

National Insurance Fund Account 2010-11

Presented to Parliament pursuant to Section 161(2) of the Social Security Administration Act 1992

National Insurance Fund Account 2010-11

Presented to Parliament pursuant to Section 161(2) of the Social Security Administration Act 1992

Ordered by the House of Commons to be printed 15 December 2011

© **Crown copyright 2011**

You may re-use this information (excluding logos) free of charge in any format or medium, under the terms of the Open Government Licence. To view this licence, visit <http://www.nationalarchives.gov.uk/doc/open-government-licence/> or e-mail: psi@nationalarchives.gsi.gov.uk.

Where we have identified any third party copyright information you will need to obtain permission from the copyright holders concerned.

Any enquiries regarding this publication should be sent to us at HMRC Finance, Room C4, South Block, Barrington Road, Worthing BN12 4XH

This publication is available for download at www.official-documents.gov.uk

This document is also available from our website at www.hmrc.gov.uk

ISBN: 9780102975314

Printed in the UK by The Stationery Office Limited
on behalf of the Controller of Her Majesty's Stationery Office

ID P002467616 12/11 19585 17259

Printed on paper containing 75% recycled fibre content minimum.

Contents	Page
Foreword	2
Statement on Internal Control	4
The Certificate of the Comptroller and Auditor General	10
Receipts and Payments Account	12
Notes to the Account	13
Accounts Direction	23
Report by the Comptroller and Auditor General	26

Foreword

Statutory background

1. The National Insurance Scheme was established on 5 July 1948 to provide unemployment benefit, sickness benefit, retirement pensions and other benefits in cases where individuals meet the contribution and other qualifying conditions.
2. Under the Social Security Administration Act 1992 benefits due under the National Insurance Scheme are payable out of the National Insurance Fund (NIF). The funds required for meeting the cost of these benefits are mainly provided from National Insurance contributions payable by employed earners, employers and others. The Social Security Contributions and Benefits Act 1992 sets out the conditions governing entitlement to most benefits and the basis for assessing liability to pay National Insurance contributions.
3. Section 161(1) of the Social Security Administration Act 1992 (as amended by the Social Security Contributions (Transfer of Functions etc) Act 1999) placed the NIF under the control and management of the Inland Revenue (now HM Revenue & Customs (HMRC)).
4. The Deputy Chief Executive of HMRC is the Principal Accounting Officer for the Fund. HM Treasury appointed me as Principal Accounting Officer for HMRC with effect from 19 July 2011. Section 161(2) of the Social Security Administration Act 1992 requires HMRC to prepare accounts of the NIF in such form, and in such manner and at such times, as the Treasury may direct. The accounts are prepared on a cash basis and must properly present the receipts and payments for the financial year and the balance held at the year end.

Operational responsibilities

5. National Insurance contributions are payable by employed earners, employers and others. HMRC is responsible for collecting these contributions and recording them against individuals' contribution records (which determine entitlement to social security benefits payable from the NIF). As Principal Accounting Officer for the NIF, I am responsible for the control and management of the Fund.
6. The Department for Work and Pensions (DWP) has overall responsibility for the award and payment of most benefits payable from the NIF, including those relating to retirement, sickness and contribution based Jobseeker's Allowance. Entitlement to benefit is determined by the claimant satisfying qualifying conditions. DWP also pays over to the NIF recoveries for Statutory Sick and Statutory Maternity pay due to loss of revenue from contribution receipts being reduced by statutory payments.
7. The Department for Business, Innovation and Skills (BIS) is responsible for making Redundancy Payment Scheme awards with the Insolvency Service, an agency of BIS, handling the payment of awards and collection of receipts. BIS also pays over to the NIF recoveries for Statutory Adoption and Statutory Paternity pay due to loss of revenue from contribution receipts being reduced by statutory payments.
8. The amounts received by and paid out of the NIF and the resulting balance depend on legislation, which is the responsibility of Treasury Ministers and the Secretary of State for Work and Pensions. In setting contribution rates, Treasury Ministers are required to have regard to changes in the general level of earnings, the balance on the fund and payments expected to be made from it in the future (Sections 141 and 143 of the Social Security Administration Act 1992). In addition both demographic and economic changes can affect amounts received, paid out and subsequently the overall balance.
9. The Government Actuary is required under Sections 142(1), 147(2) and 150(8) of the 1992 Social Security Administration Act to report on the likely effect on the NIF of the Government's annual Benefits Up-rating and Contributions Re-rating Orders. These reports are laid before Parliament and debated alongside the relevant orders. He is also required, under Section 166 of the Act, to review the operation of the Great Britain National Insurance Fund at least every five years. The latest

quinquennial report was laid before Parliament on 30 March 2010. This showed that Fund expenditure is projected to increase from around 5 per cent of GDP in 2008-09 to around 8 per cent of GDP in 2070-71. The main driver of this effect is the ageing of the population.¹

Audit arrangements

10. The Comptroller and Auditor General is required under Section 161(2) of the Social Security Administration Act 1992 to examine and certify the NIF Account and to lay copies of it, together with his report on it, before Parliament.

Financial performance

11. The National Insurance Scheme is financed on a pay-as-you-go basis with contribution rates set at a level broadly necessary to meet the expected benefits expenditure in that year, after taking into account any other payments and receipts and to maintain a working balance. Changes in contribution levels, in response to the needs of the Fund, take time to implement therefore a working balance is necessary because the NIF has no borrowing powers. In his report on the financial provisions of the Social Security Bill 1992, the Government Actuary confirmed that it was prudent to plan for a minimum balance of one-sixth (16.7 per cent) of annual benefit expenditure.
12. The balance on the fund has decreased by £5,623 million compared with the position at 31 March 2010 (£48,457 million). At 31 March 2011 the balance held is £42,834 million (55 per cent of annual benefit expenditure). This decrease is partly attributable to the increase in benefit payments (£2,389 million) and partly due to receipts from national insurance contributions remaining lower than payments. Interest earned on the NIF balance remains low due to the historically low interest rates.
13. The Government Actuary's next Report on the Government's Benefits Up-rating and Contributions Re-rating Orders will be tabled in early 2012 alongside the 2012 Up-rating Order and the Re-rating Orders. The Orders, which will cover the financial year 2012-13, are subject to debate and require the approval of both Houses. These reports include estimates of both benefit payments and contributions which are sensitive to changes due to a number of assumptions made, such as the level of employment and earnings.

Responsibilities of the Deputy Chief Executive of HM Revenue & Customs

14. As Deputy Chief Executive of HM Revenue & Customs, I am the Principal Accounting Officer for the NIF. My relevant responsibilities as Principal Accounting Officer, including my responsibility for the propriety and regularity of the public finances for which I am answerable and for the keeping of proper records, are set out in the Principal Accounting Officers' Memorandum issued by HM Treasury and published in *'Managing Public Money'*. Many of the activities relating to the transactions of the NIF are carried out by other departments (e.g. DWP & BIS) and agencies on my behalf and I receive letters of assurance from them as detailed in the Statement on Internal Control.

Dave Hartnett CB
Principal Accounting Officer
7 December 2011

¹For full report http://www.gad.gov.uk/Documents/Social20Security/Quinquennial_Review_10-Full_Report.pdf

Statement on Internal Control

This statement is given in respect of the Great Britain National Insurance Fund White Paper Account.

Scope of responsibility

1. As Principal Accounting Officer for the Great Britain National Insurance Fund (GB NIF), I have responsibility for maintaining a sound system of internal control that supports the achievement of HM Revenue & Customs (HMRC) policies, aims and objectives, whilst safeguarding the public funds and Departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in *Managing Public Money*.
2. Whilst HMRC has overall responsibility for the control and management of the Fund and for collecting National Insurance contributions, the Department for Work and Pensions (DWP) is responsible for benefit payments and the Insolvency Service, an agency of the Department for Business Innovation and Skills (BIS), is responsible for Redundancy Payments Scheme awards that are covered by the Fund.
3. I receive Letters of Assurance from the Accounting Officers of those departments, approved by their audit committees, which refer to their own Statements on Internal Control (SICs) and highlight any significant issues that impact on the Fund. In addition, the Government Actuary is responsible for reporting to Parliament on the performance of the Fund.

The purpose of the system of internal control

4. The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Departmental policies, aims and objectives; to evaluate the likelihood of those risks being realised and the impact should they be realised; and to manage them efficiently, effectively and economically. The system of internal control has been in place in HMRC for the year ended 31 March 2011 and up to the date of approval of the accounts, and accords with HM Treasury guidance.
5. Specific work undertaken on behalf of the NIF forms only a small part of the whole work of HMRC. A separate SIC has been produced for the HMRC 2010-11 accounts that fully sets out details of HMRC's capacity to handle risk and its risks and control framework, as well as including disclosures that relate to issues outside of the scope of work relating to the NIF. The full SIC can be found in HMRC's published accounts for 2010-11.

Capacity to handle risk

6. Over the past two years HMRC has implemented a standardised approach to corporate risk management that affirms its commitment to take the right risks and opportunities to support the delivery of its business objectives. It sets out the roles, responsibilities and expected behaviours of all members of the Department in doing this, and makes sure they are supported by the appropriate tools, training and guidance.
7. Each business area of the Department has a Lead Risk Champion, who works with the relevant senior management team to lead the approach, and a Business Risk Partner, who oversees risk management activities. These stakeholders come together on a regular basis to make sure the approach is implemented consistently across the Department, learn from good practice and support the Executive Committee in effectively identifying and managing risk. A professional Corporate Risk Management function provides central support to help staff understand their respective roles and responsibilities for risk management, acting as a challenge function to ensure risk processes are working consistently across business areas.

8. The National Audit Office (NAO) has recently issued a report on risk management in the 16 largest government departments, which includes examples of best practice from HMRC. The implementation of the Department's approach to risk management is the subject of periodic review by Internal Audit.

The risk and control framework

9. HMRC's approach to risk management is set out in the Corporate Risk Management Strategy, which has been endorsed by the Executive Committee and the Audit and Risk Committee. The key components of the Strategy have been integrated into governance arrangements across the organisation, improving its risk management capability and bringing it in line with industry good practice.
10. HMRC applies a structured framework for identifying, assessing, communicating, escalating and managing risk consistent with the Committee of Sponsoring Organisations (COSO) framework – an established methodology for assessing risk and evaluating controls used in both the public and private sectors. It is also consistent with the guidance on risk management set out in HM Treasury's Orange Book.
11. The framework involves both a top down strategic view of risk and the upward reporting or escalation of risks, with reporting lines established at key levels of the organisation. Management teams review their key risks, and consider whether any risks need to be escalated to the next management level based on pre-defined escalation criteria. There is also a process for 'fast track' escalation of emerging risks to ExCom. Risks must have a clear accountable owner who is responsible for reviewing mitigating actions to ensure the risk is being managed within acceptable levels.
12. There is a NIF Audit Forum consisting of representatives from key Internal Audit units, the NAO, other government departments and management. The forum focuses on co-ordinating risk-based audit activity such as planning, reporting and implementation of recommendations and fostering opportunities for joint working and exchange of best practices.

Information risk

13. In September 2010, the Information Commissioner lifted, nine months early, the Enforcement Notice placed upon HMRC following the Child Benefit data loss incident. This recognised the commitment made to meet the terms of the notice, and also required HMRC to continue to implement the recommendations contained in the Poynter Report.
14. The expansion of the Department's Secure Electronic Transfer (SET) service has continued, providing enhanced security for high volume electronic data transfers. HMRC has met its target of 80 per cent of outbound file transfers via SET.
15. Governance and assurance activities continue to improve and particular focus has recently been given to the 'Cyber' risks facing HMRC. The Senior Information Risk Owner (SIRO) has sponsored a Cyber Oversight Group and Cyber Working Group, to ensure cross department stakeholders remain engaged, and investment funding focuses on areas of greatest value.
16. HMRC has developed and piloted an enhanced security incident capture tool for phased roll out in 2011-12. It will ensure root causes and trends can be assessed and the probability of repeat incidents reduced.
17. Engagement with targeted areas of the business, Delivery Partners and third party suppliers as part of HMRC's Security Risk Management Overview for the Cabinet Office, has enabled the Department to better inform its information risk tolerance. It has also helped achieve improvements in a number of areas, including ownership and accreditation of HMRC's legacy information systems; testing of end-to-end process continuity requirements; ongoing recertification of user access entitlements; and managing risks to information stored and processed in our customer facing on-line systems.

18. Protecting the confidentiality, availability and integrity of our customers' information remains a strategic objective, and HMRC has been pleased by the independent recognition of the progress it has made by The National Archives in their recent Information Management Assessment. It praises senior management's commitment to information management and describes HMRC's approach to information security as best practice saying, "HMRC should be proud of its achievements in raising levels of understanding, awareness and compliance in relation to information security and assurance."
19. Plans also exist to build on progress to date, to drive both immediate improvements and longer term change, particularly in the areas of data quality; longer term digital continuity, where storage requirements and technologies are continually evolving; and a more consistent approach to identifying records that no longer need to be kept.

Review of effectiveness

20. As Principal Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by executive managers within the Department who have responsibility for the development and maintenance of the internal control framework, by the work of the internal auditors and comments made by the NAO in management letters and other reports.
21. I discuss significant control issues with my executive team as they arise at our regular Executive Committee and Performance Committee meetings. Executive Committee meetings are informed by an assessment of our current exposure to strategic risk. Performance Committee meetings are further informed by monthly reports on performance. The focus of these is the progress being made to deliver our key targets and objectives and the issues and risks that could prevent this.
22. To provide me with an assurance on the effectiveness of the system of internal control, the Director of Internal Audit provides me with an annual opinion, a summary of the findings from every internal audit review, and he alerts me to significant control issues as they arise. The Chairman of the Audit and Risk Committee, who is a non-executive Board member, provides the Board with a written report after each Audit and Risk Committee meeting.
23. The Directors General and other senior managers have drawn up statements that set out governance, risk and control arrangements in their business areas. Taking these statements into account, and observations from the Directors of Internal Audit and the NAO, I recognise that there are a number of significant control weaknesses relating to the NIF. These are detailed below. All the issues apply to both the Great Britain and Northern Ireland Funds, and numbers of items and monetary amounts quoted are the total impact across both Funds. (The way the NIF is administered makes it difficult to disaggregate the required information so that it relates solely to Great Britain or Northern Ireland.)

Class 2 National Insurance debt balances

24. National Insurance Class 2 is a flat-rate weekly contribution paid by the self-employed. Payment of Class 2 contributions gives entitlement to a range of contributory benefits. The timeliness of HMRC's collection of outstanding Class 2 debt and lack of a suitable process for collection is a long standing issue that has been commented on in previous years. The class 2 debt balance on the National Insurance & Pay as You Earn Service (NPS) continues to rise. At October 2011 the debt balance had increased by £200 million in the last year to £927 million. The debt balance continues to increase as there is no functionality within NPS to pursue and recover outstanding debts or IT capabilities to transfer debts to systems within Debt Management & Banking (DMB).
25. In 2009–10, DMB led a successful initiative to both trial and test the value for money and prove the concept of using private sector Debt Collection Agencies (DCAs) to recover a range of HMRC debts. This trial included old Class 2 debts held on DMB's Integrated Debt Management System (IDMS). Early results were very positive. During 2010–11, DMB put an increased volume of 21,500 old Class 2 debts, (with a value of £7.6 million) into the DCA process. A tactical IT solution was also developed to enable a sample of 3,500 Class 2 cases (with a value of £1 million) held on NPS to be referred directly to DCAs. In both instances suitable debts were only transferred to DCAs in March and April 2011.

Whilst both aspects of Class 2 debt presented operational and IT challenges, DMB continues to work with key stakeholders to build upon recent experiences to include a further 200,000 cases (with an approx. value of £90 million) of Class 2 debt from NPS in DMB's 2011-12 DCA Programme.

26. DMB is currently working with key stakeholders to determine if a strategic solution can be developed to recover class 2 debts on NPS by Coding Out, routing to DMB's Campaign Strategy and via the continued use of DCAs. Early indications of this solution are positive.
27. The annual remissions exercise undertaken in April 2011 resulted in £17.3 million of time-barred debt being remitted. Class 2 debt is only remitted if it has become 6 years old and has not previously been protected by enforcing the debt via a County Court Judgement. Debt of this nature is referred to as 'time-barred'. The remissions exercise is an annual batch exercise run on NPS to identify debt of this type and age. Results from this exercise are produced for business areas within NICE&O and DMB to confirm that the debts identified should in fact be remitted on NPS. If approved, a further batch exercise on NPS runs to update appropriate periods of debt as having been remitted as they have become time-barred.

Home Responsibilities Protection (HRP) and National Insurance Credits

28. In the 2009-10 Statement on Internal Control I reported on inaccuracies in the recording of HRP and National Insurance Credits. The problems associated with these issues have now been resolved to the extent that they are no longer considered a significant control challenge. Further detail is provided in the section below setting out DWP's assurance. This issue will therefore not be included in future updates.
29. In the 2009-10 Statement on Internal Control HMRC reported inaccuracies in recording of National Insurance Credits and problems with interfaces to the HM Revenue and Customs National Insurance and PAYE System (NPS).
30. HMRC has monitored the position regarding inaccuracies in recording since completion of the two year exercise to correct errors in the recording of credits for periods of incapacity reported in last year's SIC and has found the residual level of error to be minimal.
31. Following the suspension of the automatic notifications from NPS to the Carers Allowance Unit reported in previous years, systems changes were applied and monitoring demonstrates that the referral process has now been working effectively since April 2009. Work is underway to clear the backlog of notifications.

Non-matching contribution items

32. The returns containing end of year information that we receive from employers can include NI contributions (and earnings data used to calculate NI benefit payments) that cannot be matched to the relevant employee record because some employers provide insufficient (or insufficiently clear) personal details about their employees. Because the items cannot be matched to an individual employee, the NI contribution records and earnings data for those employees cannot be updated. Therefore National Insurance benefit payments to those individuals may not be calculated based on accurate information. For 2009-10 (the most recent tax year for which information is held) the proportion that could not be matched was 2.01 per cent.
33. However, this proportion has steadily fallen from 5 per cent in 2003-04. Those returns that cannot be matched are not discarded. They are kept indefinitely on a non-matched suspense file until such time as new information is received (e.g. when a customer makes a subsequent enquiry or claims a benefit) that helps HMRC to match the return to the customer's record.
34. In 2009-10, 1.16 million new non-matched items were added to the suspense file. The current gross total (based on the same calculation used in previous years for comparison purposes) is 120.6 million. The actual number of items is less, as this gross total is derived from a series of annual tax year reviews carried out from 1975 and does not take into account returns that are matched after the review

for each year has taken place. Not all such items have an impact on future benefit payments. An analysis of the non-matched suspense file for 2009-10 showed that 61.5 per cent have nil earnings for National Insurance purposes; therefore they have no effect on pension entitlement or other benefits. A further 28 per cent (total 89.5 per cent) have earnings below the main threshold (the Lower Earnings Limit) used to calculate benefit entitlement, meaning that individually and without being added to contributions or credits from another source, they cannot attract benefit payments.

35. HMRC is continuing to work with employers to maintain the steady fall in the annual proportion of non-matched items entering the suspense file. Recommendations from a 2010-11 Internal Audit review of non-matching items that concluded this year are being taken forward. In addition, the focus of the Real Time Information (RTI) Programme's Data Improvement Project is to address data quality issues, which, if they remain unresolved, will negatively impact the successful delivery of RTI. A key element of the project will be to ensure that RTI submissions are matched to the correct individual and employment record. The interventions that will be delivered are expected to increase the match rates to individual NI accounts to exceed 98 per cent.

Assurance from DWP in respect of contributory benefit payments and National Insurance Credits

36. A Letter of Assurance has been received from DWP that has been approved by its Audit Committee. It contains details about its capacity to handle risk and its risk control framework. The letter indicates significant control challenges, which are summarized below.
37. In 2010-11 contributory benefits funded from the NIF totalled £77.8 billion, which included £69.35 billion related to State Pension and £5.60 billion related to Incapacity Benefit. The remainder included payments made in relation to Bereavement Benefit, Maternity Allowance, Christmas Bonus, Jobseeker's Allowance (Contributory) and Employment & Support Allowance.
38. The latest estimates for 2010-11 indicate that losses from fraud and error in relation to State Pension were approximately £100 million (0.1 per cent) and in relation to Incapacity Benefit approximately £130 million (2.4 per cent).
39. In the 2009-10 Statement on Internal Control both HMRC and DWP reported inaccuracies in recording of National Insurance Credits and problems with interfaces to the HM Revenue and Customs National Insurance and PAYE System (NPS).
40. DWP and HMRC have monitored the position regarding inaccuracies in recording since completion of the two year exercise to correct errors in the recording of credits for periods of incapacity reported in last year's SIC and have found the residual level of error to be minimal.
41. Following the suspension of the automatic notifications from NPS to the Carers Allowance Unit reported in previous years, systems changes were applied and monitoring demonstrates that the referral process has now been working effectively since April 2009. Work is underway to clear the backlog of notifications.
42. On that basis both departments are satisfied that the problems associated with these challenges have now been resolved to the extent that they are no longer considered a significant control challenge for either DWP or HMRC.

Assurance from BIS in respect of the Redundancy Payments Scheme

43. A Letter of Assurance has been received from BIS that has been approved by its Audit Committee and contains details about its capacity to handle risk and its control framework. The letter gives assurances that there were no significant internal control issues that impact on the NIF.

Dave Hartnett CB
Principal Accounting Officer
7 December 2011

The Certificate of the Comptroller and Auditor General to the Houses of Parliament

I certify that I have audited the financial statements of the Great Britain National Insurance Fund for the year ended 31 March 2011 under the Social Security Administration Act 1992. These comprise the Receipts and Payments Account (including the Statement of Balances) and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Accounting Officer and auditor

As explained more fully in the section “Responsibilities of the Chief Executive of HM Revenue & Customs”, the Chief Executive of HM Revenue & Customs as Accounting Officer is responsible for preparing the financial statements in accordance with the Social Security Administration Act 1992 and HM Treasury directions made thereunder. My responsibility is to audit, certify and report on the financial statements in accordance with the Social Security Administration Act 1992. I conducted my audit in accordance with International standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board’s Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Great Britain National Insurance Fund’s circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Accounting Officer; and the overall presentation of the financial statements.

In addition I read all the financial and non-financial information in the Foreword and the Statement on Internal Control to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implication for my certificate.

In addition, I am required to obtain evidence sufficient to give reasonable assurance that the receipts and payments reported in the financial statements have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Opinion on Regularity

In my opinion, in all material respects, the receipts and payments have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Opinion on Financial Statements

In my opinion:

- the financial statements properly present the receipts and payments of the Great Britain National Insurance Fund for the year ending 31 March 2011; and
- the financial statements have been properly prepared in accordance with Section 161(2) of the Social Security Administration Act 1992 and HM Treasury directions made thereunder.

Opinion on other matters

In my opinion, the information given in the Foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records or returns; or
- I have not received all the information and explanations that I require for my audit; or
- the Statement on Internal Control does not reflect compliance with HM Treasury's guidance.

Report

My report on the financial statements is at pages 26 to 29.

Amyas C E Morse
Comptroller and Auditor General
14 December 2011

National Audit Office
157 - 197 Buckingham Palace Road
Victoria
London SW1W 9SP

Receipts and Payments Account for the year ended 31 March 2011

Prepared in accordance with Section 161 of the Social Security Administration Act 1992.

Receipts	Notes	2010-11 £000	2009-10 £000
National Insurance contributions	2	74,181,834	73,816,653
Compensation for statutory pay recoveries	3	2,100,796	1,702,409
Income from Investment Account	4	204,124	236,683
State Scheme Premiums	5	47,299	52,358
Other receipts	6	46,657	49,245
Redundancy receipts	7	49,281	39,663
		<hr/> 76,629,991 <hr/>	<hr/> 75,897,011 <hr/>
<i>Less</i>			
Payments			
Benefit payments	8	77,799,137	75,410,005
Personal Pensions	9	2,313,669	2,623,415
Administrative costs	10	1,419,801	1,401,091
Redundancy payments	7	445,623	530,915
Transfers to Northern Ireland NIF	11	125,000	395,000
Other payments	12	149,407	126,299
		<hr/> 82,252,637 <hr/>	<hr/> 80,486,725 <hr/>
Excess of payments over receipts		(5,622,646)	(4,589,714)
Statement of balances		2010-11 £000	2009-10 £000
Opening balance		48,456,638	53,046,352
Less excess of payments over receipts		(5,622,646)	(4,589,714)
Closing balance	13	<hr/> 42,833,992 <hr/>	<hr/> 48,456,638 <hr/>

Dave Hartnett CB
Principal Accounting Officer
7 December 2011

The notes on pages 13 to 22 form part of these accounts.

Notes to the Account

1. Accounting policies

Basis of preparation of the Account

This account has been prepared in accordance with Section 161(2) of the Social Security Administration Act 1992. It has been prepared on a cash basis and in a form directed by HM Treasury, shown as an annex to this account, and the policies outlined below.

National Insurance contributions

The account shows those contributions received by the Department during the year. Contributions are recognised in the accounting period in which they are received and measured at the cash amount allocated.

The amounts received are after recoveries by employers of amounts due in respect of any statutory sick, maternity, adoption and paternity payments made to their employees and after deduction of contributions allocated to the National Health Service (NHS).

Employers are responsible for calculating their own and their employees' contributions. National Insurance records are subject to examination by HMRC. These checks and other checks on contributors may result in additional receipts or repayments in future years in respect of contribution liabilities for 2010-11.

Payment of Social Security Benefits

The Department of Work and Pensions (DWP) administers a range of Social Security Benefits, financed either from the NIF or from the Consolidated Fund. The payment of contribution-based benefits is recognised in the NIF account in the accounting period in which the DWP pays the benefit to the claimant.

DWP accounts for benefit expenditure using the Programme Accounting Computer System (PACS). This system is used as the basis for determining the payments of contribution-based benefits in the NIF account.

Net accounting

National Insurance contributions, state scheme premiums, personal pension and benefit payments are all shown net of refunds or recoveries.

Use of estimates

Actual information necessary to support the allocation of receipts between National Insurance and other taxes is often received by the Department after the end of financial year. The Department therefore allocates certain receipts and payments on the basis of estimates. The most significant areas where the initial accounting for receipts and payments relies on estimates are set out below.

Class 1 National Insurance contributions

Almost all amounts received in respect of Class 1 National Insurance contributions are collected via the monthly Pay-as-You-Earn (PAYE) process. As part of this process, there is no requirement for employers to provide a breakdown between Income Tax and National Insurance until the P14 and P35 forms (end of year returns) are submitted to the Department after the end of the financial year.

The Department therefore allocates PAYE receipts between Income Tax and Class 1 National Insurance contributions based on its best estimate of the split likely to be reported in employers' end of year returns. The allocation is re-assessed and adjusted in the next financial period when the actual information on the Income Tax and Class 1 National Insurance split is known.

Class 4 National Insurance contributions

The collection of receipts for Income Tax and Class 4 National Insurance contributions within the Self-Assessment involves long time lags. Receipts in any one year will relate to payments on account for that year and the settlement of liabilities for previous years. Self-Assessment receipts are allocated between Income Tax, Class 4 National Insurance contributions, and Capital Gains Tax on the basis of periodic analysis of individuals' records in the Self-Assessment system.

Statutory Sick Pay and Statutory Maternity Pay (SSP/SMP)

Statutory Sick Pay and Statutory Maternity Pay (SSP/SMP) receipts are recognised in the NIF on the basis of expected recoveries by employers. Unlike most other benefits where the benefit payment is made directly to the claimant, the employer is responsible for calculating and paying SSP and SMP. The employer is able to recover this amount via the PAYE system.

The actual amounts of SSP and SMP are not known until after the end of the financial year to which the SSP or SMP payment related; thus an estimated payment is made in respect of the total recovery for the past financial year.

The estimate is produced using information on past recoveries taken from systems administered by HMRC.

2. National Insurance contributions

Contributions	Notes	2010-11 £000	2009-10 £000
Class 1 (employed earner)	i	71,411,268	70,911,106
Class 1A & 1B	ii	987,009	1,037,968
Class 2 (self-employed flat rate)	iii	274,873	271,535
Class 3 (voluntary contributions)	iv	60,820	115,296
Class 4 (self-employed earnings related)	v	1,447,864	1,480,748
		<u>74,181,834</u>	<u>73,816,653</u>

Different groups of people pay different classes of contributions. Currently there are six classes: 1, 1A, 1B, 2, 3 and 4. These can be summarised as follows:

- i Class 1 contributions are divided into two parts: primary contributions payable by employees and secondary contributions payable by employers.
- ii Class 1A contributions are paid by employers on most benefits provided to employees. Employers pay Class 1A contributions to HMRC Pay As You Earn (PAYE) scheme with their Class 1 contributions.

Employers are not required to provide HMRC with details of the split between Class 1 and Class 1A contributions when making payment via the PAYE scheme. The total amount of Class 1A contributions for the year is, therefore, estimated by the Government Actuary based on employers' End of Year Returns.

Class 1B contributions were introduced on 6 April 1999 and are payable by employers where they have entered into a PAYE Settlement Agreement for tax enabling them to settle their National Insurance and Income Tax liability in a lump sum after the end of the tax year.

The figures for Class 1A and Class 1B have been combined.

- iii Class 2 self employed persons pay flat rate weekly contributions.
- iv Class 3 voluntary flat rate contributions are paid to maintain contributors' National Insurance record for certain benefit and / or pension purposes.
- v Class 4 self employed persons pay earnings related contributions.

NHS allocation

The Social Security Administration Act 1992 requires the Government Actuary's Department (GAD) to apportion the National Insurance contributions collected each year. The main purpose of this exercise is to confirm the Class split in order to calculate the appropriate amount to be paid over to the NHS (Social Security Act 1992 (c.5 ss161-162)).

The NHS allocation is paid over by HMRC to the NHS before the contributions are paid into the NIF and so the figures above are shown net of the NHS element. The NHS allocation was £20.4 billion in 2010-11 (£20.3 billion in 2009-10).

3. Compensation for Statutory Sick, Maternity, Adoption and Paternity Pay recoveries

	Notes	2010-11 £000	2009-10 £000
Statutory Sick and Statutory Maternity pay	i	2,052,038*	1,683,657
Statutory Adoption and Statutory Paternity pay	ii	48,758	18,752**
Total		2,100,796	1,702,409

The Government compensates the GB NIF for loss of revenue due to contribution receipts being reduced by recoveries of statutory sick, maternity, adoption and paternity pay. The compensation is drawn down from the Consolidated Fund and then paid over to the GB NIF by other government departments, as the GB NIF has no facility to do so. The amounts paid over are based on estimates.

i Statutory Sick and Statutory Maternity pay recoveries are paid over by DWP.

ii Statutory Adoption and Statutory Paternity pay recoveries are paid over by BIS.

*SSP/SMP receipts were high compared to 2009-10 due to an under-allocation of receipts for that and prior years totalling £408 million. The top up will be made during 2011-12.

**SAP/SPP receipts for 2009-10 adjusted down by £26.089 million from £44.841 million, to correct an overstatement of receipts in 2005-06. Additionally, BIS overpaid by £1.3 million in 2009-10, with a consequent reduction in their 2010-11 charge.

4. Income from Investment Account

	2010-11 £000	2009-10 £000
Interest received	204,124	236,683

Interest is received on the Fund surplus, placed on deposit by the Commissioners for the Reduction of National Debt (CRND). During the year the value of the Investment Account decreased from £44.5 billion at 31 March 2010 to £41.6 billion at 31 March 2011 (Note 13) with a consequent impact on interest received during 2010-11.

The responsibilities of HMRC and CRND in respect of the investment of surplus NIF funds are set out in a Memorandum of Understanding.

5. State Scheme Premiums

	2010-11 £000	2009-10 £000
State Scheme Premiums	47,299	52,358

State Scheme Premiums are payable to the Fund in respect of employed persons who cease to be covered, in certain specific circumstances, by a contracted out pension scheme. The premiums buy back the persons' additional pension entitlement in the state additional pension scheme. Total receipts are net of refunds of £3.3 million (2009-10 £4.2 million).

In October 1992, the Government decided that people whose pension entitlement was no longer covered by specified Maxwell pension schemes could be brought back into SERPS. Individuals were not required to pay premiums for the years they were contracted out of SERPS but HMRC is seeking recovery of these premiums from the Maxwell pension schemes. A total of £55.8 million has been recovered (£4.6 million in 2010-11). Most actions are now settled and the trustees are resolving outstanding legal issues and moving to fully secure the benefits of their members. It is expected that eventually around £97 million of the total £128.9 million liability will be recovered.

6. Other receipts

	Notes	2010-11 £000	2009-10 £000
Recoveries of compensation payments	i	45,191	47,404
Unemployment benefit recoveries	ii	1,466	1,841
		<u>46,657</u>	<u>49,245</u>

- i The recoveries from damages paid to recipients of certain NIF benefits. These amounts relate to recoveries from insurers and other bodies in respect of compensation claims for damages where NIF benefits had already been paid to individual claimants by the DWP.
- ii Unemployment Benefit was replaced by Contributory Jobseeker's Allowance in October 1996 and these are retrospective recoveries. These recoveries are all reimbursements to the NIF from European countries for their citizens who have been paid unemployment benefit in the UK.

7. Redundancy payments and receipts

	2010-11 £000	2009-10 £000
Outstanding debt as at 1 April	138,414	140,095
Plus: Redundancy payments	445,623	530,915
Less: Receipts	(49,281)	(39,663)
Less: Debt adjustment	(380,813)	(492,933)
Outstanding debt as at 31 March	153,943	<u>138,414</u>

Section 182 of the Employment Rights Act 1996 provides the statutory basis for the NIF to make redundancy payments to employees who have been made redundant but whose former employers are unable to make appropriate redundancy payments, usually because of insolvency.

The payments are made by the Insolvency Service, an executive agency of BIS. The receipts represent amounts recovered from employers. The total debt estimated as recoverable owed by employers at 31 March 2011 was £154 million and is disclosed in the BIS Resource Account. The debt adjustment total includes redundancy losses, as disclosed in Note 14, with the remainder relating to the in-year movement in the Insolvency Services current best estimate of the amount of debt that is likely to be irrecoverable.

8. Benefit payments

	Notes	2010-11 £000	2009-10 £000
State Pension	i	69,346,701	66,442,132
Incapacity Benefit	ii	5,598,835	6,176,600
Employment & Support Allowance	iii	958,990	571,531
Jobseeker's Allowance (contributory)	iv	811,621	1,105,586
Bereavement Benefits	v	615,455	647,464
Maternity Allowance	vi	343,412	343,438
Christmas Bonus for pensioners	vii	122,215	121,331
Guardian's Allowance and Child's Special Allowance	viii	1,908	1,923
		<u>77,799,137</u>	<u>75,410,005</u>

- i. State Pension is for people who have reached State Pension Age (currently 65 for men and 60 for women). It is based on National Insurance contributions and is made up of different elements, the largest of which is the basic State Pension, followed by the additional State Pension known as State Second Pension (S2P). Under the current rules, the State Pension Age for women is in the process of rising from 60 to 65 to equalise with men; and then state pension age for both men and women was due to increase from 65 to 66 between 2024 and 2026. The Pensions Bill is bringing forward the timing of equalisation and the rise in the State Pension Age from 65 to 66 for both men and women.
 - Under the new legislation, women's state pension age will reach 65 by November 2018.
 - The rise from 65 for both men and women will begin in December 2018 and reach 66 by April 2020.
- ii. Incapacity Benefit is paid at three different rates, dependent on age and term of incapacity, to a person who has paid National Insurance contributions and whose Statutory Sick Pay has ended or is not applicable. It has been replaced by ESA (see note iii) for new claims from October 2008.
- iii. As part of the Government's welfare reform programme, from 27 October 2008, the Department for Work & Pensions (DWP) introduced a new benefit, Employment & Support Allowance (ESA). The benefit was being introduced to improve employment opportunities for those with a health condition or disability which limits their capacity for work.
- iv. Contributory Jobseeker's Allowance is payable to people who are capable of working, available for work and actively seeking work, who have paid or are treated as having paid, a certain number of National Insurance contributions. It is payable for 182 days and no additional benefit is payable for dependents.
- v. Bereavement Benefits consist of Bereavement Allowance, which is a regular payment for 52 weeks, and Bereavement Payment, which is a lump sum payment. Also Widowed Parent's Allowance is a regular payment whilst the customer has dependent children for whom they receive (or could receive) Child Benefit. These benefits are all based on the National Insurance contributions of the deceased spouse.
- vi. Maternity Allowance is paid for up to 39 weeks at a standard weekly rate, dependent upon earnings, to a person who cannot get Statutory Maternity Pay. It is payable from a maximum of 11 weeks before the expected date of childbirth and is subject to qualifying conditions.
- vii. Christmas Bonus is a tax free payment of £10 paid before Christmas to pensioners who are in receipt of one or more qualifying benefits.
- viii. Guardian's Allowance and Child's Special Allowance are payable to people bringing up a child because one or both of the parents has died.

Where an individual is in receipt of more than one benefit, it is DWP policy to combine amounts due into a single payment, wherever practicable. This means that all of the amounts reported above consist partly or wholly of apportioned expenditure. NIF funded benefits are primarily paid by credit transfer, with a small percentage being paid by cheque or payable order.

State Pension and Bereavement Benefits include payments to Northern Ireland pensioners living abroad as well as Great Britain. For administrative convenience these payments are made by DWP with the cost for Northern Ireland being borne by the Great Britain NIF. It is not possible to provide an accurate figure for Northern Ireland's share of the expenditure on overseas pensions but an estimate of the amount involved in 2010-11 is £6.0 million (£6.3 million in 2009-10).

9. Personal Pensions

	2010-11 £000	2009-10 £000
Personal Pensions	2,313,669	2,623,415

The Pensions Scheme Act 1993, supplemented by the Pensions Act 1995, entitles employed earners with a personal pension to a “minimum contribution” to their plan from the NIF.

This, for 1997-98 and later tax years, is based on earnings between the lower and upper earnings level and the age of the member. Similarly, from April 1997, members of Contracted Out Money Purchase (COMP) Schemes are entitled to a “top-up” payment of age related rebate based on the age of the member and calculated using the earnings on which the contracted out rate of National Insurance contributions have been paid.

10. Administrative costs

	Notes	2010-11 £000	2009-10 £000
Department for Work & Pensions	i	1,092,891	1,055,677
HM Revenue & Customs	ii	271,461	287,940
Tribunals Service (Social Security & Child Support Appeals)	iii	41,825	41,825
The Department for Business, Innovation and Skills	iv	9,800	11,800
Tribunals Service (The Commissioners Office)	v	1,493	1,493
Office of National Statistics	vi	856	826
Government Actuary’s Department	vii	797	668
National Audit Office	viii	368	408
Debt Management Office	ix	110	110
Bank charges	x	150	294
Scottish Executive Justice Department	xi	50	50
		1,419,801	1,401,091

The administration costs relate to the services directly attributable to the NIF and are reimbursed to the respective service provider from the NIF. The costs are fixed for the year and will not be adjusted unless it is considered that the service has been subject to a serious and unforeseen adverse impact.

- i For administration costs relating to the award and payment of contributory benefits on behalf of the Fund.
- ii For the collection of National Insurance contributions, maintenance of individual records and associated tasks.
- iii For administration, organisation and holding of appeals in respect of National Insurance related benefits arising from decisions of the Department for Work & Pensions.
- iv For the administration of the Redundancy Payments Scheme as required under the Employment Rights Act 1996, including the cost of disputes referred to the Employment Tribunals Service.
- v For the processing of applications for leave to appeal and appeals on points of law from decisions of the Appeals Service in respect of National Insurance benefits.
- vi For services in relation to the administration of the National Insurance Scheme to include the issue of certificates, including replacements, prosecutions and deaths, processing of death

- registration, collation and issue of widow cards, processing of verifications and marriage validity checks.
- vii For actuarial services relating to the National Insurance Fund.
 - viii For the annual audit of these Accounts.
 - ix For costs relating to the investment of NIF monies paid over to the National Debt Commissioners in pursuance of Section 161(3) of the Social Security Administration Act 1992.
 - x Bank charges incurred on the GB NIF bank account held with the Government Banking services.
 - xi For general costs in relation to the administration of the National Insurance Scheme i.e. consider and issue decisions on applications and appeals in relation to National Insurance Benefits and medical appeal tribunals in Scotland.

11. Transfers to Northern Ireland NIF

	2010-11 £000	2009-10 £000
Payments to Northern Ireland NIF	<u>125,000</u>	<u>395,000</u>

The amount shown in this account is in respect of financial adjustments made between the Great Britain National Insurance Fund and the Northern Ireland National Insurance Fund in accordance with Section 177 of the Social Security Administration Act 1992.

These financial adjustments are consequential upon the arrangements made for co-ordinating the systems of insurance established in the two countries to ensure that they operate, to such an extent as is provided in those arrangements, as a single system. They adjust the balances in the two Funds in proportion to the population of working age as established by the latest available Census returns in the two countries. Payments are made on a provisional basis and are adjusted when end of year balances in the two funds are available.

Transfers between Great Britain and Northern Ireland National Insurance Funds are made so that, as far as possible, the balance in the Northern Ireland Fund is maintained at 2.84 per cent of the joint balance of the two Funds. The system of parity payments acts as a final safeguard against serious imbalances between the Great Britain and Northern Ireland National Insurance Funds.

12. Other payments

	Notes	2010-11 £000	2009-10 £000
Payments to Isle of Man	i	39,453	37,522
SSP/SMP/SPP/SAP payments	ii	6,296	8,774
Incapacity Benefit Tax Payments	iii	3,418	3,913
State Pension Deferred Lump Sum Tax Payments	iv	100,240	76,090
		<u>149,407</u>	<u>126,299</u>

- i. Payments to the Isle of Man (Manx Insurance Fund) relate to net settlements in respect of people who have paid National Insurance contributions into one Fund but have received benefit from the other Fund.
- ii. Payments made to people where their employer has failed to make the payments required under legislation.

- iii. Under the Income Tax Acts, Incapacity Benefit is assessed as taxable income. Tax is deducted from Incapacity Benefit every time a payment is made to a customer and paid to HMRC monthly in arrears.
- iv. Under the Income Tax Acts, State Pension Deferred Lump Sum is assessed as taxable income. Tax is deducted from State Pension Deferred Lump Sum every time a payment is made to a customer and paid to HMRC monthly in arrears.

13. Closing balance

	Notes	31 March 2011 £000	31 March 2010 (as restated) £000
Monies held by the CRND	i	41,614,601	44,533,464
Funds held at Bank (incl. uncleared payments)		5	(2,203)
Other balances	ii	1,219,386	3,925,377
		<u>42,833,992</u>	<u>48,456,638</u>

- i. The National Debt Commissioners are responsible, in accordance with Section 161(3) of the Social Security Administration Act 1992, for the investments of the NIF. They are authorised to invest into the Debt Management Account Deposit Facility in accordance with directions given by Treasury and in line with the Memorandum of Understanding between HMRC and CRND.
- ii. Sums due to / (owing from) government departments and overseas administrations in respect of the operation of the NIF.

14. Losses

	Notes	2010-11		2009-10	
		Amount £000	No. of cases	Amount £000	No. of cases
Contribution losses	i	632,311		714,480	
Benefits	ii	69,769	280,228	55,520	330,637
Redundancy losses	iii	396,341		491,252	
Total losses		<u>1,098,421</u>		<u>1,261,252</u>	

- i. Contribution losses include remissions, write-offs and insolvency debts. Remissions in respect of unpaid contributions are granted when HMRC has decided not to pursue the liability, for example on the grounds of value for money or official error. Write-offs occur when there is no practical means of pursuing the liability.

Contribution losses are recorded across various tax collection and accounting systems used in support administration of National Insurance and tax. To extract this information, the Department employs a number of computer interrogations to identify and quantify the losses attributable to the National Insurance Fund.

- ii. The Benefit losses are the responsibility of the DWP, and can be split into the following areas:-

General Losses

General Losses are cash losses mainly due to non recoverable overpayments of benefit which are written off during the year, as well as other losses to the department where monies cannot be recovered and are therefore written off.

Serious and Organised Fraud

A national team of specialised officers within the Fraud Investigation Service conduct investigations into organised and systematic abuse of the benefit system.

Internal Fraud

Investigations into suspected fraud or abuse by staff and contractors are conducted by a dedicated national team within the Department's Risk Assurance Division.

Missing Dispatches

There are instances of cheques claimed by Post Offices as being cashed, which are not received at Alliance & Leicester Commercial Bank (ALCB). The values of these 'missing dispatches' are allowed pending investigations by both the Post Office and ALCB. Following these investigations, those cheques treated as encashments are reported as 'Post Office Losses'. Any cheques that were previously settled as 'Post Office Losses' but are subsequently received at ALCB are offset against the existing 'Post Office Losses' balance.

Jobseeker's Allowance losses are reported in the DWP Consolidated Resource Account.

- iii. Redundancy losses are the sum of payments made to individuals on behalf of insolvent companies, less any recoveries obtained from the insolvency process (see note 7).

15. Special payments

	2010-11		2009-10	
	£000	No. of Cases	£000	No. of Cases
Wrongly advised benefit	<u>12,297</u>	<u>32,336</u>	<u>5,517</u>	11,031

These are payments made to customers for loss of statutory entitlement or where customers have suffered an actual financial loss. Loss of statutory entitlement to a benefit is where official error has led to a customer losing entitlement to a benefit that would have been received had the error not occurred or had the case been actioned timeously. Actual financial loss applies to cases where maladministration has directly caused the customer to incur additional expenditure that would not otherwise have been incurred.

Annex

National Insurance Account – Great Britain

Accounts Direction given by Her Majesty's Treasury

1. In accordance with Section 161(2) of the Social Security Administration Act 1992, HM Treasury hereby gives the following Direction.
2. HM Revenue & Customs has a duty to prepare each year a statement of the transactions on the National Insurance Fund of Great Britain. For the year ended 31 March 2010, and all subsequent years until this direction is amended, this statement shall comprise:
 - a) a foreword;
 - b) an account of receipts and payments;
 - c) a statement of balances,and shall include such notes as may be necessary for the purposes referred to in the attached schedule.
3. The Accounting Officer shall observe all relevant accounts and disclosure requirements in '*Managing Public Money*' and any other guidance issued by HM Treasury as amended or augmented from time to time.
4. The format of the statement of account and the disclosure requirements are in the attached schedule.
5. The foreword and the account shall be signed by the Accounting Officer.
6. The Accounts Direction shall be reproduced as an annex to the accounts.
7. This direction supersedes the Accounts Direction dated 10 February 2006.

Chris Wobschall

Head of Assurance and Financial Reporting Policy, HM Treasury

12 October 2010

Schedule

Format of Account and Disclosure requirements

1. The **foreword** shall state that the account has been prepared in accordance with a direction issued by Treasury in pursuance of Section 161(2) of the Social Security Administration Act 1992. The foreword will also include details of the following:
 - a) statutory background;
 - b) operational responsibilities;
 - c) financial performance;
 - d) audit arrangements;
 - e) responsibilities of the Accounting Officer.
2. The **receipts and payments account** and **statement of balances** shall conform to the formats shown in the Annex, although minor variations may be made.
3. The **notes** shall include :
 - a) analysis of the payments and receipts included under the headings set out in the attached format, including any explanation or background that may be necessary to understand the accounts;
 - b) in the note on administrative costs, the estimated costs for the current year and the adjustments for previous years separately identified;
 - c) a statement of the securities in which the National Insurance Fund is invested by the National Debt Commissioners in accordance with Section 161(3) of the Social Security Administration Act 1992;
 - d) details of any irregular, uncertain or special payments.

Annex

Receipts and Payments Account for the year ended

31 March XXXX

	Notes	200x £000	200y £000
Receipts			
National Insurance contributions			
Grant from Request for Resources 1			
Compensation for Statutory Sick pay and Statutory Maternity pay recoveries			
Compensation for Statutory Adoption pay and Statutory Paternity pay recoveries			
Income from investments			
State Scheme premiums			
Other receipts			
Redundancy receipts			
		-----	-----
<i>Less:</i>			
Payments			
Benefit payments			
Personal pensions			
Administrative costs			
Redundancy payments			
Transfers to Northern Ireland			
Other payments			
		-----	-----
Excess of receipts over payments		=====	=====

Statement of balances at 31 March

	Notes	200x	200y
Opening balance			
<i>Plus:</i> Excess of receipts over payments (or less excess of payments over receipts)			
		-----	-----
Closing balance		=====	=====

The notes on page X to X form part of these accounts.

Report by the Comptroller and Auditor General

Introduction

1. The Great Britain National Insurance Fund (the Fund) provides for the receipt of contributions and for payment of benefits and allowances to individuals who have paid sufficient contributions and have met other qualifying conditions. HM Revenue and Customs (the Department) is responsible for the collection and recording of National Insurance contributions and the administration of the Fund. The Department for Work and Pensions (DWP) pays benefits to claimants and the Department for Business, Innovation and Skills (BIS) is responsible for the Redundancy Payments Service which is also funded by the National Insurance Fund.
2. In 2010-11, receipts amounting to £76.6 billion were paid into the Fund and payments of £82.3 billion were paid out of it, an excess of payments over receipts of £5.6 billion. At 31 March 2011 the balance on the Fund was £42.8 billion compared to £48.5 billion at 31 March 2010.

The purpose of my report

3. The purpose of this report is to record the results of my examination of the 2010-11 Fund account, and in particular the estimated level of over and underpayments of benefits from the Fund due to fraud and error, which is not disclosed in the financial statements.

My obligation as Auditor

4. Under the Social Security Administration Act 1992, I am required to examine, certify and report on the Fund's accounts. I am also required, under International Standards on Auditing (UK and Ireland), to obtain sufficient evidence to satisfy myself that the financial statements of the Great Britain National Insurance Fund properly present the receipts and payments and are properly prepared in accordance with the 1992 Act and Treasury Directions made thereunder. In forming my opinion, I examine, on a test basis, evidence supporting the amounts, disclosures and regularity of financial transactions included in the financial statements.
5. As part of my audit of the accounts, I am also required to satisfy myself that the receipts and payments shown in the accounts have been applied to the purposes intended by Parliament and conform to the authorities that govern them; that is, they are "regular". In determining whether expenditure and income conform to the authorities that govern them, I have regard to the legislation authorising the financial transactions and relevant regulations issued under the governing legislation.

Estimated level of over and underpayments of benefits from the Fund due to fraud and error

6. In 2010-11 DWP paid out £77.8 billion in contributory benefits from the Fund. The Social Security Contributions and Benefits Act 1992 and related legislation specify entitlement criteria for each benefit and the method to be used to calculate the amount of benefit to be paid. As shown in Figure 1, the 2010-11 estimated value of incorrect contributory benefit payments due to fraud and error was £480 million, some 0.6 per cent of benefit payments (2009-10: £590m, 0.8%). This comprises an estimated £330 million (0.4 per cent of benefit payments) which may have been lost through overpayments from the fund in 2010-11 because of fraud and error (2009-10: £400 million: 0.5%), and an estimated £150 million (0.2% of total benefit payments) which may have been underpaid because of error (2009-10: £190 million: 0.3%).

Figure 1: National Insurance Fund: Estimated level of incorrect payments due to fraud and error

1A: Estimated level of incorrect payments due to fraud and error 2010-11¹

2010-11 Benefit	Total Payments £ million	Estimated Overpayments		Estimated Underpayments		Total Incorrect Payments	
		£ million	% of benefit expenditure	£ million	% of benefit expenditure	£ million	% of benefit expenditure
State Pension and Bereavement Benefits	69,962.2	120	0.2%	100	0.2%	220	0.4%
Incapacity Benefit	5,598.8	130	2.4%	40	0.7%	170	3.1%
Contribution-based Jobseeker's Allowance	811.6	50	6.5%	0	0.3%	50	6.8%
Other	1,426.5	30	2.3%	10	0.7%	40	3.0%
Total	77,799.1	330	0.4%	150	0.2%	480	0.6%

Source: National Audit Office analysis based on estimates of official error and customer fraud and error provided by DWP and on the Great Britain National Insurance Fund 2010-11 payment figures. Estimated over and underpayment figures and percentage rates are rounded to the nearest £10 million to assist presentation. Total figures may not cross cast due to the rounding of individual figures.

1B: Estimated level of incorrect payments due to fraud and error 2009-10

2009-10 Benefit	Total Payments £ million	Estimated Overpayments		Estimated Underpayments		Total Incorrect Payments	
		£ million	% of benefit expenditure	£ million	% of benefit expenditure	£ million	% of benefit expenditure
State Pension and Bereavement Benefits	67,089.6	110	0.2%	110	0.2%	220	0.4%
Incapacity Benefit	6,176.6	200	3.3%	60	1.0%	260	4.3%
Contribution-based Jobseeker's Allowance	1,105.6	60	5.2%	10	0.5%	70	5.7%
Other	1,038.2	30	3.2%	10	0.9%	40	4.1%
Total	75,410.0	400	0.5%	190	0.3%	590	0.8%

Source: National Audit Office analysis based on estimates of official error and customer fraud and error provided by DWP and on the Great Britain National Insurance Fund 2009-10 payment figures, as disclosed in the C&AG's report on the GB National Insurance Fund Account 2009-10 (HC 679). Estimated over and underpayment figures and percentage rates are rounded to the nearest £10 million to assist presentation. Total figures may not cross cast due to the rounding of individual figures.

¹ DWP's estimates are subject to a degree of statistical uncertainty. At a 95 per cent confidence level, it estimates that: the levels of overpayment lie in the range from £280 million to £480 million; whilst the corresponding range for underpayments is £80 million and £290 million.

Estimating fraud and error

7. DWP provides an estimate of over and underpayments in benefits based on a review of the following three categories; official error, customer fraud and customer error. It estimates the monetary value of official error from a financial accuracy exercise undertaken by its Performance Measurement division, which involves the examination of statistical samples of all benefit awards on a continuous basis. Its estimates of customer fraud and error for State Pension, Incapacity Benefit and Jobseeker's Allowance are based on results from the Benefit Reviews completed in 2009-10.
8. As part of our audit of benefit expenditure, we reviewed DWP's approach to testing benefit payments and estimating the levels of over and underpayments due to fraud and error. The DWP estimate relies on a mixture of continuous measurement, periodic reviews and financial modelling. We have confirmed that the figures reported by the DWP are the best estimates currently available.²
9. The levels of fraud and error are linked to both the complexity of the benefit claim process and the susceptibility of the benefit to fraud. Our report on the DWP Resource Accounts 2010-11 (HC 1010, 18 July 2011) considers the three categories used by DWP to separate its estimates of error and fraud, which it defines as follows:
 - Official error arises when a benefit is paid incorrectly due to inaction, delay or a mistaken assessment by DWP or due to the Department supplying inaccurate contribution information which impacts on the value of the award or eligibility of the claim.
 - Customer error occurs when customers make inadvertent mistakes with no fraudulent intent.
 - Fraud arises when customers deliberately seek to mislead DWP, who administer benefits on the Department's behalf, to claim money to which they are not entitled.
10. Our report, 'Minimising the costs of administrative error in the benefit system'³, published in November 2010, reported that the most common types of official error relate to the Department incorrectly recording the level of a customer's income, incorrectly applying complex additional premiums, or making errors in establishing the customer's status (such as their fitness for work, single status etc). These factors can also be subject to frequent change over the course of a claim, which can increase the propensity for overpayments. Our findings confirmed that the majority of official errors resulting in overpayments arise when adjustments are made to existing claims, rather than when processing a new claim.
11. Our January 2011 Value for Money report into customer error⁴ found that there were three main issues underpinning customer error. Firstly, the benefits system is complex for customers to navigate. The Department's research found that customers are generally unaware of rules on capital, investments or redundancy payments and do not easily understand deductions for non-dependants. Nor do customers readily recognise that they have to report any changes in their circumstances. A significant proportion of customers (70% of those asked) thought that they did not have to report short term changes, and 40% had little or no knowledge of their reporting obligations. Thirdly, many customers incorrectly believe that reporting changes once to a local or central government body will lead to all government bodies updating their records for that individual.

² The processes used by DWP to determine the latest fraud and error rates, disclosed in Figure 1, and their related confidence intervals were consistent with those used to determine the previous estimates disclosed in the DWP report "Fraud and Error in the Benefits System: Preliminary 2010-11 Estimates" published 12 July 2011.

³ Minimising the costs of administrative errors in the benefit system, HC 569, 25 November 2010

⁴ Reducing losses in the benefits system caused by customers' mistakes, HC 704, 21 January 2011

12. As noted in our report on the DWP Resource Accounts 2010-11, DWP and HMRC have adopted a new four year fraud and error strategy, published in October 2010, which sets out a new approach to tackling fraud and error that intends to deliver significant reductions in the level of both. This includes considering making innovative use of private sector data, interventions targeted on reinforcing customer responsibilities, targeted system improvements and the creation of a single integrated investigation service for welfare fraud.

Maintenance of National Insurance records

13. I have previously reported on a range of issues on the maintenance and updating of National Insurance contribution records on the National Insurance and PAYE Service (NPS). Both HMRC and DWP have made progress in aligning NPS and related benefit systems. In the light of this progress and improved disclosure in the Statement on Internal Control I do not consider it necessary to include any further commentary in this report on the Great Britain National Insurance Fund Account.

Conclusion

14. Based on the latest information available, DWP estimated that in 2010-11, £330 million of contributory benefits may have been overpaid, due to fraud and error, and a further £150 million may have been underpaid due to error. We nevertheless consider that, in all material respects, the £77.8 billion of benefit payments made from the Fund have been applied in accordance with Parliament's intentions and conform to the authorities which govern them.

Amyas C E Morse
Comptroller and Auditor General
14 December 2011

National Audit Office
157-197 Buckingham Palace Road
Victoria, London, SW1W 9SP



information & publishing solutions

Published by TSO (The Stationery Office) and available from:

Online

www.tsoshop.co.uk

Mail, Telephone, Fax & E-mail

TSO

PO Box 29, Norwich, NR3 1GN

Telephone orders/General enquiries: 0870 600 5522

Order through the Parliamentary Hotline Lo-Call 0845 7 023474

Fax orders: 0870 600 5533

E-mail: customer.services@tso.co.uk

Textphone: 0870 240 3701

The Parliamentary Bookshop

12 Bridge Street, Parliament Square

London SW1A 2JX

Telephone orders/General enquiries: 020 7219 3890

Fax orders: 020 7219 3866

Email: bookshop@parliament.uk

Internet: <http://www.bookshop.parliament.uk>

TSO@Blackwell and other Accredited Agents

ISBN 978-0-10-297531-4



9 780102 975314