



Unlocking the potential of the rural economy

The countryside has vast economic, environmental and social potential. Landowners and land managers are already helping to feed the nation, and fight climate change and nature decline. Now, many are diversifying their businesses, seeking to grow the economy, create skilled new jobs and strengthen their local communities.

They cannot do all of this alone. The rural economy is 19% less productive than the national average. Closing this gap would add £43 billion to the economy. If the rural economy is to succeed then the many barriers to economic growth in the countryside must be removed.

This document is part of a series of 'missions' published by the Country Land and Business Association (CLA), which represents 26,000 landowners and rural businesses in England and Wales. These missions are designed to help policy-makers unlock the potential of the rural economy – for the good of our rural communities and the country as a whole.

Affordable Homes in Every Community

Mission Two

Rural communities in England and Wales face a number of distinct challenges compared to their urban counterparts: a population ageing at a faster rate, proportionally fewer affordable homes, pressure on house prices from second home ownership, and a larger gap between house prices and wages.

These challenges are largely the result of a planning system that is simply not designed to unlock the potential of rural communities. The system continues to favour large-scale developments that often fundamentally and negatively alter the fabric of the local community. Likewise, this same system ignores the advantages of small-scale developments that would improve the viability of small, rural villages. These communities, often disregarded as 'unsustainable villages' in local plans, are thus denied the opportunity to improve their sustainability.

The lack of available and affordable homes in rural areas has resulted in young people being forced out, or prevented from moving into, these communities. Not only does this reduce local employers' growth potential through diminished labour supply, but it also reduces demand for key local services such as public transport, banks, schools, churches and pubs. This systemic failure of government planning policy is steadily killing rural communities.

To deliver affordable homes in every community, government must:

1. build more homes in rural communities;
2. make it easier to convert agricultural buildings into homes in National Parks and National Landscapes;
3. enable repurposing of redundant agricultural buildings and sites;
4. simplify the process of delivering affordable housing for rent;
5. incentivise land to be brought forward for affordable housing; and
6. help decarbonise rural buildings.



To deliver affordable homes in every community, government must take the following action.

1

Build more homes in rural communities

Government must enable a small number of homes to be built in a large number of villages if rural communities are to be economically and socially sustainable.

It was hoped that Rural Exception Sites – a form of planning permission for affordable homes on land that is outside a local plan – would help ease the rural housing crisis. It is an under-utilised mechanism as it is both expensive and high-risk given the strong likelihood of refusal. Only 548 homes were delivered in this way in 2022, with 14 out of 91 rural local authorities using the policy.

Action

- Introduce a ‘planning passport’ for Rural Exception Sites to increase delivery of affordable housing by splitting the planning process for these sites into two stages. The first stage would provide the applicant with planning permission in principle, giving them certainty in their investment. Only if the scheme gains this permission will further expenditure be required, thus avoiding unnecessary time and expenditure on any applications that are likely to fail.

2

Make it easier to convert agricultural buildings into homes in National Parks and National Landscapes

Those living in National Parks and National Landscapes often face punitive restrictions when seeking to convert agricultural buildings into homes. Almost 60% of CLA members that live in protected landscapes have buildings that they wish to convert, but are prevented from doing so. This severely and unnecessarily limits housing supply in many small communities.

Action

- Expand Class Q permitted development rights (PDR) in Article 2 (3) Land, particularly National Parks and National Landscapes, to enable change of use of agricultural buildings to residential use. This will enable small-scale affordable house building in communities where growth is stifled but in high demand.

3

Enable repurposing of redundant agricultural buildings and sites

Diversification is important for rural landowners and farmers, especially in the context of the reduction and end of the Basic Payment Scheme. With the ongoing modernisation of agriculture, many agricultural buildings are left redundant but they cannot be converted to other uses via permitted development routes. 93% of CLA members say that planning rules are hampering economic growth in rural communities (CLA Planning Survey, March 2023). Utilising previously developed sites for new development reduces the pressure for the development of greenfield sites on the edges of villages.

Action

- Enable the re-use of more redundant agricultural sites for development. This will provide much-needed housing and address the shortfall of new homes in rural areas, but would also enable the development of these sites for commercial purposes which will open opportunities for diversification where they are not currently supported by planning policy.

4

Simplify the process of delivering affordable housing for rent

Many landowners are able and willing to deliver affordable homes for rent, but are prevented from doing so by the National Planning Policy Framework (NPPF) which requires landlords to be registered providers with the Regulator of Social Housing. If they are not accessing government grants, and with the prospect of new regulation for landlords, such registration is unnecessary. Removing this requirement from the NPPF would allow more people to deliver affordable housing.

Action

- Amend the definition of affordable housing for rent in the National Planning Policy Framework (NPPF) to allow private landowners and community groups to develop affordable housing without becoming registered providers.

5

Incentivise land to be brought forward for affordable housing

The tax system can be an effective tool to increase the provision of affordable housing in rural areas to support employment opportunities. There should be an exemption on Capital Gains Tax for land brought forward as a Rural Exception Site, and land sold to registered providers. This will encourage more land to be brought forward for affordable housing and will increase the viability of such sites.

Action

- Amend section 269 Taxation of Chargeable Gains Act so that all sales of land to registered providers is treated as made on a no gain, no loss basis, effectively providing relief from Capital Gains Tax on these disposals.



Help decarbonise rural buildings

Decarbonising homes and buildings is vital to achieving net zero by 2050. Whilst a property business can qualify for capital allowances for commercial property, landlords of residential housing are excluded from claiming capital allowances for low-carbon equipment installed in houses. This undermines government policy to phase out fossil fuel heating in homes, which will require significant investment in low carbon heating, such as air source heat pumps, that landlords may not be able to afford.

Replacement oil or gas boilers cost up to £5,000 with air source heat pumps priced between £15,000 to £30,000. Additionally, DIY homeowners are penalised for trying to install energy-saving materials themselves because the purchase of materials includes 20% VAT, whereas if they asked a local trader to supply and fit, the project would be subject to zero-rating.

For repair and maintenance, VAT is currently charged at 20%, and 5% on qualifying conversion/adaptation work to buildings. In contrast, VAT is charged at zero rate on the construction and first sale or lease of new buildings. This incentivises demolition and new build over regenerative development, which has a much bigger carbon impact. Government policies should not discourage energy efficiency improvements.

Actions

- Allow landlords to claim capital allowances for investment in decarbonisation projects by removing the restriction in section 35 of the Capital Allowances Act 2001.
- Extend the VAT zero-rating on energy-saving materials to include the purchase of materials as well as the installation.
- Reduce the VAT rate for repair and maintenance of buildings by amending Schedule 8 of the VAT Act 1994 by either adding a new group for repairs to residential buildings, or amending Group 5 which deals with the construction of homes to cover both repair and construction.

The CLA

The CLA is here to help. We represent our members in a collaborative way, working with policy-makers from across government and across all political traditions. To discuss this document further, or to explore how you can help us in our mission to unlock the potential of the rural economy, please contact the CLA External Affairs team via email: externalaffairs@cla.org.uk.

The CLA exists to champion, protect and enhance the rural economy, environment and way of life.

We aspire to unlock the potential of the rural economy by promoting innovative ideas to a national audience and providing practical support to members. We do this so our members can feed the nation, create jobs and prosperity, invest in communities and protect the environment for future generations.