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MONEY BOX

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TRANSMISSION: 25th SEPTEMBER 2010 12.00-12.30 RADIO 4

LEWIS: Hello. In today's programme, as many as 400,000 people in England and Scotland could be paying the wrong council tax. And that figure's from the Secretary of State in charge of it. Find out how to check yours. Hundreds of customers of Norwich and Peterborough Building Society want compensation for their investments.

CAROL: The advice I have received has left me totally devastated.

LEWIS: How can Royal Bank of Scotland customers in England and Wales and NatWest customers in Scotland avoid being forced to change banks? And should you lay your nest egg in a hedge? New hedge fund seeks small investors.

But first, 20 million homes in England will not be re-valued to reset the amount of council tax they pay. That announcement was made this week by Eric Pickles, the Secretary of State for Local Government. The Scottish government has already decided the same. That means council tax in England and Scotland will continue to be based on valuations that are nearly 20 years old. Two years ago though, Eric Pickles said this was one reason why 400,000 households were paying the wrong tax.

PICKLES: The system the government's operating is flawed because they're in possession of information that a significant number - maybe as much as 400,000, maybe more - households are paying the wrong level of council tax; have been paying the wrong level of council tax for a considerable period. Now the government's kept this to themselves because they were frightened that it would generate bad publicity, which doesn't strike me as being a very responsible thing for government to do.

LEWIS: Eric Pickles, the present Secretary of State, when he was in opposition speaking on 'Tonight' with Trevor McDonald on ITV in March 2008. The man who was interviewing him was the journalist Martin Lewis, founder of the Moneysavingexpert.com website, who's campaigned for 3 years to encourage individuals who might be paying too much council tax to get their band corrected. I asked Martin Lewis if Eric Pickles' estimate of 400,000 people in the wrong band was about right.

M. LEWIS: Nothing has changed since then, so one must assume we're still talking 400,000 people are in the wrong band.

LEWIS: And how do you assess if you are?

M. LEWIS: I've developed two checks. Are you in a higher band than neighbours in similar properties? The more identical the properties, the better. Two ways to do that. One, ask your neighbours. But maybe you don't talk to them, in which case you can go onto the Valuation Office Agency website or the Scottish Assessors Agency website and you can simply look up your and their council tax bands. If you're in a higher band than them, well you've got to start questioning it. Step two is what I call the valuation check, and this is where you have to work out what your property was worth back in 1991. Now you can't use that as evidence, but you have to be very careful when you do a council tax challenge because you can't say, "Lower my band." You say, "I want you to re-evaluate my band", which means it could go up. So this second check is the belt and braces check. That system's a little bit complicated. We've got a calculator on the website which will do it for people. So two checks: neighbours and valuation.

LEWIS: Is there a danger though that if you do that, your council tax might go up?

M. LEWIS: Well that's the problem with re-valuation. And this is why initially when we looked at it, we just thought about the neighbours check. And then this second check, which says what was my house price worth in 1991, which is what council tax relies on. If they both show that you are in too high a band, I would suggest you go for it. But if only one of the tests works, I think you do always run the risk that what they may do is say, “Actually you’re right, there is a problem with the council tax banding. But it’s not you who is in too high a band; it’s your neighbours who are in too low a band” and they will put your neighbours’ band up.”

LEWIS: There’s a story in the Scotsman this week about a whole street being re-valued upwards after someone complained about the band.

M. LEWIS: Never do this speculatively. Always do the two tests. I have never had reported to me anyone using my full system properly who’s had their band increased or their neighbours’ band increased.

LEWIS: And if you are successful, you might come down one band, possibly more. What difference is that going to make in pounds?

M. LEWIS: You could be talking of a hundred, a couple of hundred quid a year. But the real thing that counts is you will always get a backdated payout from when you moved into the property after 1993, so we’ve had people getting £4,000, £5,000 backdated and their council tax band lowered. We reckon we’ve had over 100,000 successes since the system was launched in 2007 looking at the data. I mean this is big, big money. The system is completely flawed. You know you have to remember this was all because in 1991, after the poll tax riots, the then government were rushing to set up the new council tax. They got estate agents and others to drive in cars. It was known as ‘second gear valuation’ because they were in second gear going band B, band C, band D, looking off a list and assessing when they went. We have never re-valued since.

LEWIS: You say the system’s flawed. How would you like the current Secretary of State to change it because in the past he’s been a big critic of it?

M. LEWIS: What we should have to make everything fair is a re-valuation, but there's great political fear over that because some people will go up; and if you have your band put up, you would blame the government of the day.

LEWIS: And we're not going to have that? We know that now?

M. LEWIS: That's just not going to happen at all. What I would demand though is when people think they're in the wrong band and they've done their checks, they go to appeal and what they get told is, "I'm sorry, sir. You moved into your house more than 6 months ago, so you can't appeal." Now that isn't factually correct. There is a way of appealing. It's by challenging the integrity of the council tax list. But that's just far too difficult. What I'd say to Mr Pickles if you're listening is if you're not going to make this a fair system, at least give people the opportunity to challenge their banding if they believe they're in the wrong band and allow everybody to do that regardless of when they moved in their property.

LEWIS: And Martin, while you're here there's time for a correction. In my interview last week with Beneficial Claims boss Keith Chorlton some listeners may have heard him say that people who used a claims management company were more likely to succeed in reclaiming money from a bank or financial institution, and he suggested that, Martin, you had supported this view on television earlier that week. We listened to what you said and you didn't really say that at all, did you? What did you say and what didn't you say?

M. LEWIS: Well, first of all, nobody should be using claims handling companies for PPI. It's very, very easy to do in most cases. You just complain to the bank. The bank tells you to get lost and then you go the ombudsman. You can do it free. There's a million template letters from my own website have been downloaded to do it without any charge. What I said was 1.4 million people complain to banks. About 600,000 of them get their case dealt with. That leaves 800,000 who don't. Only 10% of those people then go to the ombudsman. But if you go to the ombudsman, you've got a 50% chance of success or 81% chance of success on PPI. So what I was trying to do was urge people don't give up if your bank rejects you. Go to the ombudsman. It's totally free. I was not in any way suggesting people should pay claims handlers for something you could do yourself.

LEWIS: Worth saying that the financial ombudsman says that in his experience there's no difference in the outcome of complaints whether consumers bring them themselves or use a claims handling company.

M. LEWIS: The only point that the gentleman had is of course claims handlers know that you have to go to the ombudsman. Members of the public are not well enough educated to know that you should take it to the ombudsman. My suggestion would be simple. When you complain to your bank when it's treated you unfairly, expect it to say no but then take it to the ombudsman, which is free, and that's where you get real justice.

LEWIS: Martin Lewis. And PPI, which he mentioned, is of course Payment Protection Insurance. I should also apologise for saying last week that Martin wasn't a journalist. He is of course. Apart from TV interviews, he also writes for several newspapers and, as I said, founded Moneysavingexpert.com. There's a link to his pages on how to check your council tax band through our website: bbc.co.uk/moneybox. We did of course ask for an interview with Eric Pickles. Instead we got a statement from his special adviser who said if people think they are in the wrong band, we encourage them to come forward.

Hedge funds have traditionally been available to people with a million pounds or more to invest, and who were not too worried about the niceties of regulation and indeed compensation. But from next week, they are reaching a wider audience. Anyone with £1,000 or more can invest in a new hedge fund aimed at retail investors. Although its sale will be regulated in the UK, the fund is based in Dublin and the company promoting it, ML Capital, is registered in Malta. The essence of a hedge fund is that it doesn't just buy shares and then sell them for a profit. If it thinks a share will fall in value, it sells them first and then buys them back when they're cheaper - so-called short selling - as ML Capital's Chief Operating Officer Richard Day explained to me from Malta when I spoke to him on Friday.

DAY: If you look at any investment that's made on the long side, which is kind of what the investment world has been used to, you benefit when stocks go up. However when stocks go down, you lose. What a long short fund allows somebody to do is benefit both when companies appreciate in value and also depreciate in value if you feel that a company is being run badly and you want to invest in that and ultimately play say a position that you believe is going to decrease in value and benefit from that. So what it allows you to do is benefit both in kind of upwardly trending markets and also downwardly trending markets.

LEWIS: So whereas what you call long investing is when you buy shares that you think are going to go up in value or produce a good return, with short investing you actually sell the share first and then you buy it back in the future when it's gone down in value?

DAY: That's correct.

LEWIS: Just remind me what the Pegasus Fund that you're selling did in 2008, for example.

DAY: The 2008 returns of Pegasus was down 10%.

LEWIS: Yes, so people lost 10%. How is that protecting you against the downside?

DAY: Well if you look at the UK FTSE market in 2008, that was down 40%.

LEWIS: Right, so you did better than the FTSE. So that's your sort of benchmark?

DAY: One of the things that the Pegasus Fund has done - and it has a 13 year track record - is it's delivered over those 13 years compounded annual returns after fees of 13%. If you were to compare that to a straight FTSE tracking product, you'd have had no return during that period. So what we are trying to present to people is solutions and give them choice, and I think this choice really comes down to how they look to diversify themselves.

LEWIS: What are the charges on this?

DAY: The way the charge structure works is very much in line with how hedge funds have always charged, so there's a management fee and there's also a performance fee.

LEWIS: So the management fee and the performance fee are how much?

DAY: The management fee on this fund is 2%.

LEWIS: So 2% of your money every year goes to you basically?

DAY: That's correct, yes.

LEWIS: And the performance fee?

DAY: Is 20%.

LEWIS: 20% of what?

DAY: 20% of the performance the manager makes. So if a manager was to make a gross return of 10%, then an additional 2% would be taken.

LEWIS: And what if he makes a loss?

DAY: If he makes a loss, what actually happens is he drops below the level that you invested and then no performance fees are calculated until he gets back over and above what's known as the high water mark.

LEWIS: Right. So you charge 2% a year come what may. If you do your job and get a return, you take 20% of that. If you don't do your job and make a loss, you don't pay any penalty?

DAY: You don't earn performance. And in terms of the penalty, with the penalties that performance fee will only ever come back if you return to adjust it.

LEWIS: But why don't you pay the investor if you make a loss? That would be fair, wouldn't it? You'd get a fifth of any performance and you'd pay a fifth of any loss.

DAY: I think that ultimately when you're investing, the reason that you look to have a diversified portfolio is that you spread that risk. And what we're trying to do is provide a product that better protects investors and gives them a stronger risk-adjusted return over time.

LEWIS: Richard Day of ML Capital. Well live now to talk to Merryn Somerset Webb, Editor of Money Week. Merryn, the point that Richard Day makes there is a fair one, isn't it? The fund Pegasus has outperformed an investment that just tracks the stock market - the FTSE, as he calls it. Isn't that something worth investing in?

SOMERSET WEBB: If it carries on, but who knows if it will? I mean many funds have very good records over 5 years or over 10 years or maybe over 1 or 2 years and then promptly go on to lose money for 5 years or 10 years. So past performance is absolutely no guarantee of future success. And hedge funds in general haven't performed that well over the years.

LEWIS: And what about the charges? Those performance figures are after charges. Is it worth paying extra to get people who will earn their money in that way?

SOMERSET WEBB: Well my general view is that the management fee is what you pay someone to do their best to manage your money, so it always bemuses me that people expect a performance fee on top of that. You know a hedge fund is designed to attempt to make absolute returns whether it can or cannot, and so you pay them 2% a year in management fee because they're supposed to be particularly clever. If they then go ahead and do their best and make you some money, why do you then have to pay them more? It's not like that in other professions. So I don't understand the logic behind it in the first place. I also find it an exceptionally high fee. You know let's say for example that you manage to make 8%, 9%, 10% a year indefinitely, which is highly unlikely but let's say you did, and then your investors paid a 2% management fee and a 20% performance fee. That means effectively they're paying away 40% of their return every year in fees. It just seems remarkably high.

LEWIS: Yes. Yes, I can see the point you're making. It struck me like that at the time, but of course if it works, maybe it's not. But the underlying theory though, just talk to me about that briefly. His theory that you need to do short selling - selling shares you think will fall and then buying them back later - is that right? Does that really help you manage down as well as up markets?

SOMERSET WEBB: Well it certainly should do if you get it right. If you get it wrong, it's a disaster.

LEWIS: It's always the same, isn't it - if you get it right? And, as you say, the fact you've got it right in the past …

SOMERSET WEBB: Yes, most people don't.

LEWIS: Yes.

SOMERSET WEBB: I mean the thing is that hedge fund strategies, I have absolutely no problem at all with hedge fund strategies being brought to the main stream as long as they're done in a very transparent and very carefully explained way. What I object to is hedge fund fees being brought to the mainstream. It's one of the weird anomalies of modern finance that hedge fund fees have not been competed down over the years despite the clear failure of most hedge funds to produce what they're supposed to produce. But yes, we're still stuck at this very high fee level and I think that's very wrong - particularly as there's no symmetry in it. As you just said to

Richard, you know they take performance fees when they make money. They don't give it back when they lose it.

LEWIS: In five seconds, Merryn, where's your money?

SOMERSET WEBB: Generally in investment trusts, which can provide all sorts of different investment strategies inside a fund wrapper.

LEWIS: Okay, Merryn Somerset Webb of Money Week, thanks. And you can ask your questions on saving and investing to our panel of experts on Wednesday on Money Box Live here on Radio Four.

Customers of Royal Bank of Scotland in England and Wales and NatWest in Scotland have been contacting us for advice since it was announced in the summer that Santander had bought 1.8 million customer accounts and the branches of the two banks - now both part of Royal Bank of Scotland Group. This sale of customers and branches from one bank to another was part of a deal with the European Commission after the UK government spent something like £37 billion rescuing the bank two years ago. Well customers want to know if they have to move to Santander; and, if not, how do they stay with their old bank? Bob Howard's been finding out.

HOWARD: Paul, if you're a customer at an RBS branded branch in England and Wales or at a NatWest branded branch in Scotland, you will become a Santander customer within the next 18 months if you do nothing and leave your account as it currently is. And your local branch will change to Santander too. Letters sent out last month were headlined at no action required and RBS says nothing will happen until next August at the earliest. But given the amount of disruption there's been to some Alliance and Leicester customers as they've been transferred onto the Santander system, which Money Box has reported on, those affected have good reason to feel nervous and listeners like Chris from Surrey are unhappy about the fundamental principles behind the transfer as well.

CHRIS: I thought that I had the right to change bank accounts when I felt like it, but for a bank to sell me off as some kind of commodity seemed to me to be a very impertinent action by them. And when they were doing so because of some accident whereby my branch was known as RBS and not known as NatWest seemed to me to illogical and bizarre, frankly.

LEWIS: So Bob, Chris upset and concerned there. What's he done?

HOWARD: Well he went along to talk to Santander, but in the end decided he'd probably prefer to stay within the RBS Group, so he's been to his local NatWest branch to talk about opening an account there.

LEWIS: But that's not really what the European Commission wants, is it - for RBS customers to stay with the group by switching to another bit of it?

HOWARD: No it's not, Paul. Nor indeed Santander who paid £1.65 billion for these assets. And it's put RBS into a tricky position as it's expressly forbidden by the terms of the agreement to solicit customers to stay with the bank. So amongst the many questions and answers on the RBS website, there are ones about opening new accounts. But conspicuously absent is one which says I already have one. I wish to stay within the RBS Group. How do I do it?

LEWIS: So how can you?

HOWARD: Well if you do all your banking online or by phone and don't need a branch at all, NatWest customers in Scotland can join an English or Welsh branch; and customers of RBS south of the border can join a Scottish branch. But you won't read about this option in any letter or on the website. You'd need to call the RBS Group helpline and say that's what you want to do.

LEWIS: So if you're in England, say, and your RBS branch becomes Santander, so you move your account to an RBS branch in Scotland, would you be able to access services through your local NatWest which remains in England?

HOWARD: Well that all seems to be up for discussion at the moment. RBS says it's "reviewing a number of options."

LEWIS: And if you want to transfer from RBS to NatWest, like Chris or indeed vice versa in Scotland?

HOWARD: Well then you'd have to go through all the normal procedures of opening a new bank account like showing ID, just as if you were changing account from RBS to Barclays or HSBC, for example.

LEWIS: Now I know this has been forced on RBS, but it must recognise it's not going to be a great experience, is it - having your account moved to another bank, which you hadn't chosen to be your bank?

HOWARD: Well RBS admits the change is potentially "unsettling" for customers, but says it's working with Santander to "minimise any disruption." However it can't guarantee some basic things like, for example, that customer account numbers and sort codes will stay the same after the transfer. It just says they're "likely" to stay the same. But one banking expert told us if the same account numbers have already been allocated to existing Santander customers worldwide, then they may well have to change. Now if that were to happen, you'd hope that the procedure is carried out a lot more smoothly than some of the changes that have been imposed on Alliance and Leicester customers. So, Paul, there's still quite a few questions to be answered.

LEWIS: Bob Howard. And Liz has emailed us from Wokingham during the programme. She's been with RBS for 40 years. She wants to move to a branch in Dumfries. She obviously lives in England. RBS told her it would take 12 months. She's now considering a move to NatWest.

And around 200 people have written to Norwich and Peterborough Building Society to ask for their money back after they claim they were mis-sold investments in Keydata. That's a company which invested in life insurance and endowment policies. Around 30,000 people put their money in Keydata products and more than 3,000 bought them through Norwich and Peterborough. Some of the money has disappeared. The rest is frozen as Keydata and another of the companies involved went into administration. About 50 million was invested through the building society. A small amount we know has disappeared and there are fears about the safety of the rest. And Carol is one Norwich and Peterborough customer who's very worried. When she sold her business, she was advised by the building society to put £253,000 into just one Keydata product. In January the monthly income on her investment stopped and she's concerned now about her capital.

CAROL: I said no risk, no stock market involvement. It was sold to me as a wonderful, no-fail investment. I'm not an idiot, but I'm certainly not a financial whiz-kid and I depended on this advice to put that money where it was safe. The advice I've received has left me totally devastated and disappointed.

LEWIS: Well Norwich and Peterborough Building Society doesn't admit liability, but it has offered an interest free loan to 1700 customers who were getting a monthly income. The loan will roughly replace that. Carol's taken them up on that offer. Now most of the 200 customers who've written to the society are still waiting for a response, but one couple who acted earlier have taken their case right to the financial ombudsman and got a preliminary ruling that Norwich and Peterborough should refund their £28,000 investment. The society is currently appealing against that. Now the 300 or so complaints that are with them are being coordinated by a firm of solicitors called Regulatory Legal. Live now to Birmingham to talk to Paul Crutchley, the lawyer coordinating the campaign and acting for Carol and hundreds of others. Paul Crutchley, what have your clients told you about how the Keydata products were sold to them?

CRUTCHLEY: Well Carol's story is not at all unusual. Many of them were told that the investment was safe, that their money would be secure, and that they understood when they invested that their capital was not at risk - which has proved of course not to be the case.

LEWIS: Yes. And your interest obviously in this is to win for your clients. How certain are you that the stories they're telling you about what was said are correct?

CRUTCHLEY: Well, as you say, we're acting for a fair number of clients, and the consistency of the stories across the piece would suggest that many of them - in fact all of them as far as we're concerned where we're taking action against the Norwich and Peterborough - all of them have been told pretty much the same kind of thing, which is that their investment was safe and that the capital was not at risk.

LEWIS: Do you think we're looking at this though with the benefit of hindsight and that two years ago everybody in the investment world would have said well, yeah, this is a pretty safe investment?

CRUTCHLEY: I think there is always an element of hindsight. Had the investment panned out the way it was planned to, if it worked, then of course there wouldn't be the problems there are today and people wouldn't be worried about their capital as it would be returned in the normal course of the investment. But that's not what's happened. They were put into a product that was unsuitable for them in many cases.

LEWIS: And what do you want Norwich and Peterborough to do? Do you just want them to give them back all their money?

CRUTCHLEY: Well yes, the main thrust of our case is that the sale of this product to these individuals was unsuitable. They should never have been put into this product in the first place. People like Carol should never have put that level of investment into a product where the capital was at risk.

LEWIS: We heard earlier about claims management companies. I know you're not one of those, you're a firm of solicitors, but do people really need your help because you will take quite a big chunk of what they get, won't you?

CRUTCHLEY: Well that's true, we do take 10% flat fee of whatever is recovered; and that includes VAT, so our net take from this is just over 8%. That said, many of these customers don't feel confident in taking their case to the Norwich and Peterborough and then onto the ombudsman. We always make it clear to our clients that they can take this case forward themselves if they want to.

LEWIS: Paul Crutchley of Regulatory Legal, thanks. Norwich and Peterborough Chief Executive Matthew Bullock wouldn't give us an interview, but said in a statement, "We will stand by our responsibilities for any of our customers who were mis-advised and have suffered a loss as a result."

Well that's it for today. More on our website: bbc.co.uk/moneybox. You can sign up to my newsletter; let us know what you think: moneybox@bbc.co.uk. I'm back on Wednesday with Money Box Live, taking questions on saving and investing. Back with Money Box next weekend. Today reporter Bob Howard, producer Monica Soriano. I'm Paul Lewis.