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MONEY BOX

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TRANSMISSION: 11th SEPTEMBER 2010 12.00-12.30 RADIO 4

LEWIS: Hello. In today's programme, the man in charge of tax at HM Revenue & Customs says he's nothing to apologise for as 6 million people await a letter saying they've paid the wrong tax for 2 years. And he won't resign.

HARTNETT: I have no plan to resign over this. I'm addressing the issue, and I think the nation actually needs me to do just that.

LEWIS: I go inside a prison to find out how a bank account may help ex-offenders stay out of jail.

MALE: When I left prison last time, I went there. I took my ID and birth certificate, driving licence, and I went to the counter and I got told that I couldn't join.

LEWIS: And as our pensions and wages are linked to a different inflation index, statisticians argue about the best way to measure the rise in prices.

But first that exclusive interview with the top civil servant in charge of tax at Her Majesty's Revenue & Customs. Dave Hartnett is Permanent Secretary for Tax and described as 'the senior tax professional' at the organisation. As such, he's responsible for the fact that nearly 6 million people will be told before Christmas that the Revenue has taken the wrong amount from them over the last 2 tax years. Since that plan was announced a week ago, there's been widespread fear among taxpayers and anger

among accountants. So when I spoke to Dave Hartnett, my first question was would he apologise?

HARTNETT: I'm not sure I see a need to apologise. I mean the big issue here is I've read the papers and listened to the media and heard stories of HMRC blunder and IT failure. Neither of those are true. Every country that I know of that has deduction of tax from wages and salaries has to do a reconciliation at the end of each year, and we're doing one.

LEWIS: You do one every year, but the numbers involved here are extraordinary, aren't they? 4.3 million people have paid too much and 1.4 million have paid too little.

HARTNETT: No, I don't think they are extraordinary.

LEWIS: So this happens every year, does it?

HARTNETT: There is a need for reconciliation every year. Once or twice in the past the numbers have been very large. Sometimes they're less. It depends on how the system has been operated and what issues there have been.

LEWIS: You have these very great powers, don't you - the power to dip into our wages and pensions and take the tax you think we owe? Don't you have an obligation to get that tax right?

HARTNETT: Of course we have an obligation to be as accurate as we can, but you know we have partners in this: employers, the employees themselves. If you think for a moment, things might happen on 5th April which can't be dealt with in the Pay As You Earn system for that year. Therefore they'll have to be settled by reconciliation. And the other thing that's important to recognise here is that over the years working patterns have changed significantly.

LEWIS: You seem to be blaming now not the Revenue and your systems, but the employers who deduct the tax and pass it onto you or the poor, hapless employee and pension receiver who just gets a net amount. Surely it's not their fault if things go wrong?

HARTNETT: No, that's just not right and it's not what I'm saying. Working patterns are today more complicated than they were when Pay As You Earn was first established, and there are lots of things that can happen in a year which mean that the operation of Pay As You Earn doesn't necessarily bring out the right answer. And we and employers and employees are all party to that. We're all in the process together.

LEWIS: Yes, you're all in the process together, so whose fault was it?

HARTNETT: I'm not going to engage in a conversation about fault. This is about reconciliation and about making sure we get to the right answer.

LEWIS: Well, sure, but I mean reconciliation's a technical term and you're being very calm about this. But if you're one of the 1.4 million people who's told they've got to pay an average of 1400 quid that they weren't expecting, they're not going to be calm about it, are they?

HARTNETT: Well they should contact us. If they have difficulty paying, we will help them through that.

LEWIS: You say "they should contact us". The National Audit Office found that 43% of calls to customer contact centres weren't answered in 2008/9. That's 44 million unanswered calls. So you just saying "oh ring us up" is not going to work, is it?

HARTNETT: Well you know I mean we're not proud of the occasions when there has been poor performance in our contact centres. But you know the number you quote is of calls that weren't answered. Those people will have got through on a later call.

LEWIS: Well not necessarily. We don't know that, do we?

HARTNETT: Well I mean you don't know that they haven't either, do you? But the key thing is this. Look at our department. We collect on average £1.1 billion a day. We pay out nearly £100 million a day. Our people come to work to do a great job and by and large that's what they do.

LEWIS: That's not the impression we get from people on your staff we've talked to, and there was one Radio Four the other morning and people have certainly talked to us. They say morale is at "rock bottom". One of them told us there were "a million unanswered letters". Is that right?

HARTNETT: I think there probably are about a million unanswered letters. But the idea that they're hidden away in a storeroom somewhere, which I heard someone refer to, is nonsense.

LEWIS: But if you've got a million unanswered letters and 44 million unanswered calls, people who think their tax may not be right, they're not going to be able to get in touch with you, are they?

HARTNETT: Just a minute. Let's look at the letters. It's one letter per 44 customers. In that million figure will be letters that arrive today. And I think were I in a different sector, were I in maybe financial services or retail sector, to have one letter (including letters that arrive today) per 44 customers doesn't feel that bad.

LEWIS: So how quickly will a letter be answered?

HARTNETT: Depending on what the letter's about, it can be answered in a few days. It may take a few weeks depending on what the issue is.

LEWIS: And let's go back to these 1.4 million people who are going to have to pay extra tax - at least £300 we now know and on average over £1400. How is that tax

going to be taken off them?

HARTNETT: The tax will be for more than 80% of them collected through their Pay As You Earn coding over 1 to 3 years. For those where it's more than £2,000 and they're not already in self-assessment, they will be given an opportunity to pay. Or failing that, they will be brought within self-assessment. We'll show them our calculations and we'll invite them to pay.

LEWIS: So then they'll enter self-assessment. How long will they have to pay?

HARTNETT: People who enter self-assessment are expected to pay within 3 months and a little bit more. But if they can't, they should talk to us.

LEWIS: So just to be clear. The people who are expected to pay the most are going to be given the shortest time to pay it?

HARTNETT: It depends on their circumstances.

LEWIS: But in a typical case. Typical cases - if it's less than £2,000, they'll pay it over a year through PAYE; if it's more than £2,000, they'll have about 3 months. Why do the people who owe the most have to pay it the quickest?

HARTNETT: Well because I think owing the most may actually mean they're earning the most.

LEWIS: Well it may or it may not.

HARTNETT: Well I think it's very unlikely that a low earner will owe us more than £2,000 as a result of the process we're going through now.

LEWIS: So you've taken a decision that people who owe more than £2,000 should pay up more quickly and indeed in a lump sum? Is that right?

HARTNETT: We're going to be as sympathetic as we can to anyone who comes to us and says you're trying to take too much money too fast. We are determined to learn from the pilot.

LEWIS: So when is the main batch going to start going out?

HARTNETT: Our plan is to finish the work on the pilot from our side shortly; issue the main group on a rolling programme from early to mid-October.

LEWIS: So you'll be sending about, what, half a million a week out then, won't you?

HARTNETT: I would think something of that order, when we are satisfied from the pilot that it's the right thing to do.

LEWIS: Does that mean you might change the £2,000 limit for spreading it over PAYE?

HARTNETT: If the results of the exercise we're now engaged in show that there are aspects of our plans which are not going to work well for the work we're trying to do or for our customers, we will consider changing them.

LEWIS: What about people who think, not unreasonably some might say, that this is not their fault?

HARTNETT: If they truly believe that we had every relevant piece of information, they should contact us and say, "You had everything for 2008-9. Are you sure you should be collecting this?"

LEWIS: But if people have several jobs or jobs and pensions and they've given the right information to their employer or their pension provider, then it really is your system that gets it wrong, isn't it, because you've given them tax allowances for all of them when you shouldn't have done?

HARTNETT: No because the way the system used to work, we didn't know until we undertook the reconciliation. The thing about the new system, the NPS system, is that it does what was previously done manually, automatically, and is working to an extremely high level of accuracy. And what's crucial about that, it means that going forward individual taxpayers will get greater certainty much faster from us.

LEWIS: So the new £389 million computer system isn't to blame either for this? That's actually doing a good job?

HARTNETT: It is doing a good job.

LEWIS: It's just there are a lot of mistakes or at least a lot of un-reconciled amounts?

HARTNETT: There are a lot of un-reconciled amounts, which we are tackling, and the system is running from a very high level of accuracy.

LEWIS: Presumably there'll be a lot next year as well and into the future?

HARTNETT: That's not what we think will happen. As the system begins to deal with year on year and individually, we expect there will still be a significant number of reconciliations to make.

LEWIS: If we make a mistake when we contact you, we can be fined for getting a form in late, 100 quid, and we pay interest on things. Should anybody face any sanctions within your department? Should you face a sanction? Should you resign?

HARTNETT: Well I have no plan to resign over this. I'm addressing the issue, and I think the nation actually needs me to do just that. I think it's important to recognise that the introduction of the NPS system is a crucial step in providing our customers with greater accuracy and better service going forward.

LEWIS: Dave Hartnett. And as he said, if you do owe more than £2,000 you will be

asked for it in one payment. But if that will cause hardship, you can ask to spread it out. Don't forget you can ask the Revenue not to collect the tax at all if you've done everything right and the mistake is all on its side. There's a longer version of that interview on our website: bbc.co.uk/moneybox.

Now one of the awkward effects of people getting tax refunds or paying tax now that was due in previous years is the effect on some benefits. Many low income people, including millions of pensioners, rely on means tested benefits to help with council tax or rent or to boost their income to the amount the government thinks they need to live on. So what happens if you suddenly get a cheque from HMRC or have to pay money back to them? With me is benefits expert Rachel Hadwen. Rachel, let's start with refunds first. What if you get a cheque through the post from the Revenue?

HADWEN: Well what happens is that it's ignored as income, but unfortunately it is taken into account as capital. And, as many people will know, there are capital limits in means tested benefits which can either prevent you getting benefit at all or can mean that you get less benefit.

LEWIS: Yes. And so that could mean that you lose benefit, a pound or so a week for this if it's 400 quid?

HADWEN: It could do, but it will depend on your capital level to begin with. Let's remember that the average level of these repayments is not going to take you above the capital limit. That's very unlikely to happen. But if you already have savings, then it may do, and that's the thing to look out for.

LEWIS: So you should actually tell the DWP if you get one of these cheques?

HADWEN: Absolutely.

LEWIS: So that could be the downside.

HADWEN: Depending on the benefits that you're receiving, you should let the DWP know. If you get housing benefit and council tax benefit, you should let the local authority know.

LEWIS: Now slightly more complicated is if you are told you have to pay extra tax. Now that implies you've paid too little in the past; you're now being asked to pay it. But in the past, that means you were getting too little benefit because your income was higher than it should be. Can you go back and get that adjusted?

HADWEN: Probably not. There's a big question mark about that at the moment. First of all, you would need to have had an actual claim because you can't do anything about something that you didn't claim at all. And, secondly, there is the potential to do something that's called an 'anytime revision' where you can go back and change your benefit decision however long ago it was, and you can do that on the grounds of official error. But I think to me it seems very dubious whether this is an official error in the sense that you'd need an 'anytime revision'. And there are lots of reasons behind that, but it's partly because when it says net earnings in any benefit law, it simply means earnings less the amount of income tax which is deducted. It doesn't mean it has to be correct. So I think that would be an interesting point to try and take, but I'm not sure it would succeed.

LEWIS: An interesting test case. And just briefly, the government's attitude to this is well we can't go back and change the past, but if you've got a lower income now you'll get more benefit this year?

HADWEN: *(over)* That's right. If you've got a lower income now, then look into it. You may be able to get more benefit. Or if you haven't yet claimed, look into whether you can now claim.

LEWIS: Rachel Hadwen, thanks very much for that.

There are more than 87,000 people in jail in England and Wales, and on release almost half of them re-offend and end up back in prison. It's a cycle that's very hard

to break. One key problem faced by ex-prisoners is lack of access to a bank account. Without that, employers can be reluctant to give them a job and landlords unwilling to rent them even a room. But ex-prisoners find it hard to get most high street banks to offer them even basic banking facilities. One project is trying to change that. The Co-operative Bank is working with 30 prisons and opening bank accounts for prisoners close to their release date. One of these is in Ranby prison in Nottinghamshire. It's a low security category C jail, but every door is locked and unlocked as you walk through. The fences are probably six metres high and every building is topped with barbed wire. I was free though to walk round and chat to prisoners. And when I asked about getting a bank account last time they were outside, it was clear many of them had found it impossible.

MALE 1: My experience of trying to get a bank account when I left prison last time was I went there. I took my ID and birth certificate, driving licence, and I went to the counter and I got told that I couldn't join the account I got recommended. And the person that had to recommend me had to have an account with them for 3 years.

MALE 2: I come up for parole in March 2011.

LEWIS: You should be thinking about getting a bank account now, so that when you go out you'll have ...

MALE 2: Well I've been through this issue before. They say to you that because you haven't got an actual earliest date of release that you can't have one.

LEWIS: So you've got to wait for your parole decision and then you might get one then?

MALE 2: Yeah.

LEWIS: Well one of the prisoners who's recently opened an account is Peter. At 29 he's been in and out of prison since he was 13, and in November he'll be free again.

He told me why he'd never opened a bank account before.

PETER: When I got a job and that with no bank account, they wanted me bank account details and obviously I couldn't give it 'em because I didn't have it. So I had to use my family's, but you only can use it for so long. They kept getting on me back and that about needing me own account and I can't be using other people's, end up losing me job or I just quit because I got sick of them hassling.

LEWIS: Did you try to get a bank account?

PETER: I've tried, yeah, but because of my ID and stuff, I didn't have the right ID for a bank account.

LEWIS: What's happened now? You're going to get a bank account, are you, or have you actually got one?

PETER: I've got one sorted now with Co-op, Co-op Bank.

LEWIS: What was the process like? Was it easy to get one?

PETER: I couldn't believe how easy it was. It were so quick to get one here. And I have tried loads of times outside of prison

LEWIS: When you get back out - you've been in jail a lot during your life - how determined are you to stay out?

PETER: I want to stay out. I've had enough, you know. I'm grown up. I've got qualifications as well while I've been in prison and that's something I've never had before.

LEWIS: What are they in?

PETER: Rail track. I've done a rail track course and I've got me fork truck licence.

LEWIS: So you can get a decent job when you get out?

PETER: Oh yeah, definitely. That's what I'm looking forward for - get on rail track or something.

LEWIS: So with a decent job, somewhere to live, a bank account, ID, you really feel now that this is your opportunity?

PETER: It's given me a chance. I've got a chance now.

LEWIS: What would you say to the banks? What would you say to them about letting ex-offenders have a proper bank account?

PETER: You should give them a chance. They need a bank - something that will help them to stop re-offending and that.

LEWIS: Peter's account is with the Co-op. Tim Franklin, Chief Operating Officer of Co-operative Financial Services, told me why the bank does it.

FRANKLIN: We see helping people to resettle and not re-offend as a way of improving society and the community as a whole and we want to do our bit to help them.

LEWIS: And how do you overcome the problems that many prisoners talked to me about, which is you try and open a bank account but you haven't got an address, you haven't got ID?

FRANKLIN: These accounts are opened before the prisoner leaves the prison and, therefore, we've been able to satisfy ourselves that they are who they say they are by dealing directly with the prison.

LEWIS: It is only a basic bank account though, isn't it? There's no access to credit, there's no credit cards, there's no overdraft facility, no chequebook. That might be difficult.

FRANKLIN: A basic bank account still provides all the things that people need in their everyday lives from banking. It doesn't provide access to credit, but that's probably right for people who are just re-establishing themselves in society.

LEWIS: How quickly can they migrate from a basic account to what you or I would consider to be a more normal current account?

FRANKLIN: That really depends on the way in which they run the account.

LEWIS: And what's your experience? Do they generally manage them well?

FRANKLIN: Generally they are managed well, yuh, which is one of the reasons why we are key proponents of this type of arrangement between banks and prisons. We've pioneered it. We think other banks should do it too. And if you look at the evidence, John Moores University did some research in 09 which demonstrated that re-offending rates amongst prisoners with bank accounts after release was down by a third.

LEWIS: Well the Co-op is a small bank and reluctant to expand the service beyond the 30 prisons it works with. As Tim Franklin says, they want the big five high street banks to join in too. Barclays and Halifax have run pilots, but otherwise interest has been low, even though the Ministry of Justice told us it has what it calls an "open dialogue" with them. Well live now to talk to Chris Bath from Unlock, the National Association of Reformed Offenders. Chris Bath, your organisation's been active in persuading banks to offer accounts, but why are some of them so reluctant to join in?

BATH: I think in the first case, when we started looking at this about 5 years ago, there were some genuine real practical issues, as Tim suggested - things like ID,

address histories - but those are things that we've been able to overcome over the last 5 years in the pilot projects we've been involved in. Of course you've got this general issue of whether people are perceived to be immediately profitable. I think that's obviously difficult for banks whose priorities may be about rebuilding balance sheets and various mergers and things that are going on.

LEWIS: Yes because even if ex-offenders achieve what Peter clearly hopes to achieve, they're not going to have vast amounts of money and buy financial services from the banks. It's going to be a basic current account that doesn't earn the bank anything.

BATH: Well, as you said, there are many thousands of people in prison and they're not all the same at all. Some people will go on to earn very low incomes; some people could potentially be extremely successful. There's no limit on them in that sense. So our argument is that in the same way as someone walking in the door in a branch asking for a basic bank account, you can't tell where that person's going to go.

LEWIS: No.

BATH: It's really about giving them the basic tools and allowing them to take it as far as they can do.

LEWIS: And giving them a chance. And we heard this week in the news that Secretary of State for Justice Ken Clarke is in favour of initiatives to help ex-offenders stay out of jail. Tim Franklin mentioned this research. Does having a bank account really help you stay out of jail?

BATH: It really does. Financial inclusion, access to financial services is a foundation for so much of the work that individuals and professional staff do in prisons. On the practical side, you know in order to get a job, in order to get stable accommodation - the biggest statistical reducers of re-offending - you need a bank account. And then more broadly, as the research that Liverpool John Moores showed up and our own experience has shown, people just feel more included. They feel normal and that

cognitive change makes a big difference.

LEWIS: Yes. So given that and given the government's commitment, should it be doing more to persuade banks to offer these schemes to every jail? After all, the government practically owns one bank and has a big share in another.

BATH: Yeah, I think the government's got a great opportunity here to be slightly brave and to say something that's positive around prison work. The British Bankers' Association has been very helpful in facilitating discussions with the bank, and the Ministry of Justice and the Treasury have all been very supportive of our sort of unlocking banking project. But this needs to be made explicit by ministers if the banks are going to change their priorities.

LEWIS: Chris Bath from Unlock, thanks very much for talking to us.

Now we all know that prices are rising, but by just how much? The official rate of the Consumer Prices Index shows a rise in prices of 3.1% over the last 12 months. The older measure though, the one we're more familiar with perhaps - the Retail Prices Index or RPI - shows prices rising a lot faster: 4.8% over the last 12 months. The government's moving though to the lower CPI for raising benefits and public sector pensions, and it wants to extend that to company pensions as well. Now that would mean a pension of £10,000 that was first paid in the year 2000 would now be £660 a year lower if it had gone up by CPI rather than RPI. But it's not just pensioners who are worried about the move. The Royal Statistical Society has written a letter to the UK Statistics Authority, which provides those figures, to warn that too much emphasis has been placed on CPI. Ultimately it wants to find better ways to measure inflation. With me in the studio is Jill Leyland, Vice President of the Royal Statistical Society. Jill, this may seem an obscure argument among statisticians, but it does affect us all. What's wrong with CPI as a measure of inflation?

LEYLAND: Well CPI is fine as a macroeconomic measure for use by say the Bank of England when it's making its interest rate decisions, but it excludes a lot of things. It excludes, in particular, owner occupier housing costs, so there's no mortgage interest,

there's no council tax. It also excludes things like television licence fees, motor vehicle duty and so forth. So it's not a good indicator or it's not as good as it could be as an indicator of the cost of living.

LEWIS: So it doesn't include all the things we buy. But isn't there also a difference in the formula that makes it inherently showing a lower rate of inflation than RPI?

LEYLAND: That's absolutely right. And the figure you quoted at the beginning, the £660 difference, in fact most of that difference would have come from the formula effect; the fact that the first stage of the calculation is done differently in the two indices.

LEWIS: And this leaves people to suspect, of course, that the government picks this measure because it will cost it less in benefits and help pension schemes avoid costs in their pensions.

LEYLAND: I suspect that was in their mind as well. But I think you know our concern as statisticians is that we don't like this difference. Index numbers are difficult, there's no single right way; but when you get a difference that is as large as this, then something is going wrong.

LEWIS: And briefly you want the Statistical Authority to find a different way of measuring inflation. What would you like them to do?

LEYLAND: We'd like to have a comprehensive review both of the coverage of the indices, so that you get a number of indices published that are appropriate for different uses - for say wage negotiations, pensions, different benefits and so forth, as well as the macroeconomic ones. And we'd like them to review the methodology, and we'd like a comprehensive review because of course all these issues are interrelated and it's become more urgent following the Chancellor's decision.

LEWIS: Well we'll have to wait and see what happens with your letter. Thanks very

much Jill Leyland of the Royal Statistical Society. And if statistics are your interest, you may want to listen to my colleague Tim Harford on More or Less, Radio Four's programme about numbers and maths - Radio Four Fridays at 1.30, Sundays at 8. But that's it for today. More from our website: bbc.co.uk/moneybox. Sign up to the newsletter, download programme items. I'm back on Wednesday with Money Box Live taking questions on student finance. Back next weekend with Money Box. Today the producer Monica Soriano. I'm Paul Lewis.