SHARED SERVICES TRANSITION BUSINESS CASE

Pensions and Payroll Service

PLYMOUTH CITY COUNCIL

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EXECUTIVE SUMMARY

Why This Service?

This case is being presented for consideration on the basis that the Pensions and Payroll services proposed for transfer meet the following criteria:

- It is a transactional service – meeting the criteria proposed by scrutiny
- It is a service that is currently proven within PCC to be saleable and Delt expect to be able to expand from that base into other clients
- Payroll and Pensions is a service that has been identified by other local partners as a priority for sharing. If Delt were able to demonstrate a working capability to them it would offer an option as a "neutral" and local organisation who could credibly act as the focal point for regional alignment. "The service is already fully consolidated within PCC. There are no other payroll and pensions functions in departments across the organisation, therefore the full transition can be accomplished in one stage.
- The service is well managed within PCC with a clearly defined business strategy (with a future focus on increased automation and self-service). This vision is likely to be developed further and faster under Delt management than PCC. A recent audit report has found the service to be operating at a "high standard" across the board, with no areas of material concern, this report is appended as Appendix 2 to this case.
- Resourcing levels in the service are at a minimum viability levels, demonstrating very low resilience across critical skills required to deliver. The proposed transition will embed the service in an organisation where there are individuals with technical skills to augment the team and build resilience. Furthermore the Delt plan would be to expand the service through attracting new business, either clients or partners.

Why now?

The impetus driving the proposal to migrate Payroll and Pensions to Delt is to attempt to achieve the transition by Quarter 1 of the Financial Year 2018 (2^{nd} April). It is at this point that many of the existing contracts with schools and other organisations will be renewed for a further 12 months. The opportunity exists therefore to manage relationships with these customers through the renewal process, offering assurance that the existing staff will transfer to Delt to allow them to continue to deliver the quality of service that these customers expect.

Why not?

Despite the balance of the analysis in this case, justifying the transition, there are still risks associated with this proposal. The biggest risk is that Delt are unsuccessful in winning future business (partners and/or customers). If Delt were to fail in securing new business the service would remain viable within Delt but increases in dividend payments back to PCC would not be delivered. With no or limited growth the desire to invest in the systems used by the services would be much harder/impossible to cost justify. The risk of service failure or disruption as a result of the transfer is assessed as very low.

1. INTRODUCTION

This report presents a Business case based on the guidance published by the Treasury using the 5 case model to set out the arguments. The scope of services considered within the report is Plymouth City Council's Payroll and Pension Service.

1.1 This function provides payroll and pensions services to Plymouth City Council, Plymouth Schools and to over 20 additional organisations. The service is responsible for running over 300 separate payrolls each year which equates to approximately 100,000 payments each year. The total amount processed each year totals £175m which is made up of payments to employees, pension schemes and HM Revenue and Customs. Payroll and Pensions is currently forecast to generate over £305K annual income from selling its services to Schools, Academies, some Third Sector organisations and Delt. The team also has delegated responsibility for Income Tax, National Insurance and Pension compliance on behalf of the Council and also acts as administrator for the HR Self Service Portal which is accessed by 2500 employees and Managers.

1.2 Following evaluation and detailed option analysis in September 2017, the conclusion reached was that our existing back office services would provide more value to PCC and Plymouth through them being delivered via a public sector shared service provider. The outcome of the analysis was that Delt is recommended as the best-fit. As part of the process to reach this decision a number of recommendations were made on the priority for services to be transferred, which included direction to focus on transactional services initially. Based on that conclusion the recommendation is that the functions of the Payroll and Pensions Service are transferred to Delt Shared Services Ltd from April 2nd 2018.

1.3 The analysis in the outline business case approved by Cabinet in September 2017 involved a number of complex factors. Firstly, savings delivered from back office services are likely to be the product of:

- Scale
- Automation
- Productivity

These drivers are all made more achievable by moving the services to Delt where growth is part of the business plan, technology is the current core business and investment in people with a highly engaged and motivated workforce is part of the offer.

1.4 The Payroll and Pensions Service is made up of three core teams; Payroll Operations, Payroll and Pensions Control and HR Systems[1]. The total full time equivalent (FTE) across these teams is 14.9 x Operational staff and 3.43 x FTE systems support resource.

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[1] *This Team is currently referred to as I- Trent systems team or e-HR team – Midland HR are the supplier for the current HR Management platform which is named I Trent. Future reference to the team will be HR systems, this title offers more flexibility to Delt to explore alternative HR platforms.*

2. DRIVERS FOR CHANGE

2.1 PCC had a revenue budget in 2015/16 of £193m used to fund operations across 6 directorates, and a capital budget of £77m used to fund major infrastructure projects. Total budgeted spend in 2015/16 was therefore £270m.

At a time when PCC faces unprecedented and sustained financial challenges, modernising and changing the way the Council delivers services is crucial in helping it address the projected £37m gap in funding over the next three years.

2.2 As within any large organisation, people are one of PCCs most valuable assets. In order to address the aforementioned funding gap the authority is constantly evolving and exploring new ways to deliver more for less. In this period of austerity this often results in a review of services followed by restructure. Payroll and Pensions are no exception and in 2016, as part of Agile HR underwent a substantial realignment that saw frontline resources diminished by 20%[2]. The remaining team consists of a very small number of subject matter experts whose average age is 50 years. With budgetary pressures restricting recruitment it is not possible to succession plan, nor build resilience into the Payroll and Pensions team. This creates a risk to the authority as there are several single points of failure within the team and with an ageing workforce the risk of retirement and no succession plan could quite quickly become a major issue. Migrating Payroll and Pensions to Delt and creating the capability to share services with other organisations will create opportunities to grow the team and build in succession planning and resilience into the resource plan. Growth will create training and development prospects for the team which translates to an engaged and confident workforce.

Driving value for money has never been more crucial to PCC. In these circumstances an appropriately resourced Payroll and Pensions function can improve value for money by increasing income generated by selling services to a wider audience, reducing internal resource consumption, building a saleable resilient and flexible service and adopting digital solutions to encourage increased self-service and automation.

3. OUTCOMES

3.1 Any change toward a different model for delivery of back office services will be required to demonstrate service improvement and savings/budget reductions where possible. Understanding and defining these outcomes is critical to our ability to evaluate the suitability of options.

The following outcomes were agreed to be mandatory for any shared service model:

- Customer / Patient Experience
- Delivery of savings through 'lowest' net cost per transaction/service
- Resilience
- Delivery of savings through 'lowest' annual cost to serve
- Provide service in line with agreed parameters
- Positive business case – cash-flow profile and acceptable payback period

The case for the transfer of Payroll and Pensions Service has been considered against each individual outcome

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[2] *A reduction from 22 FTE to 17.52 FTE*

3.2 **Customer Experience -** The priority for the Payroll and Pensions team is to ensure that the staff of the Council and commercial customers (under contractual arrangements) are paid accurately and on-time in accordance with statutory and contractual requirements. Performance is managed by Key Performance Indicators relating to payroll error as a percentage of the total payments of overall gross and net pay, this is currently targeted at max of 0.20%. The team are currently over performing against this measure with an error rate of just 0.10%. It is not anticipated that the transfer of this service would change this level of performance.

3.3 The core schools customer base is shifting significantly. Increasingly maintained schools are converting to Academy status. This offers the Academies opportunity to procure payroll and pensions services from alternative suppliers. Since June 2016, 28 schools have adopted Academy status, 70% of these have chosen PCC to provide their payroll bureau services. The remaining 30% have moved payroll provider to a national competitor with separate payroll provision.

3.4 The Payroll and Pensions team was previously part of the wider HR and Organisational Development function. The Agile HR project has delivered a new service delivery model for Human Resources & Organisational Development driving savings of £310K. This project has seen the Payroll and Pensions team re structured and separated from the wider function in several stages; the first phase saw them move to HR Business Services, this was aimed at managing all transactional HR processes within one team. General calls into the team were migrated to the Contact Centre with the aim of alleviating some of the resource pressure from the team who had been restructured losing headcount. In addition to this the purchase of additional modules to HR iTrent system enabled manager and staff self-service to allow resource savings in the payroll teams. This is a theme that has been continued into the development of the Service Centre.

3.5 In July 2017 the Payroll and Pensions Service joined the Service Centre where transactional services from across the Transformation directorate were aligned. A flatter more efficient management structure was introduced and a self-evaluation methodology (known as "Star Chamber Sessions") was adopted to generate business improvements. The service has developed and improved its customer offer, increasing the use of online Firmstep Forms to advise of changes to employment, new starters etc. Online forms have been developed in response to feedback from customers and the team who were often frustrated at the volume of paper based forms and processes involved in notifying simple changes that would impact payroll and pensions related data. A focus on increased channel shift aims to reduce or eradicate the current manual paper based processes. The strategy is that these are replaced by improved online services using the manager and staff self-service with authorised users updating the payroll system with the data they own.

3.6 There are issues with resilience and capacity due to reduction in headcount. There is a reliance on a small number of experienced experts. There are notable examples where poor resilience led to there being no operational team available at one point due to staff sickness and annual leave. The pension's expertise within the team is concentrated in a small number of experts, one of whom is nearing retirement age. These issues create a risk to business continuity and customer satisfaction as well as the ability to scale up to deliver services to additional external customers. A migration to Delt could see increased use of automation to further relieve pressure on teams and investment in resource and training to upscale the service to meet the anticipated increase in contracted demand from external customers.

3.7 **Delivery of savings through 'lowest' net cost per transaction/service -** The benefit of moving the Payroll and Pensions Service to Delt is that there will be an opportunity for Delt to market payroll services to other organisations, in particular those with similar financial pressures that could be alleviated by sharing or outsourcing payroll rather than having their own in house service. As more organisations buy into a Delt shared payroll services, increased savings and service improvement through shared systems, overheads and resources will be realised. This is expected to reduce the net cost per transaction. Current net cost per payslip (excluding support service recharges) is calculated at £3.87.

3.8 **Resilience -**Resilience will be developed by adopting increased automation, self-service and smarter digital solutions. There are deficiencies in the iTrent system that cannot be overcome to meet the needs of the business. These include the fact that there is no online interface available to post updates to data stored in iTrent, meaning digital forms cannot be completed and confirmed online, creating the need for manual checks to ensure data is successfully updated and other additional demands on the resource available. Greater automation and the introduction of self-service for external clients will remove some of the transactional work away from frontline staff building resilience and capacity. Improved iTrent performance and functionality directly correlates with staff performance, staff time is wasted due to limitations of system

As more organisations choose Delt as their Payroll provider the income generated From additional contracts can be reinvested in recruiting and training more specialists where required reducing the potential for single point of failure when key staff are unavailable. At present the capacity to advertise services externally is limited as the team does not have capacity for growth. Resilience will also be developed as the Payroll and Pensions function matures within Delt and continuous improvement cycles identify service improvement opportunities leading to consistency and efficiency.

The process to run batch payroll processes for the 26 separate payrolls is limited. For each payroll the multiples payroll processes within Itrent (e.g. Run payroll, produce payslips, submit tax return) need to be executed per payroll, multiplying the staff resources required. The functionality to batch processes across payrolls would alleviate this pressure.

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3.9 **Delivery of savings through 'lowest' annual cost to serve** Growth and automation in the volume of payrolls and payslips processed by the service is the key to reducing the annual cost to serve. Automation will result in the vast majority of the cost base for the service being fixed, at that point the strategy must then be to seek other customers and partners to adopt the solution to share the fixed cost across a wider base and reduce the total cost to serve back to PCC.

3.10 **Provide service in line with agreed parameters -** The core objectives of the Payroll and Pensions service is to;

- To deliver a core, cost effective payroll and pensions service to Plymouth City Council employees (including council employed school staff).
- Deliver income generating payroll and pensions services to schools and external clients to contribute to offsetting the cost of internal support services.

3.11 The service is expected to adhere to the following minimum service levels;

Description of Performance Indicator	Actual Performance	Date Range	Target	Impact
Payroll errors as percentage of payments made.	0.10%	Monthly	0.20%	Cost
Corporate employees receiving eSlips	90%	Quarterly	80%	Cost
Service Cost per payslip	tbc	Quarterly	tbc	Cost
Payment to employees/client employees on pay date	100%	Monthly	100%	Employer breach of contract
Application of contractual terms and conditions	100%	Monthly	100%	Employer breach of contract Illegal deduction from pay under ERA 1996
Provision of payslip on or before pay day	100%	Monthly	100%	Breach of Employment Rights Act 1996
Compliance with HMRC regulations (payments, deductions and benefits)	100%	Monthly	100%	Financial Penalties
Payment to HMRC (Income tax, NIC etc.) by due date	100%	Monthly	100%	Financial Penalties
HMRC tax returns by due date	100%	Monthly	100%	Financial Penalties
Payments to pension scheme providers by due date	100%	Monthly	100%	Financial Penalties
Pension scheme returns by due date	100%	Monthly	100%	Financial Penalties
Payments to courts/3rd parties by due date	100%	Monthly	100%	Financial Penalties
HMRC returns	100%	Annually	100%	Financial Penalties
Pensions returns	100%	Annually	100%	Financial Penalties

3.12 **Positive business case**

Section 4.6 covers the financial case, which now shows payback within 3 years for both the modelled best and worst case scenarios for the transfer. Essentially, the model shows that we face an outcome of gradual decline in income if the service is retained in the Council, this will cause a gradual cutting of the costs (staff) in the service until it becomes non performant or unreliable due to a lack of resilience. The alternative outcome is for Delt to invest in the service in order to drive additional external business after the second year from transfer.

3.13 **The following outcomes are proposed to be desirable for any shared service model:**

3.14 **Jobs and investment retained in the region -** One of Delt's objectives is: To create a platform for Economic Growth the founding partners (Plymouth City Council and NEW Devon Clinical Commissioning Group) made a conscious decision to keep the investment in shared services local. The alternatives considered would result in fewer regional jobs; and have a direct impact on local families' health and wellbeing, for both employees and local supplier companies. For every 100 Delt type jobs sourced out of the region, another 145 are expected to disappear. (*Reference: ONS Employment Multipliers and Effects by SU114 Industry Group 82, Office and Business Support, 2010.) Delt seek to maintain a technological and high value employment base in the South West and, where possible, to grow in-house talent by recruiting apprentices from local schools and universities. Where possible, Delt sources services and products locally to support the local economy. Although not a profit motivated establishment, Delt recognises that its greatest contribution to the local economy will be delivered from sustainable growth in market sectors, services and regional geography.

3.15 **Partners in the shared service are based in the public sector or social/voluntary sector -** There is significant opportunity for Delt to grow in the region but especially so with suitable partners. The health economy is being driven hard by Government towards shared services. Potential local partners are quoting current spend on corporate services of £70m with direction to see this reduced to £53m by FY2018/19. The stated assumption from Chief Executives of local organisations is: "The only way that Devon will achieve the 18/19 cost for corporate savings will be through a shared service arrangement." Delt believe the transfer of the Payroll services should ensure it is considered to be a viable delivery vehicle for any such shared service.

3.16 **Income generation -** PCC has increased its focus on commercialising its services where possible. Delt is well placed to further exploit these (and other) opportunities primarily because Delt are permitted to make a profit on commercial services, whereby PCC is prevented from doing so by the Local Authority Act. Delt has recruited several Senior Leaders with strong commercial backgrounds who also have experience of working in both private and public sector organisations. They understand how a Local Authority operates and the constraints in which it must function whilst having the commercial acumen required to drive growth. Delt is able to focus on more markets because it is set up to pursue commercial opportunities and recognises that it needs to attract new business if it is to develop.

Migrating PCC Pensions and Payroll staff to Delt ensures a cross pollination of skills and best practice across the organisations. Existing PCC staff already have a great understanding of its customers' requirements and understand their transactional demand. Combining these skills will enable Delt to move forward as a better partner organisations to schools and other potential customers for a payroll service. Delt would benefit significantly from transferring in highly knowledgeable, experienced and skilled Pensions and Payroll staff from PCC, building on this expertise to develop a commercially focused, scalable team dedicated to growing the commercial payroll offer.

4. THE 5 CASE MODEL BASED ON PREFERRED OPTION

4.1 Treasury guidance on how to justify public sector investment proposes 5 cases are explored in

1. The strategic case – describes the support the proposal provides to the strategic direction for the Council and our partners.
2. The economic case – describes the impact the proposal would have on the local economy.
3. The commercial case – explains how the procurement process would work and how the arrangements will be structured to ensure a good deal.
4. The financial case – explains how the proposal represents an affordable and funded deal structure.
5. The management case – describes how the work to deliver the proposal will be delivered and controlled.

A link to the guidance issued by the Treasury to explain the use of these cases is included in the related documents section of this report.

4.2 Each case is detailed and presented as a series of arguments and analysis proposing the changes, the risks and counter arguments for the change will also be described alongside mitigations.

4.3 **The Strategic case – Summary:** Delt was established with the primary purpose of providing a vehicle for strategic growth, the vision was to achieve this through migrating sellable services, Delt is more commercially focused and savings achieved through economies of scale

4.3.1 As already stated in this case, Payroll services have for some time been sold by the Council, in particular to local schools. The income from these sales is governed by the Local Government Act which prevents Councils from profiting from such activity. Delt are a private company and therefore exempt from the provisions of the Act. Therefore Delt are permitted to make a profit. The recent trend of schools adopting academy status and seeking more independence has also impacted this business, it is believed that the move to Delt is likely to hold greater appeal to schools who are focused on independence and also has more potential to attract new business. For those schools who have stayed with the Council for this service, it is hoped that the continuity of staff and relationships accompanied by clear and reassuring communications about the service run by Delt should assure them that the service will remain reliable and accurate.

4.3.2 One of Delt's objectives is: To create a platform for economic growth. The founding partners (Plymouth City Council and NEW Devon Clinical Commissioning Group) made a conscious decision to keep the investment in shared services local. Alternative delivery options are likely to result in fewer regional jobs; and have a direct impact on local families' wealth, health and wellbeing. It is estimated[3] that for every 100 Delt type jobs sourced out of the region, another 145 are expected to disappear. Delt seek to maintain a technological and high value employment base in the South West and, where possible, to grow in-house talent by recruiting

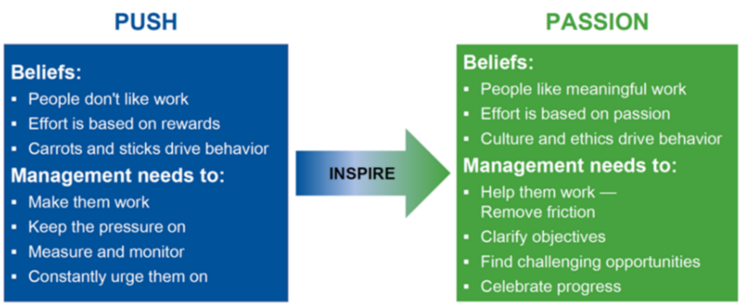
[3] Reference: ONS Employment Multipliers and Effects by SU114 Industry Group 82, Office and Business Support, 2010

apprentices from local schools and universities. Where possible, Delt sources services and products locally to support the local economy. Although not a profit motivated organisation, Delt recognises that its greatest contribution to the local economy will be delivered from sustainable growth in market sectors, services and regional geography. This growth and the knock on effects to the local economy are anticipated to be greater in Delt than any other option considered. The growth is also key to achieving economies of scale in the service which will enable reduction in costs.

4.3.3 The final strategic argument is that the PCC payroll service is a fully matured and developed operation within PCC. There is little more the Council could do to improve the service without making an unjustifiable level of investment in it to replace the payroll system. Moving the service is therefore not in danger of "leaving money on the table" by way of obvious and easy savings or sources of revenue. PCC has taken this service as far as it is capable of going and the transfer proposed to Delt is one based on the strategic fit with Delt's business that will develop the service further than would have been possible within PCC. Arguably leaving the service within PCC is likely to eventually lead to further savings being taken from the team which will result in it becoming unviable.

4.4 **The Economic Case – Summary:** Supportive performance management coupled with simple self-service will deliver the service better, faster and cheaper, which in turn unlocks additional business to deliver dividend payments to PCC.

4.4.1 The sheer range of services delivered by PCC makes the recognition and engagement of that breadth of staff a real challenge. Inevitably management time and attention in an organisation the size of PCC on "non-core" services such as payroll will be limited. In Delt a service like Payroll will be core and its importance to driving commercial sales to partners and customers will make it important enough to secure management attention to the service and the people working in it. A committed, motivated and engaged workforce are more productive both in the time they spend at work and in the amount of time they spend at work. This translates directly to the cost of service delivery and is one of the reasons that Delt have been able to achieve a step change in the performance of IT services provided to the Council whilst also providing some savings. The diagram below (taken from Delt management training) shows the management philosophy associated with the idea of "supportive performance management".



> A comparison of sickness rates between Delt and PCC has been undertaken as part of this business case. Sickness being taken in this case as a proxy for engagement (higher engagement leading to lower sickness). Delt have seen average sickness days at less than 4 per year per employee, the Council runs at around 7 days per year per employee in comparison.

4.4.2 The economics of traditional payroll processing have been disrupted in recent years with the advent of self-service. Allowing employees to enter expenses claims and holiday requests and allowing managers to authorise changes and view the working (and sickness) patterns of their staff. This change has removed the need for large scale payroll admin functions. PCC has started on this journey building on the limited functionality offered by the iTrent platform. In order to effectively progress with additional digital HR services consideration will need to be given to alternative technical options. This could include potentially replacing the payroll system with something more open, thus allowing it to integrate with technology like Firmstep. The scale of benefits delivered by this type of technology would be relatively limited when applied to PCC (and the 23 commercial payroll clients). It is estimated that there would not be enough benefit to cost justify the investment required to replace the payroll system. However, with additional scale (from additional clients and partners) this investment would be much more likely to pay off and in the long term reduce the cost of payroll to all the service users.

4.4.3 Therefore the economic case for the transfer of Payroll services to Delt can be summarised as follows: In order to achieve further cost reductions in payroll it would requires delivery on a more open technology platform. The investment required to change system is impossible to justify without increasing the scale of operation supported. Delt have the commercial freedom to elect to purchase a new payroll system as an investment required to support their growth. This investment will benefit PCC through reduced cost of payroll services and assuming the business grows, an increased dividend payment.

4.5 **The Commercial Case – Summary:** Pricing flexibility and account management will lead to new market opportunities for the service and reinvestment back into the service.

4.5.1 Fees and charges for services delivered by PCC are carefully controlled and managed within the Council under a defined and agreed policy. Generally this results in the opportunity to change prices being limited to an annual review. Delt would have greater pricing flexibility and in theory at least be able to alter pricing in response to factors such as the scale, longevity and/or complexity of the customer needs. This should allow them to complete better with other private sector payroll providers.

4.5.2 Delivery of services such as ICT and payroll require a level of account management/service management that is greater than providing the services to an internal colleague. Defined service availability and support availability times alongside account reviews are expected by most buyers of this type of service. The Council do not have Account Managers or account management responsibilities in existing role profiles, in contrast Delt have existing dedicated resource in place already and are experienced in account management for the delivery of IT. There would be a cost to the Council in setting these roles and/or responsibilities up if the service was to continue to operate internally.

4.5.3 The combination of agile pricing and account management wrapped around the existing Council service and the expert team providing it is believed to be a commercial proposition with some market attractiveness.

4.6 **The Financial Case – Summary:**

4.6.1 The financial case measures a baseline (retained within PCC) Payroll and e-HR service against the Delt proposal to determine the level of growth and thus the point at which payback occurs.

4.6.2 A three year model shares a common comparable cost and income base set for 2018/19 as the first year or "base year". The latest position on external income contracts has been reflected in the base year with the assumption that there will be further losses in income as schools explore their options to buy this service from other suppliers before there is renewed growth based on Delt investing to improve the service.

4.6.3 The transfer of services into another organisation always creates two financial issues that need to be considered, Pension and back office support services costs. Careful consideration has been given to the presentation of these issues within the business case given the complexity and also the fact that a longer term view is needed to address them.

4.6.4 Pensions. The Council is ultimately responsible for any LGPS pension deficit that arises from the cohort of former ICT Council employees who transferred to Delt under the ICT TUPE arrangements. In 2017/18 the Council supported a proposal to enable Delt to move to a Pensions "pass-through" arrangement. This meant that Delt increased the employer rate from 12% to 22% for the remaining fixed term of the ICT contract. This rate change was calculated to reduce the risk of a LGPS pension deficit at the end of the Delt ICT contract. The impact will mean an increase in the annual cost of any future services transferring because the pension cost is 22% not 14.7%. However, using a rate of 14.7% would require the Council to either pay the lump sum deficit payment at the end of the contract term or increase the arrears recovery rates for employees remaining in the LGPS. Either way, the Council pays and the presentation is a timing and risk management issue.

4.6.5 For ease of comparing the options: the Delt numbers do not contain the enhanced pass through cost and the Councils baseline does not include the lump sum at the end of the term. It should be noted in real terms therefore, the Delt contract will be set to include the pass-through rate so Delt's costs are covered and the Council will not have to set aside contingency for the pension deficit as it will be paying through the Delt contract. The model simplifies this complexity through the assumption that regardless of the whether the transfer is approved or not the costs would, in the medium term offset each other.

Note: the model uses a 14.7% pension's employer's rate for both options, to enable comparison.

4.6.6 Discussion with the Devon LGPS Pension Fund Administrator has taken place to ensure proposals to add new services to Delt are understood and the pension requirements are managed correctly. Further conversations have already taken place with the LGPS fund Actuary advisors to discuss the strategy for ensuring the correct assessments take place at the right time to ensure Pensions are accounted for properly. The proposal is for an actuary review to take place if and when waves of 30 employees of staff transfer to Delt to check the Delt pension pass-through rate is correct. As the Council is ultimately responsible for any pension deficit this has been agreed as the most pragmatic and cost effective approach.

4.6.7 Support Services. The Council "notionally" recharges its back office support services costs to all Council activities so that the Government can compare the costs of frontline services of Local Authorities. As the primary purpose of the exercise is to enable this comparison the method is a simplified apportionment of all support services costs using headcount and it does not correlate to the actual usage of each service. It would be an administrative burden to implement a more complex recharging model, reflecting consumption/usage more accurately. Therefore, in reviewing the support service costs the model is based on an assessment of what support activities would be needed to operate an e-HR and Payroll service assuming it transfers to Delt, with the support service charges not required to operate the service needing to be addressed by the Council over time.

4.6.8 In addition, the issue of deferred TUPE is also being considered to ensure compliance with employment law. The reality is that the work supporting Payroll and e-HR is made up of lots of small amounts of Council Officers time. Therefore, the Council is working with Delt to minimise "stranded costs" where TUPE doesn't apply but Delt will need to build up its own back office

4.6.9 Thus, the business case financials make some key support service assumptions. They are:

1. Only the support service costs that would be needed by the transferring services are in the scope of the financials in the business case. This will be tested against TUPE to ensure the Council complies with employment law.
2. Where these costs are in scope there is a risk of stranded costs with the Council if Delt do not buy back the services or recruit from the Council's employee base (where TUPE does not apply due). Both scenarios are tested in the Business case financials as a worst and best case scenario compared to the baseline position.
3. Support Service costs of activities that are not needed by e-HR and Payroll are outside the scope of this business case. However, it has to be acknowledged that a separate review of the support services and their costs is needed as the Council changes shape to ensure the level of support service is right for the remaining organisation and any external clients buying back services from the Council.

4.6.10 The Financial position is set out in detail in Appendices 3 and 4 with a summary below in the two graphs. This shows a financial projection over a three year period showing the best and worst case scenario for the combined Delt and Council costs compared to the baselined "do nothing" (retain the service within PCC) option with the payback calculation.

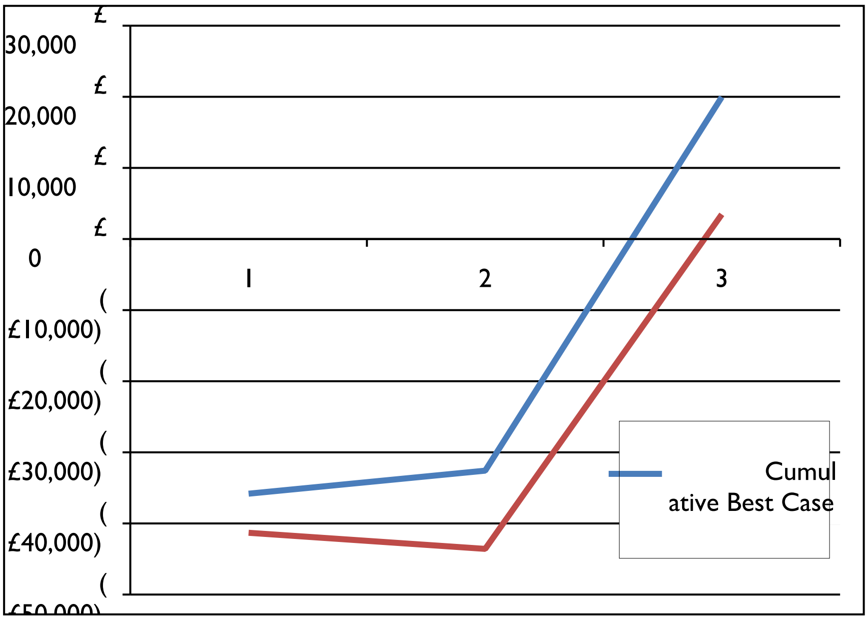


Figure 1 – Payback Period Graph

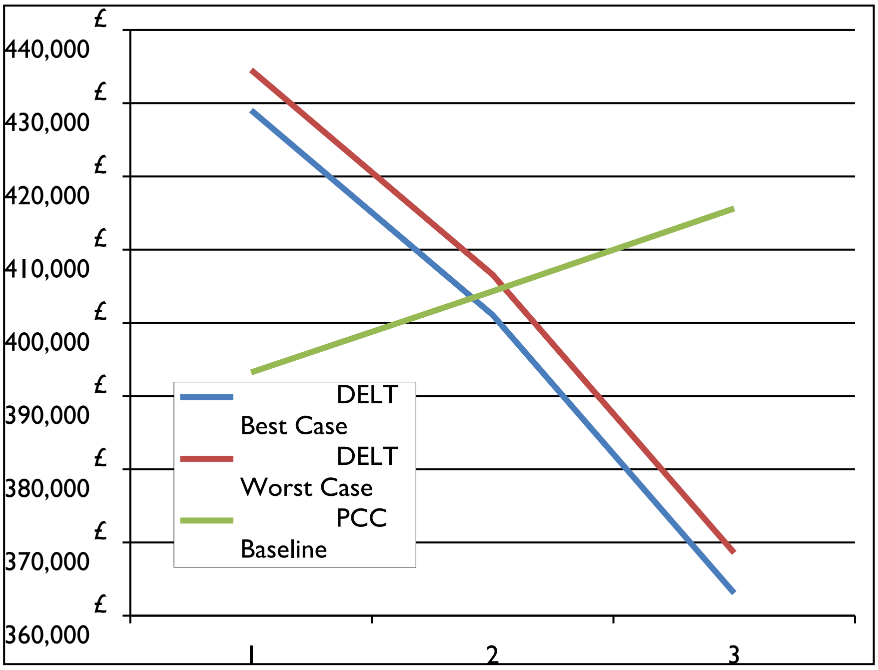


Figure 2 - Annual Net Cost for 3 years

4.6.11 The key points contained in the analysed and visualised in the two graphs are explained below:

1. Payback for both the best and worst case scenarios for the transfer occurs in year 3 with the best case at around 2.5 years and the worst case at just before 3 years.
2. The net cost to the Council increases initially in years 1 and 2 but then reduces over time from year 3.
3. Sensitivity analysis of -20% reduction of external income has been applied in all three models ("do nothing, best case for transfer and worst case for transfer) for prudence given the recent gradual trend of schools some electing to take their service from other providers (with the employee cost base remaining unaltered).
4. The best case shows the Council mitigating some of the stranded support services costs, the worst case assumes stranded costs are not mitigated.
5. The Delt models show income growth in year 3 following investment by Delt in service improvement leading to what will be a more competitive and commercially attractive offering
6. Additional costs have been assumed for the cost of setting up the arrangements (legal costs and pension actuary costs) and also to cover the need for some retained client activity
7. Assumes a 5% dividend from Delt per annum for the 3 year period
8. The Council picks up the LGPS Pension deficit (should one arise)
9. The proposed dividend represents the contribution towards the wider savings target held by the Transformation and Change Directorate

4.7 **<u>The Management - Summary</u>:** Transfer to be delivered by Transformation team, retained client to manage the service against the outcomes in the service specification, commercial sales efforts by both PCC and Delt

4.7.1 The senior responsible officer (SRO) for this work is Andrew Hardingham (Interim Joint Strategic Director for Transformation and Change, Finance) and the project will be delivered by Peter Honeywell (Transformation Architecture Manager). The project delivery work will cover:

- Drafting of contract
- Staff communication and readiness for transfer, aligned with Delt staff communications
- Development of retained client and retained service operations
- Customer communications with schools, CaterEd etc to support novation of contracts
- Formal TUPE paperwork and transfer
- Finance systems recoding
- HR systems updates

Will be resourced by staff from Legal, Transformation, Finance and HR resources working within the Transformation project structure.

4.7.2 The retained client and retained service function will be established seeking to balance the need to keep costs as low as possible whilst also recognising that PCC will need to ensure control over the payments made by the payroll service. It is anticipated that this work will be minimal and not require additional resource, but be supported through additional duties for a resource within PCC. Data and other ad hoc requirements met by the Pensions and Payroll team will be managed as they are currently via requests for service into the team, probably continuing to use the system provided by Delt for IT service requests.

4.7.3 As described in some of the other cases above, one of the factors that will maximise the success of this transfer is the acquisition by Delt of additional commercial customers for the service. The primary responsibility for achieving this growth will be with Delt, however, the relationships and joint working that the Council has with other potential parties is extensive and it is hoped that Members and Officers working in this way will be confident to raise the question of use of Delt for payroll and pensions in order to deliver increased integration and collective cost reduction. Where these discussions are met with some interest the sales lead would then need to be passed to Delt for them to take forward.

5.0 DELIVERY PLAN

MILESTONE	DATE
CMT	19th December 2017
Cross Party Group	25th January
Scrutiny	31st January
Cabinet	13th February 2018
Call in Period End	20th February 2018
Development of Consultation	21st February to 6th March

Paper (TUPE)	
Formal Consultation with staff commences	7th March 2018
Contract novation deeds prepared	7th March
Contract novation negotiation commences	14th March
Formal Consultation with staff concludes	20th March 2018
Deadline return date for declaration letters	29th March 2018
Final due diligence and Employee Liability Information commences	30th March 2018
Contract novation negotiation concludes	7th May 2018
Final due diligence and Employee Liability Information concludes	8th May 2018
Transfer Date	9th May 2018

6.0 RISKS, ISSUES AND ASSUMPTIONS

Risks and Issues

Risk Cause	Effect and mitigation	Rag rating
Short term		
Business continuity	There is a risk that transferred services will be required to support emergency responses provided by PCC and/or that Delt will need to put in place business continuity arrangements in the event they are impacted by an emergency. The well documented existing plans in both organisations have been assessed for impact by this proposal and provide a strong mitigation to this risk.	Amber
Union Engagement	Scrutiny outlined that TU recognition by Delt was required if this work was to progress. Any additional TU recognition (beyond that already in place) needs to be considered carefully so as to avoid disenfranchising non-affiliated staff currently employed by Delt. Engagement ongoing between Delt and the TU's	Red / Amber
Failure to achieve Member support for the proposition	Failure to achieve support could result in services not migrating. Budget pressures could mean that trading limitations within PCC could lead to further restructures hence diminished resilience to deliver key services. Engagement with Members throughout early 2018 and Cross Party	Red/ Amber

	consultation is required.	
Dependencies between services	When we migrate services there may be dependencies between services that require disentangling. Process work to identify touch points and mitigation plans to be developed	Green / Amber
Staff may not want to transfer to Delt and this may have an effect on the delivery of the Payroll and Pensions Service	Staff may resign which would impact on the ability to deliver the Pension and Payroll service. Early engagement with staff is imperative to engage them in the process	Amber
Resource cost	The Payroll & Pensions Manager will transfer to Delt with the service. This leaves a management gap in the PCC Service Centre. This post will need to be covered by the Service Centre Manager who will have diminished responsibility when the Payroll service migrates, or this will be backfilled at additional cost	Green / Amber
Payment Mechanism	The right payment mechanism needs to be found that will drive the right behaviours between PCC and Delt whilst not incurring cost and complexity to administer it. This will need to be carried out between PCC and Delt and people will need to be clear that there will be a cost for services which are supplied	Green / Amber
Retained Client Function	The retained client function has not yet been defined, there is a risk that parts of services could be orphaned. Clearly defined responsibilities for Retained Client are specified in the Service Specification and implemented effectively. Retained client development will be a work stream within the project	Amber
Inadequate resources committed to the Retained Services function which would affect the ability for PCC to effectively manage the contract and retain its statutory responsibilities	Resource costs for retained client function will need to be considered in the payment mechanism	Amber
Stranded Costs	Currently the commercial pricing does not cover the whole cost of the service when Support Services Recharge (SSR) is included and that following the transfer some of these costs will be "stranded". This could result in the SSR charge per FTE rising in PCC. The shared service transition is not the only driver for needing to review the Support Services activities	Red/ Amber
Medium to longer term / Strategic level issues		
Failure to secure repeat or new business	This would restrict growth and therefore reduce the dividend and benefits enjoyed as economies of scale would not be realised. Delt to offer a defined growth strategy with potential new business identified. Sensitivity has been applied to the income in the financial analysis	Amber

Competition	There is a risk that someone else may create a local Shared Services hub, or does it better so it is important that services are transferred based on demand.	Green / Amber
There is a LGPS pension deficit at the end of the Payroll and e-HR agreement	Periodic review of the Delt Passthrough rate to mitigate a future deficit. PCC is required to cover the deficit.	Amber

7.0 STAKEHOLDERS

Maintain Confidence on Interest Areas	**Involve in Decision making**
External Audit Pension Providers (customers) Dem and Mem support PCC Teams accessing SC services	Cabinet Shadow Leader Portfolio Holder - Cllr Darcy Labour Group Shadow Portfolio Holder Conservative Group Scrutiny Working Group Corporate and Place Overview and Scrutiny Panel Service Centre Transition Board FSS Project Board Programme Board T&C DMT TPB CMT ODPH DMT Place DMT People DMT T&C DMT Delt Shareholders Delt Board Trade Unions (local and regional) Scrutiny Working Group Impacted Delt staff Delt Extended Leadership Team PCC Finance Senior Management Team Andrew Hardingham Dawn Aunger CMT Tracey Lee All ADs HROD Pension Providers CaterEd Schools & Academies Livewell Adult Social Care PCC Transitioning Staff from SC Internal Teams accessing SC services
General Communication for Awareness	**Keep Informed**
Potential future customers SME's SW Peninsula Businesses Federation of Small Businesses IACCM	Current customers Peninsula wide LAs Non transitioning PCC staff Non-impacted Delt staff MPs/Political Organisations Press

8.0 KEY ASSUMPTIONS AND DEPENDENCIES

8.1 PCC creates a clearly defined retained client function (As defined in the Service Specification)

8.2 PCC ensures that the support services e.g Finance, continue to support the Payroll and Pensions function for as long as it is required (As defined in Service Specification)

8.3 Existing contracts providing payroll services can be novated and customers will accept Delt as tier payroll bureau.

8.4 New business can be secured by Delt which will increase the flexibility and the cost effectiveness of the service in the longer term

8.5 Staff will transfer under TUPE arrangements, not secondment.

8.6 Delt will agree a form of recognition with the Trade Unions that also avoids disenfranchising their existing non-union members of staff.

8.7 An agreement can be negotiate between Delt and the Trade Unions that will offer assurance that the working conditions and the terms and conditions of staff will be protected.

APPENDIX 1: SERVICE SPECIFICATION

APPENDIX 2: AUDIT REPORT FOR PENSIONS AND PAYROLL

APPENDIX 3 : FINANCIAL ANALYSIS – Delt PROPOSALS

DELT PAYROLL & e-HR BEST CASE	18/19	19/20	20/21
Employee costs	£554,363	£565,450	£588,068
Vehicle costs	£500	£500	£500
Supplies costs	£9,000	£9,000	£9,000
Contracted spend (support)	£2,000	£2,000	£2,000
Relevant Support Services (Office, ICT, HR)	£67,738	£67,738	£67,738
Total Expenditure	**£633,601**	**£644,688**	**£667,306**
Recharges	£0	£0	£0
Delt Contribution	(£6,997)	(£6,997)	(£6,997)
Revenue & other Income	(£233,377)	(£233,377)	(£233,377)
New income			(£60,000)
Total Income	**(£240,374)**	**(£240,374)**	**(£300,374)**
TOTAL NET Budget (ie Unitary Charge)	**£393,227**	**£404,315**	**£366,933**
PCC - Financial Implication of DELT option			
PCC recurring Costs - HR clientside	£9,000	£9,180	£9,364
Project Set up Costs (legal and Actuary)	£9,000		
PCC dividend assumption	(£28,293)	(£28,848)	(£29,978)
Redundancy/Pension Fund allowance	£30,000		
DELT PCC Best Case HR Mitigated	£0	£0	£0
PCC Stranded Costs (vacancy saving +2% pa)	£16,108	£16,430	£16,759
Sub-total	£35,815	(£3,237)	(£3,856)
Net DELT Model with PCC Clientside and Project Costs	**£429,042**	**£401,077**	**£363,076**

DELT PAYROLL & e-HR WORST CASE	18/19	19/20	20/21
Employee costs	£554,363	£565,450	£588,068
Vehicle costs	£500	£500	£500
Supplies costs	£9,000	£9,000	£9,000
Contracted spend (support)	£2,000	£2,000	£2,000
Relevant Support Services (Office, ICT, HR)	£67,738	£67,738	£67,738
Total Expenditure	**£633,601**	**£644,688**	**£667,306**
Recharges	£0	£0	£0
Delt Contribution	(£6,997)	(£6,997)	(£6,997)
Revenue & other Income	(£233,377)	(£233,377)	(£233,377)
New income	£0	£0	(£60,000)
Total Income	**(£240,374)**	**(£240,374)**	**(£300,374)**
TOTAL NET Budget (ie Unitary Charge)	**£393,227**	**£404,315**	**£366,933**
PCC - Financial Implication of DELT option			
PCC recurring Costs - HR clientside	£9,000	£9,180	£9,364
Project Set up Costs (legal and Actuary)	£9,000		
PCC dividend assumption	(£28,293)	(£28,848)	(£29,978)
DELT PCC Best Case HR Mitigated	£30,000		
DELT PCC Best Case HR NOTMitigated (so PCC pays DELT and has to Pay its staff)	£5,500	£5,500	£5,500
PCC Stranded Costs (vacancy saving +2% pa)	£16,108	£16,430	£16,759
Sub-total	£41,315	£2,263	£1,644
Net DELT Model with PCC Clientside and Project Costs	**£434,542**	**£406,577**	**£368,576**

APPENDIX 4 : FINANCIAL ANALYSIS – BASELINE AND PAYBACK

PCC PAYROLL & e-HR	**18/19**	**19/20**	**20/21**
Employee costs	£554,363	£565,450	£576,759
Vehicle costs	£500	£500	£500
Supplies costs	£9,000	£9,000	£9,000
Contracted spend (support)	£2,000	£2,000	£2,000
Relevant Support Services (Office, ICT, HR)	£67,738	£67,738	£67,738
Total Expenditure	**£633,601**	**£644,688**	**£655,997**
Recharges	£0	£0	£0
Delt Contribution	(£6,997)	(£6,997)	(£6,997)
Revenue & other Income	(£233,377)	(£233,377)	(£233,377)
New income	£0	£0	£0
Total Income	**(£240,374)**	**(£240,374)**	**(£240,374)**
TOTAL NET Budget (ie Unitary Charge)	**£393,227**	**£404,315**	**£415,624**

PAYBACK SUMMARY	1	2	3
DELT (with PCC Best Case)	£429,042	£401,077	£363,076
PCC Base	£393,227	£404,315	£415,624
Difference	(£35,815)	£3,237	£52,547
Cumulative Best Case	(£35,815)	(£32,577)	£19,970
Payback Period			YEAR 3
DELT (with PCC Worst Case)	£434,542	£406,577	£368,576
PCC Base	£393,227	£404,315	£415,624
Difference	(£41,315)	(£2,263)	£47,047
Cumulative Worst Case	(£41,315)	(£43,577)	£3,470
Payback Period			YEAR 3