



**Open Report on behalf of Andrew Crookham,  
Deputy Chief Executive & Executive Director - Resources**

Report to:	<b>Councillor R D Butroid, Executive Councillor for People Management, Legal and Corporate Property</b>
Date:	<b>6 – 30 November 2023</b>
Subject:	<b>Delivery of Payroll, Pensions and HR Administration</b>
Decision Reference:	<b>I030452</b>
Key decision?	<b>Yes</b>

**Summary:**

The Corporate Support Services contract with Serco which includes the provision of the Customer Service Centre, Adult Care Finance and Exchequer Services, and Payroll, Pension and HR Administration expires at the end of March 2024. IT Services are also delivered under the Corporate Support Services contract, but those Services have now been extended until 31 March 2026 and so are running on a different timetable.

Following a recommendation from the Corporate Support Services Review (CSSR) programme on the 7 June 2022 the Executive approved the entering into of a shared service arrangement with Hoople Limited as the preferred future design and sourcing approach for the delivery of Payroll, Pensions and HR Administration to the Council and to schools. In the same decision Executive delegated to the Executive Director for Resources, in consultation with the Leader of the Council and the Executive Councillor for People Management Legal and Corporate Property, the authority to take all necessary decisions and steps to progress the new commissioning arrangements.

The Council has not been able to conclude a contract with Hoople which would allow it to proceed with certainty to conclude an arrangement in the time available. This report proposes that the Council insources Payroll, Pensions and HR Administration Services rather than entering a shared service arrangement with Hoople.

**Recommendation(s):**

That the Executive Councillor for People Management Legal and Corporate Property:

1. approves the insourcing of Payroll, Pensions and HR Administration in place of a shared service with Hoople Limited; and

2. delegates to the Executive Director of Resources in consultation with the Executive Councillor for People Management Legal and Corporate Property authority to take all decisions necessary to give effect to the above decision.

**Alternatives Considered:**

The only other alternative would be to seek to continue an outsourced model through competitive procurement however there are significant challenges with this, and these are explored in the report.

**Reasons for Recommendation:**

The Council has been unable to conclude a contract with Hoople Limited and the number of issues outstanding means that the prospect of doing so in the near future is remote. That delay impacts on the likelihood of a successful transition and gives rise to uncertainty that is making it difficult to engage with and give reassurance to Serco staff on whom the success of the service depends. This uncertainty needs to be removed as soon as possible to manage this significant risk to the service.

There is no ready market for local government payroll services which removes outsourcing as a realistic alternative. Insourcing would mean that the Council would take control of a key activity necessary to pay its staff where there are no certain and reliable alternatives.

*Background*

- 1.1 On the 24 March 2014 the Council entered into the corporate support services contract with Serco for a range of corporate support services including People Management which in turn included Payroll, Pensions and HR Administration. The numbers employed vary from time to time but the last return indicates 38.5 FTE deployed including vacancies. Of these staff circa 12 FTE are deployed on schools' work though this does vary from time to time.
- 1.2 There is a close alignment between Payroll, Pensions and HR Administration and separating them would result in duplication and a lack of resilience as staff and managers currently work closely together. For these reasons the service is treated as a single service for recommissioning.
- 1.3 The Services have been outsourced since 2000 and include the administration and delivery of all the Council's Payroll, Pensions and HR Administration Services including pensions, processes and procedures and the recording, reporting and retention of all people management information related to these services.
- 1.4 The Council has invested in Business World (BW) both at the outset of the Serco contract and more recently through the move to the BW Hoople build. Any payroll provider would therefore need to adopt and be familiar with BW.

- 1.5 NHS and local authority payrolls are more complex than private sector payrolls. Not all local authority payrolls are the same. Whilst Hoople are experienced in delivering Council, schools and NHS payroll, they lack experience with Fire and Rescue.
- 1.6 Under the existing Serco arrangements Key Performance Indicators cover most of the contracted activity. They have been met. There are no concerns about inaccurate payroll but going forward there are areas for improvement to focus on: -
- Continued data inaccuracy including late, incorrect, and incomplete input of changes by Council managers/schools and Serco HR Administration.
  - A need to transform ways of working and optimise existing processes and workflow that delivers improved customer satisfaction.
  - Improved resilience.
- 1.7 Most Councils deliver their own payrolls and have always done so. In 2018 we looked at the CIPFA nearest neighbour dataset, plus another 7 Councils. 78% of councils ran payroll and HR Administration in-house with 22% (or 3 councils) outsourcing, as part of much larger contracts. We were unable to find any private sector provider (save as a small part of much bigger contracts) who provided local authority payroll services. We checked in 2020 and the position had not changed. As a result, we are satisfied that there is no commercial provider who would deliver the Payroll, Pension and HR Administration services on their own using Hoople's BW build and that a competitive tendering process for the Payroll, Pension and HR Administration Services on this basis would fail.
- 1.8 In June 2022 insourcing the Payroll, Pensions and HR Administration Services were seen as a viable option as it provided the benefits set out in paragraphs 3.2 and 3.3 below.
- 1.9 However, at that time the Payroll, Pension and HR Administrative Services recommissioning decision was seen very much in the context of the overall re-commissioning exercise. The Council had decided in the same time frame to;
- contract for a multi-provider IMT service delivery model involving several external providers,
  - insourcing elements of the IMT delivery,
  - tender for the Customer Service Centre and for the inclusion of digital transformation capacity leading to the possibility of a change in provider,
  - and the insourcing of Exchequer and Adult Care Finance,
  - Contract for and implement a new BW system.
- 1.10 There was concern that given the overall scale of the recommissioning work the Council should take a cautious approach for Payroll, Pensions and HR Administration and it was felt that entering a shared service arrangement would involve less work for the Council. As a result of these considerations, in June 2022 the Executive's preferred approach was to enter a shared service arrangement with Hoople Limited which already covered payroll for health and local authorities. Hoople is experienced

in BW and understands County Council payrolls through the BW Redesign Project which went live in April 2023.

- 1.11 Hoople's senior management function is in Herefordshire and the staff and line managers for the Lincolnshire Payrolls, Pensions and HR Administration would be in Lincoln. Hoople would manage this through a combination of engagement, remote and onsite presence, and a jointly agreed team structure.
- 1.12 Hoople Limited is a public sector owned company with Herefordshire Council and the Wye Valley NHS Trust and the Council which has a 3% interest. As the Council is a shareholder of Hoople we agreed we would pay the staff costs deployed on the Services plus a fair share of the Hoople service and corporate overheads with no profit element. It was hoped that the shared service arrangements would cost less than insourcing as fewer staff would be in the LGPS pension scheme, but it was not anticipated that the cost of the services would change materially in the short term.

### *The Hoople Option*

- 2.1 Preliminary discussions took place with Hoople to work up a proposal starting in January 2023. It was necessary for:-
  - Hoople to agree the Council's Specification for the Services.
  - Hoople and the Council to agree a contract for the Corporate Services and for schools,
  - Hoople to provide a service delivery plan setting out how they would deliver the Services,
  - Hoople to cost the Services.
- 2.2 The Council had hoped to complete the above work by June 2023 to provide plenty of time to focus on the Serco exit and transition of the Payroll, Pensions and HR Administration, Customer Service Centre and Adult Care Finance and Exchequer services into the new arrangements. Throughout the Corporate Support Services Review work the key risk identified was the loss of the specialist and experienced Serco staff currently delivering the services and the Council is keen to provide assurances to those staff that the transition will be smooth. The Council also wanted sufficient time to make contingency arrangements if it was not possible to conclude a contract with Hoople.
- 2.3 However, it was not possible to complete the required work in June as Hoople were still managing and supporting the successful go live of the BW System. They were not able to support both projects on the same timeline and needed to recruit some additional resource. Consequently, and the Council acknowledging the amount of work involved it was agreed to put the contract completion date back to September on the assurance that there would be no slippage.
- 2.4 Unfortunately it became clear at the beginning of September that the contract was taking longer than anticipated and would not be completed during that month. Some

of the additional work centered on a discussion between the Council and Hoople about how best to deal with the systems and data necessary for delivering the Services. This involved detailed discussion between service, commercial and technical leads and necessarily took a while to progress. As a result, the Council carried out a review as to where we were before considering how to proceed.

2.5 That demonstrated:-

- the corporate contract was far from complete with the structure and content of the Terms and Conditions and key schedules were still to be agreed. Overall, changes made to the Council's draft contract by Hoople's lawyers were significant and changed the risk profile to place additional obligations on the Council which Hoople felt were necessary as from day one some of the systems and data bases relied on to deliver the Services would sit with the Council and not Hoople. The changes would take a considerable amount of discussion and input from the respective lawyers and from other subject matter experts such as IT, HR and Information specialists to get to a place where a contract could be agreed.
- Hoople identified that additional staff resources of 2.5 FTE were required over and above the Serco staffing cohort at least in the short term until Council manager and school's engagement improved and process efficiencies were achieved. This included an additional Customer Relationship Manager and management oversight to focus on improvement. Consequently, once Hoople overheads were taken into account Hoople's proposal was more expensive than the Council insourcing the services.
- The mobilization and transition costs have been substantial as Hoople has brought in consultants to move the project forward at the pace required and to provide assurance. Those transition costs step up during the period October -March 2024 and are significantly more than the Council would pay if the services were insourced as most of the work would be done by existing Council staff.
- There is uncertainty as to when or if a contract can be concluded and time is now short to manage transition successfully.

2.6 Continuing uncertainty is preventing assurances being given to the HR and Payroll staff, in contrast to the Serco Finance staff who have the benefit of regular engagement with the Council which is appreciated by the Serco Finance staff. That messaging needs to commence for the Payroll, Pensions and HR Administration staff to maximise staff retention as local authority payroll staff are very specialized and difficult to recruit.

2.7 Further, Serco were required to give six months' notice of termination of their contracts with maintained schools and did so in September. We had hoped at that point to give schools an assurance of who the new provider would be and what the

new arrangements would look like. That will concern schools and is likely to result in reputational damage particularly off the back of a system change which has been difficult for some. It is also in the Council's interests that maintained schools continue to use BW due to its interface with finance.

- 2.8 Transition can still be managed successfully, and staff and schools reassured in the time remaining if the Council can obtain certainty as to the new arrangements. That certainty is not possible if the Council is to stick with its intention to enter a shared service arrangement with Hoople. This is because despite the Council's and Hoople's best efforts we have not been able to conclude the contract and are some considerable way off from being able to do that.
- 2.9 Accordingly, the Council has informed Hoople that it is not progressing the discussions regarding the shared service arrangement and will be considering its other commissioning options.

#### *Other Options – in sourcing*

- 3.1 In the absence of a commercial market (see paragraph 1.7 above) and the uncertainty attached to securing a shared service arrangement with Hoople it is necessary to look at the remaining alternative which is insourcing Payroll, Pensions and HR Administration. In May 2021, the Government Commercial Function identified that in-sourcing can:
- Give greater flexibility to react to changing circumstances (business, economic or political) without being restricted by contract terms or procurement law
  - Provide greater control over processes and how a service is delivered
  - Take advantage of internal synergies.
- 3.2 Insourcing Payroll, Pensions and HR Administration will maximise the degree of control, flexibility and integration that can be achieved across the Services. It will allow the Council to own and review the end-to-end processes involved in Payroll, Pensions and HR Administration alongside Professional HR Services and Business Support to better align and streamline ways of working. There would be more control of data quality processes referred to in paragraph 1.6 above which need to be resolved to ensure the effective delivery of Payroll, Pensions and HR Administration. The Council is in the best position to manage the compliance of its staff and schools.
- 3.3 Costings indicate that the annual cost of insourcing the Services would be more cost effective than a shared service arrangement with Hoople Limited and on a like for like transition is expected to be broadly the same as the Serco costs which amount to an estimated £1,134,884 this year. The one-off cost of transitioning the Services from Serco to the Council would be much less. Further there is no healthy competitive market.
- 3.4 In 2015 the payroll transition caused significant disruption and upset. However, the circumstances are different than in 2015 when the service and system change were

simultaneous and when Mouchel retained many of the staff to work on other contracts. The expectation this time is that the experienced and well-regarded Payroll, Pensions and HR Administration staff and managers would TUPE across to the Council not least as Serco has given its contract termination notice to schools. However, to make sure that happens the Council needs to provide the necessary certainty and assurance to the Serco Payroll, Pensions and HR Administration staff sooner rather than later by deciding to insource the Services.

- 3.5 Paragraph 1.9 sets out the amount of change facing the Council by 1 April 2024 when the Executive considered this in June 2022. Since then, things have progressed and as a result the situation is less complex. The multi-provider IMT service delivery model is being reviewed and the new arrangements will not now be implemented until 1 April 2026. The new BW system has been successfully implemented and Serco and the Council are working well together on the insourcing of the Adult Care Finance and Exchequer service. The Customer Service Centre has been retendered and Serco was successful and so there is no need to manage a transition of the Customer service Centre from one Provider to another. As a consequence of the above the exit arrangements are not as complex as we had expected them to be in June 2022. As indicated above it was this complexity that was one of the reasons why the Council was reluctant to insource Payroll, Pensions and HR Administration at the same time as all of the other changes. There was concern that the Council did not have the necessary capacity to do all of this at once but the situation has now changed making an insourcing of Payroll, Pensions, and HR Administration manageable.
- 3.6 In 2022 an independent report was commissioned from the Chartered Institute of Payroll Professionals (CIPP) to identify whether CIPP was confident that the Council had the capability to deliver Payroll, Pensions and HR Administration. The author of the report had 45 years of experience in payroll. The report author is confident that the Council can deliver the service based on his conversations with key individuals and because of his experience elsewhere.
- 3.7 The BW system, Serco employees, processes and IT hardware are already in place and will remain the same on 1 April 2024 when the service transitions back to the Council. Further, the Council will take the following steps to manage the risk of insourcing the Services:
- Accommodation has been secured in County Offices.
  - A Head of People Support Services will be recruited to provide new leadership with a brief for transformation, quality improvement and reducing cost.
  - The existing programme governance arrangements will be amended to reflect the change in model, and we will work in partnership with Serco leaders to affect a seamless transfer.
  - Full engagement process will take place with Serco employees, which will mirror the current arrangements used by Finance colleagues, including, employee representatives, regular dialogue, FAQs etc.
  - HR advisory schools' team to engage with all maintained schools on the provision of the Payroll, Pension and HR administrative service by the County

Council. The HR team are already highly regarded, and this will bring confidence to schools about the future.

3.8 The Assistant Director – Human Resources and Organisational Support and his leadership team are confident that a successful transition will take place on the 1 April 2024.

#### **Legal Issues:**

As the proposal is to insource Payroll, Pensions and HR Administration the Council need not consider the Public Contracts Regulations 2015.

#### **Equality Act 2010**

Under section 149 of the Equality Act 2010, the Council must, in the exercise of its functions, have due regard to the need to:

- Eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Act.
- Advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it.
- Foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

The relevant protected characteristics are age; disability; gender reassignment; pregnancy and maternity; race; religion or belief; sex; and sexual orientation.

Having due regard to the need to advance equality of opportunity involves having due regard, in particular, to the need to:

- Remove or minimise disadvantages suffered by persons who share a relevant protected characteristic that are connected to that characteristic.
- Take steps to meet the needs of persons who share a relevant protected characteristic that are different from the needs of persons who do not share it.
- Encourage persons who share a relevant protected characteristic to participate in public life or in any other activity in which participation by such persons is disproportionately low.

The steps involved in meeting the needs of disabled persons that are different from the needs of persons who are not disabled include, in particular, steps to take account of disabled persons' disabilities.

Having due regard to the need to foster good relations between persons who share a relevant protected characteristic and persons who do not share it involves having due regard, in particular, to the need to tackle prejudice, and promote understanding.



Compliance with the duties in section 149 may involve treating some persons more favourably than others.

The duty cannot be delegated and must be discharged by the decision-maker. To discharge the statutory duty the decision-maker must analyse all the relevant material with the specific statutory obligations in mind. If a risk of adverse impact is identified consideration must be given to measures to avoid that impact as part of the decision-making process.

There are not considered to be any Equality Act implications arising out of the choice of delivery model for future services for Payroll, Pensions and HR Administration.

There are however potential impacts on staff with protected characteristics resulting from any change in the delivery model and the transition to that change.

To mitigate any potential negative impacts the Council will support and work with Serco, in so far as possible, to undertake effective staff engagement and consultation processes and will ensure any transfers comply fully with TUPE regulations and the Equality Act. The new delivery arrangements following the insourcing will be covered by the Equalities Act to ensure no discrimination occurs.

Staff moving to the Council will be covered by the LCC processes for staff that are on maternity or parental leave. During any consultation this will ensure they are not negatively impacted through their absence. HR direction will be sought and followed to ensure the established process is implemented appropriately and that staff moving into the Council will not suffer any adverse consequences in relation to the transfer.

Insourcing will have an impact on the locality from which services are provided from Thomas Parker House Silver Street Lincoln to the Council's Lincoln campus. Where appropriate the in-house teams will undertake workplace assessments and make reasonable adjustments required for each member of staff. The insourced staff will benefit from the Council's flexible working practices including a hybrid approach to home and office working.

In relation to the staff being insourced the Council will follow LCC's HR policies and practices in full and seek support from the HR team to lead on any transfer arrangements.

The proposal put forward in this Report ensures the ongoing availability, performance and development of services that fully support the Council in supporting its residents and communities in a way which meets the Equality Act requirements.

#### Joint Strategic Needs Assessment (JSNA) and the Joint Health and Wellbeing Strategy (JHWS)

The Council must have regard to the Joint Strategic Needs Assessment (JSNA) and the Joint Health and Wellbeing Strategy (JHWS) in coming to a decision.

There are not considered to be any direct JSNA or JHWS impacts of the decision required by this Report. Indirectly, the Council's support services underpin the work of the Council and the way it interacts with its customers and communities. The proposal put forward in this Report will ensure the ongoing availability, performance and development of services that fully support the aspirations of the Corporate Plan which directly contribute to the achievement of JHWS objectives.

### Crime and Disorder

Under section 17 of the Crime and Disorder Act 1998, the Council must exercise its various functions with due regard to the likely effect of the exercise of those functions on, and the need to do all that it reasonably can to prevent crime and disorder in its area (including anti-social and other behaviour adversely affecting the local environment), the misuse of drugs, alcohol and other substances in its area and re-offending in its area.

There are not considered to be any direct impacts of the decision required by this Report on the section 17 considerations. Indirectly, the Council's support services underpin the work of the Council in fulfilling its crime and disorder functions. The proposal put forward in this Report will ensure the ongoing availability, performance and development of services that fully supports the Council and its partners in that work.

### **Conclusion**

The report has considered the remaining options for Payroll, Pension and HR Administration and has come to a clear and pragmatic recommendation which in the absence of an external marketplace and the failure to complete a contract with Hoople in the time available removes uncertainty and that enables the Council to proceed to secure the future provision of Payroll, Pensions and HR Administration Services through the insourcing of the service from 1 April 2024.

#### **Legal Comments:**

The Council has the power to adopt the model of service delivery for Payroll, Pensions and HR Administration set out in the Report.

The decision is consistent with the Policy Framework and within the remit of the Executive Councillor for People Management Legal and Corporate Property.

#### **Resource Comments:**

The proposal to insource the delivery of Payroll, Pensions and HR Administration is expected to lead to financial and non-financial benefits, both compared with the current arrangement and the option to develop a solution whereby the Council would have established a shared service with Hoople.

There is a programme of work underway to manage the risks identified and realise the benefits set out in the report. Specifically with regards to cost, an initial higher level financial impact assessment has been completed and will be refined to reflect any changes identified by the service to strengthen the insourced model.

At this stage, the cost of the solution at today's pricing level is expected to be no higher than the current contract price and could potentially be lower. In addition, the insourced option is expected to cost less than the option that was being developed with Hoople.

Budget related to new leadership of the function will be identified from within the wider Resources budget, with the post having a clear emphasis on driving transformation in the service and delivery efficiency savings at a faster rate than any of the other options that have been under consideration during the commissioning process.

## 5. Consultation

### a) Has Local Member Been Consulted?

n/a

### b) Has Executive Councillor Been Consulted?

Yes

### c) Scrutiny Comments

This Report will be considered further by the Overview and Scrutiny Management Board at its meeting on the 26 October 2023 and the comments of the Board will be reported to the Executive Councillor.

### d) Risks and Impact Analysis

See the body of the Report.

## 7. Background Papers

The following background papers as defined in the Local Government Act 1972 were relied upon in the writing of this report.

Background Paper	Where it can be viewed
Report to Executive dated 7 June 2022 titled "Delivery of HR Administration, Payroll, Exchequer, Adult Care Finance and the Customer Service Centre (CSC)"	<a href="#">Report Reference: (moderngov.co.uk)</a>

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