



Leicester
City Council

FORWARD TIMETABLE OF CONSULTATION AND MEETINGS:

CABINET

27 JANUARY 2003

BEST VALUE REVIEW OF PAYROLL

Report of the Chief Finance Officer

1. Introduction

- 1.1 The purpose of this report is to advise the Cabinet of the findings of the Best Value review of Payroll, which has been considered by the Best Value Working Group on 11 December, and Finance, Resources and Equal Opportunities Scrutiny Committee on 19 December.
- 1.2 The recommendations of the review, and the proposed improvement plan, were supported by the working group and the scrutiny committee (in the latter case, subject to appropriate measures being taken to ensure continuity of service should the chosen systems supplier cease to exist at some future date).
- 1.3 The full review is attached.

2. Recommendations

- 2.1 The Cabinet is asked to:
 - (a) endorse the findings of the review, and the improvement plan;
 - (b) approve the seeking of an “applications service provider” to provide an integrated payroll/HR system;
 - (c) require officers to safeguard the Council’s interests in the event of an ASP provider ceasing to exist;
 - (d) authorise capital expenditure of £0.7m for the implementation of the new system, to be funded from an unsupported credit approval awarded for the purpose;
 - (e) delegate to the Town Clerk and Director of Corporate Resources, in consultation with the Cabinet Lead for Resources, the decision to select a provider, after a procurement exercise using the EC negotiated procedure;
 - (f) authorise the Head of Legal Services to enter into appropriate contracts.

3. The Best Value Review

- 3.1 The payroll service provides for the payment of salaries and wages to the Council's 15,000 employees, and payments of allowances to Council members. The function is essentially centralised, although information on which pay entitlement is calculated is supplied by departmental personnel sections and schools.
- 3.2 The Best Value review took place during 2002. The key outcomes are:
- (a) the service is well regarded by its users (a pleasing outcome, given the problems the service experienced subsequent to local government reorganisation);
 - (b) the service is nonetheless inefficient and expensive. The reasons for this are an outdated IT system which has been too heavily bespoke, inefficient paper based processes, and some outdated working practices. This leads to a high number of staff, and to too great a dependence on IT services.
- 3.3 The key conclusions of the review are:
- (a) the Council needs an integrated HR/Payroll system, which holds all necessary data about employees and uses it for the purposes both of paying people and providing management information to the HR function (a conclusion which is consistent with the conclusions of the Best Value review of HR). At the moment, the Council has 2 systems, which leads to duplication of input and inefficiency;
 - (b) the Council needs to make considerable change to its processes, which are largely paper based, and vary from department to department;
 - (c) the Council needs to review its terms and conditions - one of the reasons payroll is expensive is that we have too many variations and peculiar terms and conditions which create extra work. We have, for instance, too many different payrolls and pay dates (the ideal, from a payroll point of view, would be to have all employees paid monthly, by bank credit, on the same date);
 - (d) the service as a whole costs £1.4m per year. It is believed that we can save £0.4m, or 30% of this cost, which greatly exceeds the 2% target saving expected from Best Value reviews. Such saving will not, however, be immediate.
- 3.4 To achieve the above, 3 options have been considered:
- (a) an in-house solution - we would purchase the latest integrated HR/Payroll system from our current payroll suppliers (which requires a change of computer platform), remove all the

bespoke programming work we have done ourselves, and review our practices and procedures;

- (b) outsourcing the service - this would involve going to the market and asking an external supplier to run the payroll service on our behalf;
- (c) an “application service provider” solution (ASP), in which an external supplier provides and services a high quality computer system (in effect, purchasing the IT support from a source other than IT services). Under this option, the payroll service itself will continue to be provided in-house. ASP is a relatively recent development in the IT world, which is a result of the growth of the Internet and high speed web browser technology. Instead of buying a new computer, we would rent the use of applications from someone else.

3.5 All the options have the **potential** to deliver the expected savings, and the different cost implications of each route are much less significant than their ability to deliver that potential.

3.6 The key advantages and disadvantages of each option are:

- (a) the in-house solution would avoid a procurement exercise, and could potentially be done more quickly than the other options. On the other hand, this option leaves all the risk of achieving savings both in IT and from changes in working practices with the Council, and is believed to be the least likely to deliver the significant cultural change required;
- (b) outsourcing would have the benefits of transferring all risks of achieving savings, and potentially result in a better technological solution than the in-house system. However, it is a significant change project in its own right, it is the least likely option to be acceptable to staff and trade unions, and control of the whole service is passed to a third party;
- (c) the ASP solution balances the risks (the Council is left with the risk of generating procedural changes, whilst the supplier must achieve the necessary IT changes). It may result in a more technologically advanced system than the in-house solution, but will require a procurement exercise and could thus take longer than the in-house option.

3.7 The option which is recommended to the Cabinet is the application service provider route. The key reasons for this are:

- (a) it places the IT support for the system with the party best placed to provide that support, ie the system suppliers who understand the system extremely well, and have a greater level of experienced back-up than our internal IT services;

- (b) the payroll team, on the other hand, will continue to deliver benefit through its close relationship with, and knowledge of, the City Council;
- (c) it avoids the loss of control inherent in outsourcing (and we are aware of poor experiences of outsourcing elsewhere);
- (d) it provides a platform on which to drive the necessary cultural changes through the Council: these are essential before the improvements expected can be delivered (under every option, a key requirement is the need for corporate discipline to ensure the new system is used effectively and to its full potential).

3.8 In future, it is envisaged that the payroll service would work as follows:

- (a) all data needed to run the system would be input electronically, from sources closest to where it originates in service departments. This will use web browser technology, and electronic forms looking as much like existing forms as is sensible. As the technology required to do this is minimal, it can be rolled out to satellite offices (eg a school secretary could input timesheets from the school's IT suite);
- (b) an electronic authorisation process will take place, using workflow technology (ie a manager will be prompted that he/she has been sent some forms to authorise, and he/she will authorise them on-line; the cause of any hold-ups anywhere in the system will be visible to the central payroll office);
- (c) the payroll service itself will reduce in staff numbers, but will be a centre of expertise. Its role will shift towards one of control and validation (ie ensuring that all input expected has been received, running exception reports to check for silly data, and ensuring everything balances). The service will perform a specialist role in relation to complex matters such as taxation;
- (d) data processing will take place on the system supplier's computer, which could be anywhere.

3.9 We will wish to procure the IT service by means of tender. In doing so, we will explore the opportunities for working in partnership with other authorities (we are aware of one authority who is interested in entering into such a partnership).

4. Financial Implications

4.1 The costs of implementing the new system can be afforded within a £0.7m unsupported credit approval which the Council has been awarded as part of its local public service agreement. Current estimates are that implementation would cost some £400,000 to £500,000, in respect of both payroll and HR. Revenue costs of using the credit approval have been allowed for in the estimate of savings.

4.2 It is envisaged that savings of £0.4m per annum will start to become available from 2005/06. This will benefit all departments, by virtue of reduced charges for the payroll service.

5. Staffing Implications

5.1 The payroll section will significantly contract in size, from present numbers of around 30. (Such contraction would result from any of the 3 options considered).

5.2 IT Services have approximately 4 members of staff who work (directly or indirectly) on the payroll system. This number would reduce significantly under any of the options. However, the pure in-house option would clearly require more continuing work from the in-house IT services team than the ASP option.

6. Consultation

6.1 All departments have been consulted on these recommendations via Directors' Board.

6.2 The trade unions have been consulted, and their comments are included in the review.

7. Other Implications

<u>Other Implications</u>	<u>Yes/No</u>	<u>Paragraph References within Supporting Papers</u>
Legal	No	
Equal Opportunities	No	
Policy	No	
Sustainable and Environmental	No	
Crime & Disorder	No	
Human Rights Act	No	
Elderly People/People on Low Income	No	

8. Background Papers - Local Government Act, 1972

Best Value Review Working Papers (contact report author).

9. Report Author/Officer to Contact

Mark Noble
Chief Finance Officer
15 January 2003

DECISION STATUS

Key Decision	No
Reason	N/A
Appeared in Forward Plan	No
Executive or Council Decision	Executive (Cabinet)