Cabinet
21 April 2026
Nitrogen credit pricing methodology
For Decision

Cabinet Member:
Cllr N Ireland, Leader of the Council, Climate, Performance and Safeguarding

Local Councillor(s): All Councillors

Senior Leadership Team:
J Britton, Executive Director for Place Services

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Statutory Authority:

Report status: Public (the exemption paragraph is N/A)

1. Executive summary

The Dorset Local Nutrient Mitigation Fund provided £4.63 million of government funding to Dorset Council to deliver nitrogen mitigation projects in the Poole Harbour catchment, to offset the impact of development on the SPA and Ramsar site.

Dorset Council is required to sell permanent nitrogen credits to developers, with sales from those credits reinvested to fund further mitigation projects - creating a self-sustaining system that unlocks housing, stalled commercial development and some agricultural practices while meeting statutory environmental requirements.

Having an agreed methodology for how we set the price of our nutrient credits ensures legal defensibility, financial sustainability, a credible and trusted credit market, and strong governance through transparent, accountable pricing.

Appendix 1 of this report sets out the methodology for pricing Dorset's permanent nutrient credits and seeks Cabinet's agreement to adopt this approach to ensure transparent, consistent, and legally robust credit pricing.

2. Recommendation(s)

2.1. Cabinet is asked to agree the methodology for setting the price for Poole Harbour nitrogen permanent credits (appendix 1) and allow for a discretionary adjustment of up to 10% to be applied, with authority delegated to the Executive Director of Place to respond appropriately to market conditions.

3. Reason for the recommendation(s)

3.1. The selling of nutrient credits to developers is essential because it provides a mechanism for development to proceed legally, ensuring that nutrient impacts are mitigated. It also ensures legal defensibility, financial sustainability, a credible and trusted credit market, and strong governance through transparent, accountable pricing.

4. The report

4.1 The Dorset Local Nutrient Mitigation Fund is a government funded programme that provides grant money to Dorset Council to deliver nutrient mitigation projects within the Poole Harbour catchment on behalf of Dorset Council and Bournemouth, Christchurch and Poole Council (BCP).

4.2 Dorset Council successfully bid for this funding through the Department for Levelling Up, Housing and Communities (DLUHC) now Ministry for Housing, Communities and Local Government (MHCLG), securing £4.63 million to support schemes that reduce nitrogen pollution so that new development can proceed without worsening the condition of protected habitats.

4.3 Natural England has advised that any new development in nutrient-sensitive catchments has the potential to worsen these impacts unless mitigation is provided. The Local Nutrient Mitigation Fund enables Dorset Council to put mitigation in place so development can continue while still protecting these internationally important sites.

4.4 Up until now we only have temporary nitrogen credits (that last up to 2030) rather than permanent nitrogen credits that last for 80 years. Permanent credits are urgently required to enable development, particularly for some agricultural practices and stalled commercial development.

4.5 Under our grant agreement with MHCLG the receipts from selling nutrient credits will be reinvested to deliver further mitigation projects. This ensures a self-sustaining cycle: as development uses credits, the income enables more mitigation to be created, which in turn supports future development and long-term environmental protection.

4.6 Nutrient delivery officers in the Environmental Mitigation delivery team are developing a pipeline of mitigation projects for Dorset Council and BCP Council through a range of land use change and grey water solutions that improve water quality and meet our statutory environmental obligations.

4.7 Selling nutrient credits from these projects provides the mechanism for development to proceed, ensuring that nutrient impacts are fully mitigated.

4.8 We now have a number of completed nitrogen delivery projects where we are in a position to be able to sell permanent nitrogen credits to developers. These credits will be sold on a continuous basis, and developers can register their interest at any time through our website.

4.9 Appendix 1 provides the methodology for how Dorset Council will price our permanent nutrient credits.

4.10 An agreed methodology provides:

- Legal defensibility - decisions are consistent, transparent, and aligned with statutory duties.
- Financial sustainability - mitigation projects can continue beyond the initial grant funding phase.
- Credibility for the credit market - developers trust the system and can plan accordingly.
- Governance assurance - pricing reflects public sector accountability.

5. Alternative options considered

5.1 No alternative options considered.

6. Legal considerations

6.1 The pricing methodology aligns with Natural England’s requirements for nutrient neutrality. It includes how mitigation is calculated and evidenced. Developers must offset nutrients using a recognised credit system or deliver mitigation themselves, and the pricing methodology reflects the legal obligation to secure mitigation that fully covers the calculated nutrient load using the approved calculators.

6.2 Credit sales must be legally robust because credits constitute a contractual commitment to deliver in perpetuity mitigation (80 years) Pricing must therefore reflect these ongoing responsibilities and the legal need to maintain the mitigation for the lifetime of the development.

6.3 Any pricing methodology must remain adaptable to policy changes, updated legal advice, and evolving Natural England guidance.

7. Financial implications

7.1. The Poole Harbour Local Nutrient Mitigation Fund grant agreement states clearly that Dorset Council must set prices to recover the full cost of delivering mitigation and reinvest those funds into further mitigation. This cost recovery approach was a condition of receiving government funding. Without a structured pricing methodology, the council risks under-recovering costs, exhausting mitigation funds prematurely, and being unable to deliver future mitigation projects.

7.2 A clear pricing methodology ensures prices reflect not just current project costs, but the need to fund an ongoing pipeline of mitigation.

7.3 Formal pricing avoids uncertainty or accusations of arbitrary or inconsistent pricing. This is financially important because predictable pricing supports developers' viability assessments, it reduces disputes and appeals, and it creates a stable marketplace for credits (beneficial for both councils and developers).

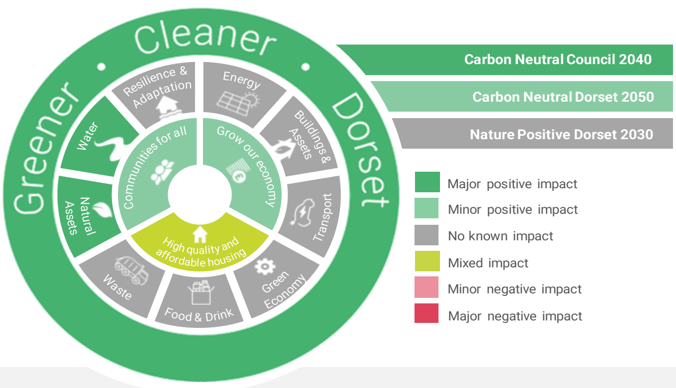
7.4 Private schemes also sell nutrient credits, at different price points therefore a clear methodology protects the council from financial distortions and helps justify variation in pricing by evidencing the true cost of local delivery.

8. Natural environment, climate & ecology implications

8.1 It aligns with the wider aim of improving water quality and supporting nature recovery. It also directly delivers against one of the four council plan priorities, responding to the climate and nature crisis.

8.2 Climate wheel:

Methodology for setting the price for Poole Harbour



Quantitative Impact on CEE targets (if known)	Unit	Number of units (+/-)
2030 - Natural asset extent & condition	Ha	0
2040 - Operational Emissions	CO_2 (tonnes)	

Natural Environment, Climate & Ecology Strategy Commitments	Impact
Energy	No known impact
Buildings & Assets	No known impact
Transport	No known impact
Green Economy	No known impact
Food & Drink	No known impact
Waste	No known impact
Natural Assets & Ecology	major positive impact
Water	major positive impact
Resilience and Adaptation	No known impact

Corporate Plan Aims	Impact
Grow our economy	minor positive impact
High-quality and affordable housing	neutral
Communities for all	minor positive impact

9. Well-being and health implications

9.1 There are no specific health and wellbeing implications of this report however it aligns with the wider aim of creating healthier communities across Dorset.

10. Other implications

10.1 There are no other specific implications contained in this report.

11. Risk implications

11.1 HAVING CONSIDERED: the risks associated with this decision; the level of risk has been identified as:

Current Risk: High

Residual Risk: Low

Selling nitrogen credits will enable stalled commercial development to be unlocked and will stop re investment to nutrient mitigations. Without an agreed methodology on pricing for the nitrogen credits this could harm the council's reputation as well go against the terms set out in our government grant.

12. Equalities

12.1 There are no specific equalities implications for this report itself.

12. Appendices

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

Appendix 2 – Accessible table showing impacts

13. Background papers

13.1 Not applicable

14. Report sign-off

14.1 This report has been through the internal report clearance process and has been signed off by the Director for Legal and Democratic (Monitoring Officer), the Executive Director for Corporate Development (Section 151 Officer) and the appropriate Portfolio Holder(s)