

SOUTH CAMBRIDGESHIRE DISTRICT COUNCIL

REPORT TO: Leader and Cabinet

11 April 2013

AUTHOR/S: Executive Director, Corporate Services

SHARED SERVICES PAYROLL AND INTERNAL AUDIT

Purpose

1. To seek the approval of Cabinet for the proposed establishment of two shared services – Payroll in partnership with Cambridge City Council and Internal Audit in partnership with Cambridge City Council and Peterborough City Council.

This is a key decision because it is likely to result in the Council incurring expenditure which is, or the making of savings which are, significant having regard to the Council's budget for the service or function to which the decision relates and it was first published in the Council's Forward Plan on 29 January 2013.

Recommendations

2. That Cabinet:
 - (a) approves the implementation of a shared service for Payroll and Internal Audit as set out in this report, and
 - (b) approves the delegation of authority to the Executive Director (Corporate Services) and the Legal and Democratic Services Manager, to agree legal protocols to govern the shared services arrangements.

Reasons for Recommendations

3. The Council's 3 A's include the following action:

A3. Ensure best use of Council assets and benefit from opportunities to achieve efficiencies from working together.

This report sets out the business cases for the delivery of a shared payroll service and a shared internal audit service including improved resilience and the potential for efficiency improvements and savings.

Background

Payroll

4. South Cambridgeshire District Council (SCDC) and Cambridge City Council (CCC) operate an in house payroll service utilising the same Payroll / HR software Resourcelink from Northgate Arinso UK Ltd which was procured through a joint project in 2004.
5. SCDC's payroll service is provided by 1.62 FTE (full time equivalent staff). The payroll service at CCC is provided by 2.1 FTE (plus some input support following the Council's Departmental Support Service Review).

6. CCC pay just over 1,100 Council employees and SCDC pay circa 500 employees and 57 councillors.
7. Both authorities have invested significant time and resource in the existing system, which provides not only a payroll service but is also a fully integrated Human Resource system dealing with key functions including recruitment and absence management. The system is also utilised to provide crucial business intelligence through its reporting capabilities using Business Objects.
8. SCDC and CCC share concerns regarding the resilience of their respective payroll services and the need to reduce the costs of back office services.
9. The key objectives of the shared service are to improve the resilience of the payroll service by pooling resources and expertise and to reduce the on-going costs of the service in the longer term.
10. There is a proposal that CCC will be the hosting authority for the shared service.

Internal Audit

11. The Internal Audit service for SCDC is currently delivered by an external contractor, RSM Tenon. The contract started in April 2007, initially for a period of four years, and was extended under the terms of the contract to March 2013. RSM Tenon have agreed to a further extension of the contract to 30 June 2013, pending the outcome of this report.
12. The cost of the internal audit service in 2012/13 was £83,000. RSM Tenon provide staff to meet the requirements of the internal audit plan.
13. While the internal audit contract has worked well over the years, one of the disadvantages is that an external contractor's employees are not able to gain day-to-day intelligence about Council plans, projects and operational developments.
14. The key objectives of the shared service are to improve the resilience of the Internal Audit service by pooling resources and expertise and to reduce the on-going costs of the service in the longer term.
15. It is proposed that Peterborough City Council (PCC)'s internal audit manager will act as SCDC's Head of Audit, providing line management and administration, with SCDC employing a full time Senior Internal Auditor to be based at Cambourne.

Considerations

16. At a time of reducing budgets, shared service arrangements can offer an opportunity to sustain and improve the current levels of service. The proposed models for Payroll and Internal Audit are for:
 - (a) Single staffed teams. CCC and PCC currently share internal audit services, with a manager based at PCC and staff employed by each authority but shared between them. The proposal is that SCDC will recruit and employ a Senior Internal Auditor, to be based at SCDC and working predominantly on SCDC internal audit reviews, with administration and line management provided by PCC's internal audit manager, who will act as SCDC's Head of Audit. The Senior Internal Auditor will also be an integral part of the wider internal audit team shared between the three authorities, conducting reviews at the other authorities and with auditors from the other authorities conducting

reviews at SCDC, as appropriate to audit needs and resources to fulfil the internal audit plan for each authority. The proposal for the Payroll service is for CCC to host the team and systems.

- (b) The target date to establish the Payroll Service is 1 September 2013 and for Internal Audit 1 July 2013.
17. Legal protocols to govern the future operation of the two shared services will need to be agreed between respective partners. The recommendation includes delegated authority to the Executive Director (Corporate Services) and the Legal and Democratic Services Manager to complete these protocols in consultation with colleagues from the partner councils.
18. CCC will consider the proposal for a shared payroll service at its Strategy and Resources Scrutiny Committee meeting on 8 July 2013. The Internal Audit proposal was mentioned in PCC's Draft Internal Audit Plan for 2013/14 considered by its Audit Committee on 27 March 2013, and in CCC's Draft Internal Audit Plan for 2013/14 considered by its Civic Affairs Committee on 20 March 2013.

Options

Payroll

19. The project team for the delivery of a payroll service has considered a number of options:
- (a) Maintain existing services within each Council – Both organisations have concerns about the resilience of their payroll teams; with these concerns and the desire to reduce the costs of back office services it has been deemed this is not a preferred option.
 - (b) Share IT system (one organisation to host and maintain) - Both organisations would utilise the same payroll system (Northgate Arinso Resourcelink), an option would be to share the costs and maintenance of the system (including statutory legislation upgrades) but retain payroll teams in each of the Councils. Sharing the costs of IT would have obvious financial benefits but would not address the issue of resilience for both teams. For the hosting organisation it would put additional pressure on a small team with key person dependency.
 - (c) Outsource payroll service to a bureau / direct payroll service - The option to outsource the payroll service for both organisations has been considered. Outsourcing would bring some financial benefits and provide some reassurance on resilience, however each organisation would need to ensure it retains staff with payroll knowledge to ensure it complies with PAYE legislation, complies with each organisation terms and conditions and policies. Retained staff will also need to collate, validate and pass the information to the payroll provider.
 - (d) Implement shared payroll service - Sharing the payroll service will provide financial benefits and ensure the continuity and resilience of the service for both organisations. Additional benefits of a shared payroll service include:
 - (i) Retention of skilled and knowledgeable staff
 - (ii) Improvements in service quality
 - (iii) Providing service users with access to specialist staff and systems

20. The business case and implications are set out in **Appendix 1** attached.

Internal Audit

21. The Executive Director (Corporate Services) has considered a number of options for the provision of an Internal Audit service:

- (a) Maintain existing services for SCDC – RSM Tenon will have completed the period of their contract on 31 March 2013. If the Council wished to continue to have an internal audit service provided by an external contractor, the contract would have to be re-tendered, in which case it would have to re-commence either during or at the end of the financial year. It is possible that RSM Tenon could win the tender competition and be awarded a new contract, which would have benefits in terms of continuity of service. The appointment of a new provider would also have benefits, for example in terms of a different team taking a fresh look at services, systems, risks, controls and assurances. However, the desire to explore shared services opportunities and reduce the costs of back office services means that this is not a preferred option.
- (b) Employ an in-house internal audit team – Establishing a new in-house team would take time to scope and recruit to (the internal audit manager would have to be appointed first, so that person could be involved in recruitment to the other post); employment costs would be higher than costs associated with other options; a small team limited to one authority would have less inherent resilience and fewer opportunities for obtaining necessary skills and experience and for career development. This option was therefore not considered further.
- (c) Enter into a shared service arrangement – The proposal gives an opportunity to explore a shared services option in a safe and secure manner, and as a potential basis for future possibilities. With an internal audit manager effectively already in place, limited time would be required to recruit to the other post; the service would cost less than an in-house team; a broader-based team would result in greater resilience and provide the range of skills and experience required, together with wider career development opportunities. ***This is the recommended option.*** A copy of the proposal is attached for information at **Appendix 2**.
- (d) Hybrid arrangement combining two or more of the above options – The complexity of the arrangements would mean that few benefits would be derived, while all the disadvantages would still apply. This option was therefore not considered further.

Implications

22. Financial	The cost summary for the payroll shared service is shown in Appendix 1. With regard to the internal audit service, it may be necessary to buy in more audit days in respect of specialist expertise; however, the total cost of the service provision will be contained within the costs previously agreed with RSM Tenon.
Legal	Legal protocols will need to be in place to govern the operation of the two shared services.

Staffing	Following discussions between the respective heads of service, preferred staffing structures for both shared services have emerged that would provide the required level of resilience and savings. See Appendices 1 and 2.
Risk Management	Analyses of risks affecting the business case and proposal are shown in the respective appendices.
Equality and Diversity	Both Payroll and Internal Audit services deliver to internal customers only
Equality Impact Assessment completed	No
Climate Change	There are no impacts on climate change

Payroll Assumptions

23. Implementation Options
(a) The model assumes one database hosted by CCC, SCDC would become a control group on the CCC Resourcelink software.
24. Costing Model
(a) NIS has supplied indicative costs after consulting with their development, sales and consultancy teams. Northgate's offer assumes a 5-year contract. The shorter the contract term, the higher the costs will become. There is no upfront payment to purchase the software. Instead a fee is paid each year to cover the software licence and the support and maintenance provided by NIS.
25. Ongoing Support
(a) The model assumes support from NIS. This delivers software upgrades, service packs, access to a Support Team and the Northgate HR Customer Extranet web site, including a technical database.
26. Software Upgrades
(a) Vendors release new versions of their software and de-support older versions. The model allows for this in the Repairs & Renewals Fund.

Internal Audit Assumptions

27. The internal audit shared service will fulfil the requirements of SCDC's internal audit plan, using systems, software and reporting templates currently utilised by PCC and CCC as appropriate. Any associated technical support and upgrades will be applied as necessary as part of the service provision, with related costs recharged as part of the overall cost of the service and within the existing budget.

Consultations

28. Staff providing the payroll service are aware of the initial discussions between the two councils. Formal consultation with staff will be held prior to any agreed TUPE transfer and restructuring. The trade unions are aware that the council is considering shared service arrangements and will be formally involved in any future consultation activity.
29. SCDC does not currently employ any internal audit staff directly. RSM Tenon are aware of the shared service proposals; it is not envisaged that any of their employees would be subject to TUPE arrangements. The trade unions will be formally involved in any future consultation on proposed changes to the service which affect employees engaged in internal audit activity.

Consultation with Children and Young People

30. None.

Effect on Strategic Aims

31. See para.3 above.

Conclusions / Summary

32. The development of new shared services, to achieve strengthened resilience and achieve efficiencies, will ensure best use of Council assets and benefit from opportunities to achieve value for money and first class services. The business cases for a shared payroll service and provision of internal audit set out a clear rationale supporting the establishment of a shared arrangement in both cases.

Background Papers: the following background papers were used in the preparation of this report: None

Contact Officer: Alex Colyer – Executive Director (Corporate Services)
Telephone: (01954) 713023

Susan Gardner-Craig – HR Manager
Telephone: (01954) 713285

John Garnham – Head of Finance, Policy & Performance
Telephone: (01954) 713101