THE VALUATION OF AGRICULTURAL LAND FOR RATING PURPOSES IN AUSTRALIA: METHODOLOGY AND ADMINISTRATION

(WITH CONSIDERATION OF APPLICATION IN ENGLAND)

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Abstract: An investigation in the valuation methodology and administration of agricultural land in Australia for business rating purposes and consideration of appropriate application of valuation methodology in England

Keywords: Agriculture, taxation, business rates, valuation methodology, valuation administration, local government

1. Introduction

The aim of this paper is to investigate the valuation methodology and administration of agricultural land in Australia for business rating purposes and consider how mass valuation of agricultural land in England may be conducted in order to calculate the cost to the Government of the existing exemption of agricultural land and buildings from non-domestic rates.

Following the release of Sir Michael Lyon's 2007 report into Local Government commissioned by the UK Government, there was understandable concern in agricultural circles regarding his recommendation that the Government look again at the exemption of business rates on agricultural land and buildings.

Of particular interest was the recommendation that a valuation of agricultural land be undertaken to correctly assess the value of the exemption. It was suggested in 2007 that this could amount to approximately £450 million forgone in Government revenue, however with no valuation yet carried out; the actual value of agricultural land in England was and remains unknown.

In Australia, valuations of all agricultural land are carried out on a regular basis for rating purposes and the techniques involved in such 'mass valuation' work were considered of relevance should such a task be embarked upon in England.

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2. Current UK Practice

As at spring 2011, agricultural land and buildings in England remain exempt from the non-domestic rating system commonly known as business rates. However, the domestic element of a farm (farmhouse and any associated farm dwellings) is subject to Council Tax. This involves a calculation of the capital value of the apportioned residential property together with land such as garden land.

2.1. History

Domestic and non-domestic rates on property are a historic form of fiscal policy in the UK and stem from the Poor Relief Act 1601. Agricultural land has seen some relief from business rates since 1896 and full relief since 1929 as a result of the difficulties suffered by the agricultural industry and particularly shortages following the first and subsequently the second World Wars. Changes to the exemption have been made since that time for example the inclusion of agricultural buildings and inclusions for contract farming arrangements (pers. comm. Edwards (2011), Mr Edwards is an agricultural specialist dealing with appeals for the Valuation Office Agency in Swansea).

The statutory definition of agricultural land and buildings can be found in the Local Government Finance Act 1988 and can be somewhat complicated and confusing to many (Appendix A).

2.2. Business Rates

Business rates are levied on business properties and are payable by any businesses that use non-domestic properties. They are commonly thought of as the equivalent of council tax in that they are contributions made by businesses in particular areas to the cost of services provided by the council and local authorities (The Tax Guide, 2011). Since 1990 local authorities collect the tax and have some discretion over reliefs, but locally collected taxes are redistributed centrally to fund the provision of services according to “national expectations and requirements”, allowing “equalisation between authorities for needs and resources” (Lyons, 2007).

Business rates in the UK are calculated on the basis of the ‘rateable value’ of property, unlike council tax which is based on the capital value of a residential (domestic) property. The ‘rateable value’ is in effect the annual rental value of the property under certain assumptions. The tenancy is a ‘*hypothetical tenancy*’ under which the tenant pays all the usual charges and assessments (including business rates) and bears the costs of the repairs, insurance and other expenses necessary to command that rent as described in Para 2(I), Sch. 6 of the Local Government Finance Act 1992.

Every business property in the UK has a rateable value which is adjusted five yearly when revaluations take place. The most recent revaluations came into effect in April 2005 and

April 2010 and the values were based on April 2003 and April 2008 figures (the antecedent valuation dates). Rating valuation work in the UK is carried out by the Valuation Office Agency (VOA) which is an Executive Agency of HM Revenues and Customs (HMRC). All rateable values for properties are available to the general public on the VOA website.

Under Schedule 7 of the Local Government Finance Act 1988, business rate multipliers are set by the Secretary of State annually and are split into two areas: the standard non-domestic rating multiplier and the small business non-domestic rating multiplier (separate figures are set for London) (Shropshire Council, 2011). Between revaluations the multiplier is increased in line with the Retail Price Index (RPI).

Table 1. Business Rate Multipliers Used Since the 2005 Revaluation

Financial Year	Standard Multiplier	Small Business Multiplier
2010/11[2]	41.4p in the pound	40.7p in the pound
2009/10	48.5p in the pound	48.1p in the pound
2008/09	46.2p in the pound	45.8p in the pound
2007/08	44.4p in the pound	44.1p in the pound
2006/07	43.3p in the pound	42.6p in the pound
2005/06	42.2p in the pound	41.5p in the pound

Source: Adapted from Shropshire Council (2011)

Example

£10,000 (rateable value) x 0.485 (multiplier) = £4,850.00 payable in rates before the award of any reliefs or reductions

Whilst agricultural land and buildings are exempt from national non-domestic rates these do apply to buildings and land used for business purposes which do not benefit from the exemption. In the increasing case where farms seek to diversify this can potentially be a confusing minefield due to what can be a complicated apportionment for the separate business elements and the lack of clarity relating to what does and doesn’t constitute agricultural land and buildings. Rate-payers often see the system as unfair due partly to the lack of communication between local councils and the VOA (particularly regarding diversifications that have required planning permission in some areas) together with an element of valuers’ subjectivity leading to inconsistency in the treatment of some agriculturally based businesses.

[2] Post the 2010 rating revaluation – multipliers were reduced to avoid a sudden increase in rates payable.

2.3. Lyon's Report 2007

In 2004 Sir Christopher Lyons was commissioned by the Chancellor and the Deputy Prime Minister to conduct an inquiry into Local Government. Following the inquiry, Sir Lyons prepared his final report "Place-shaping: a shared ambition for the future of local government" which included a series of recommendations and commentary regarding the system in March 2007. One area the report focussed on was business taxation. Recommendations included reforms regarding the existing exemptions and reliefs. His recommendations for empty property relief were immediately put in place by the Government (the existing relief was considered to equate to approximately £1.3 billion in lost revenue, the single most significant relief in the system at that time).

Recommendation 8.6

The Government should conduct a review of exemptions and reliefs to consider the scope for removing inappropriate subsidies and distortions and to simplify the system

Source: Lyons (2007)

Sir Lyons calculated that lost revenue from the existing exemption of agricultural land and buildings equated to approximately £450 million foregone, this being the third most significant relief behind empty property relief and charity relief.

In particular it was recommended that the review should have number of objectives which included:

- To consider the current reliefs and exemptions and to judge whether they remain justified in terms of their cost, their contribution to policy objectives and the potential distortions they create to a level playing field for all property users;
- in particular to review the case for the continuing existence of the agricultural exemption, and to consider the costs and benefits of undertaking a valuation exercise of agricultural land at the 2010 revaluation in order to accurately assess the value of the exemption; and
- where practicable, to remove or merge existing reliefs and exemptions

Source: Lyons (2007)

It was recognised at the time that the estimate of £450 million in revenue forgone was very rough and that a valuation exercise would need to be carried out to more accurately assess the value of UK agricultural land and buildings which currently fall outside of the system and as such are not valued by the VOA. His recommendation that these be valued as part of the 2010 revaluation was not carried out. The next revaluation is in 2015 and it remains to be seen whether or not such work is incorporated in the VOA's usual cycle of revaluation work.

3. Context of agricultural subsidies/support in the UK

Governments have intervened to keep the price of basic commodities stable for hundreds of years, and after World War II farmers in the UK were paid to produce food. Subsidies were originally set up to increase productivity and stabilise markets in a Europe, however with subsidies linked directly to production this led to over production. As a result it was recognised that payments needed to be shifted away from production to instead encourage rural development and good environmental practices on farms (BBC, 2008).

Common Agricultural Policy (CAP) reform led to the introduction of the Single Farm Payment Scheme (SPS) which replaced most existing crop and livestock payments from 1 January 2005. The introduction of the SPS resulted in a major shift in subsidies away from those coupled to production; there are in effect no payments now linked to production in the UK (UK Parliament, 2011).

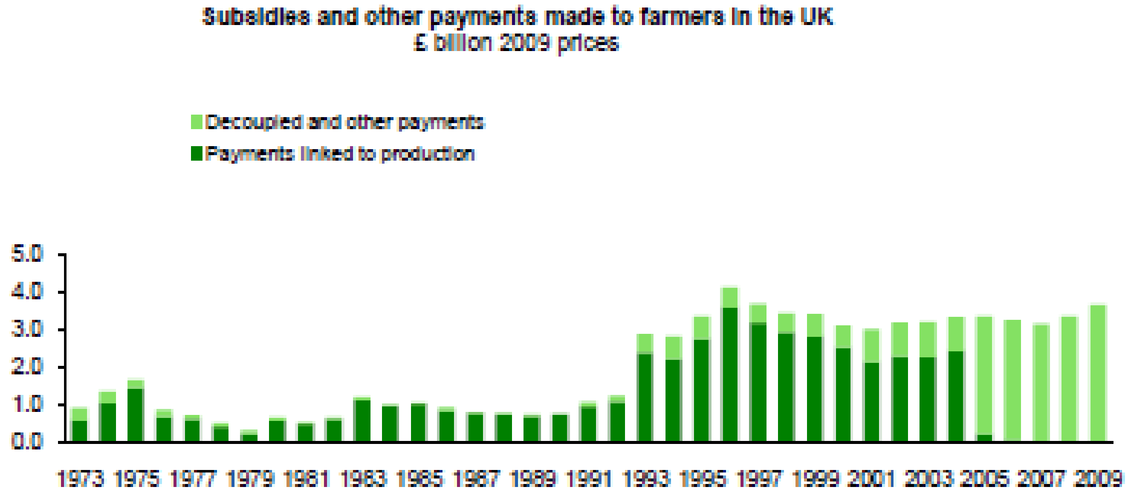
Farmers must now demonstrate that they are keeping their land in good agricultural and environmental condition and complying with a number of specified legal requirements relating to the environment, public and plant health and animal health and welfare. Meeting these requirements is referred to as 'cross-compliance'.

As the next CAP reform approaches in 2013 there is much debate regarding the continuing basis of payments to farmers with some agricultural experts warning that as world food supply is predicted to fall behind global demand, a return to production subsidies may be the only way to ensure we can continue to feed ourselves in the long term (BBC, 2008). This would in effect, 're-couple' payments in a push for UK self sufficiency (currently standing at around 60% for all food types (Defra, 2010b))

Whilst the review is expected to incorporate a simplification and restructuring of grant payments to reflect the value of rural land occupiers as key agents in achieving environmentally sustainable land management (RICS, 2011), the outcome of it will certainly reflect the importance the Government places on food security issues going forward.

Payments made to farmers in the UK have remained relatively stable overall during the transitional period following de-coupling as can be seen in figure 1 below. Around £3.6 billion was payable to farmers in the UK in 2009 through subsidies and other payments (UK Parliament, 2011).

Figure 1. Subsidies and other payments made to farmers in the UK



Source: UK Parliament (2011)

4. Current Taxation of Agricultural Property in the UK

Agricultural property, land owners and farmers are faced with a number of different taxes within the UK. These can be split into in-direct taxes (those linked to production and imports), direct taxes (on income and wealth) and capital taxation. Taxes affecting farmers within the UK can be seen in the table below.

Table 2. Taxation of Agricultural Property in the UK

Tax	Basis of Taxation
Annual taxation	
Income Tax	Direct tax payable by individuals, sole traders, partnerships and limited liability partnerships on income
Corporation Tax	Direct tax on company profits and gains
VAT	Indirect taxation on the supply of certain goods and services
Council Tax	Tax charged to the occupier of domestic property based on the capital value of the property
Business Rates	Tax charged to the occupier of a business property based on the rateable (rental) value of the property

Tax on transfers	
Capital Gains Tax	Capital taxation on increases in the value of property
Inheritance Tax	Capital taxation on the transfer of assets which reduce the value of the remaining estate (includes some lifetime gifts and wealth on death)
Stamp Duty Land Tax	Tax payable on transactions in land paid by the purchaser or tenant of some leases. Based on the value of the interest acquired.

Sources: Adapted from CAAV (2008) & Cowap (2010)

Taxes can also be seen in terms of when they are payable i.e. annually or on the transfer of assets, most taxes are payable annually in the UK with income tax making up around 29% of the annual Government revenue (Adam *et al.*, 2009).

Whilst the destination of the majority of tax collected in the UK is central government revenue, both council tax and business rates have historically been payable for local government revenue purposes, and despite the changes made to the handling of business rates since 1990 their ultimate purpose to pay for local matters remains unchanged. Business rates in the UK account for around 4% of all tax revenue (Adam *et al.*, 2009).

For many years potential taxation in the form of Land Value Taxation has been a matter of debate and discussion. Land Value Taxation is usually an annual tax placed on the ownership as opposed to the occupation of land and is calculated on the unimproved value of land. It is a tax that is viewed by many to burden those who own land for the purposes of investment (i.e. let land and property) and therefore is a form of taxation on wealth. The Irish Government have recently taken the decision to introduce Land Value Taxation and many are waiting to see the effects of the introduction with interest. Land Value Taxation is a complex area with numerous significant implications on the national economy and as such is not a matter to be covered within the remit of this paper.

5. Valuation of Agricultural Land

Valuations of property are carried out for many reasons and there are a number of methods that may be used in order to assess value depending in the purpose of the valuation.

There are five commonly used methods of valuation which are used worldwide when valuing property; these can be seen in table 3 below.

Table 3. The Five Methods of Property Valuation

Valuation method	Use in property valuation
Comparable	All property where comparable evidence is available. Primarily for use for market sales and rental valuation
Investment	Where property is let, rent is considered a return on investment and capitalised at an appropriate yield to find the capital value of a property
Profits	For the valuation of property where the value is dependant on the business taking place within the property. Based on capitalising a proportion (usually 50%) of the maintainable net profit of a business at an appropriate yield together with an additional amount for goodwill
Residual	For the valuation of development sites, based on the value of the end development minus the costs of the development
Contractors/Depreciated Replacement Cost	Widely used where properties have no market or are subject to a business not run solely for profit. Based on the cost of replacing the property with a modern equivalent and depreciating this by a factor to take into consideration the life expectancy of the existing and replacement buildings in addition to the site value

Source: Author (2010)

The method used for the valuation of purely agricultural property with vacant possession is the comparable method. The investment method is used where farms are let, particularly when valuing the freehold of a farm subject to an AHA succession tenancy.

There are many factors influencing the value of agricultural land within the UK, chiefly the ability of the land to turnover a profit is of key importance; therefore factors affecting productivity of the land are of greatest import. Some fundamental factors affecting the value of farmland can be seen in table 4 below.

Table 4. Factors Affecting the Value of Agricultural Land in the UK

Factors affecting value	Further information
Land and soil quality	Farming characteristics of different soils and the Agricultural Land Classification Grade
Location	Proximity to towns, and road network. Elevation, aspect, flood risk, shelter, shade, exposure etc.
Farmstead	Principal residence, other residential dwellings. Traditional/modern farm buildings Concrete turning areas etc. Location of farmstead in relation to land.
Fixed equipment	Fencing, hedges, gates, ditches, drains and internal roads etc.
Services	Mains water/private supplies, electricity: single or three-phase and irrigation/abstraction licences
Sporting/Amenity	Cover including woods, coppices, hedges; flight ponds/fishing/river bank, whether rights are included or reserved
Woodland	Shelter, fuel, materials
Easements & wayleaves	Electricity, gas, water, sewers, telephone. Other rights of way
Land designations	Designations such as NVZ, SSSI, National Park, Ancient Monuments, AONB etc.[3]
Environmental schemes/SPS	Single payment entitlements, availability of quotas. Scheme participation e.g. ELS, HLS, CSS etc.[4]
Development opportunities	Development plans, Government Policies (PPS7)[5]. Timing and density of development, potential for minerals
Scope for diversification	Local markets for goods, physical potential on farm, latent value, appropriate access, suitability of buildings and availability of planning permission

Source: Author (2011)

One of the main factors influencing the value of agricultural land in the UK is the scarcity of land available and the lack of transactions taking place in the market. It is estimated that less than 0.1% of all agricultural land changes hands in the UK annually and as a finite resource the restricted supply and high demand support inflated prices (Savills, 2011).

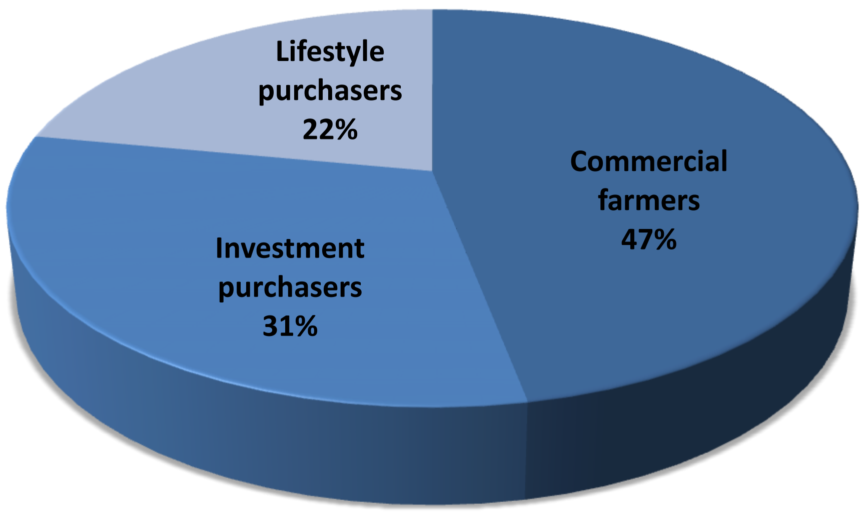
Commodity prices have in the main (excluding in particular dairy prices) seen some degree of buoyancy with increases recently, indeed the price of wheat was at a record high of £200/t in December 2010 (Agrimoney, 2011). Agriculture compared to many industries does

[3] Nitrate Vulnerable Zone (NVZ), Site of Special Scientific Interest (SSSI), Area of Outstanding Natural Beauty (AONB)
[4] Entry Level Scheme (ELS), Higher Level Scheme (HLS), Countryside Stewardship Scheme (CSS)
[5] Planning Policy Statement 7 – Sustainable Development in Rural Areas

suffer from rapid and sometimes severe fluctuations in prices and therefore farming livelihoods, hence one of the reasons for the need for subsidies to in effect 'iron out' some of the fluctuations. Indeed, although wheat was reaching £200/t in December last year only six months prior to that date the market price was in the region of half that figure.

Whilst commodity prices clearly have an effect on the value of agricultural land; as most farmers will be concerned with the ability of farmland to provide a return; the scarcity of agricultural land has led to inflated land prices over and above the true value of the land in terms of strict farming economics. The need for farmers to expand to take advantage of economies of scale has added to the high demand for farmland, however less than half of farmland purchasers are currently commercial farmers in the UK as shown below.

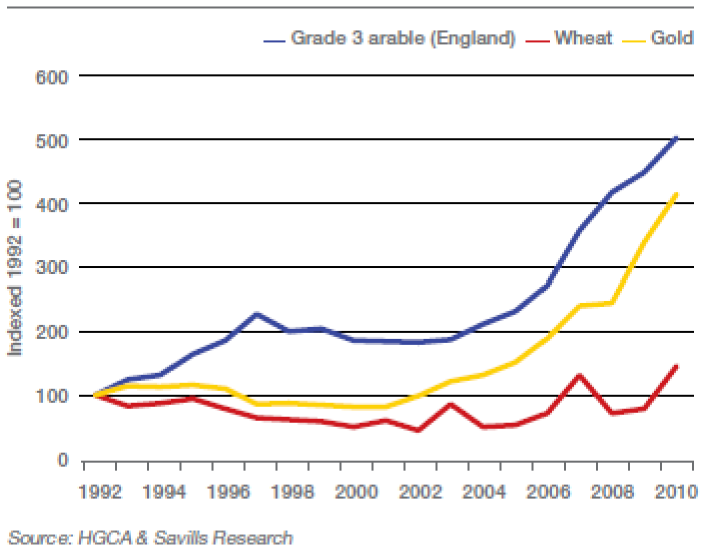
Figure 2. Purchasers of Farmland in the UK 2010



Source: Adapted from Savills (2011)

Demand has increased from investment purchasers due to the perceived security of investing in agricultural property compared to other forms of investment in a poorly performing and uncertain market. Historically price trends for agricultural land closely match those of gold as both are considered to be a good hedge against inflation. Whilst the price of wheat has increased, it is clear that drivers over and above the productive capacity of land have weakened the relationship between the value of agricultural land and commodity prices in England (Savills, 2011).

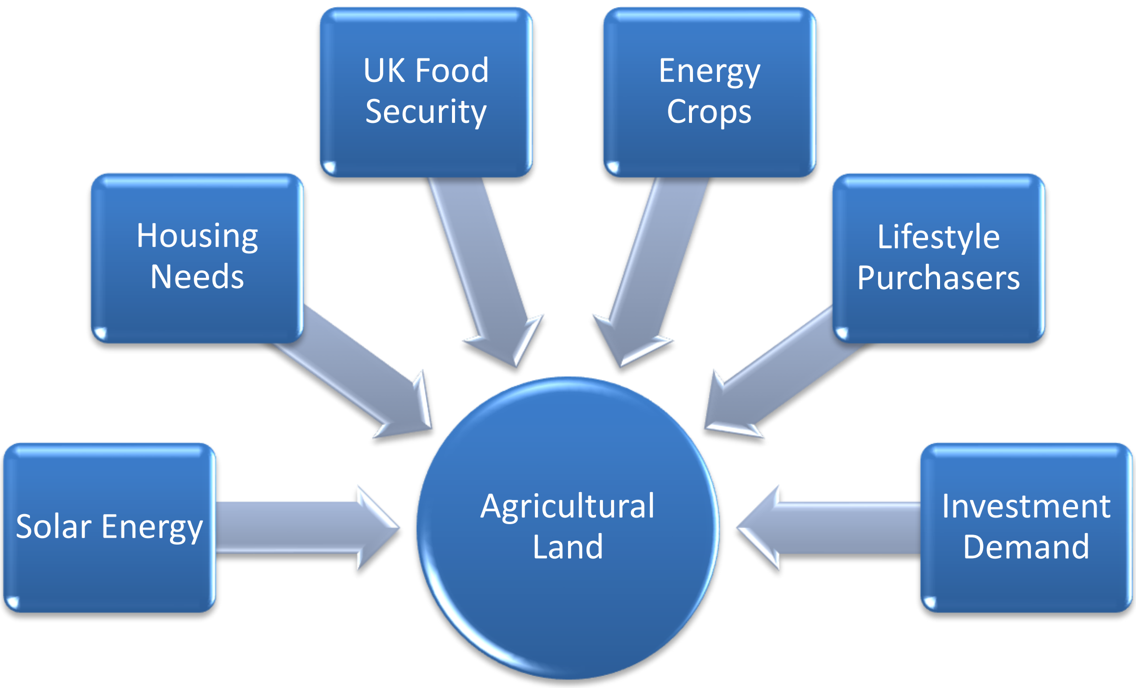
Figure 3. Farmland Price Increases in Relation to Wheat and Gold (1992 -2010)



Source: Savills (2011)

UK agriculture is currently facing many relatively 'new' pressures that were not considered important or relevant only a few years ago. Some of these influences can be seen in figure 4 below. These influences can all ultimately have an effect on the value placed on farmland.

Figure 4. Pressure on agricultural land affecting demand and value in the UK



Source: Author (2011)

Agricultural land values in the UK have risen considerably over the past few years with the average price in 2010 of approximately £6,000 p/acre. In some cases land has reached over £10,000 p/acre. with Grade 3 arable land fetching approximately £5,500 p/acre (Savills, 2011). These figures usually include residential property and associated farm buildings unless the residential element is more than 50% of the land price.

Just under half of all UK agricultural land is let to a tenant (Defra, 2010a). Agricultural rents in the UK very much depend on the type of tenancy which is held:

- Agricultural Holdings Act 1986 Tenancies (AHAs)
- Farm Business Tenancies (FBTs) under the Agricultural Tenancies Act 1995.

Only FBTs are set at an 'open market rent' and the terms of these are flexible and can be agreed freely between the landlord and the tenant.

FBT rents (open market rents) are affected by many of the factors described above influencing the capital value of land, such as marriage value, economies of scale and the shortage of land available on the market. Because of this they have seen increases in the rent per acre over the past few years, although not necessarily at quite the sharp rate of the increase in capital value of farmland. FBT rents in 2010 were on average £100 p/acre to over £160 p/acre.

Comparable rents are usually taken to include Single Farm Payment Entitlements and buildings as appropriate to the holding, unless, as with capital value comparables, the residential element equates to over 50% of the total holding value.

Rents for AHA tenancies are protected and subject to statutory restrictions. The rules regarding tenancies under the Agricultural Holdings Act 1986 generally apply to tenancies granted before 1 September 1995 and also successions to such tenancies. Rents under AHA tenancies can be as little as half the rent (sometimes more) of that commanded under the open market.

The terms of an AHA tenancy are written in statute and include lifetime security of tenure, model repairing clauses, the right to written agreements, rules regarding the provision of fixed equipment, freedom of cropping, succession rights (depending on the date the tenancy was originally granted) and comprehensive tenant right/tenant's compensation. In particular the 1986 Act is very thorough regarding statutory rent review provisions and most notably the rent set is NOT an open market rent but is based on the approach below.

"Rent at which the holding might reasonably be expected to let…."

- with a prudent and willing landlord
- and prudent and willing tenant
- taking into consideration all other relevant factors……

- including the:
    - Terms of the tenancy
    - Character and situation of the holding
    - Productive capacity
    - Related earnings capacity
    - Current levels of rents of comparable lettings (AHA only)

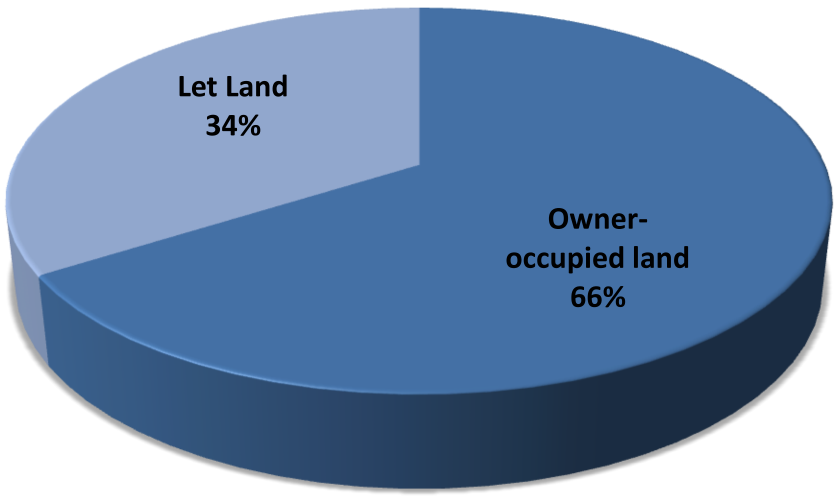
Source : Adapted from AHA (1986)

Sch. 2, Para 1(2)(a) of the Act describes the meaning of 'Productive Capacity' as what the farm is capable of producing taking into account the fixed equipment and other facilities available and assuming a competent tenant practising a system of farming suitable to the holding. Sch. 2, Para 1(2)(b) describes 'Related Earnings Capacity' as how much (in light of the productive capacity) profit can reasonably be expected to be made from the holding.

Both the productive capacity and related earnings capacity of a holding and only be properly determined after a thorough inspection of the property and a detailed gross margin and fixed cost budget has been prepared to calculate the available "divisible surplus" which is generally split 50/50 between a landlord (in the form of rent due) and tenant (in the form of profit). This is, in effect a similar calculation as when using the profits method of valuation for a property. There are, in addition a number of items that must be disregarded when calculating the figure including tenant's improvements/dilapidations and landlord's improvements paid for by grants though any 'latent value' can be included.

Around 75% of England (total area approximately 32 million acres) is agricultural land. In the UK the proportion of let agricultural land is much higher than is the case in other parts of the World and within Europe. This is in part due to the historic nature of land ownership as result of the feudal system and the continuing tradition of primogeniture with large estate ownerships and therefore tenant farmers.

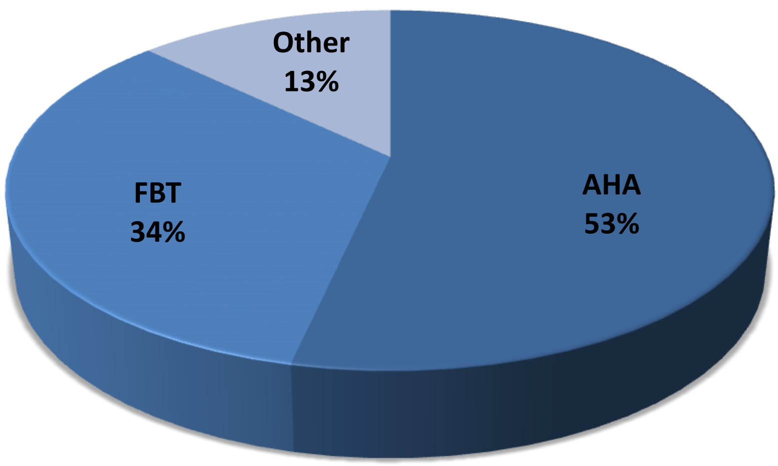
Figure 5. Occupation of Agricultural Land in England 2008



Source: Adapted from Defra (2010a)

Whilst the number of lettings on AHA tenancies is declining as they are brought to an end or there is no succession, the rate of decline is fairly static (CAAV, 2010), with AHA tenancy agreements still covering over half of the land mass let on agricultural tenancies in England in 2008.

Figure 6. Occupation of Let Farmland in England by Agreement Type 2008

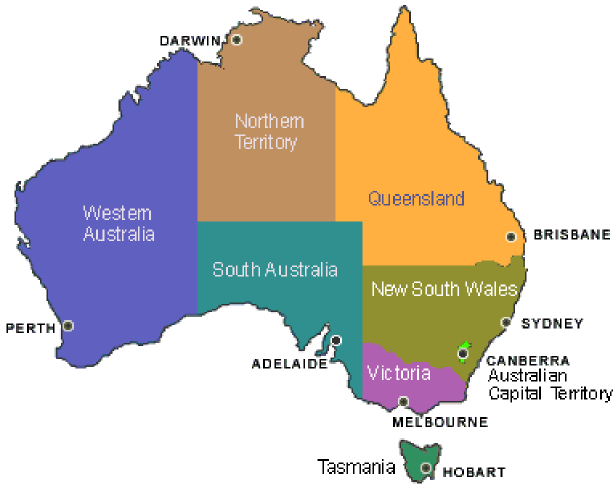


Source: Adapted from Defra (2010a)

6. Australian Research Trip

Australia is the world's smallest continent and sixth largest country with a total area of 1.9 billion acres (around 58 times the size of England). The country is divided into six states; New South Wales, Queensland, South Australia, Tasmania, Victoria, and Western Australia and two major mainland territories; the Northern Territory and the Australian Capital Territory (ACT). In most respects these two territories function as states, but the Commonwealth Parliament can override any legislation of their parliaments. By contrast, federal legislation overrides state legislation only in areas that are set out in the Australian Constitution; state parliaments retain all residual legislative powers, including those over schools, state police, the state judiciary, roads, public transport, and local government, since these do not fall under the provisions listed in the Constitution. Each state and major mainland territory has its own parliament.

Figure 7. Map of Australian States and Territories



Source: Australian Government (2011)

All agricultural land and buildings are rateable in Australia, however due to the federal and state government arrangement, each state carries out valuation work according to its own legislation based on custom and tradition. Therefore, the administration and methods of valuation used in each state vary considerably as does the regulation of valuers undertaking the work. This study focuses on two states which are especially contrasting in terms of size, climate, geography and agricultural practice; Western Australia (WA) and Victoria.

Table 5. Valuation Authorities and Bases used in Australia 2010

State	Valuation Authority
South Australia	Valuer General's Office (VGs)
Queensland	
Western Australia	
Northern Territory	Australian Valuation Office (AVO)
Australian Capital Territory	
New South Wales	Outsourced by VGs or shires (councils) to independent valuers or shire based teams
Victoria	
Tasmania	

Source: Author (2010)

Valuers carrying out work on agricultural rating valuation in different states across Australia have little communication or interaction with one another as state laws governing methods used and administration of the systems varies greatly, whilst senior officials meet every couple of years, this is merely on a social basis as opposed to sharing best practice.

When it comes to considering influences on the value of agricultural land there are many similarities between the UK and Australia, in particular the shortage of sales evidence and the impact of 'hobby' or 'lifestyle' purchasers on prices. However, Australia has no history of subsidies and grant support for agriculture, there are few environmental schemes and restrictions, there has been no official recession in the country and there are less diversified farm enterprises and buildings to consider. There is also very little let land within Australia and the investment market is very much in its infancy with corporations expecting a 5% return and no specific agricultural tenancy law in place.

Also interestingly in Australia it is not possible to transfer ownership of agricultural property in the same way it is in the UK, where in effect there is total freedom to transfer property between parties. In order to sell land, permission must first be granted from the local shire where this involves splitting up historic lots (when land in Australia was divided up into lots following settlement in the 1800s). Minimum lot sizes are allowed, for example quarter of an acre for residential property outside town sites and agricultural land lots of 100 acres. It is likely that permission would be refused for the division of lots into smaller areas than this. These restrictions on land divisions undoubtedly have an effect on land prices as small areas sold at inflated prices would not distort comparable evidence available as can be the case in the UK.

7. Summary of practice in Western Australia

7.1. Agricultural Industry

Western Australia covers a vast area of over 600 million acres and makes up one third of the whole Australian continent. The state is split into agricultural regions with a significant majority of the area being desert. This land is generally let on ‘pastoral leases’ from the Crown which are 35 years in length and are subject to review at the same time throughout the state (the next review is in 2023). Used for sheep grazing, these are generally referred to as ‘stations’ and are secure tenancies. To the north of the state there are areas of tropical horticulture (including mango, bananas and cotton) and in the south west wineries and dairy land.

The main source of income from agriculture in WA is however from the ‘wheat belt’ region. The area runs south east from north of Geraldton on the west coast to the east of Albany on the south coast. See appendix b for a map of Western Australia. This area is the main arable growing area of Australia (WA and South Australia provide over a quarter of the worlds’ malting barley). Main cropping includes milling wheat, malting barley, canola and lupins (used as sheep feed – 30% protein). A typical rotation within the belt might be wheat/lupin/ wheat/lupin/canola. In order to be viable it is suggested that a farm within the region would need to be on average 4,000 ha (approx. 10,000 acres).

The fertility of land is very dependent on rainfall within the area and this increases to the south west across the belt. Yields therefore increase towards the south west as a result. Average wheat yields are said to be 2.4t/ha with a 2010 price of $160/t[6] (on farm). The gross margin of wheat in the mid wheat belt is approximately $80/ha - $100 (all costs/pre-tax).

There is little let land in WA other than that let on pastoral leases. What little land is let, is generally of a 3-5 year lease and let by retiring families or those awaiting family to take over the management. Average rents are in the region of $60 - $100/ha and are very much dependant on arable prices. There is no legislation regarding the letting of agricultural land other than Crown lettings, agreements are merely governed by the rules of Contract Law. Tenancies usually run from January/February to coincide with end of harvest (the harvest varies within the state running from October to February with a start varying from October/early December).

Agricultural holdings within WA are referred to as ‘broad area’ agriculture i.e. those commercially viable and ‘rural lifestyle properties’ or ‘hobby farms’ i.e. those for which agricultural productivity may not be the primary purpose of ownership. Whilst areas of 4,000 ha are quoted as being the minimum required to be classed as a ‘broad area’ farms within the wheat belt an intensive dairy unit in the South West corner of the state may only

[6] Exchange rate as at 28 March 2011 - £1 = $1.56 Australian dollars

require 150 ha in order to be classed as viable and therefore 'broad area' farming. Generally the holding size increases the further east from the coast.

Although there was no official recession within WA (inflation stood at 3% in April 2010) there was negative growth within the state for 2 quarters at the end of 2008. Interest rates fell as a result of the global financial crisis, however the fall was followed by a succession of increases and stood at 4.25% in April 2010 (7.25% January 2008) and has since seen a slight increase to 4.75%. The state has a strong economy due to the natural resources available including substantial gold mining operations in the south east of the region.

7.2. Valuation Basis for Rating of Agricultural Land

In WA rates are paid on the basis of Gross Rental Value (GRV) for both residential and business properties. However, agricultural properties are paid on the 'Unimproved Value' (UV) which is unique to WA and Queensland.

The basis was originally introduced in order to avoid penalising farmers who improved land e.g. by clearing bush land, introducing drainage, fertilisers, irrigation, liming etc. when Australia became occupied as the more they did the more it was worth and in effect the more tax would have been payable. In reality there is very little unimproved land now as all land suitable for agricultural use has been developed, therefore little is changing hands in order to calculate the value. Those sales that do take place of unimproved land are for 'amenity purposes' i.e. people wanting a 'piece of unspoilt Australian bush land' therefore the prices reached can be unrealistic and with no relevance to agricultural economics. The method used to calculate UVs is the 'improved value of the land' minus buildings and then discounted by a percentage based on the estimated costs of clearance as defined in the Valuation of Land Act 1978. This still allows a degree of valuers' discretion and therefore subjectivity.

Amongst state valuers there is considerable disquiet regarding the continued use of UVs for agricultural land as the method is seen to be irrelevant for the industry in modern times and involves calculations which distort valuations as increases in the cost of 'clearance work' that must be assumed are not compatible with increases in land values. Thorough research was carried out regarding proposals for change by Rowe (2005) which included the recommendation to the state Valuer General that agricultural land be valued on the basis of site value based on 100% of the improved value of land. A full list of recommendations may be seen in appendix c. Much to the despair of the rural valuation team, the suggestions made were ignored.

Areas are divided using 'isovals'[7] and then into smaller sub-market areas (SMAs). These reflect key valuation criteria including rainfall, soil type, and proximity to urban areas. The system includes all relevant land sales data and satellite images and calculates values for each holding on a cleared hectare excluding buildings basis (CHAxB[8]) with larger areas of land reduced in value on a p/ha basis. The percentage reductions for improvements are 'gazetted' every year and vary depending on the shire (similar to UK counties). Reductions may be up to 50% of the improved value.

7.3. Administration of Rating Valuation Work

Most rating revaluations in WA take place three yearly, however for rural areas these are annual. All work is carried out 'in-house' by a dedicated team with three regional offices across the state. The valuation task is heavily reliant on sophisticated computer software which maps land values. Once valuations are complete following the revaluation work, the list is then passed to the local shire (council) to calculate billing.

Unlike many states The Valuer Generals in WA have consistently resisted outsourcing work to external agents. They believe that this gives them more control regarding the quality of work and monitored valuations and leads to fewer appeals in effect saving costs. There are generally more appeals against rating valuations in the 'fringe' areas i.e. those bordering the metropolitan area where land is of a higher value and there are more lifestyle properties.

In WA land is also subject to 'Land Tax'. This is a tax placed on property which is let, however the majority of agricultural land is not subject to the tax. The valuation basis for Land Tax on all properties (not just those agricultural) is unimproved land value and revaluations for these purposes take place annually; hence the annual cycle for the revaluation of agricultural land for ratings purposes.

8. Summary of practice in Victoria

8.1. Agricultural Industry

Victoria is geographically the smallest mainland state in Australia and is bordered by New South Wales to the north, South Australia to the west, and Tasmania to the south (on Boundary Islet). Victoria is the most densely populated state, and has a highly centralised population, with almost 75% of Victorians living in Melbourne, the state capital and largest city. The state is around 56 million acres in size approximately 1.7 times the size of England.

Victoria's southernmost position on the Australian mainland means it is cooler and wetter than other mainland states and territories. The climate is varied despite its small size and ranges from semi-arid and hot in the north-west (requiring irrigation), to temperate and

[7] 'Isovals' may be considered much like isobars but with land value trends rather than atmospheric pressure – i.e. lines connecting points of equal land value. A map showing isovals east of Geraldton may by seen in appendix d.
[8] CHAxB would include streams and rocky areas etc. rather than just the 'cropping' area.

cool along the coast. Victoria's main land feature, the Great Dividing Range, which forms the natural division between high and low rainfall produces a cooler, mountain climate in the centre of the state. As such Victoria is much more comparable in terms of size, population density and climate to England than Western Australia.

Victorian agricultural land values are predominantly affected by rainfall which increases to the south of the state (coastal areas). Land values have been significantly impacted in some drier areas due to 20 years of drought leading to very low water levels in the River Murray which is the main source of water for large parts of the north and west of the state.

Together with the effects of drought, over clearing, grazing and reduction in the water table has led to erosion, desertification and salinization in these areas. The land in the north west is mainly used for sheep grazing and some arable cropping were irrigation is still viable, however the region has become increasingly uneconomical with marginal farming and the Government have been buying back water rights from farmers to reduce abstraction. It is thought that recent floods in Queensland may have a positive impact on the level of the Murray River in Victoria.

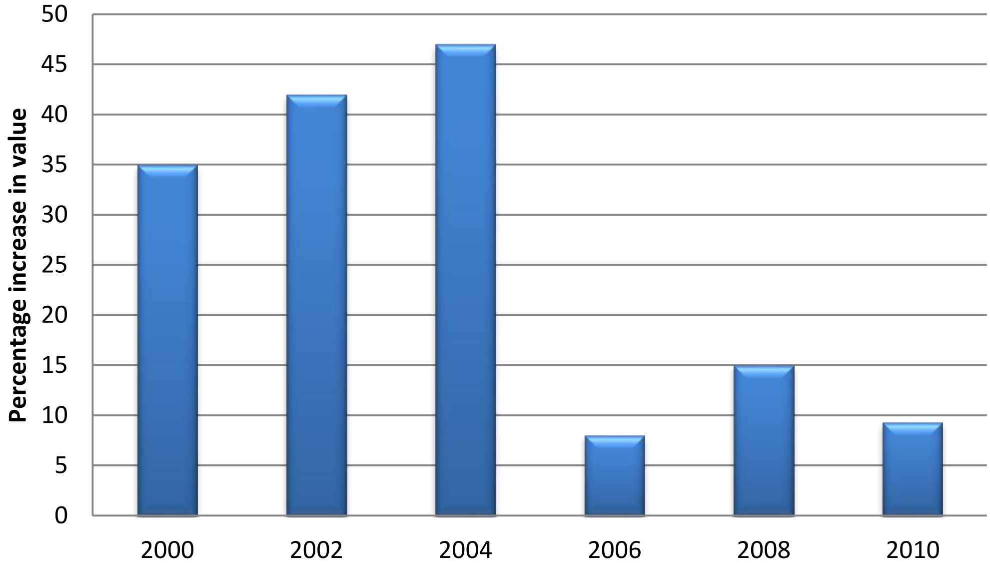
South west of the state is prime dairy land and there is also some intensive farming with market gardening in a belt to the south west of the city of Melbourne.

The North Country (north of the Great Dividing Range) consists of an interesting combination of mixed agriculture, ski fields, wine growing, old gold mines and several areas that have been severely affected by the bush fires in 2009. Cropping in this area is more varied than in the UK, with crops including chestnuts, walnuts and hops as well as vines. Historically there was a large population of Italian and Greek immigrant farmers involved in the tobacco industry. This industry was brought to an end by the Government in 2006/7 leading to a reduction in land values from approximately $25,000 to $15,000 per hectare. Many farmers went into viticulture at that time, however the market has proved to be unviable and as result many vines are now being destroyed.

Whilst land prices continue to increase in the state the percentage increase saw a rapid drop in 2006 and subsequent increases have not returned to the levels of the early 2000’s when the economy was booming.

Other potential impacts on land value particularly relevant to North Victoria include minerals (historic gold mining in the vicinity) and fire damage or risk of future fire damage from bush fires. However, local valuers do not believe these to have any effect on the capital value of agricultural land within the region. There is little conservation/environmental scheme participation within the state apart from tree planting and restrictions on clearance. These schemes are monitored or policed by local councils and overseen by state government.

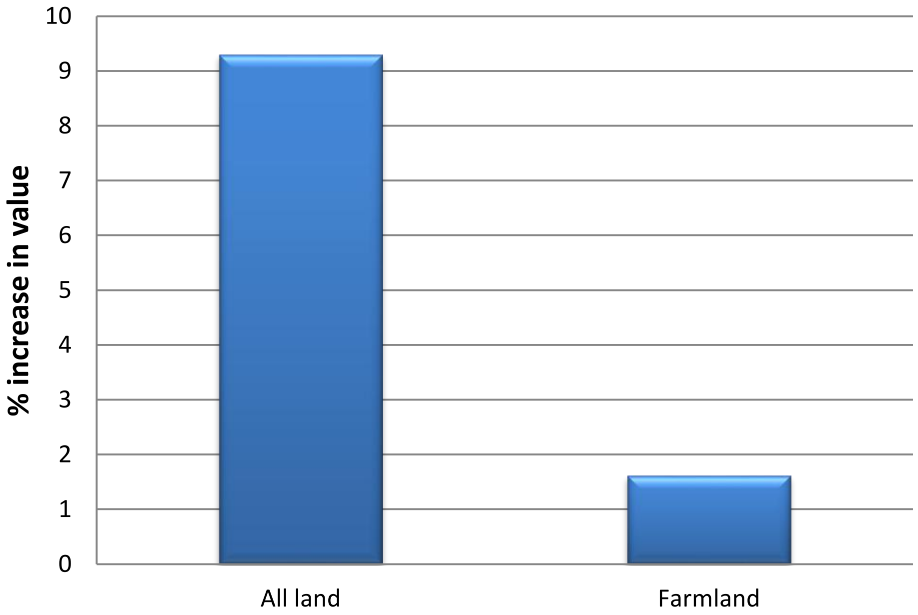
Figure 8. Land value increases in Victoria from 2000 - 2010



Source: pers.comm. Krelle (2010) Mr Krelle is Manager of Valuation Projects at the Valuer-General, based in Melbourne, Victoria

Whilst the percentage increase in the value of land in 2010 was 9% - these figures can be misleading when considering the agricultural land market. Due to the effects of drought and removal of some agricultural markets as described, the increase in the value of agricultural land was much less significant, with agricultural land values remaining relatively static in the state as shown in figure 9 below.

Figure 9. Land Value increases by type in Victoria 2010



Source: pers.comm. Krelle (2010)

Other markets in the Victorian rural environment include tourism, timber and transport. There is some concern within the state that country towns are struggling as a result of a number of factors including aggregation of abattoirs, local council aggregation and utility privatisation leading to local depot closure. As a result most are now relying on tourism for trade and agricultural holdings are attempting to benefit from this where possible.

As in the UK there has been a strong trend towards diversification on farms including in particular, organic farming which is a growing market in the state. Other trends such as ostrich farming have not been as successful.

Whilst some superannuation companies are investing in agricultural land in Victoria, they are not letting the land out for investment purposes as is common in the UK, but employing farm managers/consultants and farming it in-hand.

8.2. Valuation Basis for Rating of Agricultural Land

Unlike most states in Australia, Victorian valuers use a variety of valuation bases when valuing agricultural land for ratings purposes depending on the particular shire as shown in the table below.

Table 6. Valuation Methods used in Victoria for Agricultural Rating Purposes

Valuation basis	Calculation method
Site Value (SV):	the capital value of land including improvements but no buildings
Capital Improved Value (CIV):	capital value of land including all buildings and improvements
Net Annual Value (NAV):	a 'fair rent' calculated for residential and farm property at 5% of CIV

Source: Pers. comm. Krelle (2010)

Most shires now use CIV (very few NAV) with rates based on capital value and no decapitalisation[9] necessary for both commercial and residential property. Some councils use a combination of methods, this is referred to as a "shandy" approach.

As in WA, 'broad area' farms and 'hobby farms' are distinguished when selecting valuation techniques, however viable farms are considered to be much smaller within the state (approx. 250 acres). 'Hobby' or 'lifestyle' farm values are generally dictated by the size and/or quality of the residential property. Most diversified farms are valued on the basis of CIV, therefore no distinction is required between the business and land elements. With an

[9] Calculating rental values from capital values using an appropriate yield (i.e. rent = capital value/years purchase at yield)

estimated annual turnover around 5% of all landholdings within the state, sources of comparable evidence for valuations are more widely available than in the UK.

Farmland is rated at a considerably lower rate than other property (in some cases up to 75% reduction is applied). However, in order to qualify occupiers must make an application to the shire for their property to be classed as "farm land". The statutory definition as to what is considered farmland is found in Section 2(1) of the Valuation of Land Act 1960 and can be seen in appendix f.

8.3. Administration of Rating Valuation Work

Each shire within the state has the ability to decide which valuation methods to use for rating purposes. The Valuer-Generals Office (VGs) 'oversee' the process and issue Valuation Best Practice criteria to each shire. Shires in turn issue contracts to Municipal Valuers to carry out work on their behalf.

Four of the 78 shires in Victoria carry out valuations in-house but most contract out all their valuation work. Some of the companies that tender for contracts were set up purely to carry out municipal valuation work and most are not local to the areas.

Mid-2010 saw a significant and controversial change in the way the system is administered in Victoria with the shires no longer having control over how valuation work was carried out, and control given back to the state government to tender contracts and outsource work. This caused considerable consternation within the industry, particularly with shire-employed valuers, but it is hoped to reduce the number of appeals which currently amount to approximately 6,000 per annum with approximately 20 making it to court costing up to $200,000 per case.

The auditing of municipal valuers is rigorous, and detailed reports are required for all submissions. All valuations are checked by the Valuation Certification Team of which there are 7 staff employed for the entire state. Appeals are dealt with by the Victorian Central Administrative Tribunal (Land Section) (VCAT) and valuers are invited as expert witnesses.

In Victoria rating re-valuation work until 2000 was carried out every four years within the metropolitan area and six years in rural areas. Following this date all rating revaluations are now carried out biennially. As in WA sophisticated computer programmes are used, however shires and municipal valuers are entitled to choose whatever software they wish to assist them in the valuation. Most councils (over 60%) use the same programme which, as quoted by one nameless valuer "has taken 10 years to get the system just right!"

As in WA submarket groups (SMGs) are created which divide land into areas with particular common characteristics. Market evidence is used for calculating 'base' land values and matrices are set based on the locality.

Example

40 hectare @ $280,000 and each hectare thereafter up to 50 hectares @ $2,000 per hectare

(Plots over 120 hectares are reduced on a per hectare basis.)

The ‘base figure’ is then altered by percentages which reflect factors including the age and size of buildings, improvements to the property, soil type etc. Some factors are more important in different SMGs and this is reflected in the percentage adjustments available on the systems.

Work on rating revaluations takes around a year to complete including model checking and the collation of up to date data. The Valuation Date is 1 January, with submission of final valuations required by 1 April for dissemination to the local shire for billing purposes by the rating date of 1 July.[10]

Between revaluations it is expected that 30% of farms are revisited to check the details held by valuers are correct and up to date. Each actual sale of land is measured and soil samples are taken and analysed to enable data to be used in valuation work.

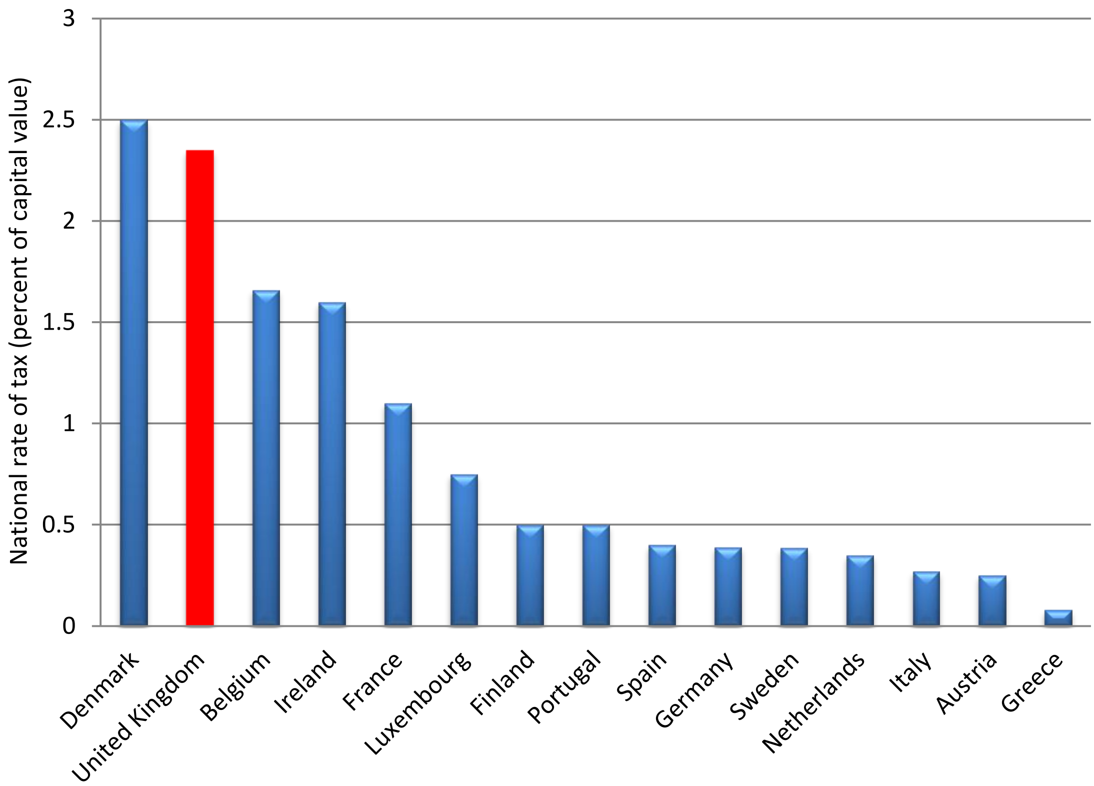
9. Summary of European practice

It would appear that in most European States agricultural land and buildings are not subject to a tax for business purposes. However some countries, as in the UK, consider such land and property to be exempt whist others place ‘zero’[11] bands on property that fulfils their classification as agricultural land and buildings. Fluctuating prices affect the agricultural industry in most European countries leading to support under CAP and many also suffered the effects of the two World Wars similarly to the UK, hence the reliefs and exemptions in place on the rating of agricultural land and buildings.

The rating regime in most European countries (Denmark excluded) is much less onerous on business property occupiers than in the UK, partly due to the number of reliefs available in some cases and also due to lower rates payable generally. Therefore where agricultural land and buildings are rateable, the burden placed on farms is far less significant than the potential English burden identified in the Lyon’s Report.

[10] The is also the case in WA – although the cycle there is annual rather than biennial
[11] Property is a subject to a non-domestic rate though are granted 100% relief from the tax or in some cases the tax is simply “not implemented”.

Figure 10. Rates of Corporate Property Taxation in the EU15[12] (2001)



Source: Lyons (2007)

10. Application and Implications in England

Having researched the valuation methodology and administration of agricultural land in Australia for business rates purposes and also explored the existing non-domestic rating system in England together with relevant valuation matters, general taxation and subsidies influencing agriculture property it is possible to reflect on the potential application of the proposals recommended in the Lyon's Report 2007, and contemplate some of the potential implications.

10.1. Sources of Information

In order to consider a mass valuation of UK agricultural land and buildings one firstly has to consider the sources of information that are currently available together with their limitations. It would appear that in contrast to Australia, currently there is little 'communication' between Government Departments in England and the sharing of information is minimal.

[12] EU15 in 2001 when data was collated this refers to the 15 states of the European Union at that time

10.1.1. The Valuation Office Agency

The VOA currently hold some details regarding agricultural holdings in the UK. This is in part due to their work involved with calculating composite hereditaments for the valuation of residential properties on farms for Council Tax purposes, as well as issues concerning diversification and appeals against non-domestic rating notices. The acreages of many holdings are kept on record although it is suggested (pers. comm. Dickinson (2011) Mr Dickinson is Council Tax Team Leader with the VOA and based in Stoke) that this information is patchy and in many cases out of date.

For council tax purposes the 'relevant amount' must be calculated which means that the value on the sale of the whole farm is to be assumed. This is referred to as the composite hereditament. However, there is no specific requirement in the regulations to carry out an actual valuation of the composite hereditament (i.e. the whole farm). What is required is merely "that portion of the relevant amount which can reasonably be attributed to domestic use" (VOA, 2011).

The VOA also gather and retain information following the valuation of farms for capital gains tax and inheritance tax purposes as well as some data from compulsory purchase valuations, though obviously this is only the case were such work has been necessary. Software systems currently used by the agency are updated regularly, however none bear much resemblance when it comes to mapping data and the overlaying of information including satellite imaging as in Australia.

Whilst there are now relatively few District Valuers within the VOA employed solely for their agricultural/rural expertise, there are around 20 agriculturally trained (or in-training) surveyors with qualifications given by the Central Association of Agricultural Valuers (CAAV) who would be extremely well qualified to carry out farm valuation work which involved detailed farm knowledge and understanding.

10.1.2. Local Councils

The existing rating system is designed so that the details of planning applications dealt with by the local authority are passed to the VOA in order to instigate a change in rates due. This does not seem to be consistent across the country and there appears to be a lack of understanding as to which planning applications might appropriately lead to a change in the annual taxation of a property.

10.1.3. Land Registry

Since 1997 it has been compulsory to register land on the occasion of transfer through sale, gift or mortgage in England and Wales (this includes leases of 21 years or more). However due to the limited number of agricultural land transactions taking place annually many agricultural ownerships remain unregistered and are likely to remain so for the foreseeable future.

The Land Registry estimates that as of 1 October 2010 approximately 75.63% of England and Wales was registered. However, these percentages are calculated on the number of titles as opposed to the area of land registered (pers. comm. Kirkby (2011), Mr Kirkby is Manager of the Land Register Development Team in Telford).

Table 7. Approximate Percentage of Registered Land in the UK by Type

Land Type	Percentage registered	Percentage unregistered
City	90%+	<10% (mostly roadways etc.)
Provincial town & suburb	70%+	<30%
Non estate farmland & woods	60%	40%
Estate land	70%	30%
Upload/mountains	40%	60%
Foreshore	99.9%	<1%

Source: Adapted from pers.comm. Kirby (2011)

10.1.4. Agricultural Land Classification Maps

Produced by Defra, Agricultural Land Classification Maps (ALC) provide a method for assessing the quality of farmland. Grades are given to land taking into consideration a number of factors which include climatic limitations such as gradient, microrelief and flooding; soil limitations such as texture and structure, depth, stoniness, chemical composition and interactive limitations including soil wetness, droughtiness and erosion. These maps can be particularly useful when assessing the productive capacity of a holding (Defra, 1988).

10.1.5. The Department of Food and Rural Affairs

Defra prepare annual statistics which give details regarding farming areas, and enterprises. These are mostly based on survey data sent out to all agricultural holdings which they consider to be commercial. Information sought includes area farmed, interest in property and cropping/livestock data. Statistics calculated on the basis of a voluntary questionnaire would not provide clear enough detail to assist in the valuation of individual units, however such data can be useful in giving an overall view.

10.1.6. The Rural Payments Agency

Where farmers claim single farm payments the Rural Payments Agency (RPA) hold a certain amount of information provided by the farmer. Information provided has improved as a result of the mapping update in 2010. However the areas mapped do not give the depth of detail required to carry out a valuation exercise such as distinguishing areas of track and woodland from the cropping area. There are also many farmers who are not registered with the RPA and do not claim payments, in particular many 'hobby farmers' and as such the information required for these properties would not be available.

10.1.7. Ordnance Survey

Ordnance Survey are the national mapping agency of Great Britain and prepare regularly updated geographic data. Whilst this data does show many geographical features they do not show legal boundaries.

10.1.8. Google Earth

Whilst digital satellite images are available in the public domain on sites such as Google Earth, due to strict privacy laws, the VOA are not permitted to use these for valuation purposes at the current time (pers. comm. Edwards, 2011).

10.1.9. Farmland Market

The Farmland Market is produced by the RICS biannually and gives details of all agricultural land transactions that have taken place including some actual sales prices (where not by private treaty). Using this information they provide indices on a county by county basis. (pers. comm. Mannix (2011). Ms Mannix is associate director of the RICS Rural Professional Group based in London).

10.1.10. Rural Practice Chartered Surveyors

Many Rural Practice Chartered Surveying companies have access to useful sources of information regarding farms/estates which they are involved in the management or sale of. Several of the larger firms also have research departments which prepare statistical data on rents and capital values regularly.

10.2. Industry opinion

Responses from those bodies acting in the interest of the farming population following the release of the Lyon's report were broadly similar. The Tenant Farmers Association (TFA), National Farmers Union (NFU), Country Land and Business Association (CLA), Central Association of Agricultural Valuers (CAAV) and Royal Institution of Chartered Surveyors (RICS) all understandably responded very strongly against the introduction of such a tax burden on the farming economy.

Most responses were mainly concerned with the percentage burden on TIFF which would take place as a result of the proposal, the fact that the industry was going through changes in funding through CAP reform measures, concerns regarding food security, global warming and the impact on environmental stewardship of the countryside seen to be a benefit to the public at large. Concerns were also raised regarding the impact on land prices and rents which could have a 'knock-on' effect across the country's economy. Of particular note the CLA raised their concerns regarding a fall in production in the UK as a result of proposals.

> ***"Broadly there is little point rating undeveloped land when in use for farming. It would drive production abroad with little or no net benefit to the exchequer"***
>
> ***CLA***

Whilst the majority of responses were entirely negative towards the proposals, the TFA took the view that those involved with commercial agriculture should continue to receive 100% relief whilst those that are involved in 'hobby farming' or 'lifestyle purchasers' should not be entitled to the same.

> ***"We do not believe that those owner-occupiers who are not gaining a significant proportion of their income from farming should be allowed access to the same reliefs as those who are more reliant upon farming income. The TFA would like to explore with the Treasury how it might ensure that the relief available for agricultural land and buildings does not extend to such occupation (lifestyle farmers)"***
>
> ***TFA***

None of the agricultural industry organisations contacted during the preparation of this paper have had any consultation on or further details about the proposals set out in the Lyon's Report following its release in March 2007.

The only Government Department response regarding an update on the proposals that has been received by the author has been from The Department of Communities and Local Government as shown below

> ***"The stance in England is that there are currently no plans to carry out a valuation exercise in respect of agricultural land"***
>
> ***DC&LG***

Sadly no response at all has been forthcoming from HMRC Treasury.

The rating of agricultural land and buildings has long been a source of debate in political circles with Labour campaigners seen to be supportive of a reintroduction and Conservative supporters in opposition. Indeed it could be suggested that the Conservatives are generally and historically more supportive of the farming industry compared to Labour whose supporters have been more likely to be from an urban background.

The Labour Land Campaign (LCC) gave a strongly favourable response to recommendations made in the Lyon's Report which clearly showed their opposition to any reliefs or subsidies which are currently enjoyed by the agricultural industry.

"Agricultural land is not only exempt from business rates but it benefits from a negative Land Value Tax in the form of CAP payments and other subsidies. A first step towards imposing Land Value Tax or business rates on agricultural land (which would amount to much the same thing) would be to curtail the largesse of the CAP subsidies, which quite clearly do not benefit the farming industry as a whole but are siphoned off in the form of higher rents"

LCC

Whilst the views expressed above are extreme, there are many amongst the population who question the fairness of the current reliefs and payments received by the industry.

10.3. Potential Application

Since the release of the report we have seen a change in Government from Labour to a Conservative/Liberal Democrat coalition led by the Conservative leader. One might therefore assume that in view of the historic support of the farming industry shown by the Conservatives, the matter is 'safe for now'.

Certainly with CAP reforms due in 2013 it would be unwise to instigate any changes which may affect the farming industry until the implications of the reforms are clear. Together with this the Government are more concerned with food security and self-sufficiency in the UK than they have since the 'butter mountains' of the 1980's and the introduction of business rates would undoubtedly affect food prices and potentially lead to higher imports.

However, since the release of the Lyon's Report, the economy has changed significantly and many of the UK's population are suffering from the effects of the global financial crisis in 2008 which in turn led to the UK recession in 2009 and subsequently the Government spending cuts announced in 2010 (the details of which are still, in many areas, to be confirmed). As a result the Government are now frankly in dire need of new sources of revenue.

Clearly any discussion regarding the re-introduction of rates on agricultural land and buildings is a contentious issue and even if the Government were to see it as a quick way of raising finance, the initial costs and resources would be incredibly burdensome.

It would, however be amiss not to outline a couple of sound arguments as to why the Government might decide to look at the current system and potentially carry out a valuation exercise of agricultural land and buildings in the future.

There are many inconsistencies within the application and understanding of the current system, both in terms of the calculation of council tax on domestic dwellings on agricultural holdings and with business rates on some diversified farm enterprises. With an increase in diversification on farms these discrepancies are likely to increase. A 'broad-brush' approach to all land and buildings on a farm would give clarity and fairness to the system.

All exemptions and reliefs from non-domestic business rates are required to be 'for the benefit of the public at large'. Whilst granting an exemption to an industry to enable cheap food production following periods of war is evidently of benefit to the entire population, it is perhaps more difficult to find such adequate justification in the current economic climate.

If non-domestic rates on agricultural land and buildings were to be re-introduced, the valuation methodology needs to be considered. Following research carried out as part of this paper it is suggested that the most equitable basis would be a 'rateable value' based on a *'hypothetical rent'* (as is the case for existing rateable properties). It is suggested that the hypothetical rent be based on the productive capacity and related earning capacity of the holding (ignoring market rents and capital value of land due the influences on these discussed in section 5 of this paper). The basis suggested would be similar to the calculation of AHA rents or in effect the profits method of valuation.

It may be suggested that a more regular revaluation than the existing 5 yearly cycle be considered for agricultural land and property due to fluctuations in agricultural commodity prices.[13]

A valuation exercise would encompass the valuation of potentially 200,000 holdings and it is suggested that the work could be carried out by the VOA with new computer systems researched and installed to enable revaluation work to be carried out with more ease. These should at least have the level of functionality as the systems available in Australia. Improvements in communication between Government departments should also be instigated to ensure all data is made available to assist in valuation work.

[13] In effect the current five year revaluation cycle and antecedent date of valuations system means that the rateable value of a property in the UK may be based on a valuation that was carried out up to seven years previously.

It is likely that some jobs would need to be created in order to deal with the resource heavy collation of data and inputting, together with the initial valuation work. This could be on the basis of temporary contracts for the period of the valuation project (expected to take approximately two years). The work could be carried out by agricultural valuers, potentially graduate rural practice surveyors, who may be employed at a lower income on the basis that they receive the training required over the contract period in order to qualify as Chartered Surveyors through the RICS and Agricultural Valuers through the CAAV. It is considered that the experience gained would be adequate to achieve this goal. The trainees could be seen as 'cadets' or 'apprentices' in their field.

Whilst it is thought that the VOA could employ trainees to carry out much of the work in-house, it is also believed that due to the shortage of rural surveyors within the VOA and also the location of VOA offices, some work could be out-sourced to regional qualified rural practice Chartered Surveyors with good local knowledge and experience of farm budgets in order to deal with more complex matters. Much data collection could be via a questionnaire sent out to all holdings which could then be cross-checked against the data available on the computer systems and linked to current commodity price data. It is thought that each holding would however, require a site visit (during the initial valuation period) once data has been collected in order to check details and adjust figures accordingly.

Whilst the resources required in order to carry out a valuation exercise may seem excessive, after an initial valuation has been carried out and computer systems are perfected, it is expected that a similar work cycle could be introduced as in Australia; including checking and updating data for revaluations and where changes to the holding are alerted either via the Land Registry or Local Planning Authority together with visiting a proportion of farms between revaluations. All work following the initial valuation could be retained in house by the VOA with a small increase in the number of rural specialist District Valuers (perhaps retaining the best of those on temporary contracts following the end of their contract).

The introduction of non-domestic rates on agricultural land and buildings is so contentious and has such serious implications to the UK economy and repercussions for a strongly Conservative coalition it seems unlikely that agricultural land and buildings would be rated for the foreseeable future. However if a change in legislation lifted the widely debated exemption and instead replaced it with 100% relief this could lead to the potential for future Governments to gradually decrease the relief granted perhaps in line with changes to the direct payments given to the agricultural industry. It is suggested that if rates were re-introduced perhaps a relief of 75% on commercial agricultural businesses[14] as is the case in some parts of Australia may be applicable.

[14] It is suggested that the rating of hobby/lifestyle farms should be distinguished from commercial agricultural property. Hobby/lifestyle farms could be seen as extended domestic properties and dealt with under Council Tax regulations.

11. Conclusion

With a growing population in the UK[15] and those with farming incomes only a tiny proportion of the total, it seems unfair to many that land and buildings used for the purposes of any business should be exempt from rates when the majority are burdened by such taxes. It appears that the argument will continue for some time to come, but without a real idea as to how much revenue is forgone by the exemption any argument seems someone flawed. Table 11 below attempts to consider the current value of an exemption in England under a number of variables. What is clear above all else is that the figure of £450 million in 2007 is wildly out of date in an economy that has changed significantly since that date.

Table 8. An estimate of the cost of the business rate exemption on agricultural land and property

Valuation basis for rateable value	Rateable value per acre	Total rateable value of agricultural land in England[16]	Potential rating bill standard multiplier[17]	Potential rates as % age of TIFF[18]	Potential rating bill reduced multiplier (75% relief)[19]	Potential rates as % age of TIFF[20]
Average AHA rent[21]	£70/ac	£1.557 billion	£0.644 billion	19%	£0.161 billion	5%
Average FBT rent[22]	£100/ac	£2.224 billion	£0.921 billion	27%	£0.230 billion	7%

Source: See footnote for details

Note regarding valuation

In the 2007 report, Sir Lyons noted the significance of his proposals regarding the level of the estimated tax liability (£450 million) as a proportion of TIFF in England and Wales (£1.9 billion in 2005). This equated to a bill of approximately 24% of TIFF.

The figures have been calculated using England only TIFF and the total utilised agricultural area in England. Clearly if Wales were to be included as in the Lyon's Report figures these would be somewhat higher.

[15] England population mid 2009 was approximately 52 million (Office for National Statistics, 2011)
[16] Based on total utilised agricultural area (TUA) of England of approximately 9 million hectares (22,239,000 acres) TUA is made up of all arable and horticultural crops, uncropped arable land, land used for outdoor pigs, temporary and permanent grassland and common rough grazing (Defra, 2010a).
[17] Based on the 2010/11 Standard Multiplier of 41.4p in the pound (Shropshire Council, 2011.)
[18] Based on the 2008 TIFF figure for England of £3,414,400,000 (Defra, 2010c)
[19] 75% relief applied in line with reliefs on agricultural land granted in Victoria, Australia – 10.35p in the pound
[20] Based on the 2008 TIFF figure for England of £3,414,400,000 (Defra, 2010c)
[21] Based on average AHA rents (restricted, farm budget related rents) for 2010 (Savills, 2011)
[22] Based on average FBT/open market rents 2010 (Savills, 2011)

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Appendices

Appendix A	Local Government Finance Act 1988 – Schedule 5 – Non-Domestic Rating: Exemption
Appendix B	Map of Western Australia
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Appendix A

Local Government Finance Act 1988

SCHEDULE 5

NON-DOMESTIC RATING: EXEMPTION

Agricultural premises

1A hereditament is exempt to the extent that it consists of any of the following—

(a)agricultural land;

(b)agricultural buildings.

2(1)Agricultural land is—

(a)land used as arable, meadow or pasture ground only,

(b)land used for a plantation or a wood or for the growth of saleable underwood,

(c)land exceeding 0.10 hectare and used for the purposes of poultry farming,

(d)anything which consists of a market garden, nursery ground, orchard or allotment (which here includes an allotment garden within the meaning of the Allotments Act 1922), or

(e)land occupied with, and used solely in connection with the use of, a building which (or buildings each of which) is an agricultural building by virtue of paragraph 4, 5, 6 or 7 below.

(2)But agricultural land does not include—

(a)land occupied together with a house as a park,

(b)gardens (other than market gardens),

(c)pleasure grounds,

(d)land used mainly or exclusively for purposes of sport or recreation, or

(e)land used as a racecourse.

3A building is an agricultural building if it is not a dwelling and—

(a)it is occupied together with agricultural land and is used solely in connection with agricultural operations on the land, or

(b)it is or forms part of a market garden and is used solely in connection with agricultural operations at the market garden.

4(1)A building is an agricultural building if it is used solely in connection with agricultural operations carried on agricultural land and sub-paragraph (2) or (3) below applies.
(2)This sub-paragraph applies if the building is occupied by the occupiers of all the land concerned.

(3)This sub-paragraph applies if the building is occupied by individuals each of whom is appointed by the occupiers of the land concerned to manage the use of the building and is—

(a)an occupier of some of the land concerned, or

(b)a member of the board of directors or other governing body of a person who is both a body corporate and an occupier of the land concerned.

(4)This paragraph does not apply unless the number of occupiers of the land concerned is less than 25.

5(1)A building is an agricultural building if—

(a)it is used for the keeping or breeding of livestock, or

(b)it is not a dwelling, it is occupied together with a building or buildings falling within paragraph (a) above, and it is used in connection with the operations carried on in that building or those buildings.

(2)Sub-paragraph (1)(a) above does not apply unless—

(a)the building is solely used as there mentioned, or

(b)the building is occupied together with agricultural land and used also in connection with agricultural operations on that land, and that other use together with the use mentioned in sub-paragraph (1)(a) is its sole use.

(3)Sub-paragraph (1)(b) above does not apply unless—

(a)the building is solely used as there mentioned, or

(b)the building is occupied also together with agricultural land and used also in connection with agricultural operations on that land, and that other use together with the use mentioned in sub-paragraph (1)(b) is its sole use.

(4)A building (the building in question) is not an agricultural building by virtue of this paragraph unless it is surrounded by or contiguous to an area of agricultural land which amounts to not less than 2 hectares.

(5)In deciding for the purposes of sub-paragraph (4) above whether an area is agricultural land and what is its size, the following shall be disregarded—

(a)any road, watercourse or railway (which here includes the former site of a railway from which railway lines have been removed);

(b)any agricultural building other than the building in question;

(c)any building occupied together with the building in question.

6(1)A building is an agricultural building if it is not a dwelling, is occupied by a person keeping bees, and is used solely in connection with the keeping of those bees.
(2)Sub-paragraphs (4) and (5) of paragraph 5 above apply for the purposes of this paragraph as for those of that.

7(1)A building is an agricultural building if it is not a dwelling and—

(a)it is used in connection with agricultural operations carried on on agricultural land, and

(b)it is occupied by a body corporate any of whose members are the occupiers of the land.

(2)A building is also an agricultural building if it is not a dwelling and—

(a)it is used in connection with the operations carried on in a building which, or buildings each of which, is used for the keeping or breeding of livestock and is an agricultural building by virtue of paragraph 5 above, and

(b)sub-paragraph (3), (4) or (5) below applies as regards the building first mentioned in this sub-paragraph (the building in question).

(3)This sub-paragraph applies if the building in question is occupied by a body corporate any of whose members are the occupiers of the building or buildings mentioned in sub-paragraph (2)(a) above.

(4)This sub-paragraph applies if the building in question, and the building or buildings mentioned in sub-paragraph (2)(a) above, are occupied by the same persons.

(5)This sub-paragraph applies if the building in question is occupied by individuals each of whom is appointed by the occupiers of the building or buildings mentioned in sub-paragraph (2)(a) above to manage the use of the building in question and is—

(a)an occupier of part of the building, or of part of one of the buildings, mentioned in sub-paragraph (2)(a) above, or

(b)a member of the board of directors or other governing body of a person who is both a body corporate and an occupier of the building or buildings mentioned in sub-paragraph (2)(a) above.

(6)Sub-paragraph (1) above does not apply unless the use there mentioned, or that use together with the use mentioned in sub-paragraph (2) above, is its sole use.

(7)Sub-paragraph (2) above does not apply unless the use there mentioned, or that use together with the use mentioned in sub-paragraph (1) above, is its sole use.

(8)Sub-paragraph (4) or (5) above does not apply unless the number of occupiers of the building or buildings mentioned in sub-paragraph (2)(a) above is less than 25.

8(1)In paragraphs 1 and 3 to 7 above "agricultural land" shall be construed in accordance with paragraph 2 above.
(2)In paragraphs 1 and 5(5)(b) above "agricultural building" shall be construed in accordance with paragraphs 3 to 7 above.

(3)In determining for the purposes of paragraphs 3 to 7 above whether a building used in any way is solely so used, no account shall be taken of any time during which it is used in any other way, if that time does not amount to a substantial part of the time during which the building is used.

(4)In paragraphs 2 to 7 above and sub-paragraph (2) above "building" includes a separate part of a building.

(5)In paragraphs 5 and 7 above "livestock" includes any mammal or bird kept for the production of food or wool or for the purpose of its use in the farming of land.

Appendix B

Source: Government of Western Australia (2011)

Appendix C

RECOMMENDATIONS

The following recommendations are made in order of preference:

1. **Amend the Valuation of Land Act to include a new definition of unimproved value which is effectively 100% of improved value.**

   Under Part 1 Section 4, interpretation, unimproved value (vii) (I) and (II) - delete items (I) and (II) and create new a "definition" to read:

   > "the capital amount that an estate in fee simple in the land might reasonably be expected to realise upon sale assuming that the developed land has been developed without buildings to the standard generally prevailing in the part of the state in which the land is situated and taking into account any restrictions on the land imposed under any written law."

   This definition of value is preferred as a basis for rating and taxing for the following reasons:

   - It is the most easy to understand and determine from sales evidence.
   - Apart from buildings, there is no need to estimate value of non merged improvements (fencing, water supplies etc) as required under the definition of site value.
   - The current definition of site value is not suitable for application to rural land where the definition of merged improvements is silent on the question of fertilizer banks, pastures, dams etc.

2. **Adopt the Valuation of Land Act Definition of Site Value.**

   Under Part 1 Section 4, interpretation, "unimproved value" means -;

   1. amend (a) to read: "in relation to any land except land referred to in paragraph (b) (ii), the site value;"
   2. delete (vii) (I) and (II)

   NOTE: While the current definition of site value is silent on the question of fertilizer banks, pastures, dams etc, this difficulty could be overcome by State Solicitors Office advice and/or the development of a suitable valuation policy.

3. **Prescribe 50% for All Properties/VENS - Under Valuation of Land Act Regulations**

This option would see all land covered under Part 1 Section 4, interpretation, unimproved value (vii) - apply a flat 50% gazetted prescribed percentage for all rural land irrespective of size.

Advantages:

- Values determined under this definition are effectively improved values excluding structural improvements - which provides an equitable basis for rating and taxing land.
- Overcomes inequalities in shires or areas in which differential prescribed percentages are applied to improved land to calculate unimproved values.
- Values will be correctly coordinated.
- Values easy to determine from sales evidence.

Disadvantages

- Coordination with values in townsites would be incorrect.
- Values would be artificial (Not readily understood) and of no use other than for rating & taxing.
- Since the Govt Assets valuation system feeds off the unimproved value system, the values produced for asset purposes would increase by up to 67% and be difficult to justify to RGA clients.

4. **Prescribe 50% For all Shires Under Valuation of Land Act Regulations**

This option would allow the Valuation of Land Act to remain unchanged but would prescribe 50% in accordance with Part 1 Section 4, interpretation, unimproved value (vii) (I) and (II).

Advantages

Overcomes inequalities in shires or areas in which differential prescribed percentages are applied to improved land to calculate unimproved values.

- Large property values will be correctly coordinated.
- Large Property values easy to determine from sales evidence.

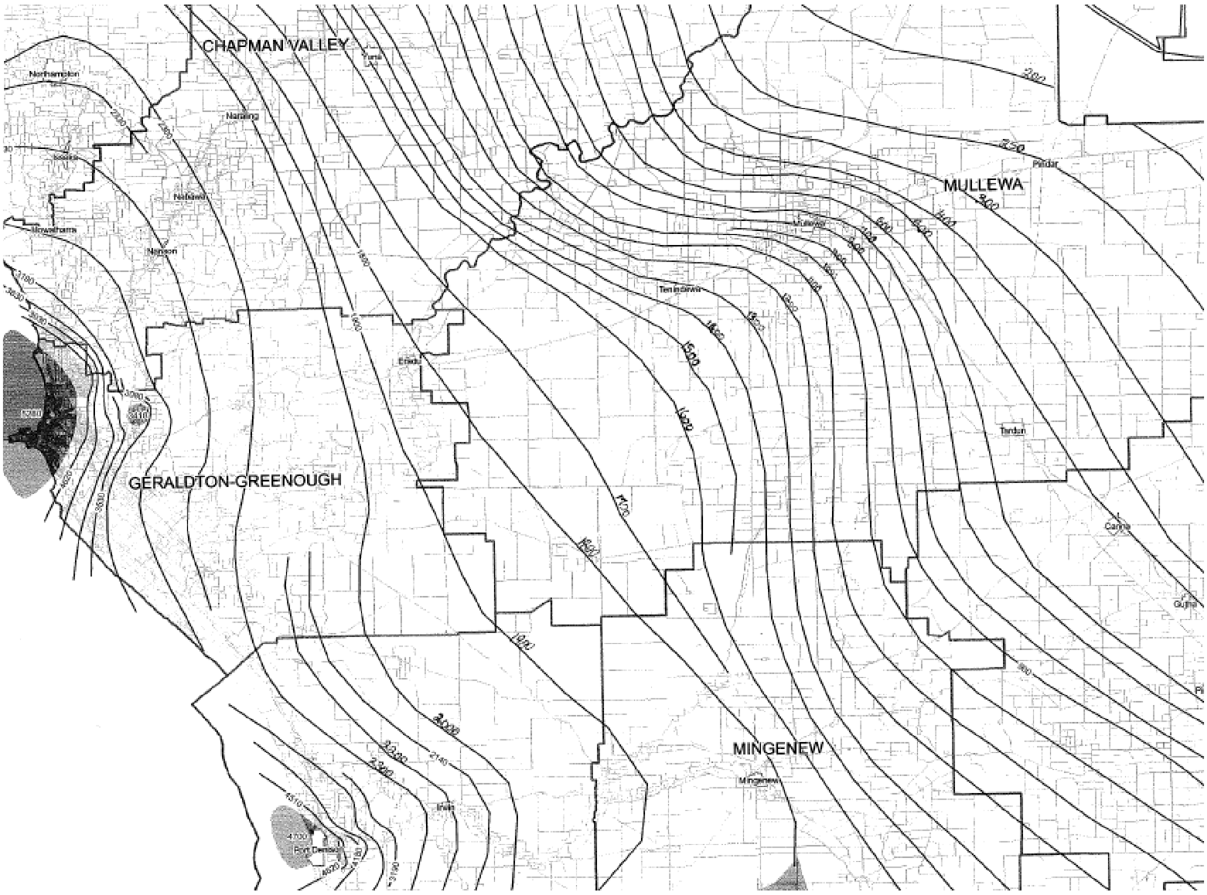
Disadvantages

- Valuers would still need to apply the definition of unimproved value described in item I (Capital amount ..fee simple..) for the purposes of determining UV's for small area properties(for which unimproved sales evidence exists such as rural subdivisions) and large areas of unimproved land (such as coastal properties).

- The adoption of these two different methods of valuation would lead to an inequitable basis of rating or taxing with some land valued on the basis of 50% of improved value with other valued on the basis of up to 90% of improved value. The inequality subsists with the practice in which values determined by the prescribed percentage are theoretical and not necessarily market related while others are valued at 90% of improved value because of the existence of market evidence.
- Coordination with values in townsites would be incorrect.
- Values would be artificial (not readily understood) and of no use other than for rating & taxing.
- Since the Govt Assets valuation system feeds off the unimproved value system, the values produced for asset purposes would increase by up to 67% and be difficult to justify to RGA clients.

Source: Rowe (2005)

Appendix D



Appendix E

Source: GreenwichMeanTime.com (2011)

Appendix F

Section 2(1) of the Valuation of Land Act 1960

"Farm land" means any rateable land -

(a) That is not less than 2 hectares in area; and

(b) Is used primarily for grazing (including agistment), dairying, pig-farming, poultry-farming, fish-farming, tree farming, bee-keepings, viticulture, horticulture, fruit-growing or the growing of crops of any kind of for any combination of those activities; and

(c) That is used by a business

(i) that has a significant and substantial commercial purpose or character;

(ii) that seeks to make a profit on a continuous or repetitive basis from its activities on the land; and

(iii) that is making a profit from its activities on the land, or that has a reasonable prospect of making a profit from its activities on the land if it continues to operate in the way that it is operating