

Australia has the most complicated payroll system in the world, so deciding whether to outsource or keep the function in-house is a crucial choice, writes Melinda Finch

For such an essential business function, payroll can be exceptionally complicated and is set to become even more so with the Federal Government's overhaul of industrial relations. It is also incredibly important, with approximately 9.3 million working Australians receiving in excess of \$333 billion in wages every year, according to The Association for Payroll Specialists (TAPS).

Payroll systems tend to fall into a few different business areas. "In the 1990s when HR came under the microscope, and ratios of HR staff to employees became a key performance indicator measure for directors, payroll was quickly bundled off to the finance division," says John Macy, founder and director of Competitive Edge Technology (CET).

This had ramifications for HR because finance-run payroll departments rarely took into account HR or industrial relations issues. As a result many of the lines remain blurred and there remains a considerable HR aspect to any payroll function whether it is outsourced or not.

Calling in the experts

"Over the past five to six years payroll outsourcing has really grown in popularity," says Jason Low, Managing Director of TAPS. "It's no different to any other sort of outsourcing." There are also hundreds of providers offering outsourced options or in-house alternatives with fully integrated or modular software (software that is organised into limited sets of data and code that perform specific functions).

"Many employers believe that payroll is as simple as going and buying a piece of software, where all you have to do is punch in the hours the employees work and the software spits out everything you need to know. Unfortunately, payroll is far more complex than that," says Low.

When faced with the need, for example, to ensure that all allowances, bonuses, overtime payments and loadings are properly characterised and that remuneration reviews and superannuation disclosures are managed it's tempting to seek expert help.

"Payroll software can simplify the process, but there are so many variables that need to be considered. You still need a qualified payroll person to run

the payroll department, someone that understands the impact of taxation and employment legislation. In this way payroll and HR are very similar – having HR software helps the HR process, but it can't do everything. You still need a HR professional," he says.

Macy agrees and says the range of HR processes catered for by outsourcing companies is growing. However, the popularity of outsourcing in general should not be overestimated. "It seems the Australian mentality of owning things, such as the quarter acre block, extends to the business world and many executives do not want to give up ownership of business functions," says Macy. "That includes payroll and HR."

The benefits of outsourcing are really there for organisations that do not have trained payroll staff. PAYE and payroll tax collection and maintenance of tables and other statutory requirements are part of the outsourced service. In addition, group certificates and payslips are produced by the outsourcer, thereby eliminating the need for special printers and stationery. Other advantages include outsourcing the electronic transfer of funds to bank accounts and eliminating certain risks, such as hardware outage at pay run time and the loss of specialised staff.

However, on the negative side, pay information is not integrated for reporting, says Macy. In addition, ad hoc reporting involves a charge – general ledger input has to be transferred back after each pay run – and cost to the outsource may be greater than in house processing.

The Australian-based international toll road developer and investor Transurban chose to keep its payroll function in house five years ago even though it added an external software provider. At the time the company was evolving from an infrastructure developer with fewer than 50 employees into an organisation of more than 350 staff covering a range of operations such as infrastructure operations, customer services and IT.

"We started off with two separate payrolls as a result of the company expanding its business into tolling and customer management at the beginning of 2000," says Joanne Barber, general manager human resources. "The two separate payroll functions used two different systems that needed to be streamlined into one. It was obvious that we needed a new solution to our payroll needs.

"We were looking for a simple and cost effective product that could be easily deployed and offered on line accessibility and self service. Innovative technology is integral to how we do business at Transurban, so our solution needed to reflect this. [It] offered both the network platform as well as the software application. We discounted the larger systems mainly

due to the cost involved as our current and projected staff numbers did not justify the larger expense” she says. Now the payroll process is “supported externally however our payroll management and administration is done in house”. The online solution has given staff direct electronic access to their personal information such as pay slips and leave balances.

Choosing an online system has allowed Transurban to introduce greater functionality, Barber says. Along with the introduction of the new system, the payroll function was integrated into the finance unit but HR still works very closely with payroll.

“There’s a heavy component of HR in any payroll function. That is, payroll not only operates according to taxation and other financial requirements, it also operates according to external employee relations legislation as well as internal HR policies and procedures,” she says. “There are in fact two areas of expertise involved, with HR providing expertise in the latter. Payroll and HR work closely together, for example, decisions concerning changes in remuneration or issues falling outside existing policies are determined in consultation with HR and all remuneration changes are signed off by HR. Through this consultation we integrate the system, legislative and reporting requirements with the people requirements.”

Transurban’s experience is not unusual. “Many companies have experienced mergers and acquisitions and have multiple ‘legacy’ systems performing the same functions in the background,” says John Macy, of CET. Legacy systems are those that have been superseded but continue to exist for a particular purpose. “To integrate the systems into one may be cost prohibitive so a browser front-end (such as a portal or self-service application) to give the impression that it is all integrated is a better solution.”

Pfizer Australia, one of Australia’s major providers of prescription medicines and consumer healthcare products, has also stuck with an in-house payroll system administered by the finance department. In this case, HR is not involved.

“HR are removed from the payroll function as the processes that they look after involves being the communicators and educators for such things as remuneration, company benefits and career rewards. They currently use different HR software to achieve this,” says payroll manager Larry Frazer. “Our payroll system is being upgraded next year with a view to update the existing payroll and ESS systems, which work separately.”

“We’re really getting behind the technology because the payroll provider has completely changed their scope of the things that are made available

to their users. They had to keep in line with what was being offered by their competitors,” he says.

Pfizer Australia chose to keep their payroll in house for efficiency, consistency, security and audit control reasons. “We need to have the information here to hand because there are so many things happening all the time. We need to be able to run things when we want to run them,” Frazer says.

Moving with the times

Just as Australia has over 130 different pieces of industrial relations legislation, over 4,000 different awards and six different workplace systems operating across the country we also have an unusual payroll environment. “Each country has a unique payroll environment. Many of the basics are similar, but Australia is by far the most complex system in the world. It is very confusing,” says Jason Low of TAPS.

Transurban’s Joanne Barber is confident about the capabilities of the company’s payroll software. “I think our software at the moment is appropriate to handle any of the changes proposed. We have gone through a number of changes over the last five to six years to ensure that our practices are at least market standard or better than market standard so I don’t envisage any major changes at all.” And as the company keeps growing and expanding, “it’s like any other system that you are using in that you will review it over time to ensure that it’s got the functionality that’s needed,” Barber says.

Doing your research

If your organisation does decide to outsource the payroll function it is essential that it is done properly. “You really need to do your homework. This is one time where you don’t want to base your decision on price – you need to be confident,” says Low. “It is also important to keep in mind that the liability for any fines and back payments still remain the employer. By outsourcing you do not outsource your liability, so choose your outsourcer wisely.”

There can also be unexpected benefits of putting your payroll system under the microscope. “My favourite story,” says Low, “is of a TAPS member who came to one of our functions and learnt that her company had been overpaying their payroll tax and was able to arrange a refund of almost \$1 million.”

Perfect payroll outsourcing: ten things to consider

1. IT infrastructure: Does the potential client have an in-house IT infrastructure including disaster recovery procedures in place?
2. Are skill sets relating to a knowledge of applicable awards/enterprise bargaining agreements available in-house?
3. Are there “back-up skills” available in-house to cover the non-attendance of the payroll manager due to sick leave or annual leave or are their privacy/confidentiality issues?
4. Does the payroll software offered by the payroll services bureau provide the flexibility, portability and functionality to manage the payroll needs of the client, for example, in-house/outsourcing/ASP, in-house?
5. Does the client require access to the bureau’s payroll system for either look-up purposes or data entry of certain information, for example, file maintenance or timesheet entry?
6. Does the system allow for unlimited allowances, deductions and superannuation funds?
7. Does the system offered by the payroll services bureau allow for integrated human resources modules?
8. Does the payroll services bureau provide end of pay, end of month and end of year reports?
9. Is the client able to write its own ad hoc reports as required?
10. Does the payroll services bureau offer employee/manager self-service?

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