HM Revenue
& Customs

Great Britain National Insurance Fund Account

For the year ended 31 March 2022

HC 833

HM Revenue
& Customs

Great Britain
National Insurance Fund Account
2021 to 2022

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

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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 to 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 Account

The HM Treasury Accounts Direction (page 31), 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 18 and 19, 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's Department (GAD) 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 GAD, 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 population estimates. This means that, currently, the Northern Ireland balance is intended to be maintained at 2.76% of the joint balances of the 2 Funds. The system of parity payments acts as a safeguard against serious imbalances between the Great Britain and Northern Ireland Funds.

In addition, 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.

GAD 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, to 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. GAD is also required, under Section 166 of the Act, to review the operation of the Great Britain NIF at least every 5 years. The latest quinquennial report was laid before Parliament on 17 March 2022.[2]

The Health and Social Care Levy was announced on 7 September 2021. It was legislated for through the Health and Social Care Levy Act 2021, which received Royal Assent on 20 October 2021. It was implemented from 6 April 2022 through a temporary 1.25 percentage point increase to Class 1, Class 1A, Class 1B, and Class 4 NICs rates in the 2022 to 2023 tax year, the proceeds of which were payable towards the cost of health care in the United Kingdom. The Levy was then intended to be formally separated from NICs from 6 April 2023 and would have been payable as a separate tax by employers, employees, and the self-employed, including those working above State Pension age.

On 22 September 2022, the government announced that it intended to remove the temporary 1.25 percentage point increase to Class 1, Class 1A, Class 1B and Class 4 NICs from 6 November 2022 and to stop the Health and Social Care Levy from coming into force from 6 April 2023. The Health and Social Levy Act (Repeal) Bill received Royal Assent on 25 October 2022.

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 Government Actuary's Quinquennial Review of the National Insurance Fund as at April 2020 (publishing.service.gov.uk)

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 GAD.

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 GAD.

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 2021 to 2022 was estimated at £18.7 billion, being 16.7% of estimated benefit expenditure, as stated in the report on the Social Security Benefits Up-rating Order published by GAD in January 2021.[3] The balance on the Fund at 31 March 2022 was £57.0 billion and was above the estimated minimum requirement throughout the year. No Treasury Grant was therefore required in 2021 to 2022.

The report on the Up-rating Order published by GAD in January 2022 projected an increase in the balance of the Fund in the year ended 31 March 2023, 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 £19.0 billion.

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 2021 to 2022 was £136,000 and will be included in the 2022 to 2023 Account.

3 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/953782/CCS1220755574-001_GAD_SS_Benefit_Up-rating_Order_2021_E-Laying__1__accessible.pdf

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
- 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 page 9.

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 2022

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 2021 to 31 March 2022 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 approved by their Departmental Audit and Risk Assurance Committee and from the Accounting Officers of BEIS approved by their Audit and Risk Assurance Committee, 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 Annual Report and Accounts[4].

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 2021 to 2022 HMRC Annual Reports and Accounts (AR&A).[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 the NIFAB sit below and help support the Board and committee structures described in the 2021 to 2022 HMRC AR&A.

4 DWP annual report and accounts: 2021 to 2022 - https://www.gov.uk/government/publications/dwp-annual-report-and-accounts-2021-to-2022
BEIS annual report and accounts: 2021 to 2022 - https://www.gov.uk/government/publications/beis-annual-report-and-accounts-2021-to-2022
5 HMRC annual report and accounts 2021 to 2022 - https://www.gov.uk/government/publications/hmrc-annual-report-and-accounts-2021-to-2022

3. Risks to the NIF and how these are managed

Control and management of NIF risks are consistent with the overarching Governance Statements published in the respective 2021 to 2022 AR&As 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 2021 to 2022.

Matters on which I have received assurance

DWP has provided a letter of assurance that has been approved by its Departmental Audit and Risk Assurance Committee. It contains details about its capacity to handle risk and its risk control framework. Over 2021 to 2022, 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 Legal Entitlements and Administrative Practice (LEAP) exercise in January 2021 to identify affected cases and rectify them. The Department aims to complete its review of the married and over-80 groups by the end of 2023, but is reassessing its delivery plan for the widowed pensioner group in light of additional cases that have been identified from a further IT scan. The aim is to complete as soon as possible; however, DWP's preliminary assessment of the risks to delivery could take the exercise through to late 2024. 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 2021 to 2022 accounts for outstanding arrears repayments of £1.35 billion.

DWP commissioned a review by the Government Internal Audit Agency (GIAA) of the correction exercise which concluded with 4 recommendations for improvement. These have all been implemented. The GIAA continue to work closely with the DWP senior management team to review historical changes to State Pension and to consider whether there may be any further errors in the system which could mean pensioners are not in receipt of their correct entitlement.

A separate issue also causing underpayment of State Pension has arisen in connection with Home Responsibilities Protection (HRP). For people reaching State Pension age before 6 April 2010, HRP reduced the number of qualifying years needed for a basic State Pension where someone stayed at home to care for children for whom they received Child Benefit or a person who was sick or disabled. For people reaching State Pension age since 6 April 2010, previously recorded periods of HRP were converted into National Insurance credits. In the course of routine fraud and error sampling, DWP identified a small number of State Pension case errors where periods when HRP was due were not accurately recorded on their National Insurance record. DWP has included a contingent liability in their 2021 to 2022 accounts to reflect this, and HMRC and DWP are working together to investigate.

Fraud and Error

COVID-19 restrictions meant that Universal Credit (not paid from the NIF) and State Pension (for Official Error only) were the only benefits measured for fraud and error in 2020 to 2021, with other benefits having historical or proxy rates applied. For 2021 to 2022 a full review of State Pension has been undertaken, which checks for Fraud, Claimant

Error, and Official Error. This is the first time since 2005 to 2006 that a full review has been carried out, with only Official Error being measured in the intervening years and rates of Fraud and Claimant Error rolled forward from 2005 to 2006. The State Pension overpayment rate for 2021 to 2022 was 0.1% (£110 million) which mainly comprised Official Error (0.0%/£50 million) and Claimant Error (0.0%/£50 million). The State Pension underpayment rate for 2021 to 2022 was 0.5% (£530 million) which was primarily Official Error (0.5%/£530 million). As in previous years, the sampling exercise does not break down the error rate for contributory benefits (paid from the 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 is because the Comptroller and Auditor General views the level of State Pension overpayments and underpayments as immaterial in the context of the £217.2 billion benefit and Social Fund expenditure in DWP's 2021 to 2022 accounts. 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 28 to 30 and a summary of the DWP position for reducing the overall level of fraud and error can be found in their AR&A.

The Insolvency Service Audit and Risk Assurance Committee have approved the BEIS letter of assurance. The assurance process was 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 2021 to 2022.

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 periods during lockdown, until reverting to quarterly meetings from April 2021. The NIF balance has continued to grow since April 2021 and is expected to remain above the minimum required threshold throughout the financial years 2022 to 2023 and 2023 to 2024.

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 2022

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 2022 under the Social Security Administration Act 1992. The financial statements comprise the Receipts and Payments Account, including Statement of Balances, and the related notes including the significant accounting policies.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law, the Social Security Administration Act 1992 and HM Treasury directions.

In my opinion, the financial statements:

- properly present the Great Britain National Insurance Fund's receipts and payments for the year ended 31 March 2022; and
- have been properly prepared 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 income and expenditure 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 for opinions

I conducted my audit in accordance with International Standards on Auditing (UK) (ISAs UK), applicable law and Practice Note 10 *Audit of Financial Statements and Regularity 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 of 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 Great Britain National Insurance Fund Account but does not include the financial statements nor my auditor's certificate and report. 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, based on the work undertaken in the course of the audit

- 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 is 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 the Other Financial Information.

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

- I have not received all of the information and explanations I require for my audit; or
- adequate accounting records have not been kept by HMRC or returns adequate for my audit have not been received from third parties; 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;
- ensuring the financial statements and Accounting Officer's Foreword are properly presented in accordance with the applicable financial reporting framework; and
- internal controls as the Accounting Officer determines is necessary to enable the preparation of financial statement to be free from material misstatement, whether due to fraud or error.

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.

Extent to which the audit was considered capable of detecting non-compliance with laws and regulations including fraud

I design procedures in line with my responsibilities, outlined above, to detect material misstatements in respect of non-compliance with laws and regulations, including fraud. The extent to which my procedures are capable of detecting non-compliance with laws and regulations, including fraud is detailed below.

Identifying and assessing potential risks related to non-compliance with laws and regulations, including fraud

In identifying and assessing risks of material misstatement in respect of non-compliance with laws and regulations, including fraud, we considered the following:

- the nature of the sector, control environment and operational performance including the design of the Great Britain National Insurance Fund's accounting policies.
- 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 Great Britain National Insurance Fund's compliance with 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 a result of these procedures, I considered the opportunities and incentives that may exist within the Great Britain National Insurance Fund for fraud and identified the greatest potential for fraud in the following areas: revenue recognition, posting of unusual journals and benefits expenditure. In common with all audits under ISAs (UK), I am also required to perform specific procedures to respond to the risk of management override of controls.

I also obtained an understanding of the Great Britain National Insurance Fund's framework of authority as well as other legal and regulatory frameworks in which the Great Britain National Insurance Fund operates, focusing on those laws and regulations that had a direct effect on material amounts and disclosures in 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.

Audit response to identified risk

As a result of performing the above, the procedures I implemented to respond to identified risks included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described above as having direct effect on the financial statements;
- reading and reviewing minutes of meetings of those charged with governance and the Board and internal audit reports;
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements 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 benefits 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.

Other auditor's responsibilities

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

13 December 2022

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	2022 £000	2021 £000
Receipts			
National Insurance Contributions	2	122,925,072	111,597,505
Compensation for statutory recoveries	3	2,580,000	2,620,000
Income from investment account	4	70,092	41,511
Redundancy receipts	5	37,027	33,110
State Scheme Premiums	6	7,993	2,169
Other receipts	7	1,098	1,248
		125,621,282	**114,295,543**
Less			
Payments			
Benefit payments	8	(109,377,431)	(106,588,185)
Administrative costs	9	(923,937)	(878,858)
Transfers to Northern Ireland NIF	10	(549,200)	(664,000)
Redundancy payments	5	(284,724)	(489,696)
Other payments	11	(94,919)	(123,359)
		(111,230,211)	**(108,744,098)**
Receipts less payments		**14,391,071**	**5,551,445**

Statement of balances

As at 31 March	Notes	2022 £000	2021 £000
Opening balance		42,483,655	36,932,210
Receipts less payments		14,391,071	5,551,445
Closing balance	12	**56,874,726**	**42,483,655**

Jim Harra
Accounting Officer
9 December 2022

The notes on pages 18 to 27 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 31 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 2 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 area who have made NICs. HMRC then applies this ratio, rounded to the nearest 0.1%, to the UK-wide receipts figures to split the contributions between the 2 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, Shared Parental Pay, and Shared Parental Bereavement Pay 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 2021 to 2022.

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 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 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 NIFs. The parity payments are based on estimates by GAD using the latest population estimates 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		2022	2021
Contributions - estimated breakdown by class	Notes	£000	£000
Class 1 (employed earners)	i	117,772,614	106,968,679
Class 1A	ii	1,144,680	1,405,299
Class 1B	ii	354,489	117,130
Class 2 (self-employed flat rate)	iii	420,320	430,160
Class 3 (voluntary contributions)	iv	212,311	171,897
Class 4 (self-employed earnings related)	v	3,020,658	2,504,340
		122,925,072	**111,597,505**

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

i **Class 1 contributions** comprise 2 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. 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 £29.1 billion in 2021 to 2022 (£26.4 billion in 2020 to 2021) and forms part of the total NHS funding.

The NHS allocation is based on GAD's estimates for the year ended 31 March 2022 made in December 2021. 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	2022 £000	2021 £000
Statutory Maternity Pay	i	2,507,000	2,530,000
Statutory Adoption Pay, Statutory Paternity Pay, Statutory Shared Parental Pay and Shared Parental Bereavement Pay	ii	73,000	90,000
		2,580,000	**2,620,000**

The government compensates the NIF for loss of revenue due to contribution receipts being reduced by employers recovering Statutory Maternity, Adoption, Paternity, Shared Parental Pay, and Shared Parental Bereavement Pay. The compensation is drawn down from the Consolidated Fund and then paid over to the NIF by DWP and BEIS, as the NIF has no facility to do so. The amounts paid over are based on estimates produced by GAD in accordance with 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 to recipients by DWP.

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

4. Income from investment account

For the year ended 31 March	2022 £000	2021 £000
Interest received	**70,092**	**41,511**

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 2021 to 2022, as in the previous year, the NIFIA was almost entirely invested in the Debt Management Account, which pays a rate equal to the Bank of England base 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, which is 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 and 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 earned. In 2020 to 2021 the Bank of England base rate changed from 0.25% to 0.1% over the course of the year but for the financial year 2021 to 2022 the rate increased to 0.75% by March 2022, resulting in more 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 2022 increased to £57.0 billion (£42.7 billion at 31 March 2021) (see note 12 for details).

5. Redundancy payments and receipts

For the year ended 31 March	Notes	2022 £000	2021 £000
Redundancy payments	i	284,724	489,696
Redundancy receipts	ii	(37,027)	(33,110)
		247,697	**456,586**

BEIS administers the Redundancy Payments Scheme which ensures that employees who have been made redundant receive their statutory redundancy entitlement where their employers are unable to make such payments, usually because of insolvency. In doing so, the scheme also protects the taxpayers' interests by ensuring that it does not make payments which can and should be made by the employers themselves.

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.

ii The receipts represent amounts recovered from employers.

6. State Scheme Premiums

For the year ended 31 March	2022 £000	2021 £000
State Scheme Premiums	**7,993**	**2,169**

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 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, including legacy pension schemes.

7. Other receipts

For the year ended 31 March	2022 £000	2021 £000
Personal pensions receipts	**1,098**	**1,248**

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	2022 £000	2021 £000
State Pension	i	103,767,607	100,454,435
Employment & Support Allowance (contributory)	ii	4,522,551	4,573,619
Bereavement benefits	iii	395,155	443,785
Maternity Allowance	iv	359,353	387,667
Jobseeker's Allowance (contributory)	v	209,344	609,538
Christmas Bonus	vi	123,951	122,709
Guardian's Allowance	vii	15	2,202
Incapacity Benefit	viii	(545)	(5,770)
		109,377,431	**106,588,185**

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 Style ESA can be received along with Universal Credit.

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

Bereavement Support was introduced 6 April 2017 and will eventually replace the other bereavement benefits by combining lump sums and regular payments into one benefit. For those already in receipt of Bereavement Allowance or Widowed Parent's Allowance at 6 April 2017, payments will continue to their natural conclusion but all new claims from 6 April 2017 are to be made to Bereavement Support. Bereavement Support is payable for 18 months and there are 2 rates of lump sum and weekly payments dependant on whether the customer has a dependent child for whom they receive (or could receive) Child Benefit.

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

iv Maternity Allowance is paid for up to 39 weeks at a standard weekly rate, dependent upon earnings, to a person who is not entitled to Statutory Maternity Pay. It is payable from a maximum of 11 weeks before the expected week of childbirth and is subject to qualifying conditions.

v 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 Style JSA can be received along with Universal Credit.

vi Christmas Bonus is a one-off 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. Due to a system change the request for reimbursement of these payments from the NIF will be accounted for in 2022 to 2023.

viii Incapacity Benefit is paid at 3 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.

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 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 costs 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 the Northern Ireland NIF and not included in the figures above.

The total overseas NIF spend for Northern Ireland for 2021 to 2022 was £100,625 (2020 to 2021: £93,000) predominantly for State Pension.

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

9. Administrative costs

For the year ended 31 March	Notes	2022 £000	2021 £000
Department for Work & Pensions	i	713,736	693,615
HM Revenue & Customs	ii	159,678	135,338
HM Courts and Tribunal Service (first tier)	iii	36,914	36,914
BEIS (The Insolvency Service)	iv	10,193	8,877
HM Courts and Tribunals Service (upper tribunal)	v	1,668	2,522
HM Passport Office (General Register Office)	vi	919	802
Government Actuary's Department	vii	613	574
National Audit Office - Audit Fees	viii	136	136
Commissioners for Reduction of National Debt	ix	71	71
Scottish Executive Justice Department	x	9	9
		923,937	**878,858**

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.

i For administration costs relating to the award and payment of contributory benefits on behalf of the Fund. The small increase is due to the continued impact of 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 an employment tribunal.

v For the processing of applications for leave to appeal, and for appeals on points of law from decisions of the Appeals Service in respect of National Insurance related benefits.

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 2020 to 2021 NIF Account.

ix For costs relating to the investment of NIF monies paid over to CRND.

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 related benefits and medical appeal tribunals in Scotland.

10. Transfers to Northern Ireland NIF

For the year ended 31 March	2022 £000	2021 £000
Payments transfers to Northern Ireland NIF	**549,200**	**664,000**

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 the Great Britain and Northern Ireland NIFs are made so that, as far as practicable, the balance in the Northern Ireland NIF is maintained at 2.76% of the joint balance of the 2 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 at year-end when end of year balances in the two Funds are available if required. The transfers are based on the balances of the Great Britain and Northern Ireland NIFs, which are themselves 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 2 Funds.

11. Other payments

For the year ended 31 March	Notes	2022 £000	2021 £000
State Pension deferred lump sum tax payments	i	47,216	78,052
Payments to Isle of Man	ii	47,703	45,307
		94,919	**123,359**

i State pension deferred lump sum is assessed as taxable income. Tax is deducted from the State Pension deferred lump sum every time a payment is made to a customer, and is 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.

12. Closing balance

As at 31 March	Notes	2022 £000	2021 £000
Monies held by the NIFIA	i	57,016,643	42,663,351
Funds held at bank (incl. uncleared payments)	ii	(3,008)	(2,695)
Due from other government departments	iii	8,543	–
Due to other government departments	iii	(147,452)	(177,001)
		56,874,726	**42,483,655**

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 timing difference between what is paid to and from the NIF and what is recognised in the Account, 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. Additional information can be found in the published AR&As for HMRC and DWP.

a. Losses

For the year ended 31 March		2022		2021	
	Notes	Amount £000	No. of cases (where available)	Amount £000	No. of cases (where available)
Contribution losses	i	344,827	–	341,848	–
Redundancy losses	ii	259,110	–	447,473	–
Benefit losses	iii	61,890	228,093	41,949	110,289
		665,827	**228,093**	**831,270**	**110,289**

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

ii 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.

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

b. Special payments

For the year ended 31 March	2022		2021	
	Amount £000	No. of cases (where available)	Amount £000	No. of cases (where available)
Wrongly advised benefit	**116**	**630**	**116**	**110**

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 2021 to 2022. The monetary value of the overpayments increased from £330 million in 2020 to 2021 to £340 million in 2021 to 2022. The estimated level of underpayments increased from 0.4% in 2020 to 2021 to 0.6% in 2021 to 2022. The monetary value of underpayments increased from £460 million in 2020 to 2021 to £660 million in 2021 to 2022.

Underpayments in 2021 to 2022 cannot be directly compared with previous years due to some types of error being recorded for the first time on State Pension. If these newly recorded errors were excluded, then the NIF underpayment rate would have remained at 0.4%. For further information, please see DWP methodological changes section below.

In context, the total NIF benefit payments administered by the DWP stands at £109.4 billion (£15 thousand relates to Guardian's Allowance administered by HMRC - see note 8).

Table 1: Estimated levels of overpayment and underpayment due to fraud and error (2020-21 *restated figures)

Fraud/Error	Overpayment £m 2021-22	Overpayment £m 2020-21	Overpayment % of NIF benefit expenditure 2021-22	Overpayment % of NIF benefit expenditure 2020-21	Underpayment £m 2021-22	Underpayment £m 2020-21	Underpayment % of NIF benefit expenditure 2021-22	Underpayment % of NIF benefit expenditure 2020-21
Fraud	140	120*	0.1%	0.1%	-	-	0.0%	0.0%
Error	200	220	0.2%	0.2%	660	460	0.6%	0.4%
Total	**340**	**330***	**0.3%**	**0.3%**	**660**	**460**	**0.6%**	**0.4%**

Table 2: Estimated levels of overpayment and underpayment due to fraud and error, by benefit (2020-21 *restated figures)

Benefit	Overpayment £m 2021-22	Overpayment £m 2020-21	Overpayment % of NIF benefit expenditure 2021-22	Overpayment % of NIF benefit expenditure 2020-21	Underpayment £m 2021-22	Underpayment £m 2020-21	Underpayment % of NIF benefit expenditure 2021-22	Underpayment % of NIF benefit expenditure 2020-21
State Pension	110	90*	0.1%	0.1%	530	310	0.5%	0.3%
Widows/Bereavement Benefit	10	20	3.4%	3.4%	-	-	0.7%	0.7%
Employment & Support Allowance/Incapacity Benefit	180	180*	4.0%	3.9%*	110	130	2.5%	2.8%
Contribution based Jobseeker's Allowance	10	30	4.6%	4.6%	-	10	1.5%	1.5%
Other	20	20	4.0%	3.9%*	10	10	2.2%	2.4%
Total	**340**	**330***	**0.3%**	**0.3%**	**660**	**460**	**0.6%**	**0.4%**

Source: DWP - DWP National Statistics: Fraud and Error in the Benefit System (2020 to 2021 estimates and 2021 to 2022 estimates)
All monetary overpayment and underpayment figures have been rounded to the nearest £10 million.
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 2020 to 2021 figures being restated.

The above tables (Tables 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 for 2021 to 2022 that the levels of overpayment lie in the range from £280 million to £410 million, while the corresponding range of underpayments is £480 million to £880 million.

For additional information relating to the above figures please refer to the 2021 to 2022 DWP AR&A (note 18 - Incorrect Payments, page 301).

DWP methodological changes

A full review of State Pension was undertaken in 2021 to 2022, which checks for Fraud, Claimant Error, and Official Error. This is the first time since 2005 to 2006 that a full review has been carried out, with only Official Error being measured in the intervening years and rates of Fraud and Claimant Error rolled forward from 2005 to 2006.

Previously, Official Error only reviews never involved contact with the customer and were carried out by reviewing evidence held by the department. In 2021 to 2022, as part of the full review of State Pension, the process involved directly contacting customers, and this created the opportunity to ask them questions, which has resulted in some types of Official Error being identified within DWP's statistics for the first time.

This means that the State Pension underpayment rate and the NIF underpayment rate for 2021 to 2022 cannot be directly compared with previous years. If the errors recorded for the first time were excluded, then the State Pension underpayment rate would have remained at 0.3% and the NIF underpayment rate would have remained at 0.4%.

Some of the 2020 to 2021 fraud and error estimates have been restated due to a change in methodology for Employment and Support Allowance. The impact of making this change to the 2020 to 2021 figures is small, reducing the ESA overpayment rate to 3.9% (from the 4.1% stated last year) and the monetary amount to £180 million (£190 million stated last year).

This change also affects the NIF monetary overpayment for Fraud, which is now £120 million for 2020 to 2021 (£130 million stated last year), and the total NIF monetary overpayment, which is now £330 million for 2020 to 2021 (£340 million stated last year).

The restated figures are marked with an asterisk in the tables 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 in 2021 to 2022 was 4.0% (or £8.6 billion) of total benefit expenditure. DWP estimate that they underpaid benefits by 1.2% (or £2.6 billion).

Around £1.0 billion in benefit debt (this is debt accrued over time) was recovered by DWP and Local Authorities in 2021 to 2022, meaning that the overall fraud and error loss to the Exchequer was 3.5% (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. The majority of both overpayments and underpayments relate to means-tested benefits, which are not paid from the NIF. State Pension, which is 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 0.5%, giving a combined value of £650 million. The Comptroller and Auditor General sees this as immaterial in the context of the £217.2 billion benefit expenditure in DWP's accounts, which is why the qualification excludes State Pension.

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. On 19 May 2022, DWP published its Fraud Plan - 'Fighting Fraud in the Welfare System'[6] - which sets out how DWP will prevent, deter and detect losses going forward.

6 Fighting Fraud in the Welfare System - GOV.UK (www.gov.uk)
https://www.gov.uk/government/statistics/fraud-and-error-in-the-benefit-system-financial-year-2021-to-2022-estimates

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	His 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 the National Insurance & Pay As You Earn Service
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 Organisation

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