

The 10 Myths of Outsourcing Payroll

Here are the 10 'excuses' given for not having your payroll run effortlessly by experts *Ian Davidson of Trace Payroll Services (www.tracepayroll.com) exposes key myths surrounding outsourced payroll.*

If you have never considered outsourcing your organisation's payroll, or have dismissed the option for any reason, then this should make you think again about that decision. Because running your payroll in-house is inefficient, wasting time and money which could be freed up to allow your business to focus on more important issues.

"There are still a huge number of organisations who don't outsource their payroll", notes Davidson, "but there are significant business benefits in doing so. After all, some of the biggest employers in the country outsource their payroll and they tend to lead the way in best practice and efficiency."

An organisation's payroll is a vital and often the biggest cost in the P & L yet is often considered mundane – as Davidson comments: "You aren't really adding to the bottom line by doing payroll but if it's wrong, your staff will let you know – and not in a positive way!"

Payroll is a complex process which has to be managed correctly, but it is possible to transfer the risks involved and get expert knowledge while still retaining control over the specifics of your own organisation's employee pay and reward systems. So it is a win-win situation...

...no more excuses!

Myth 1 – We will lose control of our payroll

There's a perception among some businesses regarding payroll that 'If it's not here, we can't control it' – but this is a myth, according to Davidson: "Payroll data is submitted to us, then calculated and sent back to the client for approval. The payroll is never processed without a clients' final approval and any changes are applied exactly as requested."

There is a distinct difference between the management and control of payroll – with an outsourced solution in place, an organisation retains complete control over their payroll but it is managed elsewhere. So you gain expertise but don't lose control.

Myth 2 – The service will be unreliable

In fact, an outsourced payroll service is able to provide reliable, accurate data processing month after month, year after year. After all, as Davidson says, "processing 32,000 payslips a

month for more than 200 companies means that our service has to be reliable!"

An outsourced payroll service must provide confidentiality, processing accuracy and meet payment deadlines consistently otherwise its business will suffer. The high level of personal service Trace Payroll Services provides ensures they achieve payslip accuracy levels in excess of 99.85% - it is unlikely that many in-house run payroll departments could boast the same statistics.

Trace Payroll Services even goes so far as to ensure the highest standards of payslip accuracy by giving staff financial rewards based on achieving these industry leading accuracy rates.

Myth 3 – My data will not be secure

Many Financial Directors fear that payroll data stored outside the organisation will be vulnerable to access or loss if systems break down. However, your data is likely to be more secure in an outsourced environment, as

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outsourced payroll providers invest heavily in the technology they use and will have robust disaster recovery systems in place. Trace Payroll Services, for example, can have full back up and recovery of their systems within 8 hours of a disaster at their offices. Can you confidently say you could process your payroll in such a situation – and so quickly?

Although organisations may have a contingency for system failure, this is unlikely to be sufficient should there be a breakdown at payroll close. “The majority of smaller businesses will have little or no back up or disaster recovery if their payroll system breaks down”, comments Davidson.

Some Financial Directors are also worried about the sensitivity of financial information being handled through the payroll process. Since the passing of the Data Protection Act, outsourced providers including Trace have been required to notify the Information Commissioner of their activities and comply with legislation associated with the Act. So any outsourced payroll data is in fact protected and kept ‘safe’ by law.

Myth 4 – It’s more expensive to outsource Payroll

“Actually it’s more cost effective to outsource Payroll in most cases”, comments Davidson, “as a lot of people don’t realise the true cost of running their payroll, they tend to look only at the salary costs of the people running the payroll”

There are a whole range of additional ancillary costs which organisations rarely take into account when calculating the true cost of processing their payroll in-house.

There is a clear saving to be made in terms of payroll related staff costs, when you take into account salary, NI and other payments, and the often overlooked costs of training, sickness, holiday and recruitment charges. In a small organisation, one person may have sole

responsibility for processing the payroll, which can prove a big headache at times of holiday or sickness.

Running your payroll in-house means you have to spend time and money keeping up with rapidly-changing legislation, identifying which regulations are relevant to your organisation and maintaining accurate records.

The cost of running and maintaining a payroll software system can also be significant, particularly when additional upgrades to the system are needed on an annual basis. What’s more, if there are problems with the software system being used to process the payroll, your IT department or external IT support provider will often be called in to help. Backing up your payroll information system regularly, making sure you have good security, and having an active disaster recovery plan in place all takes time, and costs money.

You also have to provide your own IT hardware and utilise IT department support time to keep your own payroll department working. Actual costs of your payroll stationery requirements shouldn’t be underestimated either - payslips, envelopes, paper for reports and printer consumables all cost money.

The benefits of using an outsourced payroll service mean that all costs are taken care of for you in one overall management charge, which can be much cheaper than businesses often expect.

According to Davidson, “to outsource their payroll, a 100 employee business would spend less than £3,000 a year. You couldn’t even employ a part-time payroll person for this amount. An organisation with 500 employees would spend approximately £16,000 a year for their payroll to be outsourced, so the sums still add up.” You have no need for any capital expenditure - no software, hardware or stationery to buy and you know all your costs in advance, making budgeting simple.

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If you would like to work out just how much your in-house Payroll is currently costing you to run, there is an online calculator to work out how much you can save with an outsourced fully managed payroll service from Trace Payroll Services on their website www.tracepayroll.com

Myth 5 – It's more flexible running Payroll in-house

"Many organisations assume that if they need to make a one-off payment to a member of staff it is easier to do this in-house, but this isn't generally the case", according to Davidson. "In fact, a flexible outsourced provider can still get things done last-minute if there is an emergency."

The key differential for Trace Payroll Services for example, which makes this possible is the personal service they provide, with a key contact establishing a relationship with each client it can be just like having a person on site. So any adjustments or one off alteration's are not an issue with a good outsourced payroll provider that develops strong relationships.

Myth 6 – We won't be able to access our data to run reports

Although it's true that some outsourced payroll providers generate reports for their clients only on request, others, such as Trace Payroll Services, provide a flexible, easily accessible reporting facility which clients can use themselves.

"All of our clients have instant access to their own data at any time because of the software we use, so they can run reports whenever they want via a web-based tool which can be made available to managers within the organisation", notes Davidson.

All standard, or company specific reports for payroll should be designed to meet your organisation's exact requirements by an outsourced provider, as then it's easy to generate that overtime report for a particular

department at short notice, for example.

Outsourcing the payroll does not mean losing access to your payroll data.

Myth 7 – We still need payroll knowledge in-house

Many organisations think they still require payroll expertise in order to retain control over their payroll once it is outsourced, but the truth is that an understanding of their business is all that is required. Your only responsibility for the payroll operation should be to nominate a payroll contact who acts as the point of communication between you and your outsourced provider.

With Trace Payroll Services according to Davidson, "you simply need a contact who knows the business rather than how to process payroll. That person needs to know where to get the data from in their organisation but they don't have to know anything about payroll. In a smaller business, for example, that person could be the Office Manager, or PA to the MD. In larger organisations, it is often somebody in Finance or HR."

With a nominated Payroll Contact collating any amendments you may have to the payroll each month and sending them using a standard format to your named contact at your outsourced provider according to an agreed schedule you have no requirement for in-house payroll know-how.

This is the process followed by Trace Payroll Services.

Myth 8 – Outsourcing is impersonal

Although it's true that some larger payroll service providers operate teams where the payroll is processed by someone different each month, Trace Payroll Services – as a refreshing example - has a simple philosophy to their approach; they keep it personal.

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"Each of our clients has a named contact with their own direct dial number and email who will handle their monthly payroll for them and will be there to handle any queries. They are part of a small team, all of whom will have a knowledge of the clients payroll to ensure that there is adequate knowledge and cover in the event of sickness and holiday", says Davidson.

Trace Payroll Services see establishing a good relationship with a new client as crucial right from the start. A contact will get to know an organisation personally and gain an understanding of any particular requirements it may have. "The service is tailored for each customer - we match their requirements rather than expecting them to change to match our requirements", states Davidson.

A direct contact at Trace Payroll Services will be part of a small, dedicated team who will all develop a working knowledge of your payroll as they double check each other's data for accuracy. All Trace staff are experienced payroll professionals who understand the complexities of current payroll processes and legislation and each contact has financial rewards based on achieving the high level accuracy rates.

Davidson feels the size of the payroll team and the personal way each client is treated is key to the success of their outsourced operation: "We have a small team which runs efficiently. We treat all customers equally, so no-one feels they are a small fish in a big pond. It doesn't matter how big the company, we care".

Myth 9 – Why change, I'm happy doing it myself?

You might well be happy with your payroll set-up today, but what happens if the payroll software system breaks down or someone is ill? Davidson stresses that it is important to think about all the possible eventualities when considering the effectiveness of your organisation's payroll processes. Don't wait for a disaster to happen to highlight the risks to your business, act now.

"By not having to think about the monthly grind of payroll – and let's face it, payroll is not the most rewarding of areas – you and your team can focus on other aspects of your business which are more important and more productive. You can avoid dealing with HM Revenue and Customs and other government agencies and you don't need to worry about keeping up with changes in payroll legislation and statutory requirements as all this is handled by your outsourced provider."

Your payroll can also be a good place to make savings if you are looking to streamline your business and make it more financially sound which should be a good reason to change to outsourcing!

Myth 10 – It's too much hassle to change

Outsourcing your payroll may have benefits, but surely it's fraught with difficulties – after all, every organisation has its own processes and procedures specific to them? But a good outsourced payroll provider will absorb any pain of change over.

"We have invested significantly in the implementation process, it is critical that we fully understand how a clients payroll operates, so we spend time to ensure that we get the information required to effectively setup the payroll. We publish an implementation timetable which clearly outlines who is responsible for each element and by which date. We work closely with the client at every stage to make the process as easy as possible. Our implementation consultants are responsible for making it all happen", states Davidson, "We are also ISO 9001 quality accredited: we put a lot of emphasis on quality".

You might expect implementation to be a time-consuming process, but it takes just 10-12 weeks to go live with Trace Payroll Services for example, regardless of the size of the organisation, and this timescale includes a mandatory parallel run with your existing system.

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“If a new client is due to go live in July, we will conduct a full parallel run in June with the same data they are running in-house to make sure both are the same”, says Davidson. Implementing an outsourced payroll solution can also have unexpected benefits as the existing process is audited: “With a recent client

it came to light that their previous supplier for the past 4 years had been calculating their employee Tax and NI contributions on their pension payments wrongly. Our implementation process is very thorough”, comments Davidson.

So with the myths of outsourced payroll exposed and the dust settled – why not stop making ‘excuses’ and find out what it will cost (save!) to outsource your payroll today.

Trace Payroll Services is a well established and accomplished outsourced payroll provider with more than 30 years experience providing quality payroll services. Trace provides a payroll service with a difference, based on quality, accuracy and personal service delivered by leading edge technology at an affordable price. For more information about the service, see www.tracepayroll.com or contact 0845 873 5619.