CYNGOR SIR *POWYS* COUNTY COUNCIL.

CABINET EXECUTIVE
28th November 2018

REPORT AUTHOR:	**County Councillor Rosemarie Harris** **Leader of Council**
SUBJECT:	**Review of Farms Policy**
REPORT FOR:	**Decision**

1. Summary

1.1 For the last 18 years the Farms Estate management strategy has focussed on continued restructuring to create an estate of fewer but larger holdings whilst delivering capital receipts for the Council.

1.2 In that time the face of the Estate has changed significantly. The number of Holdings has fallen by some 35% and capital receipts of approximately £16m have been generated through disposals. See Appendix 1 for more detail on the financial aspects of the estate.

1.3 As with any such management approach it is important that this management strategy is reviewed regularly; in particular it must be recognised that a policy of reorganising and restructuring cannot be sustained indefinitely.

1.4 It is considered appropriate that progressive rationalisation is maintained as the overarching management strategy but with a renewed focus on the interests and aspirations of service users and an explicit intention to maintain the number and quality of opportunities available to new entrants to farming.

1.5 Whilst it is appropriate that the Estate disposes of certain surplus assets, it should be remembered that a disposal may reduce the opportunities offered by the Estate to new entrants to agriculture and furthermore, limit opportunities to grow revenue in future. It is important that the critical physical mass of the Estate is maintained if it is to continue to fulfil its prime objective as an operational asset and not simply to deliver capital receipts.

1.6 The long term interests of the Estate and its current and future tenants are at the heart of this revision of the FEDP.

1.7 The following key amendments have been made:

- A more succinct Vision has been included: *"To provide a good quality, efficient farm estate that encourages new entrants into the farming industry and enables progression which support the Powys economy."*
- We have moderated rationalisation so that it is "appropriate and considered" and have included a matrix of considerations to determine whether assets are core
- We have included a commitment to "Work with tenants to explore diversification opportunities which complement the primary agricultural purpose of the letting."

2. Proposal

2.1 It is proposed that County Farms Estate Delivery Plan 2018 (see Appendix 3 attached) is adopted as the estate management plan to provide structure and promote good practice for continued management of the Estate.

3. Options Considered / Available

3.1 Option 1- adopt the new plan

3.2 Option 2- do nothing and retain the previous FEDP

4. Preferred Choice and Reasons

4.1 The preferred choice is Option 1 to adopt the FEDP as revised for the reasons set out above.

5. Impact Assessment

5.1 Is an impact assessment required? Yes

6. Corporate Improvement Plan

6.1 Retention of the Estate and introducing refreshed focus on maximising the opportunities it offers is consistent with the aims of the Corporate Improvement Plan and Vision 2025.

6.2 The Estate contributes (by both revenue and capital) to all the objectives of the Council.

7. Local Member(s)

Not applicable.

8. Other Front Line Services

Does the recommendation impact on other services run by the Council or on behalf of the Council? ~~Yes/~~No

If so please provide their comments: N/a

9. Communications

Have Communications seen a copy of this report? Yes/~~No~~

Have they made a comment? If Yes insert here.

The Communications Manager comments: “The report is of public interest and requires use of news release and appropriate social media to publicise the recommendation.”

10. Support Services (Legal, Finance, Corporate Property, HR, ICT, Business Services)

10.1 Legal : The recommendations can be supported from a legal point of view.

10.2 Finance - The Farm Estate is due for full valuation in this financial year, 2018/19. As the strategy seeks to reconfigure some of the existing farms in terms of size and scope, the revaluation exercise which is required by statute may have to be delayed to avoid a second revaluation after the reconfiguration.
The revenue impact of the loss of rental income as a result of the rationalisation of the farm estate needs to be considered and managed throughout the process. There will be accounting implications as a result of the reconfiguration of the lands.

10.3 Corporate Property- The Professional Lead for Strategic Property supports this proposal. The strategy to reconfigure will be a very gradual process as opportunities arise (when tenancies expire) and so there is no need to delay the revaluation exercise. To date, our rationalisation (c. £16m) has not diminished our income –in fact we have now started to see a slight increase (see Appendix).

11. Scrutiny

Has this report been scrutinised? Yes / ~~No~~?
If Yes what version or date of report has been scrutinised? V7 of this report has been Scrutinised by the Learning Skills and Economy Scrutiny Committee.

What changes have been made since the date of Scrutiny and explain why Scrutiny recommendations have been accepted or rejected?
The following amendments have been made to this report to address the observations of the LSE Scrutiny Committee:

1) Expanded the SWOT analysis in the FEDP to reference Brexit, the outstanding Condition Survey liability and highlight the revenue surplus produced by the Estate.

2) Added text to s.2 of the FEDP to reference tenancy renewals.
3) Added trading figures provided by Finance to the Appendix 1 of this report to show the revenue profit made by the Estate.
4) Included the number of farms let, and tenancy renewals completed, over the past 4 yrs to Appendix 1.
5) Added point 1.6 above confirming that giving consideration to sale of the Farms Estate is beyond the scope of the FEDP review.

The observations of LSE Scrutiny Committee are included at Appendix 2 together with detailed responses.

12. <u>Statutory Officers</u>

12.1 The Solicitor to the Council (Monitoring Officer) commented as follows : " I note the legal comments and have nothing to add to the report."

12.2 The Head of Financial Services (Deputy Section 151 Officer) notes the comments of both Finance and Property. Appropriate and considered rationalisation and use of the Estate will ensure that revenue can be maximised or a capital receipt can be generated. Both are key elements in the Councils Medium Term Financial Strategy.

13. <u>Members' Interests</u>

The Monitoring Officer is not aware of any specific interests that may arise in relation to this report. If Members have an interest they should declare it at the start of the meeting and complete the relevant notification form.

Recommendation:	**Reason for Recommendation:**
The Farms Estate Development Plan 2018 in Appendix 3 to the report is adopted as the estate management plan for the County Farms Estate.	**To maintain the Estate as a viable operational asset.**

Relevant Policy (ies):	Farms Estate Development Plan		
Within Policy:	**Y**	**Within Budget:**	**Y ~~/ N~~**

Relevant Local Member(s):	**Not applicable**

Person(s) To Implement Decision:	**Natasha Morgan**
Date By When Decision To Be Implemented:	**28th November 2018**

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Background Papers used to prepare Report:

APPENDIX 1

- The County Farm Estate is held under the provisions of Part 3 of the Agriculture Act 1970 which states that the Authority should make it its general aim to provide opportunities for persons to be farmers on their own account by letting holdings to them.

- The Estate is presently made up of about 140 farms, smallholdings and cottages spanning some 11,250 acres.

- Of the holdings, there are now 26 ‘lifetime’ tenancies and 16 ‘retirement’ tenancies let under the Agricultural Holdings Act, the remainder being fixed-term or periodic tenancies under the Agricultural Tenancies Act 1995. There are a further 30 bare land/secondary lettings and 1 cottage, the latter let under a secure ‘Rent Act’ tenancy.

- From 2014 to-date the Estate has offered and let 31 starter farms to new entrants. A further 27 tenancies have been renewed in the same period.

- The County Farms trading account for the period 2012/13 to 2017/18 is summarised in the table below provided by the Finance team:

	2012	2013	2014	2015	2016	2017
Rental Income	£935,038	£972,434	£997,142	£1,047,375	£1,055,679	£1,075,692
Other income	£31,706	£24,350	£9,809	£38,242	£33,158	£25,948
Total Income	**£966,744**	**£996,784**	**£1,006,951**	**£1,085,617**	**£1,088,837**	**£1,101,640**
Management costs	£104,100	£130,614	£131,462	£111,235	£104,384	£106,855
Premises costs	£430,039	£436,202	£531,065	£451,474	£398,896	£273,807
Total costs	**£534,139**	**£566,816**	**£662,527**	**£562,709**	**£503,280**	**£380,662**
Surplus of income over expenditure	**£432,605**	**£429,968**	**£344,424**	**£522,908**	**£585,557**	**£720,978**

- Budget rental income for 18/19 has been increased to £1,060,000 from £1,000,050 in 17/18; we hope to increase rental income by a further £50,000 in 19/20.

- Capital receipts for the financial year 2016/17 were £1,774,861 whilst in 2017/18 capital receipts of £554,000 were achieved (with sales agreed in respect to a further £463,000 of receipts). For 2018/19 capital receipts of c.£1.6m are anticipated (to include the agreed sales of £463k carried forward).

- The total of all market values reported by DVS in November 2014, and based on a valuation date of 1 April 2013, and on certain provisos*, was £98,573,675. Please note that this value is based on the sum of individual valuations and is not necessarily indicative of the value of the estate as a complete portfolio.
- The "existing use" value of the estate for accounting purposes, was given as £41,757,375 in 2013. The estate is due to be valued again in 2018/19.

* DVS provided separate market valuations for each element of the County Farm Estate on an indicative basis only. In providing these Market Value figures, DVS stated their figures did not take into account of issues such as reducing the service potential, or disruption, or any costs incurred in achieving alternative use (which is a key consideration when providing market values). The figures reported as Market Value were based upon individual local DVS valuers' knowledge of prevailing values in each area, with no formal planning enquiries made or investigations made in respect of market demand, development costs or conversion costs.

APPENDIX 2

Learning, Skills and Economy Scrutiny Committee
Scrutiny Observations to Cabinet on: Review of County Farms Policy

Response to Scrutiny Observations

1. The proportion of holdings subject to lifetime tenancies will naturally decrease over time, providing the County Council with an opportunity to re-let more holdings on improved terms. Lifetime tenancies are a product of the statutory tenancy framework pre-1995 and neither the Council nor any other Landlord is in a position to unilaterally bring them to an end.

2. The 2012 Re-letting and Tenancy Renewal policy offers new tenants the prospect of tenure of a Farms Estate Holding for up to 36 years providing they move to a progression farm in that time. The terms offered are designed to encourage progression whilst providing tenants with the necessary security to underpin what may be long-term investment decisions. The appeal of a County Council tenancy to new entrants will be greatly diminished if it is of insufficient duration to permit sustainable business growth and there are no progression opportunities within the Estate- it would be questionable to suggest that a reduction in the length of tenancies offered by the Estate would genuinely support the interests of new entrants.

3. Linked to the above, tenants are required to invest in the property to make it suitable for their occupation (for example it is unusual for an Estate farmhouse to be let with carpets or a fitted kitchen- tenants are generally expected to fund such items). Longer periods of tenancy give the tenant the necessary assurance to invest in necessary infrastructure and equipment.

4. Whilst it is acknowledged that Brexit has introduced significant uncertainty to the farming industry, the implications for the County Farms Estate cannot be accurately evaluated as there remain too many ‘unknowns’. In the meantime competition for lettings remains intense, with tenders showing continued increases in rental values for farm units; there is no evidence to suggest new entrants are being deterred from seeking a Council holding on account of Brexit uncertainty.

5. The figures set out in the 2015 Condition Survey were estimates. Furthermore the liabilities identified by the Condition Survey excluded project management fees (typically 14.5%) and ancillary costs such as ecology surveys.

6. Tender prices have in many cases exceeded the estimated cost of work set out in the Condition Survey. For example the replacement of

12 foul drainage systems has cost £125,829 against a liability identified by the surveys of £63,050.

7. Immediate liabilities are now estimated to be in the region of £4.55m to include provision for fees at 14.5% (£3.8m being the value of outstanding work as per the 2015 Survey figures accounting for building maintenance cost inflation at 1.6%). However, the longer it takes to address these immediate issues, the worse the situation gets, and therefore the higher the cost.

8. The rationalisation programme will continue to yield up surplus property for sale over a period of years. There remain on the Estate a number of properties identified as 'non-core' which may be offered for sale at the appropriate time to optimise value (i.e. at the end of a tenancy when vacant possession can be offered); it is estimated that such sales will, over time, generate capital of £6m, in addition to the value of any 'opportunity sales' that may come forward.

9. Vacant possession of non-core properties may be obtained by offering inducements to sitting tenants to surrender tenancies, thereby allowing sale with vacant possession, but the funding of such inducements is unlikely to be favoured in the present financial climate. The value of the inducement would be subject to negotiation with the tenant.

10. If a target of £1m capital receipts per annum is maintained, non-core property will of necessity have to be sold subject to tenancy which will significantly suppress the value of capital receipts, with the additional sale of core assets likely to make up any shortfall.

11. Disposal of assets from the estate will impact on rental income and reduce the contribution made by the Farms Estate to the County Council's wider revenue position. The general application of accounting rules on Capital Receipts is that their use can only be applied to capital expenditure to procure, construct or enhance an asset.
    There is a current exception to this under a Welsh Government Directive which allows a more flexible use of capital receipts to fund revenue transformational costs. Transformational costs are defined as those that generate ongoing savings for the authority

    The flexibility of using capital receipts in this way supports the Councils Medium Term Financial Strategy and disposals from the Farm Estate will contribute to this.

12. The Farms Estate has been allocated £500k from the Corporate budget to address Condition Survey liabilities in 2019/20, in addition to previous allocations. Whilst this will allow the known liability to be reduced it will leave some £4m of outstanding work to be addressed.

13. The options for addressing the balance of liabilities will include:

- the continuing allocation of Corporate funds of £500k per annum (or such enhanced amount to reduce the timeframe for bringing down the liability)
- the retention of a greater proportion of the revenue surplus generated by the Estate for reinvestment in it
- the accelerated sale of non-core assets to realise additional capital which is not favoured for the reasons set out above.

As to the specific recommendations:

Recommendations:

1. **That Cabinet be given the opportunity to consider alternative proposals to the status quo.**

   The Policy being proposed allows flexibility for an appropriate and considered rationalisation of the estate.
   The disposal of any part of the estate has a consequential loss of rental income and this is a key consideration against the benefit of the capital receipts raised.
   Marketing the estate in its entirety would distort the market for farmland locally and potentially undermine the prospect of achieving best value.

   A further issue that would arise from the wholesale or substantial disposal of the Estate is the extent to which such a proposal would align with the Authority's obligations under the Wellbeing of Future Generations Act. The proposals set out in the FEDP, being retention and improvement of the asset, would appear a better fit with the requirements of that legislation whilst allowing the Authority to be benefit from the revenue surplus generated by the Estate.

2. **That Cabinet make clear the contribution that County Farms are expected to make to the central capital receipts in the immediate and medium term.**

   A Policy is currently being drafted that sets out the strategy for the generation and use of Capital receipts funding to support the Council's Medium Term Financial Strategy. County Farm disposals will form part of this strategy.

3. **That Cabinet make clear how the landlord liabilities will be dealt with in a timely manner.**

   Response: The Cabinet has so far allocated £2m over 4 years towards addressing liabilities. We intend to submit a business case to justify the allocation of further budget resource to this programme.

4. **That given the issues raised during pre-cabinet scrutiny the Finance Scrutiny Panel be tasked with undertaking the report agreed at Cabinet on 1st November 2016 (That a further report be drafted for Cabinet in January on the long term financing of the County Farms Estate).**

   Response: Cabinet do not consider that this work is necessary.

5. **That the Policy is revised to ensure that the objectives of supporting new entrants is achieved.**

   Response: We feel that this is achieved within an agricultural context and where the constraint of statutory lifetime tenure is recognised. See paragraphs 1-3 above.