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## **MONEY BOX**

**Presenter: PAUL LEWIS**

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**LEWIS:** Hello. In today's programme, a billion pound rescue package for the housing market, but who will it rescue and how? Nearly 16,000 people are now getting their pension, thanks to the Pension Protection Fund. Tax rebates will boost this month's pay packets, but a million of the lowest paid will still pay more tax this year than last. Bob Howard's been looking into car clubs.

**HOWARD:** Would you ever give up owning a car to share one instead?

**MICHAEL:** I'm a pay-as-you-go kind of person, so I like the fact that tomorrow I need a car for three hours and it's going to cost me £20 in total.

**LEWIS:** And help for Alliance & Leicester shareholders, struggling this weekend through a 258 page voting pack.

But, first, Tuesday's announcement of a billion pound package to meet what the government calls "current challenges" in the housing market. And challenges they are. New figures out this week confirm the accelerating slide in house prices. Halifax says they are currently almost 11% below their level a year ago, but have been falling 2% a month over the last 6 months. Sales are also drying up. The Land Registry says sales in July are 78% down on a year ago and the banks approved barely a third of the mortgage deals in July that they approved one year earlier. The government stepped in this week with a temporary end to stamp duty for homes selling at £175,000 or below,

interest free loans for some first time buyers of new homes, and help for some people who have a mortgage but can't afford it. Well we had hoped to speak to a minister about this flagship scheme. None said yes to us. But Graeme Moran is the Managing Director of Metropolitan Home Ownership, a housing association which also manages access to affordable home ownership and government housing schemes. Graeme Moran, as I understand it the government said the scheme will be open to any household where the income of the household is less than £60,000 and they'll get an interest free loan of up to 30% of the sale price and it will be interest free for 5 years and at a slightly lower rate of interest for a bit of time after that. That's going to be very attractive, isn't it? How are you going to ration it?

**MORAN:** I mean the scheme will, as you rightly say, will be open to people on household incomes of £60,000 or below, but of course there is that proviso: it is those households who cannot afford to buy a home on the open market.

**LEWIS:** If you do eventually get more applications than there are loans, will you simply say first come first served and at some point in the future just pull down the shutters?

**MORAN:** Well I think there will be a very responsible level of marketing in the first place, so the marketing will be fairly targeted. As is the way of the public sector and regulated schemes, we will probably put our small print in large type on the front page just to really set out very clearly who wouldn't be eligible.

**LEWIS:** Right. And, finally, can I just ask you isn't there a danger ... We've heard that house builders building new property, particularly flats in inner cities - they've got too many of them, they can't sell them. Isn't there a danger they're going to put all these into the scheme, perhaps put the prices up a bit to pay for their share of it? You'll just be helping them get rid of property they can't sell anyway.

**MORAN:** Well as part of the build up to the scheme, house builders will be invited to put forward the schemes that they're going to offer, so those schemes will then be assessed by the Homes and Communities Agency - or the Housing Corporation, as it

is now - so that the best value schemes, the best built, the best quality and the homes in the right location will come through and be selected and then eligible for these customers to go towards.

**LEWIS:** Graeme Moran from Metropolitan Home Ownership, thank you very much. Peter Rollings is with me. He's Managing Director of estate agents Marsh and Parsons. Do you think the plans announced by the government - I mean the cut in stamp duty for property under £175,000 and these other schemes we've heard of - do you think that will help unclog the market, or does it need something else?

**ROLLINGS:** Well it won't help unclog the market, but it would be churlish to say it's not helpful. It *is* helpful. It encourages people back into the market slightly, I think. It'll start to feed through in terms of sentiment that actually you know buying property, which we've always done as a nation, is the thing to do.

**LEWIS:** And it will of course mean up to £1750 for the 1 in 6 people it will actually help directly - first time buyers - and some have written to the BBC saying great, I'll be better off. So for them, it is good news.

**ROLLINGS:** Absolutely. It's certainly not to be sniffed at. However, if the real issue is not being able to get mortgage finance at any realistic level of interest rate and having to come up with a 10, 15, 20% deposit, even more to get the really good rates, then that's the main issue and that's what's stopping people getting into the market.

**LEWIS:** Well also listening to that is Michael Coogan who's Director General of the Council of Mortgage Lenders, so let's go straight to him. Michael Coogan, why aren't your members doing more to provide the finance people desperately need to buy a home?

**COOGAN:** Well following the credit crunch, the finance available to providing mortgages is the retail savings funds and I'm afraid they're just not sufficient to meet all the demand out there.

**LEWIS:** No, but your members were making large amounts of money, helping people buy property, lending them more than they could afford for many years. Now the market's difficult, you're pulling back and saying no, we're going to protect ourselves, not help people who want to buy a home.

**COOGAN:** They're not pulling back. They simply don't have access to the same range of funds as they did in the past. And, as we've highlighted right from the beginning of the credit crunch, the key issue to resolve is reopening the markets in the future. And the Crosby report, the report that the Treasury has commissioned, is due to be out at the end of this month. We need to have action as a result of that report.

**LEWIS:** Do you think what the government's announced this week though will have an effect? Will it help that sentiment that Peter Rollings was talking about, help people have more confidence?

**COOGAN:** Well I think it can't hurt and I think one of the good things is it's integrated measures all announced on the same day rather than drip-fed over a period of time. The stamp duty announcement was a surprise. More importantly for those in difficulty at the moment, the income support being improved from next spring will be helpful for the future. And I think those measures cumulatively have an impact. Individually the measures are obviously modest and one billion pounds in a market of over a trillion speaks for itself.

**LEWIS:** Well thanks for talking to us, Michael Coogan of the Council of Mortgage Lenders. And Michael mentioned one of the measures that hasn't had much publicity. That is a change to the way mortgage interest is paid to people who lose their jobs. Peter Tutton is also with us. He's Social Policy Officer with Citizens Advice. Peter Tutton, the government's changing the limits on this. Just explain what's planned.

**TUTTON:** Well there's two main changes that they've got planned. The first one is currently there are waiting limits - so if you lose your job or fall ill or something like that and you're out of work, you apply for help from the benefit system with your mortgage interest payments, there's a period that you have to wait and for most

people that's 39 weeks, 9 months. So by the time you've actually started to get help from the benefit system, it's quite likely that your lender's already taken you to court. So one of the things they propose to do is reduce that from 39 weeks to 13 weeks. That should ... We hope that that will help a number of people stay in their homes. But the other change is they've increased the capital value, so currently there's a limit on the loan size they'll pay out on. Now that's been set at £100,000 from about the late 1990s, so they've raised that to £175,000. That will also mean that the amount that you would have to make up in support even to pay the mortgage interest will be less, so it will help people.

**LEWIS:** That rise though to £175,000 isn't applying to people on pension credit, is it - people over 60? And also, as I understand it, there's a new limit of 2 years on help with mortgage interest for people who are looking for a job.

**TUTTON:** I mean that's right, they do seem to have put this limit in for people on JSA, so there are things about the scheme that we would question. But I think it's important also to say there's a good thing here that the government has woken up and taken notice that people are in difficulty, and that we do welcome.

**LEWIS:** And finally, Peter, the Prime Minister made it clear on Thursday night there'd be no one-off payment towards fuel bills for hard pressed households under 60. How is that announcement or that change going to affect people this winter?

**TUTTON:** Well, I think we'll have to sort of think through. Obviously we've seen growing numbers of people coming to CAB's with fuel problems, so there is a problem, people are finding it more difficult, so I think our message to government is they've got to keep working on this to make sure that people who are in most difficulty aren't finding themselves facing huge fuel debts.

**LEWIS:** Peter Tutton from Citizens Advice, thanks. And earlier we heard from Peter Rollings from estate agents Marsh and Parsons.

Nearly 16,000 people are now getting their pension paid by the Pension Protection

Fund. It was set up to bail out insolvent pensioner schemes where the employer had gone out of business. Last month it took on another 15 schemes, bringing the total of the schemes it's rescued since being set up in 2005 to 57. I asked Partha Dasgupta, the fund's Chief Executive, if he's expecting many more schemes to need bailing out if the UK does go into a full-blown recession.

**DASGUPTA:** Well we've seen no evidence yet of that number growing. It has to be said that it takes about two years between a company going bust and it eventually transferring to the PPF, so we have a pipeline of another 120,000 people that will be transferring to us over the next 18 to 24 months already.

**LEWIS:** If they're all taken on, have you got enough money to pay all those pensions?

**DASGUPTA:** Well we already have 16,000 people who have transferred. Not all of those have retired. About 5,000 have retired and that just illustrates that we'll be paying money out over the next 15 to 20 years, so our cash flow position is strong. And, remember, we are funded via levy and we take money from pension schemes once their employer has gone bust, so those assets will be there to support the financial resilience of the PPF over the next 20, 30 years.

**LEWIS:** But as the number of salary related schemes falls - and it is still falling, isn't it, as companies try to limit their costs - can the fewer and fewer remaining schemes pay the levy that you need to get that funding?

**DASGUPTA:** Well we've been designed to be robust over benign economic periods and indeed in terms of downturns. The model that we use to work out how much companies should pay into the levy is a bit like the way the insurance companies calculate the costs that they need to support payments. So, yes, we've been set up to ensure that we can continue to pay members even if the number of schemes reduces over time.

**LEWIS:** Some schemes though have complained the levy is the last straw, haven't

they, and that the company then wants to pull out of the final salary scheme altogether, so in that sense the PPF reduces the security of people in existing schemes?

**DASGUPTA:** I don't think that's particularly fair. I think the PPF increases security for individuals and certainly I think the 16,000 people that have already transferred into the PPF would agree with that. We recognise particularly in this economic environment that it is tougher for schemes to be paying the levy, but that's why we've set the levy at a stable level for the next three financial years to ensure that they have a bit more stability in understanding of what the costs of supporting the PPF are.

**LEWIS:** Do you think that the number will grow, that people will know you're there so they'll be more inclined to let their scheme go?

**DASGUPTA:** I don't think that's the case because as well as creating the Pension Protection Fund, the government also created the Pensions Regulator and we've seen a commitment from companies to put money into their pension scheme and a commitment over the next 5 to 7 years on average to increase the financing of pension schemes. There has been volatility in markets in the recent period, which has obviously affected the strength of pension funding, but we must remember that pensions are funded better than they've actually been over the last 25 years.

**LEWIS:** Partha Dasgupta of the Pension Protection Fund.

Tax cuts announced in May will arrive in pay packets and pensions from next week. The increase in the personal tax free allowance will mean up to £120 off this year's tax bill for 22 million basic rate taxpayers. It's being paid to most people by a £60 rebate on your tax this month and tax will be cut by £10 a month for the next 6 months. The change was announced in May after MP's threatened to defeat the government over scrapping the 10 pence lower rate of tax, which left more than 5 million low income taxpayers paying more tax this year than last. But even now more than a million very low income people will end up with a bigger tax bill than they had last year. With me is Angela Beech of accountants Blick Rothenberg. Angela Beech,

how will this £120 actually be paid to us?

**BEECH:** Well, as you say Paul, we'll be seeing up to £60 being paid back to basic rate taxpayers only in this September's pay packet and, thereafter, up to £10 per month for basic rate payers.

**LEWIS:** That won't be to everybody. You say up to. Who will get less than that?

**BEECH:** It's only those people who actually earn more than £6,035 who will get the full benefit.

**LEWIS:** And what about higher rate taxpayers because normally if the personal allowance goes up, they would benefit as well?

**BEECH:** Basically you're going to get nothing extra as a higher rate taxpayer. Those are people who are earning round about £40,800 a year.

**LEWIS:** Now there's some confusion about how this applies to people over 65 because they were not people who were going to lose anyway from the changes that had originally been announced. What happens to them?

**BEECH:** The age-related allowances were increased by a whopping almost 20% for this year, so if you qualify for those age-related allowances you won't see any change at all in the tax that you're paying. If you don't qualify for those allowances, so that's really those pensioners whose income exceeds round about £27,800, then you will see a benefit.

**LEWIS:** But of course not if you're high enough to be a higher rate taxpayer because it'll be clawed back, so it's a kind of band of pensioners of those incomes.

**BEECH:** That's right. So it's really those in between sort of £28,000 to £40,000 odd that will see a difference.

**LEWIS:** And very briefly, most of this is being done through PAYE. That applies to people in work and people who get pensions paid through PAYE. What about self-employed people?

**BEECH:** Self-employed people are quite interesting because they've got to wait until 31<sup>st</sup> January 2010 to get this benefit and that's really a quirk of the way that the self-employed people pay their tax.

**LEWIS:** Thanks very much Angela Beech of Blick Rothenberg. And if you've got questions about tax, self-assessment and the new rebates or any other subject, Vincent Duggleby's here on Monday with Money Box Live to answer your questions on tax and tax returns.

Well talking of tax, car tax and insurance and MOT and depreciation. The costs of owning a car can be daunting and they're growing. And if you live in a city and don't use your car that much, the cost per journey can be very high. This week it was revealed the number of UK car registrations in August was the lowest since 1966, presumably because people are feeling hard up and cutting back. Some motorists though are now giving up owning a vehicle and deciding to share one instead by joining car clubs. Bob Howard's journey this week was to find out more.

**HOWARD:** This is Hove in Sussex, one of more than a dozen towns and cities across the UK where pay-as-you-go car clubs are taking root. These schemes are generally welcomed by local councils, which hope they'll ease parking and reduce the number of car journeys. Michael, a freelance photographer, took the plunge two years ago.

**MICHAEL:** Myself and my partner had a car each. Our road had resident permits introduced and initially we could only get one permit. We decided that we'd get rid of my larger car, which was annoying me anyway because of its petrol consumption, and give Whizzgo a try with a view to perhaps buying another car if it *wasn't* a useful thing.

**HOWARD:** The club Michael's joined was launched four years ago and now has 200

cars available in fourteen UK cities. What are the costs? Well you pay an annual membership fee of around £50. There are different deals, but with the basic one you pay around £5 an hour, a rate that includes the petrol costs for the first 60 miles driven per day. After that, you pay 20 pence per mile. So if Michael wants to drop something off in Eastbourne - a 2 hour, 50 mile round trip from Brighton - it would cost him around £10. But if he's thinking of dropping someone off at Luton Airport - a 4 hour, 200 mile round trip - the cost would be closer to £48. Once you've joined, you can book your local car online or by phone. Michael can choose from nine parked around Brighton and Hove, the nearest a few minutes walk away.

**MICHAEL:** I will already have received on my mobile phone a text message confirming my reservation, so I walk a couple of minutes down the road from my office to the car, which is always parked in this same reserved bay. I'm issued with a credit card sized plastic slip. I'll place this on a little pad on the window screen. That's opened the car itself, but I still don't have a key.

**HOWARD:** Once inside the car, Michael puts in his membership number and PIN to get it.

**MICHAEL:** There's a radio telephone system in here, which also logs my use of the car. It's asking me at the moment to enter my PIN. So it's now asking me to take the key from the glove box. And now I'm just using the car exactly as I would my own.

**HOWARD:** When he's finished, Michael must return the car to the same parking place. If he returns it dirty or without enough fuel, he faces a fine of £25. If he's running late and doesn't tell the company, he could be fined £50. The car's fully insured, but if Michael has an accident or doesn't spot any damage already there when he's taking it, he's potentially liable for the first £500 of any repairs. Most clubs require you to be at least 19 years old and to have held a licence for at least a year. I asked Whizzgo's Managing Director, Charlotte Morton, what checks their company makes on new members.

**MORTON:** Well we try and make them as thorough as we can. It's obviously in our

interest to do so. We will check their license details directly with the DVLA. We also do an identity check. As far as accidents are concerned, we do rely on members to tell us how many accidents they've had. We also monitor our own members' driving history.

**HOWARD:** The car club industry estimates the number of members this year has grown by 85% to 50,000 across the UK, and it says members can save up to £3,000 a year. Perhaps that's not surprising when the AA estimates simply owning the cheapest car, without even driving it, will cost you £2,000 a year. Because of his pattern of use, Michael in Brighton isn't sure he's saved significant sums, but he sees other benefits from membership.

**MICHAEL:** I'd hesitate to say that I've saved money necessarily. What I haven't done is outlaid any capital on a car. I don't have the stress of a car sitting outside my house being unused or waiting to be vandalised. I'm a pay-as-you-go kind of person, so I like the fact that tomorrow I need a car for 3 hours and it's going to cost me £20 in total.

**HOWARD:** The battle for customers like Michael in some cities is hotting up. Last year's Zipcar, which claims more than 200,000 members worldwide, launched in the UK, but only if you live in London. I asked the company's Managing Director, Paul McLoughlin, if he believed car clubs were viable outside large urban areas.

**McLOUGHLIN:** Car clubs work the best when there is good public transport to support people using a car on a pay-as-you-go basis. This is a concept that is based around a scale. The challenge obviously in smaller cities is the alternative to not own a car is more difficult where public transport is not sufficient to allow them to use a car on an infrequent basis.

**HOWARD:** Paul, as the industry develops, new issues will arise: will you still be able to book the car you want when you want it and will the cost of membership have to increase in the future to bring in enough profit to make these car clubs viable in the long run?

**LEWIS:** Thanks, Bob. And you can have your say on car clubs - for and against - on our website: [bbc.co.uk/moneybox](http://bbc.co.uk/moneybox).

If you're one of the half a million people with shares in Alliance & Leicester, you'll have heard a loud thump on your doormat as the details of the planned takeover by the Spanish bank Santander arrived. It takes 258 pages to explain the deal and the choices you have. Well if it goes ahead - and three quarters of those voting have to say yes for that to happen - shareholders will get one share in Santander for every three Alliance & Leicester shares they hold. With me is Gavin Oldham, Chief Executive of the Share Centre, a dealing service aimed at small investors. Gavin Oldham, as ever a very long and complex document. What's the essential choice people have to make?

**OLDHAM:** Well that's right, it is a very complicated package - particularly complicated because they're going for a thing called the Scheme of Arrangement, which gets settled through to courts as opposed to a conventional takeover structure. That means that the voting papers are required back by next weekend; and then the court hearing itself, which has certain thresholds which have to be met, including 75% approval, basically will take place on Tuesday, 16<sup>th</sup> September.

**LEWIS:** And that's 75% of those voting rather than 75% of all shareholders, is it?

**OLDHAM:** It's 75% of the shares held by those voting.

**LEWIS:** Now the Acting Chairman has warned there are "serious risks", I think was the phrase he used for the bank, if the takeover doesn't go through. Should people vote for this deal though?

**OLDHAM:** Yes, I think it will go through. It is recommended by the bank. It is very much part of the programme of recapitalisation that the Bank of England has been encouraging for banks in this country and quite honestly it has to be supported. I know that's very difficult news for holders of Alliance & Leicester when the shares are worth so little.

**LEWIS:** Yes, I mean that's partly the problem, isn't it - that they seem to be being offered less than the shares are worth? And sometimes shareholders get the choice of cash or shares, but this time it's shares or nothing, isn't it?

**OLDHAM:** Well, that's right. Those who took part in the demutualization on the 27<sup>th</sup> April 97 received 250 shares. At the time they were worth about £1,332. Since then they've seen about £1,137 worth of dividends and they're also getting a special dividend of £45 just now. But the shares are actually worth in this offer about £750 and so they have gone down in value a lot.

**LEWIS:** And just briefly, Santander is of course a Spanish bank. If the deal is voted through, they keep the Santander shares. As I understand it, the dividends are paid in euros and they're going to be taxed in Spain. Is that right?

**OLDHAM:** There's all kinds of complications in tax. First of all, the dividends are subject to this 18% withholding tax and you have to fill out a special Spanish form - 210 - and tax residence and so on if you want to treat that as being your tax paid for the UK system. If you sell them, then you're subject to sending in capital gains tax forms and even fines if you don't get those forms in. And I understand also that you have a full UK tax return as well. So I think our suggestion would be you've got until 10<sup>th</sup> October to sell your shares in Alliance & Leicester, and if you want to stay invested in the banks we would have thought the more cautious should probably go for HSBC and those who are a little bit more adventurous could go for Barclays.

**LEWIS:** Gavin Oldham from the Share Centre, thank you very much for talking to us.

Well that's it for today. You can find out more from the BBC Action Line - 0800 044 044 - and of course our website, [bbc.co.uk/moneybox](http://bbc.co.uk/moneybox), where you can download a podcast of the programme - more than a million of you already have over the last year - and of course have your say on car clubs. There are personal finance stories on Working Lunch, BBC2 weekday lunchtimes. Vincent Duggleby's here on Monday with Money Box Live, this week taking your questions on tax. I'm back live with

Money Box next weekend. Today the reporter was Bob Howard, the editor of Money Box is Stephen Chilcott, and I'm Paul Lewis.