



Executive
13th February 2006

**Joint Report from the
Director of Finance and Corporate
Resources and the Director of
Human Resources and Diversity**

For Action

Wards Affected:
ALL

Authority to invite tenders for Payroll and HR IT Services

Forward Plan Ref: F&CR-05/06-31

1.0 Summary

1.1 This report requests approval to invite tenders in respect of the proposed (Integrated Payroll and HR IT Services) contract to start 1 November 2007, as required by Contract Standing orders 88 and 89.

2.0 Recommendations

2.1 The Executive to give approval to the pre-tender considerations and the criteria to be used to shortlist and evaluate the Integrated Payroll and HR IT Services Contract as set out in paragraph 3.11 and authorise the Director of Finance, in consultation with the Borough Solicitor, to select the appropriate procurement procedure for the contract from the two options outlined in the report.

2.2 The Executive to give approval to officers to invite tenders and evaluate them in accordance with the approved criteria referred to in paragraph 2.1 above.

3.0 Detail

3.1 The Executive and the General Purposes Committee of 10th October 2005 agreed that officers be authorised to extend the payroll services contract between the Council and Serco Solutions Limited dated 2 June 1999 ("1999 Agreement") to the 31st October 2007 with provision to terminate the contract at an earlier date up to 3 months before the 31st October 2007, should a new payroll system be ready to go live. The Executive and the General Purposes

Committee also agreed the re tender of the Council's Payroll and IT Support Services contract in principle.

- 3.2 In 2002 after a competitive evaluation process, HR Professional (HR Pro), provided by ASR Computers Ltd was chosen to be Brent's Human Resources Management Information System. HR Pro has now been almost fully developed and implemented across the Council. It comprises 3 integrated modules, Human Resources, Training and Recruitment.
- 3.3. The current Payroll system and HR Pro are considered to be, and operate as, two separate systems.
- 3.4 A current Steering Group of appropriate officers, including the Director of Finance and Corporate Services and the Director of Human Resources and Diversity, considers that any future changes should include an integration of the two systems, which would result in an increase in the effectiveness of the systems and an improvement in the service.
- 3.5 A decision has therefore been made to combine the provision of a Human Resources Management Information System with the provision of a Payroll and IT Service as one contract. To achieve this, the following two options have been appraised:
- (1) A new fully integrated HR & Payroll System
 - (2) A new payroll system plus middleware and HR Pro development
- The results of the appraisal, which are set out in detail in Appendix A of this report, have led to a decision by officers to go forward with a new fully integrated HR & Payroll System.
- 3.6 The HR Transformation Programme Board will have high level responsibility for the development of the HR and Payroll information systems.
- 3.7 It is anticipated that any new integrated IT system will require between 9 to 12 months to implement. It is considered critical to the success of the Transformation of HR programme that the new system is implemented as soon as practically possible. If it is considered that the system can be implemented before 01.08.06, negotiations will be undertaken with the current provider regarding any possible early finish of the current contract.
- 3.8 A new procurement procedure, the Competitive Dialogue, is included in the new European Procurement Legislation which came into force on 31st January 2006. It is intended to be used for large complex projects in circumstances where, currently, use of the negotiated procedure might be considered. The procedure may be carried out in successive stages in order to reduce the number of solutions by applying the award criteria. Tenders based on the solution or solutions identified are assessed against the award criteria. Clarification can be sought pre and post final assessment provided this does not distort competition and is not discriminatory.
- 3.9 The proposed Integrated Payroll and HR IT Services contract is considered to be particularly complex. Officers would have difficulty in defining the best technical solution for satisfying the requirements of the service and officers do

not want to discourage potential innovative solutions from the market. A competitive dialogue between the Council and potential suppliers would help to identify the solution that best meets the Council's needs. However, the Competitive Dialogue procedure is a completely new procedure and guidance on the use of the procedure has only recently been issued. Therefore, officers are still considering whether this is the best procurement route to take for this contract. The alternative route would be to use the Negotiated Procedure for the procurement of the contract which would enable the Council to negotiate with suppliers following submission of tenders. It is considered that the Open or Restricted Procedures would not be appropriate for the procurement as some degree of discussion with suppliers will be required and such discussion would not be permitted under the Open or Restricted procedures.

3.10 This report therefore recommends that the Executive approve the pre-tender considerations set out in paragraph 3.11 below and authorise the Director of Finance, in consultation with the Borough Solicitor, to determine whether option A (Competitive Dialogue Procedure) or option B (Negotiated Procedure) would be the best procurement route for the contract.

3.11 In accordance with Contract Standing Orders 88 and 89, pre-tender considerations have been set out below for the approval of the Executive.

Ref.	Requirement	Response
(i)	The nature of the service	See Appendix B
(ii)	The estimated value	Over a total of a potential 7 years: In excess of £2 million (excl. set-up costs)
(iii)	The contract term	5 years and option to extend for 2 years
(iv)	The tender procedure to be adopted	European Public Procurement Competitive Dialogue Procedure or Negotiated Procedure for Service Contracts
(v)	The procurement timetable	<p>Indicative dates are:</p> <p>Option A (Competitive Dialogue Procedure)</p> <ul style="list-style-type: none"> • Adverts and notice placed 01/03/06 • Expressions of interest returned 31/03/06 • Shortlist drawn up in accordance with the Council's approved criteria 21/04/06 • Start a structured dialogue process with 02/05/06

		<p>selected suppliers to identify acceptable solutions that will meet the Council's needs.</p> <ul style="list-style-type: none"> • Conclusion of Dialogue declared 03/07/06 • Invite to tender 05/07/06 • Deadline for tender submissions 08/08/06 • Panel evaluation, clarification and contract decision 25/08/06 • Report recommending Contract award circulated internally for comment 08/09/06 • Executive approval for the contract award mid/10/06 • Implementation and data migration 01/11/06 to 30/10/07 • Contract "going live" date 01/11/07 (with option to commence 3 months earlier) <p style="text-align: center;">OR</p> <p>Option B (Negotiated Procedure)</p> <ul style="list-style-type: none"> • OJEC Notice & Adverts placed 01/03/06 • Deadline for PQQ submission 31/03/06 • Panel evaluation and shortlisting of service providers to be invited to negotiate 21/04/06 • Invitations to Negotiate sent out 08/05/06 	
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		<ul style="list-style-type: none"> • Submission of Initial Proposals • Negotiations undertaken with supplier(s) • Submission of Final Offers (BAFOs) • Panel evaluation of Final Offers and contract recommendation • Report recommending Contract award circulated internally for comment • Executive approval for the contract award • Implementation and data migration • Contract “going live” date 	<p>16/06/06</p> <p>19/06/06 until 21/07/06</p> <p>18/08/06</p> <p>01/09/06</p> <p>08/09/06</p> <p>mid/10/06</p> <p>01/11/06 to 30/10/07</p> <p>01/11/07 (with option to commence 3 months earlier)</p>
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(vi)	The evaluation criteria and process	<p>Shortlists are to be drawn up in accordance with the Council's Contract Management Guidelines namely the select list questionnaire and thereby meeting the Council's financial standing requirements, and technical expertise. Tenders will be evaluated and the contract awarded using the following criteria:</p> <ul style="list-style-type: none"> • Price • Previous appropriate experience • Proven ability to meet the service requirements • The appropriateness and effectiveness of the proposed system • Service delivery approach • System implementation approach • Provision of support for the proposed system. • Further development of the system, including built in savings and innovation. • Development of a working relationship with the Council. <p>The relative weighting given to each of the evaluation criterion above will be stated in the tender documentation (or descriptive document if the Competitive Dialogue Procedure is used)</p>
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Ref.	Requirement	Response
(vii)	Any business risks associated with entering the contract	<p>The following business risks are considered to be associated with entering into the proposed contract:-</p> <ul style="list-style-type: none"> • non-payment of staff • late payment of staff • incorrect payment of staff
(viii)	The Council's Best Value duties	The competitive tender for integrated Payroll and HR IT Services contract will ensure value for money and an improved service.
(ix)	Any staffing implications, including TUPE and pensions	No implications for Council staff.
(x)	The relevant financial, legal and other considerations	See sections 4.0 and 5.0 below.

3.12 The Executive is asked to give its approval to these proposals as set out in the recommendations and in accordance with Standing Order 88.

4.0 Financial Implications

- 4.1 The Council's Contract Standing Orders state that contracts for supplies and services exceeding £500k or works contracts exceeding £1million shall be referred to the Executive and/or General Purposes Committee for approval to invite tenders and in respect of other matters identified in Standing Order 89.
- 4.2 The total cost of a new Payroll and HR IT Services Contract will be above the £500k threshold.
- 4.3 Full financial implications will be reported when the Executive consider the award of the tender. The payroll service is funded by charges made to units and schools using the service.

It is expected that there will be the scope for significant efficiencies from an upgraded integrated system of which self-service will be a major component.

- 4.4 The estimated cost of developing tendering documentation, receiving legal advice and managing the tendering process is £70k. These costs will be contained within existing budgets.
- 4.5 In the event that the contract is awarded to a contractor other than the current Payroll IT provider there will be additional set up costs. The Council will seek to ensure the new contract meets these and spreads them across the life of the contract.

5.0 Legal Implications

- 5.1 The estimated value of this contract is higher than the EU threshold for Services and the nature of this service means it falls within Part A of the Services Regulations. The tendering of the service is therefore governed in full by the European Public Procurement Regulations as well as the Council's own Standing Orders in respect of High Value contracts and Financial Regulations.
- 5.2 The Public Contract Regulations 2006 came into force on 31 January 2006. The new regulations replace the previous EU procurement regulations and provide for a new procurement procedure known as the Competitive Dialogue Procedure. Where a contracting authority wishes to award a particularly complex contract and considers that the use of the open or restricted procedure would not enable the award of that contract, the contracting authority may use the new competitive dialogue procedure. The regulations define "particularly complex contract" as a contract where a contracting authority is not objectively able to define the technical means capable of satisfying its needs or objectives or specify either the legal or financial make-up of a project or both.
- 5.3 The Public Contracts Regulations 2006 only permit a contracting authority to use the negotiated procedure if the circumstances of the tender fit within one

of the circumstances listed in regulation 13. The circumstances which are likely to be applicable to this contract are in regulations 13 (b) and (c) namely:

(b) exceptionally, when the nature of ...the services to be provided under the contract or the risks attaching to them are such as not to permit prior overall pricing;

(c) in the case of a public services contract, when the nature of the services to be provided... is such that specifications cannot be established with sufficient precision to permit the award of the contract using the open procedure or the restricted procedure;

5.4 Further legal consideration is being given to the appropriate procedure for the procurement of the contract.

5.5 Once the tendering process is undertaken, officers will report back to the Executive in accordance with Contract Standing orders, explaining the process undertaken in tendering the contracts and recommending award.

6.0 Diversity Implications

6.1 Officers have screened the proposals in this report and believe that there are no diversity implications from it.

7.0 Staffing/Accommodation Implications

7.1 The award of this contract will have no direct implications for Council staff or for accommodation arrangements.

Background Papers

Executive Report dated 10th October 2005

Contact Officers

Barry Hilder, Payroll and Pensions, Chesterfield House, Tel: 020 8937 3180

Ken Gaston, HR Policy and Resourcing, Town Hall, Tel: 020 8937 6182

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New integrated HR & Payroll system (1)
vs
new payroll system plus middleware and HR Pro development (2)

Criteria	Option (1)	Option (2)
Ease of implementation Weight = + 1	✓ Although a major organisational change, this is a standard application in a mature supplier market. Chosen application likely to have strong local government credentials. Unlikely that the Council will face problems not experienced elsewhere. Working with experienced supplier will also strengthen approach to change management as this can be included in contract.	✗ Likely to involve significant technical input and development. Still some uncertainty around how far middleware can seamlessly integrate two separate systems. Council will be 'on its own' in terms of implementation, change management and process improvement (unless support purchased separately). In addition Council's IT resources and expertise around middleware likely to be consumed by Corporate Client Index project.
Contribution to short term goals Weight = zero	✗ Certain enhancements to existing HR system can proceed. However, full self service capability only available when new system is fully integrated.	✓ Introduction of self service capability on faster track. HR Pro offers great deal of flexibility.
Contribution to long term goals Weight = + 2	✓ New fully integrated and self service system likely to offer greater potential for service transformation. Opportunity to learn from others.	✗ Limitations of current HR system around reporting, workforce planning, trend analysis etc. Current HR system whilst offering many strong features not considered 'deep' enough for future needs. Unclear where HR Pro / payroll middleware solution has been successfully implemented by others.
Cost Weight = + 2	- Procurement and operation of new system likely to involve significant investment. However, provided chosen system and supplier has appropriate track record greater opportunity of benefits realisation e.g. through self service, single database, reduced and (more) automated data input.	- Would involve less investment and potentially would deliver some key benefits. Question mark over how far HR Pro itself and integration with payroll though middleware can deliver desired end state, and therefore whether return on investment case is as strong.
Speed of implementation Weight = zero	✗ Procurement and implementation likely to take 18 to 30 months.	✓ Implementation within 18 months including procurement of new payroll system. Self service capability could begin to be introduced over next few months.
Impact on service levels Weight = + 1	✓ New system will give the Council opportunity to turnaround existing processes and procedures. Opportunity to develop specification around desired end state.	✗ Middleware and development of HR Pro should deliver benefits around self service and single database. However, unlikely to provide sophisticated reporting and generally less capable than off the shelf integrated system.

NATURE OF THE SERVICE:

The following not intended to be prescriptive or give a detailed account of how the service is to be provided. A full specification will be developed as part of the tendering process.

a) PAYROLL IT SERVICE

1.0 Scope of the Service

- 1.1 The Service is provided, through Brent's Payroll Administration Section, to all employees of the Council, Members, Pensioners, schools who have chosen to have Brent's Payroll Service and some defined organisations.
- 1.2 The Service is provided in accordance with statutory legislation, national and local agreements and conditions of service. Customer defined conditions are also in place.

2.0 Basic Payroll Administration Service

- 2.1 Provision of system generated stationery e.g. timesheets, P45s, P46s, P60s etc. to Brent's Payroll Administration Section and with the facility to set up and accept E-forms from the Client's Payroll web-site directly into the Payroll system.
- 2.2 Management of the Annual payroll processing schedule as issued by Brent's Payroll Administration Section.
- 2.3 Distribution of self-assessment and reporting details for P11D purposes to Finance and Corporate Resources

3.0 Payment

- 3.1 System processing and payment of all salaries, wages, pensions and Members allowances by their contractual method and pay date.
- 3.2 Distribution of cheques to Brent's Payroll Administration Section.
- 3.3 Cancellation, recall and/or replacement of BACS or cheque payments as notified by Brent's Payroll Administration Section.
- 3.4 As calculated and notified by Brent's Payroll Administration Section produce manual/emergency payments, preferably by BACS, and distribute as advised.
- 3.5 Make payment of monies due to all external third party creditors, including statutory bodies by BACS where possible or payment by pre-signed cheque.

4.0 Payroll System Requirements

- 4.1 Provide and maintain a suitable payroll platform and software package for the overall provision of the service, including absence management,

- salary sacrifice schemes, expenses and benefits e.g. car mileage payments, etc.
- 4.2 Provide and maintain payroll links to Brent Councils network – On line system availability
 - 4.3 Provide and maintain the interfaces between the payroll system and other systems used by Brent Council and Brent's pension contractor.
 - 4.4 Automatic allocation and control mechanism for employee reference numbers
 - 4.5 Aggregation of duties in respect of multiple contracts.
 - 4.6 Provide and maintain all payroll operating systems including formulae, parameter files and other relevant IT files.
 - 4.7 Undertake routine amendments to operating systems and parameter files.
 - 4.8 Undertake the system application of pay awards (including arrears) and incremental progression.
 - 4.9 System validation of data
 - 4.10 Undertake bulk transfers/amendments to system data e.g. employee records between payroll groups or bulk amendment of cost centre changes, etc.
 - 4.11 Proportional costing
 - 4.12 Facility to provide a payroll service to Non–Brent employers.
 - 4.13 Provide an interactive link through Brent's Payroll website.
 - 4.14 Have available employee and employer self-service functions.
 - 4.15 Provide the facility for the selective extract, analysis and sorting of information for output to screen printer or file.
 - 4.16 Have available the facility for electronic authorisation.
 - 4.17 Maintain and control password access for the contractor's authorised officers.
 - 4.18 Maintain and control password access to view and update the payroll system by Brent's Payroll Administration Section and other authorised officers of Brent Council.
 - 4.19 System security administration.
 - 4.20 Maintain and implement statutory upgrades and changes to the system.
 - 4.21 On line document warehousing of payroll data.
 - 4.22 Custody of current electronic historical data.
 - 4.23 Testing of new or significantly modified applications before going live.
 - 4.24 Any system/software used to process or maintain Council data is backed up off-site each night.
 - 4.25 Disaster recovery procedures are maintained and contingency testing is carried out on a regular basis.
 - 4.26 Provision of an electronic data interface for the update of source information from Inland Revenue.
 - 4.27 Payslip messaging and advertising facility

5.0 Financial Controls-Including Payroll Bank Account

- 5.1 Have sound financial and management controls in place.
- 5.2 Undertake all processes in respect of the production, controls and transmission of BACS and cheque payments.

- 5.3 Reconcile all BACS and cheque payments, deletions, cancellations and replacements to the payroll gross to net each period and account for in the Brent payroll account reconciliation process.
- 5.4 Full management, control and reconciliation of the Payroll Bank Account and Out of Date cheque account to the bank statement/cash book each month.
- 5.5 Reconciliation of all payroll input and output controls each period.
- 5.6 Individual and global reconciliation of all Brent's payrolls each period.
- 5.7 Costing and accounting requirements to be met, including bank-line transfers from the Payroll Bank Account to Brent Customer Internal Bank Accounts.
- 5.8 Costing interface controls to be agreed with the relevant gross to net report and reconciled to the values for the respective cost centres.
- 5.9 Information that is passed from one system to another via an interface is fully reconciled to their respective control totals.
- 5.10 Maintain separate controls for all Pension schemes for Brent and non-Brent employees.
- 5.11 Reconciliation of all scheme employees and employers contributions each month and at year end including Additional Voluntary Contributions.
- 5.12 Completion and reconciliation, within the required time-scales, of all year-end returns (including pension interfaces) to payments made during the year.
- 5.13 Undertake all year-end system processes and production of statutory reports and other specified returns.
- 5.15 Electronic submission of all statutory year-end returns to the Inland Revenue.
- 5.16 Provide Brent Council's Authorised Officer with a reconciled P35 statement.
- 5.17 Control of Cheque Stationery

6.0 Statutory Functions

- 6.1 System maintenance and control of all statutory legislation and duties relating to payroll system activities. e.g. Income Tax and National Insurance etc.
- 6.2 Implementation of any new payroll legislation affecting system processes e.g. Paternity Leave and Adoption Leave.
- 6.3 System maintenance for Attachment of Earnings Orders
- 6.4 Completion of statutory surveys on behalf of the council.

7.0 Help Desk, Advice & Support

- 7.1 Provide Brent's Payroll Administration Section with advice in respect of all new legislative changes and system changes that impact on the payroll service.
- 7.2 Provide sufficient technical support and advice to deal with users operational requests and system changes.

8.0 Exclusions

8.1 The following services are not included in the current Payroll IT Service

- Pensions Administration Service
- Teachers Salary Assessments Service (other than system availability)
- Expenses and benefits (other than system availability).
- Basic Payroll data collection, calculation and data input.
- Direct employee customer interface.
- Absence management (other than system requirement and maintenance for occupational sick pay and statutory sick pay etc.).

b) HUMAN RESOURCES IT SERVICE

HR PRO

1.0 Personnel Records Module

Job Details, Personal Details, Service Details, Pay Details, Allowances, Medical Referrals, CRB Checks, Professional Registration, Employee History, Declaration of Interests, Exit Interviews, Induction Checklists, Ethnicity, Gender, Disability, Union Disclosure, Qualifications

2.0 Training Module

Course Details, Training Booking, Course Evaluation, Appraisal Records, Training Needs

3.0 Recruitment Module

Vacancy Details, Applicant Details, Interview Details, Offer Details

4.0 Sickness and Absence Records

5.0 Mail Merges

6.0 Self Service Login

7.0 Email Notifications

8.0 Integrated Reporting

HR & Diversity's key requirements of a new HR system

- Performance appraisal management
- Absence management
- Managing diversity
- Payroll
- Recruitment and selection

- Employee relations
- Resourcing and retention
- Training and development
- Pay and reward management
- Knowledge management
- Workforce / HR planning (including workforce skills audits / remodelling)
- Self Service