Report to the Partnership for South Hampshire Joint Committee

Date:	**16 March 2026**
Report of:	**Rachel Jones, Solent Mitigation Partnership Manager**
Subject:	**Solent Mitigation Partnership – Pricing Structure for Nutrient Credits**

SUMMARY

At the 9 December 2025 Partnership for South Hampshire (PfSH) Joint Committee meeting, Members were updated on the Solent Mitigation Partnership's work with local authorities on a new more agile approach to pricing. This report presents the revised pricing structure for nutrient credits.

RECOMMENDATIONS

It is RECOMMENDED that the Joint Committee:-

i) APPROVES the revised pricing structure for nutrient credits (Section 3);

ii) DELEGATES detailed decision-making for credit price setting for each mitigation scheme to the chief executive of the lead authority, in consultation with the Chief Executives of the benefiting parties and lead PfSH Chief Executive.; and

iii) AGREES that the authorities party to the Inter Authority Agreement shall enter into a Deed of Variation to vary the agreement on such terms as set out in paragraph 4.3 and 4.4 of the report.

1. Background

1.1 The local authorities within the Solent and River Itchen nutrient neutrality catchment have received a total of £16.53 million from the Local Nutrient Mitigation Fund (LNMF) grant in 2023 and 2024. The purpose of the fund is to increase supply of nutrient mitigation and enable housing delivery at a faster, earlier and / or greater scale than otherwise would have been expected.

1.2 Grant conditions require spend to be recovered by selling nutrient credits to developers. To enable this a standard price for nitrogen and phosphorus credits was agreed at Joint Committee on 30 September 2024 (£3,250 per 1kg/TN/yr and £50,000 per 1kg/TP/yr).

1.3 The first project delivered by the SMP team has been open for nutrient credits sales for around 18 months. The SMP team is now delivering a portfolio of different mitigation projects with different set up and operating costs and different opportunities for stacking environmental credits (eg nutrient neutrality, biodiversity net gain). This experience is now shaping the future delivery strategy of the fund.

1.4 New legislation has also recently been adopted affecting nutrient neutrality schemes. The Planning and Infrastructure Act 2025 legislates for a new approach to nutrient neutrality through the preparation of Environmental Delivery Plans (EDPs) with project delivery funded via a new Nature Restoration Fund (NRF) levy. Secondary legislation is being prepared to enable this approach and further details on timescales for implementation and transitional arrangements across all the nutrient neutrality catchments is awaited.

1.5 Natural England has informed the Secretary of State that an EDP is being prepared for the Solent and the River Itchen. As we enter a transition period, it is vital that our schemes remain competitive so we can continue to recover funds from credit sales. While the regulations allow for Environmental Delivery Plans to be mandatory, in practice most are expected to remain optional for developers. As a result, there will still be a need for a private mitigation market to operate alongside the new NRF levy.

1.6 The approach to price setting was formalised in the Inter-Authority Agreement (IAA) which requires the Lead Authority to prepare for approval by PfSH a document setting out the principles and priorities for the sale of credits. The IAA defines the collaborative relationship enabling local authorities to become host authorities for mitigation schemes and to opt into being benefiting parties for schemes to allow developers to buy credits for development in the benefiting parties' administrative areas.

1.7 Under clause 8.6, the IAA requires the Lead Authority to prepare for approval by PfSH a document that sets out the principles and priorities for the sale of credits. A more dynamic approach to pricing is recommended to allow a more agile response to market changes, to recover costs effectively and continue to meet the LNMF grant conditions set by Government. The revised pricing strategy (Section 3) presented in this report sets out the principles and priorities for the sale of credits, with delegations for the detailed decision making for each mitigation scheme.

2. Justification for Pricing Strategy

Unlock housing and recovering funds

2.1 The grant conditions for the Local Nutrient Mitigation Fund stipulate that it must be used to unlock housing. Targets have been set by MHCLG for the Solent and these are –

1. By end of Summer 2024, unlock 1,500 homes
2. By end of 2025, unlock a further 4,000
3. By end of 2026, unlock a further 2,700 homes
4. Long term, unlock 10,000 homes.

2.2 Table 1 summarises the total amount of mitigation and associated housing that has been unlocked in the Solent to date (based on the Demand and Supply Analysis, 2025). Significant levels of mitigation were created in the early years and further schemes were supported by SMP following receipt of the LNMF grant. Mitigation capacity is now supplemented with direct delivery of projects and direct capital spend has already created mitigation projects and is progressing a pipeline of other projects coming forward.

Table 1: Scale of mitigation created, and housing unlocked in Solent

	Pre-LNMF grant: Housing enabled in the region in early years	Post-LNMF grant: Delivered by private schemes, support by SMP	Directly with LNMF capital grant	
			Available	Pipeline
Nitrogen Mitigation (kg/TN/yr)	13234	7808	751	2921
Phosphorus Mitigation (kg/TP/yr)	150	15.08	4.73	75
No. of Dwellings Unlocked*	**14,732**	**7,959**	**682**	**2,496**

**estimated based on average conversion of mitigation created and assumes all mitigation sold.*

2.3 Through the team's work in facilitating the private market, there is mitigation capacity to meet the short-term targets set by MHCLG. Furthermore, work is on-going to increase direct delivery of mitigation capacity to ensure the long-term growth can be supported in the right locations for plan-making.

2.4 The mitigation schemes generate capacity to unlock housing, but sales enable the fund to be recovered to deliver more projects and unlock further growth. The first project, Land at Stubbington, Fareham has been open for mitigation sales for around 18 months at the agreed price of £3,250 per 1kg/TN/yr but sales have been low, mainly because it is competing with several private mitigation providers with lower prices for nitrogen credits (eg £2,500 per 1kg/TN/yr). Other mitigation schemes are

coming on to the market shortly and this will maintain a high level of supply for this catchment.

2.5 One of the reasons for changing the pricing approach is to help the SMP projects to increase sales of credits in a timely manner, enabling the reinvestment of the fund. Market conditions and price sensitivity of mitigation credits in catchments with ample supply are different to those with a shortage. A more flexible approach to pricing can help the schemes respond to these different and changing conditions and ensure they support a wide range of housing delivery eg affordable, small and medium enterprise builders and large national housebuilders.

Price variations for housebuilding

2.6 A flexible and agile pricing strategy will also enable a consideration of the price variations for housebuilding that exist across the region. Nutrient credits are usually sold by the kilogram of nitrogen or phosphorus per year (1kg/TN/yr or 1kg/TP/yr). Although the price of nutrient credits may be standardised, the cost of mitigation for each new dwelling varies across the Solent region. The variation arises because of a range of factors - many of which are beyond the developer's control. For example: some areas, like the River Itchen catchment, need credits for both nitrogen and phosphorus, while other areas only need nitrogen credits; the cost is also determined by the efficiency of local wastewater treatment plant. SMP has been engaging with developers to understand the challenges presented by nutrient neutrality and to explore how our approach can be adapted to minimise difficulties.

2.7 A more flexible pricing strategy could help to reduce variations. It is important to note that it will be difficult to remove the disparity completely, but there may be scope to reduce costs in some areas through temporary (or bridging) mitigation.

2.8 This new type of temporary (or bridging) mitigation has arisen due to new legislation (the Levelling Up and Regeneration Act 2023). This requires large wastewater treatment works in the Solent to be upgraded by 2030. Once these upgrades are completed, new developments will need less environmental mitigation, reducing costs for developers. Until then, the SMP may offer temporary (or 'bridging') mitigation. This allows developers to access a limited amount of mitigation at a discounted price for up to four years, helping reduce costs in the short term. After 2030, when treatment works are more efficient, this temporary mitigation can then be reused and sold as permanent mitigation for other developments.

Competitive within the relevant market

2.9 The private mitigation supply in the Solent has been vital to ensuring solutions are available for the scale of growth coming forward. It is important to work in partnership with the sector to achieve the long-term supply of mitigation in the region. A good partnership has developed, and this has been fostered through collaboration such as sharing knowledge, offering technical support and liaising between the key partners. Having flexibility in setting prices allows SMP to reflect the differentiation of the products offered but also react to changes in the market so that the schemes remain competitive.

Risks

2.10 The main risk, if a change in approach is not taken, is the time that could be needed to recover funds and deliver a long term pipeline of mitigation schemes to enable growth. This could impact on the level of housing unlocked, preventing the grant conditions targets being met, and cause difficulties with local plan making, especially given the new housing targets set by Government.

2.11 The pricing principles allow for more flexibility but in a way that does not undermine existing LPA or private mitigation schemes.

3. Pricing Structure for Nutrient Credits

3.1 The Pricing Structure sets default prices for nutrient credits with the provision for alternative prices - if justification is provided that the key principles are met.

Default Prices

3.2 Table 2 sets out the default prices for nutrient credits. The default price for permanent nutrient credits for SMP projects remains at the level set by the Partnership for South Hampshire Joint Committee (30 September 2024).

3.3 It is proposed that temporary nitrogen credits are also offered for sale for schemes where possible. This new type of temporary (or bridging) mitigation has arisen due to new legislation (the Levelling Up and Regeneration Act 2023). This requires large wastewater treatment works in the Solent to be upgraded by 2030. Once these upgrades are completed, new developments will need less environmental mitigation, reducing costs for developers. Until then, the SMP may offer temporary (or 'bridging') mitigation. This allows developers to access a limited amount of mitigation at a discounted price for up to four years, helping reduce costs in the short term. After 2030, when treatment works are more efficient, this temporary mitigation can then be reused and sold as permanent mitigation for other developments.

3.4 Please note temporary mitigation is only available in certain parts of the Solent catchments where there is ample supply of mitigation to meet demand. No price has been set for temporary phosphorus credits as most WwTWs are already at an efficient level and SMP does not have enough capacity in forthcoming mitigation schemes to offer this option.

Table 2: Default Prices for Nutrient Credits	
Permanent Nitrogen Credits	**£3,250 per 1kg/TN/yr**
Permanent Phosphorus Credits	**£50,000 per 1 kg/TP/yr**
Temporary Nitrogen Credits	**£325 per 1kg/TN/yr**

Alternative pricing

3.5 The Pricing Structure enables alternative prices for each mitigation scheme to be set or changed where justified. The justification of the price for each mitigation scheme will use the latest housing demand and mitigation supply analysis, the business case for the relevant project and wider market forecasting to evidence that the principles have been met.

3.6 The principles set the framework for decision-making to enable the projects to be competitive without undermining the existing market or discouraging innovation across the wider sector (Table 3).

Table 3: Pricing Principles
1. Prices must be set to unlock new housing (both market and affordable housing)
2. Prices must be set to recover the funds in timely manner
3. Prices must not fall below the base price used in the approved business case
4. Prices should be able to respond to market conditions, and changing policy and legislation
5. Prices should continue to enable a private mitigation supply

Amendment to the Credit Reserve policy

3.7 Currently when credits are reserved, a £750 reservation fee is incurred, and the reservation is valid for 4 months. After the 4 months the applicant who reserved the credits can decide to extend the reservation (by another paying £750), purchase the credits (with an additional admin fee of £750) or release the credits back to the SMP.

3.8 This service has not been widely used to date, and feedback from stakeholder engagement indicates that the current reservation timeframe is too short. It is therefore proposed to extend the reservation period to 12 months, which is expected to make the service more accessible and appealing to larger developments. In addition, it is proposed that no further administrative fee (£750) is charged when a reservation is converted into a credit purchase. This aims to streamline the process and make it more attractive for developers.

4. Decision-making

4.1 To enable pricing to be as agile as possible and responsive to market changes, delegation is sought for the detailed decision-making for credit price setting for each mitigation scheme to the Chief Executive of the Lead Authority, in consultation with the chief executives of the benefiting parties and lead PFSH chief executive.

4.2 The Benefiting Parties are identified as they collectively share risk, liabilities and benefits from that project. Credits can only be sold in administrative areas of Benefiting Parties. Given their central role in the success of each mitigation scheme, it is appropriate that they are involved as the key decision-makers for setting prices.

4.3 Authority is also being sought to enter into a Deed of Variation of the Inter-Authority Agreement to enable this approach. The principles and priorities for the sale of the credits need to be more responsive to changes in the market. It is therefore necessary to remove some restrictions in the IAA as to how credits are sold. These comprise the deletion of clauses 7.4, 7.5 and 8.6.2(a).

4.4 Please note that the Deed of Variation also includes a number of minor amendments, such as the removal of references to the South Downs National Park Authority, which

remained from an early draft of the agreement. However, the proposed introduction of a more flexible pricing strategy has reopened discussions with the South Downs National Park Authority.

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iii) AGREES that the authorities party to the Inter Authority Agreement shall enter into a Deed of Variation to vary the agreement on such terms as set out in paragraph 4.3 and 4.4 of the report.

ENQUIRIES:

For further information on this report please contact:-

Rachel Jones Solent Mitigation Partnership Manager
Fareham Borough Council
01329 824828, RJones@Fareham.Gov.Uk