APPENDIX 1

AGRICULTURAL ESTATE:

REVIEW OF CURRENT STRATEGIES, MANAGEMENT & GOVERNANCE

Agricultural Estate Working Group;

12th May 2104

RECCOMMENDATION:

That the existing investment and disposals programme in respect of the Agricultural Estate continues;

That the current long term strategy for the retention of the Agricultural Estate is reviewed taking into account the ongoing and anticipated financial constraints being imposed on the Council and aligning it to the current Corporate Priorities;

That the three options considered in the 2010 Bruton Knowles report are used as the template for outcome options;

CURRENT POSITION:

The Agricultural Estate comprises 48 sites over approximately 1,054.13 hectares (2,604.755 acres) being a mixture of dairy and stock farms and associated grazing/bareland and woodland.

There are currently 28 farm holdings let via tenancies subject to Tenancies granted subject to either the Agricultural Holdings Acts 1986 or the Farm Tenancies Act 1995.

The annual income generated from the estate is £236,414.67 (source Finance Report). An annual revenue budget of £134,334.00 is provided from the gross income. Of this salaries (£64,620.00) and repairs and maintenance (£68,164.00) are the two largest budget items.

Historically the R and M budget has been insufficient to cover the in year calls on a reactive maintenance basis and the nature of the AHA tenancies has placed additional burdens on the estate

Capital expenditure on the estate to undertake improvements over the last 6 years (including 2013/14 to date) is £1,504,329.51. This funding has been targeted to support the Council's legislative and Landlord's liabilities and the ongoing rationalisation of the estate, moving tenants from farms in poor condition, high Landlords liabilities and with limited economic life to enable units to be declared surplus

Capital receipts for the 2008 – 14 are currently £3,396,000.00 achieved through 19 disposals.

Current maintenance backlog for the whole estate (not including capital improvement and/or tenant liability works) is approximately £1.5 - £2.0 Million and the condition of the portfolio is in decline.

Possible capital receipts for 2014 – 15 could amount to approximately £1.3m (conservatively). These anticipated receipts are the culmination of ongoing capital works and farm relocations in line with the current rationalisation strategy with also possible disposals of land from the agricultural estate for residential development.

If the Council could obtain vacant possession of the whole of the agricultural estate a possible Market value of more than £30m is possible. The current value of the estate allowing for the presence of Tenancies is currently estimated to be circa £20m.

BACKGROUND:

An in depth review of the Agricultural Estate was undertaken in 2010.

The Agricultural Estate Working Group working in conjunction with Bruton Knowles considered the following options:

- Retention in broadly the current form
- Outright disposal of the estate as an investment as a whole or in lots
- Progressive disposal particularly as vacant possession becomes available
- Progressive rationalisation into a more viable and sustainable estate

The Working Group considered each option in detail and initial findings were as follows:

- The Estate has provided a service which is not provided elsewhere in the agricultural economy; although in common with the majority of smallholdings estates it is constrained by the lack of opportunities in the wider tenanted sector;

- The estate has generally been well managed and benefited from prudent investment in the past;

- Notwithstanding this earlier investment there is considerable accrued requirement for expenditure, not least generated by the latest NVZ proposals, previously estimated in total at more than £1.4 million;

- Proposals developed by the Estate Team for rationalisation of elements of the portfolio offered practical solutions to a significant number of the problems

- The Estate offers opportunities for future development sales although the timing of such disposals is by no means certain

In the light of these findings the review concluded:

- That the Estate is not sustainable for the Landlord or Tenants in its current condition and structure and could not simply be retained as existing; however

- The Estate is of sufficient scale and diversity that it can be made sustainable in the short-term with a degree of rationalisation to enable it to deliver both financial and non-financial benefits in the future

- There are sufficient assets and opportunities within the current portfolio that this rationalisation can be funded within the Estate whilst continuing to generate funds for investment in other core services

In exploring the potential of the Estate the review considered three broad policy models over a 15 year term:

- Option A – modelled on a policy of *Progressive Rationalisation* retaining an estate of approximately 2,400 acres and between 20 and 25 main holdings

- Option B – again modelled on a policy of *Progressive Rationalisation* retaining an estate of approximately 2,400 acres and between 20 and 25 main holdings but on a quicker timescale.

- Option C – based on a policy of *Progressive Disposal* retaining only property with long-term development potential.

Progressive Rationalisation was considered the only policy option which delivered a sustainable estate in the long-term. The modelling undertaken as part of this review anticipated that rationalisation could be funded from within the Estate whilst still generating capital and revenue to contribute to general funds.

The current capital policy provides for 33% of capital proceeds to be reserved for reinvestment in the Estate with the balance being transferred to central funds. Whilst this offers a clear policy environment it does not enable the degree of flexibility, particularly in investment timing, which is required to deliver a rationalisation policy of this type.

The legal implications of adopting such a policy are known and do not pose a risk subject to due process being observed.

At the time of ratification, the Chief Financial Officer stated:

Early indications are that Assembly Capital funding for the next few years will be reduced to a more significant extent than revenue funding. WLGA has estimated that general capital funding will reduce by 10% per annum i.e. 40% over the next 4 years. Special capital funding will reduce by a similar level in total but WAG will require significant match funding, around 30% minimum on Education schemes, on individual proposals, compared to the current situation where many grants have been 100%.

The delivery of additional capital resources from the disposal of some of the Council's assets has never been more urgent. Reviews are currently in hand for all of the Council's assets. The proposals in this report will make a major contribution to this situation.

RECENT DEVELOPMENTS

In March 2014, the Council's Performance Scrutiny Committee requested a report outlining the progress made in the rationalisation of the estate with the anticipated outcome being:

Identification of any risks relating to the rationalisation of the estate that may impact on the Council's priorities of ensuring access to good quality housing and modernising the authority to deliver efficiencies

Discussion at the meeting culminated in the opinion that while the approved strategy for the future management and rationalisation of the Agricultural Estate Portfolio was considered suitable at the time of ratification, the current economic climate would not have been predicted at that time. Consequently, a review of the strategy aligned to the current and future financial constraints the Council faces, together with an evaluation of the current governance arrangements in respect of the Agricultural Estates Working Group was requested.

The minutes of the meeting state the following resolution:

Resolved: - *that*

(a) a meeting of the Agricultural Estate Working Group be convened urgently with a view to devising a clear long-term vision for the Council's Agricultural Estate and develop a robust strategy to deliver the vision. The Working Group to review its Terms of Reference, meet on a regular basis and conduct a condition survey of all holdings with a view to delivering the vision; and

(b) a report be presented to the Committee at its meeting on 12 June 2014 outlining the progress achieved to date in progressing the above

The minutes also note that:

Members asked whether there was enough emphasis on generating capital receipts by disposal of agricultural properties? Where disposal was not an option why was the rental income far less than would be expected in the private sector?

LONG TERM VISION:

Notwithstanding the need to review the long term strategy and governance issues, there is an identified need to increase the focus on capital and revenue income generation. In order to facilitate this, a qualified Land Agent has been appointed to join the Valuation & Estates Team to provide additional resource.

In order to develop a long term vision and delivery model, the Council's need to retain the Agricultural Estate needs to be identified and recognised. The retention of the estate does not fulfil any legal obligation the Council has and should, therefore, be aligned to the Corporate Priorities and the Freedom & Flexibilities agenda.

Corporate Priorities:

The Corporate Plan identifies seven corporate priorities for the period 2012 – 2107 being:

- ***PRIORITY:*** *DEVELOPING THE LOCAL ECONOMY*
- ***PRIORITY:*** *IMPROVING PERFORMANCE IN EDUCATION AND*

THE QUALITY OF OUR SCHOOL BUILDINGS

- ***PRIORITY:*** *IMPROVING OUR ROADS*
- ***PRIORITY:*** *VULNERABLE PEOPLE ARE PROTECTED AND ARE ABLE TO LIVE AS INDEPENDENTLY AS POSSIBLE*
- ***PRIORITY:*** *CLEAN AND TIDY STREETS*
- ***PRIORITY:*** *ENSURING ACCESS TO GOOD QUALITY HOUSING*
- ***PRIORITY:*** *MODERNISING THE COUNCIL TO DELIVER EFFICIENCIES AND IMPROVE SERVICES FOR OUR CUSTOMERS*

The Corporate Plan also identifies an additional capital investment requirement of circa £134 Million to deliver the priorities within the lifespan of the plan.

The role of the Agricultural Estate is identified in the priority – Developing the Local Economy. The main vehicle for the delivery of this priority is the Council's Economic and Community Ambition Strategy 2013 – 2023. This document recognises the relevance of rural and agricultural economies and states:

The economy of Denbighshire is diverse. In the more urban north of the county, the seaside towns of Rhyl and Prestatyn dominate and the retail, leisure and tourism sectors remain major employers. Also in the north, however, is St Asaph Business Park - home to a growing opto-electronics cluster and a strategically important business park within the region, with good prospects for growth…

Further south, Denbighshire is predominantly rural in nature, characterised by a network of small towns and villages situated within a high quality landscape environment. Tourism and agriculture are key sectors. Smaller industrial and business parks provide space for light industry and businesses across the county. Denbighshire's natural environment is an important economic strength and asset for the county….

Agriculture also represents an important source of employment in the county. Many of the farms in Denbighshire, however, depend on the EU Common Agricultural Policy for a significant proportion of their income, which will be affected by the changes taking effect from 2014. Our engagement with the Agricultural sector in Denbighshire has been limited to date…

Agriculture represents a strong influence on Denbighshire – both its economy and its landscape. Pressures facing our agricultural and associated businesses are many. The Council has not previously devoted much energy to exploring and understanding them, or to supporting diversification or other growth strategies for the sector. We recognise that we need to strengthen our partnership with this sector, and support existing and seek new programmes to add value to agricultural produce and address agri-environmental issues….

Workstream 3.1B: Developing our Strengths: Agriculture

a) Establish a strategic relationship with the agricultural sector in Denbighshire
b) Explore and promote opportunities for sustainable growth and jobs within the agricultural sector, in particular measures that support farmers and land managers improve competitiveness, reduce grant dependency and improve resilience.

Workstream 5.2: Rural Denbighshire

a) Explore and promote opportunities for diversification to support growth in rural areas across all sectors in line with Welsh Government's Green Growth rural strategy.
b) Develop initiatives to promote local food production/selling - including consideration of supply chain issues to local shops, markets, cafes, restaurants and hotels.
c) Assess accessibility of goods and services in rural areas

However, while the impact and issues around the development of the Agricultural sector is recognised, there is also significant emphasis placed on the development of business opportunities in other geographic and business activity areas, potentially giving greater benefit due to opportunity and prevalent socio economic circumstances, namely:

Workstream 3.1A: Developing our Strengths: Tourism

a) Explore and promote opportunities for growth/diversification, with a particular focus on:
    i. Outdoor and activity tourism
    ii. Food and drink tourism
    iii. Welsh language, culture and heritage
b) Work with accommodation providers to improve the quality and quantity of visitor accommodation across the county
c) Work with tourism businesses generally, with a particular focus on tourism skills development
d) Complete the Coastal Facilities business case and strategy
e) Develop a Denbighshire Events strategy, integrating both major and local events

Workstream 3.2: Growth Opportunities

a) Explore the local growth potential from new sectors, with an initial focus on Advanced Manufacturing, Energy & Environmental Technologies, Health & Care and Creative Industries.
b) Through the North Wales Economic Ambition projects, maximise the potential for local supply chain connections into the Manufacturing and Energy & Environmental Technologies sectors
c) Work with Glyndwr University to further exploit the potential of OpTiC as a high tech incubator hub and promote St Asaph Business Park generally as a location for Advanced Manufacturing (Opto Electronics)

d) Map regional growth locations (Deeside & Anglesey Enterprise Zones, Energy Island developments, new Prison, 21st Century Schools programmes, etc) to identify supply chain and job opportunities
e)

Workstream 5.3: Tackling Deprivation & Poverty

a) Deliver the priority projects within the Rhyl Going Forward programme workstreams
   i. Coastal Tourism
   ii. Town Centre
   iii. West Rhyl Housing/Neighbourhood Improvement
   iv. Live & Work in Rhyl
b) Work with and support North Denbighshire Communities First Cluster to address the causes of deprivation and improve outcomes for residents in Rhyl & Upper Denbigh
c) Develop a county wide approach to understanding and tackling deprivation and poverty

It is against these competing priorities that the retention of a significant Agricultural Estate, owned and managed by the Council needs to be justified. The report to Performance Scrutiny of 20th March 2014 included a comparison between the Agricultural Estate and the Council's Commercial Estate (see below) and it is within this context of prioritisation and benefit that the long term strategic plan for the Agricultural Estate needs to be considered.

	Agricultural Estate	Commercial Estate
No of Units	28	207
Operational (let as Feb 2013)	24	195
Rent Roll (2012/13)	£236,414.67	£770,167.25
Property Staff Cost p/a	£73,000.00 (31% - includes allowance for V&E team managers time)	£80,000.00 (10%)
Estimated Capital Value	£20 - £30Million	£10 - £12Million
Net Surplus Income (Ave 2011 – 13)	-£35,000.00 p/a	+£15,500.00 p/a
Current NNDR/Council Tax burden (void units) p/a	£6,000.00	£42,460.64
Total Contribution to the Public Purse (NNDR/Council Tax) from the Estate	£46,576.00	£275,961.00
DCC Capital Investment 2008 - 2014	£1.5Million	£0
Capital Receipts Generated 2008 -2014	£3.4Million	£219,000
Approximate Employment (No's)	56 (based on an average of 2.25 FTE per unit)	585 – 973 (based on an average of 3 -5 employees per unit)

Governance:

The Agricultural Estate Working Group's current remit is to monitor the progress of the agreed strategy. Officers from the Valuation & Estates team report on a quarterly basis to the Working Group and are responsible for operational management and decision making in line with the current scheme of delegation.

In terms of the decision making process, there are sufficient gateways in the democratic process, including the scheme of delegation, to ensure decisions are suitably scrutinised and the Agricultural Estates Working Group should continue to act in a monitoring/advisory capacity once the long term strategy has been developed.