

# Inquiry into the provision of Local Authority Farms in Wales

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Terms of reference for the inquiry, agreed on 19<sup>th</sup> May:

- To assess the current provision of local authority farms in Wales and how the network should be developed in future, with the aim of making recommendations on these to the Welsh Assembly Government and any other appropriate bodies.

## **The Terms of Reference for this report are to review and comment on:**

- the statistical information available relating to local authority farms in Wales and the current circumstances of the network;
- the future contribution of the local authority farm network in Wales in providing a key access point for new entrants to farming and promoting progression of existing tenants within the public and private sectors;
- how tenancy legislation can best provide a balance between the flexibility needed by new entrants and the long-term security needed for the best management of rural land;
- how to encourage long-term investment and diversification of tenanted farms whilst maintaining the size of the local authority farms estate;
- whether a co-ordinated approach to the disposal and/or retention of local authority farms is needed;
- whether local authorities and the Welsh Assembly Government could take any further action to help maintain and develop the local authority farm network in the future, both in terms of improving the estates themselves and contributing to wider community and environmental goals.

## Structure of report

In response to the objectives of the Inquiry, this report is in three sections. First, the report provides a brief historical review of the smallholdings in England and Wales, as the context for the review. The report then considers the empirical evidence available from recent research concerning:

- the major issues of entry and exit into farming, identifying the major contemporary challenges for new entrants into farming
- the impacts of the Agricultural Tenancies Act 1995 and Farm Business Tenancies
- the structure of and changes to the County Farms Estate (CFE) in Wales

Finally, the report offers some reflections on the future role of the estate and the potential for it to meet the ambitious objective set out in the introduction to provide, 'a key access point for new entrants to farming and promoting progression of existing tenants within the public and private sectors', in addition to achievement of other relevant objectives including contributions to 'wider community and environmental goals'.

### 1. Introduction

The Smallholdings Act of 1892, enabling County Councils to create and let smallholdings, launched a rural institution that still survives today, albeit by some accounts, as a threatened species. The small, until recently typically dairy, county farms have offered a distinct route to those embarking on a career in farming and even today the total area of county farms is far larger than any private estate. A county farm tenancy is one, of very few, means of entry into farming available to entrants with neither substantial capital nor the prospect of family inheritance.

The objectives of the estates have changed considerably during the last 100 years. The aim of the 1892 Act was, somewhat intriguingly, to encourage owner occupation. This was overtaken by the often quoted aim of providing land for ex servicemen from the First World War introduced by the Land Settlement Facilities Act 1919. The Agriculture Act 1970 provided further rules for the administration of the Estates, under Part III. A more recent global statement of objectives came from a major conference on county farms in 1994 (RICS 1994). The conference of agents, councillors and tenants listed the main perceived aims of county farms as:

- \* to provide a gateway and farming ladder for new entrants
- \* to assist in rural conservation and sound environmental management
- \* to assist in education and public access

The role of county farms has often been questioned, particularly due to the sensitivity of the public ownership of land for the benefit of relatively few (Warren et al, 1995). The estate's continued existence and the support of Parliamentary Inquiries including the Wise Committee (Departmental Committee of Inquiry into Statutory Smallholdings 1966) and the Northfield Committee (Committee of Inquiry into the Acquisition and Occupancy of Agricultural Land 1979) is perhaps testament to their success in fulfilling a social and economic role not met by the private sector. Their future, it was noted, would depend on their ability to adapt to the changing rural economy and new legislation, particularly

the flexibility afforded by the Agricultural Tenancies Act 1995, but is equally likely to be influenced by financial pressures on local authorities (Warren et al, 1995).

The 1995 Act introduced farm business tenancies (FBTs), with freedom of contract in agricultural lettings to a degree not known since 1875. Until 1995, the majority of tenants had security for at least one lifetime and, in many cases, three. This alienation of possession, coupled with a statutory rent formula and a general lack of flexibility were characteristic of the Agricultural Holdings Act 1986 tenancies. Whilst not retrospective, and not therefore affecting the majority of existing tenancies, the 1995 Act introduced a number of major changes. In particular, it provided certainty in regaining possession in the short or medium term, greater freedom to negotiate terms suitable to the parties and an unfettered open market rent provision, all designed to revive the shrinking landlord and tenant system.

To a degree, the changes were less marked for the county farm estates which already had the mechanism of statutory retirement tenancies in the Agricultural Holdings Act 1986. However, farm business tenancies appeared to offer opportunities for County Councils, through their inherent flexibility and by increasing the supply of land to let, in creating prospects in the private sector for their tenants. A survey of land agents by the RICS in 1994 suggested that the legislation might release an extra one million acres into the tenanted sector (Kerr 1994).

The 1997 and 2002 studies on the 1995 Act (Whitehead et al, 1997; Whitehead et al 2002) suggested, however, that much of this 'new' land in the tenanted sector was of accommodation land or land with buildings, with a paucity of 'new' complete units to let, as land owners took the opportunity to capitalise on the rental value of the house and the higher rental values to be achieved from letting the land to well established neighbouring farmers. Whitehead et al (2002) reported that fewer than 10 per cent of FBTs were let to new entrants, who were reported to 'feel barred to a great extent from taking up such opportunities because of the high rents and stiff competition from established farmers for the FBTs available'.

The best established survey for England and Wales, the Annual Tenanted Farm Survey, suggested that by 2000 (CAAV 1995 - 2000), there had been an average net inflow of approximately 13,500 hectares per annum into the tenanted sector, compared with a loss of over 28,000 hectares in 1994. More recent data from the CAAV (CAAV, 2005-2010) indicates, however, that 'there has been a marked drop in activity in the let sector since 2005' (CAAV, 2010:53), with the number of new FBTs in decline. This is partly attributed to the introduction of the Single Payment which appears to have led in part to the granting of longer tenancies, most notably to 2012, designed to enable entitlement holders to remain in occupation of their holdings. However there is some anecdotal evidence that anxiety over the migration of value, whether capital or rental, from landlord to tenant as a consequence of the introduction of the Single Payment Scheme may also have dissuaded some landlords from letting. Increases in both rents passing and capital values suggest this fear has been unfounded although the very recent Scottish rent case<sup>1</sup> may well resurrect these concerns in some quarters.

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<sup>1</sup> Morrison-Low v Paterson 2010

Overall, in 2009 there has been a small decrease in the area of the tenanted sector of 3,100ha, compared with an average net annual increase in the period 1996-2003 of 14,100 ha. Moreover, the area newly let on FBTs continued to fall, to just 3,200ha in 2009. One in ten of all lettings were noted as occupied by new entrants, with a third of these on terms of more than five years (CAAV, 2005-2010).

This is clearly of great significance for CFEs in providing opportunities for new entrants and with regard to the availability of opportunities for progression onto privately tenancies. Reviewing the importance of County Farms Service to the Rural Economy in 2008, Sir Don Curry, acknowledged that 'farms owned and managed by Local Authorities are an important, strategic, national asset that should be retained' and that, 'Local Authorities should make greater effort to develop the wider benefits that their land holding could provide particularly in regard to renewable energy, local food, public access, education, employment and the broader rural economy' (Curry, 2008: 2).

## **2. Research evidence**

### **2.1 The major issues of entry and exit into farming, identifying the major contemporary challenges for new entrants into farming**

In common with many OECD countries, the UK farming population is getting older. Eurostat figures (2003) showed that, in 2000, only 5.2 percent of "agricultural holders" were under 35 years old, compared with 7.4 percent in 1990. The absolute number of under 35s had fallen over the decade by 6,000, or more than one third. Over the same period, the proportion of holders 65 years old and over had risen from 22.1 percent to 25.3 percent.

Along with a number of other commentators on the subject, the report to Defra on research into 'Entry to and Exit from Farming' (ADAS et al, 2004) identified that this situation is nothing new and the product of two key factors, namely a decline in the rate of new entry by new young recruits and a low rate of retirement and transfer of the business to individuals from within or from outside the family. This, it recognised, is taking place in the context of continued decline in the labour force in the industry.

The Committee of Inquiry into the Acquisition and Occupation of Agricultural Land, under Lord Northfield, had in 1979, noted "the case for young and new blood". Whilst emphasising the values of the "family devolution" system in British farming, the Committee also heard of need for a "continuous infusion of "new blood" from outside the industry to provide a fresh and innovative outlook, energy and drive." Some respondents expressed the need to avoid the "closed shop" scenario of the farming industry.

Advancing the merits of encouraging new entrants into farming in 2002, the Policy Commission on the Future of Farming and Food 2002 (p.57) suggested that such new entrants may be 'more innovative and better motivated towards new challenges...', and may bring,...'novel perspectives', warning of the dangers, 'if entry to farming were restricted solely to a privileged class of inheritors or

to those few with large sums of capital to buy themselves in' (Northfield 1979:177). Caskie et al. (2002 p.98) noted the view that young people were likely to be more dynamic and innovative. Research explained this by their lifestyle goals and longer term planning horizon making them more likely to invest, with the consequence that there should be productivity improvements. The Tenancy Reform Industry Group (TRIG), set up to advise on the implementation of the 1995 Act, commented that, 'new entrants bring to the industry new ideas, new skills, a willingness to approach problems with new solutions, and sometimes new capital' and also noted that 'not all new entrants are young but many enter the industry with experience of other sectors' (TRIG 2003: 68). Such characteristics are, arguably, particularly evident in new entrants who are not successors.

Empirical research for Defra (ADAS et al, 2004) confirmed the age issue in UK farming, with 34% of respondents having been farming for 40 years or more, with a mean age of the sample as a whole, for England and for Wales, at 55 years. On new entrants, the study suggested that, for the UK as a whole, 'the number of "new entrants" in UK farming in 2003 (was) between 1.4% and 2% of the farming population (or between 1,660 and 2,380 individuals)'. Furthermore, the dominant and well recognised role of family farms, in bringing new entrants into the industry was reiterated, with almost three-quarters of decision-makers (71%) in the sample of respondents who had entered farming as a family worker or helping on a family farm.

For Wales specifically, in 2001, the Welsh Assembly Government's Farming Futures Group noted that the mean age was, 'high and increasing and that this (was) a factor constraining the adaptation of the farming sector to contemporary circumstances' (Farming Futures Group, 2001: 30). It asserted that the barriers to young people entering farming have been increased substantially by the Common Agricultural Policy, leading to increases in land prices and the introduction of 'bureaucratic capital' in the form of quotas (p. 30). This had been further exacerbated by the approach taken to Single Payments, as indicated above. In response, it set out a number of actions intended to help young people, including education and training, specialist business advice, higher rates of grant for farm improvements and diversification and easier access to the Tir Gofal (Land in Care) agri-environment scheme (pp.30-31).

Evidence on entry and exit to farming (ADAS et al 2004), suggests that the likely rate of exit from farms in Wales is lower than for other parts of the UK, with 33% of the sample in this study indicating that they were not planning to retire at all, a significant increase on the figures for England and Northern Ireland (Table 1).

Table 1 Retirement plans of farmers surveyed in Entry to and Exit from Farming study

UK Farmers	Country				
	Total	Eng.	Scot.	N.I.	Wales
Never retire	27%	24%	33%	25%	33%
Semi retire	39%	41%	38%	37%	37%
Fully retire	28%	27%	27%	32%	25%
Already semi retired	4%	4%	2%	5%	3%
Not stated	2%	3%	-	1%	2%
Total	100%	99%	100%	100%	100%

Source: ADAS et al (2004): Large Scale Survey of Farmers in the UK

In terms of barriers to retirement, further analysis in this study indicated that farmers who would like to, but were not intending to retire, were split as to whether this reluctance was due to their own desire to remain farming, in Wales, 27% (compared with UK figures of 37%), or due simply to financial necessity, for Wales 65% (compared with UK figures of 47%). It is noticeable that a significantly higher proportion of these farmers in Wales indicate that they are unlikely to retire due to financial reasons. The implication of an aging farming population, where a significant proportion of senior members are reluctantly engaged through necessity, rather than choice, suggests a less than healthy environment for innovation or investment.

Whilst this will limit availability, the pace of new entry will most definitely be affected by the speed at which potential new entrants gather together the prerequisites for business ownership, most importantly those of capital, property and skills (experience and/or education). Of the new entrants in the in-depth telephone survey of the study for Defra (ADAS et al (2004), almost half (45%) reported that there had been no significant constraint to joining or starting their businesses. This figure masks a considerable difference between the Joiners (those joining an existing business, such as a family farm), 65% who responded in this way, and the Starters, where the proportions were much lower at 22% and 29% for non-CFE and CFE Starters, respectively. The need for and availability of finance was quite clearly more of a constraint for the Starters and mentioned by almost a quarter (23%) as the most important constraint. In a further element of this study, a postal survey of University/ College leavers from Agriculture or related courses, the main constraints preventing them from entering farming were identified (Table 2), confirming the point above.

Table 2 Reasons for not being able to get into farming

<b>Base: all respondents answering either “Yes but I have not done so” at Q9 providing 3 responses at Q53</b>	<b>Total</b>
	<b>(185)</b>
Lack of current profitability in farming	60%
Lack of capital	51%
Lack of land availability	30%
Quotas	10%
Family farm unable to support an extra partner	39%
Lack of training and skills	9%
Other	22%
Not specified	15%

Source: (ADAS et al, 2004): Postal Survey of University/College leavers of Agriculture and related courses

Testing the pressures on those who had entered farming, through an in-depth telephone survey of new entrants, respondents were asked about the main threats that they perceived to their businesses. Clearly most important to the continued viability of the business were factors relating to profitability of the business, along with external intervention, through regulation and Government support measures (Table 3).

Table 3 New entrants - perceived threats to their businesses

<i>Per cent of the group mentioning</i>	<b>Joiners (n=103)</b>	<b>non-CFE Starters (n=51)</b>	<b>CFE Starters (n=56)</b>	<b>Total %</b>
None	12	6	0	<b>7</b>
Low prices	43	31	46	<b>41</b>
Imports	5	6	5	<b>5</b>
Pressure on subsidies	17	39	29	<b>25</b>
Level of regulation	10	8	7	<b>9</b>
Low support from Government	4	10	5	<b>6</b>
Don't know	0	0	2	<b>1</b>

Source: ADAS et al (2004): In-depth Telephone Survey with recent New Entrants

Respondents to the new entrant survey were also asked if they knew of any new entrants joining or starting their own business who had gone out of farming in the last five years. Almost a third (32%) of the non - farm manager new entrants knew of someone, perhaps reflecting circumstances where college friends returned to farm on the home farm, subsequently discovering that the business was unable to generate a reasonable income for an extra partner. When asked the reason for the demise of these businesses, 64% said that it was because of the low level of profitability and low resulting income levels. Six (9%) of the failures were felt to have been the result of shortage of capital. A further four (6%) were believed to have given up because of “the hard work” required.

Turning back to the potential new entrants in the postal survey, when asked to describe in their own words what would have enabled, helped or encouraged them to run a farming business, respondents primarily focused on financial aspects, listed below:

- Financial benefits/more money/profitability (26%)
- Financial backing/capital (14%)
- If farming industry was more stable/more prospects/less risky (12%)
- If had experience/if training/advice was provided (12%)
- Grants/low interest loans/tax relief (10%)
- No opportunity/prospects/vacancy/space in my farm (10%)
- Better government support/interest/attitude (6%)
- Availability of land/land too expensive (6%)

In the context of this study, it is interesting to note the low level of responses identifying availability or cost of land as a significant factor which appears to be considerably lower than many commentators might have anticipated.

These suggestions line up, in part, with those of the Curry Commission (2002: 58-60) which decided, on value for money grounds, against recommending a retirement incentive scheme, but proposed a range of government actions to address entry/exit problems including:

- Promotional material for careers services
- Advice and support for planning and management of retirement and succession
- Promotion of alternative entry methods, such as share farming or contract farming,
- Sponsorship for a matching service to bring together new entrants with retiring farmers who do not have identified successors.

In summary, there is a distinctly differentiated constituency of prospective new entrants, with “successors” no doubt frustrated by the slow speed of transfer of business control from the elder generation but relatively secure in the knowledge that their parents were unlikely to sell and Starters, for whom the prospect of access to a holding of meaningful scale was extremely remote.



## 2.2 The Impacts of the Agricultural Tenancies Act 1995 and Farm Business Tenancies

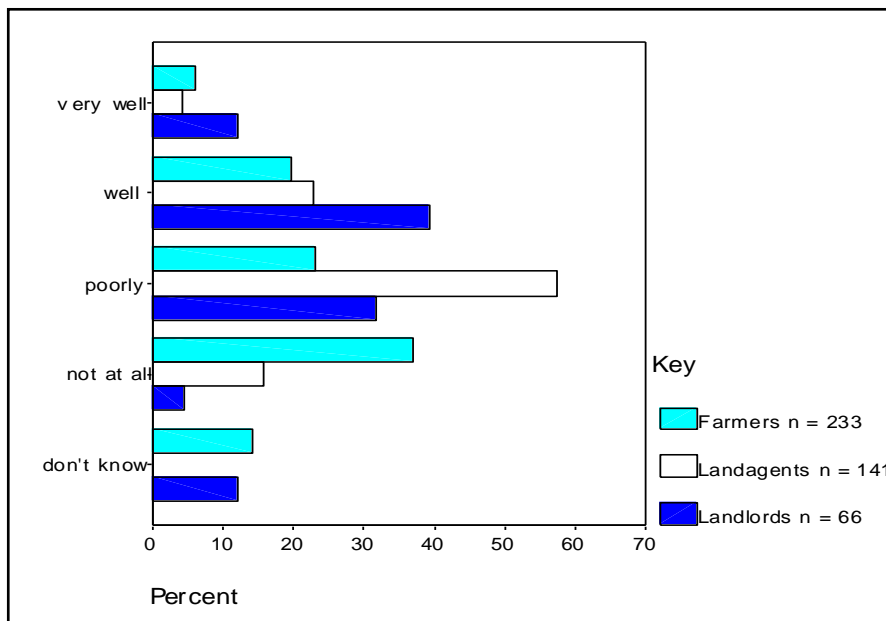
The main objectives of the ATA 1995 were:

- To encourage more letting of agricultural land,
- To increase the opportunities for new entrants,
- To promote economic efficiency in agricultural land use by making the market for rented land more flexible and responsive to market forces.

For Wales, interest in the impacts of this change in legislation, in terms of the availability of land to let and opportunities for CFE tenants to progress into the private sector, is perhaps heightened by the predominance of owner-occupation, compared with tenancies. A recent survey by the Centre for Rural Policy Research (2007) reported owner-occupation (agricultural land area) in Wales at 69.6%, compared with 57.7% for England and Wales. These figures are likely to be under estimates, as they exclude grazing licences, partnerships and contract and share farming agreements.

Reporting in 2002 on a study for Defra on the ATA 1995, Whitehead et al, noted that, 'the impact on entry into the industry was, for a number of stakeholders, the most disappointing outcome of the legislation'. Land agents and farmers, also interviewed in this study, were like-minded in their negative feeling towards the legislation, concerning achievement of the objective to increase the opportunities for new entrants, with around 70% of land agents responding, 'poorly' or 'not at all' (Figure 1) and farmers marginally less dismissive with 67% in these categories. What is also interesting is the opposing view provided by the landlords, where almost 60% felt that the Act had met this objective 'well' or 'very well'.

Figure 1 ATA1995 – Increasing opportunities for new entrants



Source: Whitehead et al, (2002): Survey of Landlords, Farmers and Land Agents in England and Wales

As previously mentioned, perceptions of the efficacy of the new tenancy legislation with regard to opportunities for new entrants were most probably influenced by recognition that, 'the majority of

FBTs, 81%, were for bare land, with only 10% comprising land and buildings and 9 per cent “complete” holdings i.e. including a dwelling’ (Whitehead et al 2002:piii). Many of the FBTs let in 1999/2000 were small in area; in England, 65% and, in Wales, 66% were less than 25 hectares (compared with 60% and 49% respectively in the 1997 study for Defra) (Table 4).

Table 4 Area included in FBT tenancies - CFE and non-CFE in England and Wales

Farm-type	England		Wales		County Farms			
	%	Median size (ha)	%	Median size (ha)	England		Wales	
					%	Median size (ha)	%	Median size (ha)
Dairy	9.4	27.9	2.9	~	50.0	24.9	55.0	12.2
Livestock	29.4	17.0	88.6	16.2	14.7	11.7	30.0	12.6
Mixed	<i>n.a.</i>	<i>n.a.</i>	5.7	~	7.6	14.6	15.0	~
Arable	47.5	24.2	2.9	~	21.2	19.7	0.0	
Horticulture	2.0	8.1	0.0		3.8	1.7	0.0	
Other	11.7	<i>n.a.</i>	0.0		2.7	2.4	0.0	

~numbers too small for meaningful analysis

Source: Whitehead et al, (2002): Survey of FBTs in England and Wales

The term (initial contracted duration of tenancy) of the FBTs analysed in this study varied according to the type of FBT, with median lengths of two years for bare land lettings, three for land and buildings and ten years for complete holdings. Such circumstances lead to the conclusion that once again (agreeing with the 1997 study), the County Farm Estates were seen as important in providing opportunities for new entrants, not least because over 90% of the CFE lettings to new entrants surveyed in this study, were complete holdings, for terms with a median of 10 years in England, although in Wales, the initial contracted term was shorter, at only 6 years. The report noted, perhaps not surprisingly, that there appeared to be a marked increase in term on County Farm Estates - 40 per cent in England were of over ten years compared with 22 per cent in 1997. However, for Wales, the term of the FBTs was shorter, even for complete holdings, with only 5 per cent let for more than nine years (Table 5). Anecdotal evidence suggests, however, that in both countries, the potential offered by FBTs to regain possession at the end of the initial term has not been used rigidly in order to increase turnover opportunities of tenants on these estates, in common with ‘holdover’ occurring in the private sector, also evidenced in this study.

Table 5 Term of FBT tenancies CFE and non-CFE in England and Wales

Holding type	England*		Wales		County Farms			
					England		Wales	
	Median term (years)	Mean term (years)	Median term (years)	Mean term (years)	Median term (years)	Mean term (years)	Median term (years)	Mean term (years)
Bare Land	2.0	3.2	3.0	5.0	2.0	6.3	2.0	4.1
Land and Buildings	3.0	4.9	~	~	2.5	4.3	~	~
Land, Buildings and house	10.0	11.4	~	~	10.0	11.3	6.0	6.9
<b>All FBTs</b>	<b>2.0</b>	<b>4.1</b>	<b>3.0</b>	<b>5.9</b>	<b>5.3</b>	<b>8.7</b>	<b>5.3</b>	<b>5.4</b>

~ numbers too small for meaningful analysis;

\* this excludes life tenancies and tenancies from year to year, which are unlikely to affect the median

Source: Whitehead et al, (2002): Survey of FBTs in England and Wales

Table 6 shows that a minority of FBTs went to those people identified by survey respondents as “new entrants” to farming, although the proportion is, of course, very much higher among the County Farms. For County Farms Estates, 91 per cent of lettings to new entrants were of complete holdings.

Table 6 Identity of FBT tenant - CFE and non-CFE in England and Wales

Occupier	England (%)	Wales (%)	County Farms	
			England (%)	Wales (%)
Previous Occupier	91.0*	68.8	34.2	15.0
Other farmer		28.6	32.6	50.0
New entrant	9.0	2.9	33.2	35.0
	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: Whitehead et al, (2002): Survey of FBTs in England and Wales

Further evidence of the use of the flexibility provided by FBTs was sought in this study, with the following findings from farmer respondents concerning their FBT agreements:

- *Rent review provisions* – in common with non-CFE holdings, analysis of CFE FBTs showed that 60% had reviews to open market levels, with reviews mostly at three year intervals;
- *Repairs clauses* – in contrast to lettings overall, where 34%, (45% in 1997) made the tenant fully responsible for repair liabilities on the holding, for CFE lettings, only 15% of

FBTs made the tenant responsible for all repairs, the great majority (70%) specifying responsibilities similar to those of SI 1473 (model agreements);

- *Subletting and assignment provisions* – 93% of agreements overall, prohibited both. For CFE FBTs, subletting and assignment were prohibited in 69% of cases, with a further 23% prohibiting assignment;
- *User clauses* – in common with lettings overall, 73% said that there were no restrictions, though the proportion was somewhat lower (61%) on those FBTs that were “complete holdings, where use was restricted to agriculture. For CFE lettings, 80% of the FBT agreements confined activities to agricultural use only, while 18% allowed some limited diversified activities. Anecdotal evidence since this research, suggests that on CFEs, user clause flexibility is now much greater and diversification on holdings much more frequent than in 2002.
- *Environmental Clauses* – although 93% of farmer respondents overall said that there were no specific management requirements concerning environmental issues in their agreement, 50% of farmers on CFEs said they had such clauses, with those farmers who did further elaborating on a wide range of clauses including:
  - reductions in the level of inputs including sprays and ‘chemicals near watercourses’
  - prohibition on the growing of GM crops
  - prohibition of the use of sludge
  - restrictions on stocking rates
  - adherence to ESA, Countryside Stewardship and local wildlife trust guidelines
  - prohibition of hedge removal and sequenced hedge trimming
  - requirements for field margin management

In summary, therefore, it appears from this research that the introduction of FBTs, although, anecdotally, not fully effective in terms of creating higher turnover rates on these estates, does seem to have had some use in a number other ways. The research also provides evidence of increases in land made available in the private sector, although in many cases this was accommodation land and not complete holding. Further, anecdotal evidence from CFEs since this research, suggests that the flexible term, with or without break clauses, is recognised as having the potential to be used to encourage tenants to progress their businesses in a timely fashion, and to provide exit periods for tenants seen as perhaps a little less progressive, although again evidence of its use in this way is less clear

### **2.3 The structure of and changes to the County Farms Estate (CFE) in Wales**

The period since the reorganisation of Local Government in 1973, with further Local Authority reorganisation in 1996/7, has been one of major change for County Farm Estates. The total number of county farms in England and Wales in the 25 years to 1998/99 fell by 49 per cent from 9,823 in 1974/75 to 5,008 in 1998/99 (CIPFA 2000). During the same period the area let as county farms fell by 19.4 per cent to 132,768 hectares in 1998/99.

These changes reflect a period of rationalisation which has taken place in the agricultural industry as a whole. Technological change, improvements in animal and crop husbandry, the impact of the Common Agricultural Policy and the pressure to achieve economies of scale have all had a major impact on the structure of farming.

Research for the RICS, (Warren et al, 1995) has shown that movement within and off estates was very small, apart from those leaving farming altogether. In the years 1988 to 1994 only 36 council tenants per year, or under one per cent, moved to new holdings and, of these, only 10 moved to private estates. To underline the stagnation on some estates, 40% of tenants responding to the survey had been on their farms for at least twenty years, a figure reflected in specific research undertaken by the authors more recently for individual county councils.

This failure of smallholding estates to fulfil one of their key roles has been coupled with general speculation on their future. In a period of continued pressure on local authority funding, County Councils have kept their smallholding estates under almost constant review. In the mid to late 1990s this attention was sharpened both by the Kleinwort Benson offer of a joint venture with estates and the relaxation in debt redemption rules for capital receipts proposed in the Rural White Paper.

It is clear that strategies adopted by the County Councils during this window of opportunity have varied substantially. A number have accelerated, some very dramatically, their disposal programmes, whilst others have retained the bulk of their estate, occasionally in the face of considerable political pressure. This release of holdings coincides also with policy statements from MAFF; in answering a question in the House of Commons, Elliott Morley suggested that there was no longer a statutory requirement for Councils to maintain County Farm Estates and that policy on their retention was a matter for the Local Authorities, themselves.

A basic comparative analysis, detailed below, draws out differences between the Welsh and English estates. Mindful of the incomplete nature of some of the CIPFA County Farms statistics, the analysis has been prepared, based on the 'Grossed up' figures provided by CIPFA for CFE in England and Wales.

The Welsh estate, is reported in the 2008/9 CIPFA County Farms Statistics, as covering 17,706 ha, managed largely by 15 councils, following local authority restructuring in 1996/7 (Table 7). Much of the Estate is the responsibility of eight authorities, in order of size (ha), Powys, the Isle of Anglesey, Pembrokeshire, Monmouthshire, Carmarthenshire, Gwynedd, Denbighshire and Flintshire. The majority of these farms are dairy, dairy and stock rearing or stock rearing alone, based on pastoral systems, with the emphasis in recent years, moving away from dairying.

Table 7 CIPFA Statistics for England and Wales (31 March 2009)

	Total area (ha)	%	Equipped farms (no.)	%	Bare Land Lettings (no.)	Agric. lettings (no.)	Other (no.)	Commercial (no.)	Cottages/ dwellings (no.)	Other land (ha)	Total number of Farms / licensees)	%	Number of tenants (no.)	%	RENT Total Estate Lettings (£)	%
England	95,817	84.4%	1,964	75%	819	251	182	122	208	495	3,546	76.2%	2,616	80.3%	19,988,000	86.3%
Wales	17,706	15.6%	651	25%	201	18	73	119	43	10	1,105	23.8%	642	19.7%	3,163,851	13.7%
E&W	113,523	100%	2,615	100%	1,020	269	255	241	251	505	4,651	100%	3,258	100%	23,151,852	100%

The most recent CIPFA County Farms statistics (Table 7) indicate that the Welsh estate, (17,706ha), is 15% of the whole CFE in England and Wales, although Wales contributes almost 24% of the number of farms/licensees. For Wales, since 1993/4, this equates to a 10% decline (just under 2,000ha) in the size of the estate, and a 27% decline in the number of tenants.

The rent roll overall equates to around 14% of the total, much in line with the proportion of land held.

Turning to other elements of the comparative analysis, relative to the overall area of the Welsh and English estates (15.6 % and 84.4% respectively), the proportion of tenant numbers, is higher at 23.8% and 76.2%, respectively, as is the proportion of equipped farms in Wales (25% and 75%, respectively). This is perhaps explained by the smaller size of equipped farms let in Wales (24ha), compared with 38.8ha in the English counties and 48ha in the English Unitaries..

Further detailed analysis of the CIPFA statistics (Table 8) reveals a number of interesting differences between the Welsh estate and that of the English Counties.

Table 8 Comparison between the Welsh and English Counties Estates 2008/9

	<b>Wales</b>	<b>English Counties</b>
Proportion of total area (Eng Counties + Wales)	15.6%	84.4%
Tenancies granted as % of tenants	3.6%	3.0%
Tenancies granted to NE as % of tenants	1.7%	1.1%
Repairs as % of rent	21.9%	28.4%
Estimated asset value per hectare <sup>2</sup>	£4,527	£4,791
Net surplus per ha (before capital charges)	£62.97	£92.02
Jobs supported on estate	457	2440
Ha for every job supported	38.7	33.9
Estimated diversification initiatives	29	272
Ha for every EDI	610	304
Estimated environmental initiatives	38	551
Ha for every EEI	466	150

Source: CIPFA County Farms Statistics 2008/9

It is appreciated that the activities on estates will vary from year to year as a result of a range of internally and externally influencing factors. The analysis of tenancies granted during the year suggests that the Welsh estate have granted more tenancies, as a percentage of total tenants, and a greater proportion of these have gone to new entrants. In terms of financial performance for the year, whilst the estimated value per hectare of the estate is comparable with that of the English Counties, the net surplus before capital charges per ha is substantially lower for the Welsh estate, notwithstanding the lower repair expenditure as a proportion of the overall rent reported.

Looking to wider objectives of the estates, the number of hectares for every job supported is comparable across the estates, despite the smaller sized lettings in Wales. It would also appear that there are fewer diversification and environmental initiatives per ha on the Welsh estate, compared with the English Counties. This appears to be running against the trend, with recent research in England 'suggesting a substantial increase in the proportion of holdings engaging in some sort of diversified activity between 1989 and 2002' (Centre for Rural Research, University of Exeter and University of Plymouth, 2002: 111) .

This apparently narrower focus on resource use on the Welsh estate may be due to a range of factors, including smaller scale farming businesses on the Welsh estate, a psyche devoted to the pursuit of

<sup>2</sup> Based on valuations prepared for end of year accounts subject to CIPFA guidance and not reflecting Market Value

agricultural production, the relative isolation of holdings from large populations and the degree of encouragement to broaden the activities on the holdings from the Estate officers. However, it may also, in part, be explained by the fact that for many county farm tenants in Wales, diversification involves external employment or contracting services, rather than formal on farm initiatives, and this is less likely to be recognised as diversification by those reporting the figures to CIPFA.

Evidence also exists from this research, for farms in England, (Centre for Rural Research, University of Exeter; Rural and Tourism Research Group, University of Plymouth, 2002) to suggest that larger holdings are more likely to diversify, 'farms in the largest one or two categories appear to be more diversified than smaller units' (2002: xvi). This confirms the findings of an earlier study that smaller holdings, in many cases, 'may be effectively part-time anyway because the operator requires another job to sustain the household income; in such circumstances where the labour resources have not been fully committed to farming, there may be insufficient time (or farm resources) to divert into the establishment of additional on-farm enterprises' (McInerney and Turner, 1989). Once again, the reality of this has been confirmed during subsequent individual CFE studies.

Size may also contribute to the likelihood of uptake of environmental initiatives and the scoring system for the Tir Gofal scheme in Wales (launched in 1999, to replace the Tir Cymen scheme, in existence since 1986) was initially criticised as, 'favouring both small and large holdings with the lowest probability of entry in the 30 -100 ha size range (University of Cambridge and CJC Consulting, 2002).

This section highlights/ reiterates continued concern over the age profile of the farming sector in the UK and wider OECD community, stressing the desire to encourage and provide opportunities for those wanting to come into farming for the first time or those wishing to join or take over an already established business. The not inconsiderable barriers to entry have clearly not become any easier to overcome, in fact, if anything they have worsened, as businesses are forced to grow and land values continue to rise. With contemporary concerns for food security and demand for land for biomass and biodiesel production, these challenges will continue.

Reform of agricultural tenancy legislation in England and Wales, much heralded as providing opportunities to assist the flow of new entrants into and through the CFE, has had some early effect. More recently, however, FBTs have been used as a mechanism to deal with SPS entitlements, which along with fiscal pressure reducing the motivation to let land, has actually resulted in a decline in the size of the tenanted sector in England and Wales.

Finally, this section has charted the decline in scale of the Welsh estate, in common with English estates, the reasons for which have been well rehearsed. The Welsh estate is noted as having particular challenges, including the predominance of owner occupation in the country, the small size of holdings across the estate, a wide spread of holdings geographically and, in some cases, greater isolation of holdings, reducing opportunities for varied use of farm resources.



### **3 The Potential for County Farm Estates in the future**

The terms of reference for this study invite comments on six principal issues. This section of the report considers the potential of the estate, in its current and evolving state. These reflections are based on the authors' involvement in both academic research into Land Tenure and the County Farm sector and some twenty various studies undertaken for county farm authorities in England and Wales since 1996.

This work has, by definition, addressed a number of the issues raised in the terms of reference and, in summary, any work to address market failure in this sector will face extremely challenging choices between conflicting interests, e.g. continuity for family farms and opportunities for new entrants, which would otherwise both be seen as worthwhile objectives to support.

#### **3.1 The statistical information available relating to local authority farms in Wales and the current circumstances of the network**

Much of this topic has been covered in the earlier sections of the report. However, in addition, the authors have noted an increasing reluctance amongst local authorities to respond adequately to the CIPFA annual survey of county farms, whether through lack of experience or interest (exacerbated by changes in local government administration), or lack of resources. Whilst this may frustrate some desirable comprehensive analysis the general trends are discernible in the current data.

#### **3.2 The future contribution of the local authority farm network in Wales in providing a key access point for new entrants to farming and promotional progression of existing tenants within the public and private estate**

The county farm sector in Wales, as in England, has contracted significantly in recent years, which has, of itself, reduced the capacity for the estate to offer either progression or opportunities for new entrants. However, the root of this problem lies more in changes in the wider tenanted and farming sector than the county farm estate itself. The last 40 years has seen a number of changes in agricultural holdings and fiscal legislation which have severely reduced the willingness of private estates to let farms. Whilst the 1995 Act has addressed issues over security, fiscal pressure, whether through statutory change or simply more assiduous application of statute by HMRC, continues to favour owner-occupation and the use of contracting rather than letting. As set out above, landlords' perceptions in this area are unlikely to be improved by the Single Payment regime.

Latterly, both private and public estates have identified the potential for significant additional revenue to be achieved by rationalising holdings and either letting or selling the homestead and amalgamating land with adjoining holdings, a practice also adopted by a number of county farm estates, often as part of a well developed plan to retain a core portfolio. Taken together, these factors have severely limited the availability of new farms to let in the private and public estates and consequently the ability of tenants to progress

This is reflected in the length of time that many county farm tenants remain on what were nominally intended to be "starter farms". Indeed, for many county farm tenants the only opportunity for

progression has been to grow the enterprise from their existing base; this they have done, by renting or buying land elsewhere and by taking additional land offered by their county council landlords who have quite reasonably felt the need to support incumbent tenants. This appears to have been exacerbated in Wales by the extent to which succession has been allowed by Councils, again understandably given the widespread support for the family farm and the lack of opportunity for tenants' children elsewhere. There are now a number of county council holdings occupied by the third generation of the same family.

The uncomfortable truth is that in a sector of woefully low supply, with almost no progression, the interests of incumbent tenants are directly in conflict with those of potential new entrants. There is little that can be done to address this within the county farm estate itself and wider encouragement and support for letting across the agricultural sector is required. However, this would mean intervention on a very significant scale, whether in economic or fiscal terms, to remove the financial advantages for landlords of either taking land back in hand or rationalising/fragmenting holdings, compared with letting complete farms and to encourage current owner-occupiers to consider letting farms.

Clearly, the position will be eased if county councils continue to retain land and some may conclude that the practice of succession runs counter to the general ethos of county farms in providing opportunities for new entrants. However, this is to deny the current position that there is no scope for progression for the vast majority of tenants or their families and it is misguided and misleading for landlord authorities to retain the concept of opportunities for new entrants as an objective unless they are willing to take the robust, courageous and for some socially unpalatable steps required either to bring tenancies to an end before tenants' retirement dates or to disallow succession.

### **3.3 How tenancy legislation can best provide a balance between the flexibility needed by new entrants and the long-term security needed for the best management of rural land**

The 1995 Act, particularly as amended after the TRIG report (2003), in turn following the 2002 evaluation of the legislation (Whitehead et al, in 2002) offers the greatest possible flexibility for the parties to negotiate terms. Thus far, landlords and their agents, in both the public and private sectors have struggled to exploit this, a position identified in the evaluation of 2002. Unsurprisingly, perhaps those drafting agreements turned initially to the lessons of the 1986 Act, which provides at least some statutory guidance where the 1995 Act is silent, and latterly to various standard precedents. These standardised forms of agreement tend to militate against flexibility and concerted action is required from leaders in the land agency profession, in particular, to ensure that professionals involved produce agreements more properly tailored to the circumstances of the holding.

However, there is also resistance amongst some Councillors, not wholly unsupported by established tenants, to greater flexibility in tenancy agreements; there still remains, unfortunately, some prejudice against anything other than "proper farming". Consequently education and encouragement will be

required for local authority members responsible for estates and hopefully this Inquiry will be a catalyst for such action on both fronts.

### **3.4 How to encourage long-term investment and diversification of tenanted farms whilst maintaining the size of the local authority farms estate**

The capacity for investment is limited given the financial pressures on both landlords and tenants and the relatively limited scale of businesses.

Many county councils have generated funds for investment, most often to meet new statutory requirements, e.g. Nitrate Vulnerable Zones, or to remedy accrued liabilities, through the disposal of surplus holdings. The extent of reinvestment varies between authorities but the majority hypothecate a significant share of any capital receipt to other services. Whilst this progressive rationalisation and investment may produce a sustainable financial plan, it clearly will not maintain the size of the estate.

There is still a surprising willingness to invest amongst tenants, most notably again as part of a package where security for both current and future generations is part of the “compensation” arrangement. This has clear benefits for landlord authorities struggling to provide the necessary investment themselves, but again works against potential opportunities for new entrants.

There is an increasing acceptance of diversification and pluri-activity, although tenants do not always secure, or seek to secure, sufficiently clear approval from their landlords. Diversification and seeking employment off farm are both obvious ways of supplementing income from small farming businesses and worthy of encouragement in the current environment. However, as with other issues in this sector, they come at a cost. A tenant inclined to diversify will firstly wish to have sufficient security on the holding to recoup on that investment and, secondly, will be reluctant to move to another opportunity unless the diversified enterprise can be relocated as well.

Similarly a tenant, or their spouse, securing employment off the holding is unlikely to relocate to a new holding unless that is within easy commuting distance of that employment or the progression/promotion is so significant that the financial security provided by the job will no longer be required.

### **3.5 Whether a co-ordinated approach to the disposal and/or retention of local authority farms is needed**

One of the particular characteristics of the Welsh experience has been the impact of local government reorganisation on the county farm service. In some areas, South Wales in particular, reorganisation has seen the fragmentation of estates, with some county farms transferring from county councils with a long-standing commitment to the service, to new, principally urban, unitary authorities with no such commitment or experience. The typical consequence is for the farms to be sold, as and when the opportunity arises. Whilst only occurring at the margins, this has threatened the critical mass of some estates to the extent that the original county council has also concluded that

progressive disposal may be appropriate, not least given the risk that subsequent local government reorganisation might see further losses of assets to other authorities. In North Wales this has seen much upheaval in the service, with the assembly and subsequent disaggregation of estates which previously had the advantage of economies of scale in operation and sufficient holdings to enable some limited progression

This might argue for greater co-ordination, however, local interest is one of the strengths of the county farm service, albeit in some cases this is reflected in limiting those few opportunities for new tenancies which arise to applications from locals. Further, there is some evidence from recent English experience, that the threat of further boundary reforms or the creation of unitary authorities will prompt potentially affected county councils to accelerate disposals to retain proceeds for their own ratepayers benefit. The same reaction might well follow any suggestion of an attempt to constrain councils' freedom to manage their estates.

Whilst this argues against formal co-ordination intuitively there should be benefits to be obtained from greater liaison and co-operation between authorities at an operational level. However, in practice there has been no real assessment of the potential benefits of such liaison and work would be required to deal with some of the practical issues involved, for example how to share the advantages arising if the promotion of a tenant to a better opportunity in another authority could be arranged to the benefit of all parties.

### **3.6 Whether local authorities and the Welsh Assembly Government could take any further action to help maintain and develop the local authority farm network in the future, both in terms of improving the estates themselves and contributing to wider community and environmental goals**

The main difficulties for progression, and thus for creating opportunities for new entrants, lies off the county farm estate in the lack of opportunity in the wider tenanted sector, where there is little scope for either local authority or WAG intervention. Against this background the potential to develop the farm network by improving the estates appears limited, certainly in terms of meaningfully extending opportunities for new entrants or progression. There is clear potential to improve the quality and sustainability of the estates themselves, and the viability of holdings for tenants. However, this is principally achieved by continued policies of *progressive rationalisation* which will see further consolidation of holdings and opportune disposal of development land, but more particularly farmsteads, to provide the necessary capital. Whilst this has considerable potential benefits for incumbent tenants it will further limit the opportunities for new entrants.

Whilst rationalisation to improve the retained estate has obvious benefits in estate management terms there is considerable pressure within local authorities to dispose of estates and reinvest funds generated into other services. This pressure will clearly increase given short-term budgetary pressures and for many county farms will fall into the “*nice to have*” category which, it will be argued the council reluctantly can no longer afford. In this context, a significant role for WAG will be to ensure that financial pressure on local authorities is tempered as far as possible to relieve at least some of the pressure for disposal of holdings.

Earlier commentary has referred to the apparent under-performance of the county farm estate in Wales in delivering agri-environmental schemes. However, whilst the pressure for production on smaller units is such that it may be difficult to pursue less intensive regimes, this may reflect under-reporting rather than non-engagement. That said there is work for WAG to ensure that entry thresholds for agri-environmental support are not set in a way which discriminates against smaller farms, or indeed fragmented holdings, which are increasingly the norm with local authority farms.

Local authority holdings can also offer educational benefits, although the enthusiasm for farm visits on all sides has diminished somewhat in the light of the Surrey ecoli case. Whilst hosting such visits is more demanding on smaller farms, however, and will not be of interest to many tenants, there are opportunities to integrate farm visits into the curriculum and most council estates include tenants with an interest in this area which could be developed.

More significantly perhaps there are opportunities for local authority holdings to contribute to the shortage of affordable housing in rural areas by releasing appropriate rural exception sites; an issue which many authorities are already pursuing. This may be a challenge for the authority, balancing housing objectives with the potential capital receipt from an open market disposal, but also for tenants who will see productive land lost from an already small total area and fear the potential for disruption and trespass that can arise from any development. That said, there are clear opportunities here within the context of a carefully planned programme. One particular issue seldom considered, and often resisted when it is raised, is the extent to which the council might reserve some nomination rights on such developments. This would enable some of the new housing to be used to provide accommodation either for retiring tenants, or for those leaving farming at an earlier age, particularly if notice provisions under FBTs were used more frequently to determine tenancies.

There has been some argument recently for county farms to play a role in encouraging the burgeoning interest in local food production by creating “micro-holdings”, very small mixed horticultural and livestock units. The argument most commonly advanced is that these could be created by splitting existing holdings and providing additional dwellings. Notwithstanding wider questions over the sustainability for the landlord and viability for the tenants of such units there appear to be very considerable difficulties over the precedent this approach would create in planning terms in creating new dwellings. An alternative, again subject to wider testing of the overall principle, would be to enable some of the affordable housing created on rural exception sites to be used in as part of such micro-holdings with any necessary buildings sited on land which need not be immediately adjacent to the dwelling.

## **Summary**

This section has considered some of the challenges facing county farms and the potential for the service to improve in the foreseeable future. There is little evidence for any public or private successor to fill the role provided by the county farm service if it continues to contract. That said the main block to progression off the estates lies beyond councils’ control and prospects for increasing opportunities to rent farms in the private sector appear very poor in the current climate.

This may be used by some as an argument to dispose of estates, on the simple argument that they can no longer fulfil their original purpose and indeed there are some county farm estates which are now so small, commonly created by local government re-organisation, that there is no real economic argument for their retention.

However, more properly, the problem should be recognised by estates, which should no longer cleave to undeliverable objectives but rather consider the extent to which retained estates, effectively managed, have a major role to play in the rural economy, not least in remote areas. Some authorities have been pursuing such programmes for a number of years and perhaps one of the most important outcomes of this Inquiry would be to recognise these developments and help to disseminate both best practice, and equally important, a recognition of the wider structural changes in agriculture and the need therefore for new but equally valid priorities for county council estates.

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