Appendix 1 – Assessment of the likelihood that phase 2 of the A120/A133 Link Road will be delivered.

William Sunnucks 31 March 2024

This note assesses whether the second phase of the link road is deliverable, and whether the CPOs for just the first phase are in the public interest.

Background:
It has long been known that the A133 / Clinghoe Hill is operating beyond capacity and that an A133/120 link is needed before further housebuilding can take place along its route. This was recognised by Inspector Roger Clewes when he inserted clear conditions in the Section one Local Plan.

There is now widespread public scepticism about whether the second and vital phase of the link road will be delivered, and the residents of Colchester will suffer if it isn't. This was expressed in a formal resolution Colchester's full Council which "expressed its strong concerns about the risk of congestion should phase 2 of the A120/A133 Link Road be delayed."

Cost over-run
A total Link Road cost of £90.2m appears in an ECC Cabinet paper dated 21 June 2022. This included a £21.13m shortfall which it was hoped would be funded by Homes England. The figures are stated to exclude:

- "Potential inflationary risks beyond the £21.13m have been identified". These figures were first presented to the ECC cabinet in January 2022 and is likely to relate to costings prepared in late 2021. Since then prices have risen by 21.2%[1] or £19m to February 2024 alone.
- The cost of a Public Inquiry on the CPOs and more significantly the consequential cost of delay. "If a PI materialised the programme would be extended by an estimated period of 12 months with costs increasing significantly owing to materials increases and inflation" (para 7.1.5)

In addition an allowance will be needed for the extra overhead, fees and other costs caused by splitting the build into two phases – scale diseconomies.

Homes England
It is now clear that Homes England won't fund the £21.13m shortfall and that £99.9m HIF grant must be spent by {March} 2026. The phase 2 land isn't included in the CPO so there is no realistic prospect of it being complete by that date. Any money left over from phase 1 will have to be clawed back by Homes England rather than spent on a delayed phase 2.

So in practice the authorities are now reliant on Latimer, the garden community developer, to fund the whole of the second phase of the link road.

Latimer

[1] RPI November 2121 = 314.3. February 2024 = 381.0, a 21.2% increase.

ECC signed a Memorandum of Understanding with Latimer Developments Limited on 24th February 2023. Latimer supports the concept of the Link Road but there are several reasons why the MOU provides limited comfort to the public.

- Firstly there is no promise to fund the link road until it is "practically and financially possible to do so"[2]. They promise to "work together to identify future funding opportunities" and the prices timescales and trigger points are postponed until the s106 negotiations.

- Secondly to carry real weight the MOU needs the support of Clarion. Latimer is Clarion's housebuilder subsidiary which pays intercompany interest at SONIA + 5.5%. Latimer is clearly ring fenced and treated on arms-length terms[3]. It has net assets of just £48m which is not enough to support open ended promises for infrastructure delivery on the scale required without phasing controls.

- Thirdly Latimer's DPD consultation response challenged many aspects of the DPD. They have so far produced no viability evidence of their own, and are likely to use viability arguments at s106 stage. If there is no room for phase 2 in the viability appraisals then it won't be built.

Viability

Gerald Eve's appraisal assumes a developer contribution to the road of £21.5m, just enough to support the cost over-run of £21.13m if that is the only problem. However it doesn't cover a number of significant issues:

1. Further over-runs: nothing is included for the cost of a public enquiry and consequent 12 month delay
2. No phase 2 costings: as explained above the £21.5m will have to cover the whole phase 2 costs, not just the over-run.
3. Marginal viability: Gerald Eve conclude that the project is capable of being viable but their principal metric (IRR) is just 9.6% which falls short of the benchmark of 10% which they suggest.[4] The project is on the margins of viability and cannot afford over-generous infrastructure contributions.

Cost of phase 2

Phase 2 costs will include a split-level junction on the A120 dual carriageway, various other roads and cycle paths and the costs of land acquisition. We know that the land ownership is more fragmented than for phase 1 and that the layout will cause severe damage to Ardleigh Services.

The inspector may want to ask for an up-to-date estimate of the total. The information must be available to ECC and is vital for the credibility of phase 2 delivery promises.

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[2] Para 1.4 of the MOU

[3] See the accounts Latimer Develpments Limited at 31/3/23 available from companies

[4] Gerald Eve's other indicators of viability (profit on GDV and profit on cost) are misleading and should be ignored. They assume the development profit is earned at the end of a 30 year project by which time its NPV is heavily eroded. If they must use such indicators it should be over similar periods to the comparable evidence they use.

To get an early idea of the likely cost we can look at junction costs improvement costs:

- A19 / A184 Testos Junction Improvement £79.8m[5]
- A19 Downhill Lane Junction Improvement £54m
- A47/ A11 Thickthorn Junction £91.2m

The M27 junction required for Welbourne Garden village provides a further precedent for long delays and cost over-runs. Costs have escalated to £100m of which £41.25m has been promised by Homes England. A CBRE report showed that phase 1 of the development could only support a £20m contribution. A recent press report[6] indicates that costs have escalated further and that the scheme is at risk.

These precedents suggest that £21.5m is insufficient to fund the whole of phase 2 including the split level junction, the CPO costs and the other engineering works.

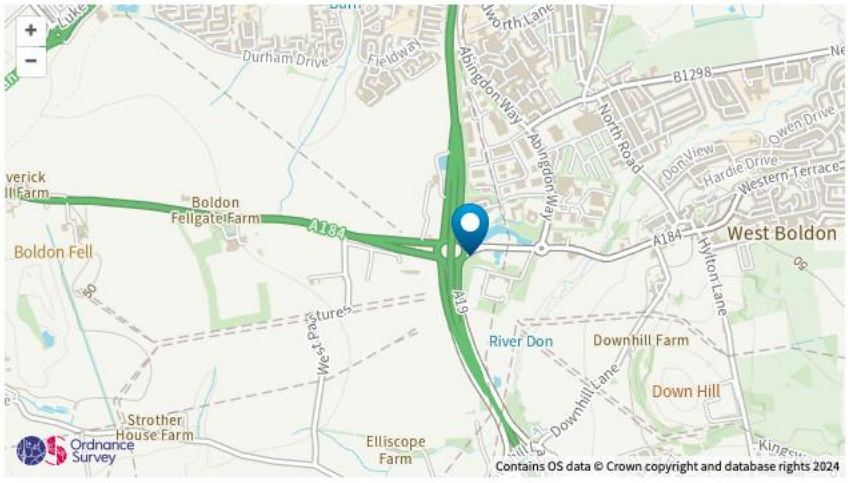
Conclusion

On this evidence residents cannot be confident that phase 2 will be delivered within the foreseeable future. A half road followed by long delays is clearly not in the public interest given the problems it will cause residents and the damage to public sector credibility created by the broken promises.

There needs to be more clarity around i) the amount of the phase 2 shortfall, ii) the timing of delivery or iii) the source of the funding.

Project location

Sunderland

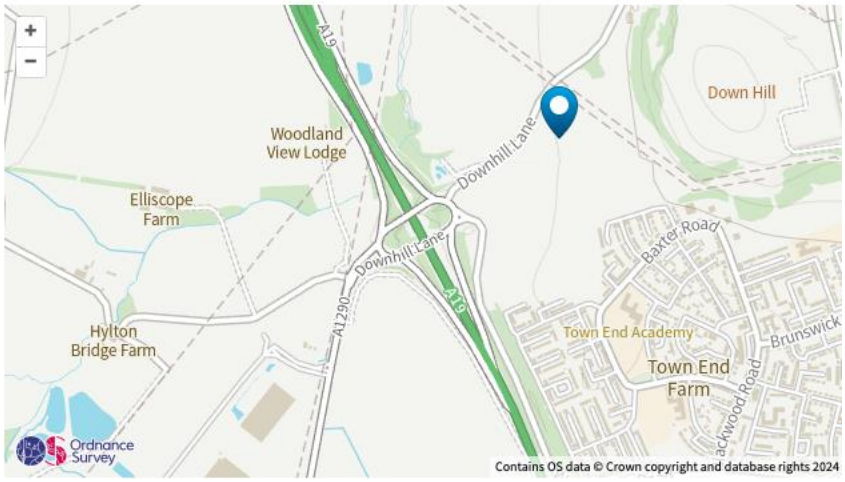


[5] These figures were on the planning Inspectorate website but have now been archived. My source was a web article by someone who kept records.

[6] https://www.highwaysmagazine.co.uk/100m-M27-scheme-at-risk/13757#:~:text=A%20proposal%20to%20revamp%20junction,consultant%20Ramboll%20was%20also%20recruited.

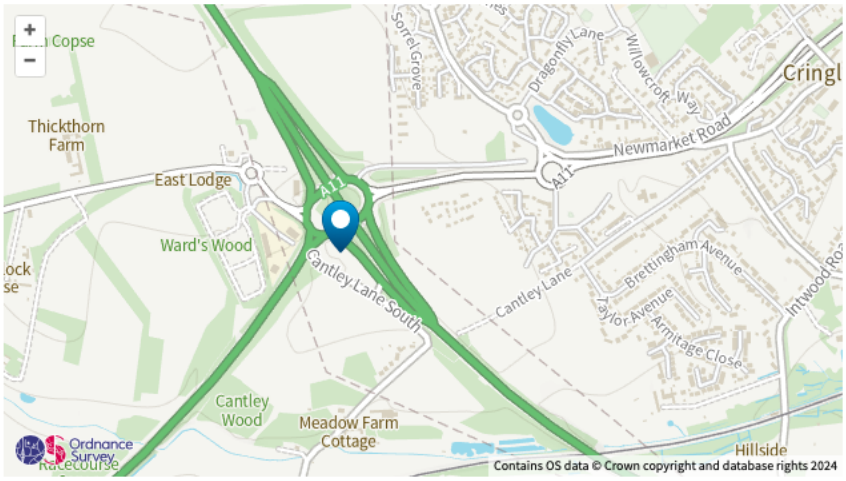
Project location

Sunderland/South Tyneside



Project location

A47 and A11 Thickthorn Interchange approximately 5.5km south west of Norwich City Centre



£100m M27 scheme at risk

22/02/2024
Steve Menary

3rd party ad content

A proposal to revamp junction 10 of the M27 in Hampshire to support the Welborne Garden Village development is under threat due to escalating costs.

VolkerFitzpatrick was appointed as a contractor in October 2022, when consultant Ramboll was also recruited. Work to finalise the design and construction was scheduled to begin at the end of 2023. At this time, the cost was officially in the region of £81m.

Hampshire County Council is the main client and delivering the scheme with Fareham Borough Council. In March 2022, Homes England agreed to provide £41.25m towards the cost and what was then described as 'the remaining £40m' was due to be provided by the developers at Welborne Garden Village.

Work did not start as anticipated and the cost was put at £97.5m by last December, when a revised target price was sought from VolkerFitzpatrick.