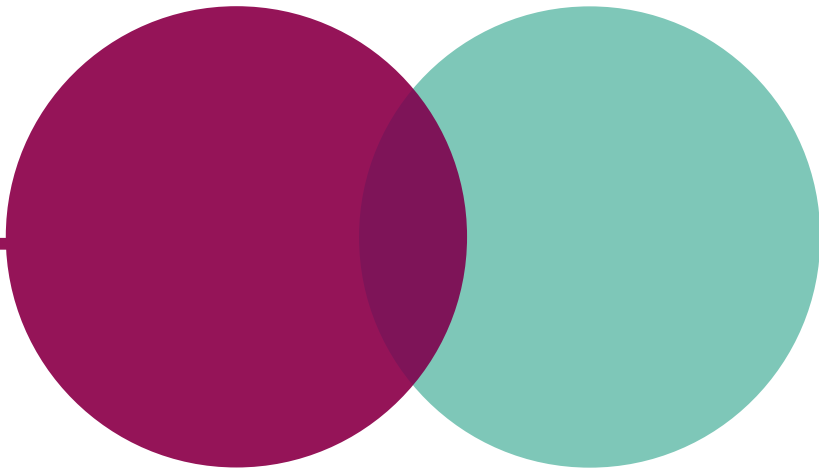




National Audit Office




Home Office Departmental financial overview 2020-21

REPORT

by the
National Audit Office

OCTOBER 2021



**We are the UK's
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high-quality audits.**

The National Audit Office (NAO) scrutinises public spending for Parliament and is independent of government and the civil service. We help Parliament hold government to account and we use our insights to help people who manage and govern public bodies improve public services.

The Comptroller and Auditor General (C&AG), Gareth Davies, is an Officer of the House of Commons and leads the NAO. We audit the financial accounts of departments and other public bodies. We also examine and report on the value for money of how public money has been spent.

In 2020, the NAO's work led to a positive financial impact through reduced costs, improved service delivery, or other benefits to citizens, of £926 million.



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This report can be found on the National Audit Office website at www.nao.org.uk


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What this guide is about

About this guide

We have prepared this guide as a summary of key information and insights that can be taken from the annual reports and accounts of the Home Office (the Department) and related bodies in the sector in England. The Department spends approximately £19 billion each year to reduce and prevent crime, secure the UK border and control immigration, issue passports and visas, consider applications to enter and stay in the UK, keep the UK safe from the threat of terrorism, and to fund police and fire services in England and Wales.

The guide includes:

- how the Department is structured and where it spends its money;
- how the accounts of the Department and its related bodies are consolidated;
- what information is included in the published annual reports and accounts for the organisations in the Departmental Group;
- the C&AG's audit opinion on the Department's accounts;
- some highlights that draw out key areas of interest in the accounts; and
- an overview of the financial implications of the COVID-19 pandemic, and future spending commitments, for the Department.

This report updates our most recent overview, a Departmental Overview, [published in February 2020](#).

How we have prepared this guide

The information in this guide draws on the findings and recommendations from our financial audit programme of work and from publicly available sources, including the annual report and accounts of the Department and its bodies.

We have cited these sources throughout the guide to enable readers to seek further information if required, as well as including any appropriate notes to help the reader understand our analysis.

Other relevant publications

More information about our work on home affairs in England and Wales, as well as information about our other recent and upcoming reports, can be found on the NAO website.

More information about central government accounting and reporting

You may also be interested in our interactive guide to *Good practice in annual reporting* (February 2021), which sets out good-practice principles for annual reporting and provides illustrative examples taken from public sector organisations who are leading the way in this area.

About the Department

The Home Office (the Department) is responsible for keeping the United Kingdom safe from the threat of terrorism, reducing and preventing crime, securing the UK border and controlling immigration, issuing passports and visas, and also for funding local police and fire services.

Up to 31 March 2021, the Department carried out its responsibilities through four directorates with a focus on policy and governance, four directorates with a focus on operational delivery and six arm's-length bodies (**Figure 1**). These were supported

Figure 1

Visual representation of the Department's structure at 31 March 2021

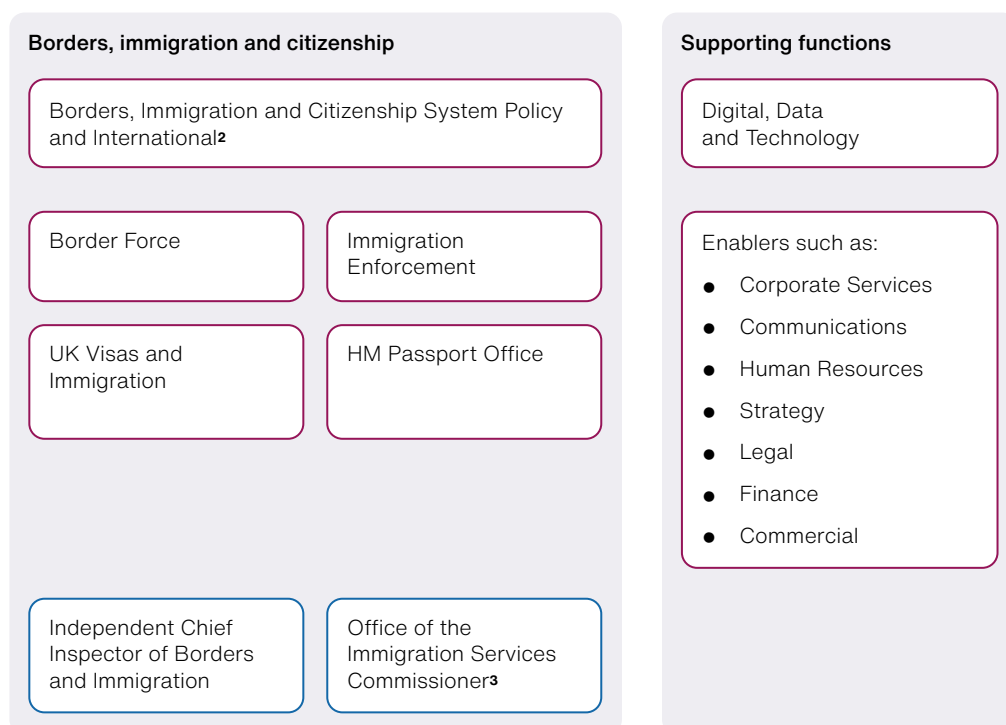


Notes

- Figure shows a selection of bodies and groups involved in delivering the Department's goals.
- Replaced by the Public Safety Group, the Homeland Security Group and the Migration and Borders Group from 1 April 2021.
- The Department directly oversees these arm's-length bodies and their financial accounts are consolidated into the Department's accounts.

by the Digital, Data and Technology directorate and enablers. The Department also worked with a number of locally accountable bodies such as Police and Crime Commissioners and Fire and Rescue Services.

The Department is undergoing a transformation programme to increase its focus on customers and to help it become a more inclusive organisation. The COVID-19 pandemic, the end of the EU Exit Transition Period, and Wendy Williams' *Windrush Lessons Learned Review* acted as a catalyst for this. As part of the programme, the Department has replaced its four Policy and Governance directorates shown in Figure 1 with three new 'missions': the Public Safety Group, the Homeland Security Group and the Migration and Borders Group. A new business area, Science, Technology, Analysis, Research and Strategy (STARS), now acts as the Department's strategic centre, to set and maintain strategic direction and solve complex cross-cutting problems. There are also five cross-cutting 'capabilities' within the structure: Customer Service, Border and Enforcement, Legal, Corporate Enablers and Communications. The Department moved to this new structure on 1 April 2021 (**Figure 2** overleaf).

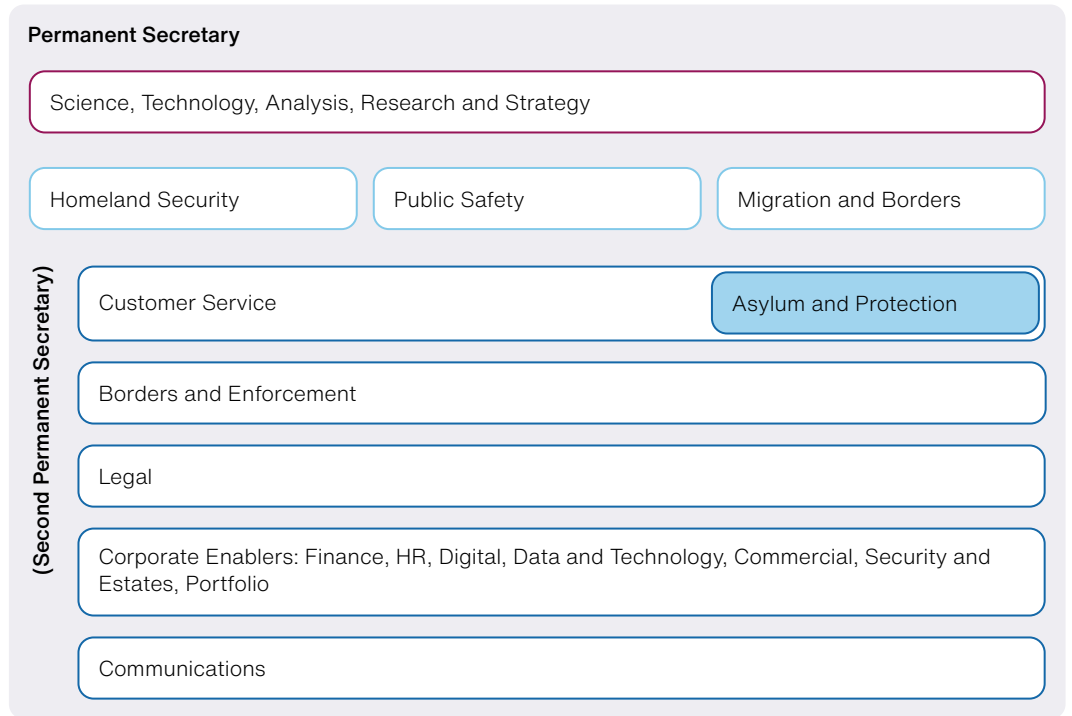


⁴ Locally accountable bodies are not part of the Department.

⁵ The National Crime Agency is not consolidated into the Department's financial statements. It publishes a separate Annual Report and Accounts.

Figure 2

Visual representation of the Department's structure from 1 April 2021



Overarching strategic centre
 Missions
 Capabilities

Source: Correspondence from Matthew Rycroft, Permanent Secretary, Home Office, re Home Office Transformation Programme, 1 April 2021, available at: <https://committees.parliament.uk/publications/5468/documents/54616/default/>

Where the Department spends its money

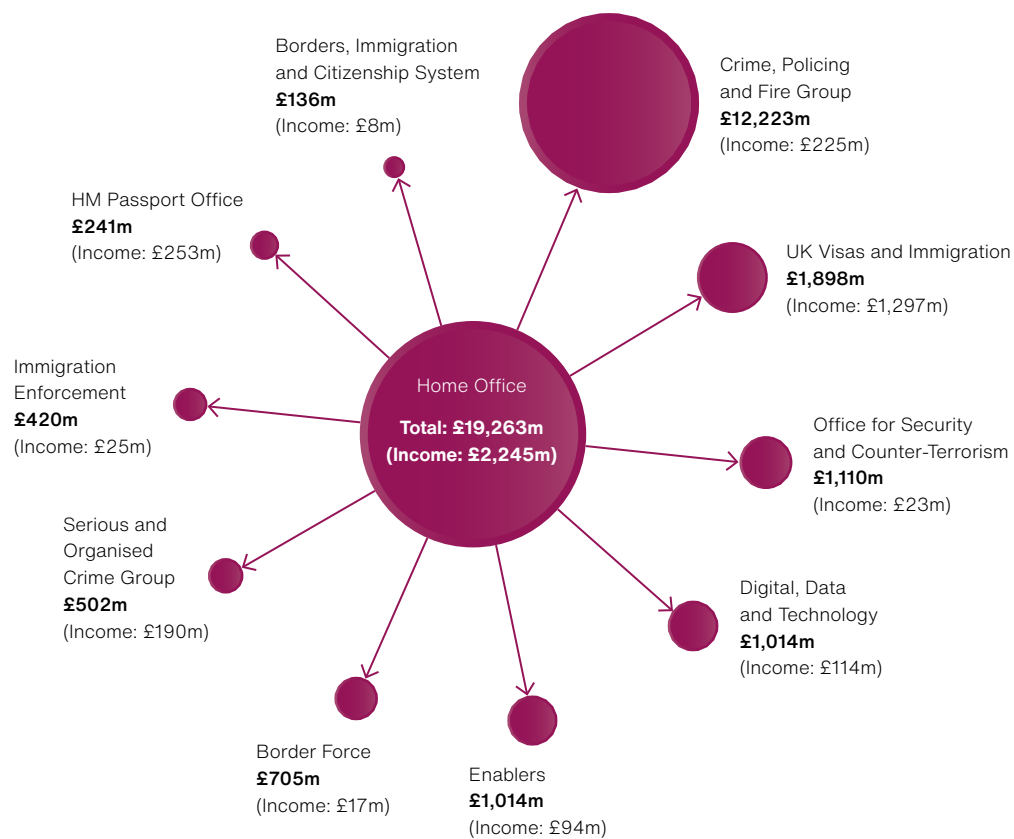
In 2020-21, the Department's total expenditure was £19.3 billion and total income was £2.2 billion (**Figure 3** overleaf). This gives net expenditure of £17.0 billion.

The Department's largest area of expenditure is the Crime, Policing and Fire Group, which had net expenditure of £12.0 billion, an increase of £1.1 billion since 2019-20. Funding for the Police Uplift Programme and to support COVID-19 policing drove the increase. The majority of the expenditure was the main police grants, which comprised £8.2 billion given to local police forces (up from £7.7 billion in 2019-20).

UK Visas and Immigration (UKVI) has a target to recover 192% of visa costs to contribute to overhead costs within the Department. The target was not achieved in 2020-21 owing to COVID-19 travel restrictions reducing demand for visas. This contributed to UKVI expenditure of £1,898 million against £1,297 million income (compared with expenditure of £1,738 million and income of £2,312 million in 2019-20). HM Passport Office was similarly impacted by reduced travel under COVID-19 restrictions, with a surplus of £12 million in 2020-21, down from £172 million in 2019-20.

Figure 3

Gross expenditure by business area in 2020-21

**Note**

1 Numbers may not sum due to rounding.

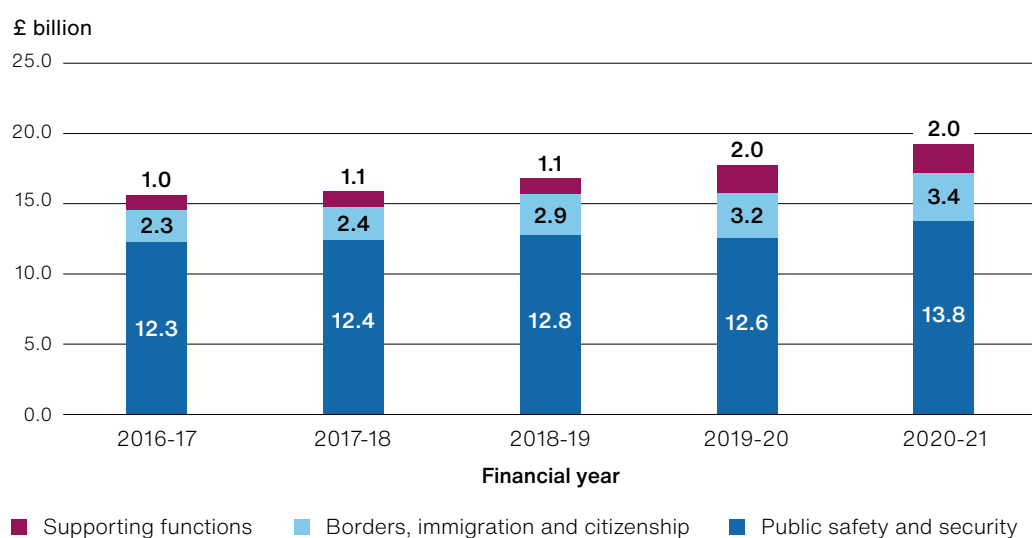
Source: Home Office Annual Report and Accounts 2020-21, p.157

Financial management/ spending patterns

The Department must manage within the financial control totals set by HM Treasury. Control totals specify allowed spending for each business area, as well as a total for the six arm's-length bodies consolidated into the Department's financial statements. To stay within these control totals the Department must manage risks related to volatility in UK Visas and Immigration income stemming from COVID-19 and the unpredictable cost of responding to challenges in areas such as asylum, counter-terrorism and border control.

In 2019-20 the Department exceeded its net cash requirement estimate of £14.6 billion by £118 million, resulting in a qualified audit opinion and excess vote. This resulted from issues in monitoring the cash position. In 2020-21, the Department put in place procedures to improve cash management. The Department did not breach any control totals in 2020-21, saving £1.23 billion against its net cash requirement estimate and £259 million against its total outturn estimate.

Figure 4
Expenditure by business area for 2016-17 to 2020-21



Note

1 Numbers may not sum due to rounding.

Source: National Audit Office analysis of *Note 2: Statement of Operating Costs by Operating Segment* in Home Office Annual Report and Accounts, 2016-17 to 2020-21

Content of the annual report and accounts

Section	Performance report	Accountability report	Corporate governance report	
Content	Provides information on the body, its main objectives and the principal risks that it faces. It must provide a fair, balanced and understandable analysis of the body's performance.	Used to meet key accountability requirements to Parliament. It must include a corporate governance report; remuneration and staff report; and Parliamentary accountability and audit report.	Sets out the composition and organisation of the body's governance structures, and how they support the achievement of the body's objectives. As a minimum, it must include the following:	Directors' report – includes the titles and names of all ministers who had responsibility for the Department during the year, the person occupying the position of the permanent head of the Department, composition of the management board, and potential conflicts of interest.
To what extent is it audited	Reviewed for consistency with information in the financial statements.	Reviewed and tested for consistency with information in the financial statements; opinion provided.	Reviewed for consistency with information in the financial statements and with the auditors' wider understanding of the body.	Reviewed for consistency with information in the financial statements and with the auditors' wider understanding of the body.

				Financial statements
		Remuneration and staff report	Parliamentary accountability and audit report	
Statement of accounting officer's responsibilities – required to explain the responsibilities of the accounting officer or chief executive of the body. In preparing the accounts, the accounting officer is required to comply with the requirements of the Government Financial Reporting Manual (the FReM).	Governance statement – brings together the judgements made by the accounting officer in using resources to allow them to make informed decisions about the body's progress, in light of the risks and opportunities the body is facing. It should provide a clear picture of the control structure of the body, and a sense of its vulnerabilities and resilience to challenges.	Sets out the body's remuneration policy for directors; reports on how that policy has been implemented; and discloses the amounts awarded to directors. Also includes staff numbers, cost and composition; sickness absence data; consultancy expenditure; off-payroll engagements; and exit packages.	Includes: <ul style="list-style-type: none"> • Statement of Parliamentary Supply, showing expenditure against the amounts authorised by Parliament; • other Parliamentary accountability disclosures; and • Certificate and Report of the Comptroller and Auditor General to the House of Commons. 	Includes: <ul style="list-style-type: none"> • Statement of Comprehensive Net Expenditure; • Statement of Financial Position; • Statement of Cash Flows; • Statement of Changes in Equity; and • Notes to the accounts.
Reviewed by: <ul style="list-style-type: none"> • comparing with the requirements of the FReM; and • confirming that the disclosures match the auditors' understanding of the business. 	Reviewed for: <ul style="list-style-type: none"> • compliance with the requirements set out in <i>Managing Public Money</i>; • quality of the content in the context of risks identified during the audit process and the auditors' wider knowledge of the business; and • consistency with the findings of any relevant National Audit Office value for money reports or other work. 	Reviewed for consistency with information in the financial statements. Key tables in the remuneration report, staff numbers and costs, and exit packages are fully tested.	Audited and subject to an audit opinion.	Audited and subject to an audit opinion.

The C&AG's audit opinion

The Comptroller and Auditor General (the C&AG) provides an independent audit opinion on more than 400 individual accounts across the public sector, in line with the applicable standards set out in his audit certificate. His opinion comprises two main parts:

- 1** A true and fair audit opinion on each account. This 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.
- 2** An audit opinion on regularity on the vast majority of accounts. This involves obtaining evidence that resources have been used in the way that Parliament intended and authorised.

The C&AG gave unqualified true and fair and regularity opinions on the Department's accounts. He took reasonable assurance that the financial statements are a true and fair view of the state of the Department's affairs, and that the Department used resources in the way Parliament intended. Materiality was set at £189 million. An unqualified opinion indicates that the financial statements include no unadjusted misstatements over this amount.

The C&AG's opinion on Other Matters notes that the audited sections of the Accountability Report have been properly prepared and other information in the annual report is consistent with the financial statements.

Report on Accounts

The C&AG made a Report on Accounts to highlight the Department's non-compliance with off-payroll working rules (IR35). Contractors falling within the scope of the IR35 rules should be treated as employees for tax purposes. HM Revenue & Customs (HMRC) had assessed that the Department had incorrectly judged some contractors to be out-of-scope of IR35 between 2017-18 and 2020-21, resulting in underpaid tax and national insurance of £29.5 million. The Department is liable to HMRC for this amount. There is an additional £4 million penalty for 'carelessness' in the application of the rules, although this was suspended for three months subject to specified improvements around the Department's arrangements in this area.

Windrush Compensation Scheme provision

The Windrush Compensation Scheme aims to compensate members of the Windrush generation who suffered harm from not being able to prove their lawful immigration status. The Department's financial statements include a provision for the scheme of £160.0 million as at 31 March 2021 (31 March 2020: £159.6 million). This was the Department's latest best estimate of the amount to be paid out under the scheme in future financial years. It is in addition to the £26 million already offered by 31 March 2021 (of which £14.3 million had been paid out at the same date) (**Figure 5** overleaf). The provision does not represent a limit on the amount that could be paid out under the scheme in future.

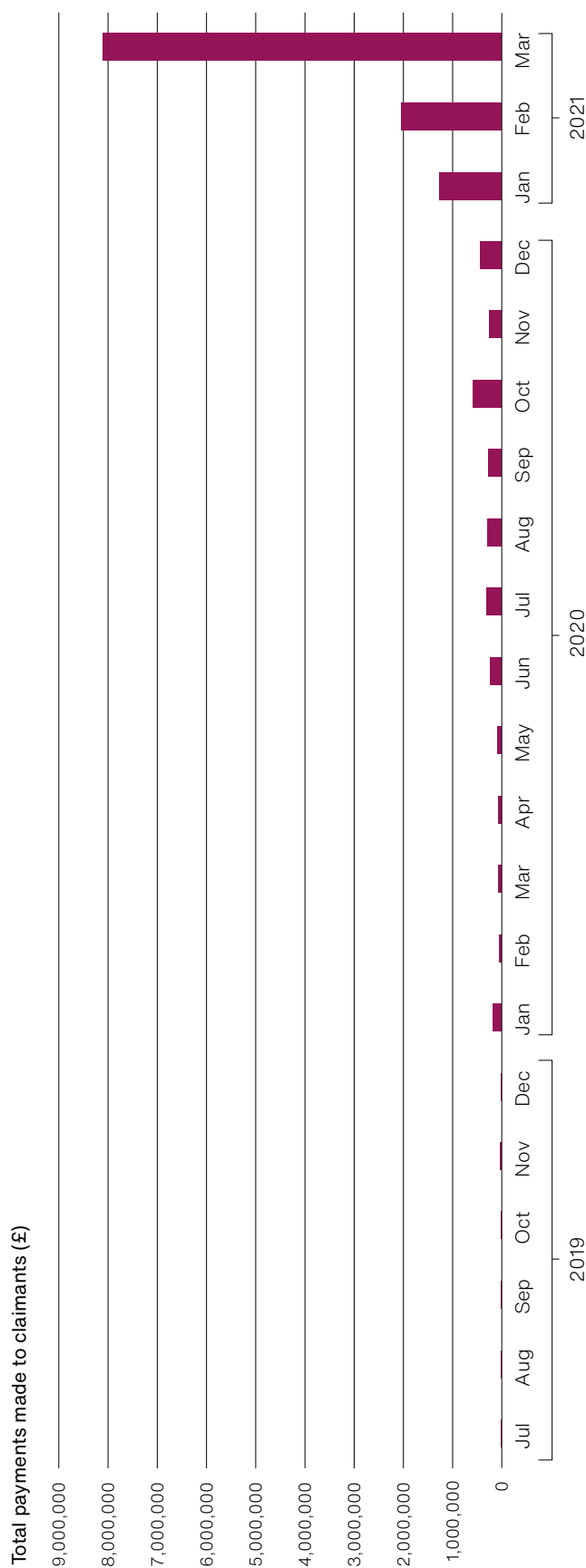
The Department based the amount of its provision on the projected number of claimants and the estimated compensation per claimant. It factored in the changes introduced in December 2020, such as the increase in the minimum 'impact on life' payment to £10,000. There is significant uncertainty around the provision amount given the incompleteness of data on how many individuals have been impacted.

In May 2021, the NAO published its *Investigation into the Windrush Compensation Scheme*.¹ It found that of the £14.3 million paid out to claimants by 31 March 2021, the Department had paid £11.6 million since the December 2020 changes. Nearly 60% of these payments related to increases to previous 'impact on life' awards or to preliminary payments, rather than to finalising more claims. This indicated the need for a sustained effort to improve caseworking operations and management systems to ensure fair compensation going forward.

¹ Comptroller and Auditor General, *Investigation into the Windrush Compensation Scheme*, Session 2021-22, HC 65, National Audit Office, May 2021.

Figure 5
Compensation payments made under the Home Office's Windrush Compensation Scheme, July 2019 to March 2021

The Home Office (the Department) has paid a total of £14.3 million in compensation since the launch of the Windrush Compensation Scheme in April 2019



Notes

- 1 The Department's first payment under the scheme was in July 2019.
- 2 Numbers may not sum due to rounding.
- 3 Data presented are limited to data available as at May 2021.
- 4 Data include £27,900 of Urgent and Exceptional Payments which the Department excludes from its published data. The Urgent and Exceptional Payments policy provides for support to members of the Windrush cohort who have an urgent and exceptional need that cannot wait for a claim to be concluded or for a preliminary payment to be made under the Windrush Compensation Scheme. The Department deducts this from any compensation awarded.

Source: Comptroller and Auditor General, *Investigation into the Windrush Compensation Scheme*, Session 2021-22, HC 65, National Audit Office, May 2021

Policing

The Department funds policing through a number of grants paid out to local police forces and policing bodies. The most significant funding mechanism for local Police and Crime Commissioners (PCCs) in England and Wales is the Main Police Grants, which totalled £8.2 billion in 2020-21 (2019-20: £7.7 billion). There are also additional grants to cover areas such as pension shortfalls (£1.8 billion), counter-terrorism policing (more than £900 million), COVID-19 policing costs (£200 million) and the Police Uplift Programme (see below). The total funding across the policing system for 2020-21 was £15.1 billion.

Police Uplift Programme

The Police Uplift Programme aims to recruit an additional 20,000 new officers by March 2023, to help ensure that policing has the resources it needs to tackle all types of crime. As at 31 March 2021, 8,771 additional police officers had been recruited. This is more than the March 2021 target of 6,000. The Department funded the programme through a combination of increases to Main Police Grants and additional ringfenced grants.

Police technology

Police National Computer (PNC)

The PNC was launched in 1974 and is the primary database of UK criminal records. The police use data from the PNC when responding to an incident or during an investigation. It costs £21 million per year to run and is used by 172 organisations, including police forces.² While generally reliable, the PNC is based on obsolescent technology which makes it expensive to operate and difficult to update.

In January 2021, data held on the Police National Computer fingerprint and DNA database were wrongly deleted. This was the result of human error. Internal investigations found that 209,550 offence records relating to 112,697 individuals were affected.³ All records impacted by this incident have now been recovered.

2 Comptroller and Auditor General, *The National Law Enforcement Data Programme*, Session 2021-22, HC 663, National Audit Office, September 2021.

3 Kit Malthouse, Minister of State for Crime and Policing, Statement to Parliament, 8 February 2021, HCWS774, available at: <https://questions-statements.parliament.uk/written-statements/detail/2021-02-08/hcws774>

National Law Enforcement Data Service (NLEDS)⁴

The Department is developing NLEDS to replace the PNC at an expected operating cost of £17 million per year once operational (a £4 million per annum saving). The programme launched in 2016 with plans for completion by the end of 2020. It is now expected to come into full service during 2025-26. The NAO published a report on the programme on 10 September 2021 identifying the causes of delay, including uncertainty around the scope of the requirements, de-prioritisation of funding relative to other programmes, changes of technical approach, lack of commercial strategy and shortcomings in programme management and governance.

As a result of these issues, during 2019 and early 2020 the Department attempted to reset the programme. By autumn 2020 the police had lost confidence in the programme and in response, the Department began a second 'reset', which is still being implemented. The Department cannot yet guarantee to the police that a replacement system will be in place in December 2024, when the PNC's current technology will no longer be supported.

⁴ The information in this section is not disclosed in the Annual Report and Accounts, but is set out here: Comptroller and Auditor General, *The National Law Enforcement Data Programme*, Session 2021-22, HC 663, National Audit Office, September 2021.

Visas, immigration and asylum

COVID-19 impact on visa income

The impact of travel restrictions to curb the spread of COVID-19 led to significant reductions in visa applications. As a result, UK Visas and Immigration income reduced from £1.7 billion in 2019-20 to £0.8 billion in 2020-21 (**Figure 6** overleaf). The Department aims to recover 192% of the cost of issuing visas to cover overheads, but only recovered 97% of costs in 2020-21 compared with 179% in 2019-20.

Immigration reform

On 1 January 2021 a new points-based immigration system came into effect. This covers all work and study visas apart from for short-term business visitors and short-term students. Of approximately one million visa applications in 2020, 125,176 (12.5%) were work-related visas and 232,191 (23.2%) were sponsored study visas (including dependants).

Up to 31 December 2020, there was freedom of movement to the UK for EU, other EEA (European Economic Area) and Swiss nationals. For those already living in the UK as at 31 December 2020, the EU Settlement Scheme granted rights to continue to live and work in the UK at no cost to the applicant. The scheme remained open until 30 June 2021, at which date the Department had concluded on 5.4 million applications.⁵ Since 1 January 2021, EU, EEA and Swiss nationals have had to apply for a visa to work, study, or join family in the UK. This only impacted three months of the 2020-21 financial year.

⁵ Home Office, *EU Settlement Scheme statistics*, available at: www.gov.uk/government/statistics/eu-settlement-scheme-quarterly-statistics-june-2021/eu-settlement-scheme-quarterly-statistics-june-2021

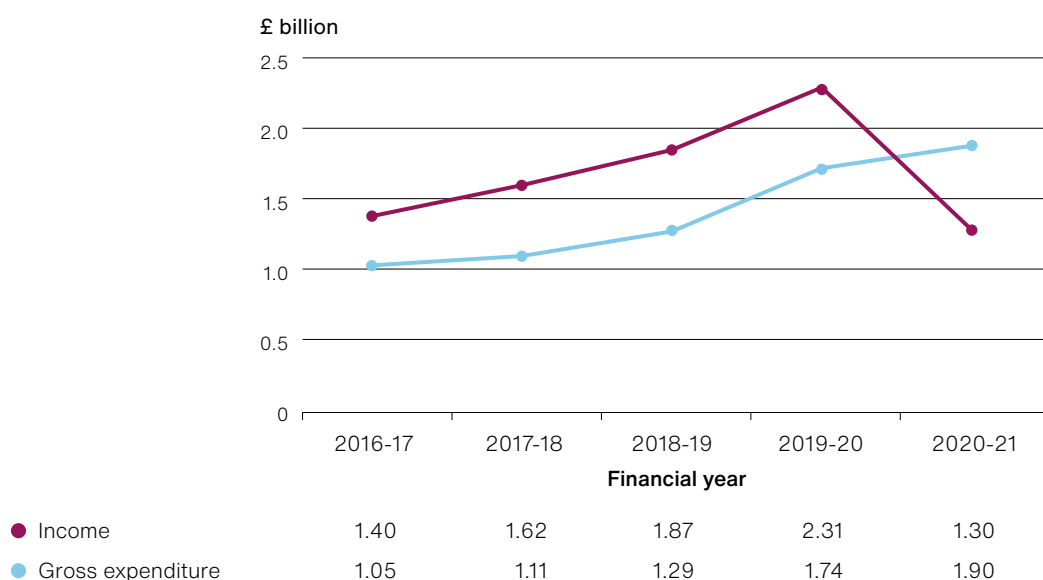
Napier Barracks asylum accommodation

The government has a statutory duty to provide accommodation to asylum seekers who would otherwise be destitute. In response to COVID-19 the Department needed additional accommodation at short notice, leading to the use of the Napier Barracks site.

On 3 June 2021 the High Court found the Department failed to provide adequate accommodation at the site between September 2020 and February 2021 and operated the allocation policy unlawfully. The Department is keeping the use of the site under review but is continuing to use it while it is deemed necessary.

Figure 6

UK Visas and Immigration gross expenditure and income for 2016-17 to 2020-21



Note

1 Numbers may not sum due to rounding.

Source: National Audit Office analysis of *Note 2: Statement of Operating Costs by Operating Segment* in Home Office Annual Report and Accounts, 2016-17 to 2020-21

Staff and remuneration

Fair pay disclosures

The Department is required to demonstrate how many times higher the highest salary in the Department is compared to the median average salary across the Department. In 2020-21 this decreased to a multiple of 5.5 from 5.9 in 2019-20.

Improving diversity

The Department has instituted recruitment practices designed to build a diverse workforce and sets targets to track progress (**Figure 7** overleaf). In terms of LGBTI+ diversity, there was 5.1% LGB representation at senior civil service (SCS) level, dropping to 3.2% for the lowest pay grade (administrative officer/administrative assistant). This was below the Department's target of 6% across all staff, which no grade or function achieved in 2020-21.

As of March 2021, 45% of the Department's SCS roles were filled by women, with 52% of all employees being women. The most recent *Home Office Gender Pay Gap Report* was published in December 2020 and covers a period from April 2019 to March 2020. It showed:

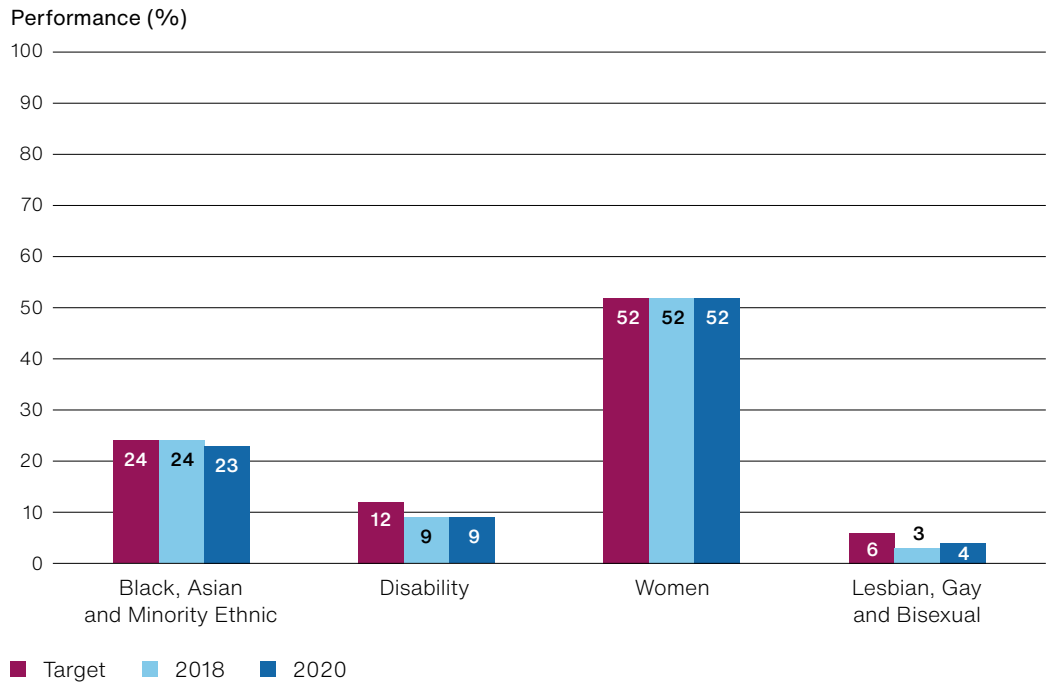
- a reduction in the mean gender pay gap to 8.2% (2018-19: 8.8%);
- a reduction in the mean gender bonus pay gap to 4.5% (2018-19: 6.9%);
- an increase in the median gender bonus gap to 10.0% (2018-19: 6.1%) due to a larger proportion of male employees receiving higher value bonus payments.

Resignation of Sir Philip Rutnam

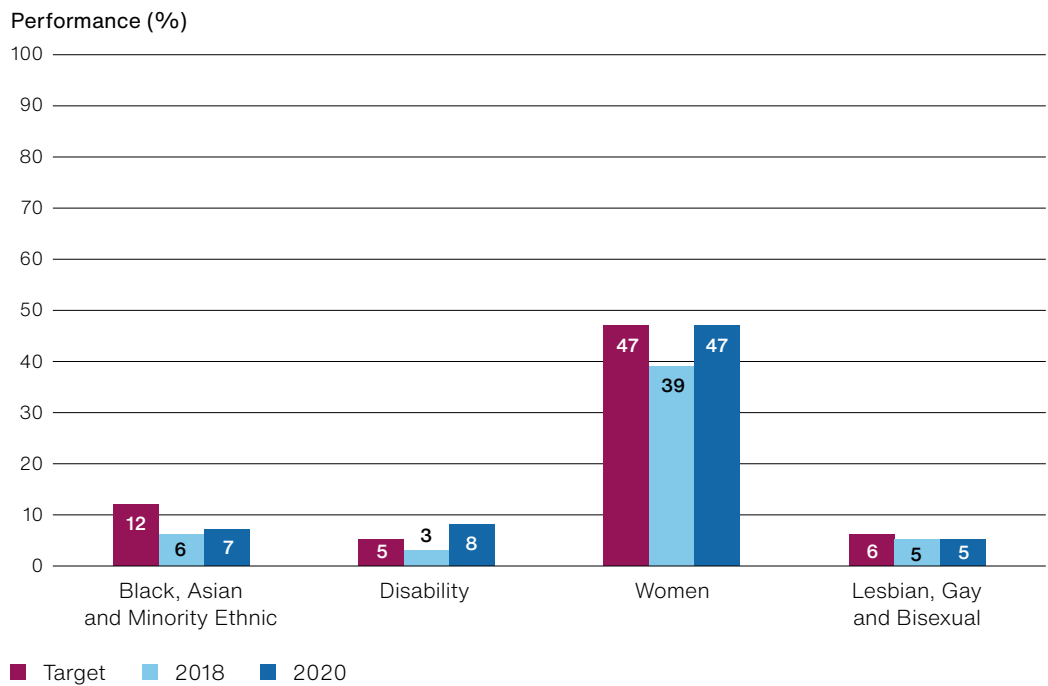
The former Permanent Secretary, Sir Philip Rutnam, resigned his post on 29 February 2020, subsequently raising a claim for constructive dismissal. This case was settled on 4 March 2021. As part of the settlement, the Department made a payment of £340,000 plus a contribution to Sir Philip Rutnam's legal costs of £30,000 plus VAT.

Figure 7
Performance against internal diversity targets

All staff



Senior civil service staff



Source: Home Office Annual Report and Accounts 2020-21, p.93

Airwave and the Emergency Services Network

Airwave

Airwave is a telecommunications service used by police, fire and ambulance services for communications between control rooms and the field. The Airwave contract has a total value of £5.4 billion and is due to expire at the end of December 2022.

Airwave did not generate any income in 2020-21, having generated £9 million in 2019-20. It therefore did not meet the Department's target of recovering 16% of its £243 million in-year cost (**Figure 8** overleaf).

Emergency Services Mobile Communications Programme

The Emergency Services Mobile Communications Programme (ESMCP) is developing a new Emergency Services Network (ESN) to replace the Airwave system. It will allow the transmission of voice, video and data across the 4G network. The Department initially expected ESN to come into use in September 2017, allowing Airwave to be replaced in December 2019.⁶ It now expects ESN transition to begin in spring 2024, with Airwave to be switched off by the end of 2026.

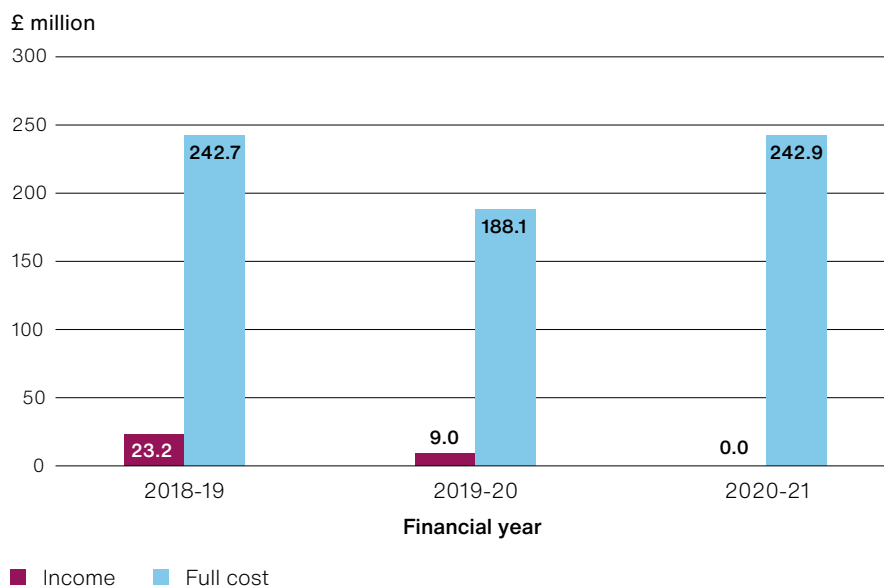
ESMCP had a cost of £235 million in 2020-21. The Department did not meet its target of recovering 28% of this cost, with ESMCP income of only £105,000 (0.04% of costs incurred) (**Figure 9** overleaf). The Department also has £22 million of capital commitments for the acquisition and building of masts to extend ESN coverage.

The Major Projects Review Group recommended only partial funding of the programme in 2021-22. The balance is conditional on: the approval of a revised Full Business Case, which demonstrates positive financial value, and an independent review of the technical strategy.

⁶ Comptroller and Auditor General, *Progress delivering the Emergency Services Network*, Session 2017-2019, HC 2140, National Audit Office, May 2019.

Figure 8

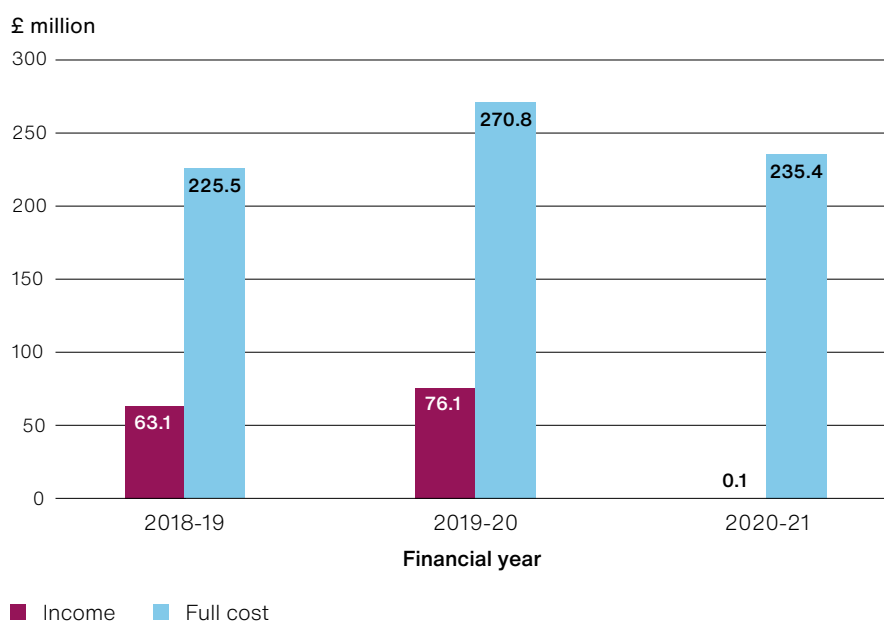
Airwave costs and income from 2018-19 to 2020-21

**Note**

1 Numbers may not sum due to rounding.

Source: Fees and Charges disclosure, *Home Office Annual Report and Accounts*, 2018-19 to 2020-21**Figure 9**

Emergency Services Mobile Communications Programme costs and income from 2018-19 to 2020-21

**Note**

1 Numbers may not sum due to rounding.

Source: Fees and Charges disclosure, *Home Office Annual Report and Accounts*, 2018-19 to 2020-21

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