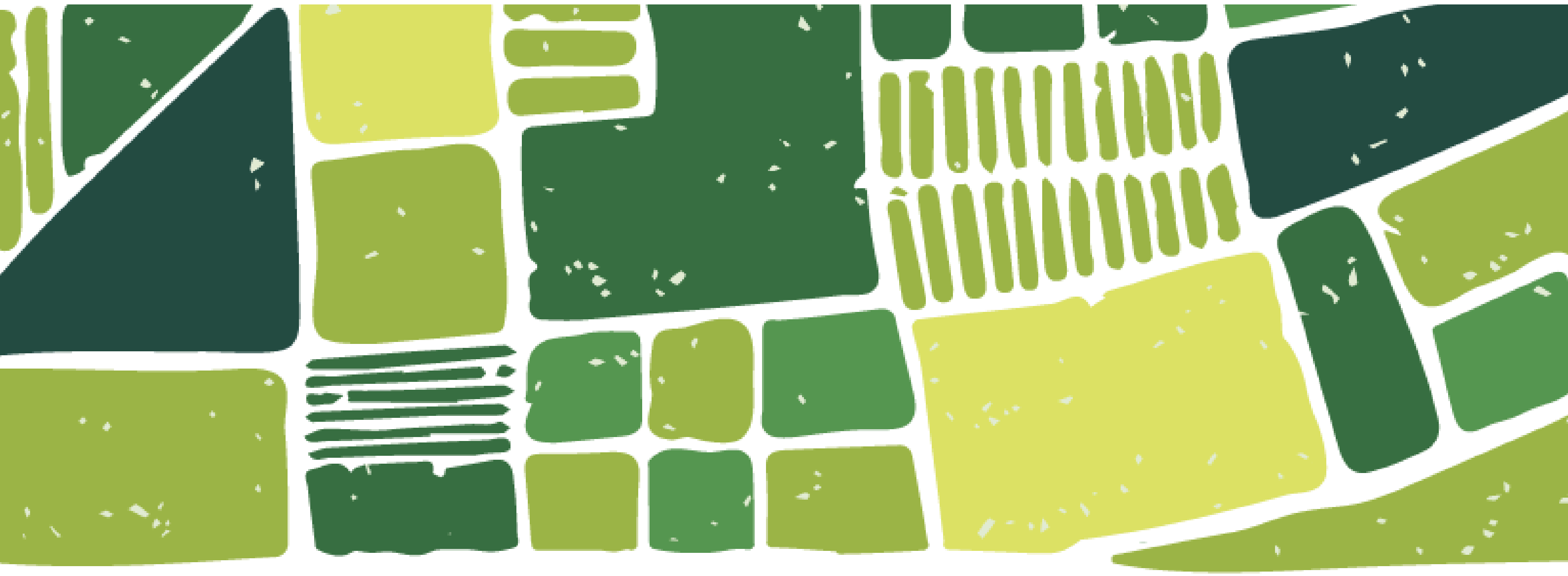

Community Models for Farm Ownership

Briefing Paper: Finance

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Contents

Related Reports and Further Reading

This briefing paper is part of a series of reports created by the Community Models for Farm Succession project, which investigates various opportunities, barriers and approaches to community-ownership of farmland. The other reports can be accessed here.

Acknowledgements

Community Models for Farm Succession was made possible with funding and support from Farming the Future.

Context

A primary objective of this research has been exploring how to increase the capacity and ensure the long-term sustainability of AFTs. In common with other organisations and actors in the broader agroecology sector as the other briefing in this report discusses, access to finance and funding remains a critical challenge.

Within this section of our research, we have principally focussed on the three AFTs operating in the UK which hold multiple farms on their land (aka multi-farm trusts - MFTs):

- Ecological Land Co-operative (ELC)
- Soil Association Land Trust (SALT)
- Biodynamic Land Trust (BDLT)

Additionally, we recognise that there are a number of organisations that are *not* MFTs, but which share similar objectives to them. Throughout this project we have endeavoured to work with these organisations (e.g involving them in roundtables) and to identify the potential for deeper collaboration. These organisations can be categorised as:

- Community-owned farms / farm businesses – such as Fordhall Farm and the recently established Kindling Farm
- Community Land Trusts (CLTs)[1]
- Employee-owned farms e.g. Riverford

As a final category, we include MFTs based outside the UK, such as Terre en Vue in Belgium and Kulturland Cooperative (Kulturland eG) in Germany.

Focus on the Ecological Land Co-operative

While this paper aims to present an overview of the financial models, challenges and opportunities that apply to the various MFTs – and the adjacent organisation-types referenced above – we give particular focus at times to the ELC. This is partly because ELC, as a partner in this project, have been able to make a significant contribution to it and give valuable insights based on their experience. Also, of the three MFTs, the ELC arguably has the most developed business model.

[1] See the Housing briefing paper for more details about CLTs and their finance.

Summary of finance options for AFTs

Multi-Farm Trust (UK) | Single Farm Trusts/orgs | Multi-Farm Trust (non UK)

Category	Finance mechanism	ELC	BDLT	SALT	Kindling Farm[2]	Terre en Vue
Grants and Non-repayable finance	Grants (non statutory)	**Yes**	**?**	**Under review**	**Yes**	
	Statutory grants / public investment	**No**	**No**	**No**	**No**	**Yes**
	Gifts / gifted land	**Yes**	**Yes**	**Yes**	**Yes**[3]	**Yes**
	Endowment / founding donation	**No**	**Yes**	**Yes**	**No**	
Equity	Community shares	**Yes**	**Yes**	**No**	**Yes**	**Yes**
	Private equity	**No**		**No**	**No**	
	Public equity	**n/a**	**n/a**	**n/a**	**n/a**	
Loans / debt (incl mortgage)	Commercial Bank	**Under review**		**No**	**Yes**[4]	
	Private/Social lender	**Yes**	**Yes**	**Yes**[5]	**Yes**[6]	
Income	Rent and/or sale of land	**Yes**	**Yes**	**Yes**	**Yes**	**Yes**
	Enterprise / Direct Trading			**Yes**	**Yes**	**Yes**[7]
	Return on investments	**No**	**Yes**		**No**	
	Other			**Yes**[8]		

[2] In this table we focus on Kindling Farm CBS, specifically, rather than Kindling Trust
[3] KF has received donations of farm machinery and trees (p50 of business plan)
[4] £600K loan from Triodos. More info here
[5] SALT has a loan agreement with its parent organisation, The Soil Association
[6] KF has received a bridging loan from the Esmée Fairbairn Foundation
[7] Provision of training courses
[8] Income from renewables

Finance Options

The table above (page 4) presents an overview of the various finance options used by different types of AFTs[9]. It has been compiled using publicly-available data, with additional information on ELC, SALT and BDLT provided by representatives of those organisations. Where there are gaps in the current data (especially in regard to Terre en Vue), we hope to publish updates if and when further data is made available.

The 2021 report Credit Where Due, produced by NEF and funded by Farming the Future, provided an in-depth overview of finance options available to the broader agroecology sector. We suggest that interested parties may wish to review the summary findings of Credit Where Due alongside this report: i.e. to look at finance options accessed by AFTs, and those more widely used by larger-scale businesses within agroecology. At a headline level, this comparison reveals that certain finance options available to non-AFTs (e.g. private equity, public equity) do not generally apply to AFTs. Where the options do overlap – specifically in the case of loans / debt finance – it may be useful to look at the more granular detail, to understand why and how the available products differ.

Different needs for finance

AFTs have (at minimum) a need for two 'streams' of finance, which are interconnected. The first is the core costs of the organisation itself – staff, overheads, etc. The second is the case-by-case cost associated with each farm or parcel of land, especially the upfront money needed to *purchase or acquire* that land. The finance options covered here may be relevant to either or both streams.

As the table above shows, AFTs may be able to generate *trade-based income* through a number of means, principally the leasing and/or sale of land. However, it remains the case that AFTs are still highly dependent on other forms of finance. We explore these in more detail on the following pages.

[9] an explanation of the different types of AFTs is provided in chapter 5 of the Summary Report

Grants

Grant funding from charitable foundations and National Lottery sources is an important source of finance for all of the AFTs, and is arguably critical to both the maintenance of their current operations and any potential to expand via scale or replication.

An AFT's ability to secure grants from these sources will depend upon a number of factors which are presented below:

Organisational Structure, Legal Form and Charitable Status

While the Community Benefit Society (CBS) model is recognised as being a highly suitable legal form for AFTs,[10] owing to both its democratic governance and the ability to raise community shares, it can present a barrier to grant funding. This is because many of the UK's Grantmaking Organisations *exclude* the CBS model through their eligibility criteria. Therefore, AFTs wishing to maximise access to grant funding would need to either apply for charitable status, or, as with ELC, establish a sister organisation that can access grant funding.

[10] See the Community Buyout briefing, which identifies how this model has been integral to the community purchase of farm land, and how it can protect it for agricultural use in the long term.

The legal forms of the main organisations featured in this report are summarised in the table below. Our briefing paper on Community Buyouts provides information on the legal forms of other community-owned farms

Organisation	Legal Form	Charitable Status?
ELC	Community Benefit Society	The ELC does not, itself, have charitable status. However they have created a sister organisation: the Ecological Land Trust – a CIO (foundation model)
BDLT	Charitable Community Benefit Society	Yes - exempt charity
SALT	Charitable Company (limited by guarantee)	Yes
Kindling Farm	Community Benefit Society	Kindling Farm does not have charitable status, but it does state charitable *aims*; it also sits within Fairfield Environment Trust, which is a charitable company.

Distribution of grants and the thematic priorities of grantmaking organisations

There is no existing, highly accurate dataset or report on grant funding to AFTs – this in part reflects the diverse nature of these organisations. However, some insights can be gleaned from The Environmental Funders Network's report Where the Green Grants Went[11]. For example, 8% of grants went to 'Terrestrial ecosystems & land use' and a further 8% of grants went to 'Agriculture & food'. Any grants to AFTs would most likely be a significantly smaller subset of either or both these categories.

Furthermore, an analysis of publicly available data suggests that beyond the pooled grants offered by Farming the Future, only a very few of the UK's Grantmaking organisations have made sizeable grants to AFTs. These include Esmée Fairbairn, Joseph Rowntree, Power to Change and Thirty Percy Foundation.

The ELC has recently had some success in securing grants from Trusts and Foundations, leading to a recognition that "our work is more charitable than we'd recognised". They note: "Because of the range of public benefits we create, much of our work is in fact charitable". This points to a possible opportunity for other AFTs and adjacent organisations: to recognise and leverage the alignment of their work with the various charitable purposes recognised in UK legislation. For example, "The advancement of environmental protection or improvement" is one of the 13 primary purposes. Other aligned purposes include "the promotion of agriculture and horticulture" and "the promotion of urban and rural regeneration."

This is an area where AFTs may benefit from access to advice or mentorship, from individuals or organisations with in-depth knowledge of the charitable purposes (and the Charity Commission) and/or the grant-funding landscape.

Statutory grants and public funding

None of the UKs AFTs receive regular statutory funding, and there are few statutory grants applicable to their work . In contrast, Terre en Vue (Belgium) receives significant public funding, at a European and national level, covering the majority of staff costs.

Within Scotland, the government-backed Scottish Land Fund, managed by the National Lottery Community Fund, offers statutory grants of up to £1M (per grantee) to "support urban and rural communities to become more resilient and sustainable through the ownership and management of land

[11] based on version 8 of the report

and land assets." In theory, this grant would be relevant to AFTs, though data available as at December 2023 shows that none of the 11 current grantees are involved in farming.

The previous government's UK-wide Community Ownership Fund[12] may be seen as a step in the right direction, though grants were aimed at assets – land or buildings – deemed to be "at risk"; acquisition of farmland for community stewardship was therefore unlikely to meet the criteria, except in particular circumstances.

The potential to use community shares as match funding for grants

Some grant programmes required potential grantees (applicants) to raise match funding. As an example, the Community Ownership Fund (COF) stipulated 20% match-funding; Co-ops UK calculated that around one-third of COF grantees raised their match funding via community shares. Use of community shares may therefore allow AFTs to access/leverage a wider range of grants, including higher-value grants.

Repayable grants

Repayable Grants (RGs) sit somewhere between a loan and a grant. The repayment of the grant is usually dependent upon, and triggered by, certain outcomes – e.g. if/when the grantee secures further income or funding. The grant might also be repaid in part or in full, again depending on agreed outcomes. A good example here is the Pathway Fund, which is an enterprise development programme specifically for Black and Ethnic Minoritised-led enterprises. To our knowledge, there are currently no similar products in the UK that would be available to AFTs; therefore we include this as a potential recommendation / inspiration for funders.

Match-trading grants

Match Trading is "grant-funding that pound-for-pound matches an increase in income from trading."
While not yet commonplace, match-trading is a concept that could potentially apply to AFTs that have some level of trade-based income. Currently, the best example of match trading is via the School for Social Entrepreneurs (here).

[12] Launched in 2021 the Department for Levelling Up, Housing and Communities £150 million Community Ownership Fund supported community groups in England, Scotland, Wales and Northern Ireland to take ownership of assets and amenities at risk of being lost. Voluntary and community groups could bid for funding to acquire important assets and run them for the benefit of the local community.

Loans & Debt

Overview of loan and debt products, with examples of where these have been accessed by AFTs or adjacent organisations

Product or Instrument	**Organisation**	**Amounts available**	**Interest rate (%)**	**Example recipients / grantees (and amounts)**[13]	**Amounts invested**
Social Investment	Esmée Fairbairn Foundation	£100K to £2M	Varies		
Land Purchase Facility			Not disclosed	ELC; *Woodland Trust; Wildlife Trusts; RSPB*	£5.8M in total across 7 investments[14]
LEAP blended finance	Real Farming Trust		5%	ELC	
Venturesome Impact Fund	CAF	£50K to £1M	5.5%	Local Food Links, £425K[15] Stockwood	
Commercial Loan	Co-op and Community Finance	£10K to £150K	Varies		
	Triodos	£100K +	Not disclosed	Kindling Farm, £600K Plotgate	
Loan Stock	n/a	Varies	Varies	Plotgate Farm, c. £190K	

[13] Recipients in italics are not Land Trusts, but are listed here for comparison
[14] As of Dec 31, 2023. more info at https://esmeefairbairn.org.uk/our-support/social-investment/portfolio-overview/
[15] https://www.goodfinance.org.uk/case-studies/local-food-links

Overview

If AFTs are to expand their capacity (i.e. acquire more farmland), loan-finance is likely to be an increasingly important part of the picture. In some cases, the requirement may be for 'bridging loans' – allowing them to purchase land in relatively short time frames – which can then be paid back via e.g. share raises. In other cases, long-term loans may be a fundamental part of the AFT's core operating model.

Challenges

For AFTs, there are numerous challenges associated with securing loan finance. These include:

- relative scarcity of 'suitable' lenders
- interest payments, which are currently at high levels
- difficulty in presenting viable business models, in order to secure the loan and demonstrate ability to meet the loan repayments
- speed/complexity of securing loans

As noted in the Credit Where Due report (2021), the "basic tenets of lending tend to work against agroecology, with lenders perceiving agroecological businesses as riskier, thereby worsening the terms of loans for practitioners".

In 2023, Kindling Farm secured a £600,000 loan from Triodos Bank. While this does not represent any radical changes within the funding landscape as Triodos were already one of the few notable lenders operating in this space, it may serve to raise the profile of community-owned farms, and provide a reference point for other lenders. In addition, Kindling Farm received a £400,000 bridging loan (also 2023) from Esmée Fairbairn Foundation (EFF), as part of EFF's social investment offer.

Innovations and Opportunities

Land Purchase Facilities, bridging loans and holding funds

Emsée Fairbairn Foundation's Land Purchase Facility (LPF) essentially acts as a bridging loan:

> *Our £10m Land Purchase Facility is used to purchase land of high current or potential conservation value. Once purchased we lease the land to our partner conservation organisation (the RSPB, the Wildlife Trusts and the Woodland Trust) with the option for them to buy in two years' time at the price Esmée paid for it plus a small interest charge, with all returns recycled back into the facility. This gives the organisation a window to fundraise.*

While the LPF has, to date, been primarily aimed at organisations focussing specifically on *conservation*, it has also been accessed by the ELC to secure new farm sites.

Blended Finance and Unsecured Loans

The Loans for Enlightened Agriculture Programme (LEAP) is essentially a blended finance product – combining loans, grants and business support – aimed specifically at small-scale agroecological food and farming enterprises. Critically, the loan element is *unsecured*, relatively patient (with terms of 5-9 years) and can be used for revenue or capital costs.

In its early iteration, LEAP was targeted more toward 'end user' farmers (or food growers), rather than the AFTs. However, in August 2024, LEAP approved a loan to ELC; this may provide a blueprint for loans to other AFTs.

Equity

Community Shares are a common and significant source of finance for almost all of the AFTs, as well as other community-owned farms. Within our review, the single exception is the Soil Association Land Trust (SALT), which, being structured as a charitable company, cannot issue community shares (as per the current legislation).

It is important to note that community shares, beyond being a mechanism to raise investment, are a means of enabling democratic community ownership – and are therefore highly mission-aligned with AFTs.

The success of community shares in other sectors (outside farming) –notably energy and housing – is encouraging, especially for those AFTs that have the potential to combine farming with other initiatives. See further information in our briefing papers on Housing and Collective Enterprise

Opportunities for institutional investors and Booster Funds

Typically, community share offers are open to both individuals and institutions. Research by Co-ops UK's Community Shares Unit provides some useful evidence as to the growing importance and impact of institutional investors:

- The vast majority of institutional investors (71%) represent third sector organisations, community bodies, charities or social enterprises. The remaining 29% are a mixture of local government, private enterprises or funders.[16]

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16 https://plunkett.co.uk/wp-content/uploads/community-shares-report-2020-FINAL.pdf

- The Co-operatives UK's Community Shares Booster Fund has made 63 investments worth £3.4 million since 2016. These investments have leveraged in a further £11.7 million from 16,078 individual investors, with every £1 invested through [Co-op UK's] Booster bringing in £3.44 from the wider community.

Institutional investors might invest 'directly' into share offers, or invest via the Community Shares Booster Fund. For example, in 2020 the Architectural Heritage Fund (AHF) allocated £600K to the Booster Fund, which was allocated to projects focussed on town centre historic buildings and transforming high streets. A similar amount of ring-fenced funding could in theory be made available to support community ownership of farmland, whether in the form of single farm buyouts or via the AFT model.

Investments between Community Benefit Societies and Co-operatives

While there is a paucity of reliable data, it is not uncommon for Co-operatives and Community Benefit Societies to invest in (i.e. hold community shares in) other co-ops and CBSs. This is the case for ELC, who have received investment from a small number of co-ops, and also BDLT:

The Biodynamic Land Trust was established in 2011 with a charitable donation of £1 million. They used part of this money to set up and invest in a sister organisation – the Ecodynamic Community Benefit Society, which owns a wind turbine in Cornwall. The BDLT receive regular income from repayments on the loans and shares they invested. They also supported the founding of Stockwood Community Benefit society in 2012 and provided the organisation with a loan of £125,000 over three years, and shares of £25,000, enabling Stockwood Community Benefit Society to buy 61 ha Rush Farm.[17]

The challenge of compound interest

Where Land Trusts opt to pay interest on community shares, this may present longer-term challenges with their business model. As ELC report:

The majority of investor members (shareholders) elect to have the interest accrued to their investment, effectively compounding the cost over time. If a (farm) plot is sold outright then the full income is received on the sale of the plot providing no ongoing revenue income to cover community share interest. With the Supported Sale option, the revenue income of interest gradually decreases as capital is repaid, this is in contrast to the increasing

17 https://www.scottishfarmlandtrust.org/uploads/7/5/6/3/75636971/sflt_land_trust_comparison.pdf

revenue cost of paying out share interest. The rental option provides an ongoing revenue stream but this increase is linear (in line with inflation) as opposed to the exponential increase in the cost of share interest.

Innovations and learnings from other counties

Life Annuity model - Kulturland Co-operative

One potential funding model that is being developed by Kulturland in Germany is a 'life annuity agreement'. There may be retiring farmers who wish to sell their farm or land to an organisation committed to food production and land protection, because they don't want to sell onto the open market. But the farm represents their only valuable asset and they need to realise financial value to protect their own future. Kulturland can then organise local community investment together with its own funds, to agree a regular 'pension' payment to the farmer for the rest of their life. With their basic needs secured, the farmer can then agree to pass on the farm to new and younger farmers.

An LLP model, through which the current landowner retains the title of the land

If a landowner wanted to give an AFT use of some of his/her land but wanted to retain title to the land, this could be done through a Limited Liability Partnership (LLP). The LLP model allows the landowner to retain some control and interest in the use of the land while giving the LT more security of tenure than a lease, as the title to the land is held by the LLP. The partners would be the LT and the landowner. An agreement would have to be drawn up setting out the responsibilities, rights and liabilities of each party. This would include the right for the LT to lease/rent out the land to eco-farmers in line with its core purposes.

Further information on both of these approaches, along with other innovations and early-stage ideas, can be found within the Ruralisation project – see here.

Recommendations

For funders

1. We encourage other funders and social investors to explore developing or replicating initiatives such as the Land Purchase Facility, giving AFTs access to patient, low-interest loans. Critically, these loans should be structured around criteria relevant to AFTs; e.g. they should be available to various organisation-types, not only charities

2. Repayable Grants offer the potential for funders to take a balanced-risk approach, but are currently an under-used mechanism – both within the UK generally, and more specifically within the food/farming sector. Funders can learn from existing initiatives (such as the Pathway Fund) and should be encouraged to experiment with different versions of repayable grants

3. Funders may have the potential to play a transformative role as institutional investors in democratic organisations, i.e through investing in community shares. Any such investments should not replace grants, but rather be situated (logically) within the funder's social investment portfolios

4. The work of AFTs is too often excluded from grantmaking programmes, on account of technicalities such as the 'society' legal forms (co-ops and community benefit societies) being deemed ineligible. This is illogical, and can potentially be addressed via training and education for funders. For example, it could be incorporated into IVAR's[18] work on [flexible funding]

5. Our research and interviews suggest that there is a lack of specialist advice/support available to AFTs in respect of financial planning and development. Solutions to this may involve a coordinated, centralised platform, alongside targeted training programmes to upskill and/or recruit more advisors.

6. An increase in publicly-available data could help to underline the case for more funding and finance products in this space. For example, current data on grants and social investment is insufficiently granular; whilst information on community shares is not currently available as a comprehensive dataset.

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[18] IVAR is the Institute For Voluntary Action Research. Their website is https://www.ivar.org.uk/

For policymakers

1. As has been noted elsewhere, the UK lags behind its European counterparts with regard to state support of, and investment in, democratic ownership of Land. State funding for Land Trusts, perhaps drawing on the Terre en Vue model in Belgium, would be a step in the right direction

2. The Scottish Land Fund provides a template for state investment in community ownership of land. Future iterations need to be on a larger scale, applicable across the UK, and on terms more relevant to AFTs and adjacent organisations.