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Public Bill Committee

PUBLIC AUTHORITIES (FRAUD, ERROR AND RECOVERY) BILL

Fifth Sitting

Tuesday 4 March 2025

(Morning)

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Saturday 8 March 2025

The Committee consisted of the following Members:

Chairs: † Mrs Emma Lewell-Buck, Sir Desmond Swayne, Matt Western, Sir Jeremy Wright

† Baxter, Johanna *(Paisley and Renfrewshire South)* (Lab)
† Berry, Siân *(Brighton Pavilion)* (Green)
† Coyle, Neil *(Bermondsey and Old Southwark)* (Lab)
† Darling, Steve *(Torbay)* (LD)
† Dewhirst, Charlie *(Bridlington and The Wolds)* (Con)
† Egan, Damien *(Bristol North East)* (Lab)
† German, Gill *(Clwyd North)* (Lab)
† Gould, Georgia *(Parliamentary Secretary, Cabinet Office)*
† Jameson, Sally *(Doncaster Central)* (Lab/Co-op)
† Jones, Gerald *(Merthyr Tydfil and Aberdare)* (Lab)
† McKee, Gordon *(Glasgow South)* (Lab)
† Milne, John *(Horsham)* (LD)
† Payne, Michael *(Gedling)* (Lab)
† Smith, Rebecca *(South West Devon)* (Con)
† Welsh, Michelle *(Sherwood Forest)* (Lab)
† Western, Andrew *(Parliamentary Under-Secretary of State for Work and Pensions)*
† Wood, Mike *(Kingswinford and South Staffordshire)* (Con)

Kevin Maddison, Simon Armitage, Dominic Stockbridge, *Committee Clerks*

† attended the Committee

Public Bill Committee

Tuesday 4 March 2025

(Morning)

[Mrs Emma Lewell-Buck *in the Chair*]

Public Authorities (Fraud, Error and Recovery) Bill

9.25 am

The Chair: I remind Members to send their speaking notes by email to hansardnotes@parliament.uk and to switch all electronic devices to silent, and that tea and coffee are not allowed during sittings. Should any Member want to speak to any clause or amendment, please bob in the usual way as you would in the Chamber and try to catch my eye.

Clause 13

Penalties etc

Question proposed, That the clause stand part of the Bill.

The Chair: With this it will be convenient to discuss clause 14 stand part.

Georgia Gould (Queen's Park and Maida Vale) (Lab): It is a pleasure to serve under your chairship, Mrs Lewell-Buck.

Clause 13 allows the Government to use the proposed recovery powers to recover late penalty payments and associated interest deriving from the civil penalty regime that is introduced in chapter 5 and any additional relevant costs, either awarded by a court or tribunal or incurred in exercising the recovery powers. In all of these cases, money will be owed to the public purse. Once it has been recovered, it can be used for public good. If these sums were to remain unrecovered, it would not have this positive impact.

We are building strong safeguards and appeal routes into all our measures, including on the application of penalties. Decisions to impose a penalty will be taken by authorised officers, and we have discussed the training that they will have. It is also intended that the debt recovery powers will be overseen by the independent oversight mechanisms, which we will turn to later in the session. Where we are justified in using the proposed recovery powers to seek payments directly from bank accounts and pay-as-you-earn earnings, we want to be able to use them. The penalties and costs will all derive from the fraud investigations that the Public Sector Fraud Authority will carry out.

Clause 14 restricts when chapter 4 recovery powers can be used to recover penalties. They can only be used when the timeframe for appealing a penalty has passed without any appeal being bought or any appeal against the penalty has been finally determined by a tribunal. Penalties are issued for important reasons to encourage compliance and to help make the whole Bill work effectively, and to help make the PSFA effective in its efforts to tackle fraud against the public sector.

Penalties are not something that can be put into the back of a drawer and forgotten about. Fraud is an expensive business for Government. It costs us money when people defraud us. It costs us money to investigate, to take proceedings through courts and to pursue recovery. It is not fair that these costs are shouldered by law-abiding citizens. It is right that those who do not follow correct procedures are penalised and have to pay.

Clauses 13 and 14 enable us to hold debtors to account, driving up recovery of what is owed by letting us use the recovery powers in a wider but proportionate manner and with the appropriate safeguards and appeal routes in place. However, this has to be done with respect of due and proper process, which is exactly what this clause mandates. These clauses are important safeguards that rightly prioritise the liable person's right to appeal a penalty decision over the recovery of the penalty. It provides us with operational flexibility to recover a range of debts, driving up the value for money of our operations. I commend clauses 13 and 14 to the Committee.

Mike Wood (Kingswinford and South Staffordshire) (Con): Clause 13 sets out that the Minister can use powers to recover amounts from a penalty, such as late payment, but also relevant costs to be awarded by a court or tribunal. Relevant costs rightly also include costs that are reasonably incurred by the Minister in exercising the powers in chapter 4.

Can the Minister share details on what this measure might include? What is reasonable and what are the expected amounts that might be recovered in this way? Does this also cover legal costs—for example, court fees and legal representation? Will it include investigatory costs, such as the use of forensic accountants or data analysts? Does it extend to administrative costs, such as the work of civil servants processing cases? How is reasonableness to be determined within these clauses? What criteria or guidelines will be used to assess whether a cost is reasonable and will there be an independent review process to prevent excessive or disproportionate costs from being been claimed? Will the affected individuals or entities have the right to challenge, at an appropriately early stage, costs that they deem to be unreasonable?

On the expected scale of the costs, do the Government have an estimate of the average cost that could be incurred and recovered under these provisions, and will there be caps or limits on the amount that can be recovered from an individual or organisation? Does the Minister expect those to vary? How will cost recovery be monitored and reported to ensure transparency?

Given the potential financial impact on those subject to enforcement proceedings, it is crucial that clear safeguards, transparency and accountability mechanisms are in place to ensure that costs remain proportionate and fair. I would appreciate further detail from the Minister about how these costs will be defined, managed and reviewed.

Clause 14 provides that the Minister can recover an amount due in respect of a penalty only when the time for appealing has passed without an appeal, or any appeal has been finally determined. We think that that is perfectly sensible and will support the clause.

Steve Darling (Torbay) (LD): In the oral evidence, Professor Levi highlighted some powers regarding asset freezing that the police have had since 2017. I would

welcome the Minister's reflections on whether these powers could have a significant impact in this area of the law—in particular, whether they would apply to international organisations, and the impact on individuals. I think that would be helpful to the Committee.

Georgia Gould: I welcome the support for the clause. To clarify, the operational costs of running PSFA operations and investigations will not be included in reasonable costs. There is work being done through the test and learn period by the enforcement unit to inform those costs, and guidance will be published in due course. As I have set out previously, there will be independent oversight of the full use of these powers, by a team that will answer to an independent chair. They will report to Parliament and will look at all aspects of the use of these powers, including the cost. If it is not established by agreement, we will have to apply to a court or tribunal to determine what the debt is, so there will be that added aspect of independence.

For asset seizing, we can apply for orders through the courts. In evidence we heard from the financial industry, there were questions about how the powers will work together, and there is work going on to respond to some of those questions. Our teams are working very closely with those financial bodies.

Question put and agreed to.

Clause 13 accordingly ordered to stand part of the Bill.

Clause 14 ordered to stand part of the Bill.

Clause 15

PAYABLE AMOUNTS

Question proposed, That the clause stand part of the Bill.

The Chair: With this it will be convenient to discuss clause 16 stand part.

Georgia Gould: Before I go into the detail of the clauses, I want to take a minute, as we are entering a new chapter, to make some opening remarks about the wider powers.

Chapter 4 of part 1 introduces debt recovery powers. In 2021-22, detected fraud and error outside of tax and welfare was £823 million, of which only £190 million—23%—was recovered. Alex Rothwell, from the NHS Counter Fraud Authority, told us in his evidence that the Department recovered only 12% of fraud and error. There is a long way to go in this space, which is why the powers are so important.

We know that recovery of fraud-related debt can be challenging. Debt recovery powers are limited to a small number of organisations and are therefore not available across the public sector. The Public Accounts Committee, Home Affairs Committee and National Audit Office have all strongly challenged the Government to do more across the public sector to take action on fraud loss. As part of the Bill, we are bringing debt recovery powers into the PSFA to enable the Government to better recover fraud debt outside of tax and welfare. We heard from Alex Rothwell that these powers will be incredibly helpful for us to recover more money.

The powers are not new to Government—HMRC and the Child Maintenance Service already have the power to recover debt from bank accounts, and DWP and the Child Maintenance Service can recover debt from earnings. We will utilise best practice from those organisations in operating the powers. Although we initially expect to use them in just a small number of cases, we hope that this will grow as and when the PSFA enforcement unit expands.

We have consulted widely with a range of fraud and debt stakeholders, including public bodies, academics and non-public sector groups. Banks, charities and civil liberty groups have been engaged so that we can incorporate lessons learnt from the experience of debt recovery processes in Government. We know that those in debt can be in challenging situations, which is why the use of the powers will follow best practice across Government, including the Government debt management function standards, and guidance such as the debt management vulnerability toolkit.

Importantly, the powers will only be used once efforts to engage and secure voluntary repayment have been unsuccessful. The only people and companies who will face the powers are those who have the means to repay, but who refuse to do so. Those affected by the powers will have the right to make representations, apply to vary orders, request an internal review, and finally, appeal to the tribunal. The powers will be used by trained authorised officers who will be subject to independent oversight. The debt recovery powers in the Bill balance the need to recover public money efficiently, while ensuring that recovery is fair and proportionate, with robust safeguards to protect those in vulnerable situations.

Clause 15 refers back to clauses 1 and 13 to define a payable amount as: a payment made as a result of fraud or error, as discovered by an investigation into suspected fraud; a penalty under the civil penalty regime established by chapter 5; and, finally, relevant costs. This creates a limitation as to the debts that the Government will be able to use the chapter 4 recovery powers on, specifically, those determined by and during an investigation into suspected fraud, including from associated penalties.

We seek these recovery powers purely to further the counter-fraud activity that we will carry out to tackle fraud against the public sector. We do not intend to become a general debt recovery agency for the Government, and clause 15 confirms that. It reflects the operational context and purpose of the PSFA and its focus on tackling fraud and error.

Further to that, clause 16 confirms that we will be able to seek alternative recovery action through the civil courts. Although the Bill will provide the powers to seek recovery directly through bank accounts and PAYE earnings, these might not always be the most appropriate or effective recovery route. For instance, the liable person might hold significant other property assets or keep assets or money abroad. In those cases, it would be unfair for us not to seek recovery.

We therefore wish to work through established legal procedures to ensure that we can seek to pursue recovery through the most appropriate and effective mechanisms—for example, liability orders. The importance of clause 16 is that it confirms that the Bill does not limit existing powers. I commend clauses 15 and 16 to the Committee.

Mike Wood: As the Minister said, clause 15 establishes that a payable amount is a recoverable amount as defined in previous provisions of the legislation, while clause 16 further grants the Minister the power to apply to the county court for a recovery order. That ensures that a recoverable amount is treated as an enforceable payment under section 85 of the County Courts Act 1984, or as if it was directly ordered by the court.

While the mechanism for recovery is now clear, there are important practical questions about its implementation. First, we would like further reassurance about the impact on the county court system. What projection have the Government made regarding the number of cases that they expect to be brought under these provisions? Given the existing backlog in county courts, what assessment has been made of the additional burden that these measures will place on the system? Has the Minister engaged with her colleagues at the Ministry of Justice and His Majesty's Courts and Tribunals Service to ensure that county courts have the capacity and resources to handle these cases efficiently and in a timely manner?

To develop further the issue of efficiency and speed of resolution, what is the expected timeframe for these cases to be resolved once an application is made? Do the Government anticipate delays due to a high caseload in county courts, and if so, what mitigations are they putting in place to help to deal with those delays? Will the Government publish guidance or at least a framework on the expected process and timeline for obtaining a recovery order?

It is essential that these powers do not result in undue delays, excessive court burdens, or legal uncertainty for those subject to a recovery order. Further clarification from the Minister would help to ensure that this system functions fairly and efficiently—balancing the need for enforcement and fairness to the taxpayer to recover sums that are owed, with the available judicial capacity.

Georgia Gould: We have published an impact assessment. That says that with the current size of the enforcement unit, we expect there to be about eight cases, so a small number, but of course if the powers work well and we expand the unit, that will increase. As the hon. Member would expect, we have engaged heavily across Government on all these questions. The critical thing is that there is significant deterrence to having to go through a court process—in terms of the interest that is going to grow on the debt, and the fees that would be accompanied by the legal costs and other costs associated with that process. Our hope is that the majority of people will go through a voluntary process—that will be both easier and less expensive for them—and that these powers will be used primarily as a deterrent.

Question put and agreed to.

Clause 15 accordingly ordered to stand part of the Bill.

Clause 16 ordered to stand part of the Bill.

Clause 17

Direct deduction orders

Question proposed, That the clause stand part of the Bill.

The Chair: With this it will be convenient to discuss the following:

Clause 18 stand part.

Clauses 20 and 21 stand part.

Georgia Gould: Clause 17 introduces direct deduction orders as a method to recover public funds lost to fraud and error from a liable person's bank account. Direct deduction orders are a vital mechanism to recover funds from a liable person who can afford to repay their debt but refuses to do so. This debt recovery mechanism is not new to Government; the Bill seeks to bring powers that are used elsewhere into the PSFA, not to create brand-new powers for the PSFA. That provides assurance of their effective and proportionate use, and we are doing the same here. The introduction of direct deduction orders is essential to bolster the Government's ability to recover public funds, ensuring that taxpayer money lost to fraud and error is reclaimed and redirected towards essential public services and the common good.

To safeguard the use of these powers, direct deduction orders will be used after an investigation by the Public Sector Fraud Authority into suspected fraud against a public authority. The decision to make a direct deduction order will be made by trained and authorised officers in the PSFA who will work to the standards of the Government counter-fraud profession. The investigation must determine, to the civil standard of proof, that money is owed to the public sector as a result of fraud or error. As I have said, we will seek voluntary engagement and repayment, and only after those efforts have been unsuccessful will direct deduction orders be used. As outlined in clauses 12 and 14, there are clear restrictions as to when these powers become available, ensuring that their use is not unfettered.

9.45 am

Direct deduction orders can be either regular, requiring regular deductions, or lump sum, requiring a specific amount to be deducted. Both types of orders can be issued for the same account, to ensure operational flexibility while considering and protecting vulnerability. Copies of direct deduction orders must be sent to the liable person, the joint account holders, if applicable, and the bank where the account is held.

Clause 18 limits and provides clarity on the types of accounts that may be subject to a direct deduction order. Direct deduction orders will be made on any account held by the liable person that contains an amount that they have a beneficial interest in. The clause protects joint account holders by allowing deductions from a joint account only if the liable person has no sole account that can cover the amount within a reasonable time. That is a key safeguard for joint account holders. That protection does not apply in circumstances where all joint account holders are liable persons relating to the same payable amount. That protects the financial interests and rights of individuals who are not liable persons while ensuring that recoveries are made fairly and efficiently from those who are responsible.

Clause 20 relates specifically to joint accounts and the presumption that a liable person's beneficial interest in any amount of money held in a joint account forms an equal share unless other evidence exists. Regard must be given to the most recent bank statements obtained under clause 19 and any representations made under clause 21. This method of assessing beneficial interest is essential to ensure that only the portion of funds genuinely attributable to the liable person is considered for recovery, thereby protecting the rights of other account holders and ensuring that moneys are recovered only from the liable person.

Clause 21 provides further requirements to be acted on before a direct deduction order is made. A notice must be given to the relevant bank, the liable person and any other account holders. That is called the first notice, and it may be given to the bank before the other persons to allow it to complete the action under clause 26—"Restrictions on accounts: banks"—as required. That includes ensuring that the account is not closed and, where relevant, that the amount in the account is protected or transferred into a hold account.

To safeguard the use of such powers, the first notice must invite the liable person and any joint account holders to make representations about the terms of the proposed order and, in the case of a joint account, about the liable person's beneficial interest in the amount in the account. Consideration must be given to any representations made and, in the case of a joint account, an assessment of the liable person's beneficial interest must be made. It is also intended that direct deduction orders will be subject to the independent oversight created in the Bill, which we will come to in chapter 6.

Direct deduction orders, as outlined in the clauses, are key to seeking the efficient recovery of public moneys, while ensuring that recovery is fair and proportionate with robust safeguards to protect those in vulnerable situations. They also ensure the fair and appropriate protection of the rights of the individuals involved, allowing for informed decision making and protecting non-liable parties in joint accounts from unwarranted deductions. Having outlined the key provisions in the clauses, I commend them to the Committee.

Mike Wood: Clause 17 establishes that when a payable amount is recoverable, the Minister can issue an order for direct deductions from a liable person's bank account, either through regular deductions or a lump sum payment, as she said. Clause 18 further clarifies that those deductions can be taken from any account in which the liable person has a beneficial interest. That is extremely important, given the difficulty in establishing the different networks of bank accounts that may be held, particularly in cases of serious and organised fraud. We welcome the flexibility the clause introduces.

Although the provisions aim to improve efficiency in recovering public funds, there are still questions regarding fairness, proportionality and the safeguards that are in place, starting with the definition of beneficial interest in clause 18. Clause 18(1) allows the Minister to make an order on an account that is held by the liable person and contains an amount that the Minister considers the liable person has a beneficial interest in. What criteria or evidence does the Minister expect the PSFA to use in determining a person's beneficial interest in an account, given the complex ownership and title structures that may be in place? On the flip side of that, how will the rights of third parties be protected, particularly if funds belong to someone other than the liable person that might be held in a shared account?

That brings us to the question of joint accounts. Clause 20 assumes that a joint account is split equally between account holders unless the Minister has reason to believe otherwise. What types of evidence would be accepted to demonstrate that the liable person's beneficial interest is different from an equal split? The Minister referred to bank statements, but would those investigating also look at legal documents or perhaps third-party testimony? Would that be appropriate in some circumstances? Will additional checks be carried out to ensure that joint account holders are not unfairly penalised for debts that might not be theirs? It is not uncommon for people in marriages or long-term partnerships to have a domestic joint account. It might well be that one of the partners in the relationship is, in practical terms, paying more into an account, but also using the account more than the other partner, despite the two names being equally on the face of the account.

Clause 21, on the notice and the right to respond, sets out the process of notifying banks and liable persons before deductions are made, and includes provision allowing them to make representations within 28 days. The clause allows the Minister to notify the bank first before informing the liable person, to prevent account closure, asset withdrawal or other measures being taken to deprive the taxpayer of the recovery of sums that might rightfully be recoverable. Can the Minister point to a precedent for that approach in other areas of law? How does that align with best practices in financial enforcement?

Although clause 21 allows the liable person to make representations to the Minister, there is not an explicit provision for an independent appeal mechanism. Is there a reason why the Bill does not provide for such a process? Would the Government consider an independent review mechanism, beyond the systematic review that is in place for the Bill, to ensure that decisions are fair and transparent and do not disproportionately affect people in individual cases?

To go back to the potential risks of financial and domestic abuse that I touched on earlier, deducting money from joint accounts could create serious risks for individuals in financially abusive relationships. What safeguards will be put in place to prevent financial hardship, particularly for vulnerable individuals who might not actually be responsible for the debts that the PSFA seeks to recover? What specialist training will staff receive to identify and mitigate the risk of financial or domestic abuse? The effectiveness of the measures will depend on strong safeguards, clear guidance and robust oversight mechanisms to ensure fairness and proportionality. I would appreciate further clarification from the Minister on those points.

Steve Darling: I rise to speak about clause 20 in particular. Liberal Democrats are heartened by clause 18, which clearly says that if there is another account the money could be drawn from, that will be utilised. However, we are particularly concerned about coercive and controlling relationships.

In my 30 years serving the people of Torbay as a councillor, I found on a number of occasions that people who are happy to conduct fraud against other parties, whether the state or other organisations, are often very happy to financially abuse their partners as well. That leaves their partners in a very vulnerable situation. I found that often the individuals affected are very trusting people who have vulnerabilities elsewhere in their lives, which would be recognised by the Department for Work and Pensions if it were supporting them.

I really want to hear from the Minister how the DWP is going to support people and be alive to the risk. It is about making sure that there is a culture of knowledge of the issue among the investigators. Although it is essential that we get the money from fraud in, we do not want collateral damage on people who have been abused.

Rebecca Smith (South West Devon) (Con): I have some queries about clause 17 and the provisions on recovery from bank accounts. My comments apply to clause 38 as well, but I will speak specifically to clause 17.

Earlier, the Minister mentioned that some of the powers for direct deductions and deductions from earnings are used more widely across the DWP, particularly in the CMS for recouping costs for parents. Have the Government thought more broadly than simply direct deductions and deductions from earnings? My understanding is that the CMS has quite strong powers beyond that and has used them in the past.

Given the nature of fraud against public authorities—these are ultimately quite serious offences—what more has been done to consider whether direct deductions and deductions from earnings are enough and will be all that is required? At some stage, do we need to think about putting in tougher and more stringent powers to claw back the money owed to the Government?

John Milne (Horsham) (LD): As the Minister described, the powers in the Bill are already used by other parts of Government. Can she provide us with any evidence of their success? Are they doing the job they were made for? Have they led to a change in behaviour in the way potential fraudsters set up accounts or attempt to disguise beneficiary interests?

Georgia Gould: I really appreciate the focus on vulnerability and oversight, because with these powers comes a huge amount of responsibility. The questions that have been raised today are really important.

First, the joint account holder will be able to make their own representations for review. The starting point will be the equal split, as was set out, but they will be able to make representations and ask to have their rights reviewed as part of the investigative process.

On the wider point about vulnerability, which was well made, there is a huge amount of established practice in Government, and the PSFA will seek to learn from that. The Government debt management vulnerability toolkit will be utilised. All the authorised officers will have training in vulnerability and economic abuse. Vulnerability assessments will take place in every single instance of debt recovery and vulnerability will be kept under review. A range of training and safeguards is in place around our approach.

On clause 21, I reassure the shadow Minister that there is precedent in HMRC. There can be both an internal review and an appeal, which is set out in clauses 34 and 31.

A wider point was made about whether we have looked at different and wider powers. The thing to remember about the powers is that in the majority of cases, but not all cases, we expect them to be used to recover funds from organisations rather than individuals, which is why we have focused on the financial side of debt recovery and penalties. Other powers are used by other Departments. I said earlier that we want to continue to be able to use other legal procedures to pursue recovery, including liability orders, and the Bill will not stop us doing so. We have a range of options in front of us.

10 am

Rebecca Smith: I thank the Minister for that reassurance and for outlining that there are further abilities to recover funds. Particularly in recoveries from organisations, does that include the seizure of assets should that be necessary? A lot of organisations might be asset rich but cash poor. If we seek to retrieve money on behalf of the Government, is the ability to seize assets, if required, within the framework the Minister alluded to?

Georgia Gould: Among the powers in the Bill there is only the power to recover debt through the ways that I have set out.

Question put and agreed to.

Clause 17 accordingly ordered to stand part of the Bill.

Clause 18 ordered to stand part of the Bill.

Clause 19

Requirement for banks to provide information

Question proposed, That the clause stand part of the Bill.

Georgia Gould: The clause outlines the information notices that can be given to a bank, how the bank must comply, the information it must provide and how the information can be used.

To determine whether to make a direct deduction order, an account information notice or a general information notice may be given. This is crucial in ensuring that sufficient financial information is gathered to facilitate informed debt recovery decisions, thereby enabling the effective recovery of public funds. The information provided by the banks is necessary and proportionate to ensure that the liable person's financial situation is considered before a direct deduction order is made. This approach is already used by HMRC for its comparable direct recovery of debt, and it is also requested by the DWP in part 2 of the Bill.

The information gathered will protect vulnerable people, prevent hardship and safeguard non-liable joint account holders, while acknowledging the vital need to recover public funds lost to fraud and error. Banks must comply with a notice under the clause, and may be liable to a penalty for failure to comply without a reasonable excuse—this will ensure that the measures are adhered to. Furthermore, banks are prohibited from notifying account holders that they have received a notice under clause 19, to avoid tipping off debtors and thereby prevent money from being moved from the account. Overall, the clause is necessary in furthering the effective recovery of public funds. Having outlined the key provisions in clause 19, I commend it to the Committee.

Mike Wood: Clause 19 grants the Minister significant powers to obtain financial information from banks before making a direct deduction order, including the ability to request three months of bank statements, or perhaps statements covering a longer period where specified. The power to issue an account information notice requires banks to provide statements to determine what deduction should be made, and the power to issue a general information notice requires banks to disclose an individual's account details, balances and correspondence addresses.

Clearly, in many investigations there will be good reason why some or all of that information is necessary, appropriate and justified. Of course, some of the information will be extremely sensitive, so we need necessary safeguards and appropriate oversight to ensure that sensitive information is requested and subsequently shared only where it is directly necessary to the investigation, and where the Minister or PSFA has justifiable grounds to think either that an error is costing the public sector significant amounts of money or that there has been a case of deliberate fraud. As I said about the previous grouping, a prohibition on banks informing the liable person that an information notice has been issued is a sensible measure to prevent that person from taking action to frustrate attempts to recover money that ought to be recovered—they could, for example, empty their account before deductions could take place. In principle, we support powers designed to ensure effective debt recovery under the right circumstances and when used in the right way, but there are several concerns regarding proportionality and oversight when it comes to protecting legitimate privacy rights.

First, on the unlimited timeframe for bank statements, clause 19 states that the Minister must obtain at least three months' worth of statements, but can request a longer period if specified in the notice. What criteria will determine whether more than three months of statements is needed? Is there a reason why no upper limit is specified within the clause on how far back those requests can go? Clearly, the further back that requests are made for a bank statement, the greater the risk that they could lead to overly intrusive requests that may not be entirely necessary for the debt recovery.

On the broad information-gathering powers, the general information notice allows the Minister to demand a full list of all accounts held by the liable person, their details and their addresses. Presumably, that is for the specific financial institution that the notice refers to. Are there any safeguards to prevent excessive or disproportionate use of those notices? Must there be a reasonable suspicion or at least a threshold to be met before those powers can be exercised? The Bill states that the Minister can only request information to exercise their core functions, but that is obviously a very broad measure so could be interpreted very broadly.

Banks would be prohibited from informing the liable person that an information notice had been issued. Although that prevents individuals from evading deductions, it means that they may be unaware of a Government investigation into their finances even after the event. Are there any circumstances in which the liable person might be informed that their financial data has been accessed—perhaps after an investigation has been closed? Does the Minister envisage any independent oversight to ensure that those powers are used proportionately?

On the burden on banks and financial institutions, on which my hon. Friend the Member for South West Devon and I have tabled amendments to be debated later in the proceedings, these powers will require banks to process and respond to Government information notices, likely adding costs and administrative burdens to those institutions. Have the Government consulted with financial institutions to assess how proportionate the kinds of requests envisaged under the Bill are, the ease or the difficulty of compliance, and the estimated cost to banks and the financial sector? During evidence last week, some financial institutions did not seem to have any idea of what scale of burden that would be putting on their members. Again, a large part of this came back to the lack of visibility of draft codes of practice.

On privacy and data protection concerns, although the Bill states that the Minister can only request relevant information, that can be interpreted broadly. What legal protections exist to ensure that financial data is accessed and used appropriately for the very narrow purposes for which these clauses are intended? Will there be an independent review mechanism to assess whether those powers are used lawfully and proportionately?

Finally, given the wide-ranging implication of the powers, further clarity and safeguards are needed to balance effective debt recovery against individual privacy rights. I would welcome further details from the Minister on those critical issues, so that we can be comfortable going forward that the wide-ranging powers that we would be granting to the Minister and the PSFA cannot be misused and that individual privacy rights will be protected and respected.

Steve Darling: I ask the Minister to reflect on how speedily the Bill is going through Parliament. As we heard from the hon. Member for Kingswinford and South Staffordshire, financial institutions are not clear about the impact on or the cost to them. When we legislate in haste, challenges will often come out of the woodwork in the longer term. In this particular area, again, the issue is about the safeguards. We assume that we are dealing with reasonable people, but we do not have to look far in international news to see what can go wrong when unreasonable people gain power.

Where are the safeguards? When holding a Minister to account, it is often assumed that the Minister will be a reasonable person. Sadly, however, in the future the Minister may not be a reasonable person, so where are the safeguards for individuals? Also, as alluded to earlier in the debate, it would be helpful to have some assurance on the banks and the impact on them.

Georgia Gould: Let me go through those points in turn. The first question was about why someone might need information before three months. There are two critical reasons why: one is to ascertain potential vulnerability and affordability plans—we have talked about safeguarding joint account holders so as to have more information—and the other is to prevent people from evading paying: if more information were needed to ensure that the assets had not been moved. Throughout, we have tried to balance ensuring fairness for the taxpayer and protecting vulnerability. I hope it will give some reassurance that such powers are used effectively elsewhere in Government. We have learned from best practice.

I talked through the process of the first notice, and that will be where the individual is informed that that information has been requested. As we have discussed, a number of safeguards are built into the process, and the intention when recovering debt will be to work with the individual and to make it collaborative. If people refuse to pay, only at that point would we apply to the courts or a tribunal, where safeguards are of course in place.

To the wider question of what safeguards hold the system to account, as I have outlined and as we will discuss in more detail later, a team answerable to an

[Georgia Gould]

independent chair will oversee every part of the process, including the ability to look at live cases and at the patterns, to ensure proportionate use of the powers. That individual will report to Parliament. Separately, a fully independent body will review the full use of the powers. We expect that to be His Majesty's Inspectorate of Constabulary and Fire and Rescue Services. The Bill also includes a provision to make the PSFA a statutory body, and so fully independent of the Minister. While it remains in this smaller phase, where we are testing the powers, the independent safeguards are built in.

On the point about the consultation with the finance bodies, I hope the Committee heard in the evidence that UK Finance was clear that we have been having a constructive dialogue on all of the issues. The PSFA has published an impact assessment, which suggests that, in the first instance, banks will need to look at a very small number of cases. We have committed to testing and learning alongside the process as the PSFA grows. There will be established practice for working closely with the banks. We expect the burden on banks for the application of the PSFA powers to be limited. I hope that gives some reassurance on oversight.

10.15 am

To the point about the pace of the Bill, everything within the PSFA measures are powers that exist elsewhere in Government. There is real precedent for them and a lot of knowledge about how those powers are used. For the Bill as a whole, there has been a huge amount of consultation with a wide range of different partners to ensure that it is proportionate and fair. The amount lost to the public purse is staggering. It is happening now. The longer that continues to happen, the more people lose trust in Government. We are talking about the loss of vital money that could be invested in public services. We are moving at a proportionate pace and making sure that we are working with stakeholders.

Question put and agreed to.

Clause 19 accordingly ordered to stand part of the Bill.

Clauses 20 and 21 ordered to stand part of the Bill.

Clause 22

Amount of deductions

Mike Wood: I beg to move amendment 19, in clause 22, page 14, line 27, leave out from "applies," to "and" in line 28 and insert

"the amounts credited to the account in the relevant period,".

The Chair: With this it will be convenient to discuss clause stand part and clause 23 stand part.

Mike Wood: Clause 22 outlines how much can be directly deducted from a liable person's bank account, while clause 23 specifies the information that must be included in direct deduction orders. These provisions are central to the enforcement mechanism and yet there are many questions that remain about their practical implementation and fairness.

As we have said many times in Committee, it is very difficult to assess how the system will work without seeing a draft code of practice. As Anna Hall from the Money and Pensions Service said when giving evidence last Tuesday,

"the code of conduct will be the critical thing. One of the things is that if frontline staff are not picking up vulnerabilities, or they are not trained in how to sort out affordability, in empathic listening or in all the protocols about how to have different types of conversations with people in different types of vulnerable situations—if those things are not in place—some of the processes in the Bill will not be as effective. It comes down to the training for frontline staff, and the capacity and processes to then follow up on what has actually been disclosed, that will enable those repayment plans to be put in place before those later processes. If those are not in place, that could cause some real issues. How successful this Bill is will come down to the code of conduct, as many have said."—[*Official Report, Public Authorities (Fraud, Error and Recovery) Public Bill Committee,* 25 February 2025; c. 30, Q49.]

The Minister kindly promised during earlier sessions that:

"As for the development of the codes of practice, as I hope the Committee will see today, I will refer to the measures that are to be put in the code of practice as we go through the clauses, so that we can have some discussion about that."—[*Official Report, Public Authorities (Fraud, Error and Recovery) Public Bill Committee,* 27 February 2025; c. 92.]

This is another occasion where it would be helpful, as the Minister suggested, to know a bit more about the code of practice, to enable us to scrutinise the provisions better. As witnesses have said, the code of practice is key to how effective the provisions will be. The effectiveness of the Bill will depend on matters such as the training for frontline staff on assessing affordability and vulnerabilities, the processes to evaluate hardship and to create fair payment plans, and the protocols to identify and support people in vulnerable situations.

Can the Minister provide further information about the code of practice, when it will be available for scrutiny and how it will relate to those elements of these clauses? How will the direct deduction system work in practice? As I say, this is a question about staff training and decision making; it will be an operational matter rather than something that can necessarily be directed from Westminster or Whitehall, so how will staff determine a suitable recovery amount and timeline? What principles will guide repayment plans, and how will assessments be made to ensure that affordability and prevent hardship?

Without knowing those matters, it is difficult to judge the appropriateness of some parts of these clauses, because there obviously will be some vulnerable individuals who might be subject to some of the measures in these clauses. What safeguards will be in place for those who require additional support? Will special provisions exist for individuals facing mental health issues, financial abuse or crisis situations?

I turn to the limits on deduction amounts. This is an area where we think the Government are possibly not going far enough: they are setting a maximum deduction limit even when sufficient funds exist and even when the Minister is satisfied that there has been deliberate fraud and an intention to deprive the taxpayer of money that should rightfully be being spent on public purposes.

Obviously, there are some safeguards in the clauses relating to hardship and essential living costs. The legislation states that deductions must not

"cause…hardship in meeting essential living expenses,"

but just how is that hardship to be assessed? Would someone who fraudulently obtained money be allowed to retain it if they successfully argued that they would suffer hardship from repaying it, even if they were never entitled to the money in the first place? And where does that line fall? Presumably, we would not expect them to be able to retain money to allow them to lead a certain quality of life that they may be used to, but that is obviously very different to being able to pay essential bills.

Under the Bill, in cases of fraud, only 40% of credited amounts can be deducted in the relevant period. We are not sure why that cap is in place when the individual was never entitled to the money. If a person has sufficient funds and there has been a conscious—perhaps even organised—attempt to defraud the public sector, why limit recovery rather than allowing full repayment?

That brings me to amendment 19, which stands in my name and that of my hon. Friend the Member for South West Devon. It proposes removing the 40% cap to ensure full recovery under this legislation where possible and subject, obviously, to the safeguards to which I have referred—the hardship test and the independent oversight that is contained within the clauses.

Mrs Lewell-Buck, if you had defrauded the taxpayer out of £100,000—I am not for a moment suggesting that you would—and £100,000 happened to be visible within your bank account, and the Minister was satisfied that that was the result of a conscious course of action on your part to defraud the taxpayer and that there was no reason to imagine that losing it was going to cause you obvious hardship, why should you be allowed to keep £60,000 of that £100,000 in your bank account, even though the money was simply not yours? In that hypothetical situation—I ought to repeat that—it would be stolen money. It does not seem right that the legislation appears to protect 60% of defrauded money and prevents recovery through these mechanisms, so I intend to push amendment 19 to a Division. Who is subject to the safeguards in the clause? If the Government are confident that those safeguards are robust enough to apply to the first 40%, it seems that they ought to be robust enough to apply to the remaining 60% as well.

Returning to clause 22, what happens if too much is deducted? The Bill states that the Minister must not deduct more than the payable amount, which is a sensible and logical bar to set. However, what mechanisms exist to correct over-deductions? What recourse does a liable person have if an error is made and they suffer loss as a result of an over-deduction?

Neil Coyle (Bermondsey and Old Southwark) (Lab): Is the shadow Minister suggesting a level of deductions that is acceptable? The amount that the Department for Work and Pensions can claim back has fluctuated in recent years. Are the Opposition proposing a level at which that threshold should be set?

Mike Wood: Yes; it is set out quite clearly in amendment 19.

Neil Coyle: I am not talking about the amount for those who have committed fraud but for the second group that the shadow Minister mentioned, where there perhaps has been a mistake.

Mike Wood: In the case of non-fraudulent claims, where the Minister is not satisfied that there has been fraud on the part of the liable person, I would be inclined to go with the Government's figure of 20%. That is reasonable in the case of errors, and it obviously allows for longer-term recovery where a genuine mistake has been made. Where there is deemed to have been fraudulent activity, it does not make sense to give those responsible the protection of protecting 60% of the money that they have stolen.

Neil Coyle: Is the shadow Minister's other concern, with those who have committed fraud, that he thinks the payment should be faster? The Bill allows for 100% of this falsely claimed sum to be recouped, but he seems to be suggesting that he would like to see that done faster. Is that the nature of the amendment?

Mike Wood: Obviously, the Bill allows for sums to be recouped through regular earnings. Where money is in a bank account, we have established that the money is there from the information notices and other measures in the Bill. If the full amount that has been defrauded is available within the account, it seems to make little sense not to be able recover that sum from the account, rather than relying on a deduction of earnings order.

Clause 23(5) requires banks to comply with direct deduction orders. Have the financial institutions been consulted on those obligations and are they content with them? As was said earlier, the evidence that we heard last Tuesday suggested that many financial institutions did not seem to have a grasp of what those obligations and burdens might look like, as well as the costs that would arise.

To conclude, the effectiveness of these provisions will depend heavily on the codes of practice on staff training and on fair procedures. Further clarification is needed to ensure deductions are proportionate, transparent and do not cause undue hardship, particularly in cases of fraud and financial vulnerability. But where there has been demonstrable fraud, the Opposition see no reason to protect 60% of credit in a bank account where it may be linked to conscious efforts to defraud the taxpayer. I would welcome the Minister's response to those concerns.

10.30 am

Steve Darling: The Liberal Democrats support this Conservative amendment. I will not go over the arguments again, as they have been well put. Some clauses talk about safeguards. It is about the culture of the organisation, making sure that individuals have professional curiosity and how to foster that within the organisation. Professional curiosity can bear significant fruit for a number of Government organisations when they conduct activities, but broadly we are supportive.

Siân Berry (Brighton Pavilion) (Green): It is a pleasure to serve under you today, Mrs Lewell-Buck. I do not support the Conservative amendment. A lot of the discussion in Committee has been about reducing the risk of harm to potentially vulnerable people and people caught up in these frauds, who might not deserve to be punished in any way. I would not support taking out a measure that is there presumably to reduce the consequences of making an error. Therefore, I will not support the amendment.

Georgia Gould: I welcome the opportunity to respond to the amendment and to clarify an error that I made in a previous discussion that might have contributed to some confusion. When I talked about the recovery of

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debt and a limit to the amount that will be recovered, I mentioned up to 40% of assets when I meant to say credited amounts. To be clear, in the instance that the shadow Minister mentioned—say the Member for Kingswinford and South Staffordshire defrauded the Government, they had £200,000 in their account and it was a lump sum, the powers would enable the PSFA to recover that money, with the safeguards of not leaving that person in financial destitution. The 40% is related to ongoing repayments and the speed of repayment. I hope that that gives some reassurance to the hon. Member.

To the points that Opposition Members have made about vulnerability and training, the PSFA authorised officers will be highly trained. They are subject to professional training and a code of ethics within that. That includes the kind of professional curiosity that the hon. Member for Torbay talked about. On debt recovery, they will work to establish debt practice, including the debt management vulnerability toolkit, which is publicly available. I would be pleased to send him those documents so he can understand the vulnerability assessments that will be made and scrutinise them.

To go through the detail of the clauses, specifically for a regular direct deduction order, the total deductions in a 28-day period must not exceed either 40% or 20% of the amount credited to the account in the relevant period: for fraud, 40% is the maximum; for error, the maximum is 20%. Throughout the Bill, we have sought to bring powers that are used elsewhere into the PSFA, not to create brand new powers for the PSFA. This provides assurance of their effective and proportionate use, and we are doing the same here. The 40% maximum limit is in line with existing legislation, such as the DWP's existing direct earnings attachment powers and the Child Maintenance Service deduction from earnings order powers.

Mike Wood: I thank the Minister for giving us some clarification on that, but the direct deduction is different from an earning attachment where there is likely to be another similar amount coming in the following month. The Minister suggested I might have £200,000 in my account, which I think would raise a few eyebrows all around. But if all £200,000 had been the result of fraud from the public sector, and I chose to put that regular direct deduction order in place, my understanding of clause 22(3) is that in the first month the maximum that could be deducted would be 40% of £200,000—which is £80,000.

Georgia Gould: That is right.

Mike Wood: That would leave £120,000, which would mean that in the second month, presumably the most that could be deducted if no further money had been paid into the into the account would be £48,000.

Georgia Gould: First, I want to make absolutely clear that I was not accusing the hon. Member of any fraud, but just using a hypothetical. In that instance, the PSFA would use the lump sum direct deduction orders, so they would be able to take the full amount. They would not need to use the direct earnings attachment. It would be a lump sum direct deduction order that would recover that money. As I said, there are no limits to that, except that it does not cause hardship in meeting essential living expenses. I hope that provides some reassurance.

The 40% maximum limit is in line with existing legislation. The amendment seeks to remove the 40% cap for fraud, allowing a higher percentage of regular deductions to be made. To be absolutely clear, for lump sum direct deduction orders, there is no maximum limit on the total amount of deductions. However, the lump sum deduction must still adhere to the core principles, in meeting essential living expenses and be otherwise fair. That ensures that where a higher proportion of the payable amount is present in the account, we can recover the debt more efficiently while maintaining those key safeguards.

We are also able to issue a lump sum direct deduction order and then establish a regular direct deduction order. That allows us to take an initial higher amount of deduction, with regular payments thereafter where appropriate. This is a better route than allowing for a higher level of deductions. It builds on established practice, is proportionate while still being impactful, and it limits the disincentive to earn that an unlimited regular deduction would create. A too-high regular deduction would disincentivise earnings so strongly that it would result in slower, not faster, recovery of funds for our public services.

I turn to clause 22, which sets out the amount of deductions that there may be under an order. We have ensured that the amount of debt we collect at any given time is fair. That is why we established maximum limits based on whether debt was accrued due to fraud or error. We have discussed the safeguards and precedent at length, and the powers here build on precedent across Government. A key consideration throughout the creation of the debt measures was to robustly prevent hardship, learning from best practice. The challenge was to balance that with the need to send a strong deterrent message to those who have the means to pay their fraud and error-related debt to Government, but refuse to do so.

Clause 22 caters for that by ensuring that the terms of the order will not cause the liable person, any other account holder, or a person living with or financially dependent on the liable person or any other account holder, hardship in meeting essential living expenses. To ensure we include other considerations outside of this list, the terms of the order are also required to be otherwise fair in all circumstances.

Clause 23 provides the contents and effect of direct deduction orders. Regular and lump sum direct deduction orders must specify the amount, or a method for calculating the amounts, to be deducted and when. A regular deduction may specify different amounts or different methods to be deducted at different times. For example, the first deducted amount may be higher than the following payments to recover the debt in the most efficient way possible. Deductions may not be made until 28 days after an order has been made. That provides a safeguard for the liable person, allowing them the requisite time and opportunity to request a review under clause 45. Banks must comply with the direct deduction order, whether regular or lump sum, to ensure adherence to these measures. A penalty may be imposed for failure to comply under clause 53.

Clauses 22 and 23 send a strong message to those with fraud and error-related debt to the Government, while preventing hardship and protecting those who are vulnerable. They play an essential role in the operation of a direct deduction order and align with the core principle of seeking the effective recovery of public funds.

I have set out the powers that are available under the Bill, but as I said earlier, they do not prevent the Government also being able to use powers that are already available, such as applying to the courts to seize assets. Having outlined the key provisions in clause 22 and 23, I commend both to the Committee.

Mike Wood: Given the Minister's reassurances, I will not press amendment 19 to a Division now, but we may wish to come back to the matter on Report. I beg to ask leave to withdraw the amendment.

Amendment, by leave, withdrawn.

Clauses 22 and 23 ordered to stand part of the Bill.

Clause 24

BANK'S ADMINISTRATIVE COSTS

Question proposed, That the clause stand part of the Bill.

The Chair: With this it will be convenient to discuss the following:

New clause 6—*Report on cost implications for banks*—

"The Secretary of State must, within three months of the passing of this Act, publish a report on the expected cost implications of the provisions of this Act for banks."

Amendment 23, in clause 103, page 63, line 35, at end insert—

"(3A) Before bringing into force any of the provisions of Part 1 of this Act, the Secretary of State must consult with banks as to the costs which will be incurred by banks upon application of the provisions of Part 1.

(3B) Where consultation finds that the expected costs to banks are at a disproportionate level, the Secretary of State may not bring into force the provisions which are expected to result in such disproportionate costs."

Georgia Gould: Clause 24 enables a bank to deduct administrative costs that it has reasonably incurred when complying with a direct deduction order from the liable person's account. This provision is essential to ensure that banks are adequately compensated for the administrative efforts required to comply with the orders, thereby facilitating the efficient operation of debt recovery processes while protecting account holders from undue financial strain. A direct deduction order will then specify how the bank can deduct its administrative costs while complying with the maximum amount of total deductions as specified in the clause 22.

Clause 37 contains a power to make further provision through regulations as to the administrative charges which can be imposed by the banks. That power will be used to introduce a cap on the charges which can be imposed under this clause and which can be adjusted in line with inflation and to ensure that the charges remain reasonable at all times. The amount may be deducted by the bank immediately prior to the direct deduction order. To safeguard against that causing unintended hardship, the question of deducting the bank's administrative costs for the liable person must be taken into account when complying with the hardship considerations outlined in clause 22. That will ensure that the direct deduction order and deduction of the bank's administrative costs do not cause the liable person, other account holders, those living with the liable person or joint account holder or those financially dependent on the liable person or joint account holder hardship in meeting essential living expenses and that the deductions are otherwise fair in all circumstances.

Regarding the burdens on the financial services sector, the Government are extremely mindful of the burdens that the Bill places on industry, including financial institutions. We want to ensure that banks are not subjected to disproportionate burdens or costs in complying with these measures. As I have outlined, that is why we met with key representatives of the finance industry, including UK Finance, individual banks, building societies and the Financial Conduct Authority, to ensure that there is close and sustained engagement on this Bill. We heard directly from UK Finance in evidence last Tuesday. The finance sector has supported the Bill's objectives and there are constructive conversations already taking place. The direct deduction order powers in this Bill align with those existing powers and we will continue working with the DWP to align direct deduction order processes across both Departments where possible to simplify implementation.

Mike Wood: As the Minister said, the clause allows for deductions from a liable person's account to include reasonable costs incurred by the bank in processing the deduction order. While the clause will ensure that banks can recoup legitimate administrative expenses, several important questions arise about fairness, oversight and overall financial impact.

10.45 am

On the question of bank cost recovery and the quantum that can be recovered, who determines what costs are reasonable for the bank to recover? Does the bank unilaterally decide what it will charge? Will there be a defined framework to prevent excessive fees? What safeguards exist to ensure that the costs deducted are proportionate, and that they do not place an undue burden on individuals and are not unfair on those who have received the orders? Given the need to ensure that deductions do not cause financial hardship, how does this balance with banks recovering costs, if there is no upper limit?

A key aim of the legislation is to recover public money lost through fraud or error. However, could the cost of bank fees significantly reduce the amount? Could it be disproportionate to the amount actually recovered for the taxpayer in some cases? Could the entire recoverable amount be swallowed by bank fees, leaving no net benefit? Do the Government have an estimate of how much bank cost recovery is likely to impact the overall amount that is successfully reclaimed? Are those costs deducted before the amount is recovered by the PSFA?

Let me turn to the wider financial burdens on banks and the transparency of costs. Beyond direct deduction processing, the Bill imposes other financial burdens on banks, particularly through the eligibility verification measure, which requires them to monitor and report fraud risks. However, the impact assessment did not assess the costs of the EVM on banks or the administrative burden of compliance.

UK Finance has raised concerns that banks currently lack sufficient information to even estimate their costs. As we heard in its evidence:

"From the banking industry perspective, we are keen to ensure that the compliance requirements for banks are clear in terms of what information is required. We hope to see in the code of practice, as soon as is practical, details of the specific criteria

against which the Government will mandate banks to perform checks".—[*Official Report, Public Authorities (Fraud, Error and Recovery) Public Bill Committee,* 25 February 2025; c. 47, Q83.]

The evidence continued:

"It is quite difficult at this stage to perform that level of assessment, partly because so much detail of the measure will be set out in the code of practice."—[*Official Report, Public Authorities (Fraud, Error and Recovery) Public Bill Committee,* 25 February 2025; c. 47, Q85.]

At the risk of sounding even more like a broken record, this really does go back to the problem of making the draft code of practice available only for Members of the House of Lords before they consider the Bill, instead of allowing those of us on this Bill Committee or even the wider House of Commons on Report to have that information before making decisions about legislation that depends on what is in those codes. When will further details be provided on compliance expectations for banks?

New clause 6 seeks to improve transparency by requiring the Secretary of State to publish a report on the expected cost implications for banks within three months of Royal Assent. Similarly, amendment 23 calls for a formal consultation on the cost to banks before part 1 of the Act comes into force. If costs are found to be disproportionate, the provisions need to be reviewed before they come into effect. Although stamping out fraud and error is essential, legislation should not impose excessive costs on private institutions that provide little net benefit to the taxpayer. Do the Government agree that more transparency is needed about the cost implications for banks and other financial institutions? If the expected costs turn out to be excessive, would the Government be open to reconsidering the provisions?

UK Finance also raised concerns that banks may be placed in a difficult legal position when responding to deduction orders or information requests. Under the Proceeds of Crime Act 2002, banks must submit a suspicious activity report if there is any suspicion of financial crime. The Bill does not provide an exemption for banks in those circumstances, meaning that banks processing a deduction order may also have to assess whether they need to file a suspicious activity report. This creates additional compliance complexity and potential legal risks for financial institutions. Should the Bill replicate the Proceeds of Crime Act exemption already applying to the eligibility verification measure across all its relevant provisions? Would doing so prevent unnecessary administrative burdens on banks without undermining fraud detection?

The Under-Secretary of State for Work and Pensions stated that he is hopeful that

"through the informal conversations and the formal consultation that we are required to have on the code of practice, we will be able to set this up in such a way that everything interplays in an acceptable way."—[*Official Report, Public Authorities (Fraud, Error and Recovery) Public Bill Committee,* 25 February 2025; c. 49, Q90.]

Can the Minister expand on what that means in practice? What specific action will the Government take to ensure clarity, proportionate costs and fair processes for banks? Will banks be given a formal role in shaping the code of practice before its implementation?

There is a clear lack of detail on how bank costs will be controlled, how much burden will fall on financial institutions, and whether the system will deliver a net financial benefit to the taxpayer. The Minister urgently needs to clarify those points before implementation to ensure fairness, transparency and proportionality, and I would be grateful if she responded to those concerns.

Steve Darling: I echo many of the concerns raised by the shadow Minister. There are serious issues with giving a blank cheque to banks to undertake certain activities. How are they planning to calculate what their cost is? Is it purely the direct cost of that activity, or are they able to ladle into that some of their central costs? Clearly, if they did not exist as a bank, they would not be able to undertake these activities. There is uncertainty, and we wish to see fairness and transparency. Some feedback from the Minister on this matter would be extremely welcome, because although it is fair that people pay for the activity to be undertaken by banks, so that the burden does not fall on either the banks or the taxpayer, it is important that it is equitable. I look forward to the Minister's response.

Georgia Gould: I referred in my opening remarks to the positive and ongoing conversations that we are having with banks and the UK finance industry, and that was reflected in the evidence we heard. A UK Finance representative said that a number of conversations with industry have taken place since the measures were announced, and referred to "constructive conversations".

Concerns were raised about safeguards for the charges that banks could put in place under the PSFA measures, and I have already outlined some of the safeguards in place. The deduction of a bank's administrative costs should not cause the liable person, other account holders, those living with the liable person or joint account holder, or those financially dependent on the liable person or joint account holder hardship in meeting essential living expenses, and they should be fair.

There are further protections in the Bill. Clause 37 contains the powers to make further provisions through regulations on the administrative charges that can be imposed by the bank. The powers will be used to introduce a cap on the charges that can be imposed under the clause and adjusted in line with inflation. To give further reassurance to the Committee, this is in line with the powers that HMRC has through the Enforcement by Deduction from Accounts (Imposition of Charges by Deposit-takers) Regulations 2016. For HMRC, the regulations specify that the amount should be

"the lesser of…the amount of those administrative costs reasonably incurred by the"

bank "and £55." So there is precedent, and the necessary regulations will be made in due course.

In my view, new clause 6 is not required. We have already published the Bill's impact assessment, which sets out the minimal expected cost to businesses of its measures, where it has been possible to do so, including to banks. The impact assessment has been green-rated by the Regulatory Policy Committee. DWP has also committed to providing estimates in a subsequent impact assessment of the business costs for DWP's eligibility verification measure, within three months of Royal Assent. So DWP has already come forward to commit to bringing forward that information as part of the package. I am confident that that will provide the necessary transparency that the shadow Minister seeks, and I hope that our commitment again today to provide those costs reassures hon. Members.

Equally, we believe that the purpose of amendment 23 is already provided for through the regulation-making powers under clause 37. As I stated, we have consulted and will continue to consult the banks to implement the measures in part 1 of the Bill, as set out in the published impact assessment. In part 1, the costs to banks are expected to be minimal and offset by the ability of banks to recover administrative costs from the liable person.

Clause 24 enables the banks to recover administrative costs from the liable person, and clause 37 provides for regulations to be made in relation to the costs that a bank may recover by virtue of clause 24. We intend the regulations to be reasonable for those paying and for the banks. Before introducing such regulations, a consultation must occur with those representing the interests of banks. We are committed to continuing engagement and consultation with the financial services sector through the passage of the Bill and its implementation —indeed, that has been ongoing since evidence was given last week.

It is important to put the cost to banks in the context of the amount that will be recovered under the Bill, which we estimate to be £940 million—money that is vital to delivering public services. It is right that every part of the system plays its part in recovering money that was lost to fraud. Having outlined the key provisions in the clause, I urge the Committee to agree that it should stand part of the Bill.

I have just received a message: I thought I said that DWP would produce an impact assessment in 12 months, but I said three months. I assure everyone that it is 12 months.

Question put and agreed to.

Clause 24 accordingly ordered to stand part of the Bill.

Clause 25

Insufficient funds

Question proposed, That the clause stand part of the Bill.

Georgia Gould: The clause sets out the action to be taken if the amount in the account is lower than the amount specified in the direct deduction order. Should that situation arise in relation to a lump sum direct deduction order, no deduction is to be made by the bank, and the bank must notify us as soon as possible. If it occurs in relation to a regular deduction order, the order is to be read as requiring the deduction to be made on the same day the following week. If the amount in the account still remains lower, no deduction is to be made and the bank must notify us as soon as possible. That approach ensures that individuals are not unduly penalised or driven into financial hardship because of insufficient funds, while maintaining the integrity of the debt recovery process through prompt communication and reassessment. Having outlined the key provisions of the clause, I commend it to the Committee.

Mike Wood: The clause outlines the procedure when a bank account does not contain sufficient funds to fulfil a direct deduction order. The key provisions are as follows. For lump sum deduction, if the full amount is not available, no deduction is made and the Minister is notified. For regular deductions, if the necessary funds are not available, an attempt is to be made again on the same day the following week. If funds remain insufficient, no deduction is made and the Minister is notified.

I have some key questions and concerns as to what happens next. Once the Minister is notified, what are the next steps? Does the notification trigger further action to recover the money through other means? Is there a set timeframe in which the Minister must decide on further steps? Does the Minister have discretion to determine the best course of action, or are there prescribed steps that must follow? If funds are unavailable in the specified account, is there a process to check whether the liable person has other accounts in their name with other financial institutions that may have sufficient funds? Would the Minister have the power to issue a further general information notice to a bank in order to identify other accounts that could be used for recovery?

11 am

Given that clause 19 provides the power to obtain bank account details, can the Minister link multiple accounts together and seek recovery from a different account with available funds? If a deduction fails multiple times, are there alternative enforcement mechanisms in place to ensure that the money is ultimately recovered? Would the Government consider other forms of debt recovery, such as seizing assets for larger sums where there is demonstrable fraud, or referring cases to debt enforcement agencies? Is there a threshold at which persistent non-payment would escalate to formal legal proceedings?

While balancing the need to prevent evasion tactics, what safeguards exist to prevent individuals from avoiding a recovery—for example, by regularly transferring money out of their accounts before deductions could be made, or by using alternative accounts or accounts in another person's name? Does the Minister have the power to require banks to report any sudden withdrawals that appear to be attempts to avoid a direct deduction order?

While clause 25 sets out what happens if a deduction cannot be made, it is unclear what the next steps are to ensure that the money owed is still recovered. The Minister's response on that point is crucial to understanding the effectiveness of this system in practice. I would be grateful if the Minister could provide further details on what specific action is taken once a notification is received and a deduction has failed; whether and how other accounts can be checked and used for recovery; and what alternative enforcement mechanisms exist or might be considered to ensure that money is ultimately recovered where it is owed.

Georgia Gould: I am grateful for the shadow Minister's questions. This clause and his questions really highlight the balance between safeguarding vulnerability—ensuring that people are not left without money to be able to support themselves and dependants—and recovering all the money owed to the Government.

Hopefully, the shadow Minister will be reassured that alternative recovery methods will be available, including using other powers in the Bill to gather information on, or recover money from, other accounts held by that liable person. If an individual continues to try to frustrate the process, as the shadow Minister has described, there are civil penalties through deduction orders of £300. If all the powers in the Bill are frustrated, the authorised

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officers will be able to apply to the courts to seize assets and to use other powers available. There are a number of options to ensure the full recovery of defrauded money to the state.

Question put and agreed to.

Clause 25 accordingly ordered to stand part of the Bill.

Clause 26

RESTRICTIONS ON ACCOUNTS: BANKS

Question proposed, That the clause stand part of the Bill.

The Chair: With this it will be convenient to discuss clause 27 stand part.

Georgia Gould: Direct deduction orders will be an effective tool in recovering money owed to the public sector. However, it is important that we include measures in the Bill to make clear the obligations of banks and account holders with regard to the orders.

Clause 26 introduces restrictions on accounts from the perspective of banks. The bank must ensure that the account is not closed at the request of the account holder. If the notices relates to a lump sum direct deduction order, the bank must also secure that no transactions occur that would reduce the balance below the amount specified on the order, or the bank may transfer the specified amount, or the amount in the account if it is lower, into a hold account created by the bank to protect it. The bank must ensure that no transaction occurs that would result in the hold account's balance falling below the amount transferred into it. When a bank transfers an amount into a hold account, it must ensure that in doing so, it does not cause any disadvantage to the liable person or any account holder. These provisions are essential and are a key safeguard to ensure that funds required for recovery are preserved while also protecting account holders from any disadvantage, thereby maintaining trust and fairness in the enforcement process.

Clause 27 imposes restrictions on account holders to prevent them from taking any action that may frustrate the effect of the first notice or direct deduction order, which the shadow Minister raised concerns about. To clarify, frustrating the effect of the first order in this context means frustrating the effect of the proposed direct deduction order, the terms of which are set out in the first notice. Frustrating the effect of the first notice or the final direct deduction order might include a liable person creating a new bank account in order to redirect the payment of their salary, or the liable person falsifying the extent of their protected essential living expenses.

These restrictions are vital to ensure that funds necessary for debt recovery are not deliberately concealed or moved, thereby upholding the fairness and integrity of the public fund recovery system. They are also balanced within the wider direct deduction order measure, which includes review and appeal rights that are also intended to be subject to independent oversight, to be discussed later. Should a person frustrate the effect of the first order or direct deduction notice, a trained authorised officer may decide to impose a penalty under clause 53.

Mike Wood: Clause 26 places significant responsibilities on banks once a direct deduction order has been issued. The bank must ensure that the account is not closed while a deduction order is active, prevent transactions that would reduce the balance below the required deduction amount—for example, the transfer of funds—and ensure that these actions do not cause disadvantage to the liable person.

I have a few questions about those responsibilities. How are banks expected to assess disadvantage or hardship, based on what is likely to be very limited information available to them about their account holders? What guidance or criteria will be provided to banks to determine what constitutes a disadvantage to the liable person? How can banks assess the potential immediate impact of blocking transactions, including preventing spending on essentials—for example, food or utility bills—and any consequences that might arise from that? How will they consider longer-term financial obligations, such as rent or mortgage payments, disruption to which could cause significant hardship?

The lack of a code of practice makes it difficult to properly scrutinise these measures. The code of practice is expected to provide crucial details on how banks should balance enforcement with protecting individuals from undue harm, but we will have to wait until after we have made decisions in Committee and in the Bill's remaining stages to see it. It would be helpful if the Minister could clarify how these concerns will be addressed in the code of practice and provide as much specificity as possible.

Clause 27 states that account holders must not take actions that frustrate the direct deduction process, such as closing the account, moving funds elsewhere to evade the deduction or engaging in other actions that undermine the effectiveness of the recovery process. The matter of penalties for non-compliance needs to be looked at carefully. What penalties will be imposed if an account holder deliberately frustrates the deduction order? Would non-compliance be treated as a civil offence, or could it lead to criminal penalties in cases of deliberate obstruction? If the financial institution failed to prevent it, would that be a civil offence, or would it be seen as a regulatory issue?

Is there an appeal mechanism if an account holder can prove that a transaction was necessary and not an attempt to evade the deduction? For example, what would happen if someone urgently needed to pay rent or buy medicine and did not realise it would interfere with the deduction order? Would there be any flexibility in cases of financial difficulty, and how would that be assessed?

Given the significant responsibilities placed on banks and the potential impact on individuals, further clarity is needed on how banks will be guided in assessing disadvantage and hardship, how the code of practice will address these concerns and ensure practical implementation, what penalties will apply if an account holder frustrates the deduction process or if a financial institution fails to prevent such frustration, and what appeals or exceptions exist for necessary transactions that unintentionally interfere with the deduction order. Those clarifications are essential for ensuring that the system is both effective and fair.

Georgia Gould: It is important to set out again that these powers will be used in the last instance and, in many cases we hope they will be a deterrent. In the majority

of cases, we expect people to engage with the authorised officers and come to a voluntary agreement. If people do not agree, the powers will be used only after an application to a court to determine the ability to recover that debt. In the first instance, we expect these powers to be used in a very limited fashion; the impact assessment talks about fewer than 10 cases a year. There is ample time to work through with banks how these powers are used and ensure that it is proportionate.

The shadow Minister raised concerns that the powers are too harsh in some cases and that they will leave people vulnerable in others, which shows the balance involved. The measures have been carefully thought through, and they include safeguards for vulnerability but also the ability to step in if people are deliberately frustrating the process.

We will issue guidance to banks on how the three months of bank statements will be determined, and authorised officers will work with banks to ensure that this works effectively. The shadow Minister asked about the penalty. It will be a £300 fixed penalty notice for failing to comply. As with every part of this, people will be able to request a review and, ultimately, to appeal.

Question put and agreed to.

Clause 26 accordingly ordered to stand part of the Bill.

Clause 27 ordered to stand part of the Bill.

Ordered, That further consideration be now adjourned. —*(Gerald Jones.)*

11.13 am

Adjourned till this day at Two o'clock.