Ecological Land Cooperative

For a living, working countryside

Arlington Smallholdings Improvement Valuation Policy (V1) Draft

September 2018

About this Policy

This document sets out how ELC gives a valuation to its smallholdings at Arlington. The aim of this policy is to safeguard our Cooperative's core commitment to smallholding affordability and simultaneously to protect the interests of our smallholders by ensuring that improvements made to their smallholdings are recorded and recognised. The policy sets out to balance the need to recognise the work and expenditure of the smallholders with the need to maintain the future affordability of the smallholdings.

Arlington leases state that the smallholdings' sale price is to be determined not by 'the market', but by using the resale formula detailed in the lease. The resale value as stated in the Arlington lease is:

The Premium (*p*) (Value of the smallholding at the point of first sale) x *c/b* (a calculation for **inflation** using the CPI over the term of the lease so far) + the agreed value of any **improvements** (I) made by the tenant.

The re-sale formula includes I, the value of improvements. This policy sets out how the value of 'I' will be calculated.

DRAFT

1. The Policy

Process for Agreeing the Value of I - Improvements

a. Smallholders are required by their lease to submit annual accounts for their farm business. Each set of accounts submitted to ELC should include a separate sheet which details all improvements to be included in the resale value of the smallholding, showing the value, the rate of depreciation/appreciation and any maintenance carried out during the financial year, where this applies. This will be the Smallholding Valuation Sheet. (See Appendix 4. below for an example)

b. Smallholders will inform the ELC and seek their agreement for any planned improvements with a value of £3,000 or over which are to be included in the resale value of the smallholding, using the ELC Smallholdings Improvements Notification Form (see Appendix 3. below). This includes any maintenance work to existing improvements where the value of this maintenance work will be added to the value of the building to offset depreciation.

c. Improvements below £3,000 in value can be listed on the Smallholding Valuation Sheet without prior agreement from the ELC. However to guarantee that an improvement will be included in the resale value of the smallholding it would be wise to seek agreement prior to commencing the improvement using the ELC Smallholdings Improvement Notification Form.

d. The ELC will review the value of the items as described and either query or agree the value suggested. An annual valuation allows for any controversial improvements to be identified, and the resulting issues resolved before the point of resale.

e. As specified in the lease, where a grant has been made to a smallholder(s) to pay for an improvement the value of the grant cannot be included in the calculation of I. Any grant must be listed and deducted from the value of the improvement.

f. The Smallholding Valuation Sheet should show improvements depreciating/appreciating using an agreed rate of depreciation/appreciation

DRAFT

for each improvement. This rate will be based on the life of the improvement. For larger improvements (over £3,000 in value) this will be agreed using the ELC Smallholdings Improvement Notification Form.

g. Elements of the farm business which could be considered to appreciate in value over time, such as an orchard, should first be valued at the actual cost of materials plus labour (e.g. for an orchard: the cost of trees, tree-guards, etc.). The smallholder may wish to have the asset valued by a professional surveyor every few years and have this value agreed by the ELC before the point of re-sale using the ELC Smallholdings Improvement Notification Form.

h. The value of any permanent residential dwelling can be included in the list of Improvements, subject to the cap (see 2. below).

i. The value of a permanent residential dwelling will be depreciated at 1% per year, before the addition of any value related to maintenance work carried out during the year.

j. At the point of re-sale the value of the smallholding will be the value as stated in the most recent ELC approved annual accounts less any items that are deemed unusable or without value or that the smallholder intends to remove, plus any agreed improvements carried out in the current financial year.

k. Where there is a dispute over the resale value, the smallholder can ask a professional arbitrator registered with RICS to decide the matter at their own cost and/or they can ask for the decision to be referred to the ELC membership at the next AGM. The maximum cap on the total resale value and the maximum cap on the dwelling value will apply should an independent valuation exceed these values.

2. The Cap

a. The ELC will make use of a cap, as described in the Regulatory Reform (Agricultural Tenancies) (England and Wales) Order 2006. The cap for the Arlington smallholdings will be calculated individually for each holding. This will be adjusted annually for inflation. This cap breaks down into the following two parts:

DRAFT

b. Value of the lease premium

   Maximum Value of Improvements = £156,000 in total for all farm improvements including the dwelling. The smallholder can choose which improvements they make, however within this, the value of a dwelling cannot exceed £100,000.

c. Inflation will be calculated using the Consumer Price Index or any substituted index or index figures published by the Office for National Statistics.

d. Plots purchased incrementally through the ELC's Rent-to-Buy arrangement will have the cap adjusted to reflect the total amount of capital repaid. The cap will be:

   Total capital (ie. lease) payments made to date, Plus:

   Maximum Value of Improvements = £156,000 in total for all farm improvements. The smallholder can choose which improvements they make, however within this, the value of a dwelling cannot exceed £100,000.

e. In the event that a plot purchased incrementally through the ELC's Rent-to-Buy arrangement is not bought back by the ELC, the resale value calculation will be as at 2.b. above. The smallholder will need to repay the outstanding balance of the premium either prior to or at the point of assignment of the lease.

3. Value added to Common Parts and Facilities

   a. Smallholders will need to submit to the ELC details of any improvements they have made in the common parts and facilities separately using the ELC Smallholdings Improvements Notification Form (see Appendix 3. below).

   b. If it is agreed by the ELC this investment can then be included in the calculation of I on the Smallholding Valuation Sheet.

DRAFT

c. The rules regarding depreciation/appreciation of improvements to common parts and facilities are the same as in clause 1.g (above).

4. Depreciation

a. The value of a permanent residential dwelling will be depreciated at 1% per year.

b. For farm business related improvements the value will be depreciated each year at a rate agreed when agreeing the value of the improvement. The rate of depreciation will relate to the lifetime of the improvement and normally be between 5 and 25 years, using a method supported by the accountancy profession.

c. For improvements that appreciate in value a new valuation will be agreed as stated in clause 1.h. of this policy.

5. Significant Items of Expenditure

a. As outlined above, significant items of expenditure (£3,000 or more) which may be claimed as an Improvement should be agreed with the ELC prior to the commencement of work using the **ELC Smallholding Improvement Notification Form**. This measure is intended to protect smallholders against undue expenditure, in case the valuation of significant items of expenditure might be contested by the ELC at a later date.

6. The Process – a summary

a. The Arlington smallholding resale value is calculated by adding the amount paid for the lease to the value of agreed improvements and is subject to a maximum value to be calculated for each individual holding, adjusted annually in future for inflation. In addition there are maximum value caps on the value of a dwelling of £100,000, and total improvements (including the dwelling) of £156,000 in 2019, both of these values will be adjusted annually in future for inflation.

DRAFT

b. Smallholders will complete a **ELC Smallholding Improvement Notification Form** for all improvements valued at over £3,000 and submit this to the ELC with quotes/costings for agreement before work commences on the improvement. Improvements below £3,000 in value can be carried out without obtaining prior agreement from the ELC and added to the resale value at the financial year end for agreement.

c. As part of the annual accounts smallholders will submit a **Smallholding Valuation Sheet** which will calculate the resale value of the smallholding at the financial year end.

d. ELC will review, query and agree the smallholding resale value with the smallholder each year based on the information presented in the **Smallholding Valuation Sheet**.

7. **Review of this Policy**
   a. This policy will be reviewed in its entirety in 2022, to be approved again by the Board of Directors.

DRAFT

Appendix 1: Legal Context for Valuing Improvements

According to DEFRA, the Agricultural Tenancies Act 1995 stated that:

> 'a tenant is eligible for end of tenancy compensation only if the landlord gives written consent to the improvement, unless the improvement is a routine improvement as defined in the Act. Compensation is paid at the value (including the value of any planning consent or goodwill) of the improvement to the holding when the tenancy ends.'

This was changed in the Regulatory Reform (Agricultural Tenancies) (England and Wales) Order 2006 to allow:

> "landlords and tenants to agree an upper limit, a cap, on the amount of compensation to be paid which, unless they agree some other amount, is equal to the actual cost to the tenant of making the improvement. The legislation does not specify the kinds of costs which can be included in the actual cost ... At the end of the tenancy, the landlord and tenant will need to assess the value of the improvement to the holding in the normal way. If the value of the improvement is lower than the amount of the agreed upper limit, the landlord will pay the tenant the actual value, but if the value of the improvement is higher than the upper limit, the landlord will pay the tenant the amount of the upper limit. The agreement to set an upper limit must be made in writing between the landlord and tenant. Where there is a dispute about the actual cost, either party can ask an arbitrator to decide the matter. If parties do not wish to set an upper limit on compensation, the existing default provisions apply."

DRAFT

Appendix 2: Summary Guidelines for Submitting Annual Accounts

1. Smallholding Valuation Sheet

With the annual accounts there will be a **Smallholding Valuation Sheet** which will list any items that are included in the resale value of the smallholding. When ELC receives this, they will either agree or query the figures therein until a final figure is agreed between the smallholder/s and the ELC.

Each year the figures will be updated to take into account new agreed improvements, the appreciation/depreciation and maintenance of existing agreed improvements.

The value of improvements is then calculated as last year's schedule less depreciation, plus maintenance along with this year's agreed improvements minus any grant funding. See Appendix 4. below for an example **Smallholding Valuation Sheet**.

2. Depreciation

The value of a dwelling will be depreciated at 1% per year.

For farm business related improvements the value will be depreciated each year at a rate agreed at the same time as agreeing the improvement. The rate of depreciation will relate to the lifetime of the improvement and will normally be between 5 and 25 years using a method supported by the accountancy profession. For example a farm building designed to last 25 years will depreciate at a rate of 4% each year.

3. Maintenance

The value of any maintenance work carried out on the dwelling or farm buildings can be added to the value of the building in the year that it was carried out subject to agreement from the ELC. The ELC may ask to see evidence of this maintenance work being carried out such as receipts for material and labour charges.

This value will be added after depreciation has been calculated for the year the work was carried out. In subsequent years this new value will be subject to depreciation.

4. Appreciation

For farm business improvements that appreciate in value, a new valuation will be agreed as stated in clause 1.h. of the above policy.

The total amount to be compensated at the point of resale will be capped as set out in the above policy.

5. Labour

Any unskilled labour hours will be costed at the real living wage rate of pay, calculated by the Living Wage Foundation, currently £8.75 (£10.20 in London), when calculating the value of any improvement.

DRAFT

Appendix 3: Guidelines for Submitting Improvements for Approval and Valuation by the ELC

ELC Smallholdings Improvements Notification Form

Please use this form to inform the ELC of any planned building projects or maintenance work on your smallholding that require prior approval from the ELC. Projects over £3,000 in value must gain prior approval from the ELC. Smallholders should also seek approval for projects of a lower value if they wish to agree the value to be included in the Smallholding Valuation Sheet. Please include costings and quotes for the building work with this form. If you have plans or drawings these should also be included. Please submit this form to sonia@ecologicalland.coop

Date:	Smallholding:			
Name of Improvement:				
Description of improvement including build position on smallholding.				
Expected value of improvement:		Expected Life of the Improvement (years):		
Method of valuation – please tick one box Please attach any costings and/or quotes to this form	3 quotes from contractors – Job price	Materials plus skilled labour – Job price	Materials plus skilled labour – hourly rate	Materials plus DIY labour – hourly rate (national minimum wage)
To be completed by the ELC				
Date received by ELC:		Agreed value of Improvement:		
Approved on behalf of the ELC:	Date:	Name: Signature:		

DRAFT

Appendix 4. Example Smallholding Valuation Sheet

Example ELC Smallholding Valuation Sheet

Please submit an up to date version of this form with your annual accounts each year, detailing all improvements made to the smallholding to date. The form will calculate depreciation and appreciation leaving you with a final value for your smallholding.

Smallholding:	Anyholding	Financial Year:	2017/18

Land – initial lease premium	2017 Land Value including inflation since 2013		April 2018 rate of Inflation (CPI - previous 12 months)		Current Land Value
£72,000	£77,538		2.2%		£79,244

Improvements

Detail all agreed improvements made on the smallholding with the agreed rate of depreciation (d) or appreciation (a) and any maintenance work done in the previous year to be added to the value.

Name	Value at end of previous year 2016/17	Depreciation (d) taken off value Appreciation (a) added to value	Maintenance (added to value)	Grants obtained towards the cost of the improvement (taken off value)	2017/18 value
Orchard	£700	3% (a)			£721
Goat Shed	£10,000	5% (d)	£300	£300	£9,500
Polytunnels	£2,000	20% (d)	£0		£1,600
Dwelling	£85,000	1% (d)	£250		£84,400

ELC Arlington Smallholdings are subject to a cap on the value of the dwelling. In July 2019 this cap was established at £100,000. In future years the cap will be adjusted for inflation (CPI). If the value of the dwelling exceeds the value of the cap then the value of the dwelling will be equal to the value of the cap.

2019/19 cap on the resale value of the dwelling	April 2019 rate of Inflation (CPI - previous 12 months)	2019/21 cap on the resale value of the dwelling
£100,000	2% (estimate)	£102,000 (estimate)

Total Improvements	£96,221

ELC Arlington Smallholdings are subject to a cap in the total resale value. In 2019 this cap was set at XXXX. In future years the cap will be adjusted for inflation (CPI). If the value of land plus improvements exceeds the value of the cap then the value of the smallholding will be equal to the value of the cap.

2019/20 cap on the resale value of a smallholding	April 2019 rate of Inflation (CPI - previous 12 months)	2020/21 cap on the resale value of smallholding
£XXXX	2% (estimate)	£XXXX (estimate)

Current Total Resale Value of Smallholding (land plus improvements)	£175,465