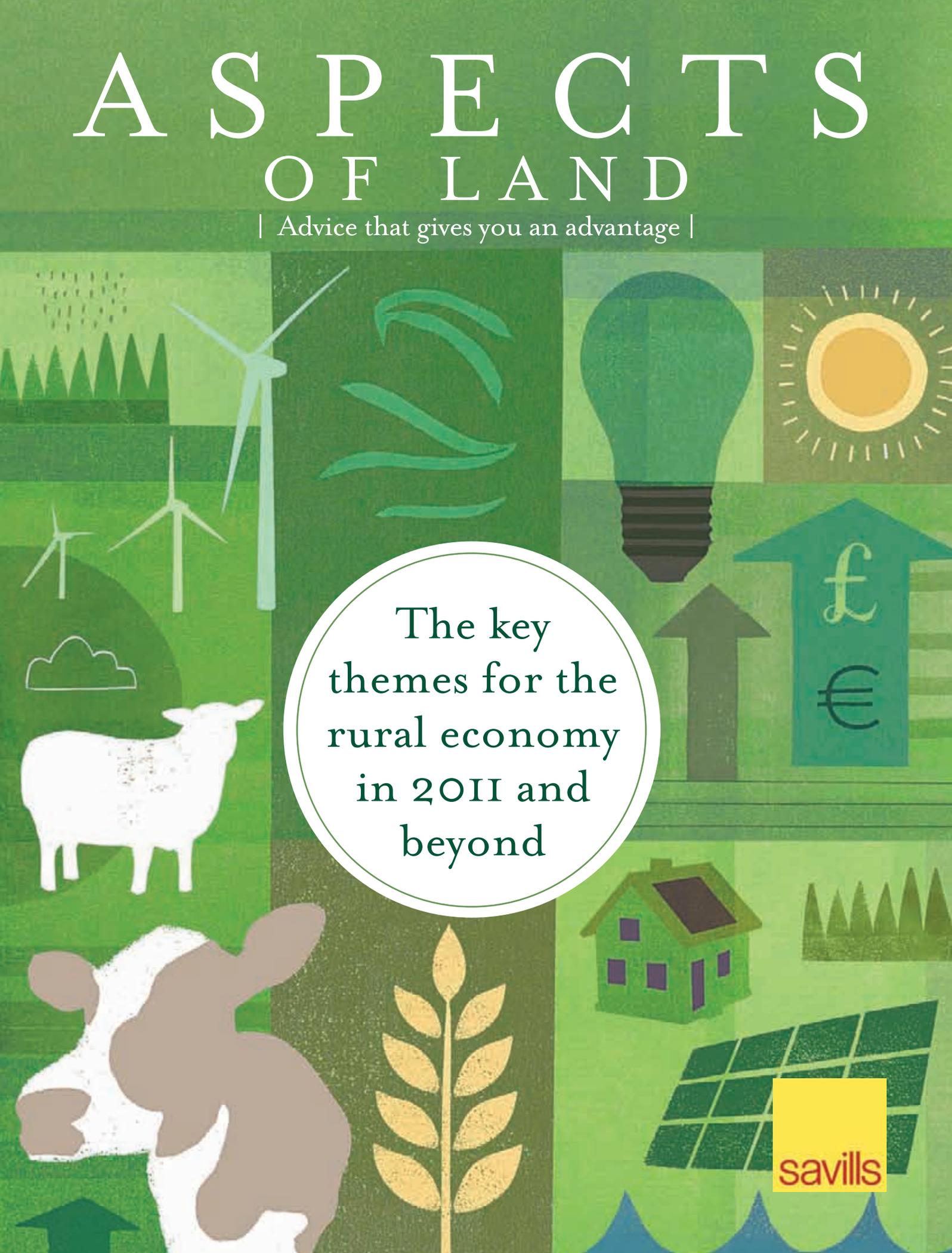


# ASPECTS OF LAND

| Advice that gives you an advantage |



The key  
themes for the  
rural economy  
in 2011 and  
beyond

savills

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“Our clients are deeply  
committed to life and  
business in the countryside.  
So are we.”

*Hugh Coghill, head of Savills Rural*

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# Welcome

We focus on giving our clients advice that is considered, competitive and timely, which means anticipating rather than merely reacting to market changes and commercial opportunities. For this latest issue of Aspects of Land, we've spoken to industry leaders, politicians, farmers and opinion formers for their views on the future of British agriculture, land prices, energy generation and more, to ensure our clients have the advantage in 2011 and beyond.

Hugh Coghill, head of Savills Rural

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# BULLETIN

Savills experts round up the latest news, views and forecasts for the rural economy in 2011

## Country life

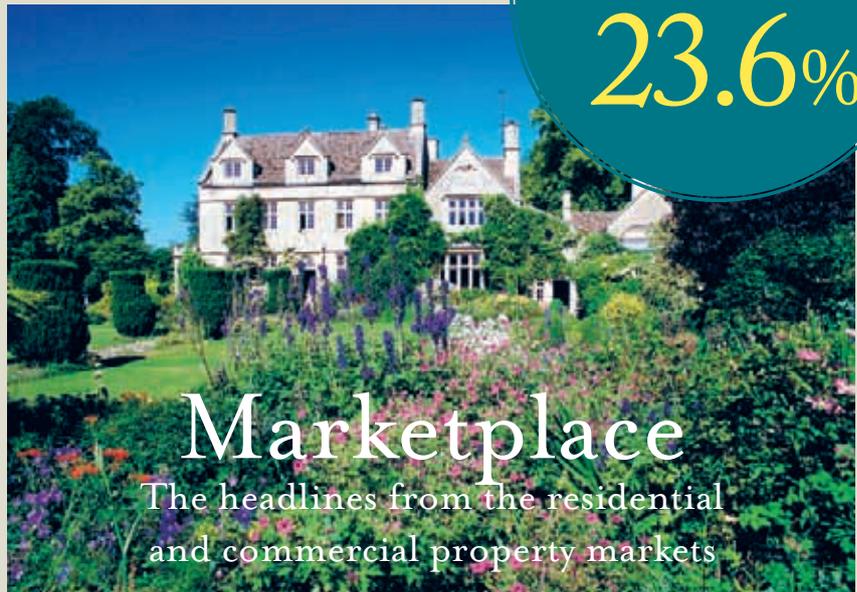


*Despite worries that the economic downturn would impact on sporting estates, 2011 is looking positive. "When the recession hit, it was feared that the sporting estate market would suffer, but this has not been the case," says William Duckworth-Chad of Savills Country Department. "City money has continued to flow into the shooting world and rents paid for driven grouse have held strong at an average of £150 per brace. For those looking to sell, the value of sporting properties has certainly eased – we're not seeing anything like the premium prices of 2006/07." Roddy d'Anyers Willis of Savills Brechin agrees: "Grouse are a unique game bird and you can't shoot them in many places, which means the UK attracts plenty of overseas customers."*

William Duckworth-Chad, Savills Country Department, 020 7409 8885, wdchad@savills.com  
 Roddy d'Anyers Willis, Savills Brechin, 01356 628 620, rwillis@savills.com

**FACT FILE**  
 THE VALUE OF  
 PRIME ESTATES HAS  
 INCREASED BY SOME

**23.6%**



## Marketplace

The headlines from the residential and commercial property markets

### The commercial market...

"The start of a commercial recovery was seen in London in 2010 and we expect that to filter out into regional and rural locations over the course of 2011 and 2012," says Mat Oakley of Savills Commercial Research. "The first markets to recover will be the strongest regional cities, but we won't see a wholesale recovery in the commercial property markets nationally until at least 2012.

"The pace of the recovery in many of these locations will also depend heavily on how hard they're hit by public austerity programmes and how strong the local private sector economy is. On the plus side, the commercial market is facing a record low period of activity in the next five years so those landowners who are capable of delivering functional, modern and affordable work spaces could well find very limited competition."

Mat Oakley, Savills Commercial Research, 020 7409 8781, moakley@savills.com  
 Lucian Cook, Savills Residential Research, 020 7016 3837, lcook@savills.com

### The country house market...

Country house values started to pick up last year, although rises were modest, averaging just 1% for the UK as a whole. "Regional differences in value intensified during 2010, with those regions closest to London and within commutable distance outperforming the North," points out Lucian Cook of Savills Residential Research.

This year, current indications suggest average values for country houses will at best stand still and in the weaker regions slight falls are anticipated. The 'best in class' will continue to attract multiple interest and there will be instances of competition pushing up prices.

The news from the plus £5 million country house market is more positive, where a shortage of stock is encouraging some exceptional sales. At this level the number of international buyers, particularly in the Home Counties, is also greater.

# CLEANER ENERGY

Heathrow airport is currently installing a biomass CHP boiler, due to be fully functioning by 2014, which will eventually supply the heat and power for all its terminals. LC Energy has won the contract to supply wood fuel to the boiler and has contracted

Savills, on an exclusive basis, to source the round wood raw material for production into wood chip. "It's an exciting project for Savills and our clients, as there are only a small number of these big biomass boilers," says David Pardoe of Savills Energy and Rural Department. "Many rely on fuel from overseas, but this project will be sustainably resourced from UK forests.

"It's as much about English woodland, and sustainable use of this woodland, as it is about the provision of an alternative renewable energy supply. We think that the contract for the supply of timber for the project offers all sorts of advantages to our clients and contacts. The boiler burns relatively poor-grade timber so unmanaged woodland can be brought back under management, perhaps with grant aid, to create a secure and long-term income stream, with an annual uplift in price. We're trying to create a model that will work elsewhere and in the future with long-term relationships up and down the supply chain."

Mark Lebus, managing director of LC Energy agrees: "The woodland industry has traditionally struggled to find long-term, consistent markets for sustainably harvested woodland. This project – one of the very first in Britain – will eventually consume up to 36,000 tonnes of woodchip per year. This should help to guarantee demand for low-value woodland and improve woodland management throughout the UK."

David Pardoe, Savills Winchester,  
01962 834 058, [dpardoe@savills.com](mailto:dpardoe@savills.com)



## FACT FILE

# 1%

THE INCREASE IN THE FIVE YEAR SWAP RATE SINCE OCTOBER 2010

"The fixed-rate borrowing cost for landowners has increased by 1% over the last four months, a significant amount that can make the difference between a viable and non-viable project," says Mark Ashbridge, Savills Private Finance (01865 339 734, [mashbridge@savills.com](mailto:mashbridge@savills.com))

## DATES FOR THE DIARY

Don't miss Savills experts at the following events this summer...

22 MAY  
ESSEX YFC  
COUNTY  
SHOW

1-4 JUNE  
ROYAL BATH  
& WEST SHOW

5 JUNE  
CAMBRIDGE  
SHOW

9-11 JUNE  
THE ROYAL  
CORNWALL  
SHOW

15-16 JUNE  
CEREALS  
2011

22-23 JUNE  
LINCOLNSHIRE  
SHOW

23-26 JUNE  
THE ROYAL  
HIGHLAND  
SHOW

1-3 JULY  
SCOTTISH  
GAME  
FAIR

12-14 JULY  
THE GREAT  
YORKSHIRE  
SHOW

22-24 JULY  
CLA GAME  
FAIR

BULLETIN

# Spotlight on SCOTLAND

“2011 is going to be a busy year for Scottish landowners, with lots of potential issues to consider,” says Jonathan Henson of Savills Perth. For the coming year he advises...

- With rising rents and increasing demands, landowners need to focus on delivering the best value out of their residential property portfolios.
- Agricultural businesses must plan ahead for the proposed changes to Single Farm Payments – particularly mixed farming units which are going to be hit hardest by the changes.
- The implications of the new Wildlife and Countryside Bill

will have far-reaching effects on Scottish landowners, especially in upland situations.

- Landowners need to look at agricultural rents carefully, but must acknowledge the hiatus left by the Moonzie case (the appeal is now being held in May).
- Businesses should continue to diversify into the leisure sector, especially those opportunities which have a low capital requirement.
- With inflation beginning to rise, businesses with debt should make sure they look carefully at their banking arrangements and ensure they have sufficient flexibility.

Jonathan Henson, Savills Perth,  
01738 477 511, [jhenson@savills.com](mailto:jhenson@savills.com)



BULLETIN

## ESTATE MANAGEMENT

### TOP 10 ESTATE MANAGEMENT TIPS

*“The best-run estates are forward thinking with good financial control and a professional team,” says Mark Egar, head of Savills Estate Management and Consultancy (01462 813 209, [megar@savills.com](mailto:megar@savills.com)). Here are his essentials for offering clients the right advice...*

- 1 Have a clear understanding of the aims and objectives for both the estate and the family.
- 2 Good up-to-date and regular financial information with cash flows, accounts and so on.
- 3 Keep up-to-date records on tenants, rent review dates and dates for serving notices.
- 4 Have good plans of the estate and good management of the “small things”, such as debtors, rent reviews, minimising voids, letting small areas of redundant land. If you look after the basics and have an efficient, well-run estate, you’ll be profitable and minimise costs.
- 5 Ensure staff are correctly paid and incentivised and offer good service to any tenants.
- 6 In parallel to dealing with the basics, ensure you focus on major schemes, such as development opportunities, energy initiatives, minerals and investment outside the ring fence.
- 7 A good five-year plan, showing physical, financial and environmental targets, which is reviewed on an annual basis.
- 8 Employ good, knowledgeable estate managers, solicitors and accountants, who work as a team with the owner.
- 9 Good tax planning is essential for Inheritance Tax, Capital Gains Tax, SDLT and VAT, plus a good day-to-day knowledge of the allocation of expenditure and income in the most tax effective way.
- 10 Forward thinking is essential. Be aware of forthcoming legislation, policies from the councils, proposals from Natural England and so on, that will affect estates financially and physically.

## THE YEAR AHEAD...

“Overall, the Budget was more interesting for the rural community than expected,” says Simon Dixon Smith of Savills. “Most of the key announcements had already been made, but it included a number of positive points. Apart from the reference to the increase in food prices, agriculture did not get a specific mention, but some of the announcements designed to help manufacturing industries will also be broadly beneficial for UK agriculture.”

### OVERALL, THIS YEAR'S BUDGET WAS GOOD FOR GROWING BUSINESSES IN THE RURAL ECONOMY

*Simon Dixon Smith, Savills*

The Budget's most unexpected announcement was the doubling of Entrepreneurs' Relief, as it more than doubled last year as well. This might encourage farmers to retire while land prices are still high. Plus, there may be help through the Green Investment Bank for renewables projects. There was nothing that will alter the course of UK agriculture but, overall, the simplification of personal tax and a reduction in unnecessary red tape will be welcomed.”

Simon Dixon Smith, Savills  
Chelmsford, 01245 293 249  
sdixonsmith@savills.com

# The Budget REPORT

Following last year's spending review, the Chancellor offered some positive news for 2011

## The key points...

- The most striking change this year is the increase in the lifetime limit for Capital Gains Tax (CGT) Entrepreneurs' Relief from £5m to £10m. This relief was worth just £1m at the start of 2010. The latest change means the seller of a business worth over £10m will be an additional £900,000 better off. Overall, business sellers will save £100m by 2015/16 as a result of this change. Also, the sale of Single Payment Entitlement will qualify for CGT Rollover Relief, although this is not expected until 2012.
- The possible integration of Income Tax and NIC will simplify payroll for those with employees.
- The Small Business Rates Relief holiday, benefitting businesses with a rateable value of less than £12,000/year, will be extended for a further year, saving around £185m/year over the next two years.
- A presumption in favour of sustainable development and a limit of 12 months for considering planning applications, including any appeals, will be introduced.
- Renewable energy investors will benefit from the Green Investment Bank, which will treble in value to £3bn when it starts in 2012/13. There may also be additional benefits from a review of the Capital Allowances treatment of expenditure on plant and machinery, which attracts payments under Feed-in Tariffs or the Renewable Heat Incentive.
- Planning consent for converting commercial property to residential should become more straightforward.
- The temporary removal of the Fuel Price Escalator was welcomed, but duty will rise again by RPI (Retail Prices Index) on 1 January 2012, expected to equate to 3p/litre.

**Also...** “Those intending to give at least 10% of their net assets to charity on death will benefit from a 10% reduction in the Inheritance Tax (IHT) rate,” says Simon. “We still expect to see an announcement on a more fundamental review of both IHT and CGT, which may affect farmers and landowners, particularly those using trusts to mitigate tax.”



# the **BIG** debate

Where is British agriculture heading in 2011 and beyond? We've invited a panel of experts from the NFU, Natural England and farm management company Velcourt, and chaired by head of Savills Rural, Hugh Coghill, to discuss...

Words *Maia Morris*

## THE PANEL



**POUL CHRISTENSEN**

*Chairman of  
Natural England*



**PETER KENDALL**

*President of the  
NFU*



**JAMES TOWNSHEND**

*CEO of  
Velcourt*

**W**e're here to discuss the future of British agriculture," says Hugh Coghill, head of Savills Rural. "How can we create an efficient industry that young people want to be part of? What are the fundamentals and the vision for the future? Is the statement that it's inefficiently run, over capitalised and over managed a correct one?"

**POUL** You've just described an industry in crisis and it's not. There's a whole raft of young people out there – individual entrepreneurs, sole traders and family traders – making a good living out of agriculture and investing in it. And then there's a lot of bigger companies putting big money in. There are an awful lot of less-efficient farms and they are the ones who need the subsidy and are taking it. If you want efficient agriculture, get rid of the subsidies, the sooner the better. That's the way to make things competitive.

**PETER** I don't think you can unilaterally get rid of subsidies.

**JAMES** Is our primary production competitive with other countries in the world? No, it's not. And we are very reliant on the Single Farm Payment (SFP) to deliver profit. Very roughly, the profit in this industry equates to the SFP. We have a fairly high cost system – high labour costs, high land costs, high energy costs – compared to many other producers in the world, particularly those operating where there's a truly continental climate.

**PETER** Compared to many parts of Europe, I think we're in a good position. How do we compare ourselves against the world's very large, low-cost areas? I'm not sure those large, low-cost areas can produce the hundreds of millions of tonnes we currently produce in Europe.

**JAMES** I entirely agree with that, but what Europe has to do is access new technology to become more competitive. There hasn't been the spend in primary research that we need and you've said yourself before, Peter, that we're excluded from a lot of technology that's

“A recent survey found milk production costs were 29p per litre while UK farmers were paid just 25p per litre”  
*James Townshend*

available elsewhere in the world. Not just biotechnology and GM, but there's a whole raft of other science we don't have access to. We need good science to be truly competitive.

**POUL** James is right, about the SFP. It pretty well equates to the net farming income of the UK industry as a whole. Removing it will be tough for a lot of inefficient farmers, big and small. Inevitably, units would get bigger, but they're getting bigger anyway so it would just accelerate the process. Then we're really in a position to compete globally.

**PETER** The Government, with its localism agenda, thinks that farmers can convince local people to agree to them building big dairies and big pig units by promising them a new school drive. We're a crowded island, which will have over 70 million people by 2030, and we're going to have people



**BIODIVERSITY**

“If we lose our biodiversity we lose our future” *Poul Christensen*

objecting to everything we do. So do we get rid of SFP? There are always going to be costs incurred while farming on a busy island with our arms tied behind our backs.

**JAMES** We shouldn't generalise too much. If you look at the combinable crops sector, I have no doubt that if you were to remove the SFP you'd probably see an increase in its total productivity. There would be a rationalisation similar to the kind we've seen elsewhere in the wider economy. It's more difficult to see what happens in the livestock sector, particularly in areas like the uplands.

**POUL** Whether subsidies continue or not, I think there's a bigger issue here about paying for the environment. The millions spent with farmers is not going to last forever because of the pressures on the public purse. What we've got to do is find ways of funding the environment from within a competitive industry.

We definitely need to stop loss of biodiversity. Farmers and land managers have an awesome responsibility. Our biodiversity rests in their hands and they have the ability to destroy all biodiversity overnight if they wanted to. It's a great tribute to both that they haven't done that.

But there is market failure around the environment. Agri-environment schemes have to be properly funded to deliver effectively. If we lose our biodiversity we lose our future. It isn't just farming or the environment, it's both.

**JAMES** Another issue is market failure. When you start looking at more intensive systems in the UK, there is almost complete market failure and it's an area the Government needs to address. Milk is a classic example. A recent Dairy Crest survey found that average production costs were over 29p per litre while dairy farmers are paid on average just 25p per litre.

**PETER** The global price for milk is 30p per litre, but in the UK we're getting 25p.

**POUL** What actually is the purpose of providing a subsidy?

THE BIG DEBATE

**PETER** Subsidies give some stability to the UK's agricultural sector, especially when other countries are manipulating their own. What we are seeing now in North Africa is people reacting to record food prices.

**POUL** But why would subsidy make a difference to your ability to do that?

**PETER** It depends – I'm not talking about production subsidy but the SFP for livestock farmers who, this year, have seen Russia ban exports and massive jumps in grain prices and feed costs. It will prevent some of those farmers going to the wall. I don't believe, globally, we're just going to be able to unravel support.

**HUGH** You say we can do without subsidies, Poul; you say we can't, Peter. But fundamentally you're both saying we have to have efficient agriculture. Coming back to your point, James, I would think you can probably do that relatively easily in the arable sector, can't you?

**JAMES** Provided you have access to the relevant technology. We need to spend on the primary research.

**POUL** We've got to use every tool we have. We're looking at a fundamental shift in the way we produce food because we're going to have fewer resources with which to do it.

**JAMES** There's scope to improve productivity and certainly scope to cut waste – that's a massive opportunity, particularly in emerging market agriculture and with third-world producers. The amount of food that's wasted every year is approximately 30% of total production, isn't it?

**PETER** Even in the developing world, where there are a lot of hungry people, there's still a huge amount of waste. It's a matter of education, resources and logistics.



We're looking at a fundamental shift in the way we produce food because we'll have fewer resources to do it with"

*Poul Christensen*

**POUL** Preventing waste is the first place to start. A lot of the waste is in food that's grown and destined for export. It's when it gets into the system it goes pear-shaped.

**PETER** I actually think the world can feed the 9 billion people we're estimated to have by 2050. It needs proactive management, planning regimes that encourage it and government policy that facilitates, rather than restricts, research and development, extension and training.

**JAMES** I think I'm right in saying there's about 4.9 billion hectares of land used for agricultural production in the world. The suggestion is there's probably a maximum of 1.2 billion more we could bring in to production, but that would cause fairly catastrophic environmental damage. The answer is to get more from what we've got and cut waste. For me, the two wild cards are climate change and global oil supplies,



I don't think we should sit back and think solutions lie elsewhere. We want to be a knowledge-based economy"

*Peter Kendall*

and how much the US and other nation states want to use that food produce to create energy. The US at the moment is putting 117 million tonnes of maize into energy production.

**PETER** One of my main points is that I don't think we should sit back thinking solutions lie elsewhere. We want to be a knowledge-based economy, exporting solutions on the green revolution. The Government just put another £7 million into working on the wheat genome, which is brilliant. That's what will get people excited about farming.

**POUL** Yes, it will. And I think young people are excited now. Agricultural colleges are full of students at the moment; at the Royal Agricultural College, Cirencester, they're turning them away. Farms are exciting places if they're run properly and are at the cutting edge of development.

**JAMES** We've seen an improvement in the calibre of people wanting to get into farm management too. Where there is a shortage of labour is in the practical skills needed for dairies or for intensive pig units, for example.

**HUGH** If you're a young person, what's the career structure? How do you really advance?

**JAMES** There are a few examples where you can, but it's relatively limited. Subsidies have slowed the rationalisation of this industry. If you look around the rest of the economy, most sectors have had to rationalise already, but it's happening much more slowly in agriculture.

**POUL** You're absolutely right, we haven't been pushed to develop the industry. It's a terrible indictment that our profit is our subsidy. Where's the drive? A better career structure can only really happen though when you have much bigger agricultural units.

**JAMES** What I want to get a handle on is, at the moment in the UK, we've got an industry that is now less than 60% self-sufficient in indigenous foods – that is food we can produce ourselves. There's market failure here and I'd really love to get my head around exactly how we can begin to change that.

**PETER** I want to go back to the previous point, about inefficient farms. I have a neighbour who runs a 500-acre farm. He's got a first-class degree, he's a bright guy and I don't think he's propped up by the SFP. We're all individuals who choose to farm in different ways.

**JAMES** SFP facilitates inefficiency and mediocrity in terms of technical performance. It doesn't matter how well or badly you farm, you still get a cheque and that's not in the best interests of the consumer. Our real focus needs to be on how we can capture value from the food chain for primary producers.

**PETER** If I produce grain for somebody, I want to know that I have some security on the price. I think getting a contract that reflects both cost of production and maybe a 60% top-up that reflects global prices is the answer.

**JAMES** I want to examine how we as an industry can put right what is a market failure. Our share of the food chain as



#### PRODUCTIVITY

"Reducing waste is a matter of education, resources and logistics" *Peter Kendall*

“Our focus needs to be on how we can capture value from the food chain for primary producers”

*James Townshend*

primary producers is going down and down and we just don't seem to have any ability to reverse that.

**POUL** You've got to get yourself more power in the market place for negotiation.

**HUGH** How do you think we can solve this?

**JAMES** The only way to do this is by getting people to work more closely together. And again we've failed to accomplish that, we've tried and tried previously.

**POUL** Farming businesses have had the opportunity, they have come together in the past and it has been whittled away because of money. I don't know how you stop that, but we've got a very bad record in this country of co-operation. In Denmark, for example, dairy company Arla now operates across northern Europe.

**PETER** Our lack of co-operation is probably partly a result of our dependence on the marketing boards.

**POUL** You need a price maker in the market and there isn't one. There need to be changes to the co-operative law so you can invest more in the business and so we can behave like they do on the Continent. Then we can start to work together. ■

Hugh Coghill, Savills Rural,  
01223 347 021  
hcohill@savills.com

## And so, in summary...

*What will enable us to deliver the best future for British agriculture?*

#### RESEARCH & DEVELOPMENT

"We – the farming industry and the Government – need to invest more in research into sustainable farming systems," says Poul. "By sustainable, I mean being able to go on doing it year after year and being able to go on producing more with less. Market share is the other big issue. We need to regain our ability to maintain a proper share of the market value of our product."

#### MARKET SUPPORT

"In terms of the direct support, the Pillar One support, I'd move much of that resource into market support measures away from SPF area payments," says James. "And, at the same time, funding the non-agricultural objectives that this society has, such as the environment and biodiversity. I want to make sure we're on a level playing field in Europe."

#### PLANNING

"We need to engage and incentivise investment and planning and look at policy making through a food and agricultural lens," says Peter. "We need more fluidity and a turnover of people coming through the industry. Finally, not a single aspect of CAP reform is about being more productive and sustainable. Europe's at risk of excluding farming from being a modern sector of the economy."

## THE BIG QUESTION

# What will be the most exciting development for the rural economy in 2011?

THE BIG QUESTION

The Defra Secretary of State recently laid out the Government's vision for 2011 and beyond. From reform of the CAP to the encouragement of innovation, Caroline Spelman said she was "really keen to do [her] bit".

We've asked politicians, industry leaders, farmers and opinion formers for their thoughts on what lies ahead for 2011.

Words Liz Falkingham



### THE SUSTAINABILITY ADVISOR

Claire Wyatt, strategic adviser, Farming Futures, Forum for the Future

"I'd like to see the rural economy boom in 2011 because of people power. Farming Futures has long supported the need for grass-roots action: we use our blog, Twitter and our events to make sure farmers' voices are heard. The exciting news is that people power is really taking off. Plans to sell off public forests were scuppered because of public protest. Real farmer power would do wonders for the economy."



### THE FARMER

Andrew Rees, dairy farmer and Farmers Weekly Young Farmer of the Year 2010 winner

"With continued political instability in the Middle East leading to ever higher fuel prices, 2011 could see a shift towards localism, as increasing transport costs mean businesses seek to source products locally. Hopefully, more food processors and retailers will see the benefits of looking after their UK suppliers in order to secure their food supplies and of paying more to the primary producers in order to guarantee future production, as profitable UK agriculture means less reliance on volatile world markets."



### THE EXPERT ON EUROPE

Pdraig Walshe, president, COPA

"In 2011, EU farmers and their families, who account for 28 million jobs, are faced with many challenges. These include agricultural market volatility, further trade liberalisation and EU Commission legislative proposals on the Common Agricultural Policy (CAP) post-2013. Copa-Cogeca has concerns about the proposals, which will put costly burdens onto EU farmers, threatening their competitiveness and economic viability. We will continue to fight for a strong EU budget and a strong CAP, to ensure a flourishing rural economy."



**THE CHARITY CHAIRMAN**

Julian Sayers, *chairman, RABI*

“RABI’s focus is on farming and agriculture, and there are great opportunities in 2011 for young people coming into our industry from farming backgrounds and elsewhere. Our role is a dual one: helping young and established farmers to acquire new skills via training under the Gateway scheme, as well as helping those who need to move out of the industry to retire with a degree of dignity. Many farmers are in a position of having little or no pension provision and we can help them by supplementing their very modest income to make life more comfortable.”



**THE LAND & BUSINESS EXPERT**

William Worsley, *president, Country Land & Business Association (CLA)*

“After 10 years of CLA lobbying, the Government’s Renewable Heat Incentive (RHI), announced recently, marks an exciting opportunity. In rural areas, where piped gas is not available, renewable heat displaces carbon-intensive fuels like oil and coal. It also drives sustainable woodland management, in a process that enriches biodiversity and contributes to incomes. The CLA believes, by providing long-term financial support to renewable heat installations, the RHI scheme will reap huge benefits for rural areas in 2011.”



**THE RURAL EXPERT**

Hugh Coghill, *head of Savills Rural*

“The reaction to the Forestry Commission’s proposed sell-off shows the importance the public attaches to the British countryside. This has to be reflected by the Government, within Europe. Also, food inflation means UK food production has to compete on a global scale. To respond to this challenge there has to be a place here for major global enterprises, of which the idea behind Nocton Dairy may be an example.”



**THE JOURNALIST**

Jane King, *editor, Farmers Weekly*

“Bovine TB is the greatest disease challenging livestock farmers in England and Wales, so it’s great that the Government is trying to find a way forward. If ministers do give the go-ahead to a badger cull, however, it will be the start of a difficult process; any announcement is likely to be subject to a judicial review and farmers will probably face opposition at a local level. But the fact that ministers are thinking about taking action on this devastating disease is a major step.”

THE BIG QUESTION



**THE CONSERVATIONIST**

Teresa Dent, *chief executive, Game & Wildlife Conservation Trust*

“The big news at the moment is cuts in government funding. For the GWCT, as a research charity very involved in conservation on farmland, we felt it was critical that the Higher Level Agri-Environment Scheme funding was not cut. This funding is critical to allow farmers and land managers to deliver conservation at a landscape scale. This scheme is the ‘icing on the cake’ and we are delighted that it will continue, enabling farmers to deliver biodiversity on their land.”



**THE ENERGY EXPERT**

Andrew Rigg, *of UK think tank The Farm Energy Project*

“Our goal is to help farmers generate energy, cut emissions and create a sustainable rural economy. When the Feed-in Tariffs (FITs) for anaerobic digestion were announced, they were disappointing. They are under review and we hope to see them changed to something more realistic. This would help farms play a key role in supplying renewable energy.”



# IS FARMLAND the new GOLD?

THE NEW  
GOLD

With prices rising dramatically in the last year, land is the investment opportunity of the moment...

Words *Caroline McGhie*

**T**he value of farmland has risen remarkably in the last year, attracting new buyers looking for long-term gains. Savills Agricultural Land Market Survey for 2011 shows that Grade 3 agricultural land rose by 11% last year, on top of 7.2% the year before, pushing average prices to £5,250 per acre. In some areas sales were over £10,000 per acre.

Buying a slice of land is increasingly being seen as a wise move. Wheat prices have soared to £185 per tonne, so returns have risen too. Savills forecasts that values will continue to climb by an average 9.7% this year. "Prices for good arable land in the east of the country went up by 18% last year, and we predict up to 20% for prime land in 2011," says Christopher Miles, of Savills Farms and Estates team.

The numbers looking to buy are growing, especially for arable land, because of high wheat prices and increased returns. Investors registering to buy doubled last year, accounting

for 31% of all buyers. "Investors are either English, buying for IHT relief purposes, or high net worth international buyers wanting to place a portion of their portfolios," says Christopher.

Supply in England remains static, with around 107,000 acres offered for sale annually in the last two years, but supply in Scotland and Wales has increased. "Scotland is cheaper than England, by about £2,000 per acre," says Anna Thomas of Savills Farms and Estates Edinburgh. "We expect arable prices to rise, but there is an oversupply of grazing land."

Worldwide, farmland is increasingly attracting the interest of sovereign funds and governments as food security becomes more important. Land is seen by Savills as "a tested store of value in inflationary environments".

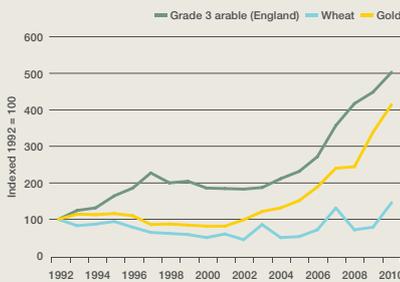
Christopher Miles, Savills Norwich,  
01603 229 235  
cmiles@savills.com

Anna Thomas, Savills Edinburgh,  
0131 247 3704, athomas@savills.com

## THE VALUE OF LAND

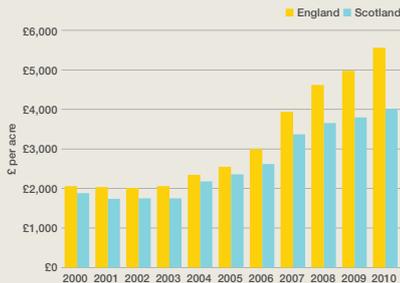
Savills Agricultural Land Market Survey 2011 found that farmland, along with gold, is proving to be a good hedge against inflation. The figures (illustrated in the graphs below) show that the growth in the price of farmland has outstripped that of both wheat and gold, and also that farmland values have continued to increase steadily since 2003.

### THE VALUE OF ARABLE LAND COMPARED TO WHEAT AND GOLD



Source: HGCA & Savills Research

### THE AVERAGE PRICE OF GRADE 3 ARABLE 2000 TO 2010



Source: Savills Research

## The LIFESTYLE Buyer



### PHILIP STEPHENSON

*is a businessman in his 60s whose fond memories of farming with his father 40 years ago have drawn him back to the land.*

“We looked for land, and my wife Sarah wanted a small house surrounded by our own fields,” says Philip Stephenson. The search led them to Wallmarsh Farm, with three bedrooms and 120 acres just south of Bath, where Wiltshire borders Somerset. “The chalk and greensand gives way to heavy clay, just on the join of the two counties, with a water-meadow bottom to the farm and larger dry fields at the top,” says Philip. He farms it jointly with his neighbour on a herbage agreement, with 100 Aberdeen Angus cattle on his land at the moment – his neighbour is an expert on the breed. Philip also qualifies for the Entry Level Stewardship grants from Defra.

“I am trying to improve hedging, fencing and ditching,” says Philip. “I am hands-on and like to bash in fence posts and get on the tractor. I do a bit of shooting too. It makes up for the years sitting around at desks. It is a noble thing to make money out of farming, as there is nothing more useful than food and the environment benefits as well.” His philosophy is to buy in the area you really love, start small and then expand, adding land later, if and when it comes up.

## The INSTITUTIONAL Buyer



### MARTIN ROBINSON

*of Braemar Agricultural Land Fund has just bought Bunkers Hill Farm in Lincolnshire, with 767 acres of Grade 1 and Grade 2 land.*

“Land is a solid buy for the long term,” says Martin Robinson. He paid around £5,500 per acre to add Bunkers Hill Farm to the Braemar fund – seen by the City as an alternative investment for the sophisticated investor.

The fund is worth around £8m and has shown steady performance since 2007. “We have no need to sell,” says Martin. “Shareholders may sell their assets if they wish, so they have liquidity. But our investment is for the long term. Management is given to tenant farmers who bear the farming risk. They deal with the hazards involved in crop-price fluctuations,” he says. “Our interest is in the rental to cover the cost of the fund, but primarily it is in the long-term capital growth. Land has outperformed other forms of investment, particularly commercial and residential property, over the last two decades.” ■

**Land is a solid buy for the long term**  
*Martin Robinson*

THE NEW GOLD

## WHY INVEST IN FARMLAND?

### STRONG FUNDAMENTALS

Demand for land and soft commodities driven by strong macro trends.

### STABILITY

Offers stable returns in recessionary times.

### INFLATION HEDGE

Historically a tested store of value in inflationary environments.

### LOW CORRELATION TO OTHER ASSET CLASSES

Has outperformed traditional asset classes long term.

### UNDER-OWNED ASSET

An under-invested asset class because access and execution are difficult.

# People Power

The Coalition Government's Localism Bill is set to dramatically reshape the existing planning system, with significant consequences for landowners

Words *Olivia Cooper*



PEOPLE  
POWER

**T**he Coalition Government has embarked on a seemingly radical recasting of the planning system, with much power being handed to local communities. It is a ‘bottom up’ approach, very different from the ‘top down’ approach of the previous Government. But details are only gradually emerging and, as the whole approach is evolving all the time, how will the changes really affect rural society?

Roger Hepher, head of Savills Planning and Regeneration, says the foundations of the new system were laid in the Conservatives’ Green Paper, ‘Open Source Planning’, in March 2010. Since the election, there has been much paper generated, but plans are still unclear. The Government hopes to have the new system in place by early 2012

## NEW REGIME

The starting point for the new regime is to scrap Regional Spatial Strategies, and to encourage communities to prepare their own Neighbourhood Plans. These will be prepared by parish councils or, in their absence, by specially created neighbourhood forums. They must be approved by local referendum, and will then be incorporated into the District Council’s Local Development Framework.

Where local communities identify a need for development, such as affordable housing, they will be given a right to acquire land and effectively approve their own planning permission. They may also be able to designate land as having community value or importance, and protect valuable facilities such as pubs, shops and schools from closure. “It’s all very noble, but most property people are very sceptical about whether it can really be made to work in practice,” says Roger.

Things that used to be paid for by the public purse are now having to be covered by developers

Roger Hepher, Savills

The Localism Bill also sets out a new way to raise funding for improving local infrastructure. The Community Infrastructure Levy will require the local authority to examine infrastructure needs and costs over a period of 10 years, forecast how many homes or how much commercial space will be built and divide the costs into a standard charge. “Things that used to be paid for by the public purse will increasingly be covered by developers,” says Roger.

## LOCAL NEEDS

Developers of 200 housing units or more will need to consult more closely with local communities, and councillors will be encouraged to participate more in individual applications, rather than being barred from expressing a view, as is currently the case.

In parallel to the Localism Bill is the National Planning Policy Framework, which is due to introduce a presumption in favour of sustainable development. “This is very significant – the counter-balance to localism,” says Roger. “The big problem with localism is the worry that nimbys veto development and rural communities will grind to a halt.

But this presumption should enable things to move forward. That said, there is no definition of sustainable development, and not enough detail on how all of this will work in reality. The Government is also incentivising councils to promote new development, by paying a grant equivalent to Council Tax for each new dwelling for six years, with a further bonus for affordable housing.”

## OPPORTUNE TIMES

In recent months, the Treasury and Vince Cable’s Business Department have taken an increasing interest in the changes to the planning system, and, in the Budget speech, the Chancellor made some bullish statements about using the planning system to promote economic growth. This doesn’t sit entirely comfortably with the localism concept as originally presented, and it is going to be interesting to see how things now progress.

However, as Roger says, “Opportunities will always arise from change. Until the fog clears, landowners and developers should seriously consider whether to accelerate certain projects to get them through under the existing rules. It is also time to get moving on existing developments – you don’t want to let current planning permissions lapse, as they may not be re-approved.” ■

Roger Hepher, head of Savills Planning and Regeneration, 020 3320 8270, rhepher@savills.com

PEOPLE POWER

## HOW CAN SAVILLS HELP?

- With such a revolutionary and complex new system, it is essential that landowners take professional advice to optimise their chances of success.
- Savills has 150 planning consultants in 21 UK offices. We combine local knowledge with national best practice expertise.
- Our planning teams are commercial practitioners, offering sound technical advice not theoretical guidance.
- Politicians play a pivotal role in shaping the new planning regime – Savills is actively lobbying to ensure they make the best decisions for rural communities.

## How to make LOCALISM WORK FOR YOU

1

Take an active role in creating the Neighbourhood Plan, and garner early support for any proposed development.

2

Engage with local residents’ groups and the relevant local authority staff – get to know them and get them on your side.

3

Consider joining the parish council to boost your own levels of influence within the local community.

4

Councils will now form Local Enterprise Partnerships with businesses to provide a higher level structure, so make time to meet them.



WINDS OF  
CHANGE

# Winds of change

Should you be part of the UK's growing market for renewable energy generation? We investigate the pros and cons...

Words *Ben Willis*

**A**cross the country, farmers and rural landowners are eyeing up the potentially lucrative new opportunities offered by the UK's burgeoning market in renewable energy generation. Last April saw the introduction of a nationwide Feed-in Tariff (FIT) that, for the first time, offers a guaranteed price for electricity generated from renewable sources. FITs are currently the subject of Government consultation, which will close on 6 May 2011. On 10 March 2011, the pioneering Renewable Heat Incentive (RHI) was also announced, which will offer an incentive for the generation and use of heat from renewables.

Based on a model that was successfully pioneered in Germany, the FIT means energy suppliers now have to pay a minimum price to householders or landowners who generate electricity using low-carbon technologies such as wind or solar photovoltaics. FITs and RHI are regarded as key devices in helping the UK reach its target of cutting greenhouse gas emissions by 34% by 2020, but equally they offer farmers and landowners profitable new income streams.

"The introduction of Feed-in Tariffs is creating huge interest from rural clients over the use of resources they hold," says Philip Gready, head of Savills Energy. "People are just getting their heads around this, but the time is ripe for landowners to get into this market. FITs are under review which, in conjunction with RHI, may have both positive

and negative repercussions for the industry, so farmers should act now and seek advice, as we are in the midst of change."

Farmers and landowners have two key resources at their disposal that make them well positioned to exploit the growing renewables market. One of these is obviously land.

"Some agricultural land on farms will be of low agricultural value, so landowners can put systems there," says Stuart Pocock, technical director at industry body the Renewable Energy Association. "Also, if you're in a good wind location, wind turbines will be attractive."

Another advantage farmers and landowners have is a ready availability of feedstocks, the

raw materials needed for powering renewable plant. "If the feedstock is sun, wind or water, those are free resources, but require land upon which apparatus can be constructed, which farmers can offer," says Philip. "Other feedstocks are primarily centred on agricultural waste streams and/or the production of biomass. These can be used to produce biomethane for injection into the gas grid or biogas to fuel combined heat and power (CHP) plants, or simply burned to produce steam for CHP. The Government's announcement on the RHI did seek to discourage the diversion of food production to energy crops, so there will be a balance to strike between waste and crop."

So far, the uptake of opportunities under FITs has been relatively slow. As of December last year, only 72MW had been installed under the scheme overall, 67% of which was solar photovoltaic (PV), 20% wind and 12.5% hydro. Philip ascribes this to the fact that it's still early days for an emerging market, the activity being concentrated on the more proven and developed technologies. However, there are also a number of practical and logistical challenges involved in getting projects started.

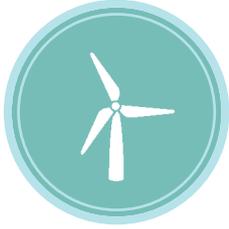
## SETTING UP THE RIGHT PROJECT

Before investing in setting up a project, it's important for rural businesses to understand the opportunities open to them and the different ways of delivering a project. "At the

### THE FEED-IN TARIFF

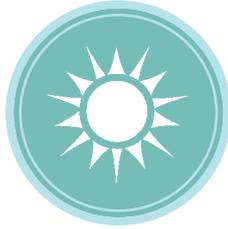
- The Feed-in Tariff offers guaranteed income for energy generated from small-scale renewable sources.
- Every unit produced from eligible technologies receives a fixed payment over a 10-25 year period.
- Further payments are earned for power exported back to the grid.
- Installations up to 5MW are permitted, allowing for community-scale renewables schemes.
- A domestic solar-power system can earn £800 a year from generation and reduce electricity bills by £120.\*

# RENEWABLE TECHNOLOGIES



## Wind

Can be an individual or multiple turbines – up to 5MW – to be eligible for the Feed-in Tariff. Already popular in Scotland, small-scale wind plants are growing in prominence south of the border.



## Solar photovoltaic

Very popular until now. The Government recently announced the start of the FIT review, including a fast-track for solar PV schemes over 50 kW. The consultation proposed new tariff rates, which will render most larger schemes unviable.



## Hydro

One of the oldest ways of generating power. Small-scale hydro schemes are becoming increasingly popular among landowners, offering one of the cheapest forms of electricity generation per unit produced.



## Anaerobic digestion

Uses the breakdown in organic waste materials to create biogas, which can be used to produce biomethane or to fuel CHP plants. The Government's review of FITs may make the tariff marginally better for AD projects up to 500kW, while the RHI will give the technology an extra boost.

### DID YOU KNOW?

Hydropower is the world's No.1 source of renewable energy – it produces almost 20% of the world's electricity and over 90% of the world's renewable power.

outset, what we're doing with clients is getting a good understanding of what the opportunities are on the ground," says Nick Green, associate director of Savills Energy and Rural. "So if a client has multiple opportunities, we can talk to them about what their key drivers are and their attitude to risk."

For example, the motivation for a farmer setting up a renewables project may be simply to provide heat and power to the farm buildings through a CHP plant. Or it may be to provide the business with an additional income stream. Renewable energy technologies such as CHP units or biomass boilers can provide a cheap and efficient means of heating and powering homes and businesses. CHP plants make use of "waste" heat from the thermal processes to then generate electricity, which can either be used domestically or sold

back to the grid. This effectively reduces energy costs and provides a degree of energy security while also generating an income stream and "greening" the business.

A further consideration is the way in which a farmer or landowner wants to run a project. One possibility is to take it on as a self-funded venture, in which the risks are higher but the

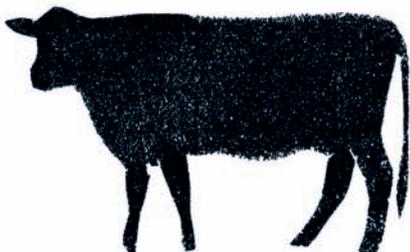
potential rewards greater. Another option is to do it in association with a third party, where a developer builds and runs the project and pays the landowner rent for use of his land. This option carries less risk, but has lower returns.

"One of the principal jobs we do is to help landowners understand that risk-reward balance in a structured way," says Nick. "You're not writing a huge cheque on day one with the hope of getting some income in a few years' time; there's a process to it, and if at any point you feel uncomfortable, you can either walk away completely or bring in a development partner who will have expertise and funding. Yes, you're giving some of the project away, but you're still keeping an interest in it and it's still moving forward."

Bringing in a third party also has the clear advantage that the developer will be responsible for financing the project, taking a huge burden off the landowner. However, even in these straitened times, Nick says banks are willing to lend to landowners should they wish to take on the project themselves. "Every bank I speak to is very keen to become more involved," he says. "They see it as having the income potential to match repayment terms of whatever they're lending to the landowner, who will need to be able to demonstrate project viability to the lender. This can be done via professional consultancy reports and studies."

## ONE OF THE PRINCIPAL JOBS WE DO IS TO HELP FARMERS UNDERSTAND THE RISK-REWARD BALANCE

*Nick Green, Savills*



**DID YOU KNOW?**

At a given site, a modern wind turbine annually produces 180 times more electricity and at less than half the cost per kWh than its equivalent 20 years ago.

**PLANNING**

Beyond choosing the right project and project structure, possibly the biggest (and most notorious) aspect of setting up a renewable energy plant is planning. Local and national newspapers today are littered with stories about acrimonious disputes between landowners and local communities over unpopular plans for renewables projects, and navigating the planning process is a key consideration.

“Generally speaking,” says Philip, “small-scale projects that landowners are doing for themselves are unlikely to have difficulties with planning; it’s the larger commercial scale plants such as wind farms and large biomass and AD plants that are more likely to run into opposition. So getting the community on side as much as possible is vital.”

“If a project may be controversial, the last thing you want to do is simply drop it in front of everyone and see what happens,” says Nick. “Community engagement at the right time is critical and our planning team is experienced in local community involvement, exhibitions and so on, with a strong track record of delivery. Involving communities, while difficult, is important to do because you might find you’ve got supporters out there who can help the process.”

**GRID CONNECTION**

One factor that can entirely kill off a project, if not properly scoped out, is the need to get it connected to the grid. “As a general rule,” says Stuart, “if the nearest connection point to a proposed project is more than one kilometre away, the cost of building a connection is likely to prove prohibitive.”

For Nick, the grid connection is so fundamental to the success or otherwise of a

**CASE STUDY**

*R.N. Padfield & Sons is a family-run farming business, currently in its third generation on the 800-acre Hawthorns Estate, Staunton, Gloucestershire (hawthornsestate.co.uk)*

“I installed fixed solar panels to supply the main farmhouse about a year ago and have recently installed two sets of tracking units that follow the sun,” says farmer Chris Padfield. “I chose solar panels because we haven’t got any water and getting planning permission for wind turbines can be tricky. From the fixed panels I have 4kW coming into my house and the return on the capital invested is a good 9%. I’ve found fitting the new tracker panels to our rental office units works best, as the majority of the power used there is during daylight hours, when the panels are most effective. I would recommend solar panels – they’re my pride and joy, although you need to make sure you have a good quality three-phase line nearby so you can feed back into the grid. The Feed-in Tariffs are likely to decrease in April 2012, so my dilemma is whether to buy more now and get a higher tariff or wait a couple of years to see if the technology improves. I think I’m going to wait, to see which type of panel works best.”

project, he says it should be the first step in any new venture. “I wouldn’t advise undertaking any planning before ensuring there is a grid connection available. It must be checked out thoroughly, both in terms of ability to connect into the grid, and also in terms of the cost.”

**FUTURE DEVELOPMENTS**

Assuming issues such as grid connections, planning and funding can be negotiated, the renewables options open to farmers and landowners are numerous and rewarding, if approached correctly. The options have opened up further following the details of the RHI, revealed in March. This Phase 1 announcement applies to non-domestic installations and to eligible plant installed after 15 July 2009. Phase 2, to be announced next year, will extend the incentive to domestic installations and additional technologies.

In both cases, and like FITs, the RHI offers the producers of heat from renewable sources a guaranteed payment for every kilowatt-hour of useable heat produced. The details of the scheme, which comes into force in June 2011, were recently announced and for Philip will offer still more opportunities for rural landowners.

“It will lead to massive growth in further renewable development, because it will make biomass, CHP and other technologies such as anaerobic digestion much more financially viable,” he says. “It’s a complicated area, particularly in sizing plants to marry on-site heat and power use with intelligent siting considerations to maximise revenue both from the incentives and from potential third party off-takers. We believe it’s definitely going to be big because, within our landowner and farming communities, there is large access to the resources needed to run these plants and we have one of the most innovative and entrepreneurial rural industries in the world.”

For Philip, the current and likely growth in renewables is a phenomenon that will turn out to be more than just a market fad, because through FITs and the RHI it now makes economic sense to invest in these technologies. “For the first time they don’t just make sense from an environmental point of view, they also make sense financially.” ■

Philip Gready, head of Savills Energy, 020 7877 4747, pgready@savills.com  
Nick Green, Savills Energy and Rural, 01738 477 518, ngreen@savills.com

# plan



Launched in January 2007, Marks & Spencer's Plan A aims to make it the world's most sustainable retailer by 2015. Four years on, Savills is helping the company work with the many rural businesses that supply its products

Words Nick Moore

**S**ustainability has rocketed to the top of the international agenda and many businesses have responded to this with impressive programmes to lead the way into this new, sustainable era. Few, however, have been as ambitious as Marks & Spencer. In January 2007 it launched Plan A, outlining one simple goal: to become the world's most sustainable retailer by 2015.

Its mission statement contains 180 "commitments" that the company aims to achieve by this time and great progress has already been made. But, like many ambitious schemes, things are sometimes more complicated than they initially seem.

That is particularly the case in the agricultural sector, where establishing appropriate targets for carbon emissions and sustainability can quickly become very complex. "There are many factors to consider across the many farming sectors we deal with and that's where Savills has helped as they understand rural matters," explained Hugh Mowat, technical manager for fresh produce and flowers at Marks & Spencer. "They have worked with us to develop our sustainability indicators and have also provided support in training our liaison staff and auditors, so they can explain the benefit of the indicators."

## THE KEY AREAS

The questionnaire asks suppliers to focus on five key areas where savings can be made: fertiliser and manure, energy, water, waste and biodiversity. "Long-term for the rural community, we hope it means we can support supply chains so that they have a viable future, particularly those in fragile areas," explains Steve Mclean, agricultural manager at Marks & Spencer. "We want to help farmers supplying M&S to improve efficiency, so that they have a more secure future. The catalyst for Plan A was very much about Marks & Spencer looking at the sustainability of core business. There is a clear cost benefit, as well as the ethics, and we are focused on helping suppliers to reduce carbon output, although it is far from clear cut."

Marks & Spencer is working with suppliers in many different ways to achieve this, whether it's ways to grow new crops such as melons, or by seeking new approaches to extend the UK growing season. There are no two identical suppliers, says Hugh, but there are common factors. "Water is huge," he says. "So we're working on precision irrigation. From Kenya to East Anglia, we're encouraging producers to

## CASE STUDY

### Andrew Gibson, agricultural liaison manager, 2 Sisters Food

"2 Sisters Food Group has supplied Oakham chicken to Marks & Spencer over a number of years and a true partnership has developed. We've been on board with Plan A since the start. We built a model factory at Flixton in Suffolk, which uses a variety of energy-saving practices, and Marks & Spencer has recommended this factory as a model for other suppliers to aspire to. We have introduced all kinds of ethical and sustainable measures, both in the factory and on the farm. All our chicken houses now have windows, which helps reduce costs and is also good from a bird welfare point of view. People may have been sceptical at first, but look at the details and it's clear that Plan A is not just right environmentally but also an effective business model."

**HERE  
WE GROW**  
*Through research and  
development M&S has extended  
the UK growing seasons for...*



**HOME  
GROWN**  
*And is exploring ways to grow  
new crops in the UK, such as...*



make better use of water, which includes recycling and seasonal storage – this can protect against droughts and reduce wastage. There is also new technology that can enable heat exchange. So if part of a production process needs to warm things up, and another needs to cool things down, you can transfer the heat." Another key area is the transport of products from source to store and Marks & Spencer is encouraging new approaches here too. One example is Colombian flower producers who are being urged to switch from air to sea freighting to reduce carbon emissions.

The responses to the questionnaires have proved eye opening too. "We have one local supplier who spends more than £10,000 a week on refrigeration," says Hugh. "If they can save a percentage of that, it can be significant."

## LEADING THE WAY

Many of these projects are first-to-market, step-change initiatives: Marks & Spencer is leading the way. "We hope that by doing this it will have a cumulative effect," says Hugh. "It's about us wanting the best quality products," explains Steve. "We've just launched our livestock code of practice and we now have our first livestock sustainability indicators. This is a major step in monitoring progress. Now, if our farming programme is successful, we can prove it."

With the sustainability questionnaire piloted and being rolled out online, Ian Bailey, Savills head of Rural Research, explains the challenges. "In the past it has been difficult to collate and analyse such a broad range of data across many different sectors as it is very complex," he says. "Our remit was to review the questionnaire, which will help Marks & Spencer learn more about its supply chain."

But how will the ever-evolving world of renewable energy strategy affect suppliers in the future? "It's interesting because we work very closely with our producers and we're incredibly loyal to them," says Steve. "Will global warming change the way we source? Yes. But we want to work together, not chop and change for the sake of it." "It's early days for a lot of sustainability issues," adds Hugh, "and we are learning all the time. But as our knowledge evolves we are committed to helping our suppliers by being a catalyst for them to move forward on sustainability issues, which will ultimately deliver real benefits for their businesses and the wider industry." ■

Ian Bailey, Savills London,

07968 550 386, [ibailey@savills.com](mailto:ibailey@savills.com)

# Under discussion

With the courts now regularly limiting the amount of costs they award, litigants are increasingly turning to mediation

Words *Oliver Tims*



UNDER  
DISCUSSION



Over the past few years, and in particular the last few months, mediation has been gaining in profile and popularity as a way of resolving disputes. With the courts now routinely limiting the amount of costs that they award, litigants are increasingly looking for cheaper ways of fighting their corner.

Last year, the report of the Jackson Review into Civil Litigation Costs, which examined the escalating cost of civil justice, advocated the greater use of mediation for the early settlement of civil cases. Sir Rupert Jackson called for mediation to be the principal form of alternative dispute resolution, and for wider recognition of the benefits of mediation among the public, courts, lawyers and judges. And as legal aid is subject to the same scrutiny as most public spending, the Lord Chancellor has agreed that mediation should be the preferred means of reaching agreement.

Indeed, judges now take into account both parties' willingness to mediate, and can refuse to award any costs if an offer of mediation is refused. "Judges are sending a clear message: there must be a good reason for a case to be brought before the courts," says Clive Beer, head of UK and International Mediation at Savills. "If any case can be settled without litigation, it should be. The culture of dispute resolution is changing. Mediation is becoming less of a tool and more of a weapon; we must learn to be proactive and work with it."

## LEARNING CURVE

As far as rent review disputes are concerned, this learning process could take time; arbitration is deeply entrenched as the preferred means of reaching agreement. Certain policies, such as the Tenant Farmers' Association's, only pay out when a rent review arbitration is taken to court, which changes negotiations from positive discussion into outright conflict. Yet such cases lend themselves well to resolution by mediation, especially since the sums being contended are likely to be dwarfed by professional costs.

"Mediation can deal with a dispute while it's still in its embryonic state, before costs mount and acrimony festers," Clive points out. "Moreover, disputes often arise from a range of issues, of which rent review is only the most obvious. In cases like these, litigation would only address the question of rent, leaving other issues to fester.

"Mediation, on the other hand, can take in the whole picture. It brings into play issues

## THE PROS & CONS

- 1: The process of litigation can be drawn-out, expensive and often neither party gains a satisfactory outcome.
- 2: "The arbitration process is fundamentally confrontational, making it difficult to rebuild relationships and takes control out of disputants' hands by investing it in a third party," says Clive Beer.
- 3: You are in effect hiring a private judge.
- 4: A mediator cannot suggest a settlement – that would mean judging a case, rather than facilitating it – but he or she can bring a genuinely independent, unbiased perspective to the issues.

## THE SCOTTISH ANGLE THE MOONZIE LAND CASE

The Scottish Tenant Farmers' Association (STFA) has long argued that rent review should be part of the everyday relationship between landlord and tenant, and an opportunity to look at all aspects of the tenancy, not just the rent. Angus McCall, chairman of the STFA, highlighted the "free-for-all" that characterises many rent reviews in Scotland. "Too often they become a war zone, with any notion of partnership thrown out of the window," he says. Mediation could solve much of this antagonism.

In June last year, the Scottish Land Court settled a complex rent review dispute (the Moonzie Case), deciding on a rent that falls halfway between the landlord's demand and that argued by the tenant's executors. The landlord is contesting the ruling. "To avoid this waste of economic resources and expense, we must take confrontation out of the process, and mediation is part of achieving that," says Angus.

that are not evident to a judge, and would not be in his power to resolve. The process can reach deals that benefit both parties beyond the confines of the central issue and that are legally binding, as the parties contract with each other in a final settlement agreement.

"Even if a case ends up going to litigation, early mediation gives both sides a much greater understanding and a clear idea of what they are litigating about, leading to a quicker – and therefore cheaper – legal process."

## QUICK PROCESS

Speed is one of mediation's advantages. With the process able to be set up and completed in days (disagreements that have festered for years have been cleared up in hours), friendly relations may be quickly reinstated.

The arbitration process, on the other hand, can take months. "And it's extremely expensive," says Clive. "You are in effect hiring a private judge – it's the most expensive form of litigation." He also points out that the arbitration process is fundamentally confrontational, making it difficult to rebuild relationships. "I can't think of a single reason why anyone would favour arbitration over mediation."

There is still very much a place for arbitration, according to Simon Leach, a partner with the specialist rural and agricultural property lawyers Loxley. "There are disputes which are completely

UNDER  
DISCUSSION

## The culture of dispute resolution is changing *Clive Beer, Savills*

black and white in the eyes of the law, so why should someone mediate if they can reach a satisfactory result with arbitration?" he says.

Still, he agrees that mediation has an increasingly significant role to play. "It is undoubtedly a very helpful part of the resolution process and will become ever more high profile. And it is particularly useful as a means of settling rent review disputes, in which weighing the cost benefit of litigation is of fundamental importance." ■

Clive Beer, head of UK and International Mediation,

020 7877 4724, cbeer@savills.com

# The art of hedging

Volatility is becoming an increasingly important feature in arable farming – so what can farmers and landowners do to minimise the risk?

Words *Olivia Cooper*



HEDGING

In recent years, grain prices – and input costs – have fluctuated wildly, making accurate trading and budgeting very difficult. But there are ways in which producers can reduce their exposure to such volatility, and hopefully improve cost control and profitability in the process. “Volatility is here to stay, and it needs to be managed,” says Giles Hanglin, head of Agribusiness at Savills in the East of England. “If you can sit down and write firm figures into your budget, rather than predicted ones, you are much more able to plan solidly for the coming months and years.”

Until 2007, grain and oilseed values rarely moved by more than a couple of pounds a month – this season,

markets have dropped or regained more than £10 in just one session. “There is so much City money involved in agricultural commodities now, and the global market is more important than it used to be. In addition, the world is coming out of recession, and grain prices are now linked to energy markets, due to renewable fuels. There are more factors coming, causing extreme volatility.”

## REMOVING RISK

One of the simplest ways to remove risk in the market is to sell grain forward at a set price. With grain prices where they are today most producers should be able to lock into a reasonable profit for both 2011 and 2012 crops. Alternatively, farmers can commit grain to a pool or tracker, operated by merchants with perhaps greater expertise in daily grain trading. Pools will never hit the top of the market, but nor will they plumb the depths of it. The first scenario is free; the second is usually based on a minimal commission or fee.

Another alternative is to take out an option through your grain merchant. Until 2007 this was a cheap way to lock into a minimum price, while still benefiting from market rises. However, since grain markets have become less predictable, the fee charged for options has soared, from about £3/t four years ago to upwards of £20/t today, says Giles.

“That means if you’re selling at £150/t for November 2012, the cost of the option takes that down to £130/t, so the market needs to rise by more than £20/t again to break even.” However, for those who want

THIS SEASON  
markets have dropped or  
regained more than

**£10**

in just one session

to capitalise on rising markets, options are a relatively straightforward choice.

## THE RIGHT RATES

The second key source of income, which is open to fluctuation, is Single Payments, which are converted from Euros to Pounds on 30 September each year. “Since 2005, the Euro has strengthened from about 68p, to 86p last year – boosting Single Payments by about a third. Rather than accepting the rate on 30 September, farmers can choose other opportune moments in the year to set their exchange rate.” At a commission of about 1%, producers can either lock into current exchange rates, or choose a minimum price option to fix a base in their Single Payments.

Producers should also consider ways to mitigate risks affecting input costs, he adds. Two of the greatest expenses – fertiliser and fuel – have soared in value.

**Volatility is here to stay, and it needs to be managed**  
*Giles Hanglin, Savills*

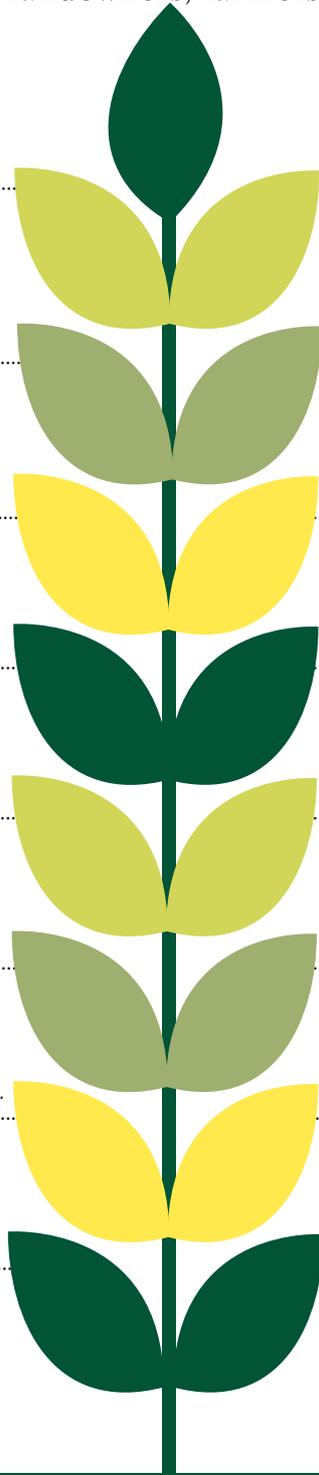
It’s not well known, but fuel is the easiest to hedge against, having a transparent futures market. Farmers can stock up at today’s prices, securing as much as they can store. Some banks offer contracts at guaranteed prices (excluding tax) for up to three years ahead. “Most require a minimum quantity of 600,000 litres a year, so farmers may need to work together,” says Giles. Fertiliser markets are more difficult, often tracking grain prices as well as supply and demand. Producers could buy forward in bulk, providing they have sufficient storage.

“The idea of any risk management is to pin down costs of production and margins to a level you are happy with. Be realistic, not greedy – as the saying goes: Turnover is vanity, profit is sanity, but cash is king.” ■

Giles Hanglin, Agribusiness,  
01223 347 276, ghanglin@savills.com

# The Directory

Savills is deeply involved in the rural economy at every level and offers a range of services for landowners, farmers and rural businesses



## Agribusiness

Savills provides a range of specialised management skills and business advice to meet the requirements of today's constantly changing integrated farming and rural businesses.

## Building Consultancy & Architecture

An efficient service across a range of projects from refurbishment to new builds.

## Client Accounting

Our network of offices offers a national and local accounting service.

## Compulsory Purchase & Compensation

Savills acts for landowners, occupiers and acquiring authorities to tackle problems from every angle.

## Development

Advice for dealing with everything from viability proposals to land assembly and equalisation.

## Dispute Resolution

Specialists help in every area of dispute resolution, from arbitration to mediation, for all aspects of rural property, whether agricultural, residential or commercial.

## Energy

Savills can advise you on every aspect of renewable energy, from feasibility reports through to planning and grid connection.

## Estate & Farm Agency

Our service covers the complete range, from marketing single fields to the country's grandest estates.

## Leisure Consultancy

Savills leisure specialists work with our estate management, residential and commercial staff, providing advice on leisure and diversification activities.

## Management Recruitment

Acting for clients to recruit talented people across the rural sector.

## Minerals & Waste Management

Specialist advice on mineral extraction and waste management.

## Planning

Savills provides a distinct advantage in resolving and promoting rural planning issues, leading to the best planning and financial outcomes.

## Strategic Estate Review

A tailored, objective analysis of the different parts of your business to improve profitability, reviewing capital structure and set targets.

## Tax & Estate Planning

Tax-related valuation services ranging from IHT and CGT planning to specialist VAT advice.

## Telecommunications Masts

Specialist advice for private and corporate clients dealing with telecommunication operators.

## Valuation

Accurate, cost-effective and confidential valuation advice for all types of rural properties.

THE  
DIRECTORY

## IN ADDITION...

to the many rural services offered through Savills, the business also provides a wide range of services across all property sectors globally, such as:

- Auctions (Commercial and Residential)
- Country House Consultancy
- Residential Sales
- Commercial property
- Development Land
- Residential Lettings and Property Management
- Cordea Savills
- Insurance
- Savills Private Finance (SPF)
- Leisure Property
- Prime Purchase

