

TITLE OF REPORT: PAYROLL SERVICE UPDATE

REPORT OF THE CORPORATE HUMAN RESOURCES MANAGER

1. SUMMARY

- 1.1 To provide the Committee with an update on the payroll service that was outsourced in April 2014 by joining the Herts County Council Framework Agreement for Payroll Services provided by Serco.

2. RECOMMENDATIONS

- 2.1 That the Committee notes the update on the payroll service.
- 2.2 That the Committee notes the updated risk status.

3. REASONS FOR RECOMMENDATIONS

- 3.1 To keep the Committee informed of the outcomes of the outsourcing of the Payroll Service and to note the steps being taken by the Corporate Human Resources Manager to manage the service and the associated risks.

4. ALTERNATIVE OPTIONS CONSIDERED

- 4.1 There are no alternative options that are applicable.

5. CONSULTATION WITH EXTERNAL ORGANISATIONS AND WARD MEMBERS

- 5.1 There have been no external consultations.

6. FORWARD PLAN

- 6.1 This report does not contain a recommendation on a key decision and has not been referred to in the Forward Plan.

7. BACKGROUND

- 7.1 This report follows the information provided for the 23 June, Finance Audit and Review Committee.
- 7.2 It had been on the HR work plan to consider the way forward for payroll services and it was intended that the project be carried out over a two year time frame 2013 - 14 to

2014-2015. However in March 2013 Midland served notice on the Councils Trent payroll system and we were left with less than 12 months to implement an alternative.

- 7.2 This narrowed it to two possible options, upgrade with the current provider or join the HCC Shared Managed Services (SMS) framework agreement for a payroll service provided by Serco.
- 7.3 The details of these two options were considered by the Senior Management Team, on 1 July and Serco was the preferred option, for the potential for revenue savings and importantly to improve the resilience of the payroll service.
- 7.4 The changes to payroll system were identified as a significant governance issue in the Annual Governance Statements for 2012 - 2013 and 2013 - 2014.

8. THE PAYROLL SERVICE

- 8.1 The new payroll service has been running since April 2014. In the months since the start of the service there have been some operational and system technical difficulties. These issues are all recorded on one issues log which is primarily divided into system, and operational matters.
- 8.2 The operational matters are very much improved with a fairly good standard of service being provided by the Serco payroll team. In cases of underpayment or incorrect payments, Serco have responded quickly and raised emergency payments by BACS.
- 8.3 In terms of the Serco team's performance, see the table of stats below. The Emergency payments in May and August 2014 reflect when a mistake has been made that affects a group of staff. An example of this was when Serco took some pay data from a spread sheet and missed the other work sheets, so a group of staff were not paid mileage; however as set out in 8.2 above errors of this sort have been resolved quickly.
- 8.4 These data were collected and reviewed at contract performance meetings. We agreed we would hold these quarterly and had the first of these on 9 July 2014 after self service had gone live in June 2014. Up until then we were having weekly conference calls. Since the first meeting on 9 July 2014 there have actually been six performance meetings held to keep performance tightly under review.

North Hertfordshire District Council	Apr-14	May-14	Jun-14	Q1	Jul-14	Aug-14	Sep-14	Q2
Payslips	463	472	458	1,393	454	463	464	1,381
Overpayments	0	0	5	5	0	2	1	3
Emergency Payments	7	17	7	31	10	38	1	49

- 8.5 There have been a number of visible SAP (payroll system) issues arising. Some of these system problems are a result of how Serco initially configured the SAP system for North Hertfordshire. This is being closely managed through the contract management process to resolve these issues and consider if other action may be warranted. Some system issues have also arisen because it is a web based product which North Hertfordshire access externally (whilst Hertfordshire County Council are on the same server as Serco) and some of the functionality is affected by the Councils own IT security policy/settings.

- 8.6 The original proposal from Serco was for an internet connection from the Council to Serco at Hertfordshire County Council via an unsecure connection, Hyper Text Transfer Protocol (http). This is the primary technology protocol used on the internet for linking and browsing in an unsecure environment. It would be high risk to transfer large volumes of personal data across an unsecure link and therefore the Council required that the security be enhanced by using a secure Hyper Text Transfer Protocol Security (https) with Secure Sockets Layer (SSL), which is an industry developed and approved protocol developed for safe Internet transactions used by Banks, large retailers etc.). It was the responsibility of Serco to implement this reasonable requirement.
- 8.7 Each matter is individually captured and investigated and all are being progressed towards a resolution. Whilst these are in train, in most cases, an interim arrangement has been put in place to relieve or resolve the immediate problem.

SERCO PAYROLL BACS CONTROLS AUDIT JULY 2014

- 8.8 This audit received a moderate level of assurance, and this is being managed through the usual audit management process. We are starting our annual payroll audit on 24 November 2014 and the BACS controls audit action plan progress is to be reviewed as part of the Payroll Audit. Below are a few examples of the progress that has been made.
- 8.9 On the matter of whether there were effective controls in place for the business continuity arrangements for the processing of BACS payments, since the audit Serco have confirmed that as well as the normal two members of staff, there are two others that can complete a BACS payment one of whom is the Controls Team Leader.
- 8.10 Regarding joint BACS payment approvals, a process is in place to check totals against the previous month for significant variances before BACS is submitted. NHDC are copied in to the pre BACS authorisation email from Serco and receive a copy of the final BACS submission.
- 8.11 In respect of the on-going arrangements for the monitoring and challenge of Serco's performance of payroll services, Corporate Board approved a budget of £11,500 to take on a temporary payroll specialist with experience of outsourced payroll management, from September to December 2014. There is a robust process for managing the Serco contract in place. As set out in paragraph 8.4, there have been regular performance meetings, Serco produce a performance report which has been modified in consultation with us and the key performance tool is the issues log which is reviewed and updated weekly by HR and Serco. A separate audit of the contract performance is due to commence in December 2014.

9. LEGAL IMPLICATIONS

- 9.1 The Payroll project is a Senior Management Team (SMT) Top Risk and will be subject to an upcoming Payroll Audit. The Committee's Terms of Reference include monitoring the effective development and operation of risk management and corporate governance in the Council and to consider the council's compliance with its own and other published standards and controls.

10. FINANCIAL IMPLICATIONS

- 10.1 The outsourced Payroll Service is expected to save £20,000 a year compared to the in house payroll service. This on-going saving does not include the costs of the temporary payroll specialist referred to in 8.10.

11. RISK IMPLICATIONS

- 11.1 The Payroll project remains at the SMT Top Risk level and as such is closely managed. However it has been decided to reduce the impact score from 3 to 2 following the embedding of the service.

12. EQUALITIES IMPLICATIONS

- 12.1 The Equality Act 2010 came into force on the 1 October 2010, a major piece of legislation. The Act also created a new Public Sector Equality Duty, which came into force on 5 April 2011. There is a General duty, described in 13.2, that public bodies must meet, underpinned by more specific duties which are designed to help meet them.
- 12.2 In line with the Public Sector Equality Duty, public bodies must, in the exercise of its functions, give **due regard** to the need to eliminate discrimination, harassment, victimisation, to advance equality of opportunity and foster good relations between those who share a protected characteristic and those who do not.

13. SOCIAL VALUE IMPLICATIONS

- 13.1 As the recommendations made in this report do not constitute a public service contract, the measurement of 'social value' as required by the Public Services (Social Value) Act 2012 need not be applied, although equalities implications and opportunities are identified in the relevant section at Paragraph 12.

14. HUMAN RESOURCE IMPLICATIONS

- 14.1 The Human Resource implications arising from this report are outlined in the body of the report.

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16. BACKGROUND PAPERS