

<h1>BRIEFING</h1>	TO:	Councillor Allen, Cabinet Member for Housing
	DATE:	12 June 2024
	LEAD OFFICER:	Paul Elliott Head of Housing Income and Support Services
	TITLE:	Revision to District Heating pricing for 2024-25 Quarter 2
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	Subsequently an Officer Decision Record to reduce the price of District Heating to 12.86 pence per kwh from 1 April 2024 was approved by the Assistant Director of Housing.	
1.4	This briefing sets out the proposal to revise District heating pricing for 2024-25 Quarter 2 following a 7% reduction in Ofgem price cap for July – September 2024. It is the intention that the revised price would take effect on 1 July 2024.	
2. Key Issues		
	District Heating Charges	
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.	

- 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 As the cost of utilities reduced, the Government's energy price guarantee was no longer applicable as the Ofgem price cap was lower.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. The Assistant Director of Housing therefore agreed via a Officer Decision Record to reduce the price of District Heating from 1 April 2024 to 12.86 pence per kwh to match the Ofgem price cap of an average gas bill.
- 2.7** The Ofgem price cap for the period 1 July to 30 September 2024 was announced on 24 May 2024. This will be 5.48 pence per kwh for gas and a daily standing charge of 31.41 pence meaning an average bill will be £754 per year. This is £55 less than the current average District heating bill.
- 2.8** The table provides an overview of different pricing options and the forecast deficit to the HRA of each option.

	2024/25 Budget	Apr-24	July 2024 - Option 1	Option 2
District Heating Options 2024/25	Ofgem Cap (Jan-Mar24)	Ofgem Cap (Apr-Jun 24)	Ofgem Cap (Jul-Sep 24)	Full cost recovery (utilities only)
Unit rate (Inc VAT)	0.1527	0.1286	0.1200	0.1499
Expenditure (Fuel only except full cost recovery)				
Expenditure (Fuel only except full cost recovery)	1,701,105	1,543,203	1,293,531	1,293,531
Net Income	-1,348,466	-1,158,045	-1,076,206	-1,293,531
Deficit	352,639	385,158	217,325	0
Pooled Schemes Weekly Prepayment Charge (inc VAT)				
Bedsit	9.50	8.00	7.00	8.50
1 Bed	16.50	13.00	12.00	14.50
2 Bed	20.50	17.00	16.00	18.50
3/4 Bed	26.50	21.00	20.00	24.50
Annual pre-payment charge (inc VAT)				
Bedsit	503.50	424.00	384.00	450.50
1 Bed	874.50	689.00	649.00	768.50
2 Bed	1,086.50	901.00	861.00	980.50
3/4 Bed	1,404.50	1,113.00	1,073.00	1,298.50
Annual average bill (inc VAT)				
Annual average bill (inc VAT)	960	809	754	931

- 2.9** In line with the delegated authority, Option 1 is recommended. This means the average District Heating bill will match the average gas bill under the Ofgem price.
- 2.10** This will mean the HRA will be paying c£217k in 2024-25 towards the cost of District Heating. This is a reduction of £135k against approved budget mainly a result of lower utility costs incurred by the Council following renewal of energy contracts. The original

	<p>working assumption for the cost of gas and electric was the highest cost per unit in the price range we had 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. The actual price agreed for 2024-25 is 5.65 pence per kwh for gas and 28.57 pence per kwh for electricity (note these are a rolled up rate factoring in standing charges).</p>
2.11	<p>Given the current inefficiency in the District heating network the Council's recommended approach is to continue to allow this deficit balance to be picked up by the wider HRA as tenants with District heating have no choice of provider for heat and hot water which other tenants do.</p>
2.12	<p>This budget position is likely to change throughout the year as it is anticipated the Ofgem price cap will change again in October 2024. In line with the delegated authority if there is a further significant reduction in the Ofgem price cap during the period October 2024 to March 2025 further adjustments to pricing will be made.</p>
	<p>Other Options</p>
2.13	<p>Option 2 has been rejected as this was based on full cost recovery meaning District heating customers would be paying above the Ofgem price cap due to inefficiencies in the District heating distribution networks. An investment strategy to address inefficiencies with the network is currently being developed by the Asset management team for end of 2024-25.</p>
<p>3. Key Actions and Timelines</p>	
3.1	<ul style="list-style-type: none"> • Officer Decision Record to DLT on 18 June 2024 • Officer Decision taken – 18 June 2024 • District heating prices amended in Rent management system • Letters advising revised pricing posted to tenants 21 June 2024 • 1 July 2024 new charges take effect
<p>4. Recommendations</p>	
4.1	<p>To note the intention to reduce district heating pricing to 12 pence per kwh from 1 July 2024.</p>