

Benefits Proposal

Opportunity Name:	Procurement and Third Party Spend		
Opportunity Description	Reducing our spend on procurement and third parties through looking at mitigating external provider cost pressures through negotiation, market strategies and contract management as well as better market management through a strategic approach to commissioning.		
Existing MTFS lines relating to opportunity	N/A		
Quantified opportunity over MTFS Financial Value (net of ongoing costs and net of existing MTFS value)	£1.48m	Confidence level of value	Medium Extrapolating findings into unrelated areas. Delivery of savings is heavily dependent upon local competition
Further benefit beyond the MTFS	Full run achieved within the MTFS		
Evidence behind opportunity, local levers and proposed solutions:			
<p>There is a total of £178.0m of Third Party Spend within LCC (based on 24/25 spend data). Within this we excluded the following categories:</p> <ul style="list-style-type: none"> - Transport (£41.17) <ul style="list-style-type: none"> o Descoped given current benchmarks of SEN transport (main driver of Transport spend) show LCC benchmark well - Staffing – Agency (£17.38m) <ul style="list-style-type: none"> o Covered in Target Operating Model Workstream of ER - Grants and Contributions Paid (£2.17m) <ul style="list-style-type: none"> o Determined out of scope given nature of levers here are very different to other Third Party Spend <p>This does not include contracts for commissioned expenditure (care contracts and SEND)</p> <p>There are 4 typical levers within Third Party Spend which are category management, contract management, supplier relationship management and reducing tail spend. Supplier Relationship Management - A proactive approach to managing key suppliers to drive performance and value was deemed out of scope within the timelines of the Efficiency Review given the need to engage large providers to realise this opportunity.</p> <p>Completion of three deep dives into differing areas of spend has identified an operational opportunity and some of the levers required to access it.</p> <p>3 areas were selected for deep dives:</p> <ul style="list-style-type: none"> - Repairs and Maintenance as there were a significant number of tail suppliers within this category (tail suppliers being suppliers we spend less than £75k on), This is similar to licenses as a category which was the third area selected - Consultants and Specialists as this is very different nature of spend to Repairs and Maintenance; different service we are procuring, different procurement mechanism and different way of managing contracts <p>1. Evidence for opportunity</p> <ul style="list-style-type: none"> • In the Repairs and Maintenance deep dive focusing on plumbing, a 6.0% - 12.55% operational opportunity through contract and category management. 			

- In the Consultants and Specialists deep dive focusing on Legal, a 0% - 0.36% operational opportunity through contract and category management was identified.
- In the Licences deep dive focusing on Licences and Subscriptions, a 2.9% - 3.19% operational increase through contract and category management was identified.

2. National & Best Practice Evidence

Systematic reviews of government publications reinforce:

- **Benchmarking and building internal capability** – Councils should benchmark themselves against best practice, build procurement and contract management capability within their teams, and increase pipeline transparency. [Foundations](#)
- **Partnership between councils and the wider public sector** – facilitated through shared frameworks, diagnostic reviews, and exemplar council connections. [Foundations](#)
- **Identifying strategic framework suppliers** by spend and risk dependency. [Foundations](#)

3. Local Levers (Current State & Strengths in LCC)

LCC already has a **Dedicated Procurement Team** with an acute awareness of specifics and nuances found within each category of procurement. Benchmarking shows the size of this team is smaller compared to other LAs and so there is an opportunity **to** increase the team size to ensure we are capturing all the available opportunities as well as internally restructuring staff such that there is clearer accountability and scope for improved procurement practices.

4. Proposed Solutions

a. Contract management

- Ensuring existing contracts are properly managed and complied with.
 - Restructuring of invoices – Changing our invoices with providers we have contracts with, that enables clear breakdown of each invoice to ensure we can scrutinise costs and compare to the contract
 - Automation of invoice checking vs contracts
 - Proactive contract adherence through a larger centralised procurement team

b. Category management

- A structured, strategic approach to managing spend by grouping goods/services into categories.
 - Contract Length – how do we ensure given the volatility or predictability of spend year on year we are setting contract lengths appropriately with suppliers
 - Splitting lots – ensuring we aren't tendering for too specific activities which result in over qualified staff or providers delivering activity that could be delivered for cheaper
 - Should Costing – using industry standards (e.g.BCIS) and should costing to determine the actual cost of delivery and using this when negotiating during re-procurement exercises
 - Active market management – some suppliers are not on frameworks but deliver a lower cost on average. How do we actively work with them to enable them to reply to procurement exercises?
 - Combining suppliers – consolidating spend with certain providers who are cheaper and considering how we structure a contract that “guarantees” demand

c. Tail spend management

- Control of low-value and low-frequency spending across many suppliers.
 - Consolidating small suppliers, moving purchases to main contracts, setting up using preferred lists of suppliers, eliminating off contract spend.
 - A review of spend to ensure it is essential and to check if we could eliminate spend

5. Evidence of potential impact of a change programme

Combining three category deep dives to estimate the opportunity to reduce third party spend.

These deep dives cover £7.5m out of the £66.8m expenditure being targeted.

a. Plumbing deep dive:

In plumbing (Repairs and Maintenance) in the sampled suppliers charging rate had increased faster than the contracted inflation rate. Some of this is accounted for through asking the supplier for additional accreditations which has led to savings elsewhere. There is a 6-12% opportunity identified through contract and category management through creating charging lots, assuming this can be done at sufficient scale to be attractive to the market, as the sampled supplier continues to provide competitive rates against the market. This opportunity includes using should costs when going to tender to ensure we are gaining the best value. There was no tail spend identified in this category.

b. Legal deep dive

In legal we found 0.36% savings through contract and category management. Given the number of factors that influence where we procure in legal and the potential risk of choosing cheaper suppliers, it is difficult to identify opportunity in swapping or rationalising providers. However, there is small opportunity in ensuring we are using the frameworks provided, being charged the correct rate and using should costs to help guide pricing in legal tests.

c. Licences deep dive

In software licences, we found a 2.9% - 3.2% opportunity through tail spend, contract and category management. This was found through managing categories and uncovering licences that overlapped in service provision. Additionally, there was opportunity in reducing provisions of software that was not needed for everyone in the council, and removing spend on legacy software

d. Averaging the deep dives

It was agreed during the Procurement working group that we would average the lower bound across 3 deep dives above and use this as the target for the opportunity. This reflects that the savings will be from a mixture of opportunity, but cannot be identified in advance of performing detailed analysis. Using this methodology our bounds are as follows:

Upper: 5.37%

Lower: 2.97%

e. Extrapolation

To understand which categories our methodology applies to, we need to dig more granularly than looking at categories of spend as a whole. Within each category, there are subjective descriptions that segregate suppliers and areas of spend. By looking at these subcategories, we can begin to analyse areas of spend in more detail.

We can identify how suppliers are distributed within each category, whether spend is skewed towards one dominant supplier, or whether there is a spread. In either case there could be a tail. This will help us identify which of the four methodologies are applicable to the subcategories of spend and whether we believe we can extrapolate the findings from our proof of concept.

To keep this entirely standardised we will be using the following logic across all categories

- Removing subcategories only if they have no relation to any others i.e. multiple waste categories could, in theory, be covered by one larger supplier and thus category management will apply even if there is one supplier in a particular subcategory.
- To define suppliers covered by SRM we are excluding large value suppliers >£1m with less than 52 invoices (weekly where contract management is more likely to apply). Alternatively, any supplier whose average invoice exceed £200,000 where we are already likely reviewing each invoice or procuring the supplier on independently formulated terms.

This resulted in £66.78m of spend we can extrapolate the findings to.

This allows creation of a savings target, that will be allocated to contracts following completion of the review methodology.

6. Areas preventing realisation of savings.

Even for the areas where the deep dive has been performed the savings are not guaranteed to be realised.

Reasons include:

- Level of competition or availability of suppliers at time required
- Smaller providers may not be able to charge different labour rates for different jobs
- Implementation costs negate savings, for example cost of system change or additional management overhead
- Availability requirements, such as business continuity or emergency call outs

Delivery approach and timelines

Agree the LCC procurement operating model, including respective roles and responsibilities with services. Identify and resulting transfer and recruitment requirements.

Agree recruitment approach versus delivery risk

Our next phase should include ~1 month detailed design and testing before wider rollout. This period will refine opportunities, prioritise categories and ensure we have all the correct data and requirements to begin and flowingly run a full-scale implementation. This would be followed by 8 months looking at contract management going category by category followed by two months looking at category and tail spend management.

a. Data requests, initial analysis and quick wins

- **Design phase (3 months)**
 - Identify our biggest opportunity categories to prioritise and ensure we have the correct data to begin analysis here. This will ensure we are ahead of data requests such that we can receive the data for each category before starting each month.
 - We would also look to target the areas of opportunity identified in our deep dives as quick opportunities to unlock.
 - Identification of hiring process. We would look to increase the size of the procurement team alongside the procurement programme. We would look at a phased approach to implementing the new operating model for the procurement team
 - During this phase we would start to also understand the opportunities relating to Supplier Relationship Management and engage our large suppliers and build should cost models

b. Contract management

Implementation (months 1-9)

- Define clear goals looking at contract management in each category.

- Beginning with the most valuable category, the aim is to analyse, identify and unlock the value in each category. This would be a top to bottom process of reviewing contracts and invoices to identify opportunity as well as going to suppliers to unlock this opportunity.
- During this process, the aim will be to capture learnings from each category and to understand where there will be opportunities in category and contract management: i.e. which suppliers are our cheapest and where we can reduce tail spend.
- During these 8 months, the expectation is work alongside the LCC team and upskill the procurement team to carry out this process. Therefore, the lesser-value categories not completed in the first 8 months can be handed over for an upskilled LCC team to complete.

c. Category and tail spend management

- At the end of the contract management process, the aim is to have our most valuable categories in order with each supplier adhering to contracts as well as ranked within each subcategory helping to identify opportunity.
- We can then identify where there is opportunity through strategic procurement. This might include re-tendering, finding new suppliers, reducing tail spend and implementing clearer controls around our spend.
- Given the information pulled together in the contract management phase, the expectation is that this phase can occur rather quickly again focusing on the biggest-value categories and where re-tendering etc. may be most appropriate e.g. where contracts are close to completion.
- During this process we will also ensure that all spend is essential (across tail spend but also larger spend areas)
- Similar to the contract management phase, the aim is to upskill the LCC team during this process such that regulations around tail spend for example, e.g. ensuring people only purchase cheaper standardised headsets, can be set up internally rather than during the project.

d. Supplier relationship management

- Following the design phase, we will have identified which suppliers and categories we should be targeting for opportunities relating to SRM and the potential financial benefits associated to this
- Alongside the implementation phase mentioned above we will work with these suppliers to identify opportunities to:
 - Renegotiate
 - Grow capacity
 - Resolve contract management issues
 - Consider efficiency opportunities
- Depending on the length of these contracts the realisation of these opportunities is not yet known but will be determined through the design phase

e. Training & coaching for procurement team

If agreed, design and roll out training changes (1-11 months):

- Upskill commercial team on methodologies applied during the project
- Develop structured coaching and reflective practice offer
- Embed skills-based development model

Impact Timelines

Through this phased approach, we anticipate:

- 3-month mobilisation and design phase to setup hiring process, data requests and identify priority contracts.
- 40% of the benefit is realised through contract management which will take **8 months** post mobilisation to realise by reviewing category by category

<ul style="list-style-type: none"> The remaining 55% of benefit from category and tail-spend management will take 20 months post mobilisation to identify and unlock benefit, subject to a re-tendering process 		
		Benefit profile assumptions
	In-year spend reduction	Cumulative benefit
FY 26/27	£0.09m	£0.09m
FY 27/28	£0.68m	£0.77m
FY 28/29	£0.70m	£1.47m
FY 29/30	£0.01m	£1.48m
<p>Date for project start: 1st August 2026</p> <p>Date for start of design phase and realising changes: 1st November 2026</p> <p>Date for all contract management changes to be rolled out: 1st July 2027</p> <p>Date for half of category management changes to be rolled out: 1st November 2027</p>		
<p>Initial view of one investment required to realise opportunity</p> <p>Biggest investments:</p> <p>Increased size of procurement team:</p> <ul style="list-style-type: none"> The estimate is for an additional 5 new FTE employees and utilisation of resources from across the organisation (pending agreement of the procurement operating model and consultation with DMTs) Review team for change in responsibilities We would expect these changes to occur gradually during the implementation rather than in one go. The total investment required to expand the central team is identified as £460,075 net to LCC. 		
<p>Risks & Dependencies (Known today)</p> <p>Hiring capability:</p> <ul style="list-style-type: none"> Whether we are able to secure the required new staff, either at the correct point in time or in general. Market capacity, stability and pricing Engagement with other services <p>Willingness of suppliers to reduce charges</p>		
Expected impact		
Staffing impact	Commercial team to grow in size and is upskilled working alongside the Newton team.	
Service levels impact	A more coordinated, proactive procurement strategy identifies and unlocks benefit across the third party spend.	
How would LGR impact this opportunity?	Further opportunity around category and contract management likely exists when combining all third party spend across all districts.	
Officer Recommendation for next steps	1. Agreement of corporate target with CMT	

	<ol style="list-style-type: none"> 2. Agreement of procurement operating model, including roles and responsibilities 3. Further data analysis to identify categories to address first and then a rolling programme 4. Engagement with DMTs 5. Implement the TOM (likely a staged approach)
Newton Recommendation for next steps	Fully investible and proceed to next stage. Likely further benefit through £50m of procurement spend not yet assessed through supplier relationship management.

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