

SLOUGH BOROUGH COUNCIL

REPORT TO: Cabinet

DATE: 16th December 2024

SUBJECT: Energy Contracts (25/26)

CHIEF OFFICER: Pat Hayes, Executive Director Regeneration, Housing and Environment

CONTACT OFFICER: Jason Newman, Group Manager Carbon & Sustainability

WARD(S): All

PORTFOLIO: Cllr Chahal, Deputy Leader of the Council and Lead Member for Finance, Council Assets and Transformation

KEY DECISION: Yes

EXEMPT: No

DECISION SUBJECT TO CALL IN: Yes

APPENDICES:

- A:** Equity Energies SBC Budget Service and Update Report
- B:** Equity Energies SBC Meter Capacity Review
- C:** Gas & Electricity Risk Management Strategy 25/26
- D:** Flex Commercial Half Hourly Energy Contracts (Estimated Costs 24/25 – 27/28)
- E:** Flex Commercial Gas Energy Contracts (Estimated Costs 24/25 – 27/28)
- F:** Fixed Street Lighting and TV ariels Energy Contracts (Estimated Costs 24/25 – 27/28)
- G:** Fixed Commercial Non-Half Hourly Energy Contracts (Estimated Costs 24/25 - 27/28)
- H:** Fixed Housing Non-Half Hourly Energy Contracts (Estimated Costs 24/25 – 27/28)
- I:** Fixed Housing Gas (Estimated Costs 24/25 – 27/28)
- J:** Fixed HH Energy Contract (Estimated Costs 24/25 – 27/28)

1 Summary and Recommendations

The wholesale energy markets are relatively stable after a period of significant volatility with price fluctuations following the invasion of Ukraine in February 2022. The wholesale cost of energy (25/26) has reduced very slightly around 10% over the past 12 months. Gas prices are now starting to creep up over the Winter 24 period as demand increases. The Council is in final year of its **flex** and **fixed** rate energy contracts; these will all expire on 31st March 2025.

To limit the Council's exposure to potential future energy price fluctuations during 25/26, and to avoid '**out of contract**' rates being applied by our suppliers for '**lapsed energy contracts**'

and also to provide opportunity to obtain market value in 25/26, Cabinet is requested to delegate authority to the Executive Director of Regeneration, Housing and Environment in consultation with the Executive Director of Finance and Commercial (the S151 officer) and the Lead Member for Finance, Council Assets and Transformation to purchase energy below an approved **cap price**.

Cabinet is also recommended to approve the procurement of new energy contracts to start on 1st April 2025 for a period of 1-year. Cabinet is requested to approve the extension of the Councils existing energy procurement service contract with Equity Energies Limited (Equity) for the maximum period allowed (1 year). Equity will tender for our new energy supply contracts using the OJEU compliant Gwynedd Energy Procurement Services (Dynamic Purchase System) (DPS). It is also proposed that energy procurement and management will move under the Corporate Landlord (Property Services) and a longer-term energy strategy will be developed for Cabinet to approve next year.

1 Recommendations:

1.1 Cabinet is recommended to:

- i. Approve the extension of the energy procurement contract with Equity Energies Limited for the maximum period of 1 year (1st April 2025 to 31st March 2026) to continue to provide energy procurement services to the Council.
- ii. Approve the procurement of new fixed and flex energy supply contracts using the OJEU compliant Gwynedd Dynamic Purchase System (DPS) at a maximum value of £3.453 million (exclusive of VAT) for the 2025/26 period.
- iii. Approve the Gas & Electricity Risk Management Strategy for the Flex energy supply contracts as follows:
 - a. Approve the purchase of electricity on a 'month ahead' basis and gas on a 'day ahead' basis on the open 'wholesale energy market spot price'.
 - b. Set wholesale energy market price caps for power for the summer 25 period (April 25 to September 25) to £97/MWh and the winter 25 (October 24 to March 26) to £102/MWh.
 - c. Set wholesale energy market price caps for gas for the summer 25 period (April 25 to September 25) to £43/MWh and the winter 25 (October 25 to March 26) to £42/MWh.
- iv. If the wholesale energy markets price exceeds or is likely to exceed the maximum value cap contained in Recommendation 1.1 (iii) then Cabinet delegates authority to the Executive Director of Regeneration, Housing and Environment, in consultation with the Executive Director of Finance and Commercial (the S151 officer) and the Lead Member for Finance, Council Assets and Transformation to purchase energy in a manner which will seek to limit further cost exposure.
- v. **Delegate authority** to the Executive Director of Regeneration, Housing and Environment, in consultation with the Executive Director of Finance and Commercial (the S151 officer) and the Lead Member for Finance, Council Assets and Transformation to procure energy contracts and purchase energy in line with the Gas & Electricity Risk Management Strategy.

- vi. Delegate authority to the Executive Director of Regeneration, Housing and Environment, in consultation with the Executive Director of Finance and Commercial (the S151 officer) and the Lead Member for Finance, Council Assets and Transformation, to award contract(s) to successful bidder(s) subject to the bid(s) as a total being no more than the maximum value specified in Recommendation 1.1 (ii).

Reason: To achieve the best value for energy costs and maintain budgetary control.

Commissioner Review

"The commissioners are content with the recommendations in this report, recognising that there remains risk associated with the proposed contracting arrangements which cannot be fully mitigated. Energy prices reflect the live market and price evolution in the spot market can be very volatile. How prices will change in the future cannot be guaranteed and prices could continue to vary dramatically for as long as global market conditions remain so unpredictable, requiring sufficient budget contingencies to be in place."

2 Report

Purchasing Strategy Options Flex Contracts, HH and Gas:

- 2.1 The Council intends to retender its housing energy contracts and streetlighting contracts on a 1-year fixed term providing an agreed fixed day and night tariff. This will ensure energy costs are not impacted by energy market price fluctuations in year, and we pay for the energy we consume and recharge our tenants on that basis.
- 2.2 The Council intends to buy operational HH and Gas contracts on a flex basis, as flex contracts provide opportunity to develop a risk management strategy for trading volume - gas on day ahead/power on month ahead basis to extract extra value from the market. Additionally, flex contract allows for significant changes in volume commitment without attracting penalties, i.e., volume tolerance up to 20% for our HH contracts and unlimited for our gas contracts. This is important if we intend to lease, sell or close/partially close any of our council sites during the year to save money.
- 2.3 Three options have been considered for our Flex Contracts:
 - **'Do nothing no strategy'** and allow the market to dictate unit price. Energy is procured via the DPS for a flex contract, if the Council does not buy it in advance, the product will revert to **'default'** purchasing, the supplier will purchase the energy on the market the day before delivery for gas and a month before delivery for electricity. The Council allows the market to dictate cost of energy which may be lower or higher at the time of purchase each day/month. No price caps or floor price points are proposed. This option means the unit price of gas and electricity changes in line with wholesale prices, with only the non-commodity costs remaining fixed. This option allows the Council to maximise value from the market and is beneficial when the energy markets are stable, and prices are trending downwards. This option does present the highest risk as it exposes the Council to sudden increases in market price due the matters outside its control, i.e., geopolitical

events, outages on supply and seasonal demand for gas and power due to weather. **This option is not recommended it is considered too risky and provides no budget certainty.**

- Option 2 – **‘Purchase all energy volume in advance’** for the 2025/26. This option is worth considering if the energy market prices are favourable at the time of tender and well below a **pre-approved floor price**, as was the case for our 23/24 strategy. The cost of energy is dependent on the energy market price at the time of trading, if it is high, the Council will pay more for its energy. A comparison on the past year’s energy prices would suggest buying energy early **below an agreed floor price** would have been beneficial for our winter trades but not for summer trades as the prices continued to fall, and therefore additional value was not obtained, although this approach does provide budget certainty it does not maximise value on the ‘supply side.’ **This option is not recommended for our 25/26 purchases as energy wholesale prices have continued to fall on average more than 10% over the past 12 months and if this trend continues it will not maximise value in 25/26.**
- **Option 3 – ‘Purchase 25/26 energy using a cap price (stop/loss) strategy’**, Stop loss is a trigger point that is set within a Risk Management Strategy that instructs our energy traders, Equity, to buy a predetermined volume should the Gas or Power market trigger point be exceeded. This approach allows the trader to secure the Council ‘summer 25’ and ‘winter 25’ volume following Cabinet approval, at below the trigger point, based on purchasing gas a ‘day ahead’ and power a ‘month ahead’ at the market price within that period i.e., at the **‘default’** spot price basis, but only subject to the wholesale price remaining below the (stop/loss trigger) for summer and winter volume as outlined in the Gas & Electricity Risk Management Strategy (RMS) (Appendix C). This approach was adopted for our 24/25 strategy and the cap was breached for gas in April 24 which led to us buying out winter gas. We only bought out 50% of our winter power where we have seen more stability. The rest of the trades have continued day/month ahead basis. This approach is forecast to save us more than **£150k** in energy costs when compared to our 23/24 strategy and costs. The risk with this option relates to any sudden increases in wholesale energy price that could mean the stop-loss trigger is breached and the broker executes the trade at a higher price above the trigger level and thus presenting higher energy cost to the Council. To mitigate this risk the energy market is constantly monitored, and the broker will inform the Council in advance, if the trigger point is likely to be breached. **This option is recommended as it maximises value but also sets a cap to mitigate against significant energy market price rises and provides budget certainty based on that cap price.**

2.4 Option 3 is based on achieving value when the wholesale market is stable, and prices remain well below the stop-loss trigger but also protection if energy wholesale prices do suddenly increase. If the wholesale energy price increases such that the trigger is **likely to be breached**, then Cabinet approves the Executive Director of Regeneration, Housing and Environment to purchase energy in line with the Gas & Electricity Risk Management Strategy.

2.5 Once a season starts, the Stop Loss Trigger for the season will cascade to quarters and months if necessary. The broker monitors the wholesale prices hourly, if the price starts to climb and move towards a pre-trigger point, they will inform the Council to proceed to buying out the remaining volume, before the trigger is breached. This option is recommended as it provides value in buying at wholesale price below the cap price. This approach can save money for the Council if the market prices remain low or drops further; energy prices are currently below the trigger level proposed. It ensures that we meet best value within our contracts but also provide a sufficient buffer to prevent escalating energy costs.

Slough Borough Council Energy Contracts

2.6 Slough Borough Council (SBC) procured 8 new energy contracts in early April and May 2022 to cover its operational, highway and housing assets. All contracts expire on 31st March 2025. The energy supply contracts are outlined in the Table 1.

Table 1: SBC Energy Contracts (expire on 31st March 2025)

Energy Contract Type	Assets Covered	Contract Term	Current Energy Supplier
Fixed		All contracts expire on 31st March 2025	
Non half hourly (NHH) Commercial Contract	Small corporate operational assets, parks and allotments, EV (Electric Vehicle) chargers and Air quality stations etc...	3 years	SSE
Non half hourly (NHH) Housing Contract	Communal lighting for housing blocks and amenity lighting on housing estates	3 years (3 x 12-month contracts)	SSE
Half-Hourly (HH) Housing Contract	Pendeen Court, Brook House	1 year (annual renewal)	Centrica
Gas (Housing)	Housing communal heating of housing blocks	1 year (annual renewal)	EDF
Unmetered Supply (UMS) Housing	TV Aerials on housing land	3 years	EDF
Unmetered Supply (UMS) Contract	Street Lighting, Traffic lights, CCTV, bollards	3 years	EDF
Flexible			
Half-Hourly (HH) Commercial Contract	Operational assets, OH, Depot, Crematorium, Curve, Chalvey Hub, Plymouth Road Industrial units, car parks etc...	3 years	EDF
Gas Commercial Contract	Operational assets, OH, Depot, Crematorium, Curve, Chalvey Hub, Children Centres and community centres etc.	3 years	Corona

Equity Energies Limited – Energy Procurement Service Contract

- 2.7 It is proposed to extend our existing energy procurement service contract with Equity Energies Limited (formally eEnergy Management Limited) for a maximum 'allowed period' of 1 year (1st April 2025 to 31st March 2026) to continue to provide energy procurement services to the Council. Equity currently manages over 500 meters across the Council portfolio. We need to extend the Equity contract before **31st December 2024** to meet the terms of the contract, at least 3 months' notice is required.
- 2.8 Equity will reprocure our energy supply contracts using the OJEU compliant Gwynedd DPS. Equity will develop a Risk Management Strategy for our Flex contracts and will provide us brokering services to undertake trades. Equity will provide our bill validation services, maintain our meter database, and provide us an online energy portal with energy cost and consumption reporting. These services are included within the commission rates Equity earns from the supplier for setting up the energy supply contract. There is no additional direct cost to the Council.
- 2.9 Equity also offers the Council other energy services, but these incur direct costs including charges for Meter installations and disconnections, Gas connection applications, Display Energy Certificates (DECs) and Meter Operator Contracts. These costs are specified in the cost schedules within contract. Equity also offers net zero services these are separately costed through a detailed business case based on invest to save model. To date the Council has not paid any direct fees to Equity however they gain their income from commission.
- 2.10 Equity Energies Budget Service and Update report (Appendix A) contains:
- Budget analysis overview of our existing portfolio
 - Service Updates (these include the details of the current contract provision)
 - Additional Services they can provide
- 2.11 The budget analysis applies a conservative **10% uplift buffer in energy costs for (25/26, 26/27, 27/28)** to take account of market fluctuation and it is also assuming, based on industry intelligence, that the **non-commodity pricing average increase per year of 5%**. It is assuming there will be no change to the volume commitment each year so estimated energy costs can be compared on a like for like basis each year. It is clear from the report that forward pricing is **stabilising** and the cost of energy from the 'supply side' is similar over the next 3 years (see Table 2).
- 2.12 Essentially, there is not as much value in the forward market (26/27 and 27/28) in terms of looking at procuring longer term energy contracts. We will see our biggest savings on contract renewals next year 25/26, but the energy savings on the 'supply side' in future years will be significantly less unless there is significant fall in market prices. The focus on reducing the Councils energy costs moving forwards will be on consumption reduction (volume) kWh through:
- Asset disposals in accordance with the developing asset strategy

- Optimisation of assets, ensuring we manage our energy demand and use smart technology to monitor and switch off equipment.
- Retrofit – Installing energy conservation measures across our buildings, housing estate and street lighting.

Table 2 Estimated Energy Cost Profile (Slough Borough Council portfolio)

Energy Contract	24/25	25/26	26/27	27/28
SBC commercial – Operational Assets (General Fund)				
Gas Commercial	£267,311	£262,839	£265,754	£255,881
HH Commercial	£1,307,257	£1,031,659	£1,027,183	£1,018,055
NHH Commercial	£237,999	£190,767	£189,973	£188,305
Total Commercial	£1,812,567	£ 1,485,265	£ 1,482,910	£ 1,462,241
SBC Street Lighting, Traffic Lights and illuminated signs (General Fund)				
UMS	£909,278	£573,049	£570,024	£563,348
SBC Housing Estate and Assets (Housing Revenue Account)				
Gas Housing	£166,071	£200,971	£188,623	£182,241
HH Housing*	£31,184	£7,519	£7,501	£7,477
NHH Housing	£682,604	£632,988	£630,912	£626,792
TVamps Housing	£1,258	£812	£808	£800
Total Housing	£881,117	£842,290	£827,844	£817,310
Overall Total	£3,602,962	£2,900,604	£2,880,778	£2,842,899

- *1-29 Pendeen Court will be moving from HH Housing to HH Commercial from 1st April 2025

- 2.13 Equity have analysed our sites with high meter capacity above 150kVa and note that we are currently using 40% or less of the meter capacity, reducing our larger meter capacity can offer additional savings greater than **£18,000** on meter charges, but this is subject to the Council not requiring additional spare capacity in the future. This proposal will be considered from an operational need as part of the Asset Strategy (Appendix B).
- 2.14 Equity have developed our risk management strategy (Appendix C) for our commercial HH and gas accounts in 2025/26. The strategy objective it to ensure we obtain value from the energy market through trading day ahead for gas and month ahead for power, it offers a risk/reward approach to trading. It safeguards us by setting a stop-loss cap on the maximum energy trade price we will buy our volume.

Proposed Fixed Energy Contracts (1 year)

- 2.15 All our fixed term contracts are due for renewal on 1st April 2025. It is proposed to retender our six fixed term contracts on fixed unit price and term (1 year). The unit rates and standing charges are fixed each year for the full term. HMRC taxes Climate Change Levy (CCL) & VAT are passed through at cost. As the unit price is fixed the cost of energy is dictated **by energy consumption**, thus measures to reduce energy consumption will reduce the cost of energy and the reverse is true.

2.16 **Table 3 below** illustrates the actual costs for our existing fixed contracts for 22/23, 23/24, the actual to date/forecast cost for 24/25, and estimated cost for a one-year renewal in 25/26 based table 2 cost forecasts.

2.17 There are energy cost savings forecast for 24/25 vs 23/24 of **£211k**.

The savings have been achieved through:

- Procurement of annual Gas Housing contracts for 24/25;
- Reduced unit costs for our existing NHH housing energy contract;
- Recalibration of the consumption for the NHH housing energy contract
- Adaptive lighting trials on the UMS street lighting contract.

2.18 The estimated costs for 25/26 are significantly lower than those forecast for 24/25 just over **£400k** most of these savings are based on contract renewal of our street lighting contract. They need to be treated with caution because they are based on the contract renewal price on 16th October 2024 plus a 10% buffer.

Table 3 SBC Fixed Contract Energy costs (Actuals and Estimates)

Fixed Energy Contracts	Contract renewal Energy Cost Estimate 25/26	Actual/Forecast Annual Cost of Energy 24/25	Actual Cost of Energy 23/24	Actual Cost of Energy 22/23
	£000s	£000s	£000s	£000s
Non half hourly (NHH) Commercial Contract	191	238	271	244
Non half hourly (NHH) Housing Contract	633	683	758	753
Half-Hourly (HH) (Housing) Contract	8	31	30	46
Gas (Housing) Contract	200	166	218	329
Unmetered Supply (UMS) (Housing -TV amps) Contract	1	1	1	1
(UMS) Street Lighting Contract	573	909	961*	947
Total Fixed Energy Contract Costs	1,606	2,028	2,239	2,320

* the slight increase in street lighting costs for 23/24 against 22/23 is due to the Government Energy Bill Relief Scheme discount scheme applied between October and 22 and March 23 which resulted in £19,000 discount on the final energy bills for street lighting in 22/23.

Proposed Flexible Energy Contracts (25/26)

- 2.19 The two-flex energy contracts cover gas and HH supplies for 60 Council operational assets until 24/25 and for our 3 PFI schools in 22/23. The PFI schools left the contract on 31st March 2023. These contracts also expire on 31st March 2025. These two contracts allow the Council to purchase its energy volume in advance of supply, and over various forward periods (i.e., day ahead, month ahead, season ahead, year ahead) to attempt to extract value from the energy market. In addition, flexible contracts also allow the Council to readjust volume, within agreed tolerances, thus allowing the removal and/or addition of assets to the contract.
- 2.20 The risk with flexible energy contracts, are that they do not fix out the **unit rate p/kWh** the customer pays for their gas and power; this unit rate changes monthly in line with the wholesale market cost of power and gas that have been purchased in advance plus the fixed costs built into the supply contract (metering and standing charges). Meter and standing charges are due to increase in 25/26 by at least 5%.
- 2.21 The actual cost of energy for these flex contracts for 22/23 and 23/24, the actual cost to date and forecast costs for 24/25 and the estimated costs for the renewing the contracts for 25/26 are shown in **Table 4**.
- 2.22 The energy cost savings currently forecast for 24/25 vs 23/24 is **£82k**. These are based on Equity forecasts in their budget analysis for 24/25 (see Table 2). However, through the adoption of the RMS and our trades to date, we on track for energy costs reduction of **£150k** between 24/25 and 23/24.

The saving in energy costs forecast in 24/25 are achieved through:

- A reduction in wholesale costs of energy;
 - Implementation of the RMS, a competitively priced cap (Stop-loss trigger); and
 - A small reduction in volume (consumption) between 24/25 and 23/24.
- 2.23 The estimated costs for 25/26 vs the cost forecast for 24/25 is **£280k** most of these savings are based on contract renewal of our HH commercial contract. These estimates need to be treated with caution because they are based on the contract renewal price on 16th October 2024 plus a 10% uplift. Energy prices movements over the winter period can easily exceed 10%.

Table 4 SBC Flex Energy Contract costs (excludes PFIs) Actuals and Forecasts

Flex Energy Contract	Estimate Cost of Energy 25/26 New Flex Contract	Actual/Forecast Annual Cost of Energy 24/25 Cap (stop/loss strategy)	Actual Annual Cost of Energy 23/24 (floor price strategy)	Actual Cost of Energy 22/23 (includes EBRs relief) *
	£000s	£000s	£000s	£000s
Half Hourly (HH) Commercial Contract	1,031	1,307	1,325	1,141
Gas Commercial Contract	263	267	331	495
Total Flex Energy Contract Costs	1,294	1,574	1,656	1,636

* the energy costs in 22/23 were significantly mitigated through the Government Energy Bill Relief Scheme by more than £0.5m across these two flex contracts.

Energy Costs 25/26

2.24 It is important to set out energy budget requirements for 25/26 given the Councils significant finance pressures and large deficit gap. It is forecast that the Council will save money as part of its contract renewals in 25/26. We need to take a conservative approach.

2.25 Forecast Energy costs for 25/26 are based on conservative estimates:

- Tendering and renewing our six fixed price energy contracts (NHH Housing, HH Housing, Gas Housing, UMS Housing TV amps, UMS Streetlighting and NHH Commercial) for the period (1st April 2025 and 31st March 2026).
- Tendering and entering two new flex contracts for our commercial HH and Gas accounts for the period (1st April 2025 and 31st March 2026).
- Adopting a new risk management strategy for trading volume in 25/26 to extract extra value from the energy market.
- Assuming no reduction in volume (consumption) in kWh across our current contract portfolio.
- Adding energy supplies accounts that are not currently on contract we have estimated these will incur **additional costs of £87,500** based on the max cost profile.
- Applying a 5p/kWh uplift in electricity contract costs and 0.5p/kWh uplift in gas contract costs to adopt a conservative approach to fluctuating energy market costs and provide confidence on our estimates and budget requirements next year.

2.26 In terms of forecasting energy budgets and savings or growth bids for 25/26 minimum and maximum estimates for energy costs for next year have been forecast see Appendix D, E, F, G, H, I and J for details. In Table 5, the minimum is the current energy renewal costs 20p/kWh for electricity and 4.5p/kWh for gas without the 10% buffer (**price on the 16th October 2024**) and the maximum is an energy renewal cost of 25p/kWh and 5p/kWh for gas with a 10% cost buffer this presents a range of potential energy costs in 25/26. It is prudent to use the maximum costs to set our energy budgets next year. In addition, the Council has energy supplies not currently on contract, many of these being set up prior to the corporate contract. It is proposed we move all the Council's energy supplies onto contract.

Table 5 Minimum and Maximum cost estimates for energy contract renewals 25/26

Energy Contract Renewals	Type of Contract	25/26 Min Cost	25/26 Max Cost
Gas Commercial	Flex	£238,945	£278,690
HH Commercial	Flex	£937,872	£1,218,961
NHH Commercial	Fixed	£173,424	£225,587
UMS Street Lighting	Fixed	£520,954	£705,803
Gas Housing	Fixed	£182,701	£203,074
HH Housing	Fixed	£6,835	£8,157
NHH Housing	Fixed	£575,443	£724,057
TV amps Housing	Fixed	£738	£972
Out of Contract Supplies	Fixed	£70,000	£87,500
Overall Total		£2,706,912	£3,452,801

2.27 The objective is to buy our energy volume and renew our contracts at the lowest energy market rates and well below the cap price as set out in the RMS, but we cannot guarantee the wholesale price at the time of reporting and approval. By reporting the costs at a maximum price' Members will be aware of the potential energy costs the Council will be incurring in 25/26 and this should present a worst-case scenario.

2.28 Table 6 shows the actual and energy cost estimates since we set up the corporate energy contracts using Equity Energies Limited as our Energy Procurement Service supplier. The 25/26 costs are the worst-case maximum.

Table 6 Slough portfolio actual and estimated energy cost

Year	Fixed Contracts	Flex Contracts	Total Energy Cost
4 (2025/26) (max)	£1,955m	£1,498m	£3.452m
3 (2024/25)	£2.028m	£1.574m	£3.602m
2 (2023/24)	£2.239m	£1.656m	£3.895m
1 (2022/23)	£2.330m	£1.636m	£3.956m

2.29 Table 7 below shows the breakdown of these actual and forecast costs for 22/23, 23/24 and 24/25 and 25/26 between General Fund and Housing Revenue Account (HRA) Fund.

Table 7 Forecast Cost Portfolio budget breakdown

Portfolio	(2022/23) (EBRS) Relief Actual	(2023/24) Floor Price Strategy Forecast	(2024/25) Cap Price (stop/loss) Strategy Forecast	(2025/26) Contract Renewal - worst case
General Fund	£2.827m	£2.888m	£2.721m	£2.517m
HRA	£1,129m	£1.007m	£0.881m	£0.936m
Energy Cost	£3.956m	£3.895m	£3.602m	£3.453m

Energy Budgets, Savings and Pressure

2.30 The cost of energy is reducing year on year (Table 7) for the Council despite the elevated price of energy and the volatility in the market, but not at the rate to ensure it is financially sustainable. There will need to be a refocus on reducing energy demand (consumption) to drive down costs in future years as market prices are stabilising and it will be more difficult to extract value from the 'supply side'.

2.31 In 2024/2025 an MTFs energy saving proposals to reduce energy costs across our operating estate of **£275,000** and street lighting saving of **£175,000** was submitted. The commitment of **£450,000** of savings on the General Fund would mean the budget could not breach **£2.585m**. In addition, the HRA business case set a 24/25 target of **£0.802m** for energy costs. Whilst there are still 5 months of energy billing to process for 24/25, the current energy cost forecasts suggest the GF exposure will be **£2.721m** and HRA **£0.881m (Table 7)**. The current energy forecast is **£3.602m**. These savings targets will not be met. The pressure is forecast at **£136k** for GF and **£79k** for the HRA. The Cap strategy is currently forecast to lead to a further reduction of commercial Flex energy costs of **£68k**. This will reduce the pressure on the GF, leaving a pressure of **£68k**. These pressures can only be mitigated through reducing demand in year.

2.32 The cost exposure following contract renewals to the **General Fund for 2025/26** based on significant energy market price increases, assumes a worse-case scenario, is estimated at **£2.517m**. The cost exposure for the HRA assets is **£0.936m**. The worse-case energy cost exposure is **£3.453m**. This is considered an extreme case, the sum 25 and winter 25 market prices would need to significantly increase by more than 25% before retendering.

2.33 Significant 'supply side' savings will be achieved if the current forward energy market prices (sum 25/win 25) **maintain**. The market prices on **16th October 2024 (min cost, Table 5)** would result in contract renewal prices for the GF of **£1.941m** and HRA of **£0.766m**. This best-case energy cost exposure is **£2.707m**.

2.34 The range is significant **£2.707m to £3.453m**. It is expected that the actual price will be within this range, and Equity budget estimates (middle case) assuming 10% energy

price uplift and 5% non-commodity price uplift forecasts and adding energy supplies not on contract gives an estimated cost of **£2.976m (Table 2)**. **Table 8** presents the savings across all three scenarios.

Table 8 Energy Cost saving scenarios (25/26)

Portfolio	Min (best cast) (25/26)	Middle case (25/26)	Max (worse cast) (25/26)
GF costs	£1.941m	£2.134m	£2.517m
HRA costs	£0.766m	£0.842m	£0.936m
Energy Cost	£2.707m	£2.976m	£3.453m
24/25 Energy Cost	£3.602m	£3.602m	£3.602m
Energy Costs Saving	£0.895m	£0.626m	£0.149m

2.35 Energy prices cannot be guaranteed until we lock into our new contracts, as market prices fluctuate daily. However, it does present a realistic range, and subject to Cabinet approval Equity will retender contracts at the time the market presents best value. Additionally, new forecasts will be re-run in January to inform Finance of the estimated costs for budget setting purposes.

3. Financial implications

3.1 It is proposed to extend the existing energy procurement service contract with Equity Energies Limited for a maximum 'allowed period' of 1 year (1st April 2025 to 31st March 2026). This will continue to provide energy procurement services to the Council and help achieve best value energy costs within available budget.

3.2 The recommendation of the report is to adopt a short-term approach for one year and to reassess longer term options during the year. This is to be achieved through 1 one-year fixed deals on 6 of the contracts and flexible energy contracts to cover gas and HH supplies for 60 Council operational assets. The energy supply will be secured through a number of short-term fixes throughout the years based on market judgment of price fluctuation and as such, is subject to risk. The table below sets out 2025/26 budget implication of the extension.

Service	24/25 Budget	24/25 forecast	Option 1 – Best Case		Option 2 – Middle Case		Option 3 – Worse Case	
			25/26 Proposed Budget	25/26 Proposed Savings/ Growth	25/26 Proposed Budget	25/26 Proposed Savings/ Growth	25/26 Proposed Budget	25/26 Proposed Savings/ Growth
Housing Revenue Account (HRA)	£865,880	£881,117	£766,000	-£99,880	£842,000	-£23,880	£936,000	£70,120
General Fund	£2,759,500	£2,721,845	£1,941,000	-£818,500	£2,134,000	-£625,000	£2,517,000	-£242,500
2025/26 Proposed budgets	£3,625,380	£3,602,962	£2,707,000	-£918,380	£2,976,000	-£648,880	£3,453,000	-£172,380

3.3 The table sets out a range of possible budgets for 25/26 from £2.707m to £3.425m subject to current energy prices at the time of purchase. The proposed budgets will deliver a range of net savings from £0.918m to £0.172m in 25/26 against existing budgets. Energy prices fluctuate daily and so the exact budget requirement for 25/26 cannot be confirmed at this stage.

3.4 In common with other approaches the Council will adopt a risk-based approach to establishing the budget at the level commensurate with current expectations and should economic conditions increase the expected price then this can be funded through the risk reserve. The actual budget will be set when the contracts are awarded.

4. Legal implications

Recommendation 1.1 (i):

In relation to Recommendation 1.1 (i), relating to adopting and approve the Gas & Electricity Risk Management Strategy, this is permissible in accordance Part 3.5 of Responsibility for Executive Functions and The Local Authorities (Functions and Responsibilities) (England) Regulations 2000.

Recommendation 1.1 (ii):

In relation to Recommendation 1.1 (ii), relating to the delegation of the purchase energy in line with the Gas & Electricity Risk Management Strategy to the Executive Director of Regeneration, Housing and Environment (in consultation with the Executive Director of Finance and Commercial (the S151 officer) and the Lead Member for Finance, Council Assets, Procurement and Revenues & Benefits), this is permissible under section 9E of the Local Government Act 2000.

Recommendation 1.1 (iii)

The Public Contracts Regulations 2015 (PCRs 2015) Council's Contract Procedure Rules, specifically Slough Borough Council Procurement Application and Authorisation Table (Services), are applicable to this procurement. As the **value exceeds £500,000** then authorisation must be via a Cabinet Report; a mini business case to be approved by Strategic Procurement Review Board; and a full business case to the relevant Procurement Review Board.

Due to the value of the services being procured the procurement strategy must comply with the PCRs 2015 and the Council's Contract Procedure Rules. Council Officers must consult with HB Public Law and the Procurement Service to agree a compliant procurement method prior to any procurement commencing.

5. Risk management implications

5.1 Risks

The risks of energy procurement and forecasted increase in energy prices have been identified on the corporate risk register.

There are three key risks relating to this corporate energy purchase strategy and the cost of energy going forward.

Risk	Rating	Mitigation	Residual Risk
Further price increases in the energy market	Very High	Adopt a 'stop-loss' cap risk management strategy to mitigate the risk – to control the range of costs, costs will remain high.	High
Budget Pressure due to high energy costs	High	Estate Strategy will be essential in determining which assets should remain in the Council portfolio to reduce demand.	Medium
High Energy costs for remaining assets	Medium	Implement an energy optimisation and efficiency programme aimed at reducing consumption, carbon, and financial costs across the estate and streetlighting subject to a separate Cabinet Approval.	Low

6. Environmental implications

- 6.1 The disposal and or transfer 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. The dramatic increase in recent years energy prices acts as an imperative for the Council to find ways to reduce consumption both for its own activities and those where it passes the cost of energy onto its residents and customers. However, this report focuses on the setting of strategy for purchasing energy, not on reducing consumption of energy.

7. Equality implications

- 7.1 There are potential impacts on fuel poor (where more than 10% of income is spent on heating and lighting) and low-income groups (where combined income is less than £36,000 per annum) because of this decision on energy contract renewal for our housing contract. The wider impact on tenants/leaseholders in social housing (HRA) will be felt as communal lighting and heating costs are passed through at cost to tenants and leaseholders, the Council may use some of the HRA reserve to absorb some of this additional cost. The Council buys communal energy for social housing tenants to limit fees and other charges associated within this collective purchasing process. These costs collectively based on a worst-case scenario (max) are due to **increase £70k** across the housing estate, on a best case (min) scenario they will reduce by **£99k**. The objective of the strategy is to retender contract at the lowest cost possible to reduce energy prices exposure to tenants/leaseholders.

8. Procurement implications

8.1 The Council has adhered to its Contract Procedure Rules and the Public Contracts Regulations 2015 by submitting and obtaining procurement approval for the Gas and Electricity contracts extension up to 31st March 2026.

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 energy purchase strategy does align with the estate strategy to maximise cost avoidance.

11. Background Papers

[Corporate Energy Procurement Strategy and Contracts \(April 2022 - March 2025\)](#)

[Cabinet - Urgency procedure - Leader's Action - 27 July 2022](#)

[Agenda item - Energy Flex Purchases 23/24 \(Purchase Strategy\) \(slough.gov.uk\)](#)

[Decision - Energy Contracts 24/5](#)