



ProClass

A Procurement Classification for Local Government and the Public Sector

30th October 2006

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INTRODUCTION

This document sets out the case and arguments for the adoption of a standard approach to procurement classification.

The need for this has been recognised by an increasing number of local authorities for several years now, but the increased focus on the efficiency and service improvement delivery agenda has meant that this has now become a key issue. As more authorities have sought to undertake and interpret outcomes from expenditure analysis, it has become evident that it is very difficult to know with accuracy exactly what money is being spent on.

The importance of being able to share accurate and reliable expenditure information between authorities and other local public sector bodies for collaborative purposes has been recognised by chief officers and operational managers. Without such information, it is impossible to create business cases for collaborative work, seek new opportunities for driving out cost savings and plan future contract activities. In addition, there is also a need to share information between regions so that decisions can be taken on the appropriate level for collaboration. Much of the work being promoted under the Gershon Commodity Goods and Services work stream will be impossible to deliver unless reliable like for like comparisons can be made between regions.

This message was underlined in the ***Efficiency in Civil Government Procurement*** (1998) Report (ISBN 0947819592) that said, *“to be effective, collaboration and joint procurement needs full and reliable information about who is buying what, from whom, and through what means. This will entail using a common classification system”*.

It is important to stress that a common procurement classification system is not designed to interfere with or prevent the development of local policies or reporting processes already in place. It is also **not** designed or intended to support any of the following activities:

- Analysis of expenditure by supplier
- Support for policies on SMEs / BMEs and/ or economic regeneration
- Catalogue content and/or trade with the private sector
- Budget planning and forecasting

At a workshop hosted by the LCE on 29th September 2005, to which all Regional Centres of Excellence and the OGC were invited, a consensus as to the new classification was agreed. The SWCoE and LCE joint hosted an event in Taunton on 15 December 2005 with the SWCE where representatives from 25 authorities were present. All those present supported the view that a common approach to procurement classification was essential and expressed support for the proposed classification being put forward. Since then, agreement has been reached by the Directors of all the nine English regions that a common approach to classification across the whole of local government should be the objective for 2006/7 – the classification will be known as ProClass.



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THE IMPORTANCE OF PROCUREMENT CLASSIFICATION

DEFINING CLASSIFICATION

A classification structure logically groups similar things together into classes or families for the purpose of analysis. Hierarchical classifications allow analysis to be done at macro or micro levels, depending on business need.

For example, the purchase of a computer work screen may need to be analysed at macro level under “IT spend” or micro level under “computer peripherals spend”.

A **classification** is used for analysing, searching and decision-making. It is also essential for expenditure analysis and supporting on-line contracts registers.

For the purposes of this paper, the term “coding” means a reference that unambiguously identifies a specific thing. “Classification” means a reference that groups related things together for analysis.

This document is about procurement classification, **not** coding. Authorities should continue to use their chosen procurement coding hierarchy (such as UNSPSC, NSV) as this supports a totally different purpose. These hierarchies can readily be mapped onto ProClass and will be supplied through the SWCoE as a standard file by November 2006.

IMPORTANCE TO LOCAL AUTHORITIES

A standard procurement classification is essential to the delivery of the efficiency and service improvement agenda as it:

- Supports the standardisation of management reporting, performance measurement and benchmarking
- Facilitates the exchange and comparison of meaningful information between authorities and other public sector bodies to identify new areas for collaborative working, particularly as a result of undertaking Expenditure Analysis
- Allows business managers to seek opportunities for cost reduction, supplier rationalisation and streamlined contractual arrangements – including support for promoting the shared services agenda
- Underpins closer cooperation with trading partners and critical suppliers, particularly post-contract
- Supports the planning process including the identification of areas where scarce procurement and commercial resources should be focussed for maximum benefit to the organisation
- Provides the overarching framework for the successful deployment of **any** procurement or e-Procurement system, although these will most likely contain a coding system to support the ordering process



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PROCUREMENT CLASSIFICATION RECOMMENDATIONS

BACKGROUND

In 2003, several local authorities joined together to review the case for moving towards a common procurement classification . The group short listed two existing standards, both of which are widely used in the UK public sector and which at face value could be adapted into a classification structure by use of the top level in the hierarchies. These were United Nations Standard Products and Services Code (UNSPSC) and National Supplies Vocabulary (NSV).

The key difficulties with adapting these structures for classifications purposes have been that:

- Neither reflects the expenditure profiles of the public sector as there is a 2 to 1 ratio of services to commodities. This means that there is insufficient detail on services and too much on commodities
- The NSV classification hierarchy (alpha characters) is too focused on healthcare while UNSPSC hierarchy contains too many obscure descriptions given its manufacturing origins

ADOPTION ATTRIBUTES

The Classification Workshop on 29 September 2005 (attendees at Appendix E) identified the key attributes that any procurement classification must possess if it is to stand a chance of being used and implemented successfully as:

- **Appropriate hierarchy** – tiered or single level to suit the complexity or value of the purchase and reflect the composition of third party expenditure
- **Balance** – no more than three levels
- **Extendable** and **easily maintainable** by the public sector
- **Easily mapped** and **cross- referenced** to existing coding structures, including the GL Chart of Accounts
- **User friendly** – with an unambiguous reference and definition which can be used by non procurement specialists e.g. window cleaners
- **Descriptions not numbers** recognising that many IT systems operate using alpha-numeric values
- **Limited Size** – with no more that 200 classifications to pick from including sub sets



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To meet these attributes, the London Centre of Excellence and workshop participants; representing the rest of the regions and the OGC, devised a standard classification based on the expenditure analysis profile of 48 English councils.

The hierarchy was then validated against the following:

- Feedback from the PAE NSV hierarchy used in the pilot of their Contracts Register Service
- Chelmsford Borough Council's UNSPSC hierarchy used to capture procurement expenditure
- London Borough of Camden's classification types
- OGC Commodity Goods and Services work stream categorisation used for data collection
- The outcome of a trial carried out by Swindon Borough Council.

PROCLASS AND ONGOING MANAGEMENT

In summary, ProClass:

- Reflects the local government expenditure profile with most commodities being defined to one or two levels and high cost services and works being defined to two or three levels
- Contains just under 200 choices which are all described in plain language and do not rely on knowledge of codes
- Provides the level of detail and commonality required to promote meaningful comparison
- Can be readily modified to cater for omissions and/or future changes in expenditure patterns
Can be readily mapped on to existing coding structures (including GL Accounts, UNSPSC and NSV)



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Agreeing on a common classification structure is one thing, implementing it provides a number of significant challenges, such as:

- Ensuring version control and quality assurance (so that the problem of multiple versions does not occur) and a means for distributing the files
- Having a process for dealing with omissions and ideas for improvement that will inevitably occur, balanced against the need to preserve the key attributes
- Gaining ownership and support from those many authorities that have not been in the initial research and development process
- Achieving a common approach to mapping with coding systems used in existing e-Procurement and financial systems as well as by providers of Expenditure Analysis tools and contracts registers
- Negotiating common policy implementation statements with appropriate ICT providers, if and when an authority decides that ProClass should be used for internal purposes too and incorporated into existing ICT systems
- Ensuring a robust communications policy, that sends out clear and unambiguous messages

With this in mind, the SWCoE will be working with other regions to establish a ProClass Quality and Standards Board, to be lead by the London Centre of Excellence.

A copy of the Board's Terms of Reference is in the additional document " Proclass - A Procurement Classification for Local Government and the Public Sector Appendices



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IMPLEMENTING THE NEW CLASSIFICATION

BUSINESS IMPLICATIONS

THE BUSINESS CASE

Is there a business case for implementing the procurement classification?

The activities that the classification will support have already been listed in the section “The Importance of Proclass”. The business case needs to be centred on support for local and collaborative expenditure analysis. In comparative terms expenditure analysis is to efficiency gains as budgeting is to financial planning/forecasting. Some of the Essex councils that make up the Procurement Agency for Essex have been doing expenditure analysis for three financial years. Although the absence of a procurement classification hierarchy has been a drawback, they have used it to share information, plan contracting opportunities, negotiate with suppliers and target high spend areas for improvement.

In terms of the costs for introducing ProClass, there will be two phases:

Phase 1

Mapping ProClass to any existing procurement coding structures

Ensuring that ProClass can be adopted and provided through any existing or planned Expenditure Analysis tools and collaborative contracts registers

This work is already underway and it is likely that any costs will be limited and will probably be met through funding from the Regional Centres of Excellence.

Phase 2

Deciding whether or not to introduce ProClass into financial/ERP systems

Deciding whether or not to introduce ProClass into operational systems

The meetings with the ERP / financial system vendors all suggested that this was more around each authority buying some consultancy days rather than making modifications to core systems. We believe that there is a further opportunity to carry out mapping either at a regional level to reduce costs, duplication of effort or from seeking standard adoption and cost statements from the major suppliers to prevent them from seeing this as a new exploitable revenue stream which would deter some authorities from making the most of the significant benefits that ProClass will bring to them.

These issues will be addressed and managed by the ProClass Quality and Standards Board



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EXISTING CLASSIFICATIONS

If an authority already has an existing procurement classification in place, (as opposed to a coding structure such as UNSPSC, NSV or even CPV) it is probably best to leave it alone and migrate to the new structure in time. Coding structures however can readily be mapped to the new classification, . This is because coding and classification are designed to fulfil different business objectives.

OWNERSHIP

A key issue with the uptake on ProClass is one of ownership. Authorities will need to:

- Understand the benefits and advantages from adopting and owning it, including what it is designed to do and not to do
- Be able to influence how it develops in the future
- Appreciate that the key activities that it will support (expenditure analysis and contracts registers) are not one off exercises and that future reporting to central government agencies is likely to follow this route
- Be reassured that using ProClass is not going to interfere with their local autonomy and own policy priorities
- Be clear as to what costs, if any, are likely to be involved from adopting ProClass and over what time frame



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RISKS

There are a number of barriers and risks to the successful take-up and adoption of ProClass. These are set out in the following table.

Risk	Counter Measure
Classification adopted by LCE and individual boroughs but not other regions	Ensure successful adoption in London Avoid the need for 100% buy-in and encourage phased implementation Ensure active promotion by LCE , OGC and through the regional directors' network
Slow take up or resistance from individual authorities	Ensure sign-off by the Society of London Treasurers (SLT) and Heads of Procurement Differentiate between Phase 1 and Phase 2 Provide advice and guidance on what needs to be done, while minimising any costs
People do not understand the need for the classification and/or the difference between coding	LCE to provide a training workshop Use of LCE and regional websites to promote the classification and its uses
System providers try to complicate implementation as a means of generating extra revenue	Agreement with each major provider of what is needed to deliver and wherever possible a fixed price is negotiated through the regional directors network Publication of an adoption statement by all main ICT providers (finance/ERP) Supplier briefing sheet sent to all boroughs
ProClass contains omissions and errors which does not map accurately onto local authority high spend profile	Creation of ProClass Quality and Standards Board Constant review to monitor progress and ensure reasonable adaptations can be made Not setting unrealistic expectations for take-up

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USEFUL SOURCES OF INFORMATION

This section lists useful documents, websites etc. for more information.

The following documents are available on the LCE website (www.lcpe.gov.uk):

- Maximising Returns from Purchasing Data - Informed business decisions from coding and classification.
A CIPS whitepaper co-written by Ken Cole, MCIPS
- Councils Collaborate to Assess Procurement Classifications – Executive Summary
- Summary of Meetings with Suppliers of Procurement and Financial Systems to London Boroughs

Acknowledgements

Thanks to the London Centre of Excellence and Ken Cole for the use of their document - *New Standards for Procurement Classification Towards a Pan London Strategy*

Contact

For further information about Proclass in the South West please contact

Gillian Brindle: 01305 757232 g.brindle@dorsetcc.gov.uk



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