

Tuesday, 12 March 2024



Removal of Payroll Service from MATs and Academies

Purpose of report: To scrutinise the process, the timing and the associated communication of the decision, and to review the consequences for MATs and the Council.

Introduction and Background

1. Payroll services were disaggregated from Orbis into the Council in October 2021. At that time, the service provided payroll and related services to c.40,000 employees in total, of which c.20,000 were employed directly by Surrey County Council ('SCC') with a further c.20,000 employed by external organisations (defined as payroll 'bureau' customers) including MATs and Academies.
2. During the Spring of 2022 a market research company was commissioned to undertake a survey of school customers to measure satisfaction in the payroll service. This identified that whilst a majority (63%) of maintained schools were satisfied with the service, only 30% of Academies and Multi Academy Trusts ('MATs') were satisfied. Over time MATs and Academies were moving to alternate service providers for whom school payroll is their core business.
3. Following an internal review into the sustainability of the service in the Autumn of 2022, it was decided that a full options appraisal should be undertaken. This was completed in the first quarter of 2023.
4. Key findings from this review were:
 - Systems were not fit for purpose to run a payroll bureau service and were based on aged macro driven spreadsheet systems
 - The service could not meet the growing complexity of customer requirements, creating inefficiencies and significant opportunity for error
 - There was a heavy dependency on the knowledge of experienced staff and weak underpinning processes due to the lack of investment in technology, which has led to significant manual workarounds.
 - The Council's new payroll and HR system (Unit4) would improve some aspects but will not meet customer requirements in the medium term.

- The existing SAP contract ended in mid-December 2023 and the current data centre was aged; any extension beyond December would require significant investment even for a short period of time.
 - The school's payroll market was mature, and there were better solutions available for MATs and Academies.
 - The Council has experienced significant challenges in recruitment and retention of appropriately trained and qualified staff.
 - During the last 18 months the payroll service had received notice from c.20 settings and based on discussions with customers this was highly likely to continue going forward which would create significant budget pressures.
5. As part of the options appraisal, a long list of options was narrowed down to three options to be reviewed in detail.

Option A - Continue to deliver Payroll Services as-is (with investment)

Option B - Continue to deliver Payroll Services to Maintained Schools only

Option C - Exit All schools' provision

6. The options appraisal was completed in the first quarter of 2023 and following consideration of its findings, a report was prepared and presented to Cabinet on 30th May 2023 with the recommendation to pursue Option B. This was approved by Cabinet and the decision was 'formally' made on 7th June (after allowing for the call-in period).
7. The reasons for this are set out in detail in the cabinet paper (NB this was considered in private as a Part 2 report due to the implications for staff of the options being considered) but in summary it was considered that proceeding with Option B offered the following benefits over other options:
- It would enable the service to simplify the business model and provide a focus on delivering a payroll service to Surrey County Council employees only (both corporate and maintained schools), with a single pay date and the same terms and conditions and pay arrangements.
 - Over two years there had been a reduction of c£400k in revenue as MATs have moved to other providers for whom schools' payroll is their core business. This option reduced the risk of an ongoing annual reduction in income going forward as external customers, primarily Multi Academy Trusts, chose to move to other providers who are better able to meet their needs.
 - When compared to Option C, it would still allow the Council to defray some of the costs of providing a payroll service which would otherwise need to be borne by the Council alone.

- Whilst this option required a reduction in the number of staff currently employed by the Council, it would also allow the retention of a core team of our most experienced and skilled staff.

Engagement with MATs / Academies

8. The Cabinet decision was formally made on 7th June and informal engagement was undertaken with the ten largest MATs on 23rd June (on a confidential basis) to advise them of the decision and the implications. Unfortunately, this information was shared more widely with other settings who up to that point had not been engaged with.
9. Concerns were expressed to the Council at this point and an initial meeting was held with the Chair of the Resources and Performance Select Committee to discuss these on 28th June (note of meeting at Appendix A).
10. Further dialogue and engagement sessions were arranged and held with all those MATs and Academies affected by the decision on 7th and 10th July. At these meetings the Council explained the rationale for the decision, the timescale, the mitigating actions already taken and planned moving forward to minimise and mitigate the impact and to provide clarity on the support which was in place to ensure a smooth transition.
11. A summary of the primary concerns raised at these meetings, the responses from the Council and the actions taken by the Council is included below:

I. Decision-making timeline to end June 2023

MATs/Academies wanted to understand the decision making and why they weren't advised of the decision to cease the service sooner.

- Ricky Fuller took on responsibility for the service in the Autumn 2022
- Once it became clear that there were underlying problems an Options appraisal was commissioned in Q1 of 2023 which reviewed 3 options (see section 5 above).
- This went to cabinet for decision on 30th May where a decision was made to cease payroll service provision to all bureau customers. Following call-in the decision was formally made on 7th June.
- This was the same week as the new Unit4 ERP system went live for SCC employees and all Surrey maintained schools.
- The impact on staff meant that we needed to inform them at the same time as informing our customers and it was felt important to avoid the same week as the Unit4 go-live.
- We engaged with our larger MATs on 23rd and 26th June (on a confidential basis) and planned to communicate with other settings w/c 26th June. The

decision was however communicated informally amongst other settings before this occurred.

II. Notice Period and timelines

MAT/Academies expressed concern at the notice period provided in which to transition to a new provider (including the necessary procurement) and the impact of the school summer holiday period on a successful transition.

- The Council accepted that this was not an ideal time of year with the holiday period approaching and the financial year end.
- Heavily influenced by the SAP contract cessation (December 2023), coupled with an unstable platform/data centre which hosts the SAP system. Taken together an extension for even an additional three months would cost upwards of £0.5m and the hardware platform would require a similar level of investment.
- Each MAT and Academy made an annual decision about whether to renew their payroll provision from SCC; under this either party is contractually liable to supply three months' notice (with one exception – Learning Partners Academy Trust - where a longer-term contract is in place).
- The notice period provided was however greater than this:
Larger MATs (>1 setting, >350 employees) = five months' notice (Nov 23)
Smaller MATs and individual sites = four months' notice (Oct 2023)
- Based on the annual value of the contract, there would be no requirement to go through a lengthy procurement process as the highest annual value was lower than the EU procurement threshold.
- The Council proactively engaged with senior representatives of the main providers (ie those who were already providing payroll services to MATs/Academies in Surrey) and confirmed that they were immediately available to provide quotes to the settings, to minimise the timeframe for settings to find alternate providers.
- An overall time timeline was shared which could be varied for each setting as necessary:

July – early August

- Schools obtain quotes from suppliers.
- Schools confirm the supplier that they are going to proceed with.

August

- SCC internal Transition Team to work with provider to plan the transfer.

September

- New provider parallel run

- Formal engagement with the new provider to have training on the new technology.

October

- Smaller MATs and individual academies - Final payroll run from SCC
- New provider parallel run
- Following final payroll run, smaller MATs and individual academies move to their new payroll provider.

November

- Larger MATs - Final payroll run from SCC
- Following final payroll run, larger MATs move to their new payroll provider.
- SCC would continue to provide post transition support as needed.

III. Support

MAT/Academies were concerned at the Councils ability to support a simultaneous exit of customers.

- The Council created a dedicated transition project team of four to be expanded as needed to work with you and your new providers.
- Each setting would be appointed an allocated project manager.
- Once the new provider was appointed, the transition project team would work jointly with them to reduce the workload for MATs and Academies as the transition team with work with their new providers to successfully transition within the timescales.

IV. Providers

MATs / Academies were concerned that the market would not be able to respond to a simultaneous exit of customers

- In support of each setting appointing a new provider, the Council proactively signposted to established national suppliers within the market who have a track record of supplying payroll services to Surrey MATs and Academies.
- The Council had engaged at a senior level to confirm that these companies were ready to supply quotes, quickly and efficiently, to enable the MATs / Academies to fast track their decision making.
- Providers were supportive of holding costs to those currently paid wherever possible, subject to the type of service and solutions required.
- Providers confirmed that they were confident that the timescales were achievable.

12. Following the meeting, comprehensive guidance notes and FAQs were shared with all settings. These are attached as Appendix B.

Project Delivery

13. Following these initial sessions, a dedicated project team was established to oversee the transition, working with the new providers and the MATs/Academies until the end of December 2023, with support from the SCC payroll team. Whilst there were issues and challenges, as with all projects of this scale, the project objectives were delivered.
14. In summary, a total of 196 schools (c.17,700 staff) across 38 separate employing organisations (19 of which were MATs) were transitioned to ten external providers between September and December 2023, allowing the Council to de-commission the legacy SAP platform. The full-year budgetary implications of the off-boarding is a £1.2m income loss.
15. A closure note was sent to each organisation, setting out the post transition support that is available in the event of queries and/or requests for data, including a dedicated inbox specifically for these requests.

Lessons Learned

16. It is pleasing to report that the vast majority of those MATs and Academies who transitioned away from the SCC payroll provision to other providers in October and November 2023, reported that the transition process had been managed well. Nonetheless there are lessons to be learned, in particular the timing and timescales for delivery and the initial engagement and communication with those impacted by the decision to cease service provision.

17. Timing of decision and delivery timescale

Whilst the timescales set for transitioning schools off the SAP platform were delivered, with the benefit of hindsight, the decision to cease to provide payroll services to bureau customers should have been taken sooner than May 2023 to allow more time for the transition to be communicated and delivered.

The timing of the decision created a constrained period, given the imperative to move away from the SAP platform by December 2023. This period also coincided with the implementation of Unit4 for maintained schools and corporate employees in June 2023, and the lead up to the end of term and the school holiday period for MATs and Academies. This combination created additional complexity and a challenging timescale to move customers away from the Council to other providers.

18. Communication and engagement

Firstly, given these constrained timescales, it would have been better for the decision to have been communicated to all affected parties shortly after the

Cabinet decision was made. Whilst there was an (understandable) concern over the impact on payroll staff in the week of go-live on Unit4 (for whom this decision meant a significant reduction in those staff employed once the transition was completed), the stronger imperative was to give as much time as possible for the transition to be delivered.

Secondly, it would have been better to advise all those schools affected at the same time. Whilst the intention of engaging with the larger MATs first was to give them more notice (on a confidential basis), this information was immediately shared with other settings and meant that some schools heard about the decision second hand.

Conclusions

19. The decision to cease the provision of payroll services to MATs and Academies, was in the best long-term interests of the Council and the reasons for the decision were fully understood and accepted by the MATs and Academies.
20. Cabinet took the decision to cease the service on 30th May, this decision was ratified on 7th June and subsequently communicated to those settings affected by the end of June, with explanatory engagement sessions held in early July.
21. The timescales for completing this were constrained by the imperative to exit the SAP platform by the end of December 2023, when the service was no longer supported, along with the ongoing risk of failure from an aged hardware platform (it is worth noting that the host server failed for a 5-day period in early December so this risk was a genuine one). The failure to achieve this deadline for transition could have cost the Council up to £1m in additional costs to continue with the service provision.
22. The notice period provided was more than that required in the annual SLA with schools (except for one Trust who held a longer-term contract), but the timing of the decision in the lead up to the school holidays and the overall timescales available to complete the offboarding were challenging and, understandably, not welcomed by those affected.
23. As set out in the lessons learned, it is recognised that it would have been preferable for the decision to have been made sooner as this would have allowed a longer lead in period for the transition following the decision by Cabinet.
24. In recognition of this, the Council took actions to support the transition and to mitigate the pressures on the MATs and Academies as far as possible (as set out in detail in section 11 above). Notably the Council created a dedicated

project team to oversee the transition process and worked closely with MATs and external service providers to ensure as smooth a transition as possible.

25. This allowed the initial concerns expressed by the MATs and Academies to be overcome, such that a successful transition of all settings to other providers was completed by the end of December 2023.

Recommendations

- a) To note the successful delivery of the project objectives which were to transition MATs and Academies off the SAP platform by December 2023 due to the cost and risks of any extension beyond this period.
- b) To consider the lessons learned and any implications for other projects that the Council undertakes going forward.

Report contact

Anna D'Alessandro, Director of Finance, Corporate & Commercial

Contact details

anna.dalessandro@surreycc.gov.uk

Sources/background papers

Cabinet report 30th May 2023 – Options appraisal on the provision of finance traded services to schools - Part 2 item

Appendix A – Initial response to questions raised by the Select Committee Chair on 28th June 2023

Appendix B - Notes following school engagement sessions in early July 2023