

# FIRNS: Developing a Scottish Source to Sea nature finance model

---

Report of Stakeholder Engagement



## Table of Contents

1	Introduction .....	1
2	Stakeholder engagement approach .....	1
3	Key findings .....	2
3.1	Lessons learnt from SMEEF .....	2
3.1.1	Brand strength.....	2
3.1.2	Current structure .....	2
3.1.3	Reporting requirements.....	3
3.1.4	Donor challenges .....	4
3.2	Purpose of a Source to Sea fund.....	4
3.3	Governance .....	5
3.4	Multi-year funding .....	5
3.5	Funding priorities .....	6
3.6	Multiple funding pots.....	7
3.7	Full cost of delivering restoration .....	7
3.8	Project development.....	8
3.9	Capacity building .....	9
3.9.1	Project delivery capacity.....	9
3.9.2	Fund Management Team capacity .....	10
3.10	Reporting.....	10
3.11	Funders .....	11
3.11.1	Funder requirements.....	11
3.11.2	Funder expectations.....	12
3.12	Fund strategy.....	12
3.13	Risk.....	13
3.13.1	Risk to funders .....	13
3.13.2	Risk to Fund .....	14
3.13.3	Risk to delivery groups .....	14
4	Summary .....	14

**This project is supported by The Facility for Investment Ready Nature in Scotland (FIRNS). Delivered by NatureScot in collaboration with The Scottish Government and in partnership with the National Lottery Heritage Fund.**

Author	Version	Date
S Collin, L. Greenhill	V1	18/03/2024
S. Collin, L. Greenhill	V2	03/04/2024

## 1 Introduction

Across Scotland's land and sea, pressures from climate change and human activities are causing declines in biodiversity, which, in turn, is affecting people's wellbeing and livelihoods. To meet Scotland's ambitions to be 'nature positive' by 2030 and to have restored and regenerated biodiversity across the country by 2045<sup>1</sup>, new and innovative methods for funding nature restoration are required.

The FIRNS Source to Sea Fund project, commissioned by Fisheries Management Scotland and conducted by Finance Earth with support from Howell Marine Consulting (HMC), aims to explore next steps for the Scottish Marine Environmental Enhancement Fund (SMEEF), in particular different nature finance options, and investigate the potential for establishing a new fund that includes river catchment restoration projects alongside the marine-focused projects currently supported by SMEEF. Using the SMEEF model as a starting point, a range of options for a new Source to Sea fund have been developed and assessed, which are presented in the FIRNS: Developing a Scottish Source to Sea, nature finance model Final Report.

In support of the development of options for a Source to Sea fund, HMC led a programme of stakeholder engagement with fund management, policy, and project delivery experts to gain insights into the benefits and challenges of SMEEF's funding model, identify expectations of a new Source to Sea fund, and determine the risks and opportunities of developing a Source to Sea fund. This report presents the key findings from those interviews.

## 2 Stakeholder engagement approach

In January and February 2024, HMC conducted a series of interviews and informal calls with various stakeholders to capture views on:

- the benefits and challenges experienced to date with SMEEF,
- the need for a new Source to Sea fund,
- what the funding priorities of a Source to Sea fund could be,
- capacity to deliver, and
- reporting requirements.

The interviews were conducted in a semi-structured way, ensuring key themes were discussed while also allowing the interviewee to raise points or discuss issues in more detail when required. Each interview lasted 45-60 minutes and was conducted online. All interviews were led by HMC and in many cases were attended by project team members from Finance Earth and FMS.

---

<sup>1</sup> Scottish Biodiversity Strategy to 2045: <https://www.gov.scot/publications/scottish-biodiversity-strategy-2045-tackling-nature-emergency-scotland/>

In total 19 interviews were conducted, which included representatives from the following:

- SMEEF Management Team
- NatureScot: policy and fund management experts
- Crown Estate Scotland
- Scottish Government's Marine Directorate
- River Fisheries Trusts
- Environmental NGOs
- Community group representatives, and
- Landowners.

In addition to the interviews, several less formal calls with SMEEF and NatureScot staff were conducted.

### **3 Key findings**

This section provides an overview of the key findings from the stakeholder engagement, highlighting lessons learnt from SMEEF and considerations for a future Source to Sea fund.

#### **3.1 Lessons learnt from SMEEF**

##### **3.1.1 Brand strength**

In the short time SMEEF has been operational (formally launched in 2022) it has established a strong brand, recognised by both fund contributors and project delivery groups. The success to date in sourcing and distributing funds: over £3m sourced to date and a recent partnership with SSEN Distribution worth over £2m, has enabled SMEEF to quickly build a track record of supporting marine projects across Scotland, covering a range of different activities. SMEEF's Impact Report published in 2023<sup>2</sup>, which highlights the diversity of projects funded over the first three rounds of funding, has contributed towards building the confidence both donors and project delivery groups have in SMEEF.

##### **3.1.2 Current structure**

SMEEF has a relatively simple structure, hosted by NatureScot and jointly managed with Crown Estate Scotland and the Scottish Government (as Steering Group members). This close relationship with government bodies has been highly valuable and has helped to quickly establish SMEEF as a legitimate and trusted fund.

With NatureScot as its host, SMEEF sits within government and has access to NatureScot resources, such as finance, fund management, ecological, and policy

---

<sup>2</sup> [https://smeef.scot/wp-content/uploads/2023/06/SMEEF-Impact-Report-Final-08-June-2023\\_w.pdf](https://smeef.scot/wp-content/uploads/2023/06/SMEEF-Impact-Report-Final-08-June-2023_w.pdf)

expertise. This support has enabled SMEEF to operate in a streamlined way: the SMEEF staff team consists of three people who oversee the sourcing and distribution of funds and managing SMEEF's portfolio of projects.

SMEEF's structure includes an Ethical Contributions Board, which assesses all financial contributions to SMEEF using the Contributions Acceptance Policy. This has proven to be an important component of SMEEF's set up, particularly for project delivery groups that are cautious of who they accept funds from. Knowing SMEEF has a Contributions Acceptance Policy and robust due diligence process reassures many project delivery groups that contributions to SMEEF have gone through an ethical assessment process.

Many interviewees highlighted the important role SMEEF plays as a buffer between the private sector (some of whose activities cause environmental damage) and project delivery groups working to restore the environment. A key part of this role is the transfer of control over how funds are used from the private sector to SMEEF. This transfer of control demonstrates the private sector's confidence in SMEEF to use the funds in the most appropriate way and also builds trust with project delivery groups.

The blended finance approach of SMEEF has been innovative, enabling the management and distribution of both public funds (NatureScot's Nature Restoration Fund (NRF)) and private donations within the same fund. This is challenging due to the different restrictions on the two types of funds, most notably, public funds must be used by the end of the financial year, whereas private funds are less restrictive. SMEEF is currently able to carry up to £2m in private funds across financial years.

While there are many benefits to SMEEF's current structure, there are also some challenges. The close link to NatureScot has resulted in lots of rules and regulations on how funds are spent (to be in accordance with the Scottish Public Finance Manual), government sign-off procedures, and inflexible terms and conditions on fund use and reporting. The majority of funds distributed by SMEEF so far have been NRF funds, which have resulted in 1-year funding rounds, often with short run-in times to application rounds, which has limited the scale of activities it has been able to fund.

As funds being distributed by SMEEF move more towards private donations and away from public funds – such as the recent £2m partnership with SSEN Distribution – these challenges show signs of being addressed, although there is still ongoing discussion with regards to whether holding reserved funds is sustainable under the Scottish Public Finance Manual (SPFM) rules.

### 3.1.3 Reporting requirements

SMEEF's approach to project reporting has been light touch to date, which has been welcomed by project leads. Currently, fund recipients are required to provide monthly updates by email and a final written report, using a standardised template, confirming the funds have been used as agreed. This light-touch approach also benefits the

SMEEF team, as the information being reported can be easily synthesised and reported.

There is interest in SMEEF providing more detail on the impact the projects it funds have, particularly with regards to environmental and social impact. However, consideration needs to be given to the capacity of project delivery groups to provide more detailed reports and also the capacity of the SMEEF team to collect, analyse, and communicate reported information. In several cases, capacity within project delivery teams is limited and a requirement to deliver more detailed reports would be challenging and could, potentially, create a barrier for applying. It is essential, therefore, for SMEEF to work with project delivery groups to determine agreed reporting requirements, as well as provide a clear justification for the additional reporting and be transparent on how the information will be used.

#### 3.1.4 Donor challenges

Although SMEEF has been successful in its first three funding rounds and has built a track record of funded projects, some potential donors remain reluctant to contribute to SMEEF for the following key reasons:

- Donors don't necessarily have autonomy over which projects their contributions support – although donors do have the option to fund specific themes (e.g., seabirds or seagrass)
- There are a growing number of other approaches/mechanisms available to fund restoration (particularly on land) that can meet developer needs (for example, strategic compensation or carbon credits) and are attractive to large financial companies looking to fund large-scale projects.
- SMEEF is not yet well-enough established meaning that it is too early for some donors.
- Payments into SMEEF are a voluntary contribution with no returns on investment.

While SMEEF's current structure provides a straightforward approach to funding restoration projects, it is considered that, in order to meet demands of increased funds and funder expectations, it will need to scale up. This will require additional internal resources and, potentially, a more comprehensive approach to measuring and monitoring project impacts. This, in turn, could risk losing some of the benefits SMEEF's current structure provides and it is essential that, as SMEEF moves forward, these benefits are recognised and maintained, where possible.

## 3.2 Purpose of a Source to Sea fund

The overarching purpose of a Source to Sea fund (hereafter 'the Fund') is to provide financial support to project delivery groups actively working on improving the health of river catchments, coasts, and the marine environment in Scotland. While there is potential to incorporate and align the Fund with other initiatives currently developing

in Scotland, such as carbon and biodiversity credits, it was recommended by several interviewees that it is important for the Fund to start simple and build as required. It was also highlighted that, although SMEEF has to date had success and there are some important lessons to be learnt, it was not necessarily a model the Fund had to use.

The adoption of a simple structure at the start would help with establishing the Fund and start to build the 'Source to Sea' brand. As interest in the Fund grows, both from funders and project delivery groups, its structure could develop as required, potentially to address policy drivers steering private sector investment in restoration, such as 'nature positive' action, marine net gain, carbon credits, and biodiversity credits.

However, advancing the Fund to a position where it can support wider Scottish Government environmental targets and private sector requirements, will need consideration of its role in delivering, measuring, and monitoring environmental improvements (see Section 3.4 Funding Priorities).

### 3.3 Governance

A key consideration when assessing the options for funding river catchment restoration is how it will align with the marine work funded by SMEEF. While it was not clear whether the Fund could be created by creating a new component within SMEEF (i.e., a river catchment themed pot of funds) or be a separate fund sitting alongside SMEEF (i.e., a shared governance structure but two separate funds), it was clear that they both should be working towards the same overarching strategy and that opportunities to align river catchment and marine projects, where possible, needed to be identified and prioritised. A shared governance structure would increase the potential for an aligned and joined up 'source-to-sea' approach that included both river catchment and marine projects.

### 3.4 Multi-year funding

The need for multi-year funding was highlighted by several interviewees as a priority for the Fund. While many recognised that the shorter, one-year funding opportunities, such as those initially provided by SMEEF, were useful, in particular for purchasing equipment or paying for specific activities that can be delivered quickly, it was also recognised that they have limitations, including:

- One-year funding rounds reduces ability to plan long-term.
- It is not possible to deliver the large-scale restoration required without multi-year funds.
- It is difficult to find or retain staff on one-year contracts.



### 3.5 Funding priorities

The funding priorities for the Fund will need to be informed by its overarching purpose and strategy, but most interviewees from the project delivery side also highlighted a range of needs and activities that should be prioritised which interestingly focus on the supporting aspects of effective restoration delivery rather than the restoration itself:

- Baseline data collection – not yet well enough established and required if impact of restoration activity is to be measured.
- Future monitoring – funding should not stop once an activity has completed and funds should be available to assess whether the activity has been a success or not, enabling practitioners to learn from the results.
- Support funding applications – many small organisations do not have the capacity or resources to invest in applying for project funding, which limits their ability to submit applications and compete with other, well-resourced organisations.
- Stakeholder engagement – projects based on land involve a larger number of stakeholders, when compared to marine projects, and require extensive stakeholder engagement during project development, which can be resource intensive. It is, however, an essential component of project development and delivery and funding that could increase organisation capacity would be highly beneficial. (The topic of community benefits is explored further in the FMS report ‘How a ‘Source to Sea’ fund could benefit both ecosystems and communities’.)
- Project development – often considered an overlooked component of restoration projects, with the costs usually absorbed by the delivery group. Funding that could support project development, such as the project development grants provided by NRF, would assist with increasing the number and quality of fully costed restoration projects available to fund.
- Project reporting – the current light-touch reporting requirements of SMEEF have been welcomed, particularly by smaller organisations. However, if reporting requirements were to increase, this would require an increased resources (e.g., staff time and, potentially, skillsets), which some organisations do not have in house and would require funding.

Currently, funding tends to focus on activities rather than outcomes – for example, planting trees rather than monitoring their survival, the abundance/diversity of associated species, and their ecological/environmental impact over time. Without measuring the long-term impact of an activity, it is not possible to assess whether the activity has been a success or whether the funds have been well used.

The emergence of strategic compensation, marine net gain, and biodiversity net gain imply a need to measure and report on the outcome of restoration activities, rather than just fund the activity itself, which will bring additional capacity needs that require funding. It was also, however, noted that there were challenges with measuring

impact/outcomes in river systems, and that currently there is not a clear metric or method to demonstrate ecological impact in either catchments or marine environments. Work is on-going across the UK to develop measuring and monitoring approaches, but to ensure projects can accurately and robustly report on outcomes, funding may also need to support the development of methods for measuring impact.

### 3.6 Multiple funding pots

It was suggested that establishing thematic priorities for funding, informed by an overarching strategy, would enable:

- funders to support a type of activity without being linked to a specific project (e.g., a theme of riparian woodland restoration)
- the avoidance of geographic preference – contributors may have a preference for supporting projects in a specific area near their development, which could leave other areas not subject to development, e.g., remote areas in the north of Scotland, less likely to secure funding.

The need for multiple funding pots, linked to thematic priorities, was highlighted by several stakeholders interviewed, with the following themes proposed:

- Simple vs complex – regarding project scale and reporting requirements. Smaller funding amounts would be considered simple with basic reporting requirements, where larger funding amounts could be more complex with more targeted and comprehensive reporting requirements.
- Project development support – to design suitable proposals for funding.
- Monitoring – including post-activity monitoring for a funded project or support purely for monitoring needs, whether linked to a restoration project or not.
- Unrestricted funding – there were concerns over the funder being too prescriptive on how funds are used. Many funds focus on capital spend, which can be useful, but delivery groups are mostly in need of funding to support capacity building, admin support, fundraising, and reporting. Delivery groups are best placed to identify where funding is needed to deliver restoration projects but are largely restricted on how funds can be used.

### 3.7 Full cost of delivering restoration

The true cost of delivering environmental restoration was highlighted by many interviewees as something that is currently overlooked, yet a more comprehensive approach to project funding is essential for delivering restoration at scale.

It was noted by one interviewee that the true cost of project delivery was becoming clearer as interest from the private sector increases and restoration opportunities are becoming sought after. It had previously been assumed that many of these costs should be absorbed by the project delivery group, but now the private sector is looking for opportunities to meet ESG/CSR requirements (and potentially strategic

compensation/biodiversity net gain/marine net gain requirements in the future) conservation groups are being approached to organise activities.

It was also highlighted that, in many cases, the costs of larger projects often need to be paid up front by the organisation and then claimed from the funder. Larger organisations may have sufficient funds to temporarily cover project costs but smaller organisations with tighter budgets may not be in a position to do this, therefore creating a barrier to applying for larger funds.

### 3.8 Project development

It was highlighted by many stakeholders that restoration in river catchments happens on privately owned land, which requires several stakeholders to be involved in the development and delivery of restoration projects. Therefore, the run-in time for funding rounds should recognise this and be sufficient for project delivery groups to prepare and plan their application, particularly for large-scale projects.

A potential solution to the financial and capacity challenges associated with project development, particularly for smaller organisations with limited resources, would be for the Fund to provide grants specifically for project development. This is an approach adopted by NRF and more recently by SMEEF, which has resulted in a notable improvement in the number and quality of project applications. While NRF do not guarantee additional funding to deliver the project, there are several other benefits to this approach:

- A pipeline of fundable, shovel-ready projects is created, which organisations can use to apply for funding from other sources.
- Quality assurance – projects developed through this process may be more robust and thorough and will have benefited from technical expertise and feedback from NRF.
- Developers approaching NRF for projects to fund can be given details of available options and contact project delivery group directly.

This approach was further built upon with the suggestion of taking a project audit approach to project development where:

- A stretch of river is defined for restoration activity.
- Project opportunities are identified and delivery plans are developed within the area of interest, ensuring all project activities and objectives align.
- An assessment of the capacity and expertise required for each project is undertaken.
- Funding requirements for each project are determined.
- Expected outcomes from all projects are identified.
- Timescale for project delivery is determined.
- Project reporting potential is identified.

While the suggestion provided above focused specifically on a stretch of river, the approach could also be applied to a river catchment, a stretch of coastline, or a marine area.

By funding this approach to project development, a prospectus of fundable projects could be developed and made available to a range of potential funders. A key challenge with this approach is that there are no returns for funders (for example, financial return, or biodiversity or carbon credits) but it could be a beneficial use of philanthropic donations that do not have requirements attached.

It was suggested that Peatland Action has an interesting model to consider for project development, which includes the following stages:

- SRUC are involved early in the project development phase to assess the viability of the proposed site for peatland restoration.
- If the site is viable, a consultant is hired to assess if there is potential for a peatland project.
- If there is a viable peatland restoration project, the resulting project plan is used when applying for funding.

This approach enables a central resource of expertise to inform all potential projects, enabling a consistent approach to project development and delivery.

It was further suggested that, instead of providing project development grants as standalone funding opportunities, project development should be incorporated in multi-year funding packages, where the first year focuses on project development with input from the funder and agreed experts, and the remaining years of the project focus on delivery. This suggestion could be further expanded to include funding for monitoring and reporting post project delivery.

### 3.9 Capacity building

#### 3.9.1 Project delivery capacity

Capacity limitations was a common theme throughout all interviews, with one interviewee stating that "...in Scotland, we are not ready to deliver projects at a scale to match the amount of money that could potentially be made available." The risk of demand for restoration projects outstripping the ability to deliver is possible without investment in capacity building.

The high variability in capacity, particularly with regards to seasonality and geography, adds further challenges to restoration activity. For example, organisations based in the more remote locations in the north of Scotland are required to pay a premium to get (and retain) staff and there is a low-likelihood of someone moving to fill a one-year contract (further emphasising the importance of multi-year funding). Further, the lower and more sparse populations in the north of Scotland make it harder to recruit volunteers, which creates challenges if funders require volunteer number targets.

It was suggested that a fundamental problem in Scotland is that there are a small number of large organisations that have capacity to develop and deliver restoration projects, which creates challenges for smaller organisations competing for the same funds, many of which may be in greater need of funding.

It was widely recognised that there is a need for a strategic approach to increasing capacity and upskilling across Scotland to deliver the required level of restoration work, which should include:

- Providing long-term funding that creates certainty of income.
- Unrestricted funding to support multi-year staff contracts as well as recruitment and management costs.
- Support educational activities that provide training.
- Support community groups in development phase of projects rather than focusing on funding project delivery.
- Support smaller organisations with applying for funding (increasing fundraising capacity).
- Encourage partnership working by scoring funding applications more favourably if they involve larger organisations working in collaboration with one or more smaller organisations.

### 3.9.2 Fund Management Team capacity

While a lot of interviewees focused on the capacity of the project delivery team to meet reporting requirements, they also mentioned that the capacity needs within the Fund's management team should also be considered. Increased project reporting requirements will increase the volume as well as type of data/information the Fund management team will need to collate, assess, report, and communicate. This will require a greater internal capacity, both in terms of the number of people and skillsets.

It was highlighted that any additional data requests must be relevant to the Funds own reporting requirements – for example, it may not be necessary for raw data to be submitted in reports, but key findings that align with the Fund's impact indicators could be requested as a condition of funding.

It was also recognised that by diversifying fund contributors and increasing the amount of funds coming into the Fund would require additional staff to manage funder relationships, fundraise, communicate Fund performance, and report against potential funder requirements. It should be noted that the skillset for funder management will be different from those assessing project applications and reviewing project reports.

### 3.10 Reporting

Project reporting is essential for the Fund to be able to demonstrate its impact on environmental restoration. It was widely recognised that to effectively demonstrate project impact, you need the required expertise to inform project design, delivery, and

reporting. It was highlighted that these needs must be identified early in the project development phase and agreed between project delivery group and funder to ensure project reporting is robust.

It was highlighted that, for some projects, some of the impacts of the activity will be immediately apparent (e.g., removal of invasive non-native species), but that there will also be other subsequent impacts that will only become apparent over time. Therefore, project reporting should consider:

- Immediate impacts from project activity – these could be reported on an annual basis using agreed reporting metrics, and
- Other measurable outcomes – these could be reported over longer periods of time (e.g., every five years) and include post-project monitoring.

The addition of post-project monitoring (e.g., measuring the long-term impact of a restoration activity) was widely seen as a valuable addition – it is important to assess if the funded activity has delivered expected outcomes. However, a key question emerging from the stakeholder interviews was, if we accept there is value in monitoring and evaluation, how do you support people to do that?

There was a general sense from interviewees that funders are generally asking for increased levels of reporting and, in response, organisations are now set up to conduct more monitoring and evaluation. Several stakeholders agreed that, if funding is available, additional reporting would not be considered a challenge, depending on the type of data collection required, the amount of additional reporting involved, and whether the additional reporting was proportionate to the amount of project funding. The consensus amongst interviewees was that project reporting requirements would need to be agreed between the funder and project delivery group prior to commencement of the project.

There is a need for a standardised approach to monitoring to ensure consistency in information reported, build confidence in the information reported, and enable the collective impact of multiple projects supported by the Fund to be assessed. This approach will build integrity in Fund impact reports. Further, consistency in reporting across all projects will be more easily managed by the Fund Management Team required to collate and report on the Fund's impact.

### 3.11 Funders

#### 3.11.1 Funder requirements

It was suggested that funders should be characterised in terms of their drivers and their requirements, for example:

- Funders that make voluntary contributions to the fund and do not require anything in return – these funds are usually unrestricted and their use is determined by the Fund.

- Funders that have requirements on their funds – for example, reporting on use and demonstration of impact to meet internal reporting requirements.
- Funders making an investment into the Fund and looking for a return (e.g., financial return, carbon credits, biodiversity credits).

The current structure of SMEEF enables voluntary contributions to be made with few restrictions – although most contributions do not have restrictions on them, some have been given to support a specific activity (e.g., seagrass restoration) but not linked to specific projects. In general, SMEEF has not engaged with funders with more specific requirements, although the recent SEN seabed and seagrass contract provides an example of SMEEF agreeing to provide more robust monitoring and reporting of project outcomes to the funder. SMEEF’s simple approach has been beneficial to date however, discussions are ongoing over whether SMEEF should adapt to the evolving policy landscape and the changing needs of funders.

### 3.11.2 Funder expectations

It was suggested that there is a need to manage funders expectations when they make a contribution to the Fund. For example, there needs to be clarity over:

- Which projects can be funded (i.e., the types of restoration activity available).
- The level of risk associated with the project (i.e., it may not deliver expected outcomes).
- How much projects cost (including all hidden costs of restoration (see Section 3.7)).
- The timescale of delivery (not just activity, but outcomes).

It is important that funders understand that you “can’t just pay for the end result” and a similar approach to industry carrying out research and development is required, where funding is used to develop and improve methods, collect and analyse data, build capacity, and monitor outcomes. All of these components are essential for delivering and demonstrating environmental restoration.

### 3.12 Fund strategy

It was recognised by several interviewees that there is a need for the Fund to have an overarching strategy that aligns with wider Scottish Government environmental strategies and informs a targeted approach to project reporting.

It was raised that across Scotland there are several strategies and activities, beyond the Scottish Biodiversity Strategy, that the Fund should consider when developing its strategy and objectives, including:

- Wild Salmon Strategy
- River catchment Fisheries Management Plans – the FMPs are currently in development (expected to be published later in 2024) but have the potential to be a highly valuable resource for developing catchment scale approaches to

restoration, developing a prospectus of restoration projects, and assessing funding applications.

- Scottish Forestry Riparian Planting Map
- River temperature monitoring network
- Peatland restoration strategy

There are also several marine strategies that should be considered, including:

- Scottish Seabird Conservation Strategy
- National Marine Plan (currently being revised)
- Regional Marine Plans (currently being developed)
- The upcoming Marine Restoration Plan
- The upcoming Library of Measures

It was highlighted that river catchments and coastal / marine environments are too large and diverse to be restored within a single project and that there is a need for a central coordination of projects working on a river catchment to ensure that they are complementary and that resources are used as effectively and efficiently as possible. There is potential for the Fund to play a coordinating role, ensuring that the individual and cumulative impacts of multiple/all funded projects within a river catchment through the coastal zone and into the marine environment are considered.

When considering the range of activities the Fund could support, it is also important to consider the range of expertise required within the Fund's management Team, Steering Group, and Grant Assessment Panel, to assess fund applications and project reports.

### 3.13 Risk

#### 3.13.1 Risk to funders

It was suggested that funders must recognise and accept that restoration projects come with varying levels of risk and that certain high-risk restoration projects are likely to fail. It is important to emphasise, however, that learning from these failures is valuable and will help inform future work, potentially reducing the risk of failure. There were concerns raised, however, that funders would seek out and prioritise 'low risk' project opportunities, which could lead to a saturation of these opportunities and prevent investment in advancing higher risk restoration activities. It was considered that the fund should retain some control over how contributions to the fund are distributed, i.e., across low and high-risk projects to support the general advancement of a range of restoration approaches across multiple habitats.

Giving the fund control over how contributions are spent would enable funds to be spread across a range of projects, which could reduce the risk to the funder – i.e., avoiding putting all expectations on one project that could fail.



Environmental restoration methods are still evolving and there is still uncertainty over their effectiveness. This creates the potential for overcharging for an activity or outcome, if the method applied was more successful than predicted – while this would be considered a positive outcome for the environment, the funder may consider that their requirements could have been achieved for less money. Similarly, there is a risk of undercharging if an expected outcome is not achieved, and funder requirements are not met. In this scenario, there is uncertainty over who is responsible for ensuring the required outcome is achieved.

### 3.13.2 Risk to Fund

The potential for undercharging funders for a specified outcome (i.e., a project not delivering an expected outcome for the agreed cost) presents a risk to the Fund, depending on the agreement with the funder. If responsibility for delivering an outcome lies with the Fund, then it may be required to provide the additional funding to ensure the required outcome is delivered.

It was suggested that the Fund has to accept risk, but that there are different levels of risk. By spreading funding across a range of high and low risk projects, the risk to the Fund could be reduced.

### 3.13.3 Risk to delivery groups

It is important to recognise that there is a chance the project will not work as intended and the expected outcomes will not be achieved. This can be particularly problematic when funding is provided to deliver a specific outcome. This could present a risk to the project delivery group and highlights the need for early negotiations between the Fund and project delivery groups to determine what actions should be followed in this scenario.

For many smaller organisations, accepting grants for project development without the guarantee of future funding could be seen as a risk, as limited resources will be directed towards project development and away from other areas of work. If the project does not receive funding for delivery, it could be considered an inefficient use of valuable resources.

Some representatives of small organisations and community groups highlighted the risks of taking on new staff, particularly for short-term contracts, as they will require support from core staff (e.g., HR, admin, finance) that may already be at capacity. Ensuring long-term funding and/or funding that covers these additional, often hidden costs would help reduce risk to the organisation.

## 4 Summary

The stakeholder engagement carried out during this project highlights the interest in building on the successes of SMEEF and developing a new Source to Sea fund that includes river catchment scale restoration. There were many benefits identified with

creating a fund that complements SMEEF’s marine focus (creating a joined-up approach to terrestrial, coastal, and marine restoration) and supports the delivery of Scotland’s wider environmental restoration targets.

While there is interest in developing a new fund, there were several concerns raised over the capacity to deliver environmental restoration at a meaningful and impactful scale and meet the potentially demanding reporting requirements of contributors to the Fund. Therefore, the need for the Fund to prioritise capacity building and covering the full cost of restoration projects (from conception through to post-activity monitoring) was emphasised by many interviewees. An overview of the key opportunities and risks / challenges with establishing a Source to Sea fund, identified through interviews with stakeholders, is provided in Table 1.

**Table 1.** Overview of opportunities and risks with developing a Source to Sea fund identified by stakeholders.

Opportunities
<ul style="list-style-type: none"> <li>• SMEEF’s simple structure provides a strong foundation for integrating river catchment restoration projects (i.e., creating a dedicated funding pot), with the potential to adapt and expand the fund structure depending on the level of interest in river catchment restoration.</li> <li>• Integrating river catchment restoration into SMEEF or having two separate funds that share an overarching governance structure, would present an opportunity for a joined-up approach to land and marine restoration.</li> <li>• There is potential to increase and diversify the types of funds available to support environmental restoration throughout Scotland.</li> <li>• The Fund can provide an important buffer between the private sector (e.g., developers) and project delivery groups – a welcomed benefit of SMEEF’s Contributions Acceptance Policy and due diligence through its Ethical Contributions Board</li> <li>• There is potential for creating several funding pots that cover priority themes, providing a targeted approach to environmental restoration delivery.</li> <li>• A new fund could increase funding available to support project development, stakeholder engagement, capacity building, and data collection and monitoring – essential components for delivering environmental restoration.</li> <li>• Opportunity to create a prospectus of well-developed, fully costed, and fundable projects available to potential fund contributors.</li> <li>• Support partnership working that encourages larger project delivery groups to partner with smaller groups – ensuring smaller organisations are able to benefit from the Fund and engage in large-scale restoration projects.</li> <li>• There is potential to build in social impact / community benefits into project design through targeted project activities, data collection, and monitoring.</li> <li>• Potential to align the Fund’s strategy with wider Scottish Government environmental restoration strategies, such as Wild Salmon Strategy and the Scottish Seabird Conservation Strategy.</li> </ul>

### Risks / Challenges

- If SMEEF absorbed into a Source to Sea fund, there is a risk of losing / weakening the SMEEF brand and reputation amongst fund contributors and project delivery groups
- SMEEF benefits from being hosted by NatureScot and supported by CES and the Scottish Government. A change to the host and governance structure could weaken the integrity of the fund.
- Diversifying funding sources and incorporating more demanding reporting requirements risks overcomplicating the Fund model – SMEEF has benefited from its relatively simple and straightforward approach.
- Financial restrictions on holding funding reserves across financial years, as laid out in the SPFM, restricts the Funds ability to support the multi-year, large-scale projects needed to deliver effective restoration activity.
- An increase in reporting requirements, driven by fund contributor requirements, could be considered a barrier for smaller project delivery groups due to the increase in resources needed, both in terms of people and skillsets.
- An increase in reporting requirements to fund contributors would require an increase in internal capacity within the Fund management team, which would subsequently increase running costs.
- There are already several funds available to support environmental restoration (particularly on land) that are attractive to financial companies. There is a risk that the private sector may look to other funds to meet their reporting requirements.
- As reporting requirements increase, particularly with regard to measuring environmental impact, a robust and reliable approach to measuring impact / outcomes will need to be developed.
- The capacity within project delivery groups may not be sufficient to deliver restoration at the scale needed.
- In the event a project does not deliver an expected outcome, which can be caused by a multitude of reasons, it is essential to identify where responsibility lies. For example, is it the funder (e.g., private sector), the Fund, or the project delivery group responsible for delivering the required outcome?

It was recognised by many interviewees that the policy landscape in Scotland is evolving, and many private funders are looking for opportunities to meet ESG/CSR and strategic compensation requirements. While this could be a future avenue for a Source to Sea fund to explore, there was concern over the Fund becoming too complex too quickly and a simple structure, similar to SMEEF, was the preferred approach. While a simple structure is the logical starting point, there was also recognition that the design of the Fund could develop over time, building in more complexity in response to the needs of potential contributors and project delivery groups, and the evolving policy and nature finance landscape.