

Sage : Missed payroll? Here's how your business can get back on track

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No employer wants to miss the payroll run, which means they've not paid their staff on time.

But it can happen for several reasons, including mistakes in the process and financial pressures.

If you're likely to miss payroll, there are a number of things you can do to avoid it.

And if you can't avoid it, there are also many ways to mitigate the damage and stop it happening again.

We cover these points in this article. Here's what it features:

[Why you should pay staff on time](#)

[Why businesses miss payroll](#)

[How to avoid missing payroll](#)

[Communicating with stakeholders is important](#)

[How to prevent further payroll issues](#)

[Outsourcing payroll](#)

[Using accountants and other advisers](#)

[Final thoughts on missed payroll](#)

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Why you should pay staff on time

You should always avoid a missed payroll where possible as it could damage your business significantly.

If you don't pay them on time, employees could lose trust and motivation quickly and start looking to work elsewhere, bringing your operations to a juddering halt.

Chloe Hughes, head of payroll at accountancy firm Smith Cooper, says: "Not paying staff on time can easily fuel a bad relationship with employees.

"Payroll is such an important and emotive topic; it is imperative to do it correctly."

Furthermore, UK law obliges you to inform employees in their contract of the date on which you will pay them.

Failure to pay on time can mean a breach of contract, which entitles employees to sue you.

According to specialist HR lawyer Peninsula Group, such claims can result in up to £25,000 in compensation. Paying employees one or two days later would solve that situation.

But it may not make it any more acceptable to employees, says Peninsula.

Missing payroll could create trouble with HMRC as well.

Under its [Real-Time Information \(RTI\)](#) rules, you must submit payroll reports on or before your employees' payday.

Failure to do so incurs penalties.

Why businesses miss payroll

Two of the main reasons employers miss payroll deadlines are:

- Insufficient funds
- Mistakes in the payroll process.

Insufficient funds

One of the biggest challenges for businesses struggling to pay employees comes from cash flow problems.

There are numerous reasons why firms might find it difficult to stay on top of their cash flow, including:

- Late payments from clients or suppliers
- New equipment being bought without accounting for the need to cover salaries
- Money spent to fulfil an order but the sales fail to materialise
- The need to cover a hefty tax bill, meaning the business is left short of funds.

Mistakes in the payroll process

The next problem covers mistakes around the payroll process.

Chloe Hughes, head of payroll at accountancy firm Smith Cooper, says one reason companies often make payroll process mistakes is that they "hugely underestimate" what is involved with running a payroll function effectively, efficiently and accurately.

"Often, they rely on unqualified and unsuitably trained staff to run payroll," she says. "This increases the risk of non-compliance and further issues down the line.

"This has made a comprehensive understanding of payroll more important than ever - but that is difficult for businesses to navigate alone."

How to avoid missing payroll

To avoid payroll deadline problems, always issue and collect invoices promptly, and plan and forecast your cash flow.

The earlier you spot issues, the longer you have to resolve them.

Andrew Cowling, partner at chartered accountants Wylie & Bisset, recommends using a cash flow forecasting app, which allows you to update data regularly, and plan scenarios, for example, "what if we delay this payment?"

If cash is still scarce, prioritise your most important suppliers and delay payments to others where possible.

Ask landlords and HMRC for time to pay.

Next, consider other funding options such as short-term loans and speak to your bank or funders about extending their facilities, delaying payments, or restructuring your debt.

Be sure you can pay back any loans because otherwise you could be building up more financial problems for the future.

If late payments from clients are the problem, consider invoice financing, which includes factoring and discounting. These effectively lend you a percentage of your unpaid invoices immediately.

Invoice financing comes with a fee but, if it means paying staff on time, it's well worth considering.

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Communicating with stakeholders is important

So, none of the above worked and you're going to miss the payroll date.

What next?

If the problem is down to insufficient funds, explain the situation to your employees as soon as possible.

The more information you give, the better - so be open and transparent throughout.

Cowling recommends keeping your bank, suppliers and other stakeholders such as HMRC informed, too. They tend to be more understanding if you keep them updated.

If the problem is a mistake in your payroll process, identify how it occurred and when it will be rectified, and assure employees it won't happen again.

Give them a timescale for payment. If you can't, be open about it.

How to prevent further payroll issues

If the problem was cash flow, address the short and long-term financial problems in your company without delay - for example, by cutting costs and boosting prices.

If none of these remedies work, you may eventually have to become insolvent.

If you fail to pay your employees, they become a creditor, and insolvency obliges you to place their interests above those of the company.

Get advice on your options from a debt specialist or insolvency practitioner.

If the problem is a process mistake, using payroll software and automating your processes will help. This will simplify your payroll duties, and reduce manual entering and retyping data, which decreases the risk of future errors.

Chris Biggs, partner at accountancy firm Theta Global Advisors, says as well as reducing errors, automation make the process easier and brings expertise to the fingers of non-experts.

He says: "Errors involving manual calculations on complex, one-off payroll areas, or missing information - such as new joiner details, tax codes changes or deductions - are key reasons for not processing payroll on time.

"However, these problems are decreasing as more people move to automated software or external service providers. Both are considerably more cost effective and available to even the smallest business."

Outsourcing payroll

This leads us to outsourcing to an external payroll provider, which is perhaps the most comprehensive approach to avoiding errors.

As well as using the latest payroll software, a reliable external payroll provider can manage your entire payroll process, and ensure timely and accurate completion, regardless of any complexities.

It also gives you peace of mind that dedicated experts are keeping up with and meeting payroll regulations and reporting deadlines.

Hughes says: "Payroll has changed so much over the last decade with frequent amendments to payroll and pensions auto-enrolment laws.

"We have noticed many smaller businesses struggling to manage their payroll, especially over the last five years, as they underestimate the skills and understanding required.

"Outsourcing payroll has increased as businesses realise it's not possible to manage internally anymore."

Cowling says in most cases, payroll can be switched to an outsourced provider quickly: "Freeing up this time and removing the worry of being late or getting it wrong is well worth the fee."

Using accountants and other advisers

Financially stressed businesses should consider getting guidance from their accountant, bank manager or other financial advisers.

These advisers can also review any underlying issues and other action you may need, for example, to increase profitability, change the business model or revisit the working capital set up.

Joanne Harris, technical commercial manager at SJD Accountancy, says outsourcing to an accountant assures accuracy of HMRC returns, and if you appoint them as your agent, they can file and contact HMRC directly on your behalf.

She adds: "An accountant can also aid business recovery, as they can advise you of reliefs available like employment allowance."

Final thoughts on missed payroll

The thought of missing payroll can be stressful for any business owner. But following the processes described here might be able to make the process more bearable for you and your employees.

Most importantly, it could also make your business and payroll processes more sustainable and resilient in the future.

Editor's note: This article was first published in March 2021 and has been updated for relevance.

The ultimate guide to payroll for small businesses

Ready to take on employees and need help dealing with payroll for your small business? Read this guide for advice to stay on top of this key task.

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