



CABINET – 16 DECEMBER 2022

**NORTH AND EAST MELTON MOWBRAY DISTRIBUTOR ROAD –
COST IMPLICATIONS**

REPORT OF THE DIRECTOR OF ENVIRONMENT AND TRANSPORT

PART A

Purpose of the Report

1. The purpose of this report is to advise the Cabinet on the progress of the North and East Melton Mowbray Distributor Road (NE MMDR) scheme, including cost implications, and seek a decision on whether to progress with the next steps in the delivery of the scheme.

Recommendations

2. It is recommended that:
 - (a) The latest position regarding progress and costs of the NE MMDR scheme be noted;
 - (b) The three options for the Council, all of which have significant financial consequences, be noted;
 - (c) Option 1, progress to delivery, is approved subject to confirmation by the Department for Transport that the Full Business Case is approved, and that Large Local Majors funding will be released;
 - (d) Subject to proceeding with the scheme and c) above, 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 undertake the necessary actions to construct the NE MMDR;
 - (e) In the light of the extremely serious financial position set out in this report, the Directors of Environment and Transport and the Director of Corporate Resources following consultation with the relevant Cabinet Lead Members, be authorised to prioritise current available developer funding towards the delivery of the scheme and pursue additional funding, including with Melton

Borough Council, the local Member of Parliament, the Department of Transport and developers;

- (f) The Director of Corporate Resources be authorised to manage the financial arrangements for the funding of the scheme using the range of treasury management options available to minimise the cost of providing gap funding for the project.

Reason for Recommendations

3. The NE MMDR is a key piece of infrastructure (identified as part of Melton's Local Plan) that is designed to facilitate sustainable growth in the Borough and economic growth in Leicestershire and the East Midlands.
4. Despite the increase in costs the scheme still represents value for money. Given the Council's current financial challenges and cost escalations on the scheme it is faced with a difficult decision: whether to proceed with delivery of the NE MMDR, to withdraw from the scheme, or to pause work on the scheme. However, based on current information a decision to proceed with the scheme will provide most benefit for the investment and meet the objectives outlined above.
5. There are a number of processes and contractual arrangements necessary to deliver a major transport infrastructure scheme that will be delegated to the relevant Directors to implement in accordance with the arrangements set out in the Constitution.
6. The ongoing financial challenges facing the Council necessitate the need to maximise external funding where possible. This will reduce the detrimental impact that would result from redirecting resources from other services. The Council's capital programme borrowing requirement will increase as a result of the scheme.

Timetable for Decisions (including Scrutiny)

7. A report was considered by the Highways and Transport Overview and Scrutiny Committee on 3 November 2022 and by the Scrutiny Commission on 9 November 2022. The draft minutes are appended and a summary of comments is given in Part B of this report.
8. The Council expects to hear from the Department for Transport (DfT) by early February 2023 as to whether the FBC has been approved and the scheme can proceed.

Policy Framework and Previous Decisions

9. In May 2016, the Cabinet agreed to continue developing the Melton Mowbray Transport Strategy (MMTS) to identify an appropriate package of transport measures necessary to support Melton's Local Plan, 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.

10. Since that date, a number of reports have been submitted to the Cabinet seeking approval for the various stages of development and delivery of the scheme. A detailed list is given in Part B of this report and key dates are set out below:
 - March 2017 – the Cabinet agreed to gather further evidence and undertake consultation to enable the Outline Business Case (OBC) to be developed and submitted to the DfT.
 - December 2017 – the Cabinet noted the outcome of consultation, approved the recommended route, and authorised the Chief Executive to approve and submit the OBC to the DfT.
 - June 2019 – the Cabinet noted that planning consent had been awarded and approved the delivery of the scheme.
 - July 2021 – the Cabinet approved the Interim Melton Mowbray Transport Strategy (IMMTS), the NE MDDR being a fundamental element of this.
 - April 2022 – the Cabinet agreed all necessary steps to confirm and implement the Compulsory Purchase Order (CPO) and Side Roads Order (SRO), noting the latest estimated costs and timescales.
 - September 2022 – the Cabinet agreed to submit the Full Business Case (FBC) to the DfT, provided that the target cost price exercise showed that the NE MMDR scheme still represented value for money.
11. In February 2022, the Cabinet approved the capital programme 2022/23 to 2025/26, which included the NE MMDR. The Cabinet on 23 September that year agreed a revised capital programme and highlighted the need to review the current capital programme.
12. In September 2022, the Cabinet agreed for the County Council to become a signatory to the Leicester and Leicestershire Statement of Common Ground on Housing and Employment Land Needs, setting out the collaboration undertaken to reach agreement on strategic housing distribution and other matters in line with the Government's Duty to Cooperate, supporting progress on respective emerging local plans.
13. On 25 November 2022, the Cabinet considered a report regarding the financial implications for the Council of delivering growth in the County and agreed the approach and principles to address and manage the risks, noting the challenges associated with delivering the existing Capital Programme and the need to ensure that forward funding was recovered.

Resource Implications

14. The detailed design is now complete, enabling the contractor to provide a target cost and for the full scheme forecast to be finalised, as detailed in Part B of this report (paragraph 38) below. A summary of the costs is given here.
15. As a result of this increased scheme forecast, the scheme is no longer within the allocated budget envelope set out in the current Medium Term Financial Strategy. Therefore, a decision as to whether to continue to fund the project is required. This will have significant resource and wider implications for the Council as a whole.
16. All three options presented in this report have significant financial consequences for the Council, summarised in the table below:

Option	Financial implications of the scheme	Certainty over those costs H - High M - Medium L - Low	Potential additional revenue cost associated with borrowing
1. Proceed	£51m	M/L - due to the scheme still to be delivered and reliance on developer funding.	of £4m per annum for 40 years.
2. Withdraw	£47m	M/L - estimated additional costs and would be subject to review of the southern MMDR scheme and other necessary mitigation in light of approved planning applications in the area. This does not include any education or planning impacts at this time.	£3.7m of £4m per annum for 40 years.
3. 1-year pause before proceeding	£51m + £8m inflation, less new funding	L – the uncertainty over both the impact of inflation on the construction market and the length the pause to the scheme means that it is very difficult to assess this cost. The likelihood of finding new funding is uncertain.	At least of £4m per annum for 40 years.

17. The options should be considered noting the County Council is facing a challenging financial outlook. With significant shortfalls expected in revenue and capital financial. Further information is contained in the Provisional Medium Term Financial Strategy report that is also on the agenda for this Cabinet meeting.
18. The Council's Capital Programme also needs to be rationalised. A review over the summer has already resulted in some schemes being removed or delayed and a reassessment of capital receipts.
19. As a result of escalating costs, the County Council is facing three options, all of which are in reality 'unaffordable' given the financial pressures it faces. It is worth noting that when the NE MMDR scheme was initially approved the only outlay to the Council was the cashflow costs associated with the need to forward fund the road in advance of developer contributions being received. On the current estimates the Council's contribution, excluding any original cashflow costs, is £51m, with annual revenue costs of approaching £4m per year for the next 40 years – to 2062. Given current shortfall within the draft Medium Term Financial Strategy for 2023/24-2026/27 this must be offset by savings elsewhere in the Council's budget. For this reason, if the scheme is approved for delivery, the Council will seek to recover these costs as far as possible and will categorise the additional investment as 'forward funding' until all routes for recovery have been exhausted.
20. Every effort is being made to obtain agreement from other partners, particularly the Government, for additional funding to reduce the significant cost burden on the County Council should the scheme proceed. The Council has recognised the need to change its approach to funding infrastructure associated with local plans, hence the principles agreed by the Cabinet on the 25 November. Discussions have taken place with the local Member of Parliament and with Melton Borough Council given that the road is of such importance to the Council.
21. For consistency, the potential revenue costs in this report are based upon the cost of borrowing when the reports to the Scrutiny bodies were written in November. Since this time the interest rate on Public Works Loan Board funding (available to local authorities for capital projects) has reduced, reflecting the greater stability in the national finances. Following the Autumn Statement, the requirement for the Council to use reserves to temporarily balance the budget has reduced, providing some flexibility to how the capital programme is funded.
22. 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

23. 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

The NE MMDR Scheme

25. The NE MMDR scheme is part of a proposed distributor road identified in the IMMTS as necessary infrastructure to support the planned growth of Melton Mowbray, which is set out in Melton Borough Council's (MBC) adopted Local Plan. The scheme runs to the north and east of Melton Mowbray, beginning at the A606 Nottingham Road to the north, before re-joining the A606 Burton Road to the south of the town. A scheme plan is attached to this report as Appendix A.
26. The remaining part of the distributor road is the Melton Mowbray Distributor Road South which is proposed to continue from the MMDR NE at a junction on the A606 Burton Road, west to the A607 Leicester Road. This section is being managed as a separate scheme funded by Homes England.
27. The scheme has been designed to improve access to potential housing and employment, reduce congestion within Melton Mowbray and improve access to the town centre. It will also reduce the number of HGVs travelling through the town centre, thus also offering air quality benefits.

Scheme Development and Programme

28. A number of reports have been considered by the Cabinet at key stages during the scheme's development, including the background, justification and progress of the NE MMDR scheme.
29. A summary of the key milestones for the scheme programme is set out below.

Date	Lead	Decision / Action
May 2016	Cabinet	Approval to undertake necessary consultations and negotiations as required to enable the definition of a preferred route for the Eastern section of the MMDR.
July 2016	Council as Highway Authority	Submitted bid to the DfT Large Local Major (LLM) Schemes fund, for funding to develop an Outline Business Case (OBC) for the delivery of an Eastern distributor road.
November 2016	DfT	The DfT announced that the bid had been successful and £2.8m was awarded for the development of an OBC for an MMDR.
March 2017	County Council's Cabinet	The Cabinet agreed to gather further evidence and undertake consultation to

Date	Lead	Decision / Action
		enable the OBC to be developed and submitted to the DfT.
September / October 2017	Council as Highway Authority	Views were sought from the public and various stakeholders on the recommended route for the NE MMDR.
December 2017	County Council's Cabinet	Approval given to submit the OBC to the DfT informed by the consultation exercise.
July 2018	County Council's Cabinet	Confirmation of the award of £49.5m from the DfT's LLM Fund and approval to submit a planning application for the NE MMDR and to make and implement a Compulsory Purchase Order (CPO) and Side Roads Order (SRO).
October 2018	Council as Highway Authority	The planning application for the scheme was submitted.
May 2019	DCRB	Planning permission granted, subject to conditions.
March 2020	County Council's Cabinet	Approval of land strategy and agreement to make a CPO and SRO, as well as agreeing to make minor amendments of both the CPO and SRO if required.
July 2020	Council as Highway Authority	The CPO and SRO were subsequently made in July 2020.
October 2020	Council as Highway Authority	The CPO and SRO were published. There were 22 objections to the Orders received. After a period of negotiation, 12 remaining objections were considered at the Public Inquiry.
September 2021	Planning Inspector Public inquiry	The Inspector considered proposals and objections and subsequently submitted her report to the Secretary of State for Transport.
March 2022	Secretary of State for Transport	The Secretary of State announced in a decision dated 30 March 2022 that the proposed CPO and SROs (including modifications) had been confirmed.
April 2022	Council as Highway Authority	All pre-commencement planning conditions discharged.
April/May 2022	Council as Highway Authority	Demolition of Sysonby Farm (note: bat mitigation licence obtained from Natural England). The commencement of work ensured the conditions and timescales of the previously secured and planning

Date	Lead	Decision / Action
		permission for the scheme were met.
September 2022	County Council's Cabinet	Approval to submit the FBC to the DfT, subject to the scheme still representing value for money.
November 2022	Council as Highway Authority	Submission of FBC to the DfT.
December 2022	County Council's Cabinet	Decision on whether to move to the formal construction phase.
January 2023	Council as Highway Authority	Due to take entry of land under CPO.
March 2023	Council as Highway Authority	Commence construction, subject to the Cabinet's decision.

Full Business Case and Next Steps

30. Since the previous report to the Cabinet in September 2022, work on finalising the FBC for submission to the DfT has progressed. This has included revisiting the transport models and economic appraisal, drafting the business case in accordance with the Green Book (HM Treasury guidance), and producing additional documentation including a Monitoring and Evaluation Plan.
31. The DfT will assess the submitted FBC, with approval being required in order to release the £49.5m of LLM Funding awarded to the scheme in 2018. The scheme still remains value for money, with an adjusted benefit cost ratio (BCR) of between 2 and 3:1 as set out in paragraph 46, point a) below.
32. Advanced works, including ecology and archaeology mitigation, commenced in September 2022. A full programme has been agreed with the contractor as part of the target price process, based on main construction getting underway from March 2023. Therefore, the scheme is ready to progress to delivery, subject to a decision on whether the Council can fund it, given both the significant cost increases and the challenging financial landscape for the Council as a whole.
33. There are a number of significant potential implications for the County Council and also Melton Borough Council associated with either proceeding to delivery, pausing, or withdrawing from the scheme. These implications together with any wider considerations for stakeholders have been considered in setting out these options. These are set out in paragraphs from 46 to 51 below.

Scheme Costs

34. In September 2021 the Cabinet considered the latest revenue budget and capital monitoring position for 2021/22 to 2024/25 which included a revised forecast scheme cost of £85.3m. An additional £5m of contingency was allowed in the capital programme to support the scheme. The report noted that, "further

cost implications are likely to arise from inflationary cost pressures hindering delivery of the scheme in line with current cost estimates.”

35. Recognising the challenges associated with inflation, in May 2022 Council officers assessed the scheme using the Building Cost Information Service (BCIS) General Civil Engineering Cost Index to forecast inflation to the end of the construction phase. A further £15.3m increase in cost was forecast, raising the total estimated cost of the scheme to £106.1m.
36. 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 does not therefore reflect the specific costs of the NE MMDR but of civil engineering projects generally.
37. Work to establish a target price for the construction contract of the NE MMDR has been completed. This contract concerns the delivery of the main construction of the scheme, based on an agreed programme of works, materials and labour costs. This informs the overall scheme estimate, which includes additional costs such as land acquisition, professional fees, business case development, risk and future inflation. As part of the ongoing scheme development, receipt of a target cost submission from the contractor, Galliford Try, was received in October 2022.
38. However, as reported to the Cabinet in September 2022, inflation has continued to increase and is now at a 40-year high, with the CPI reaching 10.1% in July 2022 and then 11.1% in October. Moreover, construction inflation has been subject to significantly greater rates of inflation, with percentage changes on-year of up to 17.3%. This has in turn had a huge effect on estimated scheme costs.
39. Following a period of review, including by an independent consultant, the target cost for the construction of the scheme has been confirmed and the total forecast scheme cost has increased to £116.1m. This information has been used to inform the full business calculations and the submitted business case falls within this budget envelope. In addition, at FBC stage HM Treasury suggests allowing for a +/- 10% change in costs, meaning that the scheme could outturn at £127.7m. This increase has significant implications for the Authority's budget, detailed below.

Scheme Funding

40. Funding for the scheme comprises DfT LLM Funding of £49.5m (subject to approval of the FBC), 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). The Council is also expected to receive over £9m in income for the sale of land whose development is dependent upon the road. Currently, any remaining funding would need to be provided by the Council as the local contribution. The current MTFS allocation approved in February 2022 is £85.3m plus £5m contingency.

However, as a result of rising inflation, the local contribution now equates to £51m, as opposed to the £23m estimated in September 2021.

41. In light of the current 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, which applies across the Country, and seek support for additional funding.
42. In addition, the Council is also working to make Leicestershire MPs and the Department of Transport aware of the challenges the Council is facing and seeks support in managing the impacts. In the case of the MMDR, discussions have been held with the local MP in regard to additional funding from Government and with Melton Borough Council as to funding from them since the road is such a priority for the Council.

Options for Consideration

43. The Cabinet is being asked to decide on the next steps for the scheme because the target price exercise is based on a programme timetable that commences in March 2023 and the price will effectively become invalid if this programme is not met. A delay will likely cause the contract to need to be repriced and renegotiated with further cost increases probable.
44. The options available, together with a summary of the potential implications, have been set out below, followed by comments from the Highways and Transport Overview and Scrutiny Committee and the Scrutiny Commission.
45. It should be noted that the potential for withdrawal of a scheme (Option 2) in these circumstances is unprecedented in Leicestershire. The Council, MBC and other organisations have worked together to understand the potential implications of the decision whether or not to proceed. However, some of the risks, issues and costs, represent a 'best guess' at this stage.

Option 1 – Proceed to delivery of the scheme

46. Benefits of this option:

- a) **Scheme benefits will be realised** - The scheme has a BCR of between 2 and 3:1 – meaning significant economic benefits should be secured in Leicestershire as a result of the scheme. Under the DfT's national scoring system this is classed as high value for money. This would be achieved through:
 - Enabling at least 4,500 new homes and 30 hectares of employment land to be developed;
 - Reducing congestion;
 - Increasing active travel;
 - Improving economic opportunity in Melton Mowbray.

With a reduction in HGV movement through the town and reduced congestion, there are also air quality benefits associated with delivering the scheme. The scheme will also deliver an overall biodiversity net gain for the local area.

- b) **Delivers a critical aspect of Melton Borough's Local Plan** - The scheme ensures that the current strategy can be maintained and the Local Plan remains relevant.
- c) **Mitigation for development with planning permission** - Over 1,700 dwellings, with a dependency on the delivery of the scheme, have already been granted permission in Melton Mowbray as part of a planned development strategy set out in the Local Plan. These 1,700 dwellings are part of over 4,500 total that the scheme is expected to support over the life of the Local Plan.
- d) **Makes use of external investment** - The scheme attracts £54m of grant investment in Leicestershire, ensures that an estimated £14m developer contributions can be used and delivers over £9m of capital receipts that would not otherwise be possible.
- e) **Maintains the County Council's existing track record for delivery** - it has successfully delivered a number of grant funded schemes including A512 J23, M1 J22 and A42 J13 and A46 Anstey Lane. This is important as track record for delivery is a major factor in securing future funding from the Government. For major infrastructure competitive grant funding is the main type of funding available to local authorities.
- f) **Reflects the significant investment of staff resource** and member decision making over an extended period.
- g) **Directly supports the delivery of a primary school** for the Melton North Sustainable Neighbourhood which currently has planning permission for 890 homes and will result in demand for approximately 260 primary school places.

47. Risks or disbenefits associated with this option:

- a) **Increased costs**
 - i. without other mitigations the County Council's total contribution would increase to £51m, inclusive of portfolio risk and the £12.7m already spent
 - ii. equates to an additional contribution above that already identified in the MTFS of an estimated £28m.

This option requires a portfolio level contingency of £11.7m for unforeseen events beyond those captured in the risk register to remain in the capital programme (as per HM Treasury guidance). As these costs are not currently allocated in the MTFS, committing this funding will add to the existing borrowing requirement.

- b) **Additional revenue costs associated with borrowing the necessary capital funding to deliver the scheme** of £4m per annum for the next 40 years, increasing the Council's forecast deficit.
- c) **Risk of increased costs in delivery** - Despite the work undertaken to date to provide cost certainty for the scheme, including a full review of costs, development of a target price, risk identification and mitigation, production of a full quantified risk register and an overall independent review of the scheme forecast, it is possible, particularly given the condition of today's construction market, that costs could increase as the scheme is delivered on site. The project has attempted to estimate this as part of the portfolio contingency, however in a volatile market this is still subject to change.
- d) **Limited ability to deliver other existing capital schemes** - Although not at a delivery stage yet, should costs increase on other schemes within the capital programme, such as the A511 Major Road Network and MMDR South (MMDR S), this option will have to be taken into account in considering the Council's ability to fund those schemes.

Option 2 – do not proceed to delivery

48. Benefits of the option:

- a) **Reduces upfront costs to the Council by £4m when compared to Option 1 – leaving a remaining contribution of up to £47m** - This cost is the combined costs associated with the required mitigation or issues associated with this option set out in paragraph 49 below.
- b) **Reduces the related requirement to borrow compared to Option 1 by £0.3m per annum for 40 years**, which would make a small reduction to the Council's savings requirement.
- c) **Improves the possibility of the Council being able to support future capital schemes.** In not committing to the cost of delivering the scheme there would be potential to use the Council's capital funds to support other schemes or priorities.

49. Risks or disbenefits associated with the option:

- a) **Significant negative strategic planning implications:**
- The NE MMDR forms a critical part of MBC's Local Plan strategy and withdrawal from the scheme would render the Plan immediately out of date, triggering a cost redevelopment exercise and adverse impacts on Melton's 5-year land supply.
 - This would likely have consequences for wider strategic planning activity across the Leicester and Leicestershire Housing Market Area, such as the development and adoption of other local plans and MBC's ability to continue to agree to the apportionment of Leicester City's unmet need, as set out in the Statement of Common Ground of June 2022. Where plans

are undermined, there is a greater risk of speculative development leading to pressure on key services and infrastructure, in particular that relating to education and transport.

b) Significant impact on planning matters within Melton Borough:

- Over 1,700 homes have been granted planning permission on the basis of current education and transport strategies. The scheme mitigates the impact of these development on the community.
- Alternative minimum mitigation would be required as a result of withdrawing from the scheme and the cost of this is estimated to be £10m to the County Council. In addition, MBC and the County Council have worked collaboratively to secure developer contributions towards the IMMTS and in particular the NE MMDR. Should the scheme be withdrawn, there is a risk that contributions would need to be returned and thus may not be available to contribute towards alternative mitigation.
- The IMMTS would become obsolete, making it difficult to demonstrate the cumulative impact of development in the area and therefore sufficiently evidenced reasons for refusal or requests for contributions on future applications (of which development of up to 1,230 homes is currently in the planning system) for a significant period of time.
- With a risk of speculative development and an absence of agreed strategies, it would be likely that the Council's Highways Development Management Team, along with other statutory consultees at the Council, would see an increased demand for resources to manage planning application responses.

c) Additional Impacts:

- **CPO Implications** - The Council has implemented the CPO by making a General Vesting Declaration (GVD) for part of the land and the Council will automatically acquire that land on the vesting date of 3 January 2023. Appropriate notices have also been served on owners by the Notice to Treat and Enter processes. If the scheme does not proceed, the Council will own the land covered by the GVD which would become surplus to requirement and potentially may not recover the full value if it is decided to sell (noting compensation payments plus fees will also be payable). Where the Council has served Notices to Treat and Enter or reached separate agreement with owners not covered by the GVD the Council would not then acquire the land, but it would have to recompense owners in respect of their professional fees and possibly also pay compensation if the owners could demonstrate they had suffered loss.
- **Reputational**
 - **Impact on the residents of Melton.** Many residents in Melton Mowbray and the Borough area have been supportive of the scheme and feel the benefits of the scheme are critical to the future functioning of Melton Mowbray as a town.

- **Impact on trust and confidence of wider stakeholders.** Many promoters and developers have worked with the Council to support delivery of the scheme. It may be difficult to encourage collaborative working in the future, given the risks associated with funding and infrastructure delivery highlighted by this option.
- **Potential negative impact on future funding bids.** Failure to deliver schemes is generally taken into consideration by Government bodies when allocating new funding.
- **Miscellaneous**
 - **MMDR South (MMDR S)** – the MMDR S scheme is currently designed to link in with the NE MMDR. If the MMDR S was to progress, it would need to be redesigned. Significant additional costs (estimated at £20m) would be incurred by the MMDR S scheme in order to compensate for the loss of elements of the MMDR NE. It would be necessary to reconsider implications on the Council's existing commitments and ability to deliver the MMDR S in the event that the NE MMDR does not proceed. There are potential implications here in respect of the Council's requirement to comply with the Homes England funding agreement for its financial contribution towards the MMDR S Scheme.
 - **Potential impact on Education Provision** Given that over 1,700 homes have planning permission, existing development could create an added financial burden for the Council in providing school places if the remaining development is not brought forward as envisaged in the local plan. Alternative strategies may require increased forward or gap funding to provide education infrastructure and would need to be developed as part of local plan work. Further assessment work would be required on this aspect to understand the potential costs.
 - **£14m spent costs.** The expenditure that the Council has incurred to date on the scheme is not recoverable and includes costs such as scheme design, consultation, receiving planning permission and land acquisition.

Option 3 – Pause the scheme

50. Benefits of the approach

- a) **Potential to seek additional funding including possible review or restructure of MBC's Local Plan.** It is possible that a pause could be used to seek further funding. However, the disbenefits of this option include likely cost increases and thus any benefit may be very quickly offset by the impact of inflation and resulting cost increases to deliver the scheme.

51. Risks or disbenefits associated with the option

- a) **Cost increases associated with delay.** The current scheme forecast is based on the target price recently agreed with the contractor and will not

remain valid if the scheme does not proceed in line with the current programme. Therefore, in practice, the current price lapses in January 2023 and a new costing exercise would be required that in itself would take at least 6 months following any necessary design checks and reviews. Officers estimate that the potential impact on costs of the delay for one year, in the current highly inflationary environment, would be around £8m. Longer delays would incur additional costs.

- b) **Uncertainty for planning-related activity.** Many of the risks associated with planning activity, as set out in paragraph 49, points a) and b), are likely to be realised in this option.
- c) **Difficulty in retaining knowledge and expertise to deliver the scheme in the future.** Without confirmation of funding and future delivery, the current project team would be reallocated to other work. The team is made up of individuals from the Council and various external organisations. Whilst the project could be paused, the working knowledge of the scheme would be lost, adding considerable risk to any future delivery.
- d) **Additional funding is not secured.** If in the short to medium term additional funding is not secured, the pause, in effect, becomes withdrawal.
- e) **Developer funding gap.** Existing funding agreements are likely to be linked to CPI or RPI rates which reflect generic inflation and, as mentioned earlier in this report, may not correlate to specific building cost inflation rates.
- f) **CPO** – Even if the scheme is paused, the Council will have acquired land which is surplus pursuant to the General Vesting Declaration and for which compensation and costs will be payable and the Council will further be responsible for the payment of costs and / or compensation to those landowners upon whom notices have been served or with whom agreements have been reached as set out in paragraph 49, point c).

Consultation

- 52. The scheme has been subject to several processes involving consultation with the public, including as part of Melton's Local Plan development, a preferred route consultation in 2017, a formal planning application process in 2018/19 and a public inquiry in relation to compulsory purchase of land in 2021.
- 53. The FBC now submitted to the DfT demonstrated strong local support for the scheme from MBC, local residents, businesses, the Member of Parliament, the LLEP, and Midlands Connect.
- 54. Reports regarding the scheme have previously been considered by the Environment and Transport Overview and Scrutiny Committee (December 2017, June 2018 and June 2019). The relevant scrutiny body is now the Highways and Transport Overview and the Scrutiny Committee.

Highways and Transport Overview and Scrutiny Committee

55. The Highways and Transport Overview and Scrutiny Committee and the Scrutiny Commission considered a report of the Director of Environment and Transport regarding the progress of the NE MMDR scheme, including cost implications at their meetings on 3 November and 9 November respectively. Draft minute extracts are attached to this report as Appendix B and Appendix C and a summary of the comments is given below.

Highways and Transport Overview and Scrutiny Committee

56. In presenting the report, the Director of Environment and Transport set out the options available to the Council and the benefits and risks/disbenefits of each. The Director of Corporate Resources advised members regarding the financial implications. Arising from discussions, the following points were made:

- The need to maintain dialogue with the DfT regarding any additional funding that might be available.
- Expected inflation rates had been included in the figures presented and the Council had allocated some money to cover this. The contract with the main contractor stipulated that both parties would be rewarded or penalised if costs changed. There was some concern that the estimated cost plus 10% (as recommended by HM Treasury) would suffice.
- If a decision was made to proceed with the scheme, the Council would need to borrow to cover the additional cost. Consideration would have to be given to the timing of external borrowing; the Council would use the grant money first and then borrow as necessary. The figures presented assumed a 40-year loan but this would be decided at the time.
- Housing development associated with the NE MMDR would result in additional Council Tax income but demand for services would also increase and Government funding, e.g. Public Health Grant, did not take current population levels into account.
- The road would ease traffic congestion in Melton Mowbray town centre and was a critical part of Melton Borough's Local Plan, and would directly support provision of 4500 new homes.
- Significant time and resources had already been committed to the scheme.

Members agreed that whilst neither option for the scheme was ideal that Option 1, to continue with its delivery, should be supported.

Scrutiny Commission

57. As with the Scrutiny Committee, the Director of Environment and Transport and Director of Corporate Resources advised members regarding the options available to the Council.

The Chairman sought the views of each Member of the Commission. The following points were made:

- From a transport perspective, it was a good scheme that would benefit Melton, neighbouring areas and the wider County. It was noted that the overwhelming view of the Highways and Transport Overview and Scrutiny Committee was that the scheme should proceed (Option 1).
- Not progressing with the scheme would result in the loss of seven years' work and investment, improved air quality in Melton Mowbray, a new primary school, 1,500 new homes, and 30ha of employment land.
- Abandoning the scheme would also mean that the Melton Local Plan would fail, as would the Statement of Common Ground, with a consequent impact on all district council local plans. This would also result in rising costs for the County Council from unplanned development.
- Borrowing would be a significant change in approach for the Council and the cost of this would require savings to be made elsewhere which would affect other services.
- The Council needed to demonstrate it could deliver such schemes in order to secure further government funding for other projects in the future.
- Delivery of the Council's net zero carbon targets would be negatively affected if the scheme did not progress.
- There was no good option: the cost of not pursuing the scheme was almost as much as pursuing it. With this in mind, when considering the wider impacts and potential reputational damage to the Council if the scheme was stopped, Option 1 had to be supported.
- That MBC might be asked to contribute more funding towards the scheme as it would primarily benefit that area of the County.

In response to questions, members were advised that:

- The DfT had confirmed that no further funding was available. The Leader would nonetheless continue discussions with the DfT and other government colleagues.

- Whilst the scheme would open up more opportunities for development in future years (MBC had a master plan for north and south sustainable neighbourhoods) the gap between developer contributions and the cost of infrastructure had been growing for some time. The Council was looking to change its approach to enable it to seek greater contributions at the outset and for rates to better reflect the changing costs, including inflation.
- On average £8,600 per house of developer contributions had been secured in Melton. This supported both the north and south sections of the road though the NE MMDR would be prioritised.
- The scheme was approximately 2 years behind schedule, largely due to factors outside the Council's control, such as delays in the planning and consultation process. However, the original timescale had been over-optimistic, and this was a lesson learnt for the future. Had work had begun on site when originally planned the scheme would have been considerably cheaper but the level of cost increases now experienced was unprecedented.
- Proceeding with the scheme would mean the Council would find it very difficult to support other capital projects for the foreseeable future unless they were fully funded.

The Commission resolved that the Cabinet be advised that it unanimously supported Option 1, to proceed to delivery of the scheme.

Consequences for the IMMETS

58. The IMMETS was adopted in July 2021 prior to the full understanding of the costs of the NE MMDR being known: it sets out a rounded package of proposals to support the town's growth.
59. As alluded to earlier in this report, should the NE MMDR not proceed, the IMMETS would require a wholesale review to become something fundamentally different (for example the starting point about future traffic patterns in the town would be different to that underpinning the IMMETS.)
60. However, even if the Cabinet resolved to proceed with the scheme's delivery, then there will still be some consequences for the IMMETS. It will need an update, including:
 - In the light of the increased costings for the NE MMDR. Such an update would also allow for emerging work from the Melton Mowbray Local Cycling and Walking Infrastructure Plan work to be reflected, at least in terms of potential scheme delivery costs.
 - To ensure that despite the immediate necessity to prioritise all reasonably available developer contributions towards the delivery of the NE MMDR,

the IMMTS nevertheless reflects a likely potential model for future passenger transport provision in the town, and possible costings thereof.

61. This will enable a whole strategy 'ballpark' cost estimate to be calculated. Given development viability considerations (and also in respect of planning regulations, too) it is extremely unlikely that it will be possible simply to base a developer contribution on a 'roof tax' calculation, i.e. £x strategy cost estimate/y houses still to be built across the town that will close the funding gap identified in paragraph 51, point e).
62. A further report will be brought to the Cabinet once work to update the IMMTS has been completed.

Conclusion

63. The NE MMDR is a key piece of infrastructure (identified as part of Melton's Local Plan) that is designed to facilitate sustainable growth in the Borough. The Local Plan was adopted in 2018 and sought to achieve delivery of 6,125 homes and 51 hectares of employment land, of which this scheme directly supports 4500 new homes and 30 hectares of employment land, supporting the borough's growth to 2036 and beyond.
64. The scheme not only supports a key part of Melton's Local Plan, but is also planned to inject the required economic growth in Leicestershire and the East Midlands, in full support of the Government's growth agenda.
65. Despite the increase in costs, work carried out to date demonstrates that the scheme will still represent value for money.
66. Given the Council's current financial challenges and cost escalations on the scheme, it is faced with a difficult decision: whether to proceed with delivery of the NE MMDR and enter a construction contract with Galliford Try, to withdraw from the scheme, or to pause work on the scheme.
67. Proceeding is likely to have significant financial consequences, including potentially reducing other services the Council provides or, alternatively, withdrawing from the scheme, which is also likely to have far reaching consequences for Council services, MBC, and Leicestershire's strategic planning approach.

Equality and Human Rights Implications

68. An Equality and Human Rights Screening Report was produced for this scheme and submitted with the Cabinet report in July 2018.
69. 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.

70. Should the decision be to withdraw from the scheme, a fresh Equality and Human Rights Impact Assessment will be required in line with any resulting revised policies and strategies, such as the Melton Local Plan and Melton Mowbray Transport Strategy.

Environmental Implications

71. 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.
72. However, should the decision be taken to withdraw the scheme a further assessment of an alternative policies and strategies may be required.

Background Papers

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

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

24 March 2020: report to the 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>

26 April 2022: report to the Cabinet - North and East Melton Mowbray Distributor Road – Land Assembly

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

23 September 2022: Report to the Cabinet - North and East Melton Mowbray Distributor Road – Approval to submit Full Business Case

[https://politics.leics.gov.uk/\(S\(bceou120k23rqv55d2qvfa3d\)\)/documents/s171226/NEMMDR%20FBC](https://politics.leics.gov.uk/(S(bceou120k23rqv55d2qvfa3d))/documents/s171226/NEMMDR%20FBC)

23 September 2022: Report to the Cabinet - Medium Term Financial Strategy – Latest Position

<http://cexmodgov1/documents/s171253/MTFS%20Update%20Supplementary%20Report.pdf>

23 September 2022: Report to the Cabinet - Leicester and Leicestershire Authorities – Statement of Common Ground Relating to Housing and Employment Land Needs (June 2022)

<https://politics.leics.gov.uk/documents/s171194/SoCG%20Cabinet%20report.pdf>

3 November 2022: Report to the Highways and Transport Overview and Scrutiny Committee – North and East Melton Mowbray Distributor Road - Update

<http://cexmodgov1.ad.leics.gov.uk:9075/ieListDocuments.aspx?CId=1293&MId=6736&Ver=4>

9 November 2022: Report to the Scrutiny Commission – North and Eastern Melton Mowbray Distributor Road – Cost Implications

<http://cexmodgov1.ad.leics.gov.uk:9075/ieListDocuments.aspx?CId=137&MId=6872&Ver=4>

25 November 2022: Report to the Cabinet - Managing the Risk Relating to the Delivery of Infrastructure to Support Growth

<http://cexmodgov1.ad.leics.gov.uk:9075/ieListDocuments.aspx?CId=135&MId=6751&Ver=4>

Appendices

Appendix A - NE MMDR Preferred Route Plan

Appendix B - Draft minute extract from the meeting of the Highways and Transport Overview and Scrutiny Committee held on 3 November 2022

Appendix C - Draft minute extract from the meeting of the Scrutiny Commission held on 9 November 2022