

SLOUGH BOROUGH COUNCIL

REPORT TO: Cabinet - Urgency procedure - Leader's Action

DATE: 27th July 2022

SUBJECT: Corporate Energy Purchase Contracts
(August 2022 – March 2025)

CHIEF OFFICER: Richard West

CONTACT OFFICER: Jason Newman/Savio DeCruz

WARD(S): All

PORTFOLIO: Cllr James Swindlehurst

KEY DECISION: Yes

EXEMPT: No

**DECISION SUBJECT TO CALL
IN:** No

APPENDICES

A: Appendix A - RMS - Power and Gas 2022-25_Strategy

1 Summary and Recommendations

This report outlines the extraordinary state of the wholesale energy market, and the options for purchasing energy volume under our two new commercial contracts:

- Corona Gas (commercial gas contract)
- EDF electricity (commercial electricity contract)

The report recommends the approval of a new risk management strategy (RMS) to 'purchase in advance' all our commercial energy volume for the remainder of 2022/23. This strategy is following the Council's brokers advice to limit our significant exposure to ever increasing Winter wholesale energy prices. Following this decision, the strategy will be to then review the market for financial years 2023/24 and 2024/25 based on energy volume and price.

The change in approach has come through the commodity market being extremely volatile following the war in Ukraine and with no certainty over what will happen next in the market. Officers are recommending that with this approval, the mitigation plan to reduce energy consumption is also adopted to further reduce the impact on the budget.

Officers have had discussions with the three PFI schools to notify them of the proposed decision. The expectation is that the schools will remain with the Council for 22/23 but either way the Council's general fund will not be exposed to their decision.

Recommendations:

Cabinet is recommended to:

1.1

- i. Approve a change to the purchasing strategy to manage the risk of price volatility;
- ii. Note that a report will be presented to Cabinet in Autumn 2022 on an energy volume reduction strategy.

Commissioner Review

“Commissioners are happy to support the report.”

2 Report

2.1 Energy Contracts

- 2.2 Slough Borough Council procured 7 new energy contracts in early April 2022. The 7 contracts covered housing, PFI schools, corporate assets and highways assets (Street lighting). These contracts have allowed the Council to still spot purchase to reduce some of the exposure to the Council.
- 2.3 The Non-Half Hourly (NHH) Commercial, NHH Housing, Gas Housing, Half Hourly (HH) Housing and Unmetered Service (UMS) portfolios have been locked in to fixed priced contracts. The Unit rates and standing charges are fixed for full contract duration. Only HMRC taxes CCL & VAT are passed through at cost.
- 2.4 The exposure to the General Fund for all contracts HH, NHH, Commercial and Unmetered Supplies is forecast at £3.4m. A further £1.4m is to be recharged to the PFI schools and £1.2m to social housing.
- 2.5 The General Fund base budget for energy in 2022/23 financial year is £2.4m. The on-going fluctuation in the market now means that there is an in-year pressure of £1m.
- 2.6 To further limit the exposure to all funds, officers are now recommending with advice from the Council’s brokers eEnergy, that the remaining energy is purchased for August 2022 to the end of the financial year.
- 2.6 Once the energy price has been fixed there are proposals to reduce consumption across our street lighting, through changing street lighting lux levels, and NHH commercial assets (through asset disposal).

Energy Contracts and Stakeholders

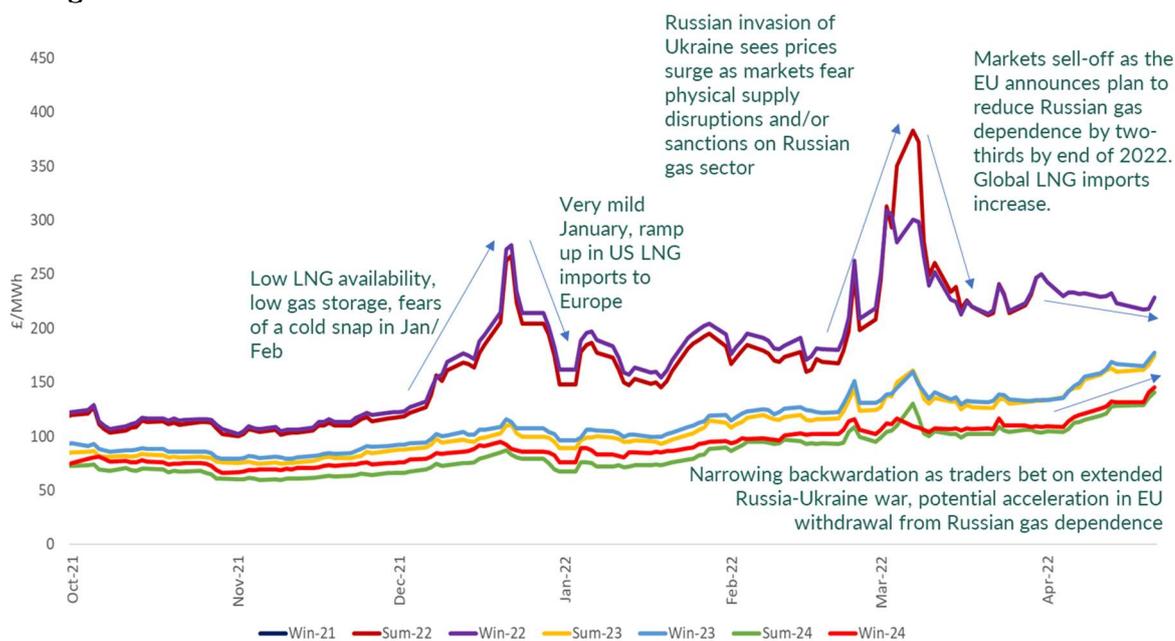
- 2.19 In summary we have awarded new energy supply contracts across our wide asset portfolio and have some legacy issues and costs still to resolve from our previous suppliers. Table 5 summaries the energy contracts, key stakeholders, and forecast energy in contract costs for 22/23.

2.20 Table 5 Slough Energy Contracts, forecast costs, and Stakeholders

Contract & Type	Forecast Consumption 22/23 (kWh)	Forecast Spend 22/23 (£000)
Housing – HRA Funded		
HH Housing (Fixed)	95,400	47
NHH Housing (Fixed)	1,382,232	754
Gas Housing (Fixed)	2,992,981	410
Total		1,211
PFI Schools		
Gas Commercial (Flex)	4,265,293	635
HH (Flex)	1,847,448	777
Total		1,412
General Fund		
Unmetered supplies (Fixed)	2,657,814	887
NHH Commercial (Fixed)	740,250	275
Gas Commercial (Flex)	4,353,995	668
HH (Flex)	3,492,923	1,528
Total		3,358
Total Energy cost		5,981

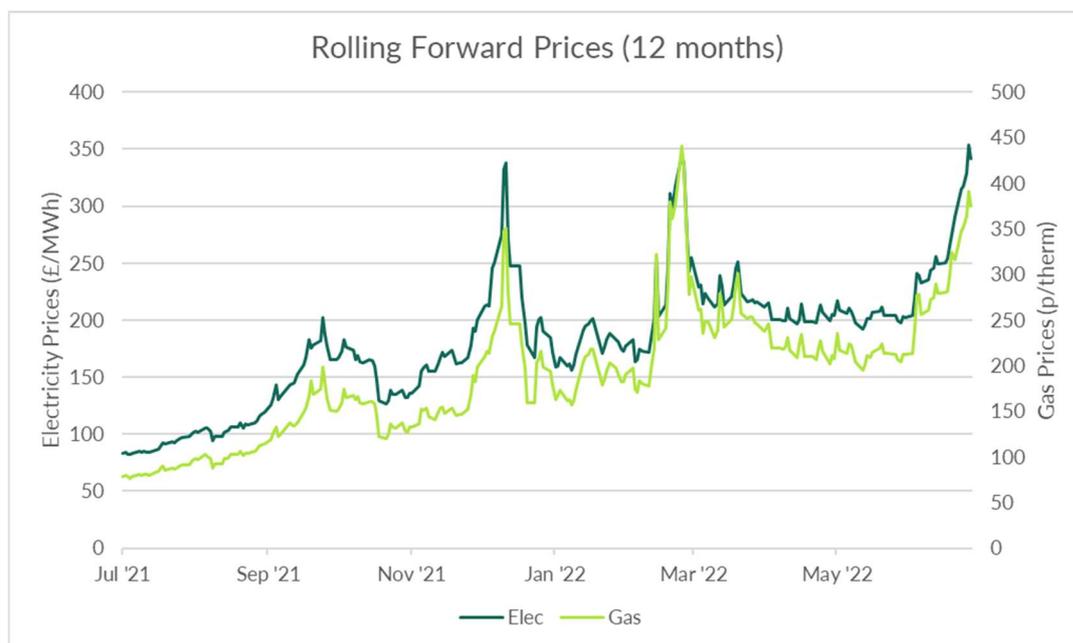
Market Prices and volatility

2.21 The graph overleaf clearly illustrates the significant instability and peaking of the energy markets over the past 6 months and the impact on the current and forward season pricing.



2.23 UK wholesale power prices are now a multiple of the long-term average (£53/MWh = 5.3p/kWh). In February 2021 we procured energy on a fixed price 1 year contract at approx. wholesale rate of £50/MWh and 55p/therm. In 2021/22 the Council spent approx. £2.1m on energy across its entire portfolio. We are now buying our energy at around £200/MWh and 150p/therm (average cost over April, May, June and July).

2.24 The 17 January '22 cabinet report referenced the wholesale price increase in gas and electricity during December 21, at the time considered the biggest hike in 20 years, an unprecedented event and forecast Slough energy spend to increase to £3.5m across its entire portfolio for 2022/23. Following the Russian invasion of Ukraine in February this has led to an even larger peak and as a result the market forecast is now £6m in 2022/23 for the entire portfolio.



Risk Management Strategy - Purchase Options

2.29 We have three purchase options outlined by our brokers (eEnergy) and a recommendation as outlined in Appendix A within the Risk Management Strategy.

- a) 'Purchase in Advance' is where 100% of the next 12 months of commodity requirement is purchased, 12 months ahead of delivery. eEnergy are advising we adopt this strategy to purchase the remaining volume for the next 8 months (22/23) to avoid potential for increasing winter prices (**recommended**).
- b) 'Purchase within period' this is where we purchase a percentage of the future commodity requirement ahead of delivery and purchase the remainder on time-based triggers, as well as setting price sensitive caps. This is the approach eEnergy initially recommended we adopt but given the escalating forward winter price costs, **this approach is not recommended for 22/23 purchases**. Officers will continue to review the market for 23/24 and 24/25.

- c) 'Purchase Opportunistically' this relates to purchasing the commodity requirement much closer to the day of delivery. This approach is also based on time-based triggers usually a month or quarter ahead of delivery, it can also incorporate price caps. This approach is high risk but when the markets are stable and prices are trending down offers significant potential for reducing energy costs. As there is a clear upward trend coming into Winter it is **not recommended** to continue with opportunistic purchase at this time.

3. Financial implications

- 3.1 The general fund budget for 2022/23 is £2.4m. A forecast of pressures for the next two financial years related to energy consumption and price fluctuations have also been identified and these will be reviewed in light of the asset disposal programme and the mitigation package.
- 3.2 As a result of further fluctuations in the market the budget needs to increase by £1m to £3.4m to manage the increased in-year pressure.
- 3.3 The Energy budget for the three PFI schools is £290k, this needs to increase by £1.122m to £1.412m and the HRA energy budget is £345k, this budget needs to increase by £866k to £1.211m. These costs will be passed on to the relevant areas and will not form part of the general fund pressures.
- 3.4 This report is designed to minimise cost overspend against budget and as the Council has no accounts since 2017/18 and thus no stable baseline, it is £307m overdrawn to 31/3/23 and cannot yet reasonably show it can balance in isolation 2022/23 it is not possible to undertake a meaningful virement. This proposal is designed to achieve cost overspend minimisation as opposed to what it would cost if the Council does not do this thus the recommendations are made

4. Legal implications

- 4.1 Under section 2.11 (Urgency procedure - Leader's Action) of Part 4.4 (Executive Procedure Rules) of the Council's Constitution, when an urgent decision needs to be taken in circumstances where to wait until the next scheduled meeting of the Executive would be prejudicial to the best interests of the Council, then;
- The Leader (or in his absence, the Deputy Leader) may, after consultation with the relevant Lead Member, take the decision.
 - Before taking a Key Decision, the Leader (or Deputy Leader) must first consider whether the importance of the matter warrants the calling of a special meeting of the Executive.
 - The decision must be taken in a way that fully complies with the Access to Information Rules and in particular, if relevant, with the rules relating to "key decisions".

- A copy of the minutes of the decision must be published within two clear working days of the decision and published on the Council's website with electronic notification given.
- It should be noted that where a decision is deemed to be urgent, and where the Access to Information Procedure Rules has been followed, that decision will not be subject to the call-in procedure provided the Chair of Overview and Scrutiny Committee agrees.

5. Risk management implications

5.1 Risks

The risk of energy procurement and forecasted increase in energy prices for 2022/23 have been identified on the directorate risk register.

There are several key risks relating to this corporate energy procurement strategy

Risk	Rating	Mitigation	Residual Risk
Further increases in the market	Very High	Adopt a cost avoidance based corporate procurement strategy to mitigate the risk – there will be a residual risk and pressure on revenue budgets	High
Monthly price goes down	High	Asset Disposal Strategy will be essential in mitigating this risk further by reducing the council corporate asset base and hence revenue costs, including energy costs. This will not reduce the impact of the monthly price but will lessen the burden on the budget.	Low

6. Environmental implications

- 6.1 The council is unlikely to be able to purchase all of its green energy without some form of additional tariff, and under the financial directives this is unlikely to be considered essential expenditure. As such the impact on our carbon emissions are likely to increase initially through the procurement of new energy contracts. The disposal of assets will result in a reduction in energy consumption which in turn will reduce the Council's carbon

emissions over the period of the contract. This can be quantified through an energy and carbon audit.

7. Equality implications

7.1 There are no impacts on any group as a result of this decision from the general fund perspective. However, the wider impact on tenants in social housing (HRA) will be felt. This is not a service change impact but the market dictating the financial implications whereby the Council is not able to mitigate against the rising costs. The Council buying energy for social housing tenants is the most cost-effective way to limit fees charges and bulk buying powers.

8. Procurement implications

8.1 The Council has adhered to its Contract Procedure Rules and the Public Contracts Regulations by submitting and obtaining procurement approval for the Gas and Electricity contracts.

9. Workforce implications

9.1 There are no workforce implications relating to this report.

10. Property implications

10.1 There are no direct property implications relating to this report, but the procurement strategy does align with the asset disposal strategy to maximise cost avoidance.

11. Background Papers

None