Thirtieth Report of Session 2019-21

HM Treasury, Payment Systems Regulator, Financial Conduct Authority, Royal Mint and Bank of England

The Production and Distribution of Cash

Introduction from the Committee

The use of cash in transactions is in decline. Cash was used in six out of 10 transactions a decade ago but in 2019 was used in less than three in 10. Its use is expected to fall further still, a trend which may accelerate as a result of the decline in cash use during the Covid-19 pandemic. The decline is putting pressure on the commercial viability of the infrastructure which supports the distribution of cash. The UK's cash system involves largely public sector production and private sector distribution. A range of public bodies have responsibility for aspects of the cash system: HM Treasury has responsibility for delivering the government's policy aim, which is "to safeguard access to cash for those who need it, while supporting digital payments"; the Royal Mint, under contract to HM Treasury, manufactures coins; and the Bank of England is responsible for producing notes and also governs the wholesale distribution of notes in England. In addition, the Payment Systems Regulator (PSR) regulates the Automated Teller Machine (ATM) network and the Financial Conduct Authority (FCA) regulates financial services providers who between them provide much of the cash distribution network. In May 2019, HM Treasury established a new coordinating group, the Joint Authorities Cash Strategy (JACS) Group, with the Bank, the FCA and the PSR to "set up strategy, coordinate work to support nationwide access and help safeguard cash for those that need it".

In its March 2020 Budget, the government announced that it would bring forward legislation to protect access to cash and ensure that the UK's cash infrastructure was sustainable in the long-term. In October 2020, the government published a call for evidence setting out its legislative aims for protecting access to cash and seeking views on key considerations for the future of the UK's cash system.

Based on a report by the National Audit Office, the Committee took evidence, on 19 October 2020 from HM Treasury, the FCA, the Royal Mint (TRM), the Bank of England and the PSR. The Committee published its report on 4 December 2020. This is the government response to the Committee's report.

Relevant reports

- NAO report: *The production and distribution of cash* – Session 2019-21 (HC 730)
- PAC report: *The production and distribution of cash* – Session 2019-21 (HC 654)

Government responses to the Committee

1: PAC conclusion: ***The public bodies with responsibilities for cash are not acting with sufficient urgency to protect more vulnerable groups and communities, particularly in rural areas, who most need to use cash.***

1a: PAC recommendation: ***By January 2021, HM Treasury and the Payment Systems Regulator should write to the Committee to provide a detailed assessment of the prevalence across the UK of cash only being available via paid for cash machines, or via Post Office counter withdrawals, and to set out the steps they have undertaken to ensure adequate access to free cash machines across the country.***

1.1 The government agrees with the Committee's recommendation.

Recommendation implemented

1.3 HM Treasury and the Payment Systems Regulator (PSR) *wrote to the Committee* on 28 January in response to this recommendation.

1.4 As of March 2020, a small proportion of the UK population (1.5%) counted a pay-to-use ATM as their only source of cash within 1 kilometre. A slightly higher proportion (3%) counted a Post Office as their only source of cash within 1 kilometre. This analysis is based on the most up-to-date complete dataset of bank branches, ATMs and Post Offices. The same dataset informed the report *'Where to withdraw? Mapping access to cash across the UK'*, published by the University of Bristol in collaboration with the Financial Conduct Authority (FCA), PSR and industry in November 2020. That report found there was good overall geographic cash access across the UK, with around 90% of neighbourhoods within 1 kilometre of a free source of cash.

1.5 HM Treasury, PSR, FCA, and Bank of England continue to engage closely, including through the JACS Group, to ensure comprehensive oversight of the UK's cash infrastructure. While free-to-use ATMs continue to be the most commonly used means of withdrawing cash, there are several ways people and businesses withdraw and deposit cash to support their needs and circumstance. Members of the JACS Group are therefore taking action to ensure the provision of cash across a range of cash facilities. This encompasses work to mitigate the impact of the COVID-19 pandemic, as well as taking action to protect access to cash in the long term.

1b: PAC recommendation: By the end of March 2021 at the latest, HM Treasury should publish a clear plan of action, including draft legislation, for securing access to cash across the UK. The plan should include clear commitments, including a clear statement of what the regulators are expected to achieve in terms of cash access for communities and vulnerable groups; definite steps to allow cash back without having to make a purchase; and clear evidence that regulators will have effective powers to take action should access to cash be threatened.

1.6 The government disagrees with the Committee's recommendation.

1.7 The government agrees with the importance of setting out its next steps on cash.

1.8 The government published a *Call for Evidence on Access to Cash* which closed on 25 November 2020. This sought views on the key considerations associated with cash access, including deposit and withdrawal facilities, cash acceptance, and regulatory oversight. The government is considering the responses and will seek to set out its next steps in due course.

1.9 The government disagrees with committing to publish draft legislation to this timetable. Access to cash is a complicated issue. Industry are currently exploring sustainable and appropriate solutions that meet the cash needs of consumers and businesses in the long term, across a range of channels including ATMs. It is therefore important that legislation is not rushed, but is carefully designed to both accommodate both current and future cash access solutions, and to anticipate changing cash access needs over time.

1.10 With regards to cashback without a purchase, the government stated in the Call for Evidence that this has the potential to be a valuable facility to cash users and support local cash recycling. Following the end of the transition period on 31 December 2020, the government is now able to legislate to remove barriers to the widespread adoption of cashback without a purchase.

1.11 The response to recommendation 3 provides additional information on the role of regulators.

2: PAC conclusion: ***We are not convinced that the public bodies understand how declining access and acceptance of cash can adversely affect many people's lives.***

2: PAC recommendation: ***In undertaking their plan to secure continued access to cash, the government should set out how they propose to incorporate the concerns and requirements of different communities and groups to ensure that solutions actually meet local needs. The plan should set out what consumers, particularly those in vulnerable groups, can expect in terms of accessing and using cash in their locality.***

2.1 The government agrees with the Committee's recommendation.

Target implementation date: Spring 2021

2.2 As highlighted by the Committee, in recent years, the ongoing trend in payments in the UK has been away from cash and towards card payments and other digital payment methods. The government recognises that cash remains important to millions of people across the UK and there are a range of ways and reasons for people to use cash. These can include the importance of cash as a symbol of independence, as well as an important budgeting tool, and as a way that elderly or vulnerable people can access social opportunities.

2.3 The government has committed to protecting access to cash to ensure those that rely on cash are not left behind. To date, the PSR has used its regulatory powers to make sure LINK – the UK's main ATM network - delivers on its public commitments to maintain the existing geographic spread of free-to-use ATMs. Furthermore, it has encouraged LINK to develop additional initiatives, such as LINK's ATM Community Request scheme and Retail Centre Policy. Collectively, these actions help to ensure that communities, including those in remote and deprived locations, continue to have access to free-to-use machines.

2.4 The *Call for Evidence on Access to Cash* set out that the government considers that flexibility and proportionality will be important criteria to meet the needs of individuals and businesses, including those in vulnerable groups, and invited views from all stakeholders. The government is considering the responses and will seek to set out its next steps in due course.

3: PAC conclusion: ***No one is in overall charge of making sure that people and businesses have access to cash.***

3: PAC recommendation: ***HM Treasury needs to give overall responsibility for the cash system to a single body, with the other bodies having clearly defined roles to support this. It should address potential gaps in current oversight, for example in overseeing the end-to-end resilience of the cash system.***

3.1 The government agrees with the Committee's recommendation.

Target implementation date: Spring 2021

3.2 The government aims to ensure that the authorities have the appropriate powers and responsibilities to oversee the cash system efficiently and effectively. The Bank of England, FCA, PSR, and HM Treasury each have roles and responsibilities for the cash system.

3.3 The government's *Call for Evidence on Access to Cash* stated that there may be significant benefit in giving a single authority overall responsibility for setting requirements to ensure that the retail distribution of cash meets the needs of consumers and small and medium sized enterprises. Furthermore, it set out the government's view that the FCA may be well positioned to take on this function through legislation. The government is considering the responses and will seek to set out its next steps in due course.

4: PAC conclusion: ***The Bank of England seems to lack curiosity about the huge volume of notes not used or held for day-to-day transactions.***

4: PAC recommendation***: The Bank, working with other public authorities such as HMRC, should take action to improve its understanding of the factors that are driving the increase in demand for notes, and also who is holding the approximately £50 billion worth of notes.***

4.1 The Bank of England agrees with the Committee's recommendation.

Target implementation date: December 2021

4.2 As the Bank of England stated when the Committee's report was released, the Bank of England's responsibility is to meet the public's demand for banknotes. It has always met that demand and will continue to do so. The delivery of this responsibility does not require identifying who is holding banknotes at any point in time. Members of the public do not have to explain to the Bank of England why they hold banknotes or how much they hold.

4.3 The Committee highlight the continuing increase in the value of notes in circulation, despite the use of cash for day-to-day transactions falling in recent years, including during the pandemic. This suggests that banknotes are increasingly held as a store of value. Holding banknotes as a store of value can be perfectly legitimate, and the trend towards using banknotes for this purpose is also being seen in many other major currencies around the world.

4.4 The Bank of England does not agree that it lacks curiosity about the increasing number of notes not being held for day-to-day transactions. The Bank of England already carries out work on trends in banknote use for the purposes of understanding future banknote demand. The Bank of England's future work will – consistent with the Committee's recommendation – focus on banknotes held as a store of value, given the declining trend in notes used in the domestic economy to facilitate transactions. The Bank of England will conduct surveys over the next year on households' use of banknotes as a store of value and on small businesses' banknote holdings and usage. There may be limitations to survey-based techniques as, for example, respondents may not want to reveal their true holdings.

4.5 The Bank of England will also engage with other relevant authorities, in particular Her Majesty's Revenue and Customs (HMRC) and the National Crime Agency, who may hold additional relevant information.

5: PAC conclusion: ***The Bank of England's stock of notes seems high and it is not clear to us how the Bank decides upon what is an appropriate stock level.***

5: PAC recommendation: ***The Bank should ensure that it properly records and evidences the judgements it makes about printing notes and its stock levels so that it can be properly held to account for the decisions it makes.***

5.1 The Bank of England agrees with the Committee's recommendation.

Target implementation date: December 2021

5.2 The Bank of England needs to hold sizable stocks of printed notes, ready to be issued, to ensure there are sufficient banknotes available to meet public demand, which can change suddenly and by large amounts. For example, demand for banknotes increased by 10% (£7.5 billion) in 2020 relative to the peak in 2019. Having insufficient notes to meet demand would risk significantly undermining the public trust in the currency.

5.3 The Bank of England has a robust process in place for making decisions about how many notes to print and believes its stock levels are appropriate. Decisions regarding stock levels do, however, involve judgement. The range of considerations includes forecasts of the demand for banknotes, the impact of events such as note launches, and the need to ensure value for money by having efficient print runs and making the best use of the Debden site's print capacity. It is important that how these factors are balanced is clearly documented. Therefore, as recommended by the Committee, the Bank of England will review its documentation around stock decisions and contingency requirements and ensure that it clearly records the main factors contributing to final decisions on print volumes and stocks.

6: PAC conclusion: ***The continued reduction of coin use, possibly accelerated by Covid, is likely to put further pressure on the Royal Mint's ability to deliver a profit on its UK coin manufacturing operations.***

6: PAC recommendation***: In the Treasury Minute response to this report, HM Treasury and the Royal Mint should set out how they are ensuring that the plans for manufacturing UK coins are sustainable and cost effective.***

6.1 The government agrees with the Committee's recommendation.

Target implementation date: December 2021

6.2 HM Treasury and The Royal Mint (TRM) recognise the pressures that the reduction in transactional cash use and COVID-19 have placed on the profitability of UK coin manufacture. Ensuring that operations are sustainable and cost effective into the long-term, is a key priority for both HM Treasury and TRM. TRM is working to mitigate the impact of the reduction in transactional cash use by seeking to make long-term improvements in business efficiencies. To date, TRM has made significant advancements in its overall business operations, and since 2018 TRM has reduced the average direct manufacturing cost per UK coin. These cost reductions and efficiency gains are part of TRM's continuous improvement plans and on-going business strategy. Led by market demand, TRM has reduced its cost base by over 30% in the last 3 years.

6.3 TRM will continue its work in aligning operational costs with coin production demand. Furthermore, as UK volumes have been falling over recent years TRM has worked hard to strengthen its overseas business, to a point where UK volumes account for less than 15% of all circulating coin production. This ensures that the business is sustainable, spreading the fixed cost base over a larger overall volume. It safeguards TRM's capability to produce UK coinage at a competitive cost. Furthermore, the UK Coin Contract (UKCC) between TRM and HM Treasury sets a fixed price for the production of UK coins. The UKCC drives cost efficiencies in the manufacturing of UK coin and value-for-money, ensuring any rise, outside of inflation, in manufacturing costs are not passed on to the taxpayer.

6.4 A key challenge for TRM, now and moving forwards, is forecasting coin demand in an environment of declining cash use. The COVID-19 pandemic presented additional, unprecedented challenges. TRM has worked closely with industry to accurately forecast demand for new coin and engages bilaterally with the Bank of England to share best practice in forecasting. Prior to the COVID-19 pandemic, forecasting accuracy in 2019-20 was 98%. TRM has taken a more active role in engaging with HM Treasury, industry and the Bank of England since COVID-19 impacted the UK and as a result has introduced additional measures to ensure the appropriate level of coin is available to industry at the right time and support the effective operation of the UK economy.