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MONEY BOX

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LEWIS: Hello. In today's programme Scottish Power admits its price rises will hit those who use the least electricity the hardest. Why are prices going up so much? The next round of fuel prices will force more households into fuel poverty. Bob Howard's here. He's been looking at the options.

HOWARD: There are changes coming, but will they have the desired effect.

JUNE: It's a great struggle and you just have to cut back on other things to make sure that you've got your gas and electric.

LEWIS: Can you trust your bank? A preview of Monday's secret filming investigation on Panorama. And 2,500 investors who thought their money was protected could lose 80% of it as Bank of Ireland is rescued.

But first, one of Britain's biggest energy suppliers announced record price rises this week. Scottish Power is putting up gas prices by an average of 19% and an average of 10% for electricity prices. But within that headline rise, those who use less than average amounts of electricity face a much bigger hike. The cost of the first 225 units of electricity, about a quarter of the average, is going up by nearly 30% with almost no increase at all in the rest of the units. So the less electricity you use, the bigger the percentage rise in your bill. Live now to talk to David Hunter, an analyst at M&C

Energy. David Hunter, first are these rises justified by rises in the company's costs?

HUNTER: I think the rises are generally justified. I mean the wholesale price of electricity and gas has gone up markedly since say the start of 2010. The piece you mentioned around the frontloading if you like of the tariffs is easy to understand in a way because the costs of getting electricity to consumers is increasing. But at the same time it's difficult because there's a situation where if people want to cut costs by being more energy efficient, it becomes more difficult because they're still left with the highest costs at the end.

LEWIS: Yes it's sending the wrong message really, isn't it? The first units you use are going up in price by nearly 30%. The rest aren't going up at all.

HUNTER: Well it's very similar to putting up the standing charge, which you know electricity and gas used to just have a standing charge and a flat unit rate for domestic. So yes it does, it makes it difficult to control for the smaller users.

LEWIS: And you say there's some justification for putting up this sort of frontloading. What goes into that extra cost of the first unit? Is it the future? Are we looking to build more power stations, that kind of thing?

HUNTER: It's the present and the future. So overall over the next decade Ofgem, the regulator, estimate that we'll have to spend £200 billion on energy infrastructure. That's everything from pipelines to get new gas into the country to connecting up the new offshore wind farms that we're building, for example. But it's also a catch-up for really kind of 40 years of lower levels of investment in our grid, in our infrastructure.

LEWIS: And that 200 billion of course has to come from our pockets as energy users.

HUNTER: Absolutely. I mean the cost of that will ultimately be passed on. And that's over the next decade. Ofgem reckons that, depending on how we load that cost, prices could go up for consumers between 20% and 60% just for the infrastructure

and never mind the wholesale price.

LEWIS: Yes that's regardless of the price of oil, which does seem to be on the way up for all sorts of reasons. Are we going to see then - it probably sounds a silly question now - but Scottish Power is the first to put its prices up. The others must follow, mustn't they?

HUNTER: They absolutely will. I mean Scottish Power obviously have taken the heat, if you like, for being the first mover; but the others will definitely follow. They will follow with double digit price increases across the board for both electricity and gas, which is going to be very, very difficult for people.

LEWIS: It certainly is. And briefly, if you would, we complain about energy prices. You've just explained how they're going to rise. How do we compare with the rest of Europe?

HUNTER: Well it seems that we don't compare that badly. I mean the UK is a relatively competitive and liberalised market. And you know if you look at domestic prices in Germany, for example, then they're higher. France, it's around about the same. But the UK is definitely cheaper than the European average at the domestic level.

LEWIS: David Hunter, thanks very much from M&C Energy. Well we did ask Scottish Power for an interview. It refused. So we know that prices will rise. How can we protect ourselves? Joe Malinowski runs the comparison website, TheEnergyShop.com.

MALINOWSKI: When you've got a signal as clear as this that prices are going up because you know the first one is announced, the others will follow, you have to go for a fix. What you have in the market at the moment is fixed rate tariffs, which are slightly cheaper than standard bills, give you protection for a year plus. There are extra penalties with them, but given that we all know that energy bills are heading

higher, that has got to be the thing to do. What I would caution against at this stage is going into variable rate products which have almost meaningless guarantees - i.e. they're only guaranteed to be 1% or 2% cheaper than standard bills which then lock you in with an exit penalty - because they are almost certainly going to go up with standard bills. So avoid those. Go for the cheap fixed tariffs and protect yourself against the forthcoming increases. I mean let's put an order of magnitude on what's just happened. Scottish Power has added £173 to the annual dual fuel bill. That is something that's worth protecting.

LEWIS: Switching can seem daunting to people, can't it?

MALINOWSKI: There's a big chunk of the market who've never switched and will never switch. They're the hard core loyalists and it's going to be very difficult to move them. They're about 20, 25% of the market. You've got another chunk - 25 to 30% Ofgem found - who have switched once, but will probably never do it again. They've become disengaged - one, because they find the whole thing so confusing, there are just so many tariff choices; number two, they can't understand the bills to work out whether they've got a good deal or not; and, number three, they're not convinced they've got a good deal because what they thought they signed up to once, you know after a year and a half suddenly goes all the way back up to standard bill, so they have to keep re-engaging with the market. And a lot of people have given up for that reason.

LEWIS: You mentioned changing to a fixed rate tariff. Is there one that you'd recommend or does it really just depend on your circumstances?

MALINOWSKI: Well E.ON Online Saver 2 stands out as being the cheapest at the present moment in time, but there are one or two other alternatives quite close behind it. Npower have Go Fix 6 and Ovo Energy have their fixed energy deal as well.

LEWIS: Given that the price rise round has now begun, are these fixes going to be there forever?

MALINOWSKI: No, they're probably going to be around for a very, very short period of time and I really would encourage people to do something now, and I mean right now - today, tomorrow. Next week may even be too late.

LEWIS: Joe Malinowski of TheEnergyShop.com with some urgent action points. And you can put your questions on fuel bills direct to Joe and other guests on Money Box Live with Vincent Duggleby here on Radio Four at 3 o'clock on Wednesday.

Consumer Focus has produced figures exclusively for Money Box which show that the current round of price rises will add nearly 3 million more people to the numbers in fuel poverty, and just what that means was illustrated by Sam in a recent programme on BBC1 called Poor Kids.

SAM: The electric is on a key which goes into a box and Dad puts a fiver on it every so often. And when we run out of electric, everything just shuts off except for battery powered stuff and candles. And the gas - when that runs out, the whole house is freezing. You see me running upstairs getting my cammy (ph) which is on my bed and sitting and going like this - ooooooh!

LEWIS: Well you can see Poor Kids still on the BBC iPlayer. There's a link on our website. Bob Howard's here. He's been looking into what help low income families can get with fuel costs.

HOWARD: Paul, at present the main help for these customers are the so-called social tariffs offered by the big six energy companies, but in order to get the cheaper rates you first have to apply, and to do that you have to know they exist. This week I spoke to a woman in her 50s (who we'll call June) who lives in London and receives benefits.

JUNE: A great struggle. You have to make sure obviously that you've got pennies to put on it; and with it going up, it's not getting any easier. Money doesn't go up, but everything else goes up and you just have to cut back on other things to make sure

that you've got your gas and electric obviously. That's why I'm on a prepaid meter.

HOWARD: Roughly how much are you paying per week or per month, do you think?

JUNE: At the moment between £12 and £15 a week.

HOWARD: And how long have you been on prepaid?

JUNE: About 17 years, a long time.

HOWARD: And you're with EDF at the moment?

JUNE: Yes.

HOWARD: And how long have you been with EDF?

JUNE: Oh about 7 years.

HOWARD: Okay. How confident are you that you're on the cheapest tariff?

JUNE: I'm not confident I'm on it.

HOWARD: Because they do this thing called Energy Assist, which is supposed to help people on low incomes and it says an annual discount of £75. I mean do you think that you should have been made more aware of this?

JUNE: Definitely because every little helps, as they say.

HOWARD: EDF Energy told me it has 165,000 people on its discounted Energy Assist tariff, and it says it uses a number of ways to help people about it, including via

Citizens Advice. It's currently available to those receiving income support or who spend more than 10% of their income on household energy costs each year. So if June joins, she's likely to benefit, but many of the social tariffs concentrate on helping the elderly and changes about to come in will also target older people which will be of little help to June or Sam.

LEWIS: And how will these changes work, Bob?

HOWARD: Well the new help will come through something called Warm Home Discount, which aims to eventually replace all the current social tariffs, which has been set up by the government. It'll oblige the big six energy companies to support some of their most vulnerable customers to the tune of just over on average £40 million per firm per year. You have to get only the guarantee credit part of pension credits to be eligible. If you do, you'll get £120 off your bills payable in the winter and you'll be credited automatically, you won't have to apply.

LEWIS: But what happens if you're not a low income pensioner like June or Sam? Will you get any help?

HOWARD: Well, Paul, the picture's a bit confused. We know Warm Home Discount is also going to be extended to help those other than very low income pensioners, but we're still waiting for the exact details.

LEWIS: And if you're not with the big six suppliers?

HOWARD: Well not very good news, I'm afraid. Those firms don't have to offer the Warm Home Discount.

LEWIS: Thanks Bob. Well live now first to Jonathan Stern who's a fuel poverty expert at Consumer Focus. Jonathan Stern, you did those figures for us to say a lot of people will be forced into fuel poverty by these energy price rises. A lot of them are not pensioners, are they?

STERN: No they're not pensioners, and the figures which were modelled for us by the Centre for Sustainable Energy show that we're going to move from one in five people being in fuel poverty to one in four.

LEWIS: Yes, it's worth remembering we were supposed to have abolished fuel poverty for vulnerable groups last year. That's completely failed, hasn't it?

STERN: Well sadly we're going in completely the wrong direction.

LEWIS: Well also with me is Barry Gardiner who's the Labour MP for Brent North. He sits on the Energy Select Committee. Barry Gardiner, this automatic £120 discount which Bob was describing, will that help many of your constituents?

GARDINER: Well it will help some who actually claim pensioner credit and they won't have to do anything to receive this discount. But the people it will not necessarily help are those who are in fuel poverty who are disabled or those who have children, or even those pensioners who don't actually claim pensioner credit but need the extra help with their fuel bills.

LEWIS: Yeah, I think there's about 350,000 on the figures I've seen who could get this guarantee credit and don't claim it. This scheme though was started by the last government - the Labour government, your party. Should it have been changed?

GARDINER: Well what I think should happen here is I think that if DWP, the Department of Work and Pensions, are going to as it were cross-reference their database with the database of the utilities companies, they should do it all the way down. They shouldn't just be looking at those who are on pension credit. They should be looking at those who are on disability living allowance and indeed those who are in receipt of other benefits. That way there would be a much stronger guarantee that those who really need this are going to get the assistance they need.

LEWIS: And Jonathan Stern, what's going to happen to the people who aren't very

poor pensioners? What are they going to get because there's a very complicated sort of route map over the next 4 years, isn't there?

STERN: Well sadly it is and it's actually going to be left to the discretion of the energy companies. The whole point about trying to get the Warm Home Discount was to get a mandate from government to tell the companies who they should be supporting, and we argued that it should be those who are eligible for cold weather payments and those ...

LEWIS: So that would include families with young children, disabled people, as well as obviously people over the age of 60?

STERN: Indeed, families with very young children. But we also said those earning less than £16,190 with children as well. And that actually links to a super priority group who are supposed to be getting energy efficiency schemes in their home and it would make absolute sense to make sure that that group got the Warm Home Discount as well, but sadly that's not what's going to happen.

LEWIS: No. And of course energy efficiency schemes are all very well, Barry Gardiner, for people who own their home, but of course if you're a tenant then they're not going to know the circumstances of the tenants and the landlords often don't cooperate with this.

GARDINER: Well indeed landlords have no direct incentive here. And I think it's worth noting that actually £500 million has been taken out of the provision that warm homes used to have for insulating homes in the first place, and that's where it really matters. That way people don't have to spend the money.

LEWIS: And what about the people on prepayment meters? Barry, what's your experience of that because we heard from two of them earlier in this item. They have far fewer options than people who can just switch and pay by direct debit.

GARDINER: Look it's so important that in this country we move from a system where when you only consume small amounts of energy, you pay the highest per unit price. We have to revise this. And your points earlier in the programme absolutely show that because it's those basic costs that everybody has to incur that are actually the highest tariff.

LEWIS: And, Jonathan Stern, what's being done by the regulator Ofgem? Are they doing anything to address any of these problems?

STERN: Well they are looking at the issue of prices that are being charged, but the real issue that needs to be confronted is the fact that people on low incomes aren't adequately protected from the market or indeed can benefit from it, in that people on low incomes are the ones who can't get online direct debit. They just do not have the money in their bank accounts to be able to cover their direct debit costs.

LEWIS: Jonathan Stern of Consumer Focus and Barry Gardiner MP, thanks very much. You can let us know your experience of managing your fuel bills on a low income through Have Your Say on our website: bbc.co.uk/moneybox.

Secret filming by a BBC investigative team has revealed that some banks are misleading customers who go for advice on investments. Panorama sent two pensioners under cover to major high street banks. The advice they got has been called "misleading" by independent financial advisers who viewed the secret footage. Penny Haslam did the programme. Penny?

HASLAM: Paul, Panorama decided to investigate the current state of investment advice from high street banks after two of them received big fines from the City watchdog, the FSA, earlier this year. Now you might remember in January Barclays was ordered to pay a record £7.7 million for mis-selling investment products, and last month Bank of Scotland was fined 3.5 million for persuading customers, mostly pensioners, to invest in risky stock market linked savings plans. Now Barclays has decided to stop offering in-house advice altogether.

LEWIS: So you decided to do some secret filming with the other banks. What did that reveal?

HASLAM: Well we sent two pensioners to high street banks with a hypothetical £90,000 to invest. And we told them to make it clear to the bank advisers that they were cautious with their cash and they didn't want to take big risks. And the results they came back with show plenty to worry about. This is how an adviser from Lloyds TSB rushed through the complicated fees and charging structure of the product he was trying to sell to one of our undercover pensioners.

LLOYDS TSB ADVISER: If you pay £10,000 in, the deduction will be a 2% charge. It'll be a 1.5% charge if you include it in your 3% charge for withdrawing early. So your charges will be 590 quid. You'd expect to get back 995 if it grew, but what happens don't know.

LEWIS: Well I've listened to that several times, Penny, before we came on air and I'm still not clear what he said.

HASLAM: Quite, absolutely. Lloyds has told us that they do have checks and balances in place to ensure that customers fully understand the advice given. But it wasn't just Lloyds that gave potentially misleading advice. An RBS adviser was filmed telling one of our undercover pensioners that investing more than half of his £90,000 in one fund would be fine; that it was unlikely the investment would plummet.

RBS ADVISER: At no stage can you lose that money. Simply it can't be that you have £50,000 and one day you look at it and it's zero. It simply can't happen.

HASLAM: Well receiving advice like that would make me quite nervous, I have to say. RBS has said it will investigate the matters raised.

LEWIS: And what about the other banks you visited?

HASLAM: Well the Cooperative Bank and Santander got the thumbs up for their advice actually, but there were concerns about an adviser at HSBC. The independent financial advisers who viewed our tapes felt that too much pressure had been put on our undercover shopper to make her mind up to invest. The bank adviser also failed to fill out a risk questionnaire until the end of the sales process. Now HSBC has said it has taken on board these issues. Now I watched the secretly filmed footage with the two IFAs, who had also read all of the transcripts of the sales meetings, and one of them, Adrian Lowcock from Bestinvest, summed up his concerns about some of the sales tactics he'd observed.

LOWCOCK: We see charges not very well explained. Risk wasn't very well explained. Fact finds were rushed. And in some instances, we saw them misleading on the charges conversations, confusion on the risk conversations. That doesn't seem like a good deal for clients.

LEWIS: Well it doesn't sound very good, Penny. The Financial Services Authority say customers have to be treated fairly. Did the advisers break the rules?

HASLAM: Well the IFAs, our experts, said they didn't think the banks were mis-selling, but they did think some of the advice was misleading. The banks' trade body, the British Bankers' Association, said "the paperwork of any investment sold will provide the detailed analysis customers need to understand the risk they're taking on."

LEWIS: Thanks very much, Penny. And Panorama's Can You Trust Your Bank is on Monday evening on BBC1 at 8.30 with Penny Haslam.

The Bank of Ireland could face a legal challenge from British investors after it published a rescue plan which would mean thousands of savers losing 80% of their money. Ben Carter's been looking into this. Ben?

CARTER: Yes a number of investors in one particular bond have contacted the programme to express their concerns at the Bank of Ireland's proposals. The bond in

question was first issued by Bristol and West in 1991 and is a permanent interest bearing share or a PIBS. Now these bonds pay 13.375% a year, which is a staggering figure now, but not when it was issued when interest rates were running in double figures. In 1997 the Bank of Ireland took over Bristol and West and in 2007 the bonds were officially transferred to Bank of Ireland's UK branch.

LEWIS: But if it's the Bank of Ireland's UK branch, then aren't those investors protected by the FSA and the Financial Services Compensation Scheme?

CARTER: Well I'm afraid not. There is a difference between the Bank of Ireland's UK branch, which has been around for several years and is governed by the Irish regulators, and the Bank of Ireland UK, which was created last year and is regulated by the FSA.

LEWIS: How many people in Britain have these bonds, Ben?

CARTER: Well the issue was for £75 million and there's more than 2,500 people with bonds. 100 substantial investors hold 17% of all the bonds and the rest is made up of smaller investors who each hold a few thousand pounds each.

LEWIS: But people might think these investors are sitting fairly pretty, making 13% a year until the announcement earlier this week. What did the Bank of Ireland actually say?

CARTER: Well this offer is part of the Irish government's plans to shore up the Bank of Ireland, which it effectively nationalised following the credit crisis, and the bank is estimated to need around 4.2 billion euros of capital. The Irish Minister of Finance has stated that he is prepared to take "whatever steps are necessary" in order to ensure that burden sharing takes place; basically everyone shares in the pain of bailing out the Irish economy.

LEWIS: So those 2,500 investors holding the bonds, what options are they faced

with?

CARTER: Most investors face accepting 20p in the pound. Those with holdings in excess of £100,000 have the option of taking 40p in shares plus interest for each pound they hold. If investors don't accept the offer by June 22nd, it's going to be reduced to 16 and 32p in the pound respectively. And if investors refuse to accept the offer, then the Bank of Ireland will seek to redeem the bonds at just 1p for every £1,000 held.

LEWIS: That's pretty tough.

CARTER: Well it's a very severe step for the Bank of Ireland to take and it's highly likely that legal action will follow as a result.

LEWIS: What do the Bank of Ireland say?

CARTER: Well we asked them for an interview and they declined. In a statement they said, "Having taken legal advice, we consider that the offers comply with the requirements of the trust deed."

LEWIS: Thanks, Ben. Well the Bank of Ireland still operates Post Office accounts, and I should stress those are protected by the UK's Financial Compensation Scheme. Let's talk briefly I'm afraid now to John Hemming who's Liberal Democrat MP for Birmingham Yardley. John Hemming, you're one of the bond holders. How did you react to the Bank of Ireland's offer?

HEMMING: Well what's odd about this is them turning upside down the capital hierarchy. So in other words the traditional rules that debt gets paid first and then equity gets what's left at the end of it is being reversed to protect the Irish government.

LEWIS: Yes, well I suppose that's understandable from the government's point of

view. Some people might say though you've been getting 13.375% for nearly 20 years. I mean no government's going to carry on paying that, is it?

HEMMING: Some people paid £1.50 for the bonds of course. I think well it's not the government paying it and in fact the bank isn't nationalised and in fact it has a minority state interest in Ireland.

LEWIS: But it's being rescued and it's all part of a rescue for the bank, isn't it?

HEMMING: Well the bank can actually be rescued independently. This is the whole point. What the government in Ireland are trying to do - and you can understand them trying to do it - is get preferential treatment for the government. And on the other hand you know I'm alright because I've got a large holding, so I can take up the equity deal, but a lot of small shareholders in this country are losing out to protect the Irish taxpayer.

LEWIS: Yes, the smaller ones lose the most.

HEMMING: That's right, yes.

LEWIS: They lose up to 80%, which is quite ... and they've got to agree to that in the next week.

HEMMING: The whole thing, to be honest, I think is likely to get tangled up in a major legal complication.

LEWIS: Well I was going to ask you about the legal position because I think you're talking of taking legal action and certainly some others are. What can you do?

HEMMING: Well it's not something I can explain in detail in such a short period of time, but there are legal things that can be done.

LEWIS: And they're actually being actively looked at and you think it would be worthwhile?

HEMMING: Yes, there's a firm of solicitors who are working at coming on board at the moment with all of this.

LEWIS: And just briefly, John, the Irish Finance Minister has said he'll do whatever is necessary to ensure what he calls this burden sharing takes place. If he passes a law, you can't fight a government and the courts, can you?

HEMMING: Well it's interesting to what extent an Irish law being passed in Ireland will affect the courts in England. These bonds are supposed to be interpreted by the English courts.

LEWIS: Well we'll have to wait and see. John Hemming, thanks very much for talking to us. That is it for today. Find out more from our website: bbc.co.uk/moneybox. You can sign up to the newsletter, read it, download the podcast, listen again, send us your ideas, and of course have your say on how energy companies treat low income families. Many of you are already. Vincent Duggleby's here on Wednesday, as I said, with Money Box Live, taking questions on fuel bills. I'm back with Money Box next weekend. You can read my money thoughts whenever I'm awake really on my Twitter, [PaulLewisMoney](https://twitter.com/PaulLewisMoney). Today the reporters were Ben Carter and Bob Howard, the producer Ruth Alexander. I'm Paul Lewis.