

Issue 2 Sub Matter: Rural Areas

Thursday 24 January 2012

Rural Exception Sites

8.6 Policy RA4 (Rural Exception sites) allows for a small proportion of market housing to cross subsidise affordable housing where essential for viability. Is this consistent with national policy in PPS3? If paragraph 112 of current draft of the NPPF were to become national policy before the close of the Examination, would RA4 be consistent with national policy? Is FPC5 required for soundness?

1. As our representations to the Core Strategy Publication Version December 2010 state (para 5.4 – 5.5), given the lack of public subsidy available, cross-subsidy from market housing would be required in order to bring forward rural exception sites over the plan period. Without this policy it will be extremely challenging to bring forward any rural exception schemes. The comment we made were prior to the release of the draft NPPF which encouraged local authorities to allow cross subsidy within rural exception schemes. We consider that the principle of the proposed policy would accord with the draft NPPF, although some further changes are required to the detail.
2. Our concern is that the policy is worded so that it only applies to small sites of around 10 units, however rural exception schemes can often contain 25 units or more. The limit should be the capacity of appropriate sites, the demonstrable level of need and relative to the size of the settlement. For example, a scheme of 5 units could be considered small in a hamlet, whereas a scheme of 30 units might be considered small in a large village. The draft NPPF does not actually make any reference to 'small sites' (paragraph 112). In order to fully accord with the draft NPPF, the supporting text should remove reference to 'small sites' as otherwise the policy would be unnecessarily restrictive.
3. PPS3 sets out the criteria for Rural Exception policies to follow. The proposed policy does not fit within these criteria. However, PPS3 was written at a time when public subsidy was not in such short supply, particularly for rural exception schemes, which are even more reliant on public funding than other types of affordable housing schemes. A policy that fits within this criteria would not deliver rural exception schemes and would be contrary to the direction of government policy. This is to use innovative solutions to make public subsidy go further and use new and innovative new approaches to funding affordable housing. This is supported by the Coalition Government in

the section on investment in affordable housing in the Housing Strategy (paragraph 28). This states that:

'Reform and innovation are needed to ensure that our investment delivers more for less, maximising delivery and making the best use of constrained capital expenditure. We need to look beyond the traditional models of affordable housing, building on innovative new approaches to meeting housing need.'

4. It would also be contrary to the Government's localism agenda which is to allow local authorities to set their own policies which are right for their area and encourage housing delivery.
5. There are two examples of cross-subsidy schemes being used in the South West, one is North Devon (Local Plan Rural Quota Policy) and the other is Cornwall Council. In Cornwall they have been operating an informal cross-subsidy rural exception policy for many years without the Secretary of State calling in the applications. We have appended a copy of our discussion paper on the use of Cross-Subsidy in Rural Exception Schemes which sets out these case studies in more detail.
6. We therefore consider that subject to our suggested change the rural exception scheme policy would be sound.
7. FPC5 appears to be focused on Down on the Farm proposals and would not affect the rural exceptions policy.

APPENDICES

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Rural Housing Discussion Paper September 2011

Is cross-subsidy the future for Rural Exception Sites?



Rural Housing Discussion Paper

Is cross-subsidy the future for Rural Exception Sites?

September 2011

Introduction

This document is intended to offer further information to those interested in the use of cross-subsidy from general market housing within rural exception schemes. Prior to the Coalition Government's recent announcements encouraging local authorities to consider this option, there were many organisations already utilising cross-subsidy to bring forward rural affordable housing. It is intended to be a starting point for discussion and to share knowledge of existing models and policies already in use.

Background

Current national policy in PPS3 states that rural exception sites should only be for

small scale affordable housing in perpetuity to meet the needs of local people on land that would not normally be used for development. This is all about to change with the recently published draft National Planning Policy Framework¹ stating that:

'In rural areas, local planning authorities should be responsive to local circumstances and plan housing development to reflect local requirements, particularly for affordable housing. Local planning authorities should in particular consider whether allowing some market housing would facilitate the provision of significant additional affordable housing to meet local needs.'

This has been followed up by an Advice Note by the Planning Inspectorate to its Inspectors². 'Bullet Point X' entitled Removing Rural Exception Sites Policy, states that the draft NPPF is intended to:

'maintain the focus on affordable housing but give local councils greater flexibility to set out their own approach to delivering

housing [in rural areas], including allowing for an element of market housing where this would facilitate significant additional affordable housing to meet local requirements.'

The advice note states that this is to encourage local council's to take a wider view on meeting rural housing needs. However, traditional Rural Exception Schemes (RES) have always been particularly reliant on public funding and affordable housing providers are currently coming to terms with a 63% cut in the HCA capital programme. The proposed relaxation of national planning guidance on RES will allow local authorities to look at less public-subsidy hungry models of delivering affordable housing in rural areas.

Prior to these announcements, local authorities and housing associations were already looking at finding alternative ways to finance RES schemes. It was in this context that the research was carried out. Cross-subsidy of schemes through the inclusion of on-site open market homes is seen as one of the best ways to stop the delivery rates of rural affordable housing drastically falling off.

¹ Draft NPPF document can be found [here](#)

² The Advice Note can be found [here](#)



There continues to be a general consensus that rural exception sites offer an increasingly important opportunity to develop affordable housing in rural locations.

Research by the National Housing Federation indicates that the affordability gap in rural housing has significantly increased in the past ten years³, making it much harder for lower income rural households to live close to their jobs or remain in the communities where they grew up.

Tetlow King Planning have surveyed a range of professionals involved with rural affordable housing delivery to identify the current difficulties associated with cross-subsidised rural exception schemes including policy and funding issues. The purpose of the paper is to stimulate debate and to identify further potential issues as well as solutions.

³ NHF '[Homes in the South West's countryside now less affordable than ever for locals](#)'. 3rd March 2011. Available at: www.housing.org.uk

What are the main Issues?

Key findings from the research are as follows:

Rural Exception Site schemes are commonly regarded as more difficult and resource intensive to bring forward in comparison to urban development.

The nature of RES schemes, especially those outside development boundaries and on nationally designated land such as Green Belt or AONB, can make them highly contentious and subject to intense local scrutiny. Such schemes often take considerable time to reach the development stage and are relatively expensive to complete per plot. The majority of survey respondents were in support of the principle of cross-subsidy on rural exception sites, but some were unsure of how it should be administered in practice. However, adding an element of cross-subsidy from general market housing to these schemes creates a number of new issues.

Adding an element of open market housing creates a considerable financial risk for Housing Associations.

In addition to the obvious risk of attempting to sell open market dwellings in a depressed housing market, there is the further risk of the mix and tenure of affordable tenure on a site having a detrimental impact on marketability of the open market unit. These open market units are required to generate cross-subsidy for the rest of the scheme, the risk comes from there normally only being a limited number of units with which to create the value for the rest of the scheme, so in essence all of the Housing Association's eggs are in one basket. It is therefore essential that Housing Associations are properly advised and planning officers understand that the marketability of these units is essential to bring the whole site forward.

In the Era of Localism, galvanising local support for RES schemes will help the planning process run more smoothly.

Often there is existing Parish Council and local resident support for the principle of local rural affordable homes but little consensus of where these homes should be

located. In some locations, affordable housing proposals are met with strong opposition driven in part by a poor perception of social housing. Suggestions to counter these issues includes round table discussions to help dispel the myths surrounding RES schemes, sessions on economic viability and visits to nearby completed RES sites.

In some places, local ownership of schemes is seen as an important feature, meaning that Community Land Trust route or the formation of new style Neighbourhood Plans have considerable potential to bring forward rural exception sites. Neighbourhood Plans in particular offer a potential opportunity to allocate site for rural exception schemes and largely bypassing the planning application process.

Many respondents believed that national planning guidance should be revised to reflect the changing demands of rural exception sites.

There is widespread support amongst the professionals interviewed for 'exceptions' guidance within PPS3 to be updated to reflect the need for greater flexibility at the

local level, including the option to consider cross-subsidy funding and deciding the appropriate scale of development. One respondent said "*national housing policy has to change if Government wants to deliver rural housing in the long term*". Others, mostly Housing Association Development Officers, wanted to see more explicit support for larger schemes. It was considered that without explicit advice in this document encouraging local authorities to be proactive and innovative with regard to providing rural affordable housing, there will be many authorities that will continue with a business-as-usual approach. The research was carried out prior to the publication of the draft NPPF.

There is a need for "*bending the rules to obtain a win-win.*"

Some local authorities have already elected to include rural exception cross-subsidy policies within their draft core strategies (e.g. BANES⁴ and Mendip⁵ Councils). Cornwall Council has responded to its own set of difficulties by successfully operating a departures policy (see details overleaf).

⁴ [BANES draft exceptions policy RA4](#)

⁵ [Mendip draft core strategy](#)

North Devon Local Plan contains a policy which is essentially a '*Rural Quota Policy*⁶' which has a number of criteria, but could allow for schemes of up to 50% market housing on sites adjacent to the settlement boundary of named rural settlements. This is only where they are well related to the settlement and will enable the provision of the 50% affordable housing.

Since 2007, Stratford-on-Avon District Council has been operating a 'Local Choice' initiative⁷ which incentivises the landowner and allows a range of small scale development to meet local need in specified settlements with existing facilities (e.g. shop/school). The popularity of this approach, which runs alongside RES policy, has led to draft core strategy proposals to extend this initiative to all rural settlements, in effect incentivising landowners of all local exception sites.

Managing landowners' expectations in respect of 'hope' value can be difficult, especially if the proposed scheme is to include open market dwellings.

⁶ [North Devon Local Plan](#)

⁷ [Stratford Housing Initiative](#)

The principle of cross-subsidy was largely supported by respondents, but opinion was divided as to whether the financial benefits should be solely used to contribute to affordable housing development costs or to incentivise landowners to bring sites forward. It was found that many landowners were reluctant to offer suitable sites at prices closer to the agricultural value necessary for affordable housing, choosing instead to hold onto land in the hope of ultimately gaining full development value.

Although there was evidence that some landowners were willing to release land, these sites were not always suitable. There was also some concern that a general wide-scale acceptance of cross-subsidy on exception sites could effectively render traditional 100% rural exception schemes obsolete.

‘Incentivising’ landowners to release exception sites is a controversial issue.

Opinion was split on this issue, with some respondents suggesting it would reduce the numbers of traditional exceptions sites coming forward and jeopardise existing

planned schemes. Many were concerned that in an era of scarce public funding, Housing Associations needed to retain as much grant or benefit from cross subsidy as possible in order to ensure that schemes remain viable.

However, other respondents fully supported the principle and said it would be the primary way to obtain sites in the future. South Hams Council found it increasingly difficult to find suitable deliverable exception sites, so an innovative scheme has been created to operate alongside RES policy. The ‘*Village Housing Initiative*⁸’ allows the landowner to build and occupy or sell a house on land offered for affordable housing. The time restricted scheme (which leaves the Council in control) has been on offer for several years and the first site is now at the planning application stage. South Hams Council hope that the introduction of affordable rent model, coupled with the additional cross-subsidy from the open market dwelling provided will reduce reliance on public subsidy.

⁸ [South Hams Village Housing Initiative](#)

However, it remains to be seen if Housing Associations can continue to deliver less sophisticated models of RES with land incentivisation when public subsidy becomes scarcer. Despite the divergence of opinion on this approach, it was widely understood that “*without suitable sites there would be no affordable housing*”, so balance needs to be struck between encouraging landowners to sell the site at a value that does not affect the viability of any future scheme on the site.

Economic viability is shaping the scale and makeup of RES schemes.

The survey revealed that economic factors are leading to a reduction in smaller schemes of 5 homes or less with future schemes more likely to include 10 or more homes. The numbers of low cost ownership homes is set to increase as developers try to recoup capital to address a reduction in grant funding and an increase in development costs, but local authorities are likely to want a higher percentage of social rented units than developers will be able to deliver – so other options will need to be explored. The introduction of the ‘affordable rent’

product complicates matters with some local authorities not considering this to be truly affordable housing that will meet local needs.

It may also be difficult for valuers to assess the open market value of the products that Housing Associations have traditional brought forward. Housing Associations have had to build to higher sustainability (Code for Sustainable Homes) and design (Lifetime Homes Standards) standards other than open markets in order to obtain public funding. In the open market, these higher standards increase build costs, but do not gain a premium. They also cause 'house price volatility' which can make it difficult to quantify for mortgage valuation purposes.

What about potential solutions?

'Neighbourhood Plans have potential.'

Neighbourhood Plans will work best in smaller self-contained rural communities which are keen to enable development. If these communities can be identified and helped to bring forward pro-development neighbourhood plans, then they should be able to allocate rural exception sites which

could ease the planning application process.

'Thinking outside the box.'

It is possible that cross-subsidy schemes could benefit the more elderly members within settlements. The open market element could be age restricted for local people, releasing larger family homes, or part of the affordable development could be offered to older persons, releasing larger social housing units elsewhere. Both options would help settlement vitality, and may also serve to increase support from local residents and Parish Council members.

'The devil is in the detail.'

It was considered an imperative to maintain transparency throughout the process and to ensure the independence of housing needs surveys, as schemes were often the focus of intense local scrutiny, often by a very persistent, intelligent minority. The introduction of affordable rent models may mean that Housing Needs Surveys should be reviewed.

'Share the need.'

The concept of clustering the needs of several settlements into a single site scheme- even across local authority boundaries - was voiced by several interviewees. The difficulty was likely to be in convincing the local people in one settlement to accept the needs of others.

What are others doing?

Cornwall Council departures policy approach:

The need for affordable rural housing and lack of up-to-date development plans following the merging of 6 district councils and the County Council into the unitary Cornwall Council has led to the regular use of a departures policy. This has produced affordable housing schemes of up to 40+ units which include a minority element of cross-subsidy open market housing, subject to strict site specific criteria including local support. In addition, the Council is enabling additional affordable housing by investing in Community Land Trusts and is also looking

to set up a public-private partnership to develop Council owned land.

The THF Limited model:

This south west based private developer has shaped its business model upon developing affordable housing in rural areas without the need for public subsidy. The homes are sold at a cost equal to the entire cost of delivery, usually between 60% and 70% of open market value⁹. In addition to the outright purchase of the property, the occupier is required to pay a shared ownership rent of £20 per week which is the company's only return on the property.

Cross-subsidy from separate general market housing sites.

In seeking ways to raise funds, an affordable housing provider has set up a separate development company to build market housing in urban areas. The potential for significant profits to be subsequently channelled into 100% affordable housing sites, built by the not-for-profit sister company, was deemed to

⁹ For further details see [THF's website](#)

be acceptable and necessary in the current economic climate.

Conclusions

'Cross-subsidy will be a key factor in the success of future RES schemes.'

The research uncovered widespread support for the concept by Planning Officers, Rural Housing Enablers and Housing Associations, but there was a divergence in opinion on exactly how cross-subsidy should be implemented in practice. It became clear that the methods employed in some areas may not be readily accepted in other areas, supporting the notion that local policy needs to be flexible to support a local area's specific needs and expectations.

There seems to be little doubt that the rural exceptions approach remains relevant, but that it would benefit from being updated to reflect current and emerging challenges and to ensure that it is fit for purpose in the future.

The research has uncovered the need to give Housing Associations the freedom to examine various types of cross-subsidy that

might work for them. This fits with the Government's Localism Agenda, but some local authorities may need some encouragement to do so within the new National Planning Policy Framework.

It is hoped that this brief discussion paper will stimulate further debate between policy makers, build environment professionals and affordable housing practitioners resulting in a measurable improvement in rural affordable housing delivery.

About the research.

In May 2011, interviews were held with 19 individuals representing local authorities, Housing Associations, development companies and relevant professional organisations, with 2 people opting to respond via e-mail. The interviewees were all based in either the South West or the West Midlands.

Your Comments

This paper is intended to stimulate further debate. We welcome your comments on all elements of this research. If you have any further comments to make, please use the contact details at the bottom of the page or use the comments section on the blog version of this document here - <http://tetlowkingplanning.blogspot.com/>