

**Forward Plan reference number:** FP/150/06/23

<b>Report title: Outsourcing of Corporate Payroll Service</b>	
<b>Report to:</b> Cabinet	
<b>Report author:</b> Councillor Christopher Whitbread, the Chancellor of Essex and Cabinet Member with responsibility for Finance	
<b>Date:</b> 10 October 2023	<b>For:</b> Decision
<b>Enquiries to:</b> Pam Parkes, Executive Director People and Transformation, email <a href="mailto:Pam.Parkes@essex.gov.uk">Pam.Parkes@essex.gov.uk</a> or Graeme Lennon, People Operations, email <a href="mailto:Graeme.Lennon@essex.gov.uk">Graeme.Lennon@essex.gov.uk</a>	
<b>County Divisions affected:</b> All Essex	

## 1. Everyone's Essex

- 1.1 Everyone's Essex sets out our plan for a strong, inclusive, and sustainable economy; a high-quality environment; health, wellbeing and independence for all; and for making Essex a good place for children and families to grow. Crucially, these ambitions need to be underpinned by the delivery of excellent services and value for money for residents.
- 1.2 To enable our front-line services to deliver against this vision, particularly in the face of challenges around increasing demand for services, high inflation and the cost-of-living crisis, Essex County Council (ECC) requires efficient and effective back-office support services.
- 1.3 The in-house Corporate Payroll Service primarily manages payment of salaries to Council employees and allowances to Members, while administering pension contributions and pensions statutory reporting. By seeking an external provider for this service, it will be possible to benefit from reduced costs and innovative approaches while retaining a high level of service.
- 1.4 The purpose of this paper is therefore to seek agreement to procure a contract for the provision of a corporate payroll service. Doing this will bring us into line with a range of other councils and other public sector organisations, who have successfully outsourced their payroll function - details are included in the appendix. To ensure continuity, any solution will include the transfer of our existing staff and continued use of the existing payroll system, which has successfully paid all staff since its introduction in 2021.
- 1.5 These proposals will have a neutral impact on ECC's net-zero plans.



## **2. Recommendations**

- 2.1. Agree to procure a contract for the provision of a corporate payroll service for the Council for a three-year term commencing in June 2024, with an option to extend for up to a further two years using a single stage open process.
- 2.2. Agree that the anticipated maximum value of the contract to be paid out to the contractor for the original term of the contract (three years) is £2.610m, which includes implementation and transition costs of £375,000 as outlined in the financial implications section and referred to in recommendation 2.4 below.
- 2.3. Agree that the procurement will use an evaluation model based on 35% price and 65% quality to be agreed by the Executive Director for People and Transformation in consultation with the Executive Director Corporate Services.
- 2.4. Agree drawdown of £437,000 from the Transformation Reserve to be used strictly as follows: £62,000 initially to support the procurement, mobilisation and delivery of the new contract and services in 2023/24; and up to a maximum of £300,000 as a contribution to the supplier's transition costs associated with outsourcing along with an anticipated £75,000 for contractor implementation costs. The details of both being determined following receipt of tenders. It is envisaged that this cost of up to £375,000 would fall in 2024/25.
- 2.5. Agree that the Chancellor of Essex and Cabinet Member with Responsibility for Finance is authorised to award the contract to the successful bidder following completion of the procurement process and that no contract will be awarded unless he is satisfied that the benefits outweigh the risks.

## **3. Background and Proposal**

- 3.1. The Corporate Payroll Service is a support service which pays workers and Members and administers pension contributions – its tasks are set out in more detail in paragraph 3.4. The Council does not have to provide these services in-house but does retain overall responsibility for payment and accurate record keeping. That said, the council sold its schools payroll service in 2021 and no longer provides payroll services for schools.
- 3.2. We are seeking to test the market to determine if a quality service can be delivered at a lower cost on a like for like basis.
- 3.3. Any award to an alternative supplier will be subject to robust contract management arrangements to ensure the council continues to receive a payroll service to meet its needs.

### **Current arrangements**

- 3.4. The service currently undertakes the following key activities:



- processing monthly payroll including payment, costing, statutory deductions, and reporting, third party payments and reconciliation for circa 8,000 directly employed Council staff
  - implementing pay changes because of Essex Pay.
  - managing the payment of allowances to circa 75 Members and other Office Holders per month
  - administering pension contributions and other pension scheme administration for Council staff only
  - undertaking pensions statutory reporting for Council staff and maintained school employees – this will not be outsourced/
  - system administration tasks on the current IT system including and managing system upgrades
  - managing the organisation structure within the system
  - updating changes to the workforce including starters, leavers, and changes
  - managing absence including leave, sickness, and statutory leave
  - correcting errors such as over and underpayments
  - Payroll information for the Council's in-year forecasting of its financial position and in developing future years' budget models
  - undertaking financial end of year activity
  - managing employee queries relating to the above
- 3.5. The current team (including the HR Service Centre element) consists of 29.68 FTE with direct staffing costs of £1.206m per annum. The service was previously responsible providing payroll for schools who chose to buy our services – regardless of whether or not ECC employed the staff, but this was sold to an alternative supplier in 2021 which led to a reduction in staffing.
- 3.6. The Corporate Payroll Service adopted the Oracle Fusion HCM/payroll system in October 2021. It was anticipated that this would enable staffing costs to be reduced but this has not proved to be the case. We have undertaken a significant review of processes, functionality, and benefits. Process review has identified some improvements, but this would only achieve a reduction of 1 FTE over several posts. These small process savings would, if implemented, enable the payroll service to improve but not gain any significant benefits or savings to offset the costs. Any changes to the system are more costly if only ECC is commissioning them.
- 3.7. In the face of challenges around increasing demand for services, high inflation and the cost-of-living crisis, the Council needs to make savings against the current costs of providing the required services whilst still ensuring that an efficient and effective payroll service continues to be delivered. This report seeks approval to outsource the corporate payroll services in anticipation that we will be able to realise significant cost savings within the service.

## **Future Arrangements**

- 3.8. As part of our research, we have investigated the possibility of sharing services with other authorities, as a first choice option. We will continue to actively pursue HR shared services including payroll in the short, medium and long term



future. Other Essex Authorities are all currently contracted to other systems (not Oracle) and these are not up for renewal within the next 2 years.

- 3.9. A detailed options appraisal of entering a partnership arrangement with another local authority using Oracle payroll platform has been undertaken which did not identify a suitable authority. A Prior Information Notice (PIN) was issued in March 2023 but no suitable authorities using Oracle Fusion responded. Suffolk County Council, Norfolk County Council, and the East Midlands Shared Service (Leicester County Council and Nottingham City Council) were approached but none of these were able to make an offer to work with the Council.
- 3.10. The external payroll management/business process outsourcing market is mature in their service offering and there are many examples in the public sector of successful outsourcings. Early market engagement indicated that suppliers using the Council's current technology [Oracle Cloud] are well established in the market. The Council may benefit from improvements and changes implemented by the supplier across all their contracts and specific configurations of Oracle fusion which they would share with all their Oracle fusion customers. However, ECC would retain the right to reject any proposed changes. It is proposed to require the provider to use our current IT system. Outsourced providers constantly strive to improve their processes by adopting the most recent practices and may be able to justify commissioning a reconfiguration of Oracle which they can roll out across their suppliers. We would require the permission to continue to use any reconfiguration after the end of the contract. Their economies of scale across several contracts provides expertise and flexible resources to manage demand more easily.
- 3.11. A Prior Information Notice (PIN) was issued in March 2023 to identify the appetite in the market for provision of a supplier that also used Oracle Cloud Payroll to deliver a service. Five suppliers were identified through that process. Further discussions outlined the possibility of using our IT system or a supplier's system. They all recommended using our IT system to reduce costs for development and data migration. They were all successfully using this model with their other customers.
- 3.12. Oracle Fusion is a cloud based system which is configurable but not customisable i.e., it is possible to change the appearance and the way some elements are built but the underlying infrastructure or coding in the system cannot be changed. Once a configuration has been deployed it can easily be copied and replicated into other instances of Oracle Fusion. These reconfigurations can be costly to design and commission as a one-off exercise but if an external supplier has made changes to Oracle Fusion, such changes can then also be applied to all its other contracts for other clients at no additional cost to the supplier. ECC would require the right to continue to use any intellectual property in any reconfiguration after the expiry of the contract. Before any change could be implemented, we would wish to ensure that a thorough review and quality assurance process is undertaken involving internal audit and technology services. Sign off by the S151 Officer would then be required.



- 3.13. In 2019 an early benchmarking exercise was undertaken which determined that the costs of the payroll service could be delivered with a saving of between £350,000 and £500,000 per annum. In January 2023 Officers refreshed this exercise using the ESPO Framework. (Reference 3S\_18 – Strategic HR Services Lot 7c – payroll management). Together with the market intelligence offered by the PIN it is proposed that we procure based on a contract cap of £760,000 per annum. This would enable the retention of an in house ‘client’ at around £111,000 per annum and still deliver at least £350,000 savings per annum, which is included in the Medium Term Resource Strategy.
- 3.14. The Council is contracted and licensed to use the current Oracle system until June 2025 with an option of an additional 5-year extension. A review of the terms and condition and conversations with suppliers have indicated that outsourcing staff using our Oracle system would be feasible and, indeed, the preferred option.
- 3.15. It is proposed that the successful bidder would be required to use the Council’s systems. No efficiencies will be achieved on the Oracle software costs outlined above for licensing or support costs as these are already the subject of the current contract.
- 3.16. The Council will have to allow the supplier to access the Council’s systems directly to administer the payroll service. Technology Services has confirmed that a route for this is available through our existing infrastructure and would not require any additional development or cost. Procurement have also confirmed that this will not incur any additional licencing costs based on the current contract with Oracle. Any solution would need to be compliant with the Council’s cyber security and data protection protocols.
- 3.17. Information Governance have also reviewed the proposal and additional clauses can be included in the contract to ensure our data is secure and protected in line with the Council’s protocols. The Council remains the data controller for the relevant personal data with the contractor being a data processor.
- 3.18. The Council does not use a national payroll framework for most employees, it utilises its own ‘Essex Pay’ and performs an annual benchmark to inform annual pay uplifts, any solution would need to account for the added complexity of administering Essex Pay.

### **Current Employees**

- 3.19. The current employees would transfer to the new provider. The Transfer of Undertakings (Protection of Employment) Regulations 2006 would apply this transfer all current employees undertaking the service will transfer to the new supplier on their current terms and conditions. ECC will need to secure that the contractor provides continuing access to the Local Government Pension Scheme or a broadly equivalent pension scheme – probably by acquiring ‘admitted body status’. This will need to be made available when the contract is re-tendered.



## **Proposed Procurement Approach**

- 3.20. It is proposed that the new service is procured using a single stage open procedure in accordance with the Public Contracts Regulations 2015.
- 3.21. A contract duration of three years is proposed with an option to extend for up to a further two years.
- 3.22. The proposed evaluation weighting is based on 35% price and 65% quality. Based on market engagement, the costs may not be significantly different between bidders, so the focus will be on quality leading to cost savings.
- 3.23. The number of key priorities associated with this requirement will be reduced as the service is virtual in nature and providers are unlikely to be Essex based, although they will need to provide some means of the transferring employees to meet and work in person. The bid evaluation process will assess mandatory requirements and evaluate minimum scoring and weighting criteria with a split in favour of quality.
- 3.24. The key quality questions will include:
- Quality of the bidder's experience in delivering these services.
  - Quality of Implementation plans – how the bidder will implement the service including high level plans, communications, resourcing, project management and risks and issues.
  - Quality of helpdesk and customer query management – proposal for support services including reporting, escalation processes, response standards and operating hours.
  - Quality of arrangements for Continuous Improvement – including a development roadmap, advice and support, knowledge, and insight.
  - Quality of business continuity and disaster recovery – assumptions made, approach to both and mitigations.
  - Quality of data management – audit and record keeping, retention policies, security and how data can be extracted and stored.
  - Quality of managing the contract– how the bidder proposes to work alongside the Council in managing the day to day services, review, and management of standards.
  - Quality of any guaranteed improvements that the provider will give us, including improvements to Oracle, including whether these can be retained when the contract with the provider ends.
- 3.25. Minimum individual and overall quality scores will be considered and applied where considered appropriate and will be specified in the tender documents.
- 3.26. The tender Pricing Schedule will consist of the bidders submitting:
- Set up costs for implementation and transition.



- Unit costs for a payroll of circa 8,000 people. There have been minimal changes to staff volumes over the last 3 years therefore a block sum will be calculated based on the submitted unit costs. Final employee numbers will be confirmed prior to publication of the tender. The proposed approach is for the block sum to remain the same for the initial three-year period regardless of any change in actual employee numbers. The extension period will have to be reviewed circa 18 months prior to the end of the initial three year period.
- Annual costs.
- How any one off changes will be costed if any (any such costs will reduce the savings achieved).

Subject to set up costs and one-off costs of change, a cap of £760,000 per annum on price will be imposed in the contract. Detailed modelling will be required to allow for any one-off costs to be accounted for in the model.

- 3.27. The Council is not proposing to identify any mandatory key roles in the current internal team. All staff will transfer, and employees will have the statutory protections in TUPE there will be no other protections other than continued access to pension for as long as they deliver ECC payroll services.
- 3.28. The Council are required to give access to a comparable scheme to the Local Government Pension Scheme or admitted body status to the Essex Pension Fund. It is likely that the supplier will wish to negotiate on risk sharing for costs for providing continued membership to the Local Government Pension Scheme to transferring staff. The Council has obtained a calculation from the Local Government Pension Scheme actuary as to the employer's contribution rate and level of risk to be covered by a bond or indemnity. The supplier would be likely to have to pay for a bond covering the indemnity valued at around £1.04m, although this will need to be recalculated closer to the time of transfer
- 3.29. The Council will make the sum of £300,000 available to meet certain transition costs incurred in the first year of the contract. Other than this it is proposed that all costs for providing continued membership to the Local Government Pension Scheme to retained transferring staff will be the supplier's risk including any the cost of contributions, regardless of the rate, the cost of the bond, any pension strain costs incurred if dismissed employees get early access to their pensions and the cost of restoring the pension fund with respect to the transferred to the same level of funding when they leave. Similarly, the supplier will have to pay any redundancy payments, although employees will be protected by TUPE. Consequently, the tender price will factor in these costs, and as a result the Council will pay over the life of the contract.
- 3.30. Price evaluation will be based on assumed volumes over the life of the contract to ensure evaluation of all bidders on a like for like basis.
- 3.31. There are significant risks associated with the proposed procurement approach in addition to those identified in section 5.
- The requirement to take on pension fund membership is likely to deter some providers as this is perceived to be a significant and unknown cost risk.



- the supplier may wish to negotiate on risk sharing for costs for providing continued membership to the Local Government Pension Scheme to transferring staff including any change in the contribution rate, the bond, pension strain and exit liability. It is proposed that we maintain a firm position on refusing this and this will be set out in the tender documents.
  - high cost if the supplier does take on pension risks – there may be costs which the supplier has to pay in the first instance, but it will pass on to the Council which will lead to bids which are more expensive than the price cap imposed. The price cap means that won't be able to accept bids which are more expensive than the cap.
  - Risk of suppliers requiring an indemnity or pass through arrangements from the Council to mitigate or remove pension risks for them – which means that ECC would bear those risks instead.
  - redundancy costs in excess of those modelled by the Council if the successful tenderer is outside Essex and staff are required to relocate. We are not proposing to allow employees to remain based at County Hall.
  - risk of increased costs as the service is less flexible – if the supplier charges us for any change, no matter how minor then this will eat into any savings that the contract delivers.
  - Risk of loss of key staff who may not wish to work for an external payroll provider.
- 3.32. It will therefore be important to balance these risks against the potential financial benefits. It is proposed that the contract award decision is taken by the Cabinet Member so that the final financial position and risks can be assessed by the Cabinet.
- 3.33. The proposed timeline to procure these services is anticipated to be publication of the tender in October 2023; award in December 2023 aiming to complete the contract in January 2024. Transition, and mobilisation will be managed between February 2024 and May 2024, with the service commencing on 1 June 2024. There is a planned mobilisation period of four months to ensure sufficient time for compliance with the TUPE regulation, to allow time to arrange for the transfer to take place. and to ensure robust technology and data protection measures are in place.

#### **4. Links to our Strategic Ambitions**

4.1. This report links to the following aims in the Essex Vision:

- Develop our County sustainably

4.2. Approving the recommendations in this report will have the following impact on the Council's ambition to be net carbon neutral by 2030:

Neutral impact. The service specification will encourage providers to consider energy efficiency and sustainability measures in the delivery of the services.



- 4.3. This report links to the following strategic priorities in the emerging Organisational Strategy 'Everyone's Essex':

- A strong, inclusive and sustainable economy

## **5. Options**

- 5.1. **Option 1 – Do nothing:** Maintain the current in-house service with some minimal process improvements

This option ensures that we maintain full control of the process but does not offer any savings.

The staffing costs to the Council of the current model are likely to escalate year on year. Maintaining the system would require investment for system changes with no guarantee on the return on that investment.

The cost of employees is high and unlikely to reduce without significant investment in additional technology. It is unlikely further efficiencies can be achieved and will not offer any significant savings.

- 5.2. **Option 2 – Enter into a partnership with a local authority Oracle payroll platform provider for the provision of Corporate Payroll services (not recommended)**

No suitable local authority providers that are established and offering a consistent and efficient service operating on the Oracle platform have been identified through early market engagement. Three other local councils using Oracle Fusion were contacted (Norfolk County Council, Suffolk County Council, and the East Midlands Shared Services) but none expressed any interest in entering a partnership.

This option would provide continuity in terms of both the system functionality and provide the additional specific knowledge of local government terms and conditions. The finance module is already configured to match HCM/Payroll elements and would provide a smooth transition to any new provider in the same sector. This would allow the easy upload into the general ledger of payroll data for monitoring, audit, and reconciliation purposes.

The Oracle Local Government network is well established and would give access to LG specific functionality and knowledge. Quarterly updates and future developments to the system would be line with LG requirements.

In addition, it will also remove the need for maintaining the system in-house in terms of quarterly upgrades and testing that requires significant resource, particularly the end of year/start of year activity, as well as removing the need for training of the team in a rapidly changing legislative framework and the need to manage defects and incidents.



**5.3. Option 3 – Procure a contract for the provision of corporate payroll service for the Council for a three-year term commencing in June 2024, with an option to extend for up to a further two years using a single stage open process. (recommended)**

The outsourcing of the corporate provision should provide the Council with a modern, comprehensive Payroll Service that can adapt to the organisation's changing needs at a competitive price. The service can be delivered by any number of alternative suppliers, and it would be in the Council's interests to go to market to identify the best value supplier. The option to call down from an existing external framework has been considered and is not recommended on the basis that such frameworks are not designed for an outsourcing involving TUPE and LGPS pensions.

In addition, it will also remove the need for maintaining the system in-house in terms of quarterly upgrades and testing that requires significant resource, particularly the end of year/start of year activity, as well as removing the need for training of the team in a rapidly changing legislative framework and the need to manage defects and incidents.

In this option, the supplier will be required to use the Council's existing software and licences to manage the service which has several benefits:

- This solution provides minimal disruption to services as they will see no immediate change in services
- There is no additional cost to use the supplier's technology or for additional licences as ECC are already contracted with Oracle, although there may be an implementation cost which we expect to be included in the suppliers bid.
- The benefits of an Enterprise Resource Planning (ERP) integrated system across all the Council are maintained, data still flows between modules (HR and finance) and interfaces remain as designed.
- No need for mass data migration or data transfer back to ECC meaning less risk of data breaches
- No requirements to test a new payroll system build or payroll parallel testing, although there will be a need to test any enhancement the provider gives us.
- All employees will be paid using the same processes and reduced risk of failure on implementation, nothing will change at the outset of the contract.
- No additional build or development requirements for implementation at the point of transfer
- Existing integrations with other modules and systems (such as Cornerstone) remain intact.
- ECC benefit from improvements and changes developed by the supplier across all their contracts and expertise in the system and economies of scale.

The counterpoint to this is that the Council will no longer have direct control of a key service – there are risks compared to the potential savings and benefits. However, the service believe that all these risks can be mitigated to an acceptable level through proactive contract management.



- As the supplier will be using the Council platforms there will need to be co-ordination across the whole system for any changes to avoid impacting other modules in the system from changes or upgrades applied by the supplier.
- Any major system changes, such as a move away from Oracle may require a change to the supplier relationship. It is not likely that this will be seen in the duration of this contract, but it will happen at some point and will make any transition more complex.
- Efficiencies may be required by the supplier which could lead to redundancies in the workforce post transfer. The Council is to make transition costs of up to £300,000 available to support this.
- Loss of internal expertise in payroll and ECC's pension administration
- External control of the payroll by a third party may reduce the capability to make agile changes and decisions although the system continues to be owned and managed by ECC.
- Changes to process or services required by ECC are not within specification resulting in the supplier wishing to increase charges
- Reputation of ECC could be harmed because of any poor performance of the third party.

Contract management will need to be set up internally to manage the service quality and delivery This will require a role to be created as nothing similar exists in the current structure. It is estimated that the cost would be in the region of £111,000 per annum, to manage the contract, reconcile the payroll with the general ledger and make pension payments to the appropriate funds. This role would also manage the risk profile outlined above other than points 2 & 3.

## **6. Issues for consideration**

### **6.1. Financial implications**

- 6.1.1 The 2023/24 Payroll Service Staffing Budget is £1.206m. It consists of 29.68 FTE Payroll Service employees who are solely dedicated to supporting the service.
- 6.1.2 Payroll Services also includes a small non-staffing budget of circa £11,000.
- 6.1.3 The recommended option requires a solution which is compatible with the Oracle HCM/Payroll system and no efficiencies are expected to be achieved on licences. There could be future opportunities if the number of user licenses required reduced. The annual cost of licenses is approximately £373,000. In addition, Payroll incurs a proportionate share of the systems support costs equating to a total of circa £500,000 per annum. These costs are fixed as part of a contractual agreement with Oracle and Mastek.
- 6.1.4 The corporate payroll service has a 2023/24 part year savings target of £175,000, this rises to £350,000 in 2024/25. Whilst option 3, as set out in section 5 above, may deliver these savings in 2024/25, the £175,000 2023/24 savings target will not be achieved, the shortfall is being covered by a one-off in-year mitigation plan.



- 6.1.5 The recommended Option 3 is to outsource the Service to generate efficiencies and potential service improvements. A proposal to tender would lead to implementation costs for the supplier (estimated at £75,000), as well as lead to the possibility of some redundancies (see below), and additional project management costs within ECC are expected at £62,000. The proposal to draw down from the Transformation Reserve to fund such one-off costs is outlined below. The recommended option would require a small Client function (costing around £111,000 per year). There are no envisaged additional licensing costs as confirmed by Technology Services.
- 6.1.6 There are risks associated with a service failure from a strategic finance perspective. The payroll system and its data play a critical role in the monthly outturn forecasting and budget setting processes. The recommended option therefore utilises the Council's own systems, requires a sign off for changes, and employs a client unit. Moreover, the tender process will have a focus on quality (65%) and pertinent questions to ensure a significant threshold for suppliers to meet.
- 6.1.7 Taking account of the costs borne by ECC over a five-year period to the end of the 2028/29 financial year, overall savings of £1.255m are indicated. These are the cumulative savings at 2023/24 prices reflecting the savings on the contract net of estimated costs of implementing the solution and transitional costs such as redundancy. There is currently no annual inflation uplift assumed in the contract.
- 6.1.8 The Transfer of Undertakings (Protection of Employment) Regulations 2006 (as amended) apply to staff delivering the service, who would transfer from the Council to the supplier. Any costs where the supplier seeks to make efficiencies following the transition are proposed to be met by the Council up to a ceiling of £300,000. The Service has proposed a maximum figure based on the potential for some redundancy and pension strain costs following outsourcing. Whilst these cannot be determined at this stage, it provides any potential bidders with some certainty of the maximum amount the Council is willing to pay. The estimated cost and saving based on the recommended option (Outsourcing the Contract with a Client Unit) is presented in the table below.

6.1.9 Profile of Costs to 2028/29

	2023/24 £'000	2024/25 £'000	2025/26 £'000	2026/27 £'000	2027/28 £'000	2028/29 £'000
Service Staffing Budget	1,206	1,206	1,206	1,206	1,206	1,206
Recommended Option (Based on Budget Ceiling)		914	856	856	856	856
Contract cost – full year of £745,000						
Client Unit – full year of £111,000						



(Savings) Excluding Implementation Costs	N/A	(292)	(350)	(350)	(350)	(350)
One-Off Costs (Implementation Costs)	62	375				
<b>(Savings)/Costs after One-off Costs</b>	<b>62</b>	<b>83</b>	<b>(350)</b>	<b>(350)</b>	<b>(350)</b>	<b>(350)</b>
<b>Cumulative Net Cost/ (Saving) - Council</b>	<b>62</b>	<b>145</b>	<b>(20)</b>	<b>(555)</b>	<b>(905)</b>	<b>(1,255)</b>

Included in the table above is the annual estimated contract and client unity costs from the recommended option. This consists of the annual contract value and a client unit provided. In 2024/25, with the contract starting in June 2024, the costs are as follows, which leaves a shortfall of £58,000

	2024/25 £'000
Service Delivery: maximum annual contract price	621
Client Unit: in-house team	92
Existing Staffing Budget (cost for 2 months)	201
<b>Total Annual Running costs 2024/25</b>	<b>914</b>

6.1.10 It is proposed to fund £437,000 of one-off implementation and project costs from the Transformation Reserve, the breakdown is provided below.

Description	2023/24 £'000	2024/25 £'000	Total £'000
Project Management for the Council to manage and support option 3. These are the initial costs.	62		62
Subject to a successful tendering exercise, there would be estimated implementation costs for the Supplier, and included in their bid		75	75
Transition costs (such as redundancy and pension strain to be incurred by the supplier)		300	300
<b>Total One-Off Costs</b>	<b>62</b>	<b>375</b>	<b>437</b>

## 6.2. Legal implications

6.2.1 The proposals in this report comply with the Public Contracts Regulations 2015.



- 6.2.2 There are significant risks in outsourcing a key service such as payroll and the Service will need to ensure that all key areas such as data and cyber security are fully tested during the tender process.
- 6.2.3 The complexities of outsourcing and in house service given the requirements provide a broadly equivalent pension scheme and to ensure that terms and conditions are maintained will involve suppliers in cost and risk.
- 6.2.4 When in-house services are externalised, it is important to ensure that the contract is flexible. The council's requirements for these services are certain to change over the life of the contract and the cost of paying the provider for reconfiguration to deal with significant changes to our pay structure could be substantial.
- 6.2.5 The Cabinet Member will make the final decision on whether to go ahead with the outsourcing once the bids are received so that the final balancing exercise between cost and risk can be identified.
- 6.2.6 If a contract is awarded it will not be possible to have a shared payroll service until after the expiry of the contract without buying out of the contract.

## **7. Equality and Diversity Considerations**

- 7.1. The Public Sector Equality Duty applies to the Council when it makes decisions. The duty requires us to have regard to the need to:
  - (a) Eliminate unlawful discrimination, harassment and victimisation and other behaviour prohibited by the Act. In summary, the Act makes discrimination etc. on the grounds of a protected characteristic unlawful.
  - (b) Advance equality of opportunity between people who share a protected characteristic and those who do not.
  - (c) Foster good relations between people who share a protected characteristic and those who do not including tackling prejudice and promoting understanding.
- 7.2. The protected characteristics are age, disability, gender reassignment, pregnancy and maternity, marriage and civil partnership, race, religion or belief, sex, and sexual orientation. The Act states that 'marriage and civil partnership' is not a relevant protected characteristic for (b) or (c) although it is relevant for (a).
- 7.3. The Equalities Comprehensive Impact Assessment indicates that the proposals in this report will not have a disproportionately adverse impact on any people with a particular characteristic.

## **8. List of Appendices**

- 8.1. Appendix A – Equalities Comprehensive Impact Assessment



8.2. Appendix B – Research Paper

**9. List of Background papers**

None declared.