Appendix P - Optimism Bias

1.1. The programme of works has been developed by a full complement of technical, commercial and financial advisors. In addition to this, experienced staff within the Council and an independent 'critical friend' have been heavily involved in developing the scheme. The below highlights the team approach to the Project with regards to optimism bias.

1.2. It should also be noted that the programme has been developed over time and has been subject to many stages of development. A significant amount of work has been carried out to identify the project parameters and identify the key issues and risks.

1.3. Based on the below, we consider that there is sufficient confidence in how the scheme has been developed and that a suitable level of due diligence has been carried out. There is a proportional contingency and risk allowance built into the programme, through which Optimism Bias has been addressed.

Capex

- Capex costs have been developed by AECOM based on designs undertaken. AECOM's Quantity Surveyor team have priced the associated required work based on their experience and available market data
- This data has been crossed checked against the high-level capex plan generated by WEC (Critical friend to the Council). These figures are also based on the latest market data
- All capex costs have been reviewed by the wider team, with a capex reconciliation carried out
- Reconciliation between the two plans showed minor divergence, however these issues were all mitigated, and the capex plan was updated accordingly.
- The team have generated a full risk register, with pre and post mitigation scoring, and have assigned risk allowances. These risk allowances have been costed into the capex plan
- A further contingency of 10% has been added against all Capex items
- A 10% network routing length provision has also been added on to the Capex assumptions
- In addition to this (+10%/-10%) Capex sensitivity has been undertaken within this financial case to understand the robustness of the Project to variance in Capex assumptions

Opex

- Cost assumptions have been developed based on typical tender returns seen in the marketplace
- In addition, (+10%/-10%) Opex sensitivities have been undertaken within this financial case to understand the robustness of the Project to variance in Opex assumptions

Revenues

- Prices have been developed in accordance with the pricing strategy document found in the commercial case
- Wherever possible, the team have used build-out schedules provided by developers to feed into the performance of the scheme

- The scheme only includes sites in which LBH have a sufficient level of confidence. Therefore, there is a potential unrealised upside if these new developments can be connected to the network
- In addition, (+10%/-10%) variable heat revenues sensitivities have been undertaken within this financial case to understand the robustness of the Project to variance in variable heat revenues assumptions

Project Delays

- In life, capex will be spent to match building heat on dates, to align capital spend with development connections, thereby align capital expenditure with imminent revenue streams.
- In the majority of cases the developers will have their own back up heat generation, therefore mitigating against programmed connection delays