Internal vs Outsourced Payroll: What You Need to Consider

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Introduction

Payroll is a cornerstone operation of every business. Yet, most businesses could be handling their payroll – and its expense – more effectively. In fact, in Australia it's more common than not for employers who process their own payroll to make mistakes. According to the APA's 2016 Payroll Benchmarking Report, Australia's top employers make more than $4.4 million in payroll errors annually. Even when errors are avoided, it still costs thousands more per employee to work out compliant remuneration, leave, and superannuation.

If you're business is grappling with constant payroll errors, costs are rising and you're facing the risk of a non-compliance fine, it's likely you're searching for a new payroll solution. After all - any loss of staff or financial penalty will affect your ability to deliver your products and services and will ultimately affect your bottom line.

However, finding a cost-effective solution that doesn't compromise accuracy or compliance, and will help you meet your current and future business goals, is a complex, multi-layered decision. The first step is deciding whether to bring (or keep) your payroll in-house and upgrade your system or outsource the entire task to an external provider (a managed payroll service).

The APA payroll report noted sizeable growth in the number of companies outsourcing their payroll, following trends in the US and Europe. This growth was reflected in all tiers of company size and can be attributed to the ease of employing a professional agency to handle payroll. There is no need to consider the costs of employee training, software maintenance, or an accounting salary. But it isn't for everyone.

New, more sophisticated payroll technology is being developed each day. With the availability of affordable, end-to-end workforce management systems incorporating rostering, time and attendance, leave management, employee self service and payroll on the one integrated platform, the speed and ease of running payroll in-house is edging closer to being comparable to a managed solution.

Given the baffling number of options and factors to consider, choosing a new payroll solution – whether internal or outsourced – is no easy task. This e-book will guide you through five key factors to consider: cost, human resources, software, data management and access, and compliance to help you make an informed decision that works for your business.

Why is the outsourced vs in-house payroll decision so important?

Cost-efficiency

Payroll is a costly undertaking – and your labour costs are only one part of the story. Paying staff to manage payroll (whether in-house or externally), monthly or annual payroll software subscriptions, payslip distribution and paying for Modern Award Interpretation and payroll legislation updates to your system all take up a sizeable portion of your operating costs.

The cost of outsourcing payroll will depend on which company you choose to work with. If you research, and find a company that offers tailored accounting solutions, the cost can be up to 50% lower than internal payroll.

It's important to fully understand how much payroll is costing your business to be able to weigh up whether a new software system will be more cost-effective than outsourcing the function, and what is financially sustainable in the long term.

Future business plans

Are you planning for major growth or are you seeking business stability? The answer to this question will greatly influence the considerations we list below, and in turn your decision regarding internal versus outsourced payroll will greatly influence how successful you are in meeting your business goals.

If you are experiencing rapid growth, a managed payroll service may be worthwhile so that you can concentrate your existing resources on taking advantage of all opportunities coming your way without worrying about payroll. This is particularly pertinent if you predict your company will exceed 20 employees as you will be required to undertake Single Touch Payroll Reporting for the ATO, which adds another level of complexity and additional time to the payroll process. Conversely, if your business is stable (or aiming for stability), a new internal payroll system may be enough to meet compliance requirements and keep your business on track.

Staff retention

Payroll errors are about more than just money. There is a trust between employer and employee – the employee will work hard, and the employer will correctly remunerate them for their efforts. If any employee is paid incorrectly, or a week late, there is a break in that trust. Your employees have their own financial commitments to meet, and if they aren't being paid the right wage on time, it's unlikely they'll stick around.

According to research by The Workforce Institute, payroll errors (late or incorrect wages) could be a large contributor to high employee turnover figures. The research identified that 24% of

employees consider seeking new employment after one payroll error is made, and that figure jumps to 49% after a second error.

Compliance

Your business' ability to comply with industrial relations legislation largely hinges on how accurately and compliantly your payroll is being run. Australian businesses risk heavy fines of hundreds of thousands of dollars and potentially millions of dollars in back-pay if they are found to be non-compliant with current laws. Fair Work Ombudsmen audits are frequent and include the National Compliance Monitoring Campaign to re-audit businesses who have previously been identified as breaching workplace laws. Those found in breach of Modern Awards face fines tens of thousands of dollars more than the amount they would have paid if they had been compliant in the first place.

The most common breaches are a failure to provide payslips in the required form, underpayment of the correct hourly rate and incorrect penalty rates – all issues which can be prevented by using a robust payroll system with in-built Modern Award Interpretation software and a pay conditions engine.

It's clear that you have an incredibly important decision to make, so where do you start to evaluate in-house versus outsourced payroll options? This guide has been prepared to help you through this complicated process by looking at five key areas that you should factor into your decision.

Factor 1: Cost

Most companies are not fully aware how much it costs to run payroll as many of the costs are not highly visible. Often, aspects of internal payroll fall under different sectors (IT, HR) and hence aren't detected as part of the same cost bracket. Below we dive into the different types of costs that both internal and outsourced payroll services incur.

Internal payroll costs

Despite the advances in technology available for internal payroll, the costs of running it have still increased considerably over time. Surveys by PwC have shown that on average, it costs around $1400 per employee per year for large companies, and $2000 per employee for medium companies to operate payroll internally. The Australian Payroll Association (APA) puts that figure at $4700 for small companies.

Labour costs – direct and indirect

Direct: For very small businesses, payroll may be part of the HR, accounting or general manager's position and the cost of this labour is included in their salary. For medium and large-sized businesses, you'll need to provide a full salary with benefits for at least one employee dedicated to payroll. According to PayScale, hiring a single experienced payroll officer can cost companies an average of $74,000 a year.

Indirect: This accounts for the cost of hiring legal and IT consultants and the cost of the time spent by non-payroll staff on administrative tasks such as collecting or approving timesheets, answering questions about benefits, and distributing printed payslips (if applicable). PwC found that these indirect labour costs are the highest hidden cost for payroll management.

Software and updates

Whether your payroll software is incorporated into your business accounting package, sits within your workforce management platform or stands alone, you'll incur set up fees in addition to regular monthly subscription costs. Cloud-based systems are often more cost effective than on-premise solutions as they don't require companies to invest in servers and back-up servers to store data and pay for software upgrades.

Furthermore, many companies operate various systems for different tasks – one for payroll, one for business accounting, another for rostering, and yet another to track time and attendance. Each of the systems will incur an individual set of fees. You may also be liable to pay for APIs to integrate disparate systems – PwC found that some businesses spend up to $200 per employee per year attempting to get separate systems to work in cohesion.

Training

Industrial relations legislation is continually being updated, as is payroll software, so regular training is essential for your payroll staff to be able to do their work compliantly and effectively. In addition to course fees this cost may also include materials, travel and accommodation if the course is off-site, and temporary cover for the absent employee.

We've covered the costs of internal payroll in greater depth in our e-book *The True Costs of Internal Payroll*, downloadable at: www.roubler.com/au/ebooks-guides/costs-internal-payroll/.

Outsourced payroll costs

Provider costs

When starting with an outsourced payroll provider, companies usually incur flat-rate set-up fees upwards of $2000 for a small organisation and far higher for large enterprises. This is followed by service fees, payable per employee for each pay cycle (anywhere from $8 to $15 per employee), and higher rates for out of cycle pay runs.

At Roubler, all outsourced payroll customers use the Roubler workforce management system, and as such incur a subscription cost per month for this software in addition to the managed payroll cost.

Indirect labour costs

There is a misconception that outsourced payroll is a completely 'hands off' process. Although the bulk of the payroll process is handled by the outsourced payroll provider, employers still face indirect labour costs associated with the time required for someone to manage the relationship with the provider, transfer data (if not using the provider's software of choice), manage enquiries from staff (if that service isn't provided), and double-check data and reports.

Factor 2: Human Resources

Human resource factors such as skills and time deserve serious consideration when looking at internal versus outsourced options. These factors not only impact the ability of your organisation to deliver a timely and compliant payroll, but greatly affect your staffing budget and the capacity for your talent to focus on core business goals.

Internal payroll

Skills and staff

Processing payroll each cycle – whether that's weekly, fortnightly or monthly – when you aren't an expert at taxation requirements is difficult and time consuming. This is an even greater challenge if you don't have software with in-built payroll legislation interpretation!

When deciding whether to bring (or keep) payroll in-house, you'll need to consider:

- Who will be responsible for payroll?
- Will they have other responsibilities?
- Do they have the capacity to undertake this task on their own if the businesses grows?
- Do they have the skills and knowledge needed to run payroll compliantly and accurately?
- Can you afford to employ a dedicated payroll officer?
- If you already have a payroll team, can you afford to employ more staff as you grow?
- Can you afford to offer your payroll officer/team continual training?

New system implementation

Implementing a new payroll system – particularly one that is part of a full workforce management package with rostering, time and attendance and leave management – will give you significant time savings, and make running payroll far easier, and far more accurate for your staff.

A significant amount of time and a dedicated project manager will need to be allocated to sourcing and implementing a new system and managing the relationship with your supplier. However, the time and working hours saved by the new system will more than cover the time spent up front.

Outsourced payroll

Cost aside, payroll is most commonly outsourced because an organisation does not have the human resources available internally. A managed payroll provider employs highly experienced, specialist staff with all the skills and time needed to focus on your payroll.

The amount of time required on the part of the client (and therefore the amount of time saved by outsourcing) varies according to the arrangement with the supplier and how much of the payroll function the supplier takes on – e.g. in some instances the client will still need to manage leave and time and attendance data, and prepare tax reports (such as activity statements and Single Touch Payroll).

As we noted earlier in this guide, in all cases a staff member with the appropriate knowledge and skills will be required to manage the relationship with the supplier and act as a conduit to solve any problems as they arise Where different systems are used they will need to transfer time and attendance data to the payroll service provider. However, the time spent doing this can be significantly less than running payroll in house.

The time requirement for payroll and associated tasks like creating rosters and approving timesheets is further decreased if the outsourced payroll provider uses an all-in-one workforce management software that incorporates online rostering and automatic timesheets.

Skills and staff

In general, outsourcing payroll not only saves time, but it will allow you to re-focus your staff on your core business goals. There is no need to employ a dedicated payroll employee, and HR and management staff won't need to juggle financial and payroll matters on top of their already heavy workloads.

When examining each possible payroll service, search their website for detail on how long they've been handling payroll. The longer, the better, as this means they've had to adapt their processes across technology changes, as well as changes to pay rates and award structures. Furthermore, each industry requires specific knowledge in order to process payroll efficiently and accurately. For example, hospitality and retail require detailed knowledge of how to manage the payroll of a shift-based environment. If you're unsure, give the company a call to enquire about their payroll experience.

Factor 3: Data Management & Access

A word on data security

Data security and access is becoming an increasingly pertinent issue for businesses as it becomes more important to keep sensitive information secure online.

Regardless of whether you choose an internal or outsourced solution, any payroll providers you consider should operate on secure systems with backup servers spread over several locations. Using a cloud-based software programme based on a leading service such as Amazon Web Services (AWS) together with high level user authentication from providers like Auth0 is the best option.

Be sure to ask the provider of your new solution about their data security protocols, back-ups and user access.

Internal payroll

An internal option will always give you the highest level of data access – there is no impediment or barrier to searching and reporting on the data within the payroll system you use.

Implementing a cloud-based payroll system, preferably integrated with other workforce management tools like rostering, time and attendance and leave management, will allow you to access and manage data very quickly and easily. You will also have the best visibility of your data across different functions and greater reporting capability.

A cloud-based option will stay up-to-date with technology to protect your data, so you don't have to. In contrast, an on-site solution where data is kept on physical servers, the security of your data is entirely your responsibility and will require staff and financial resources to monitor and maintain.

Outsourced payroll

With an outsourced payroll solution, your access to payroll, reports and employee data will vary according to the systems the provider uses. In any case, to protect data integrity and accuracy, it is highly unlikely that you would receive access to the payroll engine itself.

We recommend that you choose a payroll service that allows you full access to the reports of each pay run. This way, you can keep the payroll service accountable, and keep track of your employee wages at any time without having to wait on a report. Plus, you can have peace of mind that everything is running smoothly.

In some cases – as with Roubler – you will be required to transfer all data to Roubler's own software and use that system for all rostering, time and attendance and leave management tasks. This gives you a high level of data access and the ability to manage employee detail changes yourself. You should then be able to access flexible reporting options including reports on payroll, employees, ATO compliance, tax, and leave. These reports are critical resources for making informed decisions on employee wage costings, so it's best if your payroll solution can provide them.

Some providers, however, use their own systems and require you to submit payroll and leave data to them each cycle. They then run reports for you.

If you are considering a managed payroll service, be clear upfront about how much access you require to your data and what your reporting requirements are and ensure your provider of choice can facilitate that.

Factor 4: Software

The type of software used to run payroll has an enormous influence on the amount of time spent on running payroll and crucially, a business' ability to be accurate and compliant.

You will need to consider the payroll software you or your managed payroll provider uses in terms of compatibility, functionality and access.

We'll cover compliance in the next section.

Internal payroll

Running your payroll internally gives you complete control over what software is used.

The right software – particularly end-to-end workforce management solutions – can offer the same cost and time efficiencies and the same level of accuracy and compliance as an outsourced solution.

Running several systems individually for different functions can end up being inefficient in terms of cost. Furthermore, errors are much more likely when data needs to be manually entered from one system to another, for example transferring or entering time and attendance data into the payroll engine.

Compatibility and integration ability are particularly important if you operate point-of-sale and accounting software: a payroll system that features third party software integration will make your life a lot easier. Selecting a payroll solution that is compatible with your current (and necessary) systems will streamline your administrative processes. Be aware of software that requires you to pay for APIs to connect different platforms as this will add to your overall cost consideration.

We've created an entire guide to help you through choosing a new software system which you can download from: www.roubler.com/ebooks-guides/selecting-hr-software/

Outsourced payroll

Managed payroll service providers will either use a payroll software engine already available on the market, or (as is the case with Roubler) their own proprietary software. Unless your current systems are compatible with theirs and can be easily integrated via an API, you will be required to migrate over to their system entirely or provide them with payroll and leave data each pay cycle. If you don't (or are unable to) upgrade your existing workforce management and HR software, the latter is likely to be a good solution for you. Bear in mind however that it can be time-consuming preparing data and reconciling reports.

When your managed payroll provider offers you full access to their software, this will effectively add another system to your technology stack and you and your staff may require training to use it.

Factor 5: Compliance

The last, but undoubtedly most important, factor to consider in your decision is compliance. This is an area that you cannot compromise on. Remember: the liability for compliance will always rest with you and your business.

Did you know that Australia's top employers make payroll errors exceeding $4.4 million each year?

Why? Australia's regulatory environment is complex, and constantly in flux. There are over 100 Modern Awards across varying industries, and it's possible that the employees within your business fall under different awards. As a result, it is crucial that you chose a payroll service that is completely up-to-date with all the changes to the Modern Awards structures across each state and territory. Small noncompliance issues can result in massive fines up to $31,500, and individuals up to $6,300 for each award compliance breach from Fair Work Australia. Add to that costly backpay to employees, and unflattering media attention of your business. It's vital you make sure that the payroll solution you choose lists Modern Award compliance as a strength before going forward.

Both internal and outsourced payroll solutions can be equally good (or bad) in ensuring compliance so it is important that you scrutinise each carefully.

Internal payroll

The ability for a business to operate compliantly hinges on two things: the software they use, and the knowledge and skills of their staff.

Before deciding whether to go internal or outsourced, you'll need to assess whether your internal team – both line managers and those responsible for payroll – have the compliance knowledge and skills they need to operate compliantly. If this isn't the case, you'll need to budget for constant training to keep up with legislation changes.

However, even with years of experience and a high level of knowledge, without sophisticated software mistakes can happen. A new breed of software that incorporates Modern Award interpretation, payroll and industrial relations interpretation ensures businesses remain 100 per cent compliant in all workforce management tasks from rostering through to payroll. This software – which Roubler offers – is constantly updated as legislated changes which reduces the burden of maintaining skills and knowledge on internal payroll staff.

Without in-built, automated compliance controls you face the cost and time required to update your payroll system each time legislation changes plus the hidden costs associated with paying staff overtime to rectify urgent payroll issues.

Outsourced payroll

With reputable, experienced managed payroll service providers, compliance should be a given, as opposed to an anxiety. However, that doesn't mean you shouldn't research your provider's compliance credentials.

When considering a managed payroll service, we recommend asking these questions:

- What is your compliance record like for your clients? How many noncompliance issues do your clients face?
- What payroll software do you use? Does it have in-built compliance controls and legislation interpretation tools to minimise the risk of non-compliance?
- What is your level of knowledge relating to our specific industry and the laws that apply to our staff?

While every care is taken to ensure their systems and processes are compliant, most providers will require you to sign a waiver of liability for any non-compliance errors made. It's also important to note that while your payroll itself will be compliant, a managed payroll service provider cannot always ensure compliance in other areas of HR such as rostering, leave management, employee skills certification, and time and attendance.

Conclusion

Deciding to upgrade your payroll solution in order to become (or remain) more compliant and accurate, and to run your business more cost-efficiently is a wise, but inherently complicated decision as we've explored above. There is no 'one-size-fits-all' solution, and no right or wrong answer – the best solution is different for each business.

We believe there are three keys parts to choosing between an internal or outsourced payroll solution:

1) Ensuring you have considered all factors outlined in this guide: cost, resources, software, data and compliance.

2) Keeping your long-term business strategy front of mind – your solution needs to work for your business now and in the future.

3) Considering how payroll fits into all other facets of your business: current HR and workforce management processes, staff roles and responsibilities, your technology stack and your operating environment.

If you do choose to run your payroll internally and source a new software package the following guides may be useful:

- *Helping Employees Adopt New Technology:* www.roubler.com/au/ebooks-guides/help-employees-adopt-new-technology/
- *The HR Manager's Complete Guide to Purchasing HR Software:* www.roubler.com/au/ebooks-guides/selecting-hr-software/

Good luck!

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About Roubler

Roubler is an Australian-based provider of workforce management and payroll software and outsourced payroll services, with a primary focus on payroll solutions for shift-based employers. We have over 15 years of managing and outsourcing payroll throughout Australia.

We understand the importance of delivering an on-time and 100% correct payroll, every time. Roubler's experienced and dedicated payroll team located in Australia is committed to providing a payroll service which is secure, accurate, compliant and backed by a sophisticated cloud-based technology platform allowing business managers and employees to access mobile and web-based apps.

> ***"The payroll is quick, accurate, and award-compliant without me being involved. The staff and management have engaged with Roubler really quickly."***
>
> – Chris Jolliffe, General Manager & Licensee, Potts Point Hotel

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