Asset Management Plan

County Farms

Prepared on behalf of Monmouthshire County Council

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Contact details

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1 Introduction

Monmouthshire County Council's agricultural portfolio extends to approximately 3,000 acres of land and associated buildings. It is mainly located in the south of the county, alongside settlements such as Portskewett, Llanfair Discoed and Caerwent, but also extends northwards towards Raglan and Abergavenny.

The portfolio currently consists of:

- 26 Farming Units (amounting to 938 Hectares / 2,318 acres);
- 6 Cottage Properties;
- 40 Bare land holdings (240 hectares / 594 acres); and
- 18 Woodland (35 Hectares/86 Acres).

Faced with growing financial pressures and the need to consider the interests of all their taxpayers, many local authorities have sought to scrutinise the value of their county farms.

On this basis, Knight Frank Rural Asset Management, Bristol has been instructed by Monmouthshire County Council to carry out a review of its County farms portfolio in order to meet its objective of having an updated Asset Management Plan. This will provide strategic direction for the next three years by identifying income generating opportunities, creating sustainable holdings and identifying opportunities.

The new Asset Management Plan will have the following outputs:

- Opportunities and threats for the portfolio;
- Recommendations on how to create a more viable agricultural estate;
- Development opportunities; and
- Review and refine the current core / non-core status.

Whilst the intention is to review the direction for the next three years, the plan must take a long term view in determining the future strategy for each holding in order that short term management decisions can be made against this.

2 Methodology

In preparation of this report, the following inspections have been undertaken:

- 26 equipped farms – a visit to each farm;
- 29 bare land and grazing license lettings – inspection of key sites and drive-by; and
- In-hand woodland – inspection of key sites and drive-by.

The inspections were to understand the current position on the following, focusing particularly on the equipped holdings:

- Condition of the holding generally (excluding any formal building survey);
- Current farming practice;
- Current business run by the Tenant and any plans for the future; and
- Opportunities and investment requirements.

The meetings with the tenants of the equipped farms were to establish the following:

- Background of the tenant and their intentions;
- The current use of the holding and any business being run;
- Farming capacity and capability;
- Plans for the future;
- Retirement provision (if relevant); and
- Ideas and opportunities that they had (if relevant).

In compiling the report we have taken into account the 'whole portfolio' approach to ensure that opportunities and liabilities are balanced in order to create a sustainable and deliverable asset management plan.

The recommendations in this report have been based on understanding external factors that impact on the delivery of any asset management, which includes:

- Economic, political and social factors;

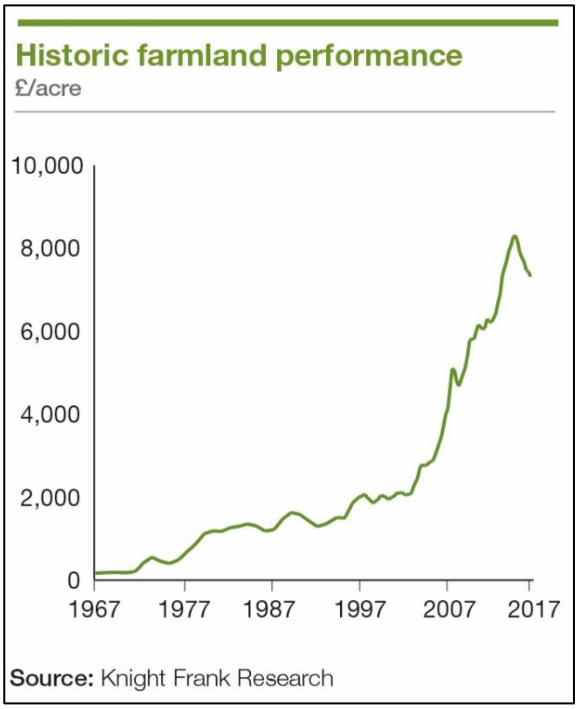
- Government and town and country planning policy;
- Property market trends;
- Markets for agricultural products and diversification opportunities; and
- New technologies.

3 Current Status

UK Farmland Values

The latest figures from Knight Frank's Farmland Index show that the average value of bare agricultural land in England and Wales fell by 1.7% to £7,313/acre in the second quarter of 2017.

The value of good quality arable land has started to rebound, with the prices approaching £10,000/acre in some cases. This is still some way off the value at the height of the market (mid-2015) but suggests that demand remains strong for the right product.



The key contributing factors are:

- Increased commodity prices (assisted by the on-going weakness of sterling);
- Government assurances of continued farm support;
- Low supply of publically available land ; and
- High levels of demand.

Farmland performance

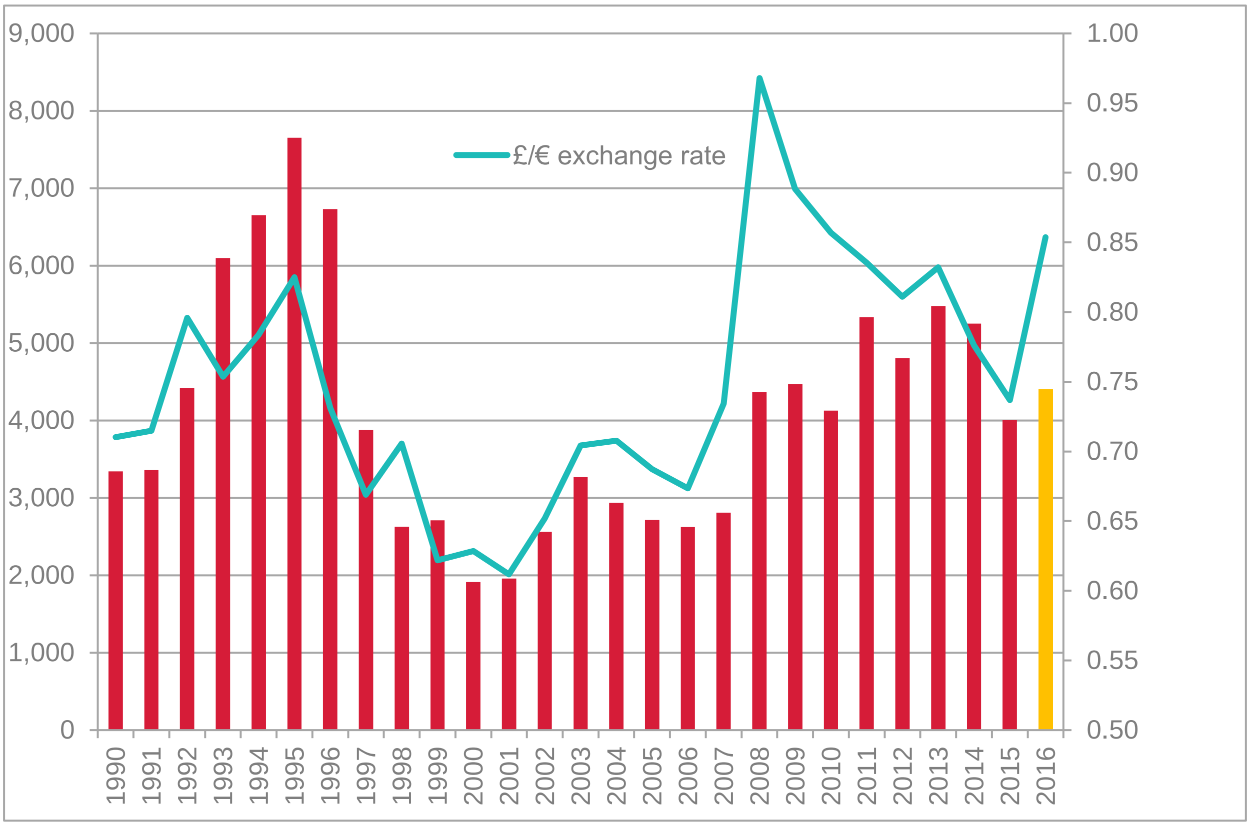
3-month change	1.7%
12-month change	-6%
5-year change	16%
10-year change	97%
50-year change	4,254%

However, the demand for upland or more marginal farmland is more muted at the moment because of the heavier reliance on EU farm subsidies. Until there is clarity regarding how the UK government will replace the Common Agricultural Policy (CAP), this trend looks set to continue.

That said, demand and values could quickly recover if the new policy recognises and rewards the wide-ranging environmental, social and landscape amenity provided by the uplands.

UK Farm Support Vs. Total Income from Farming (TIFF)

In 2016, the Total Income from Farming (TIFF) was £4bn. This shows a rise of 1.5% from the previous year. In the same year, subsidy payments from the European Union totalled £3.1bn. This shows that farm support makes up 75% of the Total Income from Farming.



Source: DEFRA, Andersons

The relationship between the Pound and the Euro is fundamental for the fortunes of UK farming, for two main reasons:

1. Subsidies are calculated in Euros then converted into Sterling in September each year. The exchange rate at that point therefore affects the Sterling value of UK Basic Payment Scheme payments; and

2. The majority of UK exports are made to the Eurozone. If the Pound is strong, UK exports cost more in foreign currencies and imports into the UK become cheaper in Sterling terms. If Sterling weakens, the opposite happens, supporting UK domestic prices.

The decision to leave the EU has resulted in a fall in the value of Sterling, which is beneficial for UK farming in that it produces positive results for export sales, milk prices and subsidy payments. However, this is likely to be negative in terms of input costs such as feed, fertiliser and fuel.

UK Farm Support v. TIFF by Region

Region	TIFF (£m)	Support (£m)	Support as % of TIFF
Wales	212	249	117
Scotland	688	510	74
North	463	270	58
South East	383	215	56
South West	666	366	55
Midlands	1,026	457	45
Yorks / Humber	654	220	34
East	1,006	287	29

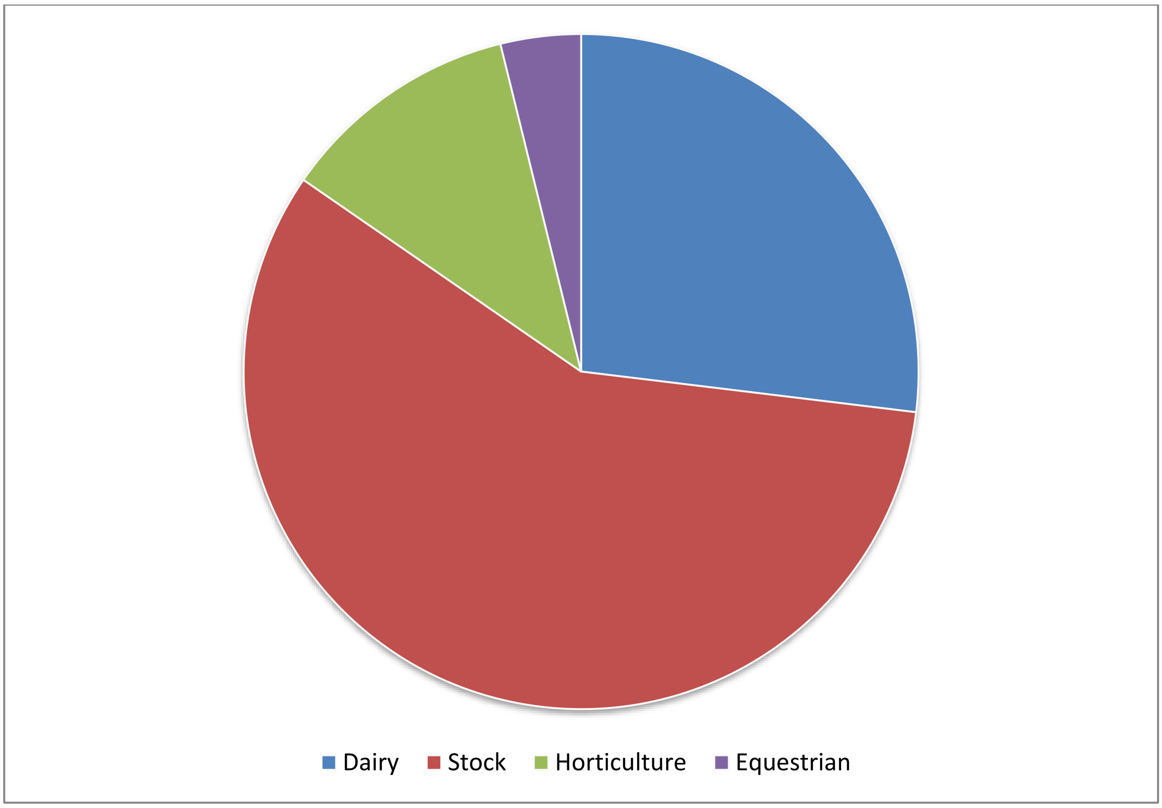
Source: Andersons

The above table demonstrates the regional reliance on subsidies. It shows that farmers in Wales are the most dependent on subsidy payments of any region in the UK, with a £37m difference between the Total Income from Farming and the support payments received form the European Union. This equates to a percentage of TIFF of 117%.

The figures show that the predominately upland livestock farming areas (Wales, Scotland & the South West of England) all have a heavy reliance on farm support.

Monmouthshire County Council

County Holdings, by Sector



Monmouthshire County Council's farm portfolio is currently split across the following sectors:

- Livestock – 58%;
- Dairy – 27%;
- Horticulture – 11%; and
- Equestrian – 4%.

A number of Monmouthshire County Council tenants have moved from the dairy sector to the livestock sector. This has been on the basis that the livestock sector involves less risk and requires less capital, whereas the dairy sector is capital intensive, something that is demonstrated by the level of capital expenditure at three of Monmouthshire County Council's dairy farms in the past three years.

However, the livestock farming tends to be, on average, far less profitable than dairy. Furthermore, the livestock sector could be seriously challenged by loss of key European markets, and in particular, the beef sector needs to see a step-change in performance if it is to thrive in a world of lower support payments, and possible greater global competition. This is likely to include larger more efficient finishing units, which is not something the Council Farms are equipped for.

Factors affecting the Portfolio

Farm Support

The current rent roll from the equipped farms is £166,319. We have estimated that the total amount of Basic Payment Scheme claims, made by tenants, for the portfolio is in the region of £212,000. This means that the EU funded Basic Payment Scheme accounts for 127.41% of the rent roll, and only two farm holdings receive a Basis Payment Scheme claim that is less than annual rent collected from the portfolio.

N.B. Nurseries are excluded from this calculation as they are likely to be ineligible or below the size threshold.

Rental Values

Based on comparable lettings we consider that the rents for the holdings are, in some cases, below the current market. As part of any future strategy, these should be reviewed.

Capital Expenditure

The Council have spent in the region of £900,000 on equipped farms in the last three years. This has been mainly been focussed on meeting compliance obligations.

Tenant's Age Profile

Monmouthshire County Council's tenants range from 46 to 87 years old. This provides an average age of 64 years old. The average age of farmers across the UK is 59.

(N.B. The average age of UK farmers is distorted by owner occupiers, who seek to protect the advantages of inheritance tax relief by ensuring the control rests with the eldest active farmer).

Successors

Other than one or two exceptions, there is a lack of successors on the county farms portfolio.

Standard of Farming

The standard of farming that is practiced across the portfolio is in line with holdings of a similar size and profile.

Condition of Holdings

Overall, the condition of the county farm holdings is average. There are areas of non-compliance from both landlord and tenants. These have been separately identified and factored into the recommendations provided.

Diversification

Some of the tenants have sought to diversify (for example farm shops and liveries). However, there does not appear to be any formal ways of working between the landlord and tenants, and historically there has been a certain amount of complacency towards the management of diversification on holdings. This has meant that there has been no formal structure to facilitate new opportunities between landlord and tenant, which could involve investment and modernising of tenancy terms to reflect any new opportunities.

Result

The factors outlined above contribute towards an unsustainable agricultural portfolio with the following areas of concern:

1. A strong reliance on farm support;
2. A low return from the holdings against the level of revenue and capital expenditure required;
3. Significant capital investment into holdings that are not long term core;
4. A limited amount of new letting opportunities for new entrants;
5. A lack of investment from tenants that are looking to take revenue from the business to support retirement plans;
6. A lack of entrepreneurial spirit among the tenants as tenants look towards retirement and minimising risk; and
7. A past reluctance to encourage tenants to develop new business ideas.

4 Review of the Portfolio

SWOT Analysis

Strengths	Weaknesses
Rural County with high amenity and landscape value Land requirement for employment and housing Landlord with ability to act in a commercial manner Valuable asset Rural Authority Availability of capital for reinvestment County is known as the 'Food Capital of Wales' 	Aging tenant profile Lack of positive engagement between Landlord & Tenants On-going capital maintenance requirement Constraints of past agriculture tenancy legislation Political uncertainty 

Opportunities	Threats
Farming Economic growth Social cohesion Environmental benefit / support (biodiversity offsetting, habitat creation, flood alleviation) Support wider rural electorate (recreation, public access, health & wellbeing) New trade opportunities (as a result of Brexit) Local markets Development of redundant agricultural buildings Development to supply employment and housing need Tourism (including accommodation) Equestrian Energy (generation and storage) Retail Education and training	Farm Support Trade uncertainty (as a result of Brexit) Regulation & compliance Increasing costs of maintenance Restrictions on migrant labour Liability - Environmental - Health & Safety - Public 

5 Future Management Recommendations

Opportunities within the Portfolio

1. **Strategic Land**

   The portfolio includes a significant area of land in an area of the County that would benefit from housing and employment to support the future requirements of the electorate.

2. **Surplus farmhouses and buildings**

   The farmhouses and buildings that are no longer required for modern farming provide opportunities to release capital, subject to gaining planning consent for development for alternative uses.

3. **Tourism**

   The holdings towards the north of the County can benefit from the high amenity value and landscape that the County can offer. Unlocking this value will need to be done by working with the best operators, either as part of a diversified farming or rural business or as a standalone tourism enterprise.

4. **Energy**

   The portfolio provides opportunities for the development of renewable / low carbon energy schemes in order to provide an environmentally beneficial solution for the increasing demand for energy.

Mitigation of Liabilities

1. **Surplus houses and buildings**

   Identifying surplus house and buildings and disposing of them with not only raise important capital returns, but reduce on-going maintenance liabilities.

2. **Identification of long term core farms to invest into fixed equipment**

   Investment in core farms and tenants should be on the basis that the tenants have robust plans for the future and factor in the future uncertainty and changes in farming support.

Delivery

1. **Retirement policy**

   In terms of the assessment of core and non-core holdings we have included an assumed retirement age of 70, to give an understanding of when the holdings are likely to become vacant.

   This can only be an estimate, as some tenants have the ability to remain on the holding for their lifetime. The aim would be to help tenants plan for their retirement and make provision, whilst maintaining the property and their business.

2. **Management of diversification**

   Existing diversification should be properly regulated and a clear policy should be adopted to ensure a proper consenting process and that the value is accounted for in the rents paid.

3. **Farming**

   Any capital expenditure should be properly considered, alternative solutions considered and where there is an improvement in the capacity or capability in the farm this should be properly assessed and rentalised.

   The amalgamation of holdings will help provide the ability to support further investment and ensure holdings are of a viable size. This should be done alongside modernising tenancies to reflect modern terms including investment and any non-agricultural uses.