

# Aggregation Model Support

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## Challenge and Opportunity

Aggregation models which bring multiple land managers together, provide a suitable mechanism through which farmers can gain access to private finance and alternative revenue streams for the delivery of environmental outcomes. They also facilitate the delivery and monitoring of nature-based solutions and environmental improvement projects at scale.

They enable:

- environmental projects to reach the scale required by investors,
- farmers to come together to achieve economies of scale when delivering and selling ecosystem services, and
- the delivery of landscape scale solutions to meet the UK's target environmental outcomes.

While there are several farming aggregation models operating around the UK, there is limited evidence of further knowledge sharing and collaboration between groups and little evidence of shared governance principles. There is also a funding gap for the early development of aggregation models, including legal costs.

Concerns around both the sustainability and integrity of aggregation models can deter farmers from joining an aggregation project, or from establishing their own.

## Aggregation Models

There are several opportunities available to farmers to sell environmental outcomes or ecosystem services and attract private sector finance if they come together at scale. In addition to the sale of peatland or woodland carbon credits into voluntary offset markets, some water utility firms are paying groups of farmers for reduced nutrient run-off. Farmers may also be able to create habitat banks that sell Biodiversity Net Gain (BNG) units. In some examples, farmers can deliver natural flood

management interventions and monetise the resulting reduction in flood risk to beneficiaries including Local Authorities [see **Table 8** for further examples].

Many farmers are already familiar with working collectively through cooperatives or clusters. The Game and Wildlife Conservation Trust (GWCT), for example, set up the first pilots of farmer cluster groups in partnership with Natural England in 2014.<sup>59</sup> Since then, the number of known farmer clusters captured by GWCT has grown to include over 120 clusters covering more than 660,000 hectares in England, Scotland and Wales.<sup>60</sup> However, as farmer clusters are often not formalised, there may be clusters that have not been accounted for in these figures. For example, 180 groups of farmers have been funded through the Countryside Stewardship Farm Facilitation Fund, at the time of this report.

These clusters are groups of farmers and other stakeholders in a landscape, coming together to address localised environmental concerns. They are often farmer-led with the help of facilitators, technical experts and trusted advisors. This 'ground-up' approach builds engagement with local communities and ensures that land and any funding is managed by communities already embedded within the landscape. Priorities of these groups range from monitoring, protecting and restoring bird and mammal species to improving soil health and soil carbon sequestration.

As new markets for ecosystem services develop, farmers will now also need to aggregate together at catchment or landscape level to reach the scale of delivery required by buyers and investors.

In England specifically, 40% of all farms are under 20 hectares in size and therefore almost half of farmland opportunities for ecosystem service enhancements come from small scale holdings.

Despite there being examples of farmers forming groups to access payments for ecosystem services schemes, these aggregation models are not widespread.

<sup>59</sup> Farmer Clusters

<sup>60</sup> Farmer Clusters Map

A summary of aggregation model types that are currently accessing nature markets in the UK is provided in Table 8 below:

Aggregation Model	Project	Model Structure	Key Features	Private Finance Mechanisms Unlocked
<b>Farmer Cooperative</b>	Environmental Farmers Group (EFG) *	Natural Capital Trading Cooperative Model	Originated from farmer clusters. Farmer-led model including small to large scale farmers, including tenant farmers.	Biodiversity Net Gain Nutrient Neutrality Voluntary carbon markets and supply chain carbon insetting
<b>Farmer Cluster Groups</b>	North East Cotswold Farm Cluster Group	Community Interest Company (CIC);	Farmer cluster group with objectives to improve soil health, map, create, enhance and link priority habitats through private and public funding.	Voluntary carbon markets Biodiversity Net Gain, Water quality Natural flood management
<b>Landscape Enterprise Networks (LENS)</b>	East of England LENS *	Demand side led and supply side aggregation	Supply and demand aggregation of NbS interests in a landscape. Supply side coordinated through supply aggregators for joined up proposition.	Flood risk mitigation Water quality GHG emissions reduction Carbon sequestration
<b>River Catchment Led</b>	Wyre NFM *	Wyre NFM – Community Interest Company (CIC)	Use of private sector finance to deliver flood risk reduction via natural flood management.	Natural flood management Carbon sequestration Water quality Biodiversity
	Poole Harbour *	Poole Harbour Agriculture Group Community Interest Company (CIC)	Multi-stakeholder group formed to reduce the levels of nitrogen in the catchment's waterways.	Sale of nitrate credits

Aggregation Model	Project	Model Structure	Key Features	Private Finance Mechanisms Unlocked
Farmer Led	Wending Beck Environment Project *	Limited Liability Partnership	Originated from neighbouring farmer partnership.	Biodiversity Net Gain
	Green Farm Collective *	Limited Company	Formed through shared values of soil health.	Carbon offsets Biodiversity improvements Regenerative agricultural premium products
Private Sector Led	Arla *	Farmer Owned Cooperative	Dairy farmer owned cooperative – profits of business shared amongst farmers.	Regenerative agricultural premium products – specifically a premium paid on milk price for completing carbon baselining and implementing sustainability actions on farm

\* summaries and case studies of these models are provided in the **Appendix**

**Table 8:** Aggregation Models in England

**Box 12:** Community Interest Companies

## Community Interest Company

- 📌 A number of aggregated groups of farmers have used the Community Interest Company or CIC model. Community Interest Companies (CICs) were first established in the UK in 2005. They are a type of limited company that trades with a social purpose, or carries out other activities for the benefit of a community.

CICs are intended to use their assets, income and profits for the benefit of the community that they are formed to serve. They therefore have a number of additional features compared to a traditional limited company, including being subject to an 'asset lock' that ensures assets are retained within the company to support its activities or otherwise used to benefit the community. Case studies on the use of this structure can be found in the Appendix of this report.



## Recommendation

Recognising the benefits offered by aggregation groups to constituent farmers, we propose the below recommendations that can collectively support the ongoing success of aggregation models, enabling farmers to access private sector capital alongside public funding.

- **Phase 1** – Creation of a Community of Practice for existing and emerging models to share knowledge and best-practices for farmers.
- **Phase 2** – Identification of development funding for aggregation models, including from the private sector.
- **Phase 3** – Development of overarching Aggregation Model Principles to instil farmer confidence.

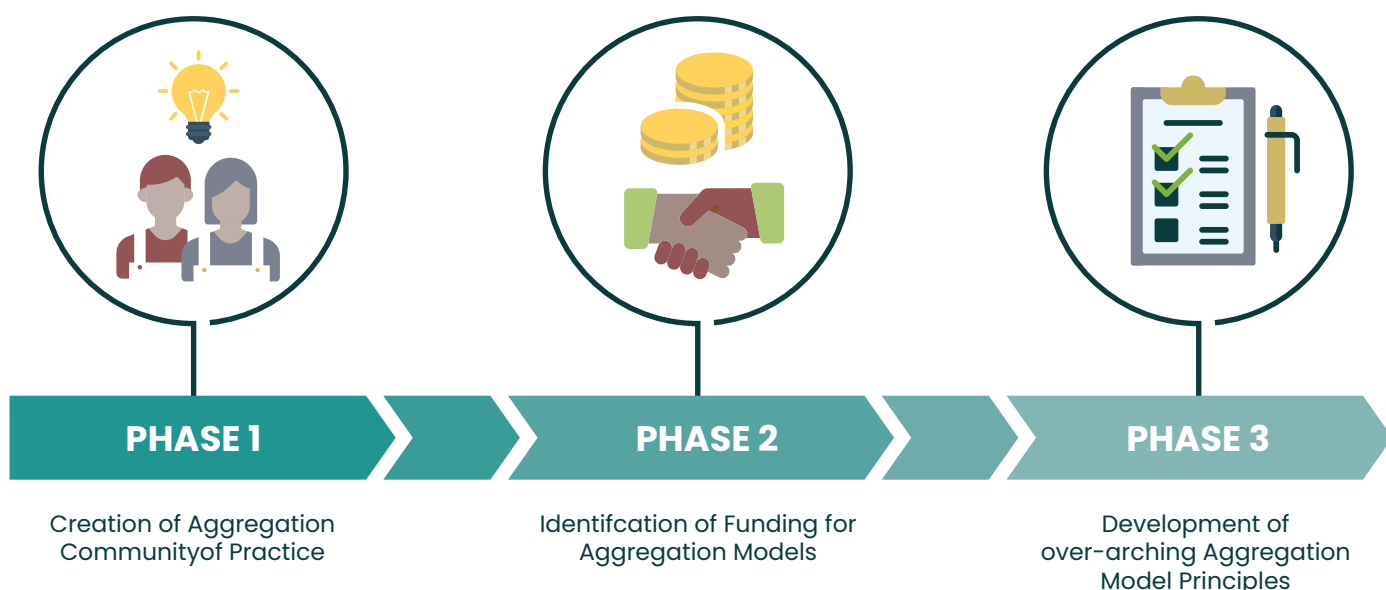


Figure 5: Key Enabler: Aggregation Model Support





## Step 1: Determine Content and Host of Community of Practice

Communities of Practice are groups of individuals or organisations that are brought together through a shared interest in a specific subject area, typically with the goal of furthering their expertise in and delivery of said subject area. They are designed to facilitate peer-to-peer and collaborative learning that enables members to develop what is considered to be best practice in that area.<sup>61</sup>

Examples of Communities of Practice focussed on green finance and nature restoration include the Natural Environment Investment Readiness Fund (NEIRF) Community of Practice in England, and Scottish Nature Finance Pioneers (SNFP) in Scotland. These are designed to increase capacity and capability of project developers, as well as to foster collaboration and knowledge exchange between land managers, eNGOs, businesses and financial institutions.

Having an Aggregation Model Community of Practice would provide a platform for peer-to-peer learning and knowledge exchange, accelerating the development of new farming clusters and other aggregation models. Information can be shared between participants on key considerations when starting an aggregation model, including but not limited to

- formation of legal structures
- revenue generating options
- potential tax implications
- example or template legal documentation
- the regulatory environment around trading
- different drivers of aggregation (investor/buyer driven, land manager driven)
- income identification
- examples of different legal structures of aggregated groups
- the benefits and drawbacks of various aggregation models in operation

Through sharing case studies and the facilitation of discussion groups, early stage aggregation groups can more swiftly overcome these barriers.

The Community of Practice can be hosted by external organisations, with content shared across multiple relevant platforms for broader knowledge exchange. Possible hosts include those within farm education, such as The Institute for Agriculture and Horticulture (TIAH) that aims to help farmers upskill, develop bespoke learning pathways and signpost farmers to important resources. Another option to host the Community of Practice is the Green Finance Institute (GFI). The GFI has experience developing learning materials for farmers and project developers in accessing private markets, and in supporting the NEIRF Community of Practice. The Environment Agency which already hosts the NEIRF Community of Practice and works with Catchment Partnerships, could provide an alternative, working with the private sector and sharing findings cross-border.

In addition to supporting aggregation models, the Community of Practice can also support knowledge exchange on topics beyond aggregation models for the farming community, such as practical ways of baselining soil carbon. It therefore would benefit from having a partnership with farming groups, if not hosted by a farming group directly.

<sup>61</sup> National Voices. 2017. Enabling change through communities of practice.

## The Institute for Agriculture and Horticulture

- ▶ TIAH aims to provide tailored advice and practical tools to help develop training and skills for farmers and other professionals in agricultural and horticultural businesses. Alongside support from Defra, the Institute was developed by a project group that included the NFU, AHDB, farmers, employers, industry leaders and higher education specialists. TIAH was established as a charity in 2021 and it aims to reduce the fragmented way the industry approaches skills and training. It acts as a co-ordinating force for both employers and employees.

Acting as a hub, TIAH directs users to relevant training courses and information based on their career goals, collects data on the current state of the labour market, and includes a capability framework to assist individuals in identifying the skills they need. It will also simplify audits and record keeping across the industry by providing independent Continuing Professional Development (CPD) records and collating personal achievements, to be used to demonstrate compliance. Although TIAH's initial scope is England, it is engaging with the devolved nations to encourage future collaboration.



### Step 2: Assess Potential Government Funding and Guidelines for Funding

Access to funding has been identified as a key barrier to the wider development of farm aggregation models. Anecdotally, the establishment and development of some larger aggregation models to a stage of active trading can require between £100,000 to £200,000. These costs can include headcount, training, marketing, natural capital baselining, legal, tax and accounting costs. The largest share of aggregation start-up costs have been attributed to natural capital baselining, legal and accounting costs and time given in-kind.

The time taken to develop aggregation models to a stage when revenue streams can be realised can be up to two years, including time spent on business case development, financial modelling and stakeholder engagement. This presents a level of uncertainty for group members as cash flow from the future sale of ecosystem services is not guaranteed.

Sourcing funding for the first two years is therefore critical to de-risking the development of aggregation models and the ability of farm clusters to form and deliver ecosystem services. Aggregation models currently do this through a combination of different funding sources, including annual farmer contributions per hectare, company sponsorships through CSR budgets, membership subscriptions and public and philanthropic grants. With a demand-led model like LENS, some of these costs may be covered by the private sector.

### Potential Public Sector Sources of Funding

If government does not have the appetite to set up a dedicated fund to support aggregation models, it could explore the use of current funding pots to cover some early-stage development costs associated with aggregation models.

### Countryside Stewardship Facilitation Fund

The Countryside Stewardship Facilitation Fund is one such source of funding that could be expanded (Further details in **Box 12** and in **Case Studies**). While the Fund does not pay for the establishment of aggregation models, it could expand its remit to provide funding towards operational costs such as legal costs – requiring models to be part of a Community of Practice to speed up development and ensure the adherence to best practices.

The Fund has already proven to be successful at delivering Countryside Stewardship priorities and addressing land management issues within funded groups.<sup>62</sup> As such, the Fund provides a good foundation to aid development of aggregation models through a series of possible enhancements.

These could include the following:

- Inclusion of green finance and natural capital markets in facilitator training.
- Ensuring that the application process to the Fund is simple and the administration processes are efficient.
- Providing funding for activities that will enable the creation and expansion of aggregation models at scale, such as legal advice on specific key topics.
- Linking the Fund to the Community of Practice laid out above.

**Box 14:** Countryside Stewardship Facilitation Fund

## Countryside Stewardship Facilitation Fund

- The Countryside Stewardship Facilitation Fund supports individuals to act as ‘facilitators’ to bring together groups of farmers, foresters and other land managers, with the goal of improving environmental outcomes in their local area. The most recent window closed in January 2023 that will provide funding for projects to 2026. There will be further application rounds in 2023 and 2024.

This is a competitive process that will fund activities for farmer groups of up to 80 land holdings. These activities include the costs of facilitation and collaboration, training of group members to better deliver Countryside Stewardship priorities in target priority areas and/or securing funds from other sources. Successful applicants can receive up to £50,000 per year for activities, including training sessions and testing of soils.

At the time of writing, there are 180 groups with over 4,000 members that cover over 10% of the priority habitat in England, circa 230,000 hectares. Some of these groups have remained as local partnerships, others have formed Community Interest Companies, Charitable Incorporated Organisations, and Charitable Companies Limited by Guarantee. Those who have become legally constituted can benefit from an increased legal and administrative capacity, which in turn can support the delivery of private investment in natural capital and nature recovery. Some projects however, choose not to become legally constituted as they feel it is more beneficial for the project as a whole and is less complicated.

<sup>62</sup> Countryside Stewardship Facilitation Fund



### Countryside Stewardship

The middle tier of ELMs is a continuation of Countryside Stewardship due to the scheme’s popularity and familiarity with the farming community. Farmers will be rewarded for working together with neighbouring farms and landowners to join up nature recovery across landholdings<sup>63</sup> and therefore could be a potential source of funding.

### Landscape Recovery


The highest tier of ELMs is Landscape Recovery and this scheme is designed to encourage landowners to deliver landscape scale improvements in natural capital. The scheme accepts applications from projects covering a minimum of 500 hectares and could be a source of funding for aggregation models. Local forums can provide a pathway for the formation of Landscape Recovery groups and government may convene local forums through the CSFF. Other routes may be via large estates or other partnerships.

### Demand-led Funding

Private sector organisations dependent on well-functioning landscapes for their businesses, may be willing to pay for aggregation of farmers in those landscapes to deliver environmental improvements beneficial to their supply chains. Landscape Enterprise Networks (LENS) is an example of such an approach and more detail can be found on LENS in the **case study** section in the **Appendix**.

### Philanthropy & Pro Bono Work

Some aggregation models have received funding outside of the normal government grant routes. The Wendling Beck Environment Project, for example, received grant and philanthropic funding, pro bono legal work via an environmental NGO, along with direct landowner contributions.



**Step 3:**  
**Develop Principles for Aggregation Models with Endorsement from key partners**

### Private Sector Sources of Funding

A set of overarching Aggregation Principles, designed to give detailed guidance on aspects of formalising landowner groups, would give confidence to all stakeholders.

A farmer-led process and/or endorsement of guidance would give these Aggregation Principles credibility. Principles can provide an overview of best practice and identify key areas that all stakeholders should consider when aggregating to deliver ecosystem services or environmental outcomes.

Through workshops and interviews, the below considerations were identified for inclusion within these Principles:

#### 🕒 Open Book Accounting

Sharing key financial information with stakeholders, including members and investors, would instil trust in the model from internal and external counterparties. An example of this could include any profit-sharing arrangements between members, so that each individual land manager is aware of their rights to any revenue generated.

#### 🕒 Identification of Ethical Buyers

Providing guidance on how models can identify ethical buyers, for example those with credible decarbonisation plans, would ensure the models only deal with reputable organisations. This would therefore reduce the reputational risk of the model and the landowners.

<sup>63</sup> Local Nature Recovery Guidance

### ➤ Legal Structuring

As legal and administrative costs have been identified as the largest share of start-up costs, guidance around legal structuring and other legal considerations could reduce the time and money spent in the first years before trades are executed. This guidance could include the benefits and drawbacks of different structures, including Community Interest Companies, Limited Liability Partnerships and Limited Companies, along with the tax implications of each structure.

### ➤ Exit Strategies

As land managers' situations change, there may be unidentified consequences if a land manager wants to exit the model, especially with regards to any permanent land use change that has been implemented. Understanding and articulating the impacts of exiting for land managers, investors, buyers and the group as a whole is a key consideration, and will increase transparency and improve guidance for farmers.

### ➤ Tax Implications

Land managers should be aware of the tax implications of entering into an aggregation model. For example, if any interventions include taking land out of agricultural production, there will likely be tax implications for individual farmers that must be articulated clearly before agreement. Furthermore, different tax mechanisms will exist for different legal structures involved in an aggregation model. For instance, a Limited Liability Partnership will attract a different tax treatment on profits compared to a Limited Company.

### ➤ Monitoring of Ecosystem Services

Models should clearly define how baseline natural capital data will be sourced, with cost estimates and costs shared. They should also define how ecosystem services will be valued at an early stage.

## Beneficiaries

Aggregating into larger groups to access environmental markets provides a number of benefits for different stakeholders:

### Farmers and Land Managers

For farmers and land managers, aggregation addresses a number of key challenges: Lack of Scale and Small Farm Engagement; Knowledge Gaps/Confidence; and Costs:

#### ➤ Lack of Scale and Small Farm Engagement

Aggregating into larger groups allows land managers to access revenue streams from ecosystem service markets that would otherwise be inaccessible as a single entity. Ecosystem service market transactions are typically bespoke and take time and effort from all parties to develop. Delivering an ecosystem service-based solution requires a minimum scale before becoming cost effective due to high transaction costs. Without a certain level of scale, the benefit of the transaction to all parties is eroded.

Farmers looking to transact in ecosystem service marketplaces as single entities may have a weaker negotiating position than a larger landowner or collective of farms. Collective engagement will therefore grant farmers greater power over price setting, while also providing economies of scale on transactional costs, monitoring, reporting and verification.

Some aggregation models, such as the Environmental Farmers Group, also enable small-scale farmers to take part in profit sharing, accounting for the different risk limits of larger and smaller farms. In such models, larger farms that are able to take on more delivery of ecosystem services and associated risks, would receive a higher percentage of revenues from trades. Smaller farms that have contributed to a larger scale however, still receive a percentage.

### ➤ Knowledge Gaps/Confidence

Aggregating farms into organised groups can enable knowledge exchange between land managers through peer-to-peer learning, thereby increasing the confidence of group members in accessing environmental markets. This is particularly valuable in emerging ecosystem service markets where collective knowledge will allow for accelerated delivery.

Land managers in an aggregated group who may be new to ecosystem services markets, or do not have the time or resources available to understand these markets, can benefit from those that have previous experience or expertise. If an expert facilitator or advisor is involved with the group, then individual members who may not usually have access to this resource will benefit greatly from being part of the group.

### ➤ Costs

Coming together as a group of farmers into a single model can reduce the administrative costs per farmer of engaging in markets, in addition to potentially reduce baselining, MRV and equipment costs.

## Buyers of and Investors in Ecosystem Services

For buyers of and investors in ecosystem services, farmers aggregating into organised groups will help address: the Need for Scale for both environmental and economic outcomes.

### ➤ Need for Scale

Working with an aggregated group of farmers allows buyers and investors to reach the scale required to make the transactions environmentally and economically viable.

Environmentally, this is particularly relevant in water markets, where without a minimum level of farmer participation in a given catchment, a water company may still need to deploy an engineered 'grey' infrastructure solution alongside nature-based solutions. This can limit the cost-benefit ratio of the nature-based solution delivery. In markets where location may not be a deciding factor, such

as those for carbon credits, scale of delivery across a landscape can lead to benefits that would otherwise be lost in fragmented habitats, such as biodiversity connectivity.

Economically, with 40% of farms under 20 hectares in size in England, transacting with multiple, single farms could increase transaction costs considerably. Dealing with a single aggregation model representing multiple land holdings can be significantly more cost efficient. This is mirrored in costs of administration, monitoring, reporting and verification.

Aggregated models also allow for multiple buyers to take part and share costs. In the case of Landscape Enterprise Networks (LENS), water utilities can participate with other buyers needing the same environmental outcomes to help create an aggregated model of farmers across a landscape.

## Private Sector

For the private sector, aggregation of farmers will address the following concerns: Lack of Scale; Environmental and Regulatory Targets; and Resilient Landscapes

### ➤ Lack of Scale

As with buyers of and investors in ecosystem services, aggregation reduces transaction costs for the private sector and makes implementing nature-based solutions more cost-effective. It also supports landscape and catchment scale outcomes across large geographic areas meeting the economic and environmental needs of the private sector.

### ➤ Environmental and Regulatory Targets

Farmers aggregating together to address landscape specific environmental issues can reach the scale required to allow private sector companies to meet their environmental and regulatory reporting targets more efficiently. Aggregated groups provide a single touch point allowing the private sector to more easily obtain greater detail on interventions and overall project progress and to be more actively involved with the

groups. Greater transparency provided through larger aggregation models would allow corporates to more easily assess the suitability of implementing environmental improvements through the supply chain via insetting to meet net zero or other environmental objectives.

### ➤ Resilient Landscapes

Working across a wider landscape, with multiple farms in an aggregated group to deliver large-scale ecosystem service projects, provides an element of insurance against intended outcomes not being delivered. If one element of a project fails then the impact of that failure may be mitigated by the wider group due to diffusion across multiple farms.

As mentioned earlier, aggregated models also allow for multiple buyers to take part and share costs where interests in a landscape overlap. For example, a Landscape Enterprise Networks (LENS) model involving Nestlé, United Utilities and First Milk in Cumbria allowed these entities to financially support farmers. United Utilities benefited from reduced phosphorous in the water supply, whilst Nestlé benefited through increased resilience in their supply chain.

## UK Government

Farmers and land managers aggregating together can address the following concerns for the UK Government: Lack of Scale; and Outcome Delivery of Subsidy Schemes

### ➤ Lack of Scale

Aggregation models can provide the scale required to deliver international and domestic goals, such as the global 30x30 target. This is coherent with the recommendations of the Making Space for Nature report published in 2010, which highlights the importance of wildlife recovery delivered at scale through a more joined up approach across the landscape.<sup>64</sup>

### ➤ Outcome Delivery of Subsidy Schemes

Shared learning and knowledge building through aggregation models may in turn lead to a greater outcome delivery of agri-environment subsidy

schemes, such as ELMs. Evaluation reports of the Countryside Stewardship Facilitation Fund (CSFF) have highlighted enhanced management of natural capital delivered through group activities when compared to Countryside Stewardship agreements outside of the Facilitation Funded groups.<sup>65</sup>

The Landscape Recovery tier of ELMs relies heavily on farmers coordinating to address landscape specific priorities. This will enable farmers to not only deliver against priority outcomes, but join up delivery across a landscape that involves other land managers, such as those managing Sites of Specific Scientific Interest (SSSIs). Delivering at this scale will allow government to provide support for environmental outcomes more easily and will improve the subsidy scheme's value for money.

## Considerations

There are several considerations around the development of aggregation principles that must be addressed:

### ➤ Content and Input

Content should be determined by a cross-sector group including farmers, the private sector and government – with representation from members of the Community of Practice.

### ➤ Access

It is important that the principles are easily accessible to farmers and are easily understood.

### ➤ Hosting of the Principles

Guidance would be most effective if hosted on a government site or on the site of a trusted organisation within the land management community. The host must have the resources to maintain, update and amend the principles as necessary, in collaboration with the Community of Practice to do so.

### ➤ Endorsement

As above, endorsement by a trusted organisation within the land management community or by government would give confidence to land managers, buyers and investors.

<sup>64</sup> J.H., Lawton et al. 2010. Making Space for Nature: A Review of England's Wildlife Sites and Ecological Network.

<sup>65</sup> Environmental Systems Ltd, CCRI, LUC, Natural England. 2020. CS Facilitation Fund Phase 3. Final Report. <https://randd.defra.gov.uk/ProjectDetails?ProjectId=20367>