REPORTS FOR DECISION BY THE

CABINET MEMBER FOR CORPORATE SERVICES

Date Issued: **21 December 2009**

A Record of Decision will be issued following the conclusion of 5 clear working days from the date of issue of the Report

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MAIDSTONE BOROUGH COUNCIL

CABINET MEMBER FOR CABINET MEMBER FOR CORPORATE SERVICES

REPORT OF HEAD OF HUMAN RESOURCES

Report prepared by Dena Smart, Head of Human Resources
Date Issued: 21st December 2009

1.   **HR/Payroll Information System**

1.1   Issue for Decision

The proposals to incorporate the Swale HR and Payroll information onto the iTrent system based at Maidstone Borough Council and to commence the delivery of a Payroll Bureau service to Swale from February 2010.

1.2   Recommendation of Head of Human Resources

1.2.1 That the information from the Swale HR and Payroll systems are moved onto the iTrent database hosted by Maidstone Borough Council.

1.2.2 That Maidstone Borough Council takes on the provision of Payroll services to Swale Borough Council from February 2010.

1.2.3 That the Payroll Clerk from Swale Borough Council be TUPE transferred to Maidstone Borough Council at the time that the full provision of service commences.

1.2.4 That the license with MidlandHR for iTrent be extended for a further 7 years to enable the maximum benefit of the existing and future development of the system.

1.2.5 That the provision of the Payroll to Swale is considered as part of the wider MKIP HR/Payroll Shared Service.

1.3   Background

1.3.1 The Council has identified a strategic intention to create efficiencies and resilience in the HR and Payroll teams (People Strategy 2006 and 2008). To facilitate this and the fulfill the Council's IT Strategy it procured the MidlandHR iTrent system in 2007. The procurement process followed the full OJEU requirements and was developed as a

framework agreement such that other organizations would also be able to join the contract without themselves having to go through full procurement. This strategic intent has been pursued through the Mid Kent Improvement Partnership (MKIP) business case to establish an HR/Payroll Shared Service. The use of a common IT platform across all the authorities is a fundamental part of the business case. The business case was considered and agreed by the Cabinet Member for Corporate Services on the 30th October 2009 (Appendix A).

1.3.2 Within the report of the MKIP HR/Payroll Shared Service there was reference to the immediate need for the Swale payroll to move to the iTrent system as its own payroll system is 20 years old and cannot satisfy the HMRC (inland revenue) requirements to produce an electronic end of year tax return. It was therefore anticipated that the data migration of Swale payroll would be the first step of the partnerships move to a shared system.

1.3.3 The partnership decision has been delayed within Ashford Borough Council which would have given the over-arching authority for the full implementation, of which the IT system was one part. As this has been delayed there is a requirement within Swale and Maidstone Borough Councils to gain specific agreement to the migration of Swale data to Maidstone's iTrent so that payroll can continue to the original timetable. The Swale Executive agreed the report for authority for the work on 9th December 2009 (Appendix B) this document also sets out the time table.

1.3.4 The data migration will incur costs for license extension with MidlandHR which will be met by Swale Borough Council and will be subject to a separate legal agreement between Swale and Maidstone to ensure that cost liability is transferred to them. The extension of the license will be a one off cost which will be charged to Swale and any consultancy charges necessary for implementation will either be paid direct by Swale or cross charged. The on-going maintenance fee for Swale employees to be on iTrent will also be charged to Swale.

1.3.5 Under the full HR/Payroll Shared Services these costs would be incurred but the way in which the implementation and savings are to be divided was subject to separate section 151 officer agreement. This arrangement with Swale should therefore be seen as an interim way of working until the full partnership approach is agreed. The charges from Maidstone to Swale at this point is therefore on the simplistic basis of 50% of the cost of the current IT department charges to Payroll and 50% of the cost of the Payroll Manager. In addition Maidstone will pick up a 50% charge for the Payroll clerk who will be engaged in work for MBC once she has transferred.

This will bring in a net income of £10,838 per annum to Maidstone. Further savings will be available from the full implementation of Shared Services.

1.3.6 The original contract with MidlandHR was signed in August 2007 for 5 years. The system is not yet fully developed and will take a further period to maximize its full potential. The contracts negotiations between MidlandHR and MKIP have been led by Paul Naylor (Ashford Borough Council) and have been based on a contract of seven years to January 2017 which would be for an additional five years to the original contract. The value of this extension for Maidstone is the cost of the annual maintenance charge for the additional period – this is approximately £35,000 in total which comes under the required level for further tendering processes. This additional contract extension will give a certainty and stability to the provision of IT systems for the Council.

1.4 Alternative Action and why not Recommended

1.4.1 Maidstone Borough Council could do nothing until such time as the MKIP HR/Payroll service is determined. However this would not be in line with the strategic intention to operate a Payroll bureau to reduce costs and increase resilience. If Maidstone does not support the Swale payroll they may be forced to go to another provider to meet the HMRC requirements which would then undermine the position of a shared IT platform for the MKIP partners..

1.5 Impact on Corporate Objectives

1.5.1 This is in line with the objectives of MKIP and the People Strategy.

1.6 Risk Management

1.6.1 There are risks associated with taking on the payroll for another organization. The payroll function is a major financial system for the organization and as such requires careful process and risk management and on-going audit. In the 2009 audit the Maidstone payroll was given a High level of assurance with the checks that are in place. An equally rigorous approach will be taken with the Swale payroll.

1.6.2 There will be controls in place to ensure risk minimization in the data migration from Swale systems to iTrent. The information will be trialed in the TEST system before it is moved to the LIVE environment. There will then be two months of data used for parallel running and only when all variances can be explained will live payment begin from iTrent.

1.6.3 In the event that the MKIP partnership does not proceed the charges for the Payroll Bureau service will be re-calculated to ensure there is a commercial basis for the charging.

1.6.4 There will be contractual provision between Maidstone and Swale to ensure that Maidstone does not incur additional charges from MidlandHR that are proper to Swale.

1.7 Other Implications [Insert an 'X' in the boxes below to indicate if the recommendations will have any implications in the specified area]

1.7.1

1. Financial	x
2. Staffing	x
3. Legal	x
4. Equality Impact Needs Assessment	
5. Environmental/Sustainable Development	
6. Community Safety	
7. Human Rights Act	
8. Procurement	x
9. Asset Management	

1.7.2 The financial implications are set out in paragraph 1.3.5

1.7.3 The staffing implications relate largely to the need to TUPE transfer the Payroll clerk to Maidstone from Swale. This will be dealt with under the Swale Organizational change procedure and with full consultation with the individual and trade unions.

1.7.4 There will be a need for contractual arrangements between the two Councils. This will be dealt with by the Legal Services team.

1.7.5 The procurement implications are set out in paragraph 1.3.6

1.8 Reason for Urgency

1.8.1 The decision is urgent to meet the necessary timescales for the year-end tax return submissions.

NO REPORT WILL BE ACCEPTED WITHOUT THIS BOX BEING COMPLETED

Is this a Key Decision?   Yes [ ]   No [x]

If yes, when did it appear in the Forward Plan? _____

Is this an Urgent Key Decision?   Yes [ ]   No [ ]

Reason for Urgency

[State why the decision is urgent and cannot wait until the next issue of the forward plan.]

How to Comment

Should you have any comments on the issue that is being considered please contact either the relevant Officer or the Member of the Executive who will be taking the decision.

Cllr Richard Ash,   Cabinet Member for Corporate Services
                                              Telephone: 01622 760151

                                        E-mail: richardash@maidstone.gov.uk

Dena Smart,   Head of Human Resources
                                                 Telephone: 01622 602712
                              E-mail: denasmart@maidstone.gov.uk

Appendix A

MAIDSTONE BOROUGH COUNCIL

RECORD OF DECISION OF THE CABINET MEMBER FOR CORPORATE SERVICES

Decision Made: 30 October 2009

Mid-Kent HR Shared Service Partnership

Exempt Category

The information contained within the report has been considered exempt under the following paragraph of part I of schedule 12A to the Local Government Act 1972:-

Paragraph 3 – Information relating to the financial or business   affairs of any particular person (including the authority holding that information)

Public Interest Test

It is in the public interest that this report be taken in private because disclosure of information contained within this report may prejudice the Council's commercial negotiating position.

Issue for Decision

To consider agreeing 'in principle' to adopt a Human Resources shared service and that consideration be given to choosing a delivery model from two options (an in-house service, or an outsourced service).

Decision Made

1. That it be agreed 'in principle' to pursue a shared service arrangement with the other MKIP Borough Councils for the provision of a Human Resources (Personnel and Development) Shared Service, subject to a formal partnership agreement and other detailed matters (including financial arrangements and governance processes) being approved at a later date.

2. That the aim of shared service be fully operational by the summer of 2010 be agreed.

3. That the Chief Executive be given delegated authority to decide on the final service option following consultation with the Leader and following consultation with staff, the MKIP Management Board representatives of the authorities taking part in the shared service and after taking further advice from relevant officers.

4. That the MKIP Management Board should oversee the production of the partnership agreement and completion of other detailed matters.

5. That, subject to the above recommendations, a partnership agreement be approved and the chosen service progressed.

6. That it be agreed that should the in-house option be chosen, that recruitment to the Head of Shared Service position be by way of simultaneous internal and external advertising.

7. That the potential TUPE implications, as set out in section 17 of the Report of Management Team, and Maidstone Borough Council becoming the employing authority for the shared service if the in-house option is chosen, be noted.

8. That the annual savings for the first five years be shared across the Councils involved in the shared service on the basis that the first 70% is shared equally, with the balance shared on the basis of payroll numbers be agreed 'in principle'.

9. That the overall savings for Maidstone BC, in the region of £150,000 per annum, based on a four borough partnership (£99,750+ £51,300) and the potential savings and implementation costs be reflected in the Council's Medium Term Financial Plan be agreed.

10. That the Council's potential share of implementation costs, which range between £162,000 and £195,900 (section 11.4 of the Report of Management Team), should be financed from the Invest to Save budget, with the amount to be repaid within three years.

11. That if one or more of the boroughs decides not to proceed with a shared service then the business case be reworked and a decision on proceeding is made as part of the delegation under recommendation (3) above.

Reasons for Decision

The Mid Kent Improvement Partnership ("MKIP") was established in July 2008 and has since progressed a number of studies looking at the potential for service improvement across the four Borough Councils through implementing service efficiencies and shared services. A number of shared services involving the Borough Councils (Ashford, Maidstone, Swale and Tunbridge Wells) have been established.

MKIP was created to help deliver service improvements, build greater capacity and resilience and to deliver efficiency savings. These are aspects that are important to the Councils' corporate aims and their financial plans. It should be noted the Council's Medium Term Financial Plans also include assumed savings as a result of establishing shared services.

The report of Management Team follows on from a major study that has looked at the potential to operate a shared service approach for the provision of HR Services (or Personnel and Development Services). It

recommended agreeing 'in principle' to adopt a four-Council shared service and that consideration be given to choosing a delivery model from two options (an in-house service, or an outsourced service).

Potential cost savings are significant and in the region of £570,000 across the four Councils in the first full operating year. Implementation costs range between £500,000 - £1.1 million, depending on the option; the longest pay back period, therefore, is just over two years. Following agreement 'in principle' it was recommended that the Councils subsequently decide between the two options and then complete a partnership agreement before entering into any binding commitments. It would be the aim to have a full operational shared service completed by the summer of 2010.

A similar report has now been considered in all four MKIP boroughs; however, on Friday 9 October a decision was taken by the Cabinet at Tunbridge Wells not to pursue a shared HR service at this stage – although this is still subject to call-in. Both Ashford Borough Council and Swale Borough Council have agreed the recommendations. A further recommendation was therefore added (Decision 11) to enable a revised business case (based on three boroughs) to be developed and considered if the Tunbridge Wells decision remains the same.

Alternatives considered and why rejected

The Council could decide not to proceed with the shared service proposals, however, given the current financial constraints and likely efficiency requirements in the future this is not recommended. In addition the change will provide greater resilience, improve overall levels of performance as well as providing a key building block for all future shared service proposals.

The Council could decide to delay the decision given the recent decision by Tunbridge Wells BC. However, a significant amount of work has been put into developing the business case and the external consultants will be able to revise the model to be based on three boroughs. Although the overall savings may reduce the key drivers for the Council, including resilience, service delivery/quality and the Invest to Save principles (repayment of the investment within three years) remain. To cover this point the revised business case will be reviewed at the same time as the decision on an in-house or external provider.

Background Papers

Report to the Mid Kent Improvement Partnership Management Board 29 July 2009

Signed:……………………………………….
        Councillor Richard Ash
        Cabinet Member for Corporate Services

Date:……………………………………………….

Should you be concerned about this decision and wish to call it in, please submit a call in form signed by any two Non-Executive Members to the Scrutiny Manager by: 6 November 2009.

SWALE BOROUGH COUNCIL

TO:	Executive
DATE:	9th December 2009
SUBJECT:	Replacement Payroll/HR System
BY:	Dena Smart, Interim Head of Organisation Development
Classification:	Unrestricted

Summary:	This report sets out the requirements for the replacement of the existing Payroll. The need for the report is a consequence of the delayed decision making on the MKIP HR/Payroll Shared Service as the IT system was an integral part of that recommendation supported by full Council in October 2009. The necessary timescales for replacement mean that a decision to progress on the move from the existing Payroll System must be made in December 2009.

Implications:	Human Resources Implications: there are implications for all employees and Members if the payroll is not moved from the current system as it is increasing likely to fail, which risks the Council's ability to pay its staff. There will be a redundancy when the payroll moves from its current location, but this in turn will make savings for the organisation.
	Finance Implications: the proposals identify the cost of the replacement IT system which are considerably reduced as it is proposed that this is within the MKIP partnership. The likely costs and timescales of Swale implementing this project alone are set out in the report and are much more expensive than the partnership solution.
	Legal Implications: failure to replace the system will mean that the Council will not meet its statutory duty in completing end of year returns to the HMRC. Last year the process was completed using the route for employers of up to 50 people, the return was not initially accepted and was three months late. This should have resulted in a fine from the HMRC but as that organisation also had IT difficulties the Council return was accepted. The HMRC will expect the Council to have resolved these issues within the year and make a proper electronic return. The current IT system is approximately 20 years old and is not capable of making the electronic return.
	The procurement requirements for the new IT system have been met through a full OJEU tendering process with a framework agreement enabling other Councils to join the contract which was undertaken by Maidstone Borough Council in 2007. In the short term it will require one member of staff to be seconded to Maidstone. This will then be reviewed when a final decision is made on the scope of the Shared Service.
	The power to second staff is contained in section 113 of the Local Government Act 1972. If the arrangement involves Swale Borough Council delegating any of its functions to Maidstone Borough, this is permitted under section 101 of the Local Government Act 1972".

	Crime & Disorder Implications (Section 17): not applicable.
	Equalities & Diversity Implications: employment law and council processes ensure equality of treatment in respect of human resource implications.
	Sustainability Implications: the replacement of the Payroll system will ultimately result in the Council being able to close down a very old server, which will support the Council's aspiration to reduce its carbon footprint.
	Risk and Health and Safety Implications: there are considerable risks relating to the retention of the existing system. The risks associated with the transfer of data will be minimised in the approach to the project through the parallel running process, and by secure data transfer through the Kent Partnership Secure Network.

Corporate Plan Implications:

Priority 4: Becoming a High Performing Organisation

HP1 – Ensure we manage our business, people and resources in the most efficient, effective and economic way.

Decision Required:	**The Executive is asked to agree the proposals to move from the existing Payroll/HR system to the iTrent system based at Maidstone Borough Council which is the system recommended by the proposals accepted in principle by full Council in October 2009.**

Introduction

1.   This report needs to be considered in the context of the MKIP proposals for a Shared HR/Payroll service which were supported in principle by full Council in October 2009.

Background

2.   The need for a replacement payroll system has been identified for several years in Swale. Appendix I is a report produced by David Buckett in May 2009 which identifies that Swale set a budget for the replacement of the system in 2007/08 and was one of the Councils that considered a joint procurement activity with Maidstone Borough Council. Unfortunately due to the internal difficulties with senior managers in HR at the time the organisation was unable to make this commitment. This issue continued into 2008/9 when the Council had the budget but not the internal resources to undertake the project.

3.   The HMRC require an electronic year end submission from employer with more than 50 employees and the current system cannot perform this process as it is too old. As set out in Appendix I, the Council almost failed to meet this statutory duty in 2009, and the risk of failure has increased during the year with the complications around changes national insurance bands.

4.   The business case for a Shared HR/Payroll service with MKIP partners was initially prepared in February 2009 and it was therefore expected that the timescales would be met that would enable Swale to be one of the first implementers of the new IT system, thereby resolving the problems of the year end return. Unfortunately this approval process has met with a number of delays, the most recent by Ashford Borough Council Executive who have deferred the decision until the January 2010 meeting. This is to late to achieve the deadlines for Swale systems migration by February 2010, and thus has necessitated a separate decision from Swale

Executive to authorise the immediate migration of the Swale systems to Maidstone Borough Council iTrent system.

Timescales

5.   To ensure that the year end return can be submitted for Swale Borough Council by Maidstone BC it is necessary to ensure that the Payroll has moved to MBC for live payment by February 2010. To meet this requirement the organisation will require two parallel runs – for the December and January payrolls. Essentially this entails the double entry of all pay elements i.e. in both the Swale system and in the iTrent system. The payroll is then run and figures compared to identify any differences. Only when all the differences in calculations have been identified and corrected, and cumulative in-year totals agreed, is it safe to move the payroll from Swale to Maidstone. The timescales are so short that the December parallel running will need to take place in January as the system will not be built to take Swale payroll before then. The timetable is set out below.

Task	Deadline
Planning and build to be completed	11/12/09
User Acceptance Testing/proof of concept – confirmation that system works from a function view point e.g. testing overtime calculation	14/12/09 to 08/01/10
Parallel run – duplication of everything done on the old system replicated in the new system – parallel run Dec and Jan	11/01/10 to 05/02/10
Data load of November payroll	09-10/01/10
Swale ends payroll on existing system	23/01/10
Commence live run – which is a continuation of the parallel runs from Dec and Jan	08/02/10

6.   This is an extremely demanding timetable, and is only possible because the teams have been doing a large amount of preparatory work pending final decision. Up to this point the Councils have been working on the Test system in Maidstone which does not require additional license costs with MidlandHR (the iTrent software supplier). However, in order to commence parallel running in early January there will need to be additional licenses purchased (see section on costs below) so that the data can be put into the Live system. Further delay will jeopardise the project.

7.   To meet this timetable members of the HR and payroll team in Swale will need to be trained to use the new system. iTrent is an integrated HR/Payroll system which is a consistent feature of most modern systems enabling a cost efficiency as data is not required to be input twice (as is the case currently for Swale). To ensure that the existing payroll continues to pay during January when most of the team will be trained on the new system, the Payroll Manager for Swale Borough Council will continue to run the legacy system and the Payroll Assistant will be seconded to Maidstone Borough Council for training and the parallel run. The Swale Payroll Manager will be made redundant as soon as the system is Live on iTrent – this saving will offset some of the cost of the transfer.

Costs

8.   The move to the three way HR/Payroll Shared Service is anticipated to make saving of around £135,000 each year once fully implemented. The saving is based on the staff efficiencies of moving to the new IT system, cutting down on work through self-service, and eliminating duplication. There is a sophisticated costing model which outlines both the implementation costs and the savings, and the expense that Swale Council needs to fund now will be taken from its share of the implementation costs. On the IT implementation there should be no increased costs

over and above those identified in the Shared Service report as a result of Swale going forward early. In other words, the IT costs for iTrent are the same now as going forward through the Shared Service. However, if Swale does not progress now it will attract the additional cost of penalties and loss of reputation from the HMRC for failing to meet its statutory duty.

9.   The cost/saving set out in the business case requires staff reductions. Until the full shared service is implemented all of these cannot be realised. Therefore an interim cost structure is proposed until the Shared Service model is implemented fully.

One Off Initial Implementation Costs

Item	Current SBC Cost	SBC Cost after Move to Maidstone	SBC Buy New Payroll System outside partnership
Itrent licences	-	28,000.00	28,000.00
Project Mgt / consultancy	-	18,000.00	51,000.00
Total	**-**	**46,000.00**	**79,000.00**

Annual Running Costs

Item	Current SBC Cost	SBC Cost after Move to Maidstone	SBC Buy New Payroll System
Itrent licences	-	5,600	5,600
Staffing cost	47,500	38,524	47,500
IT support	5,277	3,917	5,277
Total	**52,777**	**48,041**	**58,377**

Redundancy costs	22,000.00 redundancy – KCC costs not yet received

10.   Swale Borough Council's proportion of the full IT implementation costs are forecast to be £46,000 which could be funded from the recent VAT return. This covers the one-off purchase of additional licenses (£28,000) and the project management/consultancy costs of implementation (£18,000). This compares to an estimated £79,000 if the Council were to replace the HR/Payroll system without being part of the partnership, a saving of £33,000 one off costs.

11.   The on-going revenue costs are reduced compared to current costs by £4736 even with the additional annual license fee (£5,600). The annual costs for the shared system with Maidstone are projected to be £10,366 lower than if existing staff were retained but the system was replaced by Swale on its own.

12.   The savings and costs set out in the report would be part of those already agreed in principle by the Council as part of the Shared Service report. If the three way shared service is not agreed by all partners there will still be the opportunity to reduce on-going costs by staffing reductions at Maidstone and Swale as the new system allows further efficiencies. The estimate of these savings have not been determined at this point as the three way shared service is still a proposal.

13.   There will need to be an extension of the iTrent licenses as Swale Borough Council will become a permitted agency under the MBC license agreement, and this will require a legal undertaking from Swale to underwrite the cost of the licenses to MBC.

Alternative Options

14.   Do nothing: this is not an option for Swale Borough Council as it will result in HMRC penalties, a failure to meet its statutory duty, and the possibility of an inability to pay staff and Members. It could result in serious implications for the annual audit inspection of the Council.

15.   Await decision of the three Councils to agree the MKIP Shared Service: although the implementation of the three-way shared service is still the desired aim, the timescales are such that the risks associated with the 'Do nothing' option will not be mitigated.

16.   Alternative provider: potential alternative providers have been explored as part of the business case for the MKIP Shared Service. The KCC option was more expensive than the in-house provision and now could not meet the necessary timescales as none of the build has taken place to date. As part of the East Kent Shared Service KCC were chosen as the preferred payroll/HR system providers, in preference to Medway who also bid for the work. KCC commenced the procurement of a new IT system for East Kent as the Oracle system used by KCC itself is not suitable for the smaller Districts on a cost or functionality basis. This tendering process has taken approximately one year and the payroll implementation has not yet commenced, running several months behind schedule. The full tendering process resulted in the selection of the sample product as used by Maidstone Borough Council and recommended for use by the MKIP Partnership – iTrent. It is also unlikely KCC would be able to meet the timescales required by Swale Borough Council to mitigate the risks set out in the 'Do Nothing' option. The MKIP Shared Service business case also considered the options of outsourcing to a third party commercial supplier and scoped two providers in some detail – this option was also rejected.

17   Going through further detailed option appraisal with other providers is not feasible given the shortness of time available to ensure the specification is understood and properly tendered. OJEU tendering arrangements would probably apply requiring the existing "not fit for purpose" arrangements to continue for a prolonged period.

Decision required and next steps

18.   The Executive is asked to approve the move to the iTrent system hosted by Maidstone Borough Council and to authorise the project costs.

19.   Once approved the legal teams will draft the legal agreements and service level agreements required for Maidstone to run the Swale payroll. The additional licenses will be purchased from MidlandHR for iTrent and work will commence as outlined above. A project plan will be agreed to ensure full implementation is well managed.

Report produced by David Buckett in May 2009 identifying a budget for the replacement of the Payroll system

Agenda item no

Swale Borough Council

Report to: Chief Executive and Corporate Services Director

Date: 8 May 2009

Reporting officer: Head of Finance

Subject: Payroll System

Purpose and summary of report:

To outline the need to replace the current payroll system

Recommendations:

> ***That SBC sets up a project team with the aim of using the Maidstone payroll system as soon as possible.***

1. Background

1.1 The current payroll system is approximately 20 years old and was written in house. It has since been regularly amended to meet statutory changes such as NI rates, PAYE, SSP, SMP, SPP, AOE's, student loans and the variable contribution rates to the Kent Pension Fund.

1.2 Originally, the payroll system was going to be replaced by a new system covering both HR and Payroll, and a sum of £40,000 was set aside in the 2007-08 capital budget, which was updated to £60,000 in the 2008-09 budget. However, progress has been delayed due to staffing capacity within HR and further delayed because payroll and HR services were put forward to be in Year 1 of the MKIP initiative of shared services with Maidstone, Ashford and Tunbridge Wells.

2. Issues with the Current Payroll System

2.1 The current payroll system is unsustainable and if not replaced soon, it will no longer be able to provide a reliable and accurate payroll service. The functionality provided by most current payroll systems is not available for SBC we can't even download data into an Excel or Word format, a basic requirement of most systems in the workplace. For example some of the problems are:

2.1.1 Future Payroll Changes

2.1.1.1 There is a high risk with the current payroll system as it is reliant on the knowledge of a limited number of staff, especially in IT, who if no longer available, would mean that SBC would not be able to implement statutory payroll changes. However, even with these staff there are changes due from 2010 that the current system will not be able to cope with such as LGPS changes

2.1.2 Submission of Statutory Data to HM Revenue and Customs

2.1.2.1 The Employer Annual Return for 2008-09 to HMRC is due by 19th May. Organisations with 50 or more employees are required to file their return online. Currently the only option available for SBC is manually entering the data via the HMRC's website and only supposed to be used to file up to 50 employees but we use it to submit over 500 staff records. For 2008-09, we are experiencing serious technical problems in using this method, which are likely to get worse next year. Modern payroll systems are configured to submit this information automatically to HMRC.

2.1.3 Submission of Superannuation Data to KCC

2.1.3.1 We have technical system problems receiving and sending the LGPS return to KCC and a lot of manual manipulation of

the data is required prior to submission by the April deadline. Again, a modern payroll system would submit the information automatically to KCC.

2.1.4 Double Checking of Payroll System

2.1.4.1 Historically the calculations of the payroll system have been checked by an accountant who uses complex spreadsheets to check and monitor the actual cost of each item of pay for each employee every month against budgets. This is how the Vacancy Factor is monitored. This detailed work would be reduced if a more modern payroll system was available.

2.1.5 Calculating Back Pay

2.1.5.1 Last year the pay award was delayed and an interim payment was made in November 2008, which involves recalculation of all overtime, additional allowances, pension payments and leavers final payments etc as well as the normal back pay due. The existing payroll system cannot cope with more than one change per year. In 2009-10, there will be another payment of back pay part way through the year. This is very labour intensive for the payroll staff and relies on the HR staff uprating the pay scales in the HR system, which feeds through to the payroll system before any work can commence. A modern integrated HR and payroll system would calculate this, whereas currently this involved a great deal of manual calculation and checking.

2.2 All of the above problems are putting the Finance staff responsible for payroll under a great deal of pressure due in part to the tight deadlines for submission of returns etc. The HMRC returns attract penalties for late submission of information.

3. Mid Kent Improvement Partnership

3.1 The Chief Executives and Leaders are due to discuss a report on the options for HR and Payroll provided by consultants (Orion) on 13 May 2009. Whichever option is chosen, it is unlikely that it will be fully operational by 31 March 2010. A more likely timescale would be September/ October 2010 at the earliest. Any of the alternatives decided by MKIP will resolve the payroll problems highlighted above. However, there is a high risk that Swale's current payroll system will not be able to continue to function to the required standard to the time when the new MKIP arrangements take effect.

3.2 There are alternatives to our payroll system (e.g. purchase of new system, outsourcing to KCC, Medway etc) but they would compromise progress on MKIP.

3.3 I understand that the preferred option of the Consultants, Orion is to establish a joint HR and Payroll function based on the recently acquired Maidstone

software platform MidlandTrent. Maidstone procured their new payroll system under EU rules in 2007 which apparently allowed other Kent authorities to "piggy back" i.e. be able to use it without having to go out to tender. My payroll staff and the IT development staff explored the piggyback option with representatives from Maidstone last December 2008. This work was curtailed in January 2009 following the appointment of Orion.

4. Risks

4.1 There is a current issue with the submission of the HMRC data, which is still unresolved and is preventing us from submitting the information required by the deadline of 19 May. My staff are understandably very concerned about the situation as it would be impossible to re-enter 500 employee records onto another system, even if this was possible, by the deadline. The Council will be liable to a penalty for late submission.

4.2 Even if we are able to resolve the HMRC position (this has been escalated within the HMRC) it is unfair on my staff who are struggling along with a system that is not fit for purpose. It is very stressful.

4.3 HMRC will probably insist that we use a recognised payroll system accredited by them that has the automatic online system for submitting the end of year returns. Therefore, we need to be in a position to migrate the 2009-10 payroll data onto a new system to be able to comply.

4.4 There are continuing concerns over the calculation of back pay to be addressed at some point during the current financial year. The reclassification of regular/occasional users under the new criteria is due to go live on 1st June. Payroll staff have already provided the mileage/payment data to HR to review the entitlements, but are awaiting instructions as to what should be paid from June. This is a contentious issue and will inevitably increase the workload in the short-term.

4.5 To continue as we are runs a high risk of reducing service delivery in a high profile service.

5. Recommendations

5.1 That SBC sets up a project team with the aim of using the Maidstone payroll system as soon as possible even if this is an interim arrangement if the MKIP decision is not to approve the Orion recommendation.

5.2 There are number of issues with this option, interface with current HR system, staff transfer to Maidstone (?), IT interface issues, transferring data, etc. To run such a project would take up time of current SBC staff and therefore there would be a short-term cost in backfilling posts. The cost of obtaining licences for the Maidstone payroll system is unknown.

5.3   There are some outstanding amendments required to be done to our existing system before we could progress to the Maidstone system, which would involve a period of parallel running. I envisage the Council using the existing payroll system for the year to March 2010, but with parallel running taking place in February/March 2010 be in a position to then use the Maidstone system in April 2010 to submit the 2009-10 year end data required by HMRC and KCC Pensions. The April 2010 payroll would be done on the Maidstone system.

5.4   An additional benefit of scrapping the existing payroll system would be the reduction in maintenance of server facilities for the IT Section.

5.5   Although there is no specific budgetary provision it could be viewed as an invest to save project especially if the HR function is included as envisaged by MKIP. The Orion proposal will need funding anyway, but Swale needs to act now to overcome our payroll issues highlighted in this paper.

David Buckett

Head of Finance   7 May 2009