Title: Third Party Data Gathering	Impact Assessment (IA)
IA No:	
RPC Reference No: RPC-DWP-5293(1)	**Date:** September 2023
Lead department or agency: Department for Work and Pensions	**Stage:** Development
	Source of intervention: Domestic
Other departments or agencies: Department for Science Innovation and Technology Cabinet Office	**Type of measure:** Primary/Secondary Legislation
	Contact for enquiries: fraudanderror.policyandlegislation@dwp.gov.uk

Summary: Intervention and Options

RPC Opinion: GREEN

Cost of Preferred (or more likely) Option (in 2019 prices[1])			
Total Net Present Social Value	**Business Net Present Value**	**Net cost to business per year**	**Business Impact Target Status**
£1881.0m[2]	N/A	NA	

What is the problem under consideration? Why is government action or intervention necessary?

In 2022/23, Government lost a total of £8.3bn to welfare fraud and error, a figure that increased during the pandemic and remains high compared to historic levels (2010-2019)[3]. The majority of this loss is claimant fraud; Capital fraud and error, as one example, accounted for £894m of losses in Universal Credit alone[4]. Current legislation relies on claimants to self-report changes of circumstances and the Department has no power to independently verify information received. The Government has committed to take action to tackle this, as outlined in the May 2022 Fraud Plan[5], including taking new powers for Third Parties to share information with DWP to improve the accuracy of payments and reduce key areas of loss, including capital and abroad fraud and error.

What are the policy objectives of the action or intervention and the intended effects?

The strategic objective of the proposal is to reduce the amount of fraud and error in the welfare system, ensuring taxpayers' money can be invested in public services and not in the pockets of those wishing to defraud the system. The policy objectives are to enable DWP to identify potential indicators of fraud and error, prevent fraud and error from embedding into the system and, recover monies owed to DWP. To achieve this, we are seeking a broad data sharing power to compel designated Third Parties to share information with DWP where it can help tackle fraud and error and reduce losses. The impact assessment focuses on the initial use of the power between banks/building societies and DWP to identify capital and abroad fraud.

What policy options have been considered, including any alternatives to regulation? Please justify preferred option (further details in Evidence Base)

Option 0: 'Do-nothing', there would be no new government intervention to facilitate information sharing between Third Parties and DWP where the data is signalling potential fraud and error. This isn't considered viable due to the high level of loss to fraud and error .

Option 1: 'Industry and Government partnership' whereby permissive legislation will be used, enabling Third Parties to share data with DWP on a voluntary basis. This method is unlikely to provide confidence that we can achieve our anticipated savings as Third Parties can withdraw consent at any time and unless there is universal compliance it could lead to unintended consequences and drive wrong behaviours[6]. For the reasons

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1 Following the Business Impact Test guidance and wider reporting on better regulation, EANDCB, Business NPV and NPSV are to be presented in 2019 prices and discounted to 2020, in order for all policies to be compared using consistent pricing and discounting.
2 All figures are correct at the time of submitting to RPC and are subject to change as per the usual scrutiny process applied to government spending.
3 Fraud and error in the benefits system. Financial Year Ending (FYE) 2023. Link
4 Ibid.
5 Fighting Fraud in the Welfare System, 2022, Link
6 If some institutions do not comply with regulation, claimants may be more likely to switch to these institutions. This is because the risk of getting caught is significantly reduced. Institutions could be disadvantaged from complying with the regulation which is not a policy objective.

stated this would not be appropriate in meeting our objectives and would potentially have unintended consequences for Third Party data holders (banks and building societies in the initial use of the policy).

Option 2: Introduce legislation compelling Third Parties (initially banks and building societies) to share information with DWP to tackle fraud and error against the benefit system. The use of this power will be scaled up following a 'test and learn' phase with banks/building societies focussing on the primary financial institutions used by DWP claimants. There will be a requirement on Third Parties to provide data. An appeals process will be instituted, and fines will be applicable for non-compliance. **This is the Government's preferred option, as it meets the Government's objectives.**

Other broader options (including a third main option) that were considered are discussed in the main document below.

Will the policy be reviewed? Will **If applicable, set review date:** 2030				
Is this measure likely to impact on international trade and investment?	No			
Are any of these organisations in scope?	**Micro** Yes	**Small** Yes	**Medium** Yes	**Large** Yes
What is the CO_2 equivalent change in greenhouse gas emissions? (Million tonnes CO_2 equivalent)	**Traded: N/A**		**Non-traded:** N/A	

I have read the Impact Assessment and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the leading options.

Signed by the Deputy Chief Economist: Andrew Ward   Date: 2/10/23

Summary: Analysis & Evidence[1]   Policy Option 1

Description: Introduce legislation compelling Third Parties to share information with DWP to tackle fraud and error against the benefits system.

FULL ECONOMIC ASSESSMENT

Price Base Year 2023[2]	PV Base Year 2025[3]	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low: £2,070m	**High:** £3,060	**Best Estimate:** £2,570m

COSTS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	Optional	£40m	£310m
High	Optional	£50m	£410m
Best Estimate		£40m	£360m

Description and scale of key monetised costs by 'main affected groups'

The proposed measures will directly impact DWP and Third-Party Data holders. Implementation will necessitate the recruitment, reallocation, and training of staff for DWP to build systems and act on the data provided. It is estimated that the department requires current and additional FTE to operate the policy, costing around £370m (including overheads). From 2031/32 staffing costs are estimated to be around £30m per year (including additional non-staff costs). The majority of this is focused on processes we currently follow when we have a suspicion of fraud or error.

Other key non-monetised costs by 'main affected groups'

Third-Party Data holders, specifically financial institutions (banks/building societies) are the main affected group by the initial use of this power. There are likely to be implementation and administration costs involved with the setup and delivery. Additional industry engagement is required to robustly calculate the cost to business, this IA will give an indicative assessment whilst the delivery mechanism is not finalised. Subsequent IAs will be produced when secondary legislation is brought forward under this power to quantify these costs robustly (scenario 2 of the RPC guidance[4]). We will work with all relevant third parties to develop future uses under this power, as we have been doing with UK Finance and financial institutions to date.

BENEFITS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	Optional	£300m	**£2,490m**
High	Optional	£410m	**£3,370m**
Best Estimate		£360m	**£2,930m**

Description and scale of key monetised benefits by 'main affected groups'

The measure is expected to generate around £500m in Annually Managed Expenditure[5] (AME) savings over the scorecard period (2025/26 to 2028/29), and £500m per year when fully rolled out (2030/31). There will be a phased roll-out of the policy that will affect AME savings in the first few years but this will allow us to scale the work at a sensible rate.

Other key non-monetised benefits by 'main affected groups'

New powers for DWP to detect fraud and error may deter criminals from attempting to defraud the benefit system, saving the taxpayer money[6]. Claimants will benefit from the measure as 'error' will be identified earlier. This will reduce the total amount of debt, ensuring that repayments are manageable. The long-term impacts of the measure may deter serious and organised criminals from targeting the benefit system.

Key assumptions/sensitivities/risks	Discount rate (%)	3.5%

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1 All figures are correct at the time of submitting to RPC and are subject to change as per the usual scrutiny process applied to government spending.
2 Following IA calculator guidance, the price base year reflects the year that prices used to calculate costs and benefits are taken from.
3 Following IA calculator guidance, Present Value base year reflects the year that costs or benefits commence for a policy option.
4 RPC_case_histories_-_Primary_legislation__August_2019.pdf (publishing.service.gov.uk)
5 See here for a definition of AME: How to understand public sector spending - GOV.UK (www.gov.uk)
6 It has not been possible to monetise the deterrent effect of the measure.

Assumptions:

We have flexed several high-level assumptions to produce upper and lower bound estimates. These are explored in the sensitivity analysis section – including behavioural change, scope, and optimism bias.

Sensitivities:

The Third-Party Data measure can potentially include vulnerable people, these areas will be explored further in the equality impact assessment. We are clear, however, that no automatic decisions will be made based on data alone, and DWP staff will follow the usual business processes when looking into any cases, taking account of circumstances and wider vulnerabilities before deciding on a course of action.

Risk:

There is a risk that if the process is too burdensome on Third Party Data holders the cost of compliance may mean that they become less cooperative and this may result in appeals. There could also be operational challenges for the Department if the data flow is not well managed and proportionate. To mitigate this and wider potential burdens, we work closely with banks to test our approach before scaling up our delivery.

BUSINESS ASSESSMENT (Option 1)

Direct impact on business (Equivalent Annual) £m:			Score for Business Impact Target (qualifying provisions only) £m:
Costs: -	Benefits: -	Net: -	
			-

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Abbreviations

Abbreviation	Term
AME	Annually Managed Expenditure
API	Application Programming Interface
BAU	Business As Usual
CRA	Credit Reference Agencies
DEL	Departmental Expenditure Limit
DPDI	Data Protection & Digital Information
DSIT	Department for Science, Innovation & Technology
DWP	Department for Work and Pensions
EANDCB	Equivalent Annual Net Direct Cost to Business
ESA	Employment & Support Allowance
FTE	Full Time Equivalent
FYE	Financial Year Ending
GDPR	General Data Protection Regulations
HB	Housing Benefit
HMCTS	HM Courts and Tribunals Service
HMRC	His Majesty's Revenue & Customs
IA	Impact assessment
MVA	Monetary Value of Adjustment
MVFE	Monetary Value of Fraud and Error
NPV	Net Present Value
OBR	Office for Budget Responsibility
OCG	Organised Crime Group
PC	Pension Credit
PoC	Proof of Concept
RPC	Regulatory Policy Committee
SARs	Suspicious Activity Report's
TPD	Third Party Data
UC	Universal Credit

Background

1.   In 2022/23, DWP lost £8.3bn to fraud and error[1], and over £8bn in each of the last three financial years representing a significant opportunity cost for Government. Data and information are the key to enabling Government to tackle fraud, particularly where people actively try to deceive DWP to receive more money than they are entitled to. This data exists but is held by Third parties and is not currently accessible to the DWP, making it harder to proactively detect fraud and minimise error. However, with access to this data DWP can transform its approach to detecting, preventing and dealing with fraud. DWP want improved data access and sharing between DWP and Third Parties, so that DWP can better use data to tackle this inefficiency head on to reduce the proportion of payments made in fraud and/or error to improve the quality of public services provided to the taxpayer. As we set out in our 2022 fraud plan, fraud is now the most commonly experienced crime in the UK, accounting for 42% of all crime[2].

2.   This approach has had transformative impacts elsewhere in the welfare system. For example, large-scale data sharing on PAYE between HMRC and DWP has virtually eradicated under or overpayment of benefits because of fluctuations in employment hours, hourly rates, and salary changes. This has transformed the way that Universal Credit supports those in work who are still eligible to claim benefits because of low incomes. The difference this makes is illustrated by the fact that 0% of UC expenditure that is paid to PAYE claimants is overpaid due to incorrect PAYE earnings, versus 20% of UC expenditure paid to self-employed that was overpaid due to incorrect income.

3.   A significant and growing cause of fraud in the welfare system is the under-declaration of financial assets, representing 16% (£894m) of the total fraud and error overpayments in Universal Credit in FYE 2023. Abroad fraud and error overpayments account for less monetary value but are still substantial at £187m in FYE 2023. Whilst DWP know this kind of fraud is happening, under current legislation DWP can only obtain information from data holders on a named individual, and only after fraud is suspected, meaning it is impossible to tackle at scale. This loss of taxpayer's money is a significant opportunity cost for Government, preventable, and it could be stopped more effectively through the Third-Party Data Gathering measure.

4.   The Third-Party data gathering measure would enable DWP to access data at scale, from specified data holders, to determine if a claim is potentially fraudulent and if a claimant should be eligible for benefit. This measure will improve efficiency and deliver better public services by enabling DWP to better detect and prevent fraud and error earlier, ensuring a greater proportion of claims are paid correctly and reducing the burdens on the welfare state associated with overpayments building up and debt recoveries. This measure is also positive for claimants affected by overpayments caused by error as it will stop them receiving more than they are entitled to sooner, thus reducing the total amount they must repay through recovery once the overpayment has been detected.

5.   DWP will protect privacy, ensuring appropriate use of the power – only looking at data that is signalling potential benefit fraud and error and only drawing in data on DWP customers. DWP will create a system for Third Parties that is effective, simple, and secure and data will be transferred, received, and stored safely.

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1 Available at: Fraud and error in the benefit system Financial Year Ending (FYE) 2023 - GOV.UK (www.gov.uk)
2 Fighting Fraud in the Welfare System – CP 679 (publishing.service.gov.uk)

6.   This measure would build on existing powers available to DWP, partially mirroring the Suspicious Activity Reports (SARs) that are received by law enforcement agencies and has synergies with powers that HMRC currently have[3], where they receive information on all interest-bearing accounts from banks and building societies for the purposes of assessing tax. This measure is proportionate and targeted and will help DWP tackle fraud and error more effectively to improve public services.

Policy Problem

6.   The measure we are seeking is a broad data sharing power to compel designated Third Parties to share information with DWP to help tackle fraud and error. This measure was set out in the Government's Fraud Plan, published in May 2022[4], which set out a range of measures that we are seeking to take to reduce losses from Fraud and Error. The impact assessment focuses on the initial use of the power between banks/building societies and the DWP to identify where wrongful overpayments have been made due to a person's capital or where they are spending more time out of the country than the benefit rules allow.

7.   Banks and building societies hold a comprehensive set of data which could help us identify and stop a substantial amount of fraud and error, following first payment of a claim to benefit and during the lifetime of the claim. However, we can currently only access this on an individual basis where fraudulent activity is suspected. As explained in para 2) large scale data sharing (with HMRC) has had positive impacts previously.

8.   We therefore want to introduce new primary legislation that compels Third-Party data holders to share information with DWP for claimants who are signalling potential benefit fraud e.g., for the initial use of the power with banks/building societies - holding savings above the capital rules; account being used abroad for more than four weeks. This data will then be used in DWP to determine whether fraud or error has occurred, and if so, take appropriate action as per our business as usual processes.

9.   The power is not limited to a specific type of data or type of institution/Third-Party to allow us to fight new fraud and error issues as they emerge and engage with new institutions as efficient opportunities become available to us.

10.   However, an initial use will be to allow identification of potential capital and abroad fraud and error, as potential breaches in entitlement can be easily identified using data held by banks and building societies and other financial institutions.

11.   Capital fraud and error has been increasing and is currently the fourth highest cause of benefit fraud and error. Failure to declare or under-declaring capital is consistently in the top causes of Fraud and Error and cost just under £900m million in Universal Credit (UC) overpayments in 2022-23, therefore is a key focus. In addition to this, abroad fraud and error cost just under £200million in Universal Credit (UC) in overpayments in 2022-23[5]. Alongside UC there is also substantial amounts of capital and abroad fraud and error overpayments in Pension Credit (£138m and £52m respectively in 2022-23) and Employment and Support Allowance (£167m and £10m respectively in 202223).

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12.   Internal DWP analysis shows that a substantial amounts of capital fraud and error is due to undeclared or under-declared savings in high street banks and building societies. Additionally, internal analysis indicates that over 97% of claimants across DWP have their benefit paid into an account with the top 15 banks and building societies. However, we are aware that the banking landscape is changing, with an increase in the use of online banks such as Monzo, Starling and Atom, so we need to ensure the power is future-proofed to ensure we can adapt to current and emerging trends in customer banking habits.

13.   Once fraud and error enter the benefit system, it is repeated with every payment, until it is detected. Access to this intelligence will support earlier detection of fraud and error, stopping fraud from bedding in the system and debt building up which is challenging for the Government to recover. This power also has the advantage of picking up error much earlier, stopping people from getting into significant amounts of debt.

14.   Whilst we know there are significant levels of fraud and error, there may be nothing in DWP data to raise suspicion. But there are visible signs of potential fraud and error in Third-Party data sets if we actively look for it.

15.   DWP currently has the power to compel prescribed information holders to share data on individuals if fraudulent activity is suspected but does not have the power to compel Third Parties to share data that is signalling potential signs of fraud and error on 'persons unknown' at scale. DWP has explored existing legislation and data sources both inside and outside of government, but none fully provide the access to the type of data that DWP requires. Examples include:

- HMRC - Obtains banking data on an annual basis on interest bearing accounts which is subsequently shared with DWP, however, there is a significant time lag in receiving the data and it is therefore often out of date by the time it is received and does not capture all accounts that would be relevant to DWP.
- Proceeds of Crime Act 2002 - Requires banks and building societies to notify law enforcement of suspicious activity using Suspicious Activity Reports (SARs), however, the focus is on money laundering or other serious illicit financing and doesn't therefore fully capture benefit fraud. We explored this option with a high-street bank but determined primary legislation was needed.
- Open Banking - Enables consumers to give third parties access to their financial accounts, as it is consent-based it's unlikely that those seeking to hide excess capital whilst claiming benefits would consent to share data.
- Vocalink - This is a company that administers the UK's banking payment infrastructure. This company can only see transactional data (movements between banks and building societies) and therefore cannot provide balances on accounts.
- Credit Reference Agencies (CRA) - do not have access to multiple financial accounts and therefore all the capital someone might have.

16.   DWP believes a key set of data holders, and those affected by this policy in the first instance, will be banks and building societies. Primary legislation should enable us to use the power in dynamic ways to continue to tackle evolving fraud trends and with new third parties, as opportunities present themselves. As different threats evolve so our response and primary legislation needs to support this.

Rationale for Intervention

17. A significant cause of fraud in the welfare system is capital (under declaration of assets), representing 16% (£894 million) of the total overpayments in UC in FYE 2023[6]. Another area of loss is abroad fraud (where claimants spend more time out of the country than benefit rules allow for), representing £187m of the total overpayments in UC. Whilst we know this kind of fraud and error is happening, it is impossible to tackle at scale using our current powers. We can only obtain information from data holders on a named individual, and only after fraud is suspected.

18. But this loss of taxpayer's money is preventable and could be stopped more effectively with new powers. Banks/building societies and the financial sector know how much capital their customers have, or when people make transactions abroad, and they will always know if those customers are benefit claimants.

19. New powers on Third Party data gathering would enable us to access targeted data at scale to signal if a claimant might be breaching benefit rules, allowing us to detect and prevent fraud proactively.

20. As well as preventing loss to the exchequer and rooting out fraud in the welfare system, this measure is also positive for claimants affected by overpayments caused by error; stopping them receiving more than they are entitled to earlier thus reducing the total amount they must subsequently have to repay through recovery once the overpayment has been detected.

21. This measure is proportionate and targeted and will help DWP tackle fraud and error more effectively.

Policy Objective

22. The Policy objective of DWP is to deliver better public services by enhancing the government's access to information from Third Parties on a larger scale where data is signalling potential fraud and error in the benefit system, improving efficiency and payment accuracy in the benefit system. This measure will deliver better public services by enabling DWP to better detect and prevent fraud and error, ensuring a greater proportion of claims are paid correctly and reducing the burdens on the welfare state associated with overpayments building up and associated debt recoveries.

23. DWP will protect privacy, ensuring appropriate use of the power – only looking at data that is signalling potential benefit fraud and error. DWP will create a system for third parties that is effective, simple, and secure and data will be transferred, received and stored safely.

24. Through primary legislation we aim to set the broad framework for this power, including:

- Definition of data holder – The type of data holder is likely to evolve over time. Initially, for the purposes of detecting fraud and error, we want the data holder for this measure to be defined as any third party as prescribed by Secretary of State via secondary regulations.
- Definition of the type of data we will be looking for – the minimum data to establish identity of the data-matched claimant and the 'relevant data' which signals potential fraud/error i.e., the reason they have been matched. We will ensure we are able to demonstrate compliance with the data-minimisation principle of the General Data Protection Regulation (GDPR).

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6 Fraud and error in the benefits system. Financial Year Ending (FYE) 2023. Link

- The purposes for which we are asking the information - data request notices will be defined to ensure DWP requests only the data items required for the purpose of identifying specific types of potential fraud and error. The specific type of fraud and error and precise data items to be requested will be detailed in the data request notice to the third party, at the time of request.
- Who is authorised to use this power – this will set out the authority for DWP to use the power.
- Introduce the new statutory Code of Practice required to support the legislation – and explain that the detail of Disputes, Appeals and Fines procedures will be included in secondary legislation.

25. Secondary legislation will then be needed to define how the measure will operate, in practice, for example who the data holder is . We will work in partnership with data holders to develop the risk criteria and commit to producing new Impact Assessments to support any regulations made under this power.

26. Due to the level of policy decisions that are to be made at the secondary legislation stage, the likely scale of impacts of the measure outlined in this Impact Assessment are indicative only. We will continue to work with Third Party data holders (primarily banks and building societies in the first instance) to develop how the policy will operate and associated delivery mechanisms. Wider data holders in scope for the broad powers are not yet established, as such we cannot provide a meaningful EANDCB figure for RPC validation at this stage. We commit to completing an updated Impact Assessment at the secondary legislation stage in line with scenario 2 of the RPC's guidance to the assessment and scoring of primary legislation measures[7].

Policy Options Considered including Alternatives to Regulation

27. The pandemic saw a significant increase in fraudulent activity to the benefits system. In response, DWP published a white paper outlining new approaches to preventing, detecting, and deterring fraud from entering the benefits system[8]. The White Paper proposed several measures to tackle fraud and error, some of which were subject to securing new legislation and funding. The options below specifically relate to the Third Party Data gathering measure.

Option 0: Do Nothing

28. This is the status quo, in which the Department does not secure new legal powers. As previously mentioned, the total amount of benefit expenditure overpaid in FYE 2023 was £8.3bn[9]. Whilst the headline level of fraud and error fell from a record high £8.7bn FYE 2022, the rate of capital fraud and error overpayments in UC increased from £768m in FYE 2022 to £894m in FYE 2023 – indicating this is one of the weaker parts of the system. It is also a harder type of fraud to detect. Whilst abroad fraud and error overpayments are lower they still account for a large amount of money, in UC rising from £136m in FYE 2022 to £187m in FYE 2023. Without intervention it is likely that fraud and error in the benefit system may continue to remain high, providing a significant opportunity cost to the taxpayer.

Option 1: Industry and Government Partnership

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7 RPC Case Histories: assessment and scoring of primary legislation measures, 2019. Link
8 Fighting Fraud in the Welfare System, 2022. Link
9 Fraud and error in the benefit system. Financial year Ending (FYE) 2023. Link

29. Permissive legislation is introduced enabling the department to request the relevant data on a voluntary basis but would not compel banks and building societies to share data. If any banks and building societies' refuse this would reduce the impact of the power. If some institutions do not comply with regulation, claimants may be more likely to switch to these institutions. This is because the risk of getting caught is significantly reduced. Institutions could be disadvantaged by complying with the regulation which is not a policy objective.

30. To cost this option, we could take a representative sample of data sharing institutions and estimated compliance rates. We could then apply this rate to all institutions in scope to estimate costs and benefits. There is a high degree of sensitivity in this approach since each institution does not have an equal share of capital e.g., some institutions might be willing to comply but may not have high levels of capital that would be of interest to the benefit system. Additionally, without approaching each data holder, and asking if they would voluntarily comply, it would not be possible to estimate compliance rates. We have not costed this approach due to the uncertainties explained above.

31. We have discounted this policy option as it does not meet the Government's objectives and would also have negative impacts on competition within the banking industry in the instances that there are varying compliance rates.

Option 2: New Primary Legislation (Preferred Option)

32. DWP will legislate for a primary power requiring Third Parties to share information with DWP where the data is signalling potential benefit fraud. DWP will carry out a test and learn process to ensure we can deliver this efficiently and safely. Whilst the power itself is intended to be broad, the initial use will focus on banks and building societies, specifically targeted risks around capital and abroad fraud.

33. To demonstrate the feasibility and potential of using the Third-Party data measure, DWP has tested two Proof of Concepts (PoCs) which consisted of establishing data-sharing collaborations with two banks. The Department asked the two high-street banks to use their internal data to identify accounts receiving specified types of benefit payments and matching the risk criteria provided by DWP for capital and abroad entitlement rules. This meant identifying accounts receiving a means-tested benefit with savings over the capital limits and/or being accessed abroad for over four weeks in a row.

34. Bank 1, in 2017, examined a limited sample of cases containing personal information (i.e. live data) at the request of the DWP. This resulted in 549 bank accounts being reported by Bank 1 to the DWP as Suspicious Activity Reports (SARs) under the Proceeds of Crime Act 2002. Of the 549 matches generated for DWP to review, 176 cases (32%) are related to the capital eligibility rule and 58 cases (11%) are related to the abroad eligibility rule[10]. Of the 176 cases related to the capital eligibility rule 58% (the hit rate) led to a positive outcome of either positive compliance, positive criminal investigation, an administrative penalty, or prosecution. For the abroad eligibility rule the positive outcome hit rate was 66%.

35. Bank 2 examined non-personal information to establish the number of accounts that matched the risk criteria provided by DWP for Capital and Abroad, to their entire client base in receipt of three benefits: Universal Credit (UC), Pension Credit (PC) and Employment & Support Allowance (ESA). Bank 2 identified for the months of July, August and September 2022 a total of 713,000 accounts were in receipt of the above

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[10] The sample of cases reviewed were not random, but instead derived from suspicious activity reports. Therefore, hit rates are likely to be higher than a randomly selected sample.

welfare benefits: UC (58%), PC (20%) and ESA (22%). Among these, approximately 60,000 accounts were in risk of breaching the capital rule (8%) and 3,000 accounts in risk of breaching the abroad rule (<1%). For accounts in risk of breaching the capital rule, the average monthly balance was £50,000 and about 50% of those accounts were joint accounts.

36. The above results of the small-scale tests with two banks and building societies indicate a strong potential for the use of banking data to identify possible capital and abroad fraud and error across a range of means-tested benefits.

37. Please see **Annex A** for how the Third-Party data gathering power could be initially used to access new intelligence (this is a hypothetical process and is subject to detailed design with stakeholders during 'test and learn' phase).

Option 3 – Use other provisions outlined in the Data Protection and Digital Information Bill

38. We have previously identified new data gathering measures that are being sought in the Data Protection and Digital Information (DPDI) Bill linked to the lawful basis for processing; Clause 5 of the DPDI Bill. This power, when enacted, will give data controllers a clear lawful ground under new Article 6(1)(ea) of the UK GDPR for disclosing data where necessary for the purposes of crime prevention/investigation/detection; or where the data had been requested by a public body to help that body deliver a public task under Article 6(1)(e) of the UK GDPR.

39. We had initially felt that this might be a viable option to gather the data we are seeking however we identified two clear limitations with this. The first is that this is a permissive power meaning data holders do not need to comply with a request. The second limitation is that it would not cover claimant error as this is not a specified crime. For these reasons, this option was discounted – it would not have met Government objectives. This has not been costed due to the complexity of the option and clear lack of viability.

40. In addition to the three main options above, we also considered a range of further data options and solutions to enable us to meet our policy objective, as outlined in paragraph 15 of this note.

Cost-Benefit Analysis

Modelling

41. The scope of this costing is limited to a data share between DWP and partnering banks/building societies (initially the top 15), in which the latter will identify customer accounts at-risk of Capital or Abroad, related Fraud and Error. This is the intended initial use of the powers though we accept that the powers are broad and as such we commit to further impact assessments at the secondary legislation stage when more policy detail is agreed, secondary legislation will also be required to outline new data holders in the future. The costing assumes that rules will be run on Employment Support Allowance (ESA), Pension Credit (PC), and Universal Credit (UC) – commonly referred to as means-tested benefits. The model further assumes that a proportion of PC claims will passport eligibility to associated Housing Benefit (HB) claims. The model uses different rates and assumptions for each benefit and the type of fraud in order to establish a robust basis for the figures.

42. The costing is largely predicated from insight developed through two data sharing exercises: In 2017, the DWP established a data share collaboration with Bank 1 who provided the Department with details of ~500 cases at-risk of breaching Capital Fraud / Abroad Fraud eligibility rules. These cases were triaged by the Department to exclude cases unlikely to result in a positive outcome, before being reviewed by Investigations or Compliance staff to establish Hit Rates and average Monetary Value of Adjustment (MVA). This exercise included ESA and PC (both in-scope for the current costing) but did not include UC as UC caseloads were very low at the time of the exercise. In 2022, the DWP established a data share collaboration with Bank 2 who provided the Department with volumes of accounts at-risk of breaching Capital / Abroad eligibility rules. This exercise included ESA, PC, and UC.

43. Each step of the model is outlined below, alongside illustrative calculations.

Step One: Calculate the Annual Volumes

44. The costing model starts with DWP administrative data of the number of claimants that have accounts in the UK's largest 15 banks and building societies (this is the likely initial use of the powers). Then the proportion of at-risk cases identified through the Bank 2 exercise is applied to these volumes (by benefit) to estimate the volume of at-risk cases we are likely to have on the DWP caseload. Insight from the Bank 1 exercise is then used to estimate the volume of these cases that would be triaged to DWP Investigations and Compliance, and subsequently the volume of cases that would result in an Overpayment being identified (e.g., a "Hit").

Volume of Customers per benefit with accounts in the top 15 banks * % of cases at risk of fraud and error = Volume of potential fraud and error cases

Volume of potential fraud and error cases * % of cases triage team assessed as likely to be successful/investigated = post-Triage volumes

Post-Triage volumes * % Hit rate for cases = Volume of cases detected (likely to lead to a positive outcome)

Step 2: Adjust for Changes to Benefit Caseload

45. The costing model adjusts the volume of hits for each year of the appraisal period to account for forecast changes in benefit caseload[11]. This assumes that the current rate of the Capital / Abroad Fraud related error will remain broadly consistent over the duration of the period. Following the end of the forecast period, the model flatlines the benefit forecast as there are no official forecasts to cover those future years. OBR's overall forecast of fraud and error is coming down[12], but primarily due to stronger controls on other parts of the benefit system, such as self-employment. Given there are upward forces on the fraud and error rate too, we believe it is reasonable to assume that the capital and abroad fraud levels will remain broadly flat over the next 10 years, without a substantive intervention like the policy that is proposed here.

Volume of cases detected * benefit caseload forecasted increase = Volume of Hits Per Year

Step 3: Adjust for service rollout

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11 Benefit expenditure and forecasts tables, 2023, Link
12 Economic and fiscal outlook, 2023, Link

46.   The costing model adjusts the volume of hits for assumptions around service rollout. This is based on cautious high level assumptions about the roll-out profile, with full roll-out expected from 2030/31.

*Volume of hits 2025/26 = Volume of hits (from step 2) *0.02*

*Volume of hits 2026/27 = Volume of hits (from step 2) *0.10*

*Volume of hits 2027/28 = Volume of hits (from step 2) *0.40*

*Volume of hits 2028/29 = Volume of hits (from step 2) *0.60*

*Volume of hits 2028/29 = Volume of hits (from step 2) *0.80*

*Volume of hits 2030/31 onwards = Volume of hits (from step 2) *1*

Step 4: Adjust for behavioural change

47.   The costing model adjusts the volume of hits for changes in customer behaviour. It is assumed that a proportion of the more active fraudsters will adapt their method to circumvent the rules. This may be offset by increases in compliance behaviour. Whilst we acknowledge that this assumption is difficult to evidence as the nature of fraudulent behaviour is that it is "hidden" the DWP feel it is important to establish that a decrease in hits will be likely and to account for this in the modelling. The adjustments here are based on high level assumptions from policy and operational employees. See paragraph 93 for the sensitivity analysis on this assumption.

Volume of hits (from step 3) – 5% of the hits

Step 5: Adjust for error detecting in previous years

48.   Based on internal DWP analysis of historic distributions of Fraud and Error durations, a proportion of Capital / Abroad Fraud and Error is assumed to persist for more than a year. The costing model assumes a proportion of cases in any given year will be greater than one year old and will have already been identified in a previous year – this varies by benefit and is applied accordingly.

Volume of hits (from step 4) – proportion of hits from previous years already identified through this specific measure

Step 6: Calculate the total annual Monetary Value of Adjustment[13]

49.   Insight from the Bank 1 exercise is used to estimate the average value per hit for Capital and Abroad cases. The costing model uses these averages to estimate the total value of award adjustments per year. Where the monetary value of adjustment (MVA) is based on data from 2017, the MVA is adjusted for inflation using benefit uprating records as retained through the House of Common Library[14].

Volumes of hits (from step 5) x average MVA per hit x benefit uprating factor

Step 7: Apply Future Overpayment Methodology

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13 Monetary Value of Adjustment (e.g., change in amount of benefit entitlement due to a fraud/error being identified)
14 Tables published in Benefits Uprating 2023/24, House of Commons Library, Link

50. The costing model uses conventional DWP Fraud and Error methodology to estimate the Future Overpayments Prevented through the Hits, whilst also netting off any recoveries that would have been achieved through business as usual (BAU) activities. The same methodology assumes that a proportion of Overpayments that have already been made will be recovered.

51. See Annex B for an illustrative example with dummy figures.

Additional Assumptions

52. Where insight is not available from the Bank 1 and Bank 2 exercise, additional assumptions have been made. Key assumptions include:
- The Bank 1 exercise did not include UC. For UC Hit Rates, ESA Hit Rates have been used as a proxy since this is the most similar benefit from the exercise. For UC MVA, the average value of a capital or abroad related UC Hit identified through the DWP's existing systems has been used.

Direct Costs to Government[15]

53. It is anticipated at this stage that the Departmental Expenditure Limit (DEL) costs from 2025/26 to 2034/35 are likely to be around £420 million[16]. We anticipate there will be pure staffing costs and additional costs such as general non staff and digital costs associated with processing the large volumes of referrals. Due to the nature of how departmental budgets are calculated and agreed some elements are not captured here, for example estates.

Full Time Equivalent

54. The implementation of the measure will necessitate the recruitment, reallocation and training of personnel to build and deliver the services, including to handle the increased numbers of detection of extra fraud and error cases, appeals and for the recovery of debt. Internal analysis estimates that over the appraisal period (2025/26 to 2034/35) the Department requires current and additional FTE to operate the policy, costing around £370m (including overheads). A year after the policy has been fully rolled out, 2031/32, staffing costs are estimated to be around £30m per year (including additional non-staff costs).

55. Once fraudulent activity has been identified, the Department will need to manage the Debt to safeguard claimants. It is estimated that over the appraisal period, debt management will cost around £20m (including additional non-staff costs), which is included in the total estimate in para 53 and the table below.

Table 1: Summary of Departmental Expenditure Limit (DEL) Costs[17]

Year	Operations	Debt Management	Other costs	Total DEL (rounded to nearest £10m)
2025/26	<£10m	<£10m	<£10m	£20m
2026/27	£20m	<£10m	<£10m	£30m

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15 All figures are correct at the time of submitting to RPC and are subject to change as per the usual scrutiny process applied to government spending.
16 Note, these costs are different to summary figures due to discount rates.
17 All figures rounded to the nearest £10,000,000. Totals may not sum due to rounding.

2027/28	£70m	<£10m	<£10m	£80m
2028/29	£50m	<£10m	<£10m	£60m
2029/30	£50m	<£10m	<£10m	£60m
2030/31	£60m	<£10m	<£10m	£60m
2031/32	£30m	<£10m	<£10m	£30m
2032/33	£20m	<£10m	<£10m	£30m
2033/34	£20m	<£10m	<£10m	£30m
2034/35	£20m	<£10m	<£10m	£30m
Total	£350m	£20m	£50m	£420m

These figures are subject to change and agreement as per the usual scrutiny process applied to government spending.

Non-Staff Costs

56.   The Third-Party Data (TPD) measure will require the transfer, storage and processing of data from information holders to the DWP. Digital costs related to the initial use of the Third-Party Data measure is estimated to be around £15m over the appraisal period.

57.   Other non-staff costs are calculated using internal resourcing models, broken down by specific area. These costs are included within the total DEL cost figure. BAU Non staff costs include: Professional Services, Travel and Subsistence and Facilities Management, amongst other things.

Direct Costs to Third Party Data Holders

58.   This measure is drafted broadly to ensure it is future proofed against future changes and innovation, particularly in the financial services sector, i.e., in Fintech and Crypto, and to enable DWP to apply this measure to non-financial organisations in future if it is deemed appropriate and proportionate. For those organisations in the financial sector who we will look to implement this measure with first we will assess the costs of compliance through ongoing and extensive engagement with the sector. This approach will be done in partnership with UK Finance and financial institutions to ensure that we are working collaboratively on how to deliver the measure in practice. This will involve establishing a working group with banks who will jointly determine what data we look for, how frequently we ask for it and how best to share the information.

59.   At the secondary legislation stage, we will finalise the definition of third party data holders and have further details of the operational process. Through this detail and additional evidence gathered through consultations with banks we will provide a robust costs to business analysis and publish this in an additional impact assessment.

60.   The insights outlined below about the set-up costs, familiarisation and ongoing costs come through our initial engagement with organisations in the financial sector (these are not named due to commercial sensitivies) and from the proof-of-concept exercises completed with partner organisations. We have also engaged extensively with UK Finance who have worked with us to develop the thinking behind this measure, including ways to minimise burdens. The costs are indicative and will be updated, with the additional evidence we can gather, at secondary legislation stage as per scenario 2 of the RPC guidance.

Set-Up Costs

61.   Set up costs for financial institutions are likely to include the reallocation of staff to comply with the legislation, IT infrastructure and similar non-staff costs such as training and implementation costs.

62.   Anecdotal insight gathered from bank 2 following the 2022 proof-of-concept exercise indicated that the staffing resource required to "code" the data mining / gather (currently for capital and abroad fraud) to be applied to their existing IT systems was estimated to be half a day per criteria. This is likely a low estimate of the resource required by banks as it was not able to account for additional processes associated with the initial use of the power such as the transfer of data to DWP and associated data protection measures necessary. The exact data transfer method has not been determined yet as we are committed to working with data holders to develop this, so it is not possible to provide an estimate of the associated set-up costs. We do however aim for the transfer of data to be as automated as possible, minimising the need for staff to share information.

63.   One option for the data transfer method is to use an API (application programming interface). Through consultation with industry sources, it is estimated that initial set-up costs for a financial institution linking to an external API ranges between £0.5 million and £5 million, depending on the complexity and volume of the data exchange and on the bank's existing IT infrastructure and operating model. The initial use of the powers for the test and learn phase will focus on the top 15 banks as these are used by the vast majority of DWP benefit claimants (97%) and therefore offer the most proportionate use of a data exchange.

64.   This range of set-up costs is also corroborated by another retail bank (Bank 2 above, a main high-street bank who are not identified for commercial sensitivity reasons) who provided some additional estimations, based on their experience of complying with the Immigration Act (see para 68 for details on the similarity of the Immigration Act to this measure). They reported that if the DWP process comes through existing channels their infrastructure costs would be £125K-£150K. However, if they had to start this as a new project (following Architecture principles of API use etc) costs would be higher, estimated between £450k - £1m.

65.   We will work with the banking sector to develop these costs to provide a more robust estimate at the secondary legislation stage.

Familiarisation Costs

66.   Third Party data holders will need to understand the changes in legislation and process. Staff will be required to read and understand new regulatory requirements. Through extensive engagement with banks, we will work with data holders to understand how many individuals (and their associated grade and occupation) will be required to read the guidance. Once we know this information, we can apply standard appraisal techniques to estimate familiarisation costs e.g., we can take the time assumption and apply this to the number of individuals and their associated hourly salary from the Annual Survey for Hours and Earnings.

Ongoing Costs

67.   Once the policy is fully rolled out and the data sharing arrangements have been finalised, we expect there to be ongoing compliance costs for data holders. Until the policy has been fully developed at secondary legislation stage (e.g., the frequency of reporting requirements), it is difficult to estimate ongoing costs. Like the familiarisation cost approach, we will estimate the time taken to complete the data request through engagement with stakeholders through our industry working group. This will be multiplied by the number of staff required to complete the request and their associated

grade and occupation, to reach an estimated ongoing FTE cost to business. Through continued industry engagement we will look to reduce the burden to business.

68. In the absence of industry engagement, we have drawn upon evidence from other pieces of legislation across Government. The proposed Third Party Data measure has similarities with Section 40A of the Immigration Act 2014, which requires banks and building societies to check existing current accounts to identify any that may be held by disqualified persons. Both processes require banks and financial institutions to check their consumer records, match against key criteria set by Government and report relevant data back to investigation and enforcement agencies.

69. Through consultation with the analysts in the Home Office we have determined that the practical delivery of this measure is expected to be different to section 40c in the following ways:
   - we anticipate the Third-Party data measure to be a fully automated process, running within existing banking systems, once banks and DWP have jointly defined the risk criteria we need to match data to.
   - we will only go to the named bank which a DWP customer uses to have their benefits paid into, we will not ask all banks to search data for a specific customer. unlike, the Immigration act Impact Assessment that assumes that all personal current accounts would be checked (estimated to be over 70 million).
   - we will not need to pass any personal detail to the banks for the measure to be successful; banks can already identify DWP benefit claimants by the payment identifier linked to each benefit DWP administers and hence the transfer will only be one way (from banks and building societies to DWP). however

70. Analysts in the Home Office estimated total ongoing costs for business to be £2.3m across the 10-year appraisal period[18]. However, for the differences outlined above, we expect the burden to be lower than that placed on banks through Section 40A. Therefore, estimates made for the ongoing burden to banks for the Home Office Act is indicative of what a high estimate of ongoing costs to business could be for this measure TPD. However, it is likely that initial set up costs (including any IT system and development of coding rules for those systems) would be similar. We acknowledge that Home Office figures were calculated several years ago, however there has not yet been a post implementation evaluation to assess the accuracy of their estimates.

71. Other avenues explored include the HMRC processes around interest-bearing accounts however this did not yield any indicative cost estimates.

72. We also investigated the HMRC International Tax Compliance Regulations[19], although dated, some elements were useful. There are some similarities to the DWP Third Party data measure with respect to the type of action financial institutions are being asked to undertake and therefore the costs outlined.

73. The measure built on an existing data share between the USA and UK, however these regulations expanded the requirement. Whilst there were substantial set up costs estimated with a large range (£70m - £209m) we have not included them in our "Set Up Costs" section as we do not believe they are reflective of those that will be incurred by business from our own measure. Our current engagement with the industry does not suggest the DWP measure would attract this type of cost. Whilst the prices are based on

18 Available at: IA15-008B.pdf (parliament.uk)
19 Tax administration: regulations to implement the UK's automatic exchange of information agreements (publishing.service.gov.uk)

2014/15 figures, technology (and the market) has moved on significantly, as such we believe these figures to be very high.

74.   In terms of ongoing costs, these are estimated to be £2m - £4m per year. Again, this is higher than our current indicative estimates based on our engagement with the industry and industry experts for the initial use of the power.

Direct Benefits to Government[20]

75.   The Department and wider Government will benefit from preventing, detecting and deterring fraud from entering the benefits system. The current mechanism by which Third Party Data Sharing will generate savings is via detection. The Department's Counter Fraud and Compliance teams will use the additional information gathered through this measure to identify false claims and misinformation.

76.   As seen in the table below (Table 2), savings are lower in the first few years of implementation. This is due to a phased roll-out. Hence, savings are smaller across all benefit lines and type of fraud.

77.   The measure is expected to generate around £500m AME savings over the scorecard period (to 2028/29), and £500m per year at full scale from 2030/31.

78.   Our costings are based on two PoCs with high street banks and building societies. Savings are primarily based on detecting capital and abroad fraud as previously explained. Capital fraud is the key driver for AME savings, equating to £3.1bn out of the £3.6bn

79.   The monetised benefit of the measure only captures the potential value of overpayment that could be corrected by DWP. There are further benefits beyond the monetary value, such as the potential disruption and disincentive of criminal activities caused by the deterrence effect of the measure. Furthermore, there may be a benefit from the public's perception that DWP can ensure taxpayers' money is not spent on fraud and error and therefore improve the public's perception on the department.

Table 2: Summary of AME (Annually Managed Expenditure) savings[21]

Year	Total AME (rounded to the nearest £10m)
2025/26	<£10m
2026/27	£40m
2027/28	£170m
2028/29	£310m
2029/30	£430m
2030/31	£530m
2031/32	£560m
2032/33	£540m
2033/34	£510m
2034/35	£480m
Total	£3,580m

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20 All figures are correct at the time of submitting to RPC and are subject to change as per the usual scrutiny process applied to government spending.
21 Totals may not sum due to rounding. All figures rounded to the nearest £10,000,000.

These figures are subject to change and agreement as per the usual scrutiny process applied to government spending.

80. The savings are fairly stable once the policy rolls out, due to the nature of these types of fraud and internal analysis assessing the distribution of durations which showed that the majority of cases lasted less than a year, hence a relatively high amount of "flow" into the system.

Implementation of Policy

81. The policy has been designed in collaboration with operational colleagues, whereby a period of 'Test and Learn' will begin in 2025 with a limited number of banks and building societies. The purpose of this approach is to get the data sharing agreement between DWP and Third-Party Data holders right, before implementing the policy on a larger scale. After the focused test and learn, the policy will begin gradual roll-out (from 2027/28), with it reaching full scale by 2030/31.

82. During the test and learn phase, we anticipate direct costs to banks and building societies will be very low. Both banks agreed to the PoC for no financial incentive, indicating minimal impact to business operations. PoCs are of course different to official legislation, but we believe this suggests minimal additional burden during the testing phase and negligible costs. However, we anticipate our costs and benefits to begin from 2025/26.

Wider Costs

Additional Justice Costs
83. This measure will have both direct and indirect impacts on the Justice System. The analysis below refers to the initial use of the power whereby we expect that the top 15 banks and building societies will be identified for the Third Party Data share.

84. Direct impacts to the justice system will relate to non-compliance from third-party data holders and associated penalties and appeals that may result. Due to a lack of available data, we are unable to estimate the level of non-compliance to the policy and subsequently cannot estimate the number of appeals to HM Courts and Tribunals Service (HMCTS) and penalties that will be applied. However, HMRC's experience of Schedule 23 of the 2011 Finance Act, which is a comparable measure in terms of their associated non-compliance policy, resulted in almost no penalties and appeals from non-compliance of financial institutions. The Schedule 23 of the Finance Act 2011 has a wider scope than our measure and therefore drawing on their experience it is anticipated that the volume of penalties and appeals for this measure will similarly be very low.

85. Indirect impacts on the justice system relate to the increase in prosecution cases, applications for legal aid and appeals to the Social Security & Child Support Tribunal arising from a rise in the number of referrals, investigations, and operations as a result of this power. Using our model to estimate volumes of hits for this measure, over the 10-year appraisal period, internal analysis has estimated that in total there will be an additional 74,000 prosecution cases, 2,500 custodial sentences and 23,000 applications for legal aid.

86. These estimated volumes will be sent to the Ministry of Justice as part of the Justice Impact Test, where the total costs to the justice system will be calculated. These costs will be included in our updated impact assessment at the secondary legislation stage.

Sensitivity Analysis

The figures presented in this section focus on the DEL and AME calculations (costs and benefits to government) as these currently have more certainty. A subsequent IA where the costs to business are more robustly calculated will include these in the sensitivity. However at this current stage costs to business are considered indicative.

<u>High and Low Estimates</u>

87. To take into account the uncertainty, we have taken a proportionate approach to sensitivity analysis, however we can explore this further in a subsequent IA at the secondary legislation stage. For the central cost and benefit estimates (as seen in the summary pages), we have adjusted costs and benefits by 15% to allow for both variation in the behavioural assumption and higher optimism bias than currently assumed. This means the Net Present Value (NPV) lower bound is £2,070m and the upper bound is £3,060m over the appraisal period.

Table 3: High and Low Estimates[22]

	NPV	AME Savings	DEL Costs
Lower Bound	£2,070m	£2,490m	£310m
Central	£2,570m	£2,930m	£360m
Upper Bound	£3,060m	£3,370m	£410m

88. Additionally, the present value of costs would need to increase by 711% or the present value of the benefits would need to decrease by 88% over the appraisal period to result in a zero NPV in the central scenario.

89. Equally there could be a combination of both, however in any case there are large deviations from current estimates required for this to occur.

90. Below shows the impact split by year, which highlights the significant deviation required for a zero NPV to occur.

Table 4: Percentage change in benefits required for neutral impact of proposals

	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Yr 10
% Change required	97%	-41%	-56%	-81%	-86%	-88%	-94%	-94%	-94%	-94%

Table 5: Percentage increase in costs required for neutral impact of proposals

	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Yr 10
% Change required	-49%	70%	129%	441%	603%	739%	1647%	1697%	1696%	1675%

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22 All figures rounded to the nearest £10,000,000.

Discounting

91.   The measure is modelled from implementation (2025/26) for a period of 10 years (2034/35). The Green Book recommends a discount factor of 3.5%, which results in higher total costs (£420m) than present costs (£360m).

Behavioural Change

92.   Once the measure is implemented and claimants are aware, we expect that there is the potential for claimants to change their behaviour. We anticipate there may be some positive behavioural change, whereby some claimants may cease to claim benefits when they know they are ineligible, this would create a reduction in fraud (realised savings) without the associated cost to business or DWP.

93.   In addition, there might be associated negative behavioural changes, claimants may split capital across multiple bank accounts to ensure that there is not £16,000 or above with one provider. This would allow claimants to go undetected by this measure and reduce its effectiveness. Currently, this behavioural assumption has been set at 5%. This means we assume that 5% of those with a positive outcome, adjusted for benefit caseload and rollout (Step 4 in para 47) will enact this behaviour and this will reduce the overall fraud referral volumes.

94.   Given the inherent uncertainty, there is a risk that changes to this proportion could adversely affect the savings estimated. Therefore, we have conducted sensitivity analysis on this assumption to understand how deviations from this affects the total NPV. In Table 6 we have set out 4 scenarios alongside our current assumption to understand this sensitivity:

Table 6: Impact of altering behavioural assumption on the NPV[23]

Behavioural Assumption	NPV	AME Savings	DEL Costs	NPV comparison
0.0%	£3,150m	£3,570m	£410m	23%
2.5%	£2,870m	£3,260m	£390m	12%
5.0%	**£2,570m**	**£2,930m**	**£360m**	**0%**
7.5%	£2,240m	£2,570m	£330m	-13%
10.0%	£1,880m	£2,180m	£300m	-27%

95.   This shows that due to the compounding nature of the behavioural change assumption, increases in the percentage lead to larger falls in the NPV than an equal fall in the percentage. For example, if the proportion was to be 0% the NPV increases by 23% in comparison to the 5% assumption. However, a 10% behavioural proportion leads to a drop by 27% in the NPV.

96.   Additionally, it is shown that the proportion of claimants adjusting their behaviour would need to be approximately 21% for the NPV to reach 0. This suggests a large change to the assumed behavioural change would be required for the NPV to reach 0.

Scope

97.   Currently, the analysis focuses on the top fifteen banks and building societies within UK – as this is the initial use of the power during the test and learn phase. Internal analysis

23 All figures rounded to the nearest £10,000,000.

shows these banks and building societies receive approximately 97% of all benefit payments from the DWP.

98.   The number of banks and building societies included could have an impact on the amount of savings generated. Theoretically, the more banks and building societies included, the greater the number of benefit claimants in scope and subsequently, the more likely we are to detect fraud and error. Conversely if there are a lower number of banks and building societies included the savings realised would likely be lower.

99.   Sensitivity analysis was carried out to investigate the top ten banks and building societies (as opposed to fifteen).

Table 7: Impact of altering the scope of banks included[24]

Number of banks included	NPV	AME Savings	DEL Costs	NPV Comparison
All Banks (165)	£2,640m	£3,010m	£370m	3%
Top 15	**£2,570m**	**£2,930m**	**£360m**	**0%**
Top 10	£2,360m	£2,690m	£340m	-8%

100.   After this adjustment to the model, the savings profile over 10 years are estimated to reduce by 8%. Despite this, the measure is still viable without the additional five banks and building societies, as most payments for claimants go to the top ten banks and building societies.

101.   Conversely, the impact on AME savings from including all banks and building societies (not just the top fifteen) is small. By potentially including all banks and building societies in this measure, the projected savings increase by 3% from the central scenario.

Optimism Bias

102.   To acknowledge the level of uncertainty, the AME savings are adjusted here by varying percentages to demonstrate optimism bias.

103.   The Government's Green Book sets out a range of optimism bias factors to adjust expected spending estimates for different types of projects. These are shown below in Table 8. However, the policy proposal does not fit within any of these project type definitions.

Table 8: Green Book optimism bias scales[25]

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24 All figures rounded to the nearest £10,000,000.
25 Green Book optimism bias adjustments Supplementary Green Book Guidance,
https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/191507/Optimism_bias.pdf

Generic lower and upper range optimism bias scalers for different project types	Works duration		Capital expenditure	
Spending type	Lower	Upper	Lower	Upper
Standard buildings	1%	4%	2%	24%
Non-standard buildings	2%	39%	4%	51%
Standard civil engineering	1%	20%	3%	44%
Non-standard civil engineering	3%	25%	6%	66%
Equipment/development	10%	54%	10%	200%
Outsourcing	n/a	n/a	0%	41%

104.   The Green Book's optimism bias factors are therefore used as a rough guide, we look at a range of scenarios.

105.   This adjustment accounts for the tendency for appraisals to be overly optimistic. For example, this adjustment may account for potential constraints from limited operational resource, leading to a reduction in AME savings. Additionally, this accounts for the risk of other fraud and error programmes being successful in reducing the stock of fraud and error or of the estimated 5% fraud and error upwards pressure not materialising. We believe that our test and learn approach, and working closely with the industry will mitigate any operational issues that might occur.

106.   Over the 10 years calculated, a 25% reduction in the gross savings profile leads to a NPV of £1,840m. To understand the sensitivity of this assumption, below shows the impact of both a 15% and 35% assumption:

Table 9: Impact of altering optimism bias adjustment on costs and benefits

Optimism Bias Adjustment	NPV	AME Savings	DEL Costs
15%	£2,130m	£2,490m	£360m
25%	**£1,840m**	**£2,200m**	**£360m**
35%	£1,540m	£1,900m	£360m

107.   The Green Book recommends also providing optimism bias adjustments related to capital costs and project timescales. These will be applied in the updated impact assessment at the secondary legislation stage following additional engagement with third party data holders and policy development.

Alternative Options Cost-Benefit Analysis

Option 1: Industry and Government Partnership

Direct Costs and Benefits

108.   For option 1, the direct costs and benefits are very similar to Option 2. The extent of the costs and benefits are likely to vary based on how many banks and building societies voluntarily comply with data requests. The compliance by banks and building societies potentially lead to the same costs and benefits as option 2. The greater compliance, the greater burden to industry and DWP, however higher AME savings achieved (by government). The lower the engagement, the smaller the burden to industry and the DWP. In the absence of evidence, it was not possible to estimate the propensity to voluntarily comply with the legislation. However, if everyone complied with the

legislation, costs and benefits would be the same as Option 2 (Preferred Option with Legal Powers).

<u>Indirect Costs and Benefits</u>

109.   If some banks and building societies comply with DWP's request, whilst other banks and building societies do not, this may impact customer behaviour. Claimants may be encouraged to move their accounts to banks and building societies who do not comply with the legislation. This would foster negative competition and result in unintended consequences to the banking sector. However, we have no evidence to estimate the anticipated size of the customer behavioural change.

Impacts on Small and Micro Businesses

110.   This measure will give DWP the power to request information from any third-party, unless stated otherwise. However, while DWP could compel institutions outside of the financial sector to provide information, it has no plans to do so at this point. Should that change, secondary regulations setting out the definition of new third-party data holders will be needed and a further impact assessment to assess the costs to that sector, including any impact on small and micro businesses.

111.   As set out in our assessment of direct costs to business, there are no plans to implement this measure more broadly than the financial sector at this time – namely banks and other financial services organisations. The initial use of the power during the test and learn phase will apply to the top fifteen banks and building societies which operate in the GB, none of which meet the criteria for a small or micro business.

112.   We know that the vast majority of DWP claimants bank with, and have their benefits paid into, the largest 15 banks in the UK. These banks and building societies receive over 97% of all payments to DWP claimants as established by internal analysis. Extending this measure to small and micro sized businesses would likely be ineffective due to the burden it might place on them and the number of returns the Department will receive from any data matches.

113.   It is, however, important to not shut off this option in primary legislation as we do not want fraudsters to see this as a loophole and change their banking approach to deliberately circumvent our measure. It is therefore crucial that the measure is then perceived and seen as a measure that could be applied to all banks. It is also essential that the Department is able to keep pace with changing technology and methods of fraud, which is why the ability to apply the measure to other sectors is needed. When that need is identified, a further impact assessment will be produced to accompany the necessary secondary regulations.

114.   This approach for the initial use of the power with banks also ensures that we are not affecting consumer choice and therefore competition within the market. Ensuring all banks are covered under the same obligation to share information, there would not be a choice for banks to opt-out and look more favourably to consumers, and banks can be clear and transparent with customers on how and when their data might be shared with DWP with assurance that this is a level playing field.

115.   Small businesses are defined in the better regulation framework guidance[26] as those employing between 10 and 49 full-time equivalent (FTE) employees. Micro-businesses are those employing between one and nine employees. Through secondary research,

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26 Better Regulation Framework, 2018, <u>Link</u>

we have determined that the top fifteen banks and building societies all employ more than 250 individuals. Therefore, the initial use of the measure will have no burden to small or micro sized enterprise.

Table 10: The top 15 banks and building societies

Bank Name	Employee Count
Bank of Scotland	40,000 (Zoom Info, 2023)
Barclays Bank	43,000 (Statista, 2022)
Halifax	4,000 (Zoom Info, 2023)
HSBC	40,000 (Zoom Info, 2023)
Lloyds Bank	62,587 (Statista, 2023)
Metro Bank	4,000 (Metro Bank, 2022)
Monzo Bank Limited	2,432 (Monzo, 2023)
National Westminster Bank (NATWEST)	63,500 (Statista, 2023)
Nationwide Building Society	17,680 (Nationwide, 2022)
Santander	22,200 (Santander, 2023)
Starling Bank	2,700 (Statista, 2023)
The Co-Operative Bank	2,677 (Statista, 2023)
The Royal Bank of Scotland (RBS)	12,000 (Zoom Info, 2022)
TSB Bank	6,000+ (TSB, 2022)
Yorkshire Bank	7,415 (Zoom Info, 2022)

116.   For any additional organisations to come into the potential scope for our measure we expect a bank's consumer base would need to grow significantly, thus likely meaning that the organisation grows and would no longer be a small or micro-sized business by the definition cited above.

117.   We are committed to producing another IA at the secondary legislation stage (in line with RPC guidance), at this point we will have had the opportunity to carry out more in-depth engagement with the financial sector and will use this intelligence to further establish any burdens for small and micro businesses accordingly, if indeed there are any. In line with RPC guidance as a part of this analysis we will consider whether these impacts will be disproportionate and, as we further develop the implementation models for this measure, consider potential mitigations for small and micro businesses.

Wider impacts

Impact on individuals' access (equality/distributional):
118.   In discussion with UK Finance, banks, building societies and other financial intuitions, we have been clear that any data received under this measure should not be seen as indicative of any financial crime. Many claimants will have a legitimate, authorised reason to hold savings in excess of capital benefit rules (disregards for injury compensation, for example) and in many cases, overpayments could have been caused by genuine claimant error. Given this, we have been clear that there should be no action to de-bank claimants.

119.   In addition to this, we have worked with UK Finance and Financial Institutions to provide a legal carve out within our provision linked to the Suspicious Activity Report (SARs) reporting regime. Banks were telling us that as welfare fraud is an offence which may signal wider financial crimes, such as money laundering, a financial institution may consider itself required, under the Proceeds of Crime Act 2002, to submit a SAR where they have suspicions that a customer may be fraudulently claiming benefits. We have

agreed with DWP Ministers that we will use the legislation to remove any requirement to submit a SAR, mirroring an approach that was taken within the Immigration Act 2014[27] whereby banks and building societies are required to check if existing account holders are 'disqualified persons'.

120. This approach will remove any burden on banks to provide a Suspicious Activity Report to the National Crime Agency for each and every data match they find.

121. We also do not anticipate any issues with consumer choice in the banking sector. We do not believe our measure will lead to banks and building societies declining to accept consumers who are on benefits. There are tight regulations surrounding these issues, and there has been a strong parliamentary response to any banks who decline customers because of matters such as legally held views. Furthermore, most people will already hold bank accounts prior to claiming DWP benefits, and many of our customers are also in work and have salaries paid into accounts.

Impact on the privacy of individuals:

122. We are confident that the power is proportionate and would operate in a way that it only brings in data on DWP claimants, and specifically those claimants where there is a reasonable suspicion that something is wrong within their claim. The power will not bring in non-claimant data and will not bring in claimant data where there is no signal of a breach in the entitlement rules (for example, those with low or no savings).

123. By ensuring this measure is proportionate and only focuses on data of claimants where the data indicates a suspicion of fraud or error we are complying with General Data Protection Regulation (GDPR), including compliance with the data-minimisation principle.

124. With respect to Article 8 of the ECHR – the right to privacy – DWP are satisfied this measure is both necessary and proportionate.

Impact on competition:

125. Maintaining the ability to apply the power with all banks and financial institutions is key to ensuring that we are not affecting consumer choice and therefore competition within the market. Ensuring the power is a mandatory one is also a key factor to avoid adverse impacts on competition and something banks have told us they would welcome. This means that all banks would be under the same obligation to share information, there would not be a choice for banks to opt-out and look more favourably to consumers, and banks can be clear and transparent with customers how and when their data might be shared with DWP with assurance that this is a level playing field. Our informal conversations with the industry suggest this would be welcomed (over Option 1) to avoid the unintended consequences mentioned above.

126. We do, however, know that in practice the power will be likely used with the top 15 banks and building societies across Great Britain initially, reflecting the banking choices of the overwhelming majority of our claimants.

International Impacts:

127. Our power is designed to be applied to all financial institutions that are authorised and regulated by the FCA to operate in Great Britain.

128. As DWP claimants cannot have means tested benefit payments (like the ones proposed in this measure – ESA, PC, IC and passported HB) made into offshore accounts, we

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27 Immigration Act 2014: suspicious activity reporting, 2023, Link

believe this measure will work with all financial institutions that have a footprint within Great Britain. We therefore do not expect any impacts, adverse or otherwise, on international institutions.

129.   There are no expected international trade implications from the options considered in this IA.
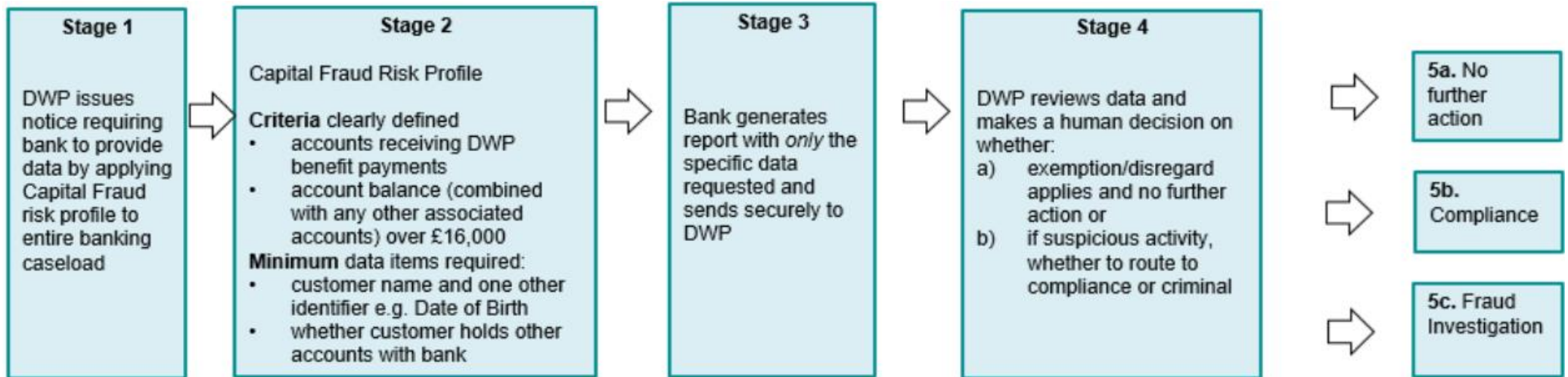

Monitoring and Evaluation

130.   We commit to completing an updated Impact Assessment at the secondary legislation stage in line with scenario 2 of the RPC's guidance to the assessment and scoring of primary legislation measures[28].

131.   The Department intends to work closely with banks and building societies to inform how we can best test this approach from 2025, before then building to full scale delivery by 2030. This approach to test and learn will be managed in partnership with UK Finance, banks and building societies and will allow us to test:
- The risk criteria – refining the criteria with banks and building societies to effectively target fraud and error and minimise false positives (important for proportionality).
- The IT system – to ensure the process works for both financial institutions and DWP to transfer the data efficiently.
- Data security – to demonstrate DWP's ability to transfer, process and securely hold large volumes of personal data.
- Impact on DWP and banks resources – we will need the resource available to manage any data shared and received in a timely manner.
- Ability of financial institutions to share this data – there will be a legislative requirement for banks and building societies to provide data but to ensure efficient deliverability we need to determine the capabilities of the spectrum of financial institutions.
- Appropriate safeguards - we must ensure that there are safeguards in place to control and monitor the use of the power.

132.   The success of the measures introduced by the Government will be evaluated by monitoring how the policy is utilised, including:
- Monitoring the reduction of fraud and error in the welfare system which has been identified by the Third-Party data measure. This can be evaluated by the National Statistics that are published annually.
- Monitoring through feedback from investigators, Third Party data holders and other stakeholders about how effective the new powers have been in practice.
- Monitor the number of disputes received internally in the department and the number of formal appeals heard by the first tribunal.

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28 RPC Case Histories: assessment and scoring of primary legislation measures, 2019. Link

Annex A
Figure 1. Hypothetical process map

Stage 1

DWP issues notice requiring bank to provide data by applying Capital Fraud risk profile to entire banking caseload

Stage 2

Capital Fraud Risk Profile

Criteria clearly defined
- accounts receiving DWP benefit payments
- account balance (combined with any other associated accounts) over £16,000

Minimum data items required:
- customer name and one other identifier e.g. Date of Birth
- whether customer holds other accounts with bank

Stage 3

Bank generates report with *only* the specific data requested and sends securely to DWP

Stage 4

DWP reviews data and makes a human decision on whether:
a) exemption/disregard applies and no further action or
b) if suspicious activity, whether to route to compliance or criminal

5a. No further action

5b. Compliance

5c. Fraud Investigation

Annex B

Here is a (basic) example using dummy figures, linked to the steps above:
- Number of "Benefit X" claimants who bank with top 15 banks = 1,000,000
- % of cases considered "at-risk" (from Bank 2 PoC for Benefit X) = 20%
- % of cases triaged (from Bank 1 PoC for Benefit X) = 50%
- % of cases with overpayment identified (from Bank 1 PoC for Benefit X) = 70% = "hit rate"
- Change in Benefit X caseload over time = 2% increase each year
- Rollout assumptions Y1 =2%, Y2 = 10%, Y3 = 40%, …
- Behavioural assumption = 5% reduction

Step 1:
1,000,000 * 20% * 50% * 70* = 70,000

Step 2:
Year 1 = 70,000
Year 2 = 70,000 * 2% increase = 71,400
Year 3 = 71,400 * 2% increase = 72,828 etc for following years

Step 3:
Year 1 = 70,000 * 2% = 1,400
Year 2 = 71,400 * 10% = 7,140
Year 3 = 72,828 * 40% = 29,131 etc for following years

Step 4 (in reality it is more complicated as we take into account the time period and previous year, but for simplicity):
Year 1 = 1,400 * 95% = 1,330
Year 2 = 7,140 * 95% = 6,783
Year 3 = 29,131 * 95% = 27,674 etc for following years

Steps 5 onwards are not demonstrated as they rely on complex internal models to identify the distribution of historic cases, and how we anticipate the overpayments we have prevented from occurring in the future by detecting and ceasing early.