

# **A big step forward**

***Richard Blackwell* relates his experience of implementing EDI, highlighting the problems he encountered along the way and the benefits of operating the system.**

**A**t Suffolk County Council we have been using electronic data interchange (EDI) for the past six months to receive Form P6 information direct from the Inland Revenue. With 52,000 employee records (42,000 staff and 10,000 pensioners) the county council receives on average about 10,000-12,000 Forms P6 each year and approximately the same number of budget tax code adjustments.

About two years ago, we identified that the council was spending the equivalent of nearly one full-time payroll administrator to process the Forms P6 that arrived in the pay office. The total time involved, was nearly 5% of our resource. When you consider that the Forms P6 are usually individually enveloped and have to be opened, distributed, processed, filed and then filmed at year end, the work adds up very quickly. The numbers involved probably mean that there are input errors which will result in later problems that need to be resolved.

Having attended a briefing session with the Electronic Business Unit of the Inland Revenue about the potential benefits of EDI, the council was keen to implement it as soon as possible. By reducing the volumes of paper entering the pay office the savings mentioned above could start to be realised.

This article gives an honest appraisal of the EDI project undertaken stage by stage and will hopefully encourage others to enjoy similar benefits.

## **VAN provider**

The first stage is to decide which VAN (value added network) provider to choose. As there has been much written about the principles behind EDI this article does not go into the technical background. There are several good companies around, and at the end of the day much of it comes down to personal choice. As with most things though, you get what you pay for, so don't just look at the overall price. The Inland Revenue's main contractor in this venture, EDS, now has available a direct ISDN connection which, especially for larger users, looks to be an attractive alternative to the VAN route.

## **Bandwidth**

One area that we fell short on at this stage was the bandwidth requirement. This depends on the amount of data you will be sending at any one time and can be estimated reasonably accurately by looking at an average period of time and adding a bit for safety. Where we came unstuck initially was that our bandwidth was suitable for normal P6 data transfer but was totally inadequate for the first major exercise that had to be done. An initial works number update has to be performed to ensure that both your system and the Inland Revenue's system are-in step with respect to employee reference numbers. The bandwidth for this exercise needs to be large enough to accommodate your biggest payroll, and will be far greater than any of your P6 requirements. This issue should be one of the first on your list when discussing your

requirements with any potential supplier.

## **Format**

With the assistance of your supplier you need to decide on the approach you are to take once the files have been received from the Inland Revenue. They will be sent to you in the standard EIDFACT flat file format. This is unlikely to be the format your payroll system needs for updating your standing files. In the case of the council there are six separate payroll users to assist with payroll scheduling etc. That, however, meant that the flat file not only had to be translated into a format acceptable for the payroll, it had to be stripped down into the six component payroll files as well. Each one becoming a separate entity. This process required quite a bit of in-house work to ensure we had a process in place to automatically breakdown the single EDI file into our six component files which were all translated into the correct format. The time involved in testing such routines is quite considerable and can delay, the overall time of the project.

## **Which Year?**

This stage may be applicable to some users but could be omitted otherwise. Incorporated into the above stage, was a routine to identify the tax year to which the EDI record applied. Particularly during February and March each year, there are Forms P6 that can refer to one of two tax years, the present one, or the following one. To avoid the possibility of updating a tax code for the next year too early, the system was designed to copy, and list records where the tax year was current +1. In this way we could be certain that the records being updated were relevant to the current year. The copied "next year" file was then available for updating under user control at the appropriate time. Some may regard this precaution as overkill, but the council would rather be safe than sorry when dealing with tax code changes.

## **Tax code history**

Another area that may not be relevant to all organisations is that of tax code history on the payroll system. When a paper Form P6 enters the office, tangible proof exists of what you were instructed to do. EDI eliminates this proof. To satisfy our external auditors, each tax code change is shown as a separate entry on the payroll system, so that a complete history is available if required. This simply shows the date the entry is made, the tax code operated and the tax basis in use.

## **Ready to go**

When all the above is in place and your systems are ready, what happens next?

You need to ensure that everything is ready before you complete your works number update. Once the works number update has occurred in the live situation you will be deemed ready to accept Forms P6 via EDI. Unless there has been a recent change in the way EDS are administering their

system, it is an all or nothing situation. You are either fully live for your particular tax reference number or not at all. If there is a criticism of the system, it is this inability to phase an implementation. This will be particularly relevant to larger users.

The message here is to keep in regular contact with your supplier and EDS at the point when you consider you are ready to go live. Make sure that all parties know what is going on.

## **Enter the electronic age**

Sit back and start receiving your forms P6 electronically. The council performs daily downloads of files. Some payrolls may not have any relevant data, but those that do have a simple print-out for checking against the update vet (the printed record of the data input). Yes, although this is the electronic age, we all still love to have the paper copy as well!

Once the files are downloaded and translated they are updated to the payroll under user control. This was important for us as, we did not want to be updating payroll records the night that a particular payroll was being processed, as any problems are more difficult to correct if files have been updated in the interim.

## **Our experience**

One of the major difficulties we had to overcome when implementing this system was the fact that, with limited resources and competing operational demands, it was difficult to devote enough dedicated resource to get the system installed. As a result, the project took longer than anticipated and the

potential savings did not accrue as soon as they should have done. With hindsight the resource should have been identified initially and committed to the project from the outset rather than the stop-start approach that occurred.

In summary:

- Was it worth it? Definitely.
- Was it straightforward? No, but is anything to do with payroll nowadays?
- Should others be encouraged to use the system? Yes, the advantages far outweigh the problems.
- The reduction in paper handling and the 100% accuracy of data implemented is a big step forward.

EDI can also be used for the exchange of Forms P46 and P45 information between employers and the Inland Revenue. Phase two of our implementation will focus on this stage. The P46 exchange is particularly good as our P46 details will be picked up by the Inland Revenue in the evening, and a P6 record sent to us in readiness for the next day, in the majority of cases. This will greatly improve our service to customers who may otherwise have been on Basic Rate tax unnecessarily.

With the Government pushing e-commerce, EDI is a useful way to capitalise on this initiative. The costs involved will, however, probably prohibit smaller employers from taking the plunge. The direct ISDN route to EDS may prove a viable alternative to those smaller employers who already use ISDN for other purposes.

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