

Cabinet

6th January 2026

Name of Cabinet Member:

Cabinet Member for Strategic Finance and Resources – Councillor R Brown

Director approving submission of the report:

Director of People and Facilities Management

Ward(s) affected:

All

Title: Gas Contract Renewal

Is this a key decision?

Yes

Yes - the proposals involve financial implications in excess of £1m a year

Executive summary:

Coventry's Climate Change Strategy (2024-2030) sets out the Council's decarbonisation ambitions, which includes increasing clean energy supply and increasing the energy efficiency of our estate, alongside helping to facilitate partners to do the same. A significant amount of work has gone into decarbonising the Council's estate over the last decade. Over 40 buildings have been upgraded which includes increasing renewable energy generation through installation of solar pv, decarbonisation of heat through installation of heat pumps and connecting a number of the Council's buildings to the district heat network, alongside improving insulation, glazing etc. The Council has also appointed E.ON as its Strategic Energy Partner (SEP) over the next 15 years, to help increase the scale and pace of decarbonisation across the city. One of the first activities the SEP completed was production of the Coventry Energy Plan, which looks at how the city could decarbonise energy infrastructure over the next 15 years. This includes moving away from gas and creating more locally produced electricity. At present, we are in a transition phase and the purchase of gas is an unavoidable activity that has in recent years had increasing financial implications for the Council. Since 2021 the annual gas spend for both corporate and independent sites has varied between £1.6m and £3.3m per year due to significant global events that have impacted

the gas markets. The corporate contract currently covers over 60 Council gas supplies but also supports more than 80 related 3rd party gas supplies including schools and community centres.

The Council's current gas contract is not set to expire until 31 March 2027. But by engaging early, the chosen supplier will have a longer period over which to buy gas ahead of the contract start date. This approach is widely used and is known as "flexible procurement". It involves purchasing blocks of gas over time when the cost is lower which reduces the risk of being subject to shock price increases.

The Council has been using the flexible procurement approach to gas since 2009. This approach has been successful in mitigating the impact on the Council from the unprecedented volatility in the gas market.

This report sets out the Council's gas requirements as well as the anticipated financial implications on Council budgets. It is important to note that the proposed gas contract allows flexibility to reduce gas demand during the contract period, which is anticipated as energy efficiency improvements are made to more buildings across the city.

Recommendations:

Cabinet is recommended to:

- 1) Approve the proposal to enter into a Gas Framework up to £6.3million for the supply of gas up to 31 March 2031.
- 2) Delegate authority to the Director of People and Facilities Management, following consultation with the Director of Finance and Resources and the Director of Law and Governance to finalise the legal due diligence and terms and conditions of the Gas Framework and any other legal agreements required to facilitate delivery of the gas supply and its ancillary services.
- 3) Delegate authority to the Head of Energy Services, following consultation with the Director of People and Facilities Management, to oversee the ongoing management of the wholesale purchasing strategy during the term of the contract.

List of Appendices included:

None

Background papers:

None

Other useful documents

Pan Government Energy Project Reports (OGC)
National Energy Category Strategy for Local Government 2022 (LGA)

Has it or will it be considered by Scrutiny?

No

Has it or will it be considered by any other Council Committee, Advisory Panel or other body?

No

Will this report go to Council?

No

Report title: Gas Contract Renewal

1 Context (or background)

1.1 Policy Context

The Climate Change Strategy (2024-2030) sets out clear ambitions for decarbonisation across the city, with the Council leading from the front and helping to facilitate change across the city. In 2023, the Council appointed E.ON as its Strategic Energy Partner (SEP), to bring expertise and commercial support to escalate the scale and pace of decarbonisation, in a first of its kind partnership in the UK. The SEP developed the Coventry Energy Plan, which identifies the current barriers and opportunities to decarbonisation, alongside interventions required to support the city's transition to a clean resilient energy system. This is important to unlock growth and support investment and jobs alongside helping to reduce the city's carbon footprint.

The Council has made significant progress with the decarbonisation of our estate over the last 10 years, retrofitting more than 40 buildings to improve energy efficiency and increase renewable energy generation. This includes installation of solar panels on some of our largest buildings such as the Council House, and connecting buildings such as the Council House and Friargate to the city's district heat network.

Much of this work has relied on grant funding but new commercial models are being explored through the Council's Strategic Energy Partnership to identify how we can increase the scale and pace of decarbonisation in the city. This includes the city's schools and public estate, which means we can expect to reduce gas demand in the coming years.

However, it is recognised that there is still a requirement to purchase gas while the estate transitions to low carbon energy sources. The proposed new gas contract provides flexibility to reduce demand over the four-year contract period. This is important as it allows retrofit to happen without facing any financial penalty.

1.2 Council Gas Demand

The Council's demand for gas is used for space and water heating and in the cremation process. The quantity of gas that the Council consumes on an annual basis has been decreasing, largely due to a range of decarbonisation projects.

Last three years usage

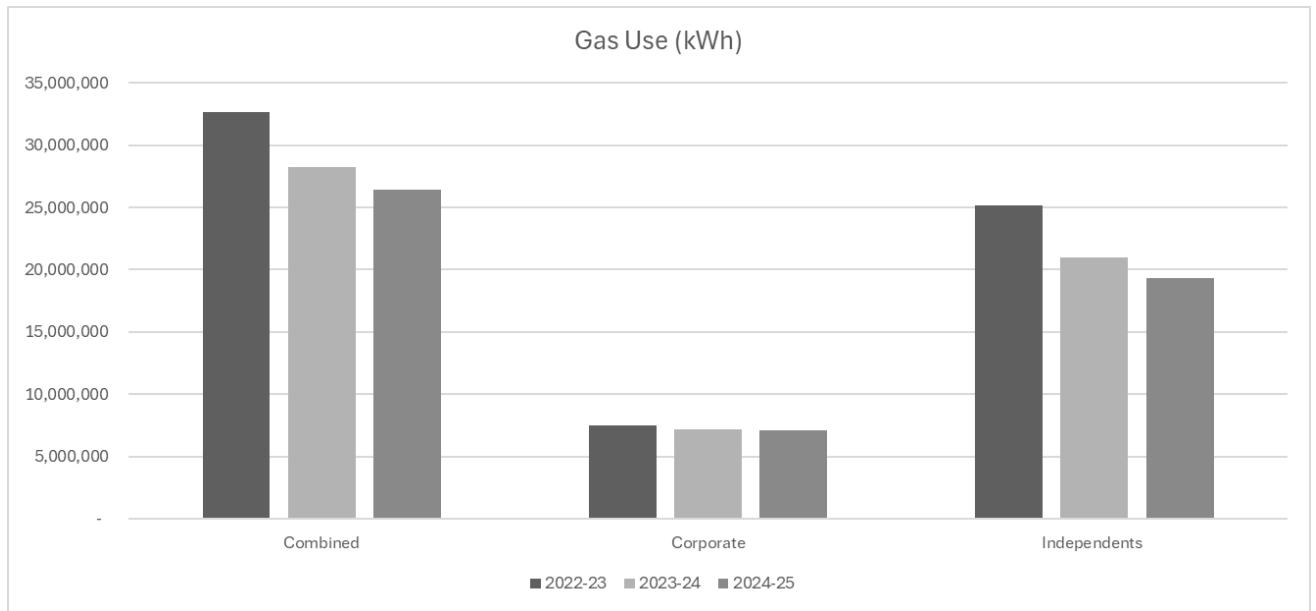


Figure 1 - Historic Gas Consumption for Coventry City Council Gas Portfolio

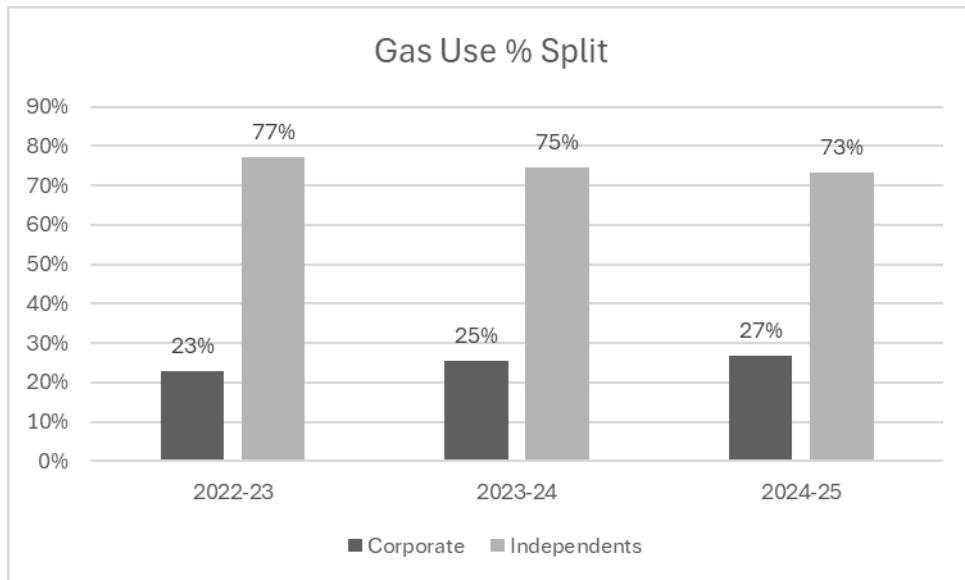


Figure 2 - Historic Proportions of Gas Consumption between Council and Independent Buildings.

Forecast Usage

Forecasts take into account recent retrofit programmes such as Moat House Leisure Centre as well as forthcoming West Midlands Retrofit Pilot and school rebuilding program.

Importantly, to align with the Climate Change Plan, the contract does not restrict the Council from removing further buildings in future.

Contract Year	CCC consumption (kWh)	Independent Consumption (kWh)	Total Consumption (kWh)
2027-28	5,638,233	16,536,588	22,174,821
2028-29	5,638,233	14,162,588	19,800,821
2029-30	5,638,233	14,162,588	19,800,821
2030-31	5,638,233	14,162,588	19,800,821

Table 1 - Forecast Gas Consumption for the Proposed Contract Term

1.3 Council Gas Costs

The cost of gas has seen significant increases over recent years due to global geo-political events and changing UK policies. The unit price of gas is made up from four main components: wholesale costs, network costs, social and environmental costs and supplier costs broadly as follows:

Wholesale cost = between 76-82%

Network costs = around 11%

Other charges including supplier margin = 7%

There are also daily standing charges that depend on the size of meter and estimated annual consumption of gas at a particular site.

Turmoil in the market has seen gas costs almost 300% higher than the recent average. Using a flexible procurement approach has protected the Council from the high cost peaks with procured rates peaking at 165p/therm, much lower than the market high of 430p/therm.

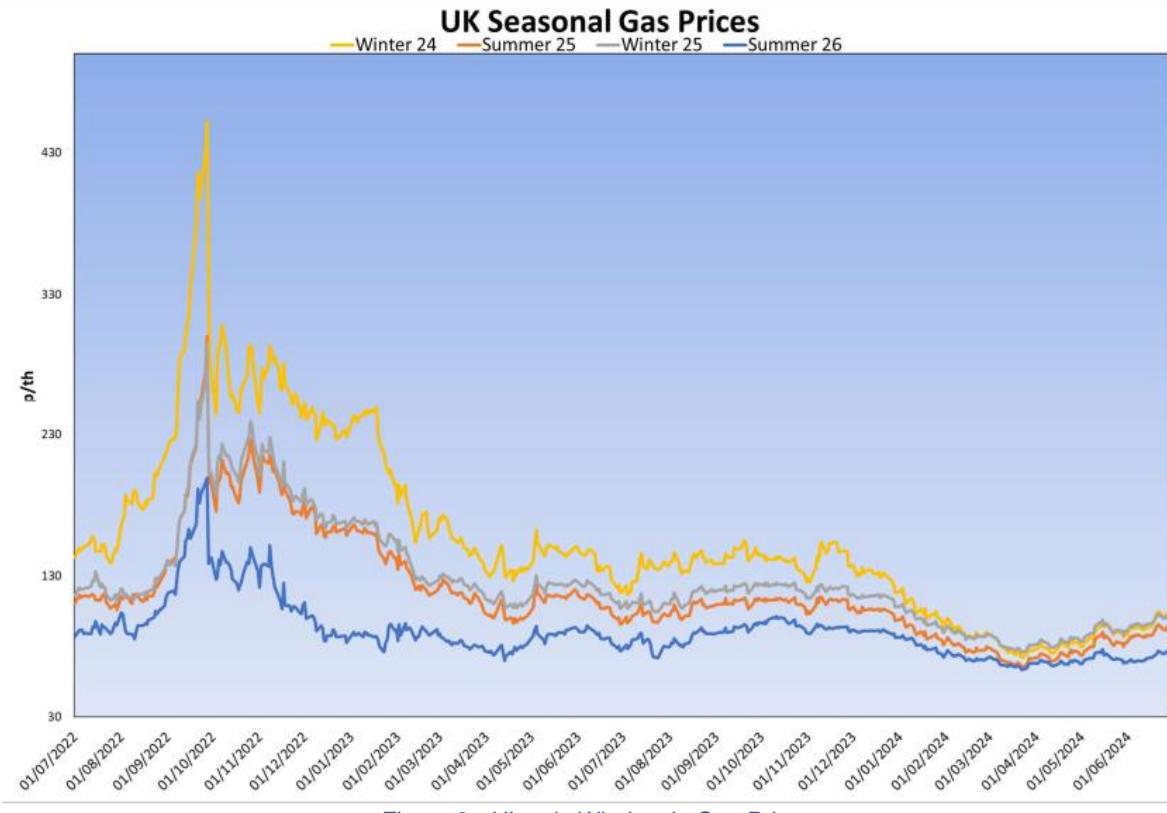


Figure 3 - Historic Wholesale Gas Prices

The supplier costs associated with the cost of gas are only a very small proportion of the overall cost of gas. .

1.4 Contract Value

Forecasting the spend on each year of the contract accurately is practically impossible due to the number of variables, but actual spend will depend on both how consumption varies as well as how the various cost elements vary over the term of the contract. The recent volatility in energy markets, inflation and government policies all add additional uncertainty in the overall contract value.

The following estimate of annual spend has been based on current gas consumption levels, a forecasted downward trend relating to known energy efficiency projects in the pipeline and available market intelligence.

Contract Year	CCC Cost (£)	Independent Cost (£)	Total Cost (£)
2027-28	439,595	925,265	1,364,860
2028-29	452,783	816,206	1,268,989
2029-30	466,366	840,692	1,307,059
2030-31	480,357	865,913	1,346,271
Total Contract Term	1,839,102	3,448,076	5,287,178

Table 2 - Forecast Gas Spend for the Proposed Contract Term

It is recommended a 20% buffer to overall contract value is considered. Therefore, the contract value approved should consider spend up to £6.3m.

Not entering contract by 31 January 2026 will reduce the ability for ESPO to start trading for our gas on the wholesale market when pricing historically begins to fall. Not entering the contract by 31 March 2027 would result in the Council, and its associated independents, being charged variable deemed rates which would potentially more than double the forecast spend.

1.5 Energy Contract Types

There are generally three types of gas contract available: Fixed Price Contracts, Flexible Fixed Priced Contracts and Flexible Variable Price Contracts. Each option has its own benefits and drawbacks.

Fixed Price Contracts set prices for the entire contract duration at a single point in time based on the wholesale market at that time. These contracts provide complete certainty of pricing but place risk on what the prevailing market conditions are on the day they are entered into.

Flexible Fixed Price Contracts are where all energy is purchased in advance over a defined period with prices finalised at the start of each contract year. This allows greater flexibility as to when gas is purchased and therefore enables prices to be locked in early if prices are rising or locked in late if prices are falling. This approach also provides a level of certainty as the prices become fixed at the start of each contract period.

Flexible Variable Price Contracts are where some gas is purchased in advance over a defined period with the remainder purchased within the contract year. The amount of forward purchase is agreed in advance and determines how frequently the prices are locked in during the contract year. This approach maximises the opportunity to achieve lower prices (particularly in a falling market) but reduces budget certainty as prices can rise or fall during the course of the contract year.

1.6 Additional Considerations

Gas usage is currently the third largest contributor to the Council's CO2 emissions.

Green gas is an option. Typically, green gas is based on biomethane produced by anaerobic digestion plants such as the one in Brinklow. It is significantly more expensive due to its limited supply and doesn't directly impact local emissions as gas is still burnt at properties. It also doesn't actually improve the overall UK emissions levels as the renewable gas is already blended into the national gas mix.

Therefore, the Council can continue to make greater environmental impact by focusing on opportunities to actively reduce gas consumption such as the continued electrification of heating or hot water in our buildings.

Currently schools and some community organisations are invited to benefit from the Council energy contracts. This means they benefit from lower prices and although they will be required to enter into a Service Level Agreement with Coventry City Council in order to access the contract, the ultimate liability to the supplier for any default sits with

the Council. The Energy Management Service further mitigates this risk through continuous monitoring of all accounts on the contract and intervenes should any aged debt begin to accrue. To date there have not been any cases of the Council having to settle 3rd party debts relating to the gas contracts.

2 Options considered and recommended proposal

2.1 Call-off Public Sector Framework via a Public Buying Organisation (Recommended)

There are a number of Public Sector Frameworks available for the procurement of gas supplies. Through this route the Public Buying Organisation (PBO) undertakes the procurement of the framework supplier, price negotiation, manages the contract with the supplier and usually manages the trading decisions on behalf of the organisations using the framework. The framework terms and management practices align with the best practice recommendations of the Pan Government Energy Project. This option is recommended, and it requires delegation of purchasing decisions within pre-agreed parameters to the respective trading team within the PBO.

The main PBOs with energy frameworks and the associated supplier and framework availability is shown below:

PBO	Supplier	Contract Term	Note
ESPO	Total Energies	April 27 to March 31	Current Provider
LASER	Corona Energy	April 25 to March 29	Max 2 year contract
NEPO	Corona Energy	April 26 to March 31	3yr + 1 year extension possible
West Mercia	Total Energies	April 26 to March 30	Max 3 year contract
YPO	Corona Energy	April 25 to March 29	Max 2 year contract
CCS	TBC	TBC	No Framework Confirmed Yet

Table 3 - List of Available PBO Frameworks for Gas

Due to the difference in Contract Period for each of the frameworks moving between them can result in a period of fixed price rates. Only two frameworks are currently open that can provide the Council with a 4-year contract term, NEPO and ESPO. Switching to NEPO would however also involve additional significant administrative costs for migrating the 164+ gas supplies to a new supplier without clear financial benefits from doing so. As such, if the PBO option is chosen, it is recommended that the Council continues with ESPO for the next framework period.

These frameworks historically have derived significant savings associated with the scale of purchasing being undertaken.

The contract terms and conditions are expected to allow the reduction of gas by up to 100% over the contract term, without the Council receiving a financial penalty. Once final versions of the terms and conditions are received they will be reviewed and if a

reduction in line with corporate commitments isn't allowed without financial penalty, this will be flagged.

2.2 Standalone Procurement of Gas Supplier or Broker (Not recommended)

The Council could run a stand-alone procurement activity to directly appoint a gas supplier or broker. Whilst this approach would give the Council full access to the gas supplier market it would add significant additional risk and resourcing requirements to facilitate the process.. The benefit of direct contracting is that the Council would be in control of the strategy used to procure gas however contract management would also be solely down to the Council.

Whilst the Council has significant experience with running complex procurement activities it is not envisaged that deploying significant additional resource into such an option would deliver a markedly improved position compared to the other options.

Whilst this option doesn't require any delegation of purchasing decisions to a trading team, fixed prices usually are extremely time limited (sometimes a matter of hours) meaning that pre-defined approval limits are required before knowing what the confirmed price is but little options remain other than to accept the best offered price even if it exceeds expected forecasts. It has also been the case recently that contract offers have been suspended due to market volatility resulting in organisations defaulting to deemed rate tariffs at great cost.

For these reasons this option is not recommended.

2.3 Bespoke Contract Call-off from Strategic Energy Partner Contract (Not recommended)

The Council has the opportunity to call off the Strategic Energy Partner (SEP) Contract with E.ON UK as an alternative and bespoke route to market.

However, the focus of the SEP is on decarbonisation of the city's energy systems, and whilst E.ON could provide an alternative route to market, the SEP gateway process has concluded there is no added value to procurement via this route for gas, therefore this route is not recommended.

2.4 Value for Money Evaluation

Supplier Costs

Of the total bill, supplier costs make up less than 3% of the total spend. These are however set by the supplier and therefore can be directly compared.

PBO's are generally similar in their supplier fee structures.

Wholesale Costs

With Wholesale Costs making up the majority of the spend a key decision is whether there is confidence in the trading team to effectively procure energy against a defined risk strategy to minimise the overall cost of energy. ESPO has shown ability to deliver against the strategy and this has benefitted the council for a number of years.

Non-Commodity Costs

These costs are not within the control of the supplier but make up an increasing proportion of the bill. Government forecasts this could increase by as much as 15% (not adjust for CPI inflation) which is why the contract value should include a 20% buffer.

3 Recommendations

Following the value for money assessment, the recommendation is to continue using the ESPO framework to procure gas and award contract to Total Energies for the period April 2027 to March 2031.

There is a considerable amount of financial, legal and administrative burden switching suppliers as well as a great deal of disruption across the portfolio as almost all gas meters would need to be changed as part of the switching process. Coventry City Council completed a comprehensive exchange programme which took more than 24 months to complete previously. The accuracy of the billing via Total is very high, with more than 98% of invoices raised correctly and the level of data being received from the meters is industry leading.

4 Results of consultation undertaken

- 4.1 The possible options for gas supply were consulted with the 2 primary service areas that currently rely on the contract: Corporate Property and Education. The benefits and drawbacks of each option were discussed, and all services agreed that the proposed recommendation of awarding via ESPO presented the best solution to their respective needs.

5 Timetable for implementing this decision

- 5.1 If approval is given by Cabinet, commitment would be given to ESPO once final terms and conditions have been agreed. We are aiming to complete the contracting by 31 January 2026 to enable forward purchasing of gas to begin as soon as the winter weather and wholesale market eases.
- 5.2 The gas delivery period relating to the contract would start on 1 April 2027.

6 Comments from Director of Finance and Resources and Director of Law and Governance

6.1 Financial Implications

By entering into the supply contract at the values indicated, this does not fix the contract cost based on a fixed unit price or level of activity which can be subject to fluctuation dependent on annual gas consumption and any changes to the asset base supported. If the total contract value at any time was expected to be above that indicated, further approval would need to be sought.

The contract values assumed in this report are in line with the budget proposals considered by Council in 2025. The Council reviews its energy budgets annually in line

with the budget setting process and will reflect any changes to consumption, asset base and price as part of this process over the life of the contract.

The values assumed within the contract reflect an estimate of potential growth and inflationary increase which if realised will form the basis of future budget considerations. The total contract value also includes costs of gas of schools and other independents within the city that enables them to purchase from the same contract. As highlighted in the legal implications, these organisations will be required to sign contracts with the council to ensure financial risk of this part of the contract is managed.

Of the overall contract value, 27% is for the estimated Council cost of the contract over the contract period with the balance of 73% representing schools and independents.

6.2 Legal Implications

The Council has the power to enter into the gas supply contract under section 1 of the Localism Act 2011 ("LA 2011"), which broadly gives the Council the power to do: -

- anything that an individual may do;
- for a commercial purpose or otherwise for a charge; and
- for the benefit of other areas than the Council's administrative areas,
- such power generally being known as the "General Power of Competence" or "GPC" for the purpose of this report.

The Council will also be purchasing gas on behalf of schools and independents to help achieve greater savings across Coventry. The Council will enter into contracts with schools and other independents who participate in this gas contract.

The Council as part of purchasing gas on behalf of the Schools and Independents will provide the following services: -

- Procurement Management
- Contract Management
- Drafting the Service Level Agreements and entering into the necessary agreements
- Bill Validation and Query Support
- Provision of Data Management/Record Management
- Site Works Support

The cost of providing this will be recovered through an administration charge for the costs incurred by the Council on a cost recovery basis.

The Council has several powers to directly provide and charge for services including for the Schools and Independents: -

- (1) s93 of the Local Government Act 2003 ("LGA 2003") – which provides the Council with the power to charge for discretionary services; and
- (2) s1 of the Local Authorities (Goods and Services) Act 1970 ("LAA 1970") which allows the Council to provide and charge for goods and services (including administrative, professional and technical services).

- (3) s93 of the LGA 2003 only allows the Council to charge on a 'cost-recovery basis'; and
- (4) s1 of the LAA 1970 only permits trade with other public bodies.

Legal services will work with service area to review the terms and conditions of the ESPO Mains Gas Framework as part of the legal due diligence and ensure that such terms and conditions are reflected in the SLA's.

6.3 Procurement Compliance

The ESPO Mains Gas framework is fully compliant with UK public procurement regulations, providing a legally sound and transparent route for public sector organisations to source mains gas. It has been established under an open procedure in accordance with the Public Contracts Regulations 2015.

The main published CPV Code is 09121200 Supply of Mains Gas.

From a value for money perspective – the offer provides the following:

Compliant tendering process

A compliant tendering process has been undertaken by ESPO in line with the Public Procurement Regulations 2015 (PCR15). ESPO are acting in the capacity of a Central Purchasing Body (CPB), as defined in the regulations.

Economies of scale

ESPO are procuring on behalf of a large portfolio under a wide range of public sector organisations. The published framework contract value is £400,000,000 over 4-years.

Wholesale access

Due to the high volumes going through the framework, it allows ESPO access to the Wholesale market, which is used by the utilities industry for purchasing energy.

Risk Management Strategy and dedicated expertise

ESPO have a team of dedicated experienced Traders, some of which have previously worked for major Energy companies, who monitor the markets on a daily basis. They are then able to respond rapidly to sudden dips in energy costs due to Worldwide market events. The strategic approach is based on hedging, which allows prices to be locked in for a future period, with the concept of providing protection from market volatility.

Budget Certainty

This approach also allows prices to be fixed for a period of time, giving budget certainty.

Open and Transparent process

Supplier margins are agreed at framework level. The make-up of the costs is checked and validated by ESPO these are then available to each Local Authority.

7 Other implications

7.1 How will this contribute to the One Coventry Plan?

<https://www.coventry.gov.uk/strategies-plans-policies/one-coventry-plan>

This approach ensures that all parts of the Council can benefit from a coordinated and managed gas supply contract. The proposed approach looks to continue using a known and trusted organisation that have delivered considerable savings against alternative approaches such as direct awards and fixed term contracts. This also allows for the Council to act as an enabler to provide other Coventry organisations such as schools and community organisations to access the route to market should they wish to participate.

The contract allows for a reduction in gas consumption, which would support the Council's existing Climate Change Strategy commitments. This will reduce the Council's impact on Climate Change as a result of its activities and support the One Coventry Plan key priority of tackling the causes and consequences of climate change.

7.2 How is risk being managed?

The basis of Flexible Procurement for gas purchasing is the key risk management consideration in the proposal. Furthermore, the proposal utilises the trading experience within the ESPO to guide and support the Council through the complex wholesale market environment in a transparent manner. The proposal also includes for a series of governance and performance management measures that will enable the Council to support contract management and delivery of the service. This helps to support the aims and objectives of Coventry City Council.

The contract is to be managed by the Council's Energy Management Services team within People and Facilities Management Directorate. What is the impact on the organisation?

The approach enables the Council to have a level of flexibility and control of outcome without requiring significant additional resource to be identified and funded. Making use of ESPO will help to reduce costs for delivering an effective gas supply contract.

7.3 Equalities / EIA?

This project does not have any direct impact on the Council's equality responsibilities although it is anticipated to assist with the continuation of broader service delivery through mitigation of cost implications with provision of gas.

7.4 Implications for (or impact on) climate change and the environment?

Whilst it is recognised that the city needs to move away from gas, it is recognised that there remains a role for gas as energy transitions to low carbon sources. The contract doesn't preclude further decarbonisation of the estate to take place to reduce gas demand over the contract period. It also is indirectly supporting the furthering of actions that help to address and mitigate the causes of climate change, as the contract allows

for the provision of granular consumption data which will enable the Council to understand gas use more deeply and identify opportunities to reduce consumption.

7.5 Implications for partner organisations?

Schools and community centres are two examples of organisations that will have the ability to benefit from the contract.

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