THE CRITICAL LIST
Threats and opportunities for landowners

FAARMLAND MARKET
Agricultural land values hit record high

FRACKED OFF
Shale gas – your questions answered

COUNTRYSIDE CONCERNS
Our rural sentiment survey results
Welcome to the Winter 2013/2014 issue of The Rural Report

The opportunities and challenges facing rural property owners are constantly growing in number and evolving. Keeping track of all the issues that affect their own estate, farm or business and assessing their potential impact can seem a full time operation. I hope that The Rural Report and our other publications go some way towards helping.

Our “Critical List” on page 4 rounds up the current key developments that we think rural estates should be aware of. Some are threats that may need to be addressed; others are opportunities that could offer significant benefits.

One of the big issues dividing the UK at the moment is fracking. Some see it as a panacea, potentially reducing the UK’s reliance on imported energy; others view it as an environmental disaster waiting to happen.

Christopher Smith, our Head of Renewables and Energy, offers an impartial guide on page 12 for those landowners who think they may have shale gas deposits under their land.

While not quite so controversial, poor rural broadband is worrying far more of you than fracking, according to the results of our new Rural Sentiment Survey, which I discuss on page 14.

Elsewhere in the report we look at the benefits of professional project management when renovating historic buildings (page 10), round up the farmland market (page 6) and quiz the

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THE CRITICAL LIST

Knight Frank’s rural property experts highlight the key threats and opportunities that estate owners should be investigating now

RENEWABLE ENERGY

RENEWABLE HEAT PAYMENTS FOR HOMEOWNERS

The Renewable Heat Incentive will belatedly be extended to domestic properties in 2014. This means homeowners who generate heat from an eligible renewable source, such as a biomass boiler or ground-source heat pump, will be able to claim a payment for every unit of heat produced. Given the rising cost of oil, this could be a big benefit to some estates, particularly those that have their own source of wood fuel.

ACTION POINT: Assess whether renewable heat could reduce your fuel bills
Edward Holloway
Renewable Energy Consultant

RENEWABLE ELECTRICITY SUPPORT CUTS

The subsidies for generating renewable electricity are due to be cut again in 2014 and the government is talking about discontinuing the Feed-in Tariff (FIT) entirely for some estates, particularly those that have their own source of wood fuel.

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AGRICULTURE

CAP REFORM

The main elements of the latest reform of the EU’s Common Agricultural Policy (CAP) have now been agreed. Although anybody in England currently claiming farm support payments will automatically see their existing entitlements rolled over when the new system is introduced in 2015, there is a number of issues that require consideration now. Claimants will need to work out how they will satisfy a new basket of environmental requirements, which could disrupt existing crop rotations, as well as replace the loss of income caused by an overall reduction in the CAP budget, increased modulation and cuts to support claims over £350,000.

ACTION POINT: Make sure you are aware of the potential implications of CAP reform on your business
Percy Lawson
Estate & Farm Management

COMMODITY PRICES

Cereal prices are still extremely volatile and some way below the £200/t market peak seen last year. This will have implications not just for the bottom line of those estates that farm in-hand, but could also have a bearing on any on-going rent review discussions.

ACTION POINT: Consider grain marketing strategies to mitigate against price volatility
Paddy Hoare
Estate & Farm Management

PLANNING

ENHANCED PROTECTION FROM VILLAGE GREEN DESIGNATIONS

New rules mean it is now easier for landowners to protect their land from being designated as a Village Green by members of the public using it for recreational purposes. Once designated, land loses any development potential it may have had and subsequently will see a fall in its capital value, so ensuring all your land is protected using the straightforward new procedures makes sense.

ACTION POINT: Take advice on protecting your land from being designated as a village green
Alastair Paul
Investment Land Management

ADMINISTRATION

STAFF SALARIES

The scraping of the Agricultural Wages Board (AWB) means employers, on the one hand, are no longer bound by its various pay bands, annual salary increases and worker benefits. However, on the other, they will need to spend time researching alternative ways to determine appropriate pay and conditions for those employed under AWB terms and conditions and discuss them in more detail with staff to avoid any potential disputes or misunderstandings.

ACTION POINT: Assess alternatives to the AWB for staff remuneration
Angus Harley
Country House Consultancy

NEW RESIDENTIAL DEVELOPMENT RIGHTS FOR AGRICULTURAL BUILDINGS

In addition to the new permitted development rights – commercial to residential use and agricultural to commercial use – discussed in the last edition of The Rural Report, the government is now proposing that landowners will be able to convert their redundant farm buildings directly to residential homes without the necessity to apply for full planning consent. Up to three residential units, subject to size restrictions, would be allowed.

ACTION POINT: Consider conducting an alternative uses review of your redundant farm buildings
James Carter-Brown
Building Consultancy

ESTATE STRUCTURING

INHERITANCE TAX (IHT) RELIEF CLAMPDOWN

For landed estates the inability to obtain IHT relief from new debt secured against non-relievable assets is a worry; this has been a commonly used way to legitimately mitigate IHT liabilities.

ACTION POINT: Review IHT mitigation strategies for your estate
James Del Mar
Head of Rural Consultancy

INTEREST RATES

Although the Bank of England base rate remains at record low levels, the bank’s new chief Mark Carney has said they could rise when unemployment drops below a certain level, which could be hit more quickly than expected if the UK economy continues to grow. This means longer-term debt could become more expensive.

ACTION POINT: Look at borrowing options now if you are considering a large investment into your rural property
Simon Gammon
Knight Frank Finance

WORKPLACE PENSIONS

Auto enrolment of all staff aged between 22 and statutory retirement age and paid over £9,440 into workplace pensions will start in 2015 for businesses with fewer than 30 staff. Although this will increase costs and administration, it could also be a way to encourage and motivate staff.

ACTION POINT: Find out when auto enrolment applies to your business
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RENEWABLE ENERGY

In the critical list

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The subsidies for generating renewable electricity are due to be cut again in 2014 and the government is talking about discontinuing the Feed-in Tariff (FIT) entirely for some technologies within the next five years. Anybody considering installing a solar PV system should weigh up their options quickly while it is still possible to claim FITs. If energy prices do continue to rise, however, solar PV systems may soon be viable without any financial support.

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Farmland values across the UK remain buoyant as demand continues to outpace supply

The average value of farmland in England rose by 11% during 2013 to £6,882/acre, according to the results of the Knight Frank Farmland Index. This was the strongest annual performance since 2010 and takes growth over the past 10 years to 219%.

Over the course of the year, farmland outperformed residential property, even in prime central London, matched the rise in the value of the FTSE 100 and outshone gold, which lost a quarter of its value.

Demand from farmers, lifestyle buyers and investors, coupled with historically low availability, is helping to push up prices.

“We are seeing a steady increase in the number of enquiries from individuals and funds, both in the UK and overseas, looking to diversify their investment portfolios,” says Tom Raynham, Head of Knight Frank’s Agricultural Investment Acquisitions team, who has just helped an overseas investor to acquire an arable unit of over 2,000 acres.

Large blocks of good arable farmland, preferably over 1,000 acres, are most in demand and are making between £8,000/acre to upwards of £10,000/acre. Capital growth is a key driver for investors.

Prices have risen every year since 1999 and are predicted to rise by at least 5% annually over the next three years. Investors, however, are also looking more closely at annual yields.

“From what I am seeing now, people start to get very interested if there is also the potential for additional income from the likes of renewable energy or a diversified farm business,” says Tom.

The resurgence in agricultural research is also adding to the sector’s investment potential with some exciting developments on the horizon that could help to boost returns with improved technology and crop yields.

Farmers are also prepared to pay strong prices for land, but are becoming more careful about what they bid on in the light of recent price increases and a dip in the price of grain. Location and quality have to be right.

“More marginal land hasn’t seen the same sort of growth,” says James Prewett, Head of Knight Frank’s Regional Farms team. “I don’t think prices have weakened, but they remain more stable.”

An interesting trend that is starting to emerge is the number of dairy farms that are being sold and kept as milk-producing units. “It’s not something I have seen for quite a while,” says James who has just acquired a dairy farm in Wales for a client.

Milk prices have risen recently, but input and feed costs are still an issue meaning those farms with plenty of good grass and lower overheads are most in demand.

Amenity or “lifestyle” buyers are also prepared to pay a premium above agricultural values for the right farms. Again, however, they need to be in the right location with a main house that is well proportioned, but not overly large, says James.

In Scotland, farmland values rose on average by 7% in the second half of the year, according to the latest results from the Knight Frank Scottish Farmland Index.

Arable land performed most strongly, moving up by almost 10%. Top quality cropping land in Scotland is now worth on average £8,468/acre. Hill land grew by 2% and is now worth on average £6,952/acre. Grassland rose by 4% to £2,783/acre for improved permanent pasture.
These latest increases mean the value of Scottish farmland has risen by 12% over the past 12 months and by 22% over a 10-year period.

“We are seeing increased interest from investors, and farmers who are still keen to buy land when the chance arises,” says James Denne, Head of Scottish Farm Sales, who has just agreed sales on a number of large, moderate quality blocks of arable land from around £6,500/acre to £8,000/acre.

“With direct subsidies to farmers set to continue under the recent agreement on reform of the Common Agricultural Policy (CAP), farmland remains an attractive proposition,” he adds.

To some, farmland’s continued popularity might seem surprising given the increasingly heated debate over Scottish independence, but this is a “red herring”, according to Michael Ireland, Head of Rural Valuations in Scotland. “Whether Scotland is part of the United Kingdom or not, farmers will still benefit from CAP so I don’t really believe the independence issue will weigh too heavily on the farmland market.”

At the top end of the market, however, there is some uncertainty, says Ron Morgan, Head of Estate Sales. “We are not seeing many big estates coming to the market at the moment, which I think is down to vendors being unduly cautious prior to the vote on independence. “The fact that Scotland’s estates boast some of the world’s premier sporting opportunities and best landscapes will not change whether the country is independent or not. People from across the globe will still want to buy here.”

# 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.

## Holmingham Farm

**Property Highlights**

**Property Details**

- **Property:** Holmingham Farm
- **Location:** Holmingham, near Bampton, Devon
- **Acreage:** 186 acres
- **Guide Price:** £12m

**Features**

- A historic estate
- Picturesque Scottish livestock unit
- Pictorial site
- High-quality shoot
- Ideally positioned
- 15 farmhouses and cottages
- 8 miles of trout fishing on the River Rea
- Bungalow
- Wind turbine

**Opportunities**

- Invest in a high-quality shoot
- Buy in with family members
- Use as a family holiday home
- Spend the summer there
- Spend all their money on residential payments

**For more details contact:**

Will Matthews on 020 7861 1440

**The Shakenhurst Estate**

**Property Highlights**

- Historic estate
- Shakenhurst’s history can be traced back to Domesday
- Unique Oxfordshire commercial farming estate
- Picturesque Scottish livestock unit
- Historic estate
- Pictorial site
- High-quality shoot
- Ideally positioned
- 15 farmhouses and cottages
- 8 miles of trout fishing on the River Rea
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As I discuss the renovation of Scatterford with James Carter-Brown, Head of Knight Frank’s Building Consultancy team, and garden designer Sean Swallow, it soon becomes clear why the two get on so well. Both share the same attention to detail and put a huge amount of emphasis on client satisfaction.

“I really try to make the garden design process as stress free and pleasurable as possible,” says Sean. “I had a plan and a clear idea of what I wanted to achieve with the house, but involving Knight Frank took away all the technical worries and complicated issues and ensured the project was completed on time and within budget,” says Sean.

This ethos also effectively sums up the approach of James and his team, who have designed and project managed the sensitive conversion of Scatterford from a house that was full of character, but in desperate need of some TLC, to a fully modernised residence, without losing any of its charm or sense of history.

“I really try to try the garden design process a delight and as stress free and pleasurable for my clients as possible”, says Sean, as he proudly shows me around the idyllic Gloucestershire manor house and grounds he fell in love with and bought three years ago. Using Knight Frank from the very beginning of the renovation process allowed him to concentrate on what he loves doing best – creating a stunning garden to blend harmoniously with the buildings around it.

People often don’t realise the value of an experienced project manager until they try to manage without one, points out James. “Anybody who has watched Grand Designs on the television knows that building projects, whether restorations or new builds, can be very exciting, but rarely go strictly to plan.”

“Professional project managers anticipate the issues that might arise and plan ahead to avoid them wherever possible. Even when the unexpected does happen, they are there to take the burden, rather than the client.”

Working with historic buildings – parts of Scatterford date from the 16th century – can often be particularly challenging, he explains. “There is so much to think about: listed buildings consents to obtain, ecology reports to commission, specialist craftsmen to source, to name but a few, and a raft of small details, right down to the specification of the appropriate lime plaster, to consider.”

“Because of damp issues, for example, we had to do a lot of remedial work at Scatterford and replacing the roof meant negotiating with the conservation authorities and working around extremely strict bat protection legislation.”

All of this makes choosing the right contractor for each project vital. In the case of Scatterford, Knight Frank organised a competitive tender that was won by Monmouth firm Anthony A Davies Group, which has a strong track record of working for each project vital. In the case of Scatterford, Knight Frank organised a competitive tender that was won by Monmouth firm Anthony A Davies Group, which has a strong track record of working on projects without effective project management or communication, one subcontractor, for example, may need to do something requiring work that has already been completed by another person to be altered or entirely undone,” says James.

“The whole point of a project manager is to coordinate everyone involved on a project: from architects, project managers, specialist contractors, to suppliers and answer any questions the client might have. The key is to keep everything on track and ensure the project is completed on time and delivered within budget and to the client’s satisfaction.”

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“This involved shifting 2,000 cubic metres of soil from the back of the house to create a sweeping terrace, almost amphitheatre-like, bowl with the house at its focus. “Although plants are obviously incredibly important in a garden, I think structure, space and form are also vital,” says Sean.

He has deliberately created a garden that, like the house, looks as if it has evolved over time, rather than been planned in its entirety from scratch. Existing features like an old apple tree and dry stone walls have been retained as focal points to complement new additions, such as a pool, dark-lined to turn its surface into an inky mirror, which forms the centrepiece of a lower terrace.

Collaboration and communication is a big part of both garden design and project management, agree James and Sean.

“I like to think of myself as the interface, not just between the client and the main contractor, but also between all the parties working on the project. Establishing the correct terms of engagement for every stakeholder is critical,” says James.

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The use of water under extremely high pressure to release what is known as shale gas trapped in the pores of certain rocks that would not otherwise be available using normal drilling techniques.

Why is the UK government so keen on it?
Fracking has vastly reduced the US's reliance on imported hydrocarbons and cut energy costs there. Because shale gas is also cleaner to burn than coal it can cut greenhouse gas emissions.

Has it already happened in the UK?
Yes. Many people would be surprised to know that there are several hundred oil wells operating in the country and many of these have been fracked with no apparent side effects.

What is fracking?
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With its potential to reduce the UK's reliance on imported energy, fracking could be more than just a flash in the pan. Christopher Smith, Knight Frank's Head of Renewables & Energy, answers some common questions.

What does fracking mean underground?

Is it likely to become commonplace?
According to the British Geological Survey, the UK's potential shale gas reserves could produce a significant contribution to the UK's energy requirements in the future. However, many test sites will need to be drilled before it can be confirmed if it is possible to extract the gas.

Where is it likely to take place?
The main areas with the right geological conditions are southern England around the Weald and north-west England and parts of Wales.

Are there environmental risks?
There are concerns that fracking could pollute watercourses and cause earth tremors. Most experts, however, claim these risks are limited because the fracking process takes place so far underground and is very tightly regulated in the UK. The fracking process itself generally lasts for no more than a month.

What should I do if approached by a fracking company looking to drill a test borehole?
You should carefully consider your options, taking expert advice if needed.

A test site will not involve any permanent infrastructure and should have minimal impact once the testing is complete. This usually takes four to six weeks.

Who should I approach if I think some of my land has potential for fracking?
Exploration licences for a particular area are only granted to one company. All the licences currently granted are listed on the website of the Department of Energy & Climate Change. Each test site will also require planning consent.

How much rent will I be able to charge?
Because many test sites will need to be drilled across the UK, the likely rent from one location could be potentially useful extra income for a landowner, but is unlikely to be life changing. The availability or not of other nearby test sites will also determine an owner's bargaining power. Each case will inevitably be different due to its individual circumstances.

If there is gas present, will they automatically extract it from the same site as the test borehole?
Not necessarily. The best place for a full drilling site may be somewhere else; close to a gas main and in an easily screened position, for example. Modern technology means boreholes can be drilled horizontally up to 1,000 metres from the main shaft. In addition, planning consent for a test shaft does not automatically imply that consent will be granted for a drilling site.

If a full drilling site is located on my land will I get royalty payments for any gas that is extracted?
No. Unlike in the US, hydrocarbon deposits here are owned by the state not the landowner. However, if you own a very favourably located site you may be able to negotiate a share of any returns in addition to rent for the land.

How much space is needed to extract shale gas and where are the best locations?
A typical site would be around one hectare. Proximity to a gas main is important and operators will be looking for sites that can easily be screened to reduce their landscape impact.

How long will a site operate for?
The actually fracking process takes just weeks, but the gas released could be extracted for many years.

Are there any other financial benefits available?
The government has announced a package of incentives for local communities including a £100,000 capital payment and a 1% share of revenues.

Can I be forced to let fracking occur on my land?
If the site is considered extremely important, historic legislation originally relating to coal mines does exist that provides the right to set up a drilling site even without the owner's consent. However, given the nature of shale gas deposits and the extraction technology available, it seems unlikely these powers will be widely used if at all.

Do I have any rights if the fracking well is not on my land, but the gas is being extracted from below my fields?
Because shale gas deposits are so deep and their extent is as yet unknown, the government is proposing that landowners above potential sites will not need to be notified unless they actually own the land where the borehole will be located.

For more information on fracking and other energy or renewable issues, please contact:
christopher.smith@knightfrank.com
or 01179 452 630
HS2, wind farms, fracking: they’ve all been grabbing the headlines recently. But when we asked those living and working in the countryside to tell us what was really concerning them, it was the more prosaic day-to-day issues that led the way.

Almost 50% of the respondents to our survey said that poor broadband was either affecting the profitability of their business or quality of life now. Only 11% said it was not an issue that was of concern to them (Figure 1).

Around 36% of all respondents said fly tipping was actually affecting the profitability of their businesses – increasing to 20% for estates – while 24% said it had an impact on their quality of life. Just 12% did not consider it an issue they were worried about.

By contrast, over 45% of people said fracking was not of concern to them, with almost 19% saying it could even improve their quality of life or business profitability.

Despite the acres of negative press it has garnered, even the proposed controversial high-speed rail link between London, Birmingham, Manchester and Leeds (HS2) did not bother too many people. Just over 60% of all respondents said it was an issue that did not concern them, second only to Scottish independence (62%).

Unsurprisingly, however, those living in Scotland who took the survey were less sanguine about the prospect of independence. Almost 90% said it was already affecting the profitability of their business or quality of life, or would do so in the future.

What's bothering you? James Del Mar, Head of Rural Consultancy, reveals and analyses the results of Knight Frank’s new Rural Sentiment Survey

THE RENEWABLE PARADOX

Renewable energy is one of those topics that people often have mixed opinions about and our survey results echo that.

In general, people largely believe it is good to cut down on fossil fuel – almost 50% of those surveyed said they thought renewable energy would be beneficial for their quality of life or business profitability in the future – but when it comes to wind farms or large-scale solar farms they become less enthusiastic.

Almost 40% of respondents said even though wind farms would not affect them personally, they were worried about their impact on the countryside. For rural homeowners that figure rose to 50%. The respective figures for solar farms were 35% and 45%.

What we are finding now with many of our clients is that renewable energy can be a win-win situation. Technologies such as biomass boilers or ground-source heat can be discrete and unobtrusive, while delivering significant economic benefits.

Even sensibly located larger-scale schemes do not have to be controversial, especially if site owners engage with local communities.

GOVERNMENT ACTION

As well as asking our survey respondents how they felt about various rural issues, we also asked what they considered were the three most important problems that the government should be tackling to improve the countryside as a place to live or do business (Figure 2).

In both cases broadband was listed as a top priority by just over 70% of all those who took the survey.

Even when we break the results down by respondent type and region, improving broadband is without fail considered the number one priority to improve the countryside as a place to work.

In terms of making the countryside a better place to live, only respondents in Wales and the North of England didn’t put providing better access to the internet on the top of their government wish list.

These results clearly show how the internet has become entrenched in every aspect of our lives and how vital a fast, reliable broadband connection is for anybody living in the country now.

They also send a strong message to the government that if it really wants to support rural business generation it must provide the same quality broadband that those in the city take for granted.

From my own experience of dealing with rural businesses, there is a huge amount of innovation and entrepreneurship happening at the moment. It would be a shame if that was stifled due to poor broadband.

Hopefully the government’s effort in this area will be spurred on by the recent release of a report commissioned by the Department for Culture Media and Sport, which shows faster broadband speeds could boost the rural economy by £4.6bn a year.

Clamping down on fly tipping was considered the second-most important issue that would improve the countryside as a place to live by most categories of respondent.

Again, the survey results show that it is the things that affect their everyday lives which people would like the government to sort out most urgently.

Unsurprisingly perhaps, CAP reform was the biggest issue that farmers and estate owners thought the government should focus on to make the countryside a better place to do business.

Now that we pretty much know what the outcome of the reform process will be for farming businesses in the UK, I expect most of our respondents will feel as if the government could have done more for agriculture. NFU President Peter Kendall, who we interview on the next page, certainly feels that way. Taking into account all survey responses, improving rural transport and tackling the scourge of Bovine TB were other key areas those taking the survey wanted the government to sort out.

Although the big media issues like HS2, fracking and wind farms were overall considered low priorities for the government, there were regional variations that didn’t come as too much of a surprise. More respondents in the south-east, for example, felt HS2 was something the government should be focusing on to make the countryside a better place to live.

BUSINESS BOOST

One of the most encouraging results from the survey was that rural businesses are becoming more optimistic about their prospects. Almost 48% expect their profitability to increase in 2014, compared with 30% this year (Figure 3).

As the results of the survey show, rural businesses face many challenges. But with the right government and professional support most will continue to prosper.

For strategic rural business advice please contact: James.del.mar@knigh frank.com

For the full survey results go to KnightFrank.co.uk/Rural

Figure 1 What survey respondents think about key rural issues*

*Respondents were asked to select the option for each issue that most concerned their view.

Source: Knight Frank Residential Research

Figure 2 What respondents said should be the government’s priorities to improve the countryside as a place to live and work*

Figure 3 How rural businesses expect their profitability to change

For the survey commissioned by the Department for Environment, Food and Rural Affairs (DEFRA) on the impact of CAP reform on farming businesses in the UK, I expect most of our respondents will feel as if the government could have done more for agriculture. NFU President Peter Kendall, who we interview on the next page, certainly feels that way. Taking into account all survey responses, improving rural transport and tackling the scourge of Bovine TB were other key areas those taking the survey wanted the government to sort out.

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Standing Up For Farming

NFU President Peter Kendall talks to Rural Report editor Andrew Shirley about CAP reform and other important issues for farmers and landowners.

It has taken long enough, but how radical has this round of CAP reform really been?

THE RURAL REPORT

Peter Kendall

The NFU remains disappointed with this round of CAP reform. It lacks the strategic vision that this vital policy could have provided farmers in facing the significant global challenges and opportunities that lie ahead for the sector.

It’s certainly not the progressive reforms that we’ve consistently advocated. We shouldn’t forget that the last set of reforms saw farmers in England experience more radical reform of the CAP than farmers in other parts of the UK and EU. Full decoupling and the moving towards based payments saw English farmers face the largest deductions in direct payments of all EU farmers. This latest reform was the chance to give more balance to the CAP in its implementation across Europe.

What will be the biggest differences farmers will experience compared with the old CAP regime?

The major changes to CAP will revolve around the so-called “greening” measures. We know that the new CAP will include mandatory environmental conditions which farmers claiming direct support payments in the future will have to undertake based on crop diversification, ecological focus areas and permanent grassland. What is still to be decided is how Defra will implement those greening measures and what it will mean for the future of agri-environment schemes. It is critical that we don’t see “gold-plating” of its implementation across Europe.

From your perspective what are the most worrying elements of the reform?

Although the Commission has tried to make efforts to level the playing field in terms of how it allocates direct payments, the budget flexibility between pillars actually allows member states to transfer funds and impacts relative competitiveness. Similarly, some member states will still use relatively high levels of coupled support for specific sectors. When we in England have gone further and faster than other member states in implementing the previous CAP deal, the prospect of that gap widening through the implementation of this latest deal is what worries me most.

That’s why “fairness” is at the heart of our policy on CAP.

How damaging do you think DEFRA’s desire to switch 15% of direct subsidy payments into rural development will really be for farmers?

Proponents of transfers from pillar 1 to pillar 2 often downplay the extent of the current and future differences these transfers create. They are not trivial. Already a Dutch dairy farmer who continues to receive payments based on historical activity receives a payment per hectare in the order of €300/ha, a Danish dairy farmer €447/ha and even in Germany, where the government has also implemented the area-based approach, an arable farmer in an area such as Schleswig Holstein receives €359/ha. An English farmer currently receives £265/ha and will receive significantly less if Defra transfers up to 15% of the pillar 1 envelope to pillar 2 in the future. Cutting English payments by more than our competitors will not leave us in a better position to compete. It will leave English farmers more vulnerable to the volatility we have seen in markets and weather in recent years and make businesses less resilient compared to European competitors.

Shouldn’t they just become more savvy about accessing rural development funding in addition to direct payments?

The reality is that the EU budget assignment earlier this year confirms that the UK is facing a significant budget reduction in its pillar 2 rural development allocation. We will retain the unevenness of having the lowest share of European rural development funds of all member states on a per hectare basis. The debate should not be about making funding or schemes more accessible, but should be focused on mobilising new and existing funding. Defra should be looking at running measures more focused on making a positive difference to the productivity and profitability of agriculture.

Do farmers enough to justify the subsidies they receive and do they make their case well enough?

Part of the reason we have greening is to help justify that CAP budget on environmental grounds. My concern is that this implies that farming is all about what we do for the environment, not a reality that is that we deliver much more than this. What we do creates jobs and contributes to economic activity. Farmers have been at the forefront of renewable energy. But above all, we produce food. I’ve never shied away from where we want to be as an industry – capable of competing without support. But the reality is that we are far from that situation at present. That all makes communicating with consumers ever more critical.

Will there ever be a time when the majority of the UK’s farmers are profitable without subsidies?

Ministers and the Treasury often speak as though support is a bad thing and would be better off without it. There may be a case to be made, but I’m adamant that we shouldn’t go it alone. Ending our support for the environment in the single market retains ther will put us at a huge disadvantage. Second, if we’re to get all our income from the market, the market must be made to function better. We saw the problem last year with milk. That’s why we’ve put so much effort into the Grocery Supply Code of Practice and the independent adjudicator, and to getting fairer dairy contracts.

Apart from CAP reform, and obviously the weather, what are the biggest challenges facing your members at the moment?

I think the long term opportunities for agriculture are very positive, but there are still some short-term hurdles to clear. Linked to this is the lack of investment. As farms struggle to manage their finances, we know that machinery spending has fallen. But the bit I’m particularly concerned about is investment in farm infrastructure. If we’re going to compete in the long run, we need to be investing in our future productive capacity.

And the biggest opportunities?

I think that some of the fall out from the horse meat scandal earlier this year has huge potential to be an opportunity for the industry. Whether it is shoppers questioning where their food comes from or how it’s produced, that’s clearly a good thing. Perhaps more significantly, more retail businesses are exploring longer term contracts, innovative purchasing agreements, and costs of production models that support an adequate return.

Does the government do enough to support agriculture? What more could it do?

I’m pleased that there is recognition from government that farmers are food producers and that supply of raw materials has a multiplier effect throughout the agri-food sector. That wasn’t always the case within Defra. I would like to see more joined up thinking across government departments when it comes to releasing the potential of our agri-food industry. I would also like to see the Treasury exploring how fiscal policies impact our industry. I’ve already highlighted my concerns over investment in farming and I’d like to see Treasury working with Defra and BIS to explore how the tax infrastructure, for instance, could be better used to incentivise on-farm investment.

How would farmers be effected if the UK ever left the EU?

This is a simple question, but the answers are always more complex. Outside the EU, there remain many questions. What would UK farm support look like? How would we draw up regulation to replace the issues that Brussels already tackles? What would our access be to EU markets? Outside of the world’s largest trading block, would we be able to participate in free trade deals to open up access to third country markets? These are all important questions and this is certainly an area the NFU will be looking at in more detail in the coming months.

You will be stepping down as NFU President next year. What has been your biggest achievement?

I think the team at the NFU has during my time helped to turn around the whole perception of farming. No longer is it seen as an old fashioned industry considered bad for the environment and a drag on the rest of the economy. Increasingly there is a recognition that producing food is vitally important and farming is seen as a vital part of the biggest manufacturing sector in the economy.

To read this interview in full and keep track of the latest CAP reform developments, go to: knighfrankblog.com/ruralbulletin

Peter Kendall

Biography

After taking a degree in Agricultural Economics at Nottingham University, Peter returned in 1848 to the family’s 620ha east Bedfordshire farm, which has evolved over the last 15 years from a very traditional mixed unit to a totally arable business. He was previously Chairman of NFU Cereals and NFU Deputy President, before being elected President in 2006. He was re-elected for a fourth term of office in February 2012 and also sits on a range of bodies in the UK and Europe, including ISG’s Policy Issues Council, the Technology-Strategy Group of Sustainable Agri-Food IP Steering Group and the Copa-Cogeca Food Chain working party, which he chairs.

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Valuation Matters: GAAR

Tom Barrow looks at the government’s latest weapon in its war on tax avoidance

GAAR, or the General Anti-Abuse Rule as it is more formally known, came into force on 17 July 2013 and was part of the Coalition’s strategy to manage the risk of tax avoidance. It reinforces parliament’s view that it is not to be treated as a game whereby taxpayers can indulge in a range of ingenious schemes in order to eliminate or lessen their tax burden and liability.

The target of GAAR is to deter tax payers – and there have been some notably high-profile victims from the world of entertainment – from entering into abusive tax arrangements. It is certainly a shot across the bows of professional advisors considering ‘creative’ tax planning strategies.

GAAR governs any arrangements entered into on or after the date the Finance Bill 2013 was passed. There is a specific provision that enables reference to be made to transactions which were entered into before that date but, only if referring to those earlier arrangements would help show that the later arrangements were not abusive.

The legislation introduced with GAAR defines what are, for its purposes, tax arrangements that are considered to be abusive. It will apply to the following taxes:

• Income Tax
• Corporation Tax
• Capital Gains Tax
• Inheritance Tax
• Stamp Duty Land Tax
• Annual Tax on Envelope Dwellings
• Petroleum Revenue Tax

It is important to note that GAAR does not apply to VAT, but there are other provisions that cover VAT avoidance.

The ultimate question is whether the strategy and proposals put forward might be considered to be abusive and whether it is a question of avoidance versus evasion. An abusive measure is considered to be where the course of action taken by a tax payer aims to achieve a favourable tax result that parliament did not anticipate when it introduced the tax rules in question.

It has therefore become a question of second guessing parliament – not an easy measure for professional advisors to interpret and decipher. One trustee was quoted as saying ‘does the measure satisfy the smell test?’

An independent advisory panel has been set up to give opinions on specific cases and provide guidance on GAAR.

To provide tax payers with some safeguards, a double ‘reasonableness’ test has also been included. A bit of a tongue twister, this requires that HMRC must show that the arrangements ‘cannot be reasonably be regarded as a reasonable course of action’. This sets a high threshold by enquiring whether it would be reasonable to hold the view that the arrangement was a reasonable course of action.

Notwithstanding the introduction of the GAAR, it is likely that the Coalition will continue its crackdown on tax evasion and avoidance with a likely announcement of further targeted anti-avoidance measures. Ultimately, the question for taxpayers is how these on-going measures will be addressed. GAAR is intended to trap artificial and abusive arrangements, rather than those which are considered to be an integral part of tax planning.

The notional ‘smell test’ should apply in all cases. If it smells suspicious it probably is – and HMRC’s nose is sure to be a lot more easy measure for professional advisors to interpret and decipher. One trustee was quoted as saying ‘does the measure satisfy the smell test?’

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Tom Barrow heads up Knight Frank’s Rural Valuations team. For more information on GAAR or other valuation issues please contact tom.barrow@knightfrank.com or 020 7861 1438.
Whether you need a detailed land use map or would like to check the position of your boundaries, Knight Frank knows mapping. Michael McCullough, Head of Knight Frank’s Mapping team, has created bespoke plans for many of the UK’s leading farms and estates. To discover how Michael and his team can help you make the most of your property and protect your assets, please contact +44 20 8166 7514 or visit KnightFrank.co.uk.