

Peterborough City Council Strategy for the Management of the Farms Estate

Appendix 3 - Consideration of Strategic Options by the Estate Task & Finish Group

March 2014 - The Task & Finished Group (T&FG) had an initial discussion regarding the historical & legislative background to the Farms Estate and considered how to proceed to establishing a strategy for the estate.

June 2014 – The T&FG met with representatives of the farm tenants and were briefed in detail on the historical and legislative background to the estate and general financial implications of sale and retention.

July 2014 – The T&FG met and three main options were put to the group for consideration:

- A) Sale of the whole estate in 2014/15 – It was estimated that the estate as a whole would realise in the region of £14.5m if sold as a whole in 2015.
- B) Sale of the whole estate over time – Agricultural land and property sold with vacant possession is generally worth significantly more than land sold subject to tenancy. The majority of the farms estate is subject to longterm tenancies which will become to an end over the next 15 years. It was estimated that a total in the region of £24.5m would be realised if only land and property with vacant possession is sold up to 2030.
- C) Sale of Part of Estate only and retain remainder as longterm economic, environmental and social asset – Some 500 acres of land on the peripheral of the estate plus surplus buildings and dwellings could be sold over the next 10-15 years, raising approx £5.75m at a rental cost of about £60,000 per annum.

September 2014 – The T&FG weighed up the financial benefits of realising a significant capital receipt through sale of the whole estate, either as a whole in 2015 at a time of high land values or over time, against retaining the bulk of the estate as a longterm financial, social and environmental asset inherited by the Council at nil cost in 1997.

The T&FG took into account the legislative background which imposes a duty on smallholdings authorities, of which PCC is one, on providing opportunities for new entrants in to agriculture and the stated preference of the government for councils to retain their small holdings estates, most recently in November 2008 in a government report which made several recommendations, including

1. *Regional Economic Strategies should recognise the importance of the County Farm structure as a crucial entry point for new entrants to agriculture*
2. *Local authorities should take a longer-term view when considering sale of land to seek to maximise revenue for development whilst not undermining the principle objectives of the estates*
3. *Local authorities should develop the wider benefits of their holding with particular regard to renewable energy, local food, public access, education, employment and the broader rural economy*

The T&FG concluded that although the Farms Estate is not large and is not in an area of high amenity or scenic value, it has a considerable amount to offer to Peterborough. Peterborough has a fast growing population and the estate is an opportunity for the Council to contribute to making Peterborough a better place through providing opportunities for new entrants into agriculture, education, local food production and marketing and recreation in an area of low public access on the east side of the city.

It was recognised that as a consequence of agricultural land's high capital value as a very safe form of investment, return of income as a percentage of capital value is low in comparison to other more risky forms of investment such as commercial and residential property and equities.

In view of the financial uncertainty facing the Council it was considered that initially some of the land could be let to established agricultural businesses at maximum open market rent, resulting in an immediate increase in rent role. Other, selected properties could be made available to new entrants into agriculture or small specialist businesses seeking to develop economic and social links with Peterborough.

Progress in achieving a range of letting type and businesses on the estate would not be immediate but over a period of ten years there is opportunity for the estate to pay considerable social, environmental and economic dividends to Peterborough in addition to continuing to provide an income stream for the Council.

January 2015 – Strategy presented to Sustainable Growth and Environment Capital Scrutiny Committee

The strategy presented has significant flexibility built into it, enabling the Council to react to changing needs and circumstances. The outcomes of retaining the bulk of the estate are not certain and the volatility of the agricultural economy means that an unduly rigid strategy would fail. However, with increasing pressure on world food supply, the growth of Peterborough and emphasis on sustainability, the potential role the Farms Estate as a diverse rural asset for Peterborough is likely to grow not diminish. The T&FG concluded that this outweighed the potential short-term financial gains of selling the estate.

Appendix 3 - Financial Appraisal of the Disposal of the Farm Estate

Council cost of borrowing £63,000 per £1m over 25 years

Value of farms estate - £14.5m

Savings per year for 25 years -

Income from farms estate £300k a year

Savings over 25 years

| | £'000 | Explanation |
|---|---------------|--|
| <u>Sale</u> | | |
| Savings resulting from paying off borrowing | 22,838 | £14.5m of borrowing costs are avoided saving revenue costs of £914k per year over 25 years |
| Less rental income forgone | -7,500 | £300k a year over 25 years |
| Total | 15,338 | |
| <u>Retaining</u> | | |
| Rental Income | 7,500 | £300k a year over 25 years |
| Difference | 7,838 | |

Over 25 years, the council generates a surplus of £7.8m. However under retaining, the council retains the farm estate at the end of 25 years so it could be claimed that there is actually a surplus from renting of £6,662k (£14.5m less £7,838k). No account is made of the non-financial benefits.

Savings over 50 years

| | £'000 | Explanation |
|---|---------------|--|
| <u>Sale</u> | | |
| Savings resulting from paying off borrowing | 22,838 | £14.5m of borrowing costs are avoided saving revenue costs of £819k per year over 25 years |
| Less rental income forgone | -15,000 | £300k a year over 50 years |
| Total | 7,838 | |
| <u>Retaining</u> | | |
| Rental Income | 15,000 | £300k a year over 50 years |
| Difference | -7,162 | Retaining returns a greater amount than disposal. |

Over 50 years, the council makes a surplus of £7.2m on retaining the farm estate and has a balance sheet asset at the end of this time.

NB assumes no inflation on either land or rental income (all shown at today's prices)

Further implications considered around the sale of the farm estate included less control over the rural economy and the potential that the new landlord to consolidate the estate as tenancies expires. This could mean less employment in the rural communities.

Appendix 4 – Supporting notes following Scrutiny Meeting on the 13th January - Notes on Delivery of Management Plan

Tenure – The principle form of tenure of the land will continue be by letting land and property to tenants. The benefits of this include:

- Delivery of a secure rental income
- The tenant will bring his or her own unique skills and abilities which will drive forward their own businesses and objectives
- Individuals are able to react to changing circumstances and opportunities where are institutions like the Council are less agile and do not necessarily have the skills for direct business involvement
- Minimal financial risk to the landlord whilst enabling the landlord to work with a tenant through investment in capital infrastructure and where appropriate provision of advice to help deliver desired outcomes

Choice of Tenants – There is considerable demand for agricultural property to rent from individuals and businesses. In most cases vacant property would be advertised to let with offers of interest invited. The letting details would outline the Council's objectives and make it plain that all factors would be taken into account when considering applicants, including rent tendered, proposed business plan and other uses, agricultural and business training and experience, human and financial capital to support a business.

Some councils use rigid tick box type application forms, others less rigid formats. Comparison of other council's application processes would be made in deciding the most appropriate approach to choosing tenants in each case.

Size of Farm – There is no definitive answer to what is the correct size of farm. Large farms (say 1000 acres plus) are able to take advantage of economies of scale to produce crops at financially efficient costs. However, this may not result in the highest output per acre of land in either quantity or value. A small farm (say under 200 acres), intensively run farm may produce proportionally considerably more than a larger farm where resources are spread more thinly. Often the most difficult size of farm to run viably is the middle size of holding which requires significant investment in terms of machinery and labour but does not have the total output to spread these costs.

Due to the high capital cost of establishing a new farming business, small farms and areas of land would be made available as part of a balanced mosaic of holding types and sizes on the estate. A flexible approach would be required to take account of changing economics and farm type. For example, there are no livestock holdings on the estate at present. Some parts of the estate would be well suited to mixed farming and small livestock enterprises may be appropriate in places.

In the short-term, it is anticipated that some land would be let as a larger block, say 500 acres, to an established farming business. This would be likely to maximise rental return at least cost, thereby ensuring a return to the council at a time of financial pressure.

Currently the farms estate directly supports about 17 families. If run as just one or two large farms, it is reasonable to expect that this would be reduced to about 5 or 6 fulltime employees if the current pattern of cropping were to continue.

New Entrants – As a smallholding authority, the Council would seek to make land available to new entrants into farming.

A major constraint to new entrants is the capital required to support a business. However, the evidence is that there are many prospective farming businesses which have sufficient capital to finance a small farming business.

It is anticipated that many of the new tenants' businesses would be part-time in the early years, possibly always, with incomes being supplemented by other work whether in agriculture or other areas, by contracting or diversified businesses which add value to the produce.

Real life examples from personal experience –

- i) *Historical - County Council small holding tenant of approx 50 acres plus seasonal grazing from neighbouring land owner with a small dairy herd which on its own was not sufficient to support a family. Family invested in just 6 rare breed sows. The progeny were reared until fat, slaughtered and dry cured for bacon which was sold at a premium through the local post office. These six pigs more than doubled the profitability of the business, giving the family a reasonable income and enabling the tenant to establish sufficient capital to expand the farm.*
- ii) *Potential - Family which has established its own breeding herds of cattle & sheep whilst also working as employees on a single large farm. Three adult children now in early 20s have now come into the business as both employees on other farms and helping with the family livestock business. They have just started a small organic dairy herd on land held on short-term tenancies. The next step is to seek a longterm base to enable the family to continue in farming by establishing their own farming businesses. Potentially this is the sort of family which could make suitable applicants for a holding on the Peterborough estate with its commitment to high environmental standards, local and specialist food production, high economic output from small areas of land and bringing new young entrants into farming.*

Education – This could be achieved in several ways by the estate providing the opportunity for institutions and charities to take on land and property.

Tenants would be encouraged to forge links with local schools and to take part in national events like Open Farm Sunday.

Direct lettings to educational institutions; the Peterborough Regional College is keen to develop its curriculum and talks have been held regarding granting it a tenancy of a farm or enabling a direct partnership between an existing farm tenant with the college as a starting point.

Informal education through better use of information signage.

Care Farming – There is considerable potential for development of a care farm which would provide social and educational benefits. This would be dependent on working with other parts of the Council or bodies to meet an identified need. Care farms have been established on a number of county council small holdings estates with considerable success, for example assisting in reintegration of socially isolated children who have been excluded from formal education and children and adults with learning difficulties.

There are on-going discussions with the Council's Supported Employment Unit regarding use of land for a small project.

Care Farm and educational type uses would not occupy a large proportion of the existing estate. It is likely that they would be either let as small individual holdings of say up to 10 acres or form part of a larger commercial farm enterprise.

For more information see general www.carefarminguk.org

Social – Peterborough has a growing and very diverse population, much of which has agricultural connections and experience. Applications for tenancies from people or groups within Peterborough would be encouraged, especially where sale of produce locally would form part of a business proposal.

There is scope for improved public interaction with the estate through development of local volunteer groups to plant and manage new woodland and habitats.

Continued use of the estate for small farms would help to maintain a diverse local rural economy with wide social benefits arising.

The City Councillors would be kept better informed of the estate through annual reporting and public information.

Environmental – The core function of the estate for the foreseeable future would be agriculture. Environmentally sensitive farming practises would be encouraged amongst existing tenants and applicants for tenancies would be required to demonstrate an ability and desire to adopt current good practise.

EU agricultural subsidies are increasingly environmentally focussed. None of the tenants have entered their land into higher level stewardship schemes and past Council initiatives to involve the RSPB in providing free advice and assistance have not been responded to positively by tenants.

On letting farms there would be opportunity to identify areas for habitat creation, hedge/tree planting etc. If appropriate a pre-planned program of works involving the new tenant could be included in the letting details.

The Peterborough Forest – retention of the estate would enable a comprehensive landscape plan to be developed for the estate which would complement the Peterborough Forest initiative.

New Technologies – To date the Council prohibits the use of genetically modified (GM) crops and products in new tenancies. However, it is probable that the EU & UK government will permit widespread GM use in the next years. In general the Council would not seek to impose restrictions contrary to national policy and it would appear that lessons learnt through the growth of GM crops elsewhere in the world is leading to a more nuanced approach to the technology which may provide environmental as well as production benefits. However, the Council would continue to scrutinise the use of new technologies and impose appropriate controls in all new tenancy agreements.

Sense of Place – Through the planned planting of new hedges and trees and habitat schemes etc there is a significant opportunity to improve the appearance of the estate in the landscape which would benefit the local area and the north-eastern gateway to Peterborough.

Pace of Delivery – The Council's role in achieving the aims of the estate plan would be largely through providing the opportunities through letting of land and property. Where a sound case can be established, capital investment in improvements and projects would be undertaken. The pace of delivery would, therefore, be in part dictated by outside influences and the willingness/ability of outside bodies to become involved. In the current financial climate, socially focussed projects such as care farming may not be achievable for some years.

The planning of the estate is controlled by the agricultural year and essentially the ability to let new farms etc is only available once a year after harvest. There is scope for some immediate change by letting land on longterm tenancies after harvest 2015.

The majority of the estate remains let on secure longterm “retirement” tenancies which will not come to an end for ten or more years. Significant changes to the use of these holdings cannot be expected until the tenancies come to a natural end on retirement of the tenants. However, this slow pace of change would enable a natural development of the estate which is able to take advantage of changes in the agricultural and wider economy.

Reactive – The detail for delivery of the estate plan would be agreed through annual and longer-term budgeting. This would enable the estate to react to changing opportunities and demands in an informed way. It is anticipated that, in reaction to the Council’s financial demands, in the short to medium term the management of the estate would be weighted towards financial return to the estate.

To ensure that the Council has the ability to react to opportunities, it is anticipated that some land will be retained on short-term tenancies.

Public Profile – An important tool of delivery would be through improved public awareness of the estate through publicity, new letters etc.