THIS TRANSCRIPT IS ISSUED ON THE UNDERSTANDING THAT IT IS TAKEN FROM A LIVE PROGRAMME AS IT WAS BROADCAST. THE NATURE OF LIVE BROADCASTING MEANS THAT NEITHER THE BBC NOR THE PARTICIPANTS IN THE PROGRAMME CAN GUARANTEE THE ACCURACY OF THE INFORMATION HERE.

MONEY BOX

Presenter: PAUL LEWIS

TRANSMISSION: 17th JULY 2010 12.00-12.30 RADIO 4

LEWIS: Hello. In today's programme, Northern Rock - what's left of it - is accused of not treating its customers fairly. The government is scrapping many of the rules that limit what you can do with your pension fund, and big cuts in the tax that's paid on it. I talk to an influential economist who uses the rock band Led Zeppelin to explain economic policy.

MUSIC: Led Zeppelin

LEWIS: And he believes it's time to *raise* interest rates. An exclusive interview with Monetary Policy Committee member, Dr Andrew Sentance. And is it the end of free bus travel for older people, or just a minor change?

But first, some customers of the failed bank Northern Rock who've moved their mortgages have been charged hefty fees, but some have been let off. Fees are normal when a mortgage is redeemed before the end of a fixed term or discount period, but from January to the end of June Northern Rock Asset Management has been waiving the fees for some customers, but not for all. Money Box listener Ewan Barraclough is a mortgage adviser who was contacted by one of his clients who wanted to move his mortgage after agreeing a price for a new property.

BARRACLOUGH: We approached Northern Rock Bank to see if we could port the mortgage across to the new property, and were advised that because they didn't hold a banking licence that you'd have to pay their early repayment charge of £1500. Under normal circumstances on a mortgage offer, they will state that a mortgage is portable. They'll cover themselves by saying that you have to meet this lender's criteria, but we know in this case that it's not the client that is not going to meet the criteria; it's the lender themselves. It's a bit unfair the fact that a client's been left there with a mortgage. They can't do anything with it, and if they want to pay it off they need to pay £1500 early repayment charges. It's a disgrace.

LEWIS: Well our reporter Ben Carter's been looking at this story. Ben, tell us first which bit of Northern Rock this relates to.

CARTER: Well on January 1st this year Northern Rock was split in two: Northern Rock plc, the so-called good part of the bank that the government hopes to sell back to the private sector; and Northern Rock Asset Management, which holds about half a million of the more high risk loans which the government will probably keep. In January customers were told which bank their mortgage would be held by and assured that their terms and conditions would not change. The client in this case found his mortgage was now with what might in crude terms be called 'the bad part of the bank', which was no longer looking for new business.

LEWIS: Well and, as we heard, Northern Rock Asset Management hasn't even got a banking licence, so it can't accept new business and let customers switch their mortgages when they move house. They have to get a loan from another bank and pay the early repayment charge.

CARTER: Yes. And although most lenders do charge to switch your mortgage, the fee is a lot less than paying an early repayment charge.

LEWIS: Well you'd think that the customers unlucky enough to be put in the bad part of the bank, who've got no chance to move their mortgage, would at least get their early repayment fee waived.

CARTER: Well it was for some customers at first. But since June 30th all customers have to pay the full repayment charge - although most won’t know this as Northern Rock Asset Management have not made any announcements about their policy changes in this area.

LEWIS: Well Northern Rock - the good and the bad bit - are owned by the government after the bank was rescued in 2008. The Treasury is the department responsible and I asked Treasury Minister Mark Hoban if he thought Northern Rock was treating its customers fairly.

HOBAN: First of all, this is a matter for the management of Northern Rock Asset Management. You know it’s a very experienced team there. They are responsible for running Northern Rock Asset Management on a commercial basis to protect the interests of taxpayers. What I understand has happened is that because of the limits imposed upon Northern Rock Asset Management as a consequence of their nationalisation, that Northern Rock Asset Management aren’t in a position to increase the amounts they lend to their existing customers. If a customer needs to increase their mortgage, they have to go somewhere else. And what Northern Rock Asset Management did at the start of this year was to waive for these customers the early redemption charge.

LEWIS: But they didn’t waive them for all of them, and they’ve been very clear about that. They waived it for some, on criteria that they won’t reveal, and not for others.

HOBAN: Well, as I understand it, it relates to whether or not the customer wanted to borrow more. I think that if customers have a complaint about this, what they need to do is refer it to Northern Rock first. And if they’re unhappy, then obviously the Financial Ombudsman Service is there to investigate their complaints.

LEWIS: Yes, I mean that’s obviously the formal way, but when we contacted Northern Rock to find out more, they apologised for the delay in replying and said “all our policies have to be carried out with approval of the Treasury.” So your department obviously knew about this and has approved of it, so that’s why I’m asking you is it fair?

HOBAN: Well, Paul, as far as I'm concerned the day-to-day running of Northern Rock Asset Management is the responsibility for their management. They operate within a framework that's been agreed as part of the rescue of Northern Rock, but the day-to-day operations are very much the responsibility of their management, not Treasury ministers or officials.

LEWIS: Sure. But new Minister, Mark Hoban, can't you step in and look at this?

HOBAN: Well, Paul, you know I've said how people can resolve this. I don't want to get into the business of running banks and I think that's best resolved by Northern Rock Asset Management themselves dealing properly with the complaints that your listeners have raised with you.

LEWIS: And you won't even tell me if you think it's fair or not?

HOBAN: Well you know I think that … You know I'm not familiar with the detail of this. I haven't looked … You know I haven't been asked my view by Northern Rock Asset Management about how to manage their portfolio. I think it's something that they need to resolve. There are mechanisms in place to do that, as I said, through the Financial Ombudsman Service, and I think that's the best route for your listeners to go.

LEWIS: More from Treasury Minister Mark Hoban on our next story. But before that, Ben, how's the other nationalised bank Bradford and Bingley behaving?

CARTER: Well the other state owned bank has been waiving all early repaying charges since February 1st and say they anticipate the offer continuing indefinitely.

LEWIS: A sharp contrast there. Thanks very much for that, Ben.

Now the government has revealed its plans to remove many of the restrictions on what you can do with your retirement fund. The current rules mean that most people effectively have to buy an annuity at the age of 75, though this was raised to 77 in last month's budget. But from next April those restrictions will go. Instead people can draw their money from their pension pot under one set of rules from the age of 55 until they die. But there are still some restrictions. Treasury Minister Mark Hoban, who we just heard from, launched the consultation on the new rules this week and I asked him why the changes are being made.

HOBAN: People who are reaching retirement will retire with a wider range of assets than they've had before. They'll have a house and they'll have an occupational pension. They'll have savings perhaps in an ISA, and also a defined contribution scheme pension. What I want to do is give more people the choice about how they maximise their income in retirement and when they want to access different pots of saving. Scrapping the rules around compulsory annuitisation does give people much more freedom and flexibility about how they generate their income in retirement.

LEWIS: So what are the options you're going to give them then at 75?

HOBAN: What we're going to do is offer people two options. The first is a capped drawdown, which is broadly the same as the unsecured pension that people normally take.

LEWIS: So they take an income from their investments, but it's not an annuity and the investments are still there?

HOBAN: That's right. And there's a limit to that. They can drawdown up to the at the moment about 120% of the equivalent value of income from an annuity. That at the moment, that scheme runs out when you're 75. We want to give people the option to continue doing that beyond the age of 75, but we know there are some people who want more flexibility in retirement, who would want to drawdown a lump sum for example from their defined contribution scheme pension pot, and we'll give them that flexibility to do that as long as they can demonstrate that they won't fall back on the state and they won't claim for means tested benefit in the future.

LEWIS: How will you work out though the income where people won't have to fall back on the state because you can fall back on the state to pay some of your council tax with an income of £20,000 a year or more in some cases?

HOBAN: Yeah and that's one of the big questions in our consultation paper. We haven't put a figure on it. What we want is consumer groups, people in the industry, pension advisers, pension companies to conform with their ideas about where you draw that line.

LEWIS: It's got to be quite simple though, hasn't it, because you can't go through a means testing questionnaire with everybody?

HOBAN: I'm with you on this, Paul. I think it needs to be something that people can understand and is relatively straightforward. And I've had lots of suggestions made to me about looking at it at different points in people's lives, changing the amounts on a regular basis. I think we need something that's relatively straightforward, but I want to get views from the industry and from consumer groups about where you draw that limit and how it works over the course of someone's life.

LEWIS: If they do take this extra income, or I think you said they could also take some of their fund as a lump sum if they've got adequate income, how will that be taxed?

HOBAN: Well it would be taxed at their marginal rate of taxation.

LEWIS: So even a lump sum will be taxed as income?

HOBAN: Absolutely, yes. Because of course what they've had, Paul, is tax exempt contributions. As their money has been invested and grown over the course of the life of their pension scheme, they've received tax relief on that, and it's right that lump sums withdrawn from the pension scheme are taxed at the marginal rate. But just to be absolutely clear, the existing rules for 25% of the pension to be withdrawn as a lump sum tax free, that remains in place. It's subsequent withdrawals that need to be taxed as income.

LEWIS: When people die - if they have money left in their pension fund, at the moment if you're over 75 there is a huge tax totalling 82%, I think, on that fund. What's the tax going to be on this before it passes to your heirs?

HOBAN: Well what we said is that where on death some of the money is used to provide a pension for a dependent, that should be tax free, but the balance should be taxed at 55%. And we believe that's the right number to claw back the tax relief that somebody's received.

LEWIS: And is that then also subject to inheritance tax if it goes into the estate?

HOBAN: No it's not, no.

LEWIS: So that's 55% and that's it for everybody, whether they're paying inheritance tax or not?

HOBAN: Absolutely, yes.

LEWIS: That was Mark Hoban. And a longer version of that interview with a bit more detail is on the Money Box website: bbc.co.uk/moneybox. Well with me is Billy Burrows from William Burrows Annuities. Billy Burrows, this seems like good news. I was sort of struggling to find holes in it when I was talking to Mark Hoban. More flexible, lower tax, restrictions gone. What are the problems with this new regime?

BURROWS: Well I think, to be clear, the industry welcomes this and the government have gone further than we expected. The problem isn't necessarily with the rules; it's with people's behaviour. There is a concern that people who would otherwise have bought secure annuities will be tempted into higher risk drawdown without understanding the risks, and perhaps ending up worse off, not better off.

LEWIS: Yes. And not only the risk but also the charges because with an annuity you know exactly what you're going to get, but with drawdown you can find charges eat away at your money every year, can't you?

BURROWS: Well there's a potential explosive cocktail of customers not wanting to buy annuities, advisers encouraging people to go into drawdown, and insurance companies producing higher risk products.

LEWIS: Yes. I thought the financial industry would be pleased with all these changes. *(laughs)*And what about this question of defining the minimum income? Once you've proved you've got an income of a certain amount, you can really do what you like with your pension fund. But where will that income be set, do you think?

BURROWS: Well I've heard views that it could be from a fund of £100,000 to sort of £300,000.

LEWIS: £100,000 is only going to get you a very small amount, isn't it?

BURROWS: Well that's right. But I think the point is … I mean I was involved in this ten years ago, the initial document, and the point - and I think it's an important point - is that once people have enough money that they don't fall back on the state, they should have you know extra freedoms. The encouraging bit for me, and I was very concerned initially that this minimum would mean that a lot of people wouldn't be able to benefit from drawdown, but the capped version of the drawdown is good news because it means even those with modest pension pots will be able to benefit from the drawdown.

LEWIS: Yes and that's a sort of similar rule to what applies now to people under 75.

I suppose some of the people who might benefit are people who've got a good final salary scheme from their old job but made more provision (as we're all encouraged to do) and they've got an adequate income from their company pension, so the rest of it is really theirs to do what they like with?

BURROWS: Well that's right. I mean I can see a situation where somebody has an occupational scheme, then a small personal pension, and that small pension could be taken all in cash subject to the income tax.

LEWIS: Now this income … Well income tax while they're alive, but of course when they die, if they've got money left, it's going to be taxed at a flat rate of 55% whatever age you are, which does sound quite high to most people. Is that going to be better or worse?

BURROWS: Well two things there. First of all, those people who are currently over 75 and in ASP will be over the moon with these new rules because it means that they will only be paying 55, not 82%; but those people who die before 75 will actually end up paying more. But I think you've got to the heart of the problem because for most people they're seeing the pension as a way of passing money to their family, and of course the government all along has said you know a pension is a pension and should provide income.

LEWIS: Yes, it's not a tax avoidance scheme. So let's hope it works for everybody. Billy Burrows of William Burrows Annuities, thanks very much.

Now if you've got a variable or a tracker mortgage or you rely on interest from your savings to pay your bills, the monthly decision on interest rates by the Bank of England's Monetary Policy Committee is very important to you. Rates have been held at the historic low of 0.5% since March 2009, and until last month the decision of the committee on that was unanimous. But in June, Dr Andrew Sentance voted in favour of a quarter point increase, the first such vote by any member for nearly 2 years. No-one agreed with him, but in a rare broadcast interview I asked Andrew Sentance how he actually goes about making his decision on how to vote on rates every month.

SENTANCE: The focus of the Monetary Policy Committee is the Thursday morning meeting we have, which is just before we announce the decision at 12 o'clock. But actually that's the climax of three meetings that we hold, starting on the previous Friday; and the first of those involves getting a lot of briefing from the bank's staff on all the latest economic data and issues that they've been researching, and that provides the information base which we then discuss on the Wednesday afternoon and the Thursday morning. Most members I think when they get to the Thursday morning meeting have probably made up their mind about how they're going to vote, but you don't have to vote on the MPC until you've heard the views of all the members.

LEWIS: Right, so when we hear that announcement at 12 o'clock on a Thursday, it really has just been made?

SENTANCE: That's right, it's made on the morning. We agree a press statement then and we announce it to the markets at 12 o'clock.

LEWIS: And in the preceding weeks, how much work do you do?

SENTANCE: I keep my finger quite closely on the pulse of various sources of information. I'm particularly keen on business surveys and the surveys run by the CBI, British Chambers Commerce and so on, as well as the official statistics. And we also do visits around the country. We visit companies, we visit groups of businesses, so we're also taking the temperature of the economy at the grassroots level.

LEWIS: Having looked at all that this last month, why did you decide there should at last be a rate increase?

SENTANCE: A number of reasons. First of all the economy has been improving, albeit slowly, since last summer, and it's been improving particularly in some parts of the world economy - in Asia, but also the UK economy has been turning around. And so that was one factor. Now the economy is still at a very early stage of the recovery, but we did take interest rates down to an exceptionally low level last year and the question is finding the right level of interest rates to support the recovery. We certainly don't want to snuff out the recovery, but also to keep check on inflation. And the other factor has been the fact that inflation has been running above the targets, which is quite a surprise because we had previously expected the recession to push down on inflation. So we do still have to keep inflation under control.

LEWIS: You voted for a quarter of 1% rise, so from half a percent to three quarters of a percent. That's not going to make much difference by itself. Was that part of a process that you were then hoping (if others followed you) the committee might pursue?

SENTANCE: If we can raise interest rates in a gradual way, that'll be helpful for the recovery because it'll mean there won't be big shocks to the business community.

LEWIS: To what, because that's what people want to know? How far will they go - back to their historical levels of 4, maybe 5%?

SENTANCE: I'm afraid we can't say that at this point in time. I think one of the great traditions of the committee is we take one month at a time.

LEWIS: To what extent do you think about the effect of your decisions on retail banking - on ordinary people who've got mortgages or, on the other side, have got savings? And people with savings have been suffering terribly over the last 18 months with interest rates at their record low.

SENTANCE: Well we think about that a great deal, but we think about it from a sort of economic standpoint of what is going to be the impact of the interest rates that we set rather than trying to reach a judgement about whether we like savers more or we like borrowers more. That's not what the MPC is about. It's about reaching the right judgement for the economy as a whole.

LEWIS: So low savings rates are in a sense a price worth paying for the fact that your decisions have helped the economy?

SENTANCE: Last year particularly it was very clear the economy needed a lot of support to prevent the recession deepening and because of the fear of the impact that would have also on inflation, and that meant that we brought interest rates down. And the question we're now facing is with the economy recovering and inflation having been higher than we expected, whether we now need to begin to move them upwards again.

LEWIS: Raising rates of course will be looked on with some trepidation by many people with mortgages. What kind of consideration do you give to that effect because ultimately that could lead to people losing their homes?

SENTANCE: I think when we get into increasing interest rates, it's going to be a gradual process. I think that will be desirable to avoid big shock. And the question is getting the right level of interest rates for the economy as a whole. And so there will be some impacts on borrowers if interest rates begin to rise, but, as you say, there will also be impacts on savers. And we have to strike a balance on the Monetary Policy Committee of making sure that we don't raise interest rates so high that it stops the recovery, but that we also keep inflation in check.

LEWIS: What sense do you get of your colleagues? Do you think if you propose the same thing next month, you might have more people or *anyone* supporting you?

SENTANCE: Well we have a formal process whereby we set out the minutes of the meeting a couple of weeks after the meeting, so those will be coming out in the coming week. So I don't want to pre-empt that because that's the official record. And other members speak for themselves and have set out their views. At the moment I'm the person who's spoken out most clearly on the need to raise interest rates, but we'll see how the debate goes.

LEWIS: Yes. And just to take up a theme of your speech, do you think a gradual increase of interest rates would be your stairway to heaven?

SENTANCE: Well I put a few Led Zeppelin references in my latest speech. I think my main reference was raising the question about whether the Monetary Policy song should remain the same as the economy's changing?

LEWIS: Or should it be dazed and confused, as some people think?

SENTANCE: Well there's certainly been a lot around to daze and confuse us, you're quite right. I think we can get some insights from rock music, but essentially the issue is getting the right setting of monetary policy to fit in to be in tune with the economy, and that was really what lay behind my decision.

LEWIS: Dr Andrew Sentance on how Led Zeppelin puts him in tune with the economy. Dr Sentance would have been with us live, but he's playing bass guitar with his own band, Revelation, at a church fete today. And you can listen to the full interview with Dr Sentance on our website: bbc.co.uk/moneybox.

Free travel on buses in England could be cut back by the government. At the moment free bus travel in England begins when people reach just over 60, the age when women can claim the state pension. Over the next ten years, that age will rise to 65. But the BBC's heard that one of the options for cutting costs considered by the Department of Transport is to raise the age to 65 more quickly. Deputy Prime Minister Nick Clegg though confirmed changes to free travel were being considered.

CLEGG: Well we're not going to scrap free bus passes, but clearly we're going to review how it operates. But it's far, far too early to suggest that we're going to do you know one thing or another because this is all the kind of thing that we'll have to look at in the round as we try and balance the books over the autumn in the comprehensive spending round.

LEWIS: Nick Clegg. But that doesn't go far enough for some people. Patrick Nolan is Chief Economist at the think tank Reform and he's been calling for some time for free bus passes not to be changed but to be scrapped completely. Patrick Nolan's with me now. Free bus travel for pensioners has been around for decades, hasn't it? Why would you scrap it?

NOLAN: Well I mean it has hard not to sound like a grinch in saying this, but this programme does have to be stopped because we have this incredible budget deficit that we have to eliminate. Over the next few years, we have to find something like 80 billion pounds worth of spending cuts, and the key is to make the cuts in those areas of spending that actually don't provide much value for money. Now this is one of those key areas where we can actually make some real savings.

LEWIS: But you say it doesn't provide value for money, but for people living on a basic pension of maybe £100 a week or so, paying out for buses is a big expense for them. It's very valuable.

NOLAN: It is, but the issue is that the people who are actually taking up the free bus passes are the people generally who can afford to pay for their own travel or who have other means available such as own a car. So this programme's actually going to the wrong people. If we want those lower income pensioners to be able to you know travel to the shops and to have greater social participation, we can do it in other ways. We can make facilities at bus stations better or we could actually just increase their income through a pension credit.

LEWIS: Well a pension increase I'm sure would be very welcome to them. But it's hard to distinguish, isn't it, between people over 60 who've got money and people who haven't? Are you suggesting means testing it?

NOLAN: Well the programme already is currently quite complex, so this is why we are saying actually the best thing to do is to do the simple thing and just to remove it. The UK welfare system is a very complicated system, and the problem is the things that are simple are the very expensive universal programmes, so we need to reduce those and we need to start thinking about how we can have some of these means tested programmes provided in better ways.

LEWIS: Yes, but I mean this is a simple scheme. Age UK has said free bus travel's a lifeline for many older people, helping them remain independent, access local amenities, and it also tackles social isolation. You'd get rid of all that?

NOLAN: Well actually it doesn't, and this is what the surveys show. There's a lot of surveys that show that the people who are taking up this programme are people who could afford to pay for their travel anyway or already have other means of travelling such as a car. I mean Age UK …

LEWIS: But taking it away from them is very difficult, isn't it, because you'd have a complicated means tested system and you know perfectly well a lot of people entitled wouldn't even claim it?

NOLAN: No, but the issue is if we want to make it easier for pensioners on low incomes to be able to travel, there are other less costly ways of doing that. The main barrier actually is not the income; it's the facilities at bus stops is one of the main barriers. We need to address those sorts of things.

LEWIS: Patrick Nolan of Reform, thanks. Any change would affect England only because free travel in Scotland and Wales and Northern Ireland is run by the devolved authorities. No changes are planned.

Briefly one last story - the fate of the £450 million British investors put into Key Data Investment Services. It went into administration a year ago. Lots of you have been getting in touch for an update. Now I've spoken to the administrator. He told me there's no good news for people whose cash is with the SLS Capital Fund. That money is gone. But he's hopeful by the end of July they'll be able to confirm what's happened to the £350 million invested in the Lifemark Fund - whether it's safe or not. We'll of course keep following the story in the autumn. But that's it for today, and for this series of Money Box. Find out more from our website, bbc.co.uk/moneybox, listen to a longer version, sign up to the newsletter, and of course have your say on annuities as some of you are. Vincent Duggleby's here on Wednesday with Money Box Live taking questions on personal and small business tax. Money Watch is on BBC2 on Wednesday at 8. And next week, Naga Munchetty of Working Lunch is here with a special programme on investing and saving. I'm back with Money Box's 34th series in September. Today reporter Ben Carter, producer Monica Soriano. I'm Paul Lewis.