



HM Revenue  
& Customs

# Great Britain National Insurance Fund Account

For the year ended 31 March 2020



HM Revenue  
& Customs

# Great Britain National Insurance Fund Account 2019 to 2020

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

Ordered by the House of Commons to be printed 21 January 2021



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ISBN 978-1-5286-2346-9

CCS1220748168 01/21

Printed on paper containing 75% recycled fibre content minimum

Printed in the UK by the APS Group on behalf of the Controller of Her Majesty's Stationery Office

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# Accounting Officer's Foreword

## 1. Introduction

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

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

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

## 2. Basis for the preparation of the NIF Accounts

The HM Treasury Accounts Direction (page 27), issued under Section 161(2) of the Social Security Administration 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 receipts and payments basis, with receipts and payments recognised as set out in Notes to the Account 1.3 and 1.4 on pages 14 and 15, and follows all relevant accounting and disclosure requirements given in *Managing Public Money*<sup>1</sup> and other guidance issued by HM Treasury.

The Account is prepared on a going concern basis.

## 3. Statutory background

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

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

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

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

Under the Social Security Administration Act 1992, benefits due under the National Insurance scheme are payable out of the NIF. The funds required for meeting the cost of these benefits are mainly provided from NICs paid by employed earners, their employers and the self-employed. The Social Security Contributions and Benefits Act 1992 sets out the conditions governing entitlement to most benefits and the basis for assessing liability to pay NICs.

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

In accordance with Section 88(3) of the Northern Ireland Act 1998, arrangements are made, in consultation with the Government Actuary, to make transfers between the Great Britain and Northern Ireland NIFs in order to maintain parity of balances. Based on the latest census data (2011) and using a method defined and agreed in a memorandum by the Joint Authority, the Northern Ireland Fund is maintained as far as possible 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 Funds.

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

The amounts received into, and paid out of, the NIF and the resulting balance on the Fund depend on legislation, which is the responsibility of HM Treasury Ministers and the Secretary of State for Work and Pensions. In setting contribution rates, HM Treasury Ministers are required to consider changes in the general level of earnings, the balance on the Fund and payments expected to be made from it in the future (Sections 141 and 143 of the Social Security Administration Act 1992). In addition, both demographic and economic changes can affect amounts received and paid out and therefore the overall balance on the Fund.

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

## 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.

The Department for Work and Pensions (DWP) has overall responsibility for the award and payment of most benefits payable from the NIF, including those relating to retirement, bereavement, contribution-based Jobseeker's Allowance and contributory Employment and Support Allowance. Entitlement to benefit is determined by the claimant satisfying qualifying conditions. For Statutory Maternity Pay, employers reduce the amount of NICs paid to HMRC by the amount of the Statutory Maternity Pay that they are able to recover. Subsequently, DWP pays over to HMRC an amount to compensate the NIF for this shortfall in contributions, as estimated by the Government Actuary.

For Statutory Adoption Pay, Statutory Paternity Pay 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, the Department for Business, Energy and Industrial Strategy (BEIS) pays over to HMRC an amount to compensate the NIF for this shortfall in contributions, as estimated by the Government Actuary.

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

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<sup>2</sup> [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/653374/QR\\_2017\\_report\\_Oct\\_2017.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/653374/QR_2017_report_Oct_2017.pdf)

## 5. Financial performance

The National Insurance scheme is financed on a pay as you go basis with contribution rates set at a level broadly necessary to meet the expected benefits expenditure in that year, after taking into account any other payments and receipts, and to maintain a working balance. Changes in contribution levels, in response to the needs of the Fund, take time to implement, therefore a working balance is necessary as the NIF has no borrowing powers. The NIF is obligated under legislation to fund any future identified underpayments or overpayments. This would include providing funds to satisfy provisions as they are settled in Government departments that administer payments on behalf of the Fund.

The minimum working balance for 2019 to 2020 was estimated at £17.5 billion, being 16.7% of estimated benefit expenditure, as stated in the report on the Social Security Benefits Up-rating Order published by the Government Actuary in January 2019.<sup>3</sup> The balance on the Fund at 31 March 2020 was £36.9 billion and was above the estimated minimum requirement throughout the year. No Treasury Grant was required in 2019 to 2020.

The report on the Up-rating Order published by the Government Actuary in January 2020 projected an increase in the balance of the Fund over the year to 31 March 2021, and also projected that no Treasury Grant is likely to be required in that year in order to maintain the Fund above the targeted minimum balance of 16.7% of benefit expenditure. However, as a contingency, under section 2(2) of the Social Security Act 1993 (c.3), HMT Ministers have made provision for a Treasury Grant of up to 5% of estimated benefit payments. This equates to a provisional facility of £5.1 billion. Both the Government Actuary's Fund balance projections in January 2020 and the decision by HMT Ministers to provide for a 5% Treasury Grant facility, pre-date knowledge of the impact of the COVID-19 pandemic. The financial performance of the Fund has required close monitoring since March 2020 to assess the impacts of COVID-19 on the Fund balance in 2020 to 2021 (see section 4, page 8).

## 6. Auditors

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

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

The audit fee for 2019 to 2020 was £136,000 and will be included in the 2020 to 2021 Account.

## 7. Accounting Officer's responsibilities

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

In preparing this account, I am required to ensure suitable accounting policies have been applied on a consistent basis and that judgements and estimates have been made on a reasonable basis. Many of the activities relating to the transactions of the NIF are carried out by other departments (e.g. DWP and BEIS) and agencies and I receive letters of assurance from them as detailed on page 7 in the Governance Statement.

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

**Jim Harra**

Accounting Officer

14 January 2021

<sup>3</sup> [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/771441/CCS207\\_CCS1218213668-001\\_GA\\_Uprating\\_Report\\_2019\\_Web.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/771441/CCS207_CCS1218213668-001_GA_Uprating_Report_2019_Web.pdf)

# Governance Statement

## 1. Purpose of the Governance Statement

This Governance Statement sets out the governance and risk management arrangements for the NIF. It applies to the financial year 1 April 2019 to 31 March 2020 and up to the date of approval of the NIF Account.

## 2. Scope of responsibility

As Accounting Officer for the NIF, I have responsibility for ensuring risks are effectively managed across HMRC and safeguarding the public funds and departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in *Managing Public Money*. Risk management operates at all levels in HMRC, from operational decision making on individual cases, through to strategic level risks identified in our Departmental Risks and Issues Register.

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

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

Specific work undertaken on behalf of the NIF forms only a small part of the whole work of HMRC. HMRC has produced a full Governance Statement setting out details of its compliance with the Corporate Governance in Central Government Departments: Code of Good Practice; the role of the Board and committees within HMRC, along with risks to HMRC's performance and how these have been managed. This includes disclosures relating to issues outside of the scope of work relating to the NIF. The Governance Statement is included in the published HMRC Annual Report and Accounts 2019 to 2020.<sup>5</sup>

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

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

Both the JMB and NIFAB sit below and help support the Board and committee structures described in the HMRC Annual Report and Accounts for 2019 to 2020.

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<sup>4</sup> [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/896268/dwp-annual-report-and-accounts-2019-2020.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/896268/dwp-annual-report-and-accounts-2019-2020.pdf)  
[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/923597/CCS0320287242-001\\_BEIS\\_Annual\\_Report-Web\\_Accessible.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/923597/CCS0320287242-001_BEIS_Annual_Report-Web_Accessible.pdf) and <https://www.gov.uk/government/publications/the-insolvency-service-annual-report-and-accounts-2019-2020>

<sup>5</sup> [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/933121/HMRC\\_Annual\\_Report\\_and\\_Accounts\\_2019\\_to\\_2020\\_Web\\_.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/933121/HMRC_Annual_Report_and_Accounts_2019_to_2020_Web_.pdf)

### 3. Risks to the NIF and how these are managed

Control and management of NIF risks are consistent with the over-arching Governance Statements published in the respective 2019 to 2020 Annual Report and Accounts for HMRC, DWP and BEIS.

NIF specific risks are reported to, and managed throughout the year by, the NIFAB which has wide representation, including from HMRC, DWP and BEIS. NIF specific risks are regularly reviewed at the NIFAB and no significant risks have been identified for 2019 to 2020.

#### Further assurances

DWP has provided a letter of assurance that has been approved by its Audit and Risk Assurance Committee. It contains details about its capacity to handle risk and its risk control framework. Over 2019 to 2020, risks to the NIF were reviewed and managed within DWP and updates regularly shared with HMRC and other key stakeholders through attendance at the NIFAB. The letter confirms there are no significant risks identified specific to the NIF for 2019 to 2020.

Work undertaken on behalf of the NIF forms only a part of the whole work of DWP. DWP has produced a full Governance Statement setting out details of its compliance with the *Corporate Governance in Central Government Departments: Code of Good Practice*; the role of the Board and committees within DWP, along with significant control issues and how these have been managed. This includes disclosures relating to issues outside of the scope of work relating to the NIF. The Governance Statement is included in the published 2019 to 2020 DWP Annual Report and Accounts (ARA).

Although the Comptroller and Auditor General has qualified his opinion on the regularity of benefit expenditure administered by DWP, due to the levels of fraud and error, State Pension is excluded from the qualification. This exclusion, and the generally lower rates of fraud and error found in contributory benefits, leads me to agree with DWP that this issue is not a significant risk to the NIF. Additional fraud and error information is provided on pages 24 to 26 and a summary of the DWP position for reducing the overall level of fraud and error can be found in their ARA.

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

### 4. Impact of COVID-19

The World Health Organisation (WHO) announced the Coronavirus (COVID-19) pandemic on 11 March 2020. Since then the impact of COVID-19 on the NIF has been closely monitored and managed by the NIFAB which has met more frequently since the UK lockdown in March 2020 and now meets regularly every two months, with additional interim meetings where required. Although some staff normally applied to the administration of the NIF have been temporarily re-directed to deliver urgent COVID-19 measures, this has not resulted in any new significant risks to the NIF.

The balance of funds held in the NIF since April 2020 is lower than anticipated prior to COVID-19 due to a reduction in NICs receipts and, to a lesser extent, an increase in benefit payments. However, the Fund balance has remained above the minimum required and is expected to do so for the remainder of the 2020 to 2021 accounting year. The balance is monitored regularly and forward projection of the balance, based on published Office for Budget Responsibility (OBR) scenarios, is shared with HMT.

## 5. Review of effectiveness

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

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

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

## 6. Conclusion

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

**Jim Harra**

Accounting Officer

14 January 2021

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

## Opinion on financial statements

I certify that I have audited the financial statements of the Great Britain National Insurance Fund for the year ended 31 March 2020 under the Social Security Administration Act 1992. The financial statements comprise: the Receipts and Payments Account, including Statement of Balances, and the related notes. These financial statements have been prepared under the accounting policies set out within them.

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 2020; and
- the financial statements have been properly prepared in accordance with the Social Security Administration Act 1992 and HM Treasury directions issued thereunder.

## Opinion on regularity

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

## Basis of opinions

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK) and Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom'. My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of my certificate. Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2016. I am independent of the Great Britain National Insurance Fund and HMRC in accordance with the ethical requirements that are relevant to my audit and the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

## Conclusions relating to going concern

I have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you where:

- the Great Britain National Insurance Fund's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Great Britain National Insurance Fund have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Great Britain National Insurance Fund's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.



## Responsibilities of the Accounting Officer for the financial statements

As explained more fully in the Accounting Officer's Foreword, the Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

## Auditor's responsibilities for the audit of the financial statements

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

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

As part of an audit in accordance with ISAs (UK), I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Great Britain National Insurance Fund's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- conclude on the appropriateness of the Great Britain National Insurance Fund's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Great Britain National Insurance Fund's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my report. However, future events or conditions may cause the Great Britain National Insurance Fund to cease to continue as a going concern.

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

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.

## Other Information

The Accounting Officer is responsible for the other information. The other information comprises information included in the Accounting Officer's Foreword, other than the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon. In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

## Opinion on other matters

- In my opinion in the light of the knowledge and understanding of the Great Britain National Insurance Fund and its environment obtained in the course of the audit, I have not identified any material misstatements in the Accounting Officer's Foreword; and
- the information given in the Accounting Officer's Foreword for the financial year for which the financial statements are prepared is consistent with the financial statements and has been prepared in accordance with the applicable legal requirements.

## 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 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.

### **Gareth Davies**

Comptroller and Auditor General

18 January 2021

National Audit Office

157-197 Buckingham Palace Road

Victoria

London

SW1W 9SP

# Receipts and payments account

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

For the year ended 31 March		2020	2019
	Notes	£000	£000
<b>Receipts</b>			
National Insurance Contributions	2	110,637,651	105,974,625
Compensation for statutory recoveries	3	2,241,000	2,666,000
Income from investment account	4	230,494	178,421
Redundancy receipts	5	27,835	31,728
State Scheme Premiums	6	19,917	97,843
Other receipts	7	3,734	0
		<b>113,160,631</b>	<b>108,948,617</b>
<i>Less</i>			
<b>Payments</b>			
Benefit payments	8	(104,358,890)	(101,218,724)
Administrative costs	9	(631,380)	(739,640)
Transfers to Northern Ireland NIF	10	(564,400)	(784,900)
Redundancy payments	5	(465,592)	(318,139)
Other payments	11	(143,113)	(173,480)
		<b>(106,163,375)</b>	<b>(103,234,883)</b>
Receipts less payments		<b>6,997,256</b>	<b>5,713,734</b>

## Statement of balances

As at 31 March		2020	2019
	Notes	£000	£000
Opening balance		29,934,954	24,221,220
Receipts less payments		6,997,256	5,713,734
Closing balance	12	<b>36,932,210</b>	<b>29,934,954</b>

**Jim Harra**

Accounting Officer

14 January 2021

*The notes on pages 14 to 23 form part of these accounts.*

# Notes to the Account

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

## 1. Statement of accounting policies

### 1.1 Basis of preparation of the Account

This Account has been prepared in accordance with Section 161(2) of the Social Security Administration Act 1992. It has been prepared on a receipts and payments basis in a form directed by HM Treasury, shown on page 27 of this Account and the policies outlined below.

### 1.2 Net accounting

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

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

### 1.3 Receipts recognition

#### NICs

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

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

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

Employers are responsible for calculating their own and their employees' contributions. National Insurance records are subject to examination by HMRC. These checks and other checks on contributors may result in additional receipts or repayments in future years in respect of contribution liabilities for 2019 to 2020.

#### Class 1 NICs

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

#### Class 1A and 1B NICs

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

## **Class 2 and Class 4 NICs**

Class 2 and Class 4 NICs are mostly collected via Self Assessment (SA). The collection of SA receipts for Income Tax, Class 2 and Class 4 NICs involves long time lags. Receipts in any one year will relate to payments on account for that year and the settlement of liabilities for previous years. SA receipts are allocated between Income Tax, Class 2 and Class 4 NICs, and Capital Gains Tax using estimates based on an annual analysis of individuals' records in the SA system.

## **Compensation for statutory pay recoveries**

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

## **NICs received outside of the RTI PAYE and SA processes**

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

## **1.4 Payments recognition**

### **Benefit payments**

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

### **Administrative costs**

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

### **Transfers to Northern Ireland Fund**

To ensure the balance of the Northern Ireland Fund is maintained, as far as practicable, 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 GAD using the relevant proportions of population of working age in Great Britain and Northern Ireland and are recognised in the accounting period in which they are made (see note 10 for further details).

### **Redundancy payments**

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

## 2. National Insurance Contributions

For the year ended 31 March		2020	2019
Contributions - estimated breakdown by class		£000	£000
	Notes		
Class 1 (employed earners)	i	106,326,948	101,855,171
Class 1A	ii	1,156,011	1,110,939
Class 1B	ii	132,952	224,328
Class 2 (self-employed flat rate)	iii	390,558	354,439
Class 3 (voluntary contributions)	iv	145,800	119,305
Class 3A (voluntary contributions)	v	-	33
Class 4 (self-employed earnings related)	vi	2,485,382	2,310,410
		<b>110,637,651</b>	<b>105,974,625</b>

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

- i. **Class 1 contributions** comprise two parts: primary contributions payable by employees which are approximately 40% of the total Class 1 figure, and secondary contributions payable by employers, which are approximately 60%.
- ii. **Class 1A contributions** are paid by employers on most benefits provided to employees. Employers pay Class 1A contributions to HMRC via the PAYE 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.

- 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 records for certain benefit and/or pension purposes.
- v. **Class 3A** allowed pensioners who reached state pension age before 6 April 2016 to boost their retirement incomes by making voluntary payments of NICs. The scheme finished in April 2017.
- vi. **Class 4** self-employed persons pay earnings related contributions.

### NHS allocation

The NHS allocation is paid over by HMRC to the NHS before any contributions are paid into the NIF and so the figures shown are net of this NHS allocation. The NHS allocation was £26.5 billion in 2019 to 2020 (£25.4 billion in 2018 to 2019) and forms part of the total NHS funding.

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

### 3. Compensation for statutory pay recoveries

For the year ended 31 March	Notes	2020 £000	2019 £000
Statutory Maternity Pay	i	2,169,000	2,587,000
Statutory Adoption Pay, Statutory Paternity Pay and Statutory Shared Parental Pay	ii	72,000	79,000
		<b>2,241,000</b>	<b>2,666,000</b>

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

- i. Compensation for Statutory Maternity Pay recoveries is paid over by DWP.
- ii. Compensation for Statutory Adoption Pay, Statutory Paternity Pay and Statutory Shared Parental Pay recoveries is paid over by BEIS.

### 4. Income from investment account

For the year ended 31 March	2020 £000	2019 £000
Interest received	<b>230,494</b>	<b>178,421</b>

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

In 2019 to 2020, as in the previous year, the NIFIA was almost entirely invested in the Debt Management Account, which pays a rate equal to the Bank Rate on a daily accrual basis. Investments in the Debt Management Account allow instant access and capital guarantee, for purposes of liquidity and capital preservation - an investment approach deemed by HMRC and CRND as best suited to the needs and risk appetite of the Fund. A very small portion of the NIFIA (typically less than £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.

On 11 March 2020, the Bank of England decreased the bank base rate from 0.75% to 0.25% and on 19 March 2020 it decreased from 0.25% to 0.1% resulting in a corresponding decrease in the rate of interest paid by the Debt Management Account. The interest is received by the NIF in the month following that in which it is earned. For 2018 to 2019, the rate was 0.50% in April 2018 increasing to 0.75% in August 2018.

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

The value of the monies held in the NIFIA at 31 March 2020 increased to £38.2 billion (£29.5 billion at 31 March 2019) (see note 12 for details).

## 5. Redundancy payments and receipts

For the year ended 31 March		2020	2019
		£000	£000
Redundancy payments	i	465,592	318,139
Redundancy receipts	ii	(27,835)	(31,728)
		<b>437,757</b>	<b>286,411</b>

- i. Section 182 of the Employment Rights Act 1996 provides the statutory basis for the NIF to make redundancy payments to employees who have been made redundant but whose former employers are unable to make appropriate redundancy payments, usually because of insolvency. The payments are made by the Insolvency Service, an executive agency of BEIS.
- ii. The receipts represent amounts recovered from employers.

## 6. State Scheme Premiums

For the year ended 31 March		2020	2019
		£000	£000
State Scheme Premiums		<b>19,917</b>	<b>97,843</b>

State Scheme Premiums are payable to the Fund in respect of employed persons who cease to be covered, in certain specified circumstances, by contracted-out pension schemes. The premiums buy back the persons' additional pension entitlement in the Additional State Pension scheme. Total receipts are net of refunds of £27 million (2018 to 2019, £1.6 million).

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

## 7. Other receipts

For the year ended 31 March		2020	2019
		£000	£000
Personal pension receipts		<b>3,734</b>	<b>0</b>

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

Although all contracting-out schemes have ended, there are still queries being dealt with which has resulted in a small amount of receipts being received in 2019 to 2020.

## 8. Benefit payments

For the year ended 31 March		2020	2019
	Notes	£000	£000
State Pension	i	98,751,034	95,502,013
Employment & Support Allowance (contributory)	ii	4,523,554	4,545,190
Bereavement benefits	iii	442,609	463,431
Maternity Allowance	iv	420,553	426,010
Jobseeker's Allowance (contributory)	v	104,443	158,071
Christmas Bonus	vi	124,007	125,593
Guardian's Allowance	vii	2,381	2,213
Incapacity Benefit	viii	(9,691)	(3,797)
		<b>104,358,890</b>	<b>101,218,724</b>

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

- women's State Pension age reached 65 in November 2018
- the rise from 65 for both men and women began in March 2019 and reached 66 in October 2020
- under the changes in the Pensions Act 2014 the State Pension age for men and women will increase incrementally from 66 to 67 between 2026 and 2028
- under the Pensions Act 2007 the State Pension age for men and women will increase from 67 to 68 between 2044 and 2046.

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

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

New ESA can be received along with Universal Credit.

iii. 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.

Bereavement Support was introduced 6 April 2017 and will eventually replace the other bereavement benefits by combining lump sums and regular payments into one benefit. Bereavement Support is payable for 18 months and there are two rates of lump sum and weekly payments dependant on whether the customer has a dependent child for whom they receive (or could receive) Child Benefit.

For those already in receipt of Bereavement Allowance or Widowed Parent's Allowance payments will continue to their natural conclusion but all new claims since 6 April 2017 are made as Bereavement Support.

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

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

- iv. 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.
- v. Contributory Jobseeker's Allowance (JSA) is payable to people who are capable of working, available for work and actively seeking work, who have paid or are treated as having paid a certain number of NICs. It is payable for 182 days and no additional benefit is payable for dependents.

New JSA can be received for up to 182 days and it may be possible to receive it along with Universal Credit.

- vi. Christmas bonus is a tax free payment of £10 paid to people in receipt of a qualifying benefit during the relevant week, normally the first full week in December.
- vii. Guardian's Allowance, administered by HMRC is payable to people bringing up a child because one or both of the parents has died.
- viii. Incapacity Benefit is paid at three different rates, dependent on age and term of incapacity, to a person who has paid NICs and whose Statutory Sick Pay has ended or is not applicable. It has been replaced by ESA (see note ii) for new claims from October 2008. The value of claimants paying back overpayments exceeded the value of the small number of existing claims.

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

The total overseas NIF spend for Northern Ireland for 2019 to 2020 was £73,000 (2018 to 2019 was £76,000) predominantly for State Pension.

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

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

## 9. Administrative costs

For the year ended 31 March		2020	2019
	Notes	£000	£000
Department for Work & Pensions	i	431,731	490,527
HM Revenue and Customs	ii	151,540	201,312
HM Courts and Tribunal Service (first tier)	iii	37,851	38,036
BEIS (The Insolvency Service)	iv	7,677	6,471
HM Courts and Tribunals Service (upper tribunal)	v	855	1,779
HM Passport Office (General Register Office)	vi	801	801
Government Actuary's Department	vii	704	471
National Audit Office - Audit Fees	viii	139	160
Commissioners for Reduction of National Debt	ix	73	73
Scottish Executive Justice Department	x	9	10
		<b>631,380</b>	<b>739,640</b>

Administration costs relate to the services directly provided to the NIF and are reimbursed to the respective service provider from the Great Britain NIF. The costs were agreed at the start of the year and monitored on a regular basis. No adjustments for prior years were required.

- 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 administration, organisation and holding of appeals in respect of National Insurance related benefits arising from decisions made by DWP.
- iv. For the administration of the Redundancy Payments Scheme as required under the Employment Rights Act 1996, including the cost of disputes referred to the Employment Tribunals Service.
- v. For the processing of applications for leave to appeal and appeals on points of law from decisions of the Appeals Service in respect of National Insurance benefits. Due to a delay in receiving invoices, the last two quarters, a total of £854,609.20, will be paid and accounted for in 2020 to 2021.
- vi. For the administration costs relating to maintaining accurate deaths data which is made available to service DWP and HMRC requirement.
- vii. For actuarial services relating to the NIF.
- viii. For the audit of the 2018 to 2019 NIF Account.
- ix. For costs relating to the investment of NIF monies paid over to CRND in pursuance of Section 161(3) of the Social Security Administration Act 1992.
- x. For general costs in relation to the administration of the National Insurance scheme i.e. consider and issue decisions held on applications and appeals in relation to National Insurance benefits and medical appeal tribunals in Scotland.

## 10. Transfers to Northern Ireland NIF

For the year ended 31 March	2020 £000	2019 £000
Payments to Northern Ireland NIF	<b>564,400</b>	<b>784,900</b>

The amount shown in this account is in respect of financial adjustments made between the Great Britain NIF and the Northern Ireland NIF in accordance with Section 88(3) of the Northern Ireland Act 1998. Transfers between Great Britain and Northern Ireland NIF are made so that, as far as practicable, the balance in the Northern Ireland Fund is maintained at 2.87% of the joint balance of the two Funds, a percentage split based on the population of working age individuals established by the 2011 census.

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

## 11. Other payments

For the year ended 31 March	Notes	2020 £000	2019 £000
State Pension deferred lump sum tax payments	i	96,119	121,357
Payments to Isle of Man	ii	46,578	46,946
Personal pensions payments	iii	-	3,263
Statutory payments	iv	416	1,914
		<b>143,113</b>	<b>173,480</b>

- i. State pension deferred lump sum is assessed as taxable income. Tax is deducted from State Pension deferred lump sum every time a payment is made to a customer and paid to HMRC monthly in arrears.
- ii. Payments to the Isle of Man (Manx Insurance Fund) relate to net settlements in respect of insured people who have paid NICs into one Fund but have received benefit from the other Fund.
- iii. 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. All contracted-out schemes came to an end in April 2016 resulting in the reduction of contributory entitlement.
- iv. Payments made to people where their employer has failed to make the payments required under legislation.

## 12. Closing balance

For the year ended 31 March		2020	2019
	Notes	£000	£000
Monies held by the NIFIA	i	38,241,948	29,486,904
Funds held at bank (incl. uncleared payments)	ii	(1,008)	(923)
Due from other Government departments	iii	211	970,979
Due to other Government departments	iii	(1,308,941)	(522,006)
		<b>36,932,210</b>	<b>29,934,954</b>

- i. CRND is responsible, in accordance with Section 161(3) of the Social Security Administration Act 1992, for the investments of the NIFIA. They are authorised to invest in accordance with directions given by HM Treasury and in line with the Memorandum of Understanding between HMRC and CRND.
- ii. Although the funds held at bank are shown as negative, this is not an overdrawn position because the balance includes payments issued that have not yet been cashed.
- iii. These figures represent any amounts owed to or from HMRC, the Northern Ireland NIF, DWP and BEIS. They arise as there is a difference between what is paid to and from the NIF and what is recognised in the Accounts, which is based on the amounts paid out or received by other Government departments.

# Other financial information

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

## a. Losses

For the year ended 31 March		2020		2019	
		Amount £000	No. of cases (where available)	Amount £000	No. of cases (where available)
	Notes				
Redundancy losses	i	445,949	-	357,759	-
Contribution losses	ii	368,131	-	440,632	-
Benefit losses	iii	72,597	180,419	57,391	166,367
		<b>886,677</b>	<b>180,419</b>	<b>855,782</b>	<b>166,367</b>

- i. Redundancy losses include payments made to individuals on behalf of insolvent companies, which ultimately prove irrecoverable. Debt is recovered from the sale of the assets of the insolvent company. A small part of the debt is preferential but most ranks with ordinary creditors. Therefore most of the debt is irrecoverable.
- ii. Contribution losses include remissions, write offs and insolvency debts. Remissions in respect of unpaid contributions are granted when HMRC has decided not to pursue the liability, for example on the grounds of value for money or official error. Write offs occur when there is no practical means of pursuing the liability. The figures are the estimated value of losses attributable to the NIF.
- iii. Benefit losses include customer fraud and administrative write offs.

## b. Special payments

For the year ended 31 March		2020		2019	
		Amount £000	No. of cases	Amount £000	No. of cases
Wrongly advised benefit		12	83	12	51

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

## c. Fraud and error in benefit payments

### Background

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

In many instances Parliament has targeted benefits to customers' needs and circumstances to ensure an efficient use of overall resources. However, this introduces complexity and an inherent risk of fraud and error which, as a consequence, can result in incorrect payments being made in a minority of cases. Despite these complexities, DWP correctly pays approximately 96% of total benefit payments and over 99% of total NIF payments.

## Overall performance analysis

The estimated level of overpayments from the NIF due to fraud and error remained at 3% of total NIF benefit payments in 2019 to 2020. The monetary value of the overpayments increased slightly, from £290 million in 2018 to 2019 to £350 million in 2019 to 2020. The estimated level of underpayments also remained at 0.3% in 2019 to 2020. The monetary value of underpayments increased slightly, from £280 million in 2018 to 2019 to £290 million in 2019 to 2020.

In context, the total NIF benefit payments administered by the DWP stands at £104.4 billion (£2.4 million relates to Guardian's Allowance and Child's Special Allowances that are administered by HMRC).

**Figure 1: Estimated levels of overpayment and underpayment due to fraud and error. Data for 2018 to 2019 has been restated (\* restated figures)**

Fraud/Error	Overpayment				Underpayment			
	£m		% of NIF benefit expenditure		£m		% of NIF benefit expenditure	
	2019-20	2018-19	2019-20	2018-19	2019-20	2018-19	2019-20	2018-19
Fraud	110	100*	0.1%	0.1%	0	0	0.0%	0.0%
Error	230	190	0.2%	0.2%	290	280	0.3%	0.3%
<b>Total</b>	<b>350</b>	<b>290*</b>	<b>0.3%</b>	<b>0.3%</b>	<b>290</b>	<b>280</b>	<b>0.3%</b>	<b>0.3%</b>

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

Benefit	Overpayment				Underpayment			
	£m		% of NIF benefit expenditure		£m		% of NIF benefit expenditure	
	2019-20	2018-19	2019-20	2018-19	2019-20	2018-19	2019-20	2018-19
State Pension	120	90	0.1%	0.1%	150	120	0.1%	0.1%
Widows/Bereavement Benefit	20	20	3.4%	3.4%*	0	0	0.7%	0.7%*
Contribution based Jobseeker's Allowance	10	10	4.6%	4.6%*	0	0	1.5%	1.5%*
Employment & Support Allowance/Incapacity Benefit	190	160*	4.1%	3.5%*	130	140*	2.8%	3.1%*
Other benefits	20	20	3.7%	3.2%*	10	10	2.4%	2.6%*
<b>Total</b>	<b>350</b>	<b>290*</b>	<b>0.3%</b>	<b>0.3%*</b>	<b>290</b>	<b>280*</b>	<b>0.3%</b>	<b>0.3%*</b>

Source: Department of Work and Pensions (DWP) - DWP National Statistics: Fraud and Error in the Benefit System (2018 to 2019 preliminary estimates and 2019 to 2020 estimates)

All monetary overpayment and underpayment figures have been rounded to the nearest £10 million. Rows, columns and percentages may not sum due to rounding.

**Note** that DWP's fraud and error estimates are based on a revised methodology (further details below) with some of the 2018 to 2019 figures being restated.

The above tables (figures 1 & 2) are based on DWP's estimates and are subject to a degree of statistical uncertainty. They are prepared to within a stated range of accuracy, described as confidence intervals. DWP has prepared the estimates to a 95% confidence level, it estimates for 2019 to 2020 that the levels of overpayment lie in the range from £280 million to £710 million; whilst the corresponding range of underpayments is £210 million and £610 million.

For additional information relating to the above figures please refer to the DWP published accounts (note 18 - Incorrect Payments, page 237).

## DWP continuing action and strategy

The monetary value of fraud and error is the estimate of the amount of annual benefit expenditure that was paid out incorrectly in overpayments or underpayments. Estimates show that the level of overpayments due to fraud and error in 2019 to 2020 was 2.4% (or £4.6 billion) of total benefit expenditure. DWP estimate that they underpaid benefits by 1.1% (or £2.0 billion).

Around £1.0 billion in benefit debt (this is debt accrued over time) was recovered by DWP and Local Authorities in 2019 to 2020, meaning that the overall fraud and error loss to the exchequer was 1.9% (£3.6 billion).

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

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

### **DWP Methodological changes**

Several methodology changes have been made to the estimate of fraud and error in the benefit system for 2019 to 2020. The changes have been made to improve the quality of the estimates and consistency in how the estimates are produced for the different benefits.

When applied to the data used for the 2018 to 2019 estimate, this new methodology has reduced the headline overpayment rate of fraud and error for 2018 to 2019 from 2.2% to 2.1% (£4.1 billion to £3.9 billion), although at benefit level there are slightly larger changes. There is very little change in overall underpayments.

The change with the largest impact arose from rolling out the 'Cannot Review' assumption from Universal Credit to all measured benefits, to align the treatment of cases that were not able to be reviewed. This change accounted for a reduction of 0.1% (£0.2 billion) in the overall 2018 to 2019 overpayment estimate; the net impact of the other changes combined was zero.

Source:-

[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/896268/dwp-annual-report-and-accounts-2019-2020.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/896268/dwp-annual-report-and-accounts-2019-2020.pdf) Pg 241

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

1. This direction applies to HM Revenue and Customs (“HMRC”).
2. HMRC shall prepare a statement of the transactions on the National Insurance Fund of Great Britain for the year ended 31 March 2016, and subsequent financial years, in compliance with all relevant accounts and disclosure requirements in *Managing Public Money* and any other guidance issued by HM Treasury which is in force for that financial year.
3. This statement shall be prepared so as to properly present the state of affairs for the year then ended and shall comprise:
  - a. a foreword which shall state that the account has been prepared in accordance with the direction issued by HM Treasury in pursuance of Section 161(2) of the Social Security Administration Act 1992. The foreword will also include details of the following:
    - i. statutory background;
    - ii. operational responsibilities;
    - iii. financial performance;
    - iv. audit arrangements; and
    - v. responsibilities of the Accounting Officer.
  - b. an account of receipts and payments conforming to the format shown in the Appendix.
  - c. a statement of balances conforming to the format shown in the Appendix.
  - d. such notes as may be necessary for the purpose referred to below:
    - i. analysis of the payments and receipts including any explanation or background that may be necessary to understand the account;
    - ii. in the note on administrative costs, the estimated costs for the current year and the adjustments for previous years separately identified;
    - iii. a statement of the securities in which the National Insurance Fund is invested by the National Debt Commissioners in accordance with Section 161(3) of the Social Security Administration Act 1992; and
    - iv. details of any irregular, uncertain or special payments.
  - e. disclosures of any material payments or income that has not been applied to the purposes intended by Parliament or material transactions that have not conformed to the authorities which govern them.
4. The foreword and the account shall be signed by the Accounting Officer.
5. This accounts direction shall be reproduced (but with the exception of the related Appendix) as an annex to the account.
6. This direction supersedes the accounts direction dated 12 October 2010.

## **Michael Sunderland**

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

# Glossary

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

CCS1220748168

978-1-5286-2346-9