HM Revenue
& Customs

Northern Ireland National Insurance Fund Account

For the year ended 31 March 2017

HM Revenue
& Customs

Northern Ireland National Insurance Fund Account 2016-17

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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. Receipts paid into the NIF are kept separate from all other revenue raised by national taxes and are used to pay social benefits such as contributory benefits and the State Pension.

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

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

2. Basis for the preparation of the NIF Accounts

The HM Treasury accounts direction, issued under Section 141(2) of the Social Security Administration (Northern Ireland) Act 1992 requires HM Revenue and Customs (HMRC) to prepare a statement of the transactions of the NIF on a yearly basis. The account is prepared on a cash basis and follows all relevant accounting and disclosure requirements given in *Managing Public Money*[1] and other guidance issued by HM Treasury.

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 141(2) of the Social Security Administration (Northern Ireland) Act 1992, as amended by the Social Security Contributions (Transfer of Functions etc.) (Northern Ireland) Order 1999, moved the management of the NIF from the Department of Health and Social Services for Northern Ireland to the management of the Inland Revenue (now HMRC).

The Commissioners for the Reduction of the National Debt (CRND) are responsible, in accordance with Section 141(3) of the Social Security Administration (Northern Ireland) Act 1992, amended by paragraph 44(3) of Schedule 3 to the Social Security Contributions (Transfer of Funds, etc) (Northern Ireland) Order 1999 for the investment of the NINIFIA. 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 (Northern Ireland) 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 (Northern Ireland) Act 1992 sets out the conditions governing entitlement to most benefits and the basis for assessing liability to pay NICs.

In accordance with section 88(3) of the Northern Ireland Act 1998, arrangements are made, in consultation with Government Actuary, to make transfers between the Great Britain and Northern Ireland National Insurance Funds in order to maintain parity of balances. Based on census data, the Northern Ireland Fund is maintained at 2.87% of the joint balances of the two Funds. The system of parity payments acts as a safeguard against serious imbalances between the Great Britain and Northern Ireland National Insurance Funds.

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

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

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 Treasury Ministers and the Minister for the Department for Communities (previously Department for Social Development). In setting contribution rates, 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 129, 130 and 131 of the Social Security Administration (Northern Ireland) Act 1992). In addition, both demographic and economic changes can affect amounts received and paid out and therefore the overall balance on the Fund.

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.

On the 9 May 2016 the Northern Ireland Social Security Agency (NISSA) and the Department for Social Development became part of the new Northern Ireland Department for Communities (DfC). From 8 May 2016 the NISSA ceased to operate as an executive agency. The functions and the statutory responsibilities of the NISSA and the Department for Social Development have remained largely unchanged.

On the 9 May 2016 the Department for Employment and Learning (DEL) became part of the new Northern Ireland Department for the Economy (DfE).

Throughout these accounts, the departments will be referred to by their new names, DfC and DfE as they had overall responsibility throughout most of the accounting period.

DfC 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. For Statutory Maternity Pay, Statutory Adoption Pay, Statutory Paternity Pay, Additional Statutory Paternity Pay and Statutory Shared Parental Pay employers reduce the amount of NICs paid to HMRC by the amounts of these benefits that they are able to recover. Subsequently, DfC pays over to HMRC an amount to compensate the NIF for this shortfall in contributions, as estimated by the Government Actuary. Employers cannot claim back Statutory Sick Pay for sick leave after 5 April 2014 but could reclaim Statutory Sick Pay paid in respect of sickness absences before 6 April 2014 for a period of 2 years.

DfE is responsible for making Redundancy Payment Scheme awards. The Northern Ireland Shared Services Centre 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.

In January 2016, the Government Actuary estimated the minimum working balance required in 2016-17 to be £434 million, being 16.7% of estimated benefit expenditure. The balance on the Fund at 31 March 2017 was £611.7 million and was above the estimated minimum requirement throughout the year. Therefore, no Treasury Grant was drawn down in 2016-17.

The Government Actuary has projected a decrease of the balance in the Fund in 2017-18 but has indicated that no Treasury Grant will be required. However, as a contingency, a provision has been made to draw down a Treasury Grant of up to 5% of estimated benefit payments, should it be required. This equates to a provisional facility of £134.3 million.

6. Auditors

The Comptroller and Auditor General is required under Section 141(2) of the Social Security Administration (Northern Ireland) 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.

7. Accounting Officer's responsibilities

As Chief Executive of HMRC, I am the Accounting Officer for the NIF, appointed by HM Treasury with effect from 4 April 2016. My relevant responsibilities as 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 Managing Public Money. Many of the activities relating to the transactions of the NIF are carried out by other departments (e.g. DfC and DfE) and agencies and I receive letters of assurance from them as detailed in the Governance Statement.

Jon Thompson

Accounting Officer
10 October 2017

Northern Ireland NIF Governance Statement

This statement is given in respect of the 2016-17 Northern Ireland NIF Account.

1. Purpose of the Northern Ireland NIF Governance Statement

This statement includes:

- the NIF governance arrangements
- NIF related risks and action taken to address these
- assurance provided by other Government departments involved in NIF related activities.

Specific work undertaken on behalf of the NIF forms only a small part of the whole work of HMRC. HMRC has produced a full Governance Statement setting out details of its compliance with the *Corporate Governance in Central Government Departments: Code of Good Practice*; the role of the Board and committees within HMRC along with risks to HMRC's performance and how these have been managed. This includes disclosures relating to issues outside of the scope of work relating to the NIF. The Governance Statement is included in the published HMRC 2016-17 Annual Report and Accounts.[2]

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.

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), DfC is responsible for the control and management of benefit payments. The DfE is responsible for Redundancy Payments Scheme awards which are covered by the Fund, with the payment of these awards and collection of receipts facilitated through the use of the Northern Ireland Shared Services Centre.

The Operational Excellence Directorate (part of HMRC) controls and manages the collection of NICs, regularly reporting to the Customer Services Senior Leadership Team (SLT). A National Insurance Management Board (NIMB) reviews all matters relating to the management of NICs under the scrutiny of the Department's Executive Committee (ExCom) and the Audit and Risk Committee (A&RC).

The NIF Accounting Board (NIFAB) chaired by Head of External Reporting and Analysis (Tax) provides a forum and network for internal and external stakeholders to work collaboratively to drive NIF policy, strategy, planning, risk management and change and to monitor effective Fund administration.

I receive letters of assurance from the Accounting Officers of DfC and DfE, approved by their audit committees, which refer to their governance arrangements and highlight any significant risks that may impact on the control and management of their NIF related activities. Governance arrangements are outlined in their Governance Statements and published within their accounts.[3]

3. Risks to the Northern Ireland NIF and how these are managed

Control and management of the NIF risks, detailed in section 4 (page 8), are consistent with the over-arching HMRC Governance Statement published in the 2016-17 HMRC Annual Report and Accounts.

2 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/628377/HMRC_Annual_Report_and_Accounts_2016-17__print_.pdf
3 https://www.economy-ni.gov.uk/publications/former-del-annual-reports-and-resource-accounts and https://www.communities-ni.gov.uk/dfc-corporate-reports

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. NIF specific risks are managed throughout the year by the NIFAB.

The Deputy Director of Live Services, a senior leadership team member of the Operational Excellence Directorate is accountable for the overall smooth running of the NICs process and manages the National Insurance Management Board which evaluates and reports on risks related to the collection and management of NICs. The Deputy Director of NICs and National Insurance Number (NINO) Policy, a senior leadership member of Customer Strategy & Tax Design, Individuals Policy Directorate, is a member of the National Insurance Management Board.

4. Significant Risks Identified

HMRC has identified the following significant risk to the NIF:

Risk	Key mitigating actions being taken by HMRC
Outstanding Class 2 debt balance	
There is a risk that the level of outstanding Class 2 NICs debt (£729.8 million January 2017) will remain static or increase. Historically, Class 2 debt has been difficult to collect due to poor customer compliance / engagement. Recent improvements, including the change made for the 2015-16 tax year onward, whereby Class 2 is collected via Self Assessment, are being monitored to confirm their impact on customer behaviour and subsequently the debt balance.	HMRC continues: • to collect Class 2 debt through the PAYE tax code • transferring Class 2 debt not suitable for coding to HMRC's debt management system for collection by Debt Collection Agencies • to write off debt when an insolvency claim is made. For the 2015-16 tax year onwards Class 2 is now collected via Self Assessment. No debt will be generated from the 2.3 million customers whose profits are below the threshold. The debt position for this element of Class 2 NICs will be monitored from January 2017 and throughout 2017-18. The Government has announced the abolition of Class 2 from April 2018.

The risk applies to both the Great Britain and Northern Ireland Funds and the amount quoted is 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).

DfC has provided a letter of assurance that has been approved by its Audit Risk and Assurance Committee containing details of its significant risks and the action it has taken to address these. No NIF specific risks are identified.

The letter highlights the qualification of the audit opinion on the 2016-17 DfC accounts due to the estimated levels of benefit fraud and error, State Pension expenditure, a Northern Ireland NIF benefit, continues to be excluded from the audit qualification. This exclusion and the general low rates of fraud and error found in contributory benefits, means this issue is not a significant risk to the NIF. (Additional Northern Ireland NIF fraud and error information is provided on pages 22-24 to these accounts. Full details on DfC benefit fraud and error estimates are included in the 2016-17 DfC Annual Report and Accounts).

Work undertaken on behalf of the NIF forms part of the complete range of DfC social security benefit delivery services. For the 2016-17 financial year DfC produced a full Governance Statement setting out, details of its compliance with *Corporate Governance in Central Government Departments: Code of Good Practice (Northern Ireland) 2013*, the role of the management board and committees within DfC along with risks to DfC 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 DfC 2016-17 Annual Report and Accounts.

A letter of assurance has been received from the DfE, approved by its Audit Committee that contains details about its significant risks. The letter gives assurances that there are no significant risks that impact on the Northern Ireland NIF.

5. Review of effectiveness

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

- individual statements from members of ExCom outlining the governance, risk and control arrangements in their business areas
- the review that underpins the production of the NIF Governance Statements including letters of assurance from DfC and DfE
- National Audit Office (NAO) reports
- the Director of Internal Audit's annual opinion to me as Accounting Officer
- formal assurance I receive from the Senior Information Risk Owner (SIRO) that information risk has been appropriately managed in the conduct of HMRC business.

Taking all of these into account, as well as observations from regular meetings of ExCom, A&RC, the Director of Internal Audit and from the NAO, 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.

Jon Thompson

Accounting Officer
10 October 2017

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

I certify that I have audited the financial statements of the Northern Ireland National Insurance Fund for the year ended 31 March 2017 under the Social Security Administration (Northern Ireland) 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 Foreword, the Accounting Officer is responsible for the preparation of the financial statements in accordance with the Social Security Administration (Northern Ireland) Act 1992 and the Accounts Direction issued thereunder. My responsibility is to audit, certify and report on the financial statements in accordance with the Social Security Administration (Northern Ireland) 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 Northern Ireland 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 Governance Statement to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. 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 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.

Opinion on regularity

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

Opinion on financial statements

In my opinion:

- the financial statements properly present the receipts and payments of the Northern Ireland National Insurance Fund for the year ended 31 March 2017; and
- the financial statements have been properly prepared in accordance with the Social Security Administration (Northern Ireland) 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 returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements and 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.

Sir Amyas C E Morse

Comptroller and Auditor General
11 October 2017

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

Receipts and payments account

Prepared in accordance with Section 141 of the Social Security Administration (Northern Ireland) Act 1992.

For the year ended 31 March	Notes	2017 £000	2016 £000
Receipts			
National Insurance Contributions	2	1,922,548	1,729,327
Transfers from Great Britain NIF	3	533,500	690,000
Compensation for statutory pay recoveries	4	61,100	75,700
Income from investment account	5	3,505	2,885
State scheme premiums	6	877	598
Redundancy receipts	7	507	951
Other receipts	8	44	16
Treasury Grant	9	0	252,000
		2,522,081	**2,751,477**
Less			
Payments			
Benefit payments	10	2,602,535	2,532,680
Administrative costs	11	19,812	22,901
Redundancy payments	7	5,667	2,287
Other payments	12	2,602	-
		2,630,616	**2,557,868**
Receipts less payments		**(108,535)**	**193,609**

Statement of balances

As at 31 March	Notes	2017 £000	2016 £000
Opening balance		720,198	526,588
Receipts less payments		(108,535)	193,609
Closing balance	13	**611,663**	**720,197**

Jon Thompson

Accounting Officer
10 October 2017

The notes on pages 13 to 21 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 141(2) of the Social Security Administration (Northern Ireland) Act 1992. It has been prepared on a cash basis, and in a form directed by HM Treasury on page 25 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

National Insurance Contributions

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

The contributions are collected and administered on a UK-wide basis for Great Britain and Northern Ireland and HMRC is required to allocate the total contributions between the two Funds. A scan of the National Insurance and Pay as You Earn Service (NPS) is used to extract postcode data of taxpayers to estimate the ratio of individuals living in each territory who have made NICs. HMRC then applies this ratio, to the nearest percentage point, 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, paternity and shared parental payments made to their employees and after deduction of contributions allocated to the NHS.

Employers are responsible for calculating their own and their employees' contributions. National Insurance records are subject to examination by HMRC. These checks and other checks on contributors may result in additional receipts or repayments in future years in respect of contribution liabilities for 2016-17.

Class 1 National Insurance Contributions

Almost all amounts received in respect of Class 1 NICs are collected via the monthly PAYE process by the Real Time Information system. There is a degree of estimation involved in this process, approximately 10% by value, 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 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 NICs within the Self Assessment system 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 NICs, and Capital Gains Tax on the basis of periodic analysis of individuals' records in the Self Assessment system.

Transfer from Great Britain NIF

To ensure the balance of the Northern Ireland Fund is maintained at 2.87% of the joint balance of the two funds, regular transfers are made between the Great Britain and Northern Ireland Fund. The parity payments are made on the basis of estimates by the Government Actuary's Department using the relevant proportions of population of working age in Great Britain and Northern Ireland and are recognised in the accounting period when they are received (see note 3 for further details).

Treasury Grant

The Social Security (Northern Ireland) Order 1993 permits, in certain circumstances, for the Treasury to provide grants into the NIF. The amounts paid are recognised when they are received (see note 9 for further details).

Compensation for statutory pay recoveries

Statutory Sick Pay, Statutory Maternity Pay, Statutory Paternity Pay, Statutory Shared Parental Pay, Statutory Adoption Pay and Additional Statutory Paternity Pay receipts are estimated by the Government Actuary's Department and 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 statutory payments. The employer is able to recover this amount via the PAYE system although from April 2014 employers can no longer claim back Statutory Sick Pay for sick leave but could reclaim Statutory Sick Pay for absences before 6 April 2014 for a period of two years.

The actual amounts of all statutory payments are not known until after the end of the financial year to which the payment related; therefore an estimated payment is made to the NIF in respect of the total recovery for the past financial year (see note 4 for further details).

1.4 Payments recognition

Benefit payments

DfC administers a range of benefit payments, 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 DfC pays the benefit to the claimant.

Administrative costs

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

2. National Insurance Contributions

For the year ended 31 March Contributions	Notes	2017 £000	2016 £000
Class 1 (employed earner)	i	1,836,369	1,652,266
Class 1A & 1B	ii	25,045	22,855
Class 2 (self-employed flat rate)	iii	10,065	4,246
Class 3 (voluntary contributions)	iv	403	662
Class 3A (voluntary contributions)	v	408	1,189
Class 4 (self-employed earnings related)	vi	50,258	48,109
		1,922,548	**1,729,327**

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

i **Class 1 contributions** comprise two parts: primary contributions payable by employees and secondary contributions payable by employers. Legislative changes which took effect from 6 April 2016 include: the abolition of salary-related contracting-out which increased the rate of primary and secondary contributions for certain groups; the Employment Allowance Regulations 2016 increased the maximum relief from secondary NICs provided by the Employment Allowance from £2,000 to £3,000 and the National Insurance Contributions Act 2015 introduced a zero rate band for Class 1 secondary NICs for apprentices under the age of 25 with effect from 6 April 2016.

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 scheme with their Class 1 contributions.

Class 1B contributions 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. From 6 April 2018, Class 2 contributions will be abolished.

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

v. **Class 3A** allows pensioners who have reached state pension age before 6 April 2016 to boost their retirement incomes by making voluntary payments of NICs. The scheme was available for 18 months between October 2015 and 5 April 2017.

vi. **Class 4** self-employed persons pay earnings related contributions. From 6 April 2018, Class 4 contributions will be reformed to include a new threshold.

NHS allocation

NICs are split between the NHS and the NIF. The Social Security Administration (Northern Ireland) Act 1992 requires consultation with the Government Actuary to apportion the NICs 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 Northern Ireland NIF and so the figures above are shown net of this NHS allocation. The NHS allocation was £508 million in 2016-17 (£502 million in 2015-16) and forms part of the total NHS funding.

3. Transfers from Great Britain NIF

For the year ended 31 March	2017 £000	2016 £000
Transfers from Great Britain NIF	**533,500**	**690,000**

The amount shown in this Account is in respect of financial adjustments made between the Northern Ireland NIF and the Great Britain NIF in accordance with Section 153 of the Social Security Administration (Northern Ireland) Act 1992.

These adjustments are consequential upon the arrangement made for coordinating the systems of insurance established in the two countries to ensure 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 individuals as established by the 2011 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 the Great Britain and Northern Ireland NIF are made so that, as far as practicable, the balance in the Northern Ireland Fund is maintained at 2.87% of the joint balance of the two Funds. The system of parity payments acts as a final safeguard against serious imbalances between the two NIF Funds.

The transfer is based on the Fund balances for Great Britain and Northern Ireland which themselves are based on the differences between the levels of receipts and payments and therefore the results are subject to considerable variability year on year.

4. Compensation for statutory pay recoveries

For the year ended 31 March	2017 £000	2016 £000
Statutory Sick & Statutory Maternity pay	57,100	72,300
Statutory Adoption, Statutory Paternity, Additional Statutory, Paternity pay and Statutory Shared Parental Leave	4,000	3,400
	61,100	**75,700**

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

5. Income from investment account

For the year ended 31 March	2017 £000	2016 £000
Interest received	**3,505**	**2,885**

By virtue of SI 1978 No. 1839, surplus funds paid over to the Northern Ireland National Insurance Fund Investment Account (NINIFIA) may be invested by the Commissioners for the Reduction of the National Debt (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 2016-17, as in the previous year, the NINIFIA was almost entirely invested in the Debt Management Account, which pays a rate equal to the Bank Rate on a daily accrual basis. On 4 August 2016, the Bank of England reduced the Bank Rate from 0.5% to 0.25% resulting in a corresponding reduction in the rate of interest paid by the Debt Management Account. Investments in the Debt Management Account allow instant access and capital guarantee, for purposes of liquidity and capital preservation - an investment approach deemed by HMRC and CRND as best suited to the needs and risk appetite of the Fund. A very small portion of the NINIFIA (typically less than £1k per day) is retained in a Ways & Means Account with the National Loans Fund.

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

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

The value of the monies held in the NINIFIA increased from £931 million at 31 March 2016 to £936 million at 31 March 2017 (see note 13 for details).

6. State Scheme Premiums

For the year ended 31 March	2017 £000	2016 £000
State Scheme Premiums	**877**	**598**

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 state additional pension scheme. Total receipts are net of refunds of £56,000 (2015-16, £32,000).

Although the system of contracting out ended in April 2016 Contributions Equivalent Premiums (CEPs) will continue to be payable until April 2019. In addition, a contracted-out scheme reconciliation exercise is currently being carried out and will continue until December 2018.

7. Redundancy payments and receipts

For the year ended 31 March	Notes	2017 £000	2016 £000
Redundancy payments	i	5,667	2,287
Redundancy receipts	ii	(507)	(951)
		5,160	**1,336**

DfE administers the Redundancy Payments Scheme under the provisions of the Employment Rights (Northern Ireland) Order 1996.

The scheme 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. Redundancy payments are made from the Northern Ireland NIF to employees whose employers have failed to meet their statutory responsibilities.

ii. The receipts represent amounts recovered from employers.

8. Other receipts

For the year ended 31 March	Notes	2017 £000	2016 £000
Personal pensions	i	44	16
		44	**16**

i. 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.

On 5 April 2012 the abolition of contracting-out on a defined contribution basis took place resulting in these contributions no longer being an entitlement. As the payments were made a year in arrears, from April 2013 the number of transactions has greatly reduced as only late payments and recoveries are being dealt with. In 2016-17 and 2015-16, recoveries exceeded payments.

9. Treasury Grant

For the year ended 31 March	2017 £000	2016 £000
Treasury Grant	**0**	**252,000**

As the NIF has no borrowing powers it is necessary to maintain a reasonable working balance sufficient to cover the consequences of an unexpected excess of payments over receipts. The NIF currently targets a balance of 1/6th of projected annual benefit expenditure (approximately two months' benefit expenditure) as the minimum level necessary to ensure a reasonable working balance in the Fund.

In 2016-17 the Government made provision for a 5% Treasury Grant in the annual re-rating regulations. However no Treasury Grant was required as the balance remained above the recommended minimum level.

10. Benefit payments

For the year ended 31 March	Notes	2017 £000	2016 £000
State Pension	i	2,212,756	2,136,954
Employment & Support Allowance (contributory)	ii	340,131	347,008
Bereavement Benefits	iii	19,852	20,189
Jobseeker's Allowance (contributory)	iv	13,981	13,294
Maternity Allowance	v	12,766	12,165
Christmas Bonus	vi	3,517	3,271
Incapacity Benefit	vii	(532)	(267)
Guardian's Allowance	viii	64	66
		2,602,535	**2,532,680**

i. The state pension age is in the process of increasing:

- 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
- under the changes in the Pension Act 2014 the State Pension age for men and women will increase incrementally from 66 to 67 between 2026 and 2028.

The Pensions Act (Northern Ireland) 2015 was introduced on 23 June 2015. The Act makes provision for Northern Ireland corresponding to the Westminster Pensions Act 2014. The Act makes significant reforms to both the state pension system and bereavement benefits, and amends the timetable for increasing pensionable age to 67. 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 new single tier 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, Northern Ireland Social Security Agency (now part of Department for Communities) introduced a new benefit, Employment and Support Allowance. The benefit was introduced to improve employment opportunities for those with a health condition or disability which limits their capacity for work. It is payable to claimants who have paid NICs and makes no payments to partners or dependents. From April 2011, Northern Ireland Social Security Agency began a reassessment of Incapacity Benefit cases in Northern Ireland. The reassessment exercise was completed in Autumn 2014. As a result only a small number of Incapacity Benefit claims are still in payment and will be dealt with on a business as usual basis. (See also note vii below).

iii. Bereavement benefits consist of Bereavement Allowance, which is a regular payment for 52 weeks; Bereavement Payment, which is a lump sum payment and Widowed Parent's Allowance which is a regular payment while the customer has dependent children for whom they receive (or could receive) Child Benefit. These benefits are based on the NICs of the deceased spouse.

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. Maternity Allowance is paid for up to 39 weeks at a standard weekly rate, dependent upon earnings, to a person who cannot get Statutory Maternity Pay. It is payable from a maximum of 11 weeks before the expected week of childbirth and is subject to qualifying conditions. Maternity Allowance for participating spouses is payable to the participating spouse or civil partner of a self-employed earner and whose expected date of childbirth is on or after 27 July 2014.

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

vii. 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 and Support Allowance (see note ii) for new claims from October 2008. There is a negative value recorded this year due to the small number of existing claims and the amount of recoveries exceeding the value of claim payments.

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

State pension is bereavement benefits include payments to Northern Ireland pensioners living abroad as well as in Great Britain. For administrative convenience these payments are made by the Department for Work and Pensions 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.

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

11. Administration costs

For the year ended 31 March	Notes	2017 £000	2016 £000
DfC	i	12,536	14,635
HM Revenue and Customs	ii	6,038	6,684
Department of Finance	iii	705	1,010
DfE	iv	422	455
Commissioners for the Reduction of the National Debt	v	55	55
National Audit Office - audit fees	vi	38	42
Government Actuary's Department	vii	18	20
		19,812	**22,901**

Administration costs relate to services directly provided to the Northern Ireland NIF and are reimbursed to the respective service provider from the Northern Ireland NIF. The costs are agreed at the start of the year and monitored on a regular basis. There has been an overall decrease in administration costs.

i. For administration costs relating to the award and payment of contributory benefits on behalf of the Fund.

ii. For the collection of NICs, maintenance of individual records and associated tasks.

iii. For payroll and investment services provided to Northern Ireland departments.

iv. For the administration of the Redundancy Payment Scheme as required under the Employment Rights (Northern Ireland) Order 1996.

v. For investment services provided by the CRND in pursuance of Section 141(3) of the Social Security Administration (Northern Ireland) Act 1992.

vi. For the audit of the 2015-16 NIF Account.

vii. For actuarial services relating to the NIF.

12. Other payments

For the year ended 31 March	Notes	2017 £000	2016 £000
State pension deferred lump sum tax payments	i	2,602	-
		2,602	**-**

i State pension deferred lump sum is assessed as taxable income. Tax is deducted from state pension deferred lump sum every time a payment is made to a customer and paid to HMRC monthly in arrears. In previous years the figure was added to the retirement pension figure in the benefit payment note.

13. Closing balance

As at 31 March	Notes	2017 £000	2016 £000
Monies held by the NINIFIA	i	935,883	931,348
Funds held at bank (incl. un-cleared payments)		3	1,006
Due from Government departments	ii	6,703	2,254
Due to Government departments	ii	(330,926)	(214,411)
		611,663	**720,197**

i CRND is responsible, in accordance with Section 141(3) of the Social Security Administration (Northern Ireland) Act 1992, amended by paragraph 44(3) of Schedule 3 to the Social Security Contributions (Transfer of Funds, etc) (Northern Ireland) Order 1999 for the investment of the NINIFIA. 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. These figures represent any amounts from HMRC, the Great Britain NIF, DfC and DfE which are due to or from the NIF. They arise as there is a difference between what is paid to and from the NIF and what is recognised in the accounts which is based on the amounts paid out/received by the other government departments.

Other financial information

The information below on losses and fraud and error in benefit payments is not included in the Receipts and payment account, which is produced on a cash basis. Special payments are included in benefit payments but are not shown separately. Details are included below to provide further information on the Fund for the reader of the accounts. Further information can be found in the published annual report and accounts for HMRC and DfC.

a. Losses

For the year ended 31 March	Notes	2017 Amount £000	2017 No. of cases (where available)	2016 Amount £000	2016 No. of cases (where available)
Contribution losses	i	8,262	-	6,208	-
Redundancy losses	ii	6,011	370	8,853	510
Benefits losses	iii	2,149	-	2,978	-
		16,422	**370**	**18,039**	**510**

i Contribution losses include remissions and 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 also include Northern Ireland's share (2%) of the United Kingdom total of certain losses incurred by the National Insurance Contributions & Employer Office. These figures are the estimated value of losses attributable to the NIF.

ii. Redundancy losses are the amounts written off during the year in respect of redundancy payments to employees, deemed irrecoverable from their employers mainly due to insolvency.

iii. Benefit losses include administrative losses, write-offs and Compensation Recovery Unit losses.

b. Special payments

For the year ended 31 March	Notes	2017 £000	2017 No. of cases	2016 £000	2016 No. of cases
Wrongly advised benefit	i	11	1	73	4
Extra statutory payments	ii	435	1,919	569	2,645
Total special payments		**446**	**1,920**	**642**	**2,649**

i. These are ex gratia payments made to claimants who were wrongly advised of their entitlement by DfC.

ii. From 2013 payments of Employment and Support Allowance (contribution based) benefit to individuals who had moved from Great Britain to Northern Ireland were classified as extra statutory special payments. The Social Security (Great Britain Reciprocal Arrangements) Regulations (Northern Ireland) 2016 (S.R. 2016 No.149) came into operation on 6 April 2016. The effect of this is that, after 6 April 2016, there should be no new Employment and Support Allowance cases entitled to extra-statutory payment where a move of territory is involved, Such cases should now be a continuation of statutory payment on an existing claim; and should be subject to continuing entitlement in the usual way.

The only category that will continue to receive extra-statutory payments after 6 April 2016, are those who fall within the 'current stock' of Employment and Support Allowance-entitled claimants already in receipt of extra-statutory payments. It is intended that this particular group should continue to receive payment by this method, for the moment, whilst the Department for Work and Pensions (DWP) in Great Britain and DfC decide on how best to regularise the situation.

c. Fraud and error in benefit payments

Background

The Social Security and Benefits (Northern Ireland) Act 1992 and related legislation sets out the basis on which DfC calculates and pays benefits from the NIF.

DfC aims to pay the right money to the right person at the right time; however, the complexity of the benefit systems and the inherent risks associated with the award and payment of benefits can result in inaccurate payments being made in a proportion of benefits. Despite these challenges, the majority of DfC payments are paid correctly.

Overall performance analysis

The estimated monetary amount of overpayments from the NIF due to fraud and error decreased from £10.27 million in 2015-16 to £9.14 million in 2016-17. The level of overpayments as an overall percentage of NIF benefit payments decreased from 0.41% in 2015-16 to 0.35% in 2016-17.

The estimated monetary amount of underpayments increased from £7.65 million in 2015-16 to £8.66 million in 2016-17. The level of underpayments as an overall percentage of NIF benefit payments increased slightly from 0.30% in 2015-16 to 0.33% in 2016-17.

This represents an overall improved performance for 2016-17 with the overall level of NIF benefit over and underpayments actually decreasing slightly to 0.68% as a percentage of total NIF benefit payments (2015-16: 0.71%). This is with benefit payments over the same period increasing by approximately £72.4 million, an increase of 2.9%.

Figure 1: Estimated levels of overpayment and underpayment due to fraud and error

Fraud/Error	Overpayment				Underpayment			
	£m		% of NIF Benefit Payments		£m		% of NIF Benefit Payments	
	2016-17	2015-16	2016-17	2015-16	2016-17	2015-16	2016-17	2015-16
Fraud	5.88	4.31	0.23	0.17	0.00	0.00	0.00	0.00
Error	3.27	5.95	0.13	0.24	8.66	7.65	0.33	0.30
Total	**9.14**	**10.27**	**0.35**	**0.41**	**8.66**	**7.65**	**0.33**	**0.30**

Figure 2: Estimated levels of overpayment and underpayment due to fraud and error, by benefit

Benefit	Overpayment				Underpayment			
	£m		% of NIF Benefit Payments		£m		% of NIF Benefit Payments	
	2016-17	2015-16	2016-17	2015-16	2016-17	2015-16	2016-17	2015-16
State Pension	0.74	3.49	0.03	0.16	6.88	6.43	0.31	0.30
Bereavement Benefit/ Widows Benefit	0.71	0.85	3.58	4.20	0.12	0.09	0.63	0.45
Contribution based Employment & Support Allowance	6.80	5.00	2.00	1.44	1.56	1.01	0.46	0.29
Contribution based Jobseeker's Allowance	0.61	0.64	4.34	4.84	0.03	0.00	0.22	0.00
Other	0.28	0.29	1.74	1.86	0.07	0.11	0.43	0.71
Total	**9.14**	**10.27**	**0.35**	**0.41**	**8.66**	**7.65**	**0.33**	**0.30**

Source: Northern Ireland Department for Communities (DfC) fraud and error estimates produced by DfC Standards Assurance Unit.

The above tables (figures 1 and 2) are based on the DfC (previously NISSA/DSD) estimates and are subject to a degree of statistical uncertainty. They are prepared to within a stated range of accuracy, described as confidence intervals. DfC has prepared the estimates to a 95% confidence level. DfC estimates that for 2016-17 the levels of overpayment lie in the range of £6.0 million to £13.2 million (2015-16: £6.0 million to £17.0 million); whilst the corresponding range of underpayments is from £3.8 million to £21.4 million (2015-16: £0.00 million to £19.5 million).

Customer fraud and error estimates for 2016-17 use proxy values for specific benefits. Figures for 2015-16 have been re-stated to take account of the use of proxies for previously un-reviewed benefits using this approach.

Rows, columns and percentages may not sum due to rounding.

For additional information relating to the estimated levels of over/underpayments due to fraud and error please refer to the 2016-17 DfC annual report and accounts.

DfC continuing action and strategy

DfC operates in the context of administering a total of 33 benefits, including the NIF benefits. Fraud and error occurs in a context where over 99% of NIF funded benefits are paid correctly. This represents a high level of accuracy. Overall the level of NIF over and underpayments for 2016-17 has improved slightly at 0.68% (2015-16: 0.71%) of annual NIF benefit payments; the lowest level ever recorded.

During 2016-17, sustaining performance on fraud and error remained at the core of the DfC's key business priorities. The regular monitoring and measuring of official error, customer error and customer fraud continued throughout the year as part of DfC's Financial Accuracy and Benefit Review processes.

In 2016, for the first time, the Department have applied proxy figures to Northern Ireland NIF benefits. The use of proxy figures represents a methodology change and the previous year's 2015-16 figures have been re-stated using this same approach and methodology. This approach brings DfC methodology further in line with the Department for Work and Pensions (DWP) in Great Britain.

DfC's fraud and error measurement approach is also broadly consistent with counterparts in DWP. Throughout the year DfC continued to develop its activities to reduce fraud and error. The approach taken is multi-dimensional involving case intervention, checking cases to prevent or detect error, and staff accuracy meetings. Current and proposed activities are designed to be proportionate, represent value for money with regard to the cost of control, facilitate customer accessibility, ensure timely benefit payments, and deliver impacts on fraud and error. DfC also seeks to reduce customer mistakes by influencing customer behaviour to report changes promptly where failure to do so may lead to over and underpayments.

Accounts Direction given by HM Treasury in accordance with Section 141(2) of the Social Security Administration (Northern Ireland) 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 Northern Ireland for the year ended 31 March 2016, and subsequent financial years, in compliance with the 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 141(2) of the Social Security Administration (Northern Ireland) 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 141(3) of the Social Security Administration Act (Northern Ireland) 1992; and
        iv. details of any irregular, uncertain or special payments.
    e. disclosures of any material expenditure 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 10 October 2010

Michael Sunderland

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

Glossary

A&RC	Audit & Risk Committee
CEPs	Contributions Equivalent Premiums
CRND	Commissioners for the Reduction of the National Debt
DEL	Department for Employment and Learning
DfE	Department for the Economy
DfC	Department for Communities
DWP	Department for Work and Pensions
ExCom	Executive Committee
GAD	Government Actuary's Department
HMRC	Her Majesty's Revenue & Customs
NAO	National Audit Office
NIF	National Insurance Fund
NHS	National Health Service
NICs	National Insurance Contributions
NIFAB	National Insurance Accounting Board
NIMB	National Insurance Management Board
NINIFIA	Northern Ireland National Insurance Fund Investment Account
NINO	National Insurance Number
NISSA	Northern Ireland Social Security Agency
NPS	An IT system used to support NI & PAYE
PAYE	Pay As You Earn
SIRO	Senior Information Risk Owner
SLT	Senior Leadership Team

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