

WAVERLEY BOROUGH COUNCIL

EXECUTIVE – 01/11/2016

Title:

FUTURE PROVISION OF THE PAYROLL SERVICE

[Portfolio Holder: Cllr Ged Hall]

[Wards Affected: All]

Summary and purpose:

This report seeks approval to transfer the provision of the payroll service to the MidlandHR payroll bureau following the imminent closure of the Epsom and Ewell Council payroll bureau shared service.

How this report relates to the Council's Corporate Priorities:

This report has the potential to contribute towards the Council's corporate priority of Value for Money. The proposed change in payroll provider will deliver a saving of around £10K per year, as well as resilience and reassurance for the accurate and timely administration of payroll.

Financial Implications:

The financial implications are included in the report.

Legal Implications

The legal implications of this report would concern a new contract with MidlandHR. This is being dealt with as part of the joint procurement with the wider Surrey group of authorities that are contracting their payroll function to MidlandHR.

Introduction

1. The objectives of the payroll service at the Council are:
 1. Accurate and timely payroll and payroll compliance administration
 2. Customer service, ease of access to advice and timeliness
 3. Cost of the service
 4. Confidentiality and legal compliance

2. The payroll function consists of two aspects:
 1. Administration: effecting changes to payroll such as contract adjustments, remuneration, absence, ancillary reimbursements – this requires an iTrent (HR and payroll computer software) trained administrator and an HR professional to provide advice and supervision.

2. Technical calculation of pay, taxation, pension and compliance with statute such as HMRC taxation rules – this requires a trained and experienced payroll technician.
3. Over the last three years, the Council has experienced staff turnover and difficulties in recruiting experienced payroll technicians, impacting on payroll resilience (the ability to produce a correct payroll to a timetable). To mitigate this risk, the Council transferred the technical aspect to Epsom and Ewell Council's pay bureau as a local authority shared service arrangement in September 2014.
4. Epsom and Ewell use the same iTrent system as the Council and had already set up a payroll bureau as a shared service for a number of other Surrey Council iTrent system users, prior to the Council joining the bureau. Tandridge Council lead the procurement of iTrent and host the iTrent application on their servers, with a joint licence to provide the system to other Surrey authorities.
5. During summer 2015, the Council had administration capacity issues due to staff turn over in the Employee Services team and, at the same time, Epsom and Ewell experienced difficulty in maintaining technical payroll service levels due to staff turnover in their bureau.
6. In response to these risks, the Head of Finance gained approval from the Council in December 2015 to make changes to the Employee Services team, including the following outstanding actions:
 - Undertake an options review for alternative provision of the payroll function currently carried out by Epsom and Ewell; and
 - In the event that the payroll service with Epsom and Ewell is terminated and brought back in house, a new post of Employee Services Officer (post number BC17, 37hrs) be created.
7. The bureau was proving to be unviable for Epsom and Ewell and they initiated a joint options appraisal for alternative payroll provision using the iTrent system. The results show that MidlandHR (the iTrent system proprietors) is the most advantageous option and nearly all Councils within the shared service have chosen to contract with MidlandHR including Epsom and Ewell. Epsom and Ewell gave formal notice to terminate the payroll shared service in June 2016 with effect from 31 January 2017.
8. The Council undertook its own options appraisal whilst participating in the joint options appraisal. There were initially 5 options available for the future of the council's payroll function, narrowed down to two options. The five options were:
 - Do nothing
 - Bring back in house
 - Transfer payroll function to Midland HR the supplier of iTrent payroll system
 - Transfer payroll function to Surrey County Council
 - Transfer payroll function to Ealing Council

9. Do nothing is not a valid option since Epsom and Ewell have given notice to terminate the service.
10. The joint options appraisal reviewed Surrey County and Ealing Council. Surrey County were interested in exploring payroll and HR systems provision to the Surrey authorities. However, they do not use iTrent and have no application or technical support experience. Surrey would require the Council to migrate from iTrent to Surrey's HR and Payroll software at the Council's own cost which would be significant at this stage. This option can be explored again in 3 years time when the current MidlandHR iTrent licence is due for renewal. Ealing Council use the iTrent system and have been looking to generate income from offering a payroll service but are higher risk as they have no experience of such a venture.
11. Therefore, the following two options warranted further investigation.

Option 1 – Bring payroll back in house

Epsom and Ewell remains ultimately responsible for technical payroll delivery until the end of January 2017. At this point the Council must be self sufficient in time to process and administer February 2017 payroll. Epsom and Ewell's formal termination triggers the approval to recruit an Employee Services Officer to support the Payroll and Recruitment Manager.

For this option to be successful, the new Employee Services Officer must be in post and at a high level of competency by 31 January 2017 to ensure a reasonable level of service resilience, compliance and accuracy.

Recruitment experience has shown that this is a high risk option. Several failed attempts were made this year to recruit a temporary iTrent experienced payroll technician via agencies despite offering a competitive salary and in addition, there were a very limited number of applications for the Payroll and Recruitment Manager post recruited in April 2016. Due to budget constraints, the Employee Services Officer post cannot be any higher than Band 8 which is proving to not be competitive.

This post must be capable of delivering the technical aspect of payroll to provide effective resilience by the end of January 2017. If the situation arises that an iTrent trained payroll technician is required via agency or fixed term contract, market testing indicated that this will cost circa £60,000 per year.

The Payroll and Recruitment Manager is experienced in payroll, however, she is still developing fuller in-depth knowledge and experience of the iTrent application. It will be necessary to provide consultancy support from MidlandHR for specific issue resolution. There is a risk that any significant issues arising with iTrent will not be resolved in-house in a timely way to prevent interruption of payroll production. The Council currently does not have a service agreement with MidlandHR to respond in an emergency and support will be at extra cost.

Tandridge District Council hosting service

Tandridge District Council currently hosts the iTrent system and holds the Surrey iTrent application licence. After the Epsom and Ewell bureau is dissolved, Tandridge do not wish to continue the hosting service and will novate the iTrent licences to the Surrey authorities and the application transferred onto the Council's own servers if bringing the service back in house.

The Council has limited iTrent application in-house expertise to complete general system house-keeping such as system updates and diagnostics and maintenance of the underlying database architecture. This will require buying in consultancy from MidlandHR.

The alternative option is that MidlandHR can provide a hosting and systems administration service. This would require conversion of the iTrent database to Oracle from Sequel, at a one-off cost of £11,000 plus the ongoing maintenance service contract costing £4,559. The annual cost of MidlandHR hosting potentially equates to less than the consultancy requirement for in-house hosting and application support.

Option 2 – Contract with MidlandHR for technical payroll provision

MidlandHR are the iTrent proprietors, and have a significant payroll bureau service employing more than 100 payroll staff, administering payroll for in excess of 450 companies and 25 local authorities ranging in size from 20 to 30,000 employees, producing 3.7 million payslips, processing in excess of £6.5 billion payroll annually.

The MidlandHR service has comparable data security preventative measure to the Council, such as penetration testing, intrusion detection, use of a STFP (secure file transfer protocol) to transfer data, and do not accept sensitive information by email.

The MidlandHR option has been investigated in-depth by the Epsom and Ewell shared service partners, including Waverley. The investigation included visiting Brentwood Council, who have recently transferred its bureau, taking up client references, a visit to MidlandHR offices and MidlandHR has responded in writing to a comprehensive questionnaire on all aspects of their operation including software technical, payroll technical, customer service and residual capacity requirement at the Council.

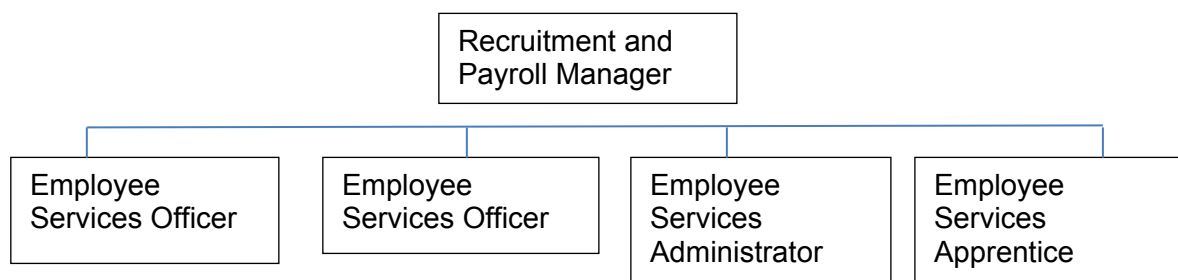
MidlandHR has provided the Council with a draft Service Level Agreement (SLA) tailorable to suit the Council's needs and preferred operating method. The SLA clarifies in significant detail all aspects of the bureau's service provision and identifies which parties take responsibility for specific actions and tasks. This has been reviewed by the Payroll and Recruitment Manager against the Epsom and Ewell shared service.

MidlandHR recommends a full systems set up and process review (due diligence) to be completed prior to scoping an SLA. This will result in a full understanding of how the Council works with iTrent including a review of set up and procedures to inform a comprehensive SLA. This will be beneficial to do even on the in-house option and before any further commitment is made to the MidlandHR option.

Absolute clarity will be obtained within the SLA to differentiate between data entry and technical iTrent, with the objective of limiting the Council's input specifically to data entry such as starters, leavers, changes to hours, salary etc.

Staffing levels

12. The current structure of Employee Services is:



13. This structure has been in place since April 2016. The MidlandHR option will require data entry to be done by the existing team. Eliminating the payroll technical work from the team will reduce the capacity requirement and eliminate the need to recruit the Employee Services Officer approved at December 2015 Council.

14. Transferring technical payroll to MidlandHR frees up Employee Services time to focus on recruitment and make efficiencies that lead to better recruitment resulting in fewer agency staff. Below is a table to demonstrate the financial impact of the options:

Annual costs	Epsom SLA	In house yr1	In house yr2	MHR yr 1	MHR yr 2
Epsom Payroll Bureau	26,500				
Employee Services Payroll Assistant 1.0 FTE Band 8		32,200	32,600		
MHR consultancy for application support year end, upgrades etc		5,000	5,000		
Pension Administration per year MidlandHR				6,200	6,200
P11D £6.25 per P11D				1,500	1,500
Midland Pay Bureau main payroll				14,400	14,400
Election payroll, per person £2.34 estimate 500 people				1,170	1,170
Annual Itrent hosting at Tandridge/MHR	6,000			4,600	4,600
	32,500	37,200	37,600	27,870	27,870
Set up cost					
Conversion from SQL to Oracle				11,000	
Systems set up and process review		12,000		12,000	
Project management fee for transition and migration from MHR				3,000	
		12,000		26,000	
Total cost per year	32,500	49,200	37,600	53,870	27,870
Epsom SLA budget	31,860	31,860	31,860	31,860	31,860
IT Tandridge hosting budget	6,000	6,000	6,000	6,000	6,000
Total budget	37,860	37,860	37,860	37,860	37,860
Net outturn against budget	(5,360)	11,340	(260)	16,010	(9,990)

Conclusion

15. Transferring the service to MidlandHR will give a resilient, compliant and value for money solution for the payroll service.

Recommendation

It is recommended that the Executive agrees that

1. the payroll service be transferred to MidlandHR following the Epsom and Ewell termination of the payroll bureau shared service, and
2. the hosting of the iTrent system be transferred from Tandridge to MidlandHR.

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