CHESHIRE EAST COUNCIL

REPORT TO: ENVIRONMENT & PROSPERITY SCRUTINY COMMITTEE

Date of Meeting:	**22nd November 2011**
Report of:	**Arthur Pritchard - Assets Manager**
Subject/Title:	**Farms Estate - Policy Review**
Portfolio Holder:	**Cllr. Jamie Macrae - Prosperity Portfolio Holder**

1.0 Report Summary

1.1 The Farms Estate has a century long history of fulfilling a variety of roles within a rural context for the people of Cheshire. It was created to meet a social environmental need addressing concerns about rural depopulation; it subsequently contributed in times when food security was of more overt and critical importance to the nation and throughout has provided the only entry level opportunities into an industry that is key to the character and values of a rural authority.

1.2 The current management strategy was inherited from the former County Council, designed to mature in 2013 and at its core retained the primary role of providing opportunities to farm whilst providing radical targets for the reorganisation of the estate.

1.3 Whilst Local Government Reorganisation and speculation about policy change by stakeholders has had an impact upon the implementation of that strategy, delaying completion, it is clearly appropriate for Cheshire East Council to undertake a review to set its own policy.

1.4 At a fundamental level, this review sets out to challenge the rationale for the provision of the service, consider the scale of provision if any and review / set objectives for service to achieve, underlining the validity of continuing to improve service delivery.

1.5 A Cabinet Review Group (CRG) was commissioned by the Portfolio Holder For Prosperity to consider the issues; inform Cabinet about the nature and function/s of the service; how it can and does relate to the Councils vision and contribute to corporate objectives; provide a cost benefit analysis and assist the Council in reaching a conclusion upon the formulation of policy for the service.

1.6 Attachment 1 provides a summary of the information provided to the Cabinet Review Group including an analysis of the current management strategy, reference to the generation of capital receipts and projected levels of associated costs and reorganizational expenditure and two reports that were commissioned to assist the review process, addressing values and providing an independent view of the challenges and opportunities.

1.7 Paragraph 2.1 – 2.9 set out the conclusion and advice of the Cabinet Review Group to Cabinet to be supplemented if necessary by a verbal report from the CRG meeting of the 17th November 2011.

2.0 Recommendations

2.1 That the Environment & Prosperity Scrutiny Committee considers the conclusions of the Cabinet Review Group set out below in paragraph 2.2 (1 to10) and advise Cabinet of its views regarding those recommendations:

2.2 That Cabinet be asked to note the report (Attachment 1) consider the findings of the attached report and appendices and;

2.2.1 Endorse the continuing provision of opportunities to farm as a core objective for the service and;

2.2.2 The target structure be amended to accommodate targets to deliver two levels of opportunity identified as Entry Level 1 (EL1) and Entry Level 2 (EL2) farms.

2.2.3 The target structure be modelled to continue the drive to deliver a larger number of the entry level 2 units in the proportional split of 3 Entry Level 1 farms to 8 Entry Level 2 farms.

2.2.4 The size of the estate be maintained at a similar area as existing, subject to reductions occurring by the disposal of property identified as surplus in the reorganisation, for corporate projects or for development purposes and strategic acquisitions, where appropriate.

2.2.5 Implementation of the reorganisation be amended to acknowledge deferred activity and a more proactive approach to deliver the mature plan within 5 years.

2.2.6 The capital programmes acknowledge and recognise the receipts achievable from the disposal of those properties identified as surplus in the reorganisation.

2.2.7 The capital programmes acknowledge and recognise the predicted costs of the reorganisation programme.

2.2.8 Opportunities for the Farms Estate asset base to contribute to and achieve the wider vision of the Council be explored.

2.2.9 A series of service targets be developed to recognise objectives regarding the target structure and the wider vision of the Council's Sustainable Communities Strategy.

2.2.10 A further report be brought forward to the Cabinet Review Group to explore options for a revised structure of tenancies.

3.0 Reasons for Recommendations

3.1 The proposals establish a challenging range of management policy objectives for Cheshire East Council consistent with a corporate approach to the management of assets encouraging inward investment and innovation.

4.0 Wards Affected

4.1 All

5.0 Local Ward Members

5.1 All

6.0 Policy Implications including

6.1 **Carbon Reduction**

It is widely acknowledged that the pattern and nature of land use by agriculture has an impact upon the factors associated with climate change. The adoption of policy relating to the future use of agricultural property will therefore impact both directly and indirectly.

6.2 **Health**
Not directly applicable.

7.0 Financial Implications (Authorised by the Director of Finance and Business Services)

7.1 The current strategy envisages the generation of a net revenue budget (net income to CEBC) of £195,000 and capital receipts from the sale of properties deemed surplus as a result of reorganisation. The current level of planned receipts within the deferred capital programme is £1.21 million per year for 2010 – 2013 albeit a target of £2 million has been set for the current year.

Revenue budget (net income to CEBC) savings of £100,000 and further revenue savings of £22,000 achievable in 2011 and subsequent years from the implementation the current strategy were identified in setting the budget detailed above.

The adoption of the recommendations impact positively upon both revenue and capital receipts over a period of five years.

8.0 Legal Implications (Authorised by the Borough Solicitor)

8.1 The Farms Estate is held for the purposes of the Agriculture Act 1970. Section 39 of the Act states that the general aim is, having regard to the general interests of agriculture and of good estate management, to provide opportunities for persons to be farmers on their own account by letting small holdings to them.

8.2 Adjustments by acquisitions and disposals can take place as part of the management of the estate. Disposals which result in a net reduction are also lawful but while the estate is held for the purposes of the 1970 Act, the primary objective must be to provide opportunities for farming. If the estate as a whole were to be viewed primarily as an investment to generate income and capital, there would need to be a formal appropriation away from Agriculture Act 1970 purposes with the consequent impact upon issues relating to security of tenure and value.

9.0 Risk Management

9.1 Delay to the settlement of a CEBC policy, a lack of clear and compatible objectives in the policy or changed corporate priorities could lead to inappropriate, conflicting or ineffective management actions.

9.2 Market conditions impact upon the Service's ability to achieve occupation rates and resulting revenue or disposal income targets.

9.3 External policies (e.g. Localism agenda, National Planning Framework) will impact / contribute to the ability of the Service to implement identified actions to meet policy objectives.

9.4 The management structure provides limited resilience and contingency arrangements for the loss of staff knowledge/capacity, administrative data systems or support.

10.0 Background and Options

10.1 This is the first service review for the farms estate since the creation of Cheshire East Council and the conclusions of the review will define management policy.

11.0 Access to Information

11.1 The full report of CIPFA referred to within the report and Appendix 3 is a confidential document due to the nature of the information about tenants and the commercial sensitivities. A full copy is however available on a confidential basis upon request.

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ATTACHMENT 1

CHESHIRE EAST BC – FARMS ESTATE
POLICY REVIEW

1 INTRODUCTION

1.1 The current management strategy, described in further detail below, was inherited from the former County Council and it is clearly appropriate for Cheshire East Council to undertake a review and set its own management policy.

2 REVIEW OBJECTIVES

2.1 This review seeks to address two core issues:

2.1.1 To challenge the fundamental questions of whether the continuation of service delivery offer the potential to contribute positively to the corporate vision of the authority and

2.1.2 Consider the current strategy and set objectives for the future management of the service.

3 DESCRIPTION

3.1 The property asset comprises approx 5,119 acres of agricultural land on 19 estates including 72 let farms with farmhouse and buildings, 1 let cottages and vacant property and 53 acres of woodland. The estate generated a total income of approx £632k in 2010/11 and a net surplus of £299k[1]. £1.61 million was realised from disposals in 2010/11 and a target of £2m has been set for 2011/12.

3.2 A more detailed analysis of the structure of the estate by use is attached as Appendix 1.

4 NATIONAL CONTEXT & POLICY OBJECTIVES

4.1 Cheshire East Councils Farms Estate is one of a 60 Council Farms estates provided across the country by Local Authorities encompassing over 2300 equipped and 1000 bare land farms covering 281,000 acres of land[2]. Service delivery is set within a framework of legislation developed specifically to address the core purpose of the service in providing opportunities to farm. Appendix 2 provides a summary of the objectives and rationale adopted in the delivery of services across the country.

5 LOCAL CHESHIRE EAST COUNCIL CONTEXT

5.1 The ownership of agricultural land and property provides a range of opportunities to contribute to the corporate vision of the authority to sit alongside the core purpose of providing opportunities to farm.

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[1] Net of management costs for non farms estate property (Est £20,000 pa)

[2] CIPFA (Chartered Institute Of Public Finance & Accountancy) Annual Report – Council Farms 2009-10

5.2 Two reports have been commissioned to assist in this review, addressing values and fundamentally challenging and analysing the existence of the service within the framework of CEBC's vision and policies, the latter by CIPFA[2]. The approach and methodology adopted in completing the review is attached as Appendix 3 but notably incorporated both internal and external stakeholder consultations and a financial appraisal. Central to their findings was the evident support and demand for the service and the opportunities that access to the asset base presents for the authority and its tenants to contribute to the wider social, environmental and economic benefit of the people of Cheshire East. A copy is of the full report is available upon request.

6 CURRENT MANAGEMENT STRATEGY - SUMMARY

6.1 The inherited strategy is predicated upon a policy of continuing and developing / improving service provision within the framework and definitions of the Agriculture Act given the intention to provide opportunities to farm for eligible applicants.

6.2 The strategy recognises the need to modernise, to continuously improve the service and to evolve in tandem with developments in the specific sector that it serves i.e. the farming industry. A strategy implementing a radical reorganisation, retaining a range of farm types and sizes, but increasing the number of larger but still entry size farms that provide a springboard from which tenants can realistically seek promotion onto the typical scale of farms available in the private sector, was introduced with the backing of stakeholders form both private and public sector in 2001. In essence, whilst the physical area of the estate remains relatively similar, the total number of holdings reduces. Financially revenue remains relatively level and whilst incurring investment costs for amalgamation schemes, the scheme releases surplus properties for disposal and produces a net capital receipt of approx 75% of the amount realised.

6.3 At its core, the strategy sets a target for the mature structure incorporating approx 40 units with a average size of approx 125 acres. As a consequence, releasing a significant volume of property for disposal. The current and inherited target structure is shown below:

Size Category	40 – 60 acres	60 – 95 acres	95 plus acres	Total Number Properties	Total Area (Acres)
Current Structure	32	25	16	73	5119
Target Structure	3	10	27	40	4996

6.4 The mature plan would result in a marginally reduced sized estate but with 3 of the smallest size farms, 10 intermediate size and 27 promotion size units, releasing a further 33 properties for disposal with an approximate value of £13.53 million. It is estimated that the cost of amalgamations, disposals and meeting regulatory requirements (NVZ) is £3.38 million. This would suggest that, subject to the available access to that capital budget, a net receipt of £10.15 million would be delivered by the current strategy albeit within a longer time scale (see para 6.6 below for commentary on time scale).

6.5 The realisation of receipts at full value assumes sales with vacant possession which it should be noted are only available on death, retirement or termination, supplemented by those tenants that are successful in moving off onto private estates.

6.6 Property interests are relatively inflexible and strategic policies therefore underpin the efficient use of property. The target for completion was 2013 but the impact of LGR and the current policy review has delayed implementation by approx 3 years thus far, An independent review completed in 2007 concluded that a more proactive approach would need to be implemented to deliver the strategy within the design life i.e. disposals or tenancy acquisitions from tenants where the wider strategic objectives can be delivered should be considered.

6.7 The scale of service offer has its roots in history and Cheshire East's Estate is marginally smaller than the average size at a national level. Demand for opportunities still outweighs supply substantially, but the number of opportunities to move on to private sector larger farms is also insufficient to meet demand from tenants wishing to move on.

7 FINANCIAL

7.1 The estate is considered to have a current market value of approximately £32 million[3]
7.2 The vacant possession value i.e. the value achievable as properties fall vacant following deaths etc is estimated to be approx £60 million.
7.3 The service generated a gross income of approx £632,000 and net income of £299,000 in 2010/11 from a rent roll of £554,000. The revenue budget for 2011 requires the delivery of a surplus of £195,000.
7.4 The latent liability for known statutory capital improvements[4] is estimated to be £0.7 million and is likely to be incurred in the next 3 years.
7.5 The estimated capital cost of delivering the current reorganisation strategy including statutory work detailed above would require reinvestment of up to 25% of the gross receipts.
7.6 It is considered that the income profile from the current strategy would be likely to remain relatively stable allowing for rental growth and losses associated with disposals.

8 POLICY DEVELOPMENT

8.1 STUCTURE
8.1.1 Since the last major policy review, the conclusions of which were endorsed by the agricultural industry, tenants and local stakeholders, Nitrate Vulnerable Zones have been extended and the regulations enhanced to impose greater

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[3] Based upon an assumption of no restrictions on title and disposal in the short term as at Sept 2009 (Ref Strutt & Parker Valuation Report Sept 2009).
[4] Landlord liabilities for capital improvements in relation to the Nitrates Directives.

storage requirements for slurries, longer closed periods for field applications and limits on stocking densities. The impact has a direct bearing on the amount of land required to support a herd of cattle and hence the impact of increasing the average size of farms. It is therefore concluded that the offer of size category 40 – 60 acres is unsustainable and recommended that it be deleted. Such a proposal would release a further 150 acres to strengthen the retained offer and release two properties for potential sale or reuse for other purposes adding an additional £820,000 to the potential level of capital receipts and increasing the average size of farm within the mature structure to 131 acres.

8.1.2 A review of progress towards the mature structure in 2007/8 indicated that more proactive measures including the active acquisition of reorganisation opportunities (e.g. buying out tenancies or moving tenants to alternative accommodation by agreement) would be necessary to affect the volume of change required within the plan period. With the impact of LGR, those conclusions have been reinforced in the intervening period and the mature plan will take a further 3 – 5 years to deliver.

8.2 DEFINITION

8.2.1 There has been considerable discussion about the meaning of the terms ‘entry, intermediate and promotion size farm,’ understandably leading to misunderstandings. Accordingly it is recommended that the definition of the two sizes of farm be redefined as Entry level 1 and Entry level 2 farms.

8.3 WIDER BENEFITS

8.3.1 The Council has a wide range of goals relating to sustainability and as an example potential is evident between the Farms Estate and e.g. waste management strategies, composting and the generation of renewable energy. Clearly therefore the farms estate has the potential to contribute to the delivery of the Councils wider vision in those areas directly and/or in partnership with the tenant farmers in occupation e.g. through the sustainable use of water and the generation of energy from renewables.

8.4 TENANCIES

8.4.1 Within legislative constraints and practicality, freedom of contract provides scope to offer a range of differing tenancy types and lengths of tenancy. The standard length of tenancy for new entrants in Cheshire has been 15 years, and a maximum of 20 years or age 65 for moves by existing tenants. Each opportunity is considered on its merits and two tenancies of 10 years have been used for new lettings. The use of fixed term tenancies introduced by the 1995 Act marked a sea change in the potential for estate planning from the previous lifetime and retirement length tenancies and the potential for greater turnover and therefore the presentation of an increased number of opportunities.

8.4.2 Integral to any debate around the length of term to be offered as standard is the fundamental principle that either the service is considered to be successful by the use of a farm or number of farms, over the lifetime career of the tenant or it is not. In which latter case, it has to be acknowledged that the use of holdings by good quality capable farmers will be brought to an end at a juncture that may not suit the then current tenant, to make way for a new letting to another existing tenant moving up the ladder or potentially a new entrant.

8.4.3 Length of term increases between the smaller Entry Level 1 farms and the larger Entry Level 2 farms in letting terms to reflect the scale of investment required and encourage movement within the estate. However, the current Cheshire terms are quite generous by comparison with other authorities and it is considered to be important to draw a balance between the desire to create an environment that encourages investment and one that does not undermine the overriding aim of providing entry level farms from which users will move on within limited time scales.

8.5 TENANCIES & INVESTMENT

8.5.1 The length and terms of a tenancy impact upon the market and potential to borrow and the cost and consequently the amount and rate of investment by tenants in infrastructure and improvements either planned at inception or during a tenancy.

8.5.2 The terms of Landlords consent can also have a significant impact upon the decision by a tenant to invest or not. Banks are currently looking for 50/50 ratios for new entrants but most significantly, good business plans that justify the proposed borrowings.

8.5.3 It is clear that there has been and is a reduction in investment during the last several years across the range of tenancy types reflecting the age profile of tenants, the length of remaining terms and the ‘pending conclusion’ status of the policy review since LGR.

8.5.4 As the availability of capital to the Council and tenants reduces and investment is still required to deliver the coterminous objectives of delivering receipts, reorganisation and improvement of facilities, some authorities have adopted an approach of reviewing the terms of letting. By revising existing practices and offering fixed term tenancies to accommodate a right to renew for a further identified fixed term with an inbuilt performance review mechanism i.e. thereby in the short term extending the more secure length of term, access to capital borrowing is improved whilst retaining the ability to terminate tenancies where the objectives are not being met or to facilitate further reorganisation.

9 CONCLUSIONS

9.1 A broad cross section of stakeholders, including those from within the agricultural industry, rural communities and service users and providers’ value and support the availability of the service and the opportunities to farm.

9.2 The ownership of the Farms Estate portfolio provides a range of opportunities to work with tenants and partners to contribute to a wide range of the Councils objectives.

9.3 The target structure for the estate needs to be refined to eliminate a class of opportunity that is not considered to be sustainable.

9.4 The financial return is positive and consistent with this class of asset and structure of estate.

9.5 The delivery of a revenue surplus and capital receipts from restructuring the estate provides a financially sustainable model for the improvement of the estate/service but service delivery and financial performance could be enhanced by further refinement of the structural objectives and the adoption of management objectives that address the wider vision of the authority.

9.6 Options relating to tenancy type and structure should be explored further to encourage inward investment, clarify measures of success for the performance of the service and contribute to the improvement of the estate and service.

APPENDIX 1

Analysis of estate by use as @ 31ST March 2011:

Use	Area (Acres)	% of Total Area	Rent £ pa	% of Total rent
Dairy (d)	2735.39	53.43%	£327,877.00	59.20%
Livestock (s)	1829.81	35.74%	£176,407.00	31.85%
Secondary land lettings (sl)	304.44	5.95%	£18,752.32	3.39%
Horticulture (h)	8.98	0.18%	£6,493.00	1.17%
Arable (m)	92.74	1.81%	£8,665.00	1.56%
Commercial ©	0.26	0.01%	£5,000.00	0.90%
Let Cottage (lc)	0.37	0.01%	£2,340.00	0.42%
Telecomms(t)	0.00	0.00%	£6,081.87	1.10%
Estate Road etc (g)	14.86	0.29%	£0.00	0.00%
Woodland (w)	53.12	1.04%	£0.00	0.00%
Vacant farm premises ®	79.98	1.56%	£0.00	0.00%
Sporting Rights (sp)	0.00	0.00%	£2,220.00	0.40%
	5119.944	**100.00%**	**£553,836.19**	**100%**

APPENDIX 2

ACES RURAL PRACTICE BRANCH

The Council Farms Service – Rationale 2009

Local Authorities have over a century of involvement in the agricultural industry through their management of Statutory Smallholdings, now known as Council Farms. The Service has a unique role and is a vital niche player in the tenanted sector. The agricultural industry and the countryside are constantly changing, and the Service continues to adapt to ensure it sustains the many benefits it provides to the wider community.

Against this background, the Rural Practice Branch of ACES has again updated its Rationale. This sets out examples of the many benefits Council Farms Estates can provide through the implementation of Good Estate Management Practice.

It provides: -

- A means of entry into farming and / or diversified rural businesses for those who may not otherwise have the opportunity to farm on their own account;

- The potential for tenants to establish and develop viable business enterprises, enabling internal progression to larger Council Farms and / or advancement from the Estate to bigger holdings on privately or institutionally owned let estates;

- A means of supporting the tenanted sector, boosted by the flexibility of opportunities offered by agricultural tenure legislation;

- A valuable source of rural employment opportunities on small family farms, often in remote locations;

- A tangible means of meeting the aspirations of the young farming community and the agricultural industry;

- An opportunity to contribute to the wider economic well being and development of the countryside, including products for local markets;

- A "bank" of potentially surplus development land arising from positive property reviews and estate rationalisations, providing a valuable source of capital for essential estate reinvestment, which assists rural economic regeneration and also contributes funding for the provision of other Council services;

- A potential land bank source of exception sites for affordable housing projects in rural areas;

- A valued Council Service managed on a dynamic, sound, commercial, business-like basis having regard to the principles of asset management planning and effective performance management;

- A direct stake in the countryside for Councils enhancing the links between the local farming industry, the rural economy and the wider community through school visits in relation to lifelong learning, open days and guided walks;

- An opportunity to implement best practice in rural estate and sustainable countryside management and stewardship: e.g. Environmental Stewardship Schemes, Health & Safety, and community participation;

- A wealth of traditional landscape features such as stonewalls, ditches, hedgerows and farm buildings which are more likely to be retained on small family farms;

- The opportunity, in partnership with tenants, for the implementation of positive strategies that address the challenges of climate change (e.g. wind farms and other renewable energy sources), together with sustainable farm management and good husbandry practices.

CIPFA performance in public services

2 Our Approach and Methodology

2.1 We followed a three stage approach to this project.

Stage One

2.2 In stage one we undertook a desktop review of the Council's main plans, policies and strategies including; Corporate Plan; Sustainable Community Strategy; Local Area Agreement; Local Strategic Partnerships; Medium Term Financial Plan; Capital Strategy; Asset Management Plan; Environmental Strategy; Rural Strategies and Policies; Farms Policies and Strategies etc. We also reviewed the current levels of income, expenditure, tenant turnover and market demand for the estate.

2.3 We also reviewed some external and independent reports relating to the national picture of local authority farm estates across England & Wales.

2.4 From this document review we were able to:

- Identify potential for the Farms Estate to make a positive contribution to the Council's corporate or service objectives and to performance improvement, and
- Undertake a high level financial appraisal of the estate to identify any significant financial risks and opportunities within the current delivery model.

Stage Two

2.5 In stage two we undertook a remote, primarily telephone based, research of a small number of other UK local authorities that own and manage a farms estate similar to that of Cheshire East Council.

2.6 From this research we were able to identify some objectives and performance management arrangements that other local authorities have adopted, and assess the relevance and benefit of these to any future farms estate strategy adopted by Cheshire East Council.

2.7 We also enquired into the financial health and profitability of the farms estate of the selected sample of local authorities as a means of providing a benchmark comparison on the current delivery model.

Stage Three

2.8 In the final stage we interviewed a wide selection of stakeholders, either face to face or by telephone. The people interviewed included from Cheshire East Council; the Chief Finance Officer and other finance staff, Head of Property, Chief Land Agent, the portfolio holder for Procurement, Assets and Shared Services and a range of senior managers and officers from other services.

2.9 External stakeholders interviewed included two existing tenants, as well as local and national representatives from DEFRA, National Farmers' Union, Tenant Farmers' Association, Country Landowners Association, Cheshire Federation of Young Farmers and Reaseheath College.

2.10 From these interviews with stakeholders we were able to:

(a) Assess the current perceived financial and non-financial worth of the farms estate,

(b) Collate their opinions as to what they see as the future benefits the portfolio could deliver if retained by the Council, and

(c) Test the potential non-financial benefits identified in Stage One.