



HM TREASURY

Report on
euro preparations

December 2004

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ISBN: 0-84532-042-5

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Foreword by the Financial Secretary to the Treasury, Stephen Timms, MP



I am pleased to present this report on euro preparations. The Government is committed to ensuring that the UK would be in a position to join a successful single currency, if that is what Government, Parliament and the people, in a referendum, decide. This report sets out the progress that has been made in euro preparations across the UK economy since the previous report, published in April 2004.

It is important that all sectors recognise the need for continued preparations. I would encourage those organisations that have already considered the issues arising from a possible UK changeover to review their plans as part of their normal business cycle and for those who have not, or who are unfamiliar with the timetable proposed in the third outline National Changeover Plan, to consider the issues raised. Further information to support organisations in preparing can be found at www.euro.gov.uk.

In the event of a changeover the public sector would set an example, leading the way in achieving a smooth and effective changeover and protecting the interests of citizens. I would like to thank my colleagues across the public sector for their continued engagement in euro preparations. The private and voluntary sectors have an important part to play, particularly the financial sector, and I am grateful for the engagement of the banks in this work.

This report details progress in developing planning documents for any possible future changeover. A Managed Transition Plan will be made available for informal consultation shortly. This should help in achieving a smooth changeover in the event of a decision to join EMU. Progress is being made in developing a Consumer Protection Framework to ensure the public would be fairly treated and an Integrated Communication Plan to ensure that there would be clear communications during any possible future changeover.

I would like to thank those individuals and organisations that have been working with the Treasury to deliver an appropriate level of euro preparations and I look forward to us all continuing to work together.

A handwritten signature in black ink that reads "Stephen Timms". The signature is written in a cursive style.

STEPHEN TIMMS, MP
Financial Secretary to the Treasury

Executive summary

I INTRODUCTION

The Government's policy on membership of the single currency remains as set out by the Chancellor in his statement to the House of Commons in October 1997, and restated by the Prime Minister in February 1999. In principle, the Government is in favour of UK membership of EMU; in practice, the economic conditions must be right. The determining factor underpinning any Government decision on membership of the single currency is the national economic interest and whether the economic case for joining is clear and unambiguous.

An assessment of the five economic tests was published in June 2003. This concluded that, "since 1997, the UK has made real progress towards meeting the five economic tests. But, on balance, though the potential benefits of increased investment, trade, a boost to financial services, growth and jobs are clear, we cannot at this point in time conclude that there is sustainable and durable convergence or sufficient flexibility to cope with any potential difficulties within the euro area."

The Chancellor's 9 June 2003 statement to the House of Commons on UK membership of the European single currency set out a reform agenda of concrete and practical steps to address the policy requirements identified by the assessment. A report on progress was presented in Budget 2004. While the Government did not propose a euro assessment be initiated at the time of Budget 2004, the Treasury will again review progress at Budget time next year.

2 PUBLIC SECTOR PREPARATIONS

Preparations in central government departments are well advanced. Departments have plans in place and have provided evidence to the Euro Preparations Unit in the Treasury to demonstrate their achievements against the criteria for completing the planning phase first published in the *Report on euro preparations, April 2004*.

Work with local authorities to produce model changeover plans continues, and plans have now been submitted. The *Local Authorities Euro Preparations Guidance* (published June 2003) will be updated by summer 2005, following consultation with stakeholders.

The Scottish Executive continues to work with the Euro Preparations Unit and has prepared a Departmental Changeover Plan which was Gateway™ reviewed in September 2004. Executive Agencies and Non-Departmental Public Bodies are also preparing their own euro changeover plans.

The Scottish Executive has given presentations to local authority Directors of Finance, Executive Agencies and Non-Departmental Public Bodies in order to help progress their euro preparations. The next meeting of the Scottish Euro Preparations Committee is planned for 24 January 2005.

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Central
government
departments

.....
Local authorities

.....
Devolved
administrations
preparations
Scotland

Executive summary

Wales

The Wales Euro Preparations Committee last met on 25 October 2004. The committee discussed the development of the Consumer Protection Framework, the completion of the planning phase in the public sector, the further development of the Managed Transition Plan and the Integrated Communication Plan.

The Welsh Assembly Government has finalised a consolidated Euro Changeover Plan with its programme board. The plan was reviewed under Gateway™ in November 2004.

Northern Ireland

Northern Ireland has completed a central changeover plan covering policy issues and central services provided to Northern Ireland departments. In addition, each department has drafted an individual changeover plan to underpin the higher level Northern Ireland Plan. A meeting of the Northern Ireland Euro Preparations Committee took place on 29 November 2004. The committee discussed the development of euro changeover planning documents and a presentation was made on cross border euro trade.

Working with European Partners

The European Commission has reconstituted two working groups that assisted in preparations across the euro area, namely the Directors of Communication (DirCom II) and Public Administrators' Network (PAN II). To remain informed and to share the UK's experience of euro preparations, Euro Preparations Unit officials have attended recent meetings of these groups.

3 PRIVATE SECTOR PREPARATIONS

Retail Banks and Building Societies

The Euro Preparations Unit continues to monitor the level of preparedness across this sector, providing guidance and support to the planning process. Preparations in many financial institutions are well advanced. For those organisations with detailed plans in place, the focus of euro preparations is to ensure that the institutional memory is retained and that the planning remains robust, complete and up-to-date.

Insurers

In May 2004 the Association of British Insurers published the '*UK Insurance Industry Outline Euro Guidance Document*' providing an important contribution to the sector's planning.

Retail sector

The Euro Preparations Unit works closely with retailers and retail trade associations. Work has been undertaken to ensure understanding of the practical implications of issues, such as dual display, through a series of meetings and store visits.

Utilities

The utilities sector, through the Utilities Forum and its members, has played an active role in euro preparations, particularly through its contribution to the Managed Transition Plan.

Small- and Medium-sized Enterprises

The Euro Preparations Unit has worked with the sector on a practical basis, to produce targeted information in a leaflet '*Euro preparations – what you need to know*'. This summarises the key euro preparations issues for Small- and Medium-sized Enterprises and other organisations. This is included at Annex C, and is also available at the Treasury's euro website, www.euro.gov.uk.

The Euro Preparations Unit has also worked with organisations that give business support to Small- and Medium-sized Enterprises. Articles on euro preparations have

been published in accountancy and other business trade magazines at the request of these organisations.

The UK's phased approach or managed transition was published in the *third outline National Changeover Plan*. The Managed Transition Plan sets out what euro services would be available in the event of a UK changeover, when they would be available, and who would provide them. Its purpose is to give planners within organisations and businesses a framework for planning each stage of a migration from sterling to euro.

Since June 2003, there has been consultation on enhancing the Managed Transition Plan. Through workshops, bilateral meetings and the submission of written contributions, the private, public and voluntary sectors have helped develop a new version of the plan. It now contains more detail, and its scope has been expanded to cover more sectors of the economy. After informal consultation during winter 2004 the plan will then be modified in spring 2005 to take account of the feedback.

Engagement with the key players in a cash changeover continues through the Notes and Coins Working Group. The coordination of this group is delegated by HM Treasury to the Bank of England, who chair the group. Work is ongoing to develop a remit for a Cash Changeover Working Group.

At their meeting on 29 June 2004, Ministers updated the members of the Business Advisory Group on public sector preparations, the role of the Consumer Protection Framework and on the Euro Preparations Unit's work programme. The membership agreed that the Government is concentrating on the right areas.

The Business Advisory Group members also agreed that, since UK businesses have developed considerable experience in trading with organisations in the euro area, there is no longer a case for the Government to produce new supporting materials at this time. However it was agreed that existing materials will continue to be made available, and updated as necessary.

4 CONSUMER PROTECTION AND COMMUNICATION

The Consumers' Group was established in autumn 2003 to consider how best to safeguard the interests of consumers during a possible future UK changeover. It is contributing to the development of the Consumer Protection Framework, which considers how existing consumer protection mechanisms and legislation would protect consumers in the event of a changeover and what additional mechanisms might be required. Following further discussions with stakeholders a draft of the framework will be made available in 2005.

The Euro Preparations Unit continues to develop consumer codes of conduct, working with representative organisations from across the UK economy. A draft consumer code of conduct for the utilities sector is published at Annex D of this report.

The Managed Transition Plan

Planning for a cash changeover

Wider engagement with business

Consumer Protection Framework

Consumer codes of conduct

Executive summary

Vulnerable communities and citizens

The Euro Preparations Unit has also continued to gather data on potentially vulnerable groups across the UK in order to plan how their communication needs could be met, either through the main centrally coordinated communication plan or through additional information.

Integrated Communication Plan

The Integrated Communication Plan presents detail on the central communication that would be delivered by a Euro Changeover Secretariat (the coordinating body) in the event of a changeover. It builds on the framework set out in the *third outline National Changeover Plan*. The first version of the Integrated Communication Plan has been drawn up with contributions from organisations and sectors that would play a key role in communication during a changeover. Officials from the Euro Preparations Unit are consulting with contributors and working to ensure that the Integrated Communication Plan is fully consistent with the Managed Transition Plan. A revised version of the Integrated Communication Plan will be made available during 2005.

5 VOLUNTARY SECTOR PREPARATIONS

Voluntary sector preparations

The Euro Preparations Unit has been working with voluntary sector representatives to establish what they would need to do in the event of a smooth UK changeover. The issues that would need to be considered by voluntary organisations after a UK euro referendum and before the UK joining EMU have been identified and incorporated into the revised Managed Transition Plan.

6 WHOLESALE FINANCIAL MARKETS

Wholesale financial markets

The Bank of England continues to coordinate euro preparations in sterling wholesale financial markets through the City Euro Group, a representative body of City market associations and financial institutions, which meets at regular intervals.

A 'City guide to a UK euro changeover' is kept up to date on the Bank of England's website at www.bankofengland.co.uk/euro/cityguide/overview.htm. Since the Spring Report, there have been some significant developments affecting wholesale euro preparations, namely proposals for sterling money market reform; proposals for company law reform; consultations on tax; and the European Central Bank's preparations for TARGET2. Information on the euro in the City and UK trade is also given in this report.

Introduction

The Government's policy on membership of the single currency remains as set out by the Chancellor in his statement to the House of Commons in October 1997, and restated by the Prime Minister in February 1999. In principle, the Government is in favour of UK membership of EMU; in practice, the economic conditions must be right. The determining factor underpinning any Government decision on membership of the single currency is the national economic interest and whether the economic case for joining is clear and unambiguous. The Government has always made clear that if, based on an assessment of the five economic tests, it were to take a decision to recommend UK membership of EMU, it would be put to a vote in Parliament and then to a referendum of the British people. This report sets out the progress that has been made across the economy in euro preparations since spring 2004 and identifies areas for further work.

- 1.1** An assessment of the five economic tests was published in June 2003. This concluded that, "since 1997, the UK has made real progress towards meeting the five economic tests. But, on balance, though the potential benefits of increased investment, trade, a boost to financial services, growth and jobs are clear, we cannot at this point in time conclude that there is sustainable and durable convergence or sufficient flexibility to cope with any potential difficulties within the euro area."
- 1.2** The Chancellor's 9 June 2003 statement to the House of Commons on UK membership of the European single currency set out a reform agenda of concrete and practical steps to address the policy requirements identified by the assessment. A report on progress was presented in Budget 2004. While the Government did not propose a euro assessment be initiated at the time of Budget 2004, the Treasury will again review progress at Budget time next year.
- 1.3** As part of the policy of "prepare and decide", the Government is committed to ensuring that the UK retains a genuine option to join the single currency if that is what the Government, Parliament and the people, in a referendum, decide. The Euro Preparations Unit in the Treasury (EPU) works with stakeholders from across the economy to ensure that euro preparations are at an appropriate level.
- 1.4** The Government issues reports on euro preparations twice yearly. This report sets out the progress that has been made across the economy in euro preparations since spring 2004 and identifies areas for further work.

Further information on euro preparations and dealing with the euro now is available from the Treasury at:

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2 Public sector preparations



Preparations in central government departments are well advanced. Departments have plans in place. The Euro Preparations Unit in the Treasury (EPU) is working with central government departments to support them in successfully completing the planning phase, and moving to the next phase in preparations.

Work with local authorities to produce model changeover plans continues. Plans are now being submitted. The Local Authority Guidance (published June 2003) will be updated by summer 2005, following consultation with stakeholders.

A meeting of the Wales Euro Preparations Committee was held on 25 October 2004; the Northern Ireland Euro Preparations Committees met on 29 November 2004 and the next Scottish Euro Preparations Committee meeting is planned for 24 January 2005.

CENTRAL GOVERNMENT PREPARATIONS

2.1 Criteria for completion of the planning phase of euro preparations were published in the *Report on euro preparations, April 2004*. Officials from EPU are working with all central government departments to support them in successfully completing the planning phase, and moving to the next phase in preparations. Departments have provided evidence to demonstrate their achievements against each of the criteria, and this has been discussed through a series of bilateral meetings with EPU officials.

2.2 The majority of central government departments now consider that they have completed the planning phase of preparations. If a department has not yet met the criteria, EPU will continue to work with them to resolve any outstanding issues.

2.3 Central government departments continue to work with EPU to develop the Managed Transition Plan (MTP). All central government departments, and the 'critical path' departments in particular (the Inland Revenue, HM Customs and Excise, and the Department for Work and Pensions), need to ensure that their planning reflects the most recent developments of MTP and that they would be able to support the private sector in delivering a smooth and effective changeover.

2.4 Central government departments have also been closely involved in the development of the Integrated Communication Plan (ICP). The critical path departments have contributed to the development of a draft ICP, and this will be made available for wider consultation during 2005.

Box 2.1 Completion of planning phase of euro preparations for central government departments

Criteria have been agreed by the committee of Euro Ministers: once a department's planning meets all of these criteria, the planning phase of euro preparations is considered complete:

- a single, living planning document, or a collation of existing documents in a coherent and clear way to ensure that there are no gaps or inconsistencies;
- OGC Gateway™ Review of planning completed (or equivalent). Gateway™ recommendations implemented where appropriate and kept under review;
- decision taken by the department's Management Board that the plan is comprehensive and covers all business areas likely to be affected by the euro;
- development of a robust next phase to follow on immediately from the planning phase;
- plans include responsibility for euro preparations in Agencies and Non-Departmental Public Bodies (NDPBs);
- resources required for a potential changeover and necessary reprioritisation identified and not dependent on additional central funding;
- plans are entirely consistent with the *third outline National Changeover Plan*. In particular, they should ensure compliance with the public sector consumer code of conduct, deliver the Managed Transition Plan and assist in the central communications effort;
- euro compatibility and the impact of the euro is incorporated into the department's approval and implementation cycle for all new projects, systems, system upgrades and policies; and
- a completed risk register is in place with the department's top ten risks, mitigating actions and senior owners.

2.5 To the end March 2004, the total spend on public sector euro preparations was £43.0 million. Of this, the critical path departments spend on euro preparations was £38.5 million (£20.0 million by the Inland Revenue, £8.8 million by HM Customs and Excise and £9.7 million by the Department for Work and Pensions).

Box 2.2 Her Majesty's Revenue and Customs (HMRC)

In Budget 2004, the Chancellor announced that he had accepted the recommendations of a review by Gus O'Donnell, Permanent Secretary to the Treasury, to create a single integrated tax department incorporating the Inland Revenue and HM Customs and Excise.

At Spending Review 2004, it was announced that the name of the new department would be Her Majesty's Revenue and Customs. The Bill containing the legislation necessary to integrate the Inland Revenue and HM Customs and Excise was introduced to Parliament on 23 November 2004.

The Inland Revenue and HM Customs and Excise have been identified as 'critical path' departments in the UK's outline National Changeover Plan, that is, departments whose successful changeover would be critical to the overall smooth transition from sterling to euro. Both departments have successfully completed the planning phase and continue to work closely with the Treasury on wider public sector preparations. It is therefore important that, as part of the overall programme to merge the two departments, the euro programmes are successfully integrated.

The two departments have worked together on changeover planning, and this will continue over the coming months during the period before full integration. A joint meeting of the Euro Programme Boards of Inland Revenue and HM Customs and Excise took place on 21 October 2004 and agreed a number of steps towards integration of the two euro programmes, including setting up common governance arrangements, combining key planning products and bringing together proposals on transition services.

LOCAL AUTHORITIES

2.6 EPU officials have been working with a group of pathfinder local authorities from across the UK to produce changeover plans that could serve as good practice examples. Plans are now being submitted; following further consultation with contributors, an initial selection of plans will be made available in 2005.

2.7 Local Authority Guidance was published in June 2003. Following more detailed work with individual local authorities, and taking into account feedback from stakeholders, an updated edition is planned by summer 2005. It is proposed that the next edition includes more detailed guidance on the role of local authorities in contributing to consumer protection during a changeover, and that it will reflect developments in the MTP, the ICP and the Consumer Protection Framework (CPF).

Box 2.3 The CIPFA Euro Forum

The Chartered Institute of Public Finance and Accountancy (CIPFA) Euro Forum was established in 1999 as a membership organisation where member local authorities are kept up to date with information and guidance on matters relating to possible UK membership of EMU. The Euro Forum is currently managed by the Institute of Public Finance (CIPFA's commercial arm) and has around 70 subscribing local authority members. It hosts six euro events each year (in London and York), which cover key euro implementation issues and how they might impact on local authority financial and policy processes.

The Euro Forum has recently completed the second draft of the CIPFA euro planning template, a comprehensive guide to the issues that local authorities would need to address if the UK were to join EMU. The Euro Forum has always emphasised that for local authorities to have a real choice in how they conduct a possible future changeover, they should treat the euro like any other business risk and ensure that they have robust and effective implementation plans in place. The Euro Forum also provides ad hoc member briefings on euro implementation issues as and when necessary and attracts a wide range of speakers to its events.

A fuller description of the Euro Forum's activities can be found at: www.ipf.co.uk/europe

SCOTLAND

2.8 The Scottish Euro Preparations Committee (SEPC) last met in April 2004. Amongst the agenda items were a presentation on public sector preparations within Scotland by the Scottish Executive, a review of the MTP and ICP by HM Treasury, and an update on the financial services sector preparations in Scotland by Scottish Financial Enterprise. Members of the SEPC also gave an update on their own sector's euro preparations. Minutes of the SEPC are available on the website of the Scottish Executive, www.scotland.gov.uk. The next SEPC meeting is planned for 24 January 2005.

2.9 The Scottish Executive continues to work with EPU and has prepared a Departmental Changeover Plan. Work is ongoing at three Scottish local authorities as part of HM Treasury's pathfinder group on local authority preparations. Executive Agencies and NDPBs are also preparing their own euro changeover plans. The Management Group of the Scottish Executive will review the plans in winter 2004.

2.10 Best practice for euro preparations is maintained by sharing documentation and experience with the other devolved administrations. The Executive also coordinates and oversees euro preparations across the public sector in Scotland, and has given presentations to local authority Directors of Finance, Executive Agencies and NDPBs in order to help progress their euro preparations. Representatives from HM Customs & Excise and HM Treasury have organised euro awareness seminars in Scotland for

Small- and Medium-sized Enterprises. Departments continue to promote euro awareness, and the message from the euro area that early preparations assist in delivering a smooth changeover.

2.11 In order to gain assurance that the Scottish Executive's euro preparations are comprehensive and effective, the Scottish Executive undertook a Gateway™ Review of changeover plans in September 2004.

Box 2.4 Euro compatibility at the Scottish Executive

In order to save possible future cost and resource, the Scottish Executive has taken steps to ensure that euro compatibility is factored into investment decisions concerning business applications across the public sector in Scotland. Upgrades, new purchases and business applications are required, where appropriate, to be euro compatible. For example, when Historic Scotland recently upgraded their sales tills, tills capable of accepting sterling and euro were purchased.

Building in euro compatibility takes place in a number of different ways. Standard wording for terms and conditions has been prepared, and this is available from the Scottish Procurement Directorate. Procurement and Finance Guidance contains specific references to the need to build in euro compatibility to purchasing decisions.

The Scottish Executive Information Strategy Steering Group reviews all investment decisions and gains assurance that euro compatibility is built into specifications, tenders and other documentation. The current Official Journal of the European Communities procurement process for an electronic human resource business application specifies euro compatibility in the tender documentation. Evidence and references will be sought to ensure that the system application providers can deliver services in both sterling and euro. Work to take forward the Efficient Government Review and back-office process improvements will also include criteria to ensure that bids are scrutinised for their applications to include euro compatibility.

The HM Treasury document '*Euro compatibility: a guide for managers*', published in January 2004, has been circulated widely via the Scottish Procurement Directorate, and a link is maintained on the Scottish Executive's intranet site.

When the Scottish Executive upgraded its finance system in 2001, it ensured that the product was euro compatible. As more users join the system, the risk to a euro changeover is reduced as the system can manage multi-currencies, and, in the event of a changeover, there would be less testing to do.

2 Public sector preparations

WALES

2.12 The Wales Euro Preparations Committee (WEPC) last met on 25 October 2004. The membership of the WEPC has been extended further and the WEPC welcomed new representation from the retail sector in Wales. The committee discussed the development of the CPF, the completion of the planning phase in the public sector and the further developments of the MTP and the ICP. The committee received an update on the Welsh Assembly Government's changeover planning.

2.13 The Welsh Assembly Government is continuing to progress plans on euro preparations and has recently finalised a consolidated Euro Changeover Plan. The plan was approved by the programme board in October 2004, and a Gateway™ Review of the plan was carried out in November 2004; the plan will be reviewed on a 6 monthly basis. An internal network of euro coordinators has been established in order to ensure that information on euro preparations is disseminated across the organisation and that the Welsh Assembly Government's changeover plan reflects the requirements of all business areas.

NORTHERN IRELAND

2.14 The Northern Ireland Office has completed a central changeover plan covering policy issues and central services provided to Northern Ireland departments. In addition, each department has drafted an individual changeover plan to underpin the higher level Northern Ireland Plan. The individual plans address the preparation issues facing the departments, including the services provided by NDPBs and sponsor bodies which affect the department.

2.15 As an example of how the central plan is underpinned by department plans, the Department of Health, Social Services and Public Safety has commissioned a dedicated changeover plan to be drawn up for the Health and Personal Social Services Sector covering the four Northern Ireland Health and Social Services Boards, nineteen Health Service Trusts and other agencies.

2.16 In addition to the ongoing work on the health sector, preparations work has been commissioned in both the higher and further education sectors. EPU assisted in this work by giving presentations to representatives from the Northern Ireland universities and the Association for Northern Ireland Colleges in June 2004.

2.17 The Northern Ireland Euro Preparations Committee (NIEPC) last met on 29 November 2004. The Secretary of Newry Chamber of Commerce made a presentation on euro trade in the cross border area to the committee. The committee also discussed the completion of the planning phase in the public sector and progress in developing the MTP, ICP and CPF.

WORKING WITH EUROPEAN PARTNERS

2.18 During the changeover in the euro area, the European Commission facilitated discussion and coordination of preparations across the euro area via a number of working groups. In order to assist new Member States in their early preparations for future membership of the single currency two of these groups have been reconstituted: Directors of Communication (DirCom II) and Public Administrators' Network (PAN II).

2.19 Member State Governments are invited to send appropriate representation. Officials from EPU have attended recent meetings of both DirCom II and PAN II in order to remain informed and to share the UK's experience of euro preparations.

2 Public sector preparations

3

Private sector preparations



A number of large organisations are well advanced in their euro preparations. The Euro Preparations Unit in the Treasury (EPU) has been developing the Managed Transition Plan (MTP) with private sector partners and other key stakeholders. An updated version will be available for informal consultation over winter 2004. It contains more detail, with a wider scope to encompass more sectors of the economy.

Officials have continued to discuss issues arising from a possible changeover with the UK business community. Following feedback from consultation on the UK's *third outline National Changeover Plan* (oNCP3), EPU published a concise leaflet summarising key euro preparations issues. This is included at Annex C and is also available at the Treasury's euro website www.euro.gov.uk.

RETAIL BANKS AND BUILDING SOCIETIES

3.1 EPU continues to monitor the level of preparedness across this sector, providing guidance and support to the planning process. APACS, the British Bankers' Association (BBA), and the Building Societies Association (BSA), as well as individual banks and building societies have helped in the development of euro changeover planning.

3.2 Preparations in many financial institutions are well advanced. For those organisations with detailed plans in place, the focus of euro preparations is to ensure that the institutional memory is retained and that the planning remains robust, complete and up-to-date.

3.3 The retail banking sector has played a key role in helping to develop the Managed Transition Plan (MTP), discussed below, with the BBA jointly chairing the Managed Transition Advisory Group (MTAG) alongside the Treasury. APACS and the BBA have also contributed to the Integrated Communication Plan (ICP) and the Consumer Protection Framework (CPF).

INSURERS

3.4 Planning across the insurance industry continues to progress. Some insurers have detailed plans in place and the focus of their euro preparations is to ensure institutional memory is retained and their planning remains robust, complete and up-to-date.

3.5 In May 2004 the Association of British Insurers (ABI) published the '*UK Insurance Industry Outline Euro Guidance Document*' providing guidance to insurance companies. This is an important contribution to the sector's planning. The document is available from the ABI. Those organisations that have yet to begin any significant euro preparations work should refer to this document, as well as the material published by HM Treasury, to assist them with their preparations.

RETAIL SECTOR

3.6 EPU also works closely with retailers and retail trade associations, in particular the British Retail Consortium (BRC). Work has been undertaken to ensure understanding of the practical implications of issues, such as dual display, through a series of meetings and store visits.

3.7 The retail sector has also made important contributions to the MTP, the ICP and the CPF.

UTILITIES

3.8 The utilities sector, through the Utilities Forum and its members, has played an active role in euro preparations. Its contribution to the MTP has been particularly helpful, especially in consideration of the interdependencies of this sector with other areas of the economy.

3.9 The Utilities Forum is also involved in the development of the ICP and CPF. A draft consumer code of conduct for the utilities sector is published at Annex D of this report.

SMALL- AND MEDIUM-SIZED ENTERPRISES

3.10 Small- and Medium-sized Enterprises (SMEs) often have limited resources with a small pool of staff undertaking a wide range of roles and the time and resources for non-routine business requirements is often restricted. Feedback from the consultation on the *third outline National Changeover Plan* (oNCP3), which contains detailed information for all organisations, suggested that the format of the document did not meet the needs of SMEs.

3.11 EPU has worked with the sector on a practical basis, to produce targeted information in a leaflet "*Euro preparations – what you need to know*" and this was published in July 2004. This summarises the key euro preparations issues for SMEs and other organisations. This is included at Annex C, and is also available at the Treasury's euro website, www.euro.gov.uk.

3.12 SMEs draw upon information from a wide range of sources such as accountants, banks, trade associations and business support advisers. EPU continues to work with business support organisations. Articles on euro preparations have been published in accountancy and other business trade magazines at the request of these organisations. EPU has also worked with the Small Business Service (SBS) and Business Link advisers to ensure that information about euro preparations is available to customers of Government sponsored business advice services.

3.13 EPU has also:

- met with many individual businesses at HM Customs and Excise Business Advice open days across the UK;

- made a presentation on euro preparations to the Black Country Chamber of Commerce;
- made a presentation to a business breakfast hosted by the South East England Development Agency; and
- continued to work with organisations representing SMEs, in particular the Association of Convenience Stores, the British Chambers of Commerce, the Federation of Small Businesses and the Forum of Private Business.

3.14 EPU has discussed the implications of a changeover with a number of other sectors including company registrars, consultants, the payroll industry and the franchise industry (through the British Franchise Association). It has also discussed euro preparations with other trade associations, professional bodies and organisations, many of whom are represented on EPU's working groups.

3.15 Whilst the majority of SMEs are unlikely to need to undertake detailed practical preparations before a future Government decision to recommend UK membership of EMU, they should remain informed of the issues. The most important action that they should consider is euro compatibility when introducing or upgrading systems, processes and equipment including cash machines, payroll software, and so on. Doing so now could result in future savings.

THE MANAGED TRANSITION PLAN

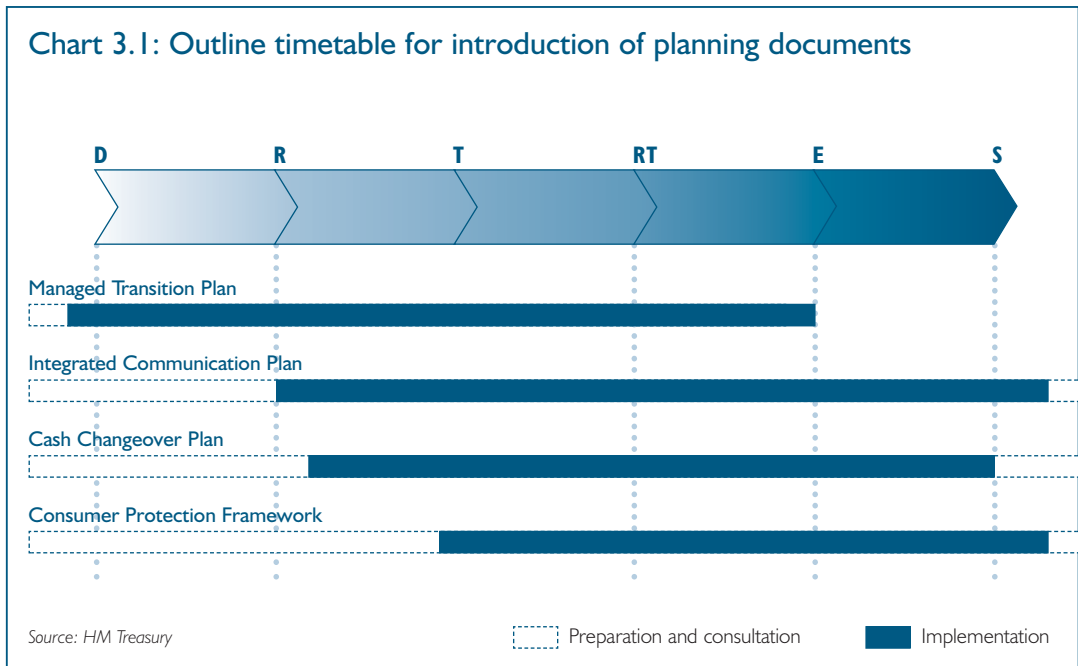
3.16 The UK's phased approach or managed transition was included in oNCP3. The plan sets out what euro services would be available in the event of a UK changeover, when they would be available, and who would provide them. Its purpose is to give planners within organisations and businesses a framework for planning each stage of a migration from sterling to euro. It has been prepared and coordinated in consultation with a wide range of stakeholders from the public, private and voluntary sectors, under the umbrella of the MTAG. HM Treasury and the BBA jointly chair this group.

3.17 The revised version contains more detail, and its scope has been expanded to cover more sectors of the economy. As well as showing the core steps to be taken at each period, it also allows organisations across the economy to follow a clear progression, and identifies areas for action during each stage of the outline timetable.

3.18 Following consultation with MTAG, a revised and updated version of the MTP will be made available for informal consultation during winter 2004. The plan will then be modified in spring 2005 to take account of the feedback.

3.19 The MTP is part of a suite of planning documents. The MTP does not cover issues of communication or consumer protection during a changeover, as EPU is producing companion documents to meet these needs: updates on the ICP and a CPF are discussed in Chapter 4. Cash issues have also been removed from the plan and have been made a separate, distinct work stream. A Cash Changeover Working Group would be formed after a positive referendum and would draw up a Cash Changeover Plan within six months of a positive referendum.

3 Private sector preparations

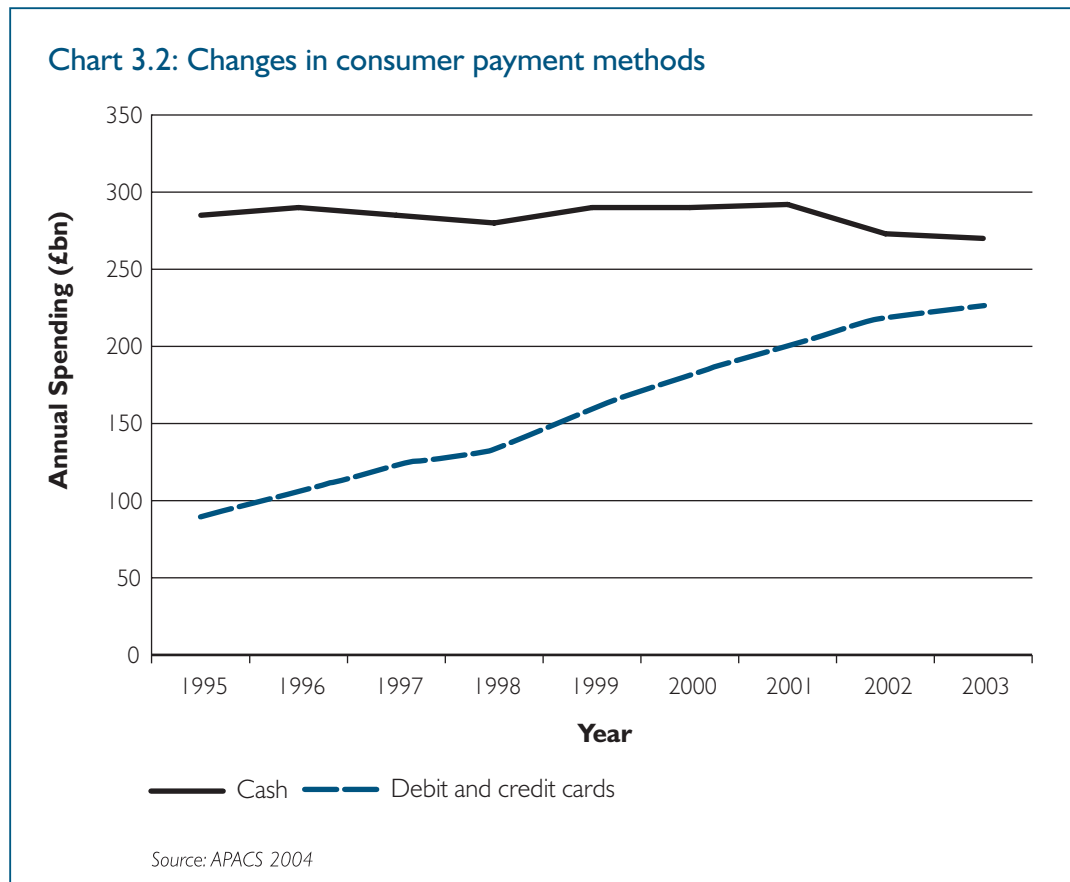


PLANNING FOR A CASH CHANGEOVER

3.20 Although there is a rising trend in the use of debit and credit cards, cash remains a significant means of payment [see Chart 3.2]. Engagement with the key players in a cash changeover continues through the Notes and Coins Working Group. The coordination of this group is delegated by HM Treasury to the Bank of England, which chairs the group and would play a key role in developing a remit for Cash Changeover Working Group. The Group has also discussed:

- the impact of a possible future E day across the economy; and
- de-hoarding campaigns.

3.21 The group has confirmed that a cash changeover would be achievable within the outline timetable, as published in oNCP3.



WIDER ENGAGEMENT WITH BUSINESS

3.22 The Business Advisory Group (BAG) was established in July 1997 to contribute to work on the provision of information to those UK businesses wanting to deal in euro as a foreign currency, and to seek business input on UK changeover planning. The group is jointly chaired by the Financial Secretary to the Treasury and the Minister of State for Industry and the Regions at the Department of Trade and Industry. The membership includes, amongst others, the Association of British Travel Agents, the Association of Corporate Treasurers, EEF (formerly known as the Engineering Employers' Federation), the Federation of Small Businesses, the Forum of Private Business, the Hundred Group of Finance Directors and the Institute of Chartered Accountants for England and Wales.

3.23 At their meeting on 29 June 2004, Ministers updated the members of BAG on public sector preparations, the work on the CPF and on EPU's work programme. The membership agreed that the Government is concentrating on the right areas.

3 Private sector preparations

3.24 Since the launch of the euro on 1 January 1999 and issuance of euro cash on 1 January 2002, UK businesses have developed considerable experience in trading with organisations in the euro area. As a result, the number of requests from business for information on how to deal with the euro as another foreign currency has reduced. BAG members agreed that there is no longer a case for Government to produce new materials at this time, but it has been agreed that existing materials will continue to be made available, and updated as necessary.

4 Consumer protection and communication



Consumer protection and inclusive communication remain at the heart of UK changeover planning. Working with the Consumers' Group, a draft of the Consumer Protection Framework (CPF) has been developed for discussion with stakeholders. A revised draft will be made available in 2005.

The Integrated Communication Plan (ICP) is a companion document to the Managed Transition Plan (MTP). The first version of the ICP has been drawn up in consultation with organisations and sectors which would play a key role in communication during a changeover. Officials from the Euro Preparations Unit (EPU) are consulting with contributors. A revised version will be made available in 2005.

CONSUMER PROTECTION FRAMEWORK

4.1 The Consumers' Group was established in autumn 2003 to work with EPU to consider how best to safeguard the interests of consumers during a possible future UK changeover. The Consumers' Group is contributing to the development of the CPF, and is currently considering a working draft of the document. Following this initial consultation, a revised draft will be made available in 2005.

4.2 As set out in the *Report on euro preparations, April 2004*, the CPF considers how existing consumer protection mechanisms and legislation would protect consumers in the event of a changeover and what additional mechanisms might be required. Options for consideration include:

- how organisations and government bodies concerned with consumer information and protection could work together during a changeover; and
- how best to ensure that the experience of consumers is monitored and reflected in service provision at national and local level during a changeover.

4.3 The CPF is designed to be flexible so that it can respond to changes in the consumer protection infrastructure. In particular, two developments will have a noteworthy impact and EPU is working with the Department of Trade and Industry (DTI) to ensure these are taken into account:

- the Directive on Unfair Commercial Practices was proposed by the European Commission on 18 June 2003. It includes a general prohibition on business-to-consumer unfair commercial practices and specific rules aimed at combating misleading and aggressive practices. The Directive is now at 2nd reading stage in the European Parliament, following agreement on a Council common position on 15 November 2004. Final adoption could then be reached by June 2005. There will then be two years in which to transpose it to UK law; and

4 Consumer protection and communication

- the establishment of Consumer Direct, a national telephone helpline for consumer advice and information, will give consumers a single, national point of contact for enquiries. The CPF will consider how Consumer Direct could support consumers during a changeover.

4.4 More information about these issues can be found on the DTI's website, under Consumer and Competition Policy at <http://www.dti.gov.uk/ccp/index.htm>.

Box 4.1 Consumer Direct

Consumer Direct is a new information and advice service for consumers in England, Scotland and Wales. The service is currently operational in Scotland, South West England, Wales and Yorkshire and the Humber. Roll out across the remaining areas is expected to be complete in 2007.

Consumer Direct aims to be the first point of call for consumers, providing first tier advice on a range of consumer matters, including advice before shopping, information on consumer rights and practical guidance on individual problems and how to gain redress. The aim is to give consumers the knowledge, tools and confidence to resolve matters themselves.

However, where further help is needed, such as specialist advice, face-to-face assistance, or intervention, Consumer Direct will refer consumers to the agency or department that is best placed to assist. By handling the bulk of first tier enquiries, Consumer Direct enables these services to focus their resources on those that have most need of their expertise.

Local authorities play a central role in delivering Consumer Direct, by working together in partnership with the DTI, to establish contact centres in each English region, Scotland and Wales.

Consumer Support Networks are also vital to the success of Consumer Direct, by linking together complementary services to ensure the seamless referral of more complex cases or more vulnerable consumers.

For more information, see the Consumer Direct Project Information website: www.consumerdirect.gov.uk/project

CONSUMER CODES OF CONDUCT

4.5 EPU continues to help develop consumer codes of conduct, working with representative organisations from across the UK economy. The Utilities Forum have produced a draft consumer code of conduct for the utilities sector, published at Annex D of this report.

4.6 The CPF will examine possible options for administering and monitoring a scheme to allow individual businesses to demonstrate commitment to abiding by a consumer code of conduct. As set out in the *third outline National Changeover Plan* (oNCP3), organisations and businesses that joined the scheme would be able to display the scheme 'euro confidence' logo, which would include a telephone number for consumers to use in the event of an enquiry or a complaint.

4.7 EPU has also continued to work with “Which?”, the organisation formerly known as the Consumers’ Association, and the Trades Union Congress on developing sector changeover planning.

INTEGRATED COMMUNICATION PLAN

4.8 The first version of the Integrated Communication Plan (ICP) has been drawn up with contributions from organisations and sectors that would play a key role in communication during a changeover. Initial contributors comprise the Association of British Insurers, APACS, the Bank of England, the British Bankers’ Association, the British Retail Consortium, the Department for Work and Pensions, HM Customs and Excise, the Inland Revenue, the National Council for Voluntary Organisations, the Post Office Ltd and Royal Mail, and the Utilities Forum.

4.9 The ICP provides further detail of the central communication that would be delivered by a Euro Changeover Secretariat (the coordinating body) in the event of a changeover. This builds on the detail set out in oNCP3. For example, the ICP confirms that there would be a national telephone euro helpline in the period immediately following a referendum in favour of joining the euro, and gives further examples of the types of information that would be produced during a changeover period.

4.10 Officials from EPU are consulting with contributors. A revised version of the ICP will be made available during 2005.

VULNERABLE COMMUNITIES AND CITIZENS

4.11 The communication strategy published in the oNCP3 recognised the need for some funding to provide additional materials to meet the communication needs of vulnerable communities and citizens. In consultation with the Vulnerable Communities and Citizens Working Group (VCCWG), EPU has been considering the options for partnership working with organisations experienced in dealing with vulnerable groups, drawing on good practice from the approaches adopted for the introduction of the euro in the euro area and existing partnership working between Government and voluntary and charity organisations.

4.12 This work has recognised that during the key communication stages in a changeover there are a number of approaches which, through both national organisations and local communities, might be appropriate to different vulnerable communities. The results of this work will be incorporated in subsequent revisions of the ICP.

4.13 EPU has also continued to gather information on vulnerable groups across the UK. This will be used to inform planning of how their information needs could be met.

REVISION OF TREASURY'S EURO WEBSITE

4.14 Since the Treasury's euro website www.euro.gov.uk was relaunched by the Chancellor of the Exchequer in March 2001 it has had over two million visitors. In July 2004 the website was revised to provide easier access to its content. The site continues to be a key source of information on euro preparations, as well as providing information for businesses on how to deal with the euro now.

5 Voluntary sector preparations



Officials from the Euro Preparations Unit in the Treasury (EPU) continue to work closely with voluntary sector representatives to ensure an appropriate level of preparations by the sector.

The voluntary sector would have an important role to play during a possible future UK euro changeover. Voluntary sector organisations play a key role in assisting consumers and they have extensive contacts with vulnerable groups. As part of the development of the Integrated Communication Plan (ICP) and Consumer Protection Framework (CPF), EPU is working with voluntary sector partners and representatives of vulnerable groups to establish models of partnership working that could apply during a changeover.

5.1 In February 2003, the National Council for Voluntary Organisations (NCVO) published a report, *'Ready for change? The voluntary sector and the euro'*. NCVO are now planning to update their information and support for member organisations by publishing a short leaflet in 2005, setting out some of the issues that voluntary organisations may wish to consider in preparation for a possible future UK membership of EMU.

5.2 Many of the issues that would be faced by smaller voluntary organisations would be similar to those faced by small businesses in general. These would include:

- cash distribution and handling;
- staff training;
- IT systems;
- communication with client groups and customers, and
- how to identify any new business opportunities.

5.3 Whilst voluntary organisations would benefit from the general information and support issued for small businesses, there would remain sector-specific issues that would need to be addressed. As part of the development of the Integrated Communication Plan (ICP), EPU is working with the NCVO to establish how the communication needs of the voluntary sector could be met.

5.4 The EPU has been working with voluntary sector representatives to establish what they would need to do to deliver a smooth UK changeover. The voluntary sector is made up of an extremely diverse range of organisations, ranging from large international charities to local groups that are run entirely by a small number of volunteers. The vast majority of voluntary organisations rely heavily on volunteers. 140,000 of the 162,000 UK charities employ only 11% of paid staff in voluntary organisations. As for other organisations, the scale and type of voluntary sector preparations needs to be tailored to the requirements of the individual organisations.

5 Voluntary sector preparations

5.5 Box 5.1 below sets out the key actions that would need to be considered by voluntary sector organisations after a UK euro referendum and before the UK joined EMU. These are being incorporated into the revised Managed Transition Plan (MTP).

Box 5.1 Issues the voluntary sector should consider after a UK euro referendum

Examples include:

- becoming familiar with the most recent Government planning documents;
- seeking advice on best practice from the NCVO and other bodies and organisations that support voluntary organisations;
- checking for critical interdependencies, especially with those which provide funding e.g. central government, local government and other large donors, and where appropriate agreeing solutions to manage and mitigate any risks identified; and
- developing a strategy and action planning, initially by:
 - identifying a board-level (or equivalent) ‘euro programme sponsor’ with responsibility for delivery;
 - identifying any likely impact on revenue streams;
 - identifying resources required at each stage in a euro changeover; and,
 - identifying who in the organisation would need to do what, by when, in order for the strategy and action plan to be implemented.

Larger voluntary sector organisations should also consider implications for:

- IT systems;
- internal financial systems (e.g. accounting, payroll, invoicing, purchasing);
- staff and volunteer training needs; and,
- marketing and sales strategy.

6 Wholesale financial markets



The Bank of England has continued to coordinate euro preparations in sterling wholesale financial markets through the City Euro Group. A 'City guide to a UK euro changeover' is kept up to date on the Bank's website¹. Since the Spring Report, there have been some significant developments affecting wholesale euro preparations: proposals for sterling money market reform; proposals for company law reform; consultations on tax; and the ECB's preparations for TARGET2. The chapter also includes a box on 'The euro in the City and UK trade'.

STERLING MONEY MARKET REFORM

6.1 The current operational framework in the sterling money markets leaves sterling overnight rates considerably more volatile than in other countries. The Bank of England wants to influence overnight market interest rates more closely in order to reduce day-to-day and intra-day volatility and so help, through greater stability of financing costs, to promote broad participation and liquidity in sterling money markets.

6.2 Following a review of its official operations in the sterling money markets², the Bank announced in July 2004 that it will initiate a new system based on averaging with voluntary reserves remunerated at the Bank's repo rate. One of the results of the reform will be to bring practice in the sterling money markets closer to practice in the Eurosystem: e.g. by introducing period-averaging in the UK; moving to weekly open market operations; and introducing widely available overnight standing facilities, both borrowing and lending. However, there will still be some significant differences: e.g. between the use of voluntary reserves in the UK and compulsory reserves in the Eurosystem.

6.3 The Bank will consult on the timetable for the introduction of the new operational framework.

COMPANY LAW REFORM

6.4 The City of London Law Society, the London Investment Banking Association and the British Bankers' Association wrote to the Secretary of State for Trade and Industry in July 2004 to urge that the opportunity be taken in the forthcoming Companies Bill to introduce a simplified procedure to enable companies, if they choose, to convert the currency of their share capital and to renominialise their shares, after conversion, to achieve round par values.

6.5 The rationale for the proposals is to keep UK law up-to-date and flexible for the future, providing general commercial advantage in maintaining the UK's reputation as a leading capital market. The proposals should not be seen as a first step towards joining

¹ The City Guide is available at www.bankofengland.co.uk/euro/cityguide/overview.htm

² The Bank published a consultative paper on 'Reform of the Bank of England's official operations in the sterling money markets' in May 2004.

the euro. However, they would assist in preparing for possible UK euro entry under the Government's 'prepare and decide' policy.

6.6 The Minister of State responsible replied in August to say that the Government agrees about the importance of keeping company law up-to-date and the desirability of steps to maintain the UK's reputation as a leading capital market, and that it is therefore planning to include clauses in the forthcoming Bill to enable companies easily to redenominate their share capital, if they so wish.

CONSULTATIONS ON TAX

6.7 At the end of June 2004, the Inland Revenue circulated '*A review of legislative issues arising from euro preparations*', as a basis for informal consultations with the City Euro Group and others. Responses were requested by 30 September.

6.8 The consultation paper states that a key policy principle underlying the Inland Revenue's approach to a euro conversion is that conversion should, so far as possible, be fiscally neutral. By this, the Inland Revenue means that the tax paid as a result of conversion should be the same, and arising at the same time, as the tax that would have been paid without conversion.

6.9 Accordingly, historic amounts brought forward in sterling would, for the purposes of tax computations following the adoption of the euro, be converted into euro at the conversion rate fixed on UK entry, and not at some previous historic rate (i.e. when there was a floating euro-sterling rate). This is so even if the amount originated as a euro amount, and was converted to sterling at a floating rate for carry-forward.

6.10 The consultation paper also identifies a number of statutory references to 'sterling' that need special consideration and where strict fiscal neutrality may not be possible. These are cases where the automatic substitution of 'euro' for 'sterling' may be inappropriate because it introduces a change of substance: for example, where rules previously restricted to certain transactions denominated in sterling would then also apply to all similar transactions denominated in euro.

TARGET2

6.11 In July, the Governing Council of the European Central Bank (ECB) approved the General Functional Specifications for the 'single shared platform' for TARGET2, subject to more analysis of particular issues³. TARGET2 is currently scheduled to commence live operations at the beginning of 2007.

6.12 In TARGET2, it will no longer be necessary for each participating national central bank to maintain a payment processing platform of its own, as at present. All participating central banks will be able to use one shared technical platform, the 'single shared platform', to provide euro RTGS⁴ services to their banks. However, the settlement account relationship and the extension of intra-day credit will continue to be part of the business relationship between each central bank and its national banking community.

³ TARGET is the Trans-European Automated Real-time Gross settlement Express Transfer system for payments in euro.

⁴ Real-Time Gross Settlement.

Box 6.1 The euro in the City and UK Trade

The euro is extensively used in the City of London because of its role as an international financial centre, even though the UK is not participating in EMU. HM Treasury published a study on *'The location of financial activity and the euro'*, alongside its assessment of the Five Economic Tests in June 2003⁵. The study included an annex on the UK's position as an international wholesale financial centre which provided substantial evidence of the extensive use of the euro in UK wholesale financial markets.

The European Central Bank also published a study on *'The City of London and the international role of the euro'* in December 2003. This concluded that "any analysis of the role of the euro in financial markets outside the euro area is, to a great extent, also an analysis of its role in the City of London"⁶.

Figures published by the Bank of England show that the euro is widely used by banks operating in the UK. As at the end of July 2004, 24% of UK resident banks' liabilities and 25% of UK resident banks' assets were denominated in euro, compared with just under 20% of liabilities and assets when the euro was launched at the beginning of 1999 in place of legacy currencies (like such as the Deutsche mark and French franc). The proportion denominated in euro is now marginally greater than in US dollars and is just over half of the proportion which is denominated in sterling.

The triennial survey of foreign exchange and over-the-counter derivatives markets, published by the Bank for International Settlements at the end of September, shows that the UK accounted for 31.3% of global foreign exchange turnover in April 2004. This is similar to the percentage in April 2001, though global turnover increased substantially from the equivalent of \$1,200 billion per day in April 2001 to \$1,880 billion per day in April 2004. The euro was used in 37.2% of foreign exchange transactions in April 2004, while the US dollar was used in 88.7%⁷. These are both similar percentages as in April 2001.

The triennial survey also shows that the UK accounted for 42.6% of global over-the-counter derivatives turnover in April 2004, compared with 36.0% in April 2001. Again, there was a substantial increase in global turnover, from the equivalent of \$575 billion per day in April 2001 to \$1,220 billion per day in April 2004. In the case of interest rate derivatives turnover, 45.0% was denominated in euro in April 2004 (compared with 47.2% in April 2001), and 33.9% was denominated in US dollars (compared with 31.1%).

In addition, the euro is quite widely used in the UK's external trade, though not as widely as sterling or US dollars. The most recent figures published by HM Customs and Excise for the currency in which UK trade is invoiced show that, in 2002, around 27% of UK imports were invoiced in euro (compared with 33% in sterling and 37% in US dollars); and around 21% of UK exports were invoiced in euro (compared with 51% in sterling and 26% in US dollars). The shares of imports and exports invoiced in these currencies have remained broadly stable since the launch of the euro.

5 This study is available at www.hm-treasury.gov.uk.

6 European Central Bank: *Review of the International Role of the Euro* (December 2003).

7 The global total sums to 200% instead of 100%, because two currencies are involved in each transaction.

6 Wholesale financial markets

7

Forward work programme



- Euro Preparations Unit (EPU) will continue to work with central government departments to resolve outstanding issues in euro preparations by spring 2005.
- EPU will consult with pathfinder local authorities and prepare a selection of plans for dissemination in 2005.
- EPU will work with stakeholders to produce an updated version of the Local Authority guidance by summer 2005.
- An updated version of the Managed Transition Plan (MTP) will be made available for informal consultation over the winter of 2004 and modified in spring 2005 to take account of the feedback.
- Working with the Notes and Coins Working Group, EPU is developing the remit for a possible Cash Changeover Working Group.
- Building on the work of the Consumers' Working Group, and after discussions with stakeholders, EPU will make available a Consumer Protection Framework (CPF) in 2005.
- Further draft codes of conduct will be considered for the following sectors:
 - the legal profession;
 - estate agents;
 - direct mailing organisations; and
 - wholesalers.
- EPU will publish an Integrated Communication Plan (ICP) for informal consultation in 2005.
- EPU will continue to gather data on potentially vulnerable groups across the UK in order to plan how their communication needs could be met, either through the main centrally coordinated communication plan or through additional information.
- The City Euro Group will continue to oversee preparations for a euro changeover in sterling wholesale financial markets, taking account of developments such as sterling money market reforms.
- In addition, work will continue through the existing committees, working groups and bilateral meetings.

7 Forward work programme

A Euro preparations committees

STANDING COMMITTEE ON EURO PREPARATIONS

The Rt Hon Gordon Brown, MP, Chancellor of the Exchequer (Chair)

Stephen Timms, MP, Financial Secretary to the Treasury

The Rt Hon Peter Hain, MP, Secretary of State for Wales

The Rt Hon Alastair Darling, MP, Secretary of State for Scotland

The Rt Hon Paul Murphy, MP, Secretary of State for Northern Ireland

The Rt Hon Patricia Hewitt, MP, Secretary of State for Trade and Industry

Barry Sheerman, MP, Chair Cross Party Group on Euro Preparations

Sir Andrew Turnbull, Head of the Home Civil Service

Brendan Barber, General Secretary, Trades Union Congress

Sir Jeremy Beecham, Vice-Chair, Local Government Association

Stuart Etherington, Chief Executive, National Council for Voluntary Organizations

David Harker, Chief Executive, Citizens Advice

Terry Hodgkinson, Chair, Yorkshire Forward [representing the RDAs]

Digby Jones, Director General of the Confederation of British Industry

Mervyn King, Governor, Bank of England

Callum McCarthy, Chairman, Financial Services Authority

Sir Peter Middleton, President, British Bankers' Association

Bill Midgley, President, British Chambers of Commerce

Michael Wemms, Chairman, British Retail Consortium

SCOTTISH EURO PREPARATIONS COMMITTEE

Secretary of State for Scotland (Chair)

Scotland Office (Secretariat)

Scottish Executive

HM Treasury (Financial Secretary)

Committee of Scottish Clearing Bankers

Confederation of British Industry (Scotland)

A Euro preparations committees

Convention of Scottish Local Authorities
Federation of Small Businesses (Scotland)
The Scottish Chambers of Commerce
Scottish Consumer Council
Scottish Council for Development and Industry
Scottish Council for Voluntary Organisations
Scottish Enterprise
Scottish Financial Enterprise
Scottish Retail Consortium
Scottish Trades Union Congress

WALES EURO PREPARATIONS COMMITTEE

Secretary of State for Wales (Chair)
Wales Office (Secretariat)
Welsh Assembly Government
HM Treasury (Financial Secretary)
Bro Morgannwg NHS Trust
Chamber Wales
Chartered Accountants for Business in Wales
Confederation of British Industry (Wales)
Farmers' Union of Wales
Federation of Small Businesses (Wales)
Institute of Welsh Bankers
National Farmers' Union
The Peacock Group
Wales Council for Voluntary Action
Wales Tourist Board
Wales TUC
Welsh Consumer Council

Welsh Development Agency

Welsh Language Board

Welsh Local Government Association

NORTHERN IRELAND EURO PREPARATIONS COMMITTEE

Secretary of State for Northern Ireland/Minister for Europe in Northern Ireland (Chair)

Department of Finance and Personnel (NI) (Secretariat)

Northern Ireland government departments

HM Treasury (Financial Secretary)

Chartered Institute for Marketing

Confederation of British Industry (Northern Ireland)

Federation of Small Businesses (Northern Ireland)

General Consumer Council for Northern Ireland

Institute of Chartered Accountants (Ulster Society)

Institute of Directors (Northern Ireland)

Northern Ireland Bankers' Association

Northern Ireland Centre for Competitiveness

Northern Ireland Chamber of Commerce and Industry

Northern Ireland Congress/Irish Congress of Trades Unions

Northern Ireland Council for Voluntary Action

Northern Ireland Local Government Association

Northern Ireland Tourism Industry Confederation

A Euro preparations committees

B Draft guidance on public sector accounting: Version 2

Introduction

In a UK changeover, all parts of the public sector would require a strategy for the treatment of financial information. Draft guidance on public sector accounting was first published in Annex H of the *third outline National Changeover Plan* (oNCP3), to assist public sector organisations with appropriate preparations for possible UK membership of EMU, in line with UK Government policy.

At that time, it was proposed that the guidance would be updated periodically to reflect the comments and views of stakeholders. Following further consultation with stakeholders, this revised draft guidance on public sector accounting has now been prepared by HM Treasury's Accounting Issues Working Group. The requirements of the National Audit Office (NAO), Audit Commission and HM Treasury have been taken into account in the development of this guidance.

WHO IS THIS GUIDANCE FOR?

This guidance is relevant for all public sector organisations and other bodies that are required to conform to Government Accounting principles. The term 'departments' is used for convenience throughout.

STATUS OF GUIDANCE DOCUMENT

All normal principles continue to apply. The principles outlined here are only suggestions for possible approaches, and any definitive guidance would need to reflect the views of Parliament. In the event of a UK changeover to the euro, a consultation would be conducted by HM Treasury at the appropriate time.

This document updates the draft guidance first published as part of oNCP3. Further editions of this guidance document will be issued as necessary. The Euro Preparations Unit in the Treasury (EPU) would welcome feedback on any of the issues covered in this document. Comments should be sent to:

Accounting Guidance
Euro Preparations Unit
HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

E-mail: changeover.plan@hm-treasury.gov.uk

ROLES

Responsibility for directing how public sector bodies should prepare their accounts is split between HM Treasury and the relevant departments. Detailed Treasury guidance is disseminated in various ways, including Government Accounting (GA2000), 'Dear Accounting Officer' letters, the Resource Accounting Manual (RAM), Trading Funds Accounts Guidance, and Executive Non-Departmental Public Bodies: Annual Reports and Accounts Guidance. Further information on these publications is given at the end of this document.

The Comptroller and Auditor General (C&AG) is the independent auditor of central government bodies. The C&AG forms an opinion on the accounts of central government bodies, as to whether they give a true and fair view and are free from material mis-statements. The C&AG also gives an opinion as to the regularity of expenditure and income. In forming this opinion, the C&AG considers whether the accounts properly reflect the requirements of UK GAAP accounting standards (Generally Accepted Accounting Practice in the UK), and the RAM, and also, where appropriate, GA2000. Auditors appointed by the Audit Commission carry out a similar function in giving opinions on the financial statements prepared by local authorities, NHS bodies and other bodies in accordance with the relevant financial reporting frameworks.

IMPACT ON ACCOUNTS OF OTHER BODIES

The minimum Treasury requirements as set out in the RAM should apply also to the accounts of other government bodies such as Supply-financed Executive Agencies. While it would appear to make sense for the whole of the public sector to move to presenting its first set of euro accounts in the same year, there would need to be consultation with other bodies such as Trading Funds, NHS trusts and local government. The departments with a policy remit for those bodies would also have a view. In some cases there may be operational reasons why individual public sector organisations would need to choose a conversion date that would differ from the date selected by the majority.

The relevant parent departments are responsible for issuing accounts directions for their Non-Departmental Public Bodies (NDPBs). It should be noted that, following the above, Treasury requirements would be subject to any overriding requirements in respect of those NDPBs that are incorporated as companies and those which have charitable status.

In the event that public sector bodies introduced euro-based accounts in different years, consolidation of different currencies for Whole of Government Accounts (WGA) would be a mechanical process using the official rate.

STRUCTURE OF THE GUIDANCE DOCUMENT

Section A

Section A briefly sets out high level background on the potential euro changeover timetable and the Public Spending timetable, and considers how these might interact.

Sections B and C

A changeover would impact on accounting policy, systems, records, transactions, budgeting, and reporting and audit arrangements. These issues fall into two broad categories:

- strategic policy issues – high-level departmental accounting requirements in relation to public expenditure planning and control, namely departmental spending review plans, Estimates and Published Accounts; and
- operational and delivery issues – including issues such as conversions, rounding discrepancies, audit trail requirements and inter-relationships with other organisations across the economy.

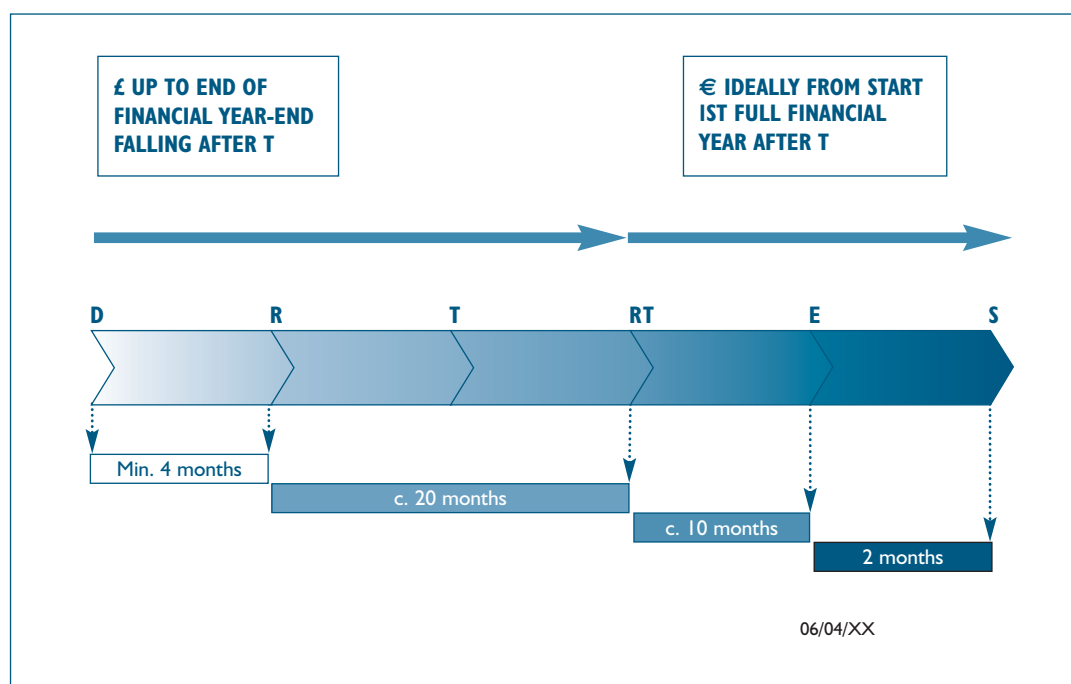
Following these broad categories, Section B will look at strategic policy principles, Section C at operational and delivery matters.

SECTION A – GENERAL ISSUES

1. Outline National Changeover Timetable

The illustrative outline timetable for a possible future UK changeover has been published in oNCP3. According to this published timetable, the period between a Government decision to recommend joining the euro (D) and the introduction of euro cash on 6 April in the relevant year (E) would be approximately 34 months.

The diagram below shows how the outline changeover timetable could interact with the proposed accounting timetable.



2. Key points in the changeover timetable

- D: Decision – the Government’s decision to recommend joining EMU;
- R: Referendum – UK electorate vote on joining EMU;
- T: time of entry and start of Transition. UK joins EMU. The euro-sterling exchange rate would be irrevocably fixed;
- RT: beginning of Retail Transition. Euro denominated financial services would start to be available from this point;
- E: 06/04/XX. Euro cash introduced and end of transition. UK euro notes and coins would be introduced. All non-cash transactions would be denominated in euro; and
- S: Sterling ceases to be legal tender. End of dual circulation period.

3. Expenditure plans and accounting timetables

Departments currently submit expenditure plans in accordance with timetables for Spending Reviews, Public Expenditure System (PES) database exercises and the Estimates/Appropriation Act. How these timetables could relate to the changeover timetable is shown at Annex B(ii) below. Further details about the suggested timing of the first euro Estimates and resource accounts are covered in Section B.

SECTION B – STRATEGIC POLICY ISSUES

1. Supply estimates

It is proposed that departments, including their agencies and NDPBs, should plan on the basis of having to prepare Estimates and resource accounts in euro in respect of the first full financial year after T. This would avoid the difficulty of submitting euro Estimates and accounts in a year in which there would be both fluctuating and fixed rates. However, the content and structure of the Supply Estimates during the changeover period would need to reflect the views of Parliament – and the planning assumptions outlined in this guidance must be seen as no more than that at this stage.

Supply Estimates are submitted to HM Treasury by 31st January 200X for the 200X-200Y financial year. For example, if T day occurred on 31st March 200X, the Supply Estimates would already have been submitted, and HM Treasury would deem Parliament to have granted Supply in euro, with the individual net cash requirements calculated at the fixed T day rate.

2. Resource accounts

To afford departments maximum flexibility, they could choose the most convenient time to convert internal systems. The euro/sterling rate in force for the duration of that (post-T) year would be the official, fixed rate. For example, if T were after 1st April 200X and before 31st March 200Y, the first year for euro accounts would be 200Y–200Z.

Departments would be able to continue to operate accounting systems and maintain in-year control in sterling post-T provided that published accounts were reported in euro in respect of the first full financial year after T. Given that the euro/sterling rate would be fixed for the year it would be a mechanical process to convert Main Estimates and Supplementary Estimates to sterling.

As with existing practice, figures should be presented in round thousands of the currency unit in which the accounts would be produced. What this means is that departments would derive the sterling figures from systems in their raw state, convert them to euro, and then round. Conversion should be at the highest level.

If dual display of accounts were to be required during the transition period, the official, fixed exchange rate applicable from T would be used, even for amounts relating to earlier periods. Using this official rate would preserve trends in expenditure and would avoid reflecting exchange rate fluctuations in the previous year figures to which the department was not in fact exposed.

The current planning assumption is that Parliament would vote Supply in euro for the first full financial year after exchange rates were fixed. From that time, departments would need to account for Supply and their operations in euro. The currency in which the Consolidated Fund would issue Supply, and in which departmental Estimate accounts at the Office of the Paymaster General (OPG) would receive it, would depend on the timetables for conversion of bank accounts held at the Bank of England and OPG.

SECTION C – OPERATIONAL AND DELIVERY ISSUES

1. Audit trails

Some departments have queried what requirements the National Audit Office (NAO) might have with regard to audit trails for currency conversions. Departments are advised to discuss such matters in detail with their NAO contacts. In principle, however, there may be cases where the NAO, in completing relevant audit work, would wish to scrutinise individual transactions and therefore departments should ensure that an appropriate audit trail is in place.

The NAO's financial audit methodology rests upon an analysis of the key risks of material mis-statement within the accounts, and also an appraisal of a department's own controls. A currency changeover would represent, for some departments, a major undertaking, and it may figure in the NAO's overall risk analysis. This analysis would also rest upon the NAO's judgement as to the materiality of the sums involved, and the adequacy of the controls put in place by the department to manage the process. Normal requirements in terms of audit evidence and testing would remain.

Accounting issues affecting local authorities and NHS trusts would be covered by separate guidance, produced prior to any changeover. That guidance would cover issues such as the recommended timing of the conversion of accounts from sterling to euro. It is likely that local authorities and NHS trusts would be given flexibility about the timing of any changeover of their internal financial systems. Any such flexibility would have to take into account the requirement for local authorities and NHS trusts to agree transactions and balances at year-end with other parts of the public sector. Standard accounting and audit requirements would not change upon the introduction of the euro.

2. Conversion discrepancies and rounding

Rounding discrepancies can be:

- 'horizontal', arising from euro-sterling-euro conversions and re-conversions (there is no problem with sterling-euro-sterling conversions because the smallest unit of sterling (1 penny) would have a higher value than 1 cent; or
- 'vertical', where the sum of a column of converted figures does not equal the straight conversion of the total.

The general principle would be that, unless there would be serious operational consequences, it would be the reckonable total for a transaction that would be converted and rounded in accordance with EC Regulations, not the individual components.

It is unlikely that rounding discrepancies could lead to a material mis-statement of accounts, but there may be other factors (e.g. customer/client service) which necessitate that detailed records be maintained. The NAO would be happy to work with departments on their plans to identify and record discrepancies.

In considering the cost/value of accounting for discrepancies on the one hand, and striving for accuracy on the other, the materiality of those discrepancies should take precedence over other criteria.

An example of the sorts of decisions departments might have to make in presenting discrepancies is set out in Annex B(i). However, departments should discuss the system for managing discrepancies with the NAO and account for discrepancies appropriately.

Departments should only convert stored data where there is a strong business case for doing so. For further information, see the Treasury's Introduction to the Conversion of Stored Data, published at Appendix G of the *third outline National Changeover Plan*.

REFERENCES

Government Accounting

Available on line at: www.government-accounting.gov.uk or in hardback form from The Stationery Office (PO Box 29, Norwich NR3 1GN / Tel 0870 6000 5522 quoting ISBN 0115601112)

The Resource Accounting Manual

Available on line at: www.resource-accounting.gov.uk

The third outline National Changeover Plan

Available on line at www.euro.gov.uk

Dear Accounting Officer (DAO) letters

Available on the Treasury's web site http://www.hm-treasury.gov.uk/documents/public_spending_and_services/audit_and_accounting/pss_aud_dao.cfm

ANNEX B(i): PRESENTING DISCREPANCIES

The following scenario is for consultation only – the Euro Preparations Unit in the Treasury (EPU) would welcome further examples.

This example is based on a series of payments over a period of time. It is a generic example and holds good for any series of payments which would span the relevant dates.

Example: rounding discrepancies arising from a series of payments spanning E day

	Sterling Values		Euro Values
Payt No:	1	9.00	
	2	9.24	
	3	9.24	
	5	9.24	
	6	9.24	
	7	9.24	
	8	9.24	
	9	9.24	
	10	9.24	
	11	9.24	
	12	9.24	
	13	9.24	
	14	9.24	
	15	9.24	
	16	46.84	
	17	11.48	
	18	11.48	
	19	11.48	
	20	11.48	
	21	11.48	
	22	11.48	
		£254.08	€388.31
		Sterling balance at Eday	Euro balance after conversion
	23	11.48	17.55
Summary Line	24	11.48	17.55
Conversion (SLC)	25	11.48	17.55
	26	11.48	17.55
		£300.00	€458.51
		€458.49	

Option 1: Accountable discrepancies at Year End

	Sterling Values	Euro Values	Euro Values Displayed & Output	Slide 4
Payt No: 1	9.00		13.75	
2	9.24		14.12	
3	9.24		14.12	
5	9.24		14.12	
6	9.24		14.12	
7	9.24		14.12	
8	9.24		14.12	
9	9.24		14.12	
10	9.24		14.12	
11	9.24		14.12	
12	9.24		14.12	
13	9.24		14.12	
14	9.24		14.12	
15	9.24		14.12	
16	46.84		71.59	
17	11.48		17.54	
18	11.48		17.54	
19	11.48		17.54	
20	11.48		17.54	
21	11.48		17.54	
22	11.48	£254.08	€388.31	
<hr/>				
23			17.55	
24			17.55	
25			17.55	
26			17.55	
<hr/>				
	£300.00	€458.49	€458.51	
<hr/> <hr/>				
			€458.46	

Difference between Summary Line Conversion (SLC) value and posted value equals €0.02.

Eday

Option 2: Accountable discrepancies at E day conversion

	Sterling Values	Euro Values	Euro Values Displayed & Output	Slide 5
Payt No: 1	9.00		13.75	
2	9.24		14.12	
3	9.24		14.12	
5	9.24		14.12	
6	9.24		14.12	
7	9.24		14.12	
8	9.24		14.12	
9	9.24		14.12	
10	9.24		14.12	
11	9.24		14.12	
12	9.24		14.12	
13	9.24		14.12	
14	9.24		14.12	
15	9.24		14.12	
16	46.84		71.59	
17	11.48		17.54	
18	11.48		17.54	
19	11.48		17.54	
20	11.48		17.54	
21	11.48		17.54	
22	11.48	£254.08	€388.29	
23			17.55	
24			17.55	
25			17.55	
26			17.55	
	£300.00	€458.49	€458.49	
			€458.46	

Sterling balance converted to euro at E day is adjusted to make the overall totals at year end balance. That is, a two cent adjustment is made at this level so the overall payment made figure balances.

In the above example, there are two options for presenting the discrepancies occurring at the point of conversion:

- (see Option 1) to keep the figure for the euro balance at E as it is, which results in a €0.02 difference at year-end between the total euro amount (column 3) and the summary line conversion control figure (column 2); or
- (see Option 2) adjust the figure for the euro balance at E by €0.02. This would result in no discrepancy between the year-end total and the summary line control figure.

The first option would result in the totals at year-end matching the General Ledger totals after conversion, and is therefore the neater (more detailed) accounting option. But, unlike the second option, it could give the impression that payees had been either under- or over-paid. On this basis, the second option is preferable on customer service grounds as it provides the customer with a less confusing statement of events.

ANNEX B(ii): PARLIAMENTARY SUPPLY TIMETABLE

STAGE	FINANCIAL YEAR 0 (Y0)	FINANCIAL YEAR (Y1)
Main Estimates	<p>October – December Y0: Departments finalise structure of Estimate.</p> <p>January – February Y0: Initial work on text and PES database figures.</p> <p>March Y0: Final pre-Budget drafts.</p>	<p>April Y1: Publication 3 weeks after Budget.</p>
Summer Supplementary/Revised Estimates (Year 1)		May – June Y1
Appropriation Act		<p>June – July Y1: Provides detailed Parliamentary authority for spending plans set out in Main Estimates, and any summer Supplementary or Revised Estimates for Year 1.</p>
Winter Supplementary Estimates (Year 1)		Mid September – November Y1
Vote on Account (Year 2)		<p>October – November Y1: This provides authority for departmental spending on existing services in the following financial year, in advance of the Appropriation Act.</p>
Consolidated Fund Act		<p>December Y1: Votes the total amount of resources and cash sought in the Winter Supplementary and Vote on Account.</p>
Spring Supplementary Estimates (Year 1)		End December – February Y1
Statement of Excesses (Year 0)		<p>January – February Y1: Sets out any Excess Votes relating to Year 0.</p>
Appropriation Act		<p>March Y1: Provides detailed Parliamentary authority for spending plans set out in the Winter and Spring Supplementaries and Statement of Excesses (Years 1 and 0)</p>

EXPLANATION

1. The table above sets out, in broad terms, the normal timetable for the Parliamentary Supply Estimates. (For ease of presentation this covers the last 6 months of one financial year and the whole of the next financial year).
2. The actual timing of changes to the currency in which Estimates and related documents and legislation would be presented will need to be cleared with Parliament. For these purposes it is assumed that resource accounts and Supply Estimates would be presented in euro in respect of the first full financial year after T.
3. The implications of the timetable would be as follows:
 - **T in March:** even early March Y0 would probably be too late to change the Main Estimates Y1. There would probably need to be a Revised Vote on Account to be Voted and authorised in the Appropriation Bill in March (normally used for detailed authorisation of Supplementary Estimates and Statement of Excesses). The Treasury may then also need to present Revised/Summer Supplementary Estimates for all departments to present figures in euro before they are Voted in the July Appropriation Act.
 - **T in April – November:** a T on 1 April could be dealt with as for one in March if necessary, but may mean that figures are only presented in euro for the following year. The Vote on Account in November would provide figures in euro for the following year.
 - **T in December – February:** this should allow Main Estimates for the following year to be presented in euro. The Vote on Account, presented the previous November, would have been in sterling and the Treasury would probably therefore need to present a Revised Vote on Account.
4. The T scenarios above cover possibilities across a whole year. The wholesale markets would be the most heavily affected at T. They would require financial markets to be closed, ideally for four days, so that they could complete their changeover, as happened in the euro area. Closure of the London wholesale financial markets would also need to coincide with a TARGET holiday (TARGET – Trans-European Automated Real-Time Gross Settlement Express Transfer system: links the 15 euro-denominated RTGS systems in the EU and the ECB payment mechanism, to provide an EU-wide RTGS system). There are currently six TARGET holidays each year: 1 January, Good Friday, Easter Monday, 1 May, 25 December and 26 December.
5. A point to note is that the March Appropriation Act covers a 2 year period and might vote resources and cash relating to both sterling and euro in one year though whether or not this was reported in both currencies would need to be agreed with Parliament.

C Euro preparations: what you need to know leaflet

Feedback from the consultation on the UK's *third outline National Changeover Plan*, which contains detailed information for all UK organisations, suggested that the size of the document did not meet the needs of Small- and Medium-sized Enterprises (SMEs). For these organisations EPU has produced targeted information in the form of a leaflet "*Euro preparations – what you need to know*" which summarises the key euro preparations issues for SMEs and other organisations. This is reproduced overleaf and is also available at the Treasury's euro website www.euro.gov.uk. Copies can be ordered from:

Euro Preparations Unit
HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

Tel: +44 (0) 20 7270 5690

E-mail: changeover.plan@hm-treasury.gov.uk



HM TREASURY



Euro preparations

What you need to know



Which countries have joined the euro?

- The euro is the currency of twelve Member States of the European Union: Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, and Spain.
- On 1 January 2002, these countries introduced euro notes and coins, replacing the former national cash forms such as the French Franc and the German Mark. The euro is now the only legal currency in these countries.
- Ten new countries joined the European Union on 1 May 2004. They are Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, the Slovak Republic and Slovenia. Under the terms of their accession, these countries are expected to adopt the euro in the future.

UK Government policy on the euro

- The UK Government policy is to join the euro if Government, Parliament, and the people, in a referendum, all agreed that it would be the right thing to do.
- Since 1997, the UK Government has been making plans for joining the euro, so that we would be ready to join if Government, Parliament and the people all agreed it would benefit the UK.
- This leaflet explains, in broad outline, how the UK would make the change from sterling (£) to euro (€) in the event of a decision to join.
- Businesses and other organisations may find it helpful to read the third outline National Changeover Plan so that they can consider the issues in good time. A summary of the main timings is shown in this leaflet.

Information on Government policy on UK membership of the euro and a copy of the third outline National Changeover Plan can be found at: www.hm-treasury.gov.uk

Planning for a possible changeover

How would joining the euro affect my organisation or business?

The Government has put together a checklist to help organisations and businesses think through the issues. Many organisations and businesses do not need to take any significant actions before a possible future Government decision to recommend joining the euro, but thinking through the issues, taking any appropriate actions and reviews as part of the normal business processes could reduce costs in the event of a future changeover.

Planning

Who in the organisation would be responsible for a changeover? What management structures would be needed?

CHECKLIST

IT systems

Organisations should consider if their standard or bespoke IT systems could operate in, or could easily be updated to operate in, euro. The planning and resources to accommodate the euro should be quantified.

Finance and accounting

Organisations that use electronic payment systems should consider when these payments would be converted to euro. Organisations should also consider when their internal accounting procedures should be changed from sterling to euro.

Supply chain

Organisations should consider the potential impact on their supply chain. When would suppliers invoice in euro? When would customers accept invoices in euro?

Marketing and pricing

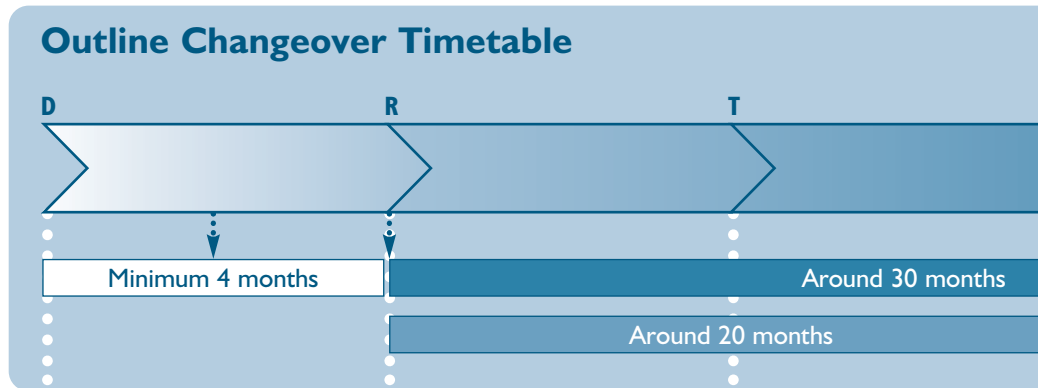
Organisations should think about how they would show prices in both sterling and euro during the dual display period.

Cash

Organisations that handle cash should think about when euro cash would become available, and how they would obtain and store euro cash.

Staff training

Organisations would need to train staff to understand how the changeover would be managed, and to explain this to customers.



D - Decision

If the Government decided that it would be in the UK's national economic interest to join the euro, there would be a vote in Parliament and then a referendum would be called.

R - Referendum

The people would vote on whether the UK should join the euro.

T - UK joins

The exchange rate between sterling and euro would be fixed. The exact date of joining, and the exchange rate between sterling and euro would be agreed with European partners.

Even though the UK would have joined the euro at this stage, there would be few changes to everyday transactions for most businesses and citizens.

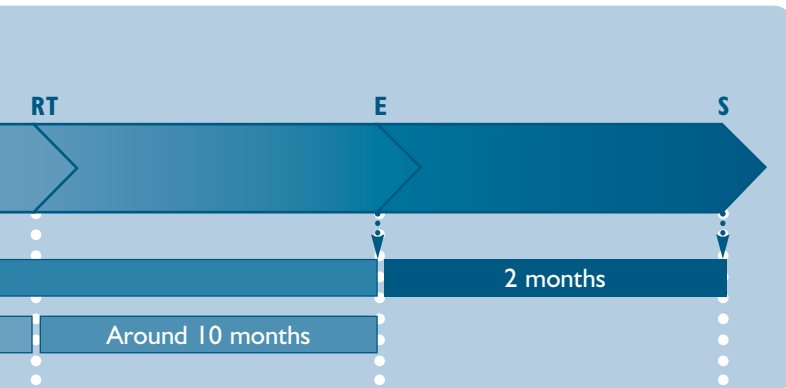
The official, fixed six significant figure conversion rate would have to be used when converting sterling to euro, or vice versa.



The UK would only join the euro if Government, Parliament and the people, in a referendum, all agreed that it would be the right thing to do.

If the UK decided to join the euro, then the change would happen in stages.





RT - Retail Transition

Banks would start offering full euro services to customers. From this point, banks would begin converting accounts from sterling to euro. Account holders could make and receive payments in either sterling or euro. Transactions would be clearly displayed in bank statements. Businesses and other organisations would need to begin converting internal accounts and systems to euro, and ready themselves for the introduction of euro cash on E day.

E - E day

UK euro notes and coins would be introduced. Euro cash would become legal tender in the UK. The UK Government's preferred date for E day is 6 April in the relevant year. Both sterling and euro cash could be used for two months after E day. However, the Government would expect euro cash to become the main currency after a few weeks, as happened in the euro area. Non-cash transactions would be in euro only from E day.

S - Sterling stops

Sterling notes and coins would have been withdrawn from circulation. After this point euro would be the only legal tender. Any remaining sterling could still be exchanged for euro in banks. Sterling would not be accepted as payment for goods or services. Sterling cheques dated before E day would be valid for six months from the date of issue.

Dual display of prices

Dual display of prices would start at least four months before E day. Price information would be provided in both sterling and euro to help customers learn the relative prices of goods and services in euro. Some organisations would be able to display prices in sterling and euro next to each other on a price ticket or receipt. Other ways to help customers could include a conversion table for customers to look up the euro equivalent of a sterling amount, or using a special calculator programmed with the official, fixed conversion rate. Dual display would continue until at least the end of the dual circulation period.

Protecting consumers

Codes of conduct

During a UK changeover from sterling to euro, businesses and other organisations would be invited to sign up to a voluntary consumer code of conduct. Codes of conduct would set out in detail what would be expected of an organisation during a changeover to ensure that citizens were fairly treated.

Businesses and organisations who signed up to a code of conduct would be able to display a 'euro confidence' logo with a telephone number to contact if citizens had an enquiry or a complaint. The number could be the national euro helpline number, or other suitable helpline number.

There would be industry and sector-specific codes, but all would share the same core principles:

- If a price was shown in sterling and in euro, then the two figures should be equivalent in value, and it should be clear which amount was which. It would have to be clear how a customer could pay.
- Prices would have to be converted using the official, fixed conversion rate, and 'rounded' to the nearest cent following the official rules.
- If both currencies were accepted, customers paying in sterling and in euro would have to be treated equally (although there could be a clearly displayed charge for accepting euro cash before E day).
- Clear and relevant information would have to be provided to help customers.
- From at least four months before E day, and for at least two months after E day, customers should have access to information to help them compare prices in sterling and in euro.
- Some people might need extra help in understanding the euro. All organisations would have to take their needs into account.
- Staff who deal with customers would have to be well trained, and able to give straightforward and relevant information about how their organisation was dealing with the euro.
- If an organisation displayed a logo to show that they followed a consumer code of practice, they would have to include a telephone number in case of questions or complaints.

Existing legislation to protect consumers would apply during a euro changeover, and the Government would work closely with consumer bodies and voluntary sector organisations to uphold consumer rights.

Euro compatibility

Businesses should include euro preparation issues as part of their normal business planning and risk management. Euro compatibility should be built into investment decisions where this represents value for money. Key areas include:

- IT systems
- Business processes
- Cash registers and point-of-sale equipment
- Credit/debit card machines
- Software and hardware for printing labels and price tickets
- Planning for print runs that contain price information
- Franchise agreements

Further information

National Changeover Plan

The third outline National Changeover Plan, published June 2003, contains the latest detail about how different parts of the UK economy would manage a changeover.

Reports on euro preparations

Reports are published regularly, setting out the progress that has been made in euro preparations across the UK economy.

Euro compatibility: a guide for managers

The second edition of Euro compatibility: a guide for managers, published January 2004, contains information on the changes that may need to be made to systems to make them euro compatible. The guide is designed for those who manage, develop or procure IT systems, or replace existing systems or services.

These documents, along with information for businesses working with the euro now, are available at www.euro.gov.uk, or by writing to:

Euro Preparations Unit,
HM Treasury,
1 Horse Guards Road,
London SW1A 2HQ

C Euro preparations: what you need to know leaflet

Draft utilities consumer code of conduct

INTRODUCTORY NOTES

This document is a draft working document prepared by the EMU Utilities Forum in 2003 and updated in 2004. It will require further development and approval before it is a sufficiently comprehensive and operational document, particularly bearing in mind that not all utilities were fully engaged in EMU activity during the period that this document was drafted. To this end, wide consultation throughout the utility sector and with regulatory and consumer bodies will be undertaken following a Government decision to join the single currency (D). The aim would be to finalise the document by the date that UK entered into the single currency (T).

The main areas for continued development are set out in Explanatory Notes at the end of the document.

OVERALL AIM

To ensure that consumers can be confident that they would be treated fairly by their utility service providers during a changeover from sterling to euro. Consumers would be provided with adequate, targeted, and easily understood information to help them through the changeover.

The details below cover minimum requirements which should be available to all consumers, both business and domestic. It is recognised that some utility companies may wish to provide additional or earlier euro facilities to selected consumers.

I Before the introduction of euro notes and coins into the UK

- I.1 All customers would receive at least one regular bill (monthly or quarterly) in sterling with euro equivalents before E day.
- I.2 Dual currency bills and invoices should be available for all consumers from at least four months before E day. Euro equivalent amounts would be shown for all bottom line balances and for specific items for which payment is requested such as individual direct debits and half yearly payment totals. All other financial values on dual bills and invoices would be maintained in sterling until E day.
- I.3 All euro amounts shown on a sterling based bill or invoice would be clearly designated 'euro equivalent'.
- I.4 Clear details as to whether and how a payment can be made in euro would be shown on all bills and invoices¹.
- I.5 Customer information explaining the changeover process and timetable, and the payment options available at each stage, would be distributed with the first dual bills and invoices.

¹ This requirement will be reviewed in the light of available banking facilities, and predicted euro trading demand levels. See also item 4 of the Explanatory Notes.

2 After the introduction of euro notes and coins in the UK

- 2.1 All customers would receive at least one regular bill (monthly or quarterly) in euro with sterling equivalents after E day.
- 2.2 Dual currency bills and invoices would be available from E day until at least the end of the dual circulation period. These bills and invoices would be the reverse of those described in Section 1 above with sterling equivalent amounts being shown for all bottom line balances and for specific items for which payment is requested such as individual direct debits and half yearly payment totals. All other amounts would be shown in euro.
- 2.3 Customer information explaining the remaining process and timetable, and the payment options available, would be distributed with the first euro bills and invoices produced.
- 2.4 Utility companies would accept cash payment in sterling or euro from E day until the end of the dual circulation period. Change, in the case of cash transactions, would be made in euro only.

3 Throughout the transition

- 3.1 All conversion calculations would, without exception, comply fully with the conversion and rounding rules adopted by the UK Government. In most cases it is expected that direct conversions to exact euro equivalents would be made rather than smoothing the amounts. However, in some cases, for example when offering discounts, smoothing to a customer friendly figure such as €10 might be preferable than using an odd amount such as €9.87.²
- 3.2 The official conversion rate would be used without exception in calculating the euro equivalent amounts and will be shown on all bills and invoices.
- 3.3 The euro € sign or currency indicator (EUR) would precede the euro price, for example €7.25 or EUR 7.25.
- 3.4 The needs of vulnerable groups, such as older people, the visually impaired and those with learning difficulties, would be fully provided for, and in line with Government guidelines wherever possible.
- 3.5 Staff dealing with customers would be trained and able to give consumers straightforward, reliable, and relevant information about the organisation's approach to the euro.
- 3.6 Clear guidance on payment options at each stage of the transition process will be given.

² Further consideration to these issues would be given with the start of preparatory work after a decision to accept the euro.

- 3.6 Utility companies who meet the requirements listed would be able to show the official euro logo. This logo would be accompanied by an approved contact number for customer enquiries.

GUIDANCE ON DUAL BILLS AND INVOICES

Although specific designs will vary from company to company, two main features should be incorporated into all dual bills and invoices:

1. All euro amounts shown on dual bills and invoices produced before E day would be clearly designated 'euro equivalent'.
 - All sterling amounts shown on dual bills etc. produced after E day would be clearly designated 'sterling equivalent'.
 - Euro equivalent and sterling equivalent amounts should be bracketed, and presented as subordinate to the main currency of the bill. (Further consideration should be given to colours/sizes/styles of font.)

Examples:

a) **Total payable** **£140.76**
(The euro equivalent amount is: €215.12)

b) Amount due 1 April 200X **£78.09** (The euro equivalent is: €119.35)
 Amount due 1 October 200X **£62.67** (The euro equivalent is: €95.78)

2. The fixed exchange rate should be shown, on all dual bills and invoices, in the format: for example €1 = £0.654321. It should be stated that all conversion calculations, without exception, comply fully with the conversion and rounding rules adopted by the UK Government.

Examples:

a) The euro equivalent amounts have been calculated at the official conversion rate €1 = £0.654321.

b) The sterling equivalent amounts have been calculated at the official conversion rate €1 = £0.654321.

EXPLANATORY NOTES

1. The main areas for continued development are:

- a. Detailed timings: to be determined when the final national conversion timetable is published;
- b. Payment options at the different stages of the transition: to be determined in conjunction with BBA, APACS and Royal Mail;
- c. Communications guidelines: to be determined in conjunction with other sectors and HMT so that they are consistent with other communications to consumers and avoid information overload/confusion;
- d. Invoice detail guidelines: these will define the minimum level of detail that should be included on bills and statements;
- e. Prepayment meters (energy sector): due to the variety of technologies in use and the logistical impact of euro conversion (involving site visits for some types of meters), a pragmatic approach would be required, extending in some cases beyond S. For example, where meters could not be converted to show amounts in euro immediately after E day, conversion stickers might be provided to customers; and,
- f. Depending on conversion strategies some companies may introduce the changes referred to in 1.2 and 2.2 earlier than indicated (e.g. due to annual billing cycles).

2. Billing cycle

The document has incorporated the guideline presented in the Treasury's Managed Transition Plan 'Consumers would receive at least one regular bill (i.e. monthly or quarterly) in sterling with euro equivalents (£/€) before E day, and one in euro with sterling equivalents (€/£) after E day.' If, following consultation, this guideline is applied to, for example, annual billing within the water sector, it is likely that sterling based dual bills will be produced approximately 14 months before E day and euro based dual bills will be produced approximately 2 months before E day.

3. Payment Options

- a. There is a need to ensure that revenue collection procedures exist that would minimise any inconvenience for consumers whilst protecting cash flow for utility companies.
- b. While each utility company would specify its facilities with its own customers, the aim will be make the transition as easy and seamless for the customer as possible. Euro facilities would be coordinated with the phasing processes adopted by banks and other payment bodies. However, the expectation is that most customers would pay in sterling until E day. Following E day all non

cash payments must be in euro; customers will continue to have the option of paying in sterling cash until the end of the dual currency period, although it is anticipated that most cash payments would switch to euro shortly after E day.

- c. The use of a bank giro credit slip (BGC) printed with utility bills creates the risk that mixed transactions would occur (for example, a sterling BGC paid with a euro cheque) and utility companies should have policies in place to address this.
- d. Examples of mixed transactions that could occur are:

Before E day: sterling BGC + euro cheque
euro BGC + sterling cheque or cash

After E day: sterling BGC + euro cheque or cash
euro BGC + sterling cash

D Draft utilities consumer code of conduct

E Other useful publications

HM Treasury

Euro preparations – what you need to know (leaflet)

www.euro.gov.uk

July 2004

Report on euro preparations

April 2004

Euro compatibility: a guide for managers second edition

January 2004

Third outline National Changeover Plan

June 2003

Lessons from the changeover in the euro area: a summary of reports by private sector organisations in the UK

July 2002

Bank of England

www.bankofengland.co.uk

Practical issues arising from the euro

May 1996 – November 2002

Association of British Insurers

www.abi.org.uk

The UK Insurance Industry Outline Euro Guidance Document

May 2004

Association for Payment Clearing Services/ British Bankers' Association

www.apacs.org.uk
www.bba.org.uk

The UK banking industry outline euro blueprint

June 2002

The British Chambers of Commerce

www.britishchambers.org.uk

Euro fitness guide: steps that UK business can and should take now to ensure that they are ready for all eventualities

June 2002

British Retail Consortium

www.brc.org.uk

Implementing the euro in retail: how eurozone retailers managed the changeover

April 2002

European Central Bank

www.ecb.int

Evaluation of the 2002 cash changeover

April 2002

European Commission

www.europa.eu.int

The introduction of euro banknotes and coins one year – after (COM(2002)747 final)

December 2002

Review of the introduction of euro notes and coins (COM(2002)124 final)

March 2002

E Other useful publications

F Organisations involved in changeover planning

All Government departments are represented on Working Groups and are involved in changeover planning.

Accounting Standards Board

Age Concern England

APACS (formerly known as Association for Payment Clearing Services)

Association of British Travel Agents (ABTA)

Association of Convenience Stores (ACS)

Association of Corporate Treasurers (ACT)

Association of Private Client and Investment Management Stockbrokers (APCIMS)

Association of British Insurers (ABI)

Association of Investment Trust Companies (AITC)

Association of Train Operating Companies (ATOC)

Audit Commission

Automatic Vending Association of Britain (AVA)

Bank of England

British Bankers' Association (BBA)

British Chambers of Commerce (BCC)

British Retail Consortium (BRC)

Building Societies Association (BSA)

Business Application Software Developers Association (BASDA)

Charity Commission for England and Wales

Citizens Advice

Chartered Institute of Public Finance and Accountancy (CIPFA)

Commission for Racial Equality (CRE)

Confederation of British Industry (CBI)

Convention of Scottish Local Authorities

Council of Mortgage Lenders

CRESTCo Limited

F Organisations involved in changeover planning

EEF (formerly known as Engineering Employers' Federation)

E.ON UK

Federation of Small Businesses (FSB)

Finance and Leasing Association (FLA)

Financial Services Authority (FSA)

Foreign Banks & Securities House Funds Association (FBSHA)

Forum of Private Business (FPB)

FTSE International

Futures & Options Association

Gilt Edged Market Makers Association (GEMMA)

Help the Aged

Improvement and Development Agency (IdeA)

Institute of Chartered Accountants in England and Wales (ICAEW)

Institute of Directors (IoD)

Intellect

International Paying Agents Association (IPAA)

International Petroleum Exchange (IPE)

International Primary Market Association Services (IPMA)

International Securities Lending Association (ISLA)

International Securities Market Association (ISMA)

International Swaps and Derivatives Association (ISDA)

International Underwriting Association (IUA)

Investment Management Association (IMA)

Law Society

Legal Services Commission

LIFFE

Lloyd's of London

Lloyd's Insurance Brokers' Committee

Local Authorities Coordinators of Regulatory Services (LACORS)

London Bullion Market Association

London Clearing House
London Investment Banking Association (LIBA)
London Metal Exchange (LME)
London Money Market Association (LMMA)
London Stock Exchange (LSE)
Mencap
National Association of Pension Funds (NAPF)
National Consumer Council (NCC)
National Council for Voluntary Organisations (NCVO)
National Federation of Retail Newsagents
Regional Development Agencies (RDAs)
Royal Mail
Royal Mint
Royal National Institute for Deaf People (RNID)
Royal National Institute for the Blind (RNIB)
Securitas UK Ltd
Trades Union Congress (TUC)
Utilities Forum
Which? (formerly known as Consumers' Association)
Wholesale Market Brokers' Association (WMBA)

F Organisations involved in changeover planning

G List of technical terms and abbreviations

The following list includes terms and abbreviations used in this report, and other euro-related terms that may be useful.

	Definition
Big bang	Conversion from legacy currency to euro on a single date.
Bank	Bank of England.
Cash changeover	The process of changing notes and coins from sterling to euro.
CCWG	Core Communicators Working Group.
CEG	City Euro Group.
Chip and PIN	A method of verifying electronic payments by credit or debit card, where the customer uses a security number to authorise a transaction at the point of sale.
CITs	Cash in transit companies.
Commission	The European Commission.
Consumer code of conduct	A voluntary code of practice designed to promote best practice during a changeover. There would be different codes for each main sector. Consumer codes of conduct cover such things as dual display of prices, rounding and smoothing, and meeting the needs of vulnerable groups.
CPF	Consumer Protection Framework.
D	Decision. The Government's decision on EMU membership.
De-hoarding	The process of collecting and returning to circulation, notes and, in particular, coins that have been saved or accumulated by citizens.
DMO	Debt Management Office.
Dual currency	The period during which sterling notes and coins would circulate alongside euro notes and coins.
Dual display of prices	The display of prices for goods and services in both euro and sterling.
DWP	Department for Work and Pensions.
EC	European Commission.
ECB	European Central Bank.

G List of technical terms and abbreviations

ECS	Euro Changeover Secretariat. The working title for the Government body that would oversee a UK changeover.
E day	The point at which UK euro notes and coins would be introduced into circulation and become legal tender in the UK. Also the point at which non-cash transactions would have to be in euro.
EMU	Economic and Monetary Union.
EPU	The Euro Preparations Unit in the Treasury.
EU	European Union made up of 25 member countries; Austria, Belgium, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, The Netherlands, Poland, Portugal, Slovakia, Slovenia, Spain, Sweden and the United Kingdom.
EUR	The currency indicator for euro.
Euro	The common currency of the euro area.
Euro area	All the Member States of the European Union who use the euro as a common currency (Austria, Belgium, Finland, France, Germany, Greece, Italy, Luxembourg, the Netherlands, Portugal, Ireland and Spain).
Euro compatibility	A term used to signal that a system has the capability to work with euro.
Financial year	A single calendar year defined for accounting purposes. Can begin on any date.
Fiscal year/tax year	The UK's tax year begins on 6 April each year.
Fixed exchange rate	The rate of exchange at which the euro and sterling would be locked. This would take place at T.
Frontloading	The supply of euro notes and coins to retail banks in advance of E day.
GAAP	Generally accepted accounting principles.
Gateway™ / Gateway™ Review	A review of programme and/or project planning to check methodology against best practice. Conducted through the Office of Government Commerce.
ICP	Integrated Communication Plan.
IEP	The currency indicator for the Irish punt.

Information multipliers	Individuals or organisations that help spread information by passing it on to those with whom they have contact.
Internal conversion	The process by which an organisation would make the change from operating in a sterling environment to a euro environment. This could include switching the base currency for accounting from sterling to euro, training staff, and adopting new forms for issuing invoices.
ITMG	IT Managers' Group.
Legacy currency	The former national currency of a country that has adopted the euro.
Legal tender	Legal tender is not a means of payment that must be accepted by the parties to a transaction, but a legally defined means of payment that should not be refused by a creditor in satisfaction of a debt.
Mint	Royal Mint.
MTAG	Managed Transition Advisory Group.
MTP	Managed Transition Plan.
NCWG	Notes and Coins Working Group.
NDPB	Non-Departmental Public Body.
NHS	National Health Service.
NIEPC	Northern Ireland Euro Preparations Committee.
New Member States	Countries that joined the European Union on 1 May 2004 (Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia).
Northern Ireland Departments	The Northern Ireland Assembly was suspended from midnight on 14 October 2002 and was dissolved on 28 April 2003. During devolution, economic and social matters are the responsibility of the Northern Ireland Executive. With devolution suspended, the Secretary of State for Northern Ireland, assisted by his team of Northern Ireland Office Ministers, has assumed responsibility for the direction and control of the Northern Ireland departments.
OGC	Office of Government Commerce.
oNCP3	The third outline National Changeover Plan.

G List of technical terms and abbreviations

ONS	Office for National Statistics.
Par value	Fixed nominal value.
PoS	Point of Sale.
Price transparency	The ability to understand and compare euro prices for goods and services across different countries in the euro area.
R	Referendum. The date that would be selected to seek views of UK citizens on whether the UK should join EMU.
Redenomination	Conversion of an amount of money from one currency to another.
Regulators	Those with responsibility for ensuring that legal requirements are met, and that standards of best practice are set and upheld.
Repo rate	The Bank's repo rate: The short-term interest rate, set by the Bank of England's Monetary Policy Committee, and implemented by the Bank's operations in the sterling money markets.
Rounding	<p>Part of the process of converting legacy currency to euro. There are strict rules about how this must be done. European Union Regulations state that currency amounts must be converted using the fixed conversion rate of six significant figures. Calculations must be made using the ratio EUR1 : national currency unit. Inverse rates must not be used. The amount in euro must then be rounded to the nearest euro cent:</p> <ul style="list-style-type: none">• figures ending in 5 and above must be rounded up; and• figures ending in 4 and below must be rounded down. <p>The conversion rate must never be rounded.</p>
RT	Retail Transition. The date from which retail banking and payments systems would be available in euro.
RTGS	Real-time gross settlement: the continuous (real-time) settlement of payment instructions individually on an order by order basis.
S	Sterling withdrawal. End of dual circulation period. After this date, only euro would be legal tender in the UK.

Scotland Office	The role of the Secretary of State and the Scotland Office is to represent Scottish interests in matters that are reserved to the United Kingdom Parliament and promote the devolution settlement for Scotland.
Scottish Executive	The Scottish Executive is the government in Scotland for all devolved matters. At devolution, the powers and duties exercised by UK ministers in Scotland, relating to the devolved matters, were transferred to the Scottish Ministers. Most of the responsibilities previously held by the Scottish Office have become part of the remit of the Scottish Executive.
SEPC	Scottish Euro Preparations Committee.
SME	Small- and Medium-sized Enterprise.
Smoothing	The process of changing an awkward number after euro conversion to a more acceptable or memorable number. This could happen, for example, if a computer only accepts whole numbers: a figure in legacy currency which converted to EUR 5.02 could be smoothed to EUR 5.
Standing Committee	The Chancellor's Standing Committee on Euro Preparations.
Starter kits	A sample set of euro coins available to purchase before E day.
Stored data	Information held on systems (IT or otherwise) that exists before E day.
Sub-frontloading	The distribution of UK euro notes and coins to retailers before E day.
T	The date of joining EMU and start of transition period. From T, sterling would become a subset of euro.
TARGET	Trans-European Automated Real-time Gross settlement Express Transfer system: the real-time gross settlement (RTGS) system for the euro created by interconnecting national euro RTGS systems and the ECB payment mechanism, and used for the settlement of central bank operations and large-value interbank transfers, as well as other euro payments.
Transition period	The period from the locking of exchange rates between sterling and euro (T) until the introduction of euro notes and coins (E day).

G List of technical terms and abbreviations

VCCWG	Vulnerable Communities and Citizens Working Group.
Wales Office	The Wales Office came into being on 1 July 1999 when most of the powers of the Welsh Office were handed over to the National Assembly for Wales. Based in Whitehall, the Secretary of State for Wales is the key Government figure liaising with the devolved administration in Wales and represents Wales' interests in the Cabinet and in Parliament.
Welsh Assembly Government	The Welsh Assembly Government is the First Minister and his Cabinet. Most Assembly staff support the Assembly Cabinet. They help to formulate and implement policies on behalf of the Cabinet, and administer the public services for which the Assembly is directly responsible. The remainder of the staff support the Presiding Office.
WEPC	Wales Euro Preparations Committee.

ISBN 1-84532-042-5



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