

# Summary learnings from the Source to Sea Workshop

Options for a nature finance model

April 2024

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# Contents

## 1. Key workshop learnings (page 4)

## 2. Funding Model – options assessment

- Fund structure considerations (page 6)
- Options 1 and 2 (page 8)
- Option 3 – A governance vehicle (Page 10)

## 3. Workshop assessment

- Summary of funding model options assessment (pages 13 – 15)
- Summary of group findings (page 16)

## 4. Appendix

- Attendees and workshop groups (page 18)
- Post-it note summary (pages 19 – 21)

# Source to Sea Workshop

On Monday 11<sup>th</sup> March, 32 individuals from a range of organisations, public and private, joined the Source to Sea workshop that was held in The Scotsman Hotel, hosted by Fisheries Management Scotland (FMS).

- FMS introduced the purpose of the workshop and the objectives of the FIRNS project, and NatureScot provided a recap of the Scottish Marine Environmental Enhancement Fund (SMEEF).
- Howell Marine Consulting (HMC) provided an outlook on key policy considerations that framed the conversation, namely Strategic Compensation, Marine Recovery, Marine Net Gain, Scottish Biodiversity Strategy and Marine Restoration.
- Project engagement findings were presented by Finance Earth, HMC and FMS, providing attendees with an evidence-based framework for the consideration of future funding model options available to SMEEF, a river catchment fund and/or a Source to Sea fund.
- Finance Earth presented three potential Source to Sea model concepts, introducing the framework and opportunity presented by a governance vehicle. The attendees assessed each option against the assessment framework provided on slide 12.

The three funding models presented were:

**Option 1:**  
River catchment 'pot' within  
SMEEF

**Option 2:**  
River catchment fund alongside  
SMEEF

**Option 3:**  
New Entity – A governance  
vehicle

Source to Sea, nature finance model

# Key Learnings & recommendations

Workshop attendees were supportive of the opportunities presented for the evolution of SMEEF and/or the Source to Sea funding model. The following key points emerged during the workshop.



A fund requires a clear **strategy and purpose** from which subsequent considerations can develop (governance, structure, engagement in ecosystem services, private markets and repayable finance)



**Multiple funding approaches and support mechanisms** may be required to deliver projects of varied sizes, as well as funding project development, capacity building and assisting with monitoring and maintenance costs



**Monitoring and reporting** requirements at both fund and project level can be significant to align with partner (or investor needs), a standardised approach could reduce the burden for the fund and projects



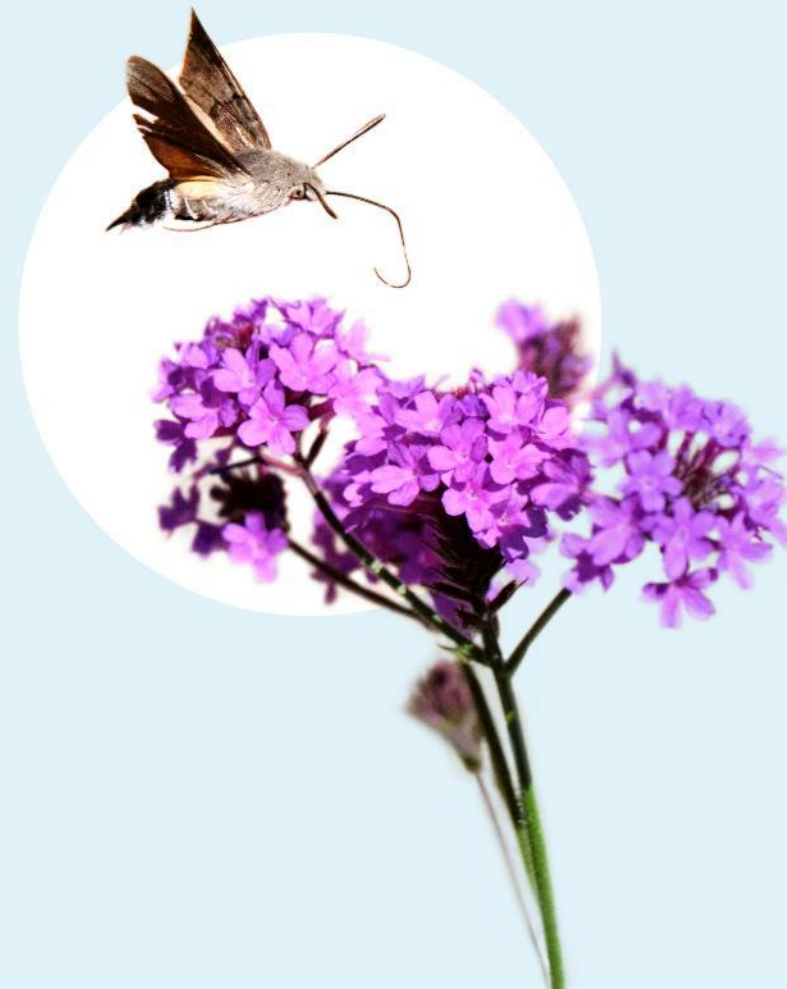
**Clarity over fund positioning and communications** are expected to be key to future success, both for the evolution of SMEEF and a Source to Sea funding model, building on SMEEFs existing brand and position



Integrating river catchment opportunities into SMEEF would be the most cost effective approach but requires an assessment of SMEEF's **resourcing, capacity** and knowledge. A new fund is likely to be more expensive but may allow greater scope for expertise

**Next steps:** establish which fund option is most appropriate for a river catchment fund and develop a **roadmap** to delivery.

## Funding Model Options

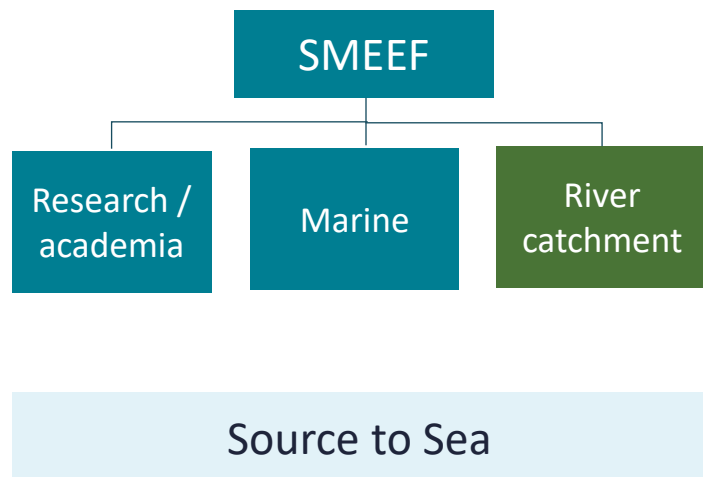


# Fund structure considerations

Three funding model structures were presented at the workshop including an adaptation of SMEEF’s existing structure, a replica of SMEEF for river catchments, and a new structure outsourced to a specialist entity for management.

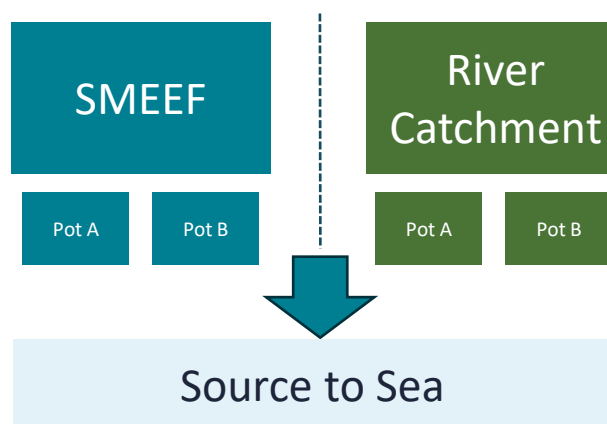
## Option 1: River catchment within SMEEF

Remains within NatureScot  
Addition of FMS to Steering Group



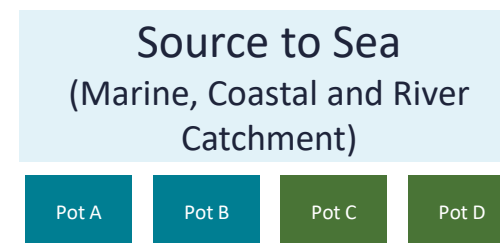
## Option 2: Dedicated river catchment fund run in parallel to SMEEF

2A hosted by NatureScot or 2B a new host is selected  
Revised Steering Group(s)



## Option 3: A new Source to Sea fund structure

Outsourced entity / party  
New steering group / board  
3<sup>rd</sup> party advisor / manager

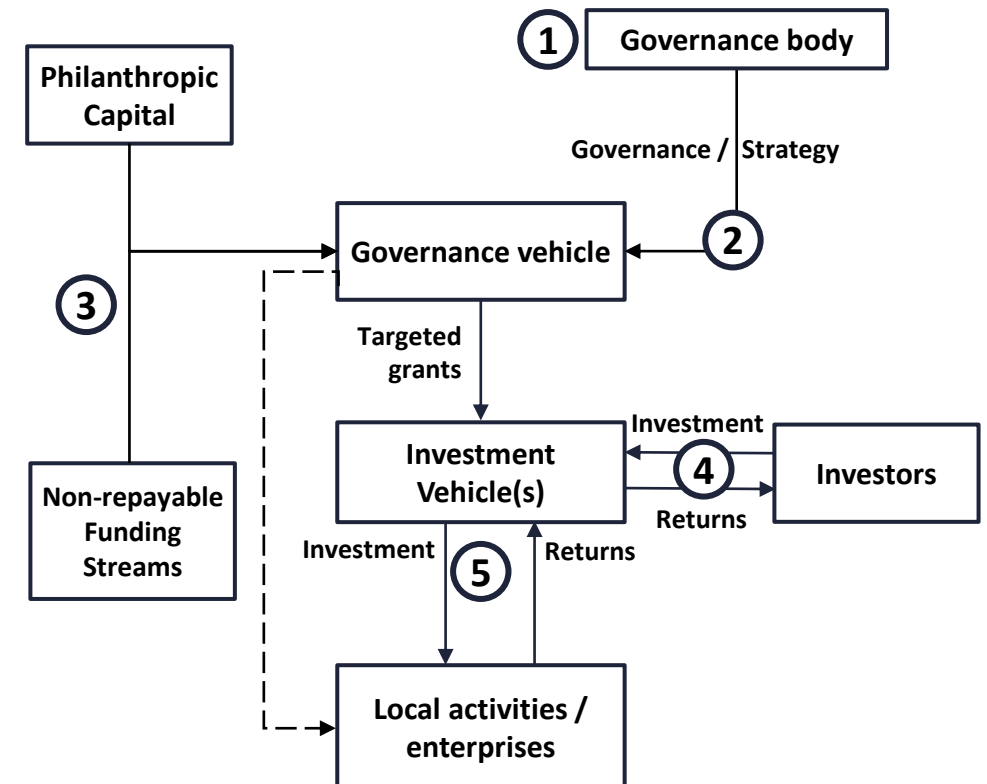


# Governance models

Governance vehicles are frameworks and funding aggregation vehicles that can help to crowd in private investment and diversify the range of funding sources available for a region's environmental priorities.

## Governance model:

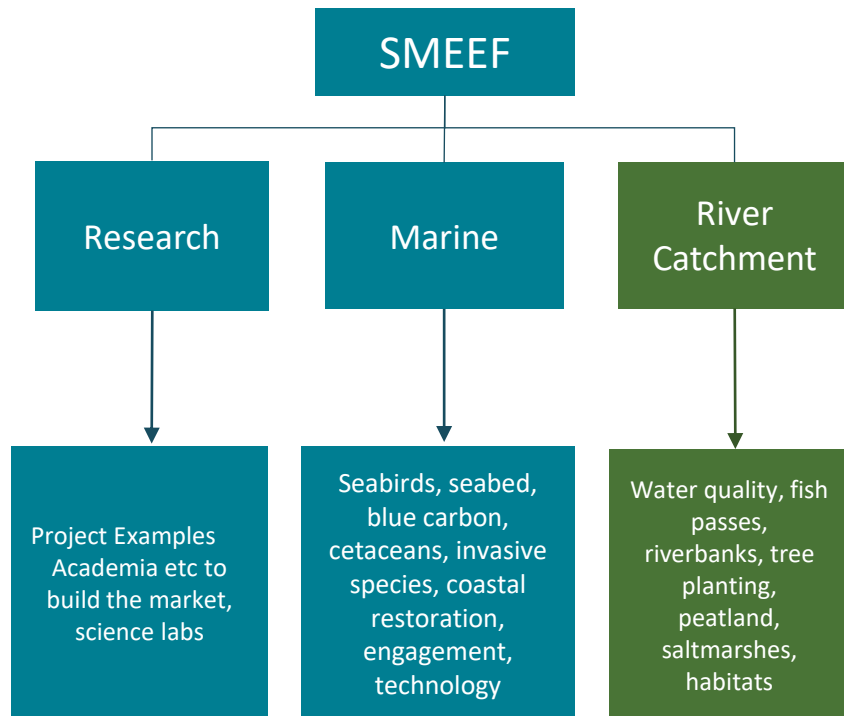
1. Local stakeholders agree a **strategy for a region**, which includes aligning priority activities within the area
2. Establishment of an appropriate **legal entity** to execute on the strategy
3. **Donative/ aligned local funding streams** (e.g. a flood levy) are coordinated via the governance vehicle to develop specific projects
4. **Third parties invest in the Fund**, which then finances a range of place-based activities and enterprises, such as eco-tourism, ecosystem services or community enterprises, crowded in by donative funds
5. Enterprises create **revenues that are used to fund the activities on an ongoing basis**, and repay investors over time



# Option 1: River catchment within SMEEF

## Description

- SMEEF has evolved with the flexibility to deliver grants to projects that are most attractive to donors and align with the restoration objectives of the Steering Committee
- Governance framework established and operating successfully
- SMEEF could evolve to include a river catchment focus with additional ‘pots’ to support key initiatives



Pros	Cons
Leverages existing brand strength and market awareness	Potential dilution of / disruption to SMEEF brand and market position
Leverages team experience, expertise and networks	Additional set up and management needs may exceed current SMEEF team capacity
Leverages SMEEF’s existing NatureScot governance structure	Subject to the same capital constraints (public finance) as SMEEF
Ability to manage ‘pots’ for specific areas of contributor interest	Potential threat posed by the development of a Marine Recovery Fund
Less onerous reporting requirements at fund level; lower burden to projects	

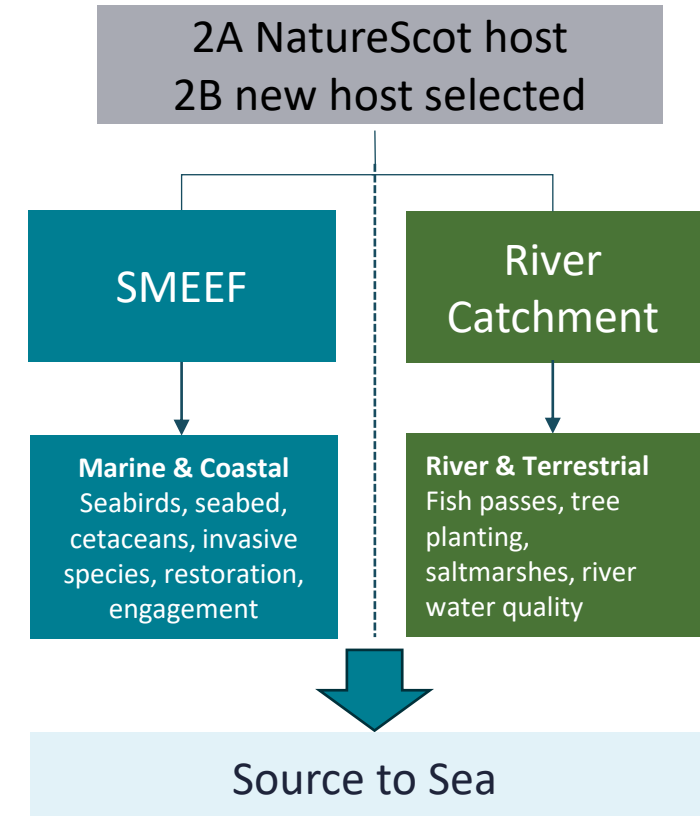


# Option 2: Dedicated river catchment fund run in parallel to SMEEF

## Description

- Governance structure would be leveraged from SMEEF
- Provides the ability to distinguish between key initiatives for corporate engagement
- Deliver grants to initiatives / projects that are most important to donors & steering committee
- Preserves the SMEEF brand with a 'sister fund' focused on river catchment opportunities

Pros	Cons
Allows for differentiation to SMEEF and still leverages brand strength and market awareness	Potential for increased monitoring & reporting requirements across two funds
Opportunity for a dedicated river catchment fund to leverage specialist expertise	Additional set up and management needs may exceed current SMEEF team capacity
Leverages existing infrastructure & governance provided by NatureScot	Funders may want increased project involvement to ensure sufficient alignment
Funders can allocate capital to specific programmes that meet key initiatives / requirements	2(a) Potential limits to funding duration and ability to roll capital (public finance)
2(b) New host structure could circumvent public finance restrictions	Limits to the ability to facilitate sales from ecosystem services (credits etc) and raise repayable capital



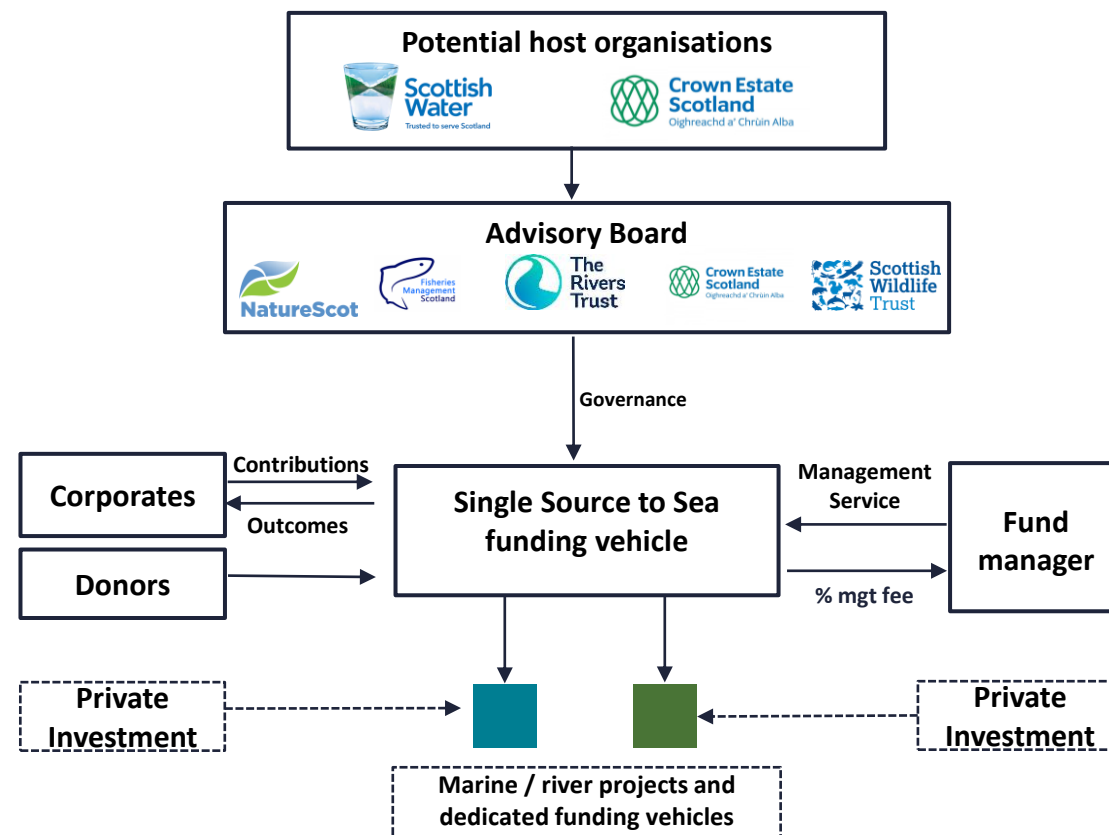
# Option 3: A new Source to Sea vehicle

## Description

- Establish a single Source to Sea funding model (separate from or combined with SMEEF)
- NatureScot can remain linked to the activities of the vehicle (subject to SPFM implications and ensure regulatory integrity)
- Sub-funds with specific focus to match corporate project demand
- Ability to be local and national in-focus with a Trust based governance model

Pros	Cons
Ability to deliver longer-term funding commitments (>1y) and circumvent public finance constraints	A new structure would require a host organisation, with public funding support at launch
Ability to attract private repayable capital based on ecosystem service sales	Heaviest monitoring and reporting requirements when engaged in sales of ecosystem services
Vehicle can benefit from additional resourcing and financial support	Impact to NatureScot / SMEEF team and new host organisation resources
NatureScot could still actively advise the fund on restoration focus and criteria	Complexity could be a barrier to engagement

*This is an indicative Source to Sea fund governance structure, (organisations represented are for illustrative purposes only)*



# Funding model assessment



# Assessment criteria

The three funding model opportunities were reviewed and assessed against the following criteria by the four breakout groups(\*).

## Impact

- Deliver short/long-term impact
- Providing support to both small and larger project needs
- Community engagement

## Focus & Flexibility

- What is the focus of the fund/model?
  - Project development
  - Capacity building
  - Capital vs. maintenance

## Governance and Policy Considerations

- Who should host the model?
- What are the key policy considerations?
- Can the model accommodate corporate requirements?

## + Expected Time to Deliver\*\*

- What would the expected timelines be to deliver each option?

## Ability to access different funding sources

- Ability to accommodate the diversity of partner and investor interests?
- Donations vs investments
- Monitoring / reporting requirements
- Claims / outcomes

## Ability to be catalytic

- Ability to leverage blended finance
- Engagement with private markets for ecosystem services
- Repayable finance

## Key Risks

- Key reputational and policy risks
- Governance considerations
- Project selection and ethics
- Team / personnel considerations
- Branding / identity

# Option 1: A river catchment ‘pot’ within SMEEF

Assessment Criteria	Comments from the workshop
Opportunity for Impact	<ul style="list-style-type: none"> <li>• Build on the <b>track-record of SMEEF</b> to continue impact funding to projects</li> <li>• <b>Shorter term</b> impact vs long-term (multi-year) given capital allocation</li> <li>• Ability to link funds to <b>National Strategy</b> and deliver measures aligned with scientific evidence</li> <li>• Opportunity for increasing focus on <b>community impact</b></li> </ul>
Focus and Flexibility	<ul style="list-style-type: none"> <li>• Hosted by NatureScot, <b>provides trust for developers</b> – fair allocation of funding / resources</li> <li>• <b>Respond to contributors needs</b> for multiple pots (seabirds / seagrass currently)</li> <li>• <b>Lower cost</b> option and most simple to progress to</li> <li>• Contributors want simple mechanism to partner with</li> </ul>
Governance and Policy Considerations	<ul style="list-style-type: none"> <li>• Requirement for <b>clarity</b> in fund messaging &amp; build on – opportunity to raise <b>SMEEF profile</b></li> <li>• SMEEF infrastructure in place already to enable a quick transition – draw on current systems</li> <li>• Could provide an opportunity to <b>partner with Marine Recovery Fund</b> (expected 2024/2025)</li> </ul>
Ability to access different funding sources	<ul style="list-style-type: none"> <li>• <b>What is the demand?</b> one-off donations/long term direction of travel?</li> <li>• Funding from developers / contributors has different requirements (pot focus (Seabirds / Seagrass), Project control / management, reporting etc)</li> <li>• Simple collective funding model suits smaller corporates with limited capacity to fund pots / projects</li> <li>• Limit to current approach – year end constraint for NatureScot / public balance sheet (Scottish Public Finance Manual)</li> </ul>
Ability to be catalytic	<ul style="list-style-type: none"> <li>• Builds on links/<b>access to NatureScot</b> – credible to developers</li> </ul>
Key risks	<ul style="list-style-type: none"> <li>• Risk of river catchment fund absorbing or overpowering <b>SMEEF</b> if demand higher for river catchment projects</li> <li>• <b>Brand</b> impact to SMEEF with the inclusion of river catchment</li> <li>• Team capacity &amp; resource to manage additional strategic focus of river catchment</li> <li>• Potential risk to private capital roll over limit if river catchment opportunities generated significant private sector contributions</li> </ul>

## Option 2: Source to Sea as a unique funding model alongside SMEEF

Assessment Criteria	Comments from the workshop
Opportunity for Impact	<ul style="list-style-type: none"> <li>• Opportunity to aggregate small projects and be the centralised agent / entity for funding (*alongside Nature Restoration Fund to 2026)</li> <li>• Requirement to <b>raise SMEEF profile/brand</b> to highlight different strategies</li> <li>• Requirement to ensure <b>collaboration across funds</b></li> <li>• A new brand needs to be established to ensure maximum impact</li> </ul>
Focus and Flexibility	<ul style="list-style-type: none"> <li>• <b>Maintains SMEEF identity</b> by having marine and river catchment funding models</li> <li>• Multiple funding pots provides <b>clarity to investors</b> and <b>options for contributors</b> requesting this focus</li> <li>• Challenge to balance focus for fund ; either set by steering committee or contributors (flood risk vs salmon)</li> </ul>
Governance and Policy Considerations	<ul style="list-style-type: none"> <li>• How can contributions be channelled into separate pots?</li> <li>• <b>Ability to utilise efficient SMEEF Governance structure</b> (Grants Panel, Ethical Contributions Board (ECB) and Due-Diligence)</li> <li>• <b>Lower cost option</b> vs Option 3</li> </ul>
Ability to access different funding sources	<ul style="list-style-type: none"> <li>• Multiple funds could be <b>difficult for small to medium companies</b> with <b>limited investment capacity</b> that prefer a collective funding model (SMEEF's existing structure)</li> <li>• Opportunity to engage more contributors including Hydro/Onshore wind, Strategic Net Gain, Scottish Water, Distillers, Developers etc</li> <li>• <b>Limited long-term flexibility</b> due to current <b>Scottish Public Finance Manual (SPFM)</b></li> </ul>
Ability to be catalytic	<ul style="list-style-type: none"> <li>• Institutional learnings and <b>story-telling to corporates</b></li> </ul>
Key risks	<ul style="list-style-type: none"> <li>• Multiple funding pots <b>increase complications for NatureScot/Scottish Government</b></li> <li>• Introduces competing focus and creates the siloes of catchment vs sea which could also increase confusion with multiple funding pots</li> <li>• Team capacity &amp; resource to manage additional strategic focus of river catchment</li> <li>• Potential risk to SMEEFS's capital roll over limit if river catchment fund generated significant private sector contributions</li> </ul>

## Option 3: Source to Sea – A governance vehicle

Assessment Criteria	Comments from the workshop
Opportunity for Impact	<ul style="list-style-type: none"> <li>• Opportunity for <b>scalability</b> and genuine impact when multiplying funding opportunities</li> <li>• <b>Most potential for impact</b> as proven by other examples shown</li> <li>• <b>Needs to be attractive for investors</b> but properly managed to avoid greenwashing/reputational challenges</li> </ul>
Focus and Flexibility	<ul style="list-style-type: none"> <li>• Requirement to <b>define ‘place’</b> in the context of ‘governance vehicle’ and retain focus</li> <li>• Facilitates <b>multiple funding pots</b> – developmental, marine, river, carbon, biodiversity where market opportunity develops</li> <li>• ‘Place’ could be Scotland with <b>more local/regional funding pots</b></li> <li>• <b>Team capacity</b> – discussion around the need for <b>one or multiple teams for marine and catchment focus</b></li> </ul>
Governance and Policy Considerations	<ul style="list-style-type: none"> <li>• <b>Golden thread</b> to moving away from <b>Scottish Public Finance Manual</b> (Group 2, 3 &amp; 4)</li> <li>• Compliment to <b>Nature Restoration Fund</b> (could not be incorporated into the structure as closely tied to Biodiversity)</li> <li>• Role of CES / SNIB / Scottish Water in acting as host?</li> <li>• <b>Future proof SMEEF for new markets</b> and offer opportunity to deal with potential Marine Recovery aims</li> </ul>
Ability to access different funding sources	<ul style="list-style-type: none"> <li>• Ability to <b>aggregate small contributions</b> from lots of different initiatives</li> <li>• Greater <b>long-term opportunity</b> – help with <b>capacity building aim</b></li> </ul>
Ability to be catalytic	<ul style="list-style-type: none"> <li>• Yes – small and large contributions, blending finance but could <b>lead to mission creep</b> vs core SMEEF</li> <li>• Catalytic driven by ability to combine public + private and do <b>multi-year funding</b> (SMEEF has to ability to use private funds for longer-term funding but could not use initial NRF funds for multi-year funding)</li> <li>• <b>Diversifying SMEEF</b> from just marine could protect from Marine Recovery Fund risks (compensation / marine gain)</li> </ul>
Key risks	<ul style="list-style-type: none"> <li>• <b>Loss of connection</b> with ScotGov /NatureScot and brand reputation/legacy – branding would be key to transition</li> <li>• <b>High costs of developing governance structure</b> – how long/how much is required to become self-functioning?</li> <li>• Possibility of <b>increased reporting requirements</b> with more complex corporate engagement</li> <li>• <b>Much more complex</b> (umbrella trust and multiple trusts)</li> </ul>

# Summary of workshop views

The comments summarised and presented in this deck may include some bias and may therefore not be fully representative of the overall Group's views and those of all parties engaged in the Source to Sea discussion.

The below table provides a summary of the respective group's preferred options.

	Group 1	Group 2	Group 3	Group 4
Summary Comments	Simplification over complication, adopt sequential development as markets develop but commence with river catchment pot in current structure	Concerned by SMEEF resourcing and Option 1 causing confusion / brand impact; Option 3 desirable but requires further consideration to understand SPFM implications	Adopt sequential development as markets develop; concern over brand, team capacity and corporate engagement if move quickly;	Build on SMEEFs foundations and strengths; consider opportunities to support and invest in stages of project development; Option 3 only desired if purpose is clearly defined and SPFM restrictions can't be overcome with Option 1 or Option 2
Preferred Option	<b>Option 1</b> (first steps)	<b>Option 2(a)</b> (in NatureScot) with potential to progress to 2(b) / 3	<b>Option 1</b> (first steps) with potential to progress to Option 2	<b>Option 2(a)</b> (in NatureScot)
Actions	<ol style="list-style-type: none"> <li>1. Continue to develop <b>Options 1 &amp; 2</b>, confirm optimal host structure and conduct market testing to assess contributor and preferences</li> <li>2. Once a preferred model is selected and launched, assess Option 3 in parallel as markets and demand develop</li> </ol>			



# Appendix



# Summary of attendees

The comments summarised and presented in this deck may include some bias and may therefore not be fully representative of the overall Group's views and those of all parties engaged in the Source to Sea discussion.

The below table provides a summary of the organisations involved in each breakout group.

	Group 1	Group 2	Group 3	Group 4
Attendees	<ul style="list-style-type: none"> <li>• Fisheries Management Scotland (Chair)</li> <li>• Forth Rivers Trust</li> <li>• Scottish Government Finance</li> <li>• Scottish Wildlife Trust</li> <li>• Copenhagen Offshore Partners</li> <li>• NatureScot</li> <li>• Scottish Government</li> <li>• Fisheries Management Scotland</li> <li>• Finance Earth</li> </ul>	<ul style="list-style-type: none"> <li>• NatureScot (Chair)</li> <li>• Crown Estate Scotland</li> <li>• Scottish Land &amp; Estates</li> <li>• Scottish Government</li> <li>• Scotland's Rural College (SRUC)</li> <li>• NatureScot</li> <li>• Scottish &amp; Southern Energy (SSE)</li> </ul>	<ul style="list-style-type: none"> <li>• NatureScot (Chair)</li> <li>• Howell Marine</li> <li>• Marine Directorate</li> <li>• Scottish National Investment Bank (SNIB)</li> <li>• Crown Estate Scotland</li> <li>• Dumfries &amp; Galloway Council</li> <li>• Scottish Environment Protection Agency (SEPA)</li> <li>• Finance Earth</li> </ul>	<ul style="list-style-type: none"> <li>• One Planet Consulting (Chair)</li> <li>• Marine Directorate</li> <li>• South of Scotland Enterprise</li> <li>• NatureScot</li> <li>• Highland and Islands Enterprise</li> <li>• Scottish Power Energy Networks</li> <li>• Howell Marine Consulting</li> </ul>

# What role should private finance play in funding nature restoration in Scotland?

## Deliver large scale and high impact projects

- Increased funding would provide opportunity to deliver multi-year large scale projects

## De-risk projects

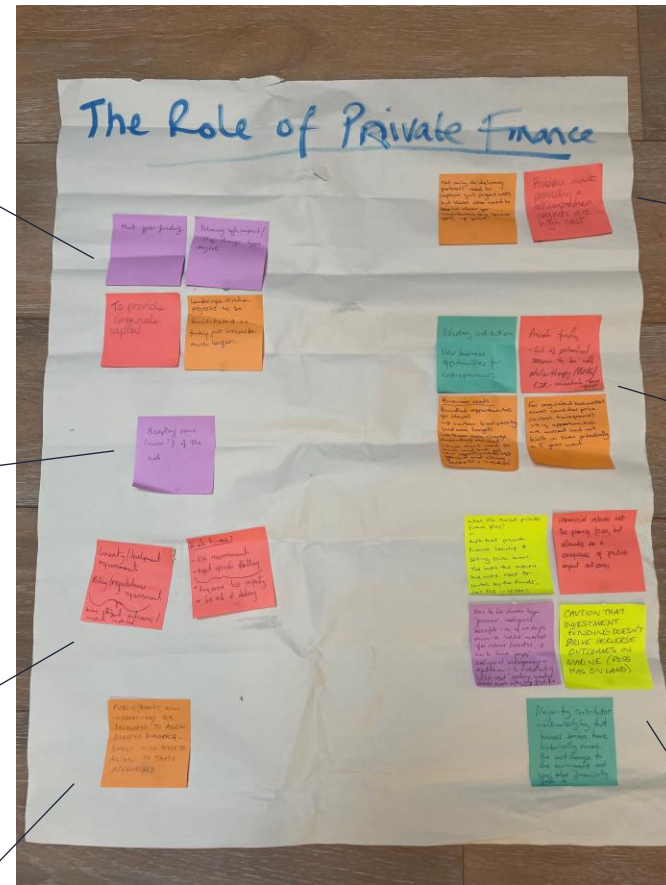
- Helps to de-risk projects as can catalyse investment when blended with public

## Increased reporting requirements

- Provide more stringent outcome/impact reporting requirements

## Opportunity for blended finance

- Opportunity for both public and private funding



## Funding for project development and monitoring costs

- Delivery partners and contributors need to provide full project costs up front

## Opportunity for selling ecosystem services

- Bundled opportunities for claims including carbon and biodiversity targets

## Risk of private finance serving own aims

- Need to ensure credit schemes have proper ecological underpinning

# What support should the fund(s) provide?

## Flexible funding

- Large and small-scale projects (<£25,000 not considered by NRF) to be community inclusive
- Provide both short and long-term funding given duration of nature restoration activities
- Capital and maintenance
- Research and project

## Project Development and Monitoring

- Funding to enable project development and monitoring for corporate engagement

## Capacity building

- Act as an aggregator - stop duplication of small projects and build capacity in key areas
- Provide simplicity by managing and administering funds to where it is needed most

## Transparency

- Signpost strategic priorities and opportunities for projects
- Provide transparency for businesses about fund outcomes



## Provide framework for monitoring, reporting and validation

- Identify what monitoring requirements each project needs to deliver on

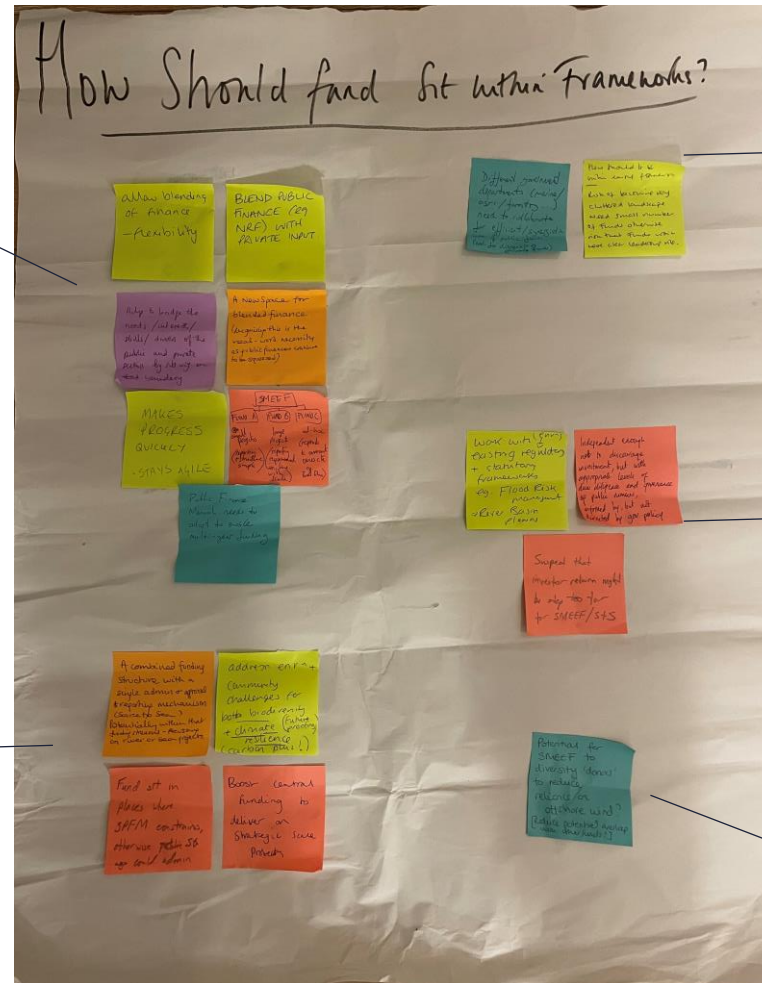
# How should the fund(s) sit within the existing public funding framework?

## Flexibility of fund

- Help to bridge needs/interests of public and private sector through blended finance
- Multiple funds to deliver large and small scales projects

## Create combined fund structure

- Have single admin, approval and reporting mechanism
- Address environmental and community challenges
- Boost central funding on strategic scaled projects



## Collaborate with multiple Government departments

- Collaborate with marine, agricultural and forestry
- Reduce risk of cluttered landscape

## Work with existing regulatory and statutory frameworks

- For example, Flood Risk Management and River Basin planning

## Reduce potential overlap of funds

- Diversify donors to reduce reliance on offshore wind