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MONEY BOX

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LEWIS: Hello and welcome back to Money Box. In today's programme, should banks be more sympathetic to people with mortgages if their home was destroyed in the riots? More than 3 million people will have to pay more council tax under government plans to cut the help given to low income households. The publicly owned Royal Bank of Scotland makes it more difficult for some customers to get their own money out of a cash machine.

SHAUN: I think it's just greed. People who've not got a great deal of money in, who can't afford to pay charges because every pound counts these days.

LEWIS: And the price of shares, gold, bonds has been up and down like a fiddler's elbow. Where should we trust our money?

But first, people who lost their home and possessions in the riots earlier this month are complaining that their mortgage lenders are not doing enough to help them. Listeners who've asked for their mortgage payments to be suspended to give them some spare cash to replace essentials and perhaps organise their lives again have been telling us the banks don't seem willing to make many concessions. Bob Howard's been to one of the worst affected places.

NEWS HEADLINES: More than 40 people have been arrested after a night of

rioting in North London. Twenty-six police officers were injured after petrol bombs were thrown and buildings set on fire.

MALIK: We put on whatever we had at the time. Oscar was sleeping. I just grabbed him in his pyjamas basically and we just ran to our car and we just drove out of Tottenham.

HOWARD: Did you manage to save any possessions or anything personal to you at all?

MALIK: Just literally the clothes on our backs.

HOWARD: Omar Malik telling me how lucky he and his family were to escape with their lives after rioters burnt down their flat above the Carpetright store in Tottenham. He's been a homeowner for 8 years, but is now living in a hotel room. His mortgage is with Santander. Omar wants a breathing space while he gets his finances back in order and was hoping for a 6 month suspension in the mortgage payments, but he told me Santander's initial response wasn't what he was hoping for.

MALIK: They would freeze our mortgage for one month and they said that they would review it after every 30 to 40 days, which is not ideal. We're starting from scratch. My son doesn't have a school uniform. What would really be helpful, if we basically got a 6 month freeze on it to sort our lives out. It's not as if I'm asking something for nothing.

HOWARD: Why do you think they've given you such a short space of time? I mean people in much less traumatic situations than yours get much longer mortgage holidays.

MALIK: To be honest, I'm completely surprised about this. Neighbours I've spoken to, they've had a lot more help than I have.

HOWARD: After I spoke to Omar, I talked to Santander. The bank insisted it had already extended the initial one month payment suspension to 3 months and had sent a letter to this effect. But those repayments will be added to Omar's balance and will result in increased repayments when his mortgage holiday ends. Santander issued this statement.

SANTANDER STATEMENT: We fully understand the devastating impact the recent civil unrest has had on many of our customers, and have acted sympathetically with speed and flexibility to try to support them through these difficult times.

HOWARD: But other residents in flats above the Carpetright shop have felt similarly disappointed by their mortgage lenders. Lance Chinnian has been offered a 3 month mortgage holiday by his lender, Halifax, but the strings attached means although he desperately needs it, he doesn't feel he can take it up.

CHINNIAN: Although they've offered me a payment holiday in principle, they've said the interest will continue to accrue. They won't extend the mortgage period, so my subsequent payments would be slightly higher than they have been. And also they've said they would have to refer the matter to a credit ratings agency, which is something that really worries me because I lost my job a few years ago and I've been paying off loads of debts and credit cards. Because I already have obviously points on my credit rating, I can't really afford to take Halifax up on this offer.

HOWARD: Since Money Box spoke to Halifax on Lance's behalf, the bank has agreed he can now have the 3 month mortgage holiday without it affecting his credit record. Tottenham MP David Lammy has also been speaking to mortgage lenders on behalf of his constituents. He says in these situations banks must put senior staff on the ground straightaway, so they can offer appropriate help.

LAMMY: If you've just had your house burnt down, if you're standing there effectively only in the clothes that you have, then what people need is certainly not to have their credit rating affected. It was very important for me to get banks sending

senior people out to the scene to speak to people and get that personal contact when people are in the most fraught circumstances that you can imagine.

HOWARD: And, Paul, it's not just mortgage repayments Lance and Omar have to worry about. Neither had contents insurance and, like others in their position who lost possessions in riots in other English cities, they'll have to claim for their possessions from their local police authority under the 1886 Riot Damages Act. Their flats will be rebuilt, but they have to decide if they want to live there once again or sell up.

LEWIS: And, Bob, some small businesses are also facing huge problems, aren't they?

HOWARD: That's right. I spoke to Tom Abel who runs a film distribution firm which employs four staff. His office is intact, but his entire stock of DVDs were in the Sony warehouse in Enfield which was burnt down. Now the DVDs are insured, but while they wait for them to be replaced, they have no products to sell, and loss of business (like damage to cars) isn't covered by the Riot Damages Act.

LEWIS: Thanks Bob. We'll live now to Gloucester to talk to Rob Garnham. He's Chairman of the Association of Police Authorities who ultimately pay that money under the Riot Damages Act. Rob Garnham, just remind us what you will pay out for and what you won't.

GARNHAM: Good morning, Paul. Good afternoon, sorry. We've got to look at the insured and the uninsured losses, and we've been working with the government and the Home Office to try and help people as quickly as possible to see if we can get some payments made. So people who are insured, they should contact their insurance company. But if you're not insured or the insurance doesn't cover riot damage - and the Riot Damage Act talks mainly about loss or damage to property - the government have set up a bureau - it's actually up in Glasgow - and you can go through various websites to access that.

LEWIS: So that's a sort of centralised place. I think Direct.gov is the way to go there. You put 'riots' in the search box and it leads you to that. So you claim through that. I must say I've seen the form. It is a bit daunting. You have to know an awful lot about what you've lost, which is very difficult, isn't it, when it's all gone?

GARNHAM: I think what's been set up is the bureau. And actually the form, it's been many years since it was revised and they've tried to make it as short as possible, and I think if people haven't got all the information, they should still put in that claim. There's a firm of loss adjusters who are going to look at that and try and provide a speedy service to people. As I say, it's a website you can go on - the Direct.gov. The Association of Police Authorities has a link and we're trying to be as helpful as possible.

LEWIS: Yes, I'm sure. Do you have any idea how quickly people will get their money though because obviously there's some urgency about this? Things have to be replaced, don't they?

GARNHAM: Well two things on that. The timeline for claiming has actually been extended to about 42 days from the first day after the damage occurred. But then once claims have been received, they're trying to achieve a turnaround of 15 to 21 days - so as quickly as possible, which I think some people say that's pretty good.

LEWIS: That's pretty good. And just briefly vehicles are not covered, are they? And we had an email from one listener who'd lost his bike. Are they covered?

GARNHAM: No. I think going back to 1886 - and we've called for the Riot Damages Act to be repealed - no, vehicles aren't covered unless they were in a building that was damaged at the time of the riots.

LEWIS: Right.

GARNHAM: So I think the person with the bicycle as well will probably have to go

to this own insurers.

LEWIS: Okay. Rob Garnham, thanks very much for talking to us. And if you're a small business affected by the riots and you need emergency cash, there's a new charity called the High Street Fund. It's got £3 million. It's been taking applications since Friday. Barclays has been onto us saying it's waiving overdraft fees if asked; and HSBC says it will waive interest on business accounts. Details of all that and other help, such as free legal advice, on our website: bbc.co.uk/moneybox.

Now let's go back in time, 400 years ago ... (*Fanfare*) to 1601 when the first law was passed to levy the parish to provide for poor people. Rates on property survived the way local taxes were raised until the poll tax replaced them in Britain in 1988 and 1990. But after widespread protests, that much hated levy was replaced by today's council tax, and since 1993 a growing number of low income households have been helped to pay it. Now almost 6 million households get it reduced through the means tested council tax benefit at costs close to £5 billion a year. But the government's decided to cut 10%, almost £500 million, off the bill. Pensioners (who account for nearly half the beneficiaries) will be protected, so that leaves all the savings to fall on younger householders. The government's consulting on exactly how this cut should fall and Phil Agulnik, Director of the benefits calculator Entitleto.com, has been looking at it. Phil Agulnik, just briefly tell us who gets council tax benefit now?

AGULNIK: The majority of pensioners get council tax benefit or are eligible to receive council tax benefit. A lot of people who are entitled don't in fact claim. And among working age people, if you're on an out of work benefit, you qualify; but also if you're in work and have low earnings, you could also qualify.

LEWIS: So it's a means tested benefit on your income and your savings. Now the government wants to save 485 million, about 10% of the cost. Where is it saying that saving should fall?

AGULNIK: It's leaving the decision up to local authorities to decide how they can

save the money.

LEWIS: Because it's passing all this over to local councils, isn't it? They're going to have to administrate and pay it out in future?

AGULNIK: That's right. At the moment it's a national system which is administered by local authorities, but in the future it will be a completely local system.

LEWIS: Now local authorities are being given the money that they spent the previous year on this, or that was spent, and they're then being told you've got to have 10 per cent taken off it. They've got to decide where the pain will fall.

AGULNIK: Exactly, government's handed over the problem of making this £500 million saving to local authorities, and have said well you're free to make savings where you can so long as you don't touch pensioners.

LEWIS: Yes, so if you exclude pensioners - and they're almost half the number - that means that this 10% cut becomes closer to 20% for everybody else. Is that right?

AGULNIK: Exactly. Among working age people, the cut is about 20%.

LEWIS: And how might you do it? You were looking at the different things you could do in your report.

AGULNIK: Essentially I think there's three options. You could have an equal pain option where you try to say to everyone we are going to take at least 20% of your council tax from you, so the current people who are on out of work benefits and don't pay anything would all pay 20%.

LEWIS: Of the tax. So that's, what, 200 or 300 quid I suppose in most cases?

AGULNIK: Something like that. Another option would be to take it from a particular

group, such as owner occupiers, and to say we will exclude owner occupiers from the system of council tax benefit. And a third option might be to say we will take it from people who don't have children and aren't disabled.

LEWIS: Very unpopular choices all round though, aren't they?

AGULNIK: Local councils are between a rock and a hard place on this one.

LEWIS: Is there a more radical solution though of looking at who pays the tax in the first place?

AGULNIK: Well the government's consultation is just about council tax benefit, but there is also a system of discounts for council tax - the most important of which is the single person's discount - and if they brought that into the scheme, it would be far easier for local councils to make these savings.

LEWIS: They could save it on that because I think that costs over £2 billion a year, doesn't it? Phil Agulnik of Entitledto.com, thanks very much. You can check if you can get council tax benefit on Phil's website Entitledto.com. Well listening to us is the Housing Minister, Grant Shapps, whose department is behind this change. Grant Shapps, you have to save £500 million. Which million people would you take £500 off?

SHAPPS: Yeah, well let's just set this in context first because as it happens ...

LEWIS: (*over*) Well you could tell us which million people you're going to take 500 quid off.

SHAPPS: Hold on a minute. Let's just explain first of all. This is a consultation at this stage, so this is open till October and people are at will to put their views in until 14th October. In other words, we haven't taken any decisions at a national level on this yet ...

LEWIS: (*over*) But you've decided the amount though, haven't you?

SHAPPS: ... and locally, it will be for local areas. The other thing I want to say is this. The upshot of not doing these things - I mean this is clearly driven by the need in part to remove 500 million from this enormous £5 billion bill, and the consequence of not doing it is we allow the country to go bust and everybody suffers in a much deeper way. But the reason I don't agree with Phil's analysis is twofold. Number one, I can see a glaring hole in it. He says there are 479 billing authorities. I've checked. Actually there are only 326, so there's ...

LEWIS: There are 326, that's correct. In England.

SHAPPS: 326. In his report, he says 479 billing authorities ...

LEWIS: I think that might have been me that said that yesterday actually on the television, but anyway I got it wrong. It's my mistake.

SHAPPS: Okay. The second thing is Phil's assumption. His report assumes that no habits change as a result of local authorities getting involved in what their systems do, and at the moment our criticism of the current system is actually it bluntly doesn't matter one jot to the local authority whether a resident is working or not. They have no stake in that resident's future. We want to take people out of being trapped out of work and get them into work, and in doing so get them off the benefits. So that's the way I see the 10% being saved; not by, as your opening question suggested, which million people do you think should be removed. Well the answer is the million people who should get into work ...

LEWIS: (*over*) Right. And are there a million jobs there for them?

SHAPPS: Well we know that at the moment you have to go through you know hoops to work out whether you're better off to work or better off on benefits.

LEWIS: Well no, everybody's better off working.

SHAPPS: No, no. I mean people spend hours in Job Centre Plus sitting at a computer with an expert trying to tell them if they work one more hour, will they be better or worse off. This is a crazy system and we're going to replace that with the universal credit, and these changes to council tax need to be seen in that context.

LEWIS: And what about this idea that rather than going for the people on low incomes, you should go for single people who could be very well off but who nevertheless get 25% off their council tax?

SHAPPS: Well there's a separate, as Phil mentioned, there's a separate issue of what are benefits or what are discounts and they're taken as two separate areas. One is sort of driven centrally if you like. I think though the widest possible kind of solution to this is to say the local authority should be interested in and should have a stake in helping local people get back to work, and if we can redesign a system around that then 10% saving actually should be the minimum we're able to make. We should be able to do much better if you can get people into work.

LEWIS: And under your localism plan, will they have the freedom to say we don't want to give 25% off to wealthy single people?

SHAPPS: Well what we're doing is consulting on all of these changes, as you know, so it's a bit early to say precisely what the outcome will be.

LEWIS: (*over*) But that's not in the consultation.

SHAPPS: We're going to be consulting separately on the other side of things ...

LEWIS: You are?

SHAPPS: ... so I don't want to kind of pre-empt work that's yet to be done. But the

simple message is very straightforward. Yes it's a 10% reduction in the total expenditure, but by giving control and empowering local authorities to be responsible for how people are within their residents, how their residents are trapped out of work in many cases, we think that 10% is actually probably a relatively straightforward saving for them.

LEWIS: Okay, thanks very much indeed Grant Shapps, Housing Minister.

Now last week, Royal Bank of Scotland announced it was going to stop its basic bank account holders from using cash machines owned by other banks. That decision will affect hundreds of thousands of customers. Money Box listener Sean from Lancashire is one of them.

SHAUN: It'll make a big change to me because I'm going to have to use the ATM in town. I suffer from spinal problems. You know sometimes I just can't walk properly and it just stops me from obtaining money easily. I think it's just greed as usual. You know people who are in my position or similar, they're the ones who are getting it - you know the people who've not got a great deal of money in, who can't afford to pay charges because every pound counts these days.

LEWIS: Well one listener who now has much further to go to get his money. Ben Carter's been looking at this story. Ben, this decision is going to affect the banks' least well off customers, isn't it?

CARTER: I'm afraid it is, Paul. Basic bank accounts offer a limited service and are normally provided to those who have difficulty getting a standard current account, perhaps because of low income or lack of credit worthiness. Lloyds TSB have already introduced the same policy and they also prevent their basic bank account customers from using other banks' cash points.

LEWIS: And why is RBS doing this?

CARTER: Well banks charge each other for withdrawing from their cash machines. For example, if Sean withdrew from an HSBC machine, then HSBC would charge RBS between 20 and 30 pence. RBS says it's unable to recoup that cost from its basic bank account customers because they don't offer the bank any form of revenue. Most current accounts are profitable for banks either because of the overdraft interest and charges they pay, or the credit balances that they have that the bank can invest, and basic bank accounts don't offer overdrafts and rarely carry much of the credit balance.

LEWIS: And what's RBS said?

CARTER: They told me that basic account customers will continue to have free access to one of the largest cash machine networks in the country, including RBS NatWest and Tesco ATMs, and 11,000 post offices across the UK.

LEWIS: It doesn't help Sean, of course, but what have the other banks got to say about doing something similar?

CARTER: Well all the banks I spoke to - amongst them Santander, Barclays and HSBC - said they had no plans to stop or charge any of their customers from using rivals' cash points.

LEWIS: Well that's some good news. Thanks Ben. Live now to Andrew Tyrie MP, who's Chairman of the Treasury Select Committee. Andrew Tyrie, banks have tried before to end free access to our own money, haven't they? Is there a danger this change will lead to charges for the rest of us?

TYRIE: Yes, that last remark was reassuring that we just heard, but I am very concerned that we're on a slippery slope - as Nationwide themselves have put it - on a slippery slope to the ending of free access to machines, and I think that would be very bad news for all of us. Nor do I see the logic in it, seeing as the charging between the banks should cancel out and logically they should be able to provide a free service.

LEWIS: Well you'd think so, wouldn't you? Is this something that your committee's going to look into? Is it something you're that concerned about?

TYRIE: Well I am concerned about it. This is going to hit a vulnerable group. We're talking about here basic bank account holders and we're talking about people living in rural areas. And, as you said in your introduction, quite large numbers too, hundreds of thousands will be affected by this. So I will be raising it with colleagues on the Treasury Committee when we meet early in September. In the mean time, I'd like a fuller explanation from RBS about it.

LEWIS: So you'll be going ...

TYRIE: (*over*) It's also potentially a threat to competition, isn't it? If the banks create a barrier to getting into the market by charging like this, what we're going to find is that there won't be any new people coming in because they won't have a branch network with enough cash points to get into the market.

LEWIS: Yes. And finally and briefly on another subject - cheques, which you came out with a very critical report about plans to get rid of them this week. I mean we know that they're not going to go, but do you think there's a danger the banks might sort of try to phase them out quietly now?

TYRIE: Well I think parliament's had a hand in staving off the demise of cheques, but what we've got to do now is protect people who want some form of paper based transaction to be maintained for the longer term and it shouldn't be down to, frankly, the Treasury Committee or you to keep on having to fend this off. So I think we've got to change the way the Payments Council - that's the body that regulates, that controls all this - we've got to change the way that they are regulated, and that means I think that one of the new watchdogs that the government's creating - probably what's called the Financial Conduct Authority, the successors of the Financial Services Authority - should have responsibility from now on for keeping an eye on this issue. Above all, we must put the customer first. On so many of these issues, it's

been the customers who've missed out and just told bad luck, you can't have your cheque.

LEWIS: Andrew Tyrie, thanks very much for talking to us.

Well it has been quite a summer. Shares have been bouncing up and down more than at any time since the banking crisis of 2008. The downward charge was led by bank shares: they were losing twice the value of other companies. Lloyds Banking Group shares are now a third lower than a year ago. RBS shares, almost all owned by us taxpayers, have lost more than half their value. Gold though hit a new high of \$1911 a troy ounce this week, then only to plunge by another record of \$200 over the next couple of days, though it's regained a lot of that loss. Live now to Tonbridge Wells to talk to Justin Urquhart Stewart, a director of Seven Investment Management. Justin, is this the moment when someone says the emperor has no clothes? The USA and the European Union have massive debt and no plans to deal with them.

URQUHART STEWART: Well this is the problem, isn't it, and what's caused this level of nervousness over the summer, what you've had is things that we knew about before. You know the US debt problem was there and the Eurozone issue, that's been rumbling for some time. So really I suppose what you've had is this loss of confidence overall, and so people were looking round and feeling rather nervous.

LEWIS: There's loss of confidence in political leadership though; that neither the American system, nor the European system was up to the job of setting in train a plan to get rid of this debt.

URQUHART STEWART: Precisely so because actually what you've got now is the Americans worrying about their debt, but of course nothing's going to happen till after the election so it seems. And we heard yesterday Mr Bernanke, the Head of the Fed, not saying that he was going to actually introduce any more stimulus for the time being. And the same with the Eurozone - no credible political leadership there. The background to that is then global lower, slower economy.

LEWIS: Well you say slower. Are we heading for another recession in the UK?

URQUHART STEWART: Probably not, but it's probably going to feel like one. It's going to feel pretty anaemic. It's low, slow growth. I know everyone loves having their different shapes of recovery - a V shape and a W shape. This is probably pool shaped. It's going to be flat and then a very, very slow recovery towards the shallow end. We had 10 years of boom; we're now into 10 years of lean. It's not going to feel very pleasant.

LEWIS: But not 10 years of bust. And talking of bust - bank shares, they really have been plummeting, haven't they? I gave some of the figures earlier. Barclays halved in price over the last 12 months. Are the banks in financial difficulty?

URQUHART STEWART: Well they're not strong and their whole case at the moment is still going to remain weak. The good news of course is the likes of RBS and Lloyds are backed by us, by the government.

LEWIS: But apart from that, if they weren't would they technically be insolvent?

URQUHART STEWART: Well all banks ... If you put a bank up against a wall and say give me all your money now, I want my money back, they can't because often they lend it out. So they depend upon this interbank market where they can lend among themselves, and that's been a source of concern not just in Britain but actually throughout Europe as well over the past few months. What investors need to think about though is actually companies themselves and the markets are probably rather significantly under valued at the moment and a lot of companies are still doing pretty well.

LEWIS: Time to buy, you're hinting. Justin Urquhart Stewart of Seven Investment Management, thanks. I've got to rush you and stop and say that's it because our time is up. Our website, bbc.co.uk/moneybox has loads of information. Saving and investing is on Vincent Duggleby's Money Box Live on Wednesday. I'm back next

weekend. Reporters Bob Howard, Ben Carter, producer Lesley McAlpine. I'm Paul Lewis.