HM Revenue
& Customs

Great Britain National Insurance Fund Account

For the year ended 31 March 2021

HC 880

HM Revenue & Customs

Great Britain National Insurance Fund Account 2020 to 2021

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

Ordered by the House of Commons to be printed 16 December 2021

HC 880

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

Any enquiries regarding this publication should be sent to us at
HMRC Corporate Finance, 4th Floor, Teville Gate House, 25 Railway Approach, Worthing, BN11 1UR.

ISBN 978-1-5286-2973-7

E02685738 12/21

Printed on paper containing 75% recycled fibre content minimum

Printed in the UK by HH Associates Ltd. on behalf of the Controller of Her Majesty's Stationery Office

Contents

Accounting Officer's Foreword

1. Introduction

The National Insurance Fund (NIF) holds National Insurance Contributions (NICs), paid by employees, employers and the self-employed. Voluntary contributions are also paid into the Fund. Receipts paid into the NIF are kept separate from all other revenue raised by national taxes and are used to pay social security benefits such as contributory benefits and the State Pension.

The NIF Account presents the receipts and payments for the financial year, as well as the balance on the Fund at the end of the year.

NICs also help finance the National Health Service (NHS). NICs are paid into the NIF net of money allocated to the NHS.

2. Basis for the preparation of the NIF Accounts

The HM Treasury Accounts Direction (page 30), issued under Section 161(2) of the Social Security Administration Act 1992 requires HM Revenue and Customs (HMRC) to prepare a yearly statement of the transactions of the NIF. The Account is prepared on a receipts and payments basis, with values recognised as set out in Notes to the Account 1.3 and 1.4 on pages 17 and 18, and follows all relevant accounting and disclosure requirements given in *Managing Public Money*[1] and other guidance issued by HM Treasury.

The Account is prepared on a going concern basis.

3. Statutory background

The National Insurance Act 1946 and National Assistance Act 1948 established the modern welfare state that continues today. As an important part of that, the NIF funds the State Pension as well as certain unemployment benefits, employment support benefits and other benefits in situations where the individuals meet the contributory and other qualifying conditions.

Section 161(1) of the Social Security Administration Act 1992, as amended by the Social Security Contributions (Transfer of Functions, etc.) Act 1999, moved the management of the NIF from the Contributions Agency (overseen by the then Department of Social Security) to the management of the Inland Revenue (now HMRC).

Under Section 162 of the Social Security Administration Act 1992, NICs received by HMRC are paid into the NIF after deducting the appropriate NHS allocation (see note 2). HMRC is required to consult with the Government Actuary to determine the appropriate apportionment, which is approved by HM Treasury.

The Commissioners for the Reduction of the National Debt (CRND) are responsible, in accordance with Section 161(3) of the Social Security Administration Act 1992, for the investments of the National Insurance Fund Investment Account (NIFIA). They are authorised to invest in accordance with directions given by HM Treasury and in line with the Memorandum of Understanding between HMRC and CRND.

Under the Social Security Administration Act 1992, benefits due under the National Insurance scheme are payable out of the NIF. The funds required for meeting the cost of these benefits are mainly provided from NICs paid by employed earners, their employers and the self-employed. 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 NICs.

1 For full text, please see: https://www.gov.uk/government/publications/managing-public-money

In accordance with Section 88(3) of the Northern Ireland Act 1998, arrangements are made, in consultation with the Government Actuary, to make transfers between the Great Britain and Northern Ireland NIFs in order to maintain parity of balances. The Joint Authority has agreed that as far as possible the relative balances in the Great Britain and Northern Ireland Funds should reflect the relative populations aged 16 and over as shown in the latest Office for National Statistics (ONS) population estimates. This means that currently the Northern Ireland balance is intended to be maintained at 2.77% of the joint balances of the two funds. The system of parity payments acts as a safeguard against serious imbalances between the Great Britain and Northern Ireland Funds.

In addition to this, the Social Security Act 1993 allows for money provided by Parliament to be paid into the NIF via a Treasury Grant if HM Treasury considers it expedient to do so. Current practice is to aim to maintain the level of the Fund at a working balance of at least 1/6th (16.7%) of projected annual benefit expenditure.

The amounts received into, and paid out of, the NIF and the resulting balance on the Fund depend on legislation, which is the responsibility of HM Treasury Ministers and the Secretary of State for Work and Pensions. In setting contribution rates, HM Treasury Ministers are required to consider 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 and paid out and therefore the overall balance on the Fund.

The Government Actuary is required under Sections 142(1), 144(1), 147(2), 150(8), 150A(5) and 151A(6) of the Social Security Administration Act 1992 to report on the likely effect on the NIF of the Government's annual benefits up-rating and contributions re-rating orders. The government took powers under the Coronavirus Act 2020 to modify Sections 144(1) and 147(2) of the Social Security Administration Act 1992 to enable it to respond flexibly to the Coronavirus outbreak and, if necessary, act quickly to support employers through the National Insurance system. The requirement to report the effect on the NIF as part of the annual contributions re-rating orders is not materially affected by these powers. These reports are laid before Parliament and debated alongside the relevant orders. The Government Actuary is also required, under Section 166 of the Act, to review the operation of the Great Britain NIF at least every five years. The latest quinquennial report was laid before Parliament on 19 October 2017.[2]

On 7 September 2021 the UK Government announced its intention to introduce, at the earliest opportunity, a new measure to increase funds for health and social care. The Health and Social Care Levy Act 2021 received Royal Assent on 20 October 2021. It provides for a temporary 1.25 percentage point increase to both the main and additional rates of Class 1, Class 1A, Class 1B and Class 4 NICs for the 2022 to 2023 tax year and a corresponding increase in the NHS allocation to ensure that revenue raised will go to the NHS in England and equivalent in Scotland, Wales and Northern Ireland. Since NICs receipts are paid into the NIF after the amounts paid to the NHS are deducted, the additional funding will not be included in the NIF accounts. From April 2023 onwards, the NICs rates will revert to 2021 to 2022 tax year levels and will be replaced by a new 1.25% Health and Social Care Levy where the revenue will go to those responsible for health and social care in England and the devolved administrations, including NHS Scotland, NHS Wales and Health and Social Care (HSC) in Northern Ireland.

4. Operational responsibilities

HMRC is responsible for collecting NICs and recording them against individuals' contribution records which determine entitlement to social security benefits payable from the NIF. As Accounting Officer for the NIF, I am responsible for the control and management of the Fund.

2 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/653374/QR_2017_report_Oct_2017.pdf

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, bereavement, contribution-based Jobseeker's Allowance and contributory Employment and Support Allowance. Entitlement to benefit is determined by the claimant satisfying qualifying conditions. For Statutory Maternity Pay, employers reduce the amount of NICs paid to HMRC by the amount of the Statutory Maternity Pay that they are able to recover. Subsequently, DWP pays over to HMRC an amount to compensate the NIF for this shortfall in contributions, as estimated by the Government Actuary.

For Statutory Adoption Pay, Statutory Paternity Pay, Statutory Shared Parental Pay and Statutory Parental Bereavement Pay employers reduce the amount of NICs paid to HMRC by the amounts of these benefits that they are able to recover. Subsequently, the Department for Business, Energy and Industrial Strategy (BEIS) pays over to HMRC an amount to compensate the NIF for this shortfall in contributions, as estimated by the Government Actuary.

BEIS is responsible for making Redundancy Payment Scheme awards. The Insolvency Service, an agency of BEIS, handles the payment of awards and collection of receipts.

5. Financial performance

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 as the NIF has no borrowing powers. The NIF is obligated under legislation to fund any future identified underpayments or overpayments. This would include providing funds to satisfy provisions as they are settled in Government departments that administer payments on behalf of the Fund.

The minimum working balance for 2020 to 2021 was estimated at £17.9 billion, being 16.7% of estimated benefit expenditure, as stated in the report on the Social Security Benefits Up-rating Order published by the Government Actuary in January 2020.[3] The balance on the Fund at 31 March 2021 was £42.5 billion and was above the estimated minimum requirement throughout the year. No Treasury Grant was therefore required in 2020 to 2021.

The report on the Up-rating Order published by the Government Actuary in January 2021 projected an increase in the balance of the Fund in the year ended 31 March 2022, and also projected that no Treasury Grant is likely to be required in that year in order to maintain the Fund above the targeted minimum balance of 16.7% of benefit expenditure. However, as a contingency, under section 2(2) of the Social Security Act 1993 (c.3), HM Treasury Ministers have made provision for a Treasury Grant of up to 17% of estimated benefit payments. This equates to a provisional facility of £17.5 billion.

The financial performance of the Fund has required close monitoring since March 2020 to assess the impacts of COVID-19 on the Fund balance in 2020 to 2021 (see section 4, page 10).

3 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/865138/GA_Report_on_Draft_SS_benefits_Uprating_2020_and_Draft_SS_contributions_Regs_2020_Final.pdf

6. Auditors

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, before Parliament.

So far as I am aware, there is no relevant audit information of which the auditors are unaware. I have taken all steps that I ought to have taken to make myself aware of any relevant audit information and to establish that the auditors are aware of that information.

The audit fee for 2020 to 2021 was £136,000 and will be included in the 2021 to 2022 Account.

7. Accounting Officer's responsibilities

As Chief Executive and First Permanent Secretary of HMRC, I am the Accounting Officer for the NIF, appointed by HM Treasury with effect from 29 October 2019. As Accounting Officer for the NIF I am responsible for:

- maintaining proper accounting records;
- ensuring such internal controls are in place as deemed necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error;
- preparing financial statements, which properly present, in accordance with the Social Security Administration Act 1992 and with directions made by HM Treasury;
- preparing the Foreword, in accordance with the Social Security Administration Act 1992 and with directions made by HM Treasury; and
- ensuring that an appropriate system of internal control is in place to ensure that the expenditure and income presented in the financial statements have been applied to the purposes intended by Parliament and that the financial transactions conform to the authorities which govern them.

As Accounting Officer I am also responsible for ensuring compliance with HM Treasury's Managing Public Money, safeguarding the assets of the Funds and for the prevention and detection of fraud, error and non-compliance with law or regulations.

In preparing this account, I am required to ensure suitable accounting policies have been applied on a consistent basis and that judgements and estimates have been made on a reasonable basis. Many of the activities relating to the transactions of the NIF are carried out by other departments (e.g. DWP and BEIS) and agencies and I receive letters of assurance from them as detailed in section 3 of the Governance Statement on pages 9 and 10.

As Accounting Officer, I confirm this account is fair, balanced and understandable. I take personal responsibility for this account and the judgements required for determining that it is fair, balanced and understandable.

Jim Harra
Accounting Officer
9 December 2021

Governance Statement

1. Purpose of the Governance Statement

This Governance Statement sets out the governance and risk management arrangements for the NIF. It applies to the financial year 1 April 2020 to 31 March 2021 and up to the date of signing of the NIF Account.

2. Scope of responsibility

As Accounting Officer for the NIF, I have responsibility for ensuring risks are effectively managed across HMRC and 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*. Risk management operates at all levels in HMRC, from operational decision making on individual cases, through to strategic level risks identified in our Departmental Risks and Issues Register.

While HMRC has overall responsibility for the control and management of the Fund (which includes allocation of funds to other departments with NIF responsibilities and the collection of NICs), DWP is responsible for the control and management of benefit payments. The Insolvency Service, an agency of BEIS, is responsible for the control and management of Redundancy Payments Scheme awards covered by the Fund.

I receive letters of assurance from the Accounting Officers of DWP and BEIS, approved by their audit committees, which refer to their governance arrangements and highlight any significant risks that may impact on the control and management of their NIF related activities. Governance arrangements are outlined in their Governance Statements and published within their accounts.[4]

Specific work undertaken on behalf of the NIF forms only a small part of the whole work of HMRC. HMRC has produced a full Governance Statement setting out details of its compliance with the Corporate Governance in Central Government Departments: Code of Good Practice; the role of the Board and committees within HMRC, along with risks to HMRC's performance and how these have been managed. This includes disclosures relating to issues outside of the scope of work relating to the NIF. The Governance Statement is included in the published HMRC Annual Report and Accounts 2020 to 2021.[5]

Operational Excellence, a directorate of HMRC's Customer Services Group, has overall accountability for the control and management of the NICs processes. The Joint Management Board (JMB) is chaired by the Operational Excellence Business Delivery lead for NICs, Pay As You Earn (PAYE) and Self Assessment (SA) processes. It provides an escalation route and forum where process matters including risks and issues can be discussed by a wider HMRC stakeholder group, that includes the Deputy Director of NICs Policy, Student Finance and Tax-Free Childcare.

The National Insurance Fund Accounting Board (NIFAB), chaired by HMRC's Head of External Reporting and Analysis (Tax), provides a forum and network for key stakeholders, including from HMRC, DWP and BEIS, to work collaboratively to drive NIF policy, strategy, planning, risk management and change, and to monitor effective Fund administration.

Both the JMB and NIFAB sit below and help support the Board and committee structures described in the HMRC Annual Report and Accounts for 2020 to 2021.

4 https://www.gov.uk/government/publications/dwp-annual-report-and-accounts-2020-to-2021
https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/923597/CCS0320287242-001_BEIS_Annual_Report-Web_Accessible.pdf and
https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1031205/Insolvency_Service_Annual_Report_and_Accounts_2020-21_final_v.2.pdf

5 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1031360/HMRC_Annual_Report_and_Accounts_2020_to_2021_Web.pdf

3. Risks to the NIF and how these are managed

Control and management of NIF risks are consistent with the over-arching Governance Statements published in the respective 2020 to 2021 Annual Report and Accounts for HMRC, DWP and BEIS.

NIF specific risks are reported to, and managed throughout the year by, the NIFAB which has wide representation, including from HMRC, DWP and BEIS. NIF specific risks are regularly reviewed at the NIFAB and no significant risks have been identified for 2020 to 2021.

Further assurances

DWP has provided a letter of assurance that has been approved by its Audit and Risk Assurance Committee. It contains details about its capacity to handle risk and its risk control framework. Over 2020 to 2021, risks to the NIF were reviewed and managed within DWP and updates regularly shared with HMRC and other key stakeholders through attendance at the NIFAB. I would like to draw attention to the following matters which are relevant to the NIF:

Underpayment of State Pension

In early 2020, several cases came to light of DWP underpaying State Pension, which led to them undertaking detailed analysis to determine the scale of the problem. DWP formally commenced a correction exercise in January 2021 to rectify these cases, which is expected to be completed by the end of 2023. Payments of arrears will be funded and accounted for by the NIF in the period in which DWP makes the payment. A provision has been made in DWP's 2020 to 2021 accounts for arrears repayments of £1.034 billion.

DWP commissioned a review by the Government Internal Audit Agency (GIAA) of the correction exercise which concluded with four recommendations for improvement. These have all been implemented. GIAA continue to work closely with the DWP senior management team and will commence a review of historical changes to State Pension to consider whether there may be any further errors in the system, which could mean pensioners are not in receipt of their correct entitlement.

Fraud and Error

COVID-19 restrictions meant that Universal Credit (not paid from NIF) and State Pension (for official error only) were the only benefits measured for fraud and error in the financial year ending 2021, with other benefits having historical or proxy rates applied. As in previous years, the sampling exercise does not break down the error rate for contributory benefits (paid from NIF) separate to their equivalent non-contributory benefit (paid from DWP funding). However, underpayments and overpayments of benefit mainly impact means tested benefits which are not paid from the NIF.

Although the Comptroller and Auditor General has qualified his opinion on the regularity of benefit expenditure administered by DWP due to the levels of fraud and error, State Pension is excluded from the qualification. This exclusion, and the generally lower rates of fraud and error found in contributory benefits paid for by the NIF, leads me to agree with DWP that this issue is not a significant risk to the NIF. Additional fraud and error information is provided on pages 27 to 29 and a summary of the DWP position for reducing the overall level of fraud and error can be found in their Annual Reports & Accounts (AR&A).

Work undertaken on behalf of the NIF forms only a part of the whole work of DWP. DWP has produced a full Governance Statement setting out details of its compliance with the *Corporate Governance in Central Government Departments: Code of Good Practice*; the role of the Board and committees within DWP, along with significant control issues and how these have been managed. This includes disclosures relating to issues outside of the scope of work relating to the NIF. The Governance Statement is included in the published 2020 to 2021 DWP Annual Report and Accounts (AR&A).

BEIS has provided a letter of assurance approved by its Insolvency Service Audit and Risk Assurance Committee; an assurance process agreed by the BEIS Audit and Risk Assurance Committee. The letter gives assurance that there are no significant risks that impact on the NIF for 2020 to 2021.

4. Impact of COVID-19

The World Health Organization (WHO) announced the Coronavirus (COVID-19) pandemic on 11 March 2020. Since then the impact of COVID-19 on the NIF has been closely monitored and managed by the NIFAB which met more frequently in the period after lockdown in March 2020 until reverting to quarterly meetings from April 2021. Although some staff normally applied to the administration of the NIF were temporarily re-directed to deliver urgent COVID-19 measures, this did not result in any new significant risks to the NIF.

Since April 2020, the balance of funds held in the NIF have been lower than anticipated prior to COVID-19 due to a reduction in NICs receipts and, to a lesser extent, an increase in benefit payments. However, the Fund balance has remained above the minimum required and incrementally grown to its pre-COVID level by April 2021. The introduction of the Coronavirus Job Retention Scheme grants in March 2020 have aided this recovery. The Fund balance is monitored regularly and a forward projection of the balance, based on published Office for Budget Responsibility (OBR) scenarios, is shared with HM Treasury

In March 2020, as a response to the pandemic, DWP took the decision to streamline its benefit checks to ensure that people could make a claim quickly and safely as part of its 'Trust and Protect' approach. The easements increased the inherent risk of fraud and error in benefit payments and DWP is currently revisiting any high-risk claims paid during this time and re-applying the verification standards that would have been applied had it not been for COVID-19. Whilst fraud and error remain a significant challenge for DWP, as noted above, for contributory benefits funded from the NIF this is not the case.

5. Review of effectiveness

A number of specific sources inform and contribute to my review of effectiveness including:

- Individual statements from members of HMRC's Executive Committee (ExCom) outlining the governance, risk and control arrangements in their business area
- Formal assurance I receive from the Data Protection Officer (DPO) that information risk has been appropriately managed in the conduct of HMRC business
- The review that underpins the production of the NIF Governance Statements including letters of assurance from DWP and BEIS
- The Director of Internal Audit's annual opinion
- Any matters raised by NAO as a result of their audit work, including wider HMRC observations relevant to the assessment and collection of NICs

Taking all of these into account, I am confident that the risks related to NIF are being identified and actively managed.

6. Conclusion

Based on the review I have outlined above, I conclude that there is an effective system of governance, risk management and internal control that supports the Fund's aims and objectives.

Jim Harra
Accounting Officer
9 December 2021

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

Opinion on financial statements

I certify that I have audited the financial statements of the Great Britain National Insurance Fund for the year ended 31 March 2021 under the Social Security Administration Act 1992. The financial statements comprise: The Receipts and Payments Account, including Statement of Balances, and the related notes. These financial statements have been prepared under the accounting policies set out within them. The financial reporting framework that has been applied in their preparation is applicable law, the Social Security Administration Act 1992 and the direction issued by HM Treasury thereunder.

In my opinion:

- the financial statements properly present the affairs of the Great Britain National Insurance Fund as at 31 March 2021 and the receipts and payments for the year then ended; and
- the financial statements have been properly prepared, in all material respects, in accordance with the Social Security Administration Act 1992 and HM Treasury directions issued thereunder.

Opinion on regularity

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

Basis of opinions

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK), applicable law and Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom'. My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of my certificate.

Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2019. I have also elected to apply the ethical standards relevant to listed entities. I am independent of the Great Britain National Insurance Fund in accordance with the ethical requirements that are relevant to my audit and the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Conclusions relating to going concern

In auditing the financial statements, I have concluded that the Great Britain National Insurance Fund's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work I have performed, I have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Great Britain National Insurance Fund's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

My responsibilities and the responsibilities of the Accounting Officer with respect to going concern are described in the relevant sections of this certificate.

Other Information

The other information comprises information included in the Accounting Officer's Foreword, Governance Statement and Other Financial Information, other than the financial statements and my auditor's report thereon. The Accounting Officer is responsible for the other information. My opinion on the financial statements does not cover the other information and except to the extent otherwise explicitly stated in my certificate, I do not express any form of assurance conclusion thereon. In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact.

I have nothing to report in this regard.

Opinion on other matters

In my opinion: the information given in the Accounting Officer's Foreword, Governance Statement and Other Financial Information for the financial year for which the financial statements are prepared is consistent with the financial statements and have been prepared in accordance with the applicable legal requirements.

Matters on which I report by exception

In the light of the knowledge and understanding of the Great Britain National Insurance Fund and its environment obtained in the course of the audit, I have not identified material misstatements in the Accounting Officer's Foreword or in Other Financial Information. 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 returns adequate for my audit have not been received from third parties; or
- the financial statements are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit; or
- that management's use of the going concern basis of accounting is appropriate and whether a material uncertainty exists related to events or conditions which may cause doubt on the Great Britain National Insurance Fund's ability to continue as a going concern for a period of at least 12 months from the date of the approval of the financial statements; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

Responsibilities of the Accounting Officer for the financial statements

As explained more fully in the Accounting Officer's Responsibilities, the Accounting Officer is responsible for:

- maintaining proper accounting records;
- internal controls as the Accounting Officer determines is necessary are in place to enable the preparation of financial statement to be free from material misstatement, whether due to fraud or error;
- the preparation of the financial statements in accordance with the applicable financial reporting framework and for being satisfied that they are properly presented; and
- ensuring the Accounting Officer's Foreword has been properly prepared in accordance with the applicable reporting framework.

Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit, certify and report on the financial statements in accordance with the Social Security Administration Act 1992.

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a certificate that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

I design procedures in line with my responsibilities, outlined above, to detect material misstatements in respect of non-compliance with laws and regulation, including fraud.

My procedures included the following:

- Inquiring of management, the Great Britain National Insurance Fund's head of internal audit and those charged with governance, including obtaining and reviewing supporting documentation relating to the Great Britain National Insurance Fund's policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
  - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations including the Great Britain National Insurance Fund's controls relating to the Social Security Administration Act 1992 and Managing Public Money.
- discussing among the engagement team how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, I identified potential for fraud in the following areas: revenue recognition, posting of unusual journals and benefit expenditure.
- obtaining an understanding of the Great Britain National Insurance Fund's framework of authority as well as other legal and regulatory frameworks that the Great Britain National Insurance Fund's operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the Great Britain National Insurance Fund. The key laws and regulations I considered in this context included the Social Security Administration Act 1992, Managing Public Money and relevant benefits and pensions legislation.

In addition to the above, my procedures to respond to identified risks included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- reading minutes of meetings of those charged with governance and the Board;
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgment made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business; and
- seeking assurance from my audits of the Department of Work and Pensions Resource Account and BEIS Resource Account on the regularity of benefit payments and the level of fraud and error, and HM Revenue & Customs Trust Statement on the receipt of national insurance contributions.

I also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

A further description of my responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of 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.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

Report

I have no observations to make on these financial statements.

Gareth Davies
Comptroller and Auditor General

14 December 2021

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

Receipts and payments account

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

For the year ended 31 March	Notes	2021 £000	2020 £000
Receipts			
National Insurance Contributions	2	111,597,505	110,637,651
Compensation for statutory recoveries	3	2,620,000	2,241,000
Income from investment account	4	41,511	230,494
Redundancy receipts	5	33,110	27,835
State Scheme Premiums	6	2,169	19,917
Other receipts	7	1,248	3,734
		114,295,543	**113,160,631**
Less			
Payments			
Benefit payments	8	(106,588,185)	(104,358,890)
Administrative costs	9	(878,858)	(631,380)
Transfers to Northern Ireland NIF	10	(664,000)	(564,400)
Redundancy payments	5	(489,696)	(465,592)
Other payments	11	(123,359)	(143,113)
		(108,744,098)	**(106,163,375)**
Receipts less payments		**5,551,445**	**6,997,256**

Statement of balances

As at 31st March	Notes	2021 £000	2020 £000
Opening balance		36,932,210	29,934,954
Receipts less payments		5,551,445	6,997,256
Closing balance	12	**42,483,655**	**36,932,210**

Jim Harra
Accounting Officer

9 December 2021

The notes on pages 17 to 26 form part of these accounts.

Notes to the Account

Notes to the Account provide additional information and accounting conventions to explain a particular feature of the financial statements. The notes which follow will also provide explanations and additional disclosure to assist readers' understanding and interpretation of the financial statements.

1. Statement of accounting policies

1.1 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 receipts and payments basis in a form directed by HM Treasury, shown on page 30 of this Account and the policies outlined below.

1.2 Net accounting

NICs, State Scheme Premiums, personal pensions and benefit payments are all shown net of refunds or recoveries.

An allocation for the NHS is paid over by HMRC before the contributions are paid into the NIF and therefore the NICs are shown net of the NHS element (see note 2 for further details).

1.3 Receipts recognition

NICs

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

The contributions are collected and administered on a UK wide basis for Great Britain and Northern Ireland and HMRC is required to allocate the total contributions between the two Funds. A scan of the National Insurance and Pay As You Earn Service (NPS) is used to extract postcode data of taxpayers to estimate the ratio of individuals living in each territory who have made NICs. HMRC then applies this ratio, rounded to the nearest percentage point, to the UK wide receipts figures to split the contributions between the two Funds. A particular split is applied to Class 4 receipts using an analysis of postcodes relating to Class 4 liabilities.

The amounts received are after recoveries by employers of amounts due in respect of any statutory maternity, adoption, paternity and shared parental payments made to their employees and after deduction of contributions allocated to the 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 2020 to 2021.

Class 1 NICs

Almost all amounts received in respect of Class 1 NICs are captured via the monthly PAYE process by the Real Time Information (RTI) system. There is a small degree of estimation involved in this process due to late or missing submissions and for receipts relating to prior periods where the split between Income Tax and NICs cannot be identified.

Class 1A and 1B NICs

All amounts received in respect of Class 1A and 1B NICs are recorded on the Enterprise Tax Management Platform (ETMP) and are separately identifiable.

Class 2 and Class 4 NICs

Class 2 and Class 4 NICs are mostly collected via Self Assessment (SA). The collection of SA receipts for Income Tax, Class 2 and Class 4 NICs 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. SA receipts are allocated between Income Tax, Class 2 and Class 4 NICs, and Capital Gains Tax using estimates based on an annual analysis of individuals' records in the SA system.

Compensation for statutory pay recoveries

Compensation payments for employer recoveries of Statutory Maternity Pay, Statutory Paternity Pay, Statutory Shared Parental Pay, Statutory Adoption Pay and Statutory Parental Bereavement Pay receipts are estimated by the Government Actuary's Department (GAD) and recognised in the NIF when those payments are received from DWP and BEIS (see note 3 for further details). GAD estimates are adjusted on an annual rolling cycle once the actual amounts recovered are available after the financial year has ended.

NICs received outside of the RTI PAYE and SA processes

A small amount of NICs, mostly Class 3 voluntary contributions, are received each year outside of the RTI PAYE and SA processes. The class breakdown for these cash receipts is estimated using a scan of records held on NPS.

1.4 Payments recognition

Benefit payments

DWP administers a range of contribution-based benefit payments financed from the NIF. HMRC administers payment of the Guardian's Allowance. The payment of these benefits is recognised in the NIF Account in the accounting period in which the benefit is paid to the claimant by the administrating department.

Administrative costs

The costs related to services provided to the NIF are recognised on the date the amount leaves the HMRC bank account. The costs are reimbursed by the NIF.

Transfers to Northern Ireland Fund

To ensure the balance of the Northern Ireland and Great Britain Funds reflect, as far as practicable, the relative sizes of the populations aged 16 and over, regular transfers are made between the Great Britain and Northern Ireland Fund. The parity payments are based on estimates by the Government Actuary using the most recent population data published by ONS and are recognised in the accounting period when they are paid (see note 10 for further details).

Redundancy payments

The Insolvency Service, an agency of BEIS, administers Redundancy Payment Scheme awards financed from the NIF. The payment of these awards is recognised in the NIF Account in the accounting period in which the award is paid by the administrating department.

2. National Insurance Contributions

For the year ended 31 March Contributions – estimated breakdown by class	Notes	2021 £000	2020 £000
Class 1 (employed earners)	i	106,968,679	106,326,948
Class 1A	ii	1,405,299	1,156,011
Class 1B	ii	117,130	132,952
Class 2 (self-employed flat rate)	iii	430,160	390,558
Class 3 (voluntary contributions)	iv	171,897	145,800
Class 4 (self-employed earnings related)	v	2,504,340	2,485,382
		111,597,505	**110,637,651**

Different groups of people pay different classes of contributions. These can be summarised as follows:

i **Class 1 contributions** comprise two parts: primary contributions payable by employees which are approximately 40% of the total Class 1 figure, and secondary contributions payable by employers, which are approximately 60%.

ii **Class 1A contributions** are paid by employers on most benefits provided to employees. In addition, from 6 April 2020 Class 1A NICs are also payable on certain termination awards paid to employees that exceed £30,000 per annum and on sporting testimonial awards exceeding £100,000 made by third parties. Employers pay Class 1A contributions to HMRC via the PAYE scheme with their Class 1 contributions.

Class 1B contributions are paid 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.

iii **Class 2** self-employed persons paying flat rate weekly contributions.

iv **Class 3** voluntary flat rate contributions are paid to maintain contributors' National Insurance records for certain benefit and/or pension purposes.

v **Class 4** self-employed persons paying earnings-related contributions.

NHS allocation

The NHS allocation is paid over by HMRC to the NHS before any contributions are paid into the NIF and so the figures shown are net of this NHS allocation. The NHS allocation was £26.4 billion in 2020 to 2021 (£26.5 billion in 2019 to 2020) and forms part of the total NHS funding.

The NHS allocation is based on the Government Actuary's estimates for the year ended 31 March 2021 made in December 2020. The allocation is estimated in accordance with the requirements set out in Section 162 of the Social Security Administration Act 1992.

3. Compensation for statutory pay recoveries

For the year ended 31 March	Notes	2021 £000	2020 £000
Statutory Maternity Pay	i	2,530,000	2,169,000
Statutory Adoption Pay, Statutory Paternity Pay, Statutory Shared Parental Pay and Shared Parental Bereavement Pay	ii	90,000	72,000
		2,620,000	**2,241,000**

The Government compensates the NIF for loss of revenue due to contribution receipts being reduced by employers recovering statutory maternity, adoption, paternity, shared parental and parental bereavement pay. The compensation is drawn down from the Consolidated Fund and then paid over to the NIF by other Government departments, as the NIF has no facility to do so. The amounts paid over are based on estimates produced by the Government Actuary under Section 1(5) of the Social Security Contributions and Benefit Act 1992 using information on past recoveries taken from systems administered by HMRC.

i Compensation for Statutory Maternity Pay recoveries is paid over by DWP.

ii Compensation for Statutory Adoption Pay, Statutory Paternity Pay, Statutory Shared Parental Pay and Statutory Parental Bereavement Pay recoveries is paid over by BEIS.

4. Income from investment account

For the year ended 31 March	2021 £000	2020 £000
Interest received	**41,511**	**230,494**

By virtue of SI 1978 No. 1839, surplus funds paid over to the NIFIA may be invested by CRND in any manner specified in paragraphs 1, 2, 3, 8, 9 and 9A of Part II of Schedule 1 to the Trustee Investments Act 1961. In practice this means exposure is limited to UK Government or Government-guaranteed instruments and/or cash deposits.

In 2020 to 2021, as in the previous year, the NIFIA was almost entirely invested in the Debt Management Account, which pays a rate equal to the Bank Rate on a daily accrual basis. Investments in the Debt Management Account allow instant access and capital guarantee, for purposes of liquidity and capital preservation - an investment approach deemed by HMRC and CRND as best suited to the needs and risk appetite of the Fund. A very small portion of the NIFIA (typically less than £1 thousand per day) is retained in a Ways & Means Account with the National Loans Fund.

Both the National Loans Fund and the Debt Management Account are Exchequer Funds, which are owned by HM Treasury, and carry the full guarantee of the UK Government.

The interest is received by the NIF in the month following that in which it is earnt. In 2019 to 2020 the base rate changed from 0.75% to 0.1% over the course of the year but for the financial year 2020 to 2021 the rate remained at 0.1%, resulting in less interest received compared to the prior year.

The interest received on the Fund surplus is also placed on deposit with the NIFIA.

The value of the monies held in the NIFIA at 31 March 2021 increased to £42.7 billion (£38.2 billion at 31 March 2020) (see note 12 for details).

5. Redundancy payments and receipts

For the year ended 31 March	Notes	2021 £000	2020 £000
Redundancy payments	i	489,696	465,592
Redundancy receipts	ii	(33,110)	(27,835)
		456,586	**437,757**

i 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 BEIS.

ii The receipts represent amounts recovered from employers.

6. State Scheme Premiums

For the year ended 31 March	2021 £000	2020 £000
State Scheme Premiums	**2,169**	**19,917**

State Scheme Premiums are payable to the Fund in respect of employed persons who cease to be covered, in certain specified circumstances, by contracted-out pension schemes. The premiums buy back the persons' additional pension entitlement in the Additional State Pension scheme.

Although the system of contracting out ended in April 2016, Contributions Equivalent Premiums (CEPs) continued to be payable until April 2019. In addition, a contracted-out scheme reconciliation exercise was carried out within HMRC with tax bills being generated and also some refunds sent out where appropriate, the residual effect of this resulting in a small number of transactions.

7. Other receipts

For the year ended 31 March	2021 £000	2020 £000
Personal pension receipts	**1,248**	**3,734**

The Pension Scheme Act 1993, supplemented by the Pensions Act 1995, entitled employed earners with a personal pension to a "minimum contribution" to their plan from the NIF. In April 2012, all contracted-out defined contribution (DC) based schemes were abolished and any other contracted-out defined benefit (DB) based schemes came to an end in April 2016 resulting in the reduction of the contributory entitlement.

Although all contracting-out schemes have ended, there are still queries being dealt with which has resulted in a small amount of receipts being received.

8. Benefit payments

For the year ended 31 March	Notes	2021 £000	2020 £000
State Pension	i	100,454,435	98,751,034
Employment & Support Allowance (contributory)	ii	4,573,619	4,523,554
Jobseeker's Allowance (contributory)	iii	609,538	104,443
Bereavement benefits	iv	443,785	442,609
Maternity Allowance	v	387,667	420,553
Christmas Bonus	vi	122,709	124,007
Guardian's Allowance	vii	2,202	2,381
Incapacity Benefit	viii	(5,770)	(9,691)
		106,588,185	**104,358,890**

i The State Pension age is in the process of increasing:

- Under the Pensions Act 2011, women's State Pension age reached 65 in November 2018
- The State Pension age for both men and women increased to 66 in October 2020
- Under the Pensions Act 2014 the State Pension age for men and women will increase incrementally from 66 to 67 between 2026 and 2028
- Under the Pensions Act 2007 the State Pension age for men and women will increase from 67 to 68 between 2044 and 2046

The State Pension is for people who have reached state pension age and is based on NICs paid, treated as paid or credited. The State Pension scheme of basic and Additional State Pension was replaced by the State Pension for people reaching state pension age on 6 April 2016.

ii As part of the Government's welfare reform programme, from 27 October 2008 DWP introduced Employment Support Allowance (ESA) to improve employment opportunities for those with a health condition or disability which limits their capability for work. From April 2011, DWP began the nationwide reassessment of those claiming incapacity benefits to see if they are eligible for ESA or fit for work. The exercise is ongoing. Contributory ESA for those in the work-related activity group has been limited to 52 weeks. This does not apply to people placed in the support group or to those receiving income-related ESA which is payable by DWP.

New ESA can be received along with Universal Credit.

iii Contributory Jobseeker's Allowance (JSA) 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 sufficient NICs. It is payable for 182 days and no additional benefit is payable for dependants.

New JSA can be received along with Universal Credit.

iv Bereavement benefits consist of Bereavement Allowance, which is a regular payment for 52 weeks; Bereavement Payment, which is a lump sum payment and Widowed Parent's Allowance which is a regular payment while the customer has dependant children for whom they receive (or could receive) Child Benefit. For the first time this year this also includes Bereavement Support.

For those already in receipt of Bereavement Allowance or Widowed Parent's Allowance payments at 6 April 2017, payments will continue to their natural conclusion but all new claims from 6th April 2017 are to be made to Bereavement Support by combining lump sums and regular payments into one benefit. Bereavement Support is payable for 18 months and there are two rates of lump sum and weekly payments dependent on whether the customer has a dependant child for whom they receive (or could receive) Child Benefit.

These benefits are based on the NICs paid by the deceased spouse.

A new Statutory Parental Bereavement Pay (SPBP) came into effect from April 2020.

v 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 week of childbirth and is subject to qualifying conditions.

vi Christmas Bonus is a tax-free payment of £10 paid to people in receipt of a qualifying benefit during the relevant week, normally the first full week in December.

vii Guardian's Allowance, administered by HMRC, is payable to people bringing up a child because one or both of the parents has died.

viii Incapacity Benefit is paid at three different rates, dependent on age and term of incapacity, to a person who has paid NICs and whose Statutory Sick Pay has ended or is not applicable. It has been replaced by ESA (see note ii) for new claims from October 2008. The benefit recoveries from claimants paying back overpayments exceeded the value of the small number of existing claims.

For administrative convenience, as well as paying Great Britain pensioners living abroad, DWP pays State Pension and Bereavement Benefits on behalf of Northern Ireland pensioners living abroad. However, the cost for these Northern Ireland overseas NIF payments are charged back to the Department for Communities (DfC) and the Northern Ireland NIF monthly, so the cost is borne by Northern Ireland NIF and not included in the figures above.

The total overseas NIF spend for Northern Ireland for 2020 to 2021 was £93,000 (2019 to 2020 was £73,000) predominantly for State Pension.

All benefit recoveries (including compensation payments) are offset against benefit payments and therefore included in this note. Recoveries for those benefits which are no longer in existence are offset against an appropriate best fit current benefit.

For details of fraud and error in benefit payments please refer to Other financial information, section c.

9. Administrative costs

For the year ended 31 March	Notes	2021 £000	2020 £000
Department for Work & Pensions	i	693,615	431,731
HM Revenue & Customs	ii	135,338	151,540
HM Courts and Tribunal Service (first tier)	iii	36,914	37,851
BEIS (The Insolvency Service)	iv	8,877	7,677
HM Courts and Tribunals Service (upper tribunal)	v	2,522	855
HM Passport Office (General Register Office)	vi	802	801
Government Actuary's Department	vii	574	704
National Audit Office - Audit Fees	viii	136	139
Commissioners for Reduction of National Debt	ix	71	73
Scottish Executive Justice Department	x	9	9
		878,858	**631,380**

Administration costs relate to the services directly provided to the NIF and are reimbursed to the respective service provider from the Great Britain NIF. The costs were agreed at the start of the year and monitored on a regular basis. There is an adjustment for prior year administration costs for HM Courts and Tribunals Service (upper tribunal).

i For administration costs relating to the award and payment of contributory benefits on behalf of the Fund. The increase in costs relate to higher volumes of claims, particularly for JSA, during the COVID-19 pandemic.

ii For the collection of NICs, 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 made by DWP.

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. The increase in costs in 2020 to 2021 is due to COVID-19 related workloads.

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. Due to a delay in receiving invoices, the last two quarters for 2019 to 2020, a total of £854,609.20, were paid and accounted for in 2020 to 2021.

vi For the administration costs relating to maintaining accurate deaths data which are made available to service DWP and HMRC requirements.

vii For actuarial services relating to the NIF.

viii For the audit of the 2019 to 2020 NIF Account.

ix For costs relating to the investment of NIF monies paid over to CRND in pursuance of Section 161(3) of the Social Security Administration Act 1992.

x For general costs in relation to the administration of the National Insurance scheme i.e. consider and issue decisions held on applications and appeals in relation to National Insurance benefits and medical appeal tribunals in Scotland.

10. Transfers to Northern Ireland NIF

For the year ended 31 March	2021 £000	2020 £000
Payments to Northern Ireland NIF	**664,000**	**564,400**

The amount shown in this account is in respect of financial adjustments made between the Great Britain NIF and the Northern Ireland NIF in accordance with Section 88(3) of the Northern Ireland Act 1998. Transfers between Great Britain and Northern Ireland NIF are made so that, as far as practicable, the balance in the Northern Ireland Fund is maintained at 2.77% of the joint balance of the two Funds. This percentage split is based on the relative proportions of population aged 16 and over as shown in the most recent data published by ONS.

Payments are made on a provisional basis and are adjusted when end of year balances in the two Funds are available. The transfer is based on the Fund balances for Great Britain and Northern Ireland which themselves are based on the differences between the levels of receipts and payments and therefore the results are subject to considerable variability year on year. This system of parity payments acts as a final safeguard against serious imbalances between the two NIF Funds.

11. Other payments

For the year ended 31 March	Notes	2021 £000	2020 £000
State Pension deferred lump sum tax payments	i	78,052	96,119
Payments to Isle of Man	ii	45,307	46,578
Statutory payments	iii	–	416
		123,359	**143,113**

i 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.

ii Payments to the Isle of Man (Manx Insurance Fund) relate to net settlements in respect of insured people who have paid NICs into one Fund but have received benefit from the other Fund.

iii Payments made to people where their employer has failed to make the payments required under legislation.

12. Closing balance

For the year ended 31 March	Notes	2021 £000	2020 £000
Monies held by the NIFIA	i	42,663,351	38,241,948
Funds held at bank (incl. uncleared payments)	ii	(2,695)	(1,008)
Due from other Government departments	iii	–	211
Due to other Government departments	iii	(177,001)	(1,308,941)
		42,483,655	**36,932,210**

i CRND is responsible, in accordance with Section 161(3) of the Social Security Administration Act 1992, for the investments of the NIFIA. They are authorised to invest in accordance with directions given by HM Treasury and in line with the Memorandum of Understanding between HMRC and CRND.

ii Although the funds held at bank are shown as negative, this is not an overdrawn position because the balance includes payments issued that have not yet been cashed.

iii These figures represent any amounts owed to or from HMRC, the Northern Ireland NIF, DWP and BEIS. They arise as there is a difference between what is paid to and from the NIF and what is recognised in the Accounts, which is based on the amounts paid out or received by other Government departments.

Other financial information

Details of losses, payments and fraud and error are included below to provide further information on the Fund for the reader of the Accounts. Additional information can be found in the published AR&As for HMRC and DWP.

a. Losses

For the year ended 31 March	Notes	2021 Amount £000	2021 No. of cases (where available)	2020 Amount £000	2020 No. of cases (where available)
Redundancy losses	i	447,473	–	445,949	–
Contribution losses	ii	341,848	–	368,131	–
Benefit losses	iii	41,949	110,289	72,597	180,419
		831,270	**110,289**	**886,677**	**180,419**

i Redundancy losses include payments made to individuals on behalf of insolvent companies, which ultimately prove irrecoverable. Debt is recovered from the sale of the assets of the insolvent company. A small part of the debt is preferential but most ranks with ordinary creditors and therefore most of the debt is irrecoverable.

ii 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. The figures are the estimated value of losses attributable to the NIF.

iii Benefit losses include customer fraud and administrative write-offs.

b. Special payments

For the year ended 31 March	2021 £000	2021 No. of Cases	2020 £000	2020 No. of Cases
Wrongly advised benefit	**116**	**110**	**12**	**83**

These are ex gratia payments made to customers for loss of statutory entitlement to a benefit or where customers have suffered a financial loss. For example, 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 in an appropriate timescale; or actual financial loss in cases where maladministration has directly caused the customer to incur additional expenditure that would not otherwise have been incurred.

c. Fraud and error in benefit payments

Background

The Social Security Contributions and Benefits Act 1992 and related legislation sets out the basis on which DWP calculates and pays benefits from the NIF.

In many instances Parliament has targeted benefits to customers' needs and circumstances to ensure an efficient use of overall resources. However, this introduces complexity and an inherent risk of fraud and error which, as a consequence, can result in incorrect payments being made in a minority of cases. Despite these complexities, DWP correctly pays approximately 95% of total benefit payments and over 99% of total NIF funded payments.

Overall performance analysis

The estimated level of overpayments from the NIF due to fraud and error remained at 0.3% of total NIF benefit payments in 2020 to 2021. The monetary value of the overpayments remained at £340 million for 2020 to 2021. The estimated level of underpayments increased from 0.3% in 2019 to 2020 to 0.4% in 2020 to 2021. The monetary value of underpayments increased from £300 million in 2019 to 2020 to £460 million in 2020 to 2021.

In context, the total NIF benefit payments administered by the DWP stands at £106.6 billion (£2.2 million relates to Guardian's Allowance administered by HMRC).

Figure 1: Estimated levels of overpayment and underpayment due to fraud and error. (2019-20 *restated figures)

	Overpayment				Underpayment			
	£m		% of NIF Benefit Expenditure		£m		% of NIF Benefit Expenditure	
Fraud/Error	**2020-21**	**2019-20**	**2020-21**	**2019-20**	**2020-21**	**2019-20**	**2020-21**	**2019-20**
Fraud	130	110	0.1%	0.1%	–	–	0.0%	0.0%
Error	220	230	0.2%	0.2%	460	300*	0.4%	0.3%
Total	**340**	**340***	**0.3%**	**0.3%**	**460**	**300***	**0.4%**	**0.3%**

Figure 2: Estimated levels of overpayment and underpayment due to fraud and error, by benefit. (2019-20 *restated figures)

	Overpayment				Underpayment			
	£m		% of NIF Benefit Expenditure		£m		% of NIF Benefit Expenditure	
Benefit	**2020-21**	**2019-20**	**2020-21**	**2019-20**	**2020-21**	**2019-20**	**2020-21**	**2019-20**
State Pension	90	120	0.1%	0.1%	310	160*	0.3%	0.2%*
Widows/Bereavement Benefit	20	20	3.4%	3.4%	–	–	0.7%	0.7%
Employment & Support Allowance/ Incapacity Benefit	190	190	4.1%	4.1%	130	130	2.8%	2.8%
Contribution based Jobseeker's Allowance	30	10	4.6%	4.6%	10	–	1.5%	1.5%
Other	20	20	4.1%	3.7%	10	10	2.4%	2.4%
Total	**340**	**340***	**0.3%**	**0.3%**	**460**	**300***	**0.4%**	**0.3%**

Source: Department of Work and Pensions (DWP) - DWP National Statistics: Fraud and Error in the Benefit System (2019 to 2020 estimates and 2020 to 2021 estimates)
All monetary overpayment and underpayment figures have been rounded to the nearest £10m.
Rows, columns and percentages may not sum due to rounding.
* Note that DWP's fraud and error estimates are based on a revised methodology with some of the 2019 to 2020 figures being restated.

The above tables (Figures 1 & 2) are based on DWP's estimates and are subject to a degree of statistical uncertainty. They are prepared to within a stated range of accuracy, described as confidence intervals. DWP has prepared the estimates to a 95% confidence level. It estimates that for 2020 to 2021 the levels of overpayment lie in the range from £280 million to £840 million; whilst the corresponding range of underpayments is £280 million to £960 million.

For additional information relating to the above figures please refer to the DWP published accounts. (Note 18 - Incorrect Payments, page 309)[6]

6 https://www.gov.uk/government/statistics/fraud-and-error-in-the-benefit-system-financial-year-2020-to-2021-estimates

DWP methodological changes

Some of the 2019 to 2020 fraud and error estimates have been restated due to a change in methodology for State Pension. Prior to this year some accounting errors were removed from State Pension, where an overpayment (or underpayment) error on State Pension was offset by an equivalent underpayment (or overpayment) of the same amount on Pension Credit. This was not the correct approach, so these errors are no longer removed from State Pension.

Cases with a deemed error have also now been removed from the calculation of the State Pension official error rate. Previously these cases were treated as being correct and kept in the calculation. This change brings State Pension in line with the other benefits on how deemed errors are treated.

The impact of making these changes to the 2019 to 2020 figures is small, reducing overpayments by £2 million and increasing underpayments by £9 million. The small reduction in overpayments means that the total NIF monetary overpayment rounds to £340 million (£350 million stated last year). The small increase in underpayments means that the State Pension monetary underpayment rounds to £160 million (£150 million stated last year). The equivalent rate rounds to 0.2% (0.1% stated last year). The total NIF monetary underpayment rounds to £300 million (£290 million stated last year).

The restated figures are marked with an asterisk in the table above.

DWP continuing action and strategy

The monetary value of fraud and error is the estimate of the amount of annual benefit expenditure that was paid out incorrectly in overpayments or underpayments. Estimates show that the level of overpayments due to fraud and error in 2020 to 2021 was 3.9% (or £8.4 billion) of total benefit expenditure. DWP estimate that they underpaid benefits by 1.2% (or £2.5 billion).

Around £0.8 billion in benefit debt (this is debt accrued over time) was recovered by DWP and Local Authorities in 2020 to 2021, meaning that the overall fraud and error loss to the exchequer was 3.6% (or £7.6 billion).

DWP's accounts continue to be qualified by the Comptroller and Auditor General on the basis of the monetary value of fraud and error (MVFE) in the benefit system. However, this qualification excludes State Pension benefits. The majority of both over and under payments relate to means tested benefits, which are not paid from the NIF, whilst State Pension, the single largest element of NIF related benefit expenditure, has a fraud and error overpayment rate of just 0.1%, and an underpayment rate of 0.3%. The sampling exercise does not break down the error rate for the contributory elements of other benefits administered by DWP.

DWP's fraud and error results continue to show certain themes across benefits, the incidences of which depend on their eligibility rules. Means-tested benefits offer more potential risk, owing to rules on savings thresholds, living with partners, and earnings. DWP's initiatives are primarily targeted to address key risk areas, and contributory benefits are not a significant issue here.

Accounts Direction given by HM Treasury in accordance with Section 161(2) of the Social Security Administration Act 1992

1. This direction applies to HM Revenue and Customs ("HMRC").
2. HMRC shall prepare a statement of the transactions on the National Insurance Fund of Great Britain for the year ended 31 March 2016, and subsequent financial years, in compliance with all relevant accounts and disclosure requirements in Managing Public Money and any other guidance issued by HM Treasury which is in force for that financial year.
3. This statement shall be prepared so as to properly present the state of affairs for the year then ended and shall comprise:
    a. a foreword which shall state that the account has been prepared in accordance with the direction issued by HM Treasury in pursuance of Section 161(2) of the Social Security Administration Act 1992. The foreword will also include details of the following:
        i statutory background;
        ii operational responsibilities;
        iii financial performance;
        iv audit arrangements; and
        v responsibilities of the Accounting Officer.
    b. an account of receipts and payments conforming to the format shown in the Appendix.
    c. a statement of balances conforming to the format shown in the Appendix.
    d. such notes as may be necessary for the purpose referred to below:
        i analysis of the payments and receipts including any explanation or background that may be necessary to understand the account;
        ii in the note on administrative costs, the estimated costs for the current year and the adjustments for previous years separately identified;
        iii 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; and
        iv details of any irregular, uncertain or special payments.
    e. disclosures of any material payments or income that has not been applied to the purposes intended by Parliament or material transactions that have not conformed to the authorities which govern them.

4. The foreword and the account shall be signed by the Accounting Officer.

5. This accounts direction shall be reproduced (but with the exception of the related Appendix) as an annex to the account.

6. This direction supersedes the accounts direction dated 12 October 2010.

Michael Sunderland
Acting Deputy Director, Government Financial Reporting
Her Majesty's Treasury
3 June 2016

Glossary

Comptroller and Auditor General	An officer of the House of Commons and head of the National Audit Office, responsible for the audit of the Fund's Accounts
Managing Public Money	A publication giving guidance on how to handle public funds written by HM Treasury
Quinquennial	Occurring once every five years
A&RC	Audit & Risk Committee
BEIS	(Department for) Business, Energy and Industrial Strategy
CEPs	Contributions Equivalent Premiums
CRND	Commissioners for the Reduction of the National Debt
DfC	Department for Communities
DPO	Data Protection Officer
DWP	Department for Work and Pensions
ESA	Employment and Support Allowance
ExCom	Executive Committee
GAD	Government Actuary's Department
HMRC	Her Majesty's Revenue & Customs
JMB	Joint Management Board
NAO	National Audit Office
NHS	National Health Service
NICs	National Insurance Contributions
NICO	National Insurance Collection Office
NIF	National Insurance Fund
NIFAB	National Insurance Fund Accounting Board
NIFIA	National Insurance Fund Investment Account
NINO	National Insurance Number
NIRS	National Insurance Recording system
NPS	An IT system used to support NI & PAYE
OBR	Office for Budget Responsibility
PAYE	Pay As You Earn
RTI	Real Time Information
SA	Self Assessment
SIRO	Senior Information Risk Owner
SLT	Senior Leadership Team
WHO	World Health Organization

E02685738
978-1-5286-2973-7