

Methodology for setting the price for Poole Harbour nitrogen permanent credits – Appendix 1

1. Introduction

This paper sets out how Dorset Council will determine setting the price for the sale of permanent nitrogen credits obtained through the Local Nutrient Mitigation Fund (LNMF).

The LNMF steering group (governance body for the nitrogen delivery mitigation work) agreed to group projects delivering nitrogen reduction together as this will provide an average credit price. This approach is considered the best approach to developers and the council as it will:

- Provide a bank of credits with a stable credit price and for a longer period than if credits were sold from individual projects. The amount of time credits will take to sell is difficult to predict due to market factors outside of the council's control.
- Provides more certainty for developers on credit price for determining viability, enabling housing and other development which requires credits to progress.
- It acknowledges the variation in project delivery costs depending on location and opportunities across Poole Harbour Catchment.

It is proposed that each bank of nitrogen credits will be sold down as close to zero as possible before releasing the next bank of nitrogen credits for sale i.e. new nitrogen credits will only be made available once the previous ones can no longer meet development demand.

2. Calculating the nitrogen credit cost

2.1 The methodology for calculating the nitrogen credit cost includes:

- i) **Project delivery costs:** including costs associated with Natural England Discretionary Advice Service (DAS), management payments, land purchase grants, monitoring *feasibility costs from projects not taken forward or speculative projects, all staff costs, premises, transport, supplies and services, third party payments and corporate costs (e.g. legal costs) associated with the delivery of the projects and any projects not taken forward.
- ii) Admin (administration) fees: are the costs associated with the sale of credits to developers – this includes the time spent by staff (nutrient officers and CIL team officers) to issue, check and record the sale. This is calculated per transaction rather than per credit.

* A number of mitigation projects were assessed as having potential against clear criteria. However, follow-up feasibility work concluded investment of LNMF to deliver Nitrogen credits was either not cost effective or the sale did not go ahead. The cost

of recouping this feasibility expenditure has been included in the project delivery costs to ensure full cost recovery of the LNMF grant.

3. Calculating the permanent nitrogen credit price

The price of the permanent nitrogen credits is determined by the following calculations.

3.1 The delivery cost per credit is determined using the calculation below:

$$\text{Cost per credit} = \frac{\text{Project Delivery costs}}{\text{Number of nitrogen credits generated}}$$

3.2 The final cost to the developer is derived from using the calculation below:

$$\text{Final Cost to developer} = \text{number of credits required} \times \text{cost per credit} + \text{admin fee}$$

3.3 A discretionary 10% adjustment is delegated to the Executive Director of Place to be able to react to the credit market.

3.4 The cost per credit will be uplifted by CPI annually to ensure the spirit of being able to recoup and recycle the initial value of the investment to regenerate future credits is being able to be upheld.

4. Refunds

4.1 Nitrogen Credits may not be sold or transferred to any third party and may be used only for the benefit of the development specified. The council may buy the Nitrogen Credits back if the development does not go ahead but is not obliged to do so. The administration fee is non-refundable.

5. Review

5.1 The admin fee costs are subject to an annual review at the end of each financial year.