



Report to the Partnership for South Hampshire Overview and Scrutiny Committee

Date: 28 June 2023
Report of: Simon Kennedy, PfSH Strategic Environmental Planning Manager
Subject: LOCAL NUTRIENT MITIGATION FUND

Summary

The report to Joint Committee will set out the proposed use of potential funding for the purposes of nutrient mitigation. Following submission of an expression of interest for funding, the information in the report sets out the recommended approach to best utilise any funds that may become available. Although there is no funding certainty at this time, it will be important for the Partnership for South Hampshire Joint Committee to agree the general approach to the use of funding at this stage. This approach will avoid delay in the delivery of mitigation schemes, whilst also meeting the requirements of the funding in terms of delivery timescales.

Recommendation

It is RECOMMENDED that the Overview and Scrutiny Committee:-

- a) NOTES the contents of this report;
- b) NOTES that the Joint Committee will be asked to:
 - i. NOTE the contents of the report
 - ii. AGREE the outline approach for use of the Local Nutrient Mitigation Fund should funding become available
 - iii. APPROVE implementation of the following projects on receipt of funding
 - Water efficiency project
 - Small wastewater treatment works and septic tank upgrade project;
 - iv. AGREE that a further report come back to the Joint Committee about the proposed governance needed for delivery of any project not listed in recommendation iii; and
- c) consider any comments to be passed to the Joint Committee for consideration.

1. Background

- 1.1 This report relates directly to both the Department for Levelling Up Housing and Communities (DLUHC) call for expressions of interest for Local Nutrient Funding, and the Partnership for South Hampshire 4 April Joint Committee update on nutrient neutrality.
- 1.2 On 12 April, DLUHC announced a call for evidence and expressions of interest in a Local Nutrient Mitigation Fund (LNMF). This included an invitation for local planning authorities affected by nutrient neutrality advice to submit costed projects or strategies for delivering nutrient mitigation - specifically aimed at unlocking housing delivery in catchments of Habitats Sites affected by nutrient pollution. The initial call for expressions of interest required submission by 30 May. The fund is a grant fund with any income derived from the delivery of schemes to be delivered into further projects on a catchment basis.
- 1.3 At the meeting of Joint Committee on 4 of April, Joint Committee members were advised that there is a need for a continuous supply of new mitigation options to come forward in order to meet the needs of planned growth across the Solent. The update on 4 April also showed that the private supply of mitigation is often not sufficient to secure a 5-year supply across all the catchments in the Solent and has as yet been unable to mitigate the impacts of phosphorus from development in the mid and upper Itchen catchment area.
- 1.4 Due to the short timescale available to submit an expression of interest for the LNMF, and the subsequent need to submit the proposal outside the PfSH Joint Committee process, authority was granted by the Chairman of the Partnership for South Hampshire to submit an expression of interest for funding of £12,595,000.
- 1.5 The submitted expression of interest has been made using a portfolio of projects approach. The submitted projects have been selected primarily for the purpose of ensuring that new homes can be delivered across the Solent sub-region and target areas of shortfall identified in the 4 April update report.

2. Approach to the use of funding

- 2.1 Following the release of the LNMF, substantive engagement was undertaken with the Partnership for South Hampshire Planning Officers Group, as well as key partners such as Natural England and the Environment Agency. The approach to the use of funding proposed reflects that engagement, and has the approval of the Planning Officers Group as an appropriate use of the funds. PfSH chief executives have also been consulted. There are a number of key principles that underpin both the funding and the approach for the use of funding as described in the following paragraphs.
- 2.2 A portfolio of projects approach has been used to support the expression of interest in order to help mitigate delivery risk. A summary of the costed projects which make up the submitted expression of interest are outlined in section 3 of this report. Should any project be unable to be delivered as anticipated, or is

funded in a different way, then the available funding will be cascaded to support other projects.

- 2.3 The selection of projects proposed to be delivered is based on our sound knowledge of the supply and demand of mitigation across the Solent and is specifically targeted at the areas that are most in need. This approach has significant benefits for all authorities in the Solent by ensuring that the demand for new development in the Partnership for South Hampshire area is not suppressed through the requirements of nutrient neutrality.
- 2.4 Projects are designed to be financially sustainable in terms of capital expenditure, a key requirement of the funding is to deliver schemes which provide sufficient income to fund future schemes. Although initial schemes are targeted at specific catchment areas, future schemes would have the ability to be delivered across all individual local authority areas.
- 2.5 The extent of available funding is insufficient to satisfy the total demand for nutrient mitigation across the Solent area, as such any local authority led scheme must operate alongside the private market and must not provide mitigation at a lower value than other local authority led schemes.
- 2.6 In order to deliver the projects, it is possible that a legal vehicle will need to be created to manage the purchase of assets and contract with the development industry for the purposes of selling mitigation credits. An early discussion as to how colleagues see any such legal vehicle being delivered will be essential to delivery. Members should be aware that, if the decision is made to agree the recommendations, Joint Committee would be committing to the use of the potential funding set out in this report without the necessary legal vehicle (although alternative mechanisms may exist), or resources, for them to take place. These discussions have not yet taken place due to the limited timescales allowed between the announcement of the funding and the deadline for submitting expressions of interest. Members should be mindful that existing in-house legal resources are limited and other additional resources may need to be found.

3. Summary of portfolio of projects

Resource funding

- 3.1 Although the LNMF is primarily focused on capital funding, it states that some resource funding is available. Following agreement by Joint Committee on 4 April, an expression of interest was made to resource the Strategic Environmental Planning Team until April 2025. Additional resource funding was also requested to facilitate project delivery in the event that funding is granted. The additional resource funding also includes legal resource for the possible creation of a legal vehicle to support delivery of projects that may arise from the funding.

Water efficiency measures on council managed housing stock (retrofit)

- 3.2 A programme of retrofitting managed housing stock with water efficiency measures. Where wastewater treatment works have a permit limit, the reduction in water use has an associated reduction in nutrient pollution.
- 3.3 Some retrofitting of properties has already taken place within the Solent for the purposes of mitigation for total nitrogen. However, when investigating similar work for Winchester City Council, it was clear that differences in existing specifications, rate of void properties, and receiving wastewater treatment works - all act to make a single case study insufficient to prove the feasibility of the solution for all councils who manage their own housing stock. On this basis it is intended for this project to be made up of three separate case studies which, while producing mitigation, will also provide a robust evidence base for further councils to consider similar measures. The case study authorities have been selected due to their location in the catchments with the most demand for mitigation.
- 3.4 On receipt of funding, it is proposed that the lead authority will directly fund the receiving authority to undertake the works through in-house management teams or retained contractors. At the completion of the project the evidence derived from the project will be made available to all authorities to inform decision making in relation to other schemes.
- 3.5 The purpose of this project is not to make mitigation arising from the works available to the open market - the primary purpose of the project is to prove the principles that will allow council housing teams to deliver sufficient mitigation for their own new build programs.
- 3.6 Mitigating for nutrients in this way has a number of benefits. Of particular note is the ability of council housing providers to deliver council homes for those most in need through retrofitting of their own stock. This has the potential to secure council led affordable homes programs, at a reduced cost when compared against obtaining mitigation from the open market. Additionally, this project has benefits in terms of water resource management and lower water bills for residents where they are metered. Due to the low level of risk associated with implementing this project, it is proposed that the project is fully implemented at receipt of funding.

Upgrades to small wastewater treatment plants and septic tanks

- 3.7 This project involves the replacement of council owned infrastructure that would otherwise not take place. By upgrading the infrastructure, a nutrient saving can be achieved. This can be enhanced by the use of filter beds at the outfall of the new infrastructure.
- 3.8 An expression of interest has been made to fund two identified projects. These projects have been selected due to the ability for the management and

maintenance of the new infrastructure to be the responsibility of the owning local authority. Additionally, these projects have been selected due to their ability to mitigate the impact of total phosphorus - this is in order to reduce the current backlog of applications currently being experienced with regard to development in the mid-Itchen catchment area. This scheme will also provide mitigation for total nitrogen for the benefit of mitigation supply in the Test and Itchen catchment.

- 3.9 This project has been in development for a number of months and is only awaiting funding certainty in order to programme in delivery. It is highly likely that the works will be fully completed within six months and that the mitigation arising from the scheme will be available for the occupation of development shortly afterwards.
- 3.10 The lead authority will directly fund the receiving authority to undertake the works through retained contractors. It is proposed that on receipt of funding this scheme is immediately progressed. Any sale of credits arising from this scheme will need to be managed, possibly through an appropriate legal vehicle, and with firm contractual processes.

Land based solution (nitrogen mitigation)

- 3.11 This project is largely predicated on environmental and social policy drivers and follows the principles already set out within the Solent for the cessation of intensive land based agricultural practices to provide suitable mitigation. This project has significant scope for partnership working, particularly in regard to on-going management and development of a regional park.
- 3.12 The aim of this project is to deliver substantive additional environmental and social benefits. Most notably, these sites will provide; biodiversity net gain, public access, mitigation for other environmental constraints such as recreational disturbance, and where possible flood or coastal erosion risk management.
- 3.13 Initially the area of search for this project will be in the East Hampshire catchment due to the need for further mitigation to come forward in this area in the first instance. However, should land not be available for this project in the East Hampshire catchment, then other catchments will be considered in order of relative supply and demand need.
- 3.14 This project will possibly need to be delivered by an appropriate legal vehicle and will be subject to appropriate due diligence and governance procedures. The project is designed to be financially sustainable in terms of capital expenditure and income. On this basis it is anticipated that either a regional park can be delivered over time, or a number of local nature reserves across the Solent region could be delivered.

Wetlands

- 3.15 As much of the Itchen River basin is on chalk, and there is already substantial abstraction by Southern Water, it is very difficult to deliver wetland solutions in this catchment. However, wetland solutions, and particularly integrated constructed wetlands at the outfall of wastewater treatment plants, can have significant environmental benefits. Although difficult, there are three potential wetland options available within the lower Itchen with the ability to deliver phosphorus mitigation to development draining to Chickenhall wastewater treatment works, as well as substantive nitrogen mitigation for the wider Test and Itchen catchment.
- 3.16 Wetlands have the potential to deliver a range of environmental benefits. However, the technical and financial considerations of delivering wetlands as a financially sustainable nature-based solution is still unclear. These projects, along with others nationally, will substantially increase understanding of these points. This is particularly relevant in the Solent where we have a proven track record of supporting the monetisation of nutrient mitigation arising from wetlands.
- 3.17 The mitigation will be delivered through a mechanism agreed between the land owner, the local authorities that may access the scheme, the Environment Agency and Natural England. The physical delivery element of the project will be through suitably procured contractors. The mitigation itself will possibly need to be delivered to market through a suitable legal vehicle.
- 3.18 It is proposed that on receipt of funding technical work will be undertaken to provide a full feasibility analysis, delivery of any scheme will be subject to further governance procedures.

Additional projects

- 3.19 The requirements for the LNMF expression of interest indicated that projects must be both costed and deliverable. However, there are a number of projects that, subject to further work, may be suitable as a strategic mitigation solution. These projects include interventions such as the retrofit of sustainable drainage systems, cessation of other intensive farming operations, and on-site measures such as grey water recycling¹.
- 3.20 It is proposed that resource funding will be used to determine the costs and deliverability of additional projects, and if appropriate use cascaded funds or income from initial schemes to deliver them.

¹ Greywater recycling refers to the treatment of wastewater from appliances such as showers, baths and sinks, to be re-used and fed back into a property for non-potable purposes such as flushing toilets.

4. Summary and next steps

- 4.1 The opportunity presented by the potential funding available is significant for the Solent region. By adopting a strategic approach we can ensure, alongside the private market, that mitigation is available to meet planned growth across the Solent in the long term. Furthermore, the funding allows significant additional benefits for people and placemaking to be realised.
- 4.2 In order to make best use of the funding, and to meet the main purpose of the funding in terms of delivery of strategic mitigation solutions, it is important that initial work can be progressed on all of the identified projects. Following review and agreement of the approach by the Partnership for South Hampshire Planning Officers Group, it will be recommended that Joint Committee agree the approach so that work can commence on receipt of funding.
- 4.3 Although practical delivery of the majority of the projects will require further governance decisions to implement, the water efficiency projects, and the small wastewater treatment works and septic tank project are considered immediately deliverable. Due to the acute need to deliver phosphate mitigation in the mid-Itchen catchment, the proportionally small values involved and the fact that these projects would be delivered by local authorities, it is recommended that approval is granted to implement these projects in full on receipt of funding.
- 4.4 Due to the complexity and scale of projects that may arise from the potential funding, it is possible that a local authority owned legal vehicle will be required. It is anticipated that, if required, this legal vehicle would be owned by impacted local authorities and would have its own governance structure for determination of those projects requiring further governance decisions. The proposed framework to support implementation of the ongoing program and decision making will be presented to the Partnership for South Hampshire Joint Committee at the next scheduled meeting.

Recommendation

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Enquiries:

For further information on this report please contact:-

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