



CABINET – 16 SEPTEMBER 2022

**NORTH AND EAST MELTON MOWBRAY DISTRIBUTOR ROAD –
APPROVAL TO SUBMIT FULL BUSINESS CASE**

REPORT OF THE DIRECTOR OF ENVIRONMENT AND TRANSPORT

PART A

Purpose of the Report

1. The purpose of this report is to seek the Cabinet's approval to submit the North East Melton Mowbray Distributor Road (NE MMDR) Full Business Case (FBC) to the Department for Transport (DfT). The report also provides an update on the costs and delivery timescales for the scheme.

Recommendation

2. It is recommended that:
 - (a) The latest position with regard to the North East Melton Mowbray Distributor Road (NE MMDR) timetable for the implementation for the scheme including on-going work with the prospective contractor on a target cost price be noted;
 - (b) The Director of Environment and Transport in consultation with the Director of Corporate Resources and following consultation with the relevant Cabinet Lead Member be authorised to submit the Full Business Case to the Department for Transport (DfT) provided that the outcome of the target cost price exercise demonstrates the NE MMDR scheme still represents value for money;
 - (c) A further report be submitted to the Cabinet in December 2022 detailing the outcome of the target price exercise and confirmation of funding from the DfT to enable the Cabinet to consider whether to move to the formal construction phase.

Reason for Recommendation

3. To enable the County Council to progress the scheme in accordance with the approved programme. Whilst approval by the Cabinet to submit the FBC will achieve a key milestone in the programme, the final decision on progressing the scheme to construction will be sought at the Cabinet meeting in December 2022.

Timetable for Decisions (including Scrutiny)

4. Subject to the Cabinet's approval, the FBC will be submitted to the DfT, in October 2022.
5. Confirmation of the target price is expected in October 2022 and will be presented to the Cabinet in December 2022.
6. Subject to approval of the FBC by the DfT and the Cabinet's approval in December 2022, main construction works are programmed to commence in March 2023.

Policy Framework and Previous Decisions

7. Several reports have been submitted to the Cabinet with regard to the NE MMDR, seeking support for the various stages of delivery including submission of Outline Business Case (OBC), planning application, and the Compulsory Purchase Order (CPO) together with the associated Side Roads Order (SRO) (the CPO and the SRO together being referred to as the Orders).
8. In May 2016 the Cabinet agreed the continuation of the development of the Melton Mowbray Transport Strategy (MMTS) and authorised the Director of Environment and Transport to undertake the necessary consultations and negotiations as required to enable the definition of a preferred route for the eastern section of the MMDR.
9. In March 2017 the Cabinet agreed to gather further evidence and undertake consultation to enable the OBC to be developed and submitted to the DfT.
10. In December 2017 the Cabinet noted the outcome of consultation on the NE MMDR required to develop the OBC, approved the recommended route, and authorised the Chief Executive to approve and submit the OBC to the DfT.
11. In July 2018 the Cabinet noted the award of £49.5m from the DfT Large Local Majors Fund. It also agreed to submit a planning application for the NE MMDR in accordance with the Preferred Route and also, to make and implement a CPO and SRO.
12. In June 2019 the Cabinet noted the award of planning consent and approved the delivery of the scheme.
13. In March 2020 the Cabinet again agreed to make a CPO and SRO as well as agreeing for minor amendments to be made where necessary.
14. In February 2022, the Cabinet approved the capital programme 2021/22 to 2024/25 which included NE MMDR. The capital programme will be revised as part of the Medium Term Financial Strategy (MTFS) paper considered by the Cabinet in September 2022.

15. In April 2022 the Cabinet agreed to take all necessary steps to confirm and implement the CPO and Side Roads Order and note the latest position with regard to costs and timescales.

Resource Implications

16. The formal target price exercise that will inform the construction contract costs is underway. As detailed in the report to the Cabinet in April 2022, the forecast cost for the project at that point was £85.3m with an identified additional £5m contingency.
17. Subsequently, an informal review of potential inflationary impacts on the scheme has been undertaken which suggests an estimated revised figure of approximately £106m. However, since then, and based on other schemes nationally and the continued cost rises in materials and now labour, it is possible that the costs will rise even further, potentially up to an additional 15%. A further report will be brought to the Cabinet in December 2022 when the target price exercise is complete and resource implications will be considered at this time.
18. Funding of the scheme is made up of DfT Large Local Majors Funding of £49.5m, subject to approval of the Full Business Case, Leicester and Leicestershire Enterprise Partnership (LLEP) Business Pool funding of £4m, and an anticipated £14m of developer contributions (in part forward funded by the Council). Any remaining funding would need to be provided by the County Council as the local contribution.
19. The detailed design is now complete, enabling the contractor to provide a target cost for the scheme. This is expected to be finalised in October 2022. There are no additional resource implications associated with submission of the FBC.
20. The Director of Corporate Resources and the Director of Law and Governance have been consulted on this report.

Circulation under the Local Issues Alert Procedure

This report has been circulated to Members representing the electoral divisions in the Melton area – Mr J. T. Orson CC, Mrs P. Posnett MBE CC, Mr M. Frisby CC and Mr B. Lovegrove CC.

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PART B

Background

21. A number of reports have previously been considered by the Cabinet at key stages detailing the background, justification and development of North East Melton Mowbray Distributor Road (NE MMDR).
22. At the Cabinet meeting in May 2016, approval was given to undertake the necessary consultations and negotiations as required to enable the definition of a preferred route for the eastern section of the MMDR, the Council subsequently made a bid to the DfT Large Local Major Schemes fund in July 2016 for funding to develop an Outline Business Case (OBC) for the delivery of an eastern distributor road. In November 2016 the DfT announced that the bid had been successful and £2.8m was awarded for the development of an OBC for an MMDR.
23. Following a meeting with the DfT in January 2017, it became apparent that an accelerated programme was required and so in March 2017 the Cabinet agreed to gather further evidence and undertake consultation to enable the OBC to be developed and submitted to the DfT. Work on the OBC was undertaken during 2017, and in September and October 2017 views were sought on the recommended route for the NE MMDR. A report was presented to the Cabinet in December 2017 and authority was given to the Chief Executive to approve and submit the OBC to the DfT.
24. Work on the scheme development continued at pace through 2018 and by July of that year, the Cabinet noted the award of £49.5m from the DfT Large Local Majors Fund and agreed to submit a planning application for the NE MMDR and to make and implement a Compulsory Purchase Order (CPO) and Side Roads Order (SRO). The planning application for the scheme was submitted in October 2018 and subsequently granted in May 2019 subject to conditions.
25. All pre-commencement planning conditions were discharged by April 2022 enabling, together with a bat mitigation licence from Natural England, the demolition of Sysonby Farm in April and May 2022. This commencement of works ensured the conditions and timescales of the previously secured planning permission for the scheme were met.
26. Focus then turned to the making of the necessary statutory orders including a CPO and SRO. Although planning permission was granted in May 2019, the final plans for land take continued to evolve and were only finalised in early 2020. The proposed land take was presented to the Cabinet in March 2020 where it was agreed to make a CPO and SRO as well as agreeing to make minor amendments of both the CPO and SRO if required. The CPO and SRO were subsequently made in July 2020 and published in October 2020. There were 22 objections to the Orders received and, after a period of negotiation, 12 remaining objections were considered at the Public Inquiry presided over by a Planning Inspector during September 2021. The Inspector subsequently submitted her report to the Secretary of State for Transport with her

recommendations. The Secretary of State then Confirmed the Orders in March 2022.

27. Following the Cabinet's approval in April 2022 to take all necessary steps to confirm and implement the Orders, work has been undertaken to acquire possession of and entry onto the required land and the Council has made and served a General Vesting Declaration (GVD) in August 2022 and Notice of Making a GVD for part of the land required for the scheme. Notices to Treat and Enter have also been served for land on the understanding that not all of the land may be required permanently. This has secured the vast majority of land required to deliver the scheme. The remaining land required is subject to final negotiations of easements, licences and the like. Advanced works are planned in Autumn of 2022 broadly in line with the details presented in the April 2022 Cabinet report.

Scheme costs

28. In the Medium Term Financial Strategy (MTFS) – Latest Position' presented to the Cabinet in September 2021, the forecast scheme cost was identified as £85.3m. The Council also allowed for an additional £5m of contingency to its programme to support the scheme. The Cabinet report also noted that, "further cost implications are likely to arise from inflationary cost pressures hindering delivery of the scheme in line with current cost estimates."
29. Since summer 2021, inflation has continually increased and is at a 40-year high, with CPI reaching 10.1% in July 2022. Construction inflation has witnessed significantly greater rates of inflation with percentage changes on year of up to 17.3%. This has had a significant effect on estimated scheme costs since the MTFS Latest Position was reported to the Cabinet in September 2021.
30. Scheme costs were last estimated (in 2020 prices) to have risen to £90.5m as a result of a likely reduction in the realisation of opportunities which had previously been identified as deliverable. Using this as a base cost, an assessment of inflation was made by officers in consultation with Finance colleagues. The assessment used the BCIS General Civil Engineering Cost Index published by the BCIS, a part of the Royal Institution of Chartered Surveyors, to forecast inflation to the end of construction phase. That assessment forecasts a further £15.3m increase in cost, raising the total forecast cost of the scheme to £106m.
31. It is worth noting that the BCIS General Civil Engineering Cost Index measures changes in cost of labour, materials and plant on general civil engineering projects. The constituent indices allow for changes in the cost of nationally agreed labour rates, factory gate material prices and plant costs. It is not therefore reflective of the NE MMDR project, or any specific project, but is representative of civil engineering projects generally.
32. As part of the ongoing scheme development, receipt of a target cost submission from the Contractor, Galliford Try, is expected in October 2022.

Although a period of review is required following its receipt, it will bring the construction costs up to date, removing a number of key variables from the calculations contained in the above forecast and providing greater cost certainty.

33. It is this target cost which will be used to establish the project costs included in the FBC and subsequently the agreed value which will be presented to the Cabinet in December 2022 for a further decision whether to progress the scheme into the construction phase.

Funding

34. Funding is made up of DfT Large Local Majors Funding of £49.5m, subject to approval of the Full Business Case, LLEP Business Pool funding of £4m, and an anticipated £14m of developer contributions (in part forward funded by the Council). Any remaining funding would need to be provided by the County Council as the local contribution. As detailed in the report to the Cabinet in April 2022, the project cost estimate was £85.3m plus £5m contingency at that time. However, as set out in paragraph 17, it is expected the impact of rising inflation to affect this scheme.
35. In light of the current very difficult financial situation due to rising inflation, Officers, via the Association of Directors of Environment, Economy, Planning and Transport (ADEPT), are lobbying the Government to highlight this position and seek support for additional funding.

Programme

36. Advanced works including ecology and archaeology mitigation are programmed to commence in September 2022 and continue through to the start of main construction.
37. Subject to the Cabinet's approval, the Director of Environment and Transport will submit the FBC to the DfT in October 2022, in consultation with the Director of Corporate Resources and following consultation with the Cabinet Lead Member. Approval timescales are estimated to be 12 weeks, enabling main construction works to commence in March 2023 (subject to the Cabinet's approval in December).
38. It is anticipated that the plots of land included in the GVD will vest in the Council in early December 2022 following service of the Notices of Making the GVD that took place last month. The Council will also enter and take possession of those plots of land in respect of which Notices to Treat and Enter have been served. It is expected that agreement will be reached in respect of the remainder of the land required for the scheme.
39. A further report will be submitted to the Cabinet in December 2022 detailing the outcome of the target price exercise and confirmation of funding from the Department for Transport to enable the Cabinet to consider whether to move to the formal construction phase.

40. The main construction works are anticipated to start on site in March 2023 and the current scheme costs are based on this programme.

Full Business Case

41. The Council has been working on a draft FBC in preparation for the programmed submission in October 2022. This work has included revisiting the traffic models and economic appraisal, in addition to the drafting of the business case elements in accordance with the Green Book, and the production of additional documentation including a Monitoring & Evaluation Plan.
42. The drafts have been shared with the DfT for technical review and comment with the anticipation of achieving a more certain outcome within the shortest possible time period following formal submission.
43. The economic appraisal included within the draft uses the latest scheme costs (2020 prices) and inflates these using the standard WebTAG methodology. Whilst in the past this would be entirely appropriate, officers have made the DfT aware that this is not considered to be accurate in the current inflationary environment and that the Council intends to submit a fuller assessment of costs, including inflation, based on the contractor's target cost submission. Nevertheless, it is clear that the scheme continues to generate significant benefits. The adjusted Benefit Cost Ratio identified in the draft is 3.31. Although increased costs will adversely affect this ratio, it is anticipated that the scheme will continue to represent high value for money.

Next Steps

44. The Contractor, Galliford Try, will submit a target cost in October 2022. This will form the basis of the final economic assessment used in the FBC, requiring some minor updates to the already produced draft. Feedback from the DfT will also be incorporated together with any outstanding information.
45. Provided that the target cost received from the Contractor means the scheme still represents value for money, the Director of Environment and Transport in consultation with the Director of Corporate Resources and following consultation with the Cabinet Lead Member, will submit the FBC to the DfT in October in line with the recommendations of this report.

Equality and Human Rights Implications

46. An Equality and Human Rights Screening Report has previously been produced for this scheme and submitted as part of the Cabinet report in July 2018.
47. The full Equality and Human Rights Impact Assessment formed part of the planning application submission which can be viewed online. This includes full details of assessed impacts and proposed mitigation where applicable.

Environmental Implications

48. A full assessment of the environmental impacts of the scheme was conducted as part of the Environmental Impact Assessment submitted with the planning application. This can be viewed online through the County Council's planning portal.

Background Papers

9 May 2016 - Cabinet - 'Progress with the Development of a Melton Mowbray Transport Strategy':

<http://politics.leics.gov.uk/ieListDocuments.aspx?CId=135&MId=4602&Ver=4>

10 March 2017 – Cabinet - 'Melton Mowbray Transport Strategy and Distributor Road – Development of a Business Case and Identification of a Preferred Route'

<http://politics.leics.gov.uk/ieListDocuments.aspx?CId=135&MId=4859&Ver=4>

12 December 2017 – Cabinet – 'Melton Mowbray Distributor Road Proposals' 112

<http://politics.leics.gov.uk/ieListDocuments.aspx?CId=135&MId=4866&Ver=4>

6 July 2018 – Cabinet – 'North and East Sections of the Melton Mowbray Distributor Road Proposals'

<https://politics.leics.gov.uk/ieListDocuments.aspx?CId=135&MID=5412#A156249>

25 June 2019 – Cabinet – 'North and East Melton Mowbray Distributor Road – Outcome of Planning Application':

<https://politics.leics.gov.uk/ieListDocuments.aspx?CId=135&MID=5412#A156249>

24 March 2020 – Cabinet – 'North and East Melton Mowbray Distributor Road - Making of the Compulsory Purchase Order and Side Roads Order for Land Required'

<https://politics.leics.gov.uk/ieListDocuments.aspx?CId=135&MID=5993#A162737>

17 September 2021 – Cabinet – 'Medium Term Financial Strategy – Latest Position'

<https://politics.leics.gov.uk/ieListDocuments.aspx?CId=135&MId=6446>

26 April 2022 – Cabinet - North and East Melton Mowbray Distributor Road – Land Assembly

<https://politics.leics.gov.uk/ieListDocuments.aspx?MId=6743>