical terms, a lack of affordable homes means real hardship for some in the countryside as in the towns. At its worst, it has led to homelessness and people living in overcrowded or substandard accommodation, with knock-on effects on health and children’s educational attainment.

Although the number of households categorised as homeless and in priority need is lower in predominantly rural districts, this figure has risen by 8% since 2002² whereas in predominantly urban areas the figures have stayed the same over the period, albeit at a higher level. These figures may well underestimate the level of homelessness arising in rural areas because, when people cannot find a home locally, they often migrate to larger towns where there is more temporary accommodation.

The more widespread consequence of this shortage of affordable housing is that people have to move out of the countryside to find a decent home. Sometimes they are able to move to a neighbouring area but in large parts of the South of England they would have to move a very long way to find a home they could afford.

In the evidence we received we repeatedly heard how the lack of affordable housing is undermining community life. People, particularly young couples, are having to move away from their parents and friends. Both family networks and important social infrastructure suffer as a result. One generation is less able to support another if they are too far away to share child-care responsibilities or shop for elderly relatives. Maintaining local services such as schools and shops becomes more difficult if there is not a critical mass to use them.

There are potential problems for an increasingly ageing population if present trends continue. Not only will pensioners become more isolated as younger people move elsewhere, but they will as a result become more reliant on the kind of support services which are often provided by lower paid workers who will themselves find it increasingly difficult to afford to live in rural areas.

More generally, concerns were expressed to us about the inability of people essential to the local community, economy and environment to find local housing. They are not just the key workers covered by the Government’s definition but private and voluntary sector employees, including those working on the land, maintaining the landscape and providing vital services such as bus drivers and care assistants. Moreover, the lack of housing is stifling rural enterprise: employers say they find it difficult to find workers because they cannot afford to live locally, still less move to the country to take up a job offer.

We do not think it is fair that income should be the main determinant of whether people can live in the countryside. If it continues to be, the social and age mix of both rural and urban communities will become increasingly imbalanced.

Villages will increasingly become the preserve of those who are better off, who travel long distances to well paid jobs; not places for a mix of people to live, work, educate their children and use local services. This runs counter to the belief of all the main political parties that rural communities would be poorer if they did not include people from all backgrounds.

Affordability

At the root of the problem is the rate of increase of house prices in rural areas which is, at least in part, a consequence of stricter constraints on supply than in urban areas.

1 ODPM (2005a)

2 Source: ODPM, unpublished

Affordability has deteriorated over recent years, with average house prices rising by 73% between 2000 and 2005 in rural areas, and 68% in urban.³ The problem is particularly acute for the first time buyer, with the cheaper homes⁴ they are most likely to purchase 12% higher in predominantly rural districts compared to urban.⁵ Meanwhile, median house prices stand 6% higher in predominantly rural districts, at around £172,500 compared to £162,500 in predominantly urban districts.

On average, earnings for people living in the countryside are around the national figure. But the average earnings in rural areas are boosted by the effect of people commuting from the countryside to well paid jobs elsewhere. Workplace-based earnings figures, which are more representative of the local workforce, show the average earnings in 2004/5 in the most rural districts were only £17,400, compared to £22,300 in major urban districts.

The result is an affordability gap which means that to buy a house even at the lower end of the market, people living in the countryside would have to pay far more than the 3.5 to 4 multiple of their earnings, which is normally regarded as "affordable". This affordability gap is worse in rural areas than virtually anywhere else in England apart from certain areas of London. Generally, affordability is worse in the South, but the data shows that there are significant problems in rural areas in all regions. Figure 1.1 shows levels of unaffordability in England.

Research by the Joseph Rowntree Foundation⁶ shows that over half the 37 local authorities with the highest house price to income ratios in Great Britain were in rural areas. Many of these are in the South West and South East. The study clearly demonstrates that the problem of housing affordability is not confined to those on the lowest incomes. It affects many on average or above average salaries, with over 40% of

households aged under 40 in the 37 local authorities with the highest house prices unable to afford a mortgage on even the cheapest tenth of properties.

Work for Defra by Frontier Economics (2006) also highlights the affordability problem and shows that someone earning £17,000 – just below the average local wage in the countryside – would only be able to afford to buy a house in 28% of rural wards as against 50% of urban wards. Higher proportions of affordable wards are found in the North and the Midlands. Around 78% of rural and 95% of urban wards in the North East are affordable whilst in contrast only 2% and 15% of rural wards are affordable in the South East and South West, respectively.

The severity of the problem is further demonstrated by research carried out by the Commission for Rural Communities⁷, which shows that around 45% of prospective newly-forming households (aged between 16 and 35) in rural areas could not afford to set up home in the ward in which they currently live. That would amount to some 22,800 newly forming households per annum across rural England. The research identifies the number of new households whose choices will be limited to subsidised affordable housing or moving to another ward to set up home. But in large parts of rural England they would have to move a long way to find a supply of housing they could afford. We look at the methodologies behind this and other assessments in Annex C.

The problem is compounded by what we have been told is a serious shortage of affordable rented accommodation, much of which used to be provided by councils before it was sold under Right to Buy. In predominantly rural districts the percentage of overall housing stock that is owned, either by housing associations or local authorities, is only 13% compared to 22% in predominantly urban districts⁸. In villages this is

3 Frontier Economics (2006)

4 Lower quartile

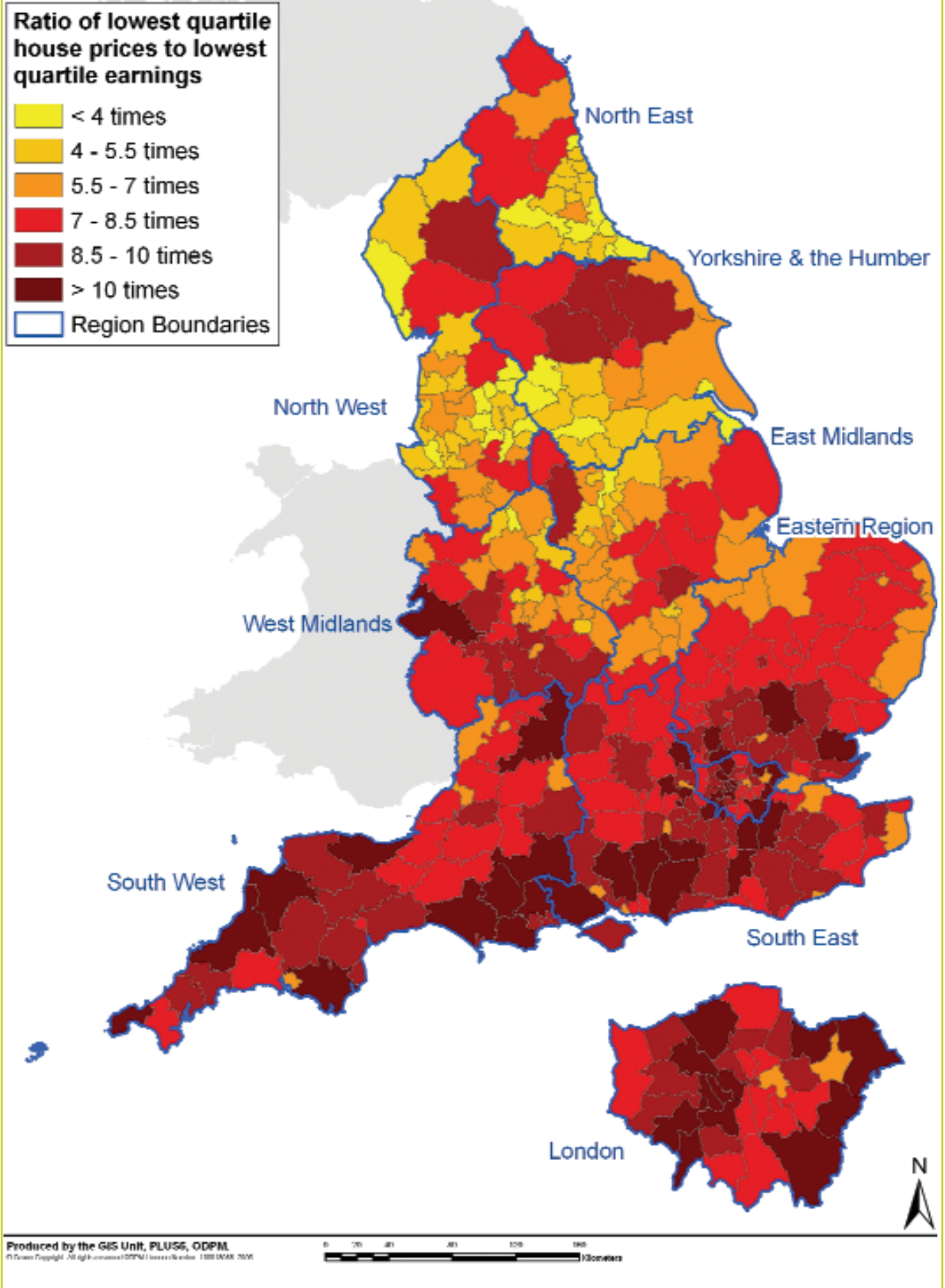
5 Source: ODPM analysis of Land Registry data (Q3 2005), unpublished

6 Wilcox (2005)

7 Commission for Rural Communities (2006b)

8 These figures are as at 1st April, 2005.

Figure 1.1: ODPM map of affordability ratio



only 5%⁹. In addition, accommodation that might once have been let to agricultural workers is also increasingly being sold off, in part reflecting that fewer people are employed in farming.

What is the level of need?

Assessing the precise level of need is difficult as it depends on the definition used, and there is no single national methodology. What we know from the people we have met ourselves and the evidence submitted from hearings of the Commission for Rural Communities, is that there is a serious shortage of affordable housing in rural areas. There is a need for a more reliable, standardised way of assessing it so that progress can be monitored. To make recommendations that can be picked up at national level we need to talk about national figures, but we recognise that the delivery of affordable housing should be based on local Housing Market Assessments.

As a Commission, we were asked to look specifically at ways of increasing the provision of affordable housing, usually defined as housing involving any form of subsidy. It is difficult to look at this in isolation from the wider question of the affordability gap, as the number of people priced out of the open market has a major bearing on the number wanting subsidised housing. However, the issue of affordability has already been addressed by Kate Barker in her inquiry.

The Government responded to this with a commitment to increase overall house building to 200,000 a year by 2016 in an attempt to improve affordability. This would be an increase of 45,000 on the number of houses built in 2004/05. We believe rural communities should share in this growth to meet local need, particularly for low cost housing, and to generate the finance to cross subsidise more affordable housing.

The University of Cambridge identified the need for 40,000 new social rented homes per year across urban and rural areas. This is consistent

with Kate Barker's analysis¹⁰ which has been used by the Government to inform its policies in this area. This assumes the proportion of the population in social rented housing will continue at the same level. Evidence suggests that the severe affordability gap in rural areas is resulting in an increasing proportion of the rural population looking to social housing to meet their needs as they cannot afford to buy a home. It is also important to recognise that this estimate only covers newly forming households, not those already on waiting lists or in overcrowded accommodation i.e. the backlog of housing need, which the Commission for Rural Communities puts at another 40,000¹¹.

The University of Cambridge estimate does not separate out rural need from the total or provide an estimate of the need for low cost home ownership. The Government is planning to deliver around 18,000 units for low cost home ownership a year in 2006/7 and 2007/8. If this were allocated in line with the proportion of the population in rural areas around 3,500 homes would be provided.

Even if you accept, as the Government does, the University of Cambridge estimate of the need for social rented accommodation, it is clear that the Government is failing to deliver enough homes across the country. And that is reflected in a serious shortfall in rural areas. If we take the proportion of the population living in rural areas, as defined by the Government, as a way of dividing up the total this suggests a requirement for social rented houses in rural areas of around 7,600 per annum. If you add a further 3,500 units of low cost home ownership to this you get an estimate of around 11,000 affordable rural homes needed per year in rural settlements with populations under 10,000.

The Housing Corporation is planning to fund around 3,000 units a year in these settlements over the next two years. Some additional affordable housing will also be funded through cross-subsidy from private development. But this is likely to leave a substantial shortfall.

9 Commission For Rural Communities (2005) State of the Countryside Report

10 Shelter Housing Investment Project Series (2005 update) Building for the Future

11 Commission for Rural Communities (2006b)

We think there is a need to significantly increase both social rented housing and low cost home ownership in rural areas. We believe that a minimum of 11,000 affordable houses each year should be provided in rural areas. This should be a starting point, not a one-off target. We would expect to see delivery reaching the higher levels in the period covered by the forthcoming Comprehensive Spending Review (2008/09 to 2010/11), and that this would need to be sustained for at least five years.

Recommendations

Over the next few years 11,000 units of affordable housing, of all kinds, should be delivered in rural settlements with populations under 10,000.

The Government works with the Commission for Rural Communities, the Chartered Institute of Housing and others to review the various approaches to estimating housing need in rural areas and issues guidance accordingly to inform Housing Market Assessments. This work should lead to the publication of robust national estimates of housing need in rural and urban areas, with a clear methodology and transparency in the assumptions used, including those on movement in and out of rural areas.

This national figure should take into account forecasts from Housing Market Assessments, and be used as a means of monitoring progress on the delivery of affordable housing. The 11,000 figure should be reviewed in the light of this information.

Where should the new houses go?

Meeting this need means allowing rural communities to evolve as they have done in the past, rather than trying to freeze them in time. Between 1998 and 2005 there was a 6% decline in the number of new houses built in predominantly rural districts compared with an increase of 29% in predominantly urban districts.

Some of the affordable housing should go into villages to underpin communities and sustainable development. Larger numbers will be needed in

rural towns, including market towns. This is both to meet need and to aid their overall regeneration.

Most communities could incorporate some new housing, provided it is in scale and character with its surroundings and allows the community to retain its individual identity. As we have gone round the country we have seen the difference good design can make to the acceptability of affordable housing. Whereas in the post war council house building boom, social housing was often very basic in design terms (though excellent in space standards), frequently standing out in stark rows on the edge of villages, now affordable housing can positively enhance the built environment of a community.

How will the new houses be paid for?

As we have said, we believe the need is for a minimum of 11,000 affordable homes a year, comprising a mix of social rented and low cost home ownership. This will require a substantial increase in the delivery of affordable houses in rural areas.

Looking at how this could be delivered, there are three broad mechanisms:

1. The Government could in theory fund the additional build solely through an increase in public expenditure. We think this is unlikely given other spending pressures on the public purse and the scale of investment required. It is essential, however, that rural areas should get their fair share of any future increase in public funding for affordable housing.
2. To increase the cross-subsidy realised on existing levels of development. This is when private developers pay for some affordable housing on their sites as part of the planning consent. We believe that if local authorities use the tools they already have, particularly those relating to quotas and site thresholds, coupled with those we recommend, they may be able to secure considerably more affordable housing, even from current levels of market build. Local authorities will need to have a thorough understanding of

development economics and the housing needs of their area when pursuing this. But, this alone will not deliver the required increase in affordable housing.

3. To respond to the demographic and affordability pressures outlined above, by allowing some growth in private development. This would in turn provide an opportunity to generate further cross-subsidy. Better matching of market housing to needs would also help take the pressure off affordable rural housing by providing the means for individuals to get onto the first rung of the housing ladder.

We conclude that a combination of all three mechanisms is necessary, and this will inevitably involve trade-offs. Higher cross-subsidy rates and increased allocation of sites in rural areas would increase the level of cross-subsidy, reducing the call on the public purse. Limiting housing allocations in rural areas would reduce the amount of land needed for development, but would also reduce opportunities for cross-subsidy and so require greater public subsidy. Ultimately, these decisions will be negotiated at a regional and local level taking account of economic viability, and housing market and need assessments.

Government needs to weigh up the importance it attaches to social justice, mixed communities and environmental sustainability: all fundamental tenets of policy which are potentially undermined by a shortage of affordable housing in rural areas.

Recommendation

Government, local authorities and the private sector need to accept that levels of public subsidy and cross-subsidy will both need to be increased.

These issues are explored in more detail in subsequent chapters.

Chapter 3



Improved delivery by more positive planning

Summary

The planning system plays a key role in ensuring a supply of sites is available at a price which makes it possible to provide affordable housing in rural areas. We recommend strengthening this means of delivery by reinforcing the need for the provision of affordable rural housing to be an integral part of the planning process. This process should integrate local input with strategic regional objectives, and embed rural housing needs in the Regional Spatial Strategies. This should be backed up by investment, based on robust housing market assessments and sustainability appraisals that take account of the needs of rural communities. In this chapter we recommend some new tools and look at how the changes being introduced by the Government can be used to greatest effect to deliver more affordable rural housing.

The planning system plays a key role in determining the quantity, location, type and design of new housing, including the provision of affordable housing. This is achieved through the allocation of housing numbers at regional level, which are cascaded down to the local level. Local authorities then set policies for affordable housing in Local Development Frameworks and allocate sites. These Frameworks guide decisions on specific planning applications.

We were often told by rural communities that planning policy has been used to stop development of new affordable housing in rural areas rather than encouraging it. To unlock the planning system it is important to understand its foundations, and how recent changes could help it become a positive force for change.

Our planning system was born from the immediate post war need for urban containment and conservation of the countryside. These imperatives have remained the bedrock of the planning system for over fifty years.

The 2004 Planning and Compulsory Purchase Act and related policy reforms have begun to shift this emphasis. The Act started a move from a planning system whose purpose was to regulate land use to one where planning policies encourage development that supports other public policy objectives. At its heart is the promotion of sustainable development, which requires integrated action to meet social, economic and environmental objectives. This has now become enshrined in national planning guidance and the new system for preparing regional and local plans. As Planning Policy Statement 1 (PPS 1) states "Planning should facilitate and promote sustainable development and inclusive patterns of urban and rural development"¹.

This enabling approach underpins the Barker report.² The report itself did not specifically address rural issues, but it did highlight problems of affordability and the Government response provides opportunities to develop a

range of housing in villages and market towns, including affordable homes.

Against this background we considered how the planning system could contribute to improving access to affordable housing. During the course of our deliberations Planning Policy Statement 3 (PPS 3) was being prepared. It sets out guidance so that the planning system delivers the Government's housing objectives. We were able to contribute to its development and very much welcome the policies included in the draft guidance published in December. We consider that they could, if implemented, make a significant contribution to improving the supply of affordable housing in villages and small rural towns.

We believe that it is only through a plan-led system that decisions on the amount and location of affordable housing can be taken in ways that are in tune with the best principles of sustainable communities and development. Involving the public in how their communities should develop is an integral part of this process.

In this context, our recommendations focus on how the planning system can be strengthened, building on the policies set out in the draft PPS 3, so that it assists the delivery of more affordable housing in rural areas.

Recommendations

Rural affordable housing is provided through a plan-led approach in partnership with communities.

Regional Spatial Strategies (RSS) make allocations for housing provision that reflect the nature of rural housing markets. At a local level most affordable housing in villages and market towns should be delivered by allocating sites both for mixed development and solely affordable housing. Where appropriate, windfall sites should be used. The rural exception site policy should be retained, but not relied on as the principal means of meeting rural affordable housing needs.

1 ODPM (2005b)

2 Barker K (2004)

Draft PPS 3 – Summary of policies for rural affordable housing

Regional Spatial Strategies are required to:

- set out their approach to meeting rural housing and rural affordable housing needs;
- where appropriate set out the affordability target for the region and sub-regions; and
- test various options using the sustainability appraisal to determine the region's level of housing and its distribution.

Local Development Frameworks require Local Planning Authorities to:

- develop an evidence base to support all local strategies and work in partnership with local stakeholders and communities;
- set out the approach to meeting rural housing needs and rural affordable housing needs;
- make sufficient land available either within, or adjoining, market towns and villages for both affordable and market housing to sustain rural communities. In doing so, local planning authorities should have regard to the relevant sub-regional housing market assessment, regional spatial and housing strategies, and community and local housing strategies;
- focus significant development on market towns or local service centres which are well served by public transport and other facilities. Development may be provided in villages and other small communities where needed to contribute to their sustainability;
- give priority to development on developable brownfield land, but where this is either insufficient or not available, developable greenfield land may be used instead;
- set out an approach which contributes to mixed and sustainable rural communities. This could include, for example, setting lower site thresholds or higher proportions of affordable housing than applies in the rest of the plan area, (this would allow local planning authorities to negotiate for a proportion of affordable housing on small market housing sites where appropriate);
- allocate sites solely for affordable housing in larger villages or market towns; and
- include a rural exception site policy if they have small rural communities. The sites should be released only for affordable housing in perpetuity. The development should meet the needs of the rural economy and in particular the needs of households who are either current residents or have an existing family or employment connection, in order that rural communities remain sustainable, mixed, inclusive and cohesive.

The evidence – how much housing is being provided?

A constrained housing supply, with associated social and economic consequences, has been a long-standing issue for the United Kingdom. As Kate Barker showed in her report, the overall level of house building in England has declined from a peak in the mid-1960s.

The number of households increased at an annual rate of 160,000 between 1971 and 2001. Meanwhile, total completions in England declined from 295,000 in 1971 to 129,000 in 2001. Completions have recovered somewhat, to around 160,000 by 2005. However, with the latest projections indicating household growth of around 209,000 per annum to 2026, there is clearly a further challenge to be met.

More recently, building in urban areas has increased, but not in most rural areas. As set out in Chapter 2, between 1998 and 2005 there was an increase of 29% in the new housing completions in urban areas, compared with a 6% decline in predominantly rural districts. There is a similar disparity in the delivery of affordable housing. Between 2001 and 2005 additions to affordable housing from acquisitions and new build in predominantly rural districts have remained fairly stable at around 7,500 a year, compared to substantial increases in

predominantly urban districts. Over the same period, around 14% of new build in predominantly rural districts was affordable, compared to 22% in urban.

Crucially, Figure 3.1 shows that rural districts have failed to get a pro rata share of the number of new affordable houses. Twenty three per cent of the English population live in predominantly rural districts, but only 19% of the additional affordable homes were built in these same districts.

We have used figures for districts because the data is collected by local authorities and cannot be analysed below that level. The data may in fact overestimate the supply of affordable housing in rural communities (as defined by Government as settlements with populations of less than 10,000) because, even in predominantly rural districts, there can be urban settlements where affordable houses are likely to be built. For example, Salisbury District is classified as predominantly rural but includes the city of Salisbury (population over 40,000). There will also be some rural settlements in the mixed and predominantly urban districts which may receive a share of the affordable housing in these districts.

As discussed in the next chapter, only 3,166 affordable houses per annum built through public funding are proposed in rural settlements

Figure 3.1: Affordable Housing – Gross Additions 2004/05 (these include new build and acquisitions)

	Social rent	Low-Cost home ownership	Other sub-market rent	Total intermediate	Grand Total of Affordable Housing	Percentage gross additional affordable units
Predominantly Rural	4,832	2,550	55	2,605	7,437	19%
Mixed	6,203	4,639	831	5,470	11,673	30%
Predominantly Urban	11,068	8,469	627	9,096	20,164	51%
England	22,103	15,658	1,513	17,171	39,274	100%

Source: ODPM 2006, unpublished

Case Study

Mrs Wilson was born and lived in the village of Belbroughton, Worcestershire, where she is a teaching assistant at the local school. However, a lack of affordable housing meant that upon getting married she and her partner had to move to Stourbridge.

Currently her children go to Belbroughton school which is more able to cope with her eldest son's Asperger's Syndrome, but because of her working pattern at the school she has to commute between Belbroughton and Stourbridge four times a day.

This ongoing daily commute has obvious environmental effects, but also affects the quality of life that Mrs Wilson and her family have.



below 10,000 population for each of the next two years – a much smaller level than the 7,437 built in rural districts in 2004-05.

This, taken with the evidence in Chapter 2 on the scale of the problem, leads us to conclude that more development is needed in rural areas.

Recommendation

To help provide more affordable housing, housing provision in rural areas needs to increase, taking some of the share of the overall increase accepted by Government in its response to Barker. However, it should be in scale with its surroundings, and appropriate to help meet rural affordable housing needs identified in Housing Market Assessments; and be located where justified by a sustainability appraisal, subject to concerns raised below.

Sustainability Appraisals

Sustainability Appraisals are one of the foundations of the new breed of planning documents. These appraisals review the broad social, economic and environmental goals that are necessary to meet the needs of the region or

district and evaluate options for their delivery. The process includes using a set of indicators which help planning departments decide what measures are needed to deliver these goals and assess whether they are being met. For example, increasing affordable housing in rural areas meets a social goal of providing greater equality of opportunity to a range of income groups. Environmental impacts can be offset through policies which encourage the use of brownfield sites, require good design, and close working with the Housing Corporation to secure funding for highly eco-efficient homes. In short, what can be achieved is a 'win-win-win' situation – or this is the theory.

Our evidence suggests that, as yet, the positive benefits of these appraisals have not been fully realised. Considerable concern was expressed during our regional visits that Sustainability Appraisals are not sensitive to rural circumstances. The indicators often do not adequately reflect the social dimension of sustainable development, in particular the importance of informal social support networks provided by family and friends. They do not attempt to find ways in which communities could

change to become more sustainable. They put the emphasis on environmental indicators, often around the very laudable aim of reducing car use. However, this has been rather simplistically applied, often on seemingly limited evidence or understanding of how car use in urban and rural areas contributes to CO₂ emissions.

We have looked in more detail at the Sustainability Appraisals of the developing RSS's in the eight regions with rural areas. There is some good practice. For example, the South West not only recognises the need for rural affordable housing in general, but specifically for essential rural workers to promote the supply of rural skills. However, the link between affordable housing and the creation of dynamic and mixed rural communities is not always recognised. The sustainability appraisals often do not build on new ways of delivering public and private services to rural areas, such as the use of new technology and the role of the community in delivering some services.

We recognise that Sustainability Appraisals play a central role in determining the location and nature of development, including affordable housing, and in triggering complementary action by non-planning bodies to deliver sustainable development. Following Government guidance they are designed and undertaken at the relevant regional or local level, but too often hinder rather than promote sustainable development in rural areas.

Recommendations

The Government urgently reviews the sustainability appraisal criteria which are used for each RSS to determine policies for rural areas. The review should examine whether sufficient attention has been given to social issues and the needs of the local economy as well as the environment.

The Academy for Sustainable Communities, with advice from Defra, DCLG and the Commission for Rural Communities develops examples of how sustainability appraisal can be applied robustly and sensitively when considering rural areas in RSSs and LDFs.

Addressing Environmental Impact

In raising concerns about the current practice of sustainability appraisal we are not suggesting that environmental issues be put to one side. Rather that they need to be put into perspective and tackled more directly through a range of mechanisms including improved environmental standards. We believe that rural communities can increasingly become exemplars of sustainable development, including by reducing the need to travel. We support the work Government is doing to help communities address all three aspects of sustainable development through parish planning, but we think more could be done. In relation to our own specific housing remit we recommend:

Recommendation

Local authorities, parish councils and the national network of Rural Community Councils work alongside groups such as Campaign to Protect Rural England, to promote ways of minimising the environmental footprint of rural communities

Housing Market Assessments

Core to effective and appropriate planning decisions at all levels are robust Housing Market Assessments. We welcome this new approach. It requires planning authorities to pull together a good evidence base of what market and affordable housing is available in terms of its price, affordability and supply in a particular area (including the needs of particular groups). Using this information the authorities make decisions about the quantity and type of housing they will encourage in the future.

Those providing evidence to us raised two related concerns about these assessments. Firstly, they have often been undertaken using district level data and are centred on the travel to work areas of major urban areas. This masks the particular circumstances of rural areas within these housing market areas. Second, regional and rural local authorities often lack the resources or skills to undertake these assessments. As a result they sometimes do not have the evidence to amend regional policy or to

support stronger policies for securing affordable housing in the rural areas of districts.

Recommendations

The Government provides a centralised data service, using ward level data for local authorities and sub-regional groups to use, to support housing market assessments (preferably GIS based).

The new National Advisory Unit, to be set up by Government later this year, develops a role in advising and assisting rural local authorities on how to undertake robust Housing Market Assessments. It should also offer guidance to regional planning bodies on how they can incorporate top down and bottom up evidence to develop policies which are responsive to rural needs within their regions.

Government makes it clear to those undertaking Housing Market Assessments that these should be undertaken at a scale not larger than (and ideally below) ward level in rural areas and should take into account the views of the local communities concerned.

As part of its review of Public Service Agreements, the Government introduces a target for tracking rural affordability and delivery of affordable housing in rural areas.

To assist sub-regional strategic working, DCLG advises on local PSA targets which would support the delivery of rural affordable housing through Local Area Agreements, which include county and district councils.

Planning at the regional level

Planning at a regional level is undertaken by a Regional Planning Body which is part of the Regional Assembly. The Assembly is responsible for setting the core principles which will direct the nature and location of development and will set out strategic policies to address the main environmental, economic and social circumstances within the region. Provision of housing, including affordable housing, is primarily through the allocation of amounts of housing to districts, determining how many new homes should be provided over the lifetime of the plan. RSSs do not include detailed policies

for affordable housing but will identify where it is an issue, and guide local planning and housing authorities to respond to this need.

Local authorities, housing associations, private developers and Rural Housing Enablers expressed deep concern in every region we visited that Regional Plans, either in their current Regional Planning Guidance form or as they evolve into RSSs, are not providing sufficient housing numbers to meet rural needs. To a large extent this is due to the weighting given to urban regeneration and minimising the use of the car.

For example, in South Hams, the local authority's housing need survey identified a need for 330 new affordable homes per annum. The current Devon Structure Plan allocates 560 units (all types) per annum for completion over the next twenty years, and the emerging RSS is considering a figure of 550 units (all types) per annum over the next 20 years. More helpfully, the emerging RSS does require that at least 30% of new housing provided each year is affordable and that this should rise to 60% in areas of highest need. Social Housing Grant will assist the provision of 118 units in South Hams per annum over the next two years.

In another example, Lincolnshire's most recent Structure Plan Review, the provision in the Sub-Regional Centres and other urban areas is proportionately greater than previously, to encourage a more sustainable pattern of development. As a result, the provision in rural areas has been reduced from 26% to 19% of the County total.

From a Regional Planning Body perspective, we heard of concerns that simply providing more housing in rural areas will encourage out-migration from the cities and result in greater car use as people drive back to the urban areas for work, so undermining urban regeneration. They consider that, as national policy guidance advises RSSs to provide a strategic framework and avoid unnecessary detail, they cannot prescribe how local authorities should secure affordable housing. Regional plans, whilst recognising that there is an affordable housing need in rural areas, have often reduced overall housing

allocations in those same rural areas thus exacerbating the problem. In some areas this has resulted in a moratorium on rural development.

These two positions on RSS's are not irreconcilable.

Recommendations

The Government issues guidance to RPBs to give greater weight to rural housing needs in the development of RSS and specifically, that RPBs should not weigh rural against urban housing needs expressed through sub-regional housing market assessments.

Regional Planning Bodies should:

- **collect and use ward level housing market evidence and other data, which shows at a local level patterns of travel and service use in order to derive the appropriate allocation of housing numbers to districts;**
- **through the RSS encourage local authorities to use available mechanisms to secure affordable housing including where feasible the adoption of lower thresholds and more ambitious quotas, and the allocation of sites solely for affordable housing, and;**
- **where there has been a moratorium on new housing development, but the housing market assessment clearly indicates a need for affordable housing, undertake an early review to allow more housing to come forward where it would help meet these needs.**

The Examination in Public (EIP) Panel for the draft RSS be asked to advise the Secretary of State whether rural housing needs have been addressed.

Local implementation

Over the last ten years changes have been made to Government guidance that allows local planning authorities to improve the supply of

affordable housing in rural areas.³ These encourage local authorities to negotiate with private developers for a proportion of affordable housing on allocated or market sites. Through this route the market housing helps fund affordable homes via cross-subsidy. These are commonly known as quota or Section 106 sites. The guidance also provides for the allocation of sites solely for affordable housing where it would support the sustainability of a rural community and the use of Rural Exception Sites. The latter are sites that are not allocated for development in the plan and are only given planning permission if they will provide housing to meet local housing needs in perpetuity.

In our inquiry we found that some local plans have not been updated to reflect the latest policy guidance. Local authorities seemed nervous of negotiating higher levels of cross-subsidy, and asking for it on smaller developments by reducing the threshold.

This, coupled with a reluctance to allocate sites in smaller rural communities, has resulted in a reliance in these communities on Rural Exception Sites to deliver affordable housing. These sites have brought significant benefits to the communities in which they are located, although they remain opportunistic and small in scale. Overall, Exception Sites have made a relatively modest contribution to overall affordable housing supply, especially considering the intense investment in time and effort required to bring these sites forward. Even in the smallest communities quota sites have delivered almost twice as many houses, while in predominantly rural districts only 6% of additional affordable homes were provided through exception sites.

Cross-subsidy from the private sector is playing an increasingly important role in delivering affordable housing. As stated in Chapter 2 we think it is one of the main vehicles for financing significantly more affordable rural housing. In practice, public subsidy and cross-subsidy from market housing are not alternatives but are often used together to make particular developments

³ ODPM Planning Policy Guidance 3: Housing, Update to Planning Policy Guidance 3: Housing (2000) Planning for Sustainable Communities in Rural Areas.

viable. In predominantly rural districts there is a greater reliance on local authority funding rather than Housing Corporation finance. In 2004/05, 36% of completions through Section 106 or exception sites were either solely or partly local authority funded. This figure was only 17% for predominantly urban districts. As part of its new approach to investment the Housing Corporation is looking to reduce the amount of public subsidy that it makes available on Section 106 sites for affordable housing.

Together these are a cause for concern because the levels of local authority funding are declining. This is, in part, because local authorities are getting less money from Right to Buy receipts and from transferring stock to housing associations, and Regional Housing Boards are directing investment for new affordable housing through the Housing Corporation. These issues and others on funding are picked up in more detail in Chapter 4.

Recommendations

Local planning authorities are encouraged to actively pursue lower thresholds and more ambitious quotas of affordable housing, seeking where appropriate and feasible one affordable home for each market house as suggested in the Rural White Paper 2000.

Government provides a simple but robust development viability tool which local planning authorities can use to inform their negotiations with developers on Section 106 sites.

Using the tools that are already there

What stood out, particularly from the regional visits, was that some authorities had implemented the recent policy changes and had already begun to make a difference to the supply of affordable housing. These included South Hams, Harrogate, Tynedale, Derbyshire Dales, South Shropshire, Wealden, East Hampshire and Bradford Metropolitan Unitary Authority. What characterised these authorities was a commitment across the whole authority to meeting rural affordable housing needs. Responsibility was shared and supported by

officers and councillors who seemed to foster a 'can do' approach and a willingness to innovate and trial new approaches.

Bradford Metropolitan Authority, for example, is centred on a city with significant need for urban renewal. Nonetheless, it recognises the distinctive housing markets of its rural towns and villages. Following a major research project in 1999 called 'Modelling Housing Markets in Bradford', for strategic housing purposes the council split its districts into six Housing Market Areas depending on their market characteristics. In its rural areas, where house prices are high the council has allocated land for housing and aims to negotiate 40% of housing developments as affordable, compared to 15% in the inner city.

The three best practice cases studies in boxes below give examples of authorities taking the initiative to use existing tools: Wealden on allocating sites, South Hams on getting the most from cross-subsidy and Derbyshire Dales and High Peak on working in partnership across authorities.

At the moment these tools are not being picked up and used by the majority of local authorities. In our final chapter we look at how local authorities might be encouraged and supported in making the most of these policies. In some there is a lack of political will to tackle the problem, either by making the case for more development or consistently using the planning mechanisms available. Many rural local authorities reported frustration that their staff and financial resources are limited; so they often lack the knowledge, tools and skills to help them better use policies provided by Government. Moreover, their financial vulnerability makes them wary of taking risks, particularly in planning appeals.

We were also told of instances where local planning authorities had tried to use policies in national planning guidance, only to have their proposed policies overturned by the Planning Inspectorate. In one instance, a local authority was prevented from adopting lower site thresholds which would trigger negotiations for affordable housing, although the adjoining authority had been successful. The reasons for these decisions may well have been based on a

Wealden District Council's Housing our People project (HOPE)

Wealden District Council's HOPE project is based on a plan-led approach which has seen the council become one of the first to allocate sites solely for affordable housing in rural settlements following national policy in PPG3. The project has been in partnership with the parish councils, and involved extensive consultation.

The rural parishes of Wealden District in East Sussex are characterised by high house prices with the average terraced house in the district selling for £175,000, with average household income at £22,388. HOPE was established in October 2003 in response to an exception site approach which was resource intensive.

The local authority worked with the parishes to identify potential land for inclusion as allocated sites in the local plan, which coupled with feasibility work, led to the allocation in the draft local plan of 12 sites solely for affordable housing in villages. These will produce about 90 affordable homes for rent and shared ownership. The council is now working on a phased development programme with partner housing associations and the developments will have a high design specification, in many cases using local materials and environmentally friendly products. It is expected that the land value of schemes will be slightly above exception sites values previously paid to landowners in the district. Housing Corporation funding has now been secured for five of the HOPE sites, which will deliver 30 homes.

view taken of the evidence and whether or not the proposals conformed to the local plan. But this was not always conveyed to the local authorities and thus appeared as inconsistency on the part of the Planning Inspectorate. The authorities which raised this issue would have welcomed guidance from the Planning Inspectorate on how they could update their approach so that they could secure a better supply of affordable housing.

One way forward is for local authorities to work more closely together as sub-regional partnerships to make the best use of the resources they have available, as is being done by Derbyshire Dales District and High Peak Borough Councils (see box).

We have concluded that much more needs to be done to strengthen the knowledge, skills and resources of local planning officers and councillors. These issues of capacity are picked up in the final chapter but we have some specific recommendations in relation to planning:

Recommendations

The Planning Inspectorate, through its Continuing Professional Development programme and the Planning Advisory Service, promotes best practice in rural affordable

housing delivery to help local planning authorities implement the new policies successfully.

The Government provides further guidance on paragraph 41 of draft PPS 3, which makes it clear that the advice in the PPS 3 as a whole may carry greater material weight than the relevant policies in the local development plan where the latter is under review. This could be supported by the Planning Inspectorate offering advice on the process needed for local planning authorities to adopt new policies provided in PPS 3.

Rural local authorities, where appropriate, form sub-regional partnerships which can help them make better use of their own resources and develop their expertise.

Other options for planning policies at the local level

During our inquiry we considered a range of proposals for more detailed changes to be made to the planning system, including whether cross-subsidy should be allowed on exception sites. We rejected this for a number of reasons. Concern was expressed that this could increase landowners' expectations of the value of land in

the locality, reducing the chances of bringing forward windfall exception sites. In addition, it would be difficult to define the limit of cross-subsidy and ensure it was funding the affordable housing as opposed to inflating the return to the landowner or profit for the developer.

We believe that the new policies in PPS 3 will in practice provide what is being sought by allowing local planning authorities to set lower thresholds and secure higher proportions of affordable housing on mixed sites. An example is given of this approach already being used in practice in South Hams District (see box).

Encouraging private developers to provide affordable housing

Another issue which we explored was whether local planning policy could be strengthened to encourage private developers to provide more homes at the lower end of the market where the evidence shows there is currently a gap. From a developer's perspective there is little incentive to provide lower cost market housing, not least because they are likely to gain a greater return from more expensive housing, which is in great demand in rural areas. It should also be considered that high cost market development may support the provision of more affordable housing by providing greater opportunity for cross-subsidy.

Against this, regional and local planners need to be confident that the allocations they make will result in the type of housing needed and in particular, whether it meets the needs identified through the Housing Market Assessment in terms of type, size and tenure. All these factors need to be taken into account along with the need for economic viability. In practice though, the final mix of housing types needs to be negotiated on a site by site basis, within the broader context of the needs of the area. We believe it would help authorities to have further guidance on this issue.

Recommendation

The Government provides further guidance on how local planning authorities can ensure that the housing provided meets the needs identified through an up to date and robust Housing Market Assessment, including that at the lower end of the housing market.

We found in our inquiry that, although land may be allocated in a local plan, the landowner may not bring it forward for development. This may be because they need the land for an alternative use or because they want to hold onto it, in the hope that planning policy will change in the future and reduce the affordable housing requirement. Such action can severely undermine a local authority's ability to deliver affordable housing, particularly where it is are seeking high

Derbyshire Dales and High Peak sub-regional partnership

The district of Derbyshire Dales and the borough of High Peak are neighbouring local authorities situated in Derbyshire. They are located within one of the most attractive parts of the country, with more than half of both their administrative areas falling within the Peak District National Park. In housing terms, this attractiveness is the root cause of many of the area's housing problems. The two councils have now combined their strategic housing service into one team, covering the Peak sub-region. Other housing services such as homelessness and private sector renewal also work together. This approach has seen joint housing need and private sector stock condition surveys and, during 2006, a joint Housing Market Assessment will be commissioned.

There is strong political support for housing reflecting the clear message from local communities that affordable housing is one of the most important issues facing the Peak sub-region. Affordable Housing is the top corporate priority for the Derbyshire Dales DC.

Leadership in housing is also important locally. The Joint Housing Strategy is expected to achieve DCLG's 'Fit For Purpose' rating in May 2006. The leadership role extends to the Joint Local Strategic Partnership which has an Affordable Housing Champion who seeks to influence partner agencies in the locality.

South Hams District Council – 60% affordable housing on rural market sites

The rural communities in South Hams District in Devon are characterised by high demand. Second homes account for 12% of the housing stock within the district. South Hams District Council has developed a 'third way model' for the delivery of rural housing schemes which comprise one third social housing for rent, one third shared ownership and one third market housing.



South Hams had a successful track record in delivering rural schemes through exception site policy, leading to over 100 affordable homes being built over 10 years. However, the council undertook a Housing Needs Assessment which resulted in it developing new plan-led policies based on the adoption of rural thresholds and quotas which would allow mixed tenure schemes to be delivered in the district's rural settlements. Their policy now states that, wherever possible, affordable housing in rural areas should be accommodated on allocated or windfall sites within development boundaries, including in settlements with a population of less than 3,000. The council aim to negotiate two affordable homes (one for rent and one for shared ownership) for every market house.

South Hams has also used revenue raised from the reduction in the discount on council tax on second homes, following agreement with the County Council, for the capital funding of schemes. To provide leadership within the council for each major scheme, a member of staff is assigned as a Champion for Affordable Housing.

South Hams District Council was awarded Beacon status in 2005 for its affordable housing work.

percentages of affordable housing or have allocated sites specifically for this use.

Draft PPS 3 potentially holds the key to resolving this problem, by providing for alternative sites to come forward. It requires that local planning authorities should include at least a five year supply of land for development. Sites which are allocated must be deliverable in terms of their availability, viability and suitability. This means that there will need to be discussions with landowners in advance of a site being allocated in the plan. It also suggests that in areas where demand is high and affordability poor, planning authorities allocate sufficient land for the following five years, and identify possible sites for release over the following five to ten years. Using these mechanisms the local planning authority can manage better delivery. If sites in the initial five year plan are not being released the local planning authority could bring forward

a site which is deliverable from the 5–10 year supply. The authority is also in a position to consider an application for development of a site in the 5-10 year supply during the first five years of the plan period.

Recommendation

Local Planning Authorities use the guidance within PPS 3 to allocate and identify sites and manage land supply so that the affordable housing needed is delivered quickly on suitable sites.

During our inquiry we found that windfall sites have provided many houses in rural areas in recent years, particularly on brownfield sites. However, it is important that local planning authorities do not overestimate their potential and so underestimate the number of allocated sites necessary.

Planning-gain Supplement

The Government issued a consultation document on the introduction of a Planning-gain Supplement (PGS) mid-way through our inquiry. In essence, PGS would be a levy on the rise in land prices which landowners enjoy as a result of planning permission (planning gain). We welcomed the potential benefits PGS could bring in terms of funding the necessary infrastructure and the fact that affordable housing would continue to be provided through the Section 106 mechanism. However, we also stressed that the level of PGS should be low enough not to deter landowners from bringing forward land for development. Where sites are allocated with a significant proportion of, or solely for, affordable housing (including Rural Exception Sites) we recommended that PGS should not apply. We would support the retention of most of the tax raised to be available at the local level.

There is uncertainty about how PGS will work in practice and, given the evidence we heard from landowners and those responsible for delivery of affordable housing, we recommended that a full appraisal of the impact of PGS on affordable housing in rural areas be undertaken before implementation. This would include an assessment of the impact on development economics, landowner behaviour, the demand on public subsidy and the way in which local planning authorities allocate land for housing and formulate their affordable housing policies.

Recommendation

An appraisal of the impact of PGS specifically on the supply of affordable housing in rural areas is undertaken and the tax be designed in such a way as to not adversely affect its delivery.

PGS should not apply to Rural Exception Sites.

Land-Swap Levy

A more radical idea presented to us was to introduce a Land-Swap Levy as an alternative to PGS in areas of acute affordable rural housing need. In principle it would require that, as a condition of planning consent for a green field market housing development which may itself

provide some affordable housing through Section 106 agreements, the landowner or developer would be required to acquire further land for affordable housing to meet the needs of a rural community. The onus would be on the developer to secure the land and this pressure may generate enhanced value for landowners and thus help bring forward sites which would not otherwise have become available. Moreover, it would be expected that the land, once secured, would be passed to a Community Land Trust as a means of removing its hope value in perpetuity and passing control to the local community.

The Commission accepted the land swap levy as a concept that was worth considering but felt it required more detailed thought and consultation to resolve concerns, in particular about how the process of finding suitable land would be undertaken, how far from the initial market site the search could range and what impact this might have on creating mixed communities.

Another possible mechanism based on the same premise is the use of commuted sums. This is where rather than making a contribution in the form of new affordable housing on site, the developer pays a sum of money to the local planning authority. There are some concerns that this can mean schemes do not include a mix of different types of tenure, and in rural settlements where there are few development opportunities this could result in affordable housing not being provided in the community. However, there are exceptional cases where this mechanism could be used either by taking funds from another scheme within the community or by using commuted sums generated in a market town to help fund affordable homes in a rural location. We are also aware of where commuted sums have been levied on barn conversions to residential use.

National Parks

National Parks in some ways epitomise the problems in delivering affordable rural housing, for it is here that both the need for landscape protection and the demand for affordable housing are at their strongest, with second homes in particular adding to the pressures.

The National Parks have been highly effective in protecting the appearance of these landscapes, but in the absence of affordable housing, the unintended consequence of this has been to change the character of many of the Park communities. Local people have found themselves priced out of their communities by people from outside able to pay more for housing, and have been unable to find affordable housing.

The National Parks already have a statutory duty towards the community and economic life of their areas. However, this is subsidiary to their main purposes as set out in law. Even so the National Parks have often taken a lead in trying to tackle the lack of affordable housing through planning mechanisms. As we heard on our visits the National Parks are often at the cutting edge of policy development, including allocating sites for local affordable housing needs and alternative ways of providing intermediate housing. But we were also told that there are still serious problems in translating these policies into new affordable homes within the Parks.

Recommendations

The Government increases the emphasis placed on the statutory duty to foster the social and economic well-being of Park communities to ensure that National Park Authorities use their planning and other functions actively to encourage the provision of affordable rural housing.

National Park Authorities and their constituent local housing authorities set up working arrangements such as joint protocols on how they will deliver an increase in affordable housing within the Parks.

The Association of National Parks, together with the Council for National Parks, provides training and support for National Park officers and members so that they proactively encourage the development of affordable housing within Park communities.

Good Practice in the Design of Affordable Rural Housing

From our regional visits we have seen how new developments of affordable housing in rural areas can be attractive and positively enrich their surroundings. This has helped overcome some of the antagonism to the proposed new development and the hostility which has sometimes extended to the potential occupiers. Instead the residents of these new homes have been accepted as part of the community. In some cases the success of the scheme has resulted in the community seeking more affordable housing.

In rural areas the quality of the built and natural landscape is often high. In this context high standards of design are imperative. However, we are aware that emphasis on design can be taken too far, resulting in schemes which become too expensive to build. Good design which produces new homes in keeping with their surroundings does not necessarily require them to be built of local stone or have fully working sash windows.

Recommendations

New affordable housing is designed to provide a positive contribution to the environment through its scale, reflection of local character and by incorporating high levels of eco-efficiency.

Local planning authorities, housing associations, developers and rural communities take note of the principles, tools and examples we have found and apply these to future developments.

Engaging the Community in the design

Early engagement and consultation with the community is essential if a scheme is to gain support and to be successfully assimilated in the longer term. Chapter 7: Making it Happen, covers community engagement more generally but we cover here some specifically related to design issues.

Case Study

Mr and Mrs Rhodes are a retired couple. They previously lived in an upstairs flat in Oswestry, in the West Midlands but unfortunately Mr Rhodes developed health problems which caused him difficulty using the stairs.

As a result they moved to an affordable bungalow in Chapel Lane, Trewonen which has improved their quality of life greatly due to the greater accessibility and ease of use a ground level house gives. Thanks to their move, Mr and Mrs Rhodes are much more positive about their future.



Concept statements – Designing Developments which are ‘Good Enough to Approve’

Concept Statements⁵, developed by the Countryside Agency offer a clear expression of the kind of place a new development should create in terms of the type and nature of the buildings and how they fit with the local environment.

They are less detailed than design briefs, usually being no more than two sides of A4, but they are more informative to developers and the community than statutory planning documents.

Village Design Statements

Another way of involving the community is through Village Design Statements.⁶ Now part of Parish Plans⁷, they serve as advisory documents produced by the village community to identify local character and set out design guidance to inform new developments. In some instances these have been adopted as Supplementary Planning Guidance.

Creating a Sense of Place

Business in the Community recently published HRH The Prince of Wales’ Affordable Rural Housing Initiative report: ‘*Creating a Sense of Place: A Design Guide*’⁸. This provides practical advice and case studies to show how good design can foster community acceptance and speed the planning process, ultimately helping to deliver more affordable homes. It provides principles that should underpin good design “to ensure that affordable housing is fit for purpose, enhances its setting and becomes an integrated part of the community to which it belongs.”

Eco-efficient Affordable Rural Housing

An integral part of good design is that the buildings should be eco-efficient. In addition to the environmental benefits, this can make the housing cheaper to run, a key concern for people on low incomes. We saw some excellent examples but were also told of the high costs involved in developing such schemes and that it was sometimes difficult to replicate them more

5 Countryside Agency (2003) ‘Concept Statements and Local Development Documents: practical guidance for local planning authorities.

6 Information at <http://www.countryside.gov.uk/LAR/Landscape/CC/landscape/village/index.asp>

7 A Parish Plan brings together the views, needs and opinions of the whole community. They are holistic documents, covering the social, economic and environmental issues of relevance to local people. [Please see Leadership chapter]

8 Business in the Community (2006)

generally. We fully support the Government's and the Housing Corporation's drive to raise standards and welcome the new Code for Sustainable Building. It sets out standards for water, energy and waste and will become the Government's preferred standard for sustainable homes as well as an important standard for the private sector.

However, achieving these standards is not always easy in rural areas where supporting infrastructure such as gas supplies are more limited.

Recommendation

Local planning authorities, housing associations and developers should make use of the advice from 'Sustainable Homes' based at Hastoe Housing Association which promotes awareness of sustainable development issues for housing associations and encourages the adoption of sustainable and environmental policies and practices.

Modern Methods of Construction and reducing build costs

Modern Methods of Construction (MMC) is the term used to embrace a range of technologies and processes involving various forms of supply chain specification, prefabrication and off-site assembly. Potentially, this could reduce the cost of building in rural areas, though a Housing Corporation funded study on the use MMC in social housing was not encouraging. It found that there was no clear evidence of cost savings or design benefits.

However, we have heard that opinions on the use of MMC are becoming more positive and some local authorities are experimenting with it (see box), as a way of improving on-site safety and overcoming construction skills shortages.

The Design for Manufacture Competition

The Design for Manufacture Competition was launched in April 2005 by the Deputy Prime Minister and aimed to demonstrate that it is possible to build a high quality home for a construction cost of £60,000.

It is evident from our inquiry that there is considerable interest in building to very high eco-efficiency standards and in the use of Modern Methods of Construction to reduce costs. We recognise the potential here, given that natural and financial resources are under pressure and would like to see more examples and evaluation of schemes that use both these approaches.

Recommendations

DCLG with CABE and Housing Corporation run a rural showcase or competition for eco and cost efficient affordable housing, accompanied by an evaluation and dissemination of the lessons.

Case Studies

Kettlewell – Good Design in a Sensitive Environment

Kettlewell in the Yorkshire Dales National Park is an example of a village where great effort has been made to blend the new affordable housing with the character of the village. Although each house was split into multiple dwellings, the architect had designed them so that each gave the impression of being a single dwelling, for example by only having one porch on each building, which gave the scheme a less-crowded feel. The scheme had initially attracted significant local opposition but since completion had become accepted and popular with local residents and a second scheme was due to be developed on an adjoining plot.



Oak Meadow Scheme, South Molton, Devon – ecofriendly homes

One of the most innovative schemes we saw was Oak Meadow. This consists of 35 ecofriendly houses and flats for local people to rent. It was built on a greenfield site on the edge of the town, which was transferred from North Devon District Council to Devon and Cornwall Housing Association at nil cost.

The buildings face south or southwest for passive solar gain; the super insulation, air tightness and inclusion of thermal mass into the buildings ensures that space heating is needed only if temperatures fall below 3°C. The houses are grouped in terraces to reduce wall surface area heat loss, facilitate shared services and save time and cost in construction. The unit cost was higher than the housing association would normally pay but the project was a part of research and development and has provided lessons that will be incorporated into future schemes.

Buckland Newton and Worth Matravers, Dorset – Combining MMC with Community Land Trust

Helped by the Dorset Rural Housing Enabler and with full parish council involvement two parishes in Dorset, Buckland Newton and Worth Matravers are working towards planning permission that will provide them respectively with 10 and 5 new affordable homes. They will be prefabricated using locally sourced timber at a target build cost of around £700 per m² compared to over £1,100 per m² for conventional construction. They are being provided through Community Land Trusts that are supported by both District Councils and the Strategic Partnerships.

Westleigh Developments, East Midlands

Westleigh utilises its own timber frame package and the latest software. Westleigh receive architectural drawings and convert these to the specific timber frame requirements of the houses. These reach the workshop floor where fabricators cut and assemble the frames, including insulated cladding. On site, the timber frames are put together by teams of two to three people. Using this system it takes just three days to construct the external structure of the house. Westleigh claim this approach reduces total construction time by 25% and costs by up to 10%.

Chapter 4



Better finance for rural affordable housing

Adequate levels of funding are as vital to the delivery of affordable housing as the availability of suitable sites. From the outset, the evidence presented to us illustrated that more funding is required if affordable housing needs in rural areas are to be met.

Rural local authorities are making better use of the planning system to secure affordable housing, but even on these sites, public subsidy is often required. It is of concern that a greater proportion of affordable housing in rural than urban areas is currently supported by rapidly declining local authority resources, and that levels of Housing Corporation funding for rural communities are well below their per capita share.

We therefore call for rural areas to be given their fair share of resources as an interim measure, and then Governments Comprehensive Spending Review 2007 increases this to reflect the true levels of need. However, we realise there are limitations to the public purse and have made recommendations to encourage greater levels of private investment.

Public Funding

Most affordable housing provided in villages and market towns is made possible by investment from the Government. This is primarily funded through the Housing Corporation's National Affordable Housing Programme (NAHP)¹, but also includes resources from local authorities.

The National Affordable Housing Programme (NAHP) spent £1.59bn² on units completed in 2004/05. Over the years 2002/03 to 2004/05, predominantly rural districts received around 15% of the total completion spend per annum. For predominantly rural districts this is proportionately less than their 23% share of the population.

It is worth noting that figures for predominantly rural districts can overestimate the funding going to settlements classified by the Government as rural communities with populations less than 10,000. Even in predominantly rural districts there are often significant numbers of affordable houses built in urban settlements.

This is borne out by the Housing Corporation allocations for 2006 to 2008³. Annualised allocations across England were 31,800⁴ units per annum. Of these allocations, 22% (6,900 units) were in predominantly rural districts, 28% (9,000 units) in mixed, and 50% (15,900 units) in predominantly urban districts. This suggests that rural districts are getting very close to their proportionate share of the funding. However, closer analysis shows that this is not the case in settlements of less than 10,000 population. 19% of the population live in these settlements but they only receive 10% (3,166 per annum) of the funding.

It is possible that if more need is addressed within the smaller rural communities where it arises, some people may not have to move to the larger towns. However, these towns already have their own needs and significantly re-distributing funding would make it more difficult for them to address problems of affordability.

The Rural Programme

Between 1991 and 2005, the Government made a specific commitment to provide investment in smaller rural communities through an annual target for investment in settlements of less than 3,000 population. This was in recognition that schemes in smaller communities were finding it difficult to attract funding.

Despite changes to this rural target, over the last 15 years it has been met every year but one and has shown a gradual increase since 1999. A national target for rural completions was not put forward for the 2006/08 allocation programme because of the devolution of decision making to Regional Housing Boards. Some rural safeguards were put in place, including a recommendation that the Boards at a minimum met the annual levels of funding achieved in rural areas during 2004/05.

The Housing Corporation, in its evidence, accepted the continuing need for rural affordable housing and considered that the level should be the decision of the Regional Housing Boards. We have taken some reassurance from the 2006/08 allocations which show that, in settlements of less than 3,000 population, funding will be available for 4,176 units over the two years (approximately 2,088 per annum). In settlements with populations between 3,000 and 10,000 the allocation is for 2,156 units over two years, which will deliver approximately 1,078 new affordable homes per annum.

The majority of housing associations, Rural Housing Enablers and the National Housing Federation feel that a national target would help maintain the momentum, safeguard rural investment and build up a good quality pipeline of schemes. They sought two targets, set as a minimum level, for settlements of less than 3,000 population and for those of 3,000 to 10,000 population in order to ensure that smaller towns and villages both received appropriate levels of funding.

1 'National Affordable Housing Programme' used to be known as the Approved Development Programme (ADP)

2 Source: Analysis of Housing Corporation Investment Management Scheme (IMS) data. This figure relates to accrued ADP spend on affordable units completed/acquired in 2004/05, unpublished

3 That is, financial years 2006/07 and 2007/08

4 Note these figures exclude WTRSLs and reserves. Units for sale that are not New Build Homebuy are also excluded.

Drawing in Funding from Local Authorities

Another major source of finance for affordable housing comes in the form of local authority support. As we highlighted in the Planning chapter, this is a particularly important source of funding for affordable units provided through the planning system in rural areas.

Local authority expenditure in England on affordable housing totalled £165m in 2004/05. However, there has been a large decrease in this source of funding since 2002/03, and particularly over the past year.

A number of factors may have contributed to the drop in local authority spend on new affordable housing between 2003/04 and 2004/05. Before the withdrawal of Local Authority Social Housing Grant (LASHG) in 2003, local authorities were able to provide capital funding for affordable housing and reclaim it from the Housing Corporation to re-invested in any other services so long as it was not housing development. Rural authorities, who were debt free, made extensive use of this funding.

The withdrawal of LASHG has meant that local authorities have come increasingly to rely on their own capital resources to provide affordable housing in rural districts. This is often sourced from Right to Buy (RTB) receipts or the proceeds of transfer of the council's housing stock to a

housing association. These are finite sums and it is likely that they are declining, particularly in rural areas where RTB take-up has levelled out and stock transfers were generally made a number of years ago. In addition, the Government is now channelling funding through the Regional Housing Boards which are allocating a higher proportion to building new affordable homes delivered through the Housing Corporation's development programme.

From Figure 4.2, we see that all district types have suffered from a decline in LA funding. However, the decrease has been particularly steep in the predominantly rural district types. Between 2001/02 and 2004/05, there was a 70% reduction in LA funding in predominantly rural districts, compared to 60% and 40% declines in mixed and predominantly urban district types, respectively.

We have come across a number of schemes which local authority funding has made possible and others where more innovative models are being used to provide affordable housing and draw in other funding.

We had evidence of other sources of funding that have been successfully used to support rural affordable housing. In some areas use is made of funds raised through commuted sums taken in lieu of on-site affordable housing under Section 106 agreements.

Figure 4.1: Total local authority expenditure on affordable dwellings built/acquired by housing associations with local authority financial support (£m)

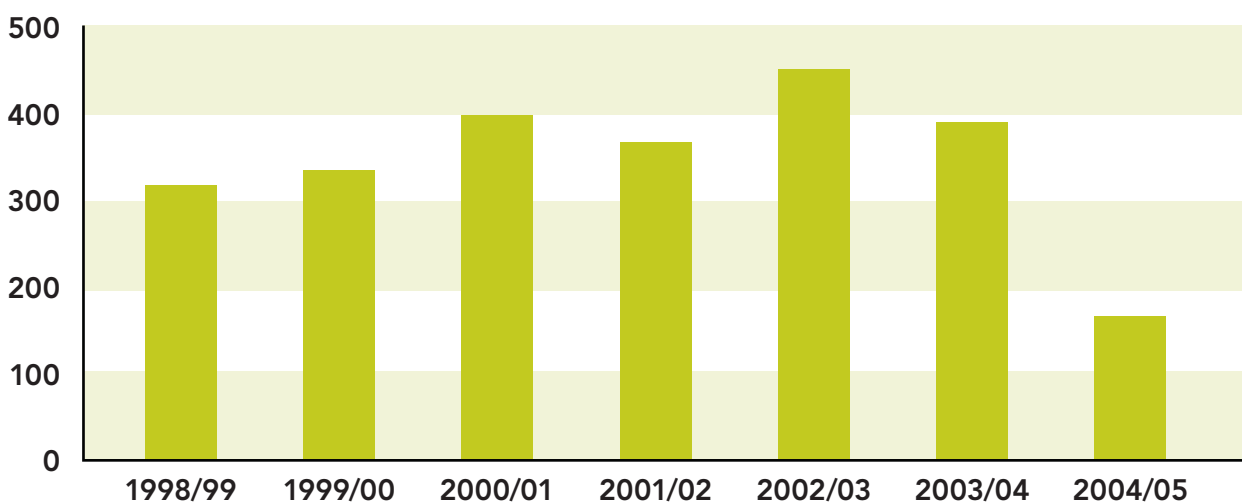
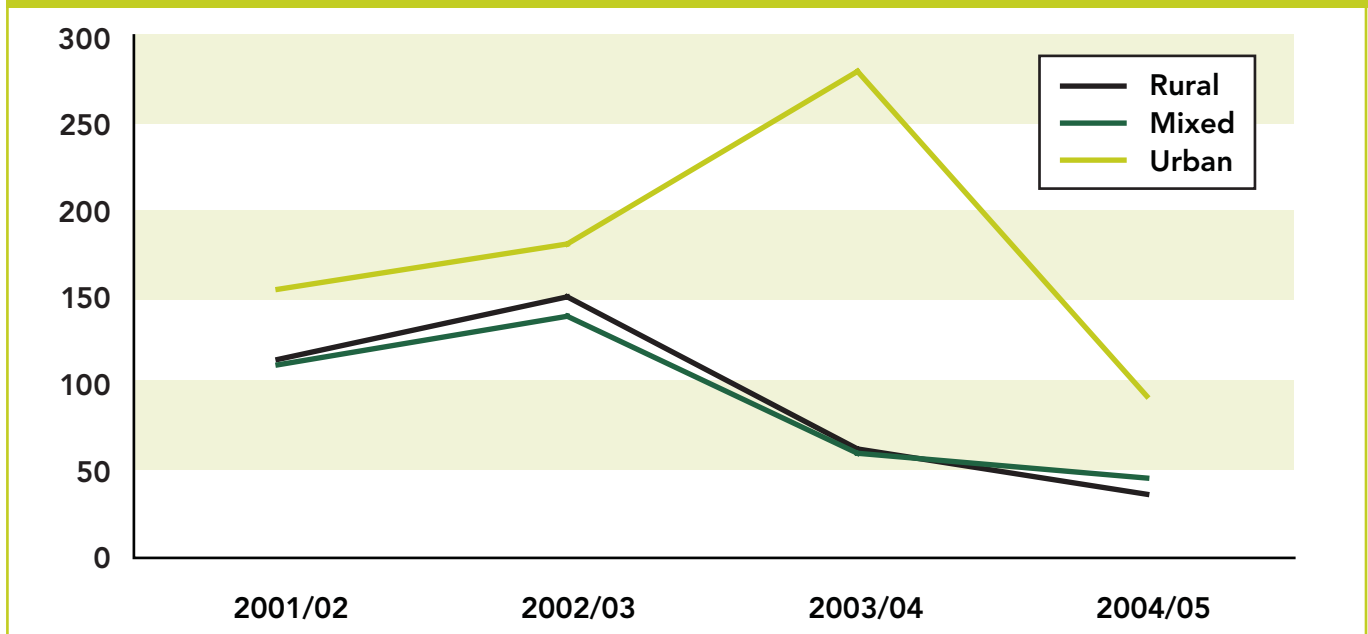


Figure 4.2: Total local authority expenditure on affordable dwellings built/acquired by housing associations with local authority financial support (£m)



Source: ODPM, 2006

East Lindsey District Council – innovative use of Local Authority funding

Faced with greatly increasing house prices and a fast growing housing waiting list, East Lindsey District Council signed up to an innovative partnership in late 2004 with New Wolds Housing Trust. The partnership's Housing Capital Programme envisages £4 million of Council grant being used to attract more funding into the District, aimed at providing at least 200 affordable homes over a four-year timescale.

This longer span will provide more homes than would normally be expected for the amount of grant and enables the partnership to plan and apply for further funding which would not have been possible with a one-year scheme. It also allows the Council to support its wider corporate priorities such as providing training and employment for local people and including a commitment to buy locally sourced materials.

Another strength is that the project is controlled by a Programme Delivery Group, which consists of the local authority, housing and planning staff, and other housing associations. Other partners specialising in areas such as economic development and community safety, aim to ensure that wider benefits than purely affordable housing can be delivered for the local community wherever possible.

In others, Second Home Council Tax receipts are being used where the district authority has secured their return from the county council. In South Hams district in Devon the additional revenue has been used for the capital funding of affordable housing developments and in Derbyshire Dales this source has helped to fund a rural Extra Care scheme that will provide homes and support for older people, including some units for outright sale, which will free up family accommodation.

Our overall conclusion, as set out in Chapter 2, is that there is a need for 11,000 new homes per annum for the next five years in rural communities of less than 10,000 population. This compares with a Housing Corporation allocation over the next two years that will provide 3,166 units per annum representing 10% of the National Affordable Housing Programme, although these communities are home to 19% of the population. Overall these figures indicate a shortfall of around 7,800 units per annum in these communities.

We do not expect that all of this shortfall will or should be met by the public purse. In our recommendations in Chapters 3 and 7 we call on regional authorities to allocate more housing to local authorities. In turn we call on local authorities to provide sufficient sites in rural communities to address identified need and to maximise the opportunities to draw in cross-subsidy from market development. However, as we have seen from the evidence, even though rural areas do make comparatively good use of the planning system, they still require public subsidy to deliver the affordable housing needed. Currently, much of this subsidy comes from local authorities but this is becoming a rapidly declining resource. This leads us to recommend that more public finance should be available. Such action would complement the other measures we are proposing to increase the supply of affordable housing, particularly through the planning system.

Recommendations

Government through CSR 07 reviews the balance of the National Affordable Housing Programme and seeks to increase funding for rural communities to help deliver a minimum of 11,000 new affordable homes per annum in settlements of less than 10,000 population from 2008 to 2013.

The levels of funding going to rural settlements be at minimum proportionate to their share of the country's population with 13% going to settlements of less than 3,000 and 7% to settlements of 3,000 to 10,000 population⁵.

In the longer term, the balance of funding is reviewed in the light of evidence fed from local and sub-regional Housing Market Assessments.

The national rural target is re-introduced to ensure that funding is directed at rural settlements, at least until accurate rural housing market information is available to inform investment decisions at a regional level.

This should be split into separate targets for settlements of less than 3,000 population and 3,000 to 10,000 population respectively.

The split should at a minimum reflect their proportionate share based on population. There is better co-ordination between Regional Housing and Spatial strategies so that funding and planning policy for the delivery of affordable housing in rural areas are complementary.

Rural local planning authorities seek to increase the contribution to private developments by using their powers to reduce site thresholds and increase the proportion of affordable housing on market sites, based on robust housing market and needs assessments.

The Government, working with the Chartered Institute of Housing provides guidance to local authorities on how to use the resources at their disposal to increase the provision of affordable housing in rural areas.

The Cost of Building Affordable Housing in Rural Areas

Our regional visits flagged up concern that the additional costs of delivery put rural areas at a disadvantage and could act to dissuade larger housing associations from including rural schemes in their programmes. This in part reflects the move by the Housing Corporation to deliver the majority of its programme through a smaller number of housing associations, known as preferred partners, which compete against each other for funds.

Previously, the additional costs of rural development were compensated for through a multiplier added to the grant rate. The Housing Corporation has changed the way it calculates grant so that this mechanism is no longer available.

In addition, housing associations reported that rural schemes are being discriminated against because the Housing Corporation's sustainability checklist is not used in a way that is sympathetic

⁵ Percentages do not add up to 19% because of rounding

The Westleigh/Nottingham Community Housing Association approach

The Westleigh/Nottingham Community Housing Association partnership has provided in excess of 1500 affordable properties throughout the East Midlands over the last 10 years.

By being able to provide certainty and speed of delivery through NCHA and offering non-returnable profits, Westleigh is able to secure open market sites for NCHA, often against competition from larger companies. These are in locations where, through discussion with the local authority and Housing Corporation, NCHA knows there is a need for affordable housing.

Westleigh presents scheme budget packages to NCHA to include all costs associated with the acquisition of the site and the construction of the proposed units. NCHA appraises the budgets using their financial appraisal model having regard to the tenure split they have agreed with the local authority, parish council and Housing Corporation.

Where there is a sales element to a scheme, the profits secured from sales provide subsidy to the affordable tenures and to making SHG bids more competitive.

to rural circumstances. They also pointed out that it was often difficult to achieve the Eco-homes standard rating required to attract funding from the Housing Corporation because of the high costs and inflexibility of the criteria used in relation to sustainability in rural communities, including access to mains gas.

We raised this with the Housing Corporation who reported that, using a Grant Index, they compare rural schemes with each other to assess value for money, rather than against schemes in urban areas where it is acknowledged that there is greater opportunity to achieve economies of scale.

Recommendations

The Housing Corporation reviews and, if necessary, revises the application of the Housing Quality Index and Grant Index so that decisions take better account of the availability of services, the generic higher costs of delivery and the limited availability of infrastructure that makes it difficult to achieve high Eco-homes ratings in rural areas using the current criteria.

The Housing Corporation incorporates criteria for rural schemes to reward innovative ways of reducing carbon emissions to offset current criteria on reduced personal transport. This needs to be reflected in Eco-homes standards and the emerging Code for Sustainable Homes.

HARAH – Hampshire Alliance for Rural Affordable Housing

HARAH is an alliance of six local authorities all with significant rural areas: – Basingstoke and Dean, East Hampshire, Hart, New Forest, Test Valley and Winchester. Other partners are the Rural Housing Enablers employed by Community Action Hampshire and the Housing Corporation

HARAH was a response to the draft Regional Housing Strategy which seemed to focus heavily on the growth areas and emerging sub-regions. The authorities involved were concerned that they would have difficulty in competing for investment from the Regional Housing Board and that the Housing Corporation's investment strategy could result in smaller associations which develop in rural areas being excluded from future programmes.

HARAH ran a competition among housing associations to select a partner. Seven housing associations were considered and Hyde Housing were appointed. The benefits of selecting a single partner include being able to submit consistent bids, employing a dedicated development officer to deal with the HARAH programme who works closely with the Rural Housing Enabler, and the ability to negotiate more competitive design and build costs because of the scale of the development programme.

We have come across some trail blazing examples where high eco-ratings have been achieved. Although they also came at a price well in excess of the norm, they offer ideas which could be used and adapted to more economic use elsewhere. More in the mainstream we were introduced to the Westleigh/Nottingham Community Housing Association partnership and Westleigh's associated company which produces timber-framed houses. Their business model enables Nottingham Community Housing Association to provide affordable housing at a competitive cost alongside Westleigh's development of low cost market sale housing.

More Efficient Planning and Delivery

Evidence from local authorities, housing associations, Rural Housing Enablers and the Housing Corporation has demonstrated that the continuing success of rural schemes is dependent on marrying up good housing market and needs assessments with sites to form a pipeline of schemes for funding. This is also borne out by the experiences of a number of sub-regional partnerships from which we heard from during our hearings.

With the switch to regional funding, alternative arrangements have been needed to manage the Housing Corporation's programme so that it meets regional investment priorities. The difficulties in securing sites and the high costs of delivery mean that rural schemes are often delayed or sometimes fail. To ensure the funding is used and the target number of homes are provided, the regional offices of the Housing Corporation have to re-allocate funding.

Some concern was raised by housing associations that this was resulting in leakage of investment from rural areas. In some regions this is avoided by having a clear cascade which requires that, where a rural scheme slips, the funding is re-allocated to another rural scheme in the sub-region, then to another rural scheme in the region. Only if there is still no take-up is the funding allocated to a non-rural scheme. To make the most of these arrangements it is important that there is a pipeline of rural schemes ready to take up any slack in the programme.

As part of national support for building a rural pipeline, we have recommended in the Public and Private Sites chapter that a partnership between Housing Corporation, English Partnerships and a consortium of housing associations is formed to bring together public land and funding for development of rural affordable housing.

Recommendations

Through sub-regional partnerships, local authorities and housing associations work with Rural Housing Enablers and the Housing Corporation to develop a forward pipeline of schemes which can be funded either through slippage in the current funding round or as a programme for future investment.

Regional offices of the Housing Corporation adopt cascade mechanisms that ensure that any funding arising from the slippage of rural schemes is used in alternative rural developments within the sub-region or region.

The Housing Corporation, with English Partnerships explore and pilot with a consortium of housing associations how to bring together public land and funding to increase the supply of rural affordable housing. (We cover this further in later sections).

Private Investment

Private Developers Providing Low Cost Home Ownership

During our evidence gathering we have been informed of and spoken directly with private companies who provide affordable rural housing at no cost to the public purse. We see this as a valuable contribution to the overall stock of affordable rural housing which enables scarce public funding to be prioritised in areas of greatest need and where high numbers of social rented property are required.

However, although there is undoubtedly a need for Low Cost Home Ownership (LCHO) in rural communities we were constantly reminded by local authorities, housing associations and Rural Housing Enablers that the shared ownership houses are sometimes unaffordable to their intended occupants. This is because the cost of

Case Study

Charlie Bowman – owner of the Whitewell Inn, Lancashire – is the biggest local employer with 53 full time and 35 part time staff. However, as the number of young families in the village declines, he is finding it increasingly difficult to employ people from the surrounding rural area forcing him to employ people from further afield to towns such as Clitheroe.

This is being further compounded by a lack of affordable housing in the nearby area for young people to move into, meaning staff who would prefer to live locally are having to commute daily for quite a distance. Mr Bowman has been forced to address this issue by renting local cottages and making them available for staff, but this is limited to only a few employees and also takes an increasing percentage of Mr Bowman's time away from running his business.



LCHO housing is usually based on open market values which are high and even a proportionate share can be unaffordable to people employed locally. Indeed, we came across examples in the South East region where it had been difficult to let shared ownership housing in a rural scheme. In consequence, whilst we want the benefits of private LCHO to be maximised, this should not be at the expense of providing social rented housing.

The majority of private models focus on shared ownership (or shared equity) schemes. Private companies are delivering low cost home ownership on rural exception sites without the use of public subsidy. However, private developers do not offer the guarantees and regulation which housing associations bring. Appropriate arrangements should therefore be secured by local authorities through legal arrangements and the planning process to ensure that this investment has maximum benefit for communities. For example, securing good

design, robust perpetuity arrangements and a mix of tenure type on suitable locations, will be essential to successful delivery of high quality affordable homes.

Recommendation

Local authorities work with private companies which can deliver affordable housing, where appropriate, to maximise the opportunities for delivery without the use of public subsidy. Local authorities should make it explicit that this does not require the developer to be a housing association but does require adequate perpetuity arrangements to be in place and other public interests to be safeguarded.

However, given that the involvement of private business in this sector is relatively new, we understand that local authorities, landowners, community groups and other stakeholders may have some concerns over the suitability of this sector in developing affordable housing.

Delivering affordable rural housing through the private sector without subsidy

A number of models for the delivery of shared ownership and discount rent without public subsidy are being employed by a range of organisations, including non-profit-making organisations and private companies. The approaches of three are outlined below, although the Commission **does not** endorse or recommend these particular developers over others.

Affordable Housing UK (ahUK) was established in 2001 as a not-for-profit company. ahUK acquire land through Section 106 agreements then retain the freehold interest of all properties, and, in the case of shared equity homes, the unsold equitable interest is also maintained for the company. ahUK is also currently investigating a number of developments on likely exception sites and, therefore, for the delivery of 100% affordable schemes without subsidy. The model proposed by ahUK for use on exception site schemes entails the payment for land plots to be deferred until after the scheme is completed and the house purchaser, or tenant, occupies the home.

Merlion Homes have been providing affordable housing without subsidy since 1991. It provides shared ownership homes without public subsidy with the buyer initially purchasing between 50% and 75% of the property. Merlion Homes does not charge rent on the non-purchased remainder, and allows residents to 'staircase' up to full ownership in 5% increments. When this happens, although the property is then part of the open market, the funds are recycled with local authority partners.

Northern Affordable Homes Ltd, established in 2003, is a private company specialising in the delivery of shared ownership affordable housing. It aims to produce shared ownership homes of which 40% to 60% shares are sold for between three and four times average household incomes for a 999 year lease. £20 per week rent is paid on the remaining share of the property and there is no ability to staircase at all.

Recommendation

The Government, with the Housing Corporation, develops a 'Kite Mark' standard for this sector which would assess private companies against criteria such as adequate perpetuity arrangements and reliability of delivery.

There is also growing potential for securing private investment into rural affordable housing and there are models emerging which would allow this to happen which we need to encourage.

Self Invested Pension Plans (SIPPs)

Self Invested Pension Plans are personal pension plans which allow an individual, the plan holder, the freedom to choose and change the investments within it. Investments within this are tax-free.

The Government announced that it would be making changes to the SIPPs regime in April 2006. However, there was widespread agreement

that these changes should not allow residential property to be included within SIPPs, given the tax advantage this would afford over others looking to invest in residential property, for example, first time buyers.

While some may argue that this would increase the level of housing available for rent in rural areas, as the property would not be available for the owner's use, holiday letting may have proved a more attractive option for those owners. Additionally, purchase of those homes would be in direct competition with those in housing need, worsening the affordability problem. Further, there was a risk that those homes could eventually be fully purchased through the SIPP, with that tax advantage.

In his pre-Budget statement, the Chancellor announced that SIPPs could not be used to invest directly in residential property to address this concern. While announcing that direct investment

would not be allowed, HM Treasury did say that investment through a collective scheme such as a UK-REIT (Real Estate Investment Trust) would be permitted. This was subsequently expanded on at the Budget to include not only UK-REITS, but also similarly structured widely-held and diversified vehicles. Should an affordable rural housing scheme meet these criteria, investment through a SIPP would be permitted.

Real Estate Investment Trusts (REITS)

In the Chancellor's 2006 Budget, plans for the introduction of Real Estate Investment Trusts were finalised. REITS are already a well established investment vehicle in countries such as the United States and Australia and allow institutions, such as pension fund managers, and individuals to invest in property holding companies. The introduction of UK-REITS offers two opportunities.

Firstly, housing associations should themselves be able to form a UK-REIT. Such a vehicle could support investments in residential property, both market and affordable, as well as the financing of some of the commercial investments which form part of housing association mixed developments.

We believe that a housing association based REIT may have particular attractions as an investment vehicle because housing associations are established organisations with significant capital reserves, they would concentrate investment on residential property rather than more speculative commercial property and because the rental income from housing association residential stock is index linked. This less speculative and in part index-linked vehicle would seem ideal for pension funds in particular to consider.

The measures outlined in the Budget statement aside from the announcing that UK-REITS would go ahead, we believe would mainly be of interest to those aiming to launch more speculative REITS. However, we noted that a 2% conversion charge is to be levied on companies wanting to form a REIT and we would flag up that this level of conversion charge may impact on housing associations' ability to form a REIT.

Recommendations

We welcome HM Treasury's proposals for the introduction of UK-REITS but we believe that it must monitor whether the conversion charge acts as a potential barrier and, if so, rectifies this.

Housing associations operating in rural areas consider the REIT mechanism as one which could play an important role in raising finance for investment in their activities.

The second opportunity which UK-REITS offer is an investment vehicle through which individuals can invest in the property market. During our work we have considered how those in social housing can avoid being left behind by the property market, exacerbating their situation of being unable to get on the property ladder.

We each have to make our own decisions around how we use spare income we have, including how we invest it. However, UK-REITS could offer an opportunity to invest in the housing market. What is more, investments can be able to be included under the ISA umbrella and so any gains made in that investment will be tax free.

Private Bonds

Rural housing bonds may be an additional mechanism to attract private investment into affordable rural housing. This could involve ethical investors or high-net-worth individuals motivated by a desire to support their local communities. By channelling this investment through established housing associations on a long term basis the risk is low and could produce a respectable rate of return. This proposal has been developed further by Hastoe Housing Association but has not yet been tested in practice.

Recommendation

Housing associations, Rural Community Councils, community foundations and other local organisations examine whether the establishment of private bonds could prove a viable option for attracting additional private investment into their activities.

VAT Exemptions for Refurbishment and Renovation of Affordable Housing

Some elements of charitable work and business costs are VAT exempt or zero-rated. It would seem appropriate that this relief is extended to the reduction of VAT on refurbishment and renovation of properties for their use as affordable housing.

This is a call on HM Treasury which has been repeatedly made by a number of organisations and we back it.

We acknowledge the need for a robust regime to be put in place to avoid abuse of the system. But we believe this additional relief should be available to those renovating properties for this social use. We understand a case must to be made as part of the Budget cycle, but this must be made and considered. The Government has been actively promoting renovation in recent budgets through granting reduced VAT rates, such as on the renovation of dwellings that have been empty for three years or more.

The EU Sixth VAT Directive is also currently under review. It allows a reduced rate of 5% to be applied to 'supply, construction, renovation and alteration of housing provided as part of a social policy.'

Recommendation

HM Treasury develops an enforceable proposal for the reduction of VAT on the refurbishment and renewal of properties for use as affordable housing so that application of the provision in the EU Sixth VAT Directive is applied to the UK.

Other Taxes – Capital Gains Tax, Income Tax

In our evidence gathering, mention of tax changes to direct and assist investment in affordable housing was limited, beyond suggested changes to the VAT tax regime.

We did, however, receive strong representations that certain tax rules may act against the provision of additional affordable rural housing.

In the case of income tax, since 1995 income from property has been treated as a 'rental business'. Expenditure is allowed as a deduction if incurred for the purposes of the rental business. But this is where the similarity with other trading businesses ends and, if a landowner wished to convert or improve an existing building to facilitate additional affordable housing lettings, such expenditure has no immediate tax relief.

Only disposal of business assets are afforded special Capital Gains Tax relief to mitigate or postpone tax liabilities. The proceeds arising on the disposal of any asset cannot be rolled over into the provision of non-trading activities such as the creation of affordable housing.

It is not clear what impact such changes would have on the provision of affordable housing and, in the time available, the Commission has been unable to make an assessment. If changes to the tax regime are to be taken forward, a more robust case for this would have to be presented and any unintended consequences considered.

Recommendation

HM Treasury considers the potential impact of tax reform on levels of affordable housing provision, seeking evidence from bodies such as the Country Land and Business Association.

The 'Public and Private sites' chapter explores other proposals on tax reform.

Chapter 5



Ensuring a supply of sites

Summary

A supply of sites at a price which makes it viable to provide affordable housing is essential if more affordable homes are to be provided in rural areas. Ultimately, this is dependent on whether landowners are willing to release land for development. For private and public landowners alike their decision is dictated by a number of factors: price, business requirements and wider social and economic interests. We explored a range of carrots and sticks to encourage public and private sources to bring forward more sites.

Our recommendations propose: further investigation of possible changes to the tax system, new models for delivering affordable housing – including Community Land Trusts and a new partnership designed to bring together public land, funding and those able to build affordable homes.

Bringing Forward Private Sites

During our investigations we saw and heard of a number of excellent examples through which private landowners had provided sites for affordable housing at a cost significantly below that which they would have gained if the land had been allocated for market housing. Often this was on exception sites which land owners saw as a way of meeting the local need for affordable housing. Others told us that they were keen to become more involved if they could be assured of an income stream and retain the ownership of the land.

Like any other business private landowners are looking for an economic return, but often they perceive a value for their land well in excess of that which is realistic or achievable. This is because of the significant difference between the value of land not allocated for development and land which has been designated in the local plan for housing. This is commonly expressed as 'hope value'. For developers, the provision of affordable housing is a cost which, where possible, they will offset by paying less for the land.

Developers, mindful of 'hope value' will often improve the offer they can make to the landowner while trying to maintain their profit margins by reducing the amount of affordable housing to be provided. Alternatively, they may offer shared ownership rather than social rented housing because it is less of a cost to the development. A further complexity is that landowners vary in their aspirations; the timescales over which they will operate, sometimes extending to the next generation or beyond; and the degree to which they have control over disposal. For example some landed estates hold land in trusts.

Changes to Taxation

To encourage private landowners to become more involved in the provision of affordable housing, we explored whether changes could be made to taxation. In terms of land and affordable housing owned by landowners, the key taxes that are likely to impact on behaviour are Capital Gains Tax (CGT) and Inheritance Tax (IHT), which will be sought when the ownership

of the land is transferred. Currently, if land is sold and there is an uplift in value, CGT is payable. Where land or property is passed on as inheritance, it is valued as part of the estate against which IHT is levied. One way of offsetting the tax is to sell the affordable housing owned by the estate, which can lead to the loss of this housing into the private market.

From landowner interests, in particular the Country Land and Business Association (CLA), we heard that changes to the tax system could protect existing provision and encourage more to be provided. This could involve providing a form of conditional exemption from IHT similar to that which is currently provided to heritage assets. Conditional exemption could be granted on a transfer of affordable housing, or land for affordable housing, providing that the recipient of the property or land continued to provide affordable accommodation in the future and would meet certain maintenance criteria. In addition, others have suggested that there is an exemption from CGT where land is sold to provide affordable housing.

Given the resources and time available, we have been unable to make a quantitative assessment of the behavioural change any alteration to the tax system would bring. This would be essential if HM Treasury were to consider making such changes.

Recommendation

HM Treasury assesses the potential impact of these proposals and examines other tax incentives which could improve the supply of affordable housing, seeking evidence from bodies such as the Country Land and Business Association.

Re-classification of Farm Buildings as Brownfield Buildings

Currently the land on which farm buildings sit is classified as greenfield. This will include traditionally constructed barns as well as more modern clear-span buildings, timber stables and farmyards and storage areas. In some ways this seems counter-intuitive given that some development has clearly taken place there.

Traditional barns, however, have historically been treated differently by planners who have in some circumstances permitted conversions to other uses.

The changing nature of agriculture has led to a rationalisation of agricultural holdings. As a result some of these sites have effectively become redundant. We have heard on numerous occasions that the use of such buildings or the conversion of traditional buildings into affordable housing could be useful.

Some representation has been made that the classification of farm buildings as brownfield would lead to increased take-up of such buildings for affordable housing as the current targets for brownfield development would act to encourage their development.

The recent proposed changes to PPS3 – in particular the clearer statement that greenfield sites should be considered for housing development if suitable – may lead to these buildings coming forward in any event. We therefore see no need at present for a change in use class.

PPS7¹ supports the re-use of ‘appropriately located and suitably constructed existing buildings in the countryside’ where they meet sustainable development objectives. Furthermore, it states that ‘Re-use for economic development purpose will usually be preferable but residential conversions may be more appropriate in some locations and for some types of buildings.’

Landowners are unlikely to bring forward traditional agricultural barns for affordable housing for economic reasons. They are much more likely to do so for market housing.

We would therefore encourage local authorities, in setting their criteria for conversion and re-use of farm buildings in rural areas, to take note of the comments made in Chapter 1, to consider the contribution such buildings might be able to

make to housing supply and to recognise that they could contribute towards, rather than detract from, sustainability.

Recommendations

If the supply of affordable housing in rural areas does not improve, DCLG and DEFRA identify a mechanism for re-classifying agricultural buildings as brownfield.

Local authorities consider the contribution which the conversion of traditional farm buildings can make to the supply of housing – both market and affordable.

Compulsory Purchase Orders

We looked at Compulsory Purchase Orders (CPOs) as a means of improving the release of land for affordable housing.

The Planning and Compulsory Purchase Act 2004 (Part 8) amends the existing power of local authorities, joint planning boards and National Park authorities under the Town and Country Planning Act 1990² to acquire compulsorily land which is suitable for and required in order to secure the carrying out of development, re-development or improvement. They are able to acquire land by compulsory purchase if they think that it will facilitate those objectives on condition that such acquisition will be of economic, social or environmental benefit to their area.

The Commission gave considerable thought as to whether CPOs should be used more often to help local authorities fulfill their obligation to provide affordable housing. We bore in mind the balance between the scope this tool offers to bring forward the best sites and the potential to deepen community controversy about the development of a particular site, as well as the impact this could have on the owner of that site. We were told CPOs could be useful in dealing with vexatious attempts to block development, such as the purchase of a ransom strip. Local authorities need to be aware this mechanism exists, but the majority of those with whom we

1 ODPM (2005d)

2 Section 226(1)(a)

discussed this issue felt that CPOs were too time consuming and expensive, and that they risked jeopardising the future supply of land by alienating landowners and communities.

Recommendation

The core of our recommendations are for a planned approach to identify the best locations for provision of affordable housing in rural communities. Existing CPO powers are sufficient to facilitate this approach on the occasions when they are needed. We do not, therefore, propose any extensions to these powers.

Alternative Approaches for Engaging the Private Sector in Affordable Housing

Under lease arrangements some landowners retain ownership of the land but make it available for affordable housing by either providing property for below market rents or leasing the land on a long term basis to a housing association. Whilst the landowner foregoes a capital return they retain the land as a long term asset and gain a short to mid term income stream. From the evidence we heard, there is concern over how these models can work; some landowners would prefer not to partner with a housing association and would like to maintain a say in who should be housed, although we recognise that there are important reasons for housing associations to retain nomination rights. Local authorities, however, are concerned that, without the involvement of a housing association, the quality of the housing and standards of management may be reduced and that perpetuity arrangements may be weak.

In the South West region we heard about a model for affordable rural housing developments, currently being feasibility tested with funding from the Regional Development Agency, to provide landowners with incentives to release plots with the freehold either remaining with the landowner or passing into a legal vehicle. The model seeks to meet the majority of development costs from borrowing from financial institutions and pension funds. Landowners would stand to receive an increasing income

over the longer term from the development.

We have also explored a further refinement of the leasehold model and would recommend:

Recommendation

The Housing Corporation, together with the National Housing Federation and landowner interests, such as the Country Land and Business Association, explore and test a new leasehold model. This would provide social housing grant to be held on the balance sheet of the housing association and used to provide additional income for the private landlord who had leased it as land for affordable housing. This would supplement the net rent received from the affordable or sub-market tenancy and be paid in return for nomination and management rights in favour of the housing association for an agreed lease period.

Public land

There was consistent agreement during our evidence gathering that greater use could be made of the significant quantity of surplus public sector land, but that the co-ordination between funding and site identification necessary to bring it forward for affordable rural housing is often lacking. We were also made aware of considerable confusion, particularly among local authorities, of the powers at their disposal to release land at below market value for affordable housing; consequently, it is not used to the full extent.

With this in mind, we welcomed the announcement in the 2006 Budget that the NHS estate is to hand over land to English Partnerships specifically for the development of affordable housing, and the proposals for selling Ministry of Defence assets, principally land. This will serve as a valuable precedent to encourage future contributions.

Most recent figures show that at 31st March 2004, the total amount of previously-developed surplus public land in the whole of England was 64,130 hectares.³ This land ranges from single properties to far larger sites such as disused

Case Study

The former Bridgets Research Farm, near Martyr Worthy in Hampshire, was sold by Defra in 2002 after over 50 years of contributing to the development of agricultural practice in the UK. The main farm of 344 ha including the buildings, farmhouse and four staff cottages was sold by private treaty and continues as a working farm. A plot of land (approximately 0.24 ha) was earmarked by Defra's Estates Division for possible affordable housing and subsequently sold to Hyde Housing Association Limited.

Martyr Worthy is a small rural settlement to the east of the M3/A34 corridor. Following a review of possible locations, the Bridgets Lane site was recognised by the parish and district councils as suitable and available for "exception housing" to help meet the identified shortfall in affordable rural housing in the Itchen Valley area of the district.

Planning permission was granted to Hyde Housing in February 2005 for the erection of "general needs" housing on the site. The development comprises 10 homes: four one-bedroom, two two-bedroom and four three-bedroom dwellings. The planning permission was given subject to Section 106 agreement, to ensure that the housing remains affordable and an appropriate contribution is made by Hyde to Open Space provision under the Council's Open Space Funding Scheme.

Funding for the overall scheme has been secured from the Housing Corporation. Building work is well advanced with homes due for handover in July 2006. Hyde Housing is promoting the scheme as a quality development, the first under the HARA (Hampshire Alliance for Rural Affordable Housing) banner, where it had been selected as the sole developer of rural exception site housing in the county.

barracks. A survey commissioned by English Partnerships, in which 98% of local authorities participated, revealed that some 17,000 hectares of previously developed land has lain vacant or derelict for nearly a decade.⁴

HM Treasury offers useful guidance which public sector bodies are required to take into account when disposing of surplus land:

- departments have a duty to dispose of property surplus to requirements within three years and should not hold land speculatively;
- the valuation of a site should be based on the most valuable possible use, rather than the highest value that could be obtained for its current use. The valuation should include an assessment of the social costs and benefits of alternative uses of a site, not just the market value, and;

- if there is an argument that vacant land on government sites could not be used for any other purpose because of the demands of security and so the opportunity cost of this land is zero, it is generally possible, by the re-organisation of a land portfolio taken as a whole, to release land elsewhere.⁵

This guidance on disposals by Government departments is complemented by guidance given to local authorities on how they can dispose of land at below market value. ODPM Circular 06/03: Disposal of Land for Less Than Best Consideration promotes the freedom of local authorities to exercise discretion in the disposal of their land. Specific consent is not required from the Secretary of State for any disposal of land where the undervalue (the difference between the unrestricted value of the interest to be disposed of and the consideration accepted) is £2,000,000 or less. It also offers

4 Source: English Partnerships

5 Source: HMT Green Book

Case Study

Sarah Bennett is a single mother who was diagnosed with mobility problems ten years ago. She was living in a first floor flat for the last six years but this recently became unsuitable for her condition, and at times she had to rely on her daughter's help.

The lack of suitable affordable rural accommodation meant that Sarah was considering moving away from the area she had grown up in. However, the provision of suitable affordable housing in West Wellow with high level sockets and other modifications has meant she has been able to remain close to family and friends as well as realising a better quality of life.



guidance on the circumstances under which local authorities may dispose of land for 'best consideration' as long as this is consistent with their duty of trust in a way which is accountable to local people.⁶

To bring public land forward for development the Government operates two databases. Firstly, the National Land Use Database which includes all land, public and private. It is open to local authorities but only includes sites of more than one hectare, so offers less assistance in identifying sites for smaller rural developments.

The second is the Register of Surplus Public Sector Land⁷. It is a web-based database administered by English Partnerships. As at 1st March 2006, the Register consists of 666 parcels of land covering around 3,000 hectares. The vast majority of sites are below one hectare⁸. Around 50% of the land is in predominantly rural districts.

Access to the Register is currently limited to central government departments, their sponsored bodies and associated public sector agencies such as NHS Trusts. This is to avoid speculation and public misunderstanding of the future of key public assets, The Housing Corporation does have access but housing associations and Community Land Trusts do not. English Partnerships is currently considering how it can involve local authorities as users of the Register of Surplus Public Land. Initially, this would be on a pilot basis working with a number of volunteering authorities.

It is clear to us that, by bringing together information on sites available at a cost which makes affordable housing viable, there could be an improved and better planned supply. We are aware that early steps have been made in this direction in the South East region.

6 Circular 06/03: Disposal of land for less than Best Consideration. TSO

7 The Register of Surplus Public Sector Land can be found at: <http://www.englishpartnerships.co.uk/rsppl.htm>

8 Source: English Partnerships

We think that this is an approach that could be developed further and tailored to rural circumstances.

Recommendations

A 'Rural Housing Partnership' is established with access to the National Land Use Database of Previously Developed Land and Register of Surplus Public Land. This would bring together the Housing Corporation, English Partnerships and a housing association consortium. Working with local authorities and Rural Housing Enablers, they would build up a pipeline of rural affordable housing schemes and link them directly to the Housing Corporation's funding programme.

If the current English Partnerships' pilot is successful, inclusion of surplus local authority land on the Register of Surplus Public Sector Land is made compulsory.

Government provides clearer guidance and/or greater promotion of existing guidance to encourage public authorities, at both the national e.g. NHS, and local level e.g. local authorities, to release land for affordable housing, taking into account HM Treasury guidance and ODPM Circular 06/03.

The Government is currently reviewing how they support the creation of sustainable communities. This may include bringing together some of the functions of English Partnerships and the Housing Corporation. Both organisations have a role in helping to deliver affordable housing.

Recommendation

If the functions of the Housing Corporation and English Partnerships are brought together, they should include a dimension to their work that helps improve the supply of affordable housing in rural areas.

The Joseph Rowntree Foundation have taken this a stage further and urged the Government to legislate to replace the public sector's duty of attaining 'best value' when disposing of surplus

land to a housing association. The recommendation is they should instead fulfill a duty to secure '*greatest public benefit*' in order to prevent local authorities (and other statutory bodies) from being forced to part with sites in villages to the highest bidder when they can see the real value of using the land for affordable homes.⁹

Recommendation

Government gives active consideration to the Joseph Rowntree proposal that the public sector's duty in disposing of surplus land be to secure "greatest public benefit".

Church Land

We were provided with evidence from researchers at the University of Gloucestershire on the use of Church of England (glebe) land for affordable housing. This was based on case studies in three dioceses. It identified that when considering how it can assist the development of affordable housing the Church faces a dilemma. There is a need for it to balance the objective of valuing everyone with the pragmatic aim of following Charity Law and maximising investment to maintain the Christian ministry. In the case studies there were a number of examples of good practice, where the church had leased rather than sold land to a housing association, included a clawback clause to protect them against open market sale and recognised that the uplift in value on rural exception sites met their investment needs. The report concludes with a number of recommendations, primarily aimed at improving practice within the church. It should also be noted that other denominations' land (Methodist, Roman Catholic etc) would be just as valuable to the end of delivering affordable homes in rural communities.

Recommendations

The Church of England look in detail at its use of glebe land for the delivery of affordable housing, as a follow up to its 1990 report 'Faith in the Countryside'.

Other denominations look actively at their land holdings to see how/where they can contribute to delivery of affordable housing.

Government determines whether charity law is inhibiting the Church of England and other denominations in making land available for affordable housing. If this is the case they provide greater flexibility in order that land may be disposed of at less than market value so that proven need for affordable housing can be met.

Community Land Trusts

Community Land Trusts (CLTs) have the potential to make a significant contribution to the provision of affordable housing in rural areas, providing a complementary approach to housing associations. CLTs encourage active citizenship within the rural community and have the potential to provide Low Cost Home Ownership housing in perpetuity and reduce the call on the public purse by attracting individual investment and recycling increased value from equity sales. They are based in and owned by the community and could prove attractive to landowners looking to release land for affordable housing.

By working with a housing association there can be quality assurance in terms of design and the long-term management of the properties. We have found the principles and the potential very exciting but we know that, although there are examples of success, particularly in the United States, the approach has yet to be fully tested in England. Our recommendations propose action which will both test and help support the development of this model.

During our evidence gathering we heard considerable support for the use of CLT models for providing affordable housing in rural areas. CLTs are locally-based, not for profit organisations which own assets such as land and buildings through a trust which is democratically controlled by the community. CLTs can use the

value of land to secure finance for the development of affordable housing reducing the need for public subsidy. By capturing land value in perpetuity, CLTs can offer long term benefit and the potential to provide affordable housing, business units and local services.

To explore this potential more fully, we commissioned specific evidence and dedicated a hearing to this approach which drew on experience to date in the United States, Scotland, Wales and emerging practice in England.

Taking each of the elements which impact on the supply of affordable housing in rural areas, we are able to assess the contribution which CLTs could potentially make to improving the supply of affordable housing.

Land for CLTs

CLTs obtain land from a range of sources, such as that owned by public sector organisations, through Section 106 planning agreements, through planning exception sites or philanthropic gifts. CLTs can build relationships of trust and provide reassurance for landowners by offering assurance that land will not pass to private ownership for profit, and by offering them a guaranteed financial revenue through the use of bonds.

CLTs aim to expedite the planning process through a bottom-up approach, gained by obtaining local consensus with realistic expectations.

Finance for CLTs

CLTs do rely on seedcorn funding and/or donations, but they employ a range of financial models which use the value of land to subsidise development. This reduces the amount of public subsidy required to deliver affordable housing, whilst taking advantage of the ability of people within a community to tackle local problems by designing solutions which meet their needs.

The model overleaf illustrates how a CLT affordable housing scheme might work financially once a property has been built.

Open Market Value on initial purchase = £100,000 (this would have to be an up-front gift)

Initial purchaser requires 25% subsidy to purchase = £25,000

At resale, the open market value = £180,000

The increase in open market value = £80,000

The CLT resale formula repays initial purchaser's mortgage of £75,000 and gives them 25 per cent of the uplift in value, £20,000.

The remaining equity stays with the property and allows the next household to purchase the property at a resale price of **£95,000**

£20,000 (25% X £80,000) + £75,000 (initial purchaser's mortgage) = a resale price of £95,000

Holding CLT Assets in Perpetuity

The exclusion of assets from the open market in perpetuity is fundamental to the CLT's ability to deliver affordable housing. This is done through the use of restrictive covenants, enabling the CLT to benefit because the notional value of land held in the trust increases in line with the open market. When a CLT acquires land at nil or reduced value, the benefit of this initial subsidy and any future increases in equity can be passed on to successive residents.

In Scotland, the use of CLTs has become more embedded into the mainstream provision of affordable housing through the Scottish Land Fund and Community Land Unit which have been established to enable the purchase of small strategic parcels of land on behalf of communities for community use.

In Wales, we have heard how some communities are taking positive action to address affordable housing and workspace needs. In Powys, where house prices rose by 160% between 1997 and 2004, three pilot projects have been set up by a not-for-profit partnership of members and directors from Powys County Council and other local organisations. The projects received land donated from both private and public sources and seedcorn funding from the Council and a building society.

In England, the principle of a community land trust is not new, being the basis for Letchworth Garden City but it is gaining support. Recently, smaller scale examples have come to fruition, perhaps the first really rural example being

Stonesfield in Oxfordshire which engaged the community in all aspects of design and decisions on use of land. It raised capital through private finance and loans from local people to deliver affordable housing without public subsidy. Local people gave full support for the homes, which exhibit innovative design and a small environmental footprint. The housing now provides a sustainable revenue stream which funds local services.

In Stroud, as part of a Government pilot the Co-operative Development Society is testing their Mutual Home Ownership model. This is an exciting new approach but may be too ambitious for smaller communities.

CLTs are not a single entity and can be adapted to local circumstances, sometimes working alone and sometimes in co-operation with housing associations. We were told of another CLT forming in High Bickington in Devon where it enjoys the support of the parish council, district council, Devon and Cornwall Housing Association and 155 villagers who are £1 shareholders in the Trust. In Cornwall, Community Land Trusts are being set up in Rock and St Miniver.

CLTs offer a range of tenures and approaches for providing Low Cost Home Ownership but with arrangements for securing perpetuity and increasing finance available for investment in affordable housing. These various model are explained more fully in the recently published 'Community Land Trusts: affordable homes, in sustainable communities' published by Trowse & Hamblins, the Tudor Trust and the University of Salford.

We consider that the community-based models we have heard about offer another option, which could add to the supply of affordable housing in rural areas, but further detailed research and piloting is required.

Recommendation

Either through the Shared Equity Task Force¹⁰ or as a discrete study, DCLG, Defra and the Housing Corporation explore, through piloting and evaluation, whether Community Land Trusts can help add to the delivery of affordable housing in rural areas in a way which offers good value for money and supports the Government's wider objectives of community engagement.

¹⁰ The Shared Equity Taskforce was launched by HMT and ODPM to consider the case for Government intervention in the housing market to assist 'intermediate' households into homeownership using shared equity products.

Chapter 6



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Better use of existing stock and retaining a supply of affordable housing

Summary

There are a number of different types of existing buildings which could be used to improve the supply of affordable housing. Empty properties in rural areas are one source, but we have also looked at the potential for converting holiday lets, housing with an agricultural occupancy condition and redundant farm buildings into affordable housing. We have also looked at the issue of second homes. Our overall conclusion is that making better use of the stock is important and can bring significant sustainability gains by helping regeneration and reducing the need for new build. Our recommendations seek to maximise the opportunities which are available.

As well as using existing buildings more effectively, management of the stock also includes retention of affordable housing once it has been built. This is crucial in rural areas, where new provision has not kept pace with the significant loss of affordable housing through Right to Buy sales. This issue becomes particularly important in relation to low cost home ownership. We support the need to provide opportunities for people to find housing which suits their economic and social circumstances. This requires providing a range of housing, including both social rent and shared ownership for current and future generations. To achieve this we have recommended a range of measures which will improve access to all types of affordable housing and retain a supply in the long term.

Managing existing housing stock

Many calls have been made for the better management and use of existing stock in both rural and urban areas. It is true that, while the levels of existing stock could never be managed in a way which could meet all current need, better use could be made of it.

However, we are realistic about what this could deliver. Recycling existing property is not always the cheapest option and the overall impact could be limited. Our discussion below gives some indication of the number of additional dwellings which it may be possible to bring into better use. It goes on to consider some of the factors which could help make better use of a range of existing stock for affordable housing.

Empty Homes

The number of empty homes in England has reduced by 10% since 1997 – down from 767,000 to 690,000 – and at 3.2% vacancy rates appear to be low by international standards¹. However, while using empty property would at first appear to be an ‘easy hit’ in terms of

securing additional homes, many are vacant for transactional reasons and will come back into use without intervention, such as those awaiting probate.

A more accurate picture is given by the number of homes empty for more than six months. This has remained relatively constant throughout that period at around 300,000 (1.7% of the private housing stock). Rural areas themselves have a lower vacancy rate than the national average but in total there are around 58,000 long-term empty homes in predominantly rural districts.²

There are often practical reasons why some of them cannot be brought back into use. For example, they may be the property of someone who has taken an extended period of leave abroad but has every intention of returning. A lesson we heard from South Shropshire was that of a total stock of approximately 20,000 properties some 800 homes were identified as vacant. After examination of each case, only about 40 were identified as empty on a long term basis and capable of being returned to use at reasonable cost.

The relative modesty of this potential does not mean that resources should not be directed at bringing properties likely to stay empty for the very long term back into use. The Scottish experience, following the introduction of the Rural Empty Properties Grant, shows that local authorities can be an effective driver in dealing with this issue.

Evidence from the Empty Homes Agency highlights that English local authorities have a wide range of powers available to them, such as the Empty Dwellings Management Orders. Although these have only recently been introduced, we welcome this addition to the powers local authorities have. However, in the evidence given to us, the most important driver was co-operation between local authorities.

1 Evans and Hartwich (2005a)

2 Source: ODPM, unpublished

Kent County Council – ‘No Use Empty’ empty homes initiative

Kent County Council has established a three year initiative, in partnership with four district councils, to provide leadership, technical expertise and resources to increase the number of empty homes brought back into use.

The County Council launched the ‘No Use Empty’ initiative in 2005 following PSA commitments to examine better ways of delivering services and, particularly, better ways of working effectively with district councils. Although the initiative is currently largely focused in the towns of the four districts of Thanet, Dover, Shepway and Swale, the approach is appropriate for both rural and urban areas.

The initiative is led by a project officer in Kent County Council and involves close partnership working between the county and the districts, with a number of different approaches to increase the return to use of empty properties. Kent undertook the initial collection of an evidence base including a survey of properties and a mapping exercise. Much of the work to identify and negotiate with owners and, if necessary, proceed with enforcement action is undertaken at the district level. The county provides financial support, including interest-free loans for homeowners to renovate their property, and in-kind support, for example legal expertise for the district if they are involved in enforcement action. Kent County Council has committed £5 million to support this range of approaches.

Leadership for the partnership is driven by the county council. A project officer group meets monthly and a strategic officer steering group and a portfolio holders group meet regularly, providing the corporate and political backing from all the partners which is needed to make the initiative a success. Overall the initiative aims to return 372 empty properties to use over three years, which represents a doubling of previous rates. During the year 2005/06 the initiative has exceeded targets, bringing 52 properties back into use.

Recommendations

Local authorities assess whether a joint approach to empty homes would be successful in bringing back into use additional dwellings. Upper tier authorities may have a co-ordinating role to play in such partnerships, possibly through Local Area Agreements.

Rural Housing Enablers engage in the reclaiming of empty homes where appropriate to complement their work on developing new affordable homes.

Making Use of Vacant Space over Shops

A number of people mentioned the possibility of making greater use of vacant space over shops for accommodation, particularly for single young or older people who may prefer a town centre location.

We are aware of a feasibility study undertaken by

the Housing Partnership which has examined the experiences of trying to bring this space back into use. It has concluded that this is a complex issue which often requires negotiations with absentee landlords or property holders at a national level, working through local authorities, combined with sensitive management by housing associations. There is still further work to be done which looks in greater detail at the economics of this approach and how to bring the various partners together effectively.

Recommendation

There is potential to bring into use empty homes and vacant space over shops in market towns. However, it has been difficult to unlock this in many rural areas. DCLG in consultation with local authorities undertake a specific initiative designed to give rural authorities better tools with which to exploit this opportunity.

Freeing up the Existing Housing Stock and Working with Private Landlords

We were told of the work commissioned by the Housing Corporation and Commission for Rural Communities³, to be published shortly, which explores the use of existing housing stock in rural areas.

It looked at opportunities in the private and social housing stock and makes a number of recommendations including expansion of private sector leasing by local authorities and rent deposit schemes. It promotes the use of Home Improvement Agencies and reviews of local authority assets, including underused sheltered accommodation and lettings policies.

During the course of our inquiry, we heard about how a number of local authorities are working with private landlords to provide affordable rented housing. This helps local authorities to offer greater choice to people in housing need and helps them offset the pressure on social housing as a result of the Right to Buy and falling stock levels. It also helps authorities meet wider objectives around regeneration, returning empty properties into use and achieving decent homes for all, especially the most vulnerable.

Some local authorities, by engaging with private landlords and developing a relationship based on trust and professionalism, have been able to devise a package of incentives to suit both landlords and tenants; including:

- rent in advance as well as a deposit;
- a fast tracking Housing Benefit service;
- dedicated officers to deal with management and legal issues quickly and efficiently;
- membership of a landlord accreditation scheme;
- floating support for vulnerable tenants; and
- home improvement grants and financial assistance to help return empty properties back into use.

In some cases it has been possible to negotiate longer terms than the standard six month

assured short-hold tenancy which gives the tenant additional security.

Various models have been adopted dependent on the dynamics of the local housing market, the demand for the service and the profile of the landlords in the local authority area. The various schemes offer a person on the local authority housing register a direct let with a landlord, or a managing agent (this can be an housing association), without the need to place the household in temporary accommodation.

This good practice has not been universally adopted. In some cases, this is because local authorities can sometimes be reluctant to give grants to private landlords or they do not have the experience or dedicated staff to work with the private sector or they sometimes lack funding to offer improvement grants. However, these creative solutions and maximising the use of the private sector will also in part be dependent on Housing Market Assessments.

Recommendation

Local authorities work more closely with private landlords to find creative solutions, making use of existing best practice.

Better Management of the Housing Stock

We were also made aware of steps which have been taken to overcome the problems which some older people face living in housing which is no longer suited to their needs and is difficult and costly to maintain. Providing them with alternative accommodation can have the added benefit of freeing up family housing.

This is clearly a very sensitive issue, given that many older people choose not to move. Indeed we are also very supportive of the work which is being done to help people retain independence in their own homes, such as that being done by Home Improvement Agencies.

We were very impressed by Bell View, a scheme we saw in Belford in Northumberland. Faced with the closure of a very rundown and

3 Housing Corporation and Commission for Rural Communities (2006) The use of existing stock in rural areas, London :

unsuitable social services home for older people, the local community succeeded in negotiating with the County Council for the property to be replaced to offer modern accommodation with support for older people from the village and surrounding area.

This allowed for some older people to move out of their homes which could then be re-let to families. The scheme was designed by a local architect with the full input of the community and now also offers a range of on-site and outreach services for older people in the area.

Recommendations

Department of Health and DCLG explore and promote specific approaches which provide a range of affordable housing which offers older people in rural areas both extra care and independence and choice.

The new Supporting People strategy and funding arrangements are designed to work in two tier authorities and take into account the ageing of the rural population and the additional costs of delivering support services in rural areas.

Second Homes

The issue of second homes has been raised time and again in the regions, towns and villages we have visited. We have explored a range of possible measures put to us that would either stem the growth of second home ownership or would lever in funding from second home owners to offset the adverse consequences sometimes associated with second home ownership.

We have also been told how, in some communities, second home owners contribute to the community and the economy. However, in others, there are so many second homes they threaten the viability of these communities making them little more than a weekend retreat.

We were told by The Association of Second Home Owners that some of their members would like to be involved in helping resolve the housing problem in their local communities. But we also heard evidence from areas with a very high proportion of second homes that they were accelerating the decline of their communities as second home owners rarely used local services like schools and public transport. The fundamental worry of those living full time in these communities was that second home owners were driving up prices out of the reach of local people.

Our conclusion is that, across rural England as a whole, the impact of second homes is modest. But we acknowledge that the severity of the problem in some parts of the country requires measures aimed at offsetting those detrimental effects and securing a better supply of affordable housing.

There were 93,000 second homes in 2004 across predominantly rural districts in England⁴. The map⁵ shows their distribution and clearly demonstrates that they are particularly prevalent in coastal and high landscape value areas.

To some extent, even this disguises the true nature of the problem. Research for the Countryside Agency⁶ identified that even within these districts the incidence of second home ownership is concentrated in particular settlements. During our regional visits we came across more than one village where we were told that levels of second home ownership exceeded 50%.

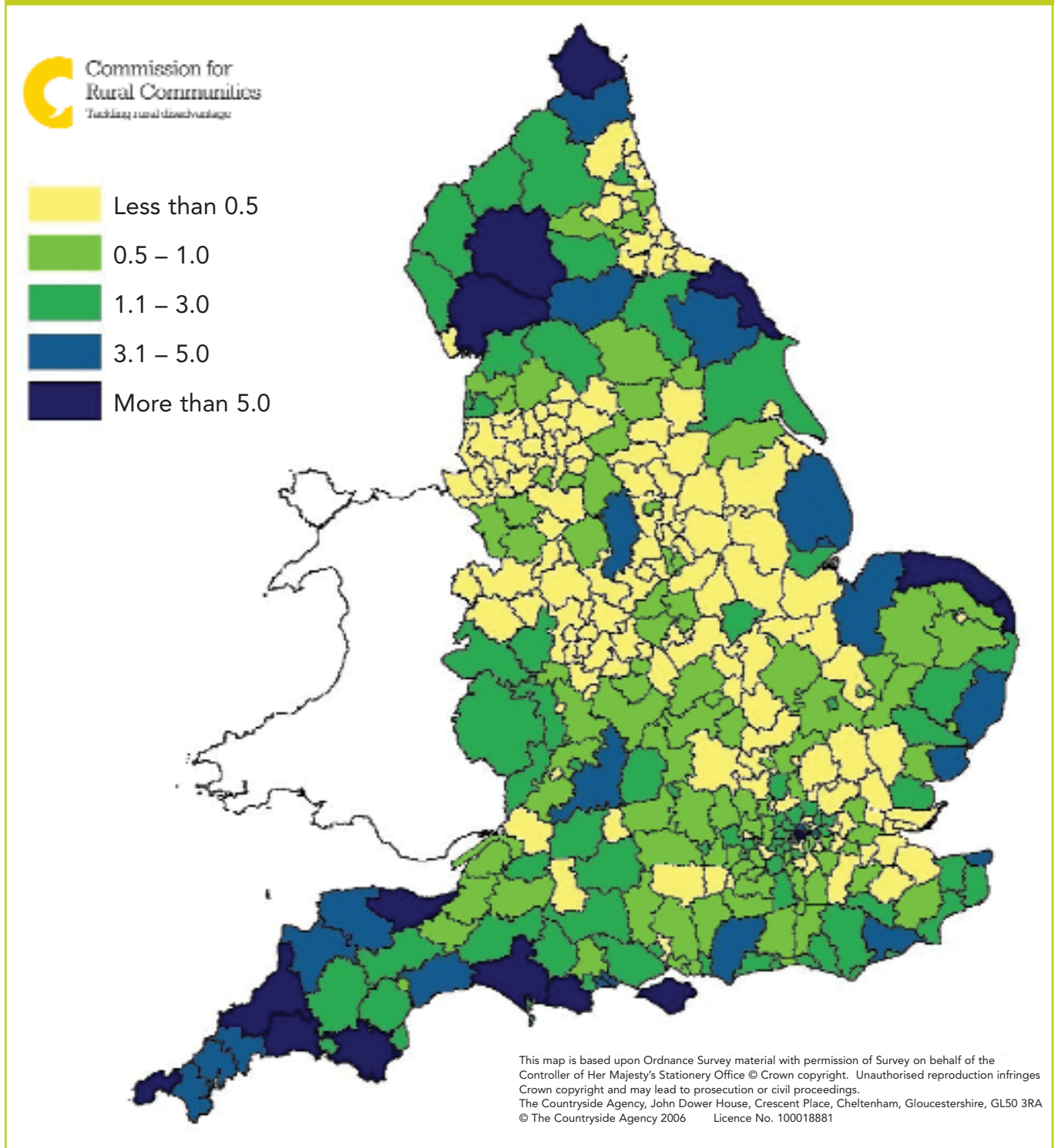
We are aware that the Government has already taken some steps to prevent the adverse consequences that can arise from high concentrations of second homes. This is through providing local authorities with the power to reduce the level of Council Tax discount given to second home owners from 50% to 10%.

4 Source: ODPM, unpublished

5 Source: Commission for Rural Communities (2006a)

6 Countryside Agency (2003).

Figure 6.1: Second homes as a percentage of total chargeable dwellings



The Commission for Rural Communities has recently published research on the take-up of this mechanism and the use to which the funds raised have been used. It found that almost all rural authorities with significant numbers of second homes exercised their discretion to apply the reduced level of Council Tax discount. Only two rural authorities out of 58 with over 1% of their

housing stock used as second homes did not apply the full reduced level of discount.

The extra money raised by rural local authorities amounted to £45m. Amongst the 10 rural districts that raised the most funding, presumably because they had the highest incidence of second homes, £15m was raised. Of this, £7m was used to support the development of affordable housing or

Case Study

The Holy Island of Lindisfarne lies two miles off the north Northumberland coast with around 150 residents. However, the popularity of the island as a holiday destination has had a marked effect on home ownership with more than 55% of the 160 houses on the island now “second” or “holiday” homes. Since 1995, no house put on the open market has been purchased by a local resident.

In 1994, the need for affordable rented accommodation acted as the catalyst for community action. Based on the analysis of a housing needs survey, organised by the Northumberland Rural Housing Enabler, and aware that access to Housing Corporation support and Government funds would be unlikely, the new volunteer trustees worked in partnership with the Tudor Trust (a London based provider of charitable funds) to secure a mix of charitable grants and loans from a social investment bank. They then oversaw the house design and managed the construction company and building professionals.

By 1999, they had developed five new energy-efficient houses, let to local residents at affordable rents, and owned and managed by the Trust. In 1996, the island school, with no children, had been “mothballed” for three years. Today, the school has seven children, three of whom live in these houses. Perhaps more importantly, there are three more pre-school age children in the houses.



related activity. However, most was used for other purposes, often by the County Council which received the revenue and used it for general purposes or to reduce Council Tax levels.

They concluded that ‘this policy is failing to address, in any significant way, the impacts on rural communities of high numbers of second homes and high house prices beyond the reach of local people earning local wages’. The report makes recommendations including the idea of a hypothecated tax on second homes which could be used to provide affordable housing.

In examining this issue, a number of suggestions were made to us including an increase in Stamp Duty on second homes, restricting the sale of homes only to residents of an area and a trigger that would automatically divert affordable housing to that area, when a certain threshold of second home ownership was reached.

However, these fell down for a variety of reasons such as the difficulty of only applying them at a very local level, concerns over their impact and fairness, and whether they would take account of local environmental sensitivities and good planning practice. But the fundamental problem

is how to identify second homes. For example, couples could each register different homes as their primary residence.

Recommendation

The Government develops a robust method of identifying second homes based on the system of self-certification used for tax purposes. This could provide a means of targeting policy in the future.

Local authorities act now to focus additional affordable house building into settlements where second home ownership is affecting the sustainability of the communities.

However, we consider that the severity of the problem in some parts of the country requires further exploration of a range of possible planning and fiscal options.

One of these would be by making a distinction between general housing and second homes through a new Use Class. Changes of use could be permitted through a General Permitted Development Order. This would not be applied in local authorities with high levels of second home ownership and these would be specified in the Order. The designated local authorities could, if appropriate, choose to introduce a Local Development Order (allowed from August 2006 under the Planning and Compulsory Purchase Act) to apply the general provision of the GDPO to parts of their area where second homes were not considered to be a problem.

The effect of this would be that the Order would apply in a very small number of areas, in a few local authorities. In these areas, however, any property purchased for use as a second home would be subject to planning permission.

Recommendation

DCLG introduce a new Use Class for second homes.

We also believe that the current Council Tax mechanism could be used to deter second home ownership where this has become a localised problem.

Recommendations

Sir Michael Lyons considers in his ongoing review of Local Government whether local authorities should have the power to levy a 'second homes impact tax' on second home owners in particular rural communities where there is a disproportionate number of second homes. This could be used to offset the negative impacts second homes can sometimes have on the viability of communities and help fund more affordable housing. The review should also consider how the levy from such a tax could be distributed at local level through a partnership arrangement between district and parish councils.

All local authorities reduce the Council Tax discount from 50% to 10% and work collaboratively with partners including housing associations and rural communities to decide how this funding should be used to support the delivery of affordable homes and related services.

Holiday Lets

Properties used for holiday lettings also form part of the existing stock which could be used for affordable housing where there is an over-supply. But we recognise the important role which tourism plays in the changing rural economy and the role of holiday lettings in this process as farmers look to diversify their businesses.

However, we have also been made aware of a degree of perversity in the planning system. Under current policy, the conversion of farm buildings into holiday lets may be allowable whereas affordable housing is not because holiday lets do not count towards the housing allocations in the Regional Spatial Strategies. In consequence, new housing can be built as long as it is not available for permanent residency.

There was also evidence of an unintended consequence of the current tax regime. It is more tax efficient to register potential housing as holiday lets, which are taxed as a business rather than as a residential property. We have made recommendations on tax in the Finance and Planning Chapters.

Recommendations

Local authorities enforce correct registration of those letting properties to ensure they are paying Council Tax at the appropriate level.

There is a presumption in favour of conversion of holiday let accommodation to affordable housing, outside RSS allocations, where this can be secured in perpetuity.

Agricultural Tied Dwellings

Some housing has historically been permitted under the planning system for occupation by those engaged in agriculture and forestry. In some cases local planning authorities have widened this to include other categories such as equestrian workers. This has aided the development of these industries. This housing has formed part of the stock of lower cost and, in some cases, affordable housing.

Although there has been a reduction in the number of those engaged in these industries, there is still a need for labour so these dwellings have an important role. The provision may however not always match the need and some dwellings may now be surplus to requirements in some areas.

PPS7 raises the possibility of widening the eligibility of those who might qualify for such housing, but we understand that this was intended to be limited only to those who needed to live 'on the spot' because of the particular need of a particular business. We further understand that this did not extend to widening the existing criteria for existing dwellings, nor to permitting new dwellings except in the specific instances mentioned above.

The mis-match of agricultural and forestry dwellings to correct need has led either to applications to lift existing planning conditions or to increasing use of the provision for owners and occupiers to apply for 'certificates of lawful use' on the basis that the dwellings have been occupied in the breach of the planning condition for 10 years or more. The result of the removal of the condition is that a dwelling, which may

currently be sold or rented at a figure below market value, is removed from the stock of affordable rural housing.

Recommendations

Consideration is given to widening the range of rural occupations that could be deemed to satisfy existing or new agricultural occupancy conditions.

Encouragement is given to local authorities to enforce more rigorously the existing occupancy conditions to prevent abuse.

Consideration is given as to whether the 10-year rule for qualification for a certificate of lawfulness should be extended for a longer period in the case of agricultural dwellings.

DCLG examine whether primary legislation is required to affect these changes.

Two-into-One Conversions and Extensions of Rural Property

Maintaining a balanced mix of tenure types is an important goal for housing authorities in ensuring that people can progress up the housing ladder and in time, as children move away and other circumstances change, back down.

In some areas we have heard evidence that the stock of smaller market housing is being depleted by large extensions or the knocking through of two adjoining properties together to form a single dwelling.

Planning permission for two-into-one conversions is not required and guidance on extensions is largely based on the principle that the character and appearance of the property should be respected in the design of the extension. Local authorities have therefore very limited control over such activity.

We are not in any way suggesting that a moratorium on extensions or developments is introduced. Indeed, allowing homes to evolve to adjust to changing circumstances is in itself a legitimate right of those living in that house and can contribute to a sustainable community by, for example, providing an additional room as a place to work from home.

However, where this is adversely affecting the housing stock, local authorities must, when supported by a Housing Market Assessment, be able to control them.

Recommendation

DCLG consult further with local authorities to identify whether this issue would warrant legislation allowing control of two-into-one conversions and policy limiting the size of extensions on the grounds of maintaining a balanced mix of housing types.

Retaining Affordable Housing

Central to our vision is the need to provide a range of housing which is affordable to people who live and work in rural areas.

Meeting this requires some new private house building as well as homes for those who do not have the income to compete in the open market. We were constantly told that the constraints on development mean that there have to be mechanisms to retain a supply of social rented homes and housing which provides people with a foot on the ladder through part ownership.

Right to Buy and Right to Acquire

Over the past two decades successive Governments have promoted increased home ownership and conservation of the countryside. Through Right to Buy (RTB) and Right to Acquire (RTA) schemes many people living in rural areas have had the opportunity to become homeowners. However, the subsequent sale of former local authority and housing association housing into the open market has often been at prices that are unaffordable to many local people. In response, the Government has introduced a number of safeguards for small rural settlements of less than 3,000 people.

New housing provided by housing associations in parishes of less than 3,000 population is exempt from the Right to Acquire which allows residents

of housing associations to buy their own homes. Sales receipts from RTA sales receipts are required to be reinvested to provide replacement social housing for rent. It is also interesting to note that across the country RTA sales are relatively low, about 500 per year.

Restrictions on council tenants' right to buy their homes also exist but they are weaker. They provide that in National Parks, Areas of Outstanding Natural Beauty and designated rural areas, properties are sold under the RTB on the condition that the property may only be resold to someone who has been living or working in the area for three years. Alternatively, the landlord may require that any resale within 10 years of the initial purchase should first be offered to the landlord. In response to the limited take up of these safeguards and in the knowledge of depleting local authority stock in these areas, the criteria for designation were relaxed in January 2005. In forty-one areas, the local authority can lower the discounts available to residents wishing to exercise the Right to Buy. Unfortunately, because of the designation criteria, the majority of these are in London.

Under the Housing Act 2004, there is a right of first refusal for landlords to buy back properties previously sold under the Right to Acquire (and Right to Buy if they are resold within 10 years).

Finally, planning policy at national and local level over the last 15 years has permitted new affordable housing to be built on exception sites with a requirement that it is available to meet local housing needs in perpetuity.

Despite these helpful policies, we were repeatedly told, and the evidence shows, that the rate of new provision has failed to keep pace with the losses arising from Right to Buy and Right to Acquire.

Figure 6.2⁷ gives cumulative losses to the local authority stock via RTB since 1979 to 2005, as a percentage of the local authority stock as at 1st April 1980.

7 Source ODPM: Note that England's LA stock stood at 4.8m on April 1st 1980. Of this total, the Local Authority of 0.5% of the stock was unknown (due to missing LA returns), and these were thus excluded from analysis. Cumulated losses to LA stock via RTB by 2004/05 stood at 1.7m. In 10.1% of cases the local authority was unknown and were excluded from this analysis.

Reduction in the Amount of Social Housing

We see from Figure 6.3⁸ that, despite additions to housing association stock, the overall stock of housing association and local authority housing has declined across all district types. Between 1980 and 2005, the total stock in predominantly rural districts had fallen by 24%, in comparison to an 18% decline in predominantly urban districts, and a 20% decline in mixed districts. There was thus a greater proportionate loss in stock in predominantly rural districts over this time frame.

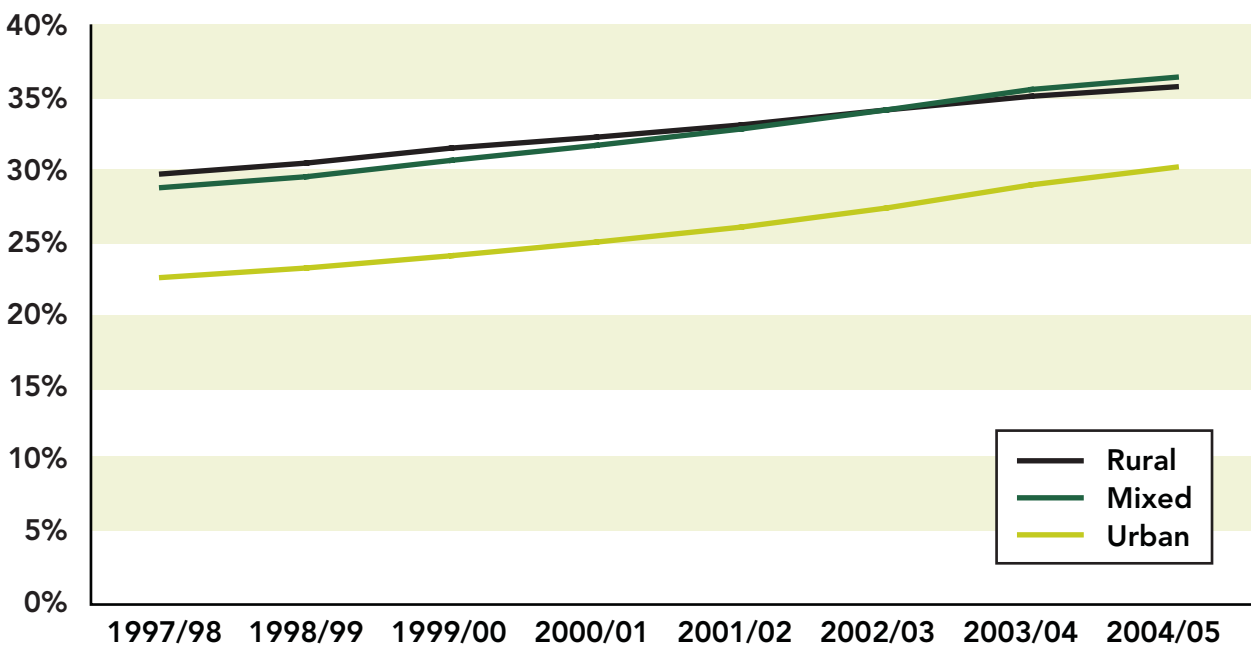
In some areas we were told that the limited stock, coupled with the low number of homes which become available for re-letting, significantly reduces the ability of local authorities to meet the housing needs in their districts and results in excessive demands made on new schemes when they become available.

Low Cost Home Ownership

In response to this increasing desire for home ownership the Government has recently introduced the new Homebuy programme. This includes Social Homebuy, through which people in rented properties have the opportunity to buy a stake in their homes. Because of concerns about difficulties in replacing social rented housing, this is not available in settlements of less than 3,000 population. A second option is new-build Homebuy. When first introduced the amount which could be owned could not be limited. This represented a departure from the previous principles of rural shared ownership which allowed an 80% limit to be placed on the amount of equity that could be owned on properties funded through the public purse in settlements of less than 3,000 population.

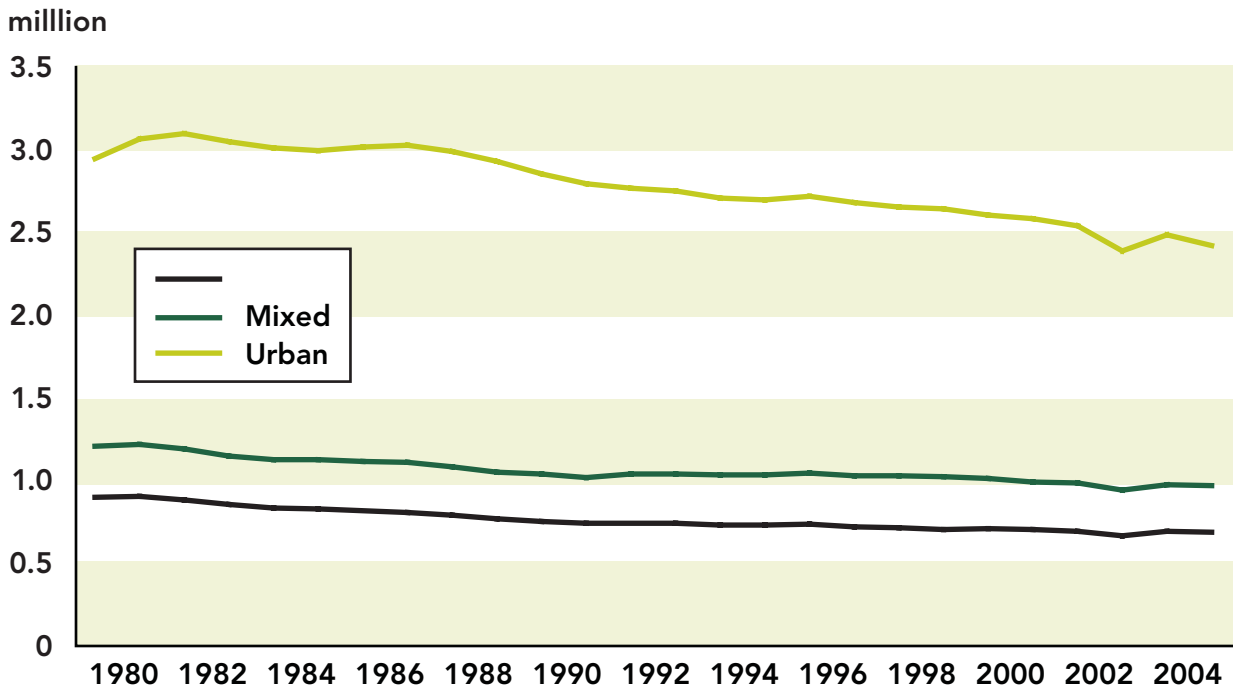
As we can testify from the evidence submitted to us, this change led to an outcry. Those with

Figure 6.2: Cumulative losses via RTB since 1979/80, as a % of 1980 LA stock



8 Source ODPM: Note that the district of some LA/RSL stock was unknown. This is less the case for more recent years. Of the England LA/RSL stock at April 1st 1980 of 5.1 million dwellings, the LA of 1.0% was unknown. However, of the total LA/RSL stock as at April 1st 2005, the LA of all 4.0 million was known.

Figure 6.3: LA and RSL total stock, 1980-2005



experience of providing rural affordable housing raised significant concerns that the loss of this cap would reduce delivery, as landowners would be unwilling to release sites at a discounted price where there was a chance that the first owner would make a windfall gain on the open market. They also pointed out that it went contrary to planning guidance which sought perpetuity arrangements, a factor which is often instrumental in gaining community support.

In response the Government announced that shared ownership and new build Homebuy schemes delivered by housing associations on Rural Exception Sites can include a limit on the amount of equity that a resident can own. However, we are concerned that no such exemption was made for Homebuy schemes provided through Section 106 agreements or any provision in settlements of 3,000 to 10,000 population.

This revision adds additional rural safeguards to those already put in place by the Government for new build Homebuy which introduced a range of measures to assist housing associations to 'buy back' properties, including those in settlements of more than 3,000 population for

re-let in the affordable sector. The Housing Corporation has been asked to give priority to funding these 'buy backs' when resources are available. However, there remains considerable anxiety about whether the levels of funding needed will be available at the right time.

It has also been reported to us by local authorities and housing associations that the existing shared ownership housing is often unaffordable to people working in rural areas. Indeed we heard of schemes in the South East which had been left empty because of problems in finding residents who could afford the mortgage and rent. This is because the shared ownership house is valued at open market value and even a proportionate share can be unaffordable to those on low wages. We appreciate that shared ownership housing in its current form can help cross subsidise rented housing and brings financial benefits to housing associations for future investment. Ultimately, it offers poor value to the public purse if properties it has funded remain empty or fail to be affordable for the target customer group. The new Homebuy products were intended to address this issue and include a cap on the rent charged (i.e. 3% of the capital value of the retained equity with a target of 2.75%)

The trends in the supply of, and pressures on, the affordable housing stock which have become evident during our investigations give rise to particular concern. The loss of social housing is in those same districts where problems of affordability are particularly acute. In practice, this means that, at a time when those on low incomes are most likely to be looking for subsidised housing, their opportunities for finding it have become more limited. In turn, this is putting additional pressures on the social housing stock from people who have sufficient income to pay more than a rent and begin to purchase part of their home but cannot find this type of housing in the market at a price they can afford.

Our recommendations aim to improve the availability of a range of housing opportunities, social rent for those whose incomes or circumstances make this the most suitable option and opportunities for people to build up equity so that they can begin to place a foot on the housing ladder. Importantly, these opportunities will also be available for future generations.

Recommendations

DCLG reviews how local authorities currently designated as rural under Section 157 of the 1985 Housing Act are using their powers either to restrict sales of RTB properties to people with a local connection or to require pre-emption rights in favour of the former landlord for 10 years.

DCLG remind local authorities that they can ask the Secretary of State to exercise their power under section 157 of the Housing Act 1985 to designate areas as 'rural' so that those authorities may require that homes in the areas in question which are sold under the Right to Buy scheme can only be resold to people who have lived or worked locally for at least three years.

That DCLG invites those districts designated as rural under S157 of the 1985 Act to re-apply for designation so that settlements of up to 3,000 population can be included under the rural safeguard provisions.

As part of the ongoing review of maximum discounts, we would recommend that lower discounts are introduced in those areas which have been designated as 'rural' under S157 of the 1985 Act for the purposes of Right to Buy.

A cap of 80% of the value is placed on all purchases made under the Right to Buy in settlements with populations of less than 10,000. This restriction should remain on the title of the property in perpetuity and be accompanied by a pre-emption upon resale in favour of selling to a local authority or housing association.

A cap of 80 per cent on the value of all LCHO staircasing in settlements below 3,000 population.

During our hearings we heard of a number of examples where the private sector has taken steps to provide intermediate housing. However, we are conscious that the same issues of retaining the stock in perpetuity remain. An approach developed in South Shropshire could provide a means of harnessing the energy of the private sector whilst still ensuring that the housing provided meets rural housing needs in perpetuity.

Recommendations

Model restrictive covenants should be developed which could allow planning authorities to retain any privately provided affordable housing in the sector in perpetuity.

The Shared Equity Task force should be given a specific task to find an alternative model which extends opportunities for home ownership in rural areas without depleting the availability of this type of housing for future households. In undertaking this we would encourage them to explore:

- existing intermediate housing products in terms of their affordability;
- the extent to which measures to retain the housing in the affordable housing sector in perpetuity are successful;
- the potential for applying the Scottish 'Rural Burden' in England, as an alternative way of preventing the leakage of affordable homes onto the open market, and;

- **the benefits of the approach which shares the increase in equity value between the Community Land Trust and individual so that residents are given a foot on the ladder whilst value is retained for the benefit of future occupiers of the CLT.**

Securing Private Borrowing for Rural Affordable Housing

Underpinning all these measures on rural exception sites is the use of a Section 106 agreement. This is a legal obligation entered into by the developer and can be used to ensure that the housing remains available to meet a local housing need in perpetuity through housing association ownership or local connection criteria. Whilst fully supporting this need for perpetuity, we are also aware that such limitations can affect the availability of loans to housing associations to build such housing and the individual residents' ability to raise a residential mortgage. In response it is not unusual for the housing association to secure a mortgagee in possession exemption clause (MiP) in the Section 106 agreement. This provides that, if there is a default on the loan, the private lender can as a last resort sell the house on the open market. At present there is considerable variation in the extent to which local authorities respond to requests for MiPs in Section 106 agreements.

In the case of loans to housing associations, where no MiP exemption has been agreed by the local authority, the value of the affordable housing will be based on its existing use for lending purposes. This will usually be significantly lower than its maximum potential security value if a MiP is included in the Section 106 agreement. In consequence the amount of loan offered to the housing association will be reduced, thus affecting the scheme's viability unless additional Social Housing Grant is available to offset this reduction. For most housing associations this is generally not an issue because they can raise loans against the security of a portfolio of schemes, the majority of which

will not be subject to a Section 106 agreement. However, small housing associations with a small stock may be affected adversely where no MiP can be agreed with the local authority.

For people wishing to raise a mortgage to purchase an equity share in a property where there is an 80% cap on the maximum equity that can be owned, lenders may be unwilling to provide mortgages unless there is a MiP exemption. Whilst we have heard varying evidence regarding the availability of mortgages for shared ownership properties, it is known that the provision of these mortgages is heavily reliant on a few building societies and banks.

The risk of affordable housing which is subject to a Section 106 agreement and includes a MiP being lost to the open market is extremely small. In the case of loans to housing associations, the Housing Act 1995 includes specific provision for the Housing Corporation to seek to transfer housing from a housing association which has defaulted on its loan to another housing association, before the lender can exercise its powers under the MiP. Furthermore, to date, the housing association sector has an exemplary record of maintaining its lending obligations.

Lenders to housing associations and individual shared owners have also indicated that they will support the use of a wide geographic cascade. This would ensure that the properties are first made available to people with a housing need before exercising their statutory right to sell. In most instances the cascade would offer the properties to people with a housing need who live in the parish or surrounding villages. This will extend to a wider number of communities and cascade down to the district, county and finally the rest of the country.

In order to help housing associations maximise the loans they can raise to support building more affordable homes, encourage home ownership by increasing the supply of residential mortgages for people wishing to enter low cost home ownership, and still retain perpetuity mechanisms, we would recommend:

Recommendations

Specific guidance is contained within the new PPS 3 to amend PPG 3 Annex B, to require the inclusion in the planning obligation (Section 106 agreement) of a geographic cascade mechanism which includes timescales and pre-emption rights, and provide an opportunity for the housing to remain affordable, but ends with a mortgagee in possession exemption clause.

For shared ownership/new build Homebuy schemes on rural exception sites, a further safeguard is provided for landowners considering selling land at a price which makes it viable to provide affordable housing. This should take the form of a claw-back mechanism for any equity sold by a mortgagee in excess of the maximum 80% ownership which usually applies.

The Shared Equity Task Force reviews the range of lenders and products available to individual shared owners seeking loans to purchase shared ownership properties where restrictions on resale are in place, and make recommendations for increasing the accessibility and terms of these products.



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Making it happen

Summary

Planning and funding alone cannot in themselves deliver more affordable housing. Leadership at all levels is also required to make the case for development and for decision makers and communities to recognise they have to meet local housing needs. We have been struck during the course of our regional visits by the passion and energy which some local authorities, housing associations and members of the public have put into addressing the need for affordable rural housing. But it is not universal.

Throughout the Report, we have highlighted examples of best practice, and this has made us question why these solutions have not been picked up across all rural areas. In response to this question, no-one has cited particular circumstances, specific legal restrictions or a lack of finance. Overwhelmingly, they attribute success to the fact that local leaders – both elected and employed – took on the issue, backed their ideas and helped make it happen.

Chapter 7

This chapter offers a challenge to central, regional and local government and to rural communities. It provides a checklist for Councillors and local authority Chief Executives to see if they are doing all they can now, and to consider how they can in future use the opportunities which are coming with planning change. It provides a script for parish councils and other community groups to use when asking if their local authority is doing enough or what they can do to help. It sends a message to national and regional government about listening to the rural interest and about giving local authorities and others the help they need to get on with the job.

In outlining the principles which result in good leadership, we believe it is vital to recognise the value of both top-down and bottom-up approaches. In essence, there is a need for decisive strategic leadership at national level, providing a strong set of policy presumptions in favour of affordable housing. The bottom-up approach is essential as a source of community intelligence and evidence, which supports a local vision and builds a foundation of consensus to feed up the line and inform decision-making at local as well as national and regional levels.

Firm Foundations

We appreciate, and indeed want to reinforce, the need and the right for local authorities to set out their own priorities. They have to make tough choices between different services and different groups, in a very tight funding climate. Our investigation has shown that even where people are saying housing is a key priority, the policies and tools necessary to underpin them are not always in place. In all of these discussions we have considered National Parks as well as local authorities, because they have the same planning responsibilities. We know that others have also looked at best practice in affordable rural housing. We strongly recommend that people read the leaflet produced by South Hams District (awarded Beacon Status for its work on affordable housing) which summarises the key success factors. Figure 7.1 shows what we consider to be a minimum package.

Figure 7.1: Local Authority Policies and Tools

Housing, planning and legal departments need to work collaboratively at officer and member level. It is essential that together they develop an up-to-date, and evidence based, Housing Strategy and Local Development Framework, including Local Development Documents, that give:

- Allocations of sufficient sites in villages and market towns to meet the needs identified through the Housing Market Assessment;
- Clear policies on the size of site and levels of cross-subsidy for affordable housing which they will be seeking on allocated sites in rural communities;
- Lower thresholds and higher quotas of affordable housing on each site in their rural areas where it contributes to mixed and sustainable communities (as set out in PPS3);
- A policy on the use of rural exception sites;
- Timetabled monitoring and review to support amendments to the key strategies if necessary;
- Early engagement with communities, parish councils, landowners, developers, housing associations and the Housing Corporation, including pre-application discussions;
- A viability tool to assist local planners negotiate for affordable housing from private developments;
- The additional revenue generated from cutting the Council Tax discount for second home-owners from 50% to 10%, which can be used to invest in affordable housing;
- An assessment of funding and the use of property held by the local authority to provide more affordable housing, and;
- Reference to existing parish plans, promoting their wider use and where appropriate incorporating their actions into Supplementary Planning Documents.

Case Study

Rachel Cowlin and her partner Merle Hassall are a young couple living in Rougham, in the East of England, where Mr Hassall grew up. For the last two and a half years they have rented accommodation, but because of increasing rental values are now being forced to move to Bury St Edmunds.

They wanted to start a family but were unwilling to do so without a settled home and away from their family network. However, thanks to the provision of a house in Rougham built by Hastoe Housing Association – made affordable through the shared ownership mechanism – they are looking forward to planning their family's future.



Building Capacity

Changes not yet implemented, such as the draft PPS3 guidance which we discussed in Chapter 3, will provide new opportunities which go beyond these basic steps. New processes such as Housing Market Assessments and the sub-regional plans also present new tasks and new challenges, particularly for smaller district councils. The following sections highlight where we think capacity needs to be enhanced and how it can be achieved at local, regional and national level.

Joined-up Working

National Government does not always make life easy for local officers or members in terms of the rate of change and the complexity of requirements. But the best local bodies have their own clear idea of what they want and use national rules to achieve it. The basis for this is very often a strategic approach across the different Departments and professions in Local Government. This means breaking down the silos between housing and planning, and economic development. This is not a problem specific to rural housing but may have a more significant impact in rural areas where the opportunities for development may be fewer.

Working in Partnership – with Communities

Local opposition, or the fear of it, deters government at all levels from really backing the provision of affordable rural housing. People have the right to make their views heard and to express environmental concerns. But local authorities have a duty to meet housing need and a fundamental role in finding common ground between the key interest groups. Sometimes the powerful voices of a small number, protecting their own immediate environment, can override a more broadly-based consensus about the need for appropriate development to meet proven and pressing social need. National politicians too, while saying in general terms they support more affordable housing in the countryside, sometimes campaign against developments in their patch which would provide such housing.

We have already considered the potential role of CLTs in promoting community-based ownership of affordable housing and believe they have an important role to play in building consensus. There are already requirements for local authorities to engage communities in the planning process. But we think these need to be strengthened, in terms both of what is required

and how it is done. Parish councils provide a route for taking forward both of these points, including through the production of parish plans.

Parish councils with close links to rural communities have a central role to play in improving the local quality of life. The Government's commitment to giving them greater leadership in their communities is welcome. We look forward to the opportunities which the White Paper on Local Government, planned for summer 2006, may offer for greater community engagement at parish council level.

Parish councils are statutory bodies. They differ hugely in size, resources, aspirations, activities and abilities. However, all have broadly similar, but relatively limited, powers to spend the public money which they can raise through the local tax or "precept". In order to fully realise their potential, they must stand for the interests of the whole of the community they represent.

The effectiveness of parish councils is very variable, for example, in the amount of precept collected and whether councillors are co-opted or stand for election. In part reflecting the lack of available resources, parish councillors sometimes do not have the knowledge or support to enable them to play a positive part in providing affordable rural housing. Not all rural areas are represented by parish councils, but in some places the parish meeting is the only mechanism for engaging the community. Parish councils are often well placed to know what communities need and what might work in terms of affordable housing, and yet have an insufficiently clear role in its planning and delivery. Some of these deficits may be addressed by Quality Parish status (see Figure 7.2), and by encouraging those areas currently without parish councils to consider forming one.

The Quality Parish & Town Council Scheme is a voluntary peer-assessed benchmark. By meeting the requirements of the scheme and receiving Quality status, a parish council is sending out a message that it is a truly competent and worthy representative of its community. The Quality Parish Scheme will be reviewed later in 2006.

Figure 7.2: The Quality Parish Council Scheme

A Quality Parish Council:

- Is representative of, and actively engages with, all parts of its community, providing vision, identity and a sense of belonging;
- Is elected and accountable to the community;
- Is effectively and properly managed;
- Articulates the needs and wishes of its community;
- Upholds high standards of conduct;
- Is committed to work in partnership with principal local authorities and other public service agencies;
- In proportion to its size and skills, delivers local services on behalf of the principal local authority when this represents the best for the local authority;
- Provides leadership to the community, and;
- Working with partners, acts as an information point for local services.

For more information please see www.defra.gov.uk/rural/communities/parish-councils.htm.

Parish plans are one of the most interesting developments in local politics, with rural areas at the cutting edge of a new approach. They can be a valuable source of evidence for decision-makers. Based on local consultation, parish plans identify and prioritise the community's needs, then set out in an action plan how these can be tackled. Ideally, parish plans should inform and feed into the community strategies developed by Local Strategic Partnerships. We have seen that they can be invaluable in building a consensus in support of affordable housing, and bringing a community together, but there is no clear mechanism for them to feed into Local Development Plans. Their value is demonstrated in Stratford Upon Avon where sites identified for affordable housing are included within local planning documents.

Best Practice – Stratford-upon-Avon District Council: Local Choice Initiative

The Local Choice Initiative is an innovative approach to community planning developed by Stratford-upon-Avon District Council. It is an approach that is based on the principles of parish planning and is now delivering schemes like the one in Brailes described below.

The context for the initiative is strategic policies designed to generally restrain new housing development in rural areas. The planning policy framework is provided by a policy in the council's Local Plan Review and accompanying supplementary planning guidance. In certain towns and villages there is scope for allowing the development of both affordable and market housing, provided such housing meets a local need identified by the local community. Occupancy is restricted to local people by Section 106 agreements. It builds upon the well-established rural 'exceptions' initiative, which continues to operate in those smaller villages not covered by the new initiative.



The Initiative encourages communities in the district to prepare a Parish or Town Plan and, as such, it is the local communities themselves who drive the development process. Through the plan the community is able to identify particular needs that it wishes to meet, and to start identifying specific locations where the need can be met. Plans can also provide more specific guidance on the nature and form of possible developments to meet the identified needs. Encouragingly, in the two villages where schemes have already been delivered, the parish planning process appears to be strengthened.

The policy became operational in January 2003. Although the scheme is still relatively new, two schemes have been completed on Local Choice sites, with one more being built and two more in the pipeline.

Sutton Lane, Brailes

The scheme on Sutton Lane in Brailes was one of the first Local Choice sites to be completed. With a population of just over 1,000, Brailes lies within the Cotswold Area of Outstanding Natural Beauty and is one of the applicable settlements under the new policy. The greenfield development on the Sutton Lane site was completed in November 2005.

Some of the early development work for the scheme including the local housing needs survey pre-dated the Local Choice Initiative. However, by the time planning permission was sought the new policy framework was in place and development was assessed against the criteria in policy COM.1. Permission was granted as a Local Choice Initiative site. Funded by the Housing Corporation, South Warwickshire Housing Association built ten affordable homes to 'Lifetime Homes' standards. Local occupancy for the homes is restricted through a Section 106 agreement.

Similarly, Village Design Statements, which are produced by village communities rather than planning authorities, set out clear and simple guidance for the design of all development in a village, based on its character. These can be used to build community consensus on how the built environment should look and help overcome opposition to development by promoting sensitive design. They have been developed and adopted by over 200 communities. There is scope for much wider adoption and for improving linkages with parish plans and the local planning process. Some have already been incorporated into Supplementary Planning Guidance.

Recommendations

The Government issues clear national guidance for parish councils and community groups on developing parish plans, including the provision of affordable housing and use of Village Design Statements. The impact of past programmes (for example, Vital Villages) to support parish councils in this work has been considerable and should be revived. We also recommend that Government identifies funding from within Defra's Rural Social and Community Programme budget to meet the costs incurred in preparing Village Design Statements and parish plans.

The Government sets out firm guidance on how to integrate parish plans into Local Development Frameworks, National Parks Policy and Local Area Agreements. This should be the primary way in which the Government's devolutionary agenda to local level is pursued in rural areas.

The Government's review of the Quality Parish Council initiative looks at providing incentives for parish councils to join the scheme and to identifying the positive role which they can play in the delivery of affordable housing.

Working in Partnership – Specialist Skills

Even with active parish councils and good parish plans, many rural communities have had to make a very difficult journey from identifying local housing needs to achieving affordable homes for local people. In many areas communities have only been able to do this with the assistance of a knowledgeable guide. We believe that advice and guidance is essential and must be universally available to rural communities as it is to those which have access to a Rural Housing Enabler. Their role is outlined in Figure 7.3 below.

Going round the country we have been particularly impressed by the commitment and enthusiasm of RHEs, who are often relatively

Figure 7.3: The Role of Rural Housing Enablers

Increasing the provision of affordable housing in rural communities is a long and complex process. A national programme of independent Rural Housing Enablers (RHEs) helps facilitate this process. RHEs are specialists who:

- Help parish councils to understand the processes and options for achieving affordable housing;
- Identify housing needs which cannot currently be met by the market;
- Develop and maintain positive relationships with housing and planning authorities in pursuit of the provision of affordable housing;
- Identify potential sites and liaise closely with landowners and planning authorities over constraints and opportunities;
- Liaise closely with local housing associations and Housing Partnerships to facilitate a smooth handover from pre-development to development processes;
- Operate independently to achieve consensus among partnership stakeholders, and contribute to relevant strategies at national, regional and local level to deliver affordable rural housing, and;
- Identify potential means of funding.

poorly paid. There are currently around 40 of them across England, broadly on a one per county basis. The intensive nature of their work means that they can only provide support to a small number of communities at a time. They are funded in part through Defra's Rural Social and Community Programme (to the value of around £700,000 per year), which runs for only two years and by local authorities and housing associations on similar short-term agreements. This funding approach has resulted in a number of weaknesses in actually delivering the support communities need:

- The available funding and long term career structure is not sufficient for a group of individuals who produce such a high level of output. This has often led to RHEs being recruited at too low a salary (such as £20,000) for the mix of community development and planning skills needed, and not being supported to an adequate level.
- Short-term funding means that many RHEs move on quickly to find more secure jobs, and have to spend time securing further funding rather than houses.
- They often work in relative isolation.
- They lack specific training or a career structure.

Retaining the independence of RHEs is also an important factor in their effectiveness. This is particularly important where local housing needs are not recognised or where resistance to any housing development is very strong.

Recommendation

A guidance role is provided and managed at a strategic level by the Regional Housing Boards. Wherever possible value should be added to this through partnership funding agreements between housing associations and local authorities.

The role of RHEs will change once Government has started to implement other recommendations, especially those relating to planning and finance. A discussion will then be required with RHBs, housing associations, local

authorities and Rural Community Councils to redefine this new role of independent affordable housing pre-development advice to rural communities.

Recommendation

In order to enable an orderly transition to these new arrangements Defra and/or DCLG replace the funding for Rural Housing Enablers being provided through the Rural Social and Community Programme with three years of increased continuity/development funding. We anticipate this costing around £5m. The aim would be to comprehensively raise standards of delivery, and develop a professional progression and vigorous approach to continuing professional development.

As a result we anticipate that the local partnerships will be more willing to contribute to developing a long-term business model for the service in each area.

This recommendation endorses the call for additional funding made in the recent report from the Joseph Rowntree Foundation's Rural Housing Policy Forum.

Working in Partnership – with Developers and Housing Associations

Councils, developers and landowners have all told us that they find the planning process works better for them when they can engage in discussions about what they are trying to achieve. This starts with discussions between councils and landowners about suitable sites to include in plans. It also encompasses discussions between planners and developers about issues like cross-subsidy and mix of size and tenure of the housing to be provided.

We therefore support the commentary in the recent NAO and Audit Commission report¹ about Government getting a better balance between the need for local authorities to get applications dealt with quickly, and the advantages of spending time on pre-application discussion.

1 National Audit Office and Audit Commission (2005)

Best Practice – Lincolnshire Rural Housing Enabler Marketing Strategy

The Lincolnshire Rural Housing Enabler has developed a marketing strategy to help secure a long-term future for the post.

The RHE project was originally established in West Lindsey in 1991 as part of a national pilot project by Action with Communities in Rural England (ACRE). It has since been extended to cover West Lindsey supported by local funding, time-limited funding originally from the Rural Development Agency's Rural Housing Enabler programme and then the programme of its successor, the Countryside Agency, as well as the Housing Corporation. The scheme has helped deliver 186 affordable homes since 2001. The post is hosted by the Community Council of Lincolnshire.

To ensure the viability of the post beyond existing funding commitments, the RHE developed a marketing document to help secure ongoing funding for the project, both locally and nationally. The document highlights the achievements and value of the project to potential funders, as well as sharing examples of best practice undertaken by the RHE. It illustrates the success of the project, showing the outputs of schemes and units delivered with the assistance of the RHE, along with testimonies of local authority and housing association partners. The RHE has been involved in a number of innovative case study developments, and these are used to demonstrate the importance of the role of the RHE in practice.

The marketing document has proved successful in helping the RHE and the project steering group demonstrate the value of the project, and so secure longer-term funding. Local partners have committed to funding the project for the next three financial years, with some partners increasing their contributions. The project has also been successful in attracting funding from Defra's Rural Social and Community fund for the coming two financial years and for an additional post covering the districts in the south of the county.

Getting and Using Good Quality Data

Understanding of local need and housing markets depends on the availability of up-to-date information in sufficient detail to support accurate analysis. In addition to the data available in Housing Needs Surveys and parish and design plans, the Chartered Institute of Housing and the Local Government Association in their recent report, *Visionary Leadership and Housing*, recommended the use of Geographical Information Systems (GIS). These would give local authorities access to continuously updated local data. They also suggested that the proposed National Advice Unit should ensure that all regions, sub-regions and local authorities have access to a common GIS, which is continuously updated.

Recommendation

Sub-regions and local authorities have access to a common GIS, which is continuously updated.

Gaining Skills and Confidence

Some of the issues we have covered are about specific technical skills or knowledge of certain rules or processes. We hope our report helps to clarify some misunderstandings about housing in rural areas. But whilst these technical skills are absolutely necessary, they are not sufficient. Councillors and officials need to have the confidence to speak up for affordable housing, in the face of arguments from NIMBYs, and to be able to explain the positive role of private development in generating cross-subsidy and meeting local need. Negotiation is at the heart of achieving results and the personal confidence gained by knowing that one has the necessary technical skills helps tremendously, so too do the leadership skills of people at all levels of local government.

The Improvement and Development Agency (IDeA) currently operates a number of programmes designed to improve local

Best Practice – the Canadian Approach

Our research into international practice highlighted initiatives to promote community action in relation to rural affordable housing in Canada. A number of public sector agencies and housing federations fund and administer a project called Home Grown Solutions through which small grants are provided to communities to support the development of new affordable housing. Also in Canada there are regional and national staff in place as part of the Centre for Public Private Partnerships in Housing who can provide resources to champion affordable housing partnerships at the community level. These resources include project development funding and mortgage insurance.

authorities' capacity to lead their communities and deliver services. These cover both council staff and elected members. They could contribute to improving capacity to facilitate provision of affordable housing in rural areas, but are not doing so to full effect at the moment.

IDeA's capacity building programme for local authorities aims "to enhance and develop councils' confidence, leadership and skills ... as well as developing their capacity to learn, innovate and share knowledge and expertise about what works and how." Through that programme, in 2004, it ran a successful rural mentoring pilot for council members and officers using teams drawn from local authorities with a strong track record. This evolved in 2005 into the Rural Excellence programme, with financial support from Defra and ODPM. The emphasis of the programme is on increasing local authorities' capacity to facilitate delivery. Many of those participating have asked for help with affordable rural housing. This initiative is very welcome.

In its current form, however, Rural Excellence will have only a very limited impact: thirteen councils will receive mentoring over the next year and a further twenty are involved as mentoring providers. And while the mentoring support is available to district councillors, it is not currently available to parish councillors. Given their key role in providing leadership at community level, we believe that this programme should be extended to them.

IDeA also provides training and development for council members through its Leadership Academy. The generic skills this covers will be extremely useful for members working on affordable housing issues. IDeA has in the past

developed specialist streams in specific service areas (such as adult social care) as part of that Leadership Academy approach. The Commission believes it should consider whether a similar specialist element would be appropriate for affordable rural housing. The involvement of other key national organisations, including the Housing Corporation and the Chartered Institute of Housing, in designing such a programme would ensure that it was authoritative.

Given their importance to the process of providing affordable housing, the leadership skills of planning professionals are particularly important. DCLG has recognised that culture change in the profession is needed to help planning become a means to enable change, rather than a barrier to it. The Planning Advisory Service launched in 2004, and hosted by IDeA, is part of the process of promoting that change. Using peer review and a range of training, the Planning Advisory Service is intended to help planners improve their skills and performance.

We are also aware of the role of the Housing Inspectorate as a force for driving improvement through their inspections using Key Lines of Enquiry which have recently been re-designed to encourage a strategic approach to improving delivery of affordable housing. As importantly, the Housing Inspectorate also offers a voluntary improvement service to local authorities which can help train them to explore and adopt new measures which meet inspection requirements. This improvement work is currently under review. Given the need to increase the skills and confidence of many rural local authorities we consider that this training and improvement role is vital to enhancing local authorities' performance.

Recommendations

The Housing Inspectorate retain and enhances its voluntary improvement work with local authorities with a specific target to assist rural local authorities.

The Government puts in place a training programme aimed at rural local authority and national park planning officers and councillors, to help them implement effective policies for providing affordable housing in rural areas.

The Government explores with IDeA the scope to extend its existing programmes – including Rural Excellence and its Leadership Academy – to increase local authorities' capacity to facilitate delivery of affordable rural housing. This should include development support for parish councillors.

The Government explores extending the purpose of the Planning Delivery Grant to provide financial support for extending these programmes.

The Community's Voice

The Government is increasingly devolving powers to regional bodies, such as Regional Housing Boards. In as much as this brings issues like housing a little closer to local community control we support this process. But regional level is a long way from village level. The rural voice in bodies like Regional Assemblies can be marginalised and weak partly because rural communities are in the minority, and partly because rural bodies, such as district councils, tend to be smaller in size than their metropolitan counterparts. In our visits we have repeatedly been told that these regional bodies are too urban-focused to respond to rural need. We think there are two ways to tackle this. One is to require that bodies entrusted with such important decisions are held to account for them and have to show that they have reflected the needs of all communities in their region, not just those with the loudest voices.

But rural communities should not think of themselves as victims of a process in which they

have no part. The other solution is for rural local authorities and other important groups such as Regional Rural Affairs Fora to come together and to make affordable housing a shared goal.

One of the other mechanisms for injecting rural thinking into these new regional arrangements may be through the Regional Rural Delivery Frameworks (RRDFs) currently being developed. Defra has commissioned each of the Government Offices for the Regions to develop a RRDF to achieve a number of outcomes:

- the articulation of clear priorities for rural delivery in each region, set within the national policy context but reflecting regional, sub-regional and local needs and opportunities;
- simplification of the way services are delivered to customers through improved working between delivery organisations;
- securing greater coherence between rural policy and other regional strategies and delivery plans, and;
- better alignment of regional policy and delivery with local priorities and actions.

In most regions, the RRDF process has identified access to affordable rural housing as a priority. For example, the North West has identified this issue as one of its six high-level priorities. Rural partners in the region are clear that successfully addressing the rural affordable housing agenda cannot be done in isolation, but has to be tackled in the context of other RRDF priorities (which include maximising the economic potential of the region's rural areas and addressing rural social exclusion). The value of the RRDF is that it clearly identifies and links those critical priorities, and bridges the silos of individual strategies and organisations. It is a tool which helps to join-up activity in rural areas and target intervention and support to make the most effective impact.

RRDFs provide a mechanism for establishing cross-cutting rural priorities and using them to inform development of wider regional strategies, including Regional Spatial Strategies.

However it is not yet clear how influential they will be in securing recognition of the needs of rural areas, and how much weight they are likely to be given by Regional Assemblies and Regional Planning Boards.

Recommendation

The Government assesses the effectiveness of RRDFs in reflecting the affordable housing needs of rural areas, and influencing the regional planning process.

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Annex A – Terms of Reference

1. To consider the evidence and reach a consensus on the relevant issues around affordable housing needs in rural areas, in the context of sustainable rural communities.
2. To provide recommendations for practical solutions across private, government and voluntary sectors, taking account of existing good practice

The Affordable Rural Housing Commission will need to undertake its work in the context of the Government's commitment to sustainable development, including creating and maintaining sustainable communities.

The Commission is therefore tasked with considering how to maximise the contribution that any proposed solutions and recommendations can make to meeting social, economic and environmental needs, through integrated action.

The Commission will cover England only, although innovative practice from other countries may be used to inform its work.

Annex B – Commissioners' Biographies

Elinor Goodman was Political Editor of Channel Four News from 1983 until July 2005. She was a trustee of the Wiltshire Community Foundation, which raises money for groups dealing with rural isolation; was a member of MAFF's Hills Task Force; has been a trustee of the Rowntree Reform Trust; and is currently on the Boards of the Hansard Society Board and the Thomson Foundation. Elinor lives in Wiltshire and is a keen horsewoman.

John Acres is Senior Planning Manager for Redrow Homes (Midlands) Ltd. He previously worked for the House Builders' Federation in the Midlands and has also had experience in Local Government in London. John was a founder Board member of the South Shropshire Housing Association where he served for 8 years and was also a local Parish Councillor for 5 years.

Peter Bradley was MP for The Wrekin from 1997 to 2005. In 1997 he established the Rural Group of Labour MPs which he chaired until his appointment as Parliamentary Private Secretary to the Minister for Rural Affairs in 2001. He has been a campaigner for affordable housing throughout his political career and edited *Building Stable Rural Communities*, papers arising from a seminar on rural housing which he organised at Westminster in 2003.

Teresa Butchers is Chief Executive of the Devon and Cornwall Housing Group, which manages 9,000 homes and works with local people to develop sustainable communities. Teresa is a member of the National Housing Federation's South West Committee, the Regional Housing Forum and the Chartered Institute of Housing. She has lived in rural Devon for over twenty years.

James Caird is a Chartered Architect and Town Planner. He has worked in the public, private and voluntary sectors. He was Head of Planning at South Shropshire District Council from 1985 to 2006. In 1998-99 he was President of the Planning Officers' Society.

David Fursdon is President and Chairman of the Board at the Country Land and Business Association. He is a qualified Rural Chartered Surveyor and runs a rural property in Devon where he farms and carries out a small tourist business with his wife. He is Chairman of his parish.

Fiona Hadfield is a dairy farmer with previous social housing experience leading Parwich Action Group's housing project. The Peak District village of Parwich received funding to build affordable

homes in the village and won the Chartered Institute of Housing's 'Best Community Initiative Award 2004.' She has recently moved from Derbyshire to Ayrshire.

Jeremy Leggett is Chief Executive of Action in Rural Sussex, an organisation committed to helping Sussex villages remain living, working communities. He has been a member of the South East Regional Assembly since it was established in 1999 and currently serves on the Regional Planning Committee.

Mark Shucksmith is Professor of Planning at the University of Newcastle-upon-Tyne and Vice-President of the International Rural Sociological Association. He is a Board Member of the Countryside Agency, adviser to the Joseph Rowntree Foundation (JRF) on rural issues and secretary to JRF's Rural Housing Policy Forum. He is the author or co-author of a number of books on rural housing and during 1990 he was seconded to Scottish Homes to help develop Scotland's rural housing policy.

Neil Sinden has been Policy Director of the Campaign to Protect Rural England (CPRE) since April 2002. He was previously Head of Policy and Research at the urban regeneration charity ROOM where he managed the Government-funded Positive Planning Project, including research on affordable housing. He has also worked for the arts and environment charity Common Ground.

Emily Trevorrow is Affordable Rural Housing Director at Business in the Community, leading an initiative aimed at engaging the private sector: landowners, developers, financiers and housing providers, in the provision of affordable rural homes. She co-authored the publication 'Affordable Rural Housing: An Opportunity for Business'. Prior to her current role, Emily worked at Entec UK, an environmental consultancy, leading on stakeholder engagement and regeneration.

Mark Webster is Head of Housing Finance and a Senior Executive in Nationwide Building Society's Commercial Division with responsibility for leading the Society's lending to the affordable housing sector. He has specialised in housing association finance since 1990, and previously worked in various management roles in Nationwide's branch network. Currently living in Northamptonshire, Mark has spent much of his life in rural Suffolk.

Annex C – Estimates of Need

Producing social housing need estimates is a complex undertaking. The results are heavily influenced by the assumptions made – for instance about who should be eligible for social housing, how many households are poorly housed and how many households will form in the future. There are two main methodologies which tend to be used and they are summarised below.

Cambridge University Approach¹

1. The analysis begins with estimates of the total number of new households that will form in the future based on demographic trends with the implicit assumption that past trends in economic factors e.g. house prices and earnings, continue in the future.
2. Based on past experience of trends in tenure, an estimate is made of the growth in the number of households in the social rented sector
3. Adjustments are then made for vacant dwellings, replacement of lost re-lets due to Right to Buy, growing reluctance of private landlords to let to Housing Benefit tenants, and to replace net losses in stock.

This is broadly the approach that has been used to derive their estimate of 40,000 newly-arising need for social rented units a year.

Glen Bramley approach²

1. This approach focuses on affordability and the price-entry point into the housing market for new households.
2. The starting point is a cohort-survival based household projection which determines the formation of new households.
3. House price data and income data are then used to perform affordability analyses to estimate the number of newly forming households from this cohort who would be unable to buy or rent in the private market.

This approach has broadly been used to derive the CRC's estimate of 22,800 to meet newly arising needs of those living in rural areas³.

1 For more details on methodology see: Building for the Future- 2005 update Shelter Housing Investment Project Series

2 For more details on methodology see: Glen Bramley and Noah Kofi Karley, (2003) Potential Need & Demand For Low Cost Home Ownership, Home Ownership Task Force

3 Commission for Rural Communities, (2006a)

Annex D – List of respondents submitting written evidence to the ARHC

The ARHC openly invited responses to a series of questions regarding the key issues and barriers to affordable housing in rural areas based on the following themes:

- Land and Property
- Funding and Finance
- Policy Integration
- Governance and Local Leadership

In total 75 responses were received, most, but not all, structured under the above themes. Respondents included a range of national and regional bodies, local authorities and parish councils, housing associations, rural housing practitioners, private businesses as well as a range of other types of organisations and interested individuals.

Of the 75, four respondents requested that their evidence be treated as confidential and have therefore not been included in the list below.

List of respondents

Action with Communities in Rural Kent	English Rural Housing Association
Andrew Rogers, West Midlands	Flagship Housing Group
Association of Second Home Owners	Harrogate Borough Council
Bedford Rural Communities Charity	Hastoe Housing Association
BMS Management Consultants Int.	Horsham District Council
Building and Social Housing Foundation	HRH The Prince of Wales's Affordable Rural Housing Initiative
Campaign to Protect Rural England (CPRE)	Humber and Wolds Rural Community Council
Chartered Institute of Housing	Isle of Wight Rural Community Council
Church Commissioners for England	Kelda Group Plc, East Midlands
City of York Council	Kennet District Council
Colwich Parish Council	Kent Rural Housing Enabler Project
Commission for Rural Communities	Lakeland Housing Trust
Community Action Hampshire	Land Locator Company, Edinburgh
Community Council of Devon	Local Government Association
Community Council of Staffordshire	Mendip Housing Association
Cornwall Agricultural Investment Team	Mid-Bedfordshire Planning Consortium
Cornwall AONB Partnership	Mr. T.C Adams, Exeter
Craven District Council	Mrs. Di Aldrich, Cheshire
Dartmoor National Park Authority	National Housing Federation
Dorset Community Action	National Housing Trust
East of England Regional Assembly	Newark and Sherwood District Council
English Rural Housing Association	

North West Lancashire Rural Pathfinder Project
North Yorkshire County Council
Northamptonshire ACRE
Northern Affordable Homes Ltd.
Oxford Brookes University
Peak District National Park Authority
Peak District Rural Deprivation Forum
Penk Ltd, Stafford
Richard Hilken, Exeter
Russell Bibby, Halifax
Ruth Wrixton
Sarsen Housing Association, Wiltshire
Shelter
South East Rural Communities Council
South Hams District Council
South Lakeland District Council
South Norfolk Council
South West Regional Assembly
Southern Housing Group, Kent
Stroud District Council
Sturminster Marshall Affordable Self-Build
Homes Group
The CLA Rural Housing Working Group
The Rural Housing Trust
Town and Country Planning Association
University of Salford (also representing Wessex
Re-investment Trust)
West Berkshire Council
Wiltshire Rural Housing Association Ltd.
Woodland Restoration Unit, Staffordshire

Annex E – Rural and Urban classifications

The Rural and Urban Area Classification was a product of a joint project to produce a single and consistent classification of urban and rural areas. The project was sponsored by the Countryside Agency, the Department for Environment, Food and Rural Affairs, the Office for National Statistics, the Office of the Deputy Prime Minister and the Welsh Assembly Government. A consortium consisting of South East Regional Research Laboratory at Birkbeck College and the Department of Town and Regional Planning at the University of Sheffield carried out the work.

The definition adopts a settlement-based approach and is available for England and Wales at:

- Census Output Area (COA or OA)⁴
- Census Super Output Area (CSOA or SOA)
- Ward level

The rural definition consists of two parts:

- The settlement morphology comprising all places under 10,000 population (comprising small 'rural' towns, villages and scattered dwellings); and
- The wider geographic context in which individuals are located (i.e. whether the wider area is defined as being 'sparsely' populated or not).

The OA rural population of England is 9.5 million. Of these 4.4m (47%) live in small rural towns, 3.5m (37%) in villages, 1.6m (16%) in scattered dwellings.

For further information please see:

http://statistics.defra.gov.uk/esg/rural_resd/rural_definition.asp

The map on page 91 shows the rural and urban areas at 2001 Census Output Area (COA) level. Note that 7 categories of COA's are shown in the map below, one of which is urban, with the remaining 6 classes being rural.

Many statistics are only available at local authority level. In order to differentiate between Rural and Urban for these statistics it is necessary to classify the local authorities.

The Rural/Urban Local Authority District Classification is a six-way classification, from Major Urban districts through to Rural 80 ones, where over 80% of the population are considered to be in rural areas.

The six classes are:

Major Urban: districts with either 100,000 people or 50 percent of their population in an urban area with a population of more than 750,000; there are 76 districts in this group.

Large Urban: districts with either 50,000 people or 50 percent of their population in one of 17 urban areas with a population between 250,000 and 750,000; there are 45 districts in this group.

Other Urban: districts with fewer than 37,000⁵ people or less than 26⁷ percent of their population in rural settlements and larger market towns; there are 55 districts in this group.

Significant Rural: districts with more than 37,000 people or more than 26 percent of their population in rural settlements and larger market towns; there are 53 districts in this group.

4 OAs consist of around 125 households and have a population of around 300. SOAs are built of OAs, typically 5, and so contain around 625 households or a mean population of around 1500. OAs therefore vary greatly in size and shape between urban and rural regions, for example a single tower block may consist of more than one OA, whereas a large area of remote moorland may be covered by a single OA.

5 Urban COA's can be further categorised into sparse and less sparse to give an 8-fold definition.

6 The national average of the number of people in rural settlements within districts.

7 The national (weighted) percentage of people in rural settlements within districts.

Rural-50: districts with at least 50 percent but less than 80 percent of their population in rural settlements and larger market towns; there are 52 districts in this group.

Rural-80: districts with at least 80 percent of their population in rural settlements and larger market towns; there are 73 districts in this group.

Predominantly rural districts are the Rural 80 and Rural 50 categories.

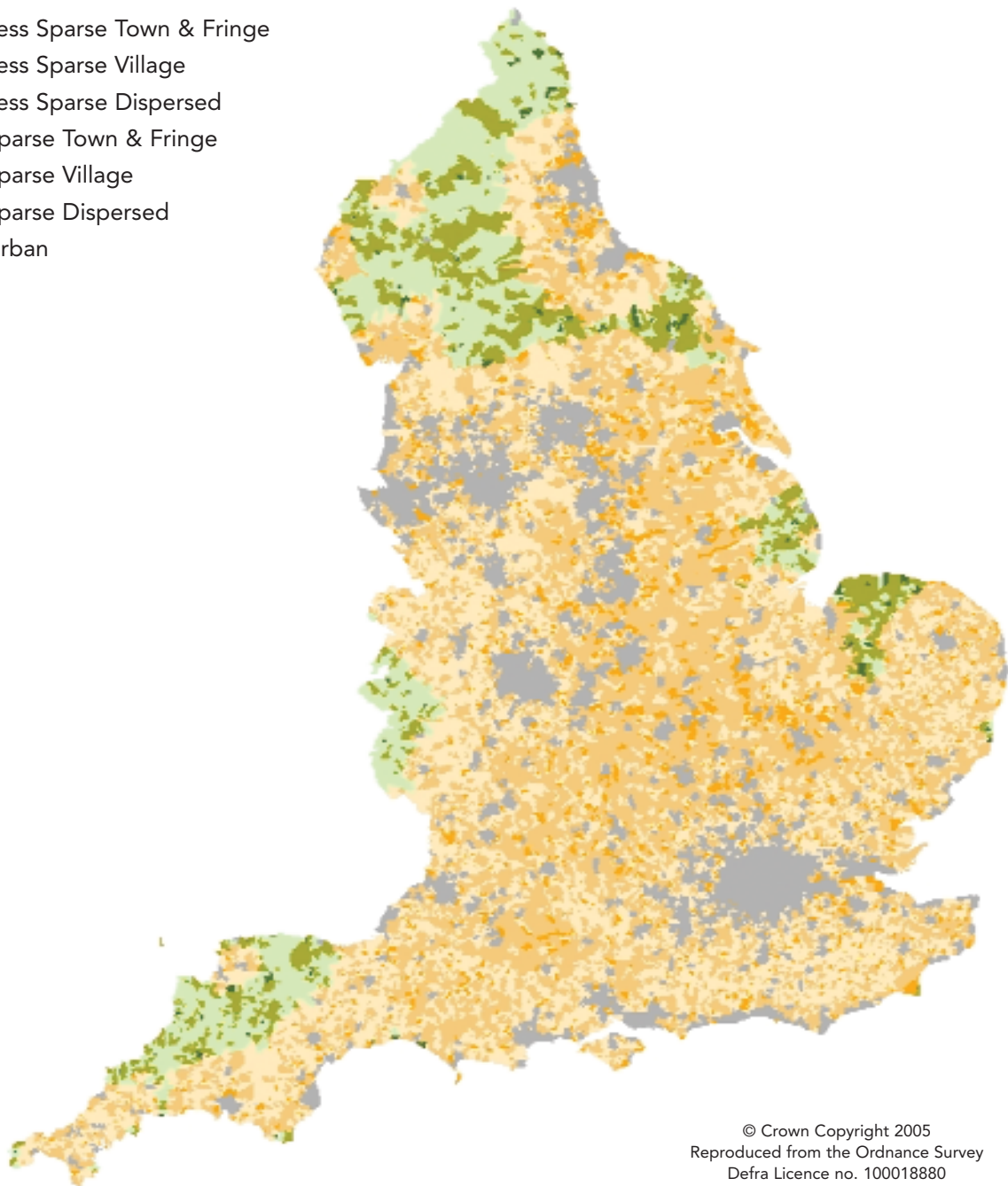
Mixed districts are Significant Rural and Other Urban categories.

Predominantly urban districts are the Large urban and major urban categories.







The map on page 92 shows the Rural/Urban local authority District Classification:

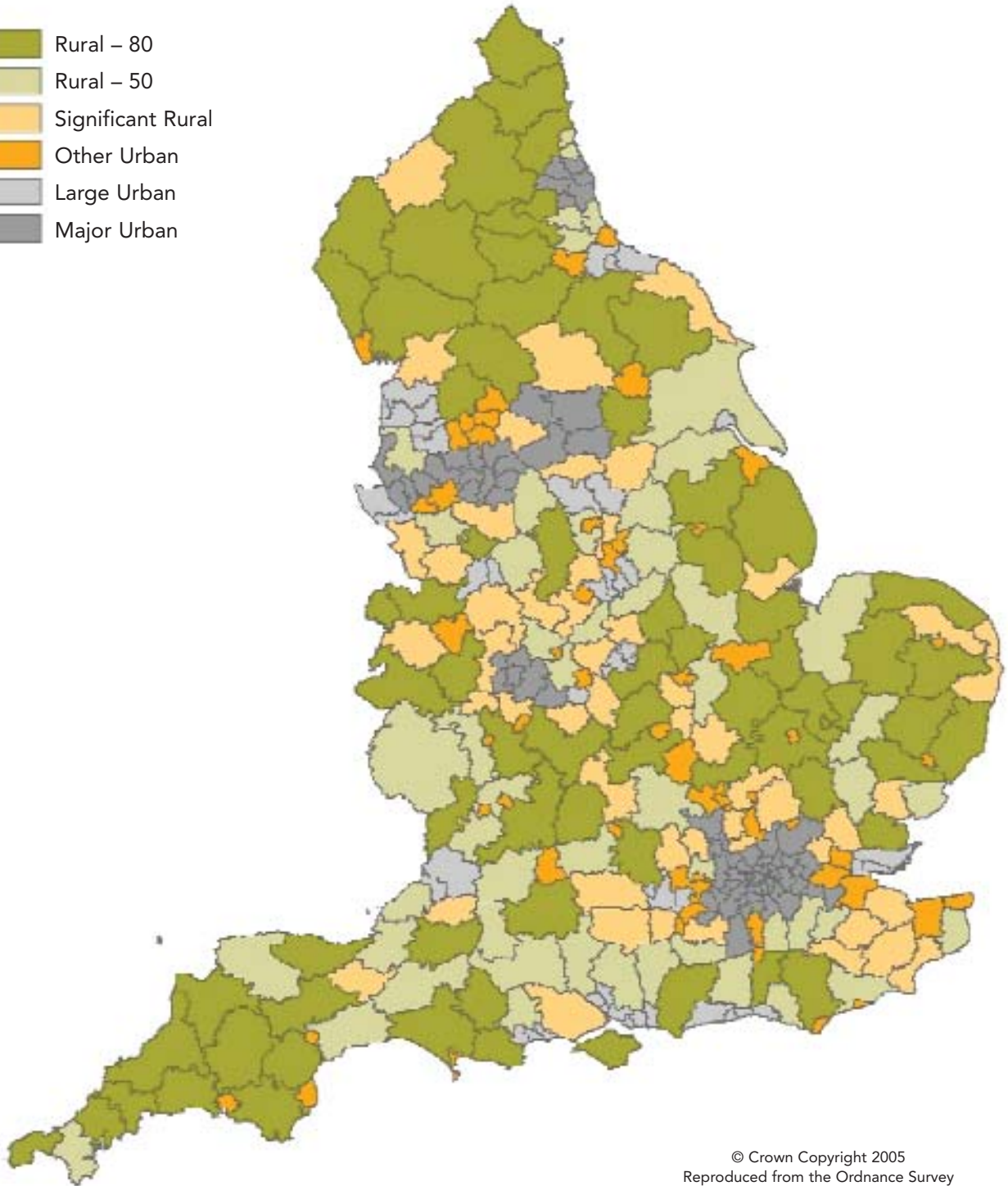
Census Output Areas Rural/Urban Definition 2004

- Less Sparse Town & Fringe
- Less Sparse Village
- Less Sparse Dispersed
- Sparse Town & Fringe
- Sparse Village
- Sparse Dispersed
- Urban



Local Authority District Classification 2005

-  Rural – 80
-  Rural – 50
-  Significant Rural
-  Other Urban
-  Large Urban
-  Major Urban



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Annex F – Glossary of Key Terms

affordable housing (or sub-market housing)

housing provided at prices below those of the market to some eligible households whose housing needs are not met by the market. It can include *social rented* and *intermediate* housing. It is usually but not always part-funded with *social housing grant from the Housing Corporation*.

Barker Review Kate Barker's review of housing supply commissioned by H.M. Treasury and the Office of the Deputy Prime Minister (ODPM): *Delivering stability: securing our future housing needs*, March 2004.

beacon councils Scheme introduced in 1998 to identify centres of excellence in local government from which others can learn.

brownfield land Formally "previously developed land that is unused or may be available for development". It includes both vacant and derelict land and land currently in use with known potential for redevelopment. It excludes land that was previously developed where the remains have blended into the landscape over time.

capital spending Spending by local authorities or other housing providers on repairs, maintenance and the provision of new affordable housing.

code for sustainable homes A proposed new code to improve the sustainability of new homes that includes improvements to energy and water efficiency.

Comprehensive Performance Assessment (CPA) A performance management framework for local government covering a range of local authority services and their organisational capacity.

decent home A home that is warm, weatherproof and has reasonably modern facilities.

EcoHomes environmental assessment An environmental assessment method for homes. EcoHomes considers the broad environmental concerns of climate change, resource use and impact on wildlife and balances these against the needs for a high quality, safe and healthy internal environment.

English Partnerships (EP) The national regeneration agency, helping the Government to support high quality sustainable growth in England.

Government Offices for the Regions (GOs) Representatives of central Government in the regions, bringing together the work of ten government departments.

green belt A designation for land around certain cities and large built-up areas which aims to keep this land permanently open or largely undeveloped. Most new building development is not permitted in the green belt, in order to restrict the spread of built-up areas into the surrounding countryside.

greenfield land Land which has never been built on before or where the remains of any structure or activity have blended into the landscape over time.

HomeBuy Government *intermediate housing* schemes to commence April 2006 under which existing and potential *social rented* tenants, key workers (under *Key Worker Living*) and others can purchase a home on the open market with an equity loan. Includes proposals to allow social rented tenants to buy a share in their 'rented' home and move up to full ownership as they feel ready.

household One person living alone or a group of people who share common housekeeping or living room.

housing associations Common term for the 2000 or so independent, not-for-profit organisations registered with, and regulated by, the *Housing Corporation*. Housing Associations are able to bid for funding from the *Housing Corporation* (see also *Registered Social Landlord*).

Housing Corporation The Housing Corporation's role is to fund and regulate housing associations in England.

intermediate housing *Affordable housing* available to eligible groups such as key workers at prices lower than the market but higher than *social rented* homes. Includes shared equity low cost home ownership (e.g. *HomeBuy*) where a

purchaser buys a share of a home and a housing provider holds the remainder. Also includes 'intermediate rented' homes.

key worker living (KWL) A Government scheme running since 2004 helping key workers in London, the South East and East of England to buy a home, upgrade to a family home or rent a home at an affordable price. Replaced the Starter Home Initiative (2001-04), which had similar goals.

local development frameworks (LDF) The local development documents, set out in the form of a portfolio, which collectively deliver the spatial planning strategy for the local planning authority's area.

mixed development A well integrated mix of land uses (retail, employment, leisure and other service uses) with decent homes of different types and tenures to support a range of household sizes, ages and incomes.

modern methods of construction Construction that uses modern processes to help provide more, better quality houses in less time.

planning delivery grant A performance reward initiative designed to incentivise planning performance, paid annually to local planning authorities as a reward for good performance in the previous year.

planning policy statements Statements issued by Government setting out planning policy and the main land uses. They are supported by a range of good practice and other documents providing guidance and advice on the application of policy.

Regional Development Agencies (RDAs) Set up by Government to promote sustainable economic development in England. They are business led. Their main tasks are to help the English regions improve their relative economic performance and reduce social and economic disparities within and between regions.

regional housing board (RHB) The *Sustainable Communities Plan* introduced new regional arrangements to help deliver sustainable

communities, including the creation of Regional Housing Board in each of the nine English regions. The Board is responsible for drawing up the Regional Housing Strategy and making recommendations to Ministers about the Regional Housing Pot.

regional planning body (RPB) Body with the principal responsibility for the preparation of draft revisions to a Regional Spatial Strategy. As of April 2003 the RPB, in all regions outside London, is the Regional Chamber (known as the Regional Assembly).

regional spatial strategy (RSS) A strategy formerly known as Regional Planning Guidance (RPG), for how a region should look in 15–20 years time and possibly longer. It identifies the scale and distribution of new housing in the region, indicates areas for regeneration, expansion or sub-regional planning and specifies priorities for the environment, transport, infrastructure, economic development, agriculture, minerals and waste treatment and disposal.

registered social landlord (RSL) Technical name for bodies registered with the Housing Corporation. Most RSLs are *Housing Associations*. They own or manage some 1.4 million *affordable* homes, both *social rented* or *intermediate*.

right to acquire A scheme which enables some housing association tenants to purchase their *social rented* home with the benefit of a discount, subject to a Government-specified maximum amount depending on the local authority area. The scheme only applies to properties built or acquired by housing associations, both charitable and non charitable, with public funds from 1 April 1997 onwards. Properties transferred from a local authority to a housing association after 1 April 1997 are also eligible. Some properties are exempt from the scheme including those in small rural settlements and sheltered housing.

right to buy A scheme under which most council tenants and some *housing association* tenants may buy their homes at a price lower than the full market value. Only properties that are particularly suitable for occupation by elderly or disabled people, or are let in connection with

the tenant's employment, are exempt. People qualify for a discount on the basis of the number of years that they have been *social rented housing* tenants, subject to a Government-specified maximum amount that varies.

shared equity A means of helping people into home ownership. The buyer purchases a share of their home, with the remaining share being held by another party, for example a *housing association*. When the homeowner comes to sell the home, the other party would be entitled to some of the proceeds of the sale. Many shared equity homes are *intermediate housing* provided in part through *social housing grant*.

social exclusion Social exclusion happens when people or places suffer from a series of problems such as unemployment, poor skills, low incomes, poor housing, high crime, poor health and family breakdown.

social housing Housing provided by *Registered Social Landlords* or the local authority at a rent lower than market rent.

social housing grant Capital grant provided by the *Housing Corporation* to fully or partially fund investment in new *affordable housing*. Available to *Registered Social Landlords* and (since 2004) to other bodies including private developers (called 'non-RSLs').

social rented housing *Affordable housing* provided for rent at or close to target rents below market levels to eligible groups on housing waiting lists. Provided and managed by local authorities, *Registered Social Landlords* or other bodies.

Starter Home Initiative (SHI) Government funded scheme to help key workers, primarily teachers, health workers and the police, to buy homes in areas where high house prices are undermining recruitment and retention. The SHI was available from 2001 to March 2004, and has been replaced by *Key Worker Living*.

statutory homeless households *Households* that local authorities must, by law, ensure have somewhere suitable to live.

temporary accommodation Accommodation arranged by a local authority in order to meet a homelessness duty.

tenure The nature of the structure by which people own or rent their home. Categories are usually broken down as follows: Owner Occupied, Private Rented, social rented and shared ownership.

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ODPM: <http://www.odpm.gov.uk>

Commission for Rural Communities:
<http://www.ruralcommunities.gov.uk>

Annex H – Contact details for Best Practice examples

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East Lindsey District Council
Tedder Hall
Manby Park
Manby
Lincolnshire
LN11 8UP

Nottingham Community Housing Association
12/14 Pelham Road
Sherwood Rise
Nottingham
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Rural Housing Enabler
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Kent County Council
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