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NON-EXEMPT

HAVANT BOROUGH COUNCIL

CABINET BRIEFING

10th February 2021

HR AND PAYROLL SYSTEM 2021-23 FOR DECISION

Portfolio Holder: Cllr Lulu Bowerman

Key Decision: No

1. Purpose

- 1.1. The purpose of this report is to request the approval to 'roll-over' the payroll bureau service contract with Zellis for a further 18 months from September 2021 and to cease the payroll advisory service element of the contract. The request to 'roll-over' is to ensure a period of payroll and HR system stability whilst undergoing a large-scale transformational programme.

2. Recommendation

- 2.1. Cabinet are asked to approve:
- a) The roll-over of the payroll bureau service Zellis contract for 18 months from September 2021 until April 2023 with a continuation of the current arrangements with South Oxfordshire and Vale of White Horse District Council (S&V DC).
 - b) The cessation of the payroll advisory service contract with effect from September 2021.

3. Executive Summary

- 3.1. The HR and Payroll service was returned to the councils by Capita with limited time available and therefore an appropriate solution to continue to deliver the

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business-critical payroll service was needed at short notice. It was agreed as part of the exit arrangements (and to mitigate risk) that Zellis (who already provided the HR/Payroll system) would provide additional services for a minimum period of 18 months (April 2020 – September 2021). All councils within the 5CP contract (except Mendip District Council) agreed for Zellis to provide a payroll advisory and bureau service.

- 3.2. In line with the EU procurement directive 2014 a contractual award notice (CAN) was published on 20th April 2020. This CAN detailed that the Councils would be utilising a built-in contract variation mechanism in the Zellis contract to add Bureau and Payroll services to the Scope of the Zellis contract for up to five years. This means that the councils can exercise the roll-over facility within the contract without needing to go through any further procurement exercise.
- 3.3. As part of the exit arrangements, it was also agreed by all the councils within the partnership (except Mendip DC) that South Oxfordshire & Vale of White Horse (S&V) would act as lead authority and would provide a client lead service on behalf of all councils covering three key areas:
 - a) ongoing contract management with Zellis
 - b) systems configuration and administration
 - c) service performance
- 3.4. The current contracts with Zellis (payroll advisory and payroll bureau) will roll-over for a further 18-month period unless we serve six months' notice by 31st March 2021. The recommendation outlined at para 2.1 is to continue with the payroll bureau service contract for 18 months and to serve notice to end the payroll advisory contract with effect from 30th September 2021. A better value for money option for payroll advisory is for the councils is to use their own payroll in-house expertise and if needed Zellis payroll advisory on a call off arrangement.

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- 3.5. The contract allows for one or more partners to 'roll-over' the contract so the decision for Havant and East Hampshire is not reliant on the other partners in the contract.
- 3.6. There are several reasons why it would be advisable for the payroll bureau contract to be rolled over for a further 18-month period. These are set out in detail at para 6.1, however the overarching reason relates directly to the transformational change programme.
- 3.7. Delivery of the size and scale of change anticipated will require a stable HR system which can provide all the relevant people data to evidence the decisions made. Offboarding and onboarding to a new HR and Payroll system in the middle of a transformational change programme will place the delivery of the transformational change at risk. This is because HR resources will be diverted to implement and roll out a new system and the data/system required to make evidence-based decisions and process payroll payments will be migrated to a new system. It is inevitable with any payroll migration that there will be some teething issues. This is best avoided whilst the organisation is going through large scale change.
- 3.8. It is therefore recommended by the Head of OD that the councils secure a further 18-month period of payroll bureau service from Zellis up to April 2023. This includes extending the arrangement with S&V DC as lead authority and system administrator support for the same period. This will give the councils a period of process and system stability. It will also ensure the continued delivery of an accurate payroll and enough data at system administrator level to inform the transformation programme. In addition to this it will avoid any risks associated with changing an HR system and payroll provider at such a significant time of organisational change.

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- 3.9. From April 2023, the intention is for the councils to select and implement a new HR and Payroll system and service which aligns to the needs of the transformed organisation. A new provider would be secured from April 2023 once the detail for the transformed organisation is fully understood.

4. Additional Budgetary Implications

- 4.1. The cost of the Zellis contract for the financial year 2021/22 has been included in the budget setting processes. This cost would need to be accounted for in budget setting for the financial year 2022/23.

5. Background and relationship to Corporate Strategy and/or Business Plans

- 5.1. The extension of the Zellis contract for a further 18 months provides stability and resource for the transformation programme to progress as planned. More importantly, the future HR and payroll system will be procured once the transformation programme has been implemented. This will ensure that the specification for the procurement process is accurate and aligned to the size and shape of the transformed organisation.

6. Options considered

- 6.1 The options considered were as follows:
- a) Allow the contract 'as is' to roll over for a further 18 months; continue with S&V as lead authority as per current arrangements.
 - b) Allow roll over of the bureau service contract and issue notice for the cessation of the payroll advisory contract; continue with S&V as lead authority as per current arrangements.
 - c) Procure a new HR and payroll service for implementation from 1st October 2021

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6.2 Option b is the recommended one as outlined at para 2.1. This recommendation is based on four core reasons:

- a) There will be strong organisational reliance on the Payroll and HR Admin function during the transformation programme and HR data will be integral to this. Procuring a new system for implementation from September 2021 is likely to create process and system instability which may impact the delivery of the transformation programme by October 2022.
- b) The procurement and implementation of a new HR and payroll system is resource intensive to ensure a smooth transition. Resources within HR and PR&Q are finite. Delivery of a new system alongside the resources needed for transformation and BAU will require an investment in additional resources to ensure successful delivery.
- c) Transitioning to a new payroll system at the beginning of a financial year has benefits. Many providers will make additional charges for moving payroll mid-year as this will necessitate extra work to reconcile tax and other records. The mid-year move to Capita 2018 highlighted the issues that this can create. By extending the contract for a further 18 months, this allows a move to a new system from April 2023.
- d) Alignment of a payroll and finance system would be a better long-term solution (subject to the availability of a suitable system). Rolling over the contract for a further 18-month period will allow this to be explored and considered fully.

7 Resource Implications

Financial implications

Budgeting for 21/22 includes the costs for continuing with the current payroll arrangements. Budget setting for 22/23 will account for the costs of the ongoing contract. There are no further financial impacts to report.

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Section 151 Officer comments

Date: 1.12.2020

The proposal is within the current budget framework

Human Resources implications

There are no further resource implications for the rollover of the Zellis contract. Delivery of this can be accommodated within current staffing levels and those budgeted for 21/22.

Information Governance implications

All GDPR requirements for HR, pensions and payroll data must be specified and met. The continuation of these arrangements complies with all aspects of GDPR.

Other resource implications

None to report

8 Legal Implications

- 8.1 East Hampshire District Council and Havant Borough Council, through the lead authority, South Oxfordshire District Council, may terminate the contracts with Zellis for the Bureau Service and for the Payroll Advisory Service as set out in paragraphs 3.4 and 3.5 above. It is important to ensure that any notice to terminate is given at the correct time in order to be effective otherwise the contract will automatically roll-over for a further 18 months. Zellis have a similar right to terminate the contract with the Councils.

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Monitoring Officer comments

Date: 1.12.2020

Legal have reviewed the paper and provided the legal implications as set out in the above section.

9 Risks

The recommended action as detailed at para 2.1 will positively assist in managing the risks as follows:

- 9.1 The need to provide an accurate and on-time payroll, to supply and maintain pensions and HMRC data, and to meet GDPR requirements are all legal requirements so risks must be minimised.
- 9.2 There is a significant risk that the transformational change programme will be impacted from a system and data perspective if the Councils procure a new HR/Payroll system in the middle of a large-scale transformation programme.
- 9.3 There is a significant risk that the Councils will pay more for the contract if it was procured for September 2021. This is because the Councils specification will reflect the shape and size of the organisation at that point in time rather than when the organisation has transformed fully.
- 9.4 Experience has shown that difficulties can be created by a mid-year payroll transfer. This can be mitigated by transferring a payroll at the start of a financial year.
- 9.5 The recommendation will create stability in the payroll and ensure staff are paid accurately and on time.

10 Consultation

- 10.1 None required.

11 Communication

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11.1 Communication with Zellis and S&V will progress based on the recommendations (if approved).

12 Appendices

None

13 Background papers

- A. Previous payroll papers (2019 and 2020)
 - B. Payroll Advisory Service (PAS) Q1 & Q2 data
 - C. Current payroll performance data
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Agreed and signed off by:

Portfolio Holder: **Cllr. Lulu Bowerman - 03/02/21**

Director: **Lydia Morrison - 01/02/21**

Monitoring Officer: **Daniel Toohey - 29/01/21**

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