

To the Chair and Members of the AUDIT COMMITTEE

ANNUAL PAYROLL OVERPAYMENTS UPDATE REPORT – 2013/2014

EXECUTIVE SUMMARY

1. This report has been produced to provide the Audit Committee with an annual update on the progress of recovery action in relation to salary overpayments for both current employees and those who have since left the Council over the last financial year 2013/14. The report also highlights the outcomes from the detailed review that has now been completed covering the overall outstanding salary overpayment debt.
2. The outstanding debt owed to the Council as at 31 March 2013 amounted to £491,690 relating to 575 cases, made up of both debt owed on the HR Portal (payroll system) £51,552 (40 cases) and on the Accounts Receivable (Debtors) system £440,138 (535 cases).
3. During the financial year 2013/14 a further £336,523 of debt occurred relating to 543 cases, equating to 0.14% of the total payroll payments made in the year. 35% of the current year's debt totalling £118,078 occurred with current employees (216 cases) and did not require a debt recovery plan as it is recovered at source through the payroll system. By year end, a total of £78,073 (176 cases) has already been recovered directly through the payroll system, with an outstanding balance of £40,005 to be recovered during 2014/15.
4. The overall debt raised in the current year on the debtors system, making up the remaining 65% totalled £218,445 relating to 327 cases.
5. By year end a total of £156,677 made up of 316 cases, has been recovered through the Council's debtor's system. In addition, a further 166 cases worth £149,486 of irrecoverable payroll overpayments were written off in 2013/14. These related to a variety of outstanding queries and issues that had not been pursued as diligently as they should have been ranging from uneconomical to pursue, to exhausting all recovery including legal action, to the debtor being bankrupt.
6. The overall position remains positive in that the outstanding balance of debt owed to the Council at 31 March 2014 has reduced by 20% to £392,425 relating to 421 cases compared to the 31 March 2013. Furthermore, the number of cases and the amount recovered has continually reduced over the last 3 years. A full breakdown and summary analysis is set out in the attached Appendix A.
7. A number of key actions are now in place to continue to recover the outstanding debt and to minimise the occurrence of future debt.

RECOMMENDATIONS

8. The Audit Committee is asked to note the report, the key actions in place and the detailed breakdown and summarised analysis provided in Appendix A attached.

BACKGROUND

9. It was agreed at a previous Audit Committee meeting that an annual update report would be presented in relation to progress on the recovery action of salary overpayments taken through both payroll and debtors procedures, including salary overpayments that have occurred during the financial year, 2013/14. The report also details the outcomes from the comprehensive review recently completed covering the overall outstanding salary overpayment debt owed to the Council. The source data used in generating this information was as at 31st March 2014.

PROGRESS ON RECOVERY ACTION

10. A comprehensive review has now been completed covering the overall outstanding salary overpayment debt. This showed that the Council was owed £491,690 relating to 575 cases at the beginning of this financial year by current and former staff. A total of £51,552 relating to 40 cases was on the payroll system and a total of £440,138 relating to 535 cases remained on the debtors system which related to both recent cases and those that go back many years. 57% of debtor system cases related to the 2010/11 year and before. Upon further analysis, the 40 remaining cases on the payroll system subsequently became debtor accounts and were transferred off payroll to the debtors system and are now included in the current year figures.
11. All outstanding cases were reviewed and categorised for appropriate action. Where an overpayment occurs and the employee still works for Doncaster Council then the overpayment is recovered from future salary. Where however the employee has left the employment of Doncaster Council then an invoice is raised to recover the overpayment followed by reminder letters, referral to a collection agency or possible legal action should the debt remain outstanding. Only when all recovery action has been exhausted and the debt remains uncollected would it be considered for write off. The full breakdown of the remaining debt and a summarised analysis of where that is in the recovery process are detailed in the attached appendix A.
12. However, over the course of the year 2013/14, new overpayments occurred to the value of £336,523 relating to 543 cases (including the 40 payroll cases transferred) which only equates to 0.14% of the total payroll payments made during the financial year. This was made up of £118,078 (216 cases) on the payroll system (35%) and £218,445 (327 cases) on the debtors system (65%). £78,073 of debt relating to 176 cases was successfully recovered at source against all debt held on the payroll system, eliminating the need to raise a debt recovery plan. On this basis, 66% of debt from current employees during 2013/14 has been recovered at source, with firm recovery plans in place for the remaining £40,005 to be recovered during 2014/15.
13. A total of £156,677 worth of debt relating to 316 cases was also successfully collected through the debtor processes. In addition, a further 166 cases worth

£149,486 were categorised as irrecoverable payroll overpayments following assessment, with reasons ranging from uneconomical to pursue, exhausted all recovery including legal action, to the debtor being bankrupt. As a result of not pursuing the cases as diligently as they should have been, these were written off in 2013/14. The full analysis is referenced in Appendix A.

14. This now leaves an outstanding balance of £392,425 relating to 421 cases going into 2014/15. The overall position remains positive in that the outstanding debt owed to the Council has reduced by 20% compared to last year, despite having an additional £336k worth of debt in the current year. This downward trend has continued over the last 3 years, both in terms of the number of cases and the overall recovery amounts received. From the full breakdown set out in the attached Appendix A, just less than half of all outstanding cases (42%) are actively paying through repayment plans; with a further 52% (200 cases) being written to in pursuit of their outstanding debt or to reinstate instalments. The remaining 19 cases have a reasonable prospect of being written off due to all recovery processes being exhausted.

FUTURE ACTIONS

15. As Rotherham Council now provide and manage the payroll processing system on behalf of Doncaster through a shared service arrangement, they have a full suite of checking processes in place to reduce the incidence and value of salary overpayments. Managers and staff have received training and are now able to monitor their own staff on line in real time through performance scorecards and these should contribute to reducing the occurrence of future overpayments. In addition, every six months, managers are now required to 'sign off' a report to say their staff and their salaries are correct thus providing a more robust check for accuracy.
16. Collection on the debtors system has not been as good as we would have liked this year due to the change to the new ERP financial system and problems in running reports and recoveries. However, additional effort is now being targeted in improving collection and managing the process in a more speedy and efficient manner including actively chasing and issuing reminders.
17. A further review of instalment cases is also being undertaken, as although people are actively paying, some are paying too slowly compared to the size of the debt.
18. It should be recognised that the vast majority of payroll transactions are correct, evidenced by the current reported average payroll accuracy rate of 99.70% (detailed in Appendix A) with only 470 (0.30%) errors made during the year. Not all of these errors though will have generated overpayments. Performance reports from Rotherham only reflect their payroll accuracy and do not capture the number of errors due to manager/employee/other errors. The overpayment figures, however, do capture all overpayments irrespective of how the error was generated. Most overpayments have been due to late notification of leaver or change of circumstances (such as special leave) rather than payroll administrator error.
19. It should also be noted that there will always be some occurrence of overpayment, but with the actions outlined in this report, this should be reduced to a minimum and the aim is to get below the current 0.14% (14 pence in every £100) of total payments

made.

IMPACT ON THE COUNCIL'S KEY OBJECTIVES

20. It is important that the Council avoids overpayments wherever possible and successfully recovers overpayments in a timely manner. This will reduce any impact on available finances for funding activities designed to meet the Council's key objectives.

RISKS & ASSUMPTIONS

21. Failure to prevent and recover overpayments will have a negative impact on resources available to the Council for the delivery of services. Actions have been taken to reduce the likelihood of errors and minimise the impact where they do occur.

LEGAL IMPLICATIONS

22. The Council's legal position with regard to recovery of amounts paid is taken into account when reaching agreements for the repayment of overpayments.

FINANCIAL IMPLICATIONS

23. The total outstanding debt as at 31st March 2014 was £392,425.
24. £40,005 of this debt is being recovered through the HR Portal (payroll) system and it is anticipated that all of this debt will be recovered during 2014/15.
25. The remaining £352,420 debt is being recovered through the Accounts Receivable (debtors) system, however, some of the debt has already been provided for in a bad debt provision. The table below shows a breakdown: -

| | |
|---|----------|
| Total debt | £352,420 |
| Less already provided for in bad debt provision | |
| Bankrupt/Liquidation | £16,042 |
| Other Non-collectable | £17,615 |
| Total in bad debt provision | £33,658 |
| | |
| Potential cost to General Fund | £318,763 |

26. The £318k represents the cost to the General Fund if all debt was written off; however, the majority of the debt is expected to be recovered.
27. These figures are after £149,486 in irrecoverable payroll overpayments were written off in 2013/14 (this was subject to a separate Officer Decision Record). The cost to the council in 2013/14 of this write-off was £82,200 (£67,286 was fully provided for in the council's bad debt provision and so was already accounted for). This was an unusually large write-off following 3 years work in trying to tidy up and improve management in what was an unsatisfactory area of financial and HR process management.

FUTURE REPORTING

28. The audit committee will continue to receive annual progress reports on recovery action taken in relation to salary overpayments for both current employees and those who have since left the council over the last financial year and previous years where this remains relevant; as well as highlighting on-going improvements made to payroll processing to ensure any overpayments occurring are kept to a minimum. It is suggested that in future this be once a year following year end.

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Overall outstanding salary overpayment

| | Accounts Receivable (Debtors) System | | HR Portal (Payroll) System | | Overall Value (£'s) |
|--|--------------------------------------|-------------------|----------------------------|-------------------|---------------------|
| | No cases | Total Value (£'s) | No cases | Total Value (£'s) | |
| Balance Outstanding As At 31/3/13 | 535 | 440,138 | *40 | *51,552 | 491,690 |
| Plus Total Amount Raised in 13/14 | 327 | 218,445 | 216 | 118,078 | 336,523 |
| Less total Amount Recovered in 13/14 | 316 | 156,677 | 176 | 78,073 | 234,750 |
| Less Amount Written Off in 13/14 | 165 | 149,486 | 0 | 0 | ****149,486 |
| | | | | | |
| Balance Outstanding As At 31/3/14 | 381 | ***352,420 | 40 | **40,005 | 392,425 |

***To note:** As At 1 April 2014 the outstanding 40 cases totalling £51,552 in payroll became debtor accounts and are therefore included in the 327 cases of amounts raised.

** The outstanding payroll balance of £40,005 is to be recovered during 2014/15.

*** **Breakdown in table below of recovery activity categories**

| Description | No of cases | Total Value (£'s) |
|--|-------------|-------------------|
| Balance Outstanding As At 31/3/14 | 381 | 352,420 |
| Paying by instalments | 162 | 146,216 |
| First Reminder Letter | 123 | 126,320 |
| Second Reminder Letter | 62 | 47,726 |
| Instalment Default | 15 | 8,392 |
| In Liquidation | 6 | 16,043 |
| Gone Away | 1 | 422 |
| Collection Agency | 12 | 7,301 |

**** **Write Off Analysis in table below**

| Description – Irrecoverable Due to: | No of cases | Total Value (£'s) |
|---|-------------|-------------------|
| Uneconomical to pursue | 79 | 73,004 |
| Exhausted all recovery including Legal Action | 42 | 40,944 |
| Age of debt | 27 | 11,809 |
| Unable to trace | 14 | 20,231 |
| Debtor bankrupt/deceased | 3 | 3,498 |
| Overall Total | 165 | 149,486 |

Comparative Performance Year on Year Over last 3 Years

| Year | Outstanding Debt As At Year End | | Percentage Improvement | Amount Recovered Value (£'s) | Percentage Improvement |
|---------|---------------------------------|-------------|--------------------------------|------------------------------|--------------------------------|
| | Cases | Value (£'s) | | | |
| 2011/12 | 627 | 460,895 | | 166,227 | |
| 2012/13 | 575 | 491,690 | 6% higher | 180,005 | 8% increase |
| 2013/14 | 421 | 392,425 | 20% lower | 234,750 | 24% increase |
| | Average 9.5% improvement | | Average 13% improvement | | Average 16% improvement |

The number of cases and the overall recovery amounts have continually reduced over the 3 year period.

Payslips Produced and Accuracy Rates for 2013/14

| | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec | Jan | Feb | Mar |
|--|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| No. pay records generated | 13,215 | 13,251 | 13,468 | 13,274 | 13,362 | 12,720 | 12,843 | 12,906 | 13,047 | 12,861 | 12,848 | 12,851 |
| No. of payroll errors due to HR Centre | 115 | 83 | 26 | 31 | 32 | 38 | 15 | 50 | 21 | 37 | 16 | 6 |
| Performance target % | 99.50 | 99.50 | 99.50 | 99.50 | 99.50 | 99.50 | 99.50 | 99.50 | 99.50 | 99.50 | 99.50 | 99.50 |
| Actual Performance % | 99.13 | 99.37 | 99.81 | 99.77 | 99.76 | 99.70 | 99.88 | 99.61 | 99.84 | 99.71 | 99.88 | 99.95 |

Based on the figures above a total of 156,646 payslips were produced during 2013/14, with an average accuracy rate of 99.70%.