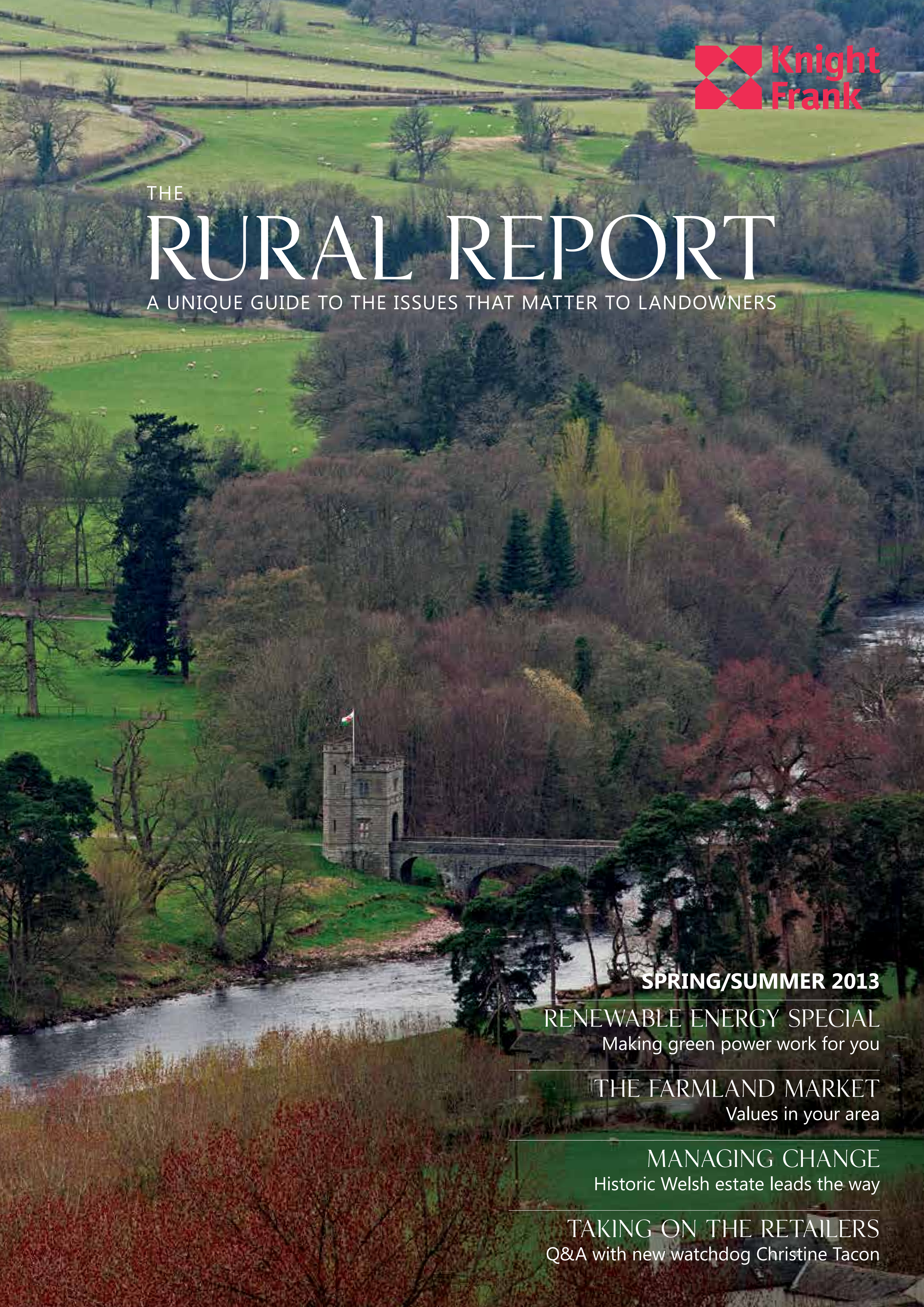

Knight Frank

THE

RURAL REPORT

A UNIQUE GUIDE TO THE ISSUES THAT MATTER TO LANDOWNERS

SPRING/SUMMER 2013

RENEWABLE ENERGY SPECIAL
Making green power work for you

THE FARMLAND MARKET
Values in your area

MANAGING CHANGE
Historic Welsh estate leads the way

TAKING ON THE RETAILERS
Q&A with new watchdog Christine Tacon

WELCOME

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Front Cover: the Glanusk Estate photographed by Richard Stanton (stantonphotographic.com)

Welcome to the Spring/Summer 2013 issue of The Rural Report

Keen readers will notice a new face at the end of this column. After more than 35 years at Knight Frank, Sandy Douglas has retired and it is my great pleasure to write this welcome on behalf of the firm's Rural Consultancy, Valuations and Farms & Estates' Agency departments.

Fittingly, on page 10 we visit an estate that Knight Frank and Sandy have been involved with for many years. The innovative approach taken by the Glanusk Estate in Wales is a shining example of how adapting and moving with the times can help to ensure the viability of a rural estate for future generations.

Coping with change is one of the biggest challenges facing farms, estates and country houses. However, change can also bring opportunities, and the current focus on renewable energy is benefiting more and more of our clients.

But every rural property is unique and working out which options are the most appropriate is not always straightforward, especially as the financial support provided by the government to encourage renewable energy is in a constant state of flux.

In our four-page special, starting on page 12, we look at the latest developments in the sector and highlight some of the projects that Knight Frank's green energy experts have been working on.

When we talk about managing change, the UK's leading supermarket chains are a phenomenal example of how businesses can adapt to the evolving needs of clients.

This success has had a big impact on farming and rural food businesses; on the one hand providing access to a nationwide marketplace for their products, but on the other forcing them to operate in a cutthroat retail environment where margins are constantly under pressure and the supermarket buyer often holds the upper hand.

To make sure that power isn't abused, a new watchdog with wide-reaching powers has just been appointed. On page 16, The Rural Report talks to Christine Tacon, the first Groceries Code Adjudicator, about the role.

In this issue we also launch Valuation Matters, a new feature focusing on the complex world of property valuations. The need for a valuation is often driven by tax rules and on page 18 Tom Barrow, our Head of Rural Valuations, looks at the new Annual Tax on Enveloped Dwellings.

I hope you enjoy reading The Rural Report and find the articles informative and useful. If Knight Frank can help in any way please do get in touch. Contact details for our rural property teams are at the back of the magazine.

You can also follow the latest rural property issues on our new Rural Bulletin blog at **knightfrankblog.com/ruralbulletin**

James Del Mar
Head of Rural Consultancy

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THE RURAL REPORT

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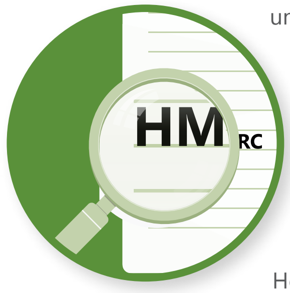
TEN TO WATCH

Knight Frank's rural property experts highlight a selection of the latest threats and opportunities currently facing the UK's landowners and farmers

1. TAX PLANNING CLAMPDOWN

Reducing tax avoidance was one of the big themes of George Osborne's March Budget statement. The UK's Chancellor warned that he will be looking at long-established tax planning measures used legitimately by many rural estates, as well as more controversial avoidance schemes.



These include tightening the rules concerning the mitigation of Inheritance Tax (IHT) liabilities by using debt secured against a non-exempt asset for IHT purposes, such as a residential dwelling, to purchase or develop exempt assets, such as those that qualify for Agricultural Property Relief or Business Property Relief. Some common tax and National Insurance planning structures used by partnerships are also due to be examined. Estate planning and value conservation have just become much less straightforward.

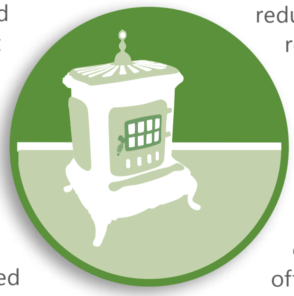
James Del Mar
Head of Rural Consultancy

2. REDUCED FARM SUPPORT PAYMENTS

Given the financial crisis that continues to engulf large parts of the European Union, it was inevitable (despite unrealistic attempts by some member states to maintain the status quo) that the amount of money made available for the Common Agricultural Policy (CAP) would have to fall as part of the ongoing reform of the controversial scheme. If an agreement on reform is reached this year as planned, this will affect subsidy payments from 2014. However, because of the way subsidies are funded, 2013 payments to the UK's farmers are also set to drop significantly - by around 8% - a year earlier than some are budgeting for. But this doesn't take into account any exchange rate fluctuations, one of the largest influences on UK farm incomes.

Percy Lawson
Estate and Farm Management

3. DOMESTIC HEAT SUBSIDY DELAY



Rural homeowners hoping to sign up for the Renewable Heat Incentive (RHI) this summer were disappointed recently when the government announced it was delaying the extension of the scheme to domestic properties until 2014. Currently, the RHI, which pays property owners for every unit of eligible heat energy produced by a range of renewable technologies, such as biomass and ground-source heat, is only available for commercial premises. However, projects supplying multiple domestic properties can still qualify so it could be worth checking if you might be eligible. In the meantime, small capital grants are still available to help fund the installation of domestic schemes. Please see page 12 for more on renewable energy.

Edward Holloway
Renewable Energy and Rural Consultant

4. FRACKING BOOST

An increase in the amount of fracking that takes place in the UK looks likely after George Osborne announced in the Budget that he would be introducing a generous new regime of tax allowances to encourage development of the controversial gas-extraction technology. A recent report also concluded that fracking does not cause a significant number of earthquakes as its opponents claim. In the UK, unlike the US, hydrocarbons belong to the state not the landowner so fracking is unlikely to create a new breed of rural oil-barons. Despite this, those sitting on potential deposits will want to take advice to ensure they maximize the benefits available.

Hamish Baxter
Estate Management

5. FARM BUILDINGS PLANNING BOOST

The unwillingness of local planning departments to allow the conversion of redundant farm buildings into residential dwellings has meant, where allowed, landowners and farmers often choosing the next best option – some form of commercial premises. However, an oversupply of rural commercial space, particularly offices, and the economic downturn has rendered many of these schemes unviable. A recent extension to permitted development rights that means planning consent will no longer be needed for change of use from commercial to residential (provided the façade of a building remains the same) could therefore be very useful. Moving from agricultural to commercial use will also be easier.

Local planning authorities can, however, apply for an exemption from the new rules, but this has to be approved by the government.

Edward Dixon
Rural Consultant

6. AGRICULTURAL WAGES BOARD ABOLITION

Farmers and rural property owners relying on the minimum rates set by the Agricultural Wages Board (AWB) to help calculate staff salaries will have to look elsewhere following the scrapping of the board. MPs put the final nail in the AWB's coffin in April when they voted in favour of legislation abolishing it. Although Unite, the union representing farmworkers, claims the board's abolition will cost the rural economy hundreds of millions of pounds and says it is looking at the possibility of taking the issue to the European Court of Human Rights, the AWB is now due to be wrapped up this October.

Angus Harley
Head of Country House Consultancy

7 WATER ABSTRACTION REFORM

Although much of the past year has been blighted by excessive rainfall, it is worth remembering that a large part of England was officially hit by drought at the beginning of 2012. Expectations that we will continue to experience further water shortages are part of the reason why the current water abstraction regime is set to be reformed. A consultation is due to open later this year with the possible outcome that abstraction licences could become tradable. Some people might find it makes more sense to sell their licences than grow the crop they've been irrigating, particularly in areas where there is huge public demand for water.

Alastair Paul
Rural Consultant, East Anglia

8 EXTENSIONS EXTENSION

The government's controversial proposal to allow homeowners to add single-storey extensions of up to eight metres to their properties without the need to apply for planning permission has just been approved by parliament, albeit narrowly. However, following opposition from both the House of Lords and MPs, the original proposals, which form part of the Growth and Infrastructure Bill, have been somewhat watered down. Neighbours will now have the right to object to proposed extensions, details of which will have to be supplied to councils. The new exemption does not apply to Conservation Areas or Areas of Outstanding Natural Beauty.

James Carter-Brown
Head of Building Consultancy

9 FARMLAND PRICE HIKE

Farmland values are rising again this year after a slight dip in the second half of 2012. The average price of English farmland is now just over £6,300/acre – a record high – but large blocks of good commercial arable land are making more than £10,000/acre. The combination of limited land availability and strong demand from investors and farmers is helping to underpin values. Now could be an opportune time to sell. For those wishing to keep farming, a number of investors are prepared to offer sale and leaseback terms. See Page 6 for more details and a comparison of the performance of farmland against other assets.

Tom Raynham
Farms & Estate Sales

10. SCOTTISH INDEPENDENCE VOTE

It has now been confirmed that all registered voters in Scotland over the age of 16 will have the opportunity to take part in a referendum on 18 September 2014 as to whether the country should become independent from the rest of the UK. They will be asked to respond yes or no to the question: Should Scotland be an independent country? In the event of a yes vote, many issues, particularly currency, will need to be clarified. On balance, however, we still firmly believe landownership in Scotland will remain a very attractive proposition, especially given the enthusiasm here for renewable energy, agriculture, forestry and sport.

Ran Morgan
Head of Farms & Estates, Scotland

> *"Estate planning and value conservation have just become much less straightforward."*
>
> James Del Mar

To find out more about the topics highlighted on these pages or any other rural property ownership issues, please do get in touch. The contact details for Knight Frank's rural property teams are at the back of the report. For more regular updates you can now follow Knight Frank's new rural blog at **knightfrankblog.com/ruralbulletin**

FARMLAND MAINTAINS INVESTOR INTEREST

UK farmland values have already risen in 2013 and further increases are expected over the next 12 months

According to the Knight Frank Farmland Index, the average value of farmland in England rose by 1.5% in the first quarter of 2013 to £6,307/acre. This takes growth over the past 12 months to 4% and the past decade to 207%.

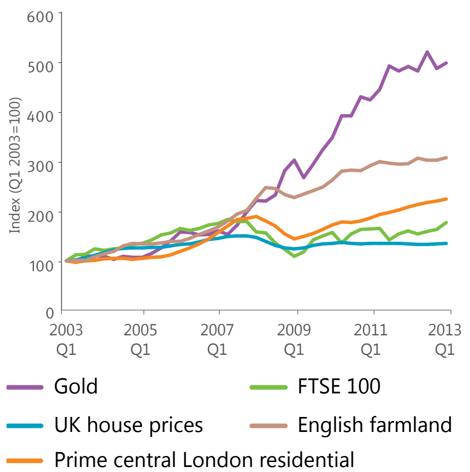
Farmland continues to outperform many other asset classes over the mid to long-term (see graph below), although the recent bounce in equity values this year means the FTSE 100 has performed more strongly over the past year as investors recover some of their appetite for risk.

With stocks and shares back in favour, investors fed up of poor returns seem to be moving away from some low-yielding (or zero-yielding in the case of gold) "safe-haven" investments, such as AAA-rated government bonds. Although farmland certainly falls into the "safe-haven" bracket, it continues to maintain its popularity and Knight Frank expects values to increase by a further 4% to 5% over the next 12 months.

"I think farmland still has a valuable role to play in investment portfolios," says Tom Raynham, of Knight Frank's Farms and Estates team, who is acting for a number of wealthy investors looking to acquire land. "Even though equities have rebounded, markets remain volatile.

England Farmland 10-year capital growth vs other assets

Source: Knight Frank Residential Research



Land offers something more tangible, yet still has the potential to provide good capital appreciation. For private investors it also offers significant tax and amenity advantages."

This combination of benefits has seen one of the UK's best known businessmen acquire a significant portfolio of arable land in East Anglia, pushing farmland back into the media spotlight. Good blocks of commercial land can now command upwards of £10,000/acre in the region, says Tom (see map opposite).

Despite the continuing weather problems, interest also remains strong from farmers who are prepared to pay a premium to secure land adjoining, or close to, their existing units.

"There is still a shortage of supply and while more marginal land may have lost a little of its value, demand is firm for commercial units," says James Prewett, who heads up farm sales in central and western England for Knight Frank.

More land could come up for sale over the next few seasons as some farmers decide they've had enough of the weather – for many, 2013 could be the third successive difficult harvest – and look to take advantage of current strong land prices.

However, UK agriculture still has a very strong balance sheet overall with liabilities well under 10% of the sector's capital value. This means there is unlikely to be a huge increase in the number of debt-driven disposals. If it appears an over-supply is causing values to weaken, potential vendors may well decide to sit tight until the market firms again.

It now also looks like the ongoing reform of the Common Agricultural Policy (CAP) is unlikely to lead to a major shake-up of the EU's farm subsidy system as some had feared. Direct support payments to farmers, which make up a significant contribution to profitability for many units, look set to remain until at least 2020. A threat to cap the subsidy payments of the largest farmers also seems to be receding.

The ongoing weakness of sterling against the euro is also beneficial for UK farmers because it boosts the value of subsidy

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Type of Land

Arable
Pasture
Hill

Knight Frank Office

1	Ascot*
2	Basingstoke
3	Bath
4	Beaconsfield
5	Berkhamsted
6	Bristol
7	Cheltenham
8	Cirencester
9	Cobham *
10	Edinburgh
11	Esher*
12	Exeter
13	Guildford
14	Harrogate
15	Haslemere
16	Henley*
17	Hereford
18	Horsham
19	Hungerford
20	Kingham
21	Lauder
22	London †
23	Oxford
24	Sevenoaks
25	Sherborne
26	Stratford-upon-Avon
27	Sutton Coldfield
28	Tunbridge Wells
29	Virginia Water
30	Winchester
31	Worcester

* Also provides a lettings service
† 20 offices across Central London offering sales and lettings

payments. These are set by Brussels in euros and then converted into pounds at the rate prevailing at the end of September each year.

Scottish farmland is growing in value as well, with prices rising on average by 7% during 2012, according to the latest results from the Knight Frank Scottish Farmland Index.

Agricultural land in Scotland has now almost tripled in value over the past 10 years. Price increases have tended to lag slightly behind the English farmland market, but there is now very little difference in performance. This trend has not been lost on investors, says James Denne, who heads up Knight Frank's Scottish Farm Sales' team.

"I have just sold a large block of good arable land to an investment fund. The price was slightly lower than they would probably have had to pay south of the border, but the prospects for capital growth are just as good."

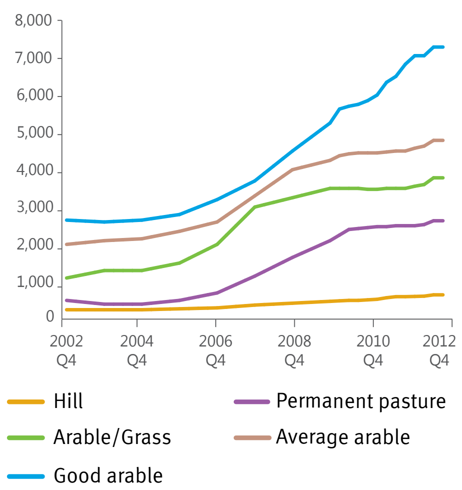
Scottish farmland also offers other opportunities for investors, not to mention lifestyle purchasers, as well as agricultural income, points out Ran Morgan, Head of Estate Sales.

"We are currently selling a large highlands estate that boasts some amazing stalking, fishing and shooting, but it also has a huge potential income from hydroelectricity. This has really caught the imagination of potential purchasers who like the idea of owning a fabulous sporting estate that can actually pay for itself."

Looking forward, the Knight Frank Scottish Farmland Index predicts further growth in values of 3-4% over the next 12 months. "It doesn't seem as if there will be any more land on the market in 2013 than last year, so I expect values to maintain their steady upwards trajectory," says James.

Scottish land values by type (£/acre)

Source: Knight Frank Residential Research



PROPERTY HIGHLIGHTS

The Knight Frank Farms & Estates team sells a diverse range of rural property across Britain that appeals to all types of buyers, from investors to overseas lifestyle purchasers. The properties on these pages provide a snapshot of what is currently available

THE FINGLE WOODLANDS

Rare investment opportunity

It is not just UK farmland that is gaining in value on the back of increased interest from investors; woodland is also experiencing a surge in popularity as an asset class.

Firm timber prices and the rising demand for woodchip or pellets to use in biomass boilers are helping to boost returns. The tax benefits, including no income tax on timber sales, are also particularly appealing to family trusts or private individuals making long-term investment plans.

Unlike many other investments, woodland can also offer environmental, conservation, amenity and sporting benefits, making it potentially an extremely enjoyable and rewarding asset to own.

Knight Frank has just launched a large block of woodland that is already attracting a lot of interest. As well as making a great investment, the 840-acre Fingle Woodlands near Moretonhampstead, Devon, in Dartmoor National Park also offers fantastic high-bird pheasant shooting.

"There is a huge amount of potential there," says Tom Raynham of Knight Frank's Farms & Estates team. "It is one of the largest blocks of woodland to come to the market in the south of England in the past 20 years."

Available in four lots ranging from 16 acres to almost 440 acres, the majority of the woodland is planted to mixed-age commercial conifers, but there are also areas of deciduous trees and frontage to the River Teign.

The Fingle Woodlands are for sale with a guide price of £3m.

For more details please contact:
Tom Raynham on 020 7861 1578

The quintessential country estate

Country estates boasting a stunning house surrounded by a significant acreage of glorious countryside including a top-class shoot have been few and far between in recent years, so the newly launched Mynde Park Estate seven miles from Hereford is likely to generate plenty of interest.

Will Matthews, who is helping to handle the sale, says the 1,180-acre estate ticks so many boxes it could attract international buyers who don't tend to buy this distance from London. "The current shortage of good estates means people from overseas are definitely prepared to look further afield for the right property. The three bidders on a lovely estate we recently sold in Somerset were all from abroad."

According to the renowned architectural historian Niklaus Pevsner, the King's Hall in the estate's 12-bedroomed Grade 1 listed manor house, which has been completely renovated by the current owners, is the "finest room in Herefordshire".

The estate includes a seven-acre lake, a mile-long carriage drive, a high pheasant and partridge shoot, a secondary residence and seven cottages.

THE MYNDE PARK ESTATE

The Mynde Park Estate is for sale as a whole or in 10 lots with a guide price of excess £15m.

For more details please contact:
Will Matthews on 020 7861 1440

940-acre arable and sporting opportunity

As the results of the Knight Frank Scottish Farmland Index highlight (see page 8), investor demand for large blocks of good commercial arable in the country is very high. However, there is currently little on the market to satisfy the interest. Because of this, we anticipate good demand for this 940-acre parcel of land near Dunbar, east of Edinburgh, which includes 660 acres of productive arable soil and a superb low-ground shoot with views over the coast. Just over 1,500 acres adjoining the land were recently sold to an investor.

The land is guided at £6,500/acre to £7,500/acre. A large mansion house, a farmhouse and a number of cottages are available separately.

For more details please contact:
James Denne on 01578 722 814

LAND IN EAST LOTHIAN

THE BEST OF THE REST

A selection of other properties for sale or recently sold.

Great Surries, West Sussex
A wonderfully secluded estate within 40 miles of Central London.
Acreage: 359
Status: Guide price £6.5m
Available

The Franchise Manor Estate, East Sussex
Refurbished country house with woodlands, lake and arable land.
Acreage: 449
Status: Guide price £11m
Available

Land at Butlers Cross, Buckinghamshire
An accessible parcel of productive arable land.
Acreage: 128
Status: Guide price £1.05m
Available

Hitcham House, Suffolk
Picturesque mini estate with lovely Georgian house.
Acreage: 41
Status: Guide price £4m
Available

The Freelands Estate, Oxfordshire
Stunning Cotswold estate with pheasant shoot.
Acreage: 1,024
Status: Guide price excess £12m
Available

Eckington Fields, Worcestershire
Period farmhouse, traditional farm buildings with residential consent, high quality arable and pastureland.
Status: Guide price £2.5m
Available

CHANGING THE GUARD

(Left to right) Harry Legge-Bourke, the Honourable Mrs Legge-Bourke, Sandy Douglas and Knight Frank's Hamish Baxter in front of Glanusk's iconic bridge, which is now the estate's logo.

The Rural Report visits one of Wales' most beautiful estates to find out how it is preparing for the future

Words: Andrew Shirley **Image:** Richard Stanton

Planning for the next generation is a key, but too often neglected, part of estate management. Even when the need for action is acknowledged, implementing a succession strategy is frequently delayed because of the complex family issues that commonly arise.

However, the Glanusk Estate in Powys, Wales, has taken the bull firmly by the horns and, with the help of Knight Frank, put in place a plan that should safeguard the future of the estate and ensure a smooth succession to the next generation of the Legge-Bourke family.

The family has lived at Glanusk since 1826 when it was purchased by Sir Joseph Bailey, an industrialist who had amassed a fortune in the iron industry. Since 2008, shortly before his father passed away, the management of the estate has been overseen by Harry Legge-Bourke in conjunction with his mother, Shân, the Honourable Mrs Legge-Bourke, who is Lord Lieutenant of Powys.

"The estate is in my blood, so it was always a case of when, not if, I would come home," says Mr Legge-Bourke, a former officer in the Welsh Guards.

Although maximising Glanusk's existing income streams and introducing new ones was the main challenge when he returned, ensuring a succession plan was in place to pass the estate to his two children Lochy and Serena was also a priority.

"The estate had to pay a huge amount of death duties when my grandmother died, so I was really keen that didn't happen again in the future," says Mr Legge-Bourke.

To mitigate Inheritance Tax (IHT) liabilities, a large proportion of the estate's property portfolio has been put into a Family Limited Partnership for the benefit of Mr Legge-Bourke's children. "People have said that's a very altruistic thing to do, but it also makes a lot of sense," he says.

In addition, and after a lot of soul searching, the estate's main house and its historic parkland and buildings have been entered into HMRC's Conditional Exemption Tax Incentive scheme. In return for providing public access to heritage assets, this exempts them from death duties.

"It wasn't an easy decision. Until last year the estate was completely private, now there is a permissive path running through the middle of it and we have to adhere to an agreed management plan," says Mr Legge-Bourke. "But again, it's all about doing what is best for the long-term. We are planning for the next 50 or 100 years."

Succession planning, by its very nature, can be an emotive issue, especially when a number of family members and generations are involved. This is where Knight Frank's Sandy Douglas, who has been involved with Glanusk for 35 years, played a crucial role in helping to mediate and reconcile the interests of all involved.

"Sandy helped enormously to diversify the estate and ensure that it is in a good state for future generations," says Mrs Legge-Bourke.

Reflecting the changing of the guard at Glanusk, Sandy has retired – although remains a trustee of the estate – and Hamish Baxter, part of Knight Frank's new generation of rural consultants, has taken over the reins.

Hamish was instrumental in the recent succession planning project and now assists the Legge-Bourkes on the next stage of Glanusk's journey. "It is a very exciting time for the estate," he says.

Although Glanusk has already diversified enormously in recent years, establishing its own brand identity and creating a successful events business, which includes hosting the iconic Green Man music festival, Mr Legge-Bourke says he is still looking for a "game-changing" opportunity to really cement the ability of the estate to provide for multiple generations of his family.

Much of the focus will be on the 20,000 acres of upland common grazing land that currently make a negligible financial contribution to the estate. "That needs to change," says Mr Legge-Bourke. "Every asset has to be made to sweat and really pay for itself." The estate is already creating grouse-friendly habitat on part of the land and renewable energy is another potential source of income.

He won't, however, be rushing into any new schemes without plenty of due diligence. "I've learnt an awful lot since coming back to help run Glanusk."

For example, installing an anaerobic digester to generate renewable electricity initially looked like an obvious solution given the amount of grass on the estate. But after investigating the options with Knight Frank it turned out the estate would need to plant 400 acres of maize and therefore change its entire farming system to make the scheme viable.

"It might make sense in the future, but we've put it on hold for now," says Mr Legge-Bourke. He is, however, looking to drive the estate's agricultural portfolio forward and is hoping the letting of the 650-acre home farm under a long-term Farm Business Tenancy will attract an innovative young farmer full of new ideas to Glanusk.

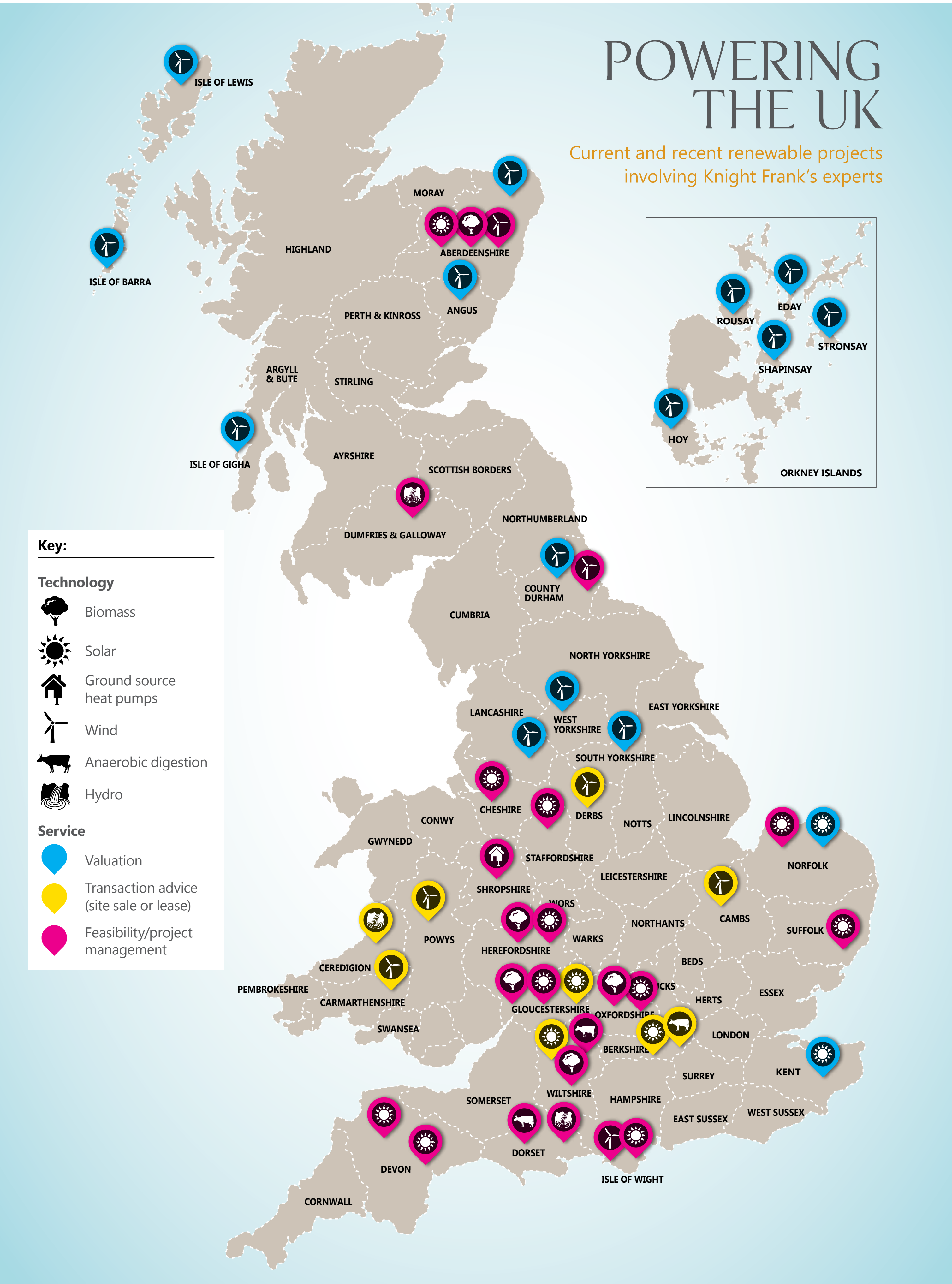
"It's a fantastic opportunity," agrees Hamish. "There are always new things happening here and that's what makes it such a wonderful estate to be involved with. I am sure it will be enjoyed by the Legge-Bourkes for many generations to come."

For more information on how Knight Frank can help estates with their succession planning contact **hamish.baxter@knightfrank.com** or 01488 688 500

THE GLANUSK ESTATE

400 acres parkland
800 acres forestry
3,500 acres farms
20,000 acres common land
5 miles of River Usk
40-day shoot let to private operator
16-day in-hand shoot
28 let properties

www.glanuskestate.com
www.greenman.net



GREEN ENERGY STILL STACKS UP

Knight Frank has already helped scores of clients to take advantage of renewable electricity and heat. To kick off this four-page special feature, the firm's Head of Renewables Christopher Smith explains why many more are set to benefit

It would be fair to say that the renewable energy sector enjoys more than its fair share of mixed messages.

Grand announcements from government ministers about the importance of renewables often seem to run parallel with ill-timed cuts to support payments and last-minute changes to scheme rules.

The announcement earlier this year that the extension of the Renewable Heat Incentive (RHI) to domestic properties was being delayed yet again was a classic example. Homeowners keen to install renewable heat projects such as biomass boilers were left frustrated that the scheme won't now be available to them until 2014.

The much publicised reduction in the Feed-In Tariff (FIT) payments for those planning to produce renewable electricity also hit the confidence of those planning to invest in a project for their farm, home or estate.

But, and this is an incredibly big but, there are still very significant opportunities for rural property owners to benefit from renewable energy and I don't believe they will be going away. It would be hard to think of a property that couldn't benefit in some shape or form.

Despite the reduction in financial support, the annual returns available from renewable energy projects can still outperform many other investments, as our case studies later in this feature clearly show. Investment payback can be under five years and it is worth bearing in mind that FIT and RHI payments are index linked, guaranteed for up to 25 years and any future rate reductions do not apply to those already in the scheme.

What is important is to ensure you pick the right partners. The UK's renewable industry is still embryonic compared with much of continental Europe and there have been a number of high-profile collapses within the sector.

Choosing the right renewable technology for your property is clearly vital as there are so many options. Often what somebody thinks might be best for them isn't the right option. An array of roof-mounted solar panels may make financial sense in the short-term, but could affect the future value of a property.

To highlight the various opportunities available for our clients, we can organise a "beauty-parade" of carefully selected equipment suppliers and installers.

"It would be hard to think of a property that couldn't benefit in some shape or form."

The renewables industry is global so you also need to know what is going on around the world, such as the recent bankruptcy of the world's largest supplier of solar panels in China, and what impact that could have in the UK and on your clients' projects.

Timing can be crucial. FIT payments, for example, are regularly reviewed so it makes sense to ensure any schemes are up and running before the deadline for another round of potential cuts.

However, subsidy payments are not the only reason to consider investing in renewable electricity. You don't have to be living in a stately home for your fuel bills to easily run into thousands if not tens of thousands of pounds each year.

With gas, oil and electricity set to become even more expensive, it won't be long before some renewable energy projects make sense without any external financial support. A number of the more pessimistic energy analysts are also claiming that the UK's aging power stations will not be able to cope in the near future, so having your own power on tap could be handy if the lights do go out. And you will still receive FITs and the RHI even if you use all the energy produced yourself.

Renewables can also play an important role in longer-term estate planning. One of my clients looking to the future said the following to me the other day: "Ideally, I would like my estate to be self-sufficient in energy and water as it would be nice to pass something on to my children that doesn't require a huge income to maintain."

This makes perfect sense. Rural properties can be very expensive to maintain and while this may not be a problem when people are working and have large incomes, running costs could become more of an issue during their retirement or for the next generation before it reaches its full earning potential. Country houses and estates should be things to enjoy, not millstones around people's necks.

As renewable energy becomes more and more commonplace and the cost of conventional energy rises, not to mention the ever-growing pressure on government finances, it is inevitable that the financial support available will dwindle.

Those buying into green energy now will not only be helping to future proof their properties, but they'll be getting paid to do it.

For more information on the renewable opportunities for your estate contact:
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POWERING UP

Knight Frank's experts highlight a selection of renewable opportunities to suit all rural property types and sizes

Oliver Routledge
HYDROELECTRICITY

Think hydroelectricity and images of large reservoirs and damns spring to mind. It is, however, possible to generate significant amounts of income from relatively unobtrusive schemes that have little impact on the environment.

As well as advising clients on the benefits of hydro, I have just installed a 190kW project on my family's 1,400-acre Scottish sheep and fish farming unit that will turn over in excess of £100,000 from the Feed-in Tariff (FIT) each year for the next two decades. This will rise in line with inflation.

In addition to the FITs, each unit of power exported to the National Grid receives the Export Tariff from the purchaser of that power. For smaller schemes this is usually 4.64p/kW, but I have negotiated an initial price of 5.4p/kW with a green energy broker worth around £45,000 year.

By using some of the power generated, the fish farm will also be able to save around £10,000 on its electricity bills. This saving will increase as conventional electricity costs rise.

The £750,000 cost of the scheme, which includes the generating equipment and installation of 1,800 metres of pipes from a burn 170 metres above the steading, should be paid off within five years.

While FIT payments for other technologies have been cut, those for hydropower power schemes of this scale have actually increased.

After considerable lobbying by the hydroelectric industry, the government has clearly recognised that these projects are very capital intensive.

This means the income from such schemes can go straight to the bottom line of an agricultural business very quickly. With fish food now in excess of £1,000/t, creating a stable diversified income stream to support a business that is so beholden to global commodity prices is very exciting and a great step forward for us.

The amount of untapped hydropower in Scotland is estimated to be the equivalent of 20,000 similar schemes. Even in lowland areas, there is the potential to install many more small hydro projects. These do not require large differences in height to create a head of water, but rely instead on a higher volume of slower moving water to power the likes of an Archimedes screw.

Knight Frank has also been involved with pump-storage schemes, where water is pumped into a reservoir at night using cheap electricity and then released during the day when demand and electricity prices are much higher.

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Oliver Routledge on the intake structure for his hydro scheme
Image: Alasdair MacFarlane

FINANCIAL SUPPORT FOR RENEWABLES

Feed-In Tariffs (FITs)

FITs* are available for every unit of electricity produced by eligible technologies such as wind, solar photovoltaic panels and anaerobic digestion plants (AD) up to 5MW even if it used by the generator's own home or business. Payments vary depending on the size and type of installation and are index-linked and payable for 20 to 25 years. Units of electricity supplied to the National Grid will also receive an additional "export" tariff.

Renewables Obligation Certificates (ROCs)

These are issued by OFGEM to larger-scale accredited renewable generating stations for each unit of eligible renewable electricity they generate. They are then sold to electricity suppliers to show they have fulfilled their obligation to source a percentage of the energy they sell from renewable sources. Unlike FITs, ROC rates* are set each year, but they are payable for 20 years. Some technologies qualify for multiple ROCs.

The Renewable Heat Incentive (RHI)

The RHI pays a set rate* for every eligible unit of heat generated by permitted technologies. These include biomass boilers, ground and air-source heat pumps and solar hot water systems installed by an accredited business from 15 July 2009. Currently only available for commercial properties or where a project supplies multiple residences. The delayed domestic RHI scheme is due to be launched in spring 2014.

The Renewable Heat Premium Payment (RHPP)

This is a capital grant available to homeowners to cover part of the cost of installing eligible renewable heat technologies, such as a biomass boiler, until the RHI is extended to domestic properties. Payments range from £600 to £2,300 depending on the technology.

Enhanced Capital Allowance (ECA)

This provides a 100% first year allowance on investment in approved energy-saving technologies. For a business paying corporation tax at 28%, every £10,000 spent on eligible energy-efficient equipment would reduce its tax bill in the year of purchase by £2,800. The generally available capital allowance for spending on plant and machinery would only cut the bill by £560.

***For the latest FIT, RHI and ROC rates: edward.holloway@knightfrank.com**

Knight Frank's Christopher Smith and Edward Holloway on a large scale solar PV scheme
Image: Neville Stanikk

Christopher Smith
LARGE SCALE SOLAR

While small and medium-sized solar PV schemes are now routinely installed by our rural clients, we are also advising some on much larger projects that could be game-changing for their estate's financial position. One I am currently working on will involve 250 acres of panels.

Because of their scale, planning and funding are the main issues. Large areas of relatively unproductive agricultural land, such as an old airfield or former mineral workings, will be most suitable. Costs will run into tens of millions of pounds, so to remove the capital outlay burden from our clients we work with specialist renewable energy funds that are prepared to pay substantial rents for the right sites.

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Michael Ireland
COMMUNITY WIND

In the Highlands and Islands of Scotland we are helping remote rural communities to really benefit from wind power. Under the Scottish Government's Renewable Energy Investment Fund (REIF), a loan fund administered by the Scottish Investment Bank, which is part of Scottish Enterprise, communities can apply for a loan that will help them develop renewable energy projects to the point where a commercial lender will provide the bulk of the funding.

I am working on various REIF applications on behalf of Scottish Enterprise, in a number of locations, to provide valuations of the projects as reassurance to Scottish Enterprise that each community wind project is financially viable.

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James Carter-Brown
DOMESTIC HEAT

Renewable heating should always be a consideration for anybody building a new house or converting old farm buildings. All accredited installations will be eligible to join the RHI once it is extended to domestic properties. Because they produce relatively low, but constant, levels of heat, technologies such as ground or air-source heat work best in well-insulated buildings where under-floor heating can be installed. Biomass boilers are more suited to existing houses, especially those on estates with areas of woodland.

We have helped a number of clients, including The Crown Estate, install renewable ground-source heat into rural new-build projects and have successfully minimised heating costs by installing an air-source system into a barn conversion.

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Percy Lawson
ON-FARM AD

An anaerobic digestion plant is rather like a steel version of a cow with feed shovelled into one end and gas coming out the other. The gas is then used to power a generator that produces electricity. The heat produced as a by-product can also be harnessed. I am helping a number of my large farming clients to set up AD systems. They work well on mixed farms, especially those that use a lot of heat such as chicken or dairy units.

Some clients prefer to let their land to an investor who will provide the capital needed in return for the FIT payments. I have noticed an increase in the number of specialist funds looking for sites. This is partly because AD projects are covered by the tax efficient Enterprise Investment Scheme.

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TACON ME

Christine Tacon, the recently appointed Groceries Code Adjudicator and arguably the most influential woman in UK agriculture, talks to Rural Report editor Andrew Shirley about the new role and other big farming issues

RURAL REPORT Describe the adjudicator's role in a few sentences?

CHRISTINE TACON I will be enforcing the Groceries Supply Code of Practice, which was introduced by the Office of Fair Trading in February 2010 and protects the direct suppliers of the 10 supermarkets that turn over more than £1bn. The Competition Commission decided there was evidence that consumers were being disadvantaged by the undue pressure that the retailers were putting on their suppliers, but people were too terrified to say what was going on because they were scared of losing business. Hence the need for an adjudicator to see that the Code was followed.

RR What examples of unfair practice have you come across?

CT Contracts have been agreed, but then suppliers are asked to do deeper promotions than agreed or to use a specific haulier or packer who is more expensive than their existing one. I think the most shocking thing that has been going on is if somebody has a good year, or the retailer has had a bad year, they are asked to put extra money on the table to keep the business. Contract negotiations will always be very tough, but buyers shouldn't be able to come back and keep asking for more. My role is not to get involved in anything to do with price negotiations, just unfair practices once an agreement has been reached.

RR What action can you take against those who breach the code?

CT There are two ways I can work. If a supplier feels they've been badly treated and haven't got a satisfactory resolution from the retailer's own code compliance officer, they can come to me and ask me to arbitrate. The retailer has to pay the costs and I can award compensation. I can also launch investigations and, if things have gone wrong, apply various sanctions against the retailer.

RR What sanctions can you apply?

CT If I find that the retailer has breached the code, I can either issue a recommendation to clarify the code, such that any future breach is clearly seen as a breach or I can require them to publicly apologise for their actions. Additionally, for serious or repeated breaches, I can fine the retailers.

RR How large could the fines be?

CT I have got to issue guidance which then goes out to consultation before this is decided, and then my recommendation has to be agreed by parliament. However, the purpose of the fines is to make sure no retailer could possibly benefit financially from breaking the code. So if they are asking for £5m from a supplier it has clearly got to be significantly more than that.

RR Will your role make a difference?

CT In terms of the code, as long as people come and tell me what is going on, then yes, I think it will. I don't think retailers, certainly not at board level, will be endorsing people breaking the law. But when times are hard there will always be the temptation to see if there are new ways to squeeze more out of suppliers. Buyers are under huge pressure to hit their targets.

RR Was the horsemeat scandal inevitable, given the drive to minimise costs in the supply chain?

CT The pressures are immense and there will always be a risk of turning to fraud. But I think the retailers will all learn from what has happened and try and tighten up their supply chains.

RR Could your role and this tightening of supply chains benefit the UK's farmers?

CT I am excited by the potential of taking some of the fear out of relationships and regaining some trust. There are some huge opportunities, if we could only stop people trying to find every which way of taking another bite out of the supply chain and to look instead at doing things more cleverly together. A lot of the retailers' reaction to the horsemeat scandal has been: how do I make my chain shorter? And the shortest chain you are going to get is buying from the UK. But what really would be counterproductive is to have more and more audits and quality control on the people who were never breaking the law in the first place.

RR Many farms still rely on EU subsidies. Will that change in the foreseeable future?

CT No. We are price takers in every single direction. For example, we all know that the minute the price of wheat goes up the price of fertiliser follows. And if you are a tenant or contract farmer, as soon as there is any profit in the job, the person who owns the land will want to take a share of it. I think farming will always teeter on the edge of being slightly profitable, but it will never make loads of money year in year out. Subsidies are built into the price of land for most contract and tenant farmers, so if they reduce dramatically, farm-gate prices will have to increase to restore the balance.

RR Is it right that farming is subsidised when other industries are not?

CT I don't think it helps to call it a subsidy when farmers are providing a public good that in many cases they do not have to provide. They manage 70% to 80% of the UK by landmass and therefore much of what happens in the environment is dictated by farming. So long as people want to tell farmers what to do in the way they farm the environment, then they've got to be paid for doing it.

RR Is too much emphasis now put on protecting the environment at the expense of production?

CT Not in the UK. Our farms are our environment so we have to do both. And the more we break down the natural cycles of how things work, the more problems we'll create. We cannot just have food production based on chemicals. As an industry, we are still hugely ignorant about the natural environment and people aren't taught enough about it.

RR What would you advise farmers to do to make their businesses more profitable?

CT Do a budget, understand all their costs, benchmark their business and then work out how they could reduce costs by working with other farmers.

RR Could more be done to encourage new entrants into farming?

CT I think some of the engineering excitement, such as satellite technology, will attract the techno-buffs that the industry needs. We need to make sure they are aware that farming isn't just how advertisers like to depict it, which seems to be people speaking in a broad Cornish accent with string holding up their trousers. Additionally, I think far too much of the promotion of farming is about livestock as opposed to the sheer technology of horticulture and arable farming. I don't think what we need is a lot of people who want a 300-acre farm to run. What we want are new entrants who want to come into super intensive agriculture where people work for large organisations and go up the hierarchy.

RR Would you say farming is still too introspective an industry?

CT We do tend to exclude other people. I just can't believe that a huge part of the engineering fraternity thinks that the Institute of Agricultural Engineers "does" farming, when it's actually a massive mechanical, chemical and electrical industry they should all be involved with.

RR If you owned your own estate would you farm in-hand, rent out the land or have it contract farmed?

CT If I could afford to, I would farm in-hand because I'd always want to be looking at better ways of doing things and innovating; I would use it as a large laboratory. If this were not possible I would use a contract farmer because it is an easier relationship than having a tenant and has the potential to be far more efficient as part of a large concern. Terminating a tenancy is too personal; when I was at the Co-op, many clients told me they preferred contract farming arrangements as it was easier to end an agreement.

RR What contribution to farming would you like to be remembered most for?

CT For having made a difference. A difference to farmers for encouraging them to be more commercial; to the engineering, weather and space industries for bringing their technologies into farming; and to the public in understanding how important it is.

To read this interview in full and to see previous interviews from The Rural Report, go to: **knightfrankblog.com/ruralbulletin**

CHRISTINE TACON BIOGRAPHY

As managing director of Co-operative Farms (2000 to 2012), Christine Tacon was the UK's largest farmer responsible for around 50,000 acres. She has served on numerous industry panels, taskforces and company boards and was awarded a CBE for services to agriculture in 2004.

She has recently been appointed as the first Groceries Code Adjudicator (a 3-day a week role); she is a non-executive director of Anglia Farmers, a £250m farmer-controlled purchasing group; a member of DEFRA's Strategic Regulatory Scrutiny Panel, which is tasked with making future regulation, such as reform of water abstraction regulations, effective; Chair of UK Farming PLC, a farmland investment fund, and Chair of the BBC's Rural Affairs Advisory Committee.

Prior to joining the Co-op, Christine worked in the fast-moving consumer goods (Mars, Vodafone and Anchor Foods) and engineering (Coats Viyella and Redland Brick) sectors.

She has an MBA from Cranfield University and studied engineering at Cambridge University.

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ATED VALUATIONS WILL BE CRUCIAL

In the first instalment of our new column, Valuation Matters, Tom Barrow looks at the implications of the new Annual Tax on Enveloped Dwellings (ATED)

Originally termed the Annual Residential Property Tax when it was proposed in the 2012 Budget, the introduction of ATED was confirmed by Chancellor George Osborne in his fourth Budget earlier this year.

In a nutshell, the new tax is part of Her Majesty's Revenue & Customs' (HMRC) attempts to crackdown on the use of companies to avoid paying taxes on residential properties. It will be levied on UK dwellings worth over £2m (at 1 April 2012 or from acquisition if later) that are owned by companies (and other corporate structures), collective investment vehicles and partnerships that include one or more of the previous categories. In certain circumstances relief can be claimed.

Affected owners wishing to avoid ATED had until 1 April 2013 to "de-envelope" their properties. Given that there are many reasons, other than minimising tax bills, to hold residential property within a company and de-enveloping comes with its own costs, many of our affected clients, unsurprisingly, chose not to do this.

Those covered by ATED must submit their completed first returns to HMRC by 1 October 2013, with payment due by 31 October. In subsequent years, the return and payment deadline will be 30 April.

ATED is similar to Stamp Duty Land Tax (SDLT) in that properties are split into price bands, but unlike SDLT a flat rate is charged rather than a percentage of the value (see below). At each threshold the tax rises at least twofold.

ATED bands

Property Value	Tax 2013-2014
+£2m - £5m	£15,000
+£5m - £10m	£35,000
+£10m - £20m	£70,000
+£20m	£140,000

The annual tax is "self-assessed" meaning property owners provide their own valuations. They can either do these themselves or use a professional valuer. As with any new tax there are still grey areas yet to be clearly defined and there will no doubt be many battles between HMRC and owners, but the following are some key areas to consider for those who may be affected:

Check whether you qualify for a relief: Various categories are available, including properties let on a commercial basis to a third party unconnected with the owner and properties held for charitable purposes. From a rural perspective, the most relevant relief applies to "character appropriate" farmhouses if they are occupied by a farmer who farms the associated land on a fulltime basis. Historic buildings open to the public on a commercial basis for at least 28 days a year can also qualify. Anybody wishing to apply for these reliefs will need to ensure they can provide HMRC (which plans to issue more guidance by July) with the appropriate evidence to back up their claim. Even if you do qualify, relief is not automatic and an ATED return must still be submitted each year.

Work out what will be covered by ATED: The definition of a dwelling under ATED includes gardens and grounds and any buildings or secondary dwellings. Non-residential parts of a property and those that qualify for a relief – such as commercially let accommodation – are excluded, but ensuring you have documentation – such as a Single Payment claim on parkland or rental agreements – to prove this is the case makes sense.

Work out the value of qualifying assets on the appropriate date: Because ATED bands are quite wide, it will be clear where most properties sit and subsequently what tax has to be paid. Some, however, will be on the cusp of a boundary. HMRC has already said it will be paying close attention to properties within 10% of a threshold and could apply penalties and interest if it successfully challenges a valuation. It is here that an expert valuation, submitted at least 20 days before an ATED return is due and backed up by reliable comparable evidence, will really come into its own. Getting HMRC to approve this "pre-banding check" is crucial because it will form the basis for the first five ATED returns until 1 April 2017. For example, if HMRC accepts a property was worth £2m or less on 1 April 2012 it will save the owner £75,000. Just falling into the top band will cost an extra £350,000.

Tom Barrow heads up Knight Frank's Rural Valuations' team. For more information on ATED or other valuation issues please contact: **tom.barrow@knightfrank.com** or 020 7861 1438

OUR TEAM

Knight Frank can advise on all aspects of rural property ownership. Its principal service lines and the relevant contacts are listed below. Further details are available on our website at **KnightFrank.co.uk/Rural**

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