

Business re-engineering, maximisation of synergies, call it what you will, there is a noticeable move back towards merging the payroll function with HR. Notice, the word “back” – it is not so long ago that many clients were de-merging these activities. So what has changed, and will the pendulum swing back again in the near future? Who knows, but at this particular time it is probably more important than ever that you undertake the project with your eyes fully open and with a complete understanding of how to make the most of the benefits.

The payroll business

Once upon a time there was the payroll bureau, known as a “cash cow” because labour costs were low and profit margins high. Clients were responsible for their own input and had to follow strict rules, ie fill in forms on screens. They even had to read the manual and were accountable for their results, as well as checking their output. If they slipped up at all, it was their responsibility.

Within the bureau, the number of staff who needed detailed payroll knowledge was minimal. Data preparation was usually the largest department – where fingers flew fast and furiously as all those standard forms could be keyed at speeds of around 14,000 key depressions per hour. Even better, as the bureaux grew and grew, staff costs were easily contained. From this beautiful and lucrative business many entrepreneurs grew rich on their proceeds because potential clients saw the attraction of not having offices full of payroll clerks and their own payroll systems to maintain. After all, bureaux were the economists’ embodiment of the “economies of scale” theory.

The irony today is that the leading payroll service providers have offices full of payroll clerks and highly experienced administrators but fast data entry opportunities have evaporated as clients expect entries to be made from their original emails, memos and other HMRC documents. This impacts on profit margins – the cash cow’s credit rating is being eroded.

Joining Forces

As more companies choose to merge their payroll and HR functions, *Liz Hughes* looks at how this can be done.



The Service Level Agreement

Familiarise yourself with the Service Level Agreement to fully understand what you are buying. If you are merging payroll and HR functions, it is likely that you will be opting for “a fully managed (outsourced) solution”. Historical insight may help you to ask the right questions about where and who will be processing your payroll information and their training and skills levels.

The increasing burden on employers, coupled with the need for up-to-date knowledge of statutory payroll rules and procedures, has made the option of using a payroll services provider more attractive than ever. This has forced providers to change their service, offering to meet the demand for fully managed payroll services. The change has not been easy to make and there is little prospect of it getting easier. These facts, coupled with the current payroll skills shortages, mean that many of the most successful managed providers are offshoring much of their data entry and administration work in order to satisfy clients’ and shareholders’ expectations.

One issue that is often hidden is the extent to which payroll processing work is carried out offshore, or what the service provider’s intentions are. Remember that you must consult your employees if their personal details are likely to be processed outside the European Economic Area. If this is not explicit in the agreement, I recommend you ask the questions.

Appointing a project manager

To prevent duplication of effort and to keep things on track it will be necessary to appoint someone who understands the full scope of the project and has the authority to ensure deadlines are met.

Projects are often more painful than they need to be just because companies have released payroll skills too early. Retain and incentivise at least one of your most experienced payrollers until the payroll has been successfully run (and paid) for a minimum of one complete cycle. If this is not possible, consider employing an experienced third party during the implementation process – it will pay dividends.

Many service providers can tell horror stories in which the client's project leader is an HR person with little detailed understanding of issues from a payroll perspective of vital items such as financial reporting. If your organisation is large enough to have separate HR and payroll functions, the chances are your payroll will have some degree of complexity within it. By ensuring that this knowledge can be accurately and completely transferred to your service provider you will guarantee that future problems are minimised.

Most outsourced payroll providers will have a dedicated consultant/project manager who will help you during the implementation process. This person should ask all the right questions to achieve a successful implementation; however, they can only be as good as the information provided. Misunderstandings and omissions can create significant delays in time-critical projects such as payroll.

The main contact person for your service provider must have at least a basic understanding of payroll and any terminology that matches the expectation of the service provider. They should also have a good knowledge of the company and where to go for any necessary information. Quite apart from day-to-day communication, some questions put by your provider could have significant consequences if answered incorrectly.

In the case of pensions, which is a complex area, allow the service provider to communicate directly with the pension provider. Recently one service provider heard a chance remark and realised that a client's pension scheme had been set up incorrectly two and a half years earlier. The client and all the employees in that pension scheme had overpaid National Insurance Contributions (NICs) since the inception of the scheme. This was traced back and was the result of a misunderstanding but the total overpayment ran into six figures. It took weeks to calculate all the corrections and obtain refunds from HMRC.

Deadlines

Be realistic about project deadlines. In HR, personnel issues can arise that require immediate and time-consuming attention, so it is important to factor an

appropriate number of hours into the timetable to allow for such events. After all, the worst that could happen is that the project could be completed a little earlier if you do not need this time.

You do need to meet the project deadlines set. Your service provider will understand the timescales they need to get the best results for you. After all, they will be juggling deadlines for other clients too. If you think you can't achieve a task deadline, discuss it with them as soon as you can so they can consider alternatives. Ignoring it could, at worst, jeopardise your first pay day. At best, it could mean poor results because everything will need to be rushed.

Remember that missing payroll deadlines can have serious consequences. The timescales imposed are needed to achieve all contingent deadlines such as the presentation of Banks Automated Clearance System files to meet employees' payday, payments to pension providers and last, but not least, payment to the Collector of Taxes to avoid penalties. Similarly at tax year end, there are a number of HMRC-imposed deadlines that will result in penalties if not met, such as submission of end-of-year returns, P60s and P11Ds.

Maximising the benefits

HR departments create and maintain information that is also required for the production of the payroll, eg names and addresses, salary and benefit information.

If at any point in the initial or ongoing payroll input process you feel you are duplicating information or effort, discuss it with your service provider. If you put information into your HR system, you should be able to provide this information as electronic input to the payroll. I have known situations where HR departments input to their HR system and then created a print to send as an input for the payroll. Unsurprisingly, sometimes the payroll address did not appear exactly the same as the record on their HR system. If you save your time, you will undoubtedly save the time of others – and minimise keying errors. A huge number of changes that will affect an employee's HR record will also impact on payroll, so there are real savings to be made by adopting an "enter it once and once only" mantra.

Responsibility for payroll can appear daunting and there is no doubt that it can be challenging. However, the effective management of deadlines is crucial. If you think, plan and chase ahead, then submit your input in good time you will experience few problems. More importantly, if there are any problems you and your provider will have plenty of time to take corrective action. You may even come to get satisfaction from paying everyone on time, correctly.

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Get results from your payroller

1. Create some clear, written payroll procedures that include internal deadline rules (eg for overtime, bonuses). Allow yourself sufficient time to collate and prepare payroll input to meet your deadline with the service provider.
2. Communicate the deadlines and stick to them. You may find email reminders two days ahead will help.
3. Enlist the support of your manager if the deadlines are not being met.
4. Keep all instructions to your service provider clear and concise.
5. Don't overcomplicate your input by sending lengthy memos. If unsure how to explain what you need, call your provider and ask them to supply the words.
6. If your service provider offers to talk to third parties on your behalf, let them do it but always ask them to report back so that you are kept in the loop.
7. Use your provider's knowledge. They want the best results for you too, I can guarantee, so let them work for you.
8. Look at your payroll results as soon as you receive them, check the BACS date and compare net pay totals with the previous month so you can immediately identify any serious errors.