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MONEY BOX

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LEWIS: Hello. In today's programme, the details of some of those £7 billion of cuts in welfare payments. How will they affect disabled people, families, young people and the over-60s? Pension age will rise faster for women and for men, and public service pension contributions will go up. We have the details. Bob Howard's been looking at identity theft with payday loans.

HOWARD: And how thousands of people are being told to repay money they never borrowed in the first place.

ALISON: They need to make their whole site a lot more secure and be sure that the person who's applying for the loan are the people they say they are.

LEWIS: Compensation details for Equitable Life and Presbyterian Mutual Society. And for the first time, a building society gets capital from private equity.

But we start with the country being "saved from economic ruin" this week. At least that's what the Chancellor of the Exchequer, George Osborne, told parliament when he launched his spending review - the second stage in cutting an unprecedented £81 billion from the government's budget.

OSBORNE: Today is the day when Britain steps back from the brink, when we confront the bills from a decade of debt.

LEWIS: He explained his approach to that job.

OSBORNE: Tackling this budget deficit is unavoidable. The decisions about how we do it are not. There are choices and today we make them. Investment in the future rather than the bills of past failure. That is our choice.

LEWIS: Well most of the savings announced this week come from cuts in the budgets of government departments. But the Chancellor did announce another £7 billion a year off welfare benefits, and that's on top of the £11 billion a year announced in the June budget. Changes included time limit on Employment and Support Allowance for people too sick to work; a cut in the help given to low-income households with their council tax; and restriction on the rent paid for people under the age of 35. However free buses for pensioners, free TV licences for the over-75s and even winter fuel payments are protected - at least for this winter. It's all very complicated, so to find out who'll be hit by these cuts, I'm joined by Will Hadwen, benefit specialist from Working Families. Will, changes to Employment and Support Allowance first. And I suppose, first, you should tell everyone what it is because not many people have heard of it.

HADWEN: No, it's what used to be incapacity benefit that was introduced in October 2008. But, unlike incapacity benefit, it has two forms: it can be contributory, so it can be based on your national insurance contributions for the last few tax years; or it can be income-based, so you only get it if you have a low income and also if you have a non-working partner or a partner who works under a certain number of hours per week.

LEWIS: And this is a benefit really for people who are too ill to work, when sickness pay or statutory sick pay or benefit has run out really?

HADWEN: That's right, yes. It has a different medical to the incapacity benefit as well, so it looks at what they call limited capability for work rather than incapacity.

LEWIS: And what are the changes now that are going to happen in, what, 2012?

HADWEN: The changes from 2012 are they're proposing that if you get contributory Employment and Support Allowance, that will stop after one year. And, as far as we can see, that includes people who are going to be moving from incapacity benefit onto employment and support allowance who may have had an expectation that they would carry on getting the benefit for as long as they are ill.

LEWIS: Yes because at the moment on your contributions, you can get it till pension age really ...

HADWEN: That's right.

LEWIS: ... but in future, after a year you'll be means tested. And that means, according to the figures here, a million people will lose it.

HADWEN: Yes because a number of current incapacity benefit or ESA claimants either have partners who work or perhaps have savings of over £16,000, and both those things could immediately prevent you from getting the means tested version.

LEWIS: Now another change that was a bit buried really in all the papers is an overhaul of council tax benefit - help for low-income households with their council tax. What's happening there?

HADWEN: Well what they're saying is first of all there's going to be a 10% reduction in council tax benefit generally, but also they're saying that local authorities will have the power to set the rules of it really - so instead of the way that it currently works, which is basically a calculation similar to housing benefit, it could work in any way. We just don't know.

LEWIS: Yes, so there are 326 local councils and Wales and Scotland governments that are going to get this power and they could decide what they like.

HADWEN: They could all be different.

LEWIS: But we do know it'll be 10% less on average for these 5 million people.

HADWEN: Yes.

LEWIS: And now working tax credits. This was the complicated system introduced by the last government, still kept. But winners and losers here.

HADWEN: Yes, winners and losers. The child element is going to be increased. They'd already announced some increases in the emergency budget and they've announced some more above indexation increases. But with Working Tax Credit, they've frozen two elements of working tax credit, so over time that will be worth less. And they've also cut help with childcare costs from 80% to 70%.

LEWIS: So even people with children could find themselves worse off. And overall the cuts are going to amount to 840 million a year on my calculation, so ...

HADWEN: Yes, yes. I mean obviously you can model this in different ways, but if you just look at tax credits and look at someone who's getting the maximum amount for whatever reason, it's a loss of £13 a week if you've got one child and £25 roughly if you've got two or more children.

LEWIS: Right. And another change is the amount of help people get with rent, housing benefit. That's going to go down for people under the age of 35.

HADWEN: Yes. If you're under the age of 35 and you have a self-contained flat or house, then you will lose benefit because the idea is that, as under-25s have now, your housing benefit will be limited to the average amount for a room in a shared house.

LEWIS: Right, so that's going to be quite a big cut - £40 or £50 a week for some people?

HADWEN: Yes. In fact it won't even be the average because of the way that they're

changing it to the 30th percentile of average rent. So it'll be less than that. And it's already a big problem for people under 25 and that problem will now be extended to people in higher age groups as well.

LEWIS: Will Hadwen from Working Families, thanks very much.

There was also a big change announced in the age at which state pension can be claimed. The date when women will have to wait until 65 to get their pension has been brought forward, and by April 2020 men and women will have to wait until they're 66 for their state pension. Michelle Cracknell is a consultant with Bluerock Financial Services. I asked her to remind us of the changes which are already happening to women's state pension age first.

CRACKNELL: The increase in female state pension age started this April and anybody born after April 1955 were already expecting their state pension age to be equalised with men at age 65. And then people born between the years April 1950 and April 1955 were on a transition somewhere between state pension ages of 60 to 65.

LEWIS: So what change to this did the Chancellor announce on Wednesday?

CRACKNELL: The rate of increase in the female state pension age will accelerate, so that now from December 2018 the retirement ages for both male and female will be age 65. And then by April 2020 both the retirement ages for male and females will be the age of 66.

LEWIS: That really is a much more rapid increase to 66 than we expected because that wasn't going to happen till, what, 2026 finally, was it?

CRACKNELL: Absolutely. Yes, it's fastened that rate both for females and for males.

LEWIS: He also announced that people paying into public sector pensions would pay

more. How much are they going to have to pay?

CRACKNELL: He didn't give the precise detail, but he did quote a figure that on average people in public sector pension schemes could be paying 3% more in contribution rates. So that was an average figure, so some people could be paying ... have an increase of more than 3%, and of course some people may be lucky enough to have it less. And for certain individuals that means a 50% increase in the rate that they're currently paying.

LEWIS: Yes because if they're paying 6%, it will go up by three points to 9%. That is a 50% rise.

CRACKNELL: Yes. The only other detail he did give on Wednesday was that the armed forces would be excluded from the increase.

LEWIS: But it will be all the other main public schemes - health, teaching, civil service, police, fire, that sort of thing?

CRACKNELL: Yes.

LEWIS: And of course that will come, won't it for many of them, right in the middle of a pay freeze because he's already announced that public sector pay is going to be frozen; so out of that frozen pay, from 2012, they'll have to be paying higher contributions?

CRACKNELL: Yes. And obviously with the impact of inflation, the actual take home pay and the amount that their take home pay can purchase is effectively a reduction because of a) the pay freeze; and, secondly, the increase in pension contribution.

LEWIS: Now this rise in contribution, this is just the first step, isn't it? It's the one that raises nearly £2 billion a year for the Chancellor eventually. But he's also going

to make further changes in public sector pensions.

CRACKNELL: Yes, he did imply that there could be further changes to the public sector pension scheme. Although he did say that he wished it to remain a gold standard scheme. He talked about it remaining a form of defined benefit, but certainly gave no guarantee to the public sector that it would continue to be calculated on their final salary.

LEWIS: So we could be moving to something like a career average pension that's based on the average of everything you've earned in that job?

CRACKNELL: Yes. And whilst that still has the guaranteed elements implied by a defined benefits scheme, it is a lower value of benefit than a final salary scheme.

LEWIS: Michelle Cracknell of Bluerock Financial Services. And although those changes will apply to all public service pensions, the armed forces scheme is exempt from the rise. There's more information too about the changes to state pension age on our website. You can look up your birth date and see what your state pension age will be.

Thousands of people are being pursued by debt collectors for loans they haven't taken out. They're victims of a fraud on a new payday loan company, which Money Box has learned has cost it at least one and a half million pounds. Helploan only started trading in the summer, but police believe fraudsters managed to get a steady stream of loan applications approved and paid out using stolen personal details from other people. Bob Howard's been investigating.

HOWARD: Paul, Helploan offers people loans of between £50 and £300 at very high rates of interest, which they must repay within 28 days. For instance if you borrowed £50 for 14 days, you'd have to pay back £86 at the end. The website says the application process takes no more than ten minutes, but serious questions are now being raised about how the firm is checking the identities of those applying for the loans. It's now believed the details of thousands of unsuspecting people up and down

the country were being used by fraudsters to siphon off cash from the company, and the first people like Alison from Bristol heard about it was when they received a demand for repayment of a loan they'd never applied for in the first place. Alison quickly phoned the firm to say it had made a mistake.

ALISON: They said to me is, "Is this your address?" and I said, "Yes". And "Is this your date of birth?" and I said, "Yes". And "Do you have a bank account ending in this number?" And I said, "No". And then they asked me was this my mobile phone number and I said, "No". They then went on to say that they had paid £300 into the account on 26th August. Obviously I knew nothing about this and I hadn't taken out any such loan.

HOWARD: Alison looked at the Helploan website to see how much information the firm required in order for somebody to apply, and she was shocked at what she found.

ALISON: It seemed so easy to put in somebody's name, address and date of birth, and then all they wanted was a mobile phone number and a bank account sort code and number, and it says ten minutes and they pay the money out. So it was very easy for somebody to just have basic details about me, but get the money paid into another account that clearly wasn't mine.

HOWARD: Now since Alison looked at the application process, it has been modified. But in the meantime thousands of people have contacted the site Action Fraud, run by the new National Fraud Authority, to complain they too have received the same letter.

LEWIS: And, Bob, what does Helploan say to you now about its security system for checking applicants?

HOWARD: Well it's apologised to people who've received these letters and said it's reviewed its processes. Helploan says it's limited by the police investigation as to what it can say. Now Money Box has learnt the firm did seek outside help to try and check the identity of customers. We know it used a system offered by the credit reference agency Experian. Experian agreed to speak to us in principle twice this

week, but twice they pulled out; and Helploan's parent company, which is based in Finland, was also initially enthusiastic to speak to us. But we were then told by their PR representative that they had decided not to give an interview having been contacted by Experian. When I put this to Experian, they said that because the spokesperson was Finnish, they were worried that Money Box listeners might not understand him.

LEWIS: That's the best excuse I've heard, Bob. What should people like Alison do though who are caught up in this problem?

HOWARD: Well, Paul, I put this to John Eccles from the charity National Debtline and this was his advice.

ECCLES: You shouldn't ignore it because it's not likely to go away. You should contact the lender immediately. It's the lender's duty now to inform the police, who will then obviously investigate the allegation further. In regard to debt collection agencies, make them aware immediately that this is not a debt that you owe. You should also inform the credit reference agencies who will take the relevant action at their end to inform all of the credit reference agencies. They could also consider getting the Office of Fair Trading involved and also their local trading standards through Consumer Direct.

HOWARD: And, Paul, the City of London Police says those affected should write to Helploan via the debt recovery firm it's using in order to register this as a false loan. It says this will halt any enforcement action by Helploan or the debt recovery agency whilst police inquiries continue.

LEWIS: Lots of work for innocent people to do here. And, Bob, John Eccles talked about checking credit records.

HOWARD: Yes Neil Munroe from the credit reference agency Equifax told me he considered the risks of a credit record being badly affected by this were low, but he thought customers should still check and seek advice.

MUNROE: The vast majority of payday loan companies don't provide information to the credit bureaus at this moment in time. Obviously if they're not providing that information to the credit bureau, the only thing that's likely to be there if there's been a credit check is a search footprint, which would be basically something to say that somebody's actually accessed your credit file to look at it.

HOWARD: And Paul, just to be clear, in a case of an alleged fraud like this one, it's enough just to contact one credit reference agency. It will then contact the other two on your behalf.

LEWIS: Thanks for that, Bob. And you can let us know your experiences of ID theft on our website: bbc.co.uk/moneybox.

The Chancellor George Osborne has confirmed that more than a million Equitable Life policyholders will share a total of one and a half billion pounds compensation - the amount we reported last Saturday. The payments will start next year, but not all policyholders are being treated equally. Money Box's Charlotte McDonald has more details.

McDONALD: Paul, as listeners will know, the row over compensation for Equitable Life members has gone on for a decade and been a bitter fight. Many Equitable policyholders lost 50% of the value of their pension funds, but on Wednesday the Chancellor confirmed the outline of what could be the final offer. One group - people who bought with-profits annuities, lifetime payments that have been cut in value - will receive full compensation. In other words, they will get annual payments to restore what they expected to receive; and if they have died, their heirs will get the money they have lost. About 37,000 people will share a total of £620 million.

LEWIS: But Charlotte, not all those who bought with-profits annuities from Equitable Life will be compensated at all, will they?

McDONALD: That's right. Around 10,000 people who bought their annuities before September 1992 won't get any payments. Money Box listener John from Leicester

says that's unfair.

JOHN: I bought my annuity from Equitable Life in 1988, and, as far as I can see, I have lost exactly the same as people who bought their annuities after 1992. I've lost 55% of my pension and I think the whole thing is an absolute disgrace.

McDONALD: The treasury says that those that invested prior to that date were not affected by government maladministration, so no compensation is due.

LEWIS: And, Charlotte, after paying full compensation to some of these annuitants, what's then left for the other Equitable Life policyholders?

McDONALD: They will share what's left of the £1.5 billion. Take off the £620 million earmarked for with-profits annuitants and it leaves £880 million for everyone else. How that will be divided up and who will get what will be decided by an independent commission expected to report by the end of January 2011. The government hopes payments will begin by the middle of next year. Campaigners, however, say the offer is woefully inadequate and a legal challenge isn't ruled out.

LEWIS: And there was hope too from the Chancellor for another group of savers who've lost money.

OSBORNE: In Northern Ireland, the collapse of the Presbyterian Mutual Society has indeed caused great hardship and people have been left without their money for far too long. I confirm today that we will provide the Northern Ireland Executive with £25 million in cash and a £175 million loan to help those who have lost their life savings.

LEWIS: And, Charlotte, remind us what happened to this society.

McDONALD: Well around 9,500 people had a total of £300 million in the Presbyterian Mutual in Northern Ireland, but it was forced into administration in

November 2008 after a run on withdrawals when some members realised the society was not covered by the government guarantee on deposits. A £25 million fund will be used to compensate small savers. The Northern Ireland Executive is matching that sum and the Presbyterian Church will be making a contribution of perhaps around a million pounds. The £175 million loan is expected to be used to compensate people owed the bigger amounts. The loan should be repaid with rental income and sales of assets over the coming years.

LEWIS: It's all a bit complicated, isn't it? When are people actually going to get some money?

McDONALD: Well not for some time yet, unfortunately. The treasury will not give them money until next year. Then the EU, the Northern Ireland Executive and Assembly have to approve it, and then members of the society have to vote on it. Only then will a panel be set up to decide who gets what and administer the fund. We still don't know how much of the losses will be repaid and it could take several years to wind this up.

LEWIS: Thanks very much, Charlotte. Now if you're a borrower or a saver with Kent Reliance Building Society documents should be landing on your door mat this weekend or perhaps on Monday asking for your vote on radical plans to restructure the society and get an injection of £50 million from a private equity firm. Kent Reliance has seen its profits drop significantly from £12.6 million in 2008 to just £2.2 million in 2008. And in what's widely seen as a rescue package, the eleventh biggest building society is proposing to transfer its assets into a newly created bank, so it can accept £50 million from the American private equity firm JC Flowers. The building society will then convert into an industrial and provident society. Now if that deal goes ahead, it'll be the first time a building society has accepted external capital. Mike Lazenby is Chief Executive of Kent Reliance Building Society. He told me why the change was necessary.

LAZENBY: All financial institutions need to hold some money in reserve, a bit like a rainy day fund. We call it capital, and for various reasons - mainly as a result of the

global financial crisis, low interest rates and regulatory rules - most financial institutions have to hold more capital. For a bank that's really easy to do - they can just go and issue shares; but for a building society, it's not as easy because building societies can't issue shares in that way.

LEWIS: But why are you going to a private equity firm for it?

LAZENBY: Because the only kind of capital that we need is called Tier 1 capital and you can only generate that if you're making profits.

LEWIS: Well your profits are well down, aren't they?

LAZENBY: Yes they are and it's very difficult to make profits in the current market because of very low interest rates. And so as a consequence being unable to issue shares and being unable to make sufficient amounts of profit, we wanted to raise more capital in a new and innovative way; and this was a way to do it, in fact the only way to do it.

LEWIS: Does that mean that you might start offering your customers a better deal? In the past you were known for really top savings rates, but you're miles down the best buy tables now, aren't you?

LAZENBY: Well in fact we're in some best buy tables at the moment for our 1 year bond.

LEWIS: Right. Well looking at your 2 year bond, I found you're at 29th position. That's not going to attract many customers, is it?

LAZENBY: At the moment it's very difficult to offer very competitive rates when on the other side of the balance sheet you can't lend money. And that's our problem: without the additional capital, we can't continue to lend.

LEWIS: Talk listeners through the deal because it is a bit complicated. You've got JC Flowers putting in £50 million. What happens to the assets and to Kent Reliance and so on?

LAZENBY: What we're doing is forming an industrial and provident society and the membership of Kent Reliance will become members of the industrial and provident Society. The assets of Kent Reliance will go into a bank, which will be owned by the industrial and provident society. Then JC Flowers will come along and they'll put some money into the bank, so they'll be co-owners of the bank with the members of what is currently Kent Reliance but will be the industrial and provident society.

LEWIS: JC Flowers is putting in £50 million. Is it possible that in future it could be the majority shareholder and take control of the bank or indeed of the provident society?

LAZENBY: Well it could become the majority shareholder of the bank, but significantly the industrial and provident society, which is owned by the members, will continue to be able to apply the mutual ethos on the bank until and unless the shareholding of the members goes below 10%. So JC Flowers would have to put quite a lot of money in before they would be able to undo the mutual ethos of the bank.

LEWIS: But private equity companies have a reputation for going into an organisation. They always have an exit strategy. In a few years time, if it works and you grow, they'll want to sell up. That could put you in the hands of somebody you really didn't like at all, couldn't it?

LAZENBY: I can tell you that JC Flowers at the moment are working very closely with us to make Kent Reliance a success in our current market. But if it happened in the future, then there would be a number of options. And one of the options would be that we could buy them out or we could find another partner that shares our values and our mutual ethos.

LEWIS: Mike Lazenby. And members have until November 16th to vote by post or

online or at a special general meeting in Tonbridge on 19th November.

And Charlotte McDonald's still here. Charlotte, important news about another story we've covered before on Money Box: Lifemark.

McDONALD: Yes Paul, the 19,000 people who bought Lifemark policies through the collapsed company Keydata will have their investments propped up by a £1.5 million loan. It's being supplied by building society Norwich and Peterborough who sold a number of the policies and a US hedge fund.

LEWIS: What does this mean for policyholders?

McDONALD: Well it will protect their investments for a few months more. Without this cash injection, it was feared Lifemark would not be able to pay the premiums on the life insurance policies it invested money in. If the payments stop, the policies lapse. The loan will run out in February. By then Lifemark's administrator hopes the company will have undergone restructuring and will be able to support itself on the investments.

LEWIS: Thanks, Charlotte. Well that's all we have time for today. You can find out more from our website: bbc.co.uk/moneybox. Sign up to the weekly newsletter, listen to items again, and have your say on ID theft - as some of you are already. Vincent Duggleby's here on Wednesday with Money Box Live taking questions on divorce. Very relevant in the light of the Supreme Court decision this week on prenuptial agreements. You can email your questions now. I'm back with Money Box next weekend. Today reporter Bob Howard, producer Lesley McAlpine. I'm Paul Lewis.