

**Committee Name and Date of Committee Meeting**

Delegated Officer Decision – 18 March 2024

**Report Title**

Revision to District Heating Pricing for 2024-25

**Is this a Key Decision and has it been included on the Forward Plan?**

No, but it has been included on the Forward Plan

**Strategic Director Approving Submission of the Report**

Ian Spicer, Strategic Director of Adult Care, Housing and Public Health

**Report Author(s)**

Paul Elliott, Head of Housing Income and Support Services

**Ward(s) Affected**

Thurcroft & Wickersley South, Boston Castle, Bramley & Ravenfield, Hellaby and Maltby West, Maltby East, Keppel, Greasbrough, Kilnhurst and Swinton East, Hooper, Brinsworth, Aston & Todwick, Aughton and Swallownest, Wickersley North, Rotherham West, Anston & Woodsetts, Dalton & Thrybergh

**Report Summary**

The purpose of the ODR is to approve revised pricing of District Heating for 2024-25 from 1 April 2024 given the significant reduction in the Ofgem price cap for April to June 2024. The price charged will be reduced to 12.86p per kwh. This will mean the average district heating bill is the same as an average gas bill under the Ofgem price cap.

**Recommendation**

1. Revise the unit price charged for District Heating from 1 April 2024 to 12.86 pence per kwh.
2. Note that further reductions may be necessary if the Ofgem price cap for subsequent quarters matches energy market forecasts.

**List of Appendices Included**

n/a

**Background Papers**

**HRA Business Plan, Rent Setting and Service Charges 2024-25**

**Consideration by any other Council Committee, Scrutiny or Advisory Panel**

**N/a**

**Council Approval Required**

**No**

**Exempt from the Press and Public**

**No**

## **1. Background**

- 1.1** Council approved a reduction in District Heating charges to 15.27p per kwh on 28 February 2024. This charging proposal was based on the Ofgem price cap and market forecasts in autumn 2023 when HRA Budget setting for 2024-25 was being undertaken.
- 1.2** The Council also approved that authority be delegated to the Assistant Director for Housing in conjunction with Cabinet Member for Housing and Assistant Director for Finance to amend District Heating pricing should there be a significant movement in the Ofgem price cap.
- 1.3** This briefing sets out the proposal to revise District Heating pricing for 2024-25 following a 12% reduction in Ofgem price cap for April – June 2024. It is the intention that the revised price would take effect on 1 April 2024 i.e. the price approved by Council on 28 February 2024 would no longer be implemented.

## **2. Key Issues**

- 2.1** There are currently 18 different schemes and approx. 1,260 properties which receive heat through the Council's District Heating programme.
- 2.2** During 2017/18 there was an extensive review of District Heating pricing to ensure that charges are fair and reasonable to all tenants. A revised schedule of charges was approved by the Council on 13th December 2017. Scheme charges remained unchanged until April 2022 when a tapered increase over 4 years was agreed.
- 2.3** In early 2023 the energy market saw unprecedented increases in prices for gas and electricity and this had a significant impact on the costs of operating the Council's District Heating scheme into 2023/24. In 2023/24 the deficit was cushioned by Energy Bill Discount Scheme income of c£1.2m which meant the service operated at a deficit of c£200k rather than £1.4m it would have if the Council had not received EBDS income. It is not yet known if this scheme will continue in 2024/25.
- 2.4** During 2023-24 the Council chose to match the Government's Energy Price guarantee so the average cost of a District Heating bill matched that of an average gas bill. As the cost of utilities reduced, the Government's energy price guarantee was no longer applicable as the Ofgem price cap was lower.
- 2.5** On 28 February 2024, Council agreed to a revised price of 15.27p per kwh and the delegation of powers to revise the price of District Heating should the Ofgem price cap change significantly in year.
- 2.6** On 23 February 2024, Ofgem announced a reduction in the price cap of 12% from April 2024. In addition, market forecasts by Cornwall Insights suggest the price will reduce further for Q2 and Q3 (July to September 24 and October to December 24) followed by a slight uplift in Q4 2025 (January to March).
- 2.7** The table provides an overview of different pricing options and the forecast deficit to the HRA of each option.

	Current 2024/25 Budget	Option 1	Option 2	Option 3	Comparison
<b>District Heating Options 2024/25</b>	Ofgem Cap (Jan-Mar24)	Low Cap	Average Cap	Ofgem Cap (Apr-Jun 24)	Full cost recovery (utilities only)
Unit rate (Inc VAT)	0.1527	0.1094	0.1166	0.1286	0.1783
Expenditure (Fuel only except full cost recovery)	1,701,105	1,543,203	1,543,203	1,543,203	1,543,203
Net Income	-1,348,466	-1,009,148	-1,064,984	-1,158,045	-1,543,393
Deficit	352,639	534,055	478,218	385,158	-191
<b>Pooled Schemes Weekly Prepayment Charge (inc VAT)</b>					
Bedsit	9.50	7.00	7.50	8.00	12.50
1 Bed	16.50	11.00	12.00	13.00	18.50
2 Bed	20.50	15.00	16.00	17.00	24.50
3/4 Bed	26.50	19.00	20.00	21.00	31.50
<b>Annual pre-payment charge (inc VAT)</b>					
Bedsit	503.50	371.00	397.50	424.00	662.50
1 Bed	874.50	583.00	636.00	689.00	980.50
2 Bed	1,086.50	795.00	848.00	901.00	1,298.50
3/4 Bed	1,404.50	1,007.00	1,060.00	1,113.00	1,669.50
<b>Annual average bill (inc VAT)</b>					
	<b>960</b>	<b>688</b>	<b>733</b>	<b>809</b>	<b>1,121</b>

### 3. Options Considered and Recommendation

- 3.1** Option 1 has been rejected as this was based a market forecast for Q3 2024-25 alone. This would mean the average District Heating bill would be less than the average gas bill under Ofgem price cap for Q1 2024-25. In addition, over the past two years, given market volatility forecasts several months in advance have been unreliable.
- 3.2** Option 2 has been rejected as this was based on an average of the Ofgem price cap for Q1 2024-25 and market forecasts for Q2-3 2024-25. This would mean the average District Heating bill would be less than the average gas bill under Ofgem price cap for Q1 2024-25. In addition, over the past two years, given market volatility forecasts several months in advance have been unreliable.
- 3.3** Option 3 is recommended as this is in accordance with the delegated authority. This means the average District Heating bill will match the average gas bill under the Ofgem price.
- 3.4** This will mean the HRA will be paying c£385k in 2024-25 towards the cost of District Heating, an increase of £32k against budget if the Ofgem price cap were to remain unchanged for the rest of 2024-25, which is highly unlikely given market forecast for a further reduction.
- 3.5** The forecast deficit is a worst case scenario and may reduce once the Council has an agreed the unit price for gas and electric. The working assumption for the cost of gas and electric is the highest cost per unit in the price range we have been provided by the Council's energy team. i.e. 6-7 pence per kwh for gas and 30-35 pence per kwh for electricity. If the actual cost of gas and electricity was at the lower end of the price range i.e. 6p per kwh for gas and 30p per kwh for electricity the deficit would be circa £175k less for the year at £210k which is less than the current approved budget deficit. Again this

assumes the Ofgem price cap does not change for the rest of 2024-25. It is therefore likely the deficit forecast will fluctuate based on any updated pricing proposed in subsequent quarters as the Ofgem price cap changes.

#### **4. Consultation on proposal**

**4.1** The Cabinet Member for Housing and Strategic Director of Finance and Customer Services have been consulted on this proposal.

#### **5. Timetable and Accountability for Implementing this Decision**

- 5.1**
- Officer Decision Record to DLT on 12 March 2024
  - Officer Decision taken – 18 March 2024
  - District heating prices amended in Rent management system
  - Letters advising revised pricing posted to tenants 19 March 2024
  - 1 April 2024 new charges take effect

#### **6. Financial and Procurement Advice and Implications**

**6.1** The financial implication of option 3 would result in an estimated £385k deficit during 2024/25. This deficit assumes no change in the Local Authority energy contract and is dependent on levels of customer consumption. Ofgem review and update the price cap level every three months. The levels for the next periods will be announced by:

24 May 2024 – period 1 July to 30 September 2024

27 August 2024 – period 1 October to 31 December 2024

25 November 2024 – period 1 January to 31 March 2025

**6.2** The effect of any further unit rate changes in year and their impact on the estimated deficit will be projected as part of the budget monitoring process.

#### **7. Legal Advice and Implications (to be written by Legal Officer on behalf of Assistant Director Legal Services)**

**7.1** Under section 24 of the Housing Act 1985 (the 1985 Act) the Council has a broad discretion in setting such reasonable charges as it may determine, and the Council must from time-to-time review such changes as circumstances may require. It is apparent from the contents of this report that the Council is complying with its duties in this regard.

**7.2** The duty to review and make changes is itself subject to the requirements for notice of a variation set out in Section 103 of the 1985 Act. Prior to serving a notice of variation a preliminary notice must be served which informs the tenant of the proposed variation and invites them to comment upon the proposal within a reasonable time frame. This should follow any Council decision following a delegated decision such as the one proposed by this report. We understand that the necessary notice will be given to tenants once this report has passed.

#### **8. Human Resources Advice and Implications**

**8.1** There are no HR implications.

#### **9. Implications for Children and Young People and Vulnerable Adults**

**9.1** There are no direct implications.

**10. Equalities and Human Rights Advice and Implications**

**10.1** There are no direct implications.

**11. Implications for CO2 Emissions and Climate Change**

**11.1** This report recommends decreases to the unit and prepayment charges for tenants on the Council's District Heating schemes and this may impact on their future energy usage

**12. Implications for Partners**

**12.1** There are no implications for partners.

**13. Risks and Mitigation**

**13.1** The greatest risks are any unexpected volatility in the energy market and an uncertain policy and regulatory context, including no visibility of what the Ofgem price cap will be during winter 2024-25.

**13.2** All budgets carry a certain level of risk in that unforeseen circumstances may arise, causing additional pressures on the level of resources applied.

**14. Accountable Officers**

Ian Spicer, Strategic Director for Adult Care, Housing and Public Health

*Report Author:*

Paul Elliott, Head of Housing Income and Support Services