



where possible opportunities will be taken in the detailed implementation to rationalise work between this contract and the complementary TCF project in the same area.

6. The project has experienced unexpected delays due to several delivery and habitat constraints and addressing comments and requests for additional features arising through public engagement. As a consequence, the programme to complete the project has had to be extended. In common with the position across the highway construction industry, the project is experiencing exceptional inflationary pressures. The delays to delivery have left the project exposed to the full effects of the current inflationary crisis with the final scheme cost now forecast to exceed the funding available.
7. At the meeting on 29 September the County Council will be considering a recommendation from Cabinet to allocate an inflation underwrite for the current capital programme. This report will be published in advance of this date, but subject to the County Council agreeing the recommendation on 29 September, and to the Executive Lead Member's agreement to increase the project's value, an application will be made for £0.95million to support the inflationary pressures on the scheme.
8. To reflect the additional time required to deliver the project, the SLEP approved a request in July 2022 to extend the time allowed for completing Junction 6, until the end of December 2024.

### **Contextual information**

9. Fawley Waterside Ltd (FWL) has planning permission to transform the Fawley Power Station site into a thriving residential and commercial waterside community which becomes a destination for employment and leisure activity. The development is principally served by the A326 and at its southern end, by the B3053.
10. The route is heavily congested and a business case for grant funding to support the improvements to eight junctions along the A326 and B3053, was submitted to the SLEP by the County Council in conjunction with FWL. In June 2020, SLEP supported the project with a grant award of £5.7million, and with the condition that the project should be completed prior to September 2022. The eight junctions and the agreed improvements are as follows:
  - Junction 3 – Blackfield Road/Church Lane/B3053: Signalised junction proposed, including new crossing facilities;
  - Junction 4 – Long Lane/A326 – (Holbury Roundabout): Localised improvements to the existing roundabout (widening of approaches and exit lanes);
  - Junction 4b - A326/Holbury Drove: New southbound right-turn ghost island including new pedestrian crossing facilities;
  - Junction 4c -A326/Southbourne Avenue: New southbound right-turn ghost island;

- Junction 5 – Hardley Roundabout: Localised improvements to the existing roundabout (widening of approaches and exit lanes);
  - Junction 6 – Dibden Purlieu Roundabout: Localised improvements to the existing roundabout (widening of approaches and exit lanes);
  - Junction 7 – Applemore Roundabout (Sizer Way): Localised improvements to the existing roundabout (widening of approaches and exit lanes); and
  - Junction 8 – Dibden Roundabout: Localised improvements to the existing roundabout (widening of approaches and exit lanes) and new pedestrian crossing.
11. In March 2020, the Executive Member for Economy, Transport and Environment approved a Project Appraisal for the scheme to be delivered at an estimated cost of £8.1million, comprising LEP funding of £5.7million and FWL funding of £2.4million.
  12. In November 2020, the County Council entered into a Delivery Agreement with FWL, for the County Council to deliver the scheme. Further to this, and to offset emerging concerns of escalating costs within highway construction, a Deed of Variation to the Delivery Agreement was signed in July 2021. The variation made provision for FWL to support the scheme if required, with contingency funding of up to £3.1million.
  13. The Executive Member for Economy, Transport and Environment approved a Revised Project Appraisal in March 2021, increasing the value of the scheme from £8.1million to £10.45million to reflect final detailed costings and the additional financial support from FWL.
  14. FWL has committed to directly meet the cost of the scheme's £0.75million design fees, and this sits in addition to the Project Appraisal value and brings the total project funding to £11.2million.
  15. The County Council's contractor Milestone Infrastructure commenced construction works in June 2021, with the improvements to six junctions in two phases, as follows:
    - Phase 1: Junctions 4, 5 and 8; and
    - Phase 2: Junctions 3, 6 and 7.
  16. To assist efficiency and network coordination, improvements at Junction 4b and c are being delivered alongside the Transforming Cities Fund Work (Holbury to Eling cycle scheme) during 2022/3.
  17. In a bid to reduce costs, prior to the commencement of Phase 2 an application was made to the SLEP to remove the delivery of Junction 6 from the project. The application was declined, and completion of the full scheme is still required to meet the SLEP's grant funding terms. SLEP approval was received however, to extend the completion date for delivering the Junction 6 works to the end December 2024. These works have been removed from the second phase of

the County Council's current contracted improvements and will now be procured and delivered separately.

18. To reflect these changes a further Deed of Variation has been prepared between the County Council and FWL to vary the payment schedule and the delivery programme and is expected to be agreed before the decision day.
19. The revised second phase of works to construct Junctions 3 and 7 has now commenced with forecast completion in spring 2023.
20. To date, the County Council has not been required to provide funding to support the project. Despite efforts to reduce cost and directly absorb the scheme's inflationary increases, even with the full application of FWL's £3.1million contingency, the current budget is no longer judged sufficient. The scheme is not unique, and similar cost pressures are being encountered across the highway construction industry.
21. As such, and in the absence of other funding sources, a County Council contribution is now sought to help offset the unbudgeted cost of inflation, and to allow the project to be completed to realise the important capacity benefits on the A326 and B3053, and to meet the County Council's SLEP grant funding obligations.

### **Project constraints**

22. Common to the current position across the construction industry, the project has encountered significant inflationary and delivery cost pressures coupled with unforeseen habitat constraints, and amendments to accommodate comments from the public engagement, resulting in an extended delivery programme and a significant increase in the project's forecast outturn cost position.

### Inflation

23. The highway construction industry continues to experience volatility due to the effects of Covid pandemic, the impacts of Brexit, and the on-going war in Ukraine. Oil and gas prices are rapidly increasing, as are costs for critical materials including steel, iron and timber, with bituminous products also impacted.
24. Overall, the construction material price index rose 5% in March this year and is now almost 25% higher than 2021. This is driving higher tender prices ranging between 6% - 9% in 2022 with a further 2% - 7% forecast for 2023.
25. The project team has been working closely with the contractor to anticipate and where possible manage price and delivery pressures in the supply chain, and

the construction programme has also been reviewed and re-prioritised in order to help manage costs.

### Environment

26. A number of badger setts were discovered during vegetation clearance at Junction 6 Dibden Purlieu Roundabout. Mitigation and environmental licences necessary to ensure the protection and safety of the badgers during construction is causing delays. Survey work has also identified an invasive species of Japanese Knot Weed in areas around the Phase 2 works and additional time is required to treat and remove these plants before construction can commence.

### Covid 19

27. Although now reduced, the implementation of the scheme has taken longer than expected due to the productivity impacts of the Covid 19 pandemic.

### Material supply

28. Rapid expansion in demand for materials post the Covid pandemic, coupled with supply delays is leading to increased tender prices and extended delivery programmes.

### Cycling

29. An ongoing series of changes required to address the concerns of local cyclists have added to the time required to complete the junction designs and extended the programme for completing the project.

### **Revised project delivery**

30. To assist the availability of funding to meet the increase in project costs, along with the programme delays due to environmental constraints, it has been agreed with the SLEP to revise the project programme to delay the capacity improvements to Junction 6.
31. A reduced contracted programme for Phase 2 now includes the following works:
  - Junction 3 – B3053/Blackfield Road/Church Lane: Signalisation of junction including new crossing facilities; and
  - Junction 7 – A326 Applemore Roundabout: Localised improvements to the existing roundabout, widening of approaches and exit lanes.
32. Works to complete Junction 6 are still to be programmed but will likely follow completion of the second phase and take place during 2023 and 2024.

### **Finance**

33. Funding to support the 2021 estimated project cost of £11.2million was shared between the SLEP (£5.7million) and FWL (£5.5million), the latter including £0.75million of external design fees paid directly by Fawley Waterside. The current approved value in Hampshire County Council's capital programme is £10.45million.

34. As a result of inflationary pressures and the encountered constraints, the estimated cost to complete the scheme, including spend to date, is circa. £11.4million. This exceeds the available project budget of £10.45million and presents a funding shortfall of circa £0.95million.
35. Additional funding of £0.95million to support the unbudgeted cost of inflation will allow the project to be completed and will ensure the County Council meets its SLEP grant funding obligations.

### **Consultation and Equalities**

36. This report provides an update on scheme progress and funding. As such no further consultation has been undertaken and equalities impacts remain unchanged.

### **Climate Change Impact Assessment**

37. The climate change impacts of the scheme have been previously assessed. There are no expected additional impacts to report.

### **Conclusions**

38. The project is experiencing exceptional inflationary pressures, resulting in significant cost increases. These increases are exacerbated by unforeseen delivery and habitat constraints, which are extending the delivery programme and adding further cost pressures. Agreement has been reached to re-sequence the delivery to assist the availability of funding, but further financial support is still required. Corporate contingency funding to cover the unbudgeted costs inflation will greatly assist the project.

**REQUIRED CORPORATE AND LEGAL INFORMATION:**

**Links to the Strategic Plan**

<b>Hampshire maintains strong and sustainable economic growth and prosperity:</b>	yes
<b>People in Hampshire live safe, healthy and independent lives:</b>	yes
<b>People in Hampshire enjoy a rich and diverse environment:</b>	yes
<b>People in Hampshire enjoy being part of strong, inclusive communities:</b>	yes

**Other Significant Links**

<b>Links to previous Member decisions:</b>	
<u>Title</u> PA July 2020 / PA Update July 2021	<u>Date</u>
<b>Direct links to specific legislation or Government Directives</b>	
<u>Title</u>	<u>Date</u>

<b>Section 100 D - Local Government Act 1972 - background documents</b>	
<p>The following documents discuss facts or matters on which this report, or an important part of it, is based and have been relied upon to a material extent in the preparation of this report. (NB: the list excludes published works and any documents which disclose exempt or confidential information as defined in the Act.)</p>	
<u>Document</u>	<u>Location</u>
None	

## **EQUALITIES IMPACT ASSESSMENT:**

### **1. Equality Duty**

The County Council has a duty under Section 149 of the Equality Act 2010 ('the Act') to have due regard in the exercise of its functions to the need to:

- Eliminate discrimination, harassment and victimisation and any other conduct prohibited by or under the Act with regard to the protected characteristics as set out in section 4 of the Act (age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation);
- Advance equality of opportunity between persons who share a relevant protected characteristic within section 149(7) of the Act (age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex and sexual orientation) and those who do not share it;
- Foster good relations between persons who share a relevant protected characteristic within section 149(7) of the Act (see above) and persons who do not share it.

Due regard in this context involves having due regard in particular to:

- The need to remove or minimise disadvantages suffered by persons sharing a relevant characteristic connected to that characteristic;
- Take steps to meet the needs of persons sharing a relevant protected characteristic different from the needs of persons who do not share it;
- Encourage persons sharing a relevant protected characteristic to participate in public life or in any other activity which participation by such persons is disproportionately low.

### **2. Equalities Impact Assessment**

This report provides an update on scheme progress and funding. As such no further consultation has been undertaken and equalities impacts remain unchanged.