Is outsourcing your payroll the right choice for your organisation?

Your complete guide to payroll outsourcing

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The importance of payroll

Payroll is the often overlooked function within a finance department. The old payroll saying of ‘no feedback is good feedback’ comes about because people expect their pay to land in their bank account and the deductions to be accurate.

However, getting to this takes a great deal of specialist knowledge around payroll legislation and compliance, great software and systems and watertight data security.

So when payroll becomes a source of stress and anxiety for an organisation, they look to specialists who can take the process off their hands. This is outsourcing.

Outsourcing can be just part of the process or the whole shebang. It could be asking an already trusted supplier, such as your accountant, to handle the process or looking for a provider who only specialises in payroll. These are your choices, but first, you must determine if outsourcing is the right solution for your business or organisation.

Why outsource payroll?

There are two main reasons businesses choose to outsource a function;

1) It is time-consuming and a burden on a team that could be doing something better with their time

2) It is complicated or specialist, and you don’t have the necessary in-house expertise

Payroll outsourcing taps into both these reasons. It has a heavy administrative burden, especially if you are not using the best payroll software, and it is highly complex. There are a lot of legal requirements around payroll. Often, this is referred to as compliance, and there are nearly 200 pieces of regulations and legislation that apply to payroll, with changes coming in every year.

As an employer, you are responsible for ensuring your payroll is compliant, meeting the reporting requirements of bodies such as HMRC and the Pension Regulator, and securing your employees’ data by GDPR requirements.

Benefits of payroll outsourcing

By choosing to outsource your payroll to the right payroll provider, you benefit in several ways;

- Peace of mind that your payroll is compliant and accurate
- Access to experienced payroll, tax and pension experts
- A payroll process driven by specialist payroll software and tech
- Possible cost savings, especially when factoring in staff and software costs
- Improved data security

Signs your organisation might benefit from outsourcing payroll

If any of these statements resonate with you and your organisation, you should consider payroll outsourcing.

- Are you reliant on one person or a small team, creating a single point of failure?
- Does your payroll team lack in-depth payroll knowledge or experience?
- Are they spending a great deal of time doing repetitive, manual tasks every pay period?
- Are there errors and staff queries on your payroll?
- Are you investing heavily in software, infrastructure, training and staff costs?
- Is your payroll software up to the job?
- Are you worried your payroll may not be compliant?
- Do changes to legislation cause problems?

Common concerns about payroll outsourcing

We understand that moving from an in-house payroll to an outsourced provision is a big step and one that generates many concerns. Payroll stops for no one. You can't miss a pay date, and there is no acceptable 'project creep', which can seem like a significant risk when deciding to switch to outsourcing.

Here are some of the most frequent concerns we encounter when talking to businesses looking into payroll outsourcing.

" Will we lose control of our payroll?"

The nature of outsourcing is that you are handing over a function of your business to a third party. But this doesn't equate to losing control; far from it. When you pick the right partner, you bring in specialists who can help improve your payroll, making it more accurate, streamlining processes and implementing best practices.

Also, although the outsourcing business will manage your payroll process, the authorised contacts within your organisation will have the final sign-off on payrolls before the button is pressed to pay staff.

" Will we still need some in-house payroll expertise?"

This is not a necessity, but you may still want to have someone involved with some payroll experience or knowledge. With a fully managed service, your responsibility is to assign a person, or number of people, as authorised contacts who will be the point of liaison with the payroll company.

These contacts are responsible for providing and uploading the employee data to the payroll provider, who will do all the necessary calculations and processing and then send back a report with the payroll details for approval.

" How flexible will the process be?"

You may assume that having your payroll team in-house will give you the best flexibility, but this may not be the case. The payroll bureau's expertise should ensure your payroll processes are more streamlined and efficient. They may also be able to provide you with new reporting that can give greater insights from the payroll data or perhaps integrate with your other systems, such as HR or rota software. The key is to work out what you want to get from your payroll before you go and speak to potential providers.

" Will the service be reliable?"

If you are a payroll outsourcing business, you stand or fall by your reliability. Your whole purpose is to manage payrolls for other organisations, so your systems and processes should be rock solid.

When talking to providers, ensure you ascertain their service levels regarding turnaround, client guarantees, and business continuity. Also, look for industry-standard accreditations, such as the Chartered Institute of Payroll Professionals (CIPP) Payroll Assurance Scheme (PAS). It all helps to give you peace of mind when handing over your precious payroll.

" How secure will my data be?"

Data security should be a number one concern for all payroll providers, but unfortunately, this isn't always the case. Reputable businesses should have evidence of their data security systems and protocols, including international standards such as ISO270001 and GDPR policies.

A red flag is any provider who does not use a secure and encrypted portal to transfer data, as this is a must to avoid potential cyber security breaches.

" Will I be able to make changes to employee records?"

You may want to make some changes yourself rather than put in requests for every change to the bureau. This could be things such as new starters or changes to employee records.

" Will I have access to run reports when I want?"

The answer to this depends on the payroll provider you choose.

Ideally, you will have access to a suite of reports you can run when needed. You should avoid providers who lock down the data and only deliver reports on request, often at an additional cost.

" How much hassle will it be to change?"

With the time-critical nature of payroll, one of the biggest worries organisations have is how the payroll can be moved without disrupting the pay cycle. Although this may seem like a huge hurdle, the reality is that this is a standard part of the process for payroll providers.

Most outsourcing companies will have dedicated Implementation Teams whose sole responsibility is to bring across the data and set up the new payroll. They will usually carry out parallel runs alongside your current payroll to ensure accuracy and only push the button to go live once everyone is happy. For this reason, you will need to allow for an implementation period, but good payroll companies will hand-hold you through the process.

If you are with a current payroll provider, check your contract for the notice period and make sure that it is factored into your implementation plan.

Picking the right outsourcing model

Outsourcing isn't one-size-fits-all, and there are options as to the level of outsourcing you take. Deciding on the right model for you is an important part of the process and is usually determined by the payroll resources you have and how much of the payroll function you want to keep in-house.

Fully Managed payroll

A fully managed payroll model involves outsourcing every aspect of your payroll to a third-party payroll provider. They pick up data entry, calculations, payroll processing, paying staff and third parties. You are responsible for collecting and submitting the necessary employee data and approving the payroll before it is issued.

A fully managed payroll service is a good choice for businesses and organisations that do not, or don't wish to, have experienced payroll staff in-house. This solution will usually cost more than a part-managed service, but once you factor in costs, such as staff overheads, software and training, this additional cost is often offset.

Fully managed payroll typically covers

- Handling the moving across (implementation) of your payroll from your in-house team or another provider
- Dedicated staff to manage your payroll and act as an extension of your team
- Processing of the payroll every pay period
- Paying staff via BACS or Faster Payments
- Paying HMRC and Pension Providers
- Ensuring all compliance reporting is done for HMRC
- Managing auto-enrolment, including employee communications and pension reporting
- Managing starters and leavers
- Issuing P60s
- Additional services such as P111Ds and Gender Pay Gap reporting

Part Managed Payroll

You can opt for a part-managed service if you do not want to outsource your payroll function fully. Typically, this is where a payroll bureau will handle the processing part of the payroll function whilst keeping the data entry and reporting in-house with your payroll team. Your staff enter the payroll data directly into the payroll bureau's system and run reports when they need them. The provider takes this data, processes the payroll and produces the payslips.

How this differs from a fully managed service is that there is still a need for payroll expertise within the business. Although the cost of the outsourced element is generally less than a fully managed option, your company is also resourcing the cost of your in-house team.

It is worth noting that the term payroll bureau is often also used to describe a payroll outsourcing provider who may provide a fully managed service, so make sure you understand exactly what level of outsourcing is being provided.

Key benefits of part managed payroll

- Access to more efficient software from the payroll bureau
- Legislative compliance
- Maintain a level of control over payroll
- Less reliance on key internal personnel
- Access to additional payroll professionals
- Allows your team to focus on more business-focussed tasks
- Allows you to reduce the headcount in your in-house team.

How do you know you need to switch payroll provider?

Even after you have decided to outsource your payroll to a dedicated payroll provider, it isn't always plain sailing, and you may want to consider switching. The good news is that once you have made the initial, often scary, decision to outsource, moving providers should be less of an unknown.

If you think you could benefit from a change, take the time to consider the challenges or 'pain points' with your current provider. Is it something short-term that can be easily fixed, or are there multiple or more fundamental problems?

Here are some of the most common problem areas;

1) Payroll errors

If errors are cropping up with your payroll, it is a sign that your provider either does not have the relevant experienced staff, their payroll software and systems aren't up to scratch, and their quality control leaves much to be desired. Accuracy is fundamental to compliance and for the morale of your employees.

2) Taking too long to process

Although you won't get rid of all payroll admin by outsourcing, it should cut down on manual processes, especially if you have a fully managed service. If your current provider uses clunky software or doesn't give you and your team ample time to approve payroll reports, it may be time for a change.

3) Poor communication

This can be an issue if you use a more traditional payroll bureau with a help desk approach. It can be very frustrating not to have consistency with who you are dealing with or to only deal with a faceless ticketing system.

Although having a trackable help ticket system is important, sometimes you need to speak to a human to explain your issue or ask for advice. If this is important to you, find a new provider who can offer this level of personal service.

4) Limited functionality

Not all payroll software and systems are the same or will have the same levels of functionality. Sometimes, it is only when you start working with a company that you see the shortcomings of what they can offer. It may be they cannot supply the reporting or functionality you need or struggle to handle the complexity of your payroll.

When deciding on a payroll provider, it is essential that you create a specification for your needs in terms of technical functionality and then use this to review any potential new partners.

5) Poor support

You are relying on your outsourcing provider to keep you compliant, and part of that should be communication around new or changed legislation and how they will handle it. It is also important to look at what support and training they can offer your team so you are getting the best from their systems. This could be done through webinars, videos, and online help centres.

6) Too expensive

One of the common issues with payroll providers is how they cost their service. On the surface, it seems very simple; it's a 'per payslip' price, but make sure you dig a little deeper as it may uncover some nasty hidden costs.

If you have already been caught out by additional costs, sometimes for standard practice such as year-end filing or P45s, which you would expect to be part of the service, you need to ask yourself if it is a company you can trust with something as precious as your payroll.

7) You've lost confidence

Fundamentally, it's all about your confidence in your payroll provider. Everyone drops the ball sometimes, but how they handle problems determines if they can retain your trust. And if the answer to this question is no, then it is time to switch.

What's the best time to switch?

Many organisations like to switch at the beginning of their fiscal or tax year. However, an experienced payroll provider can bring you on board anytime. In fact, steering clear of some of these popular times (especially April) can be a real benefit as you avoid times when the new payroll teams are likely to be working flat out.

If you want a change, especially if your reasons are for poor service, don't delay. Talk to your new payroll provider and discuss the options for moving your payroll as soon as possible.

Steps to successfully outsourcing your payroll

Finding a payroll provider, whether for the first time or as a change from your current supplier, can seem overwhelming. When buying a service, there are fewer' tangibles' to compare. You need to see through the sales pitch and determine the most critical factors of the payroll service and how potential partners measure up.

Step 1 - Define needs

It is essential that you take time with this first step and plan out what is important for your payroll. This should include areas you wish to continue doing and things you currently find frustrating or would like improved. Is there additional integration or functionality that your current solution or provider cannot give you? Make yourself a 'wish list' and use this to structure your discussions with potential payroll partners.

Step 2 - Pick your provider

Before sending invitations to every payroll service provider on your Google search, it pays to shortlist with some initial digging. A little desk research into the market can help narrow down to a shortlist and save wasting time with companies who don't fit your needs.
Check out their heritage and background, credentials and accreditations, who they work with and any reviews you can find. Once you have your shortlist, it's time to engage with them. Some of the questions you can ask them include;

- **Do they have relevant experience of organisations or payrolls like yours?**

  This is especially important if you have any complexity or quirks to your payroll. Specific sectors such as education, the public sector, charities, and hospitality have payrolls requiring specialist expertise.

- **Do they understand your specific needs?**

  If you have specific requirements, such as integrations with other business systems or particular reports you need, make sure you are explicit about your requirements from the outset. You don't want to be part way through the implementation process only to discover their systems and software cannot deliver what you need.

- **What added value services can they provide?**

  Payroll outsourcing is moving away from a purely functional process to a service that adds value. What can the provider do in terms of additional services?

- **Do they have a secure online payroll system?**

  What technical platform are they using, and how secure is it? Payroll data is highly sensitive, and they should have systems to transfer and store that data securely. Current best practice is for cloud systems that allow your team to access remotely.

- **What is included in the payslip price?**

  The payroll industry is plagued with headline-grabbing 'per payslip' pricing whilst hiding some costs as extras, even though they are fundamental to payroll processing. So make sure you delve beneath the payslip price and get a detailed breakdown of what is included in this process, and look out for 'extras' such as P45s and P60s, uploading pension files and year-end filing. That way, you can make an accurate financial comparison between vendors.

- **What is their implementation process?**

  You need to understand the process for taking over the payroll, the timescales, and what happens after implementation to hand over to the 'business as usual' payroll team.

- **What training and support can they offer?**

  Even though you are outsourcing your payroll, there will still be systems and software you need to use, so ensuring that the payroll provider can provide the necessary training and support is crucial.

Creating a scorecard with your criteria can make it easier to compare potential providers.

Step 3 - Engage with your payroll partner

You have chosen your provider and can start the implementation process. Like any relationship, good communication will ensure a better experience and avoid misunderstandings. Involve all stakeholders and make sure there is regular communication with all parties. You should be appointed a Project or Implementation Manager who will be your main point of contact with your new payroll partner..

Step 4 - Implementation

You should have defined the implementation process as part of your due diligence when appointing a supplier, but make sure you have a clear roadmap of the process and who is responsible for what so you can resource appropriately at your end.

Discovery Phase

Agree on a start date with your provider and work backwards. The implementation timeframe will depend on the size and complexity of your payroll and the resources available with your new provider, but as a rule of thumb, you should allow at least six weeks from your first pay date.

In this phase, there will be some legal requirements, such as ID and Anti-Money Laundering (AML) checks, plus the issuing of service level agreements (SLAs).

This is when your new provider can get to know your organisation and payroll, what your wages and salaries consist of, and what deductions you may have.

Set out your requirements

Although some of this will have been covered in the appointment stage, your new partner will need to get into all the details about how your payroll is going to run;

- Setting up BACS
- Defining reports
- Processes for capturing employee data
- Checking pension setup and auto-enrolment requirements

Moving across your data

Your employee data will need to be moved from your current software or previous payroll partner. How this is done will depend on your existing setup and the capabilities of your payroll vendor. All data transfers should be carried out in a secure and GDPR-compliant manner.

Parallel Runs

A parallel run is a stage before the go-live date that involves the new provider rerunning the last pay period to ensure that the records and payroll match and give the expected outcome regarding net pay, tax, and national insurance (NI).

This is the stage where previous errors in your payroll can be picked up. Ideally, this should be a part of the process, as you do not want inaccuracies being carried over to a new supplier. These errors could be as simple as a wrong tax code or a more complex issue, such as an incorrectly calculated pension scheme deduction.

A parallel run can be done for more than one period, ensuring that the payroll data is matched back to your existing pay records at each step.

Go live

Once both sides are happy, the payroll is ready to go live. Remember, if you have new systems, such as epayslips, you should inform your employees of the change.

Due to GDPR, any employee queries will still need to go through your internal team. Your payroll outsourcing company can only discuss payroll with the authorised contacts at your organisation, so they cannot deal directly with employees.

Switching to IRIS Managed Payroll

If this guide has clarified your options regarding outsourcing your payroll and you have decided to use a third-party provider, IRIS has industry-leading outsourcing options.

IRIS | Fully Managed Payroll

IRIS offers a fully managed payroll service that uses a BACS-approved payroll bureau supported by the latest IRIS payroll technology. This 'best of both worlds' solution is scalable and eases the burden of payroll compliance.

- Secure cloud Employer Portal
- Payroll accuracy and compliance
- Free up your internal resource
- Auto-enrolment and pension administration
- Payroll and pension experts across all sectors, including education and public sector
- Comprehensive reporting
- Dedicated point of contact

Find out more about IRIS Fully Managed Payroll MORE

IRIS | International Managed Payroll

Handling payroll can be challenging if your team members are based overseas. IRIS International Payroll has in-country experts across 135 countries to help ensure your international payroll is accurate and compliant with the regulations of that country.

- Experienced global payroll and HR specialists
- Dedicated single point of contact
- Uniform service across different countries
- Combined international HR and payroll service
- Payments in local currencies

Find out more about IRIS International Payroll MORE

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Education payroll and pensions are complex including teachers' pay scales, multiple job roles and Teachers' Pension and Local Government Pensions Schemes (LGPS). Our team at Dataplan Education By IRIS only manage education payrolls and pensions and works with schools and Trusts of all sizes.

- Dedicated education specialists
- Education pensions team
- Dedicated named contacts
- Migrating maintained schools from Local Authorities
- HR advisory services available

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