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MONEY BOX

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LEWIS: Hello. In today's programme, one of Britain's top consumer representatives resigned on Friday. He tells us why. We unpick those complex pre-Budget changes. Will you be a winner or a loser? Bob Howard's here. He's been looking at a big shake-up for house sellers in Scotland.

HOWARD: They'll have to pay for a survey and valuation, not their buyers. But is this the time for such a radical change?

FERGUSON: In the middle of this recession, this makes no sense at all. It's breathtakingly bad judgement.

LEWIS: We look at plans for big changes in pensions and in the way we are sold financial products. And good news for people with significant sums in merging building societies.

But first, one of Britain's top consumer representatives has resigned. Yesterday Lord Lipsey, Chairman of the Financial Services Consumer Panel, issued a strong resignation statement saying his efforts to increase the role of the Panel to represent consumers more effectively had been blocked by the Financial Services Authority and some of his colleagues. In his only broadcast interview, he told Money Box why he quit.

LIPSEY: Because there was an irreconcilable difference about the role of the Chairman and the resources that would be devoted to it. I saw the Panel and its Chairman as being consumer champions, and I believe that needed an adequate staff to help it in that work. The FSA saw it in a narrower role of advising it on its policies and that's where our ways parted.

LEWIS: And when you say "more resources", what would that have meant?

LIPSEY: Well it's very minimal in terms of an FSA which has just announced its intention to put on 318 extra regulatory staff. At the moment we have two full-time staff in post with one more to be appointed, but a dozen people would probably have done it very adequately.

LEWIS: So you were going up to about twelve?

LIPSEY: Yes. If we had 2% of the extra staff being put onto supervision, we would have had plenty.

LEWIS: Do you think though that this was a change in role too far? That wasn't why the Panel was set up.

LIPSEY: Well so it's proved. I mean when I applied for the job, I made it (I thought) absolutely clear that I only wanted to do it on the basis of an expanded role, and I thought that that had been accepted by the FSA. But when push came to shove, it turned out that it hadn't been accepted and a person who wanted to do the job as it was should now take it forward.

LEWIS: You also imply in your letter of resignation that it wasn't just the FSA that blocked this; it was other members of your Panel.

LIPSEY: Yes, some members of the Panel took the view - and it's a perfectly respectable view - that they should confine the Panel largely to its day job of advising the FSA on its consultation papers and so on. I agree that's a perfectly valuable job. It wasn't the one that I set out in my prospectus when I took the job and it's not one that I'd be particularly good at.

LEWIS: Do you feel then that you did make it clear what you wanted at the start and you've been let down both by the FSA and some of your colleagues?

LIPSEY: Well I don't like to use the words 'let down'. The only thing I would add is that whatever the case I made when I was appointed back in June for a wider role may have been, that has been immeasurably strengthened by the financial crash because unless we get consumer confidence in financial services back, we're not going to get financial services back to the role they should be playing. That requires the wider role and I'm only sorry that the Panel won't be playing it.

LEWIS: Do you feel then that consumers have been let down by this decision?

LIPSEY: I think consumers would have been better off if the FSA and the Panel had accepted the wider role that I spelt out. That role will not be played by the Financial Services Consumer Panel now. And we'll have to think who does play it, going forward, for it is a role that absolutely must be played if consumers are to get a fair deal in financial services.

LEWIS: Do you think you've been too outspoken, too critical as Chairman? You've certainly had a very public profile. You have put out fairly strong press releases. Do you think you've brought this on yourself by being too tough, too outspoken?

LIPSEY: Yes, I think I have deliberately been outspoken because I think the situation has *required* outspokenness, and I hope that that tradition in the Panel Chairman at least will survive under the new regime.

LEWIS: Lord David Lipsey speaking to me yesterday afternoon. The FSA told Money Box it made the scope of the job clear when it appointed Lord Lipsey and that it has no plans to change the Panel's role or increase its resources.

And now the pre-Budget. Well it was officially called the pre-Budget Report, but with some tax changes starting at once and more announced for the next 3 years, together with plans to pump billions of pounds into the economy, the Chancellor's statement on Monday was more like a full-blown emergency budget; and not least when he tore up the golden rule on borrowing set down at least 10 years ago by Gordon Brown. Well to guide us through the tax changes is Anne Redston. She's Visiting Professor of Taxation at King's College London. Anne Redston, good news I suppose first: income tax for most people will come down next year.

REDSTON: Yes, this coming year - that's starting in April - is going to be a good year for everybody who's paying income tax - so even if you're a medium or a higher rate taxpayer, you should be in pocket next year. You'll have slightly higher personal allowances. The higher rate tax threshold will go up a little and the national insurance tax threshold will also go up. Those two slightly counteract each other, but overall you'll be better off.

LEWIS: Yes, so even people at the upper end will be better off this year; whereas the changes announced in May, the emergency ones, didn't do that. And that's because the personal allowance, the tax free amount, is going to be raised by more than inflation and again next year. But then of course we've got this other change for very well off people earning more than £100,000 next year, haven't we?

REDSTON: We've got an increase … three increases actually, a triple whammy, on higher earners coming in. That's made up of three different … as I say three things. Firstly, they will start to lose their personal allowances once they get earnings above £100,000. They'll pay 45% tax once they earn more than £150,000. And they'll also have their national insurance rate, which currently is 1% on these higher earnings above the higher rate threshold, they'll be paying 1½%. So that's a 50% increase in the national insurance.

LEWIS: Yes and of course that extra ½% will apply right the way down to everybody’s national insurance and there is an argument, isn’t there, about whether it’s people on £20,000 or £40,000 who will end up paying more tax in 2011. But certainly most people will end up paying a bit more certainly on national insurance.

REDSTON: The national insurance is a very nasty tax really, despite its name, waiting in the wings for us all, I think. This is definitely a spend now, pay later budget.

LEWIS: Because it’s an income tax by another name. But they just don’t like raising income tax; they raise national insurance.

REDSTON: Yes.

LEWIS: Small businesses though who are finding it hard to pay their tax bills as their incomes go down, their takings go down, they’re going to be given a bit of help by the Revenue.

REDSTON: Yes, the Revenue have set up a new hotline called their ‘business payment support service’, so that for people who are already almost about to be taken to court by the Revenue or finding it difficult paying your tax bills, you should either ring your local office that’s contacted you about it or you can ring this special support line and they will try and reschedule your payments and delay them. So that’s actually a very helpful new service.

LEWIS: Yes, but *you* have to ring. They’re not going to do it automatically. They’re still going to take people to court if they don’t ring, aren’t they?

REDSTON: Yes, so you should be listening to this programme, I guess. *(laughs)*

LEWIS: Well, absolutely. Everyone should, Anne. Thanks very much for that. Well also with us is Gary Vaux. He’s Head of Advice at Hertfordshire County Council. Gary, it wasn’t just tax changes. There were some changes brought forward and added to in benefits as well.

VAUX: Yeah, there were a few changes. Child benefit's going up by £1.20 a week for the oldest child and by 65p for other children. And not only are they bringing it up. They're also bringing it forward by 3 months, which is worth …

LEWIS: So it'll start in January rather than April?

VAUX: Yes, worth £15 extra really as a one-off payment in fact.

LEWIS: So that's to all families with children. And there's also more on tax credits. A very complicated benefit, but that will mean more money for some families with children.

VAUX: Yeah, the take up rate of the tax credit is still a worry - it's about 84, 85% - but those who *are* getting it could get up to about another £150 a year, £3 a week. And those on working tax credit as well, that's also going up from April next year.

LEWIS: So this is where some of the money's going - tax cuts, more on benefits. And something for pensioners too?

VAUX: Yeah, as well as the standard rise in the retirement pension, which is going up by £4.55 a week, pension credit's going up by more than that. It's going up by nearly £6 a week from April.

LEWIS: That's going up to £130, isn't it?

VAUX: It's going up to £130 for single people and up to £198.45 for couples. But as well as that, there's a £60 one-off payment. It's a Christmas bonus paid in January.

LEWIS: *(laughs)* Because the Christmas bonus is £10. That was fixed decades ago, wasn't it, by Edward Heath I think …

VAUX: Yes.

LEWIS: … and that's being sort of added to with another £60 but paid a bit later.

VAUX: Yes, it will be paid in January. And it's not just pensioners; it's people getting carer's allowance, people getting disability living allowance, people getting incapacity benefit, widows. So it's not just pensioners getting that.

LEWIS: Yes and I think the qualifying date for that's been made 22nd December this year. For some reason, it's been extended a bit. And that extra £60 or £70, if you add the £10, people often worry about tax, about the effect on means tested benefits, but they needn't do, need they?

VAUX: * No, it's a tax free payment. It appears, we've been told it may be counted as capital, but it certainly won't be treated as income so it won't affect your weekly income pension credit or housing benefit or anything like that.

**** Editors note: The Department for Work and Pensions has confirmed that the £60 one off payment will <u>not</u> count either as capital or income.***

LEWIS: Right, so that £60 may just take you over one of the limits, but let's hope it doesn't. I think the intention was it didn't, but it's how exactly the law appears, isn't it? Okay, Gary Vaux thanks very much and thanks also to Anne Redston. And on Monday Money Box Live will take your questions on those tax and benefit changes in the pre-Budget Report. That's Money Box Live here on Radio Four on Monday afternoon.

Now from Monday anyone who sells their home in Scotland will need to buy a Home Report with a valuation, energy efficiency assessment, a full survey and a seven-page questionnaire on the property and the area. The reports have been introduced less than a year after the full rollout of Home Information Packs in England and Wales. The Scottish version contains more information and will be more expensive. Bob Howard's been to Glasgow to find out how they're being received there.

DAVID: I'll just open the door. Here we go. Come on in, this is my house.

HOWARD: David's showing me round his three bedroom home in Cambuslang on the outskirts of Glasgow, which he's just put on the market. He's already had a surveyor come to help compile his Home Report and David himself has completed a seven-page questionnaire to include in it.

DAVID: We have the French door and we just sit out in the sun terrace.

HOWARD: All in, it's cost him £705. He thinks it'll help him sell, so he's pleased with it.

DAVID: It's money well spent in that there's the price. The surveyor has indicated on the Home Report that's the value of the property. You either want the property or you don't want the property. It should be easier to get the buyer and the seller to negotiate, whereas in the past the gulf might have been too large.

HOWARD: David feels the change could be beneficial because the process of buying and selling homes has traditionally been different in Scotland from England and Wales. Instead of listing and asking price, sellers often ask buyers to make offers over a minimum price. To do this, purchasers pay for a valuation before making their offer, so they know what to bid. In a booming market, that can result in buyers having to pay for many without ever getting to buy a property, but the Scottish housing market's suffering the same problems as the rest of the UK. Ian Ferguson is from the Scottish Law Agents Society, which has campaigned against the introduction of Home Reports. He says they should have been delayed for at least 2 years.

FERGUSON: In the middle of this recession, this makes no sense at all. It's breathtakingly bad judgement. Nobody has the money to pay for these extra reports. They can't be bothered with it. The big losers out of all of this are going to be people who are facing repossession, people who have money problems. These people do not have the money to spend on this.

HOWARD: But supporters of the change say a radical shake-up of the buying and selling process is needed. Sarah O'Neil is from the watchdog Consumer Focus Scotland, which was involved in designing Home Reports. She says they should stop buyers having to pay for multiple surveys and offer many benefits not available in the Home Information Pack offered to purchasers in England and Wales.

O'NEIL: What we saw in England was that there was a huge amount of paperwork was going to be involved in the HIPS - title deeds and lots of paperwork that buyers weren't necessarily interested in - and what we wanted to see was what is it that buyers actually need. We think that's the survey report, and it's practical information which will be in the seller's questionnaire which is about things like parking, council tax arrangements, central heating, things like that. If you had something like that in England, then I'm sure that would be equally useful to buyers.

HOWARD: So how enthusiastic are ordinary Scots given the cost and the current depressed state of the housing market? I asked people in Glasgow's bustling George Square if they were for or against.

MALE 1: Very useful. I think it's compatible for both buyer and seller. And with the compressed housing market, it's a good time to introduce the scheme.

MALE 2: Houses are not selling anyway at the moment, so it's probably not the right time for it, but I think changes should be made. One house, ten surveys - the only person making money here is lawyers and surveyors.

HOWARD: The issue's been complicated further because it's clear at least one lender isn't willing to accept the valuation contained in the Home Report. Barclays, which owns Woolwich, says the speed with which property prices are currently dropping means buyers will after all have to pay for their own valuation to get one of its mortgages. But Scottish Law Agents Society's Ian Ferguson says other buyers may not be wise to rely on any valuation which isn't bang up to date either.

FERGUSON: In a market like this where prices are declining, then if you do a survey one week, a week later you might find the price has gone down a bit. So it really does make sense to get a report at the time you *need* it, not this dated thing that lies on a shelf somewhere.

HOWARD: Other property experts believe as long as the majority of lenders accept the valuations, the system can work. Mark Hordern is from the Glasgow Solicitors Property Centre.

HORDEN: We'll have to see how Barclays/Woolwich works, but pretty much all the other lenders have said that they would. We really need to see how they operate in real life when they're faced with a transaction that has a Home Report in it.

HOWARD: And, Paul, with Monday's launch almost upon us, we'll also know how this works out in practice.

LEWIS: Thanks, Bob. And I should have reminded you at the end of the last item, you can have your say on the pre-Budget Report on our website, bbc.co.uk/moneybox.

The Government finally got plans through Parliament this week to introduce a new national system of pensions at work. From 2012 every employer will have to offer a pension scheme and pay into it, and all employees will automatically be made members of their company scheme. Pensions Minister Rosie Winterton explained why.

WINTERTON: We know that there are up to 9 million people, many of them on low and middle incomes, who under the new system will get access to a workplace pension. Two things are very important - obviously the delivery authority that we'll be setting up, but also the auto-enrolment - and that is absolutely vital to making the system work.

LEWIS: Explain how that works.

WINTERTON: What we will say is that employers will have to auto-enrol their employees in a pension scheme. They will be expected to pay 3% towards the pension, employees 4%, and there will be 1% tax relief. So, overall, there will be a minimum of 8% contributing towards people's pensions. We think it's a very, very important reform.

LEWIS: You say 8%, but that's 8% of a band of earnings, isn't it? I mean the maximum people can pay in is under 7%; and for low income people, the ones you're trying to attract, it's only 5% of their total earnings. That's not going to buy a decent pension, is it?

WINTERTON: The band is between £5,000 and £33,000. The maximum contribution can be £3,600 a year. Now these are figures that we have agreed after very extensive discussions, and we've done that for the simple reason that it tends to be people in these bands who are not able to benefit at the moment from pension saving and particularly, of course, many people in small firms.

LEWIS: And how will you stop companies that already have a pension scheme simply closing it down and going for this new system because at the moment companies with pension schemes pay in more than they'd have to pay into this scheme, don't they?

WINTERTON: The logic of that argument, which I have heard - that people will suddenly go to 8% instead of more - quite honestly at the moment they don't have to pay *anything*, and that's the problem. So you would ask the same question as to why wouldn't they at the moment, given that they do not have to enrol people, why don't they just pay nothing? So I just don't …

LEWIS: Well the idea is that you'd be setting a kind of floor that people would fall down to rather than a ceiling that people should aspire to.

WINTERTON: I mean I think the argument that because you set a minimum of 8% when there's no minimum at all at the moment suddenly means that they'll move to that minimum, I don't think that is a logical argument.

LEWIS: Pensions Minister Rosie Winterton.

And now some good news for people with significant sums saved in building societies that are about to merge. Money Box's Samantha Washington has been looking at the details.

WASHINGTON: Yes, Paul. The Financial Services Authority has brought in new rules so that customers of building societies and banks will be treated the same as regards deposit protection after a merger. Until now people with accounts at two different building societies which then merged would only have their two deposits protected by one £50,000 limit.

LEWIS: Now there have been quite a few building society mergers announced recently. Does this apply to all of them?

WASHINGTON: Well not necessarily. The merged building societies will need to keep their own names for it to apply. Nationwide has said that it will maintain the branding of the Cheshire and the Derbyshire Building Societies when it takes them over in December. That means customers with money in all three societies, for example, will be covered by up to £50,000 in each. The same applies to the Yorkshire and Barnsley Building Societies. Customers with money in both will get two protection limits of £50,000 in each. But the rub here is what's happening with Skipton and Scarborough. That merger was intending to lose the Scarborough branding, so as it stands it looks as though customers of both will only get £50,000 protection. Skipton has told me that it is currently reviewing the details of the announcement. It's worth nothing though, Paul, that the FSA is consulting more widely in the New Year, so we may see further changes.

LEWIS: But does this mean people can wait till after the merger - open an account with one of the merged societies and still get the separate limit?

WASHINGTON: No, people will only benefit from this if they are customers of both building societies *before* the merger.

LEWIS: And you've also got an update, Sam, on people who have money in Icesave.

WASHINGTON: Yes, the Financial Services Compensation Scheme has confirmed that 150,000 people have completed the process to get their money back. Now that's only about half the total. We're told that there are still many people waiting for the second email. Now that's what starts the compensation process. More emails will go out this weekend and next week there'll be information on the FSCS website on what to do if you haven't had that second email.

LEWIS: Thanks very much for that, Sam.

Now the Financial Services Authority has finally published its plans to change the way we're sold financial products. Independent financial advisers will have to be paid by fee, not commission. But the picture is less clear for people selling financial products in a bank or insurance company. They'll be called 'sales advisers'. But some consumer groups say that using the word 'advice' to describe sales is confusing. John Pain is Managing Director of Retail Markets at the FSA. I asked him what he was trying to achieve with the changes.

PAIN: Well, Paul, I think our proposals are about making the retail investment market - that's savings, investments and retirement needs for consumers - just work better for consumers, and I think the key for that is really about regaining customers' trust and confidence in the market.

LEWIS: But the essence of that is the problem of commission, isn't it? This was the problem identified by your former Chairman, Callum McCarthy, in 2006 - that commission was one of the problems of the industry - and you're not really getting rid of that, are you?

PAIN: Actually I think we are. You know emphatically this is the end of commission as we know it. You know the proposals we've laid out here really are about regaining that trust and confidence, and I think dealing with you know the potential for commission bias is a key cornerstone to those proposals.

LEWIS: Well it will see the end of it as far as independent advisers are concerned because they won't be allowed to have commission or to have their remuneration set by the product provider. It won't end it for anybody else, will it - all the sales advisers, as you're going to call them? You're either selling something or you're giving advice.

PAIN: We do believe we've created a real clarity about saying you know what advice service is being offered; and there's a clear distinction between what independent advice and what that actually means now, and we've re-established what that actually means, and sales advice.

LEWIS: But you say clarity, but just from your own document there's independent advice, there's sales advice, there's non-independent advice, there's advised guided sales, there's non-advised guided sales, there's execution only and there's money guidance. Where is the clarity in that?

PAIN: We didn't want to end up with a market that was really you know very narrow and not giving consumers access and choice. We believe that actually if you give clarity to the consumer across that spectrum you just talked about, then there is the opportunity for consumers across all sorts of different needs to have that access to this market.

LEWIS: But although you say it's for the benefit of consumers, your own consumer panel is against it. It says that "calling someone a sales adviser will confuse people". One adviser says, "This is a Frankenstein". This was the Chairman of Sesame. And the Association of Independent Financial Advisers says, "the term 'sales adviser' will confuse customers". No-one who's commented that I've seen has actually thought this was a good idea.

PAIN: Obviously I've got to disagree with you.

LEWIS: Well who *has* said it's a good idea.

PAIN: Well I think we've had a lot of positive aspects. But I think it is important to understand that advice isn't just limited to independent advice. You know when somebody walks into their local bank or building society and is looking for a savings and investment product, they are likely to receive advice; and if we didn't make that clear, then consumers wouldn't have the protection in respect of our standards of suitability and you know appropriate products being sold to them and so on. So I think that is very important.

LEWIS: And when somebody does go into their local bank and gets what you want to call sales advice, will the person giving that to them earn commission on that sale?

PAIN: No, the issue for us is, as I've already said, you know the process then of actually making clear the separation of the cost of advice and the cost of products …

LEWIS: But will they earn commission by making a sale?

PAIN: The basis in terms of how they'll be paid will be agreed up front exactly the same basis as we've talked about. What we're saying, what is really important in terms of these proposals is the bias of commission from product providers has been broken once and for all. The mechanism in terms of then how that actually happens then is a completely separate issue. And the important, if I may Paul, the important thing then really is it's agreed upfront with the customer before they agree to buy *anything*.

LEWIS: John Pain of the Financial Services Authority. And those changes are scheduled to start in 2012.

That's it from us for today. You can find out more from the BBC Action Line - 0800

044 044 - and of course our website, bbc.co.uk/moneybox, where you can see videos, download a podcast, and have your say on the pre-Budget Report. Some of you already are - on strengthening banks, the safety of money, tax for people over 65. If you have other questions or *any* questions on the pre-Budget Report, I'm back on Monday with Money Box Live taking questions on those tax and benefit changes which were announced earlier this week. I'm back next weekend with Money Box as usual. Today the reporters were Bob Howard and Samantha Washington, the producer was Martin Bedford, and I'm Paul Lewis.