HM Revenue & Customs

National Insurance Fund Account

For the year ended 31 March 2013

National Insurance Fund Account 2012-13

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

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Principal Accounting Officer's Foreword

1. Introduction

The National Insurance Fund (NIF) holds the contributions of the National Insurance Scheme (which includes income from employees, employers and the self-employed, plus interest on its investments), and is used to pay for social security benefits such as state retirement pensions.

The NIF Account presents the receipts and payments for the financial year and the balance held on the National Insurance Fund at the year-end.

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

2. Basis for the preparation of the NIF Accounts

The HM Treasury accounts direction, issued under Section 161(2) of the Social Security Administration Act 1992 requires HMRC to prepare each year a statement of the transactions on the NIF. The accounts are prepared on a cash basis and all relevant accounting and disclosure requirements given in *Managing Public Money* and other guidance issued by HM Treasury is taken into account.

3. 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.

Section 161(1) of the Social Security Administration Act 1992 (as amended by the Social Security Contributions (Transfer of Functions etc) Act 1999) placed the NIF under the control and management of the Inland Revenue (now HM Revenue & Customs (HMRC)).

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 National Insurance Contributions (NICs) 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 NICs. The Social Security Act 1993 allows for money provided by Parliament to be paid into the NIF if the Treasury considers it expedient to do so to maintain the level of the Fund; the Government Actuary recommends that the balance of the Fund is greater than 16.7 per cent of benefit payments and in recent years the balance has greatly exceeded this amount so no Treasury grant has been required.

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

The Government Actuary is required under Sections 142(1), 147(2) and 150(8) on 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. 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 National Insurance Fund at least every five years. The latest quinquennial report was laid before Parliament on 30 March 2010. This showed that Fund expenditure is projected to increase from around five per cent of Gross Domestic Product (GDP) in 2008-09 to around eight per cent of GDP in 2070-71. The main reason is the ageing of the population.[1]

[1] For full report http://www.gad.gov.uk/Documents/Social%20Security/Quinquennial_Review_10-Full_Report.pdf

4. Operational responsibilities

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

The Department for Work and Pensions (DWP) has overall responsibility for the award and payment of most benefits payable from the NIF, including those relating to retirement, sickness and contribution based Jobseeker's Allowance. Entitlement to benefit is determined by the claimant satisfying qualifying conditions. For Statutory Sick Pay (SSP) and Statutory Maternity Pay (SMP), employers reduce the amount of National Insurance contribution paid to HMRC by the SSP and SMP paid out. Subsequently, DWP pays over to HMRC an amount to compensate the NIF for this shortfall in contributions.

The Department for Business, Innovation and Skills (BIS) is responsible for making Redundancy Payment Scheme awards. The Insolvency Service, an agency of BIS, handles the payment of awards and collection of receipts.

For Statutory Adoption Pay (SAP) and Statutory Paternity Pay (SPP), employers reduce the amount of National Insurance contribution paid to HMRC by the SAP and SPP paid out. Subsequently, BIS pays over to HMRC an amount to compensate the NIF for this shortfall in contributions.

5. Audit arrangements

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

6. 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 because the NIF has no borrowing powers. In the most recent report on the Government's benefits up-rating and contributions re-rating orders, the Government Actuary noted that the minimum balance that had been recommended for the last 15 years, to ensure a reasonable working balance is maintained, is one-sixth (16.7 per cent) of annual benefit expenditure.

The balance on the Fund at 31 March 2013 has decreased by £9,511 million to £29,083 million (31 March 2012, £38,594 million); the balance represents 33 per cent of annual benefit expenditure (31 March 2012, 47 per cent). This decrease results from the increase in benefit payments (£5,107 million) together with the effect of historically low interest rates on the NIF working balance.

The Government Actuary makes regular estimates of benefit payments and contribution receipts, making assumptions about items sensitive to change such as the level of employment and earnings.

7. Responsibilities of the Chief Executive of HM Revenue & Customs

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

Lin Homer
Principal Accounting Officer
12 December 2013

National Insurance Fund Governance Statement

This statement is given in respect of the 2012-13 Great Britain National Insurance Fund Account.

1. Purpose of the National Insurance Fund Governance Statement

1.1 This statement includes:

- The National Insurance Fund (NIF) governance arrangements;
- Details of NIF related risks and action taken to address these; and
- Details of assurance provided by other government departments involved in NIF related activities.

1.2 Specific work undertaken on behalf of the NIF forms only a small part of the whole work of HM Revenue & Customs (HMRC). HMRC has produced a full Governance Statement setting out details of its compliance with the Corporate Governance Code, the role of the Board and committees with 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 2012-13 HMRC Annual Report and Accounts.

2. Scope of responsibility

2.1 As Principal 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*.

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

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

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

3. Risks to the NIF and how these are managed

3.1 Control and management of the NIF risks are consistent with the over-arching HMRC Governance Statement (for full details see the published 2012-13 HMRC Annual Report and Accounts).

3.2 Risk management operates at all levels in HMRC including:

- Running risk management escalation/de-escalation processes, based on risk registers operated at various levels throughout the business;
- Having an independent corporate risk management team;
- Embedding risk partners within business areas by developing appropriate risk related activity; and

- Examining specific risks in greater detail with the Executive Committee (ExCom) ensuring the assessment of the risk, the mitigating actions and tolerance of the residual risk levels are appropriate.

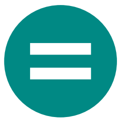
3.3 The National Insurance Product and Process Owner, a senior leadership team member of the Personal Tax Customer, Product and Process Directorate is accountable for the overall smooth running of the NICs process including the management of the National Insurance Management Board which evaluates and reports on risks related to the collection and management of NICs.

4. Risks Identified

4.1 HMRC has identified the following risks to the NIF:

Risk	Progress	Action being taken by HMRC
Increase in Class 2 debt balance That we are unable to reduce the levels of outstanding Class 2 National Insurance Contributions. Without any further intervention beyond existing activity, the debt balance could continue to rise and the cost to collection could be disproportionate. At October 2013 the debt balance had increased by £18 million in the last year to £1,002 million.	✓	• improving the bills issued for payment to make the consequences of not paying clearer • piloting the taking of direct debit mandates over the phone • coding out of small debts allows HMRC to collect debt through the PAYE tax code. Following the passing of regulations work is proceeding to code out Class 2 from April 2014 onwards • an IT enhancement in October 2013 will allow Class 2 debt not suitable for coding out to transfer from the National Payment Service (NPS) to HMRC's debt management's IT system. Ahead of this, debt with a value of £152 million (270,000 cases) has been passed to debt collection agencies (DCA) • reducing the amount of spurious debt in the figures by stripping out debt not actually due because the customer has, for example, ceased self employment • consulting with individuals, practitioners, businesses and other organisations during 2013 to find ways to improve the collection process.
Over-allocation to NHS That we are unable to correctly estimate the proportion of NIC receipts to be allocated to the NHS. In 2011-12 weaknesses were identified in three scans used in the apportionment of National Insurance Contributions between the GB and NHS. The issue does not affect the total funding available to GB NHS (refer to note 2 of the accounts for further details).	✓	• HMRC has reviewed the scans and identified solutions • an accounting adjustment will be made to correct the over allocation of NIF funds to NHS.
Data management and control That we do not adequately monitor Other Government Departments (OGD's) access to HMRC data; specifically access to the HMRC NPS system.	New risk	• refreshing the Memorandum of Understanding between HMRC and DWP (definition of how OGDs must manage access to HMRC data) • implementing improved governance, defining clear roles and responsibilities • regularly reviewing with OGDs to ensure access controls are being maintained and assured.

4.2 A letter of assurance has been received from DWP that has been approved by its Audit Committee. It contains details about its capacity to handle risk and its risk control framework. The letter provides details of significant risks, which are summarised below.

Risk	Progress	Action being taken by DWP
Fraud, error & debt That benefit payments could be subject to increasing levels of fraud and error. A full breakdown of fraud and error estimated over and under payments can be found in Other Financial Information section d.		DWP has: • introduced legislative changes for the new Penalties Regime from the Welfare Reform Bill; receiving Royal Assent on 8 March 2012 • introduced a programme of case cleansing; which identifies and corrects claims DWP plans to: • run further pilots to test the design process and prosecution policy covering the totality of welfare benefit fraud • use the Debt Strategy to develop an effective debt operating model that is underpinned by a professional workforce, optimal processes, IT digital services and effective partnerships with external providers Fundamental welfare reforms already underway will: • provide a more systemic way to address the fraud and error control challenge • simplify the rules • assist compliance for both claimants and staff by exploiting new IT • all of the reforms underway will enable better links with other sources of data / intelligence to identify and manage risks.
Security of information The need to protect the sensitive personal information necessary to process benefit payments accurately, while also making efficient use of that data.		• DWP's information security risk appetite remains low; DWP continues to operate with some known control weaknesses, mainly reflecting the longstanding weaknesses in its older IT systems (not easily remedied) • DWP is taking action to address some weaknesses, but is managing the impacts based on cost and the timetable for other priorities, in each case taking action to mitigate, rather than eliminate associated risks. Despite these weaknesses DWP has experienced no major information-related incidents • DWP's risk appetite, and the information assurance maturity level it operates to, will be regularly reviewed.
Capacity and capability DWP's capacity and capability to transform safely and at pace in order to deliver the large programme of fundamental welfare reforms, which will assist in controlling both of the risks mentioned above.	New risk	• DWP has delivered each step or each reform safely from the claimant and consumer view point • Is taking steps to efficiently build its ability to design, introduce truly digital services and build stronger commercial skills given that several key services are provided under contract.
Universal Credit The size and complexity has stretched DWP's capacity and capability. If not delivered to quality there may be a future impact on the ability to control effectively risks to the NIF fund such as fraud and error and security of information	New risk	To address this DWP has implemented, or is in the process of implementing, a number of recommendations from a variety of sources. These include improvements to governance, programme management, assurance of the programme; bringing in clear and risk based controls and a review of the IT platform and plans for roll out (which confirmed the substantial utility and value of the IT already in use in the pathfinder areas).

Risk	Progress	Action being taken by DWP
Work Capability Assessments Improving the number and quality of Work Capability Assessments completed by Atos Healthcare.	=	DWP has: • Instructed Atos Healthcare to implement a quality improvement plan; • Obtained independent advice in relation to strengthening quality assurance processes; • Begun procurement for additional providers to increase capacity whilst ensuring a continuing focus on quality.

4.3 A letter of assurance has been received from the Department for Business, Innovation and Skills (BIS) that has been approved by its Audit Committee and contains details about its significant risks. The letter gives assurances that there were no significant risks that impact on the NIF.

5. Review of effectiveness

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

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

5.2 Taking all of these into account, as well as observations from regular meetings of ExCom, ExCom (Performance) Committee and the Audit and Risk Committee, the Director of Internal Audit and from the NAO, I am confident that the risks related to NIF are being identified and actively managed. The risks apply to both the Great Britain and Northern Ireland Funds, and numbers of items and monetary amounts quoted are the total impact across both Funds (the way the NIF is administered makes it difficult to disaggregate the required information so that it relates solely to Great Britain or Northern Ireland).

6. Conclusion

6.1 Based on the review I have outlined above I conclude that there is an effective system of governance, risk management and internal control that supports the Fund's aims and objectives. There is still work to do in strengthening processes on the HMRC side and for DWP to deal with the risks they have highlighted in their letter of assurance.

Lin Homer
Principal Accounting Officer
12 December 2013

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

I certify that I have audited the financial statements of the Great Britain National Insurance Fund for the year ended 31 March 2013 under the Social Security Administration Act 1992. The financial statements comprise the Receipts and Payments Account (including the Statement of Balances) and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Accounting Officer and auditor

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

Scope of the audit of the financial statements

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

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

Opinion on regularity

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

Opinion on financial statements

In my opinion:

- the financial statements properly present the receipts and payments of the Great Britain National Insurance Fund for the year ended 31 March 2013; and
- the financial statements have been properly prepared in accordance with Section 161(2) of the Social Security Administration Act 1992 and HM Treasury directions issued thereunder.

Opinion on other matters

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

Matters on which I report by exception

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

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

Report

I have no observations to make on these financial statements.

Amyas C E Morse
Comptroller and Auditor General

16 December 2013

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

Receipts and Payments Account

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

For the year ended 31 March	Notes	2013 £000	2012 £000
Receipts			
National Insurance Contributions	2	**79,119,934**	78,423,776
Compensation for statutory pay recoveries	3	**2,559,760**	3,008,707
Income from investment account	4	**161,550**	188,825
State scheme premiums	5	**30,861**	36,733
Redundancy receipts	7	**38,320**	49,274
Other receipts	6	**36,164**	46,401
		81,946,589	81,753,716
Less			
Payments			
Benefit payments	8	**87,464,810**	82,357,733
Personal pensions	9	**2,124,560**	2,139,042
Administrative costs	10	**916,875**	1,125,019
Redundancy payments	7	**453,577**	406,631
Transfers to Northern Ireland NIF	11	**334,000**	145,000
Other payments	12	**163,730**	150,277
		91,457,552	86,323,702
Excess of payments over receipts		**(9,510,963)**	(4,569,986)

Statement of balances

As at 31 March	Notes	2013 £000	2012 £000
Opening balance		**38,593,953**	43,163,939
Less excess of payments over receipts		**(9,510,963)**	(4,569,986)
Closing balance	13	**29,082,990**	38,593,953

Lin Homer
Principal Accounting Officer
12 December 2013

The notes on pages 12 to 25 form part of these accounts.

Notes to the Account

Notes to the financial statements provide additional information required by statute and accounting standards 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 cash basis, in a form directed by HM Treasury, shown as an annex to this account and the policies outlined below.

1.2 Net accounting

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

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

1.3 Receipts Recognition

Use of estimates

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

National Insurance Contributions

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

The contributions are collected and administered on a UK-wide basis for Great Britain and Northern Ireland and the Department is required to allocate the total contributions between the two funds. A scan of the National Insurance and Pay-As-You-Earn Service (NPS) is used to extract postcode data of taxpayers to estimate the ratio of individuals living in each territory who have made National Insurance Contributions. The Department then applies this ratio, to the nearest whole number, to the UK-wide receipts figures to split the contributions between the two Funds.

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

Employers are responsible for calculating their own and their employees' contributions. National Insurance records are subject to examination by HMRC. These checks and other checks on contributors may result in additional receipts or repayments in future years in respect of contribution liabilities for 2012-13.

Class 1 National Insurance Contributions

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

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

Class 1A National Insurance Contributions

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

Class 4 National Insurance Contributions

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

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

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

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

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

1.4 Payments recognition

Benefit payments

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

Personal pensions

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

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

Administrative costs

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

2. National Insurance Contributions

For the year ended 31 March	Notes	2013 £000	2012 £000
Contributions			
Class 1 (employed earner)	i	**75,873,021**	75,528,875
Class 1A & 1B	ii	**1,047,965**	987,226
Class 2 (self-employed flat rate)	iii	**341,361**	229,516
Class 3 (voluntary contributions)	iv	**40,274**	48,876
Class 4 (self-employed earnings related)	v	**1,817,313**	1,629,283
		79,119,934	78,423,776

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

i **Class 1 contributions** comprise two parts: primary contributions payable by employees and secondary contributions payable by employers.

ii **Class 1A contributions** are paid by employers on most benefits provided to employees. Employers pay Class 1A contributions to HMRC via the Pay-As-You-Earn (PAYE) scheme with their Class 1 contributions.

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

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

iii **Class 2** self-employed persons pay flat rate weekly contributions.

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

v **Class 4** self-employed persons pay earnings related contributions.

NHS allocation

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

The NHS allocation is paid over by HMRC to the NHS before any contributions are paid into the NIF and so the figures above are shown net of this NHS allocation. The NHS allocation was £20.5 billion in 2012-13 (£20.6 billion in 2011-12) and forms part of the total NHS funding.

A misinterpretation of data used in apportioning National Insurance Contributions between the NIF and NHS meant the allocation to the GB NHS was overestimated between 2000-01 and 2009-10. This has not affected the total funding available to the GB NHS during this same period, as the aggregate amount (NI funds plus voted funds) is a fixed sum, the voted amount being adjusted according to the level of NI funding.

The over allocation to the GB NHS is estimated at £331 million in total between 2000-01 and 2009-10, representing 0.2 per cent of the total GB NHS allocation over the same period. The GB NIF has been underfunded by the same estimated amount and the correction will take place during 2013-14.

The estimated overpayment has reduced compared to the amount reported in the 2011-12 accounts. This is because corrective action taken by HMRC on the scans used as part of the allocation process means that the apportionment will have been made correctly for the years 2010-11 and 2011-12.

3. Compensation for statutory pay recoveries

For the year ended 31 March	Notes	2013 £000	2012 £000
Statutory Sick & Statutory Maternity pay	i	**2,447,000**	2,955,972
Statutory Adoption & Statutory Paternity pay	ii	**112,760**	52,735
		2,559,760	3,008,707

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

i Statutory Sick and Statutory Maternity pay recoveries are paid over by DWP.

ii Statutory Adoption and Statutory Paternity pay recoveries are paid over by BIS. In 2012-13 the timing of the payment was changed to be in advance rather than in arrears and this has resulted in compensation for both 2011-12 and 2012-13 being included in the 2012-13 figures above.

4. Income from Investment Account

For the year ended 31 March	2013 £000	2012 £000
Interest received	**161,550**	188,825

Interest is received on the Fund surplus, placed on deposit by the Commissioners for the Reduction of National Debt (CRND). During the year the value of the Investment Account decreased from £38.1 billion at 31 March 2012 to £28.1 billion at 31 March 2013 (Note 13) with a consequent impact on interest received during 2012-13. The average interest rate received during 2012-13 was 0.5 per cent (2011-12, 0.5 per cent).

5. State Scheme Premiums

For the year ended 31 March	2013 £000	2012 £000
State Scheme Premiums	**30,861**	36,733

State Scheme Premiums are payable to the Fund in respect of employed persons who cease to be covered, in certain specified circumstances, by a contracted-out pension scheme. The premiums buy back the persons' additional pension entitlement in the state additional pension scheme. Total receipts are net of refunds of £3.7 million (2011-12 £7 million).

In October 1992, the Government decided that people whose pension entitlement was no longer covered by specified Maxwell pension schemes could be brought back into the State Earnings-Related Pension Scheme

(SERPS). Individuals were not required to pay premiums for the years they were contracted out of SERPS but HMRC is seeking recovery of these premiums from the Maxwell pension schemes. A total of £65 million has been recovered (£4.6 million in 2012-13). Most actions are now settled and the trustees are resolving outstanding legal issues and moving to fully secure the benefits of their members. It is expected that eventually around £97 million of the total £128.9 million liability will be recovered, based on future scheduled recoveries from the pension schemes.

6. Other receipts

For the year ended 31 March	Notes	2013 £000	2012 £000
Recoveries of compensation payments	i	**34,179**	41,770
Unemployment benefit recoveries	ii	**1,985**	4,631
		36,164	46,401

i These amounts relate to recoveries from insurers and other bodies in respect of compensation claims for damages where NIF benefits had already been paid to individual claimants by DWP.

ii Unemployment Benefit was replaced by Contributory Jobseeker's Allowance in October 1996 and these are retrospective recoveries. These recoveries are all reimbursements to the NIF from European countries for their citizens, resident in the UK, who have been paid unemployment benefit in the UK.

7. Redundancy payments and receipts

For the year ended 31 March	Notes	2013 £000	2012 £000
Redundancy payments	i	**453,577**	406,631
Redundancy receipts	ii	**(38,320)**	(49,274)
		415,257	357,357

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

ii The receipts represent amounts recovered from employers.

8. Benefit payments

For the year ended 31 March	Notes	2013 £000	2012 £000
State pension	i	**80,008,745**	74,110,982
Incapacity Benefit	ii	**3,355,345**	4,981,255
Employment & Support Allowance	iii	**2,312,374**	1,410,890
Jobseeker's Allowance (contributory)	iv	**669,184**	757,582
Bereavement benefits	v	**598,431**	605,011
Maternity Allowance	vi	**395,522**	366,968
Christmas bonus	vii	**123,308**	123,203
Guardian's Allowance and Child's Special Allowance	viii	**1,901**	1,842
		87,464,810	82,357,733

i. State pension is for people who have reached state pension age and is based on National Insurance Contributions paid, treated as paid or credited. It is made up of different elements, the main parts of which are the basic state pension and the additional state pension (this used to be known as SERPS but since 2002 has been known as State Second Pension (S2P)). The Pensions Bill 2013 proposes that basic state pension and S2P are replaced with a single tier state pension from 2016.

The state pension age for women is in the process of increasing from 60 to 65 to equalise with men; and state pension age for both men and women will then increase from 65 to 66.

- Women's state pension age will reach 65 by November 2018.
- The rise from 65 for both men and women will begin in December 2018 and reach 66 by October 2020.
- Under provisions contained in the Pensions Bill 2013, it is proposed that state pension age will increase from 66 to 67 between 2026 and 2028.

ii. Incapacity Benefit is paid at three different rates, dependent on age and term of incapacity, to a person who has paid National Insurance Contributions and whose Statutory Sick Pay has ended or is not applicable. It has been replaced by Employment and Support Allowance (ESA) (see note iii) for new claims from October 2008.

iii. As part of the government's welfare reform programme, from 27 October 2008, DWP replaced the existing range of incapacity benefits (Incapacity Benefit, Severe Disablement Allowance and Income Support where paid on the grounds of incapacity/disability) for new claimants with ESA. It is payable to people who have paid National Insurance Contributions and makes no payments to partners or dependants. The benefit was being introduced to improve employment opportunities for those with a health condition or disability which limits their capacity for work. From April 2011, DWP began the nationwide reassessment of Incapacity Benefit cases to see if they are eligible for ESA or fit for work. The exercise was planned to be completed in around three years.

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

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

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

vii. Christmas bonus is a tax free payment of £10 paid before Christmas to anyone who is in receipt of one or more qualifying benefits.

viii. Guardian's Allowance and Child's Special Allowance are payable to people bringing up a child because one or both of the parents has died.

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

State pension and bereavement benefits include payments to Northern Ireland pensioners living abroad as well as in Great Britain. For administrative convenience these payments are made by DWP with the cost for Northern Ireland being borne by the Great Britain NIF. It is not possible to provide an accurate figure for Northern Ireland's share of the expenditure on overseas pensions but an estimate of the amount involved in 2012-13 is £5.6 million (2011-12: £5.8 million).

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

9. Personal Pensions

For the year ended 31 March	2013 £000	2012 £000
Personal Pensions	**2,124,560**	2,139,042

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

The contributions, for 1987-88 and later tax years are based on earnings between the lower and upper earnings level and the age of the member. Similarly, from April 1997, members of contracted out money purchase schemes are entitled to a payment of age related rebate based on the age of the member and calculated using the earnings on which the contracted out rate of National Insurance Contributions have been paid.

10. Administrative costs

For the year ended 31 March	Notes	2013 £000	2012 £000
Department for Work & Pensions	i	**706,107**	821,152
HM Revenue & Customs	ii	**166,995**	248,714
Tribunals Service (Social Security & Child Support Appeals)	iii	**32,046**	42,728
Department for Business, Innovation and Skills	iv	**8,138**	9,200
Tribunals Service (The Commissioners Office)	v	**1,257**	1,392
Office of National Statistics	vi	**838**	816
Government Actuary's Department	vii	**980**	526
National Audit Office – Audit Fees	viii	**395**	361
Debt Management Office	ix	**78**	80
Bank charges	x	**1**	4
Scottish Executive Justice Department	xi	**40**	46
		916,875	1,125,019

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

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

ii For the collection of National Insurance Contributions, maintenance of individual records and associated tasks.

iii For administration, organisation and holding of appeals in respect of National Insurance related benefits arising from decisions made by the Department for Work & Pensions.

iv For the administration of the Redundancy Payments Scheme as required under the Employment Rights Act 1996, including the cost of disputes referred to the Employment Tribunals Service.

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

vi For services in relation to the administration of the National Insurance Scheme including the issue of certificates, including replacements, prosecutions and deaths, processing of death registration, collation and issue of widow cards, processing of verifications and marriage validity checks.

vii For actuarial services relating to the NIF.

viii For the audit of the 2011-12 NIF Account.

ix For costs relating to the investment of NIF monies paid over to the Commissioners for the Reduction of National Debt in pursuance of Section 161(3) of the Social Security Administration Act 1992.

x Bank charges incurred on the GB NIF bank account held with the Government Banking Services.

xi For general costs in relation to the administration of the National Insurance Scheme i.e. consider and issue decisions held on applications and appeals in relation to National Insurance benefits and medical appeal tribunals in Scotland.

11. Transfers to Northern Ireland NIF

For the year ended 31 March	2013 £000	2012 £000
Payments to Northern Ireland NIF	**334,000**	145,000

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

These adjustments are consequential upon the arrangements made for co-ordinating the systems of insurance established in the two countries to ensure that they operate, to such an extent as is provided in those arrangements, as a single system. The balances in the two funds are adjusted in proportion to the population of working age as established by the 2001 Census returns in the two countries. Payments are made on a provisional basis and are adjusted when end of year balances in the two funds are available.

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

The transfer is based on the fund balances for GB and Northern Ireland which themselves are based on the differences between two large numbers (receipts and expenditure) and therefore the results are subject to considerable variability year on year.

12. Other payments

For the year ended 31 March	Notes	2013 £000	2012 £000
Payments to Isle of Man	i	**42,502**	44,059
SSP/SMP/SPP/SAP payments	ii	**5,854**	6,635
Incapacity Benefit tax payments	iii	**609**	962
State pension deferred lump sum tax payments	iv	**114,765**	98,621
		163,730	150,277

i. Payments to the Isle of Man (Manx Insurance Fund) relate to net settlements in respect of insured people who have paid National Insurance Contributions into one Fund but have received benefit from the other Fund.

ii. Payments made to people where their employer has failed to make the payments required under legislation.

iii. Incapacity Benefit is assessed as taxable income. Tax is deducted from Incapacity Benefit every time a payment is made to a customer and paid to HMRC monthly in arrears.

iv. 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.

13. Closing balance

As at 31 March	Notes	2013 £000	2012 £000
Monies held by the CRND[2]	i	28,085,535	38,136,266
Funds held at bank (incl. uncleared payments)		(161,077)	(4,551)
Other balances	ii	1,158,532	462,238
	iii	29,082,990	38,593,953

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

ii. Other balances represent sums due to government departments and overseas administrations in respect of the operation of the NIF.

iii. Had the overfunding position of the NHS allocation explained in note 2 not occurred, the balance of the fund would have stood at an estimated £29,414 million.

Other Financial Information

The information below on losses, redundancy payments, special payments and fraud and error in benefit payments is not included in the Receipts and Payment Account, which is produced on a cash basis. Details are included below to provide further information on the Fund for the reader of the accounts. Full details can be found in the published annual report and accounts for HMRC and DWP.

a. Losses

For the year ended 31 March	Notes	2013		2012	
		Amount £000	No. of cases	Amount £000	No. of cases
Contribution losses	i	575,523		505,737	
Benefits losses	ii	65,576	278,242	152,148	261,802
Redundancy losses	iii	406,393		357,357	
		1,047,492		1,015,242	

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

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

There was 1 write-off relating to Insolvency over £10 million for National Insurance, which including interest, surcharge and penalties totalled £23.8 million.

[2] Commissioners for the Reduction of National Debt

ii. The types of benefit losses arising from benefit overpayments are as follows:

General losses

General losses are mainly due to non recoverable overpayments of benefit which DWP does not have the legal right to pursue or cannot enforce repayment. These are written off during the year where monies cannot be recovered.

Customer fraud

Customer fraud is recorded as a loss following exhaustion of debt recovery processes.

State pension reduction

In 2000, part time working customers were given the opportunity to apply for backdated membership to their employer's occupational pension scheme. If successful, the impact on the individual customer's state pension would generally be a reduction, resulting in overpayment. The amount of state pension overpayment, after offsetting against a refund of NI contributions, will not have to be repaid and will therefore be written off. Around 2,500 customers at present have taken up this option.

Child Poverty Action Group judicial review

On 25 October 2010, the Supreme Court upheld the judgement that DWP has no right to recover overpayments arising due to official error, where the error arose pursuant to an award of benefit.

DWP ceased deductions in all cases where recovery was ongoing and refunds were made where appropriate. The value of refunds in relation to the remaining cases in 2012-13 was £1.3 million. This exercise was completed in July 2012.

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

b. Redundancy payments and receipts (debt and adjustments)

For the year ended 31 March	2013 £000	2012 £000
Outstanding debt as at 1 April	**157,808**	153,943
Plus: Redundancy payments	**453,577**	406,631
Less: Redundancy receipts	**(38,320)**	(49,274)
Less: Debt adjustment	**(406,393)**	(353,492)
Outstanding debt as at 31 March	**166,672**	157,808

The total debt estimated as recoverable owed by employers at 31 March 2013 was £167 million and is disclosed in the Department for Business, Innovation and Skills (BIS) Resource Account. The debt adjustment total includes redundancy losses, as disclosed in section A, with the remainder relating to the in-year movement in the Insolvency Services' current best estimate of the amount of debt that is likely to be irrecoverable.

The debt adjustment and outstanding debt do not form part of the accounts and are shown here solely to provide additional information. Further detail can be found in the BIS accounts for 2012-13.

c. Special payments

For the year ended 31 March	2013		2012	
	£000	No. of cases	£000	No. of cases
Wrongly advised benefit	**938**	**2,915**	11,983	25,042

These are payments made to customers for loss of statutory entitlement to a benefit (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.

d. 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 97 per cent of total benefit expenditure and over 99 per cent of total National Insurance benefit expenditure.

Overall performance analysis

The estimated level of overpayments from the NIF due to fraud and error decreased from £340 million (2011-12) to £310 million in 2012-13, with the proportion remaining the same at 0.4 per cent of total NIF benefit expenditure.

The estimated level of underpayments increased from £180 million (2011-12) to £240 million (2012-13). The proportion also increased from 0.2 per cent of total NIF benefit expenditure in 2011-12 to 0.3 per cent in 2012-13.

The overall changes are not statistically significant and are likely to be due to sampling variance rather than real change over time. More details can be found in *Fraud and Error in the Benefit System: 2012-13 Estimates (Revised edition)*. In context, the total NIF benefit expenditure of £87,465 million out of which an estimated £310 million has been overpaid is small compared to DWP's total benefit expenditure of £166.8 billion of which an estimated £3.5 billion (2.1 per cent) was overpaid due to fraud and error (2012-13).

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

Figure 1: Estimated levels of overpayments due to fraud and error[3]

	Expenditure		Overpayments			
	2012-13	2011-12	2012-13		2011-12	
Benefit	£ million	£ million	£ million	percentage of NIF benefit expenditure	£ million	percentage of NIF benefit expenditure
State pension and bereavement benefits	80,607	74,716	130	0.2	140	0.2
Incapacity Benefit	3,356	4,981	80	2.4	120	2.4
Contribution based Jobseeker's Allowance	669	758	30	4.2	30	4.6
Other (unreviewed benefits)	2,833	1,903	70	2.5	40	2.4
	87,465	82,358	310	0.4	340	0.4

Source: Department for Work and Pensions (DWP) – DWP National Statistics: Fraud and Error in the Benefit System (2011-12 final estimates and 2012-13 preliminary estimates).

Figure 2: Estimated levels of underpayments due to fraud and error[3]

	Expenditure		Underpayments			
	2012-13	2011-12	2012-13		2011-12	
Benefit	£ million	£ million	£ million	percentage of NIF benefit expenditure	£ million	percentage of NIF benefit expenditure
State pension and bereavement benefits	80,607	74,716	180	0.2	130	0.2
Incapacity Benefit	3,356	4,981	20	0.7	30	0.7
Contribution based Jobseeker's Allowance	669	758	0	0.3	0	0.3
Other (unreviewed benefits)	2,833	1,903	30	1.1	10	0.7
	87,465	82,358	240	0.3	180	0.2

Source: Department for Work and Pensions (DWP) – DWP National Statistics: Fraud and Error in the Benefit System (2011-12 final estimates and 2012-13 preliminary estimates).

[3] Notes to figures 1 and 2:

I. The above tables (figures 1 & 2) are based on DWP's estimates. DWP reviews a selection of benefits for fraud and error each year. Estimates for other benefits are derived from historic review exercises, or from proxies. Please refer to the latest National Statistics publication for further details. The sampling approach introduces statistical uncertainty into the figures. DWP has prepared the estimates to a 95 per cent confidence level. DWP estimates for 2012-13 that the levels of overpayment lie in the range from £240 million to £470 million; while the corresponding range for underpayments is £110 million and £430 million.

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

III. The percentages used to calculate the estimated monetary value of fraud and error against the provided NIF expenditures for ESA contributory and JSA contributory were taken from the combined income and contributory results for the respective ESA and JSA benefits.

IV. Further information on the DWP's estimation strategy can be found at http://statistics.dwp.gov.uk/asd/asd2/index.php?page=fraud_error (the latest National Statistics publication and the technical appendix document links towards the bottom of the webpage).

Ongoing action/strategy

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

The overarching fraud and error activity under the strategy includes a move to a new 'risk based' prevention approach for managing customer transactions, combining new IT and a blend of analytical/intelligence capability (Integrated Risk and Intelligence Service (IRIS)). The first stage has involved work to implement new 'pre-claim' checks to provide counter-fraud measures in line with the rollout of UC and Personal Independence Payment: the more strategic capability will be informed by the needs of UC.

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

Annex

National Insurance Account – Great Britain
Accounts Direction given by Her Majesty´s Treasury

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

2. HM Revenue & Customs has a duty to prepare each year a statement of the transactions on the National Insurance Fund of Great Britain. For the year ended 31 March 2010, and all subsequent years until this direction is amended, this statement shall comprise:

   a) a foreword;

   b) an account of receipts and payments;

   c) a statement of balances,

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

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

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

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

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

7. This direction supersedes the Accounts Direction dated 10 February 2006.

Chris Wobschall
Head of Assurance and Financial Reporting Policy, HM Treasury
12 October 2010

Schedule

Format of Account and Disclosure requirements

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

    a) statutory background;

    b) operational responsibilities;

    c) financial performance;

    d) audit arrangements; and

    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; and

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

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