



## Treatment of Payroll Overpayments & Underpayments Policy

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## **1. INTRODUCTION & PURPOSE**

1.1 The Council and East Renfrewshire Culture and Leisure Trust has a responsibility to ensure that employees are paid correctly, but on occasions, overpayments and underpayments can occur for a variety of reasons. When this happens the Council will either recover the overpayment or for underpayments make a payment in line with this policy.

1.2 Employees have a responsibility to check their payslip for accuracy and advise their manager and the Payroll team when the wages they receive are different to the expected contracted payment.

1.3 If an overpayment is considered to have been brought about fraudulently then the matter will be reported through the Council's Fraud, Bribery and Theft Investigation procedure. Depending on the outcome the matter would then be investigated through disciplinary procedures.

1.4 This policy outlines the process that will be followed when a member of staff receives an incorrect wage. This policy also includes payments relating to third parties such as child care vouchers.

1.5 The purpose of the document is to ensure that:

- a) overpayments and underpayments are avoided as much as possible
- b) it is understood that the Council has an obligation to pursue the recovery of overpayments, irrespective of how they came to be made
- c) a transparent, fair and consistent approach is followed when incorrect wages are processed.

## **2. SCOPE**

2.1 This document applies to all staff either permanent, temporary or casual employed within, or ex-employees of, East Renfrewshire Council and East Renfrewshire Culture and Leisure Trust who are paid through the Council's Payroll team.

2.2 For the purposes of this policy when discussing overpayment or underpayments the word 'wages' will be used to refer to money paid or not paid in connection to their employment including salary, allowances, overtime, expenses, holiday pay, sick pay, maternity pay, other paid leave types, or any other payment payable under the contract of employment or their terms and conditions.

2.3 Section 14 of the Employment Rights Act outlines an employer's right to recover overpayments without the prior written agreement of the individual, if it is to recover an overpayment of wages. In all cases we will aim to agree repayment of overpayments with staff taking into account their financial commitments. Where agreement can't be reached a suitable repayment plan will be communicated to individuals.

2.4 The Theft Act 1968 indicates that although an individual may not set out to obtain additional wages intentionally, by keeping it and treating it as their own (i.e. spending it) they may be guilty of theft.

2.5 Where an overpayment of wages is identified as the money is public funds the Council is committed to the recovery of the money.

2.6 A decision not to pursue the full recovery of overpayments should be exceptional and should only be taken after a careful appraisal of the relevant facts, and with the approval of the Director of Business Operations and Partnerships, following legal advice. The reasons for not recovering any overpayment will be clearly documented and filed in the employee's HR file.

### **3 DEFINITIONS**

**The following definitions are used in this policy:**

**3.1 iTrent System** is the Council's HR and Payroll system, and offers Manager and Employee self-service. It is used for:

- processing contractual terms and conditions for the purposes of calculating wages
- recording sickness absence, maternity or other leave which links to pay
- provision of employee self-service so that employees can access their payslips. Those without online access are provided with paper payslips.
- provision of manager self-service to log sickness absence (unless alternative local arrangement), approve online expense and overtime claims.

**3.2 Overpayments** are where staff, or ex-staff, receive wages in excess of their contractual entitlement. The likely causes of an overpayment include, but are not restricted to:

- a leaver notification not being completed, received or actioned by the payroll deadline
- late or lack of notification of sickness absence
- late or lack of notification of contractual changes such as working hours reducing
- staff not returning from maternity leave on the expected date in the iTrent system
- an error being made when inputting contractual entitlement on iTrent
- incorrect grade
- a duplication of a timesheet or overtime sheet being submitted and approved
- an iTrent system error that requires escalation to the system provider

**3.3 Underpayments** are where an individual receives less wages than they're contractually due. The likely causes of an underpayment include, but are not restricted to:

- a new staff member's start date being brought forward
- late or lack of notification of sickness absence ending
- late or lack of notification of contractual changes such as working hours increasing
- staff not returning from maternity leave on the expected date in the iTrent system
- an error being made when inputting contractual entitlement on iTrent
- incorrect grade
- timesheets or overtime sheets not being submitted and approved before payroll deadlines
- an iTrent system error that requires escalation to the system provider

### **4 ROLES AND RESPONSIBILITIES**

#### **4.1 Line Managers will ensure:**

- they take responsibility for ensuring this policy is fairly and consistently applied to the staff they manage

- all staff are made aware of this policy as part of their induction, ensuring staff understand how they will receive their payslip, and showing them the employee self-service portal
- changes in employee contracts, including hours, grades, terminations and individual elements are notified to the Human Resources (HR) team in a timely manner using the online form [Electronic Contract Change Form Link](#)
- complete the [Electronic Leaver Form Link](#) as soon as an employee confirms they are leaving. This can be completed initially without knowing any final annual leave balances, the most important aspect is letting HR know the person will leave and the date of this to avoid overpayments
- sickness absence is recorded accurately, maintained and closed through the online sickness reporting on Manager Self Service
- timesheets, overtime, allowances forms are checked for accuracy prior to approving before the relevant cut-off date and in line with guidance
- the monthly budget statement is checked for accuracy and any pay errors are notified to Accountancy, and the Payroll team
- a quarterly review of their team structure is undertaken to ensure there are no false/incorrect/fraudulent employees, ensuring all inaccuracies are highlighted to the HR Systems team immediately [hrrsystems@eastrenfrewshire.gov.uk](mailto:hrrsystems@eastrenfrewshire.gov.uk)

#### **4.2 Employees are expected to:**

- check their first payslip to ensure it appears accurate and matches their contractual documentation. This is essential for new employees or those who have had a contractual change.
- get in touch with HR if they don't understand their payslip by emailing [hrrsystems@eastrenfrewshire.gov.uk](mailto:hrrsystems@eastrenfrewshire.gov.uk). HR can have a call with staff to explain their payslip. In addition Appendix 1 contains an example payslip with notes to explain the different elements.
- check their payslip every pay period to ensure that it appears accurate in terms of their contractual entitlements, and it matches the payment received within their bank/building society account.
- raise wage queries with their manager and Payroll [payroll@eastrenfrewshire.gov.uk](mailto:payroll@eastrenfrewshire.gov.uk) as soon as an issue is identified.
- accurately complete expense and overtime claims in a timely manner
- ensure the current tax code issued by HM Revenue and Customs is being used for the calculation of their wages by checking their payslip against any HMRC letters they receive.
- ensure they understand their wage entitlement including basic annual salary, hourly rate and working hours.
- remain aware of their position and obligations under this policy for the resolution of overpayments of wages.

#### **4.3 HR and Payroll will ensure:**

- this policy is fairly and consistently applied to staff and include this policy under the Council's induction checklist
- keep the HR intranet updated with payroll cut off dates, processes around contractual changes and claiming expenses, overtime and allowance via the [HR Intranet A-Z Link](#) and issue regular reminder emails to managers
- employees are notified in writing of the changes to their contractual terms

- ensure that information and changes received before the relevant payroll deadline are input into the iTrent system in a timely, accurate manner within agreed timescales
- that robust checking processes are in place to identify and reduce over and underpayments
- undertake root cause analysis of any under or over payments, and communicate these as per point 5.9.
- update iTrent manager self-service with a quarterly reminder for managers to check their structures to ensure there are false/incorrect/fraudulent employees

#### **4.4 The Accounts Receivable team are responsible for:**

- raising invoices to recover outstanding overpayment debt under this policy where payroll have provided information regarding staff who have left employment
- run recovery in accordance with the financial system and debt recovery policy
- monitoring the recovery of debt
- providing any information required by Debt Collection Agencies or Courts as appropriate in order that they may take relevant action

#### **4.5 The Audit team are responsible for:**

- initially investigating any instances where fraud or theft is suspected
- liaise with HR to determine whether the matter should be investigated under disciplinary procedures.

## **5 HOW AND WHEN EMPLOYEES ARE PAID**

5.1 Local Government Employees are paid on a 4 weekly cycle via bank transfer on a Wednesday. The payment covers the period up to and including pay day e.g. if staff are paid on Wednesday 3<sup>rd</sup> May their next pay is calculated from 4<sup>th</sup> May (Thursday) until the Wednesday 31<sup>st</sup> May, which is their next pay day.

5.2 Teachers are paid on a monthly cycle and are paid the Thursday before the last Friday in a month. E.g. Thursday 25<sup>th</sup> May, as this is the last Thursday in that month, as the next one the 1<sup>st</sup> June.

5.3 The [Pay Intranet Link](#) contains the payroll deadlines. Dates are specified to allow for processing and checking of HR and payroll information for the multiple payrolls running each month.

- Deadline for information to be submitted to HR for processing e.g. changes to terms and conditions or contracts through a manual form
- Deadline for online forms to be approved e.g. changes to terms and conditions or contracts online through iTrent
- Deadline for information to be directed submitted to Payroll e.g. overtime forms or paper forms
- BACs Process is the date the money is processed by the bank
- Pay date

5.4 Where deadlines are missed, depending on the point in the Payroll processing calendar, HR will prioritise those tasks that could result in an overpayment e.g. processing of leavers.

However this should not be relied on and all requests should be submitted in a timely manner.

5.5 Appendix 1 provides an example payslip and explains how to navigate payslips. For those staff accessing electronic payslips there are some interactive elements which allow employees to click on the tax or national insurance line which shows them how their deductions have been calculated, the rates that apply and the amount of deduction taken.

## **6 PROCESS REQUIREMENTS**

### **6.1 Notification of overpayments and underpayments**

6.1.1 Wage errors can be identified in several ways, but limited to:

- the employee upon receipt of their wages identifies that an error has occurred either through checking their payslip or bank account
- a member of the HR or Payroll team may identify that an error has occurred through internal checking processes
- the line manager identifies that an error has occurred through their budget review process

6.1.2 One of our Council values is Trust and as such we expect that if an employee was aware they were in receipt of money they weren't entitled to they would raise this with their manager or payroll in the first instance. If it became apparent an employee had knowingly kept money then the matter could be escalated through the Fraud, Bribery and Theft Investigation procedures and/or disciplinary procedures may be considered see point 6.2.3 below.

6.1.3 When an error in payment has been identified action should be taken as quickly as possible to rectify the error and to update iTrent accordingly.

6.1.4 Discrepancies in wages relating to the underpayment or overpayments of salary, expenses or any other items that appear on payslips, must be logged with the Payroll team immediately by email to [payroll@eastrenfrewshire.gov.uk](mailto:payroll@eastrenfrewshire.gov.uk).

6.1.5 Where an error results in an employee receiving no or limited normal basic pay which they are entitled to thus creating financial hardship, this will be treated as a priority and Payroll will endeavour to process a payment outwith the normal pay run with any fees passed on to the cost centre of the person who made the error. However where for example overtime has not been processed this will not be treated as a priority.

### **6.2 Process for resolving overpayment errors (not third party payments)**

6.2.1 Once any relevant changes have been input onto the iTrent system, Payroll will calculate the amount of the wage error. Once the error has been verified as correct, the pay adjustment process or overpayment process will begin.

6.2.2 When deciding on an appropriate course of action HR will consider:

- whether the employee has acted in good faith
- any relevant personal circumstances of the employee
- the length of time the overpayment occurred over

### 6.2.3 Good faith will depend on:

- whether the staff member should have known about the error through regularly checking their payslips. Lack of good faith can be implied if there is evidence that the error is so obvious that no one could reasonably claim that they didn't know they had received the money in error e.g. their hourly rate, number of hours worked and allowances on their payslip differ from what is stated in their contractual documentation.
- ignorance or not checking a payslip is not an excuse as all staff are expected to check their payslips at each pay period.
- how the recipient of an overpayment has acted will influence the course of action to take in terms of whether the matter requires investigation under either the Disciplinary procedures or the Fraud, Bribery and Theft Investigation procedures.

6.2.4 The overpayment will be calculated as a gross value – this is the amount the Council has overpaid, rather than the net amount (after tax, national insurance and pension) the employee has received. Calculating the gross value ensures that the overpayment can be processed by the Payroll team with minimal delay. As the overpayment is recovered the iTrent system will automatically reduce the employee's tax, national insurance and pension charge as appropriate.

6.2.5 In all cases staff will be informed of overpayments and the need to repay money owed. In the majority of cases Payroll will liaise with the staff member to discuss and agree a repayment plan over a reasonable period at a figure that is manageable for the individual.

6.2.6 If the individual requests a recovery period in excess of 2 years, or the overpayment has occurred over a period of 2 years or more the matter will be referred to the HR Manager and Head of HR & Corporate Services who will discuss and decide on the appropriate period of recovery based on the employee's circumstances.

6.2.7 The standard approach will be that no matter the amount that has been overpaid all monies owed must be paid back in full. Only in very exceptional circumstances will a reduced overpayment amount be agreed. Any such decision will be with the approval of the Director of Business Operations and Partnerships, following Legal advice.

6.2.8 The reasons for not recovering any overpayment will be clearly documented and filed in the employee's HR file.

## **6.3 Casual Workers**

6.3.1 Due to the nature of the contract under which casual workers are employed, work cannot be guaranteed. Consequently, if an overpayment occurs it will not normally be possible to set up an overpayment recovery via the payroll. In these circumstances, the Payroll team will calculate the net overpayment. They will write to the individual to explain the circumstance of the error and the matter will be referred to the Debtors team so that an invoice can be raised and the debt recovery process begins.

## **6.4 Leavers**

6.4.1 Where an employee has been overpaid or has outstanding payments to make e.g. Tusker Car Lease and they terminate their employment before the completion of the agreed recovery, the balance of the overpayment (amount due) will be taken from their final wage. If the overpayment (amount due) is greater than the final wage payment, immediate payment will become due prior to leaving the Council. If no payment is made before leaving the

Council, the matter will be referred to the Debtors team so that an invoice can be raised for the balance, and the debt recovery process can begin.

## **6.5 Ex-employees**

6.5.1 When a payment error is identified for an employee who has already left the organisation, the Payroll team will calculate the net amount of the overpayment/outstanding payment. Payroll will write to the ex-employee to explain the circumstance of the error/outstanding payment and refer the matter to the Debtors team so that an invoice can be raised and debt recovery commenced.

6.5.2 In the event that a repayment plan cannot be agreed or the debtor backs out on a repayment plan, recovery may be pursued through a debt collection agency and the Courts.

### **6.6.1 Re-joiners**

6.6.1 Where an ex-employee with existing debt rejoins the council any existing debt sitting with the Debtors team will be transferred to be managed through payroll deduction. The re-joiner will be contacted and arrangements made to set up repayments through their wages.

### **6.6.2 Process for resolving third party payment errors/outstanding payments**

6.6.3 When a deduction due to a third party, for example in respect of child care vouchers, cycle to work and Tusker Car Lease Scheme etc has not been made, or has been deducted at an incorrect rate, the Payroll team will contact the individual in the first instance to arrange for the additional amount to be deducted or additional amount to be paid in the next pay period. If the employee is leaving/has left the Council then the process outlined in 6.4 and 6.5 will be applied.

6.6.4 Salary Finance – this scheme has been set up if the employee leaves it automatically changes to direct debit process which the employees provides at the time of the loan.

## **6.7 Incorrect payments of Tax and National Insurance Contributions**

6.7.1 The HMRC notifies the Council of any underpayments of Tax and National Insurance contributions automatically via the Government Gateway. When the notification is received, it is input into iTrent by automatic data transfer and the adjustment is made in the next pay interval. The Council has no discretion on these recoveries. Any queries must be addressed to HMRC directly by telephone 0300 200 3300 or through their website forms <https://www.gov.uk/government/organisations/hm-revenue-customs/contact/income-tax-enquiries-for-individuals-pensioners-and-employees>

6.7.2 Where an underpayment of National Insurance or Tax is the result of a Council system error, then the Council is legally obligated to recover all amounts owed. Employees will be written to and will be informed of any underpayment, and the timescales in which the money will be recovered through their wages.

## **6.8 Underpayments**

6.8.1 Individuals should report underpayments of wages in the same way as overpayments so that the Payroll team can take any appropriate action.

6.8.2 If the underpayment leaves the employee in financial hardship then the matter will be treated as urgent and a bank transfer outside of our normal pay cycles may be processed.



## **6.9 Escalations and Monitoring**

6.9.1 All overpayments and underpayments should be escalated to line managers and the Payroll team as soon as they are identified. HR has an internal escalation process that will record the reason for the pay discrepancy, undertake relevant root cause analysis and the outcome of this will be shared with Department/Partnership Senior Management as appropriate.

6.9.2 Monitoring of this policy will be through:

- Monthly analysis of payroll overpayments
- Quarterly reporting to CMT and Head of Services of all overpayment and underpayments in their area of responsibility including employee and manager names
- Line managers monthly monitoring of salaries charged to their budgets
- Internal and external audit review

6.9.3 Through analysis of overpayments and underpayment, if any trends are identified where managers or individuals are regularly failing to take appropriate action, this will be fed back to the relevant manager of the individual so that the appropriate action may be undertaken.

## **APPENDIX 1 – EXAMPLE PAYS LIP**

The document below contains an example payslip and explains how to navigate your payslip.



Payslip Example.pdf