Public Accounts Committee

Oral evidence: The production and distribution of cash, HC 654

Monday 19 October 2020

Ordered by the House of Commons to be published on 19 October 2020.

Watch the meeting

Members present: Meg Hillier (Chair); Gareth Bacon; Sir Geoffrey Clifton-Brown; Barry Gardiner; Dame Cheryl Gillan; Peter Grant; Mr Richard Holden; Craig Mackinlay; Nick Smith; James Wild.

Gareth Davies, Comptroller and Auditor General, Peter Gray, Director, National Audit Office, Toby Evans, NAO, and David Fairbrother, Treasury Officer of Accounts, HM Treasury, were in attendance.

Questions 1-117

Witnesses

I: Sir Tom Scholar, Permanent Secretary, HM Treasury, Dr Ben Broadbent, Deputy Governor, Bank of England, Sarah John, Chief Cashier, Bank of England, Anne Jessopp, Chief Executive Officer, Royal Mint, Nikhil Rathi, Chief Executive Officer, Financial Conduct Authority, and Chris Hemsley, Managing Director, Payment Systems Regulator.

Report by the Comptroller and Auditor General

The production and distribution of cash (HC 730)

Examination of witnesses

Witnesses: Sir Tom Scholar, Dr Ben Broadbent, Sarah John, Anne Jessopp, Nikhil Rathi and Chris Hemsley.

Q1 **Chair:** Welcome to the Public Accounts Committee on Monday 19 October 2020. We are here today to look at and discuss with many witnesses the production and distribution of cash in the UK. Our thanks go to our colleagues at the National Audit Office for their Report on this issue. We all know that the use of cash has dropped significantly over the last 10 years, and this has been especially true since covid, the national lockdown and restrictions since then, but most people still use cash at least some of the time, and some people rely on it all of the time—not least many children, people who are watching their bank balance and others who do not have online banking or credit card facilities. It is Government policy to safeguard the availability and use of cash. There was an announcement last week that the Government are consulting on a different arrangement from cashback in supermarkets, but the National Audit Office has reported that the decline in cash use has put major pressure on the infrastructure. A number of public and private bodies have oversight of that structure, so it is quite fragmented. What we want to get into today is: what is going to happen next? How can we preserve cash and support people who still need to use it?

I would like to welcome our panel. We have Sarah John, who is the chief cashier at the Bank of England; Dr Ben Broadbent, who is the Deputy Governor at the Bank of England; Sir Tom Scholar, who is with us here in the room today and who is the permanent secretary at the Treasury; Chris Hemsley, who is the managing director of the Payment Systems Regulator, which is a key player in this arena; Nikhil Rathi, who is the chief executive officer of the Financial Conduct Authority; and Anne Jessopp, who is chief executive officer of the Royal Mint.

In summary, we have the people who make the notes, the people who make the coins, the regulators and the Treasury. There are a lot of witnesses today, which perhaps underlines the fragmentation of the system. Before we go into that, I have some questions for Sir Tom Scholar, as permanent secretary of the Treasury. Sir Tom, we are obviously now facing three tiers of covid restrictions: tier 1, tier 2 and tier 3. In tier 2, there are some restrictions, but no financial support from the Treasury to businesses. Can you explain what the thinking is behind that?

Sir Tom Scholar: As you know, since March the Government have announced a whole series of schemes, both directed at supporting jobs and at supporting loans to businesses. Those schemes are of course nationwide. The Chancellor has also made announcements about further schemes to support jobs once the main furlough scheme comes to an end at the end of the month, and there is a lot of ongoing discussion with some of the areas principally affected at the moment. I don't yet know what the outcome of those discussions will be, but that is something that is happening as we speak, and announcements will be made as soon as the discussions conclude.

Q2 **Chair:** At the moment, it seems that there are some different levels of support for areas in tier 3. Is there going to be a blanket approach from the Treasury, ultimately, that if, for going into tier 3, extra support is agreed—for argument's sake— for Manchester, the same support would apply to any other area that was put into tier 3 restrictions?

Sir Tom Scholar: I hope you will understand that I cannot speculate as to what Ministers will decide on these important policy decisions, but I think what we have shown—the Treasury has shown— throughout the last few months is an understanding of the need to act very quickly to try to offset the impact of various covid-related restrictions.

Q3 **Chair:** But my point is this. Are you saying, if the restrictions are the same, that you cannot tell us here today that the Treasury support will be the same?

Sir Tom Scholar: There are discussions ongoing on exactly this issue as we speak, and I just don't think it would be right for me to try to predict the outcome of that. That is a policy discussion that the Treasury is very much involved in. We are providing advice to the Chancellor on a roundthe-clock basis. I am sure that, as soon as those discussions are concluded, there will be a very rapid announcement.

Chair: Thank you for that, as far as it goes. I am going to see whether Mr Richard Holden can get any further with this.

Q4 **Mr Holden:** In areas of tier 2 restrictions such as mine, North West Durham, in the north-east of England, we are facing different restrictions from areas in tier 1, and they are really affecting some of our hospitality sector and particularly our events sector. We are under different restrictions. If you cannot answer the Chair's question as to whether, if the restrictions are the same, areas will get the same support, what about if the restrictions are different in different areas? Will there be extra support for tier 2 businesses, which are facing different restrictions from tier 1 areas but currently do not have that extra support?

Sir Tom Scholar: I hope you will understand I cannot give an answer to that question. These are policy decisions for Ministers. Our job as officials is to provide the advice and analysis that Ministers need to weigh up the different options in making their decision. It's not really for me to anticipate what that might be. As I said earlier, this is something that the Treasury and Treasury Ministers are considering very carefully, and on a continuous basis.

Q5 **Mr Holden:** Obviously, you are seeing some areas with higher restrictions than other areas, so is there any advice going forward that might suggest that some of those areas with greater restrictions should get greater support?

Sir Tom Scholar: Of course, it is a situation that is changing rapidly in different areas of the country and, as I say, we are doing our very best to provide the best up-to-date analysis on the economic situation, such that Ministers can then weigh up the different considerations, including the regional variations in the measures that are imposed, which clearly have a different effect depending on the measure. But I cannot say what the outcome of that will be, because that is policy still under consideration.

Q6 **Mr Holden:** Thank you, Sir Tom. On the economic analysis that you are providing, could you explain what the differential impact will be for pubs and clubs in my area, which are impacted by very severe restrictions in tier 2, compared with a tier 1 area? What is the differential impact that the businesses face in those different circumstances?

Sir Tom Scholar: It is extremely difficult, in fact not really possible, to give a completely clear, scientific and precise analysis, but clearly, the greater the restrictions on economic activity, the greater the likely impact; and the tiering system, precisely in order to control the transmission of the virus, does inevitably involve a higher degree of restriction on economic activity in the higher-tier area, so the impact will be greater. I cannot give you a precise percentage figure as to how much greater.

Q7 **Mr Holden:** We are seeing areas with greater impact, but no greater support at the moment, and you have no idea of the impact of, for example, changing the six-person rule inside to just a single-household rule in my pubs and clubs in North-West Durham? There was no analysis of the impact of that so far before these decisions were made?

Sir Tom Scholar: There are, of course, currently a series of national programmes that have been in place for many months.

Q8 **Mr Holden:** Indeed, but on the specifics of the different restrictions in different areas, you are telling me that the Treasury did no economic analysis of the difference those restrictions would make to the different areas?

Sir Tom Scholar: That is not what I am saying. I said earlier that we do analyse this very carefully, but it is extremely difficult to make a precise forecast or a precise analysis of it.

Q9 **Mr Holden:** I agree—I am not expecting a precise forecast, but there must be a ballpark forecast that you did of the impact of tier 1 on a business versus the impact of tier 2 versus the impact of tier 3, because you gave tier 3 a huge level of extra support. What about tier 2? What was the sort of broad impact that your analysis suggested?

Sir Tom Scholar: At the time the measures were introduced, of course, the whole country was in a very severe lockdown, and that was the basis on which those measures were introduced. What we are now looking at is greater variation in the in the restrictions, and so we are looking at the precise—

Q10 **Mr Holden:** Sir Tom, I understand that, but we went from a situation of localised measures to a tiered national system—that was the difference. There was clearly advice that went forward on why tier 3 got support and the impact on those businesses. What was the suggested impact of tier 2 versus tier 1? There must be some differential between those tiers, otherwise you would not have provided support to tier 3.

Sir Tom Scholar: We are looking at all that as part of our policy advice to Ministers, but I am not able to give a percentage impact figure.

Q11 **Mr Holden:** Do you have any percentage impact figure for tier 3, which obviously has grant support and the localised furlough scheme?

Sir Tom Scholar: As I said, we are providing advice to Ministers on the regional impact and the options for providing support, and we are also supporting the discussions that are going on with the authorities in different regions. We are doing all of that; that is all part of our advice to Ministers.

Q12 **Mr Holden:** Sure, but on the economic impact assessment of tier 2 versus tier 1, or tier 3 versus tier 1, you cannot give us even a rough idea of the assessed impact? You cannot give us today the assessment of the impact that those different tiers have on businesses in my constituency or across the country?

Sir Tom Scholar: As I have said, the greater the degree of restriction, the higher the economic impact, but—

Q13 **Mr Holden:** I understand, but you cannot tell us what that level of impact is? This is all a shot in the dark?

Sir Tom Scholar: We are not in the position to give precise, quantified impacts.

Chair: We are going to Gareth Bacon MP, and then I may come back to you, Mr Holden. Over to you, Mr Bacon.

Q14 **Gareth Bacon:** Thank you very much, Chair. Sir Tom, my constituency is Orpington, on the outskirts of Greater London and borders Kent. Kent is in tier 1; Orpington, because it has the misfortune to be classed as part of Greater London, has been put up to tier 2, despite the fact that it is not breaching the 100 in 100,000 infection rate. Being put into tier 2 along with the rest of London is going to cause bankruptcy in many of the hospitality industries in my patch. Following on from the question that Mr Holder was just asking, given that we are not where we should be in terms of being over the 100 threshold, forcing companies into bankruptcy will be seen as a grave injustice. Are Ministers considering looking at support packages for tier 2?

Sir Tom Scholar: I just need to keep repeating what I said. Ministers are considering the economic effect of the pandemic and the appropriate Government policy response, and that is ongoing work. These are ultimately policy decisions for Ministers; as and when they are taken, they will be announced. I am not in a position to anticipate that or predict the outcome.

Q15 **Gareth Bacon:** I am not asking for an announcement. I am asking whether Ministers are considering it.

Sir Tom Scholar: As I have said, Ministers on an ongoing basis are considering the impact of the pandemic and the restrictions associated with it.

Q16 **Gareth Bacon:** That is not the question I asked you, though. The question I asked you is whether Ministers are considering a rescue package for people in tier 2.

Sir Tom Scholar: I think I have answered that question as part of—

Q17 **Gareth Bacon:** Well, I don't, which is why I keep asking it.

Sir Tom Scholar: Ministers are considering—and we are providing support to them in this—the impact on each and every part of the country.

Q18 **Gareth Bacon:** Sir Tom, I can see that we're going nowhere with this. I have asked the same question three times, and you have given me the same non-answer three times. I understand that your job is to provide advice, but I am asking whether Ministers are considering it.

Sir Tom Scholar: I have said that Ministers are considering the impact of the pandemic on the economy.

Gareth Bacon: Okay, Chair. This is as waste of time.

Q19 **Chair:** Thank you, Mr Bacon. Ministers are considering it; we have a ministerial decision that we should expect, then.

Sir Tom, surely part of your advice has got to be to look at the long-term impact on the economy. It is a question of whether you spend money today to support some of the businesses that Mr Bacon and others represent. In my constituency, which is in tier 2, hospitality is equally badly affected. If those businesses don't survive, that has a long-term impact on the economy. You can save cash today and have that longterm impact on the economy, or you can put cash in today, which might save those businesses. Is that at the nub of what you are discussing with Ministers at the moment?

Sir Tom Scholar: Absolutely, we have looked very carefully at the shortterm, medium-term and long-term impact. Obviously, one of the things of greatest concern is that businesses that would otherwise be perfectly viable and healthy are suffering, through no fault of their own, from the restrictions needed to control the pandemic. That has been the case since March. We have put in a whole range of support since March. As I said, these are policy decisions—

Q20 **Chair:** Okay, Sir Tom, but we know that a lot of that support is disappearing—furlough is coming to an end and so on. For tier 3, at least some support goes in. Tier 2 brings in the restrictions, as Richard Holden highlighted, but without the same financial support. On the other hand, we are seeing the regional Mayors in a bit of a bidding war with the Government. Is it that those who put their head above the parapet and make the argument get the money, and it becomes a bidding war, or is there going to be a standard policy to support areas with businesses that have these needs?

Sir Tom Scholar: You are asking me about policy decisions that are currently under active consideration. They are major decisions and they obviously have a major impact.

Q21 **Chair:** Can I just finish on this before I move on to Mr Barry Gardiner? In the advice that you are giving to Ministers, as Mr Bacon and Mr Holden asked, what analysis have you done? Is there somewhere in the Treasury somebody doing the economic impact analysis of what would happen if a percentage of the businesses in some of these areas—in fact, take just one region, for example—go under and jobs get lost as a result of the withdrawal of support? We recognise that the support is costly, but we also recognise that there is a huge cost to the economy and future jobs if the support is withdrawn too fast and too sharply. We don't have a policy position on this Committee—we are here to look at the numbers—but there is an argument for saying spend now to save later. Otherwise, you could save cash now for the pain later, so you have that decision. Is someone doing that analysis of what it would cost in cash terms today, and what would be the benefit later?

Sir Tom Scholar: We are absolutely doing that kind of analysis and have been for many months. That has also guided previous policy decisions on the interventions that we have already announced, introduced and implemented.

Q22 **Chair:** And are you doing any of that analysis on a regional basis?

Sir Tom Scholar: Yes, we are looking nationally and regionally.

Chair: Okay. That gives my colleagues room to seek further information from you. If that information exists in the Treasury, I am sure they will winkle it out with parliamentary questions. A very brief question, please, from Barry Gardiner MP. Over to you, Mr Gardiner.

Q23 **Barry Gardiner:** Thank you, Chair. Sir Tom, let me give you a bit of respite and say how pleased I was when the announcement came about the grants to retail and hospitality businesses. Many of my businesses in Brent rely on the hospitality sector—obviously Wembley stadium, Wembley Arena and all the knock-on events companies and hotels around them. Was any analysis done of how many businesses might require that assistance? They were expecting grants of £25,000, as had been announced, but when the money that was given to the local council was divided up by 9,000 businesses, it equated to something like £367. What analysis of the local sector was done when that money was allocated for those grants?

Sir Tom Scholar: I have to say that I can't recall the precise dimensions of the analysis underpinning that policy decision. All I can say is that it is a very fast-moving situation, and we provide the best analysis that we can in the time that we have available.

Barry Gardiner: If you wrote to the Committee setting out what analysis, if any, was done, that would be extremely helpful. Many of my businesses were really angry because they thought they were going to get this great sum of money, but in the end it did not turn out that way.

Chair: Sir Tom, I think I speak for the members of the Committee, which is cross-party and cross-country, and for the many other Members around the House who have been in touch with us, when I say that many of our sectors feel frustrated because they were not involved at different points, even though they really understand. For example, I met with my creative industries last week and they had lots of creative ideas about how to go forward. I think we are all saying that there is a lot of useful intelligence out there.

Talking of useful intelligence, I am going to bring in Nick Smith.

Q24 **Nick Smith:** That is credit I do not normally enjoy, Chair. Thank you.

Sir Tom, in Wales our firebreak is going to start on Friday. The Welsh Government want to provide extra support for the self-employed, so a Welsh Government economic resilience fund has been established where every business covered by small business rates relief will get a £1,000 payment. How does that compare to areas in England in tier 3?

Sir Tom Scholar: I do not have that analysis with me. I can certainly look at it and write to you, but that is not something I can work out on the spot, I am afraid.

Q25 **Nick Smith:** If you were a similar small business in a tier 3 area in England, do you think you would find it fair if that was not offered to you?

Sir Tom Scholar: To return to my previous comments, the appropriate policy response, the notion of fairness and balance to be struck are all policy decisions for Ministers, and that is something they are looking at, as I said, on a continuous basis.

Q26 **Mr Holden:** Sir Tom, just going back to your answer to the Chair, you said you have been looking at the impact of the measures you are taking at a regional level and a national level, but you told me that you have no ballpark percentages even for the impact of the different tiers at the moment. Which is it?

Sir Tom Scholar: What we do in all our economic analysis, on whatever subject, is to look both nationally and by region. That is based usually on regional-level information. It is not typically based on extremely microdetail-level information, so it is necessarily not subject to a huge degree of precision. It is not built bottom-up; it is an overall aggregate analysis.

Q27 **Mr Holden:** So you are now saying you do have an overall aggregate ballpark figure for the impact of the different tiers.

Sir Tom Scholar: I am saying that we do the best we can to make the best analysis we can of the impact—

Q28 **Mr Holden:** I am absolutely certain that you do, Sir Tom, but can you give us those overall ballpark figures?

Sir Tom Scholar: I am not in a position to do that this afternoon, but I will certainly write to the Committee following this hearing.

Q29 **Mr Holden:** Can you write to the Committee with the overall ballpark impacts of the different tiers expected on different parts of the economy today?

Sir Tom Scholar: I cannot tell you what the letter will say, but I shall write to the Committee on this issue.

Chair: We will look at that letter. Of course, as a Committee, we have the right to call for people, papers and records; we have got people today, but we may want to pursue some of that further, Sir Tom, and see whether we can see some papers, even if they are confidential and in private. We have never yet leaked anything from this Committee. So we will put that out there and we will see what you write to us. We may well make that make that request.

Q30 **Dame Cheryl Gillan:** Following on in that vein of questioning, looking at the impact that covid-19 is having on our economy at the front of this session—Sir Tom, I know how difficult this is for you—have you looked at the number of bankruptcies and business failures you expect? Do you have some forecasting available by region and by sector?

Sir Tom Scholar: The Treasury does not prepare—it is the Office for Budget Responsibility that prepares forecasts. We do not prepare forecasts as such.

Q31 **Dame Cheryl Gillan:** Let me rephrase that. Has the Treasury done any impact assessments based on forecasts of bankruptcies and business failures over this period and the period that is coming?

Sir Tom Scholar: In preparing all our interventions, we have tended not to base them on forecasts, because in these circumstances of huge uncertainty, forecasts are probably quite unreliable. Instead, you need to look at—

Q32 **Dame Cheryl Gillan:** Forget the word "forecast". What impact assessment and quantification of bankruptcies and business failures have you done?

Sir Tom Scholar: The measures that have been introduced have been introduced quickly in order to provide help quickly. In trying to assess the cost of those, both we and, more importantly, the OBR have made assumptions on the possible range. The NAO has also done that in its own work, which we will be discussing more in the weeks ahead. The NAO will have covered that in its report, and the OBR as well. I have not got the figures in front of me, but you will be able to see the range used, which gives an indication of the ballpark we need to consider or might expect.

Q33 **Dame Cheryl Gillan:** In the letter you write to us, can you make sure that you add information about this area? It would be of use to the Committee.

I will ask about a specific area that worries me greatly. Covid is obviously affecting collections for things like charities and churches. What assessment have you done of the impact or effect on the collections that charities and churches can no longer make because of the restrictions?

Sir Tom Scholar: For that information we would look to DCMS, as the Department with responsibility in that area. I do not have any information about what we have done, but again I can look into that.

Q34 **Dame Cheryl Gillan:** Could you write to us? That would be useful.

Last, has this been having any impact on local government finance where there are cash collections, for example from parking meters, or on the ability to deposit or collect cash? Are you aware of any implications from that at the moment?

Sir Tom Scholar: It is certainly the case that the current circumstances have put considerable pressure on local authorities. Again, that is something we have discussed with the Department concerned, the MHCLG, which has a lot of information and analysis. That is something we have discussed with them when advising Ministers as to the response.

Q35 **Sir Geoffrey Clifton-Brown:** My council is proposing to go completely cashless for its car parking. One of my elderly constituents was struggling for quite a long time the other day to work out the cashless system, and eventually left the car park. In all Government policy, how are you balancing the need for expediency against disadvantaged groups, particularly the elderly?

Sir Tom Scholar: The provision of parking meters is clearly a matter for the local authority concerned. At the Government level, looking to the question of cash, the Government has an overall policy on access to cash for people who need it, which I am sure we will discuss further shortly. The provision of parking meters is not something that would come under the purview of central Government.

Q36 **Chair:** We will come on to that in the main session; we are not quite there yet. I will ask one final question, Sir Tom. I represent a constituency with lots of freelancers and self-employed people who have had good support, as far as they can, but there are a lot of people with strong tax records in those categories who have been excluded. What is the latest position on supporting people, for example those who have worked on many short-term contracts? They have had PAYE paid in short order; they have tax records. Is there any chance that those people, who have been excluded from the support given so far, have any hope of getting support?

Sir Tom Scholar: We discussed some of those issues in the previous hearing on the overall covid support schemes in July. A number of Committee members raised particular cases then, which we have very much taken note of as part of the discussion with and advice to Ministers. I cannot say what the conclusions will be, because those are policy decisions. We are very much aware that the schemes do not provide completely comprehensive coverage. The representations of the people—

Q37 **Chair:** To repeat back to you words that you used just now: is there any "active consideration" of support for the people who have not been able to receive support so far?

Sir Tom Scholar: I can only give a general answer to that, which is that Ministers are keeping all of that under review.

Chair: We will take that for now because we need to get into our main session, which is to look at the production and distribution of cash. Thank you to other witnesses for bearing with us while Sir Tom answered some important questions about support with the new restrictions. I ask Richard Holden MP to kick off the main session.

Q38 **Mr Holden:** Thank you very much, Chair. We will move across to the witnesses a bit more now. Sir Tom, in terms of the people who are reliant on cash to meet their needs, what sort of statistics do the Treasury have on that? Are those people's needs being met by the current system? You launched your call for evidence in the last week or so with a recommendation that the FCA potentially take over control of that. What are the numbers? In the analysis that you have seen, who are the people who are most reliant on cash at the moment?

Sir Tom Scholar: Perhaps my colleagues from the FCA and the Payment Systems Regulator will want to add to what I say. As the NAO Report says, clearly there has been rapid development in that area over recent years. A lot of studies, both from Government and outside Government, have been done to look at the issue. The NAO sets out some of the key figures: for example, 2 million people are mostly using cash for their payment needs. Almost a quarter of all payments last year were made using cash, and a million people do not have a bank account. Clearly, access to cash is an important issue for many people right across the country. As you mentioned, we are consulting on some of the issues right now. We set up the joint authorities cash strategy group for all our authorities to pull together the analysis done in various places, and we are trying to make sure that we keep ahead of the changing landscape in the use of cash here. Obviously, that is a global phenomenon not just a UK issue.

Q39 **Mr Holden:** Quite right. Dr Broadbent, you have some general analysis of the monetary policy side and a lot of experience in this area. Who are the groups we are talking about? Who are the most affected?

Mr Broadbent: I do not think there is a single group. Quite a few people use principally or only cash. It is probably true that it is disproportionately the elderly. It is also disproportionately the less advantaged in society who are more likely to have either no bank account —Tom gave the figure of 1 million—or who use cash principally as a means of budgeting from one week to the next, to ensure that they stick within self-imposed limits on the amount they spend. Sarah may want to add something on that. The main comment is that it is not exclusively one group or another, even if those patterns can be seen.

Chair: Chris Hemsley wanted to come in.

Chris Hemsley: That was one of the things that came out of the research we commissioned in 2018. The research told us a few things: first, around 95% of people found it relatively easy to access cash. It also provided some useful information on the distinction between those who prefer cash and those who have a stronger need for it. By and large, the figures we found there were that around 30% of people could be described as having quite a strong preference for cash. As we drilled into that, it was about 5% to 10% of people overall who would be significantly inconvenienced, or would not actually purchase something, if they were unable to use cash. That gave us a bit of a feel for the difference between that preference and that need.

Q40 **Mr Holden:** Thank you, Mr Hemsley. Going on to the chief executive designate of the FCA, Nikhil Rathi, we know that there is a massive issue there, with up to 10% of the population needing to use cash and 30% preferring to use it. Why do we still have so little information on which businesses are actually accepting it at the moment?

Nikhil Rathi: Thank you, Mr Holden. You are quite right to point out that the other side of the debate around access to cash is not just consumer access but which businesses are accepting it and the ability of SMEs to access deposit services. It is an area where research is under way. The FCA has been working with the PSR on that, and we have commissioned some specific research around SME acceptance of cash, which we hope will be available early next year. That will shed a bit more light on these issues and how the position has evolved during the covid pandemic.

Q41 **Mr Holden:** That is one of the issues. Obviously, in terms of cash the speed of transition has been affected by covid, but it is those people who really cannot access it at all—up to 10%—who I think everybody on this Committee is particularly concerned about. People might have switched in terms of preference, but we are particularly concerned about the people who really have no other option. Do we have any indications of which businesses have moved away from it in recent years, or is this all still a bit of a stab in the dark at this stage?

Nikhil Rathi: We have some generalised information on the increased use of digital payments; we also have a generalised view that there will be small businesses that are more likely to continue to rely on cash for reasons of digital exclusion and the nature of their customer base. We are hoping that by February we will have a better picture.

Likewise, on the question of access to cash, one important piece of work has been under way in the last year or so. I am still learning on this—I have only joined the FCA in the last two weeks—but it is a piece of work with the University of Bristol seeking to provide a comprehensive map of access to cash across the country and the different ways in which cash can be accessed, which includes branches, ATMs, cashback from supermarkets and so on, so that we can understand the overall regional picture as well.

Q42 **Mr Holden:** Is there a reason you are behind the curve on this at the moment? Is it the change in covid or is it just the way that we have seen such a rapid fall in the last few years? Why is it that this information is not out there already? I know that there seem to be quite a few different organisations that are overseeing this. Is that part of the problem?

Nikhil Rathi: Clearly, the data on this has been changing; the Treasury has commissioned a number of reviews, including the access to cash review, and we will see what comes out of the consultation as well. The range of businesses involved—not just financial services businesses, but obviously cash as used by supermarkets, retailers and so on—goes much wider than purely the financial sector. We are certainly hoping that the research that is on its way will give us a better picture to inform the Committee’s deliberations.

Q43 **Mr Holden:** Quickly on covid-19, Mr Hemsley, picking up a little on that point, what have you learned in terms of this? You are the Payment Systems Regulator. What are you seeing? Which consumer groups are being affected?

Chris Hemsley: During the early stages of the pandemic, one of the things that, working with the FCA, we moved very quickly on was pulling together information from Link, the Post Office and other ways to get access to cash. We were updating that mapping pretty much on a daily basis, so that we could identify whether there are what we refer to as cold spots, where the closure of ATMs, shopping centres or bank branches was causing problems. That created a small number of areas. Working through the FCA with banks, those gaps were plugged in relatively short order.

That has taught us the value of that data, bringing the data together and now, as we work with it over time, linking it to measures of vulnerability, social deprivation and other factors. That will give us a really good understanding of people's practical experience of accessing cash.

Q44 **Mr Holden:** It feels like all the organisations involved in this have been a little behind the curve over the past few years. Recently, we have seen a move from card to phone payments, where you put your card on your phone. I do that when I am travelling in London on the bus or tube. Do we have any data on how many people have already moved from having the physical card, which you might be able to use to withdraw cash, to that phone-only situation, or are we not there yet on that?

Chris Hemsley: I do not have it in front of me, but you are absolutely right that there has been a rise in the use of contactless and, increasingly, people using their phones, through mobile wallets, to use digital means of payment. We have seen a big shift from cash to payment by card and other digital means.

On the point about pace, in 2018 we used our powers to direct Link, so we have used our regulatory powers to protect that coverage of free-to-use ATMs. We have been monitoring Link and checking that the policies it is developing are working. We have done quite a lot over the past couple of years to protect people's access.

Q45 **Mr Holden:** In my community in North West Durham, one of the issues I am seeing—it would be helpful to hear about this from Ms John from the Bank of England—is that some of the poorest communities are the ones still using cash and most affected by this, as well as by covid. I wonder whether any of the squeeze we are seeing more broadly is being brought to bear on them. Are they still using cash? Are we seeing the cost of access to cash rising?

Sarah John: It is perfectly fair to say that the experience has not been the same up and down the country. We know that in certain towns and cities, for example London, cash withdrawals fell by 90% in the first month of lockdown, but in more deprived areas across the country that figure was much lower. I do not have the exact numbers for your constituency, but I know that in parts of Liverpool it fell by close to 40%, rather than the 90% we saw in London. It did fall in all areas, but it certainly has not been a consistent picture across the entire country. There is definitely a link to more deprived areas still relying on cash—a lot more than in some city centres. We need to be careful that those of us based in and around London do not assume that it is the same experience for everybody up and down the country.

Q46 **Mr Holden:** That is absolutely correct. I was at the local bus station in my constituency the other day, where, I believe, 50% of transactions still use cash. In London, it is almost impossible to use cash to pay for a bus, unless you pre-load it on to an Oyster card. There has been a lot of talk about getting cashback into shops as another alternative when we have seen this big decline in cash machines. Mr Hemsley, are you concerned about the decline of cash machines? Is it something that has accelerated due to covid, and perhaps the changes that were just outlined by Ms John?

Chris Hemsley: Our particular focus is on protecting people using cash through access to free ATMs. That has been the priority for the PSR for a number of years now. We are focusing on that issue of coverage. We are in a position where we have quite a lot of ATMs generally, so we have been focusing on whether they are in the right place, to put it simply. The increasing focus over the last year has been on making sure that there are policies for responding to communities that are requesting ATMs and do not have good enough access, and for identifying those gaps in coverage.

At one level, the reduction is okay if it is in the right places—places that are relatively well-served. You know from walking down Victoria Street that you have a plethora of ATMs there that you can choose from. The issue is making sure that they are in locations where it is really important that there be free access to cash.

Q47 **Mr Holden:** Free access to cash is an important point. In Moorside, one of the more deprived parts of my constituency, where a lot of people are budgeting by cash—for a lot of people, it is a way to manage their finances—the only option is a pay-to-use ATM. I am running a bit of a local campaign on that, but across the country, are you trying to tackle that issue in communities that are very cash-reliant, that have not seen as big a fall in usage, and that have probably seen a rapid bounce-back since covid as well? Are those the areas in which you are focusing on getting more free-to-use cash machines?

Chris Hemsley: That is exactly right. The thing we are focusing on here is free access to cash. Increasingly, we are trying to use the data that we have to make sure that action is taken in areas where there are particular concerns around social deprivation and vulnerabilities, so that there is free access to cash, rather than undue reliance on a pay-to-use ATM.

Q48 **Mr Holden:** On that point about free access to cash, one of the issues often raised—I know that Dame Cheryl would raise it if she could—is about post offices. A major issue for a lot of communities is access to post offices. Is that something that you are looking at in this sphere as well? It is not just the cash machines; it is counter services as well.

Chris Hemsley: Yes. The post office network is a really important network that we rely on to get free access to cash. Over time, we will likely see the Post Office play an even larger role, particularly in more remote rural areas.

When Link looks at whether there is appropriate free cash provision, it looks at whether there is a post office with suitable opening hours that could provide an alternative, but that won't work for everyone, so there are other ways of requesting access to cash through an ATM if the post office, for whatever reason, doesn't meet the needs of the local community.

Q49 **Mr Holden:** There is one important point that I want to pick up on there. I have had this issue in Billy Row in my constituency. There is a cash machine at a small village shop, which is also a post office. The issue they have is that the post office is open only during certain restricted hours during the day. Also, to be honest, if you are in a small community and you want to withdraw some money, and you are on a tight budget and using cash, or if you don't want someone to know how much cash you've got, you don't necessarily want to have to get a balance check and all that sort of thing from somebody over the counter. A cash machine is also very important in providing privacy to people. Is that something that you are considering as well for some of these communities?

Chris Hemsley: Absolutely. The way that I am looking at this is that we want a portfolio of ways that work for people, and some of that is cash machines; sometimes, it's post offices; and it can be cashback. The thing you have talked about is: ultimately, what does that community need? One of the things that we have been a leading voice on is making sure there is a way for communities to tell that to Link, to ask for help, and to ask for a cash machine to be installed, if its needs are not being met.

Q50 **Mr Holden:** I have a broader question for Nikhil Rathi. There is a lot of concern, as Dame Cheryl said, around collections for charity and things like that during the financial crisis. There is a broader issue about fundraising. Is that something the FCA is looking at on a more general level—how fundraising is managed, the charity sector and the third sector?

Nikhil Rathi: I am not aware that we are looking specifically at those third-sector issues and charity fundraising specifically. Tom mentioned that the Department for Digital, Culture, Media and Sport is the Government Department that would be sensitive to those issues. I am happy to connect with them to understand if there is something further we could be doing there.

Mr Holden: That is something that is coming across a lot of our desks. I am thinking of it specifically in the run-up to Remembrance Sunday. If you do not have coins any more, or even people using cash, there is an effect on those easy-to-use fundraising tins and how to raise cash easily. That is one of the side-impacts. There is not just the question of the needs of cash users in my constituency, but the fundraising element. There is the business and the charity side. That is one of the things worth considering more broadly. I will hand over to the Chair, as we move on to the greater strategic elements, and how they are being managed.

Chair: Thank you, Mr Holden. I will bring in Nick Smith MP to talk a little bit about the readies.

Q51 **Nick Smith:** As in Mr Holden's area, there has been a drop-off in ATMs in Blaenau Gwent in south Wales, and it has had a big impact, particularly on my elderly constituents. According to figure 12 in part three of the report, in the past 20 years, the number of notes in circulation has nearly tripled from 1.5 billion in 2000 to more than 4 billion in 2020. There are a lot more readies out there. Ms John, you talked earlier about the collapse in demand for cash with covid. What has happened to the notes in circulation since April?

Sarah John: It has actually gone up. That is what you can see in the very final bar of that chart you referred to in figure 12. It has continued since then. So what has happened? How can I explain that, and marry those two things together? Cash withdrawals have fallen, as I explained earlier, but deposits of cash have fallen by even more. With deposits falling by even more, you get an increase in the number of notes in circulation. That points to a continuation of a trend that we have seen for many years. That chart you pointed to goes back to 1975, and you can see that trend since the beginning of the 1990s: demand for notes in circulation is going up even as transactional use for cash is coming down. That points to a change in the way cash is being used in society. It is being used less and less for transactions, and more and more as a store of value. That is what the evidence and the data point to, and that has accelerated during the crisis.

We think there are two elements to that since the start of the pandemic. When lockdown originally came in, we saw people stockpiling cash—relying on cash as a contingency. People were withdrawing large sums of money—often over the counter, rather than via ATMs—because they saw the lockdown coming. They were stocking up on toilet roll, and they wanted to stock up on cash at the same time. That is something we often see in periods of uncertainty in the economy; people rely on cash, and they like to have that ready money available, and to have a store of value at home. Surveys that we have done indicate that between 8% and 13% of people are holding more cash at home as a result of the pandemic. That is one reason for it.

The other reason is slightly more complicated, but we think it is to do with the fact that although cash is being used less in a retail environment, it is still being used for person-to-person transactions. There are a couple of elements of this that are relevant in the pandemic. The first is that we have had a lot of people shielding, trying not to go to the shops themselves, looking after their health, and often having other people shop on their behalf. The transactions that are happening in shops might be made with a card, but when those groceries are delivered to an elderly relative or someone who is being cared for, the carer is being paid in cash, and the carer is not doing anything with that cash. That is increasing hoarding in the economy. We have some evidence to support the fact that cash holdings by younger people have increased since the start of the pandemic, and we think that is probably linked to some of that behaviour.

The final element we would point to is that a lot of small businesses—often sole traders, such as window cleaners or gardeners—rely on being paid in cash. They are perfectly legitimate businesses, but very dependent on cash payments. Those cash payments are going ahead; we saw a pick-up from about the middle of May in the number of those payments going through, which corresponded with a big increase in the amount of notes in circulation, but those small businesses are not necessarily depositing that cash, so we are getting an increase in the store of value in cash holdings.

Q52 **Nick Smith:** I am trying to summarise that. My take is that there is more cash in hand going on, and perhaps more cash being stored under the mattress. Is that having an impact on the grey economy? What is happening there?

Mr Broadbent: Sarah referred to what has gone on since the pandemic, and why the notes in circulation have increased further, despite a sharp drop in retail spending, and in the use of cash in retail spending. I want to take it back further. Sarah also pointed out that this growth in the stock of notes, independent of the decline in their retail use, goes back to the mid'90s. That was the time when inflation and nominal interest rates fell as a result of an inflation-targeting regime being brought in. That is the economic cost of holding cash. You can think of the overall rate of inflation and the official interest rate, or the general level of interest rates, as a kind of tax on the holding of cash.

I don't think it was a coincidence that it was at the time that inflation targeting was brought in and the level of inflation fell to low and stable rates that you saw this demand for cash as a store of wealth start to rise.

That is that longer-term backdrop to the remark that Sarah made. Indeed, the general trend to which people are referring here is the rising use of cash as a store of wealth, and that has been going on for the best part of a quarter of a century.

Sarah John: Do you want to come back to your question on the shadow economy?

Q53 **Nick Smith:** Yes. There seems to be a big contradiction here, with the amount of cash in circulation going up, but much lower use of cash as the means of transaction. We just need to delve a bit more into that, please.

Sarah John: Absolutely. That is because, as you say, we are seeing the increasing use of cash as a store of value, as opposed to for transactional purposes. There can be any number of reasons why people want to hold cash, but as Ben said, the longer-term drivers tend to be around things such as a low interest rate environment, which means that the opportunity cost of holding the savings in cash versus in a bank is much lower. That has definitely contributed to people's wanting to hold their cash in banknotes.

We also saw a pick-up in the financial crisis, as people became concerned about the strength of financial institutions. They withdraw cash because cash is something that they feel they can rely on. I recognise that it seems like a paradox, but it is a long-term trend. It is also not just happening in the UK; this is an international phenomenon. I regularly talk to my counterparts, who have done very similar analysis to ours. In fact, our estimate of the proportion of total notes used in the transactional cycle is about 20% to 24%. The figure is often even lower than that in other developed economies. In 2018, Australia put out equivalent figures of between about 15% and 35%—a similar ballpark. This is not a UK phenomenon; this is an international phenomenon. As Ben said, it has been going on for a long time.

Q54 **Nick Smith:** This is the last question from me on this. Ms John, you talked earlier about some areas still using cash. You talked about Liverpool; cash use there is still around 40%, but it is much lower in London. Is there something similar going on in places such as south Wales and the north-east—places previously thought of as areas of deprivation? What is going in those places?

Sarah John: I don't have the figures on individual areas here, but in general, I would say yes, it is similar. We do see a difference in the use of cash. Cash is used more in the north than in the south and tends to be used more in deprived areas than in more affluent areas. That is definitely true—that is what the data show.

Nick Smith: Thank you.

Q55 **Chair:** Before we move on to Mr Peter Grant, I have a question. We believe that they were disinfecting banknotes in South Korea, Ms John. As chief cashier, is this something that you did, or considered doing? Was there a concern at your end about banknotes being a way of spreading covid-19?

Sarah John: Banknotes are obviously one of a number of surfaces that people will come into contact with on a regular basis. The evidence of many studies on this is that there is no more risk of covid associated with a banknote than with many other common surfaces. In fact, the latest studies appear to show that the virus can survive only for a matter of hours on banknotes, as with any other surfaces.

Q56 **Chair:** So there was no mass-disinfection programme or anything like that planned?

Sarah John: No, there was not.

Q57 **Peter Grant:** Mr Rathi, it may have been shortly before you officially took up office, but the Financial Conduct Authority recently issued revised guidance to banks on the steps they should take before they close a branch. Coincidentally, a week later, TSB announced that it was shutting about half its branches in Scotland, including the Buckhaven branch in my constituency, which serves one of the most deprived urban areas in the country; child poverty levels there are almost double the Scottish average. What account do you expect banks to take of the levels of deprivation in a community before they take the decision to shut literally the last bank in town?

Nikhil Rathi: That guidance, as you said, was published earlier this year. Our expectation is that, as they are making these decisions, banks demonstrate the analysis that they have done on the impact on vulnerable consumers. It is particularly important when it is the last branch in town that they give proper notice, and that they make every effort to put in place, or to signpost consumers to, alternatives for accessing those services. We have put out guidance, and we are certainly having discussions and engaging with banks to make sure that they are in compliance with the guidance.

Q58 **Peter Grant:** What happens if banks do not comply? Does the FCA have any sanction that it can impose on them?

Nikhil Rathi: The FCA, as the supervisor, is able to engage through normal supervisory processes with banks and make sure that they comply with our supervisory approach. We do not have the power, as sometimes requested, to direct banks on which branches they should or should not keep open—those are ultimately commercial decisions—but we can certainly work with them to make sure that they are communicating with customers, considering the impact on them, and treating them fairly.

Q59 **Peter Grant:** On the impacts on vulnerable customers, a lot of elderly people feel safer going into a bank to talk about money than taking it out from a hole in the wall. I am also aware of cases where scams were stopped because an older person was taken into a bank to withdraw money, and the teller got suspicious and stopped the transaction. Clearly, if that older person had been taken to a hole in the wall, the hole in the wall would not have stopped the scam from taking place. How concerned are you that, as more and more cash customers are having to go to holein-the-wall machines, vulnerable people will not get the degree of protection that they have had previously from vigilant bank staff?

Nikhil Rathi: We certainly understand that for certain consumers face-toface contact with bank branch staff is a very important way in which they have historically accessed bank services. We have been encouraged by the progress that has been made—for example, in the framework agreement between banks and the Post Office—in understanding that where banks are closing branches, alternative provision should be made through the Post Office. Training is provided to Post Office staff to enable them to engage in face-to-face conversations with customers, as you describe.

Also, there has been some good work done in certain areas during the pandemic on more creative solutions where there have been issues with access to cash, including supporting greater additional access for vulnerable consumers, mobile vans, and, in some cases, even courier deliveries of cash. As Chris said, I do not think there is one solution here; it will be very community-based, based on the local area and the needs of the consumer population there.

Q60 **Peter Grant:** Thank you. I may follow up with you offline on some of those points, Mr Rathi, because the problem with the Post Office is that, as I am finding in my constituency, post offices are closing all over the place. Relying on them to provide access to cash does not work if the post office shuts as well, but I know that a lot of Members still want to come in, so in the interests of brevity, I thank you for your answers.

I will move on to Sir Tom at the Treasury. The latest annual report from Link, the company that manages the information transfer between cashline machines and so on, reported that because of a significant reduction in its income during covid, it had to send out a £4 million call for cash from its members. It has reported, and its auditors have accepted, that it can still trade as a going concern, but what is the Government's contingency plan if a key part of infrastructure such as Link just stops trading, in the way that a lot of banks almost stopped trading a few years ago?

Sir Tom Scholar: May I ask Mr Hemsley to come in on this, as the PSR is the regulator of Link?

Chair: I think there is a wider point here for the Treasury strategically about the availability of cash, but if Mr Grant is content, I will bring in Mr Hemsley.

Chris Hemsley: You are absolutely right that one of the things that Link has done is issue that cash call from its members. We have been actively monitoring with Link whether any part of the cash system is under particular strain. On the area that you are referring to, in terms of the financial resilience of Link, because Link is a systemically important part of our economy, it is subject to oversight by the Bank of England.

Broadly speaking, the distinction between the Payment Systems Regulator and the Bank of England is that the Bank is there to make sure that those systemically important pieces of our infrastructure are both financially and technically resilient. Between our two organisations, we make sure that the network has that coverage and protects people's access. The Bank oversees Link in terms of its financial resilience and the technical resilience of its IT systems.

Q61 **Peter Grant:** What is the end result if that oversight begins to warn that there is a potentially serious problem? Link is a private company. It is not part of the Government and not a part of the Bank of England. If it becomes clear that Link is in danger of failing, what happens?

Chris Hemsley: The particular issue here is the ongoing membership of the banks and their commitment to Link over the longer term. In the near term, in the next few years, I don't think that that is a particular risk. We have been working closely with the banks and with Link to understand the risks to the system overall. But you are right—this is linked to the Government's recent call for input on reforms to the cash system—that one of the things that we all need to think about is whether there need to be additional requirements, or additional powers perhaps, to make sure that we are not relying on banks choosing to be a member of the cash machine network, and whether there needs to be additional legislation in that space. Between the Bank and the PSR, we are monitoring Link and are relatively comfortable, but it is certainly the case that over time, if we move to a particularly low-cash economy and low cash use, those questions about sustainability mean that we need to look at whether there is a need for additional legislation and additional requirements.

Q62 **Peter Grant:** As a last resort, do we have to bail out Link in the same way that we had to bail out the banks 15 or 20 years ago? Is Link too important to be allowed to fail? If the banks are unable or unwilling to keep it going, does the Government have to step in with public money to keep it going?

Chris Hemsley: I think this is the public policy question that we are dealing with now. The question really is: what are the obligations on the banks and other financial service providers in terms of their customers' access to cash through an ATM or cash through other routes? We are having that debate now. We certainly would not want to get to the position where we would want to expect the Government to bail out Link. We are acting now so that we can make sure that Link funding and the obligations on all parties avoid that sort of scenario.

Chair: I'm bringing Sir Tom Scholar in on this one.

Sir Tom Scholar: Mr Hemsley is exactly right. In fact, if you look across the financial system, there are several examples of what we might call the financial system infrastructure, which is part of the necessary connections in the system to make it function properly. A number of these could be regarded as systemically significant such that a failure would pose serious financial stability issues. Those are constantly monitored by the financial stability committee at the Bank of England. There are contingency plans for them all. The first line of defence is always the industry. Again, there are examples, including from other countries where the industry has had to step in to support the infrastructure. Any question of a recourse to public support would be an absolute last resort. We would have many other things that we would look to before we would get there.

Peter Grant: I put on the record again that Link and their auditors are quite confident that they are a going concern. I do not want to alarm viewers any more than necessary. As an auditor, it is a part of my responsibility to be pessimistic sometimes. No more questions from me. Thank you, Chair.

Chair: Thank you, Mr Grant. I will now turn to Sir Geoffrey Clifton-Brown.

Q63 **Sir Geoffrey Clifton-Brown:** Can I continue Mr Grant's theme on Link? What we have been hearing anecdotally, Mr Hemsley, is that, during covid, because the turnover of some cash machines has dropped, Link have either been increasing the charges or requiring more stringent minimum amounts, which puts further pressure on cash machines in rural areas, and every ATM that closes in a rural area causes problems for disadvantaged and elderly groups. What are you doing to look at the problem of the ATM charges?

Chris Hemsley: It is useful to distinguish between the approach to freeto-use ATMs and pay-to-use ATMs. On free-to-use ATMs, it is Link that has been changing its policies, including in response to the regulation that we put in place. It has been increasing the payments behind some of the lowvolume free-to-use ATMs, so it has been increasing the commercial viability of those machines, likely in rural areas or areas where they are particularly socially important but are lower volume.

But I think you are particularly referring to questions around pay-to-use machines. Some machines have switched from being free to use to pay to use. They would typically attract a fee of 99p or £1.99 to get the transactions. The thing that we have been doing in respect of those machines is that we are trying not to rely on them. When we talk about coverage, we are talking about coverage of free ways to access cash: freeto-use ATMs, cashback, and the post office. If an area is relying on a payto-use ATM—rather than using it because it is particularly convenient, people who need cash are finding themselves having to rely on the pay-touse ATM—that is where those policies should be kicking in. Ultimately, if an area is finding itself really dependent on a pay-to-use machine, there is likely to be quite a strong case for putting in place an additional, free-touse way of getting cash—very likely a free-to-use ATM.

Q64 **Sir Geoffrey Clifton-Brown:** May I put it to you, Mr Hemsley, that if, in particular, the vulnerable and low-income groups are forced into a situation in which they either have to go into a shop to get cashback or, to a lesser degree, have to go to the post office, this is perhaps tempting them to spend more than they would otherwise wish to spend? If they have to go for a charging ATM, that is also costing them money that they haven't got. An ATM is the most convenient and the most economical way for those groups to access their own cash. Is that something that you are looking at?

Chris Hemsley: Yes. Our policy has been to protect the coverage of freeto-use ATMs and then also to identify areas where there are gaps, to try to plug the gaps in that network. That should hopefully provide for the sorts of communities that are really trying to budget very carefully. We know from our own research that those people typically prefer to budget in cash and that they also like good access to cash. As I say, we have been protecting that network and then, in respect of the regulation of Link, if the network that we have today has gaps, that is why we have been pushing for, and very much welcome, steps that Link but also UK Finance have taken to provide a way for communities to ask for better provision. If the standard rules that Link has set do not work for the particular circumstances of a community, there is a way to pick that up and make sure that a free-to-use ATM is installed where there is a good case for it.

Q65 **Sir Geoffrey Clifton-Brown:** Could I ask Dr Broadbent about the joint authorities cash strategy group set up in 2019? It was established to "set up strategy, coordinate work to support nationwide access and help safeguard cash for those that need it". Isn't that a bit of a prejudicial way of looking at things? Shouldn't it actually have said, in a democratic society, "for all those who wish to use cash"? Can I be absolutely sure, Dr Broadbent, that there is no agenda in Government to try to reduce the amount of cash for those who wish to use it?

Mr Broadbent: No, categorically. Our role at the Bank, as producers of cash, is to meet whatever demand is there, rather than either to determine that demand or to influence it in any way. The "need", I think, was meant, if anything, with the opposite emphasis—to understand that there are people who genuinely need it, who find it very difficult to substitute other things for it, and to ensure that those people have access to cash. It was not meant to indicate that somehow there is an active effort to reduce either the use of or the access to cash—certainly not. As I say, for our part at the

Bank, our specific responsibility is to meet the demand, whatever it is, and we will continue to do that.

Q66 **Sir Geoffrey Clifton-Brown:** Thank you for clarifying that, Dr Broadbent. That is very helpful. While I have got you, can I talk about counterfeit notes? I draw your attention to figure 15 on page 51, which shows that the UK has a much higher level of counterfeit notes in circulation than our European, Australian or Canadian colleagues. Is that just a function of the hangover of transition from paper to polymer notes, or is there something more malign in the system?

Mr Broadbent: No, it is certainly to do with that. In fact, it helps explain why we felt it was important when we took the decision some years ago to switch from paper substrate to a polymer one. I am going to ask Sarah John in a moment to give you more on the international picture, but certainly, those are statistics that relate very much to the use of paper notes. We are very confident that the move to polymer has already reduced, and will continue to reduce, the level of counterfeiting in this country. I would like to ask Sarah to follow up on some of those international comparisons, if that is all right.

Sarah John: To explain, the figures you are seeing in figure 15 show that the UK figure of 107 parts per million is up to 2019. Of course, the vast majority of counterfeiting is of £20 and £50 notes. We had not at that stage switched to polymer for those two most counterfeited notes. In fact, the figure you are seeing for the UK there is predominantly relating to paper. The evidence from the £5 and £10 notes, which have already switched over to polymer, is that counterfeiting has dropped off quite significantly in those two denominations, but they were never the most counterfeited notes in the first place. Now that we have moved to the polymer £20 note, we are anticipating a fall-off in those levels as well. I would say that that is exactly what we see in relation to both Australia and Canada, which on that table, as you can see, are 18 and 12, while for us it is at 107. Canada had not dissimilar counterfeiting levels—in fact, they were higher—than us. They were subject to a counterfeiting attack shortly before they moved to polymer. They were well over 300 parts per million at points in that counterfeiting attack and now their level has fallen to about 12, which they put down largely as a result of the move to polymer.

Q67 **Sir Geoffrey Clifton-Brown:** The reason I put the question in the careful way I did to Dr Broadbent about whether something more sinister was underlying that is that paragraph 3.36 on the previous page, page 50, of the NAO Report says: "The Bank attributes this difference to counterfeiting in the UK having greater involvement from organised crime than in other jurisdictions." Can you tell us about that?

Sarah John: It is definitely the case that the majority of counterfeiting in the UK is conducted by organised criminal groups. The vast majority of counterfeiting in the UK is from that route. That is not necessarily the case in other jurisdictions. Just to take the euro figure you have in front of you, there will be parts of the euro area that have organised criminal involvement, but there are other parts of the euro area where there is very little organised crime. The figure you see for the euro is a combination of those areas, and that explains why it is lower than our figure. It is certainly the case that the vast majority of counterfeiting in the UK is from organised criminal groups.

Q68 **Sir Geoffrey Clifton-Brown:** That gives rise to the question: what are the Bank and the City of London fraud squad doing to try to counteract the problem?

Mr Broadbent: The main thing we have done is to switch to polymer, which, as I say, we are confident—Sarah has given some of the numbers on the £5 and £10—will very significantly bring down the possibility and therefore the amount of counterfeiting, because it is a much more robust note in that sense. We are talking about a problem predominantly with the paper note, which is being phased out. I will ask Sarah to talk a little about our co-operation with law enforcement authorities.

Sarah John: Absolutely. We have a multi-pronged approach to tackling counterfeiting. The most important, as Ben said, is the move to a different substrate and the enhanced security features that that enables, but we work closely with law enforcement to understand the nature of the counterfeiting threat. We also provide resources to help when they are undertaking police operations, so we can go in and understand the techniques being used to help to further identify opportunities for that to happen.

The other thing we do is to work with manufacturers of banknote accepting equipment, which is obviously a potential target for counterfeiters. We run something in the Bank called the machine testing framework, which enables banknote equipment manufacturers—BEMs—to bring their machinery into the Bank and run it against the latest counterfeit packs that we have, to make sure that they will out-sort counterfeit notes. That is a very effective way of making sure that all the machines out there that take cash, including in shops, parking meters and all sorts of different things, can properly reject counterfeit notes. The less opportunity criminals have to pass those notes, the less likely they are to try to do it.

Chair: Thank you, Sir Geoffrey. I am going to turn to Craig Mackinlay MP. Over to you, Mr Mackinlay.

Q69 **Craig Mackinlay:** To carry on the discussion with Ms John regarding the accumulation of cash under floorboards or wherever else, the low interest rate environment will increase that as well. I think that was seen in Japan. Dr Broadbent will know, probably better than anyone, where interest rates are likely to go, but if we did get an environment of negative interest rates, people are not going to put it in the bank to get charged. It is going to end up under the mattress, as we saw in Japan. That is just an observation.

I have sat here for the past hour and a half listening to a lot of contributions by a lot of people. We have the FCA, the Payment Systems Regulator, HM Treasury, the Bank of England, the Royal Mint and the independently supported Link network. You are all important, but I have heard nothing from anyone that says, "Yes, that is my responsibility. That is what I am going to do." Do we really have a strategy for who is going to manage the cash system? We also have the joint authorities cash strategy group, and I can only imagine that each of the organisations represented here is a part of that. Let me just give you a very clear example of what—

Chair: Is that to Sir Tom?

Craig Mackinlay: I just want to know who has control of this. Nobody seems to take any responsibility for cash management. Are the banks going to do this and look after our communities who need cash?

Chair: Let me start with Sir Tom Scholar, Mr Mackinlay, and then you can follow up if necessary. Sir Tom, you are overarchingly responsible for this at the Treasury, we think, but tell us.

Sir Tom Scholar: Let me try to answer that. Of course, if you look at the whole system for the production and distribution of cash, it is complicated and, as you say, it involves all the organisations present today. The NAO Report does a very good job of explaining who does what. If you look at page 20, figure 2, it sets out that the Mint produces and distributes the coins; the Bank produces and distributes the notes; the FCA regulates the banks and building societies that handle an awful lot of them, and has a particular statutory mandate for consumer protection and information on consumers that goes with that; and the Payment Systems Regulator regulates Link, which is so important in the overall cash system.

The Treasury, representing the Government in this area, sits in the middle of it all. We chair the joint authorities cash strategy group that you mentioned and we are ultimately responsible for proposing legislation to Parliament and therefore identifying gaps in legislation. It is inevitable that you have several people involved, but I think each of our authorities is more than happy to put up our hands and say, "Look, we are responsible for that. That's our job." That is the first thing.

The second thing, as we discussed earlier, is that the Treasury just last week put out a call for evidence on the use of cash. We—the Treasury— are doing that. At the same time, the FCA are doing a lot of research into some of the more detailed consumer aspects of that. All of that information will be shared in that joint authorities group. Coming out of that will be proposals for how to improve the overall system. Each authority obviously has its own governance and decision-making structures. That has to be the way it is, but we will certainly make sure through this group that we are properly co-ordinated, that we all know what one another is doing and that we have a common base of information.

Q70 **Craig Mackinlay:** Okay. Let me just give you an example that is probably true of every high street. I know that my colleague, Peter Grant, whose constituency is in a far less densely populated area than mine, is facing this even more than I do.

On Broadstairs High Street in my constituency, some five years ago we had just about every bank represented and one by one, over a period of about two or three years, they have all closed, bar Nationwide. Nationwide is the only institution left on that high street.

At the time, I obviously got complaints from the public whose preferred bank was closing. The banks then gave me that great assurance: "Oh, don't worry. We are liaising with our customers, and they can go to the post office"—we have two post offices in Broadstairs, which is helpful. But lo and behold, the queues at the post office are huge and then, just to kick the local residents further in the pants, one of the cashpoint machines that was widely used became a paid-for one. It was once free; it's now £1.99.

Now, I would have thought that it is within the remit of the FCA and the PSR to monitor these things. Who was responsible across all these high streets? Perhaps, Mr Hemsley, that might be your department.

Chris Hemsley: We have been mapping this issue of coverage with the FCA. We have been bringing together all the data and effectively we have a joint team with the FCA to make sure that we look across ATMs, but there are also issues that then fall within the FCA's remit.

The particular example that you have there—I spent much of my childhood in Broadstairs actually, so I am very familiar with it—is that with local circumstances, there can always be local issues. That is why we have this combination of policies to protect free-to-use ATMs, so that, put simply, people should be within a kilometre of a free cash access point. If that is missing something, such as a local need, then there is this ability to apply to Link to be considered for a further free-to-use ATM.

Q71 **Craig Mackinlay:** I must say, to their credit, that in the small village of Preston, not far from Wingham, the Link network sprang up a new cashpoint machine in a pub—fantastic. I think that is how the system should work.

Now, I just want to concentrate on the fact that there has been much chatter of late about shops being able to give cashback. We have a strange network. The shops, if they are going to give cashback, are currently—through legislation, some of it EU-derived, I understand—not allowed to offer pure cash. They can add cashback to a purchase. Sir Tom, is the Treasury putting together new legislation to allow that to happen?

Sir Tom Scholar: Thank you, Mr Mackinlay. What you say there is correct. Under the payment services regulations, although it is fairly straightforward for a retailer to offer cashback with a purchase, if they offer it without a purchase, it then becomes what is defined as a regulated payment service, which, broadly speaking, most retailers cannot do because they are not regulated in the proper way.

As you say, that derives ultimately from European law—a European directive from 2017. Clearly, once the transition period ends at the end of this year, we will have greater regulatory freedom in this area.

In the call for evidence that we published last week, that was one of the specific things that we asked for views on. Clearly, a greater ability of retailers to provide cashback, including without a purchase, increases the options that people have for access to cash and increases the local circulation of cash, which should make the system more efficient overall. At the same time, we would need to make sure—this would be for the FCA to take part in, as well—that there was an adequate degree of consumer protection there, but it is certainly something we can and will look at, once we have the responses to our consultation.

Q72 **Craig Mackinlay:** It all sounds like a great panacea, but the problem is that as fewer people use cash, not debit cards and credit cards, the shops that might initially be keen on that will not be getting the cash through the door to provide that service. We are going around an ever-decreasing circle. I would be surprised if a local trader would want to simply hold extra cash than what he is getting through the door just to provide that service. That would be risky for security and bank charges might preclude it.

Mr Rathi, what will the FCA be doing to the banks and bank charges in terms of that cash handling? The banks already tend to charge businesses for depositing cash. They charge businesses if you do a cardless transaction, or one with a card or a contactless card. Are you getting involved in those charges that are levied to make sure they are as transparent, low and customer friendly as they can be?

Nikhil Rathi: Our mandate is to ensure customers are treated fairly and that they are properly protected. We are engaging with banks to understand how they expect to evolve their services. That will include understanding the economics and the business model that underpins that evolution.

Historically we have not got into the business of regulating each bank's specific charges for their services, but we have focused on the communications they give to customers and making sure that there is essentially fair treatment. The point you make more broadly is that the economics of the cash infrastructure are changing, and they will continue to change.

As the call for evidence progresses and these conversations progress, it will be important that the solutions we find are flexible. We can expect continued evolution in consumer behaviours and in the take up of digital payment over the coming years, so we will need to have flexibility in the way in which we approach these issues. Chris may also have some input here.

Chair: Mr Helmsley, do you have anything to add?

Craig Mackinlay: You don't need to!

Chair: That's fine. You don't have to add anything.

Q73 **Craig Mackinlay:** Where are we going to be in five years' time? Covid has taken another probably permanent slice out of cash use, not least because of people's safety concerns and because shopkeepers do not want to take cash. We have had another slice of transactions moving online, probably permanently. Within six months of the covid problem we have hastened the demise of cash. Where do you think we are going to be in another five years? It is not going to be any better. Ms John or Dr Broadbent, what is your perception of where we will be? It is not going to get better, if you think cash is good.

Mr Broadbent: Let me ask Sarah to come in on that. One model for that is the experience of Sweden, which has led the way, if that is the right phrase, in the retreat from cash and the move to digital payments. We are certainly aware of the need, as Nikhil said, to ensure that our part of the distribution system, which is on the wholesale side rather than the retail end and the ATMs, is robust to continuing declines in the use of cash as a retail payment. I will ask Sarah to talk about the wholesale aspect.

Sarah John: At the moment, there are four national networks that distribute cash around the country. Obviously, as cash use for transactions declines, there is excess capacity in those networks, and it becomes less and less efficient. Over a year ago now, we convened the underwriters of those four networks to come together to redesign the wholesale cash network in the UK. One of the options on the table—in fact, it is the key option—is to move potentially to a utility model, bringing those networks together into a single network, to remove duplication between those four national networks and run it as a single network. We think that would be able to keep going in an era of lower cash usage without losing coverage of certain parts of the country. It is absolutely critical for us to ensure that broad national network stays in place, and it just becomes harder to do that when you have multiple networks to maintain.

We put out a consultation paper on a proposed utility model early in the summer. We had a number of responses to that by the end of the summer. We are going through those responses at the moment to refine what such a model might look like before deciding whether to move forward with that. But, to your point, the aim of doing something like this is to ensure that that decline is managed appropriately and that, as usage goes down, we avoid as far as possible a ratcheting up of the fees that banks have to charge to businesses and so on for their cash usage. So the more we can do to make the infrastructure supporting cash as rational as possible—we are talking here about doing this in the wholesale space—the more we can pass those cost savings down the chain to small businesses and others who are dependent on that cash access. That work is ongoing to ensure that the wholesale network is sustainable for many years to come.

I would just add, building on Ben's point, that this was a key lesson we learned from Sweden, where they did not take this action, and they found that parts of their infrastructure atrophied, basically. They are now—

Q74 **Chair:** Can I chip in before Mr Mackinlay comes back? Can you give us a precise example of what you are doing at the wholesale end that saves costs that will then dribble through to the retail end and the consumer, or the distribution network for the consumer?

Sarah John: To take a very simple example, if you have four cash centres all running but actually the business needs only one or two, you are paying for excess capacity that you are not using. That means that the overall costs of running that infrastructure are higher than they need to be. So if we can take the excess capacity out and have a smaller number of cash centres appropriately positioned across the whole country, we can remove that excess cost, and that can filter through to end users.

Q75 **Craig Mackinlay:** Dr Broadbent, you started to mention the Sweden formula, which seems to be a few years ahead of us. Some parts of Sweden have very low population density and towns are few and far between. They have vulnerable people and people living remotely from serious towns and villages where you might expect a bank. They have got children who want to have their pocket money. They have got elderly

people who might need to a pay a neighbour a little amount to do some shopping. How have they overcome these problems that we are staring into the face of?

Mr Broadbent: As Sarah suggested, I am not sure that they have entirely overcome these problems. We have the benefit of having watched others go through this experience. In Sweden, this proceeded very rapidly, and they found that the wholesale system—the bit that we at the Bank of England are responsible for—did actually become uneconomic. It is one of the reasons why they have been thinking about, for example, a particular token form of digital currency that might allow people to hold cash and use the electronic digital infrastructure rather than a paper currency.

Now, I do not think even in Sweden that that will prevent the need to maintain the infrastructure of physical banknotes, because I think there will always be some bit of the population that would want or prefer to use them—as you suggest, the elderly and more vulnerable in particular. They are thinking, essentially, about how to ensure that the distribution system is maintained. I do not know what they have done at the retail end about what regulatory requirements they have put on ATM providers, which is perhaps more the thrust of your question. I am not sure about that. This may be a better place to talk about the retail side of the Swedish experience. We could look into it for you.

Craig Mackinlay: I think Mr Hemsley has his hand up.

Chris Hemsley: Yes. One of the changes in Sweden was to introduce minimum standards, which were set at around 30 km, from memory, so 90% plus of the population was to have access to one within 30 km or so. We are in a better position on that issue. The regulation we put in place on Link is at the 1 km level. We are looking at a 1 km threshold to protect access to cash. Obviously, the UK and Sweden have different geographies and different population densities, as has been noted. We have an analogous policy in place, supplemented by those additional policies on vulnerability and community engagement. At the retail end, we are in a decent place. If we then move forward with broadening that choice so that people have better access to things like cashback, where it works for the merchant and for the people, we are at least learning some of the lessons and hopefully protecting people.

Q76 **Craig Mackinlay:** Just to finalise, if I may, Chairman, is it that we are literally trying to keep a door open where it just wants to close itself? Should we—as Dr Broadbent said—think about top-up cards and artificial card-based currencies, and maybe bearer cards? We sort of have those already: a throwaway credit card can be topped up in the UK now. Is this somewhere

where perhaps we should be thinking that we should just accept that cash is going to die, and we could be at the forefront of something entirely different that people are competent and confident with? Maybe the time has come. I have always been in favour of cash, I am talking against myself, but I am just putting it out there. Should we not be in the premier league of this?

Chair: Was that to Dr Broadbent? Mr Hemsley also wants to come in.

Mr Broadbent: As I say, our job at the Bank is to meet the demand wherever it comes from. As I said a moment ago, it is not the purpose of the JACS group to hasten the demise of cash, nor indeed was it the purpose in Sweden. It just happened. The question really is about what if it just continues to happen. As I said for Sweden, and even for here, I suspect that the demand will be there for a considerable period even if the median person, if you like, switches increasingly or continues to switch away from cash. There will be some significant demand for it for a considerable period. That suggests to me that it is right, as Sarah and Nikhil said, to think about systems for supporting the wholesale and retail infrastructures that are flexible and adaptable, but at the same time investigating—as we are at the Bank—what is possible in terms of increasingly digital forms of payments, including some sort of digital currency. We are thinking about that question at the Bank of England. I

am not convinced that we should actively try and hasten demand, but I agree that it is important for us to think about alternatives, even if the two might co-exist alongside each other for a considerable period of time.

Craig Mackinlay: I will close there, Chairman. Just to say that everybody on this conference call today should be looking at key performance indicators of where the market should be, and stick to them. Unfortunately, I have not heard much of that, thus far.

Chair: This is just a warning that if you do not answer in the next session we will ask you for your timelines, your markers, because we want to be able to monitor what is happening in this interesting area. I will now bring in Barry Gardiner MP.

Q77 **Barry Gardiner:** Thank you, Chair. Dr Broadbent, you have adopted a nicely neutral position. I want to be sure on this: you said your job was simply to provide cash to meet the demand. I think you spoke about Sweden "leading the way" to a cashless society. When Sarah John spoke, she talked about the fees not being adequate to support the network.

Do you not accept that the regulatory framework in which you are operating is driving the demand, and that therefore the decisions that you take about the cost of cash to banks, the cost for retailers of depositing in banks—all of that—is part of what is driving the move away? It even comes down to the fact that retailers are now charging odd numbers for coffees, and so on—£1.81 or £2.81—so that people are incentivised to use cards? Where do you see your role as this neutral body, and where is the policy that you need to develop going to drive this? How do you incorporate the FCA and Mr Rathi into that?

Mr Broadbent: First, I repeat that it is our responsibility, speaking not just off-the-cuff but formally, to meet that demand. Secondly, more fundamentally, I am not sure it is right to say that the regulation is driving this. The regulation has been there, broadly speaking unchanged, for a long time. What is driving it is technology. I think what Sarah was suggesting—I strongly agree with this—is that the reason why some of the charges have gone up, or the sort of behaviour we are talking about has arisen, is that the infrastructure for distributing cash, spread across the public and the private sectors, is a fixed cost. It is more economical to maintain what we have had, in terms of the infrastructure, as long as there are sufficient volumes of cash going through. As they start to decline, the average cost of that infrastructure per transaction goes up.

Q78 **Barry Gardiner:** Yes, of course, and that is to restate the question. I understand that. The point is, at the end of the day, who pays? If you want to maintain fair access, there needs to be a policy driving that fair access. When the fee structure is not able to support the expansive network that we have at the moment, who is going to pay for that?

Mr Broadbent: At the moment, ultimately, of course, it is us, in one form or another. Our interest, as I say, is, as Sarah was indicating earlier, at least on the wholesale side, in reducing the cost. We are not in the business of determining. It is the retail regulators, including the PSR, who are here, who determine what the retail price should be. I know it is frustrating to have so many people on the call who are responsible for different bits of the system. As Sir Tom said, I think it is unavoidable that there are different bodies involved. Our effort has been to reduce the cost of the wholesale part, so that we can keep the system going for as long as we need it to carry on. The retail end is not one of our interests.

Q79 **Barry Gardiner:** If I may interrupt, that is a policy decision that you have just said that you are taking—to try and reduce the wholesale cost. What I am suggesting to you is that there are other policy decisions that are at the moment driving those costs up, and we need to be making interventions there. That is why I am asking what the cross-fertilisation is between you at the Bank and Mr Rathi at the FCA. Who is going to resolve that tension in policy?

Mr Broadbent: I wouldn’t describe our efforts to reform the wholesale system and to maintain its viability as a policy. I think it is the right thing to do. We have a responsibility for the wholesale side of the distribution. That is our job. It always has been. Nothing has changed, and we are responding to technological developments to ensure that that system is sustainable. I wouldn’t describe that as a policy. It is a response to technological change. I will ask Nikhil to respond on the retail side, where, in many respects, it is a similar issue. This is a fixed cost. It becomes more expensive per transaction as the number of transactions falls. We are responding to that, rather than arbitrarily introducing some policy, I think.

Q80 **Barry Gardiner:** But my question is: who is going to pay? Because the fear of all the MPs who have spoken this afternoon is that it is the poor and the disadvantaged who will pick up the tab, and we are already seeing it with the pay-to-use ATMs that are creeping in across vulnerable areas.

Mr Broadbent: I understand. As far as the retail end is concerned, I think the FCA will be better placed to do that, but the entire thrust of the efforts you have been hearing about over the last hour or so is to ensure that that is not the case. I will let Nikhil take up the FCA angle.

Nikhil Rathi: We take a similar view here, which is that we are trying to do two things. One is to ensure that there is access to cash for those who would like to use it and those who need it. We talked about the various steps that are being taken around that. The question of cost is clearly a complicated one. I think there are figures in the Treasury's call for evidence to show that the overall cash infrastructure in the UK to date costs about £5 billion a year to maintain, in broad terms. As that evolves, there is clearly, I guess, a political choice for Parliament and the Government to make as to how the costs of that are borne by different actors in the system.

What we also need to do, as part of our consumer protection mandate, is to think, as this change is progressing, about how we can support and minimise the harms to those consumers who may otherwise be digitally excluded. There is a lot of focus on that element as well. There were some encouraging developments during the pandemic, such as banks proactively distributing iPads to vulnerable consumers and paying for training and education to enable them to become digitally enabled and access services.

Work is going on around the 1 million unbanked in the country—the 1 million people who do not have a bank account—who therefore rely entirely on cash. That is another important piece of work. For small businesses, there is thinking how deposit hub machinery and technology can be used so that they can deposit cash without necessarily having to go into a bank branch.

That piece of work is going on alongside the work to preserve access to cash and get the data that we described earlier.

Barry Gardiner: Thank you. I find that very helpful—to put that policy next to the neutrality that bankers always wish to have, and to meld the two together.

Chair: Thank you, Mr Gardiner. I know that Mr Holden is going to pick up on some of this.

Q81 **Mr Holden:** Thank you, Chair. I have a couple of quick questions. We talked about the cost of cash to the economy. Could perhaps Dr Broadbent talk about the cost of hoarding physical cash in the Bank of England? It seems that the contingency level—even at the end of July, when we saw the potential for people holding cash—is still double the minimum guidance. Why are you holding so much physical hard currency?

Mr Broadbent: I will ask Sarah to talk about the more recent trends, because the number in the Report is significantly out of date. The stocks have fallen significantly. The snapshot in March, which is the latest number given in the Report, came just after a print run of the new £20 note, so you would expect stocks to be pretty high.

Separately—we may not have time to talk about this now—we are not quite in the same place as regards how the NAO has accounted for that. I don't think they have the right approaches to understand the cost of that higher stock. It should be a question of whether you print the extra notes now or a year later, which is not how they have done that calculation. We think the costs of the extra storage—for as long as that occurs, which in this case has not been very long—is very small, actually, so we have a different idea in mind as to how that should be accounted for. The particular reason why it was high in March was because—

Q82 **Mr Holden:** Sorry, Dr Broadbent, but this is an agreed Report. The NAO says the figure is £35 billion, and that is agreed by you and others.

Chair: Mr Holden, I am going to bring in the Comptroller and Auditor General, because, as you rightly highlight, it is an agreed Report.

Gareth Davies: All the facts in the Report have been agreed with the Bank, so I do not think that there is any dispute about that. Clearly, all the numbers have to be struck at a particular date, and things have moved on since then. It is useful to have an update since the agreed numbers in the Report.

Mr Broadbent: I agree that the number is what it says it is, but I am not sure that it is the best way of measuring the cost of the extra stocks. This is the number for printing, instead of the amount of banknotes, but of course we use and distribute the banknotes in the end. My own view is that a better measure of the cost is to ask, "What is the cost of printing the banknotes now, as opposed to later?", which is a different question. The cost, on that basis, is smaller.

Q83 **Chair:** We are not really in the game of arguing about the methodology of the National Audit Office in these sessions. Its Report is as it stands, and we are trying to ask questions about it. Please continue.

Mr Broadbent: I understand. Let me get to the relevant question of why the stocks are high. The answer is, principally, that this is because this was a snapshot taken just after we had done most of the £20—

Q84 **Mr Holden:** With the greatest respect, Dr Broadbent, I am looking at paragraph 3.30 on page 47, which has an end-of-July figure as well as the end-of-March figure, so it is not just a snapshot. Even at the end of July, we are still looking at more than double the minimum contingency levels.

Mr Broadbent: It is now down at £27 billion. That is the latest figure, which is not in the Report. The figure in September—

Chair: Dr Broadbent, you are arguing about the Report—whether it is £30.4 billion or £27.4 billion, it is still significant and does not take away from the point that Mr Holden is making. Perhaps you will answer him.

Q85 **Mr Holden:** It is still very much above £15.6 billion, which is your minimum quota.

Mr Broadbent: Forgive me; I was not arguing with the Report. I was simply saying that we have had another number since the Report was published. That is all I am saying. The number for September, I believe— Sarah can confirm this—is lower than the number in July. I do not know if Sarah has the precise number, but my memory is £27 billion.

Sarah John: Twenty-seven, yes.

Q86 **Chair:** Mr Holden's still stands. Perhaps you will answer his question about why the figure is so significantly higher than the minimum guidance levels.

Mr Broadbent: I will ask Sarah to comment on what that "minimum" means. We are often above the minimum, and we don't really want to be at that minimum—

Q87 **Mr Holden:** We get that bit, but you are not just a little bit above; you are almost double.

Mr Broadbent: We are not double, actually, at the moment. As I said, we are £27 billion, so we were not double in September. As I said, there has been a number since the Report—

Q88 **Mr Holden:** As opposed to £15.6 billion, £27 billion is still almost double.

Mr Broadbent: I will ask Sarah to comment on what the minimum is. I am not sure what the minimum is.

Mr Holden: It is in the agreed Report: it is £15.6 billion in cash.

Sarah John: Perhaps I may come in on this. It is not unusual to have doubled those requirements. It is to provide value for money for the taxpayer that we have those holdings. The reason for this is that when we are deciding what stock of notes to produce, one of the things that we have to look at is the efficiency of the print runs that we undertake. It is incredibly inefficient for us to have small print runs of individual denominations. It requires machine downtime, new plates, inks—that is a very inefficient and not a cost-effective way to run a manufacturing business for banknotes. It is far more effective to do fewer, less frequent, but larger print runs. That is how we achieve value for money. Quite often, we will have a single print run for an entire year—just as an example.

One of the elements of our contingency requirements is that we have to have at least 11 months of stock at any one time. That is to deal with any issues on the print floor that mean that we cannot print notes for an extended period. Our minimum contingency level in all circumstances would be 11 months; occasionally, it is higher, for different denominations, but the minimum is 11 months. When we are deciding what to print, we will often look at least another 12 months ahead, saying, "We need to hold another 12 months of stock, because that will be the period before we next get that denomination on press." It is not at all unusual for us to hold at least as much again as our contingency levels.

Q89 **Mr Holden:** That is clear. The key point the NAO made in paragraph 3.30 was that it could not determine what the process was that the Bank was operating on to decide on adequate stock levels, but now you are telling us that it is basically 11 months of supply in case of a broader failure in the system.

Sarah John: Eleven months of supply is the minimum contingency that we do not want to fall below.

Q90 **Mr Holden:** So you have almost two years at the moment?

Sarah John: I want to hold that level of contingency, even just before I print my next run. I will be looking 12 months out, and I want to hold 11 months in 12 months' time, which means that when I receive the print run I am ordering today, I want to hold at least 23 or 24 months' worth of stock, so that by the end of that 12-month period I still have 11 months left.

Q91 **Mr Holden:** Do you agree with the recommendation in the Report to better document the decision-making process on stock holdings with the NAO?

Sarah John: It is a fair point that we could do more. There are a lot of judgments that go into this, and we can document those better.

Q92 **Mr Holden:** That is fair enough. I will move on from banknotes to coinage, if you don't mind, and bring in the CEO of the Royal Mint, Anne Jessopp. Thank you very much indeed, Ms John. We are talking about potentially a couple of years' supply of banknotes that the Bank of England is holding, and there are some interesting things in the Report about the cost of doing that, but in terms of coinage, Ms Jessopp, we are holding more than 10 years' of supply of 2p and £2 coins. Why are we doing that?

Anne Jessopp: That was absolutely right when the NAO Report was done. The reason is that when we produced the new 12-sided round pound, which we did because of the counterfeit level of the old pound, what we did not understand was that, when we asked people to bring back their £1s, they would empty all their jars and piggy banks and bring it all back into circulation, so there was more in the cash centres than we needed at the time. We hold 11 weeks' stock, so we did have a lot of stock out in the cash centres. However, during the pandemic those two denominations have been significantly used up, so now we are likely to make 2ps in the next six months and £2s in the next three years. That just shows, when unusual things are happening with the consumers, how different denominations perform.

Q93 **Mr Holden:** What are our stocks now of 2ps? Are we still at 10 years' supply?

Anne Jessopp: No, we will have to make some new 2ps in the next six months, and £2s in the next three years.

Q94 **Mr Holden:** So we still have three years of the £2 coins that you are hoarding at the moment?

Anne Jessopp: Absolutely. That is the impact of collecting back all the coins that people gave in when they brought the £1s in. We really did not understand that that would be the case.

Q95 **Mr Holden:** Generally, in terms of coins in circulation, looking at figure 9 on pages 36 and 37 of the NAO Report, we saw a 65% decline in usage of coins over the past decade. Is that the way you are seeing it?

Anne Jessopp: Absolutely, and that was over the past 10 years. Obviously, we are still finding out the impact of covid—everybody is finding out—but we are expecting that there will be a step change downwards.

Q96 **Mr Holden:** It is quite an interesting point about coinage and the decline in usage, people throwing away smaller coinage and that sort of thing. Do we still need 2ps or 5ps? I think the argument for the penny is there in a different way, as your basic denomination of currency, but what about those interim coins? Are they still being used as much—2ps, 5ps, 10ps, 50ps, that sort of thing?

Anne Jessopp: We are the manufacturer of the coins, and it is the Treasury who would decide on the denominations, but they did have a

consultation a couple of years ago about the denominations, and came back and said that there would be no change in that. I don't know whether my colleague in the Treasury—

Q97 **Mr Holden:** Yes, I will go over quickly to Sir Tom on that. Given the trend that has been turbocharged by covid, are you still of the opinion that we are going to stick with the full range of denominations we have now, even though some seem to cost more to produce than they are worth?

Sir Tom Scholar: The Government confirmed last year that they would keep the existing set of denominations, as Ms Jessopp said.

Q98 **Mr Holden:** That is fair enough. We have seen another decline in cash usage during covid. Are you going to look again, not necessarily at 1p pieces, but at the full spectrum of currency?

Sir Tom Scholar: There are no plans to review specifically the denominations or the mix of denominations, but as you know, we have put out a call for evidence on cash generally, so of course we will look at everything we get back.

Q99 **Mr Holden:** Dr Broadbent, on the costs of the polymer programme, I want to double down on the point we made previously about accepting the NAO's recommendation in paragraph 3.3. Do I take it that you fully accept that? I know that historically there has been pushback from the Bank of England on NAO oversight. Are you happy to agree with the NAO's recommendations?

Chair: Mr Holden, do you mean paragraph 3.30?

Mr Holden: Yes—paragraph 3.30.

Mr Broadbent: Yes is the answer. I will make one point with respect to the cost. It is quite tricky to account for it in a way, because the truth is that we would never have stuck with the original paper series, so the difficulty is: what would be the cost of having moved to polymer relative not to the status quo of the paper series we had at the time but to the cost of producing another paper series? I am absolutely happy to go with the recommendation and explain that calculation in more depth, but it is difficult to do because you need some benchmark as to what the alternative paper series would have cost.

Q100 **Mr Holden:** We are looking at substantially more for the new polymer £50 notes as well.

Mr Broadbent: Yes. The £50 will be the last note to move to polymer, that is true. The calculation of the costs will have to take into account, for the entire series, the extra physical cost of producing them but also the extra longevity of the note, which we have discovered for the £5 and £10 is quite significant. They last longer, so the ultimate number you need to print in any given period of time is lower. Sarah can give you more on that.

Mr Holden: Ms John?

Sarah John: On the £50 note in particular?

Mr Holden: Yes.

Sarah John: The key consideration with the £50 note was that, once we had moved all the other notes to polymer, we would be left with a massive counterfeiting target. So it was a sensible decision by the Bank's Court of Directors—the board of directors—to move that to polymer as well so that we did not open up a big counterfeiting threat by leaving the £50 on paper.

The £50 does cost more, whereas the cost-benefit analysis of all the other notes now shows that polymer will be cheaper, but for the series as a whole the move to polymer still should be cheaper than upgrading to a new version of a paper note. Although the £50 is slightly more expensive, the series as a whole is cheaper.

Q101 **Mr Holden:** One thing that has struck me is that, as the polymer notes are obviously more durable, is there any evidence that people are hoarding them more? If you do shove them in a mattress, they will not get eaten away in the same way, perhaps, or be as liable to damage. That is exactly the point of moving to polymer in the first place—they cost more but, in the series runs, they are more protected. Is there any evidence of that in international business, with people moving to British polymer notes to hoard cash?

Sarah John: Only tentative evidence. What I would cite is that following the launch of the polymer £10 note, we saw the demand for the £10 increase massively. I'm talking pre-covid here. For notes in circulation, the growth was basically flat for about three years, but following the launch of the £10 polymer note, the demand for that particular denomination has been increasing 30% year on year. That does indicate that people rather liked the polymer £10 note because the demand for it was really quite strong.

Q102 **Mr Holden:** Okay. I'll come back to the Royal Mint in a moment, but just on a broad level, the Bank and the Mint have similar objectives, but operate in very different ways. What sort of learnings do you share between each other?

Sarah John: I'm sure Anne will speak to this as well, but we do have regular liaison meetings with the Mint. We have had those for many years, and our teams join up and share experiences, research and approaches. However, as a result of the NAO Report, Anne and I have already met and spoken, and we have agreed to formalise that relationship. We have agreed a series of workshops that will take place over the next 12 months, where the teams will get together and share their expertise on things like forecasting, managing stock levels and production processes. There are differences, but there are a lot of similarities in the skills here. We will be taking that forward.

Q103 **Mr Holden:** On the powers, regulations and things like that, we want to enable access to cash for people. Is there anything that you, as the Bank—actually, let's go to Dr Broadbent—want to see in terms of powers and regulations in order to maintain access to cash for consumers? Is this something the Bank of England should be taking over, or are you happy with the direction of travel the Treasury is taking in pushing this in the direction of the FCA?

Mr Broadbent: I think so. Our responsibility has always been production at the wholesale end, and that is what we know well: the physical process of producing it and then the wholesale side of distribution. I do think it is critical that all the authorities talk to each other, and there is an overarching political choice, as Nikhil said, about how you distribute the cost ultimately to the people who use the banknotes. For our part in regulating the wholesale side, I think we have the powers we need in that respect, and our key focus on reforming this wholesale distribution system—

Mr Holden: In terms of regulation—

Chair: Sorry, Mr Holden, Sarah John wants to come in on that.

Sarah John: Can I just come in on that point? I think Ben is right that at the moment we have the powers we need. However, as we go forward with this work on reforming the wholesale network, it is possible we may need more powers. For example, moving to a utility would require different oversight powers. That's a piece of work we're doing at the moment with the Treasury, but legislation may be required in order to make that more efficient wholesale distribution model a reality. That is something we're working on very closely with the Treasury.

Q104 **Mr Holden:** Mr Gardiner talked a bit about digitalised currencies. Are you worried that if we do see a move away from physical cash—people, for a variety of reasons, might not want to see their transactions able to be traced—is there any concern about a switch back to gold or other currencies being widely circulated within the UK economy?

Mr Broadbent: Is that to me? That is one of the reasons why I suspect there will be a long period where people will still want to use cash, and for as long as that demand is there we should support and continue to meet it. I doubt there will be a sudden switch away to other anonymised forms of payment, or indeed the storage of wealth, whether it's gold or another denomination. However, as I say, I think that demand will be there for a protracted period, even as the share of retail payments that use cash continues to decline.

Q105 **Mr Holden:** It is a safe way: if I go out with 20 quid, I can just spend 20 quid. I am not going to get my wallet stolen and lose more than that. There is an element of safety in cash as much as the other way around, with it being anonymised as well. That is an important thing we need to recognise when we are talking about cash, especially in poorer communities.

Can I go quickly to Ms Jessopp on exactly what I have just been asking the Bank of England about? Ms John has talked about a lot of the crossworking you are doing. Are you very happy with it from your end as well?

Anne Jessopp: Yes, I would say exactly the same. We have worked together in the past, such as when we launched the new £1. We have done it informally, and what Sarah and I have done is make sure we put that rigour and that governance in there to make sure we are sharing best practice, and sharing the costs of research and things like that.

Q106 **Mr Holden:** As a matter of personal interest, I have still not managed to get my hands on a Brexit 50p. Are you doing any more runs of those? I would really like one, and several colleagues have asked me about them.

Anne Jessopp: There will be 10 million going into circulation. Some 7.5 million have already gone in, but the others will go into circulation later this month, so hopefully you will be able to get one.

Q107 **Mr Holden:** So if I go down the bank or the post office, I should be able to get myself one later this month.

Anne Jessopp: Hopefully, yes.

Mr Holden: That is good to know. My constituents will also—

Chair: All right. Come along now, Mr Holden.

Q108 **Mr Holden:** I am terribly sorry, Chair. Finally, it would be good to hear from Mr Hemsley on this broader issue of working together and the powers of regulation. As the Payment Systems Regulator, what do you think you need to see?

Chris Hemsley: The first thing to say is that in respect of the regulation of Link, I think we have the powers we need. The key issue we are now working with the FCA, the Government and others on is whether there are any gaps. We talked about that earlier in the meeting, actually: whether there is a public policy choice that cash needs to be protected, and whether there is a need to place additional obligations on banks.

The other one, which we have talked about, is in respect of the Post Office. It is likely that the Post Office will play a much larger role going forward, and it is right to think about whether the regulatory framework around just those cash aspects—cash deposits and withdrawals—is fit for the future.

Q109 **Mr Holden:** Okay, that is very clear. Mr Rathi, from the FCA's perspective, are you happy with the way that the Treasury is pushing you as the leads for this at the moment, looking after the cash network going forward?

Nikhil Rathi: We are looking forward to the responses to the call for evidence. There are some complex issues here: as Chris alluded to, this will ultimately be a political question about the issue of costs, and how Parliament and Government wish to see those allocated. I said earlier that if we have objectives, it is important that they are flexible in order to enable the system to adapt in future, because we know we are going to be dealing with a changing system. Access to data is going to be important, because the cash system is not just financial services: it is retailers and the Post Office, so the ability to access that data in order to fulfil that role is going to be important as well.

Q110 **Mr Holden:** Winding up with you on this, Sir Tom, access to cash is obviously a major issue for many of our constituents, particularly those in difficult circumstances, those from disadvantaged backgrounds, the elderly, and indeed children. If I am going to give my goddaughter some cash to go down and buy an ice cream, I do not really want to be handing over my phone or my credit cards.

Chair: Mr Holden, I think I should interrupt you there before you walk into something, because it is probably not allowed to give her your credit card. You might get into bigger trouble, but as you can't, she would be stuck, wouldn't she?

Mr Holden: She would. Just on that point, this is something that has a very broad impact on society. When will we see some legislation from the Treasury on this? Are we going to see legislation on it in the near future? The reviews have been ongoing for some time now. Can you give us a bit of a forward programme?

Sir Tom Scholar: Thank you, Mr Holden. As I hope has come across through this hearing, all of us, and that includes the Government, are completely committed to making sure that we protect access to cash for those who need it—all the people you have mentioned.

We will keep this very much under review. As a number of us have said, the economics of this system are changing; they are changing in every country in the world. We are also learning from the experience elsewhere.

We have got the call for evidence out now. We shall look very carefully at what we get back from that, and if there is a need for legislation or further regulatory powers down the track, in order to ensure that we can continue to provide that access to cash, that is what we will do. However, the next step is to see what comes in from the call for evidence, and then we will assess it among the authorities here and come forward with proposals.

Q111 **Mr Holden:** Very good. Obviously we have seen in America that New York has legislated to ensure that businesses have to take cash. Is that something that you think the Government would consider here?

Sir Tom Scholar: As you know, it has not previously been the case in this country, but obviously that is something that can be considered.

Mr Holden: Thank you, and thank you very much, Chair. I will hand back to you now.

Q112 **Chair:** Thank you very much, Mr Holden. Certainly, it has been interesting to consider what is in preparation and in discussion regarding the future of cash in the UK.

Just before we finally wind up, Sir Tom, as we have got you in the room and we are obviously at a crunch point with the talks around EU exit and the end of the transition period, have you had any requests from Government Departments for extra funding to support them over the next few weeks and months as we approach the end of the year?

Sir Tom Scholar: We are in extremely extensive discussion right now with all Government Departments to prepare the spending review.

Q113 **Chair:** Which I am aware of and we will ask about that as well, but the spending review is for a long-term settlement. There might be some crunch issues, depending on what comes out of the discussions with the European Union, that could really affect Departments and the people they work with. Are there any specific requests that you have had for extra support, for example around supporting lorry queues in Kent, or at the border, which you have not already funded? Are there any additional requests from Departments?

Sir Tom Scholar: Again, there is a Government-wide exercise—a Cabinet Office-led exercise—to make sure that the Government are ready for the end of the year, and we are playing our part in that.

I do not have at my fingertips the answer to that question—"Are there specific bids in on that?"—but we are in a constant dialogue with Departments, both through that Cabinet Office process and through the spending review process.

Q114 **Chair:** Okay, so you are part of that discussion. Finally, on the issues around covid and preparations for that, you have obviously got the spending review, as you say, coming up. Is that likely to be a one-year or a three-year settlement?

Sir Tom Scholar: We have been preparing for a multi-year spending review—that is all across Whitehall, the preparations that we are engaged on. We don't have a date for it yet—

Q115 **Chair:** It is a challenge, whatever. We won't have the spending review for a while, though. If it is a multi-year settlement, which makes a lot of sense on one level, it is also challenging with the challenges of covid. Is there any prospect of it being a multi-year settlement with scope for changes each year, because of some of the challenges that we are facing with Brexit and covid colliding at the same time?

Sir Tom Scholar: There is always a tension between setting predictable long-term plans and being able to respond to events and changed circumstances. I think that if you look back at the plans set out in the 2015 spending review, they have been subject to really quite significant change over the past few years. As you say, the current circumstances are extremely uncertain, so the Government will need to be able to be flexible there as well. So that is what we'll try to do.

Q116 **Chair:** So is it likely that you will lock in certain things—the things that organisations, schools, local authorities, hospitals and so on need to plan for over time—but that there might be flexibility on "the known unknowns", as I suppose we would call them?

Sir Tom Scholar: A large amount of the public spending in the system relates to ongoing services, and people running those services clearly need certainty as to budgets for the year ahead. I can't say precisely what the nature of all those decisions would be, because that is all part of the discussion we are having at the moment with Departments.

Q117 **Chair:** Okay. Can we just get a date from you about the latest projected date for when the spending review might actually be finalised— November?

Sir Tom Scholar: The date has not been decided or announced, but I think it does need to be really by the end of November, in order to give local authorities and devolved Administrations the certainty they need for their own budgeting processes for the next year.

Chair: Thank you very much for that; that is a little bit of light on the matter. We look forward to seeing you again. When we see you next to look at bounce back loans on 5 November, it will probably be too soon to talk about the spending review, but maybe there will be some news by then.

Thank you very much for your time, and I thank our other witnesses very much indeed for your time as well. The Committee is now concluded.