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MONEY BOX

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LEWIS: Hello. In today's programme, low income households may miss out on a £120 discount off their electricity bill because most energy companies are limiting the money they will spend. What damage will the new round of quantitative easing - printing money, as some call it - do to pensions and other things? We find out why one low income pensioner couple was refused a cheap phone tariff from BT.

HILARY: I thought it would be a nice way to try and cut down our utility bills a little. We are eligible and yet that's been turned down.

LEWIS: And should we all pay off our credit cards, and what would it do to the economy if we did?

But first, hundreds of thousands of Britain's poorest households could miss out on a £120 discount off their electricity bill because the scheme has too little cash to pay them all. The new Warm Home Discount will replace various reduced price social tariffs (as they're called) for low income households, which the big energy companies offer. Six hundred thousand pensioners will get the £120 discount automatically and won't have to apply. They're pensioners who get only pension credit guarantee credit. That means an income of less than about £103 a week for a single person, £164 for a couple. But that will take most of the available money, leaving very little for other poor households containing young children or a disabled person. Fiona Woods has been investigating.

WOODS: Yes, we've been in touch with the 'big six' energy companies about this and all will be offering the £120 rebate to a broader group of customers than just low income pensioners. Now some of the plans still need to be okayed by the regulator Ofgem, but broadly speaking most will require you to meet two conditions - you'll need to get some kind of means tested benefit and have either a child under 5 or get a disability benefit as well - but the criteria do vary and some are more generous.

LEWIS: And also the suppliers will set aside a fixed amount of money.

WOODS: Yeah. And when that's used up, even those who do fulfill the conditions won't be paid.

LEWIS: Yeah, that was made very clear to me by the Energy Policy Manager at EDF when I talked to her yesterday: Valentine Mulholland.

MULHOLLAND: We're encouraging people to apply by applying on the internet, so we've got an application form on edfenergy.com/supportplus. We are also offering the ability for people to apply on the telephone. We're looking for about 40,000 to 45,000 customers.

LEWIS: Right so it's first come, first served, is it?

MULHOLLAND: So it's a case of first come, first served, I'm afraid, yes.

LEWIS: Well we understand five of the big six suppliers have a fixed amount of money, and when that runs out no-one else will qualify. Inevitably first come, first served. But British Gas is being more generous. Ian Peters is its Managing Director of Energy, and first he explained the criteria for getting the discount.

PETERS: Any customer in receipt of cold weather payments, anyone in a household with income below £16,200 where they're over 60 or in receipt of any means tested benefit, anybody in a household with income below £16,200 with a disability or a

long-term illness, and finally anybody with a household below that income spending more than 10% of their disposable income on heating. So it's a very broad definition.

LEWIS: So are you saying that anybody who fulfils those criteria will get the £120 payment?

PETERS: The scheme itself has a limit attached to it. I'm not saying we wouldn't go beyond that depending on how many of our customers reach out to us.

LEWIS: But I'm just trying to be clear because people listening may be thinking well I'm a British Gas customer, I fulfil one of those criteria. If I apply, will I be guaranteed to get £120?

PETERS: If they apply before the end of January for the first year, then I would have every confidence that I could guarantee they would get £120. The deadline for the first year payment is January 2012.

LEWIS: So if they apply before the end of January and they fit into one of those categories you set out, you will definitely pay them?

PETERS: Yes.

LEWIS: Even if you've run out of money?

PETER: I will guarantee we'll pay them, yes.

LEWIS: Ian Peters of British Gas. Well live now to Brighton to talk to Jonathan Stern of Consumer Focus. Jonathan Stearn, I was a bit surprised to get that commitment from British Gas. I imagine you welcome it?

STEARN: We certainly welcome it, and I was surprised as well because there have been limits put on the amount of money that's going to be spent. And, as you say, if

you are one of the eligible groups but the money's run out, then you won't get the money.

LEWIS: And of course since we've been talking about this on BBC News this morning, lots of families have been emailing us saying they've heard about this discount and they're rushing to call their supplier. But many of the call centres are either jamming up or don't seem to know exactly what to advise them.

STEARN: Yes and it sort of highlights the fundamental problem that there is with the scheme. When it was actually going to come about, we said that it should be a super priority group who get this money, who are eligible for it, and the energy suppliers are required to pay that group; and that includes the groups you've been talking about - those eligible for cold weather payments and pensions and pension credit. Now what happened is we ended up with a sort of fuzz where some groups would be required by the companies to be given money; others would be on the list, but if there's no money left, they wouldn't get it.

LEWIS: And that requirement is now confined to pensioners who are only on the guarantee part of the pension credit. That's estimated to be about £600,000, and they'll take the bulk of the money, presumably?

STEARN: Yes, they're the initial what they're calling the "core group", and that will gradually expand to pensioners on pension credit who have savings credit.

LEWIS: That's over the next few years. We're also getting queries, Jonathan, about people who are on existing social tariffs which I mentioned. Now these are reduced tariffs for people in certain circumstances. Will they get this £120 if they fit into the right group?

STEARN: I have to say that's a bit fuzzy. I mean, the way this is working is we have limits to how much the companies are supposed to be spending on each group. So the core group in the first year is £97 million. The broader group, which is those eligible

but not in the core group is £3 million. And then you've got a legacy spend of about £150 million. So it's actually being based on how much money is in those particular budgets.

LEWIS: Like many things, a bit fuzzy still this morning. And one thing I think is clear. Prepayment meters - they can't get a discount. They'll be paid though?

STEARN: Yes, they get a credit on their meter.

LEWIS: Jonathan Stearn of the Consumer Council, thanks very much. And there's more on our website: bbc.co.uk/moneybox.

“Possibly the worst global financial crisis ever and certainly the worst since the 1930s.” That’s the view of Mervyn King, the Governor of the Bank of England, this week, and that’s why the bank decided to create another £75 billion in phase two of the process known as quantitative easing. The bank creates the money, then buys back government debt (mainly from the high street banks) giving them more cash to lend to others, but no guarantee of course that they will. It is certain though that another round of quantitative easing will damage pensions. Mark Gull is a manager at the Pension Corporation.

GULL: One of the main aims of quantitative easing is to push yield or long-term interest rates lower in the UK. Pension funds, having very long-term commitments or long-term liabilities, need to be able to invest for the long-term, and where they can put their new money and the return they can get from those investments is very, very important. So if the long-term interest rates are going down, it means that new money going into pension fund gets a lower return.

LEWIS: So because interest rates are lower, they'll have to buy more bonds in order to get the same income?

GULL: Absolutely - to pay the pensioners what they have set out to do, they will

have to buy more of these bonds.

LEWIS: Was that theory borne out the last time we had quantitative easing when £200 billion was pumped into the economy?

GULL: Well measuring the effects of quantitative easing has been very, very difficult, and you can ask two economists and get at least three opinions on what has happened there. The Bank of England have come out and have generally said that the effects were positive. They've admitted it's not easy to measure it precisely, but have said they thought that long-term interest rates came down by about 1%. Bearing in mind the move in long-term interest rates, the effects on inflation and the effects on the equity market, the best guess that we have is that deficits for pension schemes went up about £74 billion at the last round of QE. So a pretty big number.

LEWIS: So how would that affect individual companies? They're going to have to put more money in to meet that deficit, are they?

GULL: That is absolutely right. And normally there is a plan to make up the deficit so to ensure that the pensioners do get what they believe is coming to them. Generally the time frame for that, but not exclusively, is about 10 years. So companies will be putting money in, roughly about £7 billion extra because of the first round of QE over the next 10 years.

LEWIS: And of course the more money they have to put into their pension scheme, the less they have for investing, which of course is what the government wants them to do in order to grow the economy.

GULL: I think that is precisely right. And I think there is an extra point that is worth making. For a lot of small companies, they depend upon the banking sector for their financing. If more money has to come out of those companies, the banks look at them and think they are not as good entities to lend to, so it's harder for them to get funding from the banks.

LEWIS: Mark Gull of the Pension Corporation. And the National Association of Pension Funds has asked for an urgent meeting to discuss all this this morning. With me is Philip Coggan who writes the Buttonwood column in the Economist and the Buttonwood blog. Philip Coggan, Mark Gull very clear there on the damage to pensions. And of course it's not just those salary based pensions. It's also the pension pots that many people are saving up in private pensions that are affected.

COGGAN: It is, Paul. If you save in a private pension, then you'll tend to buy an annuity. Annuity rates fall, so as a result you get a much lower income out of your pension pot than you expected. And there's an estimate just out from Pricewaterhouse that it's fallen by about 30% in recent years.

LEWIS: Yes, 30% over 3 years, I think, which is quite frightening for the people saving up. And what about fears of inflation? We've talked about the effect on pensions. Even the Bank of England admitted the last round pushed up inflation by between three quarters and 1.5 percentage points. Is it going to push up inflation again this next round?

COGGAN: Yes, it probably will. That's what the bank is trying to do because it's worried inflation will get very low. But of course inflation is already 4.5% on the high street and the bank is forecasting that it will fall. But if we look back and see what the bank was forecasting 2 years ago, it was forecasting it would now be 1.5%. It was out by a factor of 3 two years ago.

LEWIS: Yes, it hasn't been very good on inflation forecasts. We've talked about that on the programme before. So the danger is that far from falling to 2% in the medium term in the next 2 years, as the Governor said this week, you think it may end up higher because of quantitative easing?

COGGAN: Well that is a risk. And in the past, of course, creating a lot more money has led to inflation. It's a very delicate task. There are plenty of examples of history where it's gone very wrong.

LEWIS: This is a very complicated way of creating money. I mean I'm sure you, certainly I have had difficulties explaining exactly the process to many people who've asked me. Why can't they just print the money and give it us directly, maybe through a tax cut?

COGGAN: Well they could give us a tax cut, but of course the government is committed to reducing its budget deficit, so if it gave everybody a tax cut, that would increase the deficit. It doesn't want to do that.

LEWIS: But couldn't it increase it with fake money it had just printed?

COGGAN: Well it could, but that would be I think in the bank's eyes, the sign of the inflation, the long-term inflation they're trying to avoid, and it can't really send us all £100 notes in the post because that would go disastrously wrong.

LEWIS: Well some of them wouldn't arrive, I'm sure. Now you've written in your Buttonwood column that after this, the Bank of England will own more than a quarter of all government debt. It could be even more. Given it's government debt and no-one likes the government having that debt, why can't the bank just tear it up?

COGGAN: Well the trouble is the bank acts as a company. It has a balance sheet which I have in front of me and it has four billion of reserves and it owns 200 billion of assets. So if it tore up those assets, the bank would go bust and then it would have to be rescued by the government and we'd be back to square one.

LEWIS: Yes, we'd be in a crazy circle that we could understand; whereas at the moment we're in a circle ... Well you understand it. I'm not sure many of the rest of us do. Philip Coggan of The Economist, thanks very much for that.

Now the Prime Minister almost told us this week that we should pay off our credit card debt, but after gasps of amazement from economists, the text of his speech was subtly changed before he made it to the Conservative Party conference. Instead David

Cameron said that households are paying off credit and store card debt. So why did he decide to pull back from advising everyone to pay off their debts? What would happen if we did? David Nash is a Research Fellow at the left of centre Institute of Public Policy Research.

NASH: Our outstanding bills on credit cards are totalled at 57 billion, and we have 152 billion in other loans and advances. We calculated if we paid off the credit card debts in one quarter, this would effectively reduce consumer spending by 25% and gross domestic product by 15%. And of course these are only first round effects, so there would be invariably additional job losses further down the line, further cuts and spending. We'd be in real trouble and risking going back into recession.

LEWIS: So that would be very dramatic. But what if we did decide as individuals on a programme to pay off our debt over the next year or two?

NASH: Over a year we also calculated that it would reduce consumer spending by 6% a quarter. And that would have an impact on GDP, reducing it by 4% per quarter over the course of the year, so it would still have quite a serious effect. Even if British consumers cut back on our credit card debt over the remainder of the parliament, which is three and a half years, this would still, we calculate, reduce consumer spending by approximately 1.75% per quarter and GDP by 1% per quarter. So even over that sort of time frame, we're still looking at quite a deep impact.

LEWIS: David Nash explaining the consequences if we did all pay off our credit card debt. But it's not even clear that we are paying it off. David Dooks is Director of Statistics at the British Bankers' Association.

DOOKS: Well if we look at current activity on credit cards, all new spending is being counterbalanced by repayments from cardholders and that's because cards have become increasingly used to defer payments and take advantage of the 56 days extended credit period. That's symptomatic of householders controlling their monthly finances.

LEWIS: So people are using credit cards if you like in a sensible way. They're buying things with them, but then they're making sure the debt is paid off in full at the next payment date?

DOOKS: In general, that's right. We understand that around 7 out of 10 cardholders pay off their statement in full most months.

LEWIS: But in your figures, you do show that there is a growth in card borrowing, but you're saying that repayments and new borrowing just about balance each other out?

DOOKS: Yes, well one third of all card borrowing incurs no interest at all. But for those balances that are not paid off, so the remaining two-thirds of all borrowing, then interest accrues and it's that accrual of interest which generates an underlying growth in the total borrowing levels.

LEWIS: So although we're paying off slightly more than we're borrowing, by the time interest is added on, we actually owe more?

DOOKS: That's right. Well in terms of the overall borrowing on credit cards, there's a small underlining growth of around 2, 2.5%.

LEWIS: But then we have to take something else off that, don't we, because the banking industry assumes that some debt will never be paid?

DOOKS: Well I think that's part of credit products, particularly unsecured credit products. There is inevitably debt which is written off by the banks as cardholders get into difficulty, into arrears, and default on their obligations.

LEWIS: So is that why when I look at the graph that you published, it actually shows the outstanding balance on credit cards is falling slightly? That's because you're writing debt off?

DOOKS: That's right.

LEWIS: And how much are you writing off? How much debt is irrecoverable?

DOOKS: Across the whole credit card industry - so banks, building societies and other lenders who are affiliated to the main card brands - around £300 million of debt is written off each month.

LEWIS: So that's more than 3.5 billion a year is written off?

DOOKS: That's right. And in terms of comparisons against the stock of borrowing, it's around half of 1% per month.

LEWIS: So if we didn't take that off, the actual balance outstanding on credit cards would show this slight rise that you talk of - 2.5, 2.7% a year?

DOOKS: That's right. The underlying growth in amounts outstanding is around 2.5% a year.

LEWIS: David Dooks. So the statement we are paying off our credit card debt and the statement our credit card debt is growing are both true. But if you have a credit card or store card debt, how should you go about controlling it? Live now to Colchester to talk to Sylvia Waycot, Editor of Moneyfacts. Sylvia Waycot, what is step one to paying off your credit card debt?

WAYCOT: Oh that's quite easy. Step one is to make the decision that you are actually going to pay your card off and mean it, and a great way to test your resolve is to get the scissors out there and then and cut them up.

LEWIS: Cut up your credit cards. That is very dramatic. It's a good lesson.

WAYCOT: *(over)* It does stop spending on them.

LEWIS: When you've done that of course, cutting them up of course stops the debt growing; it doesn't pay it off. What's step two?

WAYCOT: Okay, step two is ... Well most of us have more than one credit card, and if that is the case then it's to look at your credit cards and see which one is charging you the most interest each month and pay that one off first. Put all your effort into paying that one off first, then your next most expensive one.

LEWIS: Ye, of course the problem is with some people, they just don't know that, do they, which I suppose is part of the problem. But the most expensive one. And when you say pay it off, obviously they all ask you for a minimum payment, but that's the worst way to pay it off, isn't it?

WAYCOT: Oh yes, ignore minimum payments. Minimum payments are designed to make borrowing look affordable, but in truth they allow the credit card providers to drag your debt out and to charge you lots more in interest.

LEWIS: Yes, I think I worked out that £1,000 on an 18.9% card would last 27 years or more if you paid off the minimum. So I mean one way is to look at what you pay this month, which obviously you can afford, and fix that cash amount and then just pay that forever until the card's gone. Or indeed double it if you can and pay that. That will bring it down very quickly, won't it?

WAYCOT: Yeah, you really must pay off as much as you can. I mean ideally you would clear your card every month, but not everyone can do that.

LEWIS: Well ideally. Now of course if you've got a good credit rating, a lot of people are tempted to take out another card on 0%, one of these balance transfer cards. Is that a way forward if you have that credit rating?

WAYCOT: If you have, then that is a great way of doing it. What you should do is have a look at who is offering the longest term and then take your debt, divide it by

that number of months and you've figured out how soon you can actually pay your card off. So if you've got a 22 month zero interest credit card, you could pay your debt off in 22 months.

LEWIS: Yes, if you can afford ...

WAYCOT: Without paying any more interest.

LEWIS: Indeed and that's a very good technique. So divide it by the number of months. And just briefly, which cards offer you that kind of length?

WAYCOT: Okay Barclaycard really seem to want to get us to take their cards at the moment. They've got some very good cards out. But it's not just a case of looking at the months. Also you need to look at the balance transfer fee. The average is 3%, but a lot of these cards come out with fabulous months that you can have interest free but they charge you well over the odds on the balance transfer interest.

LEWIS: Okay, so check that too. Sylvia, sorry, I've got to cut you off there. Thanks very much.

BT offers cheap line rental for people who get means tested benefits like jobseeker's allowance and the lowest band of pension credit. The BT basic tariff costs £14.40 a quarter and comes with a call allowance of free calls up to £4.50. That compares with the standard rental of £41.70 a quarter. Money Box listener Richard Hilary cares for his disabled wife Eileen and she gets one of the qualifying benefits - pension credit guarantee credit - but his application for the basic tariff was rejected. They were hoping to slash their quarterly bill, which includes standard line rental and broadband.

HILARY: We spend approximately £3 to £4 per month on telephone calls and yet our last bill was for £135, which includes the line rental, Broadband and associated charges. The line rental for the amount we use was rather high. Therefore when I heard about BT Basic, which was a reduced rate, I thought it would be a nice way to

try and cut down our utility bills a little. We get the pension credit, so we are eligible, and yet that's been turned down.

LEWIS: To find out why, I asked BT's Commercial Director Peter Oliver.

OLIVER: First of all, we've got good news. So Mrs Hilary is eligible for BT Basic and we've been in touch to talk to them about switching over to BT Basic. The small issue we had was the account was in the name of Mr Hilary, and to be eligible for BT Basic we need the account to be in the name of the eligible individual.

LEWIS: Why does that matter because if you're on one of these four means tested benefits that qualifies you for BT Basic, if you're a couple they are assessed on your joint income, so it doesn't matter which of the couple actually makes the claim?

OLIVER: Well the process we run to assess people for BT Basic is they have to get in touch with us. We send them a very simple form, which they can fill in, and then we check with the Department for Work and Pensions if they're eligible. And clearly to protect people's privacy, we need to be talking to the person specifically who's eligible for the benefit. It's very easy to get in touch with us and switch your account to the name of the eligible person.

LEWIS: There are millions of people entitled to those four benefits. Only half a million of them actually get BT Basic. Why is that?

OLIVER: Well I think it depends on people's circumstances. So BT's very keen on promoting this option to customers, both in our sales and billing centres and on our website, and we feel that having over half a million customers signed up to this shows that we do take it very seriously.

LEWIS: One problem might be though that many people won't find it cheaper, will they, because they pay a monthly fee, they get some calls free, but then after that they're charged a huge rate. They're charged 10.7p a minute plus 3.1p for every call.

OLIVER: Well the way BT Basic works is that we've designed it for people to have a very, very low price for their line rental, so it's primarily designed to give people a way to stay in touch.

LEWIS: They can only make £4.50 worth of calls before they pay what are really quite nowadays extortionate rates for the rest of their calls.

OLIVER: We do advise people that if they are going to make a lot of calls, that they would potentially be better off on our unlimited calling plan. We designed this product with Ofcom, Age UK and the Citizens Advice Bureau, and the main objective was to give people a very low cost to have a line to be able to stay in touch.

LEWIS: And what's a lot of calls? Where's the break even point?

OLIVER: Well it will depend on the type of calls the customer makes, so if you make a lot of landline calls during the daytime we'd probably recommend the unlimited package. If you're mainly receiving calls or making calls to mobile phones, you'd be better off on BT Basic.

LEWIS: If any BT customer rings up customer service and says to BT, "You know my usage. What is the cheapest package for me?", your staff can actually answer that question?

OLIVER: Absolutely, we would give that advice. So based on the recent call history, we'd be able to talk through a number of our call plans and we would be able to provide customers with that advice.

LEWIS: Peter Oliver of BT. That's it for today. More on our website: bbc.co.uk/moneybox. Listen again, contact us. Lots of you are asking about the discounted electricity bills. Money Box Live is Wednesday. Money Box is back on Saturday. Reporter Fiona Woods, producer Lesley McAlpine. I'm Paul Lewis.