



The True Costs of Internal Payroll.



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Overview, Costs of Internal Payroll

Are you aware of how much your company is truthfully spending on its internal payroll system? Most companies are not, and they severely underestimate how much coin the process is eating up. That's because many of the costs associated with processing all facets of payroll are often 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.

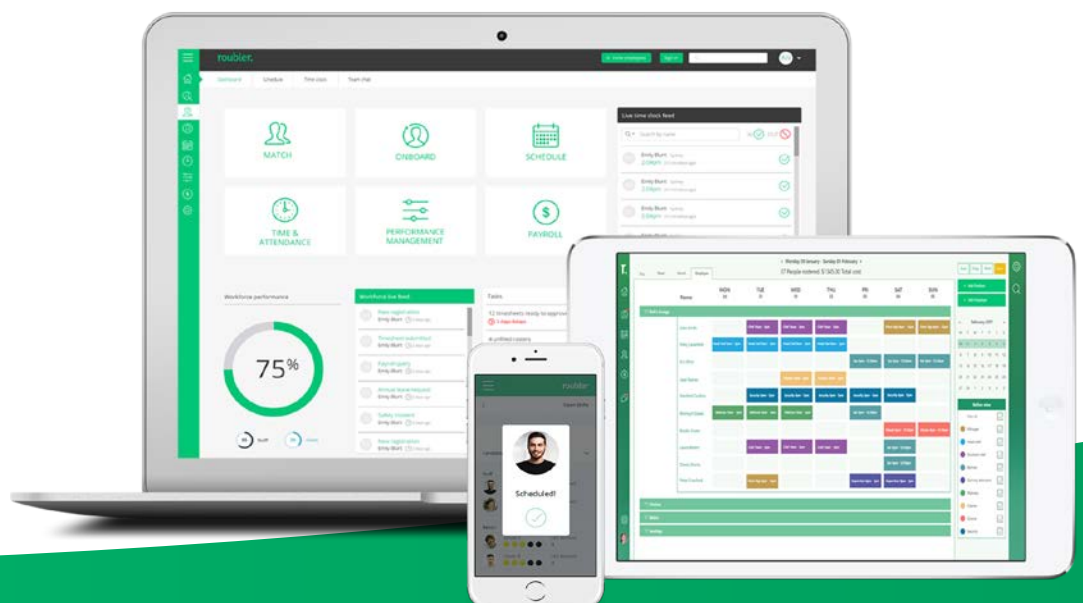
Surveys by PwC have shown that on average, it costs around \$1400 per employee per year for large companies, and \$2000 per employee for medium companies to operate payroll internally. The Australian Payroll Association (APA) puts that figure at \$4700 for small companies. It's probable that your business isn't even considering many of the menial ways in which these costs incur. In this E-Book, we will break down exactly where these costs are accumulating from, as well as examine strategies to reduce that cost for your company.

Labour Costs: Direct and Indirect

One of the more visible cost-factors of internal payroll is the direct labour, or the required staff. Regardless of the size of your business, internal payroll needs at least one staff member – possibly several – to be hired for the purpose of accounting. This means you must provide a full salary, with benefits, for one or more extra staff members.

Did you know? According to the Australian Payroll Association, hiring a single experienced payroll supervisor can cost companies up to \$130,000 a year.

However, indirect labour costs factor in as well. There will no doubt be many times when your accounts team will need to consult an expert in a certain field – be it an IT consultant for their software, or Lawyer for a legal matter – and these non-directs labour costs add up too. Furthermore, it is unlikely that your payroll staff will operate without the assistance of administration staff. Hence, your business also needs to consider the indirect labour cost of administrative staff who assist in collecting or approving timesheets, answering questions about benefits, and distributing paychecks. One wouldn't think that these extra hands add up to much, however PwC found that these indirect labour costs are actually the highest hidden cost for payroll management.



Training

Even if your business has employed payroll staff members with years of experience and tonnes of know-how, frequent training will still be essential. Accounting staff require updating on software changes and restructures in award compliances, and they will also need to attend industry conferences.

The costs of training programs and events themselves may be an expense that some businesses do account for. However, they come with some often less-considered overhead. Training materials, and travel and accommodation for off-site training are expenses your company will also have to foot.

Did you know? Over the last year, the 2016 Payroll Benchmarking Report for The Australian Payroll Association saw increases in the costs associated with training payroll employees.

Software, Systems and Incompatibility

The cost associated with internal payroll software is frequently underestimated. Most companies will be well-aware of the initial system installation costs; however, it does not cease there. Fees will vary based on the complexity of the software, but there are some extra baseline costs that all software incurs. Companies pay, typically, annual subscription fees for the software on top of the initial fee to have software installed. They will also receive recurring charges for system upgrades and maintenance – of which there are many in a period of rapid technological development.

Did you know? Many companies look to technology as a way to streamline, and make cheaper, their payroll system. This is a logical choice considering the efficiency it can offer. However, it is very common for organisations to mismatch their need and technology solution, resulting in more chaos than originally. Implementing mismatched and incompatible in-house technological solutions won't solve payroll battles! It will instead make issues costlier.

Furthermore, many companies operate various systems for different tasks – one for actual remuneration calculation, another for rostering, and maybe even another to track time and attendance. Each of the systems will incur an individual set of fees. Additionally, administrative and maintenance costs go up when you are running several systems which all require upkeep as well as someone to collate all of their data. Operating different systems for remuneration, rostering, and time and attendance costs around a fifth more than a one-size fits all option.

PwC terms this series of incompatibilities 'seams' – the activities organisations must partake in

to achieve integration between various processes and systems. They are essentially the cog that stops the processes of payroll flowing efficiently. PwC found that some businesses spend up to \$200 per employee per year attempting to get separate systems to work in cohesion. Additionally, each of the processes produces data. In order to keep your employees' personal details safe, payroll systems need to operate on a secure server. If your company has a large number of employees, payroll will generate a lot of data, so several servers will probably need to be in place to hold all of the data. Furthermore, there needs to be a backup server in case of outages or initial server failures.

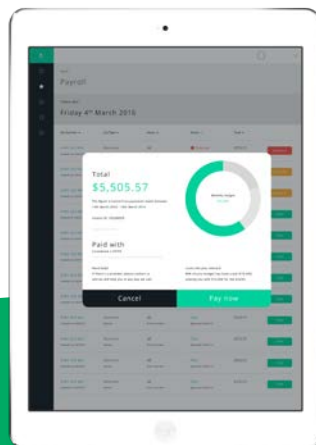
Error cover

The modern award structures and industrial relations environment in Australia are complex, and are updating frequently. Staying up to date with correct modern award compliance can be difficult within a company, and it is all too easy to make small mistakes. However, even small under, or over, payments can cause major financial setback. Companies can face Fair Work fines up to \$51,000, and individuals up to \$10,200 per each award compliance breach. Overpayments result in an unnecessary loss of company money. The Fair Work Ombudsmen requests any underpayments be rectified, typically resulting in the loss of a large lump-sum of money to be remunerated to any employee that was paid below the award. Last year, one 7-Eleven store was ordered to pay a massive \$460,000 back to underpaid employees. Additionally, there are extra hidden costs associated with paying staff overtime to rectify urgent payroll issues.

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

Top Cost Reduction Strategy?

Despite the advance in technology available for internal payroll, the costs of running it have still increased considerably over time. Furthermore, it's pretty difficult to reduce the cost of internal payroll without increasing the margin of error – which leads to large costs anyway.



Outsourcing

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. 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. Paying a flat fee with an outsourced company will ensure that you not only save time, but it will allow you to focus on your core business goals. There is the 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 work load.

Benefits of Outsourcing to Professionals

Modern award compliance is also a guarantee, as opposed to an anxiety. Outsourcing to professionals guarantees that your payroll is adhering to current modern awards, and ensures a neat record of all payments made. Furthermore, you know that your employees' sensitive data is safe. Data security is becoming an increasingly pertinent issue for businesses as it becomes harder to keep sensitive information secure online. Payroll providers operate on secure systems with redundant backup servers spread over several locations. They stay up-to-date with technology to protect your data, so you don't have to.

Roubler Payroll is an Australian based outsourced payroll and workforce management service provider with a primary focus on payroll solutions for shift based employers in Australia. 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 and 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.



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