

# **National Insurance Fund Account 2011-12**

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

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# Foreword

## Statutory background

1. The National Insurance Scheme was established on 5 July 1948 to provide unemployment benefit, sickness benefit, retirement pensions and other benefits in cases where individuals meet the contribution and other qualifying conditions.
2. Under the Social Security Administration Act 1992 benefits due under the National Insurance Scheme are payable out of the National Insurance Fund (NIF). The funds required for meeting the cost of these benefits are mainly provided from National Insurance Contributions payable by employed earners, employers and others. The Social Security Contributions and Benefits Act 1992 sets out the conditions governing entitlement to most benefits and the basis for assessing liability to pay National Insurance Contributions. The Social Security Act 1993 allows for money provided by Parliament to be paid into the NIF if the Treasury considers it expedient to do so to maintain the level of the Fund; the Government Actuary recommends that the balance of the Fund is greater than 16.7 per cent of benefit payments and in recent years the balance has greatly exceeded this amount so no Treasury grant has been required.
3. The amounts received by and paid out of the NIF and the resulting balance depend on legislation, which is the responsibility of Treasury Ministers and the Secretary of State for Work and Pensions. In setting contribution rates, Treasury Ministers are required to have regard to changes in the general level of earnings, the balance on the fund and payments expected to be made from it in the future (Sections 141 and 143 of the Social Security Administration Act 1992). In addition both demographic and economic changes can affect amounts received, paid out and consequently the overall balance.
4. Section 161(1) of the Social Security Administration Act 1992 (as amended by the Social Security Contributions (Transfer of Functions etc) Act 1999) placed the NIF under the control and management of the Inland Revenue (now HM Revenue & Customs (HMRC)). Section 161(2) of the Social Security Administration Act 1992 requires HMRC to prepare accounts of the NIF in such form, and in such manner and at such times, as the Treasury may direct. The accounts are prepared on a cash basis and must properly present the receipts and payments for the financial year and the balance on the NIF at the year end.
5. The Government Actuary is required under Sections 142(1), 147(2) and 150(8) of the 1992 Social Security Administration Act to report on the likely effect on the NIF of the Government's annual Benefits Up-rating and Contributions Re-rating Orders. These reports are laid before Parliament and debated alongside the relevant orders. He is also required, under Section 166 of the Act, to review the operation of the Great Britain National Insurance Fund at least every five years. The latest quinquennial report was laid before Parliament on 30 March 2010. This showed that Fund expenditure is projected to increase from around 5 per cent of Gross Domestic Product (GDP) in 2008-09 to around 8 per cent of GDP in 2070-71. The main driver of this effect is the ageing of the population.<sup>1</sup>

## Operational responsibilities

6. National Insurance Contributions are payable by employed earners, employers and others. HMRC is responsible for collecting these contributions and recording them against individuals' contribution records (which determine entitlement to social security benefits payable from the NIF). As Principal Accounting Officer for the NIF, I am responsible for the control and management of the Fund.

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<sup>1</sup> For full report [http://www.gad.gov.uk/Documents/Social%20Security/Quinquennial\\_Review\\_10-Full\\_Report.pdf](http://www.gad.gov.uk/Documents/Social%20Security/Quinquennial_Review_10-Full_Report.pdf)

7. The Department for Work and Pensions (DWP) has overall responsibility for the award and payment of most benefits payable from the NIF, including those relating to retirement, sickness and contribution based Jobseeker's Allowance. Entitlement to benefit is determined by the claimant satisfying qualifying conditions. DWP also pays over to the NIF compensation in respect of recoveries for Statutory Sick Pay and Statutory Maternity Pay. These recoveries are made by employers and deducted from amounts of National Insurance Contributions paid over to HMRC; DWP then compensates the NIF for this loss of revenue.
8. The Department for Business, Innovation and Skills (BIS) is responsible for making Redundancy Payment Scheme awards. The Insolvency Service, an agency of BIS, handles the payment of awards and collection of receipts.
9. BIS also pays over to the NIF compensation in respect of recoveries for Statutory Adoption Pay and Statutory Paternity Pay. These recoveries are made by employers and deducted from amounts of National Insurance Contributions paid over to HMRC; BIS then compensates the NIF for this loss of revenue.

### Audit arrangements

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

### Financial performance

11. The National Insurance Scheme is financed on a pay-as-you-go basis with contribution rates set at a level broadly necessary to meet the expected benefits expenditure in that year, after taking into account any other payments and receipts and to maintain a working balance. Changes in contribution levels, in response to the needs of the Fund, take time to implement therefore a working balance is necessary because the NIF has no borrowing powers. In his report on the financial provisions of the Social Security Bill 1992, the Government Actuary confirmed that it was prudent to plan for a minimum balance of one-sixth (16.7 per cent) of annual benefit expenditure.
12. The balance on the fund at 31 March 2012 has decreased by £4,570 million to £38,594 million (31 March 2011, £43,164 million); the balance represents 47 per cent of annual benefit expenditure (31 March 2011, 55 per cent). This decrease results from the increase in benefit payments (£4,559 million) together with the effect of historically low interest rates on the NIF working balance.

### Responsibilities of the Chief Executive of HM Revenue & Customs

13. As Chief Executive of HM Revenue & Customs, I am the Principal Accounting Officer for the NIF, appointed by Treasury with effect from 23 January 2012. My relevant responsibilities as Principal Accounting Officer, including my responsibility for the propriety and regularity of the public finances for which I am answerable and for the keeping of proper records, are set out in the Principal Accounting Officers' Memorandum issued by HM Treasury and published in *'Managing Public Money'*. Many of the activities relating to the transactions of the NIF are carried out by other departments (e.g. DWP and BIS) and agencies and I receive letters of assurance from them as detailed in the Governance Statement.

**Lin Homer**  
Principal Accounting Officer  
11 April 2013

# National Insurance Fund Governance Statement

This statement is given in respect of the 2011-12 Great Britain National Insurance Fund Account.

## 1. Purpose of the Governance Statement

1.1 This statement describes:

- The National Insurance Fund (NIF) governance arrangements;
- Risk and control framework;
- Key developments in internal controls and significant control issues; and
- Details of assurance provided by other government departments involved in NIF related activities.

1.2 Specific work undertaken on behalf of the NIF forms only a small part of the whole work of HM Revenue & Customs (HMRC). HMRC has produced a full Governance Statement setting out details of its compliance with the Corporate Governance Code, along with its capacity to handle risk and risks control framework, including disclosures relating to issues outside of the scope of work relating to the NIF. The Governance Statement is included in the published 2011-12 Annual Report and Accounts.

## 2. Scope of responsibility

2.1 As Principal Accounting Officer for the NIF, I have responsibility for maintaining a sound system of internal control that supports the achievement of HMRC policies, aims and objectives, whilst safeguarding the public funds and Departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in *Managing Public Money*.

2.2 Whilst 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 National Insurance Contributions (NICs)) the Department for Work and Pensions (DWP) is responsible for the control and management of benefit payments and the Insolvency Service, an agency of the Department for Business Innovation and Skills (BIS), is responsible for the control and management of Redundancy Payments Scheme awards that are covered by the Fund.

2.3 The Personal Tax Product and Process directorate (part of HMRC) controls and manages the collection of NICs, regularly reporting to the Personal Tax Senior Leadership Team (SLT). In addition, in February 2012 a National Insurance Management Board was introduced to review all matters relating to the collection and management of NICs.

2.4 Governance arrangements for the DWP and BIS are outlined in their Governance Statements and published within their accounts. However, I receive Letters of Assurance from the Accounting Officers of those departments, approved by their audit committees, which refer to their governance arrangements and highlight any significant issues that impact on the control and management of their NIF related activities. In addition, the Government Actuary is responsible for reporting to Parliament on the performance of the Fund.

## 3. Our risk and control environment

3.1 Control and management of the NIF is consistent with the over-arching HMRC Governance Statement (for full details see the published 2011-12 Annual Report and Accounts).

3.2 HMRC's approach to risk management and its Corporate Risk Management Strategy has been endorsed by the Executive Committee and the Audit and Risk Committee. The key components of the Strategy cover:

- Leadership and culture to support open and active management of risk;
- Integration of risk management into core business processes; and
- Information to support risk-based decision making.

Over the past twelve months, HMRC has continued to follow a consistent approach to corporate risk management that affirms its commitment to take the right risks and opportunities to support the delivery of its business objectives.

3.3 The National Insurance Product & Process Owner, a senior leadership team member of the Personal Tax Product and Process directorate, is accountable for the overall smooth running of the NICs process, for leading the development of product strategy, and for improving the process to make it more efficient for HMRC and its customers.

3.4 Risk management is supported by the NIF Audit Forum consisting of representatives from key Internal Audit units, the National Audit Office (NAO), other government departments and management. The forum focuses on co-ordinating risk-based audit activity such as planning, reporting and implementation of recommendations and fostering opportunities for joint working and exchange of best practices.

#### **4. Information risk**

4.1 Protecting the confidentiality, availability and integrity of our customers' information remains a strategic objective; therefore governance and assurance activities have been enhanced throughout the course of the year, with additional focus being given to HMRC's increasingly important online services.

#### **5. Review of effectiveness**

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

- Individual statements from each member of the Executive Committee (ExCom) outlining the governance, risk and control arrangements in their business areas;
- The review that underpins the production of the NIF Governance Statements, which I sign separately;
- NAO reports;
- The Director of Internal Audit's annual opinion to me as Principal Accounting Officer; and
- Formal assurance I receive from the Senior Information Risk Owner (SIRO) that information risk has been appropriately managed in the conduct of HMRC business.

5.2 Taking all of these into account, as well as observations from the regular meetings of ExCom, ExCom (Performance) and the Audit and Risk Committee, from the Director of Internal Audit, and from the NAO, I recognise that there are a number of significant control weaknesses relating to the NIF. These are detailed below. All the issues apply to both the Great Britain and Northern Ireland Funds, and numbers of items and monetary amounts quoted are the total impact across both Funds (the way the NIF is administered makes it difficult to disaggregate the required information so that it relates solely to Great Britain or Northern Ireland).



## **6. Significant control issues**

### **6.1 Class 2 National Insurance debt balances**

6.1.1 National Insurance Class 2 is a flat-rate weekly contribution paid by the self-employed which gives entitlement to a range of contributory benefits. The timeliness of collection of outstanding debt and lack of a suitable process for collection is a long standing issue that has been commented on in previous years. At October 2012 the debt balance had increased by £57 million in the last year to £984 million. The debt balance continues to increase as there is no functionality within the National Insurance and Pay-as-You-Earn Service (NPS) to pursue and recover outstanding debts or IT capabilities to transfer debts to systems within Debt Management & Banking (DMB).

6.1.2 However, the headline figures may overstate the position. An initial analysis suggests a significant proportion of this debt may not be due when the cases are examined individually. This is because some of the Class 2 debt relates to those who have ceased self employment or registered but never started their self employment and have not notified HMRC, as well as those who would be eligible to a small earnings exception. HMRC is doing further work to quantify and identify cost effective methods of removing this from the debt balance.

6.1.3 Individuals can pay Class 2 by direct debit or by individual billing which in October 2011 moved to a system of 6-monthly rather than quarterly bills. The correspondence issued with these bills includes a clarification of the consequences of not paying. The value of Class 2 receipts from individual billing has increased by £18 million (38 per cent) for 2011-12 compared to 2010-11.

6.1.4 In the 2010-11 Statement on Internal Control (SIC), the Accounting Officer reported on the successful trial of the use of private sector Debt Collection Agencies (DCAs) to recover a range of HMRC debts including Class 2 National Insurance. Following the trial this has been rolled out further targeting 200,000 debts for transfer in 2011-12 and 2012-13 with a value of £90 million.

6.1.5 A range of strategic solutions are being developed to recover Class 2 debts including coding out. Indications of this solution are positive.

6.1.6 The annual remissions exercise undertaken in April 2012 resulted in £27.3 million of time-barred debt being remitted. An additional exercise in July 2012 removed a further £70.1 million of time-barred debt which had not been removed previously. Class 2 debt is only remitted if it has become 6 years old and has not previously been protected by enforcing the debt via a County Court Judgement or an insolvency claim lodged.

### **6.2 Non-Matching National Insurance (NI) Contribution items**

6.2.1 HMRC receives end of year information from employers and pension schemes which can include returns that cannot be matched to a specific individual's record (for example where the employer or pension scheme administrator has provided insufficient personal details about the individual). If automated tracing action fails these returns are placed in a suspense file until they can be matched to the correct record. HMRC will investigate potential missing or non-matched end of year returns reported by individuals at any time.

6.2.2 An annual exercise is undertaken to monitor progress in driving down the volume of non-matching items (NMI) placed in the suspense file. The 2010-11 analysis showed a continued downward trend in the annual amount of NMI sent to the suspense file: the proportion of items sent to the suspense file in relation to the total volume of end of year returns processed was 1.7 per cent (under 1 million) compared to 2.0 per cent (1.2 million) the previous year. This downward annual trend has been in evidence since 2004-05 when it stood at 5.0 per cent. The overall total added since 1975 is 121.5 million.

6.2.3 Analysis shows that for 2010-11 91 per cent of NMI added to the suspense file on their own do not affect contributor benefits. The corresponding figure for 2009-10 was 90 per cent.

6.2.4 For the last two years most cases added to the suspense file do not have NI Contributions associated with them. Only 368,000 of the cases added to the suspense file in 2010-11 have earnings potentially subject to NI Contributions (445,000 in 2009-10). A substantial proportion of the returns received are reporting pension income on which no NI Contribution is due.

6.2.5 HMRC will continue to work with employers and pension scheme administrators to maintain the steady fall in the annual proportion of NMI entering the suspense file. One of the aims of the Real Time Information (RTI) Programme Data Improvement Project is to address data quality issues. Significant progress has been made which we expect will lead to a further improvement.

### **6.3 Ratio checks**

6.3.1 End of year returns submitted by employers are subjected to a ratio check which identifies cases where the NI Contributions paid do not match the earnings shown on the form. Around 0.5 per cent (200,000) of the 57 million returns are identified each year for further examination and contributions are recorded on the individual's NI account for that year. This will not count towards benefit entitlement and will not generate any rebate to pension schemes for defined contribution schemes until cleared.

6.3.2 The routine working of non-urgent cases was halted in anticipation of automation under NPS but this has not been possible to date. However, HMRC works these cases when DWP notify that a claim has been made to avoid state pensioners or benefit claimants losing out. Cases from 2004-05 to 2007-08 and all cases involving rebates due to pension providers have now been cleared. For the remainder of the cases an automated IT solution is being investigated for implementation in October 2013. Rebates are only available for defined contributions schemes which are contracted out of the state system. No further new rebates should arise following the abolition of contracting out for these schemes from the 6 April 2012 tax year.

### **6.4 Data Scans**

6.4.1 National Insurance Contributions (NICs) are allocated to the National Insurance Fund (NIF) and the National Health Service (NHS). The formula for determining the level of the NHS allocation is set out in statute. It is based on estimates and is calculated as a percentage of earnings, profits and contributions depending on the class of NICs.

6.4.2 The Government Actuary's Department (GAD) use the results of system scans to estimate the proportion of receipts to be allocated to the NHS. Weaknesses have been identified in three scans used in the apportionment of National Insurance Contributions between the GB NIF and the NHS.

6.4.3 The specification for one of the system scans did not take into account one aspect of the legislation, where employees with income between £102 to £139 per week do not actually pay employee contributions, but are deemed to have paid them. Therefore, since 2000-01 the amount of NHS allocation for this group of employees has been overestimated. This issue does not affect the total funding available to the NHS. See Note 2 to the Accounts, NHS allocation.

6.4.4 This over allocation to the GB NHS is estimated to be £502 million in total between 2000-01 and 2011-12, representing 0.3 per cent of the total GB NHS allocation over the same period. The GB NI Fund has been underfunded by the same estimated amount and this position will be corrected in 2013-14.

6.4.5 Of the two other scan issues: the first relates to HMRC being unable to provide evidence of the parameters/designs for the scan; the second relates to data missing from a scan, leading to the use of an estimate of the allocation based on historical data, rather than actual data.

6.4.6 HMRC will continue to address these issues and aim to resolve them within the next 6 months.

## **6.5 National Insurance & PAYE System (NPS) Governance Team**

6.5.1 The NPS Governance team provides continuous management assurance that HMRC, Other Government Departments (OGDs) and Isle of Man access to NPS is being controlled and reviewed. Their role has evolved over time to include elements of NPS system controls.

6.5.2 HMRC's internal audit of the team's cross cutting governance and controls highlighted: weaknesses in the monitoring of OGDs' access to HMRC data; a lack of clarity around accountability and responsibility for OGDs' access to the HMRC NPS system.

6.5.3 Internal Audit were therefore asked by HMRC to review the area and made five recommendations to address these weaknesses. These include moving the work to a dedicated team in Personal Tax, this team to have a clear governance framework; carrying out a control risk assessment to inform the risk management process; improving the knowledge and understanding of all NPS users.

6.5.4 Action to implement all of these recommendations is significantly completed, with an expected final date of 30 April.

## **7. Assurance from DWP in respect of contributory benefit payments and National Insurance Credits**

7.1 A Letter of Assurance has been received from DWP that has been approved by its Audit Committee. It contains details about its capacity to handle risk and its risk control framework. The letter indicates significant control challenges, which are summarised below.

### **7.2 Fraud and error**

7.2.1 In 2011-12 contributory benefits funded from the NIF totalled £82.36 billion, which included £74.11 billion relating to State Pension and £4.98 billion relating to Incapacity Benefit. The remainder included payments made in relation to Bereavement Benefit, Maternity Allowance, Christmas Bonus, Jobseeker's Allowance (Contributory) and Employment & Support Allowance.

7.2.2 The latest estimates for 2011-12 indicate that losses from fraud and error in relation to State Pension were approximately £120 million (0.2 per cent) and in relation to Incapacity Benefit approximately £120 million (2.4 per cent). A full breakdown of estimated levels of over and under payments due to fraud and error can be found in note 8.1.

7.2.3 As part of its fraud and error strategy, DWP will focus on using better intelligence and work in partnership across all sectors and Government bodies to prevent and detect fraud. It is hoped this will enable checking systems to be in place before payments are made to prevent money lost through fraud or error.

7.2.4 DWP is creating an Integrated Risk and Intelligence Service (IRIS), a hub system for collecting and analysing claimant information and applying fraud and error prevention filters. IRIS will not only stop incorrect payments but it will also support investigation and prosecutions of fraud. DWP is also developing the Single Fraud Investigation Service with HMRC and Local Authorities, joining expertise and efforts in investigating fraud as well as reviewing sanctions legislation to enable tougher penalties to be imposed and improve the amount and speed of debt recovery.

### **7.3 Security of information**

7.3.1 DWP has continued to focus on security of information and to implement improvements in their approach. However, the risk appetite for data loss remains low and given the size and complexity of the department and the major change in delivery through online services, this continues to present a significant control challenge. DWP will therefore continue to address current and emerging information security issues whilst striving for continuous improvement.

#### **7.4 Work Capability Assessments**

7.4.1 Work Capability Assessments, which form a core component of the Employment & Support Allowance (ESA) claimant journey, continue to pose a significant capacity challenge for DWP and its partner ATOS Healthcare at the year end. Appeals arising from ESA also posed a significant capacity challenge. The DWP Audit Committee have agreed that progress has been made since the year end and that this issue is no longer significant. It has therefore been managed as business as usual since October 2012.

#### **8. Assurance from BIS in respect of the Redundancy Payments Scheme**

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

#### **9. Conclusion**

9.1 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. There is still work to do in strengthening processes on the HMRC side and for DWP to deal with the control issues they have highlighted in their letter of assurance.

**Lin Homer**  
Principal Accounting Officer  
11 April 2013

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

I certify that I have audited the financial statements of the Great Britain National Insurance Fund for the year ended 31 March 2012 under the Social Security Administration Act 1992. The financial statements comprise the Receipts and Payments Account (including the Statement of Balances) and the related notes. These financial statements have been prepared under the accounting policies set out within them.

## **Respective responsibilities of the Accounting Officer and auditor**

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

## **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the circumstances of the Great Britain National Insurance Fund and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Accounting Officer; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Foreword and the Governance Statement to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

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

## **Opinion on regularity**

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

## **Opinion on financial statements**

In my opinion:

- the financial statements properly present the receipts and payments of the Great Britain National Insurance Fund for the year ended 31 March 2012; and
- the financial statements have been properly prepared in accordance with Section 161(2) of the Social Security Administration Act 1992 and HM Treasury directions issued thereunder.

## **Opinion on other matters**

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

**Matters on which I report by exception**

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

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

**Report**

I have no observations to make on these financial statements.

**Amyas C E Morse**  
**Comptroller and Auditor General**

18 April 2013

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

# Receipts and Payments Account for the year ended 31 March 2012

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

<b>Receipts</b>	Notes	<b>2011-12 £000</b>	2010 -11 £000
National Insurance Contributions	2	<b>78,423,776</b>	74,181,834
Compensation for statutory pay recoveries	3	<b>3,008,707</b>	2,100,796
Income from Investment Account	4	<b>188,825</b>	204,124
State Scheme Premiums	5	<b>36,733</b>	47,299
Other receipts	6	<b>46,401</b>	46,657
Redundancy receipts	7	<b>49,274</b>	49,281
		<hr/> <b>81,753,716</b> <hr/>	<hr/> 76,629,991 <hr/>
<i>Less</i>			
<b>Payments</b>			
Benefit payments	8	<b>82,357,733</b>	77,799,137
Personal Pensions	9	<b>2,139,042</b>	2,313,669
Administrative costs	10	<b>1,125,019</b>	1,419,801
Redundancy payments	7	<b>406,631</b>	445,623
Transfers to Northern Ireland NIF	11	<b>145,000</b>	125,000
Other payments	12	<b>150,277</b>	149,407
		<hr/> <b>86,323,702</b> <hr/>	<hr/> 82,252,637 <hr/>
Excess of payments over receipts		<b>(4,569,986)</b>	<b>(5,622,646)</b>

## Statement of balances

		<b>2011-12 £000</b>	2010-11 £000
Opening balance (Restated) <sup>1</sup>		<b>43,163,939</b>	48,786,585
Less excess of payments over receipts		<b>(4,569,986)</b>	(5,622,646)
Closing balance <sup>2</sup>	13	<hr/> <b>38,593,953</b> <hr/>	<hr/> 43,163,939 <hr/>

**Lin Homer**  
Principal Accounting Officer  
11 April 2013

*The notes on pages 13 to 26 form part of these accounts.*

<sup>1</sup> Opening balance has been restated based on analysis of prior year data as better management information has become available. It is not deemed material.

<sup>2</sup> See notes 2 and 13 for further detail on the closing balance.

# Notes to the Account

## 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 cash basis, in a form directed by HM Treasury, shown as an annex to this account, and the policies outlined below.

### 1.2 Net accounting

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

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

### 1.3 Receipts Recognition

#### *Use of estimates*

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

#### *National Insurance Contributions*

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

The contributions are collected and administered on a UK-wide basis for Great Britain and Northern Ireland and the Department 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 National Insurance Contributions. The Department then applies this ratio, to the nearest whole number, to the UK-wide receipts figures to split the contributions between the two Funds.

The amounts received are after recoveries by employers of amounts due in respect of any statutory sick, maternity, adoption and paternity payments made to their employees and after deduction of contributions allocated to the 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 2011-12.

#### *Class 1 National Insurance Contributions*

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



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

#### *Class 1A National Insurance Contributions*

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

#### *Class 4 National Insurance Contributions*

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

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

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

The actual amounts of SSP and SMP are not known until after the end of the financial year to which the SSP or SMP payment related; thus an estimated payment is made to the National Insurance Fund in respect of the total recovery for the past financial year. See note 3 for further details.

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

#### *Personal Pensions*

Due to the way that National Insurance information is stored the payment split between the Great Britain and Northern Ireland National Insurance Fund Accounts is estimated by the Government Actuary's Department (GAD).

### 1.4 Payments Recognition

#### *Benefit Payments*

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

#### *Personal Pensions*

Personal Pensions are accounted for on the date that the payment is made to the pension providers. See note 9 for further details.

#### *Administrative costs*

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

## 2. National Insurance Contributions

Contributions	Notes	2011-12 £000	2010-11 £000
Class 1 (employed earner)	i	<b>75,528,875</b>	71,411,268
Class 1A & 1B	ii	<b>987,226</b>	987,009
Class 2 (self-employed flat rate)	iii	<b>229,516</b>	274,873
Class 3 (voluntary contributions)	iv	<b>48,876</b>	60,820
Class 4 (self-employed earnings related)	v	<b>1,629,283</b>	1,447,864
		<b><u>78,423,776</u></b>	<b><u>74,181,834</u></b>

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

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

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

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

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

### NHS allocation

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

The NHS allocation is paid over by HMRC to the NHS before any contributions are paid into the NIF and so the figures above are shown net of this NHS allocation. The NHS allocation was £20.6 billion in 2011-12 (£20.4 billion in 2010-11) and forms part of the total NHS funding.

A misinterpretation of data used in apportioning National Insurance Contributions between the NIF and NHS means the allocation to the GB NHS had been overestimated during the last twelve years. This has not affected the total funding available to the GB NHS during this same period, as the aggregate amount (NI funds plus voted funds) is a fixed sum, the voted amount being adjusted according to the level of NI funding.

The over allocation to the GB NHS is estimated at £502 million in total between 2000-01 and 2011-12, representing 0.3 per cent of the total GB NHS allocation over the same period. The GB NI Fund has been underfunded by the same estimated amount and this position will be corrected in 2013-14.

See the Governance Statement, page 7.

### 3. Compensation for Statutory Pay Recoveries

	Notes	2011-12 £000	2010-11 £000
Statutory Sick and Statutory Maternity pay	i	2,955,972	2,052,038
Statutory Adoption and Statutory Paternity pay	ii	52,735	48,758
<b>Total</b>		<b>3,008,707</b>	<b>2,100,796</b>

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

- i Statutory Sick and Statutory Maternity pay recoveries are paid over by DWP.
- ii Statutory Adoption and Statutory Paternity pay recoveries are paid over by BIS.

### 4. Income from Investment Account

	2011-12 £000	2010-11 £000
Interest received	188,825	204,124

Interest is received on the Fund surplus placed on deposit by the Commissioners for the Reduction of National Debt (CRND). During the year the value of the Investment Account decreased from £41.6 billion at 31 March 2011 to £38.1 billion at 31 March 2012 (Note 13) with a consequent impact on interest received during 2011-12. The average interest rate received during 2011-12 was 0.5 per cent (2010-11, 0.5 per cent). The responsibilities of HMRC and CRND in respect of the investment of surplus NIF funds are set out in a Memorandum of Understanding.

## 5. State Scheme Premiums

	<b>2011-12</b>	2010-11
	<b>£000</b>	£000
State Scheme Premiums	<b>36,733</b>	47,299

State Scheme Premiums are payable to the fund in respect of employed persons who cease to be covered, in certain specified circumstances, by a contracted-out pension scheme. The premiums buy back the persons' additional pension entitlement in the state additional pension scheme. Total receipts are net of refunds of £7.0 million (2010-11 £3.3 million).

In October 1992, the Government decided that people whose pension entitlement was no longer covered by specified Maxwell pension schemes could be brought back into the State Earnings-Related Pension Scheme (SERPS). Individuals were not required to pay premiums for the years they were contracted out of SERPS but HMRC is seeking recovery of these premiums from the Maxwell pension schemes. A total of £60.4 million has been recovered (£4.5 million in 2011-12). Most actions are now settled and the trustees are resolving outstanding legal issues and moving to fully secure the benefits of their members. It is expected that eventually around £97 million of the total £128.9 million liability will be recovered, based on future scheduled recoveries from the pension schemes.

## 6. Other receipts

	Notes	<b>2011-12</b>	2010-11
		<b>£000</b>	£000
Recoveries of compensation payments	i	<b>41,770</b>	45,191
Unemployment benefit recoveries	ii	<b>4,631</b>	1,466
		<b>46,401</b>	46,657

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

## 7. Redundancy payments and receipts

	Notes	<b>2011-12</b>	2010-11
		<b>£000</b>	£000
Redundancy payments	i	<b>406,631</b>	445,623
Receipts	ii	<b>(49,274)</b>	(49,281)
		<b>357,357</b>	396,342

- 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 BIS.

- ii The receipts represent amounts recovered from employers.

## 8. Benefit payments

	Notes	2011-12 £000	2010-11 £000
State Pension	i	<b>74,110,982</b>	69,346,701
Incapacity Benefit	ii	<b>4,981,255</b>	5,598,835
Employment & Support Allowance	iii	<b>1,410,890</b>	958,990
Jobseeker's Allowance (contributory)	iv	<b>757,582</b>	811,621
Bereavement Benefits	v	<b>605,011</b>	615,455
Maternity Allowance	vi	<b>366,968</b>	343,412
Christmas Bonus	vii	<b>123,203</b>	122,215
Guardian's Allowance and Child's Special Allowance	viii	<b>1,842</b>	1,908
		<b>82,357,733</b>	<b>77,799,137</b>

- i. State Pension is for people who have reached State Pension Age (currently 65 for men and 60 for women). It is based on National Insurance Contributions and is made up of different elements, the largest of which is the basic State Pension, followed by the additional State Pension known as State Second Pension (S2P). Under the current rules, the State Pension Age for women is in the process of rising from 60 to 65 to equalise with men; and then state pension age for both men and women was due to increase from 65 to 66 between 2024 and 2026. The Pensions Bill is bringing forward the timing of equalisation and the rise in the State Pension Age from 65 to 66 for both men and women.
- Under the new legislation, women's state pension age will reach 65 by November 2018.
  - The rise from 65 for both men and women will begin in December 2018 and reach 66 by October 2020.
- ii. Incapacity Benefit is paid at three different rates, dependent on age and term of incapacity, to a person who has paid National Insurance Contributions and whose Statutory Sick Pay has ended or is not applicable. It has been replaced by Employment & Support Allowance (ESA) (see note iii) for new claims from October 2008.
- iii. As part of the Government's welfare reform programme, from 27 October 2008, the Department for Work & Pensions (DWP) replaced the existing range of incapacity benefits (Incapacity Benefit, Severe Disablement Allowance and Income Support where paid on the grounds of incapacity/disability) for new claimants with ESA. The benefit was introduced to improve employment opportunities for those with a health condition or disability which limits their capacity for work.
- iv. Contributory Jobseeker's Allowance is payable to people who are capable of working, available for work and actively seeking work, who have paid or are treated as having paid, a certain number of National Insurance Contributions. It is payable for 182 days and no additional benefit is payable for dependents.
- v. Bereavement Benefits consist of Bereavement Allowance, which is a regular payment for 52 weeks, Bereavement Payment, which is a lump sum payment and Widowed Parent's Allowance which is a regular payment whilst the customer has dependent children for whom they receive (or could receive) Child Benefit. These benefits are all based on the National Insurance Contributions of the deceased spouse.

- vi. Maternity Allowance is paid for up to 39 weeks at a standard weekly rate, dependent upon earnings, to a person who cannot get Statutory Maternity Pay. It is payable from a maximum of 11 weeks before the expected date of childbirth and is subject to qualifying conditions.
- vii. Christmas Bonus is a tax free payment of £10 paid before Christmas to anyone who is in receipt of one or more qualifying benefits.
- viii. Guardian's Allowance and Child's Special Allowance are payable to people bringing up a child because one or both of the parents has died.

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

State Pension and Bereavement Benefits include payments to Northern Ireland pensioners living abroad as well as in Great Britain. For administrative convenience these payments are made by DWP with the cost for Northern Ireland being borne by the Great Britain NIF. It is not possible to provide an accurate figure for Northern Ireland's share of the expenditure on overseas pensions but an estimate of the amount involved in 2011-12 is £5.8 million (£6.0 million in 2010-11).

## **8.1 Fraud and Error in Benefit payments**

### **Background**

Social Security Contributions and Benefits Act 1992 and related legislation sets out the basis on which DWP calculates and pays benefits from the National Insurance Fund (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 97 per cent of total benefit expenditure and over 99 per cent of total National Insurance Fund expenditure.

### **Overall performance analysis**

The estimated level of overpayments from the NIF due to fraud and error remained the same between 2010-11 and 2011-12 at £340 million. The proportion has also remained the same at 0.4 per cent of total NIF benefit expenditure. The estimated level of underpayments increased from £160 million (2010-11) compared to £180 million (2011-12). Again the proportion remained the same at 0.2 per cent of total NIF benefit expenditure.

The overall changes are not statistically significant and this suggests that any changes are more likely to be due to sampling variance rather than real change over time. More details can be found in *Fraud and Error in the Benefit System: 2011-12 Estimates (Revised edition)*. In context, the total NIF benefit expenditure of £82,358 million out of which an estimated £340 million has been overpaid is small compared to DWP's total benefit expenditure of £159.2 billion of which an estimated £3.4 billion (2.1 per cent) was overpaid due to fraud and error (2011-12).

The latest figures for the estimated level of incorrect payments (resulting from official error, customer fraud and customer error) from the NIF due to fraud and error are stated in figures 1 and 2.

**Figure 1: Estimated levels of Overpayments due to Fraud and Error<sup>1</sup>**

Benefit	Overpayments					
	Expenditure 2011-12	Expenditure 2010-11	2011-12		2010-11	
	£ million	£ million	£ million	Percentage of benefit expenditure	£ million	Percentage of benefit expenditure
State Pension and Bereavement Benefits	74,716	69,962	140	0.2	120	0.2
Incapacity Benefit	4,981	5,599	120	2.4	130	2.4
Contribution based Jobseeker's Allowance	758	812	30	4.6	50	6.5
Other (unreviewed benefits)	1,903	1,427	40	2.4	30	2.3
	<b>82,358</b>	<b>77,799</b>	<b>340</b>	<b>0.4</b>	<b>340<sup>2</sup></b>	<b>0.4</b>

Source: Department for Work and Pensions (DWP) – DWP National Statistics: Fraud and Error in the Benefit System (preliminary 2010/11 and final 2011/12 Estimates). All monetary overpayment/underpayment figures have been rounded to the nearest £10 million to assist presentation. Rows, columns and percentages may not sum due to roundings.

**Figure 2: Estimated levels of Underpayments due to Fraud and Error<sup>1</sup>**

Benefit	Underpayments					
	Expenditure 2011-12	Expenditure 2010-11	2011-12		2010-11	
	£ million	£ million	£ million	Percentage of benefit expenditure	£ million	Percentage of benefit expenditure
State Pension and Bereavement Benefits	74,716	69,962	130	0.2	110 <sup>2</sup>	0.2
Incapacity Benefit	4,981	5,599	30	0.7	40	0.7
Contribution based Jobseeker's Allowance	758	812	0	0.3	0	0.3
Other (unreviewed benefits)	1,903	1,427	10	0.7	10	0.7
	<b>82,358</b>	<b>77,799</b>	<b>180</b>	<b>0.2</b>	<b>160<sup>2</sup></b>	<b>0.2</b>

Source: Department for Work and Pensions (DWP) – DWP National Statistics: Fraud and Error in the Benefit System (preliminary 2010/11 and final 2011/12 Estimates). All monetary overpayment / underpayment figures have been rounded to the nearest £10 million to assist presentation. Rows, columns and percentages may not sum due to roundings.

<sup>1</sup> 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 per cent confidence level. These confidence limits show the range within which the DWP is 95 per cent confident the true value lies. For 2011-12 it estimates that the levels of overpayment lie in the range from £270 million to £490 million (2010-11: range £280 million to £480 million); whilst the corresponding range for underpayments for 2011-12 is from £90 million to £320 million. For additional information relating to the above figures please refer to the Fraud and Error in the Benefit System: 2011/12 Estimates (Revised edition) and Fraud and Error in the Benefit System: 2010/11 Preliminary Estimates.

<sup>2</sup> Due to statistical rounding differences these figures have been restated and are therefore different to those published in the 2010-11 NIF Account, Report by the Comptroller and Auditor General.



### Ongoing action/strategy

DWP remains committed to reducing fraud and error across all benefits including those paid from the NIF. In February 2012 a strategy refresh was published in a joint DWP, HMRC and Cabinet Office report, outlining plans to tackle fraud and error in the benefit system, which together with the introduction of Universal Credit (UC), is expected to reduce the level of fraud and error overpayments across the welfare system by one quarter (£1.4 billion), by March 2015. The plans focus on using better intelligence and working in partnership across all sectors and Government bodies to prevent and detect fraud. It is hoped this will increase checking systems in place before payments are made, to prevent money lost through fraud and error.

The overarching fraud and error activity under the strategy includes the creation of an Integrated Risk and Intelligence Service (IRIS), a hub system for collecting and analysing claimant information and applying fraud and error prevention filters. IRIS will not only stop incorrect payments but it will support investigation and prosecutions of fraud. An important source of intelligence will be working with Credit Reference Agencies to inform IRIS and to detect existing fraud and error in the current system.

DWP is also developing the Single Fraud Investigation Service with HMRC and Local Authorities, joining expertise and efforts in investigating fraud. At the same time DWP is reviewing sanctions legislation to enable it to impose tougher penalties and improve the amount and speed of debt recovery.

### 9. Personal Pensions

	<b>2011-12</b> <b>£000</b>	2010-11 £000
Personal Pensions	<u><b>2,139,042</b></u>	<u>2,313,669</u>

The Pensions Scheme Act 1993, supplemented by the Pensions Act 1995, entitles employed earners with a personal pension to a "minimum contribution" to their plan from the NIF. This originally featured in the 'Social Security Act 1986' which was then superseded by the 'Pensions Scheme Act 1993'. Earners could sign up to a personal pension and have minimum contributions paid into it from as far back as the 1987 tax year onwards.

This, for 1987-88 and later tax years, is based on earnings between the lower and upper earnings level and the age of the member. Similarly, from April 1997, members of Contracted Out Money Purchase Schemes are entitled to a payment of age related rebate based on the age of the member and calculated using the earnings on which the contracted out rate of National Insurance Contributions have been paid.



## 10. Administrative costs

	Notes	2011-12 £000	2010-11 £000
Department for Work & Pensions	i	821,152	1,092,891
HM Revenue & Customs	ii	248,714	271,461
Tribunals Service (Social Security & Child Support Appeals)	iii	42,728	41,825
Department for Business, Innovation and Skills	iv	9,200	9,800
Tribunals Service (The Commissioners Office)	v	1,392	1,493
Office of National Statistics	vi	816	856
Government Actuary's Department	vii	526	797
National Audit Office – Audit Fees	viii	361	368
Debt Management Office	ix	80	110
Bank charges	x	4	150
Scottish Executive Justice Department	xi	46	50
		<b>1,125,019</b>	<b>1,419,801</b>

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

- i For administration costs relating to the award and payment of contributory benefits on behalf of the Fund.
- ii For the collection of National Insurance Contributions, maintenance of individual records and associated tasks.
- iii For administration, organisation and holding of appeals in respect of National Insurance related benefits arising from decisions made by the Department for Work & Pensions.
- iv For the administration of the Redundancy Payments Scheme as required under the Employment Rights Act 1996, including the cost of disputes referred to the Employment Tribunals Service.
- v For the processing of applications for leave to appeal and appeals on points of law from decisions of the Appeals Service in respect of National Insurance benefits.
- vi For services in relation to the administration of the National Insurance Scheme including the issue of certificates, including replacements, prosecutions and deaths, processing of death registration, collation and issue of widow cards, processing of verifications and marriage validity checks.
- vii For actuarial services relating to the National Insurance Fund.
- viii For the audit of the 2010-11 NIF Accounts.
- ix For costs relating to the investment of NIF monies paid over to the Commissioners for the Reduction of National Debt in pursuance of Section 161(3) of the Social Security Administration Act 1992.
- x Bank charges incurred on the GB NIF bank account held with the Government Banking Services.
- xi For general costs in relation to the administration of the National Insurance Scheme i.e. consider and issue decisions held on applications and appeals in relation to National Insurance benefits and medical appeal tribunals in Scotland.

**11. Transfers to Northern Ireland NIF**

	<b>2011-12</b> <b>£000</b>	2010-11 £000
Payments to Northern Ireland NIF	<b>145,000</b>	125,000

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

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

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

**12. Other payments**

	Notes	<b>2011-12</b> <b>£000</b>	2010-11 £000
Payments to Isle of Man	i	<b>44,059</b>	39,453
SSP/SMP/SPP/SAP payments	ii	<b>6,635</b>	6,296
Incapacity Benefit tax payments	iii	<b>962</b>	3,418
State Pension deferred lump sum tax payments	iv	<b>98,621</b>	100,240
		<b>150,277</b>	149,407

- i. Payments to the Isle of Man (Manx Insurance Fund) relate to net settlements in respect of people who have paid National Insurance Contributions into one Fund but have received benefit from the other Fund.
- ii. Payments made to people where their employer has failed to make the payments required under legislation.
- iii. Under the Income Tax Acts, Incapacity Benefit is assessed as taxable income. Tax is deducted from Incapacity Benefit every time a payment is made to a customer and paid to HMRC monthly in arrears.
- iv. Under the Income Tax Acts a State Pension deferred lump sum payment is assessed as taxable income. Tax is deducted from each State Pension deferred lump sum payment and paid to HMRC monthly in arrears.

### 13. Closing balance

	Notes	31 March 2012 £000	31 March 2011 £000
Monies held by the CRND	i	<b>38,136,266</b>	41,614,601
Funds held at Bank (incl. uncleared payments)		<b>(4,551)</b>	5
Other balances – restated	ii	<b>462,238</b>	1,549,333
	iii	<b>38,593,953</b>	43,163,939

- i. The National Debt Commissioners are responsible, in accordance with Section 161(3) of the Social Security Administration Act 1992, for the investments of the NIF. They are authorised to invest into the Debt Management Account Deposit Facility in accordance with directions given by Treasury and in line with the Memorandum of Understanding between HMRC and CRND.
- ii. Sums due to / (owing from) government departments and overseas administrations in respect of the operation of the NIF. The opening balance has been restated based on analysis of prior year data as better management information has become available.
- iii. Had the overfunding position of the NHS allocation explained in note 2 not occurred, the balance of the fund would have stood at an estimated £39,095,953,000.

## Other Financial Information

The information below on losses, redundancy payments and special payments is not included in the Receipts and Payment Account, which is produced on a cash basis. It is included to provide further information on the Fund for the reader of the accounts.

### a. Losses

	Notes	2011-12		2010-11	
		Amount £000	No. of cases	Amount £000	No. of cases
Contribution losses	i	<b>505,737</b>		632,311	
Benefits	ii	<b>152,148</b>	<b>261,802</b>	69,769	280,228
Redundancy losses	iii	<b>357,357</b>		396,341	
Total losses		<b>1,015,242</b>		<b>1,098,421</b>	

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

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

- ii. The Benefit losses can be split into the following areas:-

#### *General Losses*

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

#### *Serious and Organised Fraud*

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

#### *Internal Fraud*

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

#### *Missing Dispatches*

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

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

**b. Redundancy payments and receipts (debt and adjustments)**

	<b>2011-12</b>	2010-11
	<b>£000</b>	£000
<b>Outstanding debt as at 1 April</b>	<b>153,943</b>	138,414
Plus: Redundancy payments	<b>406,631</b>	445,623
Less: Receipts	<b>(49,274)</b>	(49,281)
Less: Debt adjustment	<b>(353,492)</b>	(380,813)
<b>Outstanding debt as at 31 March</b>	<b>157,808</b>	153,943

The total debt estimated as recoverable owed by employers at 31 March 2012 was £158 million and is disclosed in the Department for Business, Innovation and Skills (BIS) Resource Account. The debt adjustment total includes redundancy losses, as disclosed in section a, with the remainder relating to the in-year movement in the Insolvency Services current best estimate of the amount of debt that is likely to be irrecoverable.

The debt adjustment and outstanding debt do not form part of the accounts. They are shown here to give additional information. Further detail can be found in the BIS accounts for 2011-12.

**c. Special payments**

	<b>2011-12</b>		2010-11	
	<b>£000</b>	<b>No. of cases</b>	£000	No. of cases
Wrongly advised benefit	<b>11,983</b>	<b>25,042</b>	12,297	32,336

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

## Annex

### National Insurance Account – Great Britain

#### Accounts Direction given by Her Majesty's Treasury

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

**Chris Wobschall**

**Head of Assurance and Financial Reporting Policy, HM Treasury**

**12 October 2010**

## Schedule

### Format of Account and Disclosure requirements

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



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