



EY and Scottish Forestry: WCC Additionality Consultation

December 2024



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Executive summary: 10 key learnings from the WCC Consultation

10 key learnings

The current approach is seen as broadly effective: Most respondents are broadly happy with the current standardised structure and approach to additionality, but desire more flexibility, particularly in aligning project costs to specific project characteristics.

Data quality: This is a key concern across all assumptions that poor data quality may impact accuracy, including a recurring theme of regional data variation. Quick wins can be achieved by applying data cleansing techniques e.g. removing outliers and anomalies.

Actual project costs: Allowing actual project costs to be inputted instead of assumed or standardised costs was a major theme, with a key suggestion being to remove cost caps within the model. The extra need to require evidence and validate costs may be demanding.

Alternative data sources: Various data sources were suggested to improve accuracy and reliability, but it is critical to balance this demand with the sources' viability and feasibility for regular updates, such as publicly available and easily accessible annual data refreshes.

Demographics of respondents: Responses need to be contextualised by the fact that most respondents were project developers and forestry & land management organisations, and that limited input was provided by stakeholders such as other standard setters.

Operating model implications: The outcomes of this consultation need to be considered in conjunction with the broader ecosystem and operating model. There may be interactions with other forestry-related initiatives and components such as grant schemes.

Perceived biases within the test: There was a recurring theme of perceived bias towards certain types of forestry, and of the test itself being inaccessibly complex to smaller projects and newcomers to the WCC additionality test.

Alignment with other methodologies: There is a strong desire to align with recognised methodologies for accessibility and consistency, making assumptions more defensible while having divergences reflect the nuances of the UK woodland landscape.

Sensitivity testing: Changes to the model and assumptions (especially the discount rate) will require feasibility and sensitivity testing to understand the impact on the model, in order to ensure the integrity of the test, in light of many calls for refinements to the discount rate.

Post-consultation communications: Consideration needs to be given to the communication plan to the market, e.g. the areas which will not be changed and their justification. Market participants require certainty and clarity on next steps, including clear timelines.

1

Introduction

Additionality consultation demographics

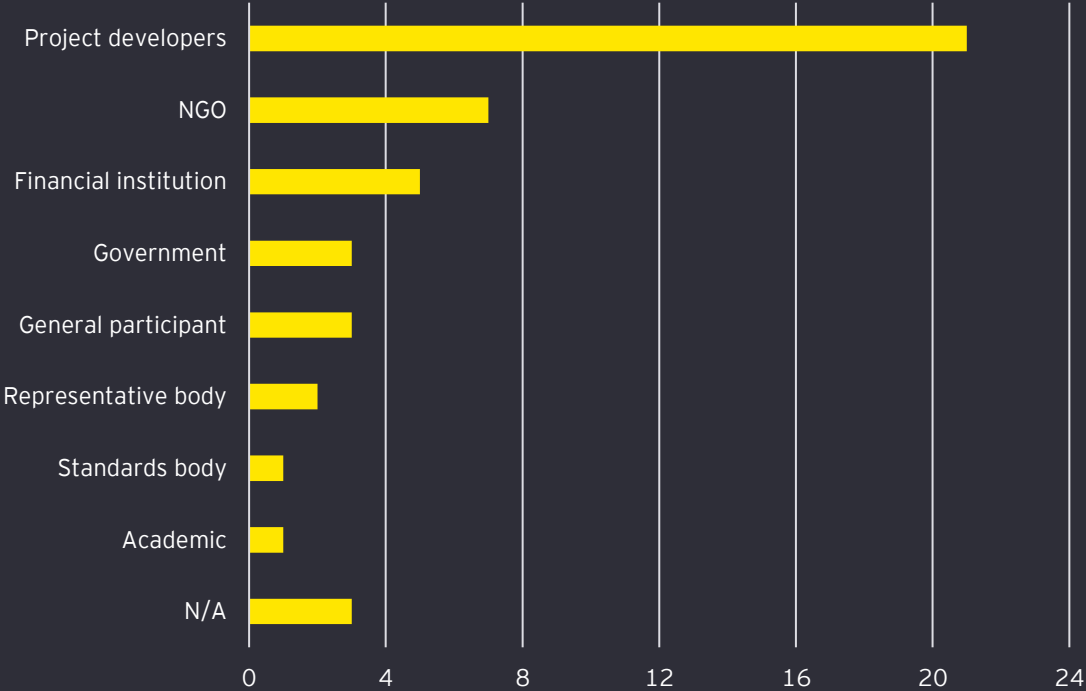
This consultation was open to a **wide variety of stakeholders**. The survey was distributed to a total of **618 industry professionals** representing many organisations that Scottish Forestry identified as potentially interested, plus some financial institutions that EY had identified. In light of the depth and technical nature of the test and the consultation, we received **46 responses**, with 38 being meaningful.

Distribution size	618
Total responses	46
Total response rate	7%
Meaningful responses*	38
Meaningful response rate*	6%

**A meaningful response is where a participant engaged with at least one question in the survey.*

This response rate highlights the deep **engagement and interest** of multiple sectors in woodland additionality testing, ranging from academics to direct project developers from **across the UK**. The responses were diverse in quality and provided a **rich array of perspectives**, covering various aspects of the test and offering **comprehensive insights** into related sectors' perspectives and needs.

The graph below sets out the broad **range of respondent types**. The most popular organisation type were project developers (which has been split down into further categories below); this was also **evident in the themes** that emerged, such as a particular focus on project costs. However, we also received **varied input** from a wide range of organisations, reflecting the strong diversity of perspectives in the feedback.



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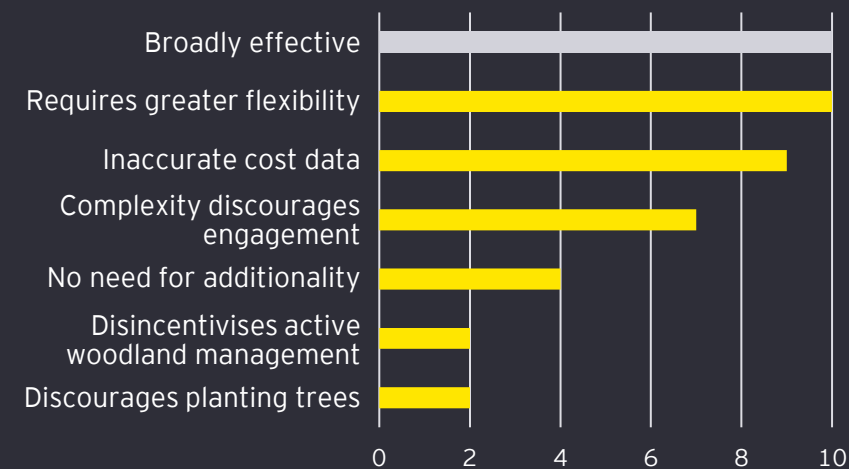
General views on
the WCC
additionality test

General views on the WCC additionality test - Results

Overall, respondents feel that the current additionality test provides a simple way to robustly assess additionality. However, many believe that the test could be improved in a variety of ways, including the treatment of project costs.

Q1.1: Views on the effectiveness of the current approach to additionality

Respondents generally felt that the test is **broadly effective**, but many said that underlying assumptions **require updates**.



For example, many respondents felt that project costs and income data were **imprecise**, and that the test could be made more **flexible** to better reflect **project-specific characteristics**. We note that other responses from a subset of respondents appear to reflect a **misunderstanding** of the importance of additionality, while some also mention the perceived **complexity** of WCC processes.

Q1.2: Advantages and disadvantages of the current test

Respondents identified the below **pros and cons** to the current additionality testing:

- ✓ **Simplicity** and ease of use
- ✓ **Robustness** and **integrity**
- ✗ **Inaccurate** costs and assumptions which may cause **biases**
- ✗ **Lack of flexibility** which overlooks regional differences and project-specific details
- ✗ **Unintended consequences** such as unnecessary installations to meet thresholds and perverse behaviours that reduce overall site viability
- ✗ **Perceived biases** towards commercial forestry and weighted towards broadleaves

Q1.3: Suggestions to refine the test in the future

As a solution to the issues described in the responses to Q1.1 and Q1.2, respondents suggested a **variety of proposals**, of which some notable proposals include:

- 1** Participants should have the option to **input actual project data** e.g., for project costs
- 2** **Improvements to data quality** e.g., annual costs refreshes, removal of outliers and anomalies, use of rolling averages
- 3** **Infrastructure cost caps** should be removed

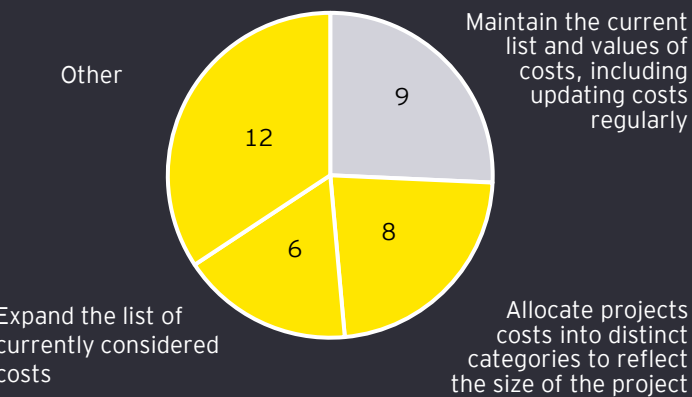
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Project costs

Project costs - Results

A majority of respondents agree that the assumed project costs require more frequent updates, ideally annually, to ensure that they remain accurate. Many respondents also suggest using actual project costs (pending an appropriate level of validation).

Q2.1 & Q2.2: Treatment of costs for a woodland creation project

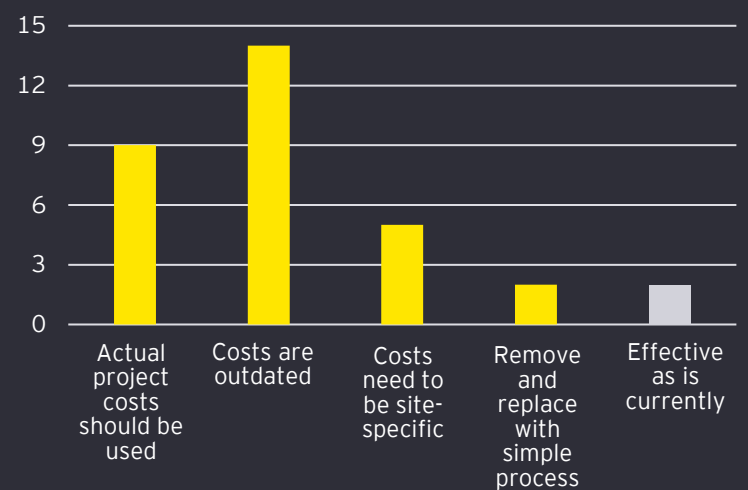


Among the group of 12 respondents that chose the 'Other' option, 7 said that **actual costs** should be used. Other respondents spoke of the need to consider **different project sizes and regions**.

One respondent chose 'Other' because they thought that a mixture of multiple options was most suitable. They believe the current approach involving a list of pre-determined costs items is best, if costs are **updated regularly** and **land-based costs** are included. They suggest that this can be **standardised by region** and based on data published by DEFRA.

Q2.3: Views on the values being applied to current costs

Responses regarding the values being applied to current costs **greatly varied**. Many respondents believe that the costs are **outdated** and need to be updated in line with **inflation**. They also suggest that actual project costs should be used.

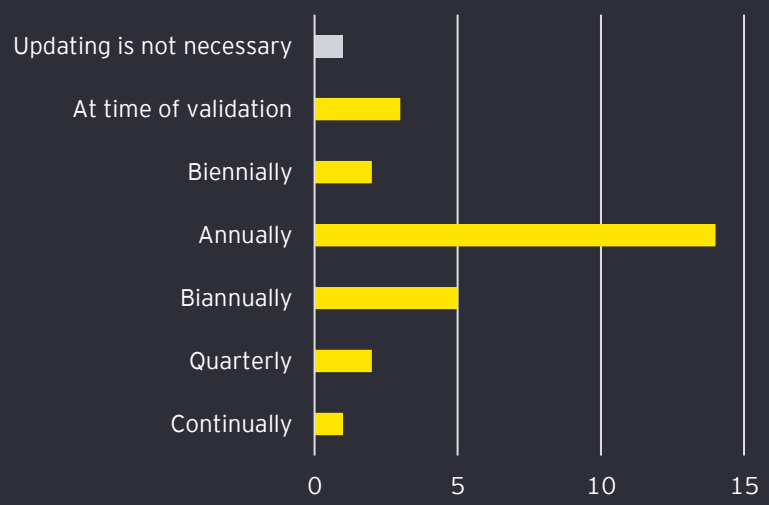


Respondents suggested proposals such as creating a specific **update period**, removing **arbitrary caps** and including **bespoke costs**.

Q2.4: Appropriate frequency for updating project costs

A majority of respondents believe that costs should be **updated annually**, in particular to **capture recent inflation**. Some respondents felt that this would be in line with updates to grant programmes.

Responses were broadly split between other cadences of data refreshes, with a slight preference towards a higher frequency.



Results for Q2.5 (further comments on project costs) have not been included here given the overlap with previously analysed themes.

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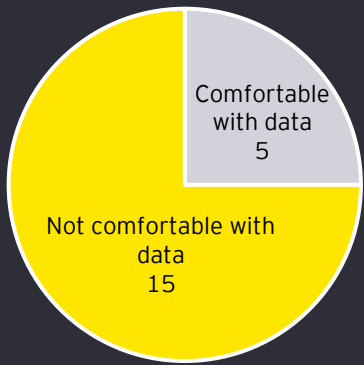
Timber revenue

Timber revenue - Results

Consensus amongst respondents indicates that timber prices in the model are too high. Solutions posed by respondents include to update from 2021 data, continue to use historic data, and consider regional differences in order to enhance accuracy and reliability.

Q3.1: Data used to model timber spot prices and alternative data sources

Most respondents felt that the current timber prices being used in the WCC cashflow model are too high and need updating from 2021 data.

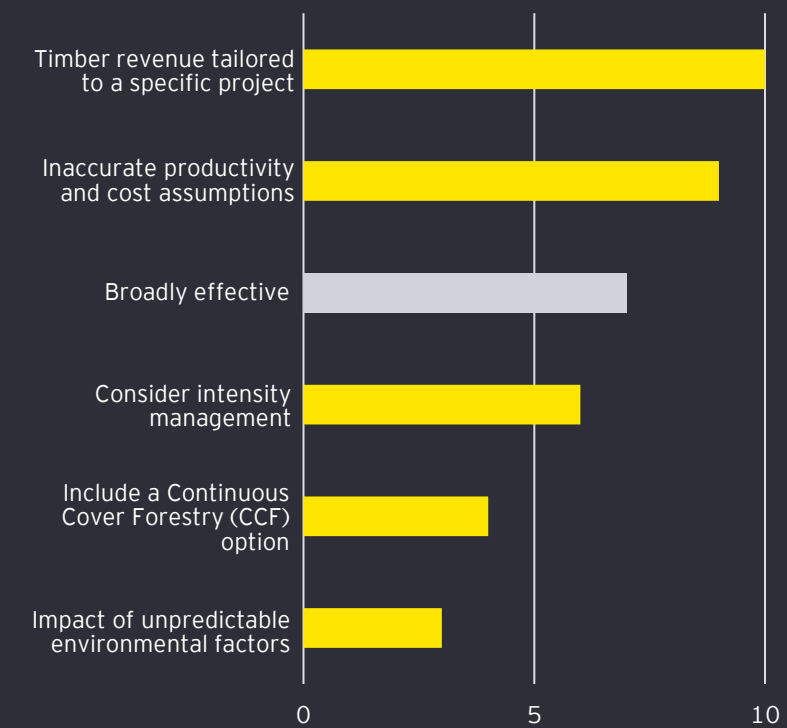


While the source is deemed reliable by respondents, there were questions raised that it did not provide sufficiently recent data. There is a preference for using historic data, as modelling for future data would introduce additional complexity and challenges to the model. The Standing Sales Prices Index is recommended as the most reliable long-term source.

Additionally, respondents have flagged a need to differentiate between timber revenue from thinned timber and final harvest and to introduce regional differences. One proposal would be to gather data from mills and harvesting firms.

Q3.2 & Q3.3: Evaluation of current woodland categories and yield assumptions, with recommendations for changes

Some respondents feel the current woodland categories and yield classes are effective, but many felt that productivity and cost assumptions are inaccurate and suggested some options for improvement.



A significant proportion of respondents felt that the woodland categories and yield classes should allow for more flexibility to represent project-specific characteristics, such as woodland type and regional variances.

A few respondents suggested to apply yield classes into the carbon calculator.

Some respondents highlighted the need to consider intensity management. For example, there should be an:

- Option to apply different thinning timings, which are currently set at every 5 years
- Option to have a thinning regime that is for conservation only and therefore not productive
- Option to account for the value difference of thinned timber versus final fell.

Results for Q3.4 (further comments on timber revenue) have not been included here given the overlap with previously analysed themes.

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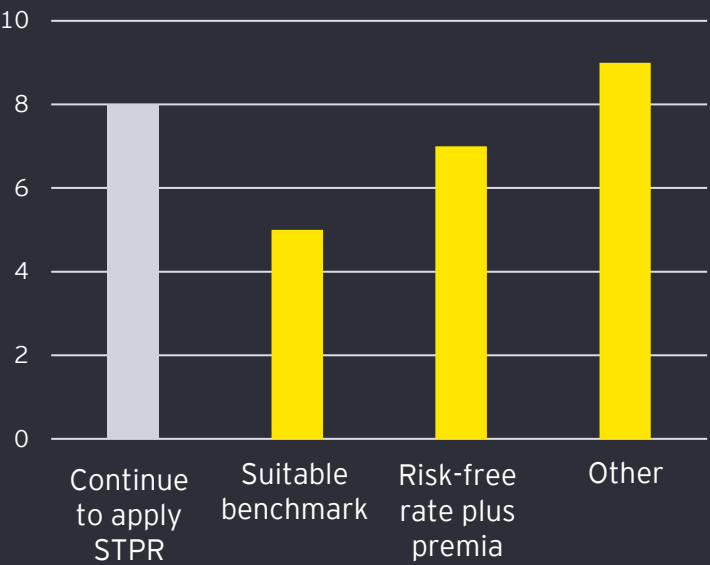
Discount rate

Discount rate - Results

While some respondents agreed with the use of the Social Time Preference Rate (STPR), a majority felt that the current discount rate was too low and needed to increase to reflect the multiple and unique risks associated with woodland creation projects.

Q4.1 & Q4.2: Treatment of discount rates

Most respondents indicated a desire to move away from STPR, citing reasons such as a need to better reflect the risks associated with woodland projects and align with typical private sector appraisal methods. Those that indicated a preference for maintaining STPR valued its simplicity and alignment with wider public sector methodologies.



Q4.3: Suggested discount rate benchmarks

Respondents felt an appropriate benchmark should reflect the key drivers for forestry investment. While few had specific suggestions, the below were put forth:

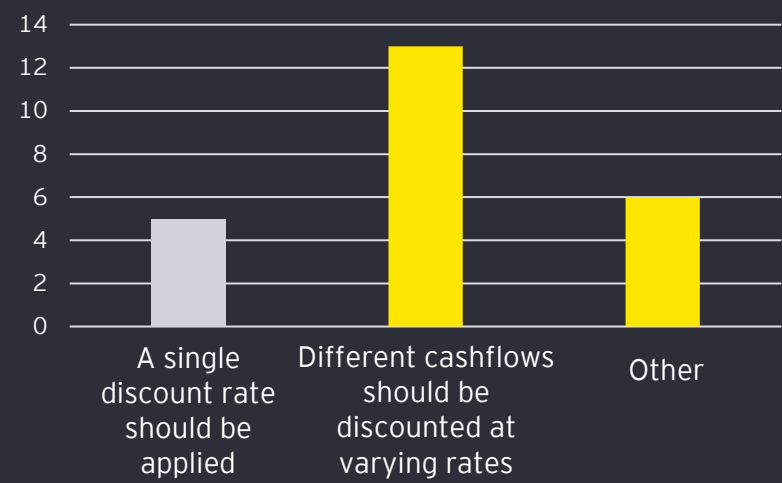
- 10-year gilt yield
- Infrastructure index
- Equity index
- Agricultural discount rates
- Forestry discount rates

Q4.4: Suggested discount rate components

As with Q4.3, few chose to respond to this question. Nevertheless, the below suggestions were made:

- Equity risk premium (e.g. FTSE 350)
- 10-year gilt yield (as base rate)
- Term premia associated with the risks related to the term structure of forestry development (similar to futures contracts)

Q4.5 & Q4.6: Preference for varying discount rates



Similar to Q4.2, those that selected a single discount rate prefer the simplicity of this approach and the avoidance of subjectivity in defining multiple rates.

Meanwhile, those that favour the use of multiple rates wish to reflect characteristics specific to the project and client/investor. Other suggested approaches included different rates for different forest management approaches or the use of a weighted average cost of capital specific to the different land use scenarios.

Results for Q4.7 (further comments on the discount rate) have not been included here given the overlap with previously analysed themes.

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Income forgone

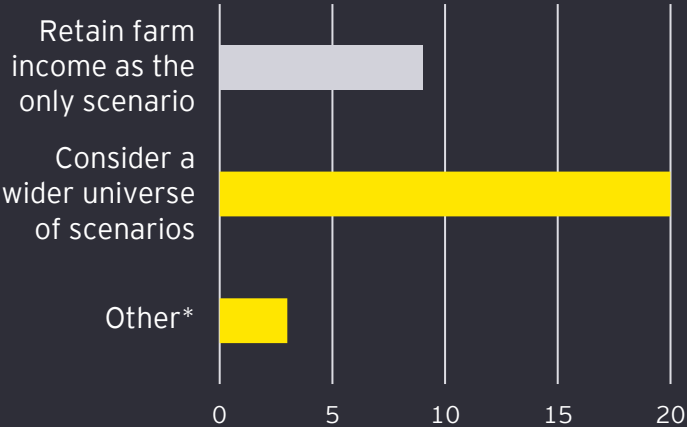
Income forgone - Results

A majority of respondents showed a clear preference to consider a wider set of alternative scenarios in the test to better reflect the reality of decision-making by WCC participants. Respondents also made several plausible suggestions for alternative data sources.

Q5.1 & Q5.2: Preferred approach to income forgone and rationale

Most respondents indicated the test should consider a wider universe of scenarios, citing the need to reflect the **growing number of alternatives** to agricultural afforestation (e.g. renewable energy, commercial development, Biodiversity Net Gain (BNG), etc.). Those respondents also mentioned that farmers are not the only type of land managers engaging with the WCC.

Those who responded to retain farming as the only scenario again valued the **simplicity** of this approach.



Q5.3: Feedback on farming income data and methodology

Some participants commented that the current data is too **generalised** and not representative of current farming practices, or otherwise **outdated**. Several specific improvements were raised, including:

- Removal of **Basic Payment Scheme** payments
- Adding an option for **regional variation**
- Annual review** of farm income opportunities
- Alternative data sources such as **Hutchinsons**
- Use of **actual average incomes**, particularly for cattle and sheep farming

Q5.4: Suggested alternative income forgone scenarios

Respondents were relatively engaged on this question and had a number of suggestions:

- Renewable energy
- Commercial development / real estate
- BNG and other nature-based solutions
- Recreational or sporting activities
- Other project-specific scenarios, with sufficient evidence

Consideration needs to be given to whether each suggested scenario is a viable alternative, mutually exclusive to woodland, and that the data exists to reliably model.

Q5.5: Suggested sources of income forgone data

Respondents submitted a variety of different data sources that could be used to confirm income forgone. Proposals tended to revolve around the submission of **project-specific data**, such as contracts or accounts for the current land use and quotes or bids for other potential uses. Other suggested data sources included email chains and budgets, noting their **weaker reliability**; a few respondents also noted the **onerous nature** of submitting bespoke data.



*Please note that respondents who chose 'Other' provided responses that were non-constructive or implied a misunderstanding of income forgone, and so have not been included for analysis. Results for Q5.6 (further comments on income forgone) have not been included here given the overlap with previously analysed themes.

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