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MONEY BOX

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LEWIS: Hello. In today's programme energy bills fall, but are the headline cuts of 5% or so actually true? A mother pays off her son's payday loan, but then finds she is liable for all his future debts. A listener's offered a one year discount of £136 if she pays her AA fee by direct debit rather than cheque. She won't do that and isn't happy.

PARRY: I am so disgusted that I am now looking at other breakdown providers and it is quite likely that I will change to one of those.

LEWIS: The tracker funds that don't track their index. And the millions risking a fine of up to £1600 by missing a tax deadline.

But first, four of the big six home energy suppliers have announced modest cuts in the price of gas or electricity, but not both. SSE will cut the average price of gas units (but not bills) by 4.5% from 26th March. Npower is cutting the price of gas units by 5% on 1st February. EDF is following with a slightly larger cut on 7th February. And on Thursday British Gas cut the price of units of electricity for some customers with immediate effect. But the headline cut of 5% won't apply to all their customers, as Money Box listener discovered.

COULSON: All the media outlets have been saying that British Gas are dropping 5% off their electricity prices, which I thought was excellent until I went actually online and I looked at where the 5% is coming off and it's coming off from their standard. So if you're on something like a websaver or an online tariff, you won't be getting 5%, and I'm actually getting under 1%.

LEWIS: Well, as Peter found, the average cuts will vary between 0% and 5% and, like some other suppliers, British Gas is giving the biggest percentage cuts to those who use the most gas. With me is Joe Malinowski, founder of the Energyshop.com, a comparison website. Joe Malinowski, can you clear up this question of average cuts, which the power companies all like to put out, but will anyone actually see those averages?

MALINOWSKI: Well I'm sure, given the millions of customers out there, somebody probably will see exactly the average, but I'm not sure if it's … I mean I think the headline needs to be reflective of what people will be getting, but I think your listener is absolutely correct - it does depend on where you started from, what tariff you are. So I mean there's probably three categories of customer who possibly won't see anything. Number one, if you're on a fixed deal and you've locked yourself away, you're not going to be seeing any of these benefits. Number two, you might be on a cheaper variable rate product - for example like the websaver tariff - where even those standard bills are falling. The websaver is guaranteed to be a certain percentage below standard, but if it's already below the guarantee, there's no reason for it to fall any further. But the third one - and this is the most interesting one - is the sheer number of people who aren't going to get a cut at all. So if you look at British Gas, for example, they've got roughly 10 million gas accounts, 5 million electricity. They're cutting electricity, not the gas. There's millions of customers who aren't going to see anything at all. Similarly, the electricity companies are cutting the gas prices where they have fewer customers than electricity where they have the majority of customers. So there's lots of standard customers who aren't going to see a penny.

LEWIS: Yes and of course there are people who don't have gas supply, so most of the cuts are in the gas tariff, three of them, and they don't have a gas supply at all because of where they live.

MALINOWSKI: That's absolutely right. So it very much depends on your personal circumstances.

LEWIS: Now you mention people on fixes, Joe, and you were on the programme in the summer telling people to fix. I must say, I was saying the same thing at the time and many others (including I think the boss of British Gas) was saying fix. Was that advice wrong now that prices are falling?

MALINOWSKI: Actually no it wasn't because if you look at the … What happened during the summer is we were advising people to fix before the increases. And even after the increases - and this is what surprised us - is some, well one supplier in particular kept its deeply discounted fixed deal in the market for an extra couple of months, giving customers the opportunity. So now - and that supplier was EDF - even after these price cuts, those fixes are deep in the money and they're well worth staying with. I've actually got one of those deals as well.

LEWIS: So following your advice. A lot of people are saying to us on emails that in fact although these cuts all sound very good, they're much less … sorry these cuts are much less than the rises we saw in the autumn.

MALINOWSKI: Yeah absolutely, they are. And if you look, the really interesting situation is wholesale gas prices are exactly where they were about a year ago. Electricity prices are 10% cheaper than they were a year ago. Average energy bills after these price cuts are still going to be almost 20% up on where they were a year ago. It doesn't seem to make a lot of sense.

LEWIS: And briefly, Joe, people want to look ahead. What's going to happen in 2013/2014?

MALINOWSKI: Well during the course of the balance of the year, there is still scope for small further reductions, but the thing that's driving energy bills going forwards - social costs, environmental costs, increasing infrastructure structures - those are going to push bills literally by hundreds of pounds over the next 5 years or so.

LEWIS: Joe Malinowski of the Energyshop.com, thanks very much.

Now if you have a grown-up son or daughter and they get into trouble repaying a loan, you may want to help them with the debt, perhaps pay it off as long as they promise not to do it again. But Money Box has heard from one mother who did just that and ended up paying off several more loans her son took out subsequently. Bob Howard has the details.

HOWARD: Paul, I've been talking to Sarah. Her son is 27 and she faced a dilemma when in March last year he came to her saying he owed money to a number of payday loan firms.

SARAH: My son had got into difficulties with various debt companies and I suggested that I would pay them all off for him using my debit card and that he would then repay me. That was the plan.

HOWARD: One firm her son owed money to was the payday loan firm Wonga. It offers this automated payment service to pay off loans.

WONGA AUTOMATED PAYMENT SERVICE MESSAGE: Hello and thank you for calling Wonga. This service allows you to repay some or all of your Wonga loan. To use this service, you will need to enter your date of birth and mobile phone number you used to set up your Wonga account.

HOWARD: Sarah phoned the number to make the payment and, as requested, entered her son's date of birth and mobile number.

SARAH: When I rang to pay off what he owed - as far as I was concerned, it was finished. I paid what we owed them or my son owed them and I thought that was that. I didn't expect to hear from them again. I was just making a one-off payment.

HOWARD: But unfortunately for Sarah, that wasn't the case.

SARAH: He lost his job in September and got into difficulties. And although he said he wasn't going to use these companies again, he in fact has done and I only discovered it because they had retained my bank account details and took the money out of my bank account without my knowledge and I didn't realise until I saw my bank statements.

HOWARD: So how much money was taken you say without your permission?

SARAH: First of all about £400. And then it increased because it's happened on three occasions and it's gone up to about £1,000.

HOWARD: What Sarah didn't realise was that when her son opened his account with Wonga, he had agreed to something called a 'continuous payment authority' that allows a firm to take payments as they become due. Wonga says it thought Sarah's card was her son's because she entered her son's mobile phone and date of birth for the payment and they share the same address. But Sarah insists she didn't know she was registering the card to pay off future debts.

SARAH: I don't think they really asked who it was that was paying this money. When I rang to pay off what he owed, they were just pleased to take the money. I didn't think they would retain my details and just then take the money without being in touch with me.

HOWARD: Sarah phoned and wrote to Wonga to complain. It's now returning the money to her account. We asked Wonga for an interview, but it said it was "a rare case which had been resolved", so it declined. It did, however, issue a statement.

WONGA STATEMENT: We were alerted that a debit card registered to one of our customer's accounts was in fact his mother's at the end of December. We immediately suspended the account and have since refunded the full amount and apologised for the rare mix-up. We have also agreed a sensible repayment plan with the customer.

HOWARD: Wonga has also removed Sarah's card from the account, so no more loan repayments can be taken from it.

LEWIS: Thanks Bob. Nick Lord is a freelance debt and money consultant. I asked him what he thought had gone wrong here.

LORD: The problem here was the continuous payment authority and the fact that Wonga had got terms and conditions, which her son had signed up to, which said that in future they could take any payments from his card.

LEWIS: Just to explain what a continuous payment authority is. This is with a debit card, but it's not like a direct debit payment, is it?

LORD: No, a direct debit payment is where the lender makes a claim on your bank account and actually there are very strict guarantees to enable you to claim the money back. A continuous payment authority does exactly what it says: it gives continuous authority for the lender to claim on your bank account.

LEWIS: And to claim any amount?

LORD: That's right.

LEWIS: Now Wonga says that because of the system it has, it believed that this actually was Sarah's son changing the card that the money came out of, but in fact it was his mother. Should there be some safeguard to stop that happening?

LORD: Well clearly it's highly unsatisfactory that anybody can ring up and make a payment out of goodwill on somebody else's behalf, and then find out months or even years later that they are still liable, money is taken from their account. That is clearly an unsatisfactory process.

LEWIS: Do you think loans companies are clear enough to their customers about the consequences of registering a card when you make a payment, or you think you're making a payment but you're actually registering this continuous right?

LORD: I'm sure, Paul, if we went out into the streets today and asked typical consumers about continuous payment authority, they wouldn't have a clue what they were doing. People don't read the terms and conditions. And of course it's absolutely the case that the Office of

Fair Trading has already taken action against payday lenders with regard to continuous payment authorities.

LEWIS: But it hasn't banned them, has it? Wonga was doing nothing wrong in that sense.

LORD: No, but what the OFT did before Christmas was they took action and they issued directions with regard to two payday lenders and told them to change their practice.

LEWIS: So you think as a result of that all lenders should be looking at their procedures and making sure they fit in with those guidelines?

LORD: Well there are so many things which are clearly wrong with a continuous payment authority. What it does is it makes a debt a priority debt, so it gives Wonga the opportunity to take money out of an account before the mortgage is paid or before the rent is paid. Well that's not the way the system works.

LEWIS: Sarah was struggling to do the best for her son. She had spoken to him about his debt. What should parents do if they want to help a son or daughter who is struggling with one of these very high interest rate short-term loans?

LORD: Well there's clearly no problem if you make a one-off payment. I think one of the key things is to make sure you actually speak to somebody when you're making a payment, so you can explain the situation - you are not the person who has the debt, you are making the payment on behalf of your child, and you want to be very clear that whatever card you are using will not be used as authority for future payments.

LEWIS: Nick Lord. And you can let us know what you think about paying off debts for family members and the problems that may cause through our website, bbc.co.uk/moneybox, and many of you are already.

Many Money Box listeners were delighted last year when we reported that the cheque had been saved and would not, after all, be scrapped in 2018. But since then listeners have been contacting Money Box to say they're being forced to pay more for services if they still choose to pay by cheque. In some instances, that option isn't available at all. Ben Carter's been looking at this. Ben?

CARTER: Yes, Paul. Money Box was contacted by listener Hilary Parry. Hilary is a member of the AA and has always paid her annual breakdown cover by cheque. Last week she received a letter saying her annual renewal was due in February.

PARRY: I was informed that if I pay by cheque, the renewal will be £243.14. However, if I decide to pay by direct debit or continue with credit card, the renewal will be £106.36. It has now been agreed that cheques are to be retained, so I think that I should have the freedom to continue to pay by cheque. I don't have any kind of credit card, so to get the discount I would have to pay by direct debit. I think it is disgusting that what I thought was a reputable organisation are trying to force me to pay by direct debit.

CARTER: The AA says that Hilary would have to pay £243.14 if she wanted to renew her cover by any one off payment, not just by cheque. Customers already paying by direct debit or continuous payment authority would pay £212.72, which is effectively a £30 discount. In an attempt to get Hilary to switch to one of those payment methods, the AA halved that figure and she was quoted £106.36.

LEWIS: And Ben, Hilary's adamant, as I understand it, she wants to continue by cheque. But other people in her position, is there a way round this?

CARTER: Well the AA has confirmed that any customer who agrees to pay by direct debit or continuous payment can cancel that agreement the following day.

LEWIS: Well that's a wheeze, I suppose. And as we've mentioned on Money Box before, cancelling continuous payments though can be difficult; it's an agreement with the business rather than your bank. Well we did ask the AA to come onto the programme to explain its pricing structure, but it refused. The firm did give you a statement though, Ben.

CARTER: Yes, the AA says it does not charge customers for paying by cheque. The offer to Hilary was a one-off discount and is part of a targeted marketing campaign to selected customers who make one-off payments at renewal time. The AA says Hilary is more than welcome to continue paying her renewal by cheque, and I should point out that some of its competitors - the RAC or Green Flag - won't accept cheque payments at all.

LEWIS: Thanks Ben. I suppose the kindest thing to say is that the AA don't charge more for paying by cheque, but it does charge a lot less if you pay by other means. And it's not just the AA, is it, who charge the most to people who pay by cheque, Ben?

CARTER: No, it's common practice amongst utility providers. Another Money Box listener contacted us this week to say they were paying £22 a year to pay their British Telecom bill by cheque despite never missing a payment in the 40 years they've been with them.

LEWIS: Yes, so it's quite a big issue. And I spoke to James Daley, Editor of Which? Money about this trend.

DALEY: Over the last few years, we've seen all sorts of companies, but particularly utility companies, making it incredibly difficult or expensive to pay by cheque. The differences between paying by direct debit and paying by quarterly payment were enormous, and you could pay as much as 15% more if you didn't pay by direct debit but sometimes only 7% more. You know Scottish and Southern, British Gas didn't come out too badly. Scottish Power really penalised people that didn't pay by direct debit.

LEWIS: But it's not just paying by cheque, is it? It's also paying by a debit or a credit card on a one-off payment. They charge you for that as well.

DALEY: Yes, absolutely, and hopefully once the government rules on debit and credit card surcharges come in, some of that stuff will have to be pared back by these companies. But you know I think the issue here is that these companies need to remember that while there will always be cheaper ways for them to process payments, they've got to come along at the same pace that their customers are. Many people are just not happy using more modern payment methods.

LEWIS: People are being discriminated against, aren't they? And it's not just because some people are a bit old-fashioned. It's also that with a cheque you have more control over the money that's leaving your account; whereas with a direct debit, it just disappears willy-nilly on a particular date of the choosing of the person you pay the money to.

DALEY: Yes some people have been using cheques to budget their whole life. And we're not saying here at Which? that companies shouldn't be able to charge you know a little bit less for people that do use direct debit, but those discounts have got to be proportionate to the savings that you know that company's making.

LEWIS: It did strike us though with the deal the AA are currently offering some of their customers that it's perfectly possible to set up a direct debit payment, let one payment go out of it and then simply cancel it, isn't it? How easy is it to cancel a direct debit or a continuous payment authority?

DALEY: It's very easy to cancel a direct debit because you're in total control of that and can just go to your bank and cancel it. Cancelling a continuous payment authority can be a bit more trouble because, unfortunately, the company who's taking the payment is in charge of that continuous payment authority and you need to get them to cancel it and it can be very difficult to extricate yourself from those.

LEWIS: So although people are sometimes a bit suspicious of direct debits, they're probably a lot easier to deal with than these continuous payment authorities?

DALEY: Absolutely. Direct debits leave you in control; whereas continuous payment authorities leave the company in control.

LEWIS: James Daley, Editor of Which? Money.

If you want to hitch your investment wagon to the stock market, a cheap and safe way is supposed to be using a tracker fund. These simply follow an index such as the FTSE 100 or the FTSE All Share Index, and as those indices rise and fall, so does the value of your money. In theory. The index they follow is called their ‘benchmark’ and one Money Box listener, Duncan Martin, was concerned that his tracker fund fell well short of the index it was tracking.

MARTIN: In November last year, I received Fidelity’s annual performance review and I noticed that the performance of one of the funds, which is the UK Money Builder Index Fund, was 1.8% below the benchmark. And I couldn’t quite believe that was possible. I thought that tracking an index fund was as difficult as falling off a log and that over time the only difference between the performance of the fund and the performance of the index should be the management fee.

LEWIS: Well the management fees on this fund are listed as 0.1%, but Duncan says his investment fell short by 1.85%. Why? A question for Tom Stevenson who’s Investment Director at Fidelity.

STEVENSON: Tracker funds are designed to mimic the performance of a stock market index as closely as they can, but there are a couple of reasons why they never do this exactly and the most important of these is indeed the cost of running the fund, which includes the transactional costs of buying and selling shares.

LEWIS: That’s not listed in your charges, is it? Your charges suggest that the cost of running the fund is 0.1%. The management charge and the total expense ratio, as you like to call it, is 0.3%, so where does the rest of the 1.85% difference come from?

STEVENSON: We have to manage the changes in the index, but we also have to manage inflows and outflows of money into the fund, so there’s a constant requirement on us to buy and sell shares in the market. And we do a number of things in order to minimise that cost. So, for example, an All Share Tracker Fund has more than 600 shares in it, so there’s potentially a very big cost involved in trading those shares. So, for example, what we do with the very smallest shares in that index - say the bottom 200 or 250 shares in that index, which might only account for 2 or 3 or 4% of the total value of the fund - actually buying and selling those shares would be prohibitively expensive, so what we do in that case is we will make a selection of the shares, the ones which actually are most representative of the movement of the index, and we will just buy those shares. Now we may get that exactly right, we may not get it exactly right, and the difference between the two is another factor in the difference in the performance of the fund and the index.

LEWIS: The reason that Duncan picked on Fidelity out of his various investments though was because you were worst (as far his portfolio was concerned) in that year. F&C, L&G, HSBC all did rather better; they tracked the index more closely than you did. So they did all these jobs more efficiently, did they?

STEVENSON: There is one other factor, which may or may not be the case with some of the names that you've mentioned, but some tracker fund providers also lend out the shares that they own to other investors who use them to short the market. Now we don't do that. We don't think that that is appropriate for this fund. It's a low risk fund and we choose not to do that, and that may also account for a difference in performance.

LEWIS: Right, so the shares that people think they own in fact are being lent on the market to speculators who think the price is going to drop?

STEVENSON: Well they may be in some cases, but in the case of the Money Builder Index Fund, we don't do that.

LEWIS: And do you think, given this quite large difference between what the portfolio's doing and what the index is doing, that you should be trying harder or perhaps being more skilful in this job? From the outside, it does seem a fairly basic thing to do.

STEVENSON: What matters from the investor's point of view is that the fund tracks an index as closely as is possible, given the complexities of what's involved, but also that it does it at a reasonable cost. And I think with the Money Builder Index, a total expense ratio of .3 of 1% is really very good value.

LEWIS: Tom Stevenson of Fidelity.

Now if you're one of the 9 million people in the self-assessment tax system and you have not yet filed your tax return, you've got just about 2 weeks to do it or face a series of new penalties which will reach at least £1600 in fines alone if you delay filing for a year. Live now to talk to John Whiting, Tax Policy Director at the Chartered Institute of Taxation. John Whiting, just run through these new penalties for me.

WHITING: Well Paul, the first one is familiar to everybody. If you're a day late - and by the way a day means 1st February onwards, there's no day's grace - then there's a £100 penalty; but the difference here is that whereas that used to be waived if you'd no actual tax to pay, that's going to be a fixed £100 penalty. Delay for 3 months or more and then after 3 months if you're still not filed, then you start getting a daily penalty - £10 a day. That runs for 90 days and those arithmetic fans out there will have worked out that logs £900 plus the £100 up to £1,000. And then there's two tranches of £300 that come after 6 months and 12 months, and indeed it can even be more if you've got tax outstanding.

LEWIS: So this is £1600 - nothing to do with interest on tax owed or anything, just in fines.

WHITING: Oh that's there as well. This is just in penalties. Now of course the Revenue stress that they're not out to make money out of these penalties, but given that a million or more people were late last year, again there's some money around. You know what they want - and it's a fair enough point - is for people to file their returns.

LEWIS: Now I know they've already fined 34,000 people who filed on their paper forms too late.

WHITING: Yes.

LEWIS: But of course if you've not filed your paper form late, you can still just about register for electronic filing.

WHITING: Just about, but of course it's not something you can decide to do on 31st January because you've got to get online and get registered to get an activation code …

LEWIS: And that's posted to you, isn't it?

WHITING: And that is posted to you. It will take the Revenue say up to 7 working days. So if you crack on, you know get onto it in a couple of minutes time, then you've got much longer. You're cutting it very fine.

LEWIS: Yes. And the Revenue also sent me a helpful graph of time of day. It seems the best time to file electronically is about 2 in the morning when everyone's asleep.

WHITING: Well of course.

LEWIS: In the middle of the day it gets very busy and there can be delays. And John, some people will be worried. They'll think oh goodness, do I have to do this even if perhaps they don't. How do you know if you have to worry about self-assessment briefly?

WHITING: The simple thing is if you've been sent a notice to complete a return or a form, then you have to do it even if you look at it and say this doesn't apply to me.

LEWIS: John Whiting, thanks. And, hmn, must get mine done soon. That's it for today. There's more on our website: bbc.co.uk/moneybox. There's lots of things there. You can listen again, send us your ideas - as many of you do - and have your say on paying off family members' debts. I must say lots of you are joining in that one with enthusiasm. I'm back on Wednesday with Money Box Live, this week taking your questions on maternity and paternity and indeed parental rights generally. I'm back with Money Box next weekend. Today the reporters were Bob Howard, Ben Carter, producer was Lesley McAlpine, and I'm Paul Lewis.