

### Payroll Benchmarks and Budgeting

In [Hand in Glove: Benchmarking and Budgeting](#), we focused on the use of volume and average member spend benchmarks to easily generate more accurate revenue projections during the annual budgeting process. We also mentioned that the same concept could be used to establish more accurate and easily-generated payroll budgets using volume and average unit benchmarks. In this article we want to go into greater detail as to how this is done, as well as to discuss the benefits of doing so.

In each department there are two methods of compensating employees – salaries for exempt staff and hourly wages for non-exempt employees. Usually there are a few exempt employees in each department who make up the management staff. Their compensation is easily calculated for budgeting purposes by using the annual salaries plus any proposed increases and breaking this down into monthly amounts.

For non-exempt hourly wage employees this is a more complicated task due to the larger number of employees involved, their varying rates of compensation – due to longevity, positional skills, and higher pay for overtime hours – and hours worked due to varying schedules. But by using similar data to the volume and average unit used in revenue projections, in this case the number of hours worked and the average hourly wage, it becomes easier to accurately project payroll costs. Here’s how:

- By using an electronic spreadsheet\* to benchmark payroll cost and number of employee hours worked in each pay period throughout the year, a department head is readily able to see the average hourly wage for the period and year-to-date because the spreadsheet automatically divides the pay cost per period by the number of hours worked. See yellow shaded cells in the sample below.

Pay Period:	22	23	24	25	26	YTD
Ending Date:	10/29	11/12	11/26	12/10	12/24	
Payroll Total (\$)	12,357	12,499	12,526	12,510	12,489	322,206
Budgeted Payroll	12,500	12,500	12,500	12,500	12,500	
Over/(Under) Budget	(143)	(1)	26	10	(11)	
Cum Over/(Under)	(842)	(843)	(817)	(807)	(818)	
<b>HOURS</b>						
Regular	1,067.0	1,085.0	1,094.0	1,121.0	1,085.0	28,301.00
Overtime	14.3	26.3	29.4	32.7	42.2	299.80
Impact of OT	21.5	39.5	44.1	49.1	63.3	449.70
Vacation	16.0					102.00
Sick	16.0			8.0		64.00
Other						0.00
Holiday			48.0			80.00
Total Hours	1,120.5	1,124.5	1,186.1	1,178.1	1,148.3	29,393.89
Budgeted Hours	1,150.0	1,150.0	1,150.0	1,150.0	1,150.0	29,900.00
Variance	(29.6)	(25.6)	36.1	28.1	(1.7)	(103.3)
Cumulative Variance	(140.2)	(165.8)	(129.7)	(101.6)	(103.3)	
<b>AVERAGE HOURLY WAGE</b>						
Actual	11.03	11.12	10.56	10.62	10.88	10.96
Budgeted	11.00	11.00	11.00	11.00	11.00	11.00
Variance	0.03	0.12	(0.44)	(0.38)	(0.12)	(0.04)
<b>Tracking Hours Worked and Average Hourly Wage Benchmarks</b>						

With this information the payroll forecast can easily be built for the coming year by reverse engineering the data and using the number of hours worked and the average hourly wage from the previous year. For instance, using the example above and adding any adjusting factors envisioned in the upcoming budget such as an expected 2.5% increase in hours worked due to extending the hours of operation of the dining room and a 1.2% across the board increase in the average hourly wage (highlighted in orange), the new annual budgeted amounts are projected. Dividing the annual amounts by 26 pay periods (in this case for bi-weekly pay periods), gives the average pay period budgets (highlighted in green).

	Last Year's		% Change	New Year's	
	Annual Actual	Average per Pay Period		Annual Budget	Average per Pay Period
<b>HOURS WORKED</b>	29,393.9	1,131.0	2.5%	30,128.7	1,158.8
<b>AVG HOURLY WAGE</b>	10.96	10.96	1.2%	11.09	11.09
<b>PAY COST</b>	322,206	12,393		334,128	12,853
<b>Budget Projection of Pay Cost</b>					

This presentation of the new year's budgeted payroll is an abridged version focused on the annual amount and average amount per pay period. With a little effort the annual budgeted number of hours worked and average hourly wage can be broken down more accurately by computing the percentage distribution of the last year's per pay period benchmarks to allocate the new year's per pay period budgets.

Whether the average method or more accurate percentage distribution of pay period numbers is used to establish the new year's per pay period budgets, the entire budgeting process is based upon the previous year's volume and average unit benchmarked data. If the department head misses her budgeted numbers she is able to see if the overage is due to more than expected hours worked or a higher than expected average hourly wage. This is important because the solution to one or the other is different.

This more accurate method of establishing pay cost budgets is also important in that it provides all stakeholders with an easier and more rational means of reviewing and common sense validation of the budget for this largest of all expenses. This is a great improvement over simply reviewing the aggregated payroll budget for each month or year.

*Ed Rehkopf, Hospitality Resources International*

\* [Departmental Payroll Analysis Summary, HRI Form 230](#), available on the HRI Website

Note: Some departments have multiple operations with different underlying hours worked and average hourly wage. For instance, the F&B department which may have *a la carte* dining with constant hours of operation, a catering operation with varying levels of business, and a snack bar with lower compensated seasonal staff. In this case it would make sense for the department head to project budgeted numbers separately for each distinct operation for accuracy sake and then combine these into an overall budget.