Report To:	**CABINET**
Date:	**27 SEPTEMBER 2022**
Heading:	**FUTURE HUMAN RESOURCES AND PAYROLL SERVICE**
Executive Lead Member:	**COUNCILLOR DAVID MARTIN-EXECUTIVE LEAD MEMBER FOR FINANCE, REVENUES AND BENEFITS**
Ward/s:	**N/A**
Key Decision:	**YES**
Subject to Call-In:	**YES**

Purpose of Report

To update Cabinet in respect of the shared Human Resource (HR) service since the arrangements were put in place in December 2013, to outline the assessment of the options available for future delivery models and, on the basis of value for money, risk mitigation and service effectiveness to recommend extension of the shared HR service involving a new Service Level Agreement to deliver improved service benefits.

Recommendation(s)

1. **To approve the preferred option that Mansfield District Council (MDC) continue to provide the shared HR service beyond 1st December 2023.**
2. **Subject to 1. that the continuation of the Shared HR Service be subject to a satisfactory new 5-year Service Level Agreement that ensures a level of services and flexibility that meets ADC's projected requirements.**
3. **Subject to 1. that if MDC is unable to continue to provide the shared HR service or a suitable Service Level Agreement not be achievable that the options of provision of HR & Payroll services via an in-house delivery model or provision by a third party will be revisited and a further report will be presented to Cabinet for it to agree the preferred alternative delivery model.**
4. **To note the indicative financial implications of the options presented, including the recommended option.**
5. **To delegate authority to the Head of Paid Service in consultation with the Executive Lead Member for Finance, Revenues and Benefits, Director for Legal and Governance and Corporate Finance Manager to agree the new Service Level Agreement including any major changes to the transitional and budgetary funding requirements and final service delivery arrangements.**

Reasons for Recommendation(s)

The Council's HR Services are currently provided via a HR Shared Service arrangement that is hosted and provided by Mansfield District Council (MDC), in accordance with a Service Level Agreement (SLA), and who are responsible for employment of the HR staff, provision of the HR and Payroll systems and contract arrangements with core services such as training providers, apprenticeship providers, Occupational Health provision, Employee Benefit schemes and Employee Assistance Programmes.

The current SLA runs until 30 November 2023.

The Council therefore needs to assess the future delivery models available and determine its preferred option.

This report details the delivery options available, the pros, cons, corporate risks, set up, transitional and ongoing costs and impact on service delivery.

Following assessment of the above, continuation of the shared HR Service provides the most advantageous delivery model in terms of value for money, albeit with some service improvements to be included in the new SLA.

Alternative Options Considered

As detailed within the report.

Detailed Information

The HR Shared Service is responsible for:

- HR Provision including review and application of policies, guidance, employee relations, attendance management
- Payroll services for employees, Elected Members and elections staff. Includes processing pay, overtime, allowances, pensions, and statutory payments and data returns to Her Majesty's Revenue and Customs (HMRC), Local Government Pension Scheme (LGPS), etc
- Management and administration of individual employee files
- Recruitment Portal and services
- Learning, Development and Training programmes
- Union Engagement and Negotiation
- Occupational Health contracted service
- Application of Job Evaluation/Moderation
- Application of Pay & Grading Structure
- Self-Service – e.g., Time recording, leave management, etc

The HR Shared Service **is not** responsible for:

- Approval of HR policies.
- Approval of Single Status Agreements involving Employee Terms and Conditions
- Approval of Collective Agreements with Trade Unions

- Determination of Pay & Grading Structures including salaries.
- Determination of Job Evaluation Scheme.
- Level of Organisational Risk Appetite.
- Staff restructures.
- Employee Relations Decisions e.g., dismissals on grounds of misconduct or capability

Responsibility for the above falls to Council, Cabinet and/or Head of Paid Service and managers in accordance with the Council's Constitution, Scheme of Delegation and HR Policies.

As part of the programme of implementing shared services between ADC and MDC at that time, the Shared HR Service commenced on 1 December 2013 where it was agreed that MDC would host the service. ADC-HR Service employees transferred to MDC. The initial Service Level Agreement (SLA) was for a period of 5 years with an option to review.

The key drivers for implementing the shared service were primarily increased staff resilience, shared expertise and driving efficiencies (shared systems, staff costs, pooled contract costs).

Prior to the end of the initial 5-year SLA, a review was undertaken that highlighted a high level of achievements delivered through the HR Shared Service and confirmation that the key drivers had been met such as a saving to both authorities of over 25% in efficiency costs. And that the continuation of the HR Shared Service maintained the best value for money service delivery option for both ADC and MDC. Cabinet approved in 2017 that ADC request that MDC provide the shared service for a further 5 years which MDC agreed to. The current SLA ends on 30 November 2023.

Future Key Requirements of a HR and Payroll Service

A Horizon Scanning, Stakeholder Engagement exercise has been undertaken with the support of East Midlands Councils involving CLT, Managers, Unions and members of the HR Team. Feedback has also been integrated from recommendations from our recent various LGA Peer Reviews and staff engagement exercises. Key Requirements for a future HR Service include:

- A pro-active approach, developing and supporting the implementation of policies that empower managers. Streamlined processes.

- Clear advice – provided within a consistent framework that supports the implementation of policies and outlines/acknowledges risks, rather than avoiding these

- Workforce development to help progress the strategic direction of the Council

- A strong learning and development provision, with access to appropriate on-line provision

- An effective integrated HR/Payroll system to provide functionality and access for self-service for managers/staff to optimise opportunities for automation and digitalisation

- Positive employee relations - good relationships with trade union representatives and a continuing focus on resilience and wellbeing

- A visible and accessible service – for managers, trade union representatives and employees to encourage early interventions (nipping issues in the bud) and relationship-building.

Organisational priorities that require HR strategic and operational lead and drive include:

- Organisational change
- Workforce planning
- Learning and development
- Flexibility to address new areas of focus
- Reviews of policies and processes
- Modernising recruitment and pay/rewards/job evaluation (JE)
- Casework and supporting attendance and performance

Future Delivery Options

A. Continuation of the existing HR Shared Service.

The Council, in accordance with the SLA, has the option to submit a formal confirmation/request to MDC, at least 12 months prior to termination date, that they want to continue with the HR Shared Service being provided via MDC as host authority. In accordance with the terms of the SLA, MDC are under no obligation to do so.

MDC have recently confirmed that they would continue to provide the HR Shared Service beyond November 2023. In doing so they have also presented a proposal that provides an enhanced level of service to ADC, including:

- An effective (new and enhanced) HR and Payroll System to provide enhanced seamless self-service functionality for all employees and direct access to reports and dashboards tailored to management requirements
- Level of assurance that sufficient capacity and skills in place to ensure systems, self-service are maximised and embedded.
- A revised HR Service structure that includes a new HR-Policy and Project Partner role which will provide leadership on policies and projects which are of corporate importance to both authorities. They will lead these business initiatives and feed into the senior management groups within both organisations.
- With the appointment of the Policy and Project Partner role it will allow the HR Service Manager to focus on strategic direction of the service and horizon scan to advise CLT accordingly.

- Commitment to vastly improved recruitment portal and processes for both applicants and managers undertaking recruitment. Commitment to fundamental review of recruitment approaches aligned to maximising breadth and quality of pool of applicants.

- Vastly enhanced provision of timely management data including use of self-service accessible management Dashboards.

- Proactive lead on organisational culture change and workforce development aligned to Strategic Direction and Corporate Plan.

- Enhanced HR Business Partnering to support Directorates.

- Enhanced visibility and accessibility for managers, trade union representatives and employees to encourage early interventions and relationship building via CLT, DMTs, presence in main offices and depot.

- Significant improvements in timeliness of reviewing/revising policies, taking opportunity to streamline where relevant, taking opportunity to empower managers where relevant.

- Securing a framework provider supported by contingency budget to provide resilience to the Shared Service should it be required.

The two SLAs to date have both been for 5 year periods with built in performance management arrangements, early notice periods and termination clauses

Continuation of the HR Shared Service will require additional one-off costs (HR & Payroll IT system(s) set up) and additional staff/resource costs for provision of higher level of service aligned to ADC's projected immediate needs.

Continuation of the HR Shared Service best mitigates against the identified Corporate Risks to the authority (through HR and Payroll service failure) as it retains the existing SLA with responsibilities for employment of the HR staff, provision of the HR and Payroll systems and contract arrangements with core services such as training providers, apprenticeship providers, Occupational Health provision, Employee Benefit schemes and Employee Assistance Programmes remaining with MDC as host authority.

B. HR Services provided by an alternative Third Party

An exercise has been undertaken to identify service delivery options including provision via another local authority or by a private sector provider. After testing the market no authority within Nottingham/Nottinghamshire or Derby/Derbyshire has expressed an interest in providing HR services for ADC either in full or part.

Consultation with East Midlands Councils (EMC) identified that there is no known outsourcing of the full remit of HR services across the Region (as at September 2022).

Three authorities within the Region had previously outsourced their full HR & Payroll services and subsequently brought them back in-house due to contractual, operational, and industrial relations issues.

The Council's Procurement Unit Provider has advised that they are not aware of any Framework Agreements for the provision of fully outsourced HR and Payroll Services. They have advised that a Competitive Procedure with Negotiation (CPN) is required involving up to a 12-month timescale to contract award, then an additional mobilisation period for the chosen supplier to get set up to provide the full range of services. This is estimated at allowing a minimum of 18 months due to the specialist and high-risk nature of the contract and the critical need to be explicit and robust in the contract terms and conditions. **The time period required would extend beyond the termination date of November 2023 and there is no guarantee of a successful tender process and a suitable supplier being procured.**

Transactional (Administration/Payroll focused) services are provided externally for some authorities who provide all other HR services in-house. Initial service review and exploratory work of a future HR Service has identified the critical success factor of underpinning integrated HR and Payroll systems that are robust in terms of one central point of data input ('one version of the truth'), storage and administration/management that seamlessly and digitally interlinks with connected in-service systems but also cross-Council such as Finance systems. For example, updated employee payroll data automatically updating employee digital personnel files, self-service systems and learning and development systems.

Whilst HR and Payroll services could, in total or part, be provided by other local authorities or external providers these options have been explored involving the support of East Midlands Councils and our Procurement provider and identified either no interest (from another local authority) or commercial suppliers through a guaranteed successful contract award process or within required timelines.

C. New In-house HR Service

ADC currently has no directly employed HR staff, no HR and Payroll systems or contracts with third party providers of supporting services. The development and implementation of a new in-house HR Service will therefore require recruitment of a HR Team, identification, procurement, implementation, development and testing of new HR and Payroll systems and contract procurement of supporting systems.

Due to the critical nature of its services and statutory requirements e.g., complying with employee contractual terms and conditions, payroll and returns to HMRC and LGPS, employee relations, HR policies and practices, there is a need for transitional arrangements to be implemented well in advance of the shared service termination date so that there is a seamless continuation of HR and Payroll services.

Due to the uncertainty of what is the preferred future delivery model beyond November 2023, and to directly mitigate against identified corporate risks through provision of HR Services, business contingency work has already commenced with MDC should the HR Shared Service be dissolved following a decision by either or both authorities.

<u>Exit Planning and Transitional Arrangements</u>

An internal operational exit plan specific to ADC is being developed. An indicative staff structure for the future HR service has been developed complete with indicative costs together with projected budgets to cover full implementation from December 2023 and also the transitional arrangements and costs involved in implementing incremental components of the new HR service, commencing within the current financial year and towards full implementation.

Provision of the future HR Service is within the Council's Efficiency Review Programme and business analyst resources have been commissioned and are undertaking work on the identification of required functionality and specification of integrated HR and Payroll systems prior to soft market testing and full procurement being actioned.

The termination of the existing HR Shared Service and implementation of a replacement HR Service have been added to the Council's Corporate Risk Register. Mitigating actions identified include:

- The need to commence the recruitment process immediately to specific posts within the new staff structure identified as critical in order to ensure that the new HR service is robustly developed, implemented, trained and tested out in advance of the termination date. These posts include
    - Service Manager-Human Resources
    - Systems Development Officer
    - Payroll Adviser

- The need to identify, implement, develop and test out (including parallel payroll runs) integrated HR and Payroll systems well in advance of the termination date.

- The need for allocation of budgetary provision to cover the costs of the transitional arrangements including recruitment, staff, systems including supplier implementation costs (e.g., data cleansing/formatting/digitalisation costs), IT costs etc. Additional costs would be required above and beyond the Council's existing financial contribution commitment to the shared service until the termination date.

- The need to maximise recruitment incentives within the parameters of the Council's HR policies. Assessment of the market including through MDC experiences with the current HR Shared Service, has identified that local authorities are experiencing significant challenges in attracting and recruiting HR staff. The Council currently has no HR staff and whilst recruitment will in the first instance be ringfenced to the existing staff within the HR Shared Service, there is no guarantee that these staff members will apply or secure ADC posts. It has already been agreed that TUPE will not apply so there will be no automatic transfer of staff from the existing HR shared Service to the ADC-HR Service.

  The intention is to award an honorarium (project task criteria) to posts on commencement recognising the unique and unparalleled status of creating, developing and embedding a totally new (HR) major service from scratch.

Delivery Models-Comparison

Delivery Model	Pros	Cons
In-House	• Full control of service provision • HR services are direct managed, developed, refined by ADC. • Certainty of long-term delivery model • Provision of improved HR & Payroll integrated IT systems with enhance functionality including	• Significant Corporate Risks via exit from Shared Service including risk of service failure in immediate and through exit process; inability to make statutory payroll payments/requirements. • Transitional arrangements and significant costs incurred.

	self-service for employees and managers • Service 100% focused on ADC needs and demands. • Strengthened strategic role of HR within ADC • Strengthened strategic leadership role of HR services e.g., workforce planning, recruitment and retention, up-skilling programmes • Increased flexibility of service changes and delivery • Increased HR capacity • Ability to ensure enhanced availability, accessibility, responsiveness of Service • Strengthen business partnering approach and support to services cross-Council	• Significant set up costs-systems • Significant additional annual budgetary costs for HR Service structure-add to budget gap • Requirement to contribute towards costs for any redundancy and pension strain payments due to displacement of staff through the termination process (circa 50%). • Recruitment costs - whilst some staff may come from MDC there will be full recruitment costs incurred if posts are advertised externally • Less staff resilience due to impact of absence, vacancies on reduced team size • Loss of shared knowledge/capacity/implementation across both authorities • Loss of historical knowledge of ADC HR processes, policies, procedures, Single Status, Terms and Conditions • Less breadth of skills, knowledge, and experience within HR Team. • Current market in terms of recruitment - limited resources at the moment. • Uncertainty of ability to recruit permanent staff to new service. • Will need to allocate increased (confidential) office space for HR Team
Continuation of Shared Service (MDC Hosted)	• Mitigates against identified Corporate Risks • No need for incurred transitional costs • No need for incurred transitional arrangements and additional costs • No need for any contribution towards redundancy and pension strain cost incurred through dissolution of the shared service. • Avoids need for Exit Plan from existing Shared Service • Agreement via SLA to review and strengthen identified areas of HR service provision aligned to changing organisation needs and demands • Cost contribution to the Shared Service will be significantly less compared to an in-house delivery	• Uncertainty of delivery model in future due to early notice/termination periods within SLA • HR service is outside direct management & development of ADC • Service structured to support needs, pressures, demands and work spikes of MDC as well as ADC- not 100% focused on ADC • Increased emphasis on healthy partnership levels of trust, openness, and transparency • Reduced ability to influence, invoke performance management of HR Service including service planning, key tasks, setting and managing timelines, priorities. • Key posts are split across ADC and MDC, with direct consequential impact on use of their skills, capacity e.g.,

	model-annual cost and delivers an annual saving from Year 2 • There will be replacement HR & Payroll IT integrated systems in place, hosted by MDC, and providing the additional functionality and self-service required • ADC contribution to systems costs will be 22% lower than if provided for an in-house delivery model • Increased HR Team resilience • Wider breadth of HR skills and knowledge • Responsibility for recruitment and retention of HR Team-staff and ongoing systems administration and development remains with MDC	role of HR Manager and Leaning and Development Manager in driving key tasks supporting corporate plan and strategic leadership.
Commercial Provider	• Responsibility for recruitment and retention of HR Team-staff and ongoing systems administration and development sits with provider • Via contract specification, can set level of core service provision required. • Wider access to HR specialists • Increased HR Team resilience • Wider breadth of HR skills and knowledge	• Highest levels of Corporate Risks due to assessed likelihood and impact of the inability to provide HR, Payroll and statutory HR services post November 2023 including the failure to pay staff • Inability to undertake a procurement exercise that would be concluded, and supplier set up before termination date of November 2023. • No guarantee that a procurement exercise would be successful or guarantee that a commercial supplier would be in place. • No guarantee that a supplier will be able to provide the full scope of HR & payroll Services. • Loss of robust HR knowledge and experience through loss of HR staff embedded in ADC values, ways of working, policies and procedures, organisational culture and organisational HR history. • ADC would be required to retain the in-house job evaluation and moderation process-and replace the loss of the HR staff who currently manage, facilitate and monitor this critical action. • ADC would still require an element of in-house HR provider liaison and client management • Failure to procure a supplier via a procurement exercise would result in

		the Council having NO delivery model in place post termination date of November 2023 • A detailed service requirements and contract agreement will be required to be developed including legal advice and counsel due to the high risks and specialist nature of the contract requirements • Supplier will not be responsible for pay and grading, job evaluation, pay and reward strategies • No certainty or control over service/contract provision costs • No guarantee/restricted on-site HR presence or face to face accessibility • Limited market for provision of HR & Payroll services to Local Authorities • Limited business contingency options should there be a significant or total performance or market failure in provision of services by a commercial supplier. • Reduced control over HR Service provision • Provider will only provide what contracted and/or paid to do. • Additional services e.g., specialist HR advice will be at additional cost. • Reduction in flexibility of service provision e.g., ability to run a supplementary pay run • Lack of accessibility for managers, employees, and trade unions • Lack of ability to develop HR & Payroll systems such as self-service. • Lack of local knowledge and understanding of ADC needs, demands, history, relationships • Unlikely to have robust HR business partnering model in place. • Increased likelihood of a high number of staff redundancies within existing HR Team • Contract term likely to be minimum of 5 -years with no early release clause.

Implications

Corporate Plan:

Provision of HR and Payroll services provides support across the Council to ensure delivery of the Corporate Plan key priorities.

Legal:

Appropriate legal advice has been provided as part of the preparation of this report regarding the option to exit the shared service and the impact upon existing employees to ensure that the Service Level Agreement, relevant legislation, policies and procedures have been taken into account.

In the event the Cabinet agrees with the recommendation to extend the existing shared service arrangement, the Service Level Agreement will require review and amendment and legal advice and support will be provided as part of that process.

If the Cabinet is minded not to approve the recommendation to extend the shared service arrangements, but to seek an external, third-party commercial provider, legal advice will be required in relation to procurement processes and any subsequent contractual agreement. Risks associated with this option are set out in the report. [RLD 07/09/2022]

Finance: The current annual cost of the HR shared Service to ADC for systems and staffing is £405k. (£360k staffing; £45k systems). The table below sets out the indicative additional costs/savings of remaining in an enhanced Shared Service with MDC and for ADC to establish its own in-house HR/Payroll service. Comparative costs for a Commercial Provider are unavailable as these would only become evident after undertaking a tender process.

Delivery Model	One-Off Costs	Year 1 Costs (Full Year Effect)	Year 2 onwards
	£'000	£'000	£'000
Shared Service with MDC	+125	+15	-7
In-House ADC HR Service	+525	+202	+202
Net saving through Shared Service	-400	-187	-209

The key reasons for the significant difference in the one-off costs is £125k when shared with MDC compared with £223k to purchase and implement the system as an in-house service, and £302k one off staff costs that would be incurred if the decision was taken to set up the in-house service. These are entirely avoided through the continued shared service route.

From the table above it can be seen that from Year 2 through the shared service arrangement will deliver a small annual saving to ADC as the proposed structure for the service reduces by 1.5 FTE

following implementation and embedding the new system and delivery of the efficiencies the new system will bring.

It is also proposed that the one-off system implementation costs will be funded from the Corporate Transformation Reserve.

It should be noted that if a decision is made to cease the shared service, in the event of any redundancies, ADC will be liable for circa 48% of these. Should these arise, again it is proposed that they be met from the Corporate Transformation Reserve.

[PH 24/08/2022].

Budget Area	Implication
General Fund – Revenue Budget	As set out above.
General Fund – Capital Programme	Not applicable
Housing Revenue Account – Revenue Budget	The HRA will be charged its proportionate share of both one-off and additional recurrent costs/savings of the future HR service.
Housing Revenue Account – Capital Programme	Not applicable

Risk:

Risk	Mitigation
A Corporate Risk has been identified - Lack of HR Service provision and disruption caused by exiting the existing HR Shared Service	• Early determination of ADC preferred future delivery model for HR Services • Joint Exit Plan with MDC • Meetings with MDC regarding Exit Transition and impact on existing HR Shared Service • MDC Risk Management
A Corporate Risk has been identified - Inability to provide HR & Payroll Services in part or in total on dissolution of the existing HR Shared Service	• ADC Project Plan • Timely procurement, implementation, development, testing and parallel run of HR and Payroll systems • ADC/MDC Joint Exit Plan Implementation • Cabinet approval to implement new HR Service including transitional arrangements in advance of the termination date • Budgetary allocation to support transitional arrangements, systems and new HR Service including required levels of staffing. • Implement contingency of interim staffing if required.

Human Resources:

In terms of the termination of the HR Shared Service there are no direct HR implications as the host is MDC and TUPE is not applicable due to the set-up of the Shared Service. Any redundancies would be in line with MDC policies although as detailed in the report there would be shared costs.

However, the implementation of the new structure whilst all roles would be ring fenced in the first instance the process would be in line with the current Recruitment and Selection Policy and all new or significantly revised posts would be subject to Job Evaluation.

In terms of the continuation of the Shared Service. The continuation of the Shared Service would require a review of the SLA any changes to the structure would be undertaken by MDC and would require full consultation with the HR team. There would be no direct HR implications for ADC as the host Authority would be MDC. [KB-17/08/2022]

Environmental/Sustainability

No implications due to the report recommendations

Equalities:

No implications due to the report recommendations

Other Implications:
Not applicable

Reason(s) for Urgency
Not applicable

Reason(s) for Exemption
Not applicable

Background Papers
Not applicable

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