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: 8th JANUARY 2011 12.00-12.30 RADIO 4

LEWIS: Hello. In today's programme food prices are rising, fuelled by global shortages. And we look at one supermarket bill from 2005. What would it cost today? VAT went up this week. Would it be better to extend it to everything? And can you lead a VAT free life? Bob Howard's been looking into phantom car accidents.

HOWARD: How easy is it to prove you weren't involved when the other person's insurer says you were.

PAM: I can't understand why they can't give me more information. Why aren't they pursuing it, trying harder to find out what really happened?

LEWIS: And a London pastor is told he has to repay nearly £40,000 in pension from BT, which it says was paid to him by mistake for 4 years.

But we start with the price of food. If you do the shopping, you can't have helped notice the rise in the cost of your weekly shop, and today the Grocer magazine tells us how food prices have risen in December alone. Live now to Winchester to talk to Alex Beckett, The Grocer's Food and Drink Editor. Alex Beckett, how much did food prices rise in December?

BECKETT: Well food prices rose in December month on month by about 4%.

LEWIS: 4% in a month?

BECKETT: Yeah, yeah. Different kind of food categories, it varies by different amounts. We saw particular rises in bakery and dairy, areas where wheat is a key component.

LEWIS: So this is due to global food price rises, is it - the price of wheat going up?

BECKETT: Exactly Paul, yeah. British shoppers at the moment are really feeling the impact of the global population rising faster than food production. We're just not making enough food to feed this rising population. But at the same time, over the past year we've seen some really destructive harvest decimate key foodstuffs around the world.

LEWIS: Yes and the UN is very worried about this, isn't it? I think I heard this morning on Radio Four six and a half billion people, that's growing by 200,000 a day, and a billion of those in hunger already.

BECKETT: In hunger already. And of course the last time we saw this situation, there were food riots around the world, especially in developing countries.

LEWIS: And it's not just wheat, is it? It's things like coffee, orange juice, palm oil. They've all gone up by more than 70% in the last year.

BECKETT: That's right. Yeah, cocoa especially, we've seen a really poor harvest. Also the political situation out in the key growing region in Africa is …

LEWIS: *(over)* And let me just take you through my supermarket bill. We had a listener who wrote to us and said hers had more than doubled since 2004, so I burrowed away in my files and found a receipt from May 2005. I'm that sad. I found my shopping bill or at least the bits of it we could match had gone up by just over 20%. Is that the sort of … I mean you said 4% in December alone, but up to

November - 20%, is that about right?

BECKETT: About right. I mean looking at your shopping list, Paul, there are some rather expensive premium products on there, which might have gone up more than kind of normal ingredients - for example organic soya milk - and the organic sector's definitely increased in price.

LEWIS: Yes. And I think the RPI, the Retail Prices Index, showed a 28% rise, more than a quarter since May 2005. And that's ahead of normal inflation, isn't it?

BECKETT: Yes, that's correct.

LEWIS: Yes. And what of the future, Alex? I mean what are we look… You've talked about these shortages. Some of those have still got to feed through to our shopping, have they?

BECKETT: Still have to. Yeah, we're just starting to see them come through now. Of course the VAT rise of last week is also pushing up prices.

LEWIS: Yes on those foodstuffs that are VATable, which of course is not everything.

BECKETT: Exactly, not everything.

LEWIS: We'll talk about that in a minute. Alex Beckett of the Grocer, thanks very much. Now inflation of course isn't only hitting food and drink. Maureen Hinton is Senior Retail Analyst at Verdict Research. She's in a radio car in North London. Maureen Hinton, we've heard something of food. What other parts of our shopping will be hit by inflation in the coming year?

HINTON: I think mainly it's going to be clothing that we're going to notice because there have been lots of increases in the supply chain. As Alex was saying, there's much more global demand. But what we’ve found over the last decade is prices have been going down because of the influence of the value retailers. So what’s happened - most of our retailers have begun their manufacture offshore, so they’ve shifted to cheaper countries. And then what we’re finding is prices are rising now. The exchange rate, the pound is much cheaper against the dollar than it used to be, so we have to pay more on the exchange rate …

LEWIS: Because in a sense …

HINTON: *(over)* … and then commodity prices are going up. Sorry.

LEWIS: We’ve been protected from price rises because we’ve been sort of importing deflation by people being paid very little in third world countries.

HINTON: Yes, that’s right. That’s the main reason that we’ve gone offshore - is because labour is much cheaper offshore than it is in the UK. But what we’re finding now is …

LEWIS: And how is that changing?

HINTON: Well in China, for instance, where there’s more demand domestically as well and there’s more demand globally, what we’re finding is that retailers cannot negotiate prices down as they used to. And the workforce is being paid more as well and they’re finding it more difficult to get people to work in textiles. They want to work in more skilled areas - say in technology, in services where they get paid more.

LEWIS: They want to earn more, yes. And Next said this week its prices would rise 8% this coming year. Is that the order of things we can expect?

HINTON: I think Next is being very transparent. It’s been warning for well over 6 months now that prices are going to rise. In fact I think it’s a year ago it said prices were going to rise. And the fact that it’s saying that, I think is a relief probably for a lot of other retailers because then they can actually admit that they’ve got to put prices up.

LEWIS: Yes and of course many of them are using the excuse of the VAT rise this month to put prices up quite considerably because these price rises have been building up for some time, but competition as you say from the value, the cheap label retailers has been keeping them down.

HINTON: Yes, that’s been the main influence over the last decade. You know if you look at clothing now to what we were paying say in the mid-90s, we pay much less for a dress than we would do in the mid-90s. So we have enjoyed very low prices for a long time.

LEWIS: And just briefly, moving aside from clothing and food, what about things like electronic goods because they’ve also been coming down in price? We’ve been used to deflation there, haven’t we?

HINTON: Yeah, I think there will continue to be deflation in electronics although it won’t be quite as heavy as it has been in the past. But what keeps happening in electronics is there’s lots of new technology, there’s lots of new things that come in, and then early adopters will go out and buy say an HD TV for £2,000, but it will drop in price in the mass market very quickly because it’s very easy to compare prices.

LEWIS: So don’t be an early adopter.

HINTON: No.

LEWIS: Save money. Don’t be an early adopter. Maureen Hinton from Verdict Research, thanks.

Now what’s next in this sequence: 10, 8, 15, 17.5, 15, 17.5? Then what? Well it’s 20 because those are the standard rates of VAT right back to when it started in 1973, and this week of course that standard rate went up to its highest ever level of 20%. A fifth of the price of most things we buy go straight to the Chancellor. VAT was imposed on the UK government 37 years ago as part of joining the common market, but after the announcement on 6th March, the BBC asked if people understood it.

INTERVIEWER: Do you know what VAT is?

MALE 1: VA…? No.

MALE 2: VAT? No.

FEMALE 1: Blimey, I can't think of the name …

INTERVIEWER: Do you think it's going to affect you.

FEMALE 1: … and I've got a stall in the market.

INTERVIEWER: Have you?

FEMALE 1: So I should know, shouldn't I?

INTERVIEWER: You should. Is it going to affect you?

FEMALE 1: No, I don't think so.

INTERVIEWER: Do you know how it's going to work?

FEMALE 2: No, not really.

INTERVIEWER: Because you're going to have to pay it on nearly everything now.

FEMALE 2: Yes, I know that, but I don't really know how it works.

LEWIS: Well hapless Londoners in March 1973. Well there was no Money Box in those days to explain things. But with me now is John Whiting, Tax Policy Director at the Chartered Institute of Taxation. John, it's odd, isn't it - income tax rates have fallen over the last few years, VAT is going up? Is it kind of easy tax to impose on people?

WHITING: There is an element of that. It's become very popular - popular worldwide. Governments like it because it applies to virtually everything as even the interviewer spotted back then. It applies to goods and services, which is quite crucial. There is a measure of choice or at least an element of choice with you know you do or don't spend depending on your choice, although it's a moot point as to how much. And of course subtly the trader does most of the work of tax collecting for the government, so it's another reason why governments like it.

LEWIS: And has to pass it on or face a hefty penalty themselves.

WHITING: Indeed.

LEWIS: And of course when it was introduced, it was a negotiation with Europe at the time.

WHITING: It was. It's a condition of being in Europe.

LEWIS: It is, but we managed to get some exemptions or at least some zero rates. Explain the sort of weird things that happen in VAT because some things are taxed, some things aren't.

WHITING: Yes, the zero rate is very crucial. It's technically taxed but at nil rate. And it is, as you say, part of the sort of negotiation when we went into Europe - and Europe really would like us to bring those things into the tax net; but of course famously it covers quite a lot of emotive things like foodstuffs - a lot of foodstuffs, children's clothing, books, newspapers, new housing. Some things are also exempt - finance charges, insurance and …

LEWIS: *(over)* And Europe imposes that, so we can't do anything about that.

WHITING: Indeed. But the zero rates - those are the ones that are undoubtedly under euro pressure, if you like.

LEWIS: And just tell us a bit about the boundaries because there have been some really quite amusing court cases about what's VAT and VATable and what isn't.

WHITING: Oh you can have enormous fun on this, I mean particularly around the foodstuffs. And of course I mean famously if you go and buy your basic food - your meat, veg, etcetera - no VAT on that. Rather than go out to the restaurant where of course you would pay VAT, cook it on 5% fuel and power. Then sandwiches, take them away - no VAT; eat them in, you get VAT. Hot food, you take away - got VAT. But then when you go round the supermarket, you've got some great stuff. If you want to have a VAT free life avoid the chocolates, the sweets, the gingerbread men covered with chocolates. Go for Jaffa cakes, bourbons, chocolate teacakes but not snowballs, halva rather than sesame snaps. If you want a snack, get the peanuts in shell, not salted peanuts because they've got VAT on whereas in shell they haven't. Drinks. Try milk, that doesn't have VAT on; whereas fruit juice, alcohol of course, things like that, even mineral water does have VAT.

LEWIS: But of course they're not labelled, so it's very hard for consumers.

WHITING: I'm afraid you know never mind about the fat content. The VAT content.

LEWIS: The VAT content. Yes, very good. We should have that on the label. John Whiting, thanks. Well some people would like to see VAT simplified and all those rules swept away. That could raise a lot more money or indeed cut the rate if we applied it to absolutely everything. Patrick Nolan is with me. He's Chief Economist at the think tank Reform. Patrick Nolan, you'd like to get rid of all these complexities and charge VAT on everything. Why?

NOLAN: Well it would make the system a lot simpler. As was mentioned, we have about 80 zero rated or exempted items and that's reflected in the fact that we've got one of the most complicated tax codes in the world. It runs to something like 11,000 pages. So what we could do is we could actually simplify the system. We could have a uniform rate of VAT and we could compensate those families who are hit hardest by this by taking some of the extra money we gain and providing increased benefits.

LEWIS: Yes, you say take some of the extra money, but everybody would then have to pay it, so people would have to pay it on their food, on their children's clothes and even on things like books and newspapers. Now there were riots about that in the 19th century and finally scrapped the tax on knowledge in 1855. Would you really bring that back?

NOLAN: Well by international standards, it's unusual for the UK not to have taxes on these things. If you look at other European countries, the UK stands alone in not taxing, in having so little taxes on foods. And by other international standards, you have other countries like New Zealand where almost everything is taxed. So certainly I think there is a strong argument for having a more universal system and this has been argued by the OECD. The Mirrlees Report which was run by the IFS have argued a similar thing.

LEWIS: That's a report on simplifying and improving the tax system.

NOLAN: Simplifying. So there is a large degree of international consensus around having a simpler system because it works better for people.

LEWIS: Well you say it works better for people. It probably works better for people who can afford it. But if you go out and your food bill and we've just heard how that's rising - suddenly there's another 20% on top of that - that would really penalise low income families, wouldn't it?

NOLAN: Well it won't increase because you have to remember a lot of food is already taxed at the standard rate and so it's only that food that is …

LEWIS: But not the basics, not the meat and the veg.

NOLAN: Not the basics. We've been through some of these cases and, for example, if you look at Jaffa cakes, they're exempt because they're …

LEWIS: A cake.

NOLAN: … classified as a cake, whereas biscuits are taxed. So there's a lot of foods that already are taxed at the standard rate, so it's not going to increase the food bill by 20% and you can compensate those families who are made worse off.

LEWIS: And I suppose you could say on the question of books and newspapers that the more people look at them electronically, that is VATable; whereas if you buy the paper ones, which are presumably worse for the environment, they're not VATable. In a word, how much would this raise? Or what could you do with this money?

NOLAN: Well the value of the exemptions and the zero rates is about £35 billion a year. So if you were to have this broadbased VAT, you could raise an extra 30 something billion pounds. You'd have to provide probably around half of that to compensate lower income families by increasing benefits and that sort of thing, so you'd still actually be £15 billion a year better off.

LEWIS: Okay. Patrick Nolan from Reform, thanks very much. Interesting ideas.

Now how would you react if out of the blue you were told by your insurance company that you'd been involved in a car accident but you had no knowledge of it, and then your insurer would tell you when the accident happened but not where, so you couldn't even prove you were somewhere else? Well that's exactly what happened to one Money Box Listener and Bob Howard's been discovering that such false allegations are not that rare. Bob?

HOWARD: That's right, Paul. Money Box was contacted by Pam from Kent. She was understandably worried when her insurer Prudential said it had been notified she'd been involved in a car accident in June. She was given the time and date of when it was supposed to have happened and so she tried to remember back.

PAM: I was driving at that time. I was certainly out that morning. I was out shopping. There was nothing, as far as I was concerned, any incident whatsoever.

HOWARD: Pam wanted to know where this alleged accident had happened and what damage had been done to the other car as no damage had been done to hers. As months went by, she still wasn't told, and so she assumed the case had been shelved. Then she got another unwelcome surprise.

PAM: They said that after 4 months had expired, then if nothing further had been told to them, then it would be written off. So I rang them on 6th October, which was exactly 4 months to the date, and they said oh no, they couldn't write it off because there were witnesses to the event. And my reaction was, 'witnesses to what?'

HOWARD: And more than 6 months on, she still hasn't been told - despite repeatedly asking her insurer. That's left her worried and frustrated.

PAM: I can't understand why they can't give me more information or why they insist that they haven't got any more information. Why aren't they pursuing it, trying harder to find out what really happened? They don't seem to be able to find out themselves.

HOWARD: And even if Pam had been told details of the accident, it wouldn't necessarily have helped - as I discovered when I went to visit Money Box listener Liz in Brighton. Liz was also alleged to have been in an accident last summer, but her insurer Endsleigh told her the location - the car park of a local supermarket. Liz remembers being there but was adamant she hadn't hit anything. She even asked the supermarket to look at its CCTV footage to back her up and it couldn't find evidence of any incident either. Liz told that to her insurer, but several weeks later she was contacted directly by the firm which provides Endsleigh's insurance, Aviva.

LIZ: The driver had now filed a complaint concerning personal injury. There followed many, many weeks of phone calls not returned, emails not sent by them, me continually harassing them to find out what was happening. I absolutely knew I hadn't caused any damage and I totally knew I hadn't caused any injury.

HOWARD: After many more calls and emails, Liz finally discovered in October that the case had apparently been closed, but she says nobody bothered to notify her until she asked. Then when she came to renew her insurance the next month, she discovered that the case was still on her file and was likely to affect her premium. Liz is angry because she feels her insurers were too ready to leave it to her to clear her name.

LIZ: I kind of thought that paying a premium for my motor insurance meant that any instance such as this would be dealt with by name, that it wasn't down to me; that what you say is valued, that somebody's looking after you, that someone is actually doing something to sort this out.

HOWARD: In the end, the case was closed when the other party withdrew the claim and Liz was able to renew her insurance without her premium being affected.

LEWIS: How could these claims have arisen?

HOWARD: Well, Paul, it could be that somebody's written down the registration incorrectly. Or listeners have told us of instances where other drivers involved in accidents have written down their registration and left it on the windscreen of the damaged car, and that may have been what happened to Liz.

LEWIS: What have the insurers been saying to you?

HOWARD: Well, Paul, Aviva's now apologised and admitted its handling of Liz's claim fell below its usual standards. And when we contacted Prudential - that's Pam's insurer - this week, it told us that the other car in the supposed accident had been completely written off. It said it wasn't given any details about the accident, so it couldn't pass them onto Pam, and the other insurer has now accepted full liability for the claim. I asked Malcolm Tarling from the Association of British Insurers whether drivers had to mention this sort of allegation if they changed insurer.

TARLING: It's always better to disclose full information to any potential new insurer, even if that claim did not result in any payment, and then leave the insurer to decide.

HOWARD: A lot of people are going to be deeply unhappy about that; that if they were misidentified as having caused an accident, that that's going to stay on their insurance record for life.

TARLING: Well if somebody has been misidentified and it's subsequently shown that they were not involved in an accident, then that's not something that will worry a new insurer.

HOWARD: And, Paul, we're getting emails in from listeners who say their premiums are being affected. Kenneth from Birmingham told us his premium went up £300 because of a claim pending against him, despite the fact he says he's given ample proof he couldn't have been involved in any accident.

LEWIS: Thanks Bob. And you can join in the Have Your Say on our website, bbc.co.uk/moneybox. And talking of emails, my apologies to everyone for saying a fifth of what you spend goes to the Chancellor. Of course with VAT at 20%, it is one sixth as I know too well.

The BT pension scheme is demanding that a London pastor returns nearly £40,000 of a BT pension which it says has been wrongly paid to him for 4 years. Andrew Heron worked for British Telecom for 17 years, until 1980, paying into its final salary pension scheme. But in 1989 he transferred his fund into a personal pension, so he was very surprised in 2006 at the age of 60 to hear from the Revenue.

HERON: I got an unexpected letter from Inland Revenue asking me for details of my BT pension, so that I could pay tax on it. So I then phoned up BT Pensions who basically said, “Oh we’re very pleased to hear from you Mr Heron because we’d lost your details. You do have a pension with us.” And I said, “I’m sorry, I don’t.” And they were absolutely clear and categoric and they said, “No, you have a pension with us. We will send you the details.”

LEWIS: Do you think you tried hard enough to persuade BT that you didn’t have a pension?

HERON: I rather naively felt that well they know more than I do - perhaps I didn’t opt out totally, perhaps it was only a partial opt out - and I accepted the pension that they offered me. The pension was a monthly pension of I think it was about £650 before tax.

LEWIS: Now a few months ago, you found some documents that made you realise it wasn’t your money. What happened?

HERON: I found a letter from my financial adviser relating to the pension scheme that had been transferred from BT to Guardian Royal Life, Royal Insurance. And I thought my goodness, I was right, I had fully opted out of BT. I had better let them know.

LEWIS: What happened then?

HERON: They replied and simply set out a letter in which they expected me to repay the full amount of money over a period of about 4 years. It comes up to around about £40,000.

LEWIS: So that's nearly £10,000 a year. Do you have that sort of money?

HERON: The simple answer is no.

LEWIS: Pastor Andrew Heron. Well with me is Malcolm McLean from actuaries Barnett Waddingham. Malcolm, how common are mistakes like this?

McLEAN: Well it does happen, I'm afraid. It doesn't happen that often, but I've seen many examples over the last few years where such a thing has occurred. And it goes back I think to the standard of record keeping and the administration of pension schemes which sadly is not as good as it should be and the pensions regulator is actually asking for an improvement in this area.

LEWIS: Now this clearly was a mistake by BT, which Pastor Andrew Heron tried to correct. Does he have to pay the money back?

McLEAN: Well there is legally a right for the scheme to ask for the money back. There's various established precedents on that, so they are entitled to do that. But the right to recover doesn't necessarily mean they have to recover and there have been examples again where I've seen recovery has been waived on compassionate or purely practical grounds where the payee's old or infirm or you know just is not in a position to repay the money. So that could happen in this particular case.

LEWIS: But of course, as the BT pension fund has pointed out to us, it has an obligation as a trustee of the fund to its existing members, the real members, and it has to get the money back from people who aren't members like Andrew.

McLEAN: Sure, that is the argument for repaying it. That doesn't help Mr Heron of course. There is an escape clause, which again can be invoked, and that is what is known as exercising a case for a change of position. Now what that means in practical terms is that if you've been given the wrong pension and you've been drawing that pension for some time and have adapted your lifestyle accordingly and have entered into perhaps irreversible financial commitments which you can't get out of, then there is often a case to be made for those sort of costs to be offset against the overpayment to reduce it or eliminate it actually.

LEWIS: In your experience, because I know you've dealt with some appeals on this matter, he paid for the weddings of both his daughters out of the lump sum - he thought now I can afford a wedding - and he also gave money to charity. That would help him, would it not, to have to repay it all?

McLEAN: Well it has to be irreversible expenditure.

LEWIS: Well wedding expenditure is pretty irreversible.

McLEAN: We all know, those of us who have daughters, how much these things cost, but there are different levels of expenditure that you can take on that. In other areas, it may be possible to make out a case. What Mr Heron needs to do now is to make a formal complaint to the Pensions Ombudsman who has experience and has power in these areas, to try and persuade him to issue a determination to the effect that he doesn't have to repay this money or only has to repay part of it.

LEWIS: Malcolm McLean of Barnett Waddingham, thanks. And that's it for today, apart from a further apology for getting my arithmetic wrong. Lots of emails coming in on that. *(laughter)* Everyone thinks that's very amusing. Find out more from our website: bbc.co.uk/moneybox. You can sign up to my weekly newsletter or read it, download things, and of course have your say on phantom accidents. Self-assessment deadline is looming at the end of the month. I'm back on Wednesday with Money Box Live, this week taking questions on paying less tax and getting the sums right, I hope. Back with Money Box next weekend. Money news 24/7 on my Twitter, Paul Lewis Money, where I have gone into all those percentages. Today the reporter was Bob Howard, the producer Lesley McAlpine. I'm Paul Lewis.