
Alternative approach to deliver nutrient neutrality

The Development Sector is willing to build more sustainably. They know there is a still a need to tackle the nutrient pollution problem. We have outlined a plan where developers pay a contribution to help compensate for their impact on nutrient pollution. This contribution will be paid at the point of receiving planning permission, discharging requirements in relation to nutrients. Contributions are pooled in a catchment level nutrient compensation scheme that pays for the delivery of nutrient management projects.

Issues with the new amendments to the LURB

1. The amendments do not legally secure the additional funding pledges to deliver nutrient management programmes.
2. The investment in the Natural England Nutrient Mitigation Scheme only covers 15% of the total mitigation requirement to 2030.
3. There is no legal mechanism for housing developers to contribute towards mitigation, despite this being pledged by the Government.

An alternative funding model

The Government has pivoted to a more centralised, strategic approach to reducing nutrient pollution. Centralised delivery of nutrient mitigation could be done via a monopsony market (single buyer, with multiple sellers). LPAs buy mitigation from third-party scheme providers, maintaining the advantages of a market-based approach (reduced costs via innovation). This will bring more certainty to scheme providers as they know the approximate price for mitigation ahead of developing a scheme.

This funding model should be primed by seed money from the Government, e.g. the Nutrient Mitigation Scheme, while developer contributions are collected to support ongoing provision of the scheme. Below we outline the core principles for the funding model.

Developer compensation scheme

- This would take the form of an overarching Habitats Regulations Derogation – residential development in affected catchments is all considered to meet IROPI tests.
- Under the requirements of IROPI, developers would have to pay into a compensation scheme.
- Developers pay into the compensation scheme at the point they achieve planning permission.
- The compensation payments are ringfenced in a scheme that is administered at the catchment level, with a separate scheme for each catchment designated as a “nutrient affected area”.
- The compensation schemes are administered by a lead LPA within each catchment.
- The money in the compensation schemes is used to purchase nutrient compensation from compensation schemes run by third-party providers or by LPAs.
- There will be a requirement for developers to still calculate the amount of nutrient pollution that will result from their development using the existing NE Nutrient Budget Calculators.

- The requirement to calculate the amount of nutrient pollution from new development will not be required for developers to show compliance or calculate costs to be paid by developers, it is intended to track how much compensation supply the lead LPA needs to procure.
- The lead LPA will use the funds in the compensation scheme to procure the amount of nutrient compensation as calculated by developers.

Commercial structure for the compensation scheme

- Developer compensation payments will be calculated on a fixed price per unit basis, with a discount for single-occupancy units..
- The payment rate per unit will be fixed to at the outset based on a formula that accounts for the present cost of mitigation.
- The payment rate can incorporate a regional multiplier to consider both housing and land values, and the cost of creating nutrient compensation schemes.
- The price paid for nutrient compensation will be reviewed in response to changes in compensation supply and the cost of creating compensation schemes.
- Outcomes from price reviews should flow through to developer payment rates such that oversupply of compensation and/or reduced creation costs results in lower developer payment rates and vice versa.

Outline guidance on scheme administration

- Lead LPAs will have criteria for purchasing compensation, including:
 - A preference for more cost-efficient compensation schemes – scheme providers will need to show audits of scheme costs.
 - Consideration of a spatial strategy to allocate compensation to more at-risk areas where possible.
 - An aim to align compensation schemes with the wider nature recovery schemes.
- LPAs can purchase compensation from their own schemes if they meet the criteria.

Other practical considerations

Our proposed costings are based on in-depth knowledge of the cost of scheme creation and the current pricing. We also incorporate marketplace dynamics where supply and demand will impact pricing.

Our suggested costs are balanced to reflect the cost of creating compensation vs. a viable price for housebuilders. Housebuilders have been paying £5-12k/house depending on the area. We know that in some areas, these prices are only just viable. We have therefore introduced a regional multiplier.

We need to maintain a higher rate to encourage scheme deployment. When we have liquidity in the market, we can use this to drop the prices.

If an LPA has under-purchased compensation, it can use the reduced cost to top up compensation purchased without reflecting this in the price to developers.

We know that farmers will not do land use change schemes for N for less than £2.5k/kg.

We know that the cost of P is currently ~£60-90k/kg in most areas. We have benchmarked this at the lower end.

Scheme providers will almost always produce both N&P. The reduced cost per kg in N&P areas is designed to reflect the efficiency in this dual provision. Suggested starting prices for the scheme are provided in the table below.

Area impacted by	Total cost/house	kg/house		£/kg		£/house	
		N	P	N	P	N	P
N only	£6,000	2	-	£3,000	£-	£6,000	£-
P only	£6,000	-	0.1	£-	£60,000	£-	£6,000
N & P	£7,200	2	0.1	£ 1,800	£36,000	£3,600	£3,600