Best Value Review of Operational Finance

Phase 1 – Payroll

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1. EXECUTIVE SUMMARY

1.1 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 is supplied by departmental personnel sections and schools. The review covered both aspects of the service, which costs the Authority £1.4m per annum.

1.2 The review was carried out in accordance with Best Value principles and was the first phase of a wider review of *"Operational Finance"* scheduled for the third year of the Council's 5 year review programme.

1.3 The principles of challenge, compare, consult and compete were applied to the review:-

(a) the service exists because the Council has a legal obligation to pay its employees. However, it is not essential that the service is provided in-house, and other service models can be considered;

(b) there are no national statistics with which to compare the cost of authorities' payroll services, and benchmarking was therefore carried out with willing partners. The cost of Leicester's service appears expensive, particularly in relation to staff and IT;

(c) consultees had a high level of satisfaction with the service, although there were recurrent common themes about what needs to improve;

(d) there is a well developed market for the service, at costs believed to be less than the Council currently pays. There is also an emerging market for providing 'Application Service Provider' solutions, in which IT elements of the service are provided externally but core services are provided inhouse.

1.4 The service has had a difficult few years, due to the following key factors:

a) Outdated technology and fragile IT infrastructure;

b) Unreadiness for the challenge of unitary status;

c) Significant under investment in development.

1.5 This has led to criticism in the recent past, particularly from the Social Services and Education Departments, the latter being reflected in the most recent Ofsted report.

1.6 In the last two years, the service has improved substantially. There is a better relationship with users, formal mechanisms for consultation, and a marked reduction in the level of errors made in respect of individual employees' pay. Performance management is starting to be used effectively in the section. This improvement is reflected in the consultation responses referred to above.

1.7 Nonetheless, the conclusion of the review is that significant change is still required. The key reasons for this are:

a) The underlying IT system remains outdated, a situation which is compounded by significant bespoking that has taken place in past years;

b)   Potential significant efficiency gains can be achieved by having a single integrated payroll and personnel system; (The Payroll Best Value reached the same conclusion)

c)   The evidence continues to point to a service that is expensive compared with other authorities and market benchmarks

1.8   The options for the future of the service are:

a)   To implement the latest version of the payroll system provided by the current supplier, and implement the integrated personnel module which is available with that product, whilst changing our internal processes and procedures to ensure that they operate much more in keeping with the way the product is designed to be used;

b)   To Outsource the whole service;

c)   To opt for an 'Applications Service Provider' (ASP) solution. This would, in effect, involve the IT service being provided by an external partner with the core payroll services being provided internally.

1.9   Under an Applications Service Provider option there are 2 sub-options:

a)   A contractual relationship direct with a commercial supplier;

b)   In some form of Partnership arrangement with another 'Local Authority'.

1.10   The Director's Board's preferred option is to implement an Applications Service Provider solution of an integrated HR & Payroll System.

1.11   Reasons for the recommendations are: -

a)   It will, like all the options, provide the Council with a modern, integrated system and generate considerable efficiencies and an estimated savings of £0.4m per annum:

b)   It enables the IT support to the service to be provided by the place best placed to provide it (the system supplier) who can generate economies by providing the same service to a number of clients, and in whose interest it is to ensure that all clients operate from the same (latest) version of the product (it also reduces the risk of becoming over-reliant on key individuals);

c)   The Council continues to benefit from the local expertise of a locally based (in-house) Payroll Team;

d)   It reduces the risk borne by the Council in respect of generating the significant change in practice needed to modernise its practices (this option, in effect, carries more risk than outsourcing and less risk than the 'pure' in-house option);

e)   It is more likely than the first option to achieve the significant cultural change required, and hence generate the savings.

1.12 Whichever option is selected, a substantial amount of "business re-engineering" is required. The aim would be to overhaul our processes and procedures, and work in a way that makes best use of the capabilities of the system (rather than bespoke the

system to adopt Leicester's quirky ways). It would also devolve much of the current operation to service departments, who will input data electronically (reducing the considerable volume of paper currently employed).

1.13 As part of this re-engineering, a review of the Council's varied and extensive terms and conditions of service is proposed, aimed at reducing their range and complexity.

1.14 Implementation of the recommended option will require corporate commitment to use the system to the full, and to replace departmental stand alone systems (which are particularly prevalent in respect of HR). The need for this discipline cannot be under-estimated. Similarly there must be corporate commitment to achieving consistency of practice.

2.   INTRODUCTION

2.1   Since April 2000 the City Council, along with other local authorities, has been subject to a duty to secure Best Value. This means that all local authorities should have in place arrangements to secure continuous improvements in the way in which they carry out their functions, having regard to a combination of economy, efficiency and effectiveness. The Council is committed to ensuring that it offers efficient, quality services, and provides what local people really need.

2.2   Best Value reviews are intended to be the principal means of considering new approaches to service delivery; and for setting demanding performance targets for services to deliver step change, where appropriate, and continuous improvement. The reviews must address four key parameters:

> ➤ challenge why and how the service is provided;

> ➤ secure comparison with the performance of others using a variety of relevant indicators;

> ➤ consult (as appropriate) local taxpayers, service users, the Authority's partners and the wider business community in setting new performance targets;

> ➤ consider fair competition as a means of securing efficient and effective services.

2.3   The Authority's programme for Year 3 includes a review of Operational Finance and on 11 March 2002 Cabinet approved recommendations:

> ➤ in respect of the scope of the review

> ➤ that the payroll function (being one of a number of areas included within operational finance) be examined first and be subject to a "full service assessment"

> ➤ that the rest of the review will take place later as phase 2.

2.4   The Cabinet decision was taken in the light of pressing operational problems in the Payroll Service requiring speedy resolution. Given the Council's commitment to Best Value review as the principal means of securing service improvement, it was appropriate to use Best Value in order to examine and improve the payroll function. This, therefore, affected the prioritisation of the work of the operational finance review.

2.5   The scope of the full review of Operational Finance is shown at Appendix 1. The scope has been adhered to in the course of this review.

2.6   The focus of this report is the Payroll function.

3.   ORGANISATION OF THE REVIEW

3.1   The review utilised the Best Value 4c's framework to carry out a full service assessment. A Payroll Core Review Group was established to assist with this work and was supported by three task teams.

3.2   The Payroll Core Review Group comprised:

- Lead Officer
- Review Facilitator
- Head of Payroll
- Payroll staff
- 2 Personnel representatives
- IT representative
- Union representative
- Department BV representative
- HR Review Link Officer

3.3   The task teams supporting the Payroll Core Review Group were:

- Payroll Task Team (Lead Officer, Head of Payroll, Review Facilitator and Department BV representative)
- IT Task Team (IT Operations representative, IT Development representative, Payroll Manager, Payroll Development Officer, and department BV representative)
- Consultation Task Team (Head of Payroll, Payroll Manager and Review Facilitator)

3.4   The main **Challenge** element was provided through the engagement of consultants PricewaterhouseCoopers to support the review – this provided independence, additional resource that may not have otherwise been available and additional expertise and knowledge.

3.5   **Comparison** of the service was largely achieved by the Council's participation in benchmarking and was supplemented by the work of the consultants and discussions with other authorities.

3.6   **Consultation** mechanisms were in place prior to the best value review and consist of user forums for service departments and (separately) for schools. Specific (and extensive) consultation took place during the review with departmental personnel sections, schools, employees, external stakeholders, payroll staff and managers. A range of consultation methodologies were utilised, including workshops and questionnaires.

3.7   The **Compete** element was covered by the involvement of the consultants, and by reference to authorities that have outsourced the service.

3.8   The Service Director responsible for the review is Mark Noble, the Chief Finance Officer; and the Scrutiny Director is Steven Andrews, Corporate Director of Education and Lifelong Learning. The Lead Officer is Tim Bastock, Head of Exchequer and Control.

3.9 Office of Public Management Ltd (OPM) have been appointed as the independent consultee for the whole of the operational finance review. The consultee has a background of both finance and information technology expertise which is considered essential given that the review depends heavily on both these areas. OPM have worked for the authority before, both on the revitalizing neighbourhoods project and for the Education Department following the first Ofsted report.

3.10 A report from the consultee is attached to this report as Appendix 11. It should be noted that significant changes have been made to the report since OPM's comments were received, and address the areas of concern OPM addressed (in particular, OPM felt that an earlier recommendation – to retain a full in-house service – was questionable).

4. BACKGROUND & SERVICE PROFILE

4.1 Context and Links to Corporate Aims

4.1.1 The Payroll service is responsible for paying the salaries and wages of the largest employer in Leicester, and for paying allowances to its Members. As at June 2002, this involved the payment of 15,420 staff, with an annual pay bill in the region of £275 million. The service is primarily provided by the Central Payroll Section located within the Resources, Access and Diversity Department, but has links with all other departments and all but four of the city's schools.

4.1.2 The service indirectly supports all the Council's key strategies and plans by virtue of being part of the Council's financial infrastructure, and by ensuring that Council employees get paid. The need to improve the service is a recognised part of the Council's key objective of raising educational standards (by reducing the time school staff have to spend on administrative issues).

4.1.3 The main objectives of the Payroll service, included in the business plan of the Central Payroll Section, are:

> ➢ payment of salaries, wages and other sums due to employees of all Council Departments (including tax credits).

> ➢ deduction of national insurance contributions, income tax, pension contributions and other statutory and voluntary deductions made out of employees' gross pay; and for ensuring these sums are properly accounted for and paid to the relevant bodies.

> ➢ the administration of allowances paid to employees for use of their own cars on Council business.

> ➢ administration of occupational and statutory sick and maternity pay schemes.

4.1.4 The vision of the service is **"to become and remain a payroll service that is highly valued by its "clients" for its effectiveness, efficiency and economy. This is achieved by consultation with appropriate stakeholders and continuously reviewing and developing people, systems and processes."**

4.1.5 There are ten separate payrolls, reflecting different terms and conditions of Council employees and three different pay frequencies. This results in some 150 pay runs per year. (As the review establishes, these arrangements are over-complex, and do not deliver Best Value for the service as a whole).

4.1.6 The table below provides further information about activity levels:

Task	Approximate Activity level
Starters & Leavers	2,500 per annum
Changes of Circumstance	3,000 per annum
Time Sheets	70,000 per annum
Sickness	25,000 incidents per annum
Maternity Pay	1,000 maternity payments per annum
Pensions	1,500 joining/leaving the pension scheme
Attachment of Earnings Orders	5,000 deductions per annum

Task	Approximate Activity level
(AEO's)	
Car Mileage & Allowances	21,400 per annum
Working Family Tax Credits	8,250 per annum
Student Loans	1,500 repayments per annum
Queries to Central Payroll	56,000 per annum

4.1.7 The service is a heavy user of IT, and effective IT is critical to the provision of an efficient service. Two systems are used in the office:

(a) A computerised payroll system, provided by a commercial supplier (Cyborg Systems International). The system operates on the Council's mainframe AS400 system, and is not the supplier's most up to date product. It has been heavily bespoked over a number of years;

(b) A separate Car Allowance system, which calculates allowances due and makes payment by means of an electronic interface to the Payroll System.

4.1.8 The Payroll System itself is a crucial component of the Council's computerised financial information system, and details of payments made to employees are interfaced electronically to FMIS. The system has no links to *"Open Door"*, the Council's computerised HR system (a key deficiency, given that both systems require the same basic data about employees).

4.2 Service Background

4.2.1 Until 1996/97, the service paid the employees of the former District Council. The caseload subsequently doubled with the incorporation of Social Services payroll in 1997 and school based staff during 1999/00.

4.2.2 Unitary status had a markedly detrimental effect on the service, the requirements having been (frankly) underestimated. Action to provide a reliable service to schools was a feature of the Authority's Ofsted action plan, published in September 2001.

4.2.3 Since unitary status, the management structure of the team has been significantly changed, and considerable improvements made. Nonetheless, the service has struggled with:

(a) the upheaval of unitary status;
(b) outdated and fragile IT, on which it is heavily dependent;
(c) a legacy of under-development both in procedures and training.

4.3 Key Stakeholders

4.3.1 Central Payroll has links with a range of stakeholders. The key stakeholders are:

(a) The Authority as a whole: for fulfilling statutory and corporate obligations associated with the payment of employees;

(b) Departments and schools, whose employees are paid;

(c) Employees and Elected Members; who receive payment.

(d)   External Stakeholders: principally organisations to whom money is due as a result of the employment process. A summary of external stakeholders is attached at Appendix 2.

4.4   Staffing

4.4.1 The Central Payroll Section has an establishment of 28 f.t.e. posts. An organisation chart is attached at Appendix 3 showing the approved establishment and at Appendix 4 showing the current operational position. (It has been necessary to exceed the establishment for some years, to deal with operational difficulties.) The table below shows a breakdown of the staff in the section:-

Central Payroll Operational Staffing - July 2002

	White	**Asian**	**Afro-Caribbean**	**Total**
Male	6	2	0	**8**
Female	19	11	1	**31**
Total	**25**	**13**	**1**	**39**

4.4.2 In addition to the staff located in the Central Payroll Section, departments estimate that they have an equivalent of 17.2 fte's engaged on payroll tasks.

4.5   Finance

4.5.1 The current level of expenditure on the **whole** Payroll Service is some £1.4m per annum. The cost of the Payroll function is made up of the:

- Costs of the Central Payroll Section, including recharges from other support services
- Costs of payroll work undertaken in departments

4.5.2 The **Central Payroll Section** has a gross expenditure budget of £920,000, of which:-

(a)   61% is for staffing
(b)   21% is for IT costs

4.5.3 There are, however, two other key factors affecting the costs/budget of the Central Payroll Section, and the true cost is therefore approaching £1.2m:-

(i)   It has been necessary to overspend the budget in the previous two financial years by significant amounts (over £0.1m). Additional staff have been employed to:

- Ensure payroll deadlines have been met.
- Cope with the additional pressures created by the transfer of school based staff.
- Ensure appropriate "investment" was made in developing the service – including proper training of staff and the implementation of "structured payroll" (a more automated version of the computer system).

- Provide additional management capacity to cope with the day to day operational pressures and to plan future service provision.

(ii) It is also believed that, of the Council's total IT costs, a further £150,000 which is not charged to the service is in effect a cost of supporting in-house Payroll.

4.5.4 **Service departments** estimate the cost of time spent by staff on payroll tasks to be £280,000: this figure is approximate only. A departmental breakdown is shown at Appendix 5.

4.6 Linkages to Other Best Value Reviews

4.6.1 The review of payroll has key links to other Best Value reviews:

(a) IT and e-government;
(b) Human Resources and Personnel Management.

4.6.2 **IT and e-government** is a year three best value review. The Payroll Service is fully dependent on reliable IT systems to run the service. To reflect the extent to which the service is dependent on IT, the Service Director attends the Payroll Core Review Team to have direct input into the review. The Head of Service with overall responsibility for Payroll is included in the Payroll Core Review Team for IT and e-government. Both parties have been included in the consultation arrangements for the final reports and improvement plan.

4.6.3 **Human Resources and Personnel Management** was a year two review. The final report went to cabinet on 29 July 2002. Links to this review are significant. Many of the recommendations contained in the Payroll review rely on information from departmental personnel sections, and commitment from the personnel function is essential to achieve the payroll improvement plan. A member of the HR review is on the core review team for payroll to ensure that links are made. An integrated payroll/personnel system is a key recommendation of both reviews.

4.7 Equalities

4.7.1 Equalities issues are integral to the policy and practices of the service, and the checklist designed to test the inclusion of equalities issues in Best Value has been utilised. However, the checklist principally concerns the risk of excluding minority groups from service provision. The payroll service is a financial process that does not exclude any group: anyone who works for the Council gets paid. All employees will benefit equally from the improvements detailed in this report.

4.7.2 Measures have been taken to ensure that the service is accessible to all. These include:-

➢ Producing payslips so that they are accessible to all staff i.e. Braille payslips
➢ In response to the needs of the Disability Discrimination Act, a room available on the ground floor for easy access for employees with mobility difficulties
➢ In line with council policy, the office has interpretation and translation skills available for employees with different language needs

4.8   Sustainability

4.8.1 The principles of sustainability have been applied throughout the review. Initiatives included in the report have been measured against the Best Value checklist, although the checklist is, again, mainly targeted at services that are delivered to members of the public.

4.8.2 The amount of paper used to deliver a payroll service can make an impact on conserving resources. Last year 220,000 paper payslips were used. This only represents one third of all the paper currently used to deliver the service. The review recommends using more advanced software that will reduce the amount of paper used, including the use of on-line payslips.

5. CHALLENGING THE SERVICE – (INCLUDING FUNDAMENTAL CHALLENGE)

5.1 Fundamental Challenge – Why is the service provided?

5.1.1 There is a contractual obligation on the Council to pay its employees, although there is no obligation to do so in-house. Consequently, the service must continue to be provided, although the Council has a choice as to how to do so.

5.1.2 The Payroll provider has to provide the service in a way which complies with statutory obligations contained in the Finance Act, which is revised annually to incorporate budget changes. There are statutory requirements for processing and payment of deductions to meet the monthly and annual statutory deadlines for:

- ➢ Income Tax
- ➢ National Insurance
- ➢ Pension Contributions
- ➢ Additional Voluntary Contributions (AVC) in respect of pensions
- ➢ Attachment of Earnings (Court Orders)
- ➢ Child Support Agency
- ➢ Tax Credits
- ➢ Student Loans

5.1.3 The service provider also has to comply with the Data Protection Act.

5.1.4 The School Standards and Framework Act, 1998, enabled schools to opt for a different payroll provider with effect from 1 April 2000 under "Fair Funding for Schools". Two schools, one large secondary and one small primary, took advantage of these provisions in April 2001, and are now receiving a payroll and personnel service from private suppliers. This is in addition to two previously "grant maintained schools" which continue to secure a payroll service from the County Council. No other schools have, as yet, opted to utilise these provisions: it is considered that this is attributable to the improving service and relationships that have been established after a difficult transitional period.

5.2 Payroll Provision – How Should the Service be Provided?

5.2.1 As part of this review, consultants, PricewaterhouseCoopers, were engaged to challenge the current method of operation.

5.2.2 Their brief was: **"A challenge to the current method of delivering Payroll and Personnel services, specifically relating to the in-house computer systems in use, consideration of how well the current model of delivery is meeting users' needs, and whether it represents value for money; exploration of other models of service delivery which may be available to increase the quality of services and / or reduce costs. "**

5.2.3 The final report from the consultants, received in May 2002, has been utilised to inform the challenge stage of the Best Value Review. The main findings are:-

(a) The status quo is not a viable option as it will not deliver any real longer term service improvements.

(b) The outdated [Personnel] system should be replaced.

(c)   Continuing with the current version of the existing payroll system is not a viable option.

(d)   A fully integrated payroll and personnel system is the best way forward for the Council.

(e)   Significant cultural issues exist which need to be addressed.

(f)   Significant changes are required in personnel procedures. Personnel practices are disparate across the Council and need to be brought in line.

5.2.4 The consultants were subsequently engaged to provide an analysis of the options for the service which is reported later in this paper.

5.3   Critique of the Current Method of Operation

5.3.1 As can be seen from the costs of the section, the most critical elements are:-

- Staff
- IT

5.3.2 Both staff and IT costs are higher than they should be (see the *"compare"* section of the report), and it is believed that ineffective use of IT is a crucial aspect:-

- excess IT resource is required to keep the system operational;
- excess staff are required to carry out tasks which could be automated.

5.3.3 During late 2001, an audit was commissioned from the system suppliers. This, coupled with the work of the consultants supporting the review, and the knowledge of the payroll staff has identified:-

(a)   The current system falls far short of the functionality expected of a modern product;

(b)   There are considerable inefficiencies in the way the system is operated (both by the user, and in relation to IT housekeeping).

(c)   The extent of bespoking makes it difficult to upgrade to later versions, and makes ongoing maintenance problematic (every time, for instance, the supplier releases an update to deal with legislative changes, the council has to beware of unforeseen implications for the parts of the system which have been bespoked). The council has, furthermore, become excessively dependent on a single expert in IT Services (although steps have been taken to reduce this).

5.3.4 This lends heavy support to the consultant's view that the status quo is not sustainable.

5.4   Terms and Conditions of Service

5.4.1 As part of the *"challenge"* stage, consideration was given to the wide range of differing terms and conditions and their effect on the administration of the payroll service. It was considered that there were many areas that need to be reviewed with a view to simplifying administration and thereby reduce cost. Attached at Appendix 6 is a list of areas that are considered to fall under this category. The

improvement plan includes an overhaul and simplification of terms and conditions as part of the work necessary to any system re-implementation project.

5.5 Operational Inconsistencies

5.5.1 There are significant operational inconsistencies between departments (and schools) in their relationship with the Central Payroll Section. These differences clearly have an impact on efficiency and are a contributory factor to the high unit cost. The main areas consist of:

- Different types of data transfer (e.g. paper, disc and e mail)
- Variations in accuracy and completeness of information supplied
- Different support systems used in departments and schools

5.5.2 The main reasons why these inconsistencies exist appear to be:

- Historic - evolving over a period of time
- Cultural differences encountered at both the time of Unitary Status and the subsequent transfer of the payroll service for school based staff
- Different levels of expertise in departments and individual schools

5.5.3 A key element of the improvement plan involves a business re-engineering exercise and it is important that all inconsistent payroll practices (departmental and central payroll) are examined and appropriate changes made consistent with the technical solution adopted.

6. COMPARING THE SERVICE

6.1 Introduction

6.1.1 The results of the *"compare"* part of the review suggest that costs of the service could be reduced. Key areas of cost in which Leicester appears to be high, and which are explored further in this section are:-

- IT costs
- Employee costs.

6.1.2 There are no national performance indicators for the Payroll Service.

6.1.3 The Chartered Institute of Public Finance and Accountancy (CIPFA) and its commercial arm, the Institute of Public Finance (IPF), have been developing a number of Benchmarking Clubs relating primarily to financial services. The City Council is a member of the Payroll Benchmarking Club and first received comparative information in September 2001 relating to financial year 2000/01. Another source of information has been through a grouping of the five treasurers in the unitary authorities in the Midlands (Leicester, Derby, Stoke, Nottingham, Telford and Wrekin). This has resulted in the exchange of comparative information, including (since 2001) Payroll. Furthermore, a limited process benchmarking exercise involving Leicester, Glasgow and Havering has led to improvements in our processes for recoding overpayments; and a more detailed comparison of practices with Derby City Council was carried out.

6.1.4 Best Value is as much concerned with the quality of services as with their cost. However the main focus of the available benchmarking information is on cost and is heavily biased towards quantative rather than qualitative information. This is not by choice, simply because it is very difficult to measure and compare quality.

6.1.5 Discussions with other authorities indicate that different assumptions and bases have been utilised, despite the best endeavours of the compilers. This makes like for like comparisons difficult and any conclusions drawn should be treated with caution. Indeed, the figures relating to Leicester are inconsistent between the two main comparison sources utilised. This is because each benchmarking organisation defines its own parameters and the information is primarily for comparison with participants in each particular group. This is not a drawback in itself – it simply requires the information to be used for the purpose for which it was compiled.

6.2 Benchmarking Results – Payroll Service

6.2.1 Key cost and efficiency measures are:-

(a) cost of service per employee employed;
(b) cost of service per payslip (which will generate a different result, dependent upon the frequency with which employees are paid – some authorities will have a higher proportion of weekly paid staff);
(c) employees employed per payroll employee (ie the number of employees paid divided by the number of staff in payroll).

6.2.2 Key comparative data is as follows:-

CIPFA/IPF Club:

	Leicester	Unitary Authorities	Similar Authorities
Cost per employee	£53	£53	£49
Cost per payslip	£4.31	£3.34	£2.59

"Midlands 5" Unitary Authorities:

	Leicester	Other Authorities' Average
Cost per employee	£65.39	£53.07
Cost per payslip	£4.88	£2.82
Employees per payroll staff	395	575

6.2.3 The full comparative information is attached as Appendices 7 and 8.

6.2.4 Despite the caution referred to above it is possible to draw a number of broad conclusions from the benchmarking exercise:-

- Leicester has a good record of making payments to employees correctly and on time.

- Leicester has a high percentage of monthly paid staff (which is good practice).

- At £4 to £5, Leicester has a high cost per payslip, although, dependent on how the number of employees is determined, the cost per employee is more comparable with others. The high cost per payslip is heavily influenced by two key factors:

  o The high number of monthly paid employees in comparison with others (i.e. the more monthly payments the less payslips – the less payslips the lower number of units hence higher the unit costs); it is noted, however, that efficiency savings should accrue from reduced numbers of pay runs.
  o Although there is only limited information, the activity levels (i.e. crude measures of the number of starters and leavers, the number of working tax credits) show Leicester to be on the high side. Higher activity levels tend to equate to increased costs without affecting the number of units – the result is a higher unit cost.

- The key elements of high costs are those areas which represent the highest proportion of the Payroll budget (staff costs and IT).

- Leicester has a high proportion of payments made by BACS. This is encouraging, as payments made in this form are considered to be the most effective and efficient. It does, however, still have a small number of payments made in cash, whereas two of the other authorities in the grouping have none.

6.2.5 Comparisons with the private sector are notoriously difficult, unless embarking on a full tender process for the provision of the service. No attempt has been made as part of this best value review to undertake such comparisons, as it was considered

that the effort and expense involved would be inappropriate. The Private Sector is reluctant to contribute to such exercises.

6.2.6 Significantly, however, the consultants employed believe Leicester's cost per payslip to be high, and suggest £2.50 is an appropriate yardstick. Such a figure would represent a significant saving to the Authority.

6.2.7 As a result of indications that the IT costs charged to payroll were high, further work was undertaken to:

- obtain further comparative information from those authorities participating in the Midlands Group 5
- try and determine how IT costs have been allocated to payroll (at £1.70 per payslip) in Leicester over the last few years

6.3 Benchmarking – ICT costs

6.3.1 A questionnaire was devised and sent to the four other authorities of "the Midland 5 Group". The results are shown in Appendix 9, and can be summarised as follows:-

IT Costs	Leicester	Other Authorities' Average
Cost per employee	£23.53	£20.58
Cost per payslip	£1.75	£1.03

6.3.2 On cost per payslip, the summary shows Leicester's IT costs as the highest of all five authorities at £1.75.

6.3.3 However, as with all comparisons, further examination of the figures helps to explain some of the reasons for the differences.

- Authority X's IT costs are highest in terms of the total value charged to Central Payroll. The cost per payslip is lower than Leicester's because of the very high number of weekly paid staff (although it is noted that more weekly staff should result in additional cost because of the extra work involved). Three of the other authorities also have higher numbers of weekly paid staff than Leicester and this clearly reduces costs per payslip. When calculated as a cost per employee, Leicester's IT costs are lower than Authority X and nearer those of Authority W and Authority Y.
- The IT costs for Authority Y and Authority Z do not reflect all of the service elements which Leicester's costs do. This appears to be partly due to the benefits of both authorities having or moving towards integrated Payroll & HR systems, but also because certain costs are charged to corporate budgets, a policy which appears questionable under CIPFA's Best Value Accounting Code of Practice.
- Authority W's ICT provider is an external company that undoubtedly benefits from not having to bear the level of overheads which in-house providers do.

6.3.4 A number of other factors are likely to have affected the ICT costs "declared " by each of the authorities. These include:

- The bases used to allocate IT costs to users will undoubtedly vary.
- The level of IT costs borne will also depend on the numbers of applications running on the mainframe of each authority.

- There is no easy way to determine the relative standards of IT provided. However, there are indications that Leicester provides relatively high standards.

6.4 Allocation of ICT Costs to Payroll.

6.4.1 There are four main elements of the ICT charges made to Central Payroll. These are:

- **Individual Services**, which include telephony costs, desk top support services (including the helpdesk) and the costs of being connected through the Local Area Network (LAN). Charges are based on the actual numbers of telephones and connected PC devices and on usage of the helpdesk and so are, to a degree, within the control of Central Payroll management.
- **ASCs** (Application Service Commitments). These relate to the costs of running the Cyborg system. Charges are based on disk space occupied, costs of staff directly engaged on system support and maintenance, printing costs based on the numbers of pages printed, and on a share of the costs of "running the mainframe" which include such things as access control and security, external data storage and business continuity.
- **Project Work**. This is the cost of staff directly engaged on system enhancements and development work. This is all directly commissioned by Central Payroll and charged on the basis of hours booked to the job. Again costs are, to a degree, within the control of Central Payroll management.
- **Corporate ICT costs**. These are a share of the costs of such things as Data Protection administration, contract negotiation costs, the Web team, some Research and Development costs for the internet etc.

6.4.2 ICT actual charges for 1998-99 to 2001-02 and budget for 2002-03 are as follows:

Year	Individual Services	ASCs	Project Work	Corporate ICT	Total
	£	£	£	£	£
1998-99	12,800	75,715	101,376	2,200	192,091
1999-00	17,100	166,325	186,512	2,200	372,137
2000-01	17,600	209,677	48,491	3,300	279,068
2001-02	31,700	237,429	37,210	4,400	310,739
2002-03	32,300	266,728	54,100	10,100	363,228

6.4.3 The year on year changes are quite marked and warrant closer examination.

- In the earliest two years, significant project work charges were incurred, primarily the work required to prepare for the transfer of the city education payrolls from the County Council. Workloads dropped significantly after 1999-00.
- The on-going rise in ASC costs appears to be primarily attributable to steeply increasing volumes of processing time being spent on the Payroll system, together with significant increases in the number of printed pages produced. In the case of printing, the numbers of pages produced during 2001-02 dwarf all other major applications on the AS400, such as Council Tax and Housing Benefits. The increases in both partly reflect the impact of the education payrolls but also the more recent tendency for trial payroll runs to be made to detect errors (an invaluable safeguard), a cumulative increase in historic data stored on the system

and a policy of hard-copying all output to paper. They may also reflect the inefficiency of the current IT system.

6.4.4 Given that ICT charges represent a significant element of the total costs of Central Payroll, ways of reducing and minimising would need to be explored if the IT service continued to be provided internally. The consultants' work suggests a benchmark figure of around £1 per payslip for the cost of IT, saving 70p on current costs.

6.5 Employee Numbers

6.5.1 Benchmarking with the *"Midlands 5"* Group suggests that Leicester employs more payroll staff than the other authorities.

6.5.2 Whilst such comparison does not take into account different approaches to centralisation/decentralisation of responsibilities, it is another piece of evidence pointing to a high cost service. Indeed, the Council pays more for staff than the consultants suggest should be paid for the service (ie staff costs amount to £2.50 to £3.00 per payslip).

6.5.3 These costs are indicative of the level of inefficiencies built into the current method of operation, and support the case for a business re-engineering exercise.

6.5.4 The consultants supporting the review suggest the Council should be working to a yardstick of one payroll employee per 1000 employees paid (indicating 15 fte payroll staff for the Council compared with the present establishment of 28).

6.6 Comparative information from Derby City Council

6.6.1 As part of the Best Value Review it was felt that the Council could benefit from in-depth discussions with an Authority that showed a more cost-effective delivery of the payroll service, measured by the cost per payslip.

6.6.2 Based on the information provided in the Derby City Council - Best Value Review, Derby was approached and agreed to this proposal.

6.6.3 A meeting took place on 30th April 2002.

6.6.4 The key findings from this exercise were:-

(a)   Both authorities operate in a broadly similar manner, with a central payroll office and some payroll input undertaken by departments. Derby has perhaps gone further in decentralising input than Leicester;

(b)   Both authorities have a similar reliance on IT support;

(c)   Derby has a higher number of weekly paid employees than Leicester;

6.6.5 The only key differences between the authorities are the IT system used (being from different suppliers) and the fact that Derby's IT support is externalised. Derby's IT costs are significantly below Leicester's.

6.6.6 It is noted that since carrying out this comparison exercise, Derby has itself reviewed its Payroll Services provision, and is in the process of implementing an ASP solution which they expect to improve the service and further reduce costs. A partnership with Derby is one potential outcome of pursuing an ASP solution at Leicester.

6.7 Conclusions of Comparison Exercise

6.7.1 Whilst conclusions are difficult to draw, the payroll service appears to be expensive, particularly given the efficiencies Leicester ought to be able to achieve through the low number of staff paid weekly. A key component of these high costs is the cost of IT, and the high number of staff.

7.   CONSULTATION

7.1   Introduction

7.1.1 This section of the report gives details of the consultation that was carried out and the findings. Extensive consultation was undertaken to support the review.

7.1.2 The section is set out in the following ways:

➢ Existing consultation arrangements
➢ How further consultation was carried out for the purposes of this review
➢ Summary of the findings
➢ How the views of our stakeholders will be used in the improvement plan
➢ Details of how the results were fed back to those who contributed to the consultation.

7.2   Existing Consultation Arrangements

7.2.1 Central payroll has some established ways of gathering views of its main stakeholders.

7.2.2 Schools account for about 50% of employees paid. The **Schools' User Group** was set up in October 2001, in conjunction with the **Schools Development Support Agency**. This was partly as a consequence of criticism of the service when Education payroll was first brought in-house. This group gives schools a formal setting where new developments can be tabled and discussed, and where problems about the service can be resolved. All schools were given the opportunity to attend; the group is currently made up of representatives of about 30 schools. Initially the meetings were held twice a term. The success of this arrangement with schools is reflected in the fact that fewer issues were raised and the meetings have been reduced to once a term.

7.2.3 **Departmental User Groups** have now been operating for some time, supplemented by regular *"client liaison"* between Central Payroll and departments.

7.3   How further consultation was carried out for this review

7.3.1 A mixture of qualitative and quantitative methods was used.

• Questionnaires - 5% of all employees were sent a questionnaire with their payslip.
• Telephone interviews were carried out with our two main external stakeholders, the Inland Revenue and Leicestershire County Council Pensions Office.
• Workshops were held with payroll staff, personnel sections, payroll managers and schools.
• A questionnaire was sent to all schools to see if they wanted to raise any issues

7.4   Consultation Findings

Employees' questionnaire.

7.4.1 A 5% sample of the employees on the payroll (745 in total) was randomly selected to receive a questionnaire. 195 were completed, representing a 26% response rate. One area with a poor response rate was topped up with some telephone questionnaires. The low response rate perhaps reflects the number of

questionnaires being used in the council, predominantly for best value reviews. Alternatively, payroll may simply be an *"invisible"* service to most employees (unless something goes wrong).

7.4.2 Ten specific questions were asked of staff to assess the quality of the service. These included timeliness and accuracy of pay, and helpfulness and knowledge of payroll staff. The ratings were asked for out of a scale of one to five (one being the poorest).

7.4.3 An overall score of 4.1 was received for the service as a whole indicating that the level of satisfaction with the service is very good. The results of the survey are summarised in the table below:-

	Rating
Ease of contacting staff	3.8
Helpfulness of staff	3.8
Knowledge of staff	3.6
Courteousness of staff	3.9
Timeliness of pay	4.7
Accuracy of pay	4.3
Changes effected	3.9
Friendliness of forms	3.9
Easiness of payslip	3.7
Timelines of payslip	4.4
Overall Rating	**4.1**

7.4.4 The questionnaire allowed staff to give detailed comments about the payroll service. 65 comments were received; 11 were positive and 54 were negative.

7.4.5 Issues were raised about the following (although not to any significant extent):-

Staff not knowledgeable	3.6%
Staff not helpful	3.6%
Payslip hard to understand	7.7%
Payslip late or does not arrive	3.6%
Forms difficult to complete	2.0%
Changes in circumstances lead to error	3.6%

External Stakeholder Interviews

7.4.6 The Inland Revenue and the pensions department of Leicestershire County Council were interviewed over the telephone.

7.4.7 Key points from the interview with the County Council were as follows:

➢ The County Council felt that the payroll section was understaffed with regards to pensions, with only one dedicated person covering this area, and too high levels of turnover.

➢ the relationship between the County Council and City Council Payroll Team had improved over the past few years, with payroll staff being very helpful and keen to tackle any problems.

➢ Another improvement was the introduction of "Structured Payroll", and the greater accuracy that this had introduced to end of year returns.

➢ Late information and inaccurate information was still an issue, especially with regard to starters and leavers.

7.4.8 Key points from the interview with the Inland Revenue were as follows:

➢ The relationship with the City Council is positive, and information is provided in a timely manner.

➢ Recent automation of information exchange has improved the service.

Workshops

7.4.9 A total of five workshops were held:-

- Two for Central Payroll staff
- One for departmental personnel staff
- One for schools
- One for Payroll Managers

7.4.10 Five questions were asked of each group

➢ What improvements have you seen in the last 18 months?
➢ What's good about the service?
➢ What do you think needs improving?
➢ What barriers are there to delivering improvements to the service?
➢ Any suggestions for improvements?

7.4.11 The results of the exercise were combined with the results of the schools questionnaires, and have been broken down into the following categories:-

Improvements seen in the last 18 months

7.4.12 Staffing and Accessibility:-

➢ Staff are now more helpful and better trained, offering better flexibility to departments/customers
➢ Personal development needs are identified and fed into the section's business plan
➢ Improved senior management arrangements, including improved roles for team leaders and senior clerks
➢ Better accessibility to the office for advice
➢ Establishing and improving links with users
➢ A payroll website
➢ Clearer payslips and improved forms

7.4.13 Systems and Processes:-

➢ Social Care and Health's payroll has been integrated into the central payroll office
➢ Introduction of a "structured payroll" to pay staff, reducing the need for manual calculations
➢ A range of developments to maximise the use of IT eg. designing a spreadsheet for schools to use to notify central payroll about timesheets, leading to timesaving and using magnetic media to transfer large quantities of information to the Inland Revenue.
➢ Special payments can now be made daily, by BACS
➢ Error rates have been reduced through the introduction of pre runs and better use of IT systems
➢ Belonging to benchmarking groups, to ensure that good practice from other authorities can be implemented at Leicester

What's good about the service?

➢ The staff were complimented for being flexible, committed and helpful
➢ Pay is always on time
➢ Customer care standards are high – payroll staff have recently won a customer care award
➢ Payroll staff are multi-skilled

What do you think needs improving?

➢ The Council needs an integrated personnel/payroll system to avoid duplication of effort.

➢ The IT system needs to be updated to provide improved functionality and greater automation.

➢ IT infrastructure (the server) is fragile, and has broken down leading to interruption of service provision and (in extreme cases) risk of not running payroll on time. A recent change in server has not solved the problem.

➢ Inconsistent practices and duplication between service departments and the centre, notwithstanding improvements made so far.

➢ A desire for schools to have a nominated pay clerk.

➢ Too many errors, notwithstanding improvements already made.

➢ Payslip design is too complex, and difficult to understand.

Barriers to delivering improvement

➢ Adequacy of IT support: specialist knowledge of the payroll system within the council rests with one person, with no comprehensive backup. A new server was installed in June 2002 but there are still reliability problems. Working practices in the IT support section restricts when the payroll can be run, causing scheduling problems within the payroll office.

➢ Work bottlenecks caused by majority of departmental input being submitted at the end of each month.

> High turnover of temporary staff which mean that experienced permanent staff spend more time training than would normally be the case.

7.5 How the Consultation will lead to improvement

7.5.1 A significant number of comments relate to IT infrastructure, practices, support and procedures, to which radical change will be made as a consequence of this review. Consequently, it is not proposed to significantly amend existing processes to accommodate such comment until systems are changed.

7.5.2 However, some action can be (and is being) taken now to deal with views expressed.

7.5.3 Individual pay clerks will be given responsibility for nominated schools, from September 2002. As part of their development, they will visit schools to shadow school staff, in order to build better relationships, and for both parties to understand the demands of each other's particular jobs.

7.5.4 New College has agreed to pilot a scheme to work with Central Payroll to make payslips more user friendly, and this work will be completed by the end of March 2003.

7.5.5 IT services have been urgently tasked with resolving the problems caused by server failures: indeed, this problem was believed to have been resolved by the introduction of a new server, but problems recurred.

7.5.6 Work is taking place to upgrade the current payroll software to the latest version available from the present supplier. This work will not prejudice the decisions taken in respect of the review (it being an essential pre-requisite to whatever option is eventually selected) and will force the Council to work more closely to the supplier's standard method of operation. This in itself will start to eliminate unhelpful, variant practice.

7.6 Feedback

7.6.1 Those attending the workshops were given a summary of the feedback at the end of the sessions. Key stakeholders such as staff were given the opportunity to discuss the findings and proposed solutions. Two sessions were offered to staff in the central payroll office to discuss the findings of this report.

7.6.2 A summary of the findings has been put on the intranet on Payroll's page. A note to let staff know that the feedback is there is to be included on the December 2002 payslip.

8. COMPETITION

8.1 Introduction

8.1.1 There is an active market for the supply of financial functions which can be specified by measurable outputs or which relate to the provision of specialist market orientated services - payroll generally falls into this category. Authorities outsourcing their payroll functions appear to do so for one of a number of reasons, although the vast majority of local authorities continue to provide the service on an in-house basis:

- Political
- To enable authorities to concentrate on core functions – this is where payroll and other support or administrative functions are perceived to be non core
- Cost savings
- Gain access to specialist expertise (this would normally only apply to small authorities)

8.1.2 The outsourcing route is often taken for a number of related areas rather than payroll in isolation. A number of significant outsourcing contracts involving a wide range of support services have recently taken place, involving Hyder Business Services. Substantial savings have been claimed.

8.1.3 As identified in the *"Challenge"* section of this report, competition already exists in respect of the provision of the service to schools. Schools are able to select an alternative provider, although none has done so since April 2001.

8.2 What would be outsourced?

8.2.1 By and large, the Council can outsource whichever element of the service it wishes. However, whilst it would be possible to outsource the Payroll Service without the requisite IT (i.e. the contracted payroll provider continues to use the Council's IT system), this would obviously not be sensible in the Council's situation.

8.2.2 Credible options are therefore:

a. To outsource the Payroll Service, inclusive of IT;

b. To outsource both Payroll and Personnel Administration, inclusive of IT.

8.2.3 If Payroll was outsourced, **the Council** would continue to supply information affecting pay entitlement (such as starters and timesheets), via departments. This could be achieved by a variety of means, including paper forms via courier, or direct electronic transfer. The **private sector contractor** would (on the basis of the information supplied by the Council) maintain the payroll records, process payrolls, and provide the supporting IT. The contractor may or may not have a local presence at the Council. In relation to IT, it would be envisaged that the contractor would provide the Council with facilities to view information via PCs, and generate its own ad-hoc reports.

8.2.4 Outsourcing would require the Council to create a residual client function, although this could be just one or two officers.

8.3 Applications Service Provider Solution

8.3.1 This is a new and emerging development arising from the growth of Internet technology which enables system suppliers to provide a full IT service in respect of system supported. It is very different from Outsourcing.

8.3.2 If an ASP solution was adopted the Council would continue to supply all pay information (as above). Payroll would be checked, co-ordintated and run by Central Payroll, but the actual processing would take place on an outside computer to which the Council would have access. Responsibilities for maintaining, supporting and enhancing the syatem would rest with the ASP provider.

8.4 Other Issues

8.4.1 Internal Procedures - If Outsourcing or ASP is pursued, it would be critical to examine our internal procedures and re-engineer them to provide an effective "fit" with what the contractor would do. This can typically take some months prior to the production of a contract specification. Both the Outsourcing and ASP routes could be used (as some authorities have done) as a means of imposing discipline into our internal processes and procedures. Regardless of which option is selected it should be stressed that the specification is a critical document to get right, and the authority will pay the price if preparatory work is not done properly.

8.4.2 It is envisaged that TUPE arrangements would apply to existing Payroll staff in the event of an outsourcing contract. To the extent that they became surplus to requirements, staff would be made redundant.

8.4.3 It is not envisaged that TUPE would be applicable to an ASP solution.

8.4.4 Each of the options is considered in Section 10 of this report and an overview given as Appendix 13.

9. PERFORMANCE MANAGEMENT OF THE PAYROLL SERVICE

9.1 Introduction

9.1.1 As part of the review, the effectiveness of the arrangements for performance management in the Payroll Service were considered. The review concluded that the service has good arrangements for delivering improvements, had delivered improvements, and could be relied upon to deliver further improvements. Substantial step change in performance of the service is not possible within the present technological limitations; but once these are overcome, the service is in a good position to make the necessary internal improvements.

9.1.2 Evidence for this is:

(a) The development of business planning, leading to effective performance management and demonstrable achievement;

(b) The views of the stakeholders which are evidenced in section 7;

(c) Specific improvements made in the last 18 months.

9.2 Business Planning

9.2.1 The first business plan for the service was produced for the 1999/2000 financial year, although SMART performance measures were not effectively included until 2001/02.

9.2.2 The table below shows performance measures for the service and achievement over the last three years:

	Actual 00/01	Target 01/02	Actual 01/02	Target 02/03
Payrolls produced on time	100%	100%	100%	100%
Statutory returns submitted on time	100%	100%	100%	100%
Deductions submitted on time	100%	100%	100%	100%
Errors requiring manual payment (Education Department) - attributable to Central Payroll	2.2%	0.8%	0.67%	0.75%
- attributable to departments/schools	0.9%	0.8%	0.81%	0.75%
Errors requiring manual payment (all Departments) - attributable to Central Payroll	0.71%	0.65%	0.47%	0.65%
- attributable to departments	0.69%	0.65%	0.57%	0.65%
Number of invalid codes per 100 payslips (Education only).	3.1	2.0	n/a	1.75
Number of invalid codes per 100 payslips (all departments)	3.4	3.0	n/a	2.5

9.2.3 The range of performance measures has been extended for 2002/03, to incorporate the following:

(a)   98% of correspondence responded to within 10 working days;

(b)   no more than 0.5% of education payroll errors attributable to Central Payroll, and 0.5% errors attributable to the department/schools resulting in overpayments in the Education Service; and a corresponding target of 0.4% for other departments.

9.2.4 In addition to the above, the authority's action plan prepared in response to Ofsted's report (September 01) requires the following performance measures to be reported to the Education Department:-

(a)   Error rates, as above;

(b)   Outstanding payroll queries from schools.

9.2.5 The declining trend in errors requiring manual payments is particularly pleasing, and is demonstrated graphically at Appendix 10. Clearly, it is not possible to eliminate the possibility of all error from the payroll service; however, the key cause of concern now rests with errors caused by departments, rather than Central Payroll; an appropriate action involving training and dissemination of information is included in the improvement plan.

9.2.6 A key feature of the performance measures is monitoring of errors. In any payroll service, it is impossible to eliminate errors, but it is essential that they are kept to a minimum. There are different types of errors:

(a)   Errors resulting in significant underpayment to a member of staff, who then requests a manual additional payment (these errors are monitored above);

(b)   Errors resulting in overpayment of salary (will be monitored for the first time in 2002/03);

(c)   Errors resulting in a minor underpayment, which is corrected in the subsequent pay run (these errors are not monitored at all);

(d)   Errors resulting in inaccurate coding in the Council's financial ledger (these errors are monitored above).

9.2.7 Errors can, furthermore, be caused by departments providing inaccurate information (or failing to provide information at all); or by Central Payroll staff failing to act on instructions received.

9.2.8 Reporting of outstanding payroll queries from schools has ceased, as the amounts involved (whilst once substantial) are now negligible.

9.3   Central Payroll Section Improvements

9.3.1 The overall improvement in performance management can also be demonstrated by significant achievements, discussed below.

9.3.2 Prior to 1999 there had been little development of the payroll service and system beyond meeting the statutory requirements. This was due to several reasons, the main ones being managing the changes required due to Unitary Status, and the then existing culture.

9.3.3 A new management team was brought in to manage the service in 1999. Their aim was to modernise and work towards an efficient, effective service. The management team has worked with payroll staff, departmental user groups, and school based staff to ensure development work has been identified and prioritised. Development work impacting on payroll "customers" has largely been achieved through joint working and developing processes and procedures with appropriate groups.

9.3.4 Improvements include:

- Bringing in-house payrolls for 8,000 employees based in schools w.e.f Feb 2000
- Automating the reporting processes to and from the Inland Revenue.
- Introduced 'structured payroll' to pay employees in departments. This makes better use of the automated elements of the payroll system.
- Preparing a business plan for the service.
- Introducing Performance Management Indicators.
- Identifying staff training requirements to encourage personal development to meet needs identified in the Business Plan, and introducing ERDs for the first time.
- Producing manuals for processes and procedures.
- Formal consultation with schools and departments, including a termly schools forum.
- Automation of input processes and form redesign.
- Improved accessibility for customers contacting by telephone.
- Benchmarking with other authorities.
- Better error monitoring introduced.
- Reduced dependence on IT Services.
- Providing support and guidance to schools that wished to consider alternative options for the delivery of this service.
- Introducing a facility to undertake on-line pay calculations
- Improving the processes relating to provision of Braille payslips, eliminating delays.
- Introducing daily BACs payments to eliminate the need to raise cheques or employees to collect cash.
- Improving the level of service to schools, to the extent that all schools using the in-house service for 2001/2 decided to stay with the in-house service this financial year
- Improving 'invisible' structures and systems within payroll, e.g. overpayment recovery, reconciliation of suspense accounts.
- Development of an Intranet site.

9.3.5 The benefits gained from the above development work include:-

- Reduction in errors
- Reduction in the use of paper.
- Better use of modern technology and improved efficiency.
- Closer working relationships with key partners, and improved communication with customers.

- Eliminating duplication within the office and within the payroll area' enabling others to 'own' information.
- Using more efficient processes.
- Reduction in the time taken to provide statutory information to the appropriate bodies.

9.4   Summary

9.4.1   The service can demonstrate its ability to improve, and to achieve first rate performance given the appropriate technical infrastructure to do the job effectively.

10 OPTIONS & RECOMMENDATION

10.1 Introduction

10.1.1 This section of the report draws very heavily on the external consultants' recommendations. As discussed in chapter 5, the consultants are clear that the status quo is not an option. Further, regardless of the option that is adopted the Council face a major change management scenario that will have to be appropriately Project Managed to ensure the ultimate deliver of the new Payroll Service.

10.1.2 The options reviewed are as follows:

- Retaining the service in-house, based on the current suppliers' latest product

- Outsourcing

- Applications Service Provider(ASP) in one of two forms:

  o Direct with a commercial supplier

  o In some form of partnership arrangement with another Local Authority, possibly with Derby City Council

10.1.3 All 3 options have the potential to deliver very significant savings amounting to £0.4m. Discussion about relative costs is included in the paragraphs below, but in reality, there is expected to be little difference in the potential financial impact of each. Much more crucial to the decision is the actual deliverability of the savings for each option through delivering the necessary project management and organisational change.

10.1.4 All options involve staffing reductions. Significant reductions in the Central Payroll Team are envisaged if the service is retained In-house or an ASP solution is adopted. There will be no Central Payroll team under an Outsourcing option. Around 4 staff in IT Services are currently involved in Payroll. This would reduce to around 1 with an In-house option or disappear with the other 2 options.

10.2 Case for Integrated Personnel/Payroll System

10.2.1 All three options identified in the body of this report involve implementation of an integrated system, and the case for this is made below.

10.2.2 The Council currently has two separate systems for payroll and personnel. This leads to considerable duplication:

(a) Separate maintenance of two systems is required;

(b) A lot of inefficient, duplicate input takes place (eg whenever there is a new starter, change or personal circumstances, or leaver, departmental personnel teams need to *"tell"* both the payroll and personnel systems).

10.2.3 The situation also inevitably leads to differences in the information held between the two systems. The belief is that the payroll system contains the most accurate

data. (There is an incentive for employees to advise the Payroll Section when errors are made! There is no such incentive in respect of personnel data).

10.2.4 The external consultants' advice (and the findings of the Human Resources Best Value Review) support the conclusion that the HR system needs replacement, and that an integrated system is the best way forward. An integrated system will enable further efficiencies to be developed in the operation of both services, such as:

(a)   Greater automation of the links between payroll and personnel;

(b)   A single point of management information about the workforce;

(c)   The possibility of employee *"self service"* via the intranet (ie employees themselves inputting data to the system to notify change of circumstances).

10.2.5 All market leading payroll and personnel systems now provide for such integration, and it is believed that the case for such a solution is unanswerable.

10.2.6 However, to enable such a solution to work, it is essential that we have the corporate discipline to ensure it is implemented and used consistently across the whole of the Council. This point is made forcefully in the HR Best Value Review, and such discipline was not present when the previous *"Open Door"* HR system was implemented.

10.3   Common Aims of any Solution

10.3.1 For each of the options, the Council should seek to deliver the following:

- An integrated HR/payroll system, with 'one-shot input' to reduce the existing level of double entry and duplication in records maintenance (for example, devolving the input of forms to service departments).

- Significant efficiencies compared with current practices, including streamlining the way in which the Council processes information and ensures consistency between departments.

- A robust, accurate and reliable service.

- The standardisation of different terms and conditions, payrolls and pay frequencies.

- Devolution of payroll input to the departments such that it is dealt with as close to service delivery as possible and most cost effectively.

10.4   Key Decision Criteria

10.4.1 The key decision criteria used have been:

- The ability to deliver against the common aims above

- Affordability

- Timescales for implementation

- Deliverability, including the ability of the organisation to secure the necessary cultural change and the acceptability to staff and trade unions

- Risks in relation to the transition and from an ongoing perspective.

10.4.2 Additional work was commissioned from PricewaterhouseCoopers regarding the 3 options particularly in respect of sourcing market information on the likely costs of the Outsourcing and ASP options. Their work has informed the discussion below and an analysis is shown Appendix 13 to this report.

Review of Individual Options

10.5 Option 1 - Retaining the Payroll Service In-house

10.5.1 This option involves remaining with Cyborg, the current supplier, and implementing the latest version of their product. This would involve transferring from the Council's AS400 computer to a "Unix" based computer (which uses a non-proprietary operating system). Such a transfer is consistent with the direction of the Council's overall IT strategy.

10.5.2 The appropriateness of option one is dependent upon an assessment that the Cyborg's Human Resource Module meets the needs of the HR function. This remains to be confirmed in respect of the Education Department.

10.5.3 The main benefits of the latest version (compared with the current version) are:

(a) More user friendly screens and processes should lead to greater efficiency;

(b) It will be possible to manage information electronically, reducing delays and increasing efficiency. E:mails can be set to automatically trigger from work flows (e.g. identity cards for new starters);

(c) New reporting tools in the hands of the user, reducing dependence on IT Services;

(d) Electronic data importing, cutting out manual data input from different spreadsheets;

(e) An integrated expenses and benefits system, negating the need for a separate car allowance system;

(f) Scanning of documents for electronic filing;

(g) Use of an electronic diary, notifying staff when action needs to be taken.

10.5.4 Any upgrade to the latest version of the product would have to be accompanied by a significant business re-engineering exercise, to ensure that the Council makes best use of the way the system is designed to work. This would involve adapting our practices, and eliminating the bespoking that has caused such problems in the current system. The option is, therefore, much more than simply implementing a technical software update.

10.5.5 Should this option be adopted, the consultants recommend the Council should be working towards a benchmark figure of £2.50 per payslip for the future cost of the service. However, it is believed £3 is a more achievable benchmark.

10.5.6 A significant implementation effort, in conjunction with Personnel Officers, would be required. This would involve a project board and team, and a full time project manager

10.5.7 This option results in the maximum retention of risk on the part of the Council and the savings will only accrue if the Council is able to re-engineer the way in which the Payroll is processed, deliver staffing reductions and make the necessary transition from its existing AS400 platform.

10.5.8 The delivery of this option will require careful project management and significant resourcing.

Costs

10.5.9 An indicative cost plan for the implementation of Option 1 suggests an investment budget of £432,000 is required (inclusive of HR). It is envisaged that the authority will need to invest in additional Unix capacity to implement Option 1. The authority is adopting a policy of migrating from the AS400 platform to Unix platforms in any event, and costs of additional capacity will be managed as part of that strategy. (Costs will, in due course, be offset by AS400 savings, but there will be a cost of transition - this issue is beyond a matter solely for the Payroll and HR service.)

10.5.10 The implementation costs will be funded as follows:

	£000
Use of Unsupported Credit Approval	362
Use of Payback Fund	70
Total Implementation Cost	432

10.5.11 The Council has been permitted to borrow up to £0.7m to achieve payroll efficiencies as part of its Local Public Services Programme.. The Council also operate a "Payback fund" which advances money to self-financing capital projects. The Payback fund can be utilised to meet "pure" HR costs, which cannot be financed from the unsupported credit approval. It will need to be paid back over three years, in accordance with the Council's normal policies for its use.

10.5.12 Current estimates indicate that savings from this option will only start to flow from 2004/05 currently estimated at £100k rising to £420k by 2007/08 principally as Payroll cost reductions are established.

10.5.13 The following should be noted:

(a) Costs of using the unsupported credit approval are provided at 7% of the amount used, in accordance with corporate policy;

(b) Whilst specific additional costs and savings are attributed to HR (specifically the known cost of HR licences and savings identified through the HR Best

Value Review), this has not been done for Payroll. The savings assumed for Payroll reflect an expected £3 per payslip to be achieved by 2004/05;

(c) No cost has been attributed to acquisition of the self service modules - decisions to acquire them will have to stand alone based on a business case at the time;

(d) In respect of changes to IT recharges, it is assumed that these will be neutral in respect of the cost of supporting HR (although, given the existence of a shared system, it is reasonable to expect some savings would materialise); and it is assumed that IT costs can be reduced to £1.20 per payslip in respect of Payroll (slightly over the £1 benchmark recommended by the consultants).

10.5.14 Initial work has been undertaken concerning the potential to reduce ICT costs to Payroll. Consideration has been given to the costs relating to Application Support, Application Development, System Support Changes, Disk Usage, Printing, Ops Support Charges, Ops Storage and Insurance and Business Continuity.

10.5.15 It has been indicated that IT savings of between 0.75 – 0.84p could be made. However, the consultants observe in their review that the transition from the AS400 to other platforms, most likely UNIX, will involve complex operational issues which lead them to question whether it is safe for the Council to assume that the ICT costs can be reduced to benchmark figures without them having been fully addressed.

10.5.16 Detailed consideration of the ICT proposals would need to be undertaken to establish exactly the full extent to which the potential savings could be achieved when placed into the operational Payroll requirements of the revised service.

10.5.17 The consultants also highlight a further major issue in relation this option that of risk transfer. Under these proposals, the Council retains full risks for delivering:

- The rationalisation of Payroll issues such as terms and conditions, numbers of payrolls and pay frequencies.

- Payroll services in accordance with the Council's and statutory requirements, including effecting any future changes.

- Delivering all cost savings in relation to staffing, ICT and other costs.

Summary of Advantages and Disadvantages

10.5.18 Given at Appendix 14 is a summary of the Advantages and Disadvantages of this option as provided by the consultants.

10.6   Option Two - Outsourcing

10.6.1 Under this option, all of the Payroll services, both staffing and ICT related, would be transferred to a third party and delivered under contractual arrangements. The Council would retain responsibility for data entry and an overall control function.

10.6.2 This option would introduce a new approach to the way in which services are delivered which, subject to contractual arrangements, can include securing

continuous service improvement. Costs are known over the life of the contract thus providing stability for planning purposes. There are a number of suppliers on the market, and a track record of external suppliers providing payroll services to local authorities.

10.6.3 Obtaining definitive costs of this option has not been easy. The experience suggests that suppliers are not keen to provide information other than as part of procurement exercises (they do not wish to waste their time providing information for Best Value Reviews).

Costs

10.6.4 It is believed, on the consultants' advice, the Outsourcing route could be implemented without initial capital investment. The consultants suggest that an indicative cost to the Council would be £3.25 in respect of an integrated payroll/personnel service, without any initial outlay (the suppliers would spread the cost of the outlay over the term of the contract).

10.6.5 Further work was undertaken on behalf of the Council by the consultants, by way of a 'soft market soundings' exercise where a number of established 'players' in the market were approached regarding the delivery of an integrated Payroll/HR service. The outcome of their research shows that there is a ready market. The consultants have obtained initial cost estimates as follows:

Unit Costs (All figures in £)	Costs per payslip		
	Capita	Hyder	Northgate
Fully managed service	2.50 – 4.00	2.60	2.50

10.6.6 As can be seen most of these estimates are in line with the benchmark previously recommended to the Council previously (£3.25 per payslip).

10.6.7 A further £30,000 to £40,000 per annum should be included for the residual client function.

10.6.8 Certainty over the costs of an outsourced service could only be achieved, however, if a market testing exercise was carried out.

10.6.9 Despite not requiring capital investment, outsourcing would still require considerable implementation effort from the Council. A timescale of 18 months from the decision to start of the contract is typical. Indeed, the Council would need to consider:

(a) Appointing a Project Manager, to ensure delivery of necessary changes in internal procedures;

(b) Appointing consultants to support the change process;

(c) IT support to the process of transition.

10.6.10 It would seem appropriate to allow £200,000 for these costs. Discussion would need to take place with Government Office as to whether the unsupported credit approval could be used (as, strictly, the Council would not be incurring capital expenditure).

10.6.11 This option would require a significant change in staffing arrangements with the Council retaining a small control function (perhaps 1-2 staff). The remainder would either TUPE transfer to the third party, be redeployed or be made redundant. The consultant's discussions with providers suggest that they would be willing to accept a TUPE transfer but this would not extend to all the existing 30 staff in the Central Payroll Section.

10.6.12 As part of the best value review, a telephone survey was undertaken of nine local authorities who were known to have outsourced the service. The following general conclusions were drawn:

- In the majority of cases, outsourcing did not result in cost savings. Furthermore, where cost savings were claimed, this was mostly by authorities that had been outsourced for only a few (less than 3) years. This reflects a general trend whereby the outsourcing provider is willing to forego profits in the first few years of the contract in order to provide cost savings, but then raises charges, thus eliminating these savings.

- In almost all cases, even if the levels of service are currently at pre-outsourcing levels, there was initially considerable disruption due to the transfer, lasting on average about 2 years. This disruption arose either due to installation of new systems associated with the outsourcing or due to communications problems between the Authority and the outsourcing provider.

- It is extremely important to understand the scope of the contract prior to outsourcing, and to ensure that outsourcing does not compromise this.

- Forceful negotiation and clarification of all aspects at the outset is extremely important. Indeed, of those who had had negative outsourcing experiences, the majority ascribed their negative experiences to the poor drawing up of the initial contract, resulting in hidden costs and / or an inefficient service.

- The key drawback to outsourcing cited was loss of control. Indeed, one local authority interviewed stated that they would ideally wish to transfer the service back in-house, but due to the outsourcing of staff and associated knowledge, were no longer in a position to run an in-house service, and would have to carry on outsourcing.

Summary of Advantages and Disadvantages

10.6.13 A key area highlighted is that of Risk to the Council. In terms of Advantage, the Council would transfer the risk of poor performance and any over budget costs to the private sector company. The Council would under this option however retain control and responsibility for data entry and an overall Control Function and thus an element of the risk. The Consultants observe that the Outsourcing option has secured financial benefits for authorities in the past and that costs are known over the life of the contract assisting authorities with their long-term financial budgetting.

10.6.14 Given at Appendix 15 is a summary of the Advantages and Disadvantages of this option as provided by the consultants.

10.7 Option 3 – Applications Service Provider

Mainstream ASP

10.7.1 ASP is the result of the growth of the internet and the widespread adoption of high speed web browser technology. Instead of buying a new computer the customer rents the use of applications directly from a server accessible over an ordinary web browser.

10.7.2 ASP is a relatively new market. Key factors however are driving the growth in Out-hosting:

- Standards based internet technology makes it easier for companies to operate in this way.

- Standardisation of PC desktop computing based around Windows and Java has finally replaced the old proprietary systems.

- Demand for ever more diverse applications puts pressure on IT managers to deliver.

- Out-hosting enables the development of partnership arrangements between Councils

10.7.3 ASP, as with the other options, has the potential to provide significant savings. An advant6age it has over the in-house option is that it places support of the system with the person who understands it best (the supplier). In circumstances where the supplier is providing an ASP solution to a number of clients this can drive costs down significantly. ASP provides a contractually guaranteed service in relation to ICT software and hardware but leaves the actual Payroll processing to the Council. This has advantages and disadvantages. The most significant of the latter is that the Council still has to re-engineer the services and manage the staffing reduction necessary to achieve the improvements in cost required.

10.7.4 Additional work has been undertaken by the consultants in terms of researching current market costs. Whilst they found it difficult to tie suppliers down outside of a formal procurement process, indicative costs suggest a range of 60p – 90p per payslip.

10.7.5 The comparisons provided by the consultants are not on a consistent basis as they do represent different types of service. The table below is included to give a broad indication of costs. The figures are based upon the highest unit costs quoted and compare these to the Council's aim for a reduction in ICT costs to £1.20 per payslip:

Details	Target LCC costs at £1.20 per payslip	Capita costs at 65p per payslip	Cyborg costs at 92p per payslip	Midland costs at 97p per payslip
Overall annual costs based on 208,000 payslips	£249,600	£135,200	£191,360	£201,760
Saving compared with LCC target	£0	£114,400	£58,240	£47,840

10.7.6 The switch from an in-house provision, either under this option or equally under the Outsourcing option, will reduce the IT input to both HR and Payroll activities.

10.7.7 In terms of risk – this option is different as it transfers the risk and responsibilities for providing a fully functional payroll system to a third party.

Partnership arrangement with another Local Authority

10.7.8 This option is in effect a sub-set of mainstream ASP and would involve the Council developing links with another Council already involved in an ASP arrangement in order to secure enhanced operational benefits and economies of scale.

10.7.9 First and foremost however the contractual relationship would be with the ASP service provider with the other Council forming part of the contract.

10.7.10 The benefits to be derived could enhance the service and work to the advantage of both Councils concerned.

10.7.11 A potential Partnering arrangement could be with Derby City Council with whom initial research and a briefing visit has taken place. Derby are currently operating an ASP arrangement set-up in October 2001 with Selima who provide an integrated HR/Payroll web based system. The first stage of the contract went live in October 2002. Their two-weekly/and monthly payrolls are due to go live in December 2002. Such a partnership could;

> (a) result in shared development costs

> (b) provide emergency cover in the event of computer failure at either Derby or Leicester

> (c) provide mutual support between the 2 authorities

10.7.12 Such arrangements could have benefits to this Council and could be built in as an optional aspect to any ASP tender specification. It is noted however that a partnership approach would not avoid the need to go through a tendering exercise.

Summary of Advantages and Disadvantages

10.7.13 Given at Appendix 16 is a summary of the Advantages and Disadvantages of this option as provided by the consultants.

10.8   TUPE and Procurement Issues

10.8.1 At various points in this report issues relating to both TUPE and Procurement have been mentioned. The issues are summarised below:

- Option 1 – **Retaining the Payroll Service In-house -** No Procurement exercise required and no TUPE implications. The enhancing of the system could be achieved through waiving of Standing Orders.

- Option 2 **– Outsourcing** – Will require a Procurement exercise in accordance with EU Regulations. This option will most likely have TUPE implications

- Option 3 – **Applications Service Provider** – Will, in both scenarios outlined, require a Procurement exercise in accordance with EU regulations. This option will most likely not have TUPE implications

10.8.2 The question of whether TUPE applies is dependent on the particular circumstances of each case and is an area which would need detailed consideration once a particular option is approved and the Council's specification is being prepared.

10.9   Recommendation

10.9.1 To summarise, the key conclusions of the review are that the Council:

(a) needs an integrated HR/Payroll system, which holds all necessary data about employees and uses it for purposes both of paying people and providing management information to the HR function. At the moment we have 2 systems, which leads to duplication of input and inefficiency. (This recommendation is consistent with the conclusions of the Best Value Review of HR);

(b) needs to make considerable change to its processes, which are largely paper based, and vary from department to department;

(c) needs to review our 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 also have too many different payrolls and pay dates (the ideal, from a payroll point of view, would be to have all employees paid monthly on the same date);

(d) The service as a whole costs £1.4m per year. It is believed we can save £0.4m, or 30% of this cost, which greatly exceeds the 2% target saving expected from Best Value Reviews. This will not be saved immediately - any solution will take 18 months to implement, and longer for savings to flow.

10.9.3 Each of the above will have implementation costs, which can be afforded within a £0.7m unsupported credit approval we have been awarded as part of our local public service agreement.

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

10.9.5 The option which is recommended to Members is the - Application Service Provider option. 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 reduces the risk that support will be over-reliant on key individuals;

(b) it offers the opportunity for the provider to pass on economies of scale to its customers;

(c) there is the potential for the outcome of the tendering exercise to be enhanced if there is a bid involving another Local Authority;

(d) the Central Payroll Team will remain key to the delivery of the service and continue to deliver benefit and control of the Payrolls through its close relationship with, and knowledge of, the City Council and with the new provider;

(e) it transfers an element of risk, upgrading of IT and delivery of IT savings to a third party, but retains the risk of achieving changes to our processes and procedures (ie a balance of risk transfer is achieved).

10.9.6 In future, it is envisaged that the Payroll Service under an ASP solution 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 schools' 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);

(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 systems supplier's computer, which could be anywhere.

10.9.7 **Members are asked to approve the recommended Payroll solution as outlined above – an Applications Service Provider solution.**

11.   IMPROVEMENT PLAN

11.1   Sourcing the ASP Solution

11.1.1 The sourcing of an ASP solution for the new Integrated Payroll and HR system has the following project plan and key milestones.

Task	Completion Date
Appoint Project Board and Team	December 02
Appoint Project Manager	June 03
Appointment of Process Mapper	January 2003
Pre-Specification Tasks	
Define Scope of Project Remit	February 2003
Consult Departments	February 2003
Consult Schools	February 2003
Revision of Terms & Conditions	
Consultation and Negotiation	June 2003
Implementation	April 2004
Procurement	
Define Project Route	January 2003
OJEC P.I.N.	February 2003
Process Mapping	May 2003
Produce Specification	August 2003
Project Board Sign Off Specification/Project Style	August 2003

Task	Completion Date
Place OJEC Advert	August 2003
Issue Tenders	August 2003
Receive Tenders	September 2003
Evaluate/Select ASP	December 2003
OJEC Appointment Notice	January 2004
Re-engineering Project	
Document Current Activities	May 2003
Promote Departmental roles	February 2003
Implement/Complete Re-engineering	September 2004
Implementation	
ASP Implementation	September 2004
Complete Staff Training	September 2004
Live Running	**October 2004**

11.1.2 Resources Required

To achieve the above the following resources will be required. Costs of the Project Manager and IT implementation support will be included in an indicative cost plan. Other staff resource will be made available internally:

    (a) Full Time Project Manager
    (b) A Full Time Process Mapper
    (c) 25% of time of Development Officer in Financial Services;
    (d) 50% of time of a Senior Payroll Officer;
    (e) 50% of time of Senior HR Advisor;
    (f) 50% of time of an IT Department Consultant;
    (g) On an as required input of a Legal Officer:
    (h) Support as required from other officers from all departments involved in Payroll and HR activities;
    (i) Departmental representation on Project Board and Project Team;

It is considered that the input of those staff c – g is an overall indication with the actual level of input varying depending on the stage reached of the project.

In addition there will a requirement for appropriate resourcing of:

    Evaluation Panel – Select List Stage of Tender Process
    Evaluation Panel - At actual Tenders Stage
    Focus Groups – To assist with Department input to the Specification

11.1.3 Documentation of Preferred Style of Operation

This is a significant milestone for the project, and will involve the Director's Board in "signing off" the preferred way of operating the system. It will involve, as a matter of course:

    (a) Agreeing the processes involved, in particular a split of responsibilities between service departments and Central Payroll;

    (b) Identifying how the new processes will generate the significant cost savings required;

    (c) Identify future target error rates for the service.

11.1.4 Risks

It is appropriate to consider the risks to the above plan. The key ones are:

    (a) Lack of adequate resource to support the project - this will be dealt with by supplementing the project with external resource if necessary funded by the unsupported credit approval;

    (b) Lack of internal IT resource to deliver competing priorities - the project needs to be assigned sufficiently high priority;

(c) Slippage in job evaluation project or failure to reach agreement with Trade unions on changes to terms and conditions - this would introduce potential additional complexity and reduce the scope to achieve cost savings;

(d) Failure to achieve corporate consistency in respect of new processes and procedures - a substantial risk that will require strong leadership from Directors' Board to ensure it does not materialise. External support to achieve the requisite change could also be considered.

11.2 Key Assumptions

11.2.1 Set out below are the key assumptions used in developing the Project plan:

- **Appointment of Project Manager** – end date of 2 June 2003 assumes the appointee working out a maximum 3 months notice period. This assumes that the recruitment process does not commence until February 2003 after full Member approval for the SP Project has been obtained.

- **Process Mapper** – start date of January 2003 assumes recruitment by internal secondment. Second to the Project Manager this is seen as a key appointment top the Project Team. As with the Project Manager, this post will be needed regardless of the route chosen as understanding the current processes within each department and Central Payroll is essential to the development of a comprehensive Specification/Tender document.

- **Changing terms & conditions –** that this can be completed by 30 June 2003 and implemented by April 2004.

- **Procurement** – time should be allowed for as much information as possible to be given to tenderers, and to allow them more than the statutory minimum 26 days to make their responses.

- **Implementation** – the Plan allows 9 months (mean of 6 to 12).

- **Resources** – that full resources will be made available.

BEST VALUE REVIEW OF OPERATIONAL FINANCE

SCOPE

1.   Purpose

The services covered by this review are part of the overall arrangements for the financial administration of the Council. They cover some of the essential financial support areas and in particular are provided to ensure that:

➢ employees of the council are paid in accordance with the relevant conditions of service and as authorised by departments / schools
➢ creditors supplying goods and services to the Authority are paid
➢ income is recovered from debtors owing money to the Authority
➢ appropriate arrangements exist for the security and accounting of cash

The services should be of high quality and be part of the overall provision of cost effective financial support services.

2.   Services to be Included

2.1   The review will include the council's arrangements for the payment of salaries, allowances and wages, the payment of creditors, debt collection (other than Council Tax, Rents and National Non Domestic Rates), mortgages and the central arrangements for cash collection.

2.2   The following sections within the Town Clerk's and Corporate Resources Financial Services Division (in brackets is the Sub Division in which the Section is located as part of the existing structure) will be included:

(a)   Central Payroll Section (Exchequer & Control)
Responsible for payment of salaries and wages to employees

(b)   Financial Management Information System (FMIS) Team to the extent that it is involved in the payment of creditors (Accountancy)
Responsible for the technical support to FMIS

(c)   Customers' Accounts Section (Exchequer & Control)
Responsible for invoicing and recovery of certain Council debt

(d)   Cashiers Section (Local Taxation)
Responsible for receipt of cash and cheques from the public and other cash security services

(e)   Control & Support Section (Exchequer & Control) to the extent that it supports the activities covered in the review
Responsible for a variety of services but specifically input and output to FMIS

2.3   The following section within the Town Clerk's and Corporate Resources Department Legal Division will be included:

(a)   Litigation Section to the extent that it supports the collection of income

2.4   All departments interface with these central services for the purposes of the functions being covered. The review will incorporate those areas of departments contributing to these functions and will review process from start to finish (e.g. raising a debt to its eventual collection.) The housing department administer mortgages.

The review therefore has a significant cross-departmental aspect.

2.5   The services included in the review have the following themes:

- they are essentially bulk transactional processes and services which support the main financial administration of the authority
- they need good quality IT support systems
- specification of the service required can generally be established on objective grounds and the services tend to lend themselves more readily to objective performance measures (in contrast to those services included in the review of financial management)
- they represent the major core systems for payments out of (excepting housing benefits) and into (excepting local taxation and housing rents) the authority

3.   Services to be Excluded

3.1   The best value review of Financial Management has already taken place. That review was concerned primarily with the planning and monitoring of the Council's finances including the preparation of final accounts - these services are therefore excluded from this review. It also incorporated two functions from within the Exchequer & Control Sub Division - Treasury Management Services and Taxation Administration and Advice. Consequently these areas are also excluded from this review.

3.2   The best value review of Corporate Governance scheduled for Year 4 will include risk management. The Risk Management Services Section which forms another key area of the Exchequer & Control Sub Division is consequently excluded from the review.

3.3   Local Taxation Services will be the subject of a separate best value review as will Internal Audit which it is envisaged will be part of corporate governance.

3.4   Other areas that whilst having significant financial effects are in the main departmental specific. Examples are:

➢ housing rents
➢ housing costing
➢ housing right to buy
➢ housing benefits
➢ stores
➢ social services financial operations related to residential care, home care, foster care, adoption and voluntary agencies
➢ subsidiary inputs to the accounts payable system e.g.
- local tax refunds
- energy management

- dairy subsidies
- SSIS / Care First

4. Strategic Links

4.1 The operational services forming part of the review indirectly contribute to all the strategic plans and community plan priorities by providing essential financial support services. Specifically any recommendations made as part of the review must meet the needs of the revitalising neighbourhoods project.

5. Stakeholders

5.1 Providers of the service.

These consist primarily of individual departments, various areas in Financial Services, the IT Division and the Litigation Section. Details are shown in paragraphs 2.2, 2.3 and 2.4 above.

5.2 Receivers of the service.

These are identified in relation to the individual service areas.

5.2.1 Payroll

Employees
Individual Departments
Schools
Members
Statutory Bodies (e.g. Inland Revenue, Benefits Agency etc)
Bodies in receipt of deductions from payments due

5.2.2 Creditors

Organisations providing goods and services to the Council or other recipients of payments
Individual Departments

5.2.3 Debtors

People and organisations owing money to the Council
Individual Departments

5.2.4 Cashiers

People and organisations making payments to the Council
Individual Departments

5.3 Other Stakeholders

In addition to the above there are a number of other stakeholders identified below:

5.3.1 Chief Financial Officer in his capacity as the "Section 151 Officer – responsible for the proper financial administration of the Council".

5.3.2 The District Auditor.

5.3.3 Customs & Excise

5.4   Views of stakeholders will be sought as part of the review (to the extent that this has not already happened) and where appropriate will be consulted as the review progresses.

Central Payroll Links with Main External Stakeholders

CENTRAL PAYROLL LINKS WITH EXTERNAL STAKEHOLDERS			
STAKEHOLDER	**CATEGORY**	**FROM CENTRAL PAYROLL**	**TO CENTRAL PAYROLL**
Inland Revenue	Central Government	Payment of sums due (income tax, national insurance, statutory maternity pay, student loans, tax credits), annual return, twice weekly updates	Notification of tax code changes, information re tax credits and student loans, earnings queries
District Audit		Teachers pension annual return for audit purposes	External audit and advice
NATFHE	Unions	Subscriptions, administrative information	Information regarding union membership starters, leavers and variations
TGWU			
AEEU			
UNISON			
GMB			
UCATT			
Local Government Pension Scheme	Pension providers	Pension contributions, information re starters and leavers, variations, annual returns	Individual pension statements, queries regarding additional contributions
Teachers			
Prudential (AVC)		Pension contributions, monthly returns	Information re starters, leavers and variations
Standard Life (AVC)			
Halifax (AVC)			
CSI	Software providers	Payment for maintenance of system etc, queries	Upgrades, solutions, systems maintenance

CENTRAL PAYROLL LINKS WITH EXTERNAL STAKEHOLDERS

STAKEHOLDER	CATEGORY	FROM CENTRAL PAYROLL	TO CENTRAL PAYROLL
Credit Union	Credit Union	Payments (savings, loan repayments)	Notification of loans, savings to be deducted /stopped
Various Magistrates Courts	Attachment of Earnings orders	Payment of deductions	Information
Child Support Agency			
Ace Insurance	Miscellaneous deductions from salary	Payment of deductions	Information
Mercia Health			
BUPA			
Forrester Health			
Convalescent Homes			
Give as You Earn			
Leicester Blind		Payment of voluntary deductions (annually)	
Red Cross			
Save the Children			
Dr Barnardo's			
Charity Appeals		Payment of voluntary deductions, ad hoc	

Approved Structure

FINANCIAL SERVICES

Exchequer & Control

```
                    ┌─────────────────┐
                    │ Head of Exchequer & │
                    │     Control     │
                    └─────────────────┘
                            │
┌───────────────┐   ┌─────────────────┐   ┌───────────────┐
│ Development & │───│  Payroll Manager │───│   Operations  │
│    Control    │   └─────────────────┘   └───────────────┘
└───────────────┘                                │
        │                              ┌─────────────────┐
┌───────────────┐                      │ Assistant Payroll │
│ Assistant Payroll │                  │    Manager      │
│    Manager      │                    └─────────────────┘
└───────────────┘                              │
    │       │                      ┌────────────┴────────────┐
┌────────┐ ┌──────┐        ┌──────────────┐        ┌──────────────┐
│Development│ │Clerk│      │ Team Leader  │        │ Team Leader  │
│ Officer  │ └──────┘      │ (Education)  │        │(Other Payrolls)│
└────────┘                 └──────────────┘        │   3 posts    │
                                  │                └──────────────┘
                           ┌──────────────┐
                           │Senior Payroll│
                           │  Assistant   │
                           │   3 posts    │
                           └──────────────┘
                                  │
                           ┌──────────────┐
                           │Payroll Assistant│
                           │   16 posts   │
                           └──────────────┘
```

28 fte posts
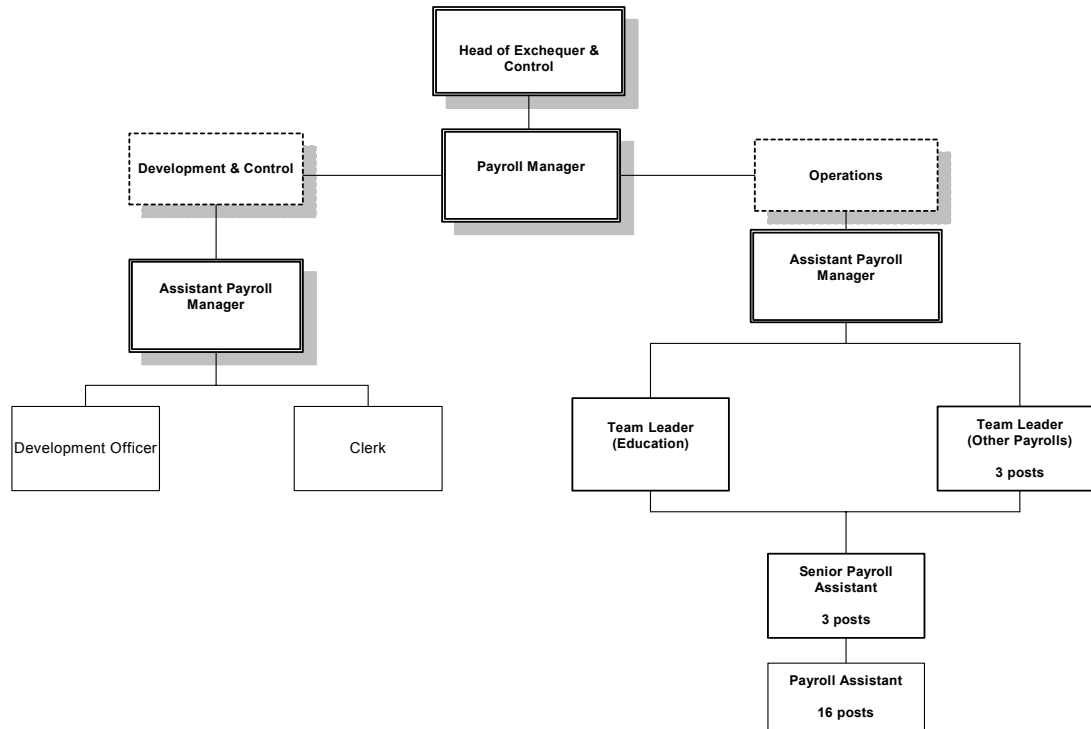
| Operational Structure | Appendix 4 – Actual Organisational Structure |

FINANCIAL SERVICES
Exchequer and Control

```
                    Head of Exchequer and
                          Control
                            │
                      Head of Payroll
                            │
  DEVELOPMENT & ──────── Payroll Manager ──────── OPERATIONS
     CONTROL                 │
        │                    │                        │
  Assistant Payroll    Training Officer       Assistant Payroll
     Manager                                       Manager
```

Development & Control (Assistant Payroll Manager):
- Assistant Payroll Clerk 2 posts
- Payroll Clerk
- Senior Payroll Clerk
- Development Officer

Operations (Assistant Payroll Manager):

- Team Leader (Departments)
  - Payroll Clerk 8.5 posts
  - Senior Payroll Clerk 2 posts

- Team Leader (Social Care & Health)
  - Payroll Clerk 3 posts (Includes 2 posts funded by Social Care and Health)
  - Receptionist
  - Input Clerk

- Team Leader (Schools)
  - Payroll Clerk 9.5 posts
  - Senior Payroll Clerk

39 fte posts

Appendix 5 – Departmental Staff Involved in Payroll Tasks

Departmental Estimates of Number of Staff and Cost in respect of Payroll Tasks

Department	Staff fte	Estimated Cost	Employees (Jan 02)	Cost per Employee
		£		£
Cultural Services & Neighbourhood Renewal	2.50	33,620	672	50.03
Education & Lifelong Learning	3.05	53,940	8,231	6.55
Env. ,Regeneration & Dev	4.00	62,350	2,437	25.58
Housing	2.50	39,350	1,422	27.67
RAD	1.65	26,860	856	31.38
Social Care & Health	3.50	60,400	1,984	30.44
Totals	17.2	276,520	15,602	17.72

Appendix 6 – Terms and Conditions Requiring Review

Terms and Conditions of Service Challenged as part of the Best Value Review

1.   **Cash Payments** – pay all employees by BACs.

2.   **Teachers pay dates** – Change to penultimate banking day of each month (currently penultimate working day of month, except summer term). This would bring them in line with school support staff and other monthly paid LCC staff. Problems occur when holiday periods span the end of a month ie. Easter break can be from 18th March, returning to work on 1st April. March pay day would then be 14th March. Problems arise in getting all paperwork in and processed on time, and results in additional payments being raised. These are time-consuming and costly for schools and Central Payroll. There are an increased number of telephone calls from teachers and schools to Central Payroll office for information. (also applies the following month, when complaints are received about having to wait so long between pay dates). Approximately 3,300 teachers are on this payroll.

3   **Weekly paid**– Move to monthly pay reducing processing and payments to provide a more cost-effective service.   Approximately 560 employees are involved. This could be achieved by providing an interest free loan (say 4 times average weekly pay), to be recovered in 10 equal parts, or on leaving if this is sooner.

4   **4-weekly paid** – Move to monthly paid. These are Social Services and Commercial Services employees who are paid by timesheets on a 4 weekly basis. Standardise the payment period to reflect other employees pay period, i.e. penultimate banking day of each month. Approximately 750 employees paid on this payroll.

5   **Payroll 46 pay dates** – Casual claim payroll – not contracted employment. Currently paid the 3rd Friday after the 2nd Friday in the month. Propose that pay days are the penultimate day of the month. All staff involved are paid by timesheet and this would continue. Problems currently occur when new staff are paid this way. Understanding the cut-off dates, and understanding what has been included for payment.   Also causes problems in central payroll when trying to manage input of payroll 46, and check/deal with queries on other payrolls with different deadlines. Numbers paid vary considerably, but averages around 700 employees.   Schools have also requested harmonisation of all pay days.

6   **Harmonisation of pay dates** (as above) - Would mean that all staff employed by the City Council would be paid at the same time. Payroll staff, departmental staff and school staff would all be able to concentrate on one set of deadlines and not try to check one payroll while still working towards a deadline on another.

7   **Cleaners** – Simplify the calculation of salaries and end the protected rates for cleaners employed pre 1.3.96. This affects Commercial Services staff as well as Education staff. Can this be bought out?

8   **Classroom Assistants** - Protected conditions, special rates apply. Recommended that pre 1996 rates are bought out.

9   **Kitchen assistants** – Currently paid 80% of contract with the balance paid via submitted timesheets. Suggestion to move to 100% salary, with timesheets only for extra hours. (The reason for this being set up this way was that staff not always turn up, but got full pay. Management issues existed with remote sites and timescales etc). With improved electronic communications that are now available this may not be such an issue. This currently involves a high volume of additional payments being input on a regular basis and can cause irritation for employees if the information to pay additional amounts is not received or actioned in time for the payroll run.

10   **End abated rates for Commercial Services and Social Services.** This refers to marginal reductions in rate per hour, due to receiving meals on the premises. (Special rates tables have to be set up for this and the reduction is very small. Managing the updating of these rates and departments checking the correct rates are applied is time-consuming for departments and central payroll.) The amount involved is approximately 1.7p per hour gross.

11   **Weekly payroll** – End holiday advances. Now employees are paid by Bacs the reason for having holiday advances no longer applies, as borne out by the small number of requests received. This has to be calculated and managed manually. This is time-consuming and there is a greater margin for errors.

12   **Frozen holidays** – These are an old condition of service - an employee had to be employed for one year before any holiday leave could be taken. This condition was ceased over 5 years ago and employees concerned were able to request one weeks holiday pay in any one year to redress the issue of the frozen holiday pay. No one has over 5 weeks frozen pay due, and therefore all outstanding payments could be made. Checks have to be made manually, when an employee requests this money or when an employee leaves. There are approximately 40 employees involved.

13   **Harmonisation of Car Mileage** - Due to differing conditions of service pre Unitary Ex County Council employees are paid mileage 2 months in arrears. Other city council employees are paid car mileage 1 month in arrears. Ex County employees were provided with a loan, if required, to manage the issue of claims being paid 2 months in arrears. The loan to be recovered on leaving.

14   **City employees** can claim mileage up to 3 months in arrears. Ex County employees can claim mileage up to 6 months in arrears.

          Unitary status was achieved 5 years ago and conditions need to be harmonised. It is difficult to manage and causes friction between payroll staff and employees that submit their claims in time for payment 1 month in

arrears. (Claims are held until payment should be made according to their conditions of employment).

Checking conditions are adhered to and explaining this to staff is time-consuming.

15   **Recovery of "Puma" Loans -** This has to be checked manually when an ex-County employee leaves, and often causes distress to the employee, as they are not expecting the recovery to be made. Explaining the position is time-consuming and causes friction between employees and payroll staff.

It would be more cost-effective to manage if all employees were on the same conditions and the loans recovered prior to leaving. If all employees were able to claim mileage one month in arrears the reason for the loan being made would not apply. Two options to recover outstanding loans could be made:

1. When 2 months' mileage are paid in 1 month, to bring in the 'one month in arrears' situation.
2. Over a period of say, 6 months, to cover employees whose circumstances have changed, or who only claim a few miles each month.

16   **Average Net Pay.** This was advanced when employees moved to cashless pay. The amount is to be recovered upon leaving. Many employees are unhappy when the recovery is made as they have forgotten that this is to be done. One option could be to write to all involved, highlighting the amount that is due to be recovered on leaving, and offer an alternative method of recovery, say over a period of 10 months. (This exercise has previously been undertaken but could be done again).

17   **Average Gross Pay.** This was advanced to employees of the County Council when moved from weekly to 4 weekly pay. The advance is to be recovered on leaving. Many employees are unhappy when the recovery is made as they have forgotten that this is to be done. One option could be to write to all involved, highlighting the amount that is due to be recovered on leaving, and offer an alternative method of recovery, say over a period of 10 months.

18   **Dirt Money** – This relates to very small amounts of money. It applies mainly to the Housing Department and apprentices receive less than time-served employees. Gross amount is approximately £3.77 per month. (net approximately £2.50). Can this be bought out?

19   **Low pay supplement**. This was developed and paid before the Guaranteed Minimum Wage and Working Tax Credits were introduced. It is a local condition which requires either manual intervention or bespoking of the payroll system.

Guaranteed Minimum Wage and Working Tax Credits are statutory requirements, systems are designed to manage these and therefore no manual intervention or bespoking is required.

20 **Laundry Allowances.** This is a minimal payment – only 17 pence per week. It is expensive to manage and benefits are extremely small. Can this be bought out?

21 **Social Care & Health.** Some staff, in their normal place of work, are charged a small amount for meals (Breakfast £0.65, Main Meals £1.16, Tea £0.33, Supper £0.51). It is costly to administer.

22 **Commercial Services - Street Cleaners and Public Convenience Attendants** – These are paid for Saturday unless the employee is off sick or on leave. This is not paid automatically and has to be inputted on a regular basis. It would be more cost-effective if the information was held in the system as a permanent payment and only inputted when a reduction to pay is required.

Benchmarking Information – CIPFA / IPF Payroll Benchmarking Club

Data in Respect of Financial Year 2000/01

Description See note 1	Leicester	Unitary Authorities Average (70)	Authorities Selected as Similar Average (15)	Other Authorities Average (19)
Total Costs				
Per employee	£53	£53	£49	£51
Per weighted employee (See note 2)	£51	£46	£39	£52
Per payslip	£4.31	£3.34	£2.59	£3.62
I T Costs				
Per weighted employee (See note 2)	£10.03	£9.66	£8.36	£11.00
Per pay slip	£0.85	£0.69	£0.55	£0.74

Notes:

1. Figures in brackets indicate the number of authorities in the group
2. Weighting factors applied by CIPFA to try and compare cost per equivalent monthly employee

Benchmarking Information – Midlands 5 Unitary Treasurers' Benchmarking Group

Data in Respect of Financial Year 2000/01

Service Block	Payroll

Service Definition	Administration of payroll and the provision of pensions scheme

Ref	BVPI	Indicator	Leicester	Authority A	Authority B	Authority C	Authority D
PY01		Unit cost of payroll per employee.	£65.39	£45.49	£57.83	£57.95	£51.00
PY02		Unit cost per payslip produced.	£4.88	£2.39	£2.30	£2.94	£3.63
PY03		Percentage of salary & wage payments made correctly and on time.	98.00%	99.87%	98.60%	99.00%	100.00%
PY04		Percentage of key financial returns completed within the set deadline.	N/a	100.00%	100.00%	100.00%	100.00%
PY05		Average number of payslips processed by each employee.	6,774	9,812	9,852	11,061	7,913
PY06		Average number of payslips per employee.	13.40	19.04	25.14	19.70	16.40
PY07		What percentage of your schools' payroll service is brought back by your schools?	99.00%	100.00%	96.90%	100.00%	100.00%
PY08a		Number of employees paid monthly.	13,855	7,202	9,305	8,284	6,872

| Ref	BVPI	Indicator	Leicester	Authority A	Authority B	Authority C	Authority D
PY08b		Percentage of employees paid monthly.	92.00%	73.00%	64.00%	59.00%	89.00%
PY09a		Number of employees paid 4-weekly.	764	0	0	2,964	0
PY09b		Percentage of employees paid 4-weekly.	5.00%	0.00%	0.00%	21.00%	0.00%
PY10a		Number of employees paid weekly.	513	1,313	5,268	2,729	849
PY10b		Percentage of employees paid weekly.	3.00%	13.50%	36.00%	20.00%	11.00%
PY11a		Number of overpayments	N/a	241	N/a	N/a	N/a
PY11b		Value of overpayments	N/a	£176,475	N/a	N/a	N/a
PY12		Number of employee commencements.	3,420	2,474		3,423	1,598
PY13		Number of working family tax credits processed.	805	635		N/a	N/a
PY14		Number of terminations.	2,616	1,735		3,331	1,577
PY15a		Number of payments per annum by BACS.	200,484	190,338	359,988	264,833	121,550
PY15b		Number of payments per annum by computer-generated cheque.	1,920	0	1,260	10,193	5,062
PY15c		Number of payments per annum by hand-written cheque	240	0	0	1,344	N/a
PY15d		Number of payments per annum by cash	572	0	3,276	150	0
*		Employees per payroll staff number	395	617	690	504	490

*supplementary statistic received by telephone survey.

COMPARATIVE INFORMATION - MIDLAND 5 - ICT BUDGETS - SUMMER 2002

Authority	Leicester	Authority W	Authority X	Authority Y	Authority Z
1. Total estimated ICT recharges for 2002-03	£363,200	£180,712	£571,000	£200,740	£66,260
2. IT cost per payslip	£1.75	£0.95	£1.53	£0.88	£0.75
3.IT cost per employee	£23.53	£17.21	£39.38	£16.59	£9.14
4. % of total budget which ICT costs represent	32.94%	23.53%	49%	23.13%	14.7%
5. ICT provider	In-house	Capita Business Services	In-house	In-house	In-house
6. Payroll Software	Cyborg version 3.5	Midland Software Delphie Version 1500	Midland Software Delphi Millenium version 2.5	Rebus HR – Unipay v6.4	Rebus Opendoor – 660.0
7. Platform	AS/400	Mainframe	Bull Server	Mainframe!!!!!	Sun solares unix
8. Service elements			?		
8.1 Telephony, infrastructure and management (i.e. excluding switchboard)	✔	✔		✔	✗
8.2 Telephony call charges	✔	✔		✗ Charged direct	✗
8.3 PC Support (i.e. technician assistance at the desktop)	✔	✔		✔	✔
8.4 LAN connection charges (including PC server maintenance)	✔	✔		✗ Corporate infrastructure accounted for separately	✔
8.5 IT Help desk	✔	✔		✔	✔
8.6 Programming support – maintenance	✔	✔		✔	✗ Separate charges from HR system support and financial system support

Authority	Leicester	Authority W	Authority X	Authority Y	Authority Z
					teams
8.7 Programming support – enhancements	✗	✔		✗	✗ As above
8.8 System management (managing the operating system, performance tuning, security access etc)	✔	✔		✗ Only security access – rest is included in corporate infrastructure costs	✔
8.9 Disk space (i.e. cost of hardware platform apportioned over main application users)	✔	✔		✗ A proportion only – rest is included in corporate infrastructure costs	✗ lease
8.10 Printing costs (payslips and hard copy reports)	✔	✔		✔	✔
8.11 Operations staff costs	✔	✔		✔	✔
8.12 Costs of off-site storage of backup data	✔	✔		✗ Included in corporate infrastructure costs	✔
8.13 Insurance costs	✔	✔		✔	✗ Part of corporate recharge for all insurances
8.14 Business Continuity costs	✔	✔		✔	✔
8.15 Other costs	✔	✔		✗	✔
9. Licensing costs paid by?	Central Payroll	Central ICT		Central Payroll	HR – Included in their recharge
10. All overheads apportioned?	YES	N/A – outsourced		YES	YES

Appendix 10 – Errors Requiring Manual Payment
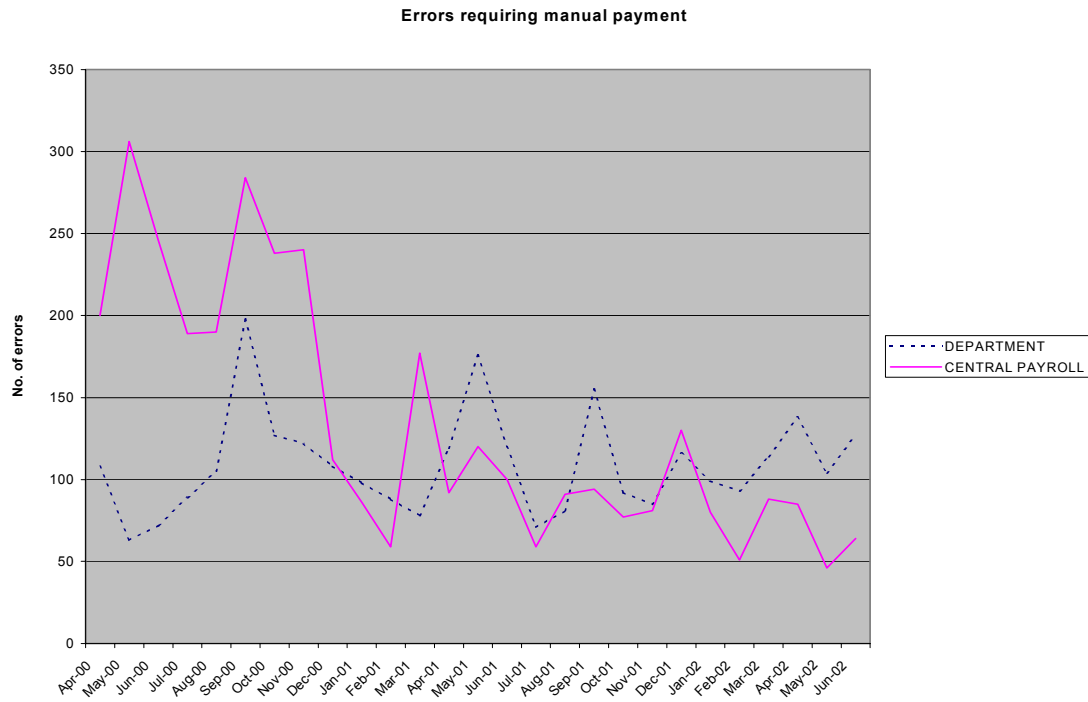
Errors requiring manual payment

Leicester City Council
Best Value Review of Operational Finance:
Phase 1 – Payroll

Report of Independent Consultee

(NB – This report predates the final version of the review, and significant changes have been made since that time, including a revised recommendation to support an ASP solution)

Introduction

As part of your Best Value Review (BVR) process you have found it useful to include a report by an entirely independent consultee. Jon Harvey of the Office for Public Management has compiled this report based upon a detailed analysis of your draft BVR report (including its 11 appendices) created on 29 August 2002. You specifically asked us to address:

- the improvements in the report and whether the report recommends a step change as required by Best Value.
- whether the 4 C's been thoroughly addressed
- whether the report recommends the best option, and
- whether report leads to the options you have recommended

We will use the 4C's as a basic structure for the report – mirroring your own structure. In each section we will note some particular issues and draw out some tentative conclusions. The report will conclude with an overview – addressing the four points listed above.

Challenge

We note:

- PriceWaterhouseCoopers (PWC) provided the main challenge element. Their summary report reviews only two of the three options for improvement – it only addresses the outsourcing option in passing. A large chunk of their report is concerned with their SAP option. (Now superseded)

- PwC mentions that four city schools opt out of the payroll services – there is little more information given about these arrangements – their costs , efficiencies and effectiveness.

- The conclusion that the 'status quo' is not an option.

- Changes to the payroll cannot be done in isolation from a significant change in personnel practices across the city but that the BVR is still lacking a final view from the personnel function on future requirements.

- Even though upgrading and as well maintaining the existing system is problematic due to extensive bespoking – it is the preferred option by the BVR team. Indeed work is already underway to implement the latest version (4.5) of Cyborg though it is stated that this does not prejudge the outcome of the BVR. ***(Now superseded)***

- A rationalisation of the council's terms and conditions is critical to success as part of a wider redesign / reengineering of work processes relating to personnel / pay functions. (Now superseded)

- The report discusses one option to decentralise the payroll function and whilst this option is rejected (and some of the reasons for rejection display a mode of thinking that will not be conducive to the process reengineering), the report leaves open the possibility of shifting the balance between work carried out centrally and departmentally. Again there is no analysis of the success or otherwise of the four schools that have gone 'local' as it were. *(Now superseded)*

- The challenge section does not evidence (though it may have happened) any review of other options including the creation of a rigorous market testing approach as way forward nor indeed the possibility of a consortium based approach – joining forces with other unitary councils around the Midlands for example.

- In conclusion, on the evidence we have seen in the draft report, we would contend that the BVR has stopped short of *fundamentally* challenging the current service arrangements – overlooking other examples of practice or potential partners from even Leicester's own backyard – including the four schools and indeed other local agencies such as NHS Trusts, the Police and (dare we suggest it) the County Council – local politics notwithstanding.

Compare

We note:

- You have concluded that the current payroll service – both its staff and IT elements – is expensive when compared to other similar authorities. For example - the cost per employee is calculated using different formulae for the CIPFA club and the 'Midlands 5' and works out between £53 and £65 per employee. (Although the report – elsewhere – says that the Payroll service costs the Authority £1.4m per annum and it administers to 15 420 staff – a cost of £90 per employee. There is no information to account for this difference.)

- The average unit cost per payslip produced by the other four Midland unitary authorities is £2.82 whilst Leicester's cost is £4.88. To match this average cost – Leicester will need to find a 40% efficiency saving. It is not clear from the action plan or elsewhere in the report how such savings will be delivered other than by setting an ambitious target and engaging in process reengineering. There is some evidence of higher activity levels in Leicester compared to others but information is very limited.

- To echo a point above – there appear to have been no comparisons made to other public service employer payroll costs such as the NHS or the Probation service. There is also no information given in the CIPFA/IPF club details of costs other than for other local authorities. Whilst the staff mixes would have been different – and on the assumption that this benchmarking club includes other organisations – some other comparisons would have been illustrative.

- Effective benchmarking can not only yield 'yardsticks' by which to compare performance – but also can highlight work methods that can deliver improved performance. The section on benchmarking seems (apart from the work with Derby Council) to have not much information about how the other authorities *actually* deliver more efficient services.

In conclusion, we would suggest that whilst some clear comparisons have been made and have emphasised that the current status quo cannot continue, there is a need for further benchmarking with other agencies and in more depth to search for *best* Best Value around and how to achieve it.

Consult

We note

- The BVR team has engaged in variety of consultation methods to gain an appreciation of how the payroll service is viewed by its stakeholders. It is good practice to feed back the results of the various investigations to those who have been involved.

- Existing user groups are mentioned in the report but there is no information about the sorts of issues raised in these groups.

- The questionnaire had a 26% response rate, which is about normal for such a survey and the overall view puts the service very much on the right side of the satisfaction measure. It is not clear in paragraphs 7.4.4/5 about what the nature was of the 54 negative remarks made and in the analysis box – it is unclear as to what the % figures relate.

- The information about the five workshops is detailed – but information from users and from providers is mixed together – making it unclear as to which comment comes from which source.

We conclude that the consultation was comprehensive but that meaning to attribute to the information and views gained is a little unclear due to its presentation.

Compete

We note:

- Despite the statement that there is an active market in the supply of such functions, there is little information about how many other authorities have pursued this as an option, what their success has been, what has not worked – and so forth. Most of the discussion is left to an analysis of the options in section 10 of the report.

- Notwithstanding Sir Andrew Foster's statement, it is questionable whether the assertion by PWC that the council is not currently in a position to outsource due to cultural issues and the need for a stable integrated system, is correct. If it were – then many local authority services outsourced over the years first under CCT and latterly under Best Value should never have worked – when many clearly have. Also the problems highlighted under paragraph 10.5.5 only serve to inform and guide any process of outsourcing as the problems described are all potentially resolvable.

- The external consultants PWC state that the cost of a fully outsourced payroll service would be in the region of £0.66m per annum – a substantial saving on the current cost of £1.4m. It is not clear where the figure of £3.20 comes from.

We would conclude that the section on competition is brief suggesting there is more work either to be reported on or done – to fully explore the option of outsourcing.

Overall conclusion

Best value demands a step change in performance. The option that the BVR team has chosen has the aspiration to deliver such a step change and achieve (as one measure of performance) a dramatic target improvement in the unit cost per payslip of £2.50 as opposed to the current figure of at least £4.30. Whilst there is substantive evidence that the payroll section has delivered improvements over the past few years – including managing the transition to unitary status – it is difficult to judge (from the information available to the consultee) whether the section has the capability and capacity to deliver such a *dramatic* improvement in the set period of two years. Certainly some of the cultural changes required (as indicated in the Improvement Plan) may well require more time and more resources than that outlined in the actions.

All the 4 C's have been addressed although as we explain above – they could have been pursued more thoroughly and indeed, in a more integrated way. (For example, there does not appear to have been any discussion with the stakeholder groups about possible alternative forms of provision – including the 'balance' question highlighted in the report). Best Value works best when the 4C's are seen not as four separate chunks of the BVR project plan but also crucially as four interconnected themes to be woven through all parts of the process. Whilst the fifth C – *collaborate* – is not official part of the Local Authority BV regime (though it is a part of the civil service approach to Better Services) it can be used as another helpful dimension. In this instance the possibility of collaborating

with other neighbouring public services, or more distant similar (unitary) authorities does not appear to have been explored.

The overall report and the logic of its arguments do appear to follow through, and cases for and against the various options presented are detailed well. Given the reliance on the external consultants, the fact that their extended summary does not address the externalisation option except in passing (it is not given the status of an option) nor indeed are any other options investigated raises a concern. It is also not clear where some of the figures used to justify the pros and cons of the three options come from. Indeed especially for a BVR on a financial service – the report is little fuzzy in places about the costs. (For example is the cost of Payroll £1.4m or 1.2 + 0.15 + 0.28 = £1.63m?). The criteria by which the Option one is chosen only become clear in paragraph 10.8.2 – and there is minimal option appraisal other than the table in the report. In sum we would say the logic is probably there – but the criteria for assessing each of the options need to be transparently consistent and made far clearer.

To address the key question – has the best option been chosen? – the answer is a qualified yes. The qualifications (in addition to those already in the report) are *only if*:

- Personnel *fully* support an integrated approach based upon the Cyborg upgrade and that necessarily the Cyborg HR system is deemed suitable to the needs of the Council

- The *full* costs of all the various options are detailed – including the time required by all staff involved in making option one work

- A *detailed* project plan is worked out which will enable regular assessments to be made to show how close the Payroll function is getting towards the target costings allowing for outsourcing to be triggered sooner than two years if predicted results begin to show huge deviations.

Jon Harvey, OPM
2/9/02

UNISON

Please ask for: Mark Challenor (Ext. 8175)

Our Ref:
Your Ref:
Date: 17 September 2002

To: Mark Noble

6RN

Ref: Best Value Payroll
Unison.Leicester@Virgin.Net

Leicester City Branch

Pilot House, 41 King Street, Leicester LE1

Tel: 0116 2995101 Fax: 0116 2248733

Comments for inclusion in report

1. The review has been extensive in looking at the payroll section of the RAD department. It is noticeable that a central provider has been scrutinised under a review than departments. Staff despite doing a difficult job and trying to cope with the changeover problems from Unitary status feels disillusioned about the outcome.

2. Too much has been made of comparing with other Authorities/organisations, despite the fact there is no guarantee that the comparisons are fair and equitable. As is obvious from the report the IT systems make it difficult to obtain work efficiently.

3. Whilst quite rightly targets should be set, we are not sure they are realistic, costs based per payslip work out a log cheaper when there are more weekly paid from the comparators. The main basis should be cost per employee, the results then are a lot more reasonable compared to elsewhere.

4. The anticipated reduction in staff, on the face of it does not look reasonable and the Trade unions will be monitoring this situation.

5. The expected reduction is far in excess of what is required for best value (2% required), a target reduction in cost of 40% is not really acceptable. Some of the independent consultee figures plucked out of the air are very debatable.

6. There will be capital investment required in bringing in the HR and Payroll package, staff will need re-assuring that this will not be used against them, i.e. could increase the cost per slip up so make their figures unrealistic. If the investment is paid within two years then this will at least give the section a chance.

7. In terms of conditions of service that need changing, no discussions have taken place within the Joint Trade unions/their members with the Council. No guarantee can be given that these changes will take place. Unless schools change to Local conditions problems will always be inherent in the system.

8. The unions are against outsourcing of pay because of all the services, this affects members more than anything does. Consultation at regional level have shown that in **some cases** outsourcing produces an initial saving, it gets a lot dearer as competition is removed. Service to our members appears vastly better when this is retained in-house, especially for clearing discrepancies and underpayments.

9. The unions would like members to recognise the progress that Management and staff have made in this area to improve the service already.

UNISON

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BEST VALUE REVIEW FINANCE AND PAY ROLL

COMMENTS FROM JOINT TRADE UNIONS   - 2nd DEC 2002

Further comments relating to the above review are as follows: -

1. As there does not seem to be a prima facie case for out-hosting the implementation and running of the IT part of the new integrated Human Resources / Payroll package.

2. There is a potential effect up to 3 members of staff. Work would have normally have come to these. We require an assurance that the Council will endeavour to utilise the skills of these persons. There is a general shortage of long term IT skills, decisions like these, could undermine the future viability of the section.

3. This should not be used as a precedent to keep insisting current/future work undertaken goes outside. Central departments in too many Best Value Reviews are the only ones to be reviewed and looked upon for Outsourcing.

4. We are not happy at the late nature of the recommendation to out-host instead of in-house; this has not left the amount of time for critical analysis.

5. The delivery of this new system is very heavily dependent on a new Project Manager, a good and effective Project Board and team. Is the Council committed to this, it will certainly need a culture change.

6. There could be a difficulty in delivering the pay and condition changes to make the new package easier and cheaper to run.

7. Departments are going to have to compromise and work more Corporately to deliver the savings required and more joined and similar ways of working.

8. The reduction per payslip is still looking unrealistic and we are not overly impressed in the way it has been advised by the Outside Consultants. A cost per employee is a better measure.

M.CHALLENOR (Unison)
On behalf of the Joint Trade Unions

Option	Ability to deliver against established aims	Affordability	Timescale for implementation	Deliverability – in-house implementation/disruption, industrial relations, cultural fit	Risk Transition Ongoing
1. In-house payroll & IT	a) Would provide integrated system. b) Great effort needed to achieve all savings. c) HR/Payroll staffing remains with LCC. d) LCC controls systems/ICT	Significant savings after year two, dependent on LCC rationalising staffing & ICT. Implementation costs affordable within resources	January 2004 with staff changes/savings following that date	a) No procurement exercise b) No TUPE c) Greater acceptability to staff. d) Needs effective project management, BPR skills, resources e) Needs buy-in from Departments to enter data.	a) All transitional/on-going process & ICT risks remain with LCC
2. Outsourcing	a) Would provide integrated system. b) Savings down to supplier to achieve within contract, subject to LCC establishing data entry & control functions. c) HR staffing remains with LCC. Limited client Payroll staffing remains with LCC. d) LCC controls systems/ICT via contract.	Significant savings, over current costs. Staffing savings depend on LCC rationalising processes and staffing	January 2004 subject to full extent and nature of the procurement process. Using a Cyborg based solution would give additional timing advantages.	a) Needs procurement exercise b) TUPE for all out-sourced staff. c) Raises industrial relations problems. d) Needs effective project management and procurement skills. e) Needs buy-in from Departments to enter data.	a) All risks transferred. b) Possibility of legal action in extreme cases of service failure. c) LCC loses operational control, eg continuous Best Value performance improvement. d) Needs performance measures.
3. Applications Service Provider (ASP) - ICT	a) Would provide integrated system. b) Great effort needed to achieve non-ICT savings. c) HR/Payroll staffing remains with LCC. d) LCC controls systems/ICT via contract.	Significant savings on ICT costs. Staffing savings depend on LCC rationalising processes and staffing	January 2004 subject to full extent and nature of the procurement process. Using a Cyborg based solution would give additional timing advantages.	a) Needs procurement exercise b) TUPE not applicable c) Greater acceptability to staff. d) Needs effective project management, BPR skills, resources e) Needs buy-in from Departments to enter data.	a) ICT risks transferred. Process risks remain with LCC. Transition risks subject to contract but onus on supplier. b) Possibility of legal action in extreme cases of service failure.

APPENDIX 14 - Retaining the Payroll Service In-house

Summary of the Advantages and Disadvantages – Extract from PwC Report

Advantages

- Managing the service in-house the Council will have total influence over how the payroll service is provided; control and governance can be maximised.

- This option provides flexibility in that it is not dependent or restricted by contractual arrangements with third parties (other than for the provision of the software system).

- There is minimal reliance on third parties.

- The risks associated with making any transition are minimised in one respect (they are wholly in the Council's control) but are fully retained by the Council.

- This option may be more acceptable in terms of Industrial Relations because it involves minimal change, however, staffing changes required for the savings still have to be managed.

- The impact on other parts of the organisation will be controlled by the Council and it may be easier to integrate the changes.

- Little need to maintain a monitoring function for services delivered outside of the organisation's influence.

Disadvantages

- Consultant raised concerns over the Council's ability to drive through process re-engineering and efficiency savings required to deliver the predicted savings.

- The Council retains all risks in relation to the transition.

- This approach requires maximum resource input from the Council to project manage the change.

- Costs will be relatively fixed – any significant changes in staffing numbers will not have a significant change in costs – this could be a benefit if the Council sees an increase in staffing.

- Changes in pay methods and frequencies (generally aimed at reducing payslip numbers) will result in minimal financial savings because of fixed costs.

- There is less of a catalyst for change.

- The Council will need to monitor carefully the benefits realisation, in particular, cost reductions.

- No access to any other technical expertise or best practice that may be available in the commercial sector or another public sector player no increase in capacity.

- The Council retains the risk of poor performance and rising Payroll & ICT costs.

Summary of the Advantages and Disadvantages – Extract from PwC Report

Advantages

- Outsourcing has been used by many authorities in the past under CCT and VCT arrangements and is well understood by both the public and private sectors

- Will introduce a new approach to the way in which services are delivered which, subject to contractual arrangements, can include securing continuous service improvement

- Could enhance the Council's strategic capacity through working with the contractor or through contractual specification

- Has secured financial benefits for authorities in the past

- May allow the shortcomings of the current service provision to be addressed and so the service to be better aligned to the 'vision' for the service held by the Council

- Risks of poor performance and cost overruns are transferred to and managed by the private sector company

- Costs are known over the life of the contract thus provide stability for long-term financial planning purposes

Disadvantages

- Monitoring arrangements will need to be put in place for performance review and to ensure contract compliance which can be costly depending on the contract

- Contract monitoring is a specialist skill which would require a significant change in the skills and capacity in house

- Transfer of staff through TUPE may be a possibility

- May be more difficult to deliver in terms of Industrial Relations aspects.

- There would be significant risks associated with the transition to the new arrangements which would need to be managed carefully

- Reduced flexibility as compared with a in-house solution

- Service levels will be fixed for the period of the contract and any variation during the contract term is likely to be prohibitive in its cost

- Once the service and capacity to deliver it has been outsourced to the private sector it will be difficult for the organisation to bring it back in-house should the contractor fail or through any change or priority for service provision.

APPENDIX 16 – Applications Service Provider (ASP)

Summary of the Advantages and Disadvantages – Extract from PwC Report

Advantages

- Based on the high-level review of costs, this option could offer significant savings compared with wholly in-house – this is particularly relevant given the need to review ICT anyway (as the AS400 lease expires).

- There is a ready market that can offer solutions based on the Council's existing systems if that offers the best overall solution. Providers have an established local authority client base and therefore understand the peculiarities of that market, terms and conditions etc.

- Access to technical IT expertise, without transfer of any Payroll staff (there may be some debate as to whether there was a TUPE transfer of some ICT staff – this will depend upon the extent to which ICT staff are dedicated to this system).

- More acceptable from an Industrial Relations point of view than full outsourcing, particularly with trade unions.

- Control over validation and reconciliation functions is retained.

- By managing the Payroll element of the service in-house, the Council will have good control over how the payroll service is provided.

- The option provides flexibility in that the ICT provider will offer good scalability and (subject to contract) the Council will benefit from significant reductions in payslip numbers as they arise (there is likely to be a stepped arrangement on fees).

- The Council is transferring risk for one of the more challenging elements of the service to a third party.

- The risks associated with making any transition are less than for full outsourcing.

- The requirement to constantly update systems for legislative changes is transferred to a third party.

- Benefits realisation, in particular relating to cost reductions is made easier.

Additional Considerations - Local Authority Partnering

- Depending on the structure of the partnership there may be an opportunity to benefit from the collaborating organisation's innovation, technical knowledge or best practice – this may enhance the Council's capacity.

- Opportunity to reduce costs through increased economies of scale.

APPENDIX 16 – Applications Service Provider (ASP)

Summary of the Advantages and Disadvantages – Extract from PwC Report

Disadvantages

- The need for a procurement process.

- There would be risks associated with the transition to the new arrangements that would need to be managed carefully.

- Some reduced flexibility as compared with an in-house solution but this only relates to ICT.

- The Council may be forced to make changes to Payroll frequencies, Terms & Conditions, etc, faster than it would have done otherwise, although this catalyst for change may not be a bad thing.

- The need to establish and maintain a monitoring function for services delivered outside of the Organisation's influence.

- The need to manage carefully the down-sizing of the Council's in-house ICT provision, including associated staffing – will TUPE apply?

- The need to establish interfaces with other core systems such as general ledger, however, this would have to happen with the move away from AS400 anyway.

- The fact that the Council could not move down a fully integrated ERP approach, although we understand that that has not so far proved attractive to the Council.