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MONEY BOX

Presenter: PAUL LEWIS

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LEWIS: Hello. In today's programme the end of HIPs, the controversial Home Information Packs that until Thursday you had to have to sell a home in England and Wales. Now they've been scrapped, what should happen next? Then how they make money in the City.

WILLMOT: You go to your next-door-neighbour and say, "Could I just borrow the lawnmower for the weekend?" and then, rather cheekily, you just sell it.

LEWIS: We explain short selling. And doing it naked. But are there other reasons why shares have plummeted this week around the world? Then *(Music)* … we have some friendly advice from an ex-pensions minister to the new one, but how radical can any pensions minister be? And are investors in shares barking, or is it just their funds that are dogs?

But first, Home Information Packs have been scrapped by the new coalition government. Until last Thursday anyone selling a home in England and Wales had to pay up to £500 to provide title deeds, local searches, information about their property in a standard format, and that was before they could even show their home to potential buyers. No more. Sellers will still need an Energy Performance Certificate - that's European law - but it should cost no more than £60, can be obtained after the home goes on sale, and it lasts 10 years. Home Information Packs have always been controversial, opposed by politicians, estate agents and surveyors - criticism Money

Box has reflected over the years.

MALE 1: *(Music)* The last thing that the housing market needs at the moment is more cost and complexity. Home Information Packs were originally sold to us on the basis that they would make the whole buying and selling process easier. Well the HIPs proposals that the government are bringing forward will do nothing of the kind.

MALE 2: As far as four bedroom houses are concerned, I've noticed a dramatic downturn in the number coming on the market.

MALE 3: HIPs are having a detrimental impact. People are saying we don't want them, we don't need them, and they're not putting their houses on the market.

LEWIS: Well let us know what that wonderful music was. They've also been consistently criticised by property expert and television presenter Kirstie Allsopp. She told me Home Information Packs - or HIPs - simply added to the cost of buying and selling.

ALLSOPP: The lawyers' fees never dropped. Nothing happened to the lawyers' fees when HIPs came in. And you paid pretty much a minimum of £250 - often £300, £350 and higher - plus VAT for information that you were already going to have to pay your lawyer to provide. And it didn't benefit the purchaser because the majority of purchasers, by the time they'd got to a point where they were going to look through that information it didn't mean anything to them. They were going to have to get their lawyer to look through that information as well. It was an extraordinary level of duplication.

LEWIS: So what impact is it going to have on the housing market? It's going to save sellers money.

ALLSOPP: The big impact that I hope is that we will move HIPs out of the way and look at how we can really improve the transaction process. Because the problem about

HIPs is it became such a politicised issue that no-one was prepared to say right, we know we don’t buy and sell houses in an effective and speedy way. We need to address the whole issue. We need to talk to the mortgage industry, we need to talk to the Law Society, we need to talk to the estate agents bodies. We all need to sit down and work out how come in the last 20 years offer acceptance to completion has doubled.

LEWIS: And what do you think about the idea of the Association of HIP providers that you should have an exchange ready pack that really would speed things up, perhaps more similar to the Home Report they have in Scotland?

ALLSOPP: If we can address the issue with the Law Society, if we can all sit down and get the lawyers involved to sign up to some kind of statutory pack which everybody does before they market their house - yes, that would be fine. But you can’t have a situation where you’re paying for a HIP and paying for lawyers’ fees.

LEWIS: I think we’d all agree that’s a good idea, but it’s the detail that’s the problem, isn’t it; and the detail (from what you say) the last government got completely wrong?

ALLSOPP: The problem was the government thought that their industry had some kind of self-interest. What they failed to realise is that everybody in the industry wants speedier transactions. There’s nothing in it for the estate agents or the lawyers or the surveyors to have this extraordinarily slow transaction process.

LEWIS: And what about the Energy Performance Certificate? That will remain and will still be a cost.

ALLSOPP: I’m hoping that the government will be able to fix a price for that - so that everybody has the same price; you know what your EPC costs you.

LEWIS: What do you say to an estimated 3,000 people whose job depends on producing them?

ALLSOPP: I feel desperately sorry for the people who were led down the garden path by companies that made millions and millions of pounds training people at £7,000, £8,000 a time to do a job which there was at the very least a 50/50 chance wouldn't happen. It wasn't such a long shot that the Tories would win this election and it was a manifesto pledge that they would scrap HIPs. I think a great deal of people were really misled and I do feel very sorry for them. But we can't have a situation where every person who sells their house has to subsidise someone else's job to the tune of £350.

LEWIS: Kirstie Allsopp. And you can have your say on this subject on our website: bbc.co.uk/moneybox. And I should add that the Home Information Packs never existed in Northern Ireland and the Scottish government has no plans to change its similar Home Reports. It told Money Box they are proving "very useful". Let us know what you think.

Germany has banned a form of trading in shares and bonds that you've probably never heard of: naked short selling. It's been stopped for at least a couple of years, and this ban on one of the most casino-like activities of the markets has been blamed in part for the sudden fall in share prices towards the end of the week. We'll get a view on share prices in a moment, but first short selling and its more daring cousin doing it naked. Who better to explain than mathematician Paul Willmot, a consultant in quantitative financial models. First short selling.

WILLMOT: Well short selling, it's a funny thing. It's selling something you haven't got. At first glance it's a bit strange - how can you sell something you don't have? Because we often think of physical things like a bag of apples. How can you sell a bag of apples if you haven't got any? Well traditional short selling works like this. Suppose you've got this hot tip that lawnmowers are going to go down in value. Now if they're going to go up in value - that's easy, buy a lawnmower and then sell it on a few days later or whenever the prices have gone up. But what if you think the price of lawnmowers is going to go down? How can you benefit from this? Well what you do is you go to your next-door-neighbour and say, “Could I just borrow the lawnmower for the weekend?” and then, rather cheekily, you just sell it. Then a few days later, if you’re correct and the price of lawnmowers has fallen, you just go to the market and you buy a lawnmower. And it’s going to cost you less than you received when you sold it a few days earlier - so you’ve made some money, you still have a lawnmower; and then when your neighbour asks for the lawnmower back, you say “Here it is” and hope he doesn’t notice it’s a different lawnmower.

LEWIS: So it’s just a way of making money out of something that you think is going down in price, in the same way as you might make it if you think it’s going up in price?

WILLMOT: Exactly.

LEWIS: So that’s short selling. The thing many of us have heard about this week, perhaps for the first time, is naked short selling. What’s the difference between short selling and doing it naked?

WILLMOT: Naked short selling is when you don’t go through this borrowing process and you just sell something directly. And an easy way of thinking about this is to think of running a business online. You could just have a photograph of a lawnmower and you put it onto some well-known website, say that you’re going to sell this lawnmower - you don’t own the lawnmower. Somebody buys it and *then* you go out and buy the lawnmower to pass it on. And this gives you an opportunity to take - if you’re right about the value of lawnmowers falling - you can exploit that and make a profit.

LEWIS: But of course if you’re wrong, you still have to go and buy a lawnmower and give it to the person who’s bought it at the old price, so you could make a loss if you’re wrong and prices rise.

WILLMOT: Yes, you can still make a loss. You can sell something and if the price rockets afterwards unexpectedly, then you could go bankrupt.

LEWIS: Paul Willmot. Well in the City short selling is all about shares and securities and derivatives rather than lawnmowers. But was this ban on something most people have never heard of (and fewer still understand) really the cause of the slump in share prices after it was announced by German Chancellor Angela Merkel? In London the FTSE 100 index of share prices tumbled 5%, dipping below 5,000 for the first time since last September. Throughout Europe and around the world prices fell. With me is Max King, an investment manager with Investec Asset Management. Max King, quite a sharp dip in share prices, not just in London. Was this ban on naked short selling to blame?

KING: No, I don't think so. Investors see the ban on short selling as irrelevant, easy to circumvent it and ineffective, but what they're responding to is the signs of desperation in Europe that they can do anything to stop the crisis in the euro. So it's really the Germans are clutching at straws in doing this and people see them clutching at straws and see them running out of ideas.

LEWIS: So it wasn't the ban. It was the fact they were banning something that you say will make no difference - that they thought well this is really desperate stuff; there must be something really wrong?

KING: Exactly.

LEWIS: And what *is* really wrong? What is really wrong with the European economy?

KING: Well the real problem is that the euro at its current exchange rate is too cheap for Northern Europe, for Germany, and it threatens to create inflation there and make Germany more competitive than it needs to be; but it's too expensive for Southern Europe, basically Greece. For example, the correct exchange rate for Germany is probably about one dollar forty to the euro, and for Southern Europe it's probably about 70 cents.

LEWIS: Right, so double the price or half the price. So are you saying that it is this split in the European economies that is proving the problem? And is it, therefore, fatal? Are we going to see the end of the euro?

KING: It is fatal. It can be bailed out for the time being, but markets don't have any confidence in delayed solutions, in postponing for 3 years or 2 years or 6 months what should happen now. Markets are impatient to see resolution of this now.

LEWIS: So despite that trillion dollar deal that was done a weekend or two ago - I lose track now, we did it on Money Box - that hasn't solved the problem?

KING: Well the number keeps getting whittled down because it turns out the IMF supposed guarantee is totally ineffective and they aren't legally allowed to commit to it after all. Then it turns out the Germans in fact are very much against this proposal and they've argued against it, so we don't really know whether it's real or not.

LEWIS: So what is the answer? Is it that the area should split - some countries should give up the euro?

KING: Well ultimately Greece has to leave. You know it's like the passengers and the sled running away from the wolves. You have to throw one or two people to the wolves to make the sled go a bit faster.

LEWIS: And that's the Greeks, is it?

KING: The Greeks are the first to go.

LEWIS: And who's next?

KING: Possibly the Spaniards, possibly the Portuguese, possibly the Irish. But you know ultimately the wolves may be too fast. Maybe even the Italians and the French will go as well.

LEWIS: And what does this say to small investors? I mean you're managing billions of pounds, but for people with a few hundred, few thousand pounds to invest, what should they do?

KING: They should focus on what really matters for equities. The global economy is picking up. Forecasts for growth are growing. Companies are exceptionally good value. Corporate profits are doing well. Earnings forecasts are being revised upwards. It's tremendous value. The problem really is that what investors are doing is they're seeing a crisis in bonds and they're running away from risk assets into bonds. And that makes no sense whatsoever. It's utterly bizarre.

LEWIS: So given what you say about the economy - and I think the UK economy is also better than we thought it was a few months ago - people should be investing in shares for the long-term and don't worry if they fell 5% this week?

KING: Exactly. Don't expect to buy at the low and sell at the high. Buy now. Don't be surprised if there could be a little bit of short-term downside, but you'll be very happy on a one year view

LEWIS: Max King of Investec, thanks very much.

The coalition government set out its detailed plans for pensions this week. In charge of implementing the changes is Liberal Democrat Pensions Minister Steve Webb. For many years Steve Webb has been a well informed and tough critic of the last government - not least on Money Box. So how will a man seen even in his own party as a radical cope with being in power? It's a bit of a tradition for an old minister to leave his successor a note. Labour's Treasury Secretary Liam Byrne last week wrote to his replacement: 'I'm afraid to tell you there's no money left. Good luck.' Well Money Box has got exclusive access to the rather longer advice from Labour's longest serving Pensions Minister Malcolm Wicks for the new Minister, Steve Webb.

WICKS: *(Music)* Dear Minister of Pensions, Steve. Opposition is easy. Government is tough, very tough. A small idea might cost £100 million. A really good one, a billion pounds or more. You’ve told us time and time again where we went wrong and argued for numerous reforms. *(Music fades under)* Well now it’s your chance. Your departmental officials are already briefing you; your red boxes are brimming over. They’re designed, by the way, by civil servants to spoil weekends. You will certainly not be short of advice. Among the more polite will be the pensions industry, but remember that they have deep vested interests and cream off too much from people’s pensions. Not always so polite is the so-called Pensions Movement who in effect represent only a small militant minority and not the poorest. So develop a thick skin quickly. Visiting the South West when I was Minister, I was met by local pensioners acting out a full funeral procession. Their welcoming placards read: ‘We come to bury Wicks, not to praise him.’ But, Steve, do listen for what I call the silent voices - those who are not organised; not least the large number of very elderly people in Britain, often the poorest. Now any minister out to make an impact has to pick priorities, so here are my top three. First: state pensions - when, Minister, I shared your instinct against means testing, but I had to grapple with the realities. This is hardly the economic moment for the Treasury to give you the billions you need to move towards more generous basic pensions, although re-indexing with earnings is a must. So please pursue measures to increase the take-up of pension credit. Second: we must improve the coverage of occupational pensions through auto-enrolment and by ensuring that everyone in work gets matched contributions. *(Music up)* Third: let’s finally throw into the dustbin of social history the silly notion of standard retirement ages. People after all are different and should be able to make their own decisions about when to work and when to retire. So, Steve, best of luck. And, by the way, don’t leak this letter to the press. Best wishes, Malcolm.

LEWIS: *(laughs)* Steve Webb, new Pensions Minister. You’ve heard this advice from one of your predecessors. How do you react to it?

WEBB: I think there’s a lot of good advice there. Particularly I value the advice on getting the basic state pension right. One of the things you’ll have seen is that the coalition agreement has pledged a triple lock on the pension; that if earnings are going up fast, the pension will go in line with earnings; if prices are going up fast, it’ll go in line with prices; and if neither is going up fast, it’ll go up at least 2.5%.

LEWIS: But just putting up the state pension really by inflation or a little bit more is basically what the previous government did. That's not going to solve the essential problem of means testing, which Malcolm Wicks said he would like to have cut but didn't manage it.

WEBB: Certainly the first priority is a more generous basic state pension, but that clearly isn't enough for the longer term. And what I want to do as a new minister and a new administration is try and think big rather than spend the next few years just trying to sort of tinker round the edges. And the goal has got to be a simple system. We've got a system where we've got almost three pensions - you know a basic one that we're trying to increase by more; a complicated second one that few people understand; and then a mass means test - and the goal has got to be ideally a single simple system if we can get there.

LEWIS: But that is hugely expensive, isn't it? As Liam Byrne said to your colleague David Laws, there is no money.

WEBB: Yes we are talking about a decent state pension doesn't come cheap and we have to think about the long-term. But if always you know we've got in the back of our mind well we can't do major reforms because there's never any money, then we're cursed with incrementalism and we just can't go on like that.

LEWIS: Well indeed. And what will you do about the means tested pension? Malcolm Wicks, obviously having tried to do more than he in fact achieved, says well just make sure people claim it, but people have been trying to do that for a generation.

WEBB: I think there is more that can be done to make sure that people claim what they are currently entitled to. One of the things the department's been looking at is automatically getting the money to them and then finalising exactly how much they're entitled to.

LEWIS: So that without a claim, they would get their means tested entitlement?

WEBB: That's the sort of thing that's being piloted at the moment, but that's simply taking the present system and trying to make it work a little bit better. The only answer in the long-term is to make sure that people have money as of right built up through universal state provision and then topped up through their own savings. And one of the things we're also looking at is ways to make sure that when people are in a job, they are saving through a pension as well with this whole business of automatically enrolling people into a pension - so that it's not just about state pensions, it's about a vibrant private system as well.

LEWIS: And that system of automatically enrolling people is in the agreement that you published this week. But many of them will be putting in too little to be worthwhile, won't they? They'll still be getting less from the pension they build up in that system than they would get through means tested benefits.

WEBB: And one of the things we've got to make sure is that it does pay to save. We've got to make sure that the structure of the system is right, that we're auto-enrolling the right people, that we get the state foundations right. And then we leave people alone in the sense that we have a firm foundation, the state plays its part; and then when people do choose to save voluntarily on top, they know it's worth their while.

LEWIS: But forgive me saying this, Steve, but all ministers have said that to me for years. Those are the words. The arithmetic doesn't add up.

WEBB: I'm not so much of a pessimist as perhaps Malcolm Wicks was on that front.

LEWIS: *(over)* Well as you were a couple of months ago.

WEBB: *(laughs)* I think the curse of pensions has been looking at a little bit of the system here, a little bit there. I think we can make a lot more progress.

LEWIS: Another problem that Malcolm Wicks raises is that the pensions industry, as he put it, has “deep vested interests and creams off too much from people’s pensions.” Do you share that view?

WEBB: Well certainly we want to make sure that pension saving is more attractive. I mean charges is part of the mix, but also the lack of flexibility in pension saving. One of the things we want to do is explore early access to your pension fund. Why shouldn’t people be able to access some of their own money now and give them more flexibility? You know this year 40,000 people will lose their homes because they’re a few thousand pounds in arrears on their mortgage, yet many of those people or their families have got cash tied up in their pension that could have kept a roof over their head and actually left them a valuable asset when they retire. So I think we need to treat people as adults, give them more flexibility with their own money, and I think they would benefit and use it wisely. One of the things we do want to do for people who are in their sixties is actually stop them being discriminated against in the labour market. I mean at the moment it is legal to sack somebody for being 65 and we think that’s a nonsense - this idea of a default retirement age. People who are good at their job and who want to work longer, they should be able to do so.

LEWIS: Malcolm Wicks once said to me when he was minister - I asked him why he hadn’t done more. “But Paul”, he said, “I can’t. I’m only a minister.” Do you really think that a minister of state can make the changes that you have been calling for for the last … well as long as I’ve known you?

WEBB: I think if I was working on my own, I’d say no, but actually I’m working as part of a team both within the Department of Work and Pensions and across government that’s come in to make a fresh start for things. I’m willing to give it a go and I’m happy for you to say to me in some years time “well you never did it”, but it won’t be for the want of trying.

LEWIS: New Pensions Minister Steve Webb talking exclusively to Money Box.

Now we mentioned investing in shares earlier and figures out this week show that more than £14 billion which people have entrusted in good faith to investment managers would have done better in funds which simply tracked a stock market index. And the charges would probably have been a lot less to. The amount of money in these poor funds has almost doubled over the last year. Well all these figures are from the regular survey of bad investment funds by financial advisers Best Invest and Adrian Lowcock of Best Invest is here with me. Adrian, you describe these funds as “dogs”. I presume you don’t mean loyal and faithful companions?

LOWCOCK: No, unfortunately they’re the bad dogs.

LEWIS: How do you find them?

LOWCOCK: Basically they’re UK retail equity unit trusts and they’ve under performed each of the last 3 years and collectively by more than 10% over that 3 year period.

LEWIS: Which are the worst?

LOWCOCK: Invesco Perpetual is the worst fund group. It’s got over £1.7 billion in dog funds.

LEWIS: That is an awful lot, isn’t it? But Invesco and of course some of the others at the top of your list - Scottish Widows and so on - they’re so big you’d perhaps expect some of them not to do very well. Aren’t the worst ones - things like Henderson which bought New Star, AXA, Sun Life - they have a majority of their money in these dog funds, as you call them?

LOWCOCK: They do. I mean you’ve got to look at the aspect there that they’ve got over 50% of their funds in dog funds and investors need to be sort of looking at these fund groups and seeing if they’re the right people to be running their money.

LEWIS: Yes. And if they’re not, should they move them? Because inevitably year by year some funds will do better than others, won’t they?

LOWCOCK: They will do, but over time you can identify good fund managers that consistently perform and deliver. But it is an ongoing battle. You've got to sort of monitor these fund managers and make sure they're still doing the right job.

LEWIS: Yes. And of course an ongoing battle you say you help people with. I mean part of the purpose of this report is to get people to move their money and to use you to do it, presumably?

LOWCOCK: It's to use the research and get the advice that we provide, absolutely.

LEWIS: Isn't the message from this though that the only sensible approach is to follow an index because almost all the funds in your universe (as you call it) did worse than the index over 3 years? Some did much, much worse, but very few of them actually beat the index.

LOWCOCK: The last 3 years have been very difficult in markets with the credit crisis, so it has been a very difficult time for active managers to beat the index. But we're going into a period where stock picking and funding of individual companies active management will actually deliver and there are still good managers out there who have out performed the index.

LEWIS: But doesn't the research show over the long-term that active managers do not consistently outperform indices? If you're in it for the long-term, you're much better tracking an index, forgetting all about it.

LOWCOCK: It's rare that you don't have an index over the longer term that will actually out perform a good fund manager. The good fund managers are few, but if you can identify them, they will really add significant value.

LEWIS: You do say though, don't you, on every page the past is no guide to the future, and I know you have to say that but it is also true. Even if you pick a fund that actually is in your best buys, there's no guarantee they're going to do well next year or over the next 3 years, is there?

LOWCOCK: There’s no guarantee, but you do have a fund manager who has some experience and expertise in enabling to identify the right opportunities. And investments shouldn’t be really for the short-term. It should be for the medium to longer term.

LEWIS: It should. But the message I got, or part of it, is that you know if you put your money in cash, it won’t make much, but you won’t lose because every single one of these just about has actually gone down in value even if they’ve matched the index.

LOWCOCK: From the dogs, yes they’ve all gone down in value. But the active managers have done well. They’ve out performed cash, which is only often half a percent.

LEWIS: Adrian Lowcock from Best Invest, thanks.

Well that’s all we have time for today. You can find out more from our website, bbc.co.uk/moneybox. Watch videos, sign up to my weekly newsletter, listen again, have your say on buying and selling a home after Home Information Packs. Now, as you may have heard on Radio Four, I’ve been in New York this week looking for the facts behind the controversy over one of the world’s biggest investment banks, and you can hear my conclusions in ‘The Truth About Goldman Sachs’ on Monday evening at 8 here on Radio Four. Wednesday afternoon, Vincent Duggleby’s here with Money Box Live taking your questions on student finances. I’m back with Money Box next weekend. Today the producer Ruth Alexander. I’m Paul Lewis.