

22 June 2016

**To the Chair and Members of the
AUDIT COMMITTEE**

ANNUAL PAYROLL OVERPAYMENTS UPDATE REPORT – 2015/2016

EXECUTIVE SUMMARY

1. This report provides the Audit Committee with an annual update on 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 2015/16. The report also highlights the overall outstanding salary overpayment debt, which is summarised below and shown in the Appendix A to this report.
2. The overall position remains positive in that the outstanding balance of debt owed to the Council at 31 March 2016 has significantly reduced by a further 31% from £352,465 to £242,095 and the number of cases has also reduced from 422 to 326 compared to last year, with individual monetary amounts remaining much smaller and being recovered quickly. A full breakdown and summary analysis is set out in the attached Appendix A.
3. The outstanding debt owed to the Council as at 31 March 2015 amounted to £352,465 relating to 422 cases, made up of both debt owed by current employees on the HR Portal (payroll system) £29,900 (46 cases) and for the majority who have left the council on the Accounts Receivable (Debtors) system £322,565 (376 cases).
4. Although a further £161,272 of new debt occurred during the financial year 2015/16, relating to 483 cases, the average value has continued to reduce from £373 to £334 per person. This was made up of £52,968 (239 cases) on the payroll system (33%) and £108,304 (244 cases) on the debtors system (67%).
5. By year end a total of £201,303 of debt relating to 466 cases has been recovered during 2015/16. £74,462 of debt relating to 277 cases was successfully recovered against all debt held on the payroll system, resulting in 73% of debt from current employees during 2015/16 being recovered at source, and eliminating the need to raise a debt recovery plan.
6. In addition, a total of 114 cases worth £70,339 have been written off due to all recovery processes being exhausted, and have been actioned within the 2015/16 financial year. Therefore, of all 326 outstanding cases – (8) 2% continue to be recovered at source through the payroll system, eliminating the need to raise a debt recovery plan; (141) 43% are actively paying through repayment plans; and (177) 55% are in various stages of the recovery process in pursuit of their outstanding debt.

RECOMMENDATIONS

7. 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.

WHAT DOES THIS MEAN FOR THE CITIZENS OF DONCASTER?

8. Failure to prevent and recover overpayments will have a negative impact on resources available to the council for the provision and delivery of services to the people of Doncaster.

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, to monitor performance on both the current year and past years. The report details salary overpayments that have occurred during the financial year 2015/16 and the overall outstanding salary overpayment debt owed to the Council. The source data used in generating this information was as at 31st March 2016.

PROGRESS ON RECOVERY ACTION

10. All outstanding cases have been 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 through the HR portal. 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 through the debtors system. 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 also detailed in the attached appendix A.
11. The overall outstanding salary overpayment debt showed that the Council was owed £352,465 relating to 422 cases at the beginning of this financial year from current and former employees. A total of £29,900 relating to 46 cases was on the payroll system and a total of £322,565 relating to 376 cases remained on the debtors system which related to both recent cases and those that go back to previous years.
12. Over the course of the year 2015/16, new overpayments occurred to the value of £161,272 relating to 483 cases. This was made up of £52,968 (239 cases) for current employees on the payroll system (33%) and £108,304 (244 cases) for those who have since left the council's employment on the debtors system (67%). £74,462 of debt relating to 277 cases (including £27,120 (43 cases) from the outstanding balance as at 31 March 2015) was successfully recovered against all debt held on the payroll system, resulting in 73% of debt from current employees during 2015/16 being recovered at source, and eliminating the need to raise a debt recovery plan. On this basis, 73% of debt from current employees during 2015/16 has been recovered at source.

13. A total of £126,841 worth of debt relating to 189 cases was also successfully collected through the debtor processes during this financial year. In addition, a further 114 cases worth £70,339 have been written off due to all recovery processes having been exhausted. A breakdown of reasons is included in the full analysis referenced in Appendix A.
14. This now leaves an outstanding balance of £242,095 relating to 326 cases going into 2016/17. The overall position remains positive in that the outstanding debt owed to the Council has significantly reduced by a further 31% compared to last year, despite having an additional £161k worth of debt in the current year. This downward trend has continued over the last 3 years. From the full breakdown set out in the attached Appendix A, (8) 2% continue to be recovered at source through the payroll system, eliminating the need to raise a debt recovery plan; (141) 43% are actively paying through repayment plans; and (177) 55% are in various stages of the recovery process in pursuit of their outstanding debt.

CONTINUED ACTIONS

15. A full suite of checking processes remain in place to continue to reduce the incidence and value of salary overpayments allowing for more timely action to be taken in recovering overpayments that occur. In addition, every six months, managers are required to 'sign off' a report to say their staff and their salaries are correct thus providing a more robust check for accuracy. Managers and staff have received training and are able to monitor their own staff on-line in real time through performance scorecards and these are contributing to reducing the occurrence of future overpayments.
16. Collection on the debtors system continues to improve and additional effort is being targeted to improve more timely collection and managing the overall process in a more speedy and efficient manner including actively chasing and issuing reminders.
17. It should be recognised that the vast majority of payroll transactions are correct, evidenced by the current reported average payroll accuracy rate of 99.93% (detailed in appendix A) with only 116 (0.08%) errors made during the year compared to 387 (0.25%) last year.

Also to note, particularly during the months of November through to March, that despite corporate wide changes to employee terms and conditions being implemented, requiring payroll system changes, the accuracy of on-going payroll transactions have been the lowest since the shared service was introduced, and should be commended.

Furthermore, not all payroll errors will have generated overpayments. However, those that are as a result of an overpayment are mainly due to late notification of leavers or changes of circumstances rather than payroll administrator error.

18. It should also be noted that there will always be some occurrence of overpayment, and that the levels now being reported are determined as far more reasonable and manageable than in previous years; and with the actions outlined in this report, this

is contributing to reducing these occurrences to a minimum with the aim of reducing the pence value if every £100 year on year. This year totalled 8 pence in every £100, (0.08%) compared to 11 pence in every £100 (0.11%) last year) of total payments made.

OPTIONS CONSIDERED

19. There are no other options that are appropriate for consideration

REASONS FOR RECOMMENDED OPTION

20. Appropriate and effective actions need to be in place and monitored on a regular basis to reduce the likelihood of errors and minimise the impact where overpayments do occur.

IMPACT ON THE COUNCIL'S KEY PRIORITIES

21.

	Outcomes	Implications
	<p>We will support a strong economy where businesses can locate, grow and employ local people.</p> <ul style="list-style-type: none"> • <i>Mayoral Priority: Creating Jobs and Housing</i> • <i>Mayoral Priority: Be a strong voice for our veterans</i> • <i>Mayoral Priority: Protecting Doncaster's vital services</i> 	
	<p>We will help people to live safe, healthy, active and independent lives.</p> <ul style="list-style-type: none"> • <i>Mayoral Priority: Safeguarding our Communities</i> • <i>Mayoral Priority: Bringing down the cost of living</i> 	
	<p>We will make Doncaster a better place to live, with cleaner, more sustainable communities.</p> <ul style="list-style-type: none"> • <i>Mayoral Priority: Creating Jobs and Housing</i> • <i>Mayoral Priority: Safeguarding our Communities</i> • <i>Mayoral Priority: Bringing down the cost of living</i> 	

	<p>We will support all families to thrive.</p> <ul style="list-style-type: none"> • <i>Mayoral Priority: Protecting Doncaster's vital services</i> 	
	<p>We will deliver modern value for money services.</p>	<p>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.</p>
	<p>We will provide strong leadership and governance, working in partnership.</p>	

RISKS & ASSUMPTIONS

22. 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

23. 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

24. A total of £70,339 in irrecoverable payroll overpayments was written off in 2015/16. The cost to the council in 2015/16 of these write-offs was £30,757 (£39,582 is provided for in the council's bad debt provision and so is already accounted for).

25. The total outstanding debt as at 31st March 2016 was £242,095.

26. £8,406 of this debt is being recovered through the HR Portal (payroll) system and it is anticipated that all of this debt will be recovered.

27. £233,689 of this debt is being recovered through the debtors (AR) system, however, some of the debt has already been provided for in a bad debt provision. The table below shows a breakdown: -

Total debt	£233,689
Less already provided for in bad debt provision	£67,422
Potential cost to General Fund	£166,267

28. The £166,267 represents the cost to the General Fund if all debt was written off; however, the majority of the debt is expected to be recovered.

HUMAN RESOURCES IMPLICATIONS

29. The human resource implications are included within the body of the report.

TECHNOLOGY IMPLICATIONS

30. There are no technology implications.

EQUALITY IMPLICATIONS

31. There are no equality implications.

CONSULTATION

32. Appropriate consultation takes place with individuals affected and their managers where necessary with regard to the recovery of overpayments.

This report has significant implications in terms of the following:

Procurement		Crime & Disorder	
Human Resources	X	Human Rights & Equalities	
Buildings, Land and Occupiers		Environment & Sustainability	
ICT		Capital Programme	

BACKGROUND PAPERS

None

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Overall outstanding salary overpayments – As at 31 March 2016

	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 31/3/15	376	322,565	46	29,900	352,465
Plus Total Amount Raised in 15/16	244	108,304	239	52,968	161,272
Less total Amount Recovered in 15/16	189	126,841	231	74,462	201,303
Less Amount Written Off in 15/16	113	70,339	0	0	**70,339
Balance Outstanding As At 31/3/16	318	*233,689	8	8,406	242,095

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

Description	No of cases	Total Value (£'s)
Balance Outstanding As At 31/3/16	318	233,689
Paying by instalments	141	102,122
First Reminder Letter	4	3,655
Final Reminder Letter	2	1,270
Final Report Stage	35	15,718
Telephone Recovery	3	3,229
Awaiting write off	3	1,650
Bankruptcy/Liquidation	2	11,659
Collection Agency - other	83	77,262
Recovery not yet due (recently raised invoice)	43	13,671
Other Query	1	3,044
Legal Action	1	409

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

Description – Irrecoverable Due to:	No of cases	Total Value (£'s)
Irrecoverable – Uneconomical to Pursue (under £5)	3	5
Irrecoverable - Exhausted all recovery including Legal Action	44	2,528
Irrecoverable - Due to age of debt	63	60,367
Irrecoverable - Unable to trace	0	0
Irrecoverable - Debtor Bankrupt/Deceased	2	7,601
Write Back - Unable to refund	2	(162)
Total	114	70,339

Comparative Performance Year on Year Over last 3 Years

The overall performance of recovery have continually improved over the 3 year period.

Year	Outstanding Debt As At Year End		Percentage Improvement	Amount Recovered Value (£'s)	Written Off Value (£'s)
	Cases	Value (£'s)			
2013/14	421	392,425	20% lower	234,750	149,486
2014/15	422	352,465	10% lower	246,018	9,438
2015/16	326	242,095	31% lower	201,303	70,339
			Average 40% improvement		

Payslips Produced and Accuracy Rates for 2014/15

	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
No. pay records generated	12,681	12,707	12,653	12,784	12,789	12,637	12,940	13,056	12,901	12,766	12,781	12,851
No. of payroll errors due to HR Centre	47	19	9	9	7	13	19	57	95	65	14	33
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 %	99.63	99.85	99.93	99.93	99.95	99.90	99.85	99.56	99.26	99.49	99.89	99.74

Based on the figures above a total of 153,546 payslips were produced during 2014/15, with an average accuracy rate of 99.75%.

Payslips Produced and Accuracy Rates for 2015/16

	Apr	May	Jun	Jul	Aug	Sep	October	Nov*	Dec*	Jan*	Feb*	Mar*
No. of pay records generated	12,578	12,848	12,819	13,016	12,828	12,507	12,740	12,689	12,748	12,754	12,649	12,689
No. of payroll errors due to HRSC	22	14	7	20	7	13	14	4	6	3	3	3
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 %	99.83	99.89	99.95	99.85	99.95	99.90	99.89	99.97	99.95	99.98	99.98	99.98

Based on the figures above a total of 152,865 payslips were produced during 2015/16, with an average accuracy rate of 99.93%.

* To note: During the months of November through to March, despite corporate wide changes to employee terms and conditions being implemented, requiring payroll system changes, the accuracy of on-going payroll transactions have been the lowest since the shared service was introduced.