

National Insurance Administration in the UK

1. This paper describes the UK National Insurance System and the links to the payment of State Retirement Pension. It covers the main features of the system; the organisation and management of work and how this has evolved over time; controls and checks within the system; and the main challenges faced in ensuring accurate information is recorded to ultimately ensure that the right amount of pension is paid.

Overview of the National Insurance System

2. The name national insurance was adopted to distinguish it from general taxation such as income tax, and the first compulsory UK National Insurance (NI) Scheme run by the state dates back to 1911.

3. The current NI Scheme was established on 5 July 1948 to provide unemployment benefit, sickness benefit, retirement pensions, widow's benefits and other benefits to individuals who meet the prescribed contribution and other qualifying conditions.

4. Features of the scheme included:

- no means testing of benefits - the amount of benefit paid in respect of any claim by a claimant was the same whether the claimant was rich or poor, depending only on the completeness of the claimant's contribution record;
- a cap on the system's scope for redistribution. Above a certain level of earnings or profits no extra contributions were payable;
- the payment of a contribution by an employer for each employee comparable to that paid by the employee

5. Benefits due under the NI Scheme are payable out of the National Insurance Fund (NIF). The funds required for meeting the cost of these benefits are provided from National Insurance Contributions (NICs) payable by employees, employers and the self employed.

6. Her Majesty's Revenue and Customs (HMRC) is responsible for collecting NICs and recording them against individuals' NI records (which determine entitlement to certain social security benefits payable from the NIF).

7. NICs is the second largest source of UK government income. In 2008/09 £98 Billion of NICs revenue was collected.

National Insurance Contributions and State Pension

8. 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 unemployment. Entitlement to benefit is determined by the claimant satisfying qualifying conditions.

9. State Pension in the UK has two parts - Basic Pension and Additional Pension. To be entitled to Basic Pension a person needs to have paid or been credited with a minimum level of NICs in a year to make that a "Qualifying Year". The number of Qualifying Years determines the level of pension paid. The amount of Additional Pension a person receives is based how much a person has earned and how much NICs they have paid.

10. The number of qualifying years needed to receive a full basic State Pension by someone who reaches State Pension age before 6 April 2010 is generally 44 years for a man and 39 for a woman

11. Legislation introduced in 2007 and 2008 changed the rules. For anyone reaching State Pension age on or after 6 April 2010, the number of qualifying years needed for a full basic State Pension will be 30. The new rule applies to both men and women. (Although only 30 qualifying years are needed for Basic Pension there is still a liability to pay NICs for other years if a person is employed or self employed, and in the case of an employee the NICs paid will contribute to Additional Pension.)

12. At May 2009 there were 12.3 Million people in the UK in receipt of State Pension.

National Insurance Fund

13. The income of the NIF consists of contributions from employees, employers and the self-employed, plus interest on its investments. NICs contribute to the financing of the UK National Health Service, but contributions are paid into the NIF by the Secretary of State net of moneys allocated to the NHS. Thus the NIF does not hold money directed for the general provision of health services in the UK. The government determines the total allocation for health each year and the allocation from each class of contribution is calculated by the Government Actuary. Levels of benefit and NICs are also set following advice of the Government Actuary.

14. The NI 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.

15. In 2008-09, receipts amounting to £78.2 Billion were paid into the Fund and payments of £75.5 Billion were paid out of it At March 2009 the balance of the fund was £50.6 Billion equivalent to some 71.8% of annual benefit expenditure.

16. The UK National Audit Office (NAO) audit the accounts of all government departments and agencies, and report to Parliament on the economy, efficiency and effectiveness with which these bodies have used public money

Types of National Insurance Contributions and methods of payment

17. From 1948 until 1975 employers and employees, and the self employed, paid contributions at a weekly flat rate by purchasing stamps and affixing these to a NI Card. This was submitted once a year to the then equivalent of the current Department of Work and Pensions to record details of the stamps on an individual's NI Record.

18. In 1975 the NI scheme was fundamentally reformed for employers and employees, and the use of Stamped Cards was abolished. Their NICs were collected along with employees' income tax by an employer through what is known as Pay as You Earn (PAYE) system.

19. There are six different types of NICs but only three of these count towards benefit entitlement. The type paid depends on whether a person is an employee, self-employed or paying contributions voluntarily to make up gaps in their contribution record. Employers also pay NICs for each employee.

Employees

20. The employer deducts earnings related NICs from employees' earnings. They are payable at a certain percentage of salary but different percentages apply depending on how much is earned. The employer must pay NICs to HMRC either monthly or quarterly together with:

- the employer's portion of contributions they have to make which is also earnings related;
- any PAYE income tax.

21. Each year an employer must file a statutory annual return (known as the Employer End of Year Return or Employers Scheme) by 19 May, comprising a summary return and individual returns in respect of each employee. Individual returns include details of the employee's pay and NICs paid. Information from these individual returns is posted to the individual's NI record by HMRC.

Self Employed

22. The self-employed pay NICs at a flat fixed rate every week and these are collected by HMRC. Payment can be made either by monthly direct debit from a bank account or the individual will be billed every 13 weeks. Once received, payments are recorded on the individual's NI record. (The self-employed also pay a separate profits-related category of NICs which is collected with their income tax but this element doesn't count towards benefit entitlement.)

Voluntary NICs

23. Voluntary contributions may be paid if someone does not have to pay any compulsory contributions - for example, if they aren't working or claiming benefit. These are paid to fill gaps in their NI record in order to improve the amount of basic State Pension. Payment can be made in the same way as self-employed NICs or directly to HMRC for the full year by cheque.

Credits

24. When someone is ill or unemployed and registered as looking for work they may be awarded NI Credits to help protect their entitlement to certain benefits for example basic State Pension. They may get credits with certain benefits or payments, for example Jobseeker's Allowance, Incapacity Benefit, Carer's Allowance and Working Tax Credit.

Home Responsibilities Protection (HRP)

25. Introduced in April 1978, HRP is intended to help those people who are prevented from obtaining qualifying years for basic State Pension, because they are needed at home in a caring capacity. HRP reduces the number of qualifying tax years required to get a basic State Pension. To be eligible for HRP the person must be in receipt of certain 'passport' benefits, one of which is Child Benefit for a child under 16 years.

26. For people reaching State Pension age on or after 6 April 2010

- Home Responsibilities Protection is being replaced by the award of National Insurance Credits;
- Years of HRP between 1978 and 5 April 2010 are being converted into credits.

Contracted Out NICs

27. 'Contracting out' refers to when a person has joined a company or personal pension scheme that can be used to replace all, or part, of their additional State Pension. These schemes are an alternative to staying with the State Additional Pension. They are approved in line with Government legislation.

28. They are either run by or on behalf of an employer (company pension schemes), or Personal Pension arrangements between individuals and a pension provider (normally an insurance company). There are 5 types of contracting out and around 6,000 different schemes covering 11.3 million members.

29. There are separate rates of NICs for contracted out employees and employers.

The National Insurance Number

30. A National Insurance Number (NINO) is a unique personal reference number for each individual. It links an individual and their NI record, and is used as a reference number for DWP for social security benefits and HMRC for NICs and tax collection & tax credits. An individual should have only one NINO which remains the same throughout their life.

31. It starts as a Child Reference Number when a Child Benefit claim is made for a child after birth. This number is the same format as a NINO. When the child reaches 15 years 9 months the Child Reference Number is reclassified as a NINO and is sent to the child on a plastic card. HMRC are responsible for that process.

32. A NINO is not –

- Proof of an individual's identity;
- Proof that the individual has the right to work in the UK.

33. Adults who do not have a NINO – mainly migrant workers or students coming to the UK who were not born here – are allocated a NINO on application. This process is administered largely by DWP but there is also HMRC involvement. The need for two Departments to be involved is currently under review.

34. There are 73 Million NINOs registered on the National Insurance Recording System. The current UK population is around 60 Million. The main reasons for the differences are

- Records are kept for deceased people indefinitely;
- Records are still kept where the person has emigrated or where a migrant worker has gone home.

The National Insurance Recording System

35. From 1948 until 1975 a paper record was held for every individual NINO against which their NICs were recorded. In 1975 this process was computerised on the first National Insurance Recording System (NIRS), at the same time as the introduction of the collection of NICs along with Income Tax through PAYE. In 1997 the original NIRS was replaced with NIRS2. This was because NIRS was ageing and did not support future business and legislative changes.

36. NIRS2 was a large and complex computer system - one of the biggest IT systems in Europe - which comprised several applications. These include individual applications to access or update an individual NI record, to view employer's NI schemes, to hold details of occupational and personal pension schemes and a system for making payments for individuals within those schemes (over £3 Billion per annum).

37. A new IT system has now been introduced enhancing NIRS2 – the National Insurance and PAYE Service (NPS) - which has one single record for each individual customer containing all their NI and PAYE details. The new system is being implemented in three phases. The first upgrade was successfully delivered on schedule in June 2009. This was the biggest change to PAYE processing in 25 years

38. NPS used the NIRS2 IT platform and all of the previous separate PAYE systems that existed have been transferred onto the new system. This provides the potential for many customers to ultimately have to make only one phone call to HMRC to get all of their tax and NI issues resolved, saving them time and expense, but we still have more to do to change the services we provide to achieve this.

Administration of the UK NI System

39. Within HMRC the National Insurance Contributions Office (NICO) is responsible for the operational administration of NI. NICO is based on a single site in Newcastle upon Tyne. NI policy is determined by a group within HMRC Headquarters in London that is also responsible for PAYE Tax policy.

40. Under HMRC's business model unsolicited customer contact is channeled through a network of telephone Contact Centres. There is a specialist NI Contact Centre based on the same site as NICO but under a different management line. Strong links have been established between NICO and the NI Contact Centre.

41. HMRC carries out risk based compliance programmes through its UK wide Enforcement and Compliance network on both employers and individuals. This activity covers both Class 1 NICs and income tax. Where failures are discovered employers are required to pay the outstanding contributions due and, where appropriate, interest and penalties.

Why is NICO part of HMRC and not DWP?

42. From 1948 until 1999 management and operational responsibility for NI lay with DWP and its forerunner departments. There was a network of DWP offices which each had a NICs team as part of its organisation. This included NI Inspectors who would carry out the compliance role by visiting individuals and employers. There was also a Central Office in Newcastle which handled certain functions such as the processing of End of Year Returns.

43. In 1990 NI operations work was separated from other DWP work into a discrete management unit and an executive agency was formed – The Contributions Agency. The agency Chief Executive reported directly to ministers but also remained part of the DWP senior management team.

44. Contributions Agency was created because it had become recognised that NI work was not getting the necessary level of focus in DWP offices. When resources were stretched, as was often the case, NI staff were being deployed to benefit work at the expense of NI.

45. Once the Contributions Agency was introduced there was a much stronger efficiency focus on NI work. It was identified there were significant economies of scale to be gained by centralising clerical work, and in the early 1990s all work which didn't need face to face contact with customers was centralised in Newcastle. A Field Operations network consisting of NI Inspectors and their managers dealt with the remaining face to face work.

46. Ever since the changes to the NI scheme in 1975 NICs and tax collected for employees have been recorded on the same form which employers submit at the end of the year. Since 1975 Inland Revenue (now HMRC) have also been involved in the process of collecting NI through their compliance visits, as generally if there were tax arrears owed by an employer, there would also be NI arrears owed as NI and tax were due to be paid together. So two departments could be involved in collecting and inspecting NICs from the same employer at different times.

47. In the mid 1990s the UK government had a strong push on reducing burdens on business and a joint working programme was introduced between Contributions Agency and Inland Revenue. This focused on areas where both departments were interacting with employers and customers, such as compliance inspections and provision of advice and guidance, and a number of improvements were made. However, momentum gathered as a result of this

programme to go further and merge NI work with taxes work, and the government decided to make NI the responsibility of Inland Revenue.

48. In 1999 Contributions agency was abolished and the 8,500 staff involved in NI work were transferred to Inland Revenue. What was Newcastle Central Office became NICO and the Field Operations were subsumed into the existing Inland Revenue Compliance network. This created further economies of scale and led to employers being contacted by only one department, resulting in increased efficiency in collecting and recording NICs, through for example, a single officer covering all NICs and tax issues at a Compliance visit,

NICO

49. NICO maintains and safeguards more than 73 million NI records. The figures below give an idea of the scale of NICO business.

- 1.4 million new customers registered annually with accounts;
- 40 million accounts are updated annually;
- 3 million of these are self-employed customer accounts;
- 700,000 register as self-employed annually;
- 2 million Employers submit over 55 million End of Year (P14) returns for their employees;
- Annual pension rebates of £3 billion to pensions providers.

50. NICO deals with refunds, underpayments and resolves queries with NI records arising from validation checks. NICO also collects Class 2 contributions and Class 3 voluntary contributions and administers certain NI credits.

51. It has 3,400 staff and an annual budget of £70 Million. NICO work is organised within 3 Business Groups covering services to Individuals, Employers and Businesses, and the Pensions Industry.

52. Interaction with employers on NI matters is centralised in NICO. But at the moment setting up and maintaining PAYE schemes, and addressing questions and issues on the tax collected and paid by employers for their employees is dealt with in a network of HMRC offices across the UK. A decision has just been made to centralise all of this tax related employer work in Newcastle by March 2011 under the management of the NICO Director. This will provide the opportunity to further exploit the benefits of collecting NI and tax together by reviewing both processes from a customer perspective to identify improvements.

53. The activities NICO undertakes are described further below in the sections on Improvements, Controls and Checks, and Challenges.

Organisational Transformation in HMRC and NICO

54. Between 2004 and 2008 HMRC faced a significant funding challenge with a requirement to reduce staffing by 12,500 people. There were no major IT enablers for this, therefore organisational transformation was necessary to create the capability to continue the business with such a reduction in people.

55. HMRC decided to introduce Lean methodology as a key element of transformation in 2005. As Japanese delegates in particular will know, Lean originated from the automotive industry in Japan, specifically from Toyota. It's application in HMRC can be summarized as

- Redesigning service delivery processes to eliminate waste and variability and maximise flexibility. This results in improved productivity, quality and reduced lead time;
- Changing management processes to create the appropriate leadership infrastructure to sustain improvements;
- Changing mindsets and behaviours of leaders and front line staff to support the new systems and deliver continuous improvement.

56. NICO now fully operates under Lean methodology and is the first major business area in HMRC to have all staff working in a Lean environment. This includes support staff as well as those involved in transactional work with customers. NICO is classed as a Model Office for HMRC's transformation and improvement programme, and has hosted over 1,000 visitors in the last 15 months from other parts of HMRC, other UK government departments and public bodies, and private sector bodies such as British Airways. The purpose of these visits is to share what has been learned by NICO in introducing Lean on such a scale and in a relatively short time, in a service environment as opposed to its traditional application in a manufacturing environment,

57. The introduction of Lean has enabled NICO to reduce staffing by over 500 people (around 15%) in the last 3 years, whilst improving performance, with productivity increases averaging 15% to 30% in the main processes, increased quality levels and reduced customer waiting times.

58. There is a HMRC wide transformation programme "PaceSetter" in which Lean is a key element and this is currently being rolled out across the whole organisation. A number of other UK government departments (for example DWP, the Ministry of Justice) have also adopted Lean to improve services.

59. NICO was awarded UK government Customer Service Excellence Accreditation in July 2009. This is the new UK nationally recognised standard for public sector bodies which requires the organisation to be rigorously judged by an independently appointed assessor against 57 categories of service. It tests in great depth areas that research has indicated are a priority for customers, with particular focus on delivery, timeliness, information, professionalism and staff attitude. Emphasis is also placed on developing customer insight, understanding the user's experience and robust measurement of service satisfaction.

Improvements in Processing of NICs

60. There has been a significant shift over recent years from paper to electronic processing. Traditionally the majority of employers submitted their End of Year Returns by Paper or Magnetic Media, with a smaller number choosing to submit electronically by Electronic Data Interchange (EDI) or Internet.

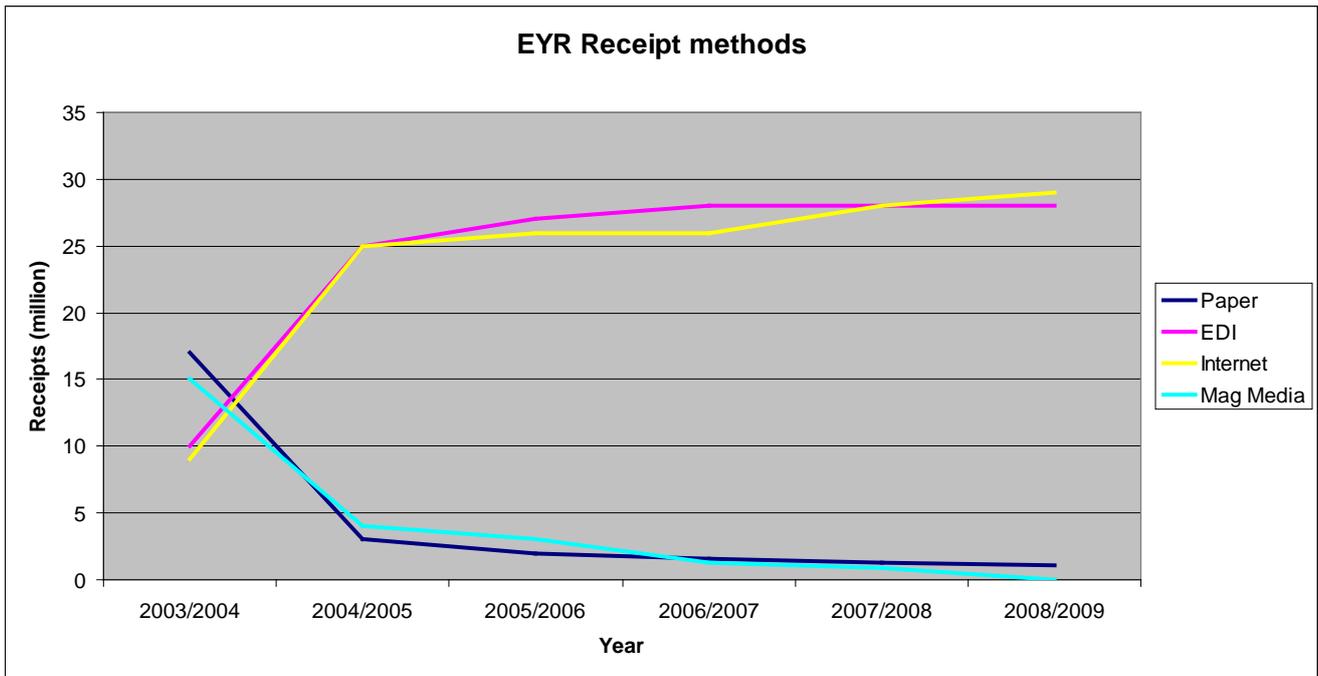
61. The UK government appointed Lord Carter in 2003 to carry out a review of the process and make recommendations for improvement. His main recommendations were to:

- Increase the use of HMRC's online services
- Promote earlier filing of Employers' End of Year Returns
- By 2012, aim for universal electronic filing of tax returns from businesses and IT literate individuals

62. Following these recommendations, electronic filing was made mandatory for all large employers (250 or more employees) with effect from the 2004/05 Tax Year. This was followed by medium employers (between 50 and 250 employees) having to file electronically from the 2005/06 Tax Year and small employers (less than 50 employees) by 2010.

63. The shift in methods of submission of end of year returns is illustrated below (figures are millions)–

Year	Paper	EDI	Internet	Mag Media
2003/2004	17	10	9	15
2004/2005	3	25	25	4
2005/2006	2	27	26	3
2006/2007	1.6	28	26	1.3
2007/2008	1.3	28	28	0.9
2008/2009	1.1	28	29	0.007



Controls and Checks in National Insurance Administration

64. Para 41 sets out the high level compliance approach which inspects whether an Employer is paying the right amount of NICs for employees. This is one element of control but there are a range of other controls and validations as part of the NICs collecting and recording process.

65. NPS performs automatic checks. These are first applied at Employer End of Year Return level (Para 21) when the End of Year Return is submitted, and NPS will reject information on some End of Year Returns or Schemes for a variety of reasons.

66. The tests NPS performs consists of:

- Feasibility tests
- Minimum and Maximum Total Contributions (MTC) tests
- Earnings tests

67. Since the introduction of NPS, NICs which fail the automatic checks are returned to the employer for correction electronically without the need for human intervention, before they are posted onto an Individual's NI record. This is a clear benefit from electronic processing. If these automatic checks are passed, the End of Year Returns are recorded on individual NI records.

68. Once the Employer's Scheme has been accepted a further level of checking is applied when the individual NI Returns are linked to the NI record. NPS checks all NICs against:

- the category of NICs paid;
- the latest recorded information about the customer's NIC liability;
- the customer's personal details and
- their marital status

69. If the NICs fail any of these checks NPS will produce Work Management Items for the various teams in NICO. These prompt staff to make further investigations to find out what caused the failure of the check.

70. Changes in legislation have meant that various methods of recording, ratio checking and correcting NICs are required for different tax years.

71. For self employed and voluntary NICs similar checks are performed by NPS once the NICs reach a NI record.

Deficiency Notices

72. In addition to the validation checks described above, NPS automatically sends out letters known as 'Deficiency Notices' to tell customers that a specific tax year is not a qualifying year for basic State Pension purposes. They give the customer the opportunity to pay contributions voluntarily or to query the details we hold on their NI record.

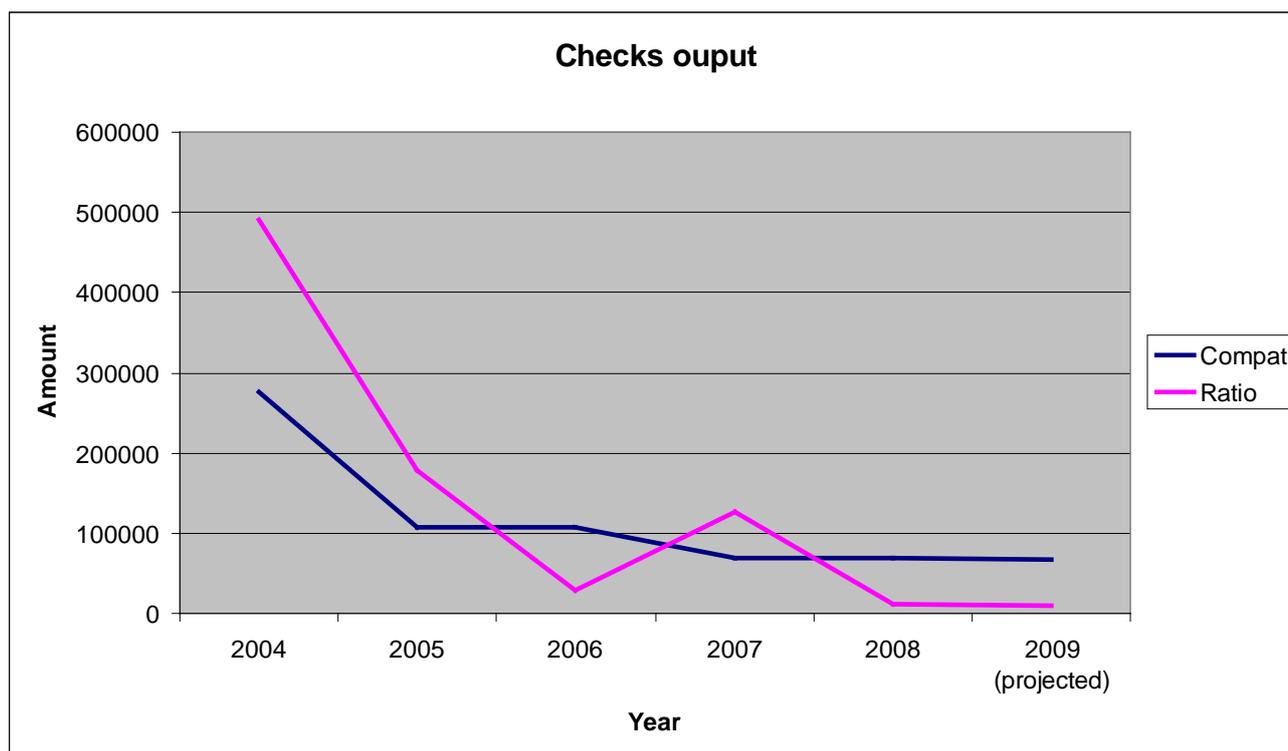
73. This process also provides a useful safeguard for customers. In addition to those who genuinely do have gaps in their record and may need to pay to safeguard benefit entitlement in future, it provides an alert to customers who have paid but whose contributions may not have been matched to their records. The customer response will trigger a HMRC investigation to trace the Contributions.

Ratio and Compatibility Checks

74. When NICs are linked to the correct National Insurance Record two types of check are carried out. The Ratio Check is designed to identify when NICs information is not within the ratios expected. The Compatibility Check identifies when NICs information appears wrong when compared to designatory data on the individuals record such as age, marital status etc.

75. The table below indicates the levels of checks output over recent years. The introduction of electronic filing has resulted in a significant decrease in output as certain categories of error are passed back to the employer electronically before entry on an individuals account as outlined above.

	2004	2005	2006	2007	2008	2009 (projected)
Compat,	275158	106907	106605	68223	68981	66564
Ratio	491150	178544	28308	126835	11153	9660



Challenges and Current Issues

76. With a UK wide system such as NI there are a number of generic challenges such as difficulties with large IT systems talking to each other, managing and matching over 55 million records annually on a single database, information flows from 3 million self-employed, and having to keep accurate records over the whole working life.

77. When the NI scheme was originally introduced it was common for people to have one job and stay in that job for long periods or for life. Nowadays people often move jobs frequently and / or have more than one job. This creates different dynamics in terms of flows of information and ensuring accuracy of records.

78. Incorrect or missing information about contributions or other benefit credits in an individual's National Insurance record could result in errors in the payment of State Pension and other contribution-based benefits. HMRC has identified errors in contribution records arising from non-matched contributions and from differences between information held on NPS and benefit systems. These include inconsistencies between credits recorded on NPS and on the originating system including DWP's system which records incapacity benefit and the HMRC's Child Benefit system which is used to identify periods of Home Responsibilities Protection.

Non Matching Items

79. Non Matching Items (NMIs) occur when an individual NI Return is passed to NPS for processing and either has

- no NINO;
- an invalid NINO;
- or after checking it is clear that the NINO quoted does not match with the record details

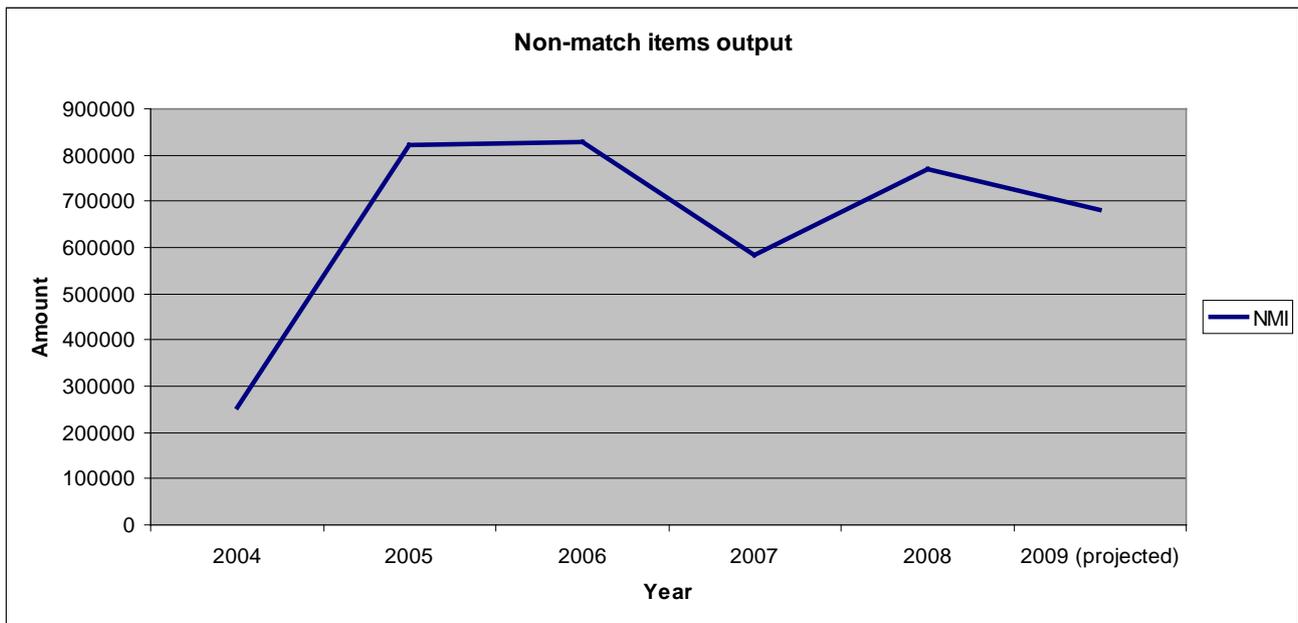
80. The NPS validation routine attempts to find the correct number by applying some relaxation of the data if it does not get a match first time, for example, it transposes the prefix letters to see if that creates a match.

81. Where a match can't be found, and the NICs value is over a specified tolerance level, NMIs are output for investigation by a NICO Specialist Team who attempt to trace the correct NI number from other systems. If this is unsuccessful they will write to the Employer for further information. If this is supplied a further trace will be made in an attempt to trace the correct NINO. Once the correct account is found the NMI is input onto the individual's record.

82. Over the last 4 years the average rate of successful traces has been 55% to 60%.

83. The table below shows the number of Non Matching Items output in recent years. There is no direct read across to the total items that can't be matched (Para 87) because of the application of the tolerance mentioned above.

	2004	2005	2006	2007	2008	2009 (projected)
NMI	253652	822984	828990	584596	768966	680100



Suspense File

84. Where NICs can't be matched to records and NICO action doesn't resolve the problem, the NICs are recorded on the Suspense File so they can be retrieved if later information is received from individuals on the completeness of their record.

85. HMRC performs an annual scan of the NPS database 13 months after the end of the tax year when matching activity has been completed. This scan provides information on the level of non matched items and the employers to which they relate as well as reasons why items could not be matched.

86. A provisional analysis of the most recent scan of NPS for the 2007-08 tax year showed that, of the 58.3 million annual returns for individual employees received from employers, 1.9 million items (3.3 per cent), with a value of £259 million, could not be matched.

87. HMRC's provisional analysis suggests that the majority of the non-matching items held in suspense relate to short-term or low-paid employments which are unlikely to qualify for contribution based benefits. We estimate that of the 1.9 million unmatched items in 2007-08, some 1.7 million items fell into this category.

88. HMRC has also reviewed non-matched items relating to the three tax years between April 2004 and March 2007. This identified that a small number of employers account for a significant proportion of non-matched items. For example, in 2006/07, 872 employers each had more than 250 non-matched items in the suspense file, and were responsible for 783,811 (some 45.7 per cent) of unmatched items for the year. Employers with the highest levels of non-matched items tend to be those employing casual or temporary staff.

89. The results of this review have been used to inform a number of initiatives to improve data quality and increase employer compliance. There is an increasing focus on those employers who do not submit information and those who regularly submit a high proportion of inaccurate information. To reduce the rate at which non-matched items are accumulating in NPS, HMRC will be considering whether more stringent front-end validation of Employer End of Year Return data could be used as to identify non-matched items and refer them back to employers for correction at the time End of Year Returns are processed.

Recording of National Insurance credits on NPS

Incapacity Benefit Credits

90. Individuals claiming Incapacity Benefit may be entitled to receive National Insurance credits for periods when they are incapable of work (Para 24). Some periods of incapacity in DWP's records have been incorrectly recorded on NPS.

91. In July 2007, HMRC and DWP began work to correct those records in NPS which were affected and to contact the individuals concerned. Having initially sought to bring the DWP and NPS records into line this work focused on those who had been underpaid contribution based benefits or State Pension. Where overpayments have occurred, DWP has introduced regulations to allow the payments of benefits to be maintained at their current level for the duration of the claim.

92. The work of comparing data has proved to be more complex and more resource intensive than originally envisaged, with follow on work to clear output still ongoing at the time of writing this report.

93. The incorrect credit recording on an individual's NI record may not lead to incorrect benefit payments, for example, where individuals already have sufficient contributions or other eligible credits to achieve a qualifying year or they have already achieved the total required number of qualifying years for a full State Pension. The Pension Reforms, which start to take effect in 2010, will also reduce the number of qualifying years required for State Pension to 30 years (para 11), further reducing the potential impact of these issues.

Home Responsibilities Protection

94. Most people who receive child benefit are entitled to HRP (para 25). The entitlement is recorded automatically when data is passed from HMRC's Child Benefit computer system to NPS at the start and the end of the claim period. Prior to May 2000, the absence of a requirement for people claiming Child Benefit to provide their National Insurance number led to an under recording of HRP entitlement on NPS. Although HMRC wrote to these

individuals, no action was taken where they failed to reply.

97. Since October 2008 HMRC and DWP have been working together to identify those customers who may not have had their HRP entitlement recorded on NPS. For working age customers where Child Benefit records are still held, HMRC have compared and aligned these records with NPS. Approximately 1.2 million periods of HRP entitlement were corrected and adjusted automatically by this exercise but some residual work is required to analyse and explore a further 150,000 periods where conflicting data is held. In addition, for those customers who are not yet pensioners but for whom Child Benefit records are no longer held, DWP have introduced measures to check for missing HRP when customers make a State Pension claim.

98. On 6 July 2009 the two Departments began a joint exercise to contact customers who had already reached State Pension age and where it was necessary to correct their HRP records and pension entitlement. It is estimated that between 100,000 and 150,000 customer records may require investigation and this work is currently ongoing with an expected completion date of July 2011.

Links between HMRC and DWP

99. In response to the identification of the wider NPS credit and HRP issues HMRC and DWP established a Joint Steering Committee in 2009 to oversee the investigation and resolution of credit issues. The establishment of cross Departmental governance arrangements is an essential step as the processing of National Insurance credits is complex and the resolution of the differences between NPS and other Social Security systems require both Departments and their respective IT providers to work closely together.

100. Looking wider, as both Departments are involved in the administration of NICs and pensions, links have been established at various levels throughout each organisation. These include a Joint Committee which meets monthly chaired by Permanent Secretaries (Heads of Department), a newly formed Directors Group from the main business areas, operationally focused working groups and groups set up to address specific issues as above.

Concluding Remarks

101. In common with many other countries there is pressure to reduce public sector spending in the UK. Within HMRC, NICO and other areas involved in the collection of NICs all face the challenge of continually improving performance against a reducing cost base.

102. In recent years the shift to electronic filing - with many errors types which used to be output for clerical intervention now being returned to employers automatically - is reducing volumes of work which requires correction.

103. The introduction of Lean methodology has enabled NICO to reduce staffing by over 500 people (around 15%) in the last 3 years, whilst improving performance with productivity increases averaging 15% to 30% in the main processes. That performance challenge will continue in the coming years, and an area we will be exploring is the opportunity for further joint working with DWP to reduce costs in both Departments and to improve service for customers.

104. The specific NICs business challenges outlined above will take time to address, but it is important to put these in context. Overall the National Insurance system collected £98 billion last year and 55 million individual End of Year returns were processed. The exceptions and problems in matching and reconciling data do have to be resolved, as each of these has an impact on a customer, but the number of these is small in comparison with the overall total processed successfully.