

## **EAST KENT JOINT SCRUTINY COMMITTEE**

**22 DECEMBER 2008**

- Subject:** Shared HR/Payroll Business Case
- Director/Head of Service:** Jim McDonald, Director of Corporate Services,  
Canterbury City Council  
Wendy Head, Corporate Director, Organisational  
Performance, Shepway District Council
- Decision Issues:** These matters are within the authority of this  
Committee
- Decision type:** Non-key
- Classification:** This report is open to the public.
- Summary:** This report sets out the progress to date, towards the  
creation of a shared service for the delivery of HR and  
payroll services to the East Kent authorities of Dove  
DC, Canterbury CC, Shepway DC and Thanet DC and  
asks the East Kent Joint Arrangements Committee to  
agree to the recommendations below being  
implemented.
- To Recommend/  
Resolve/Consider:** **To recommend that the Executive of each  
participating Council:**
- 1. Delegates to EKJAC the responsibility to  
develop business models for a shared HR and  
Payroll Service between some or all of the  
parties and to make recommendations to them.**
  - 2. Contributes £10,000 to develop the project.**
  - 3. Agrees to KCC commencing an appropriate  
procurement process for the acquisition of a  
suitable HR/Payroll software system provided  
that the system shall not be acquired until the  
participating Districts have approved the  
business model.**
- To resolve that upon the first two parties approving  
the above recommendation the following shall take  
effect:**
- 1. The EKJAC delegates to the Project Lead**

**(Wendy Head, Corporate Director, Organisational Performance, Shepway District Council) the power to develop the business models for a shared HR and Payroll Service between some or all of the parties.**

- 2. The EKJAC delegates decisions on the use of funding secured to develop the project to the Project Lead as above in consultation with the Chief Executives of the parties.**

## **1.0 Introduction**

- 1.1 This report presents the case for the creation of a shared HR and Payroll Service across the East Kent Districts authorities in line with the Kent Commitment and the shared services agenda

## **2.0 Background**

- 2.1 On 3 September 2008 the East Kent Chief Executives' Forum considered the high level business case for the delivery of HR and Payroll services through a shared services model. An overview of the key points of the business case is set out in section 4 of this report.

## **3.0 Potential savings**

### **3.1 HR Service**

- 3.1.1 The early financial analysis around the preferred model of delivery for HR through a shared service indicates a potential saving from year 2 onwards (April 2011) in the region of £400,000 across the 4 authorities.
- 3.1.2 This saving is based on a reduction in staffing costs from approximately £1.2 million to around £760,000.
- 3.1.3 The current level of staffing delivering the HR service (excluding payroll staff) across the 4 authorities is 24.6 FTE.
- 3.1.4 Benchmarking with other local authorities indicates this level of staffing is high for the number of employees served by HR, i.e. 2500. As an example Sunderland City Council has 7000 employees and a HR team of 30 staff.
- 3.1.5 The current cost of delivering the HR service is around £480 per employee. This is significantly higher than the average HR service costs identified in studies in the last few years.
  - The 2006 APQC Shared Services Benchmarking report found the average cost to be between £230 and £360 per employee.
  - The 2005 Saratoga Public Sector Benchmarking study found the average cost per employee to be £311.
- 3.1.6 Under a shared service arrangement the cost per employee of delivering the HR service will be around £304.

### 3.2 Payroll

3.2.1 Delegation of payroll would result in a total overall saving from year 2 onwards of approximately £120,000 across the 4 authorities. The table below sets out the potential saving for each authority.

| <b>Authority</b> | <b>Saving</b>   |
|------------------|-----------------|
| Canterbury       | £14,000         |
| Dover            | £59,000         |
| Shepway          | +£ 10,000       |
| Thanet           | £51,500         |
| <b>Total</b>     | <b>£114,500</b> |

### 3.3 Sensitivity Analysis

3.3.1 In order to test the sensitivity of the data in terms of a proven business case should one authority decide not to take part in the project, a further analysis of the savings has been undertaken on the basis of the largest partner withdrawing.

3.3.2 The logic of this additional analysis being that if the business case is still proven with the largest partner withdrawing then there still remains a viable business case regardless of which partner withdrew.

3.3.3 The largest partner authority is Canterbury City Council If they were to withdraw from the project the project would still be viable and would still bring significant savings, increased resilience and efficiencies.

3.3.4 It should be stressed that there has been no indication that any partner intends not to continue with this project. This additional analysis was undertaken to test the robustness of the payroll element of the business case only. All partners are still very much on board with delivering the shared payroll and HR service.

3.3.5 Savings in year 1 from both the proposed service delivery model and payroll option will be impacted by redundancy costs and set up costs.

3.3.6 It is anticipated that some of the proposed reduction in staffing will be achieved through natural wastage but there will inevitably be redundancies to be funded.

3.3.7 Further detailed financial modelling being undertake on an ongoing basis as the project is shaped will give a clearer indication of the impact of such costs but also projected savings over a 5 year period. Once the HR/payroll preferred system provider has been selected, actual costs will be able to be built into the financial modelling to allow actual savings and ongoing running costs of the shared HR service to be demonstrated.

### 3.4 Additional savings

3.4.1 Due to economies of scale there will inevitably be other cashable savings in the creation of the shared service. e.g.

- Learning and Development (current spend approximately £800,000 across the 4 authorities)
- Recruitment advertising (current spend approximately £200,000 across the 4 authorities)
- Occupational Health provision (Joint contract being let in summer 2009 is expected to bring savings)
- Reduction in the need for technology support to individual systems and individual upgrade costs.

3.4.5 All of the above will be further quantified as the service design is shaped.

### 3.5 Financial Protocols.

3.5.1 The project has a number of working groups set up which bring together officers with particular expertise to ensure that detailed work on all aspects of the project is undertaken.

3.5.2 The legal, governance and finance working group are currently working on the governance arrangements for the new service including the financial protocols. These will be finalised once final costs of the new HR/payroll system are known and the potential numbers of redundancies.

## **4.0 Overview of the high level business case**

### 4.1 Purpose

4.1.1 The purpose of the high level business case was to investigate alternative methods for the delivery of HR and payroll services for the authorities in the East Kent Cluster. It justified the case for an alternative method of provision of these services to be advanced to the next stage, and demonstrated that the preferred option met the East Kent Cluster's strategic objectives for the service deliverables at an affordable cost, i.e. demonstrating value for money.

4.1.2 The following functions are the main elements of the HR and payroll being considered for alternative service delivery;

- Learning and Development
- Employee Relations
- Compensation and Benefits
- Recruitment and selection administration
- Information and data processing
- Payroll

### 4.2 Objectives

4.2.1 The project group have clarified the objectives of the project as a wish to:

- Deliver shared HR Services for the East Kent cluster from 01 April 2010 at the latest.

- Deliver payroll through delegation/contractual arrangement to Kent County Council by 1 April 2010 at the latest.

#### 4.2.2 Achieving these objectives is initially expected to deliver:

- Efficiency savings (after initial set up costs have been incurred).
- Increased service resilience.
- Aligned business processes.
- An efficient HR /payroll system which facilitates self service for managers and staff and provides relevant and timely management information.
- Ready access for each partner to a larger pool of expertise for each authority through a combined team of high quality HR staff.
- Greater buying/procuring power.

#### 4.2.3 In the longer term the project is expected to deliver:

- A common job evaluation scheme.
- A set of standard policies for adoption in all the partner organisations.
- Greater development and career opportunities for staff in the shared service centre.
- Greater development and career opportunities for staff in each authority.
- A quality training programme that meets the needs of the partners, staff and managers on a timely basis.
- Standardised terms and conditions across the East Kent authorities.

### 4.3 Business Drivers

#### 4.3.1 The crucial business drivers behind the delivery of HR/payroll through a shared service solution are;

- At least 3 of the councils are in need of replacement payroll systems so joint working is likely to lead to better procurement terms.
- Modern IT systems are normally able to provide much better staff and management reporting and information.
- A single system will be managed more efficiently than having each council manage its own system.
- The agenda for policy development continues to grow and therefore the development of new policies or revision of existing policies once for use four times has to deliver efficiencies.
- All the partner organisations have experienced difficulties recruiting and retaining qualified/experienced HR professionals.
- The payroll service in each district relies on one or two people and there is, therefore, a need to increase resilience.

#### 4.3.2 In addition the following factors will enable the project to progress and achieve the objectives set out above:

- There is a consensus amongst all partners that a shared service is the way forward in addressing the above drivers.
- There is consensus as to which collaboration options(s) and service delivery models are acceptable.

## **5.0 Service Design issues**

### **5.1 Payroll**

5.1.1 Payroll is essentially a discrete, contained service. It is envisaged at this stage that the service in its entirety will be transferred to KCC under the proposed arrangements with the contract being managed from within the HR shared service.

5.1.2 The service will include:

- Monthly payroll (weekly where appropriate)
- End of year returns
- Payrolling of expenses
- Salary sacrifice scheme administration
- Management information
- Pensions processing

5.1.3 The project group has the benefit of very knowledgeable and experienced officers from KCC who are taking the lead on the procurement of the new HR/payroll system.

### **5.2 HR Services**

5.2.1 Officers from each of the four authorities are currently working on shaping the design of the new service. This work includes consultation with stakeholders, including managers from the partner authorities about how the service should be designed and delivered.

5.2.2 This work has identified 5 key service design principles which are underpinning the service design work. These are in draft form at the moment but essentially are around:

A service which is:

- Accessible
- Business focussed
- Clear and consistent
- Proactive
- Professional and supportive

5.2.3 The service design work is highlighting a variety of issues which require detailed work by the project group and discussion with the Chief Executives on the East Kent Forum.

5.2.4 The following is a flavour of the kinds of issues currently emerging from the service design process and which are being worked through by the project group;

1. Should there be any retained HR/Payroll function within each authority?
2. Should Corporate Health and Safety be included in the new service? (This currently sits within HR in two of the authorities).
3. How much of the service will be provided by self service through the new HR/payroll system.

## 6.0 Risks

- 6.1 The project group has undertaken an initial risk assessment around the project and created a risk log to help control the risks. The risk log is reviewed at the fortnightly project group meetings. The most significant risks and their control measures are set out below:

| Risk Description   | Risk Impact Description  | Control measure  |
|--|--|--|
| One of the partners pulls out of the project.  | Potential increased cost for remaining partners/reduced savings. | Seek formal commitment at early stage of the project and closely monitor views.  |
| 3 partners pull out of the project   | Project fails  | Seek formal commitment at early stage of the project and closely monitor views.  |
| Key personnel are absent from work or directed to other projects during critical phase of the project. | Slippage in the implementation plan.                             | All parties commitment to making resources available   |
| Funding to progress beyond the business case is not made available.                                    | Project stalls or ceases.  | All parties commitment to making resources available   |
| Pressure of the day job reduces time available for working group members                               | Project stalls   | Joint Service Planning and management of workload.   |
| Feedback from stakeholders on proposed service is negative   | Project loses credibility  | Consultation work stream undertake robust consultation, Service design work stream take heed of feedback in service design process. Project group members communicate ethos within each authority as often as possible |

## 7.0 Key milestones

- 7.1 A detailed project plan has been developed to which the project group and the work stream project groups are working.
- 7.2 Identified in this project plan are key milestones to be achieved to allow the project to progress to successful conclusion. These are:

3 December 2008

Agreement of EK JAC to proceed

|                               |   |
|-------------------------------|---|
| December 2008 – February 2009 | District Councils to support recommendations of EKJAC   |
| January 2009                  | Procurement process for HR/payroll system commences   |
| March 2009                    | EKJAC recommends preferred business model to participating parties  |
| March – April 2009            | Participating parties approve preferred business model and make appropriate delegations                           |
| April 2009                    | Contract for HR/Payroll system let to successful bidder   |
| May 2009                      | HR Service Manager appointed  |
| July 2009                     | New HR/Payroll system goes live at SDC followed by each of the remaining authorities over the following 6 months. |
| October 2009                  | Revised structure for HR service takes effect – Shared HR service “goes live”.                                    |

## **8.0 Forward Plan**

8.1 The Leaders of the parties are advised that the decisions that are anticipated to be taken in March/April 2009 should be included in their Forward Plan

## **9.0 Conclusion**

9.1 The high level business case identifies significant potential savings and makes a compelling case to progress this project as swiftly as possible.

9.2 Agreement to progress is needed in order to meet the deadlines set out in the high level business case and identified in paragraph 4.2.1 of this briefing note, and in particular the commencement of the procurement of the HR/payroll system.

9.3 Delivering this project to the planned timescale will provide real learning opportunities for other large service areas currently progressing shared services within the partner authorities. The principles and processes developed through this project will assist these other projects to progress successfully.

## 10.0 Background Papers

1. The Business Case (in this report referred to this high level business case) presented to the EK forum on 3<sup>rd</sup> September (*This document is confidential but is available through members of the project group in each authority*).

**Contact Officer:** Wendy Head, Corporate Director, Organisational Performance  
**Telephone:** 01303 853308