SOCIAL SECURITY ADMINISTRATION ACT 1992

Account, of the National Insurance Fund, prepared pursuant to c.5, section 161(2) of the Social Security Administration Act 1992 for the year ended 31 March 2001 together with the Report of the Comptroller and Auditor General thereon.(In continuation of House of Commons Paper No.446 of 2000-2001).

Presented Pursuant To Social Security Administration Act 1992, C.5, S.161(2)

National Insurance Fund Account 2000–2001

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Foreword

Statutory background

The National Insurance Scheme was established on 5 July 1948 to provide unemployment benefit, sickness benefit, retirement pensions and other benefits in cases where individuals meet the contribution and other qualifying conditions.

Under the Social Security Administration Act 1992 benefits due under the National Insurance Scheme are payable out of the National Insurance Fund. The funds required for meeting the cost of these benefits are mainly provided from national insurance contributions payable by employed earners, employers and others. The Social Security Contributions and Benefits Act 1992 sets out the conditions governing entitlement to most benefits and the basis for assessing liability to pay national insurance contributions.

Section 161(1) of the Social Security Administration Act 1992 (as amended by the Social Security Contributions (Transfer of Functions etc) Act 1999) places the National Insurance Fund under the control and management of the Inland Revenue (IR). The Chairman of the Board of IR is the Accounting Officer for the Fund. Section 161(2) of the Act requires IR to prepare accounts of the National Insurance Fund in such form, and in such manner and at such times, as the Treasury may direct. The accounts are prepared on a cash basis and must properly present the receipts and payments for the financial year and the balance held at the year end.

Operational responsibilities

National insurance contributions are payable by employed earners, employers and others. Contributions are collected by IR, which has overall responsibility for the recording of contributions against individuals' contribution records (which determine entitlement to social security benefits payable from the Fund) and for the payment of rebates and incentives for personal pensions.

Social Security benefits from the Fund include those relating to retirement, sickness and contributory jobseeker's allowance. Entitlement to benefit is determined by the claimant satisfying qualifying conditions. The Department of Social Security (DSS) has overall responsibility for the award and payment of most benefits payable from the Fund. On 8 June 2001 the Prime Minister announced that the DSS would be known as the Department for Work and Pensions (DWP) as part of a reorganisation of its duties.

The Department of Trade and Industry (DTI) is responsible for making redundancy awards. Payment of redundancy and collection of receipts is contracted out to an accounting services provider. The DSS is responsible for the financial aspects of contribution based jobseeker's allowance.

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. A working balance is necessary because the Fund has no borrowing powers and because changes in contribution levels in response to the needs of the Fund take time to implement. In his report on the financial provisions of the Social Security Bill 1992 the Government Actuary confirmed that it was prudent to plan for a minimum balance of one-sixth (16.7 per cent) of annual benefit expenditure. At 31 March 2001 the balance in the Fund was £19,279 million (41.1 per cent of benefit expenditure), an increase of £4,841 million compared with the position at 31 March 2000.

To ensure that the balance on the Fund is maintained, the Government Actuary is required under Sections 142(1), 147(2) and 150(8) of the 1992 Social Security Administration Act to report on the likely effect on the Fund of the Government's benefits uprating and contributions re-rating Orders. He is also required under Section 166 of the Act to report every five years on the long term financial estimates of the Fund. The Government Actuary's latest quinquennial review, entitled "National Insurance Fund Long Term Financial Estimates" was published on 21 July 1999 (cm 4406).

Under the Jobseekers Act 1995, Section 38(5), provision had been made for reimbursement for deductions made by employers in respect of the national insurance contribution holiday scheme. No provision has again been made in 2001–2002 for the national insurance holiday scheme (which has now been superseded by the New Deal).

Audit

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

Responsibilities of the Accounting Officer

As Chairman of the Board of the Inland Revenue, I am the Accounting Officer for the National Insurance Fund. 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 keeping of proper records, are set out in the Accounting Officers' Memorandum issued by the Treasury and published in "Government Accounting". Many of the activities relating to the transactions of the Fund are carried out by other departments and agencies on my behalf.

Nick Montagu
Accounting Officer
Inland Revenue

18 April 2002

The Accounting Officer's Statement on the System of Internal Financial Control

As Accounting Officer for the National Insurance Fund account, I acknowledge my responsibility for ensuring that effective systems of internal financial control are maintained and operated by Inland Revenue (IR) and the Department of Social Security (DSS). DSS National Insurance Fund responsibilities are discharged from IR by a Letter of Assurance from that Department's Accounting Officer. A letter of assurance is also received from the Accounting Officer for the Department for Trade and Industry (DTI) to cover it's responsibility for the Redundancy Payments Scheme.

Systems of internal financial control can provide only reasonable and not absolute assurance that assets are safeguarded, transactions authorised and properly recorded and that material errors or irregularities are either prevented or would be detected within a timely period.

The systems of internal financial control are based on a framework of regular management information, financial regulations, computerised accounting systems and an appropriate organisation structure and accountability. In particular, it includes:

Systems which facilitate the prompt banking and accounting of receipts, are regularly reconciled;

An annual balance of accounts which provides assurance on the accuracy of each taxpayer's financial transactions;

The preparation of regular financial reports on national insurance contributions;

A forecasting and estimating process based upon statistical information;

The preparation of regular financial reports, which inform review of actual expenditure against forecasts; and

Use of the Programme Accounting Computer System to provide financial information for the apportionment of benefit expenditure.

IR has an Internal Audit Office (IAO), which operates to the standard defined in the Government Internal Audit Manual. The work of the IAO is informed by an analysis of the risks to which the Department is exposed, and annual Internal Audit plans are based on this analysis. The analysis of risks and the Internal Audit plans are endorsed by the Departmental Audit and Security Committee. Annually the Director Internal Audit (DIA) provides me with a report on Internal Audit activity in the Department. The report includes the DIA's independent opinion on the adequacy and effectiveness of the Department's system of internal financial control.

My review of the effectiveness of the system of internal financial control is informed by the work of my internal auditors and the managers within the Inland Revenue who have responsibility for the development and maintenance of the financial control framework, and comments made by external auditors in their management letter and other reports.

DSS and the DTI have their own internal audit functions, that provide their Accounting Officers with the necessary assurances, who in turn provide the me with the necessary assurances on their systems of internal financial control as they apply to the National Insurance Fund account.

Reviews of all departments' systems of internal financial control have confirmed that the main weaknesses in the system are:

fraud, including instrument of payment fraud,

maintaining National Insurance records, collecting contributions and paying personal pensions through the new National Insurance Recording System (NIRS2),

inaccuracy of certain benefit awards,

managing National Insurance debt.

To address the weaknesses in the system of internal financial control the Department, supported by the DSS, introduced a number of initiatives.

Fraud and inaccuracies

A key responsibility is to ensure secure and effective payment of Programme money, centred on improving accuracy and addressing fraud and error.

In April 1999 the DSS introduced a New Programme Protection Strategy in support of the command paper: A New Contract for Welfare – Safeguarding Social Security. The foundation of the strategy is a comprehensive work programme, designed to address the strategic aims of the Command Paper. These are, "Getting it right" – at the inception of each claim; "Keeping it right" – through case management and greater use of data matching and risk analysis; "Putting it right" – through detection; and making the strategy work via monitoring and evaluation.

The success of this strategy will be gauged by a continuing improvement in the level of accuracy of benefit awards and a reduction in the amount of programme money lost through fraud and error. A target for this reduction was included in the DSS Public Service Agreement (PSA) which was published in March 1999.

The PSA target is to "reduce by 30 per cent benefit losses from fraud and error in Income Support (IS) and Jobseeker's Allowance (JSA) by March 2007, with at least a 10 per cent reduction by March 2002". The baseline period against which achievement of the PSA target is to be measured is the period October 1997 to September 1998 and the baseline figure of benefit losses is 9 per cent which equates to an overpayment of £1.4 billion during the baseline period.

As part of the Spending Review 2000, the PSA target was raised to "Reduce by 50 per cent losses from fraud and errors in IS and JSA by 2006, with a 25 per cent reduction by 2004". The new target is the outcome expected from a programme to modernise welfare delivery that will begin in April 2001 and will improve the accessibility and accuracy of the DSS's services. The programme will achieve this by commencing the rollout of new IT equipment to all staff dealing with customers from 2001. Modernisation of the DSS computer systems will contribute by facilitating the collection of information from claimants and linking up various computer systems. In addition, the Spending Review provides funding that aims to have 85 per cent of customers having their benefits paid directly into their bank accounts by 2005 to counter payment fraud and loss.

National Insurance Recording System (NIRS2)

The NIRS2 system supports the key business processes of the Inland Revenue's National Insurance Contributions Office (NICO), and supports future business and legislative changes, particularly the Government's national insurance, pensions and welfare reform programme.

The delayed implementation of NIRS2 resulted in arrears of work both within NICO and the DSS. The system is now stable with all its main functionality in place (key functionality has been available since April 2000). There have been four successful releases of new functionality to support pensions changes and National Insurance contributions restructuring. Additionally, the delivery of new functionality to support Stakeholder Pensions is on schedule.

The arrears of work at NICO and the DSS, resulting from the delayed implementation, are being managed through an integrated recovery plan. NICO have reduced the work on hand position from 14.2 million items when the integrated plan was introduced (in July 2000) to 3.6 million by 31 October 2001 and in the process cleared more than 38 million items of work. Additionally, the closer working relationship developed between NICO and DSS has helped ensure that NICO satisfied the high priority requirements of DSS.

NICO and DSS are continuing to work together to clear the remaining arrears of work as quickly as possible. As at 31 October 2001 79 per cent of NICO's workloads were recovered, reflected in 18 out of 26 work areas being cleared. Not all the remaining arrears in NICO will have an effect on benefit. But, where this is the case, this work is given top priority. Most new claims for contributory benefits are being cleared normally using NIRS2.

National Insurance Debt Management

The IR's approach to National Insurance Debt Management now forms part of the Department's Receivables Management Service. This integration of National Insurance Contributions (NIC) and tax work at management level is intended to facilitate the integration of NIC and tax debt management processes and IT support. A number of initiatives are being developed to take this forward and these are being managed as part of an overall programme of activities (the Receivables Programme) that support the IR Medium Term Strategy.

Following the successful delivery of a two year recovery plan (1999–2000 and 2000–2001) the existing NIC debt management process is functioning effectively and there are no significant areas of concern or arrears of work.

The recorded Class 2 debt figure worked through the Debt Management Unit in 2000–01 was £317 million of which £62.1 million was recovered.

As Accounting Officer, I am aware of the recommendations of the Turnbull Committee and I am taking reasonable steps to comply with the Treasury's requirement for a statement of internal control to be prepared for the year ending 31 March 2002, in accordance with guidance to be issued by them.

Nick Montagu
Accounting Officer
Inland Revenue

18 April 2002

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

I certify that I have audited the financial statements on pages 7 to 20 under the Social Security Administration Act 1992. These financial statements have been prepared in the form and on the basis determined by Treasury, and in accordance with the accounting policies set out on page 8.

Respective responsibilities of the Accounting Officer and Auditor

As described on page 2 the Accounting Officer is responsible for the preparation of financial statements in accordance with the Social Security Administration Act 1922 and Treasury directions made thereunder and for ensuring the regularity of financial transactions. The Accounting Officer is also responsible for the preparation of the Foreword. My responsibilities, as independent auditor, are established by statute and guided by the Auditing Practices Board and the auditing profession's ethical guidance.

I report my opinion as to whether the financial statements properly present the receipts and payments and are properly prepared in accordance with the Social Security Administration Act 1922 and Treasury directions made thereunder, and whether in all material respects the receipts and payments have been applied to the purposes intended by Parliament and conform to the authorities which govern them. I also report if, in my opinion, the Foreword is not consistent with the financial statements, if the Accounting Officer has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I review whether the statement on page 3 reflects compliance with Treasury's guidance 'Corporate governance: statement on the system of internal financial control'. I report if it does not meet the requirements specified by Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements.

Basis of audit opinion

I conducted my audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the judgements made by the Accounting Officer in the preparation of the financial statements.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by error, or by fraud or other irregularity and that, in all material respects, the receipts and payments have been applied to the purposes intended by Parliament and conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In my opinion:

- the account properly presents the receipts and payments of the National Insurance Fund and the balance held at that date and has been properly prepared in accordance with the s161(2) of the Social Security Administration Act 1922 and the directions made thereunder by the Treasury; and
- in all material respects receipts and payments have been applied to the purposes intended by Parliament and conform to the authorities which govern them.

Details of these matters are set out in my Report on pages R1 to R7.

John Bourn
Comptroller and Auditor General

21 June 2002

National Audit Office
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Receipts and Payments Account for the year ended 31 March 2001

	Notes	2000–01 £000	1999–00 £000
Receipts			
National Insurance Contributions	2	**54,312,142**	50,592,578
Grant from Inland Revenue Class XVI Vote 6	3	**—**	2,200
Compensation for Statutory Sick Pay and Statutory Maternity Pay recoveries, from DSS Class XII, Vote 2	4	**664,000**	607,000
Income from Investments	5	**850,561**	714,737
State Scheme Premiums	6	**158,583**	126,294
Other receipts	7	**109,576**	123,211
Redundancy receipts	8	**22,826**	20,685
		56,117,688	52,186,705
Less			
Payments			
Benefit Payments	9	**46,927,082**	46,215,093
Personal pensions	10	**2,772,230**	2,573,715
Administration Costs	11	**1,165,108**	816,694
Redundancy payments	8	**191,210**	170,895
Transfers to Northern Ireland	12	**200,000**	230,000
Other Payments	13	**21,252**	19,159
		51,276,882	50,025,556
Excess of receipts over payments		**4,840,806**	2,161,149
Statement of Balances			
Opening balance		**14,438,530**	12,277,381
Add			
Excess of receipts over payments		**4,840,806**	2,161,149
Closing balance		**19,279,336**	14,438,530

The notes on pages 8 to 20 form part of these accounts.

Nick Montagu
Accounting Officer
Inland Revenue

18 April 2002

Notes to the Accounts

Accounting policies

1 Basis of preparation of the Account

This Account has been prepared in accordance with Section 161(2) of the Social Security Administration Act 1992. It has been prepared on a cash basis with no provision for accruals and in a form directed by the Treasury, shown as an annex to this account.

National Insurance Contributions

The Account shows those contributions received by the Secretary of State during the year. The amounts shown are due to the National Insurance Fund after recoveries by employers of amounts due in respect of any statutory sick and statutory maternity payments made to their employees and after deduction of specified percentages of contributions allocated to the National Health Service.

Employers are responsible for calculating contributions payable by themselves and their employees. Their records are subject to examination by the Inland Revenue. These checks and checks on other contributors may result in additional receipts or repayments in future years in respect of contribution liabilities for 2000–01.

Payment of Social Security Benefits

The Department of Social Security administers a range of social security benefits, financed either from the National Insurance Fund or from the Consolidated Fund through Class XII, Vote 1. Where an individual is in receipt of more than one benefit, it is the Department's policy to combine amounts due into a single payment wherever practicable. Fund benefits are paid by girocheque, payable order or credit transfer, but mainly through order books encashable at a post office. It is currently not practicable for the Department of Social Security to account precisely for all expenditure on individual benefits at the time payable instruments are encashed. Instead, they rely on statements from Post Office Counters Ltd. of all separate and combined order book payments falling within nine accounting groups allocated by Post Office Counters Ltd. The Department retains details of benefits issued on the vast majority of payments, including combined payments, by means of an accounting interface with each of the benefit computer systems called the Programme Accounting Computer System (PACS). Apportionment of benefit expenditure has been achieved in this Account using PACS and other information.

Use of estimated figures

Certain receipts and payments during the year in the account are based on estimates and may be subject to adjustment in subsequent years on the basis of more reliable information. Certain classes of contribution receipts, allocation of contribution receipts to the NHS, recoveries and compensation in respect of statutory sick pay and statutory maternity pay, settlements with Northern Ireland, payments in respect of administrative costs and the contribution holiday scheme under the Jobseekers Act 1995 are all reported on this basis.

Net accounting

National insurance contributions, state scheme premiums, personal pensions and benefit payments are all shown net of refunds or recoveries.

National insurance contributions 2

	2000–01 £000	1999–00 £000
Contributions		
Class 1 (employed earner)	**52,352,777**	48,580,328
Class 1A	**774,270**	578,250
Class 1B	**11,115**	—
Class 2 (self-employed flat rate)	**336,116**	607,000
Class 3 (voluntary contributions)	**48,335**	49,000
Class 4 (self-employed earnings related)	**789,529**	778,000
	54,312,142	50,592,578

The amounts shown are net of refunds of £100,328,000 (1999–00 £134,642,000), part of which is allocated to the NHS. Included in these refunds is £5,315,000 relating to a special exercise to refund employers who had paid National Insurance contributions on premiums made to Single Life Assurance Policy's. On 25 May 2000 the High Court decided that payments by way of additional units into Single Life Assurance Policy's were not liable for National Insurance contributions. The appeal to the High Court was in respect of a Secretary of State determination under section 17 of the Social Security Administration Act 1992 that Class 1 contributions were payable. Following the High Court decision the Secretary of State reviewed all original decisions and invited a refund where employers had paid NICs in error.

Employers can make payment of Class 1A contributions either via the Inland Revenue Pay As You Earn scheme with their Class 1 contributions or direct to the Inland Revenue National Insurance Contributions Office. Employers are not required to provide the Inland Revenue with details of the split between Class 1 and Class 1A contributions when making payment via the Pay As You Earn 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. The Class 1A figure of £774.2 million is after an apportionment of £62 million (1999–00 £57 million) to the National Health Service and includes a known amount, before apportionment, of £529 million (1999–00 £380 million) collected by the Inland Revenue National Insurance Contributions Office. The National Insurance Contributions Office figure also includes an amount in respect of Class 1A Penalties (£874,000). Class 1A Penalties are payable in respect of late or non-paid Class 1A National Insurance Contributions.

The Social Security Act 1998 introduced a new Class 1B employer liability. Class 1B arises at the same percentage as the secondary Class 1 rate when the employer has entered into a PAYE Settlement Agreement (PSA) with the Inland Revenue. The Class 1B liability is assessed on the value of the items in the PSA.

From April 2000 the flat rate of Class 2 paid by the self-employed reduced to £2 per week from its rate of £6.55 in 1999–00. This has subsequently resulted in a reduction to Class 2.

Contributions are shown net of amounts allocated to the National Health Service, amounts recovered by employers in respect of statutory sick payments and statutory maternity payments made to their employees, and of amounts withheld by employers under Section 27 of the Jobseekers Act. These amounts, as shown in the table overleaf, are estimated by the Government Actuary.

National insurance contributions (continued)

	2000–01	1999–00
	£000	£000
NHS allocation	6,850,498	6,424,500
SSP recoveries	29,000	28,000
SMP recoveries	625,000	544,000
Contributions withheld under the Jobseekers Act (i)	—	2,100
	7,504,498	6,998,600

(i) Under the Jobseekers Act 1995 employers who employ persons who have been unemployed for two years or more may withhold the secondary contributions payable in respect of these employees for the first twelve months of their employment.

Grants

3 There was no amount paid to the National Insurance Fund for the loss of revenue due to contribution receipts being withheld by employers under the contribution holiday scheme, in this financial year. From 1 April 1999, employers were no longer able to benefit from a NIC holiday in respect of workers who were formerly long term unemployed.

Compensation for statutory sick pay and statutory maternity pay recoveries

4 The amount of £664 million paid from Department of Social Security Class XII, Vote 2, recompenses the National Insurance Fund for loss of revenue due to contribution receipts being reduced by recoveries in respect of statutory sick and statutory maternity payments paid by employers. This amount, paid by way of compensation, differs from the estimates of the amounts recovered in Note 2 because the two sets of estimates are drawn up at different times. The additions to national insurance contributions provided by Parliament are based on early estimates to enable compensation to be paid into the Fund before the end of the financial year, whereas the figures for recoveries by employers, shown in Note 2, are based on later estimates.

Income from investments

5

	2000–01	1999–00
	£000	£000
Interest received	848,795	698,813
Profit on realisation	10,558	25,406
Less losses on realisation	(8,792)	(9,482)
	850,561	714,737

During the year the Fund increased from £13.4 billion at 31 March 2000 to £18.1 billion at 31 March 2001. A substantial proportion of the Fund continued to be held in short-term securities (at 31 March 2001 the proportion was approximately 43%).

State scheme premiums 6 State Scheme Premiums are payable in respect of employed persons who cease to be covered, in certain specific circumstances, by a contracted out pension scheme. The premiums buy back the persons' additional pension entitlement in the State Earnings Related Pension Scheme (SERPS). The collection total of £158,583,000 (1999–00 £126,294,000) is net of refunds of £1,999,000 (1999–00 £3,531,000).

The introduction of billing functionality within NIRS2 for State Scheme Premiums resulted in the clearance of arrears of work and as a consequence gave rise to an increase in State Scheme Premium receipts.

In October 1992, the Government agreed that persons whose pension entitlement was no longer covered by specified Maxwell pension schemes could be brought back into SERPS. Individuals were not required to pay premiums for the years they were contracted out of SERPS but the Inland Revenue is seeking recovery of these premiums from the Maxwell pension schemes. By 31 March 2001, around 30,000 individuals had been brought back into SERPS with a liability of some £127 million, of which £23.5 million had been recovered. A total of £10,545,000 was recovered in 2000–01.

Most actions are now settled and the trustees are resolving outstanding legal issues and moving to fully secure the benefits of their members. By September 2001 more than £30 million had been recovered as the "Works Scheme" made a final payment of £10 million. It is expected that around £90 million of the total £127 million liability will eventually be recovered.

During the financial year 2000–01 an additional liability of £951,255 has been identified in respect of ex scheme members now at State Retirement Age.

Maxwell Pension Scheme	Recovered by 31 March 2001	Outstanding liability at 31 March 2001	Progress
Mirror Group Pension Scheme	2,825,000	70,377,280	State Scheme Premium bill capped at £66 million. A phased and gradually accelerating payment schedule has been agreed. Final payment due by 2020.
Headington Pension Plan	727,110	49,236	Membership of the scheme has still to be agreed before the final bill is confirmed.
MCWPS "Works" Scheme	20,000,000	10,467,802	Final payment of £10,467,802 paid September 2001.
Victoria Works Scheme		313,456	Schemes merged. Some payment of SSPs possible.
AGB Scheme		10,012,704	
AGB Research Scheme		1,338,787	
Maxwell Communications Pension Plan	—	10,168,744	No current prospect of payment.
Maxwell Media Pension Plan	—	409,002	No current prospect of payment
Totals	**23,552,110**	**103,137,011**	

Other receipts 7

	2000–01	1999–00
	£000	£000
Recoveries of damages in tort (i)	**86,842**	101,731
Compensation for Age Related Rebates (ii)	**20,336**	19,495
Unemployment benefit recoveries	**2,398**	1,985
	109,576	123,211

(i) The recoveries from damages paid to recipients of certain National Insurance Fund benefits. These amounts relate to recoveries from insurers and other bodies in respect of compensation claims for damages where National Insurance Fund benefits had already been paid to individual claimants by the Department of Social Security.

(ii) The National Insurance Fund receives a payment of £20,336,000 from the Inland Revenue Administration Account, Class XVII, Vote 4, in respect of compensation for delayed payments of Age Related Rebates made to pension providers on behalf of their clients who opted out of SERPS in favour of a personal pension.

Additional work undertaken by NICO has revealed that the Inland Revenue has overcompensated the National Insurance Fund by £6,295,339. This will be recovered in 2001–02.

Redundancy payments 8 Redundancy payments are made from the Fund to employees whose employers have failed to make payments due or who were insolvent. The payments are awarded by the Department of Trade and Industry. The receipts represent amounts recovered from employers. The total debt outstanding at 31 March 2001 was £786 million.

	£000
Outstanding debt at 31 March 2000	809,739
Plus Redundancy payments in 2000–01	191,210
Less Receipts in 2000–01	22,826
Less Debt written off in 2000–01 (note 16)	191,944
Outstanding debt at 31 March 2001	**786,179**

Benefit payments 9

	2000–01	1999–00
	£000	£000
Benefits		
Retirement Pension	**38,669,384**	37,705,337
Incapacity benefit	**6,677,228**	6,894,723
Widows' benefit	**978,844**	988,624
Jobseeker's allowance (contributory)	**434,937**	462,034
Christmas bonus for pensioners	**120,329**	123,328
Maternity allowance	**44,817**	39,288
Guardians' allowance and child special allowance	**1,543**	1,759
	46,927,082	46,215,093

Benefit payments (continued)

All of the benefits consist partly or wholly of apportioned expenditure.

Due to problems following introduction of NIRS2 computer system, a significant number of customers have been paid benefit at an emergency or interim rate while their contribution records were not available from the new system. Although the vast majority of customers will have been paid their correct rate of benefit, some have been overpaid or underpaid. Last year's account reported the position regarding under and overpayments. Since then, a further £16 million has been paid to correct underpayments and £1 million of overpayments have been recorded.

The Benefits Agency's review of claims has reduced significantly as it continues to consider claims that have been affected as a result of the delayed implementation of NIRS2. Most (but not all) new claims for contributory benefits are now fully processed using NIRS2. A clerical contingency is used for the few remaining cases with minimum impact on claimants, the vast majority result in the right amount of benefit being paid at the right time.

Retirement pension and widow's benefit include payment to Northern Ireland pensioners living abroad. For administrative convenience these payments are made by the Department of Social Security with the cost being borne by the National Insurance Fund in Great Britain. It is not possible to provide an accurate figure for Northern Ireland's share of the expenditure on overseas pensions, but an estimate of the amount involved in 2000–01 is £9 million. Note 12 explains the relationship between the National Insurance Fund and the Northern Ireland National Insurance Fund.

Personal pensions 10

	2000–01	1999–00
	£000	£000
Personal Pension Payments	2,772,230	2,573,715

The Pensions Schemes Act 1993, supplemented by the Pensions Act 1995, entitles employed earners with a personal pension to a "minimum contribution" to their plan from the National Insurance Fund which, for 1997-98 and later tax years, is based on earnings between the lower and upper earnings level and the age of the member. Similarly, from April 1997, members of Contracted Out Money Purchase (COMP) Schemes are entitled to a "top-up" payment of age related rebate based on the age of the member and calculated using the earnings on which the contracted out rate of national insurance contributions have been paid.

Administrative costs 11 **(1) Payments made in respect of Administration**

	2000–01 £000	1999–00 £000
Department of Social Security (Class XII, Vote 3 2000–01) For administering the National Insurance Scheme. See analysis at (2)	835,655	505,177
Inland Revenue For the collection of National Insurance Contributions.	316,133	298,617
Other Departments	13,320	12,900
Includes Audit fee of £0.7 million	1,165,108	816,694

Administration payments to DSS from the Fund each year consist of two elements:

(i) an initial estimate of costs for the year in question, and

(ii) an adjustment to account for any difference between the initial and final estimates for previous years (see Note 11 (2)).

(2) Analysis of payments from the Fund in 2000–01 in respect of Department of Social Security administrative costs

DSS costs are recovered from the Fund over a three year cycle. In year one, payment of an estimate of the cost for the year is made from the Fund to DSS. In year two, the final estimate for year one is calculated. In year three, adjustments are made to compensate for the difference between the initial and final estimates.

	Estimate for 2000–01 £000	Adjustment for previous years £000	Amount paid in 2000–01 £000
Department of Social Security			
Headquarters, Benefits Agency, The Appeals Service	715,838	(60,428)	655,410
Post Office/Girobank	186,777	(6,531)	180,245
	902,615	(66,959)	835,655

A comparison of initial and final estimates for 2000–01 will be provided in the accounts for 2001–02.

(3) Comparison of initial and final estimates of administrative costs for 1999–00

	Initial Estimate £000	Final Estimate £000	Difference £000	Final Estimate for 1998–99 £000
DSS (HQ, BA, CA, ITSA)	515,588	550,632	35,044	728,251
Post Office/Girobank	185,338	188,189	2,851	190,378
	700,926	738,821	37,895	918,629

Explanation of variations

(i) between the final estimates for 1998–99 and 1999–00:

The variation in the costs within the DSS were mainly due to the transfer of Contributions Agency to Inland Revenue in 1999 whose costs were approximately £200 million.

Transfers to Northern Ireland

12 The amount shown in this account is in respect of financial adjustments made by the National Insurance Joint Authority between the National Insurance Fund and the Northern Ireland National Insurance Fund in accordance with Section 177 of the Social Security Administration Act 1992. These financial adjustments are consequential upon the arrangements made for co-ordinating the systems of insurance established in the two countries to ensure that they operate, to such an extent as is provided in those arrangements, as a single system. They adjust the balances in the two Funds in proportion to the population of working age as established by the latest available Census returns in the two countries. Payments are made on a provisional basis and are adjusted when end of year balances in the two funds are available.

Other payments

13

	2000–01	1999–00
	£000	£000
Payments to Isle of Man	17,416	18,243
Other payments	3,836	916
	21,252	19,159

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

Closing balance

14

		31 March 2001		31 March 2000
		£000		£000
Securities held by the National Debt Commissioners				
At cost		18,118,251		13,408,089
(1) Market value	19,143,251		14,159,768	
(2) Nominal value	17,266,210		12,735,443	
Held by Paymaster (including uncleared cheques)		66,399		451,405
Other balances (i)		1,094,686		579,036
		19,279,336		14,438,530

(i) Sums due from or owing to Government Departments and overseas administrations out of the operation of the national insurance scheme.

Securities held by the National Debt Commissioners at 31 March 2001

15 The National Debt Commissioners are responsible, in accordance with section 161(3) of the Social Security Administration Act 1992 for the investments of the National Insurance Fund. The Commissioners are authorised to invest in Government Guaranteed and Local Authority Securities.

	Nominal Value £000	Cost Price £000	**Market Value at 31 March 2001 £000**
Government and Government Guaranteed Stocks:			
Up to one year	7,469,996	7,712,148	**7,794,143**
One to five years	4,080,723	4,205,033	**4,415,511**
Five to ten years	3,826,288	4,124,460	**4,519,382**
Over ten years	1,477,658	1,665,065	**2,001,125**
	16,854,665	17,706,706	**18,730,161**
Loans to Local Authorities:			
Temporary loans	37,780	37,780	**37,780**
Up to one year	373,765	373,765	**375,310**
Total Securities	**17,266,210**	**18,118,251**	**19,143,251**

Losses

16

	£000	**No of cases**
1. Contributions National Insurance Fund share		
(a) Inland Revenue: Remissions	24,611	105,372
(b) Inland Revenue: Debt transferred	114,248	15,160
(c) National Insurance Contributions Office	41,242	36,436
Total Loss	**180,101**	**156,968**
2. Benefits	26,053	88,093
3. Redundancy	191,944	11,515
4. Administration	139	—

1(a) Inland Revenue advise National Insurance Contributions Office of remissions which they have granted, in respect of unpaid contributions where pursuit is unlikely to be successful.

1(b) Inland Revenue transfer national insurance debts in respect of insolvent companies for subsequent recovery and/or write-off by the National Insurance Contributions Office.

Losses (continued)

1(c) The Inland Revenue National Insurance Contributions Office waives arrears of national insurance contributions when pursuit of the debt is regarded as neither practical nor cost effective.

2 Organised Fraud: At the end of 2000–01 the Benefits Agency Security Investigation Service (BASIS) had investigated and brought prosecutions from 6 operations which each involved a loss to public funds of over £100,000. Five of these operations included National Insurance Fund benefits. The loss to the National Insurance Fund was £2,359,000. All of these fraud cases involved organised or systematic abuse of the benefit system and involved either instrument of payment fraud or multiple identity fraud. In total 6 people were charged, with 4 receiving sentences of imprisonment of between 8 months and 4 years, with 2 receiving probation or community service.

Write-off of Debt through Easement: The Department of Social Security's overpayment initiative, agreed with Treasury, enables the write-off of non-recoverable debt using estimating procedures. The aim is to re-target resources to more cost effective recovery. During 2000–01 the package dealt with 47,206 cases involving overpayments of NI Fund benefits, writing off approximately £12.1 million. These overpayments would not have been recoverable under Social Security legislation. They were caused primarily by official error.

Jobseeker's allowances losses are reported in the Department of Social Security Class XI I, Vote 1 Appropriation Account.

3 This figure represents amounts written off during the year in respect of redundancy payments to employees, deemed irrecoverable from their employers mainly due to insolvency.

Special payments 17

	£000	No of Cases
Special payments	767	403

These are mainly payments to claimants who have been wrongly advised on benefit entitlement.

As the Australian social security agreement ended with effect from 1 March 2001, an extra statutory payment scheme was set up to pay enhanced state retirement pension to those people with residence in Australia during the currency of the Agreement, up to 5 April 2001, who have now returned to live permanently in the UK. In the financial year to 31 March 2001, payments were made amounting to approximately £2,000 and is included in the total amount for Special Payments.

Benefit security review 18

In March 2000, the Permanent Secretary of the Department of Social Security (DSS) announced changes to the Department in order to streamline internal services and focus more effectively on the frontline delivery of services to customers. The changes bring together:

all benefit design and management work within 3 client groups (working age, pension age, and families and children);

planning, finance, internal audit and personnel services within a single, new Corporate Services Directorate; and

communication services within the Department.

Benefit security review (continued)

In March 2000, the Prime Minister announced reforms of the way in which services to people of working age and pensioners are delivered. A new agency is being established which will deliver a single, integrated service to benefit claimants of working age and employers. This will draw together those parts of the DSS Benefits Agency dealing with people of working age and the Employment Service (currently part of the Department for Education and Employment) and will be known as Jobcentre Plus. The government is also creating a new organisation dedicated to pensions and pensioners within DSS, to be known as The Pensions Service.

On 8 June 2001 the Prime Minister announced the creation of two new Departments: The Department for Work and Pensions (DWP) and The Department for Education and Skills (DfES). The Department for Work and Pensions is being formed from:

> The DSS: the Benefits Agency, the Child Support Agency and the Appeals Service;
>
> The policy groups previously in DfEE covering Employment Policy and International issues together with the disability responsibilities of the DfEE's Opportunity and Diversity Group and the Employment Service.

The new DWP Department will be responsible for creating Jobcentre Plus and the Pension Service from the Employment Service and the Benefits Agency. The Child Support Agency and the Appeals Service will remain.

A key responsibility is to ensure secure and effective payment of Programme money, centred on improving accuracy and addressing fraud and error.

In April 1999 the DSS introduced a New Programme Protection Strategy in support of the command paper: A New Contract for Welfare – Safeguarding Social Security. The foundation of the strategy is a comprehensive work programme, designed to address the strategic aims of the Command Paper. These are, "Getting it right" – at the inception of each claim; "Keeping it right" – through case management and greater use of data matching and risk analysis; "Putting it right" – through detection; and making the strategy work via monitoring and evaluation. The success of this strategy will be gauged by a continuing improvement in the level of accuracy of benefit awards and a reduction in the amount of programme money lost through fraud and error. A target for this reduction was included in the DSS Public Service Agreement (PSA) which was published in March 1999.

The PSA target is to "reduce by 30 per cent benefit losses from fraud and error in Income Support (IS) and Jobseeker's Allowance (JSA) by March 2007, with at least a 10 per cent reduction by March 2002". The baseline period against which achievement of the PSA target is to be measured is the period October 1997 to September 1998 and the baseline figure of benefit losses is 9 per cent which equates to an overpayment of £1.4 billion during the baseline period.

The baseline figure of 9 per cent is an amalgamation of Area Benefit Reviews (ABR), and Quality Support Teams (QST) activities (adjusted for duplication of reported findings). This figure, which is calculated by Analytical Services Division (ASD), is an estimate of benefit overpaid, due to fraud, customer error and official error. It includes overpayments only and excludes underpayments, instrument of payment fraud, and takes no account of overpayment recovery. To avoid the need for ASD calculations to remove duplications of reported findings, the DSS has, from April 2001, begun using a common sample for the ABR and QST reviews. When results

Benefit security review (continued)

become available this will provide direct measurement of benefit losses from fraud and error on IS and JSA.

As part of the Spending Review 2000, the PSA target was raised to "Reduce by 50 per cent losses from fraud and errors in IS and JSA by March 2006, with a 25 per cent reduction by 2004". The new target is the outcome expected from a programme to modernise welfare delivery that will begin in April 2001 and will improve the accessibility and accuracy of the DSS's services. The programme will achieve this by commencing the rollout of new IT equipment to all staff dealing with customers from 2001. Modernisation of the DSS computer systems will contribute by facilitating the collection of information from claimants and linking up various computer systems. In addition, the Spending Review provides funding that aims to have 85 per cent of customers having their benefits paid directly into their bank accounts by 2005 to counter payment fraud and loss.

Benefit Reviews were initiated as a key element of the DSS anti-fraud strategy, in response to the need for more quantitative and qualitative information about the extent of fraud and error. A number of National Benefit Reviews of major benefits have been carried out, the results of which were reported in previous accounts. The aim is that the first review of each benefit sets a baseline to establish the nature and extent of fraud and abuse. Repeat exercises may be carried out to enable identification of any change in patterns of fraud and abuse.

Area Benefit Reviews (ABRs), a development of the National Benefit Review programme, aim to provide a continuous rolling programme of measurement of Income Support (IS) and Jobseeker's Allowance (JSA) cases to determine the continued incidence and cost of customer fraud and error, in each of the Benefits Agency's 13 Area Directorates.

On 30 July 2001, the latest ABR figures were published for the twelve months ending September 2000. These showed a level of fraud and customer error of 5.4 per cent of IS cases (with losses of £730 million) and 7.3 per cent of JSA cases (with losses of £210 million).

Data matching addresses inherent weaknesses in DSS computer systems, whereby data held on the same individual, but on separate computer systems, is not automatically shared between relevant DSS systems or other Government Departments. The Generalised Matching Service has been in operation since 1995, to assist the detection of fraud, incorrectness and overpayment. The potential for data matching arises where details of a customer record on one system are inconsistent with another record held on the same or a different system. During 2000–01 over 234,000 National Insurance Fund and Department of Social Security, Class XII, Vote 1 cases were generated for investigation resulting in £2.5 million of Monetary Value of Adjustment (MVA). The figure for MVA represents the weekly value of any upward or downward adjustment in benefit entitlement. A total of £59.5 million has been calculated as overpayments as a result of this activity, along with a figure of £1 million in terms of underpayments. £51.04 million of these overpayments have been deemed as recoverable.

A Debt Programme has been initiated in response to historic criticism and concerns from Ministers, the National Audit Office (NAO) and the Public Accounts Committee (PAC) regarding the management of debt by the DSS. A strategy has been developed

Benefit security review (continued)

to introduce a new organisational structure, together with new management information systems and policies more relevant to the management and ultimately reduction of the debt stock. This will be delivered incrementally over the next 2–4 years through the introduction of regional debt processing centres to consolidate the management of debt calculation and recovery. The plans also include simplified and standardised processes and policy and ultimately new IT which will support the Government's modernisation agenda. Shorter term tactical improvements to existing systems and processes to improve debt accounting are also scheduled in the plans.

Instrument of Payment (IOP) fraud includes theft, counterfeiting and false reports of loss. It can involve either individuals or organised gangs. It is estimated that fraudulent IOP losses during 2000–01 are in the region of £58 million for order books and £19 million for girocheques (£89.4 million and £19.3 million in 1999–00 for order books and girocheques respectively). These figures relate to all benefits as figures for National Insurance Fund benefits could not be separately identified.

Order book losses have reduced during 2000–01 reflecting the success of the measures put in place to prevent and deter IOP fraud, in particular the Order Book Control Service (OBCS) which is an important element of the programme of work against IOP fraud. The national rollout of the OBCS commenced in March 2000 and is contracted to be completed by July 2001. The position at 30 July 2001 was that 99.28 per cent of post offices were connected to the service.

Following cancellation of the Benefit Payment Card in May 1999, the Government announced that Automated Credit Transfer (ACT) would become the normal method of benefit payment by 2005. In the interim period, benefit payment fraud is being tackled by using the Order Book Control Service (OBCS). The move to ACT is being supported by the introduction of new technology in the form of the Payment Modernisation Service (PMS), which is being developed as part of the overall Access to Corporate Data (ACCORD) infrastructure. Existing Legacy systems will be enhanced to deliver ACT payments. It is expected that by 2005, 85 per cent of customers will be receiving benefits by ACT into a nominated account. Customers will still, however, be able to collect their cash at a Post Office if they wish to do so.

Accounts Direction given by Her Majesty's Treasury

1 In accordance with section 161(2) of the Social Security Administration Act 1992, the Treasury hereby gives the following Direction.

2 The Inland Revenue has a duty to prepare each year a statement of the transactions on the National Insurance Fund of Great Britain. For the year ended 31 March 2000, and all subsequent years until this direction is amended, this statement shall comprise:

(a) a foreword;

(b) an account of receipts and payments;

(c) a statement of balances;

and shall include such notes as may be necessary for the purposes referred to in the attached schedule.

3 The Accounting Officer shall observe all relevant accounts and disclosure requirements in 'Government Accounting' and any other guidance issued by HM Treasury as amended or augmented from time to time.

4 The format of the statement of account and the disclosure requirements are in the attached schedule.

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

6 The Accounts Direction shall be reproduced as an annex to the accounts.

7 This direction supersedes the Accounts Direction dated 7 December 1995.

B. Glicksman
Treasury Officer of Accounts — 16 October 2000

Schedule

Format of Account and Disclosure requirements – Great Britain

1 The foreword shall state that the account has been prepared in accordance with a direction issued by Treasury in pursuance of Section 161(2) of the Social Security Administration Act 1992. The foreword will also include details of the following:

(a) statutory background;

(b) operational responsibilities;

(c) financial performance;

(d) audit arrangements;

(e) responsibilities of the Accounting Officer.

2 The receipts and payments account and statement of balances shall conform to the formats shown in the Annex, although minor variations may be made.

3 The notes shall include:

(a) analysis of the payments and receipts included under the headings set out in the attached format, including any explanation or background that may be necessary to understand the accounts;

(b) in the note on administrative costs, the estimated costs for the current year and the adjustments for previous years separately identified;

(c) a statement of the securities in which the National Insurance Fund is invested by the National Debt Commissioners in accordance with Section 161(3) of the Social Security Administration Act 1992;

(d) details of any irregular, uncertain or special payments.

Annex

Receipts and Payments Account for the year ended 31 March ...

	Notes	20( ) £000	20( ) £000
Receipts			
National Insurance Contributions			
Grant from Class XIII, Vote 2			
Compensation for Statutory Sick Pay and Statutory Maternity Pay recoveries			
Income from Investments			
State Scheme Premiums			
Other receipts			
Redundancy receipts			
Less			
Payments			
Benefit payments			
Personal pensions			
Administrative Costs			
Redundancy payments			
Transfers to Northern Ireland			
Other payments			
Excess of receipts over payments [Excess of payment over receipts]			

	£000	£000
Statement of Balances		
Opening balance		
Plus		
Excess of receipts over payments		
[Less		
Excess of payments over receipts]		
Closing balance		

The notes on pages [ ] to [ ] form part of these accounts.

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introduction and executive summary

1 The National Insurance Fund provides for expenditure on benefits and allowances where individuals have paid sufficient National Insurance contributions and met other qualifying conditions. In 2000-01 receipts amounting to £56,237 million were paid into the Fund and payments of £51,277 million were made out of it.

2 National Insurance contributions are set at rates broadly necessary to meet expected benefit expenditure each year after taking into account any other payments and receipts, and to maintain a working balance. At 31 March 2001, the balance in the Fund was £19,399 million, an increase of £4,960 million compared to 31 March 2000.

3 The Inland Revenue has responsibility for the collection of National Insurance contributions from employers, employed earners and the self-employed including the operation of the new National Insurance Recording System (NIRS 2). In 2000-2001 the Department of Social Security (now the Department for Work and Pensions) was responsible for benefits paid to individuals, through the Benefits Agency. From 1 April 2002, these benefits will be administered by the Pensions Service and Jobcentre Plus.

4 Section 161 of the Social Security Administration Act 1992 requires me to examine and certify the National Insurance Fund Account. Part 1 of this report records the result of my examination of the 2000-01 account. Part 2 provides an update on the progress made by the Inland Revenue and the Department in dealing with the arrears of work that resulted from the delays and phased implementation of NIRS 2.

Audit results

5 The Department for Work and Pensions estimate that there was £92 million of irregular expenditure on Incapacity Benefit due to fraud and error and that, in addition, some £230 million of underpayments occurred. In approximately 80 per cent of the cases of underpayment the customers suffered no financial loss as they received an equivalent sum of Income Support.

6 Losses in Retirement Pension and Widows Benefit in 2000-2001 were unlikely to exceed an estimated £69 million, £29 million from errors by officials and £40 million from fraud and customer error. This represents less than 0.2 per cent of the expenditure of almost £40,000 million on these benefits. Estimated losses on Jobseeker's Allowance (contribution based) from fraud and error amounted to £33 million. Further it is estimated that £77 million was lost from the wrongful encashment of order books and girocheques in all benefits administered by the Benefits Agency, a proportion of which would be on benefits accounted for in the National Insurance Fund. In the context of the expenditure of £51,277 million charged to the Fund, the total of the losses from these sources is not significant.

NIRS2

7 The National Insurance Recording System (NIRS) supports a variety of activities contributing to pension and benefit payments. It records details of individuals' National Insurance contributions, calculates long term contributory benefits, provides data to other Government Agencies, and pays age related contribution rebates to occupational and personal pension holders.

8 The system has been stable since April 2000 but it has been implemented on a phased basis, over a longer period than initially planned. The Inland Revenue broadly achieved their objectives of clearing arrears of work that had built up, and returning to normal working in most areas by 31 October 2001. This represents considerable progress, reflecting the benefits of an integrated recovery plan for the National Insurance Contributions Office (NICO) where the majority of arrears existed, and the concerted efforts of both the management team and the staff involved. By 31 March 2002, the Inland Revenue had recovered all but two of their business areas, which have no major impact on current customer enquiries.

9 Clearance of arrears by the Department for Work and Pensions is heavily affected by NICO. The Department does not expect to achieve full recovery on the NIRS 2 arrears cases it is dealing with before June 2002. That is, until a joint review has been undertaken with the Inland Revenue to agree the scale of any residual recovery items and changes have been made to NIRS2 to enable certain types of cases to be cleared.

10 Once recovery is complete, I will report on the costs incurred to recover from the earlier delays to NIRS 2 and to achieve sustainable improvements in NICO's business processes so that work on hand is kept at normal levels in future.

Part 1 Audit Results

1.1 The benefits paid out of the National Insurance Fund comprise Retirement Pension and Widows Benefit, Incapacity Benefit and contribution based Jobseeker's Allowance **(see figure 1)**.

Retirement Pension and Widows Benefit

1.2 In 2000-01, the Benefits Agency's Quality Support Team carried out checks on the accuracy of a sample of awards of Retirement Pension and Widows Benefit in each of their Area Directorates. These checks identified errors in 3.2 per cent of the cases tested, compared to 5.2 per cent in 1999-2000.

1.3 The National Audit Office examined a sample of awards and identified errors by officials in 4 per cent of cases, from which it was estimated that losses amounted to some £29 million.

1.4 The most recent review by the Benefits Agency to estimate the amount of fraud and customer error in Retirement Pension and Widows Benefit was published in October 1998. It found that fraud was confirmed or suspected in no more than 0.1 per cent of claims and estimated that the resulting programme losses amounted to some £40 million each year. I have no evidence to indicate that since 1998 the level of fraud in Retirement Pension has increased.

1.5 The results of my audit indicate that losses in Retirement Pensions and Widows Benefit in 2000-2001 are unlikely to exceed an estimated £69 million, £29 million for errors by officials and £40 million from fraud and customer error. This represents less than 0.2 per cent of the expenditure of almost £40,000 million on these benefits.

Incapacity Benefit

1.6 This is a complex benefit because many different aspects of a customer's circumstances may affect the level of benefit due in any week. A high number of such changes in customers' circumstances are notified to the Benefits Agency each year. Some of these are not reported by the customer when they should have been.

1 Benefits paid from the National Insurance Fund in 2000-01

Benefit	Amount £m	Basis of Payment
Retirement Pension and Widows Benefit	39,648	Retirement pension is payable to people who have reached state pension age and meet the National Insurance Contribution conditions. Widows Benefit is a generic term covering Widow's Payment for widows whose husbands were not entitled to a retirement pension when they died, Widowed Mother's Allowance for widows with at least one qualifying child, and Widow's Pension.
Incapacity Benefit	6,677	Incapacity Benefit was introduced in April 1995 under the Social Security (Incapacity for Work) Act 1994 and replaced Invalidity Benefit and Sickness Benefit. It provides support to people under pension age who are assessed as unable to work due to incapacity and who have paid sufficient National Insurance contributions.
Jobseekers Allowance	435	Jobseeker's Allowance (contribution based) was introduced in October 1996. It is a flat rate benefit, payable for the first six months of unemployment to claimants who have paid sufficient National Insurance contributions and who are actively seeking work.

Source: Department for Work and Pensions

This means that some errors in awards of Incapacity Benefit are unavoidable.

1.7 The Benefits Agency's internal Quality Support Team visited each of the Agency's districts in 2000-01, to examine the accuracy of a representative sample of Incapacity Benefit awards and to estimate the financial impact of errors made by officials in making awards. The National Audit Office examined a sample of cases reviewed by the Quality Support Team and confirmed the reasonableness of the Department's estimates. In 2001 the Agency also carried out a National Benefit Review, based on an in-depth examination of the circumstances of random samples of claimants, to determine the extent of customer error and fraud. From the combined results of this work, the Department estimate that some £322 million of Incapacity Benefit was incorrect in 2000-01, representing around 5 per cent of expenditure on that benefit **(see figure 2)**.

Jobseeker's Allowance (contribution based)

1.8 From Benefit Reviews and checks carried out by its Quality Support Teams, the Department for Work and Pensions estimate that in 2000-2001, losses in Jobseeker's Allowance (contribution based) amounted to £33 million, which is 8 per cent of expenditure on this benefit. This compares with an estimated loss of £54 million, which was 12 per cent of expenditure in 1999-2000.

1.9 The National Audit Office carried out test checks of the individual cases examined by the Department that provide the data for these estimates and have reviewed the methodology used to calculate the estimates.

Instrument of Payment Fraud

1.10 In past years a substantial amount of benefit fraud has taken place through the wrongful encashment of order books and girocheques. New arrangements to control order books by Post Office Counters Ltd in conjunction with the Department have contributed to a reduction in order book fraud in all benefits administered by the Benefits Agency, from an estimated £89 million in 1999-2000 to £58 million in 2000-01. The estimate of losses from the fraudulent handling of girocheques is unchanged from 1999-2000 at some £19 million each year. A proportion of these losses relate to benefits accounted for in the National Insurance Fund.

1.11 The Department is introducing further initiatives to prevent and detect instrument of payment fraud. These include the establishment with Consignia of a Fraud Prevention Board, to identify weaknesses in the system and a programme of work to address them. The Department aims to pay 85 per cent of customers through Automated Credit Transfer by 2005, thereby reducing the use of order books as the normal method of payment and the scope for fraud arising from their misuse.

2 The Benefits Agency's estimate of Incapacity Benefit overpaid and underpaid in 2000-01 due to fraud and error

Source of Error	Over-payments £m	Under-payments £m	Total £m
Fraud	19	n/a	19
Customer Error	16	15	31
Official Error	57	215	272
Total	92	230	322

NOTE

In approximately 80% of the cases of underpayments the customers affected suffered no financial loss as they received an equivalent sum of Income Support

Source: Department for Work and Pensions

Part 2 The New National Insurance Recording System (NIRS 2)

Introduction

2.1 In 1995, Andersen Consulting (now Accenture) was awarded a contract with the former Contributions Agency of the Department of Social Security to develop and operate NIRS2. The system was released on a staged basis over the period February 1997 to July 1998.

2.2 I have reported to Parliament on previous occasions about the development and operation of the NIRS 2 system and the arrears of work that had arisen as a result of earlier delays and phased implementation.[1]

2.3 This section of my report provides an update of the further progress made by the Inland Revenue and the Department for Work and Pensions in dealing with arrears of work and stabilising future operations.

The Recovery Plan

2.4 In summer 2000 the Inland Revenue established an Integrated Recovery Plan for the National Insurance Contributions Office (NICO) where the majority of arrears existed. This recognised the need to work closely with all other parts of the Inland Revenue and the Department for Work and Pensions that are dependent on NIRS2, and a Steering Group chaired by the Director of NICO was established in July 2000. This was supported by recovery teams in the Inland Revenue and the Department for Work and Pensions. There have been regular reviews to monitor progress, and manage identified issues and risks.

2.5 A number of factors have influenced the recovery plan:

- The NIRS2 system has been stable since April 2000 but was implemented on a phased basis, over a longer period than initially planned. The Inland Revenue has introduced key functions in a controlled manner, but as with any such level of change it has taken time for the staff and management to adjust fully to the new system;
- The NICO team balanced the need to handle current year work with the demands of the recovery process. The team has always taken due regard of the competing priorities, but of necessity it has only been over the last year that the focus could be turned predominantly towards the two aims of working normally in most areas and from April 2002 operating without additional resources;
- In parallel with the recovery work NICO has seen a significant increase in its planned workloads. For example, in 2000-01 it received 50.9 million end of year returns from employers, compared to 46.7 million in 1997-98, an increase of 9 per cent.

2.6 The progress made in the recovery and stabilisation process, and the plans for the remainder of the programme are set out in the following paragraphs.

NICO

2.7 NICO's work is primarily generated by output from NIRS2, and enquiries from individuals, employers, pension scheme administrators, and other groups within the Inland Revenue and the Department for Work and Pensions. In July 2000 the total number of work items on hand was some 14 million.

2.8 NICO have had a number of objectives within their recovery and stabilisation programme, including:

- to return to normal working in most areas by 31 October 2001, and
- to complete the recovery in all areas by 31 March 2002, and introduce a programme of business stabilisation to ensure that work on hand is reduced to normal levels.

2.9 Progress as at 31 October 2001 is shown in **Figure 3**.

1 *HC 12 of 1997-1998; HC 146 of 1999-2000; HC 464 of 2000-01 and HC 355 of 2001-02*

3 Progress by NICO as at 31st October 2001

Criteria	Status
Reduce the outstanding work received or created before 1 April 2000 **(Primary Recovery Items)** to 254,000 items.	There were 322,000 primary recovery items outstanding.
Reduce the outstanding work received or created between 1 April 2000 and 31 March 2001 **(Secondary Recovery Items)** to 327,000 items.	There were 265,000 secondary recovery items outstanding
Most work areas cleared.	79% of NICO's workloads were recovered, reflected in 18 out of 26 work areas being cleared.
Business as usual: the normal workloads for October 2001 were estimated to be 2 million items.	The level of current year work remaining was 3.1 million items.
Key workloads for the Department of Work and Pensions for 2001/2002 to be recovered	All but one minor item was cleared.

Source: NICO

2.10 As at 31 March 2002 NICO had recovered all but one business area, which has no major impact on current customer enquiries. NICO estimate that any residual items will be cleared by June 2002.

2.11 NICO have made considerable progress towards meeting their objectives, reflecting the benefits of operating the Integrated Recovery Plan together with the concerted efforts of both the management team, and the staff involved. There has been a notable, sustained level of achievement over a lengthy period.

Inland Revenue - Network of Local Offices

2.12 The work of the Inland Revenue network of local offices includes dealing with outputs from NICO, allowing the work to be processed and cleared by using their knowledge of the taxpayers and employers involved. A formal network recovery plan was established in July 2001, supported by a recovery team to work as part of the overall Inland Revenue integrated recovery programme. Plans were quickly drawn up in local offices throughout the country, and guidance was issued to all staff to ensure that the objectives and processes were clear. The overall objective was to clear all NIRS2 arrears, and to achieve a steady state position by March 2002 equivalent to 6 weeks work or less, estimated at around 90,000 cases.

2.13 Around 400,000 items of work required clearance by the network, and by October 2001 work was progressing broadly to schedule, with around 155,000 cases remaining on hand. The Inland Revenue had cleared all but a small residue of these items by 31 March 2002.

Department for Work and Pensions

2.14 The Benefits Agency of the Department for Work and Pensions uses the NIRS2 system to assist with individual benefit claims. The arrears of work within the Inland Revenue have led to consequential arrears with the Benefit Agency.

2.15 In April 2000 the Agency had on hand 143,000 recovery items, and was receiving each month between 60,000 and 80,000 additional cases comprising new and routine work and arrears. The Department subsequently agreed with Ministers two definitions of recovery. Progress made is shown in **Figure 4**.

2.16 The Department for Work and Pensions considers that recovery is unlikely to be completed before June 2002. There are a number of factors that could influence the ultimate outcome:

- In the final quarter 2001 it became apparent that the methods adopted by the Benefit Agency to establish the level of arrears differed from those used by NICO. The Inland Revenue and the Department for Work and Pensions are now undertaking a joint review to ensure that there is an agreed view of the scale of any residual recovery items and a clear understanding of the position.
- The review of the backlog of non-urgent paper outputs from NIRS2 has identified a potentially large number of additional items that could impact on future benefit claims. The recovery teams have agreed 5 changes to NIRS2 that will be introduced in May 2002 thus enabling the Agency to take action to clear the cases; and
- A project has been established to provide Agency pensions staff with online access to NIRS2 from April 2002, to improve the quality and speed of service to claimants.

The Stabilisation of Future NIRS2 Operations

2.17 There are three key strands of NIRS2 work associated with the stabilisation of future operations. Progress is set out in **Figure 5.**

Recovery and Stabilisation Costs

2.18 The Inland Revenue has incurred costs to achieve recovery in both their own business and the Department for Work and Pensions, and to implement sustainable improvements in NICO's business processes to ensure that work on hand is kept at normal levels, taking account of expected increases in workloads. I will report on the full costs and benefits when recovery is complete.

4 Progress against the Department for Work and Pensions' recovery targets

Target	Progress to 31/10/2001	Next Steps
All known benefit cases included in the backlog of work in NICO have been cleared and processed.	The Benefits Agency made considerable progress in the year ending 31 March 2001, by which time the backlog had been reduced to 68,000 cases. Since that time progress has been somewhat slower, and by 31 October 2001 the arrears reported amounted to 42,000 cases.	The profile of work through to March 2002 indicated that the projected number of cases from NICO would reduce progressively (in line with their own plans), and that by March only a small number of cases will continue to be received. The Agency had cleared the vast majority of the backlog by 31 March 2002, but the continued flow of cases means that recovery work will continue beyond April 2002.
Implement agreed changes to NIRS2 in support of the key Agency business processes.	All agreed changes in support of key business processes have been implemented.	One further change is outstanding, but this is dependent upon other, new requirements and is scheduled for release in May 2002.

Source: Benefits Agency

5 Stabilisation of NIRS2

Objective	Status
Implementation of all the remaining aspects of NIRS2 as contained within the agreement reached in April 1999 between the Inland Revenue and Accenture.	NIRS2 has been fully supporting business processes since April 2000. Some relatively minor elements of functionality were not delivered by that date. But throughout the subsequent period the Inland Revenue have progressively implemented the remaining low priority minor changes, and any still required will be implemented by May 2002.
Implement additional NIRS2 changes designed to assist with the clearance of old cases.	In November 2000 the Inland Revenue agreed a Contractual Change Note with Accenture with the objective of clearing 2,494,800 work items from the backlog. The work was completed by 31 March 2001, with a total of 3,975,518 items cleared.
Establish and implement NIRS2 Contractual Change Notes issued in 2001-02 designed to assist the immediate recovery programme, and to improve the longer-term performance of NICO.	The Inland Revenue has implemented a series of changes to support recovery and stabilisation.

Source: Inland Revenue

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