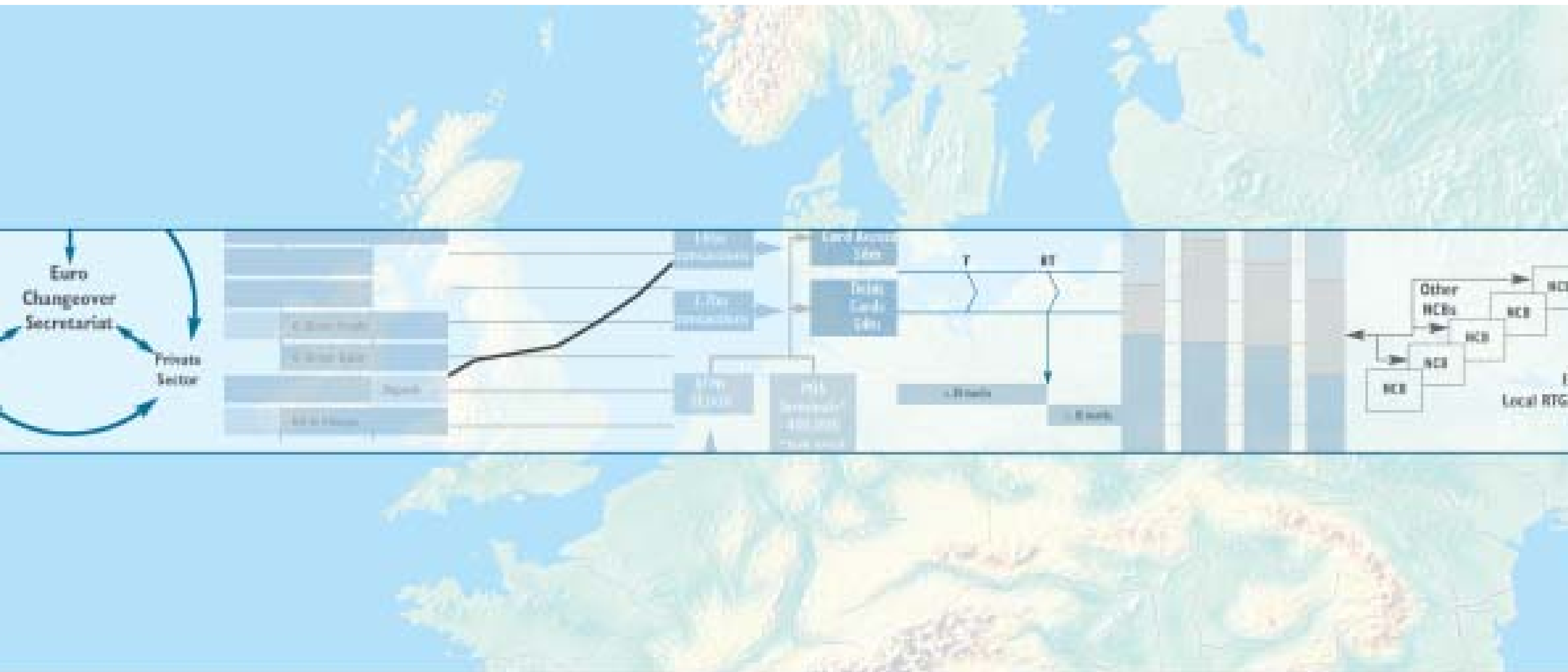
third outline
National Changeover Plan

June 2003



HM TREASURY

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Contents

1 EXECUTIVE SUMMARY

1.1 The third outline National Changeover Plan provides an update on the preparation work undertaken under the Government's policy of 'prepare and decide'. Its purpose is to ensure that the UK has a genuine option to join EMU, if, on the basis of a clear and unambiguous economic case following the assessment of the five economic tests, that is what Government, Parliament, and the people, in a referendum, decide. The Government's policy on EMU membership is set out in the Assessment and the EMU study by HM Treasury *The Five Tests Framework.*

1.2 Since 1997 the Government has developed, and progressively refined, an illustrative timetable for a euro changeover in the UK. The initial conclusions were published in the first outline National Changeover Plan in February 1999. The results of consultation on the first Plan, particularly with the public sector, were incorporated in the second outline National Changeover Plan, published March 2000.

1.3 Throughout the planning process, the Government has been committed to working in partnership with the organisations that would be closely involved in delivery of a changeover. The Government has established a comprehensive network of consultative groups to ensure that all relevant organisations are involved.

1.4 Since the publication of the second outline National Changeover Plan significant progress has been made in further refining and developing our planning. Chapter 2 outlines the work previously undertaken by the Government. The third outline National Changeover Plan consolidates all the changeover planning developments and decisions since the second Plan and, as far as possible, provides a comprehensive statement of how the Government would manage a changeover in the UK.

Managing a changeover

1.5 Chapter 3 outlines how the Government would manage a changeover. HM Treasury would lead a changeover. The management framework would be developed in a two-stage process. This would allow the individual appointed to lead the changeover to be involved in the shaping of the framework. Any decision about the individual and final structure of the management framework would be made before a referendum.

Timetable

1.6 Chapter 4 provides an update on a changeover timetable. The Government believes that a phased approach would deliver a smooth and cost effective changeover in the UK. The timetable has been developed to provide stakeholders with greater planning certainty.

1.7 The Government has concluded that a changeover should be around 30 months from a referendum to the introduction of euro cash. Furthermore, around 20 months would be required between a referendum and the start of a retail transition.

1.8 The Government has concluded that, taking account of the needs of the economy as a whole, the optimal day, in any given year, for the introduction of euro cash (E day) would be 6 April.

1.9 In refining the timetable, work has been undertaken to establish what would be required in each phase of a changeover. This has resulted in the development of a clearer understanding of the significant steps required across the economy. The conclusions form the Managed Transition Plan (MTP), which is included at Annex B.

Cash

1.10 Chapter 5 outlines the proposed approach to a cash changeover. A cash changeover would be managed through a Cash Changeover Working Group (CCWG), chaired by the Bank of England (the Bank). The CCWG would be charged with the delivery of a cash changeover plan within six months of a referendum. The plan would be focused on the logistical challenges of storage, frontloading and sub-frontloading of euro and withdrawal of sterling. The previous estimate of a need for between 13 and 14.5 billion euro coins has been revised. Although work is continuing with the Royal Mint (the Mint) and other key stakeholders, initial results suggest that the UK would need around 10 billion coins. The current estimate of the total of notes is 2 billion.

Communications

1.11 Chapter 6 outlines a high level communication strategy for a changeover. A communication strategy for a UK changeover would be based on the following principles:

- clarity – simple messages about what changes would happen, when, and what people would need to do to prepare;
- credibility – messages supported by the overall changeover planning and endorsed or delivered by trusted communicators;
- co-ordination – key messages delivered to different audiences across the economy, from a variety off sources; and
- accessibility – information provided in a format that is as accessible to as many people as possible, taking full account of the needs of all citizens, including vulnerable groups.

1.12 Communication activities would need to take account of the specific characteristics of the UK: the distribution, language and culture of the population; the size and complexity of the economy, and the proximity of the UK to the euro area. The Government would run a central public information programme, comprising an ongoing information programme supported by more intense activity around the key milestones. The cost of communication beyond a central programme would be borne by the organisation that commissioned and carried out the activity. Government information material would take account of the needs of vulnerable groups, including, but not being limited to, meeting statutory duties for the provision of Government information, for example, providing it in a range of appropriate languages.

Consumers

1.13 Chapter 7 outlines the proposed approach to supporting consumers. Maintaining consumer confidence would be essential to a successful UK changeover. Consumer confidence would be supported through voluntary codes of practice, developed from best practice in the euro area. The principles for a consumer code cover issues such as provision of information, dual display of prices, accurate conversion of monetary amounts, staff training and the treatment of vulnerable groups. The Government has been working with individual sectors to develop the principles into codes appropriate to particular industries. Examples of draft codes for the transport and retail sectors are included at Annex F. The Government has been working with the competition, trading and regulatory authorities to ensure that the draft codes fit with the existing consumer protection framework.

Financial services

I.14 Chapter 8 outlines how a changeover of the financial infrastructure would be managed. A changeover of the wholesale financial markets would be co-ordinated by the Bank. A summary of the City Euro Group's (CEG) changeover plan for the wholesale markets is included at Annex A. The retail financial services sector would need approximately twenty four months to design, build and implement new euro denominated payments systems and would start this process at the time of a decision. From the point the systems were built, the retail transition could start. Individual institutions would convert accounts to euro according to their conversion strategy. The Managed Transition Plan (at Annex B) details the steps that would be required for a changeover of retail financial services.

Business

I.15 Business would have an important role to play in achieving a smooth changeover and maintaining consumer confidence. A changeover would be a strategic issue. Chapter 9 includes an outline framework for the issues that business would need to consider such as resource management, conversion of systems, corporate finance, cash handling, marketing, pricing and staff training. While the Government would have overall responsibility for the provision of information for business, responsibility for delivery would be shared with a wide range of bodies in the public and private sectors. This would include the establishment of regional support bodies, similar to the Regional Euro Forums. The Government has continued its work to raise awareness amongst business about dealing with the euro as a foreign currency.

Voluntary sector

I.16 Chapter 10 outlines how Government would support the voluntary sector. The Government would provide support and guidance to the voluntary sector to the extent considered necessary by the sector itself. The voluntary sector would be likely to find material developed for small business and the public sector of particular assistance. The Government would work with the National Council for Voluntary Organisations (NCVO) and the Charity Commission to adapt such material where this is required.

Public Sector

I.17 Chapter 11 provides an update on public sector preparations. The public sector would be ready to deliver a cost effective changeover in accordance with the outline timetable. The public sector has taken a lead in responsible, early planning to reduce the costs of a changeover. Examples of the planning work undertaken on IT, training, treatment of stored data, rounding and smoothing and accounting are included in Chapter 11 and at Annexes G and H.

I.18 The public sector would treat consumers fairly and provide them with comprehensive information during a changeover. A draft code of conduct for the public sector is also included in Chapter 11. The Inland Revenue and HM Customs and Excise would provide transition services before E day to enable businesses to change to the euro if they wished.

2 Preparations in the UK

INTRODUCTION

2.1 The Government's policy on EMU membership is set out in the Assessment and the EMU study by HM Treasury *The five tests framework*.

2.2 The purpose of this document is to provide an update on the preparation work that has been undertaken since 1997 under the Government's policy of 'prepare and decide'. The Government is committed to ensuring that the UK has a genuine option to join EMU, if that is what Government, Parliament, and the people, in a referendum, decide. The third outline National Changeover Plan consolidates all the changeover planning developments and decisions since the second outline National Changeover Plan and, as far as possible, provides a comprehensive statement of how the Government would manage a changeover in the UK. It also contains an update on the euro area a year after the introduction of euro cash (at Annex C) and the potential further lessons for the UK from their experience.

2.3 The Government has developed, and progressively refined, an outline timetable and the logistics which would be necessary for a changeover in the UK. The Euro Preparations Unit (EPU) was established in HM Treasury to undertake this work, with the specific objectives of ensuring that preparations were underway within the public, private and voluntary sectors and developing a national changeover plan through consultation with key stakeholders across all sectors of the UK economy.

Preparation work to date

2.4 The preliminary conclusions of this consultative work were published in the first outline National Changeover Plan in February 1999. The results of further consultation, particularly from the public sector, were incorporated in the second outline National Changeover Plan, published in March 2000. Details of additional work have been published in the regular Reports on Euro Preparations. Copies of these publications are available from www.euro.gov.uk.

2.5 Throughout the process of planning for a UK changeover, the Government has remained committed to working in partnership with those bodies that would be involved in the delivery of a changeover. The process of changeover planning has been overseen by the Chancellor's Standing Committee on Euro Preparations, which brings together representatives from organisations across the economy.

2.6 The Government established the Business Advisory Group (BAG) to facilitate discussion with business, consumer and trade union representatives about the detailed issues which would arise from an introduction of the euro. In addition, the Bank of England (the Bank) established the City Euro Group (CEG), which includes representatives from the UK financial community, to plan for a changeover in the wholesale financial markets. These groups and related working groups have provided an extensive consultation network to ensure that the third outline National Changeover Plan takes account of the concerns of all sectors of the economy.

2.7 Since the publication of the second outline National Changeover Plan, significant progress has been made in further refining and developing our planning. Several organisations have produced detailed reports examining the issues raised by the euro area changeover and considering the implications for the UK. A list of principal publications is included at Annex J. These reports have added substantially to the detail on how the process might work in practice.

2.8 The outline National Changeover Plans set out the initial conclusions on a UK changeover:

- the first outline National Changeover Plan detailed the likely lead times for major sectors of the economy, including the financial services and retail sectors, and set out an initial illustrative timetable for a UK changeover; and
- the second outline National Changeover Plan focused on preparations in the public sector. It also set out an initial approach to the possibility of operating a managed transition in the UK. A managed transition would allow time and resources to be concentrated on the development of mechanisms to allow high-volume delivery of different services by the financial services sector at different stages of the timetable. It would also allow public and private sector organisations to deliver their changeover on a phased basis, in line with the financial infrastructure.

2.9 In the euro area it was recognised that the changeover was a dynamic process. The euro area countries found it was impossible to specify all the detail of their changeovers at an early stage because the process was evolutionary. As a result, the euro area countries updated plans as the changeover progressed. It is envisaged that the same evolutionary process would apply during a changeover in the UK. As such, it is not possible to be definitive in all policy areas at this stage, especially as some require further work in consultation with stakeholders and our European partners. The UK's outline National Changeover Plans progressively build on and expand the previous work. This process would continue and the National Changeover Plan will be updated.

Example of how a changeover might work in the UK (1)

Meet the Sterling family.

For illustration, we have included scenarios showing how a UK family might experience a UK changeover. Our family has been chosen to illustrate different aspects of a UK changeover, from business planning to the ways in which members of a household could help each other to prepare.

Bill and Penny Sterling own and run a small independent newsagent. They employ one part-time shop assistant, Joey. Their daughter, Angela, is away from home at university, but returns every holiday, and their teenage son, Bob, is at a local school. Penny's mother, Mrs Tanner, lives with the family.

2.10 As part of its ongoing consultation, the Government would welcome views on the third Outline National Changeover Plan. Please send any comments to:

changeover.plan@hm-treasury.gov.uk

Or write to:

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

Further copies of this Plan are available in electronic format from the Government's euro website at http://www.euro.gov.uk or e-mail: public.enquiries@hm-treasury.gov.uk.

3 Managing a Changeover in the UK

The management framework for a changeover would need to ensure a strong Government lead and incorporate appropriate mechanisms to allow full consultation and engagement of key stakeholders.

This chapter provides an indication of the Government's approach to managing a changeover. It outlines how the Government would develop the management framework in a two-stage process.

3.1 In considering the management of a changeover in the UK, the sixth Report on Euro Preparations (REP6), published in July 2002, noted that experience from the euro area suggested that:

- clear, consultative and centrally managed co-ordination is essential to a successful changeover; and
- the body should be centrally managed by the Finance Ministry and should consult representatives from all sectors of the economy, particularly the national central bank.

3.2 REP6 included consideration of how decimalisation was managed in 1971 as an example as to how a changeover might be managed. However, there are a number of reasons why decimalisation was not considered to be a good model. These include the relatively small nature of the changes to the currency which occurred at that time, and the significant changes in information technology and the nature of the banking and retail industries which have occurred over the intervening three decades. In particular, in the UK the growth in payment by non-cash methods has increased by several orders of magnitude since 1971, and the use of credit and debit cards has overtaken the use of cheques as the chief non-cash payment mechanism. Oversight of decimalisation was carried out by the Decimal Currency Board, a group which brought together representatives from a number of industry sectors.

3.3 Most euro area countries established bodies which brought together representatives from the private, public and voluntary sectors in an advisory capacity, to ensure that the concerns of all sectors were taken into account. Policy was set, and progress overseen, by a nominated government minister, supported by government officials. This ensured that government, which was ultimately responsible for the changeover, maintained oversight of the whole process.

3.4 Given the success of the euro area changeover, the Government has decided that a UK changeover would be led by HM Treasury.

3.5 The management framework for a changeover would be developed in a two-stage process. Firstly, in the period before a referendum, the Euro Preparations Unit (EPU) would become the Euro Changeover Secretariat (ECS). This would be the forerunner of the changeover management body. A senior civil servant would be appointed to lead the ECS and it would receive additional staff resources for the key areas where work would need to start before a referendum to meet the outline timetable.

3.6 The ECS would continue the EPU's role in co-ordinating preparation work for a changeover and would be responsible for the interim development and implementation of the National Changeover Plan. It would operate from HM Treasury and report to HM Treasury Ministers.

3.7 At this stage, the existing oversight arrangements and network of advisory committees would remain and the Chancellor's Standing Committee on Euro Preparations would retain overall oversight of preparations across the economy.

3.8 In the second stage, an individual would be identified to lead a UK changeover. The final shape of the management framework and reporting structures would be agreed with them. The person chosen to head the changeover would be an experienced and high profile leader, with a proven track record of delivering large and complex programmes, preferably in both public and private sectors. Excellent communication skills and an open and collaborative approach would be essential. The proposals for a management framework would be implemented if UK membership of EMU were confirmed by the electorate in a referendum.

3.9 For simplicity, the third outline National Changeover Plan will refer to the ECS as the body that would manage a changeover.

NEXT STEPS

3.10 In developing the practical changeover preparations, HM Treasury will:

- develop detailed options for the management framework for a changeover.

4 TIMETABLE FOR A CHANGEOVER

The timing and announcement of the key milestones during a changeover would be important to enable organisations across the economy to plan properly. Since the publication of an outline timetable in the second outline National Changeover Plan, the Government has considered further refinement of what would happen in each stage.

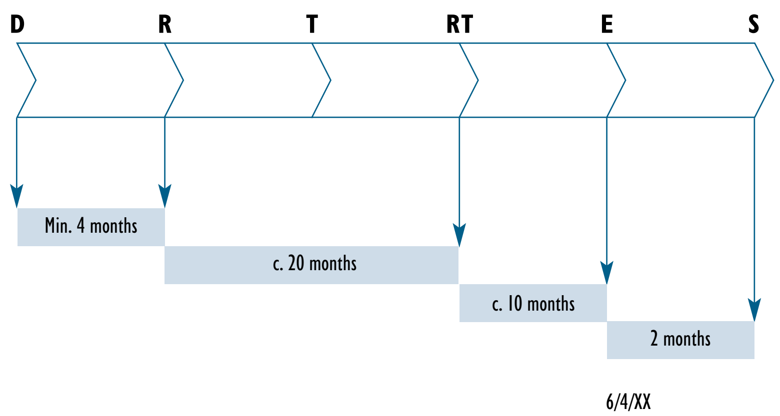
This chapter provides an update on timetable planning. It outlines the critical issues and assumptions, the preferred choice of E day (the day of the introduction of UK euro cash) and indicates what would happen at each key stage, to provide a robust framework for planning work.

BACKGROUND

4.1 In the second outline National Changeover Plan, the Government published an outline timetable showing the phases of a changeover. Following the successful introduction of euro cash in the euro area and discussions with stakeholders who would be involved in a UK cash changeover, the Government anounced, in July 2002, that it had reduced the dual circulation period to two months. The key milestones in a changeover would be:

- D: **D**ecision – the Government's assessment on EMU membership;
- R: **R**eferendum – UK electorate vote on joining EMU;
- T: **T**ime of entry and start of transition. UK joins EMU. The euro-sterling exchange rate would be irrevocably fixed;
- RT: Beginning of **R**etail **T**ransition. Euro denominated retail financial services would start to be available from this point;
- E: **E**uro 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: **S**terling ceases to be legal tender. End of dual circulation period.

Figure 4.1: Outline changeover timetable



A useful mnemonic

Do Remember The Right Timetable at Every Stage

4.2 Since the second outline National Changeover Plan, further planning has been undertaken to determine what organisations would do during each phase in a changeover, and to agree the products and services which would be offered to businesses and citizens. The work has drawn extensively on the changeover experience of the euro area and has enabled the timetable to be refined as follows.

UPDATED TIMETABLE ASSUMPTIONS

Before a Retail Transition

4.3 After further consultation with the financial services sector, the Government has concluded that approximately twenty four months would be required to develop full euro payment systems' capability to enable RT to begin. This work would begin at D.

From Referendum to E day

4.4 After further consultation with stakeholders, the Government has concluded that the duration of a changeover (R to E) should be around 30 months in order to minimise risk and cost across the economy.

T (joining EMU)

4.5 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 links the fifteen euro-denominated Real Time Gross Settlement (RTGS) systems in the European Union (EU) and the European Central Bank (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.

E day (introduction of euro cash)

4.6 E day would mark two key events in a changeover:

- the introduction of euro cash as legal tender in the UK; and
- the date from which all non-cash transactions would have to be denominated in euro.

4.7 The principal tasks to enable both these events need to be balanced when choosing E day: the delivery of a smooth and secure cash changeover and the business and IT systems changes necessary for all public, private and voluntary sector bodies to operate in euro. After consideration of these factors, the Government has concluded that the optimal date for E day would be 6 April.

E day in the euro area: 1 January 2002

4.8 The advantages of choosing 1 January 2002 as E day for the euro area were:

- it corresponded to the start of the financial/fiscal (tax) year in all twelve countries, which eased the task of systems conversion;
- it was a memorable date, easing communication with business and citizens; and
- it was a public holiday, which provided an opportunity for key tasks to be completed with few shops and businesses open.

4.9 For banks, cash-in-transit companies (CITs) and retailers, 1 January was not the most convenient date in terms of the logistics for the introduction of euro cash because it coincided with annual peak yearly cash demand and retail spending.

Choosing a UK E day

4.10 It is important that the implications of the possible dates for a UK E day are understood. There are clearly a number of options, some of which would suit parts of the economy and none of which would be ideal for everyone.

1 January

4.11 Not all of the advantages of 1 January for the euro area apply to the UK. This is because 1 January:

- does not correspond to the start of the financial year for the majority of UK business, nor the UK tax year; and
- Christmas/New Year consumer spending patterns in the UK differ from many countries in the euro area, partially because sales start earlier in the UK. As a result, the logistical challenges the UK would face in distributing notes and coins at the height of the retail year would be greater than in the euro area.

15 February

4.12 15 February is the favoured date for E day for those involved in cash storage and distribution. This is because it is the point at which both the citizen's demand for cash and the level of cash in circulation is at its lowest. This would allow the spare capacity in the UK's cash distribution system to be used, easing the task of euro cash distribution and sterling cash withdrawal.

4.13 However, 15 February would not be optimal for systems' conversion. It lies outside the tax year and financial year, and, being mid-month, makes the accounting issues more complex. As a result, it would increase costs across the UK economy as organisations would have to convert payroll and other systems mid-month and mid-year. It would also increase the potential for errors in conversion.

4.14 Euro area experience also suggests 15 February would not provide enough lead time for frontloading to begin outside the Christmas period when there would be peak demand for cash. The three to four month frontloading process would need to begin in November at the latest.

6 April **4.15** The Government has concluded that 6 April is the optimal date for E day, following extensive consultation with organisations across the public, private and voluntary sectors. This is because it is a date when systems are typically updated to take account of tax and other changes that are tied to the UK's tax year, for example payroll, investments and benefits. Other IT/business systems typically use the 31 March end date and successfully run alongside necessary changes linked to the tax year.

4.16 6 April would also benefit the cash changeover because it would allow for longer lead times for the frontloading process to be undertaken outside of the Christmas peak period. Even allowing for the higher levels of cash required in the time around Easter, demand for cash across the UK economy is significantly lower in March/April than in December.

4.17 Balancing both logistical and systems conversion issues, current planning suggests 6 April would be optimal for E day in the UK. It is recognised that if a UK E day coincided with the Easter shopping period it would give rise to difficulties for food retailers in particular, as well as others directly involved in cash distribution. However, the Government is confident that these would be overcome, as they were on 1 January in the euro area, and that all stakeholders would work together to ensure a smooth and secure changeover.

OTHER MEMBER STATES

4.18 Among the other EU Member States, Denmark and Sweden have not adopted the euro.

4.19 The Swedish Government has stated its intention to hold a referendum on 14 September 2003 and that, if the people of Sweden decide to confirm membership of EMU, Sweden would seek to join on 1 January 2006.

4.20 The Danes voted against EMU membership in a referendum in 2000. On 2 January 2003, the Danish Prime Minister announced that Denmark would hold a further referendum on EMU membership in 2004.

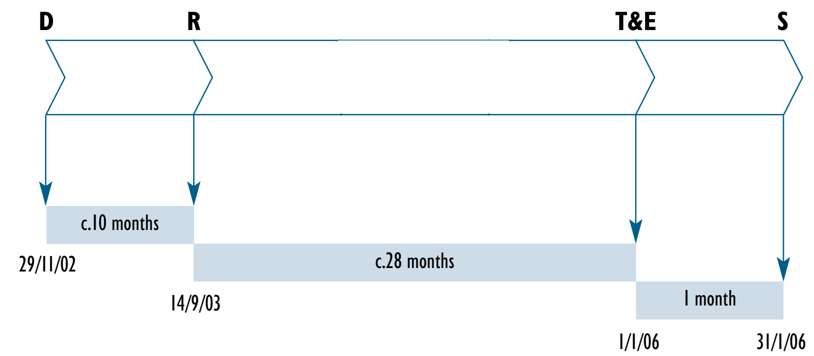
4.21 It is not possible to predict what, if any, impact the plans of Sweden and Denmark would have on a UK changeover. If the UK were to join EMU at a similar time, there might need to be co-ordination on timing of some key milestones, as happened for the euro area.

The Swedish approach

The Swedish Government announced on 29 November 2002 that it intended to hold a referendum on EMU membership and subsequently confirmed that the referendum would be held on 14 September 2003. They indicated that their preferred approach would be to join on 1 January 2006, with euro cash being introduced on the same day to deliver the changeover as a single memorable event, or big bang.

The Swedish and UK outline timetables would both take around three years from a Government decision to join EMU (D). The current plan is that Sweden's dual circulation period would last for one month, ending on 31 January 2006. This is shorter than the time taken for most euro area countries. The time from D to withdrawal of the Swedish krona would be 38 months, compared with a UK outline timetable of 36 months.

Figure 4.2: Swedish outline changeover timetable



D : Decision, Government's decision on EMU membership
R : Referendum
T : Time of entry
E : Euro cash introduced
S : Swedish krona ceases to be legal tender

The proposed absence of a transitional period is a major difference between the UK and Swedish approaches to a changeover. Under the Swedish approach, the Swedish krona would become irevocably fixed to the euro on 1 January 2006, with wholesale and retail financial markets converting to euro at the same time and euro notes and coins being introduced into circulation.

WHY A PHASED APPROACH TO A CHANGEOVER?

4.22 The UK has had the opportunity to learn from the euro area countries and has built these lessons into its planning. One of the key lessons was that a phased approach to a changeover would help minimise costs, operational risks and the overall length of a changeover.

4.23 The 1995 Madrid European Council confirmed the third stage of monetary union and the establishment of the euro from 1 January 1999. As part of their preparations for the new currency, the euro area financial services sector began building the required payments infrastructure to support use of the euro from 1 January 1999. UK wholesale and international financial markets participated in this preparatory work. Following the introduction of euro in non-cash form on 1 January 1999, a further three year transition period was allowed to prepare before the introduction of euro cash on 1 January 2002.

4.24 Although a full range of euro financial services was available from the start of the euro area transition, there was very limited usage except by wholesale and international markets until towards the end of the transition period. Discussions with stakeholders suggest that UK business and citizens would also make limited use of euro services early in a changeover. In these circumstances, it would be more cost effective to phase the building of the new UK euro payments systems. Therefore, in a UK changeover the payment systems for the wholesale financial markets would be ready for T and the systems for retail financial services at RT. From RT, euro services would be phased in by individual service providers.

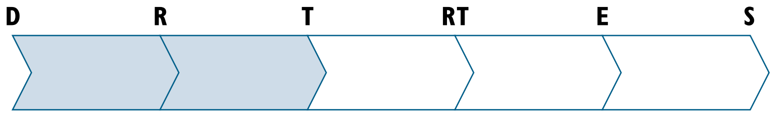
4.25 Specifying a point for the introduction of retail euro financial services would also assist other parts of the economy in delivering a cost effective changeover. It would allow business to plan their changes knowing that euro usage would be higher towards the end of a transition. It would also assist citizens in knowing when to expect to see products and services priced in euro.

4.26 The UK confirmed it would adopt a phased approach, also known as a managed transition, in July 2002.

WHAT WOULD HAPPEN WHEN?

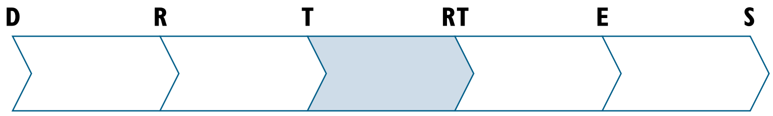
4.27 Set out below are the key changes to the most common financial services which would affect business and citizens. The detail of which services would be offered and from which period is set out in the Managed Transition Plan (MTP) at Annex B.

Before T



4.28 In the period before T there would be no change to financial relationships.

T (joining EMU)



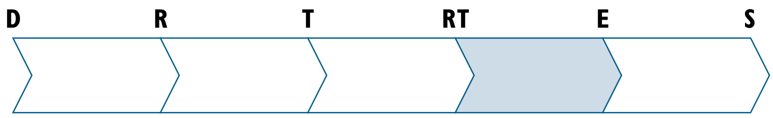
4.29 In the period after T:

- all financial transactions involving conversion of sterling or euro would use the official, fixed six-figure conversion rate;
- UK base rate would be set by the ECB;
- savings and borrowing products linked to the Bank of England's (the Bank) base rate might change to reflect a new base rate;
- gilts would be redenominated, quoted and traded in euro. However, non-institutional investors dealing through brokers and banks, for example, private clients, could continue to buy and sell them in sterling;
- there would be no change to retail financial services. Euro cash would not be legal tender and banks would be able to charge an explicit handling fee for buying and selling euro; and
- if euro cash was accepted by a UK business, they would convert it at the official rate and would be able to charge an explicit handling fee.

Example of how a changeover might work in the UK (2)

Bob goes on a day trip to France with his school. In preparation, to give Bob some spending money, Penny goes into town to exchange some sterling for euro. At the counter where she exchanges the money there is a prominently displayed poster to remind everyone of the official, fixed conversion rate, with some examples of amounts converted from sterling to euro using this rate. Penny exchanges £20, and is able to compare the amount she receives in euro with the euro equivalent of £20 shown on the poster. Penny is charged a small handling fee for the currency exchange, as advertised at the counter.

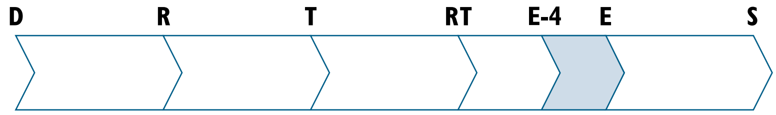
RT (retail transition)



4.30 In the period after RT:

- it would be possible to make and receive euro payments in non-cash forms;
- banks might begin to redenominate customer accounts. Once an account had been converted to euro, statements would show a sterling equivalent balance alongside the euro balance and transactions originated in sterling would be shown in sterling alongside the euro amount, for information;
- regular bills and shop prices would continue to be denominated in sterling. Where values were shown in euro, there would also be a sterling equivalent displayed for key amounts;
- where business converted their systems, employees might be paid in euro. Where this happened, there would also be a sterling equivalent displayed on pay advice slips;
- where business converted their debit and credit card machines, there would be a sterling equivalent displayed on receipts;
- regular payments paid by direct debit, such as utility bills, might be debited in euro. Where this happened there would be a sterling equivalent displayed on the bill and on the relevent bank statement;
- consumers would experience no practical difference between euro and sterling transactions when paying by credit or debit card, and business would make no additional charge in either case above any usual charge for a card transaction;
- business would be able to continue to apply an explicit handling fee for accepting euro cash before E day;
- financial services, such as insurance and pension policies, would be redenominated to euro and customers advised of the euro equivalent of key values;
- Inland Revenue would accept business and Self Assessment returns in euro for the tax year in which RT fell and might also be able to support businesses which wished to operate a euro payroll from this time by providing euro tax and other tables; and
- HM Customs and Excise would process transactions in euro or sterling.

Four Months before E day



4.31 From at least four months before E day:

- dual display of prices would begin four months before E day; and
- euro chequebooks would start to be distributed to current account holders.

> **Example of how a changeover might work in the UK (3)**
>
> **Three months before E day, a customer comes into Bill and Penny's newsagent and asks to pay their paper bill using a euro chequebook.**
>
> **This is the first request from a customer to use a euro cheque. Bill and Penny say they do not accept euro cheques at present, and ask if the customer has another form of payment. The customer uses a euro denominated debit card. The transaction goes through the till in sterling, and is later converted to euro on the customer's account.**
>
> **That evening after cashing up, Penny finds the retailer's information pack, sent out a few months before RT. She re-reads the section on methods of payment, particularly the section on cheques. She finds out that a bank will accept a euro denominated cheque drawn on a UK bank at no extra charge. If Bill and Penny wish to accept euro cheques, they will need to separate them from sterling cheques, and enter the total value of euro cheques on a separate credit slip to pay into their bank account.**
>
> **Bill and Penny have very few customers with euro chequebooks. After discussing the issue, they decide to accept euro cheques on request.**

E day

4.32 In the dual circulation period:

- euro notes and coins would be legal tender in the UK;
- sterling cash would still be legal tender;
- all non-cash transactions would be euro denominated from E day, though sterling cheques dated before E day would retain their validity for deposit for up to six months from the date of issue; and
- dual display of prices would continue until at least the end of the dual circulation period.

S (end of dual circulation)

4.33 After the end of the dual circulation period:

- sterling cash would no longer be legal tender in the UK, although notes and coins could still be exchanged at banks for a pre-determined period of time; and
- dual display would begin to be phased out.

NEXT STEPS

4.34 In developing the practical changeover preparations, HM Treasury will:

- continue to develop the Managed Transition Plan through consultation with stakeholders across the economy.

5 A Cash Changeover

In a changeover, sufficient notes and coins would be required to meet the economy's cash needs as soon as the euro became legal tender in the UK. The task of producing, storing and distributing these notes and coins would be a major logistical challenge for the key stakeholders involved in cash distribution.

This chapter addresses how we would manage a cash changeover in the UK. It outlines the lessons from the euro area, the proposed approach to the management of a cash changeover in the UK, including the establishment of a Cash Changeover Working Group, and provides an update on the likely volume of notes and coins required.

BACKGROUND

5.1 A cash changeover would comprise three main stages:

- production of euro notes and coins;
- distribution of euro notes and coins; and
- withdrawal of sterling notes and coins.

Production

5.2 In the UK, the Bank of England (the Bank) oversees production of notes and the Royal Mint (the Mint) production of coins, on behalf of HM Treasury.

5.3 In a changeover, the Bank would, in consultation with the European Central Bank (ECB), have responsibility for the production and issue of UK euro notes. Current planning is on the basis that the Mint would make most, if not all, of the UK's euro coin requirement, although some coins might be brought in from other suppliers if it were cost effective or logistically necessary to do so.

Distribution

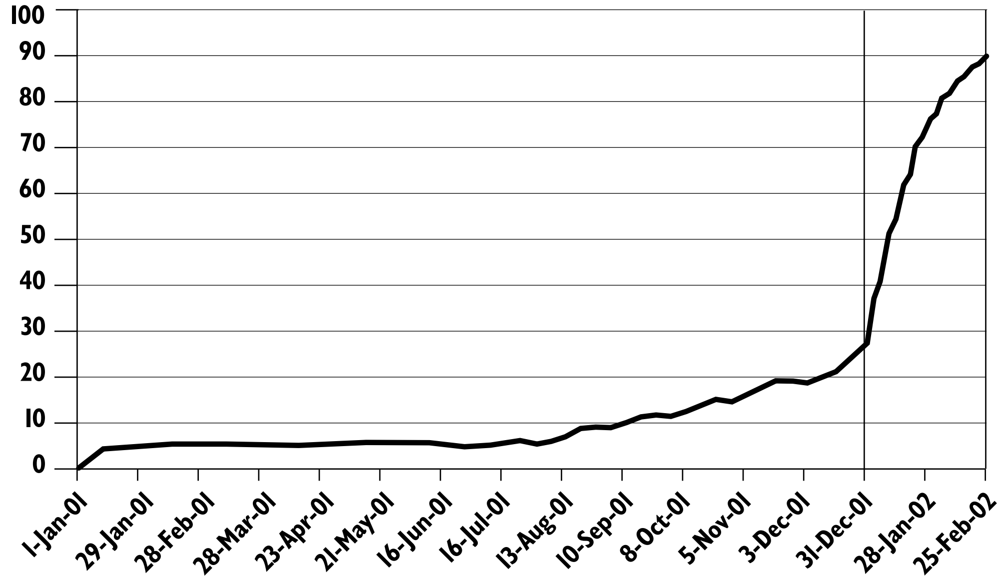
5.4 In the UK, the Bank distributes notes from its two cash centres to the members of its Note Circulation Scheme (NCS), a scheme that facilitates the distribution of notes in the UK. NCS currently has five members, comprising major cash-in-transit companies (CITs), large retail banks and the Royal Mail. The Mint is responsible for the delivery of coins, on behalf of HM Treasury. The basic model of cash distribution in the UK is explained in 5.13 and 5.14 below.

5.5 A cash changeover would involve the distribution of billions of euro notes and coins throughout the UK. While this would be a major logistical task, the Government is confident that it would be delivered smoothly and securely. Success would depend upon delivering the right quantities of euro notes and coins in the right denominations to the right locations at the right time. It would require close co-operation from everyone involved in the cash distribution process.

Legacy currency withdrawal in the euro area

5.6 Evidence from the euro area suggests that the challenge of withdrawing sterling cash from circulation should not be underestimated. Delivery of a successful withdrawal would require retailers, retail banks and CITs to work in close co-operation. In the euro area, while the distribution of euro notes and coins was spread over three to four months, legacy currencies were returned for the most part in a matter of weeks. The unforeseen speed of the return of legacy currency caused bottlenecks at banks and cash handling centres. In some euro area countries, this gave rise to significant delays in the crediting of retailers' accounts at retail banks and of retail banks' accounts at central banks.

Figure 5.1: Return of legacy notes as per cent (in value terms) of notes in circulation



Source: ECB.

Planning

5.7 The sixth Report on Euro Preparations (REP6) outlined the preliminary work undertaken in these areas and said that the Notes and Coins Working Group (NCWG) would review the UK estimates of coinage requirements for a changeover and consider the lessons for distribution and withdrawal from the euro area. The conclusions of the NCWG are outlined below.

HM Treasury's NCWG includes representatives from:

- **Bank of England (Chair)**
- **HM Treasury (Secretariat)**
- **Royal Mint**
- **Royal Mail**
- **Association for Payment Clearing Services**
- **cash-in-transit companies**
- **British Retail Consortium**
- **Automatic Vending Association**

5.8 As well as the work of the NCWG, planning has continued to benefit from the engagement of key stakeholders involved in cash production and distribution in the UK. Planning has been taken forward through sub-groups of the NCWG, through learning from the experience of the cash changeover in the euro area and through work produced by specific organisations. The latter includes reports and studies undertaken by the Association for Payment Clearing Services (APACS), the British Retail Consortium (BRC), the Automatic Vending Association (AVA), individual retail banks, retailers and CITs. A list of recent publications on a UK changeover is included at Annex J.

LESSONS FROM THE EURO AREA

5.9 The euro area provides examples of best practice and highlights the issues that would need particular care in a UK cash changeover. These issues are:

- distribution of euro notes and coins before E day was primarily managed by national central banks, with a clear allocation of responsibilities between the respective central banks, mints, commercial banks and CITs;
- central bank regional branch networks were used for cash storage, enabling euro notes and coins to be widely distributed across a country before frontloading began. Where necessary, these were supplemented by special storage facilities for coins, for example special depots were established on five military bases in France;
- frontloading of retail banks with euro cash began three to four months before E day;
- lead times for sub-frontloading of large retailers varied across the euro area, ranging from under a month to four months;
- coins were frontloaded first, because of their bulk, while notes were frontloaded later for security reasons;
- sub-frontloading of small retailers was limited. In some countries the penalty regime for early release of euro cash was perceived to be harsh. For example, in Italy premature circulation of euro cash carried a minimum penalty of €25,000, plus €3,000 per note lost, up to a maximum of €2 million;
- starter packs of coins were popular with euro area citizens. Over 150 million were sold across the euro area, 78 per cent of the 192 million produced. However, many were kept as gifts, rather than opened and spent. As a total of overall coin distribution, their impact was relatively small, at a maximum of just over 10 per cent of the 40.4 billion coins released into circulation during the changeover as a whole;
- over 200,000 ATMs were adapted across the euro area. This happened quickly. Within four days of E day virtually all were issuing only euro; and

- most euro area countries encouraged citizens to deposit hoarded coins at retail banks before 1 January 2002 or after the end of the dual circulation period. These dehoarding campaigns were sometimes supported by charities that viewed the return of legacy coins as a fundraising opportunity. Charities in the UK also participated in this exercise, collecting euro area legacy currency, with UK banks providing collection points at their branches. Some euro area countries held more than one dehoarding campaign. For example, Germany held campaigns in Spring and Autumn 2001 that helped remove around 12 billion coins (€1.8 billion in value) from circulation before 1 January 2002.

The introduction of euro notes and coins one year on

	Notes	Coins
Total circulation		
Total cash in circulation (number)	7.42 billion	38.2 billion
Total cash in circulation (value)	€ 320.9 billion	€ 11.9 billion
Total value as a share of GDP	4.54%	0.17%
Per capita figures		
Average number per person	24.7	126.5
Average value per person	€ 1,062.8	€ 39.4
Most common euro banknote/coin		
Total number (% of total)	€ 50 (28.8%)	1 cent (17.4%)
Total value (% of total)	€ 50 (33.4%)	€ 2 (39.8%)

Source: European Commission October 2002.

UK differences

5.10 The UK's cash economy is not identical to that of the euro area. The Government has identified the following factors that would be unique to the UK and where a different approach might be required:

- the Bank does not have a regional branch network;
- the Mint is responsible for the distribution of coins;
- the role of CITs and cash handlers in the UK's cash storage and distribution process differs from many euro area countries;
- there is a different pattern of cash usage in the UK, largely due to the relatively low value, compared to the euro area, of the highest denomination sterling note (£50); and
- euro notes and coins are already in use in the euro area.

Key lessons for the UK

5.11 The following points would be important for a cash changeover in the UK:

- a successful UK cash changeover and withdrawal process would depend upon close co-operation amongst all those involved in the cash production, storage and distribution processes. This would be particularly important because ownership of different aspects of a changeover would be shared amongst stakeholders;
- the Bank should play a key co-ordination role, working closely with the Mint, the Government and other key stakeholders, to plan and distribute euro cash and to ensure smooth and effective withdrawal of sterling notes and coins;

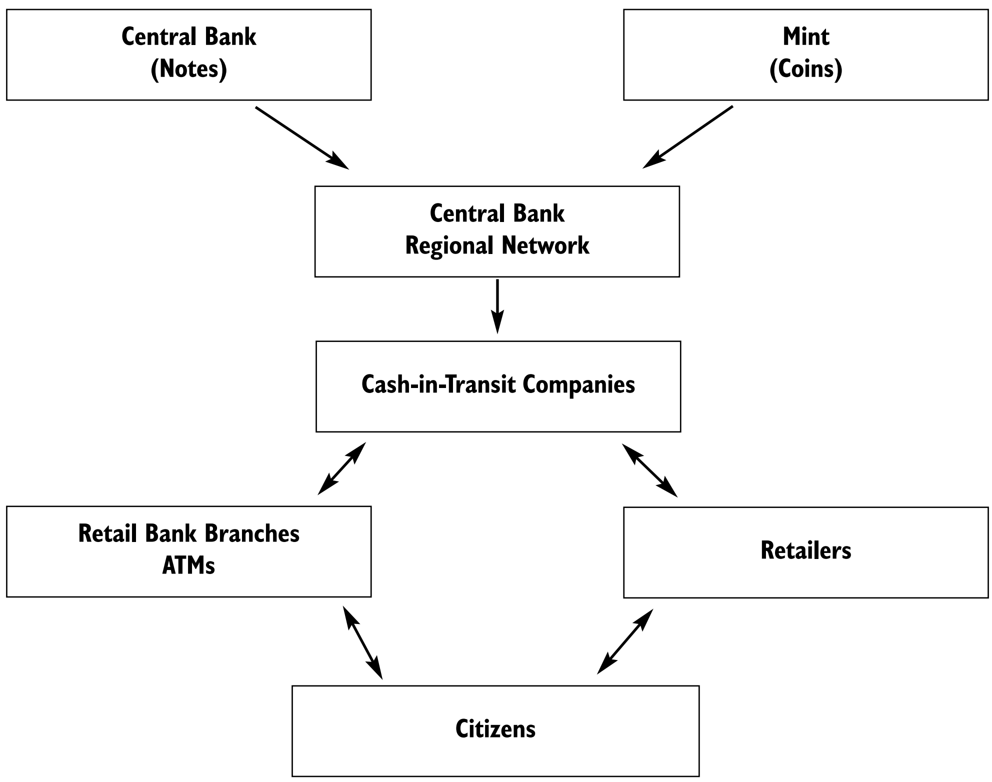
- a cash changeover would take place towards the end of a changeover and the tasks would largely fall in the twelve months before, and two months after, E day. This would allow time for planning work to be undertaken after a referendum;
- however, some aspects of a cash changeover would have longer lead times, in particular coin design and manufacture, as well as cash production and storage issues;
- neither the Bank nor the Mint has a regional branch network that could be used for the regional storage of notes and coins, ahead of the frontloading/sub-frontloading process. Alternative storage, particularly for coins, might be needed.
- widespread frontloading of retail banks and sub-frontloading of retailers would play a vital role in a successful cash changeover;
- care needs to be taken to ensure that retailers do not face disincentives to sub-frontload. Imaginative approaches to insurance and security cover and overdraft/capital facilities would help facilitate the sub-frontloading process;
- optimal lead times for the frontloading and sub-frontloading process would be three to four months;
- planning would need to take account of UK cash usage, including differences in regional demand for notes and coins and the low value of the highest denomination note, relative to the euro area.
- dehoarding campaigns could serve two purposes: both maintaining legacy currency stocks in the year before E day and as a means of removing legacy currency from circulation immediately before E day. Charities could play a significant role in the second of these campaigns;
- starter kits would be unlikely to play a substantial role in the cash distribution process; and
- key communication messages would be important in aiding the withdrawal process, especially during the dual circulation period: both by conveying messages to retailers, CITs and retail banks, and in easing citizens' concerns. In particular, citizens would need to be reminded that they would not need to return their legacy notes or coins immediately after E day. Arrangements would be available for the return of notes and coins for a defined and well publicised period from E day onwards.

Example of how a changeover might work in the UK (4)

Six months before E day, Bill and Penny receive a retailers' pack in the post. It contains advice and information about the conversion process, explains in clear and simple terms the procedures for obtaining, storing and handling euro notes and coins, and includes training materials for use with staff. There is a section on recognition of notes and coins, including a poster for display in the shop, and advice on how to count and sort euro cash. The pack also gives detail about how the withdrawal of sterling notes and coins will be managed, and the role of retailers in facilitating this process.

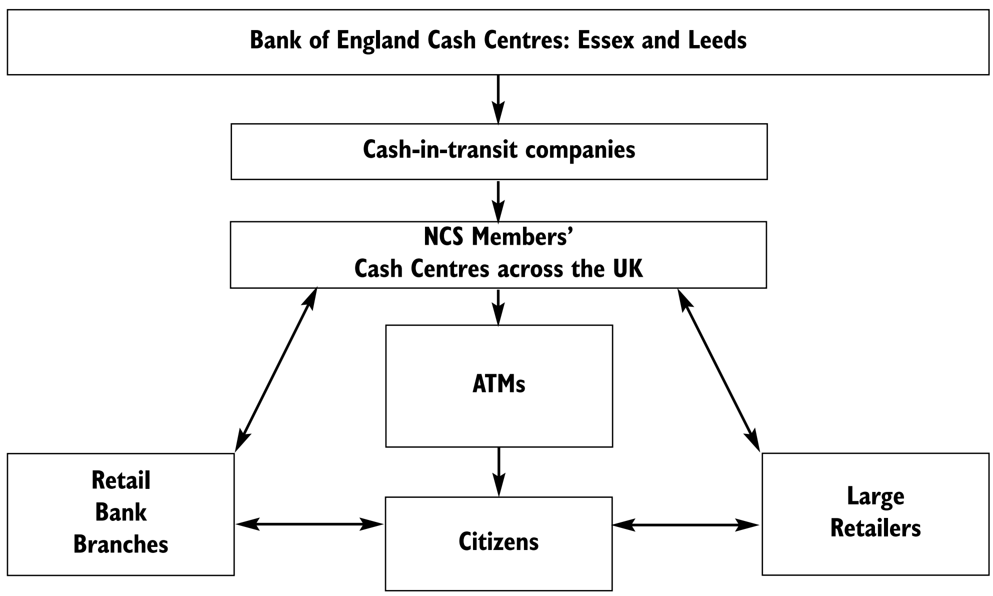
5.12 In Germany, the regional branch network (Landeszentralbanken) of the central bank was used to distribute both notes and coins. The central bank, the Bundesbank, is responsible for the distribution of both notes and coins in Germany.

Figure 5.2: Basic model for euro cash distribution in Germany



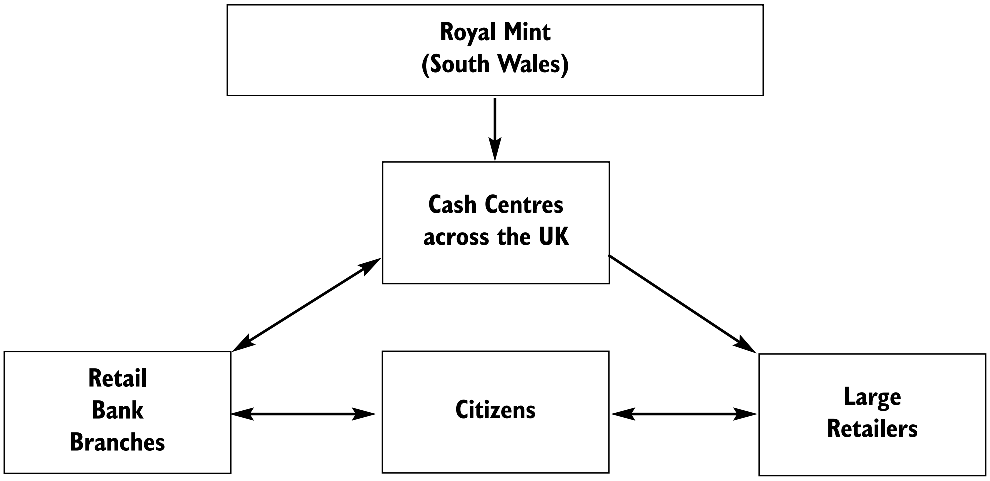
5.13 In the UK, notes are collected by CITs from the Bank's cash centres in Essex and Leeds, and distributed to cash centres (owned by cash handlers, the retail banks and the Royal Mail). They are then distributed to retail bank branches, ATMs (both independently run, remote and those at bank branches) and large retailers.

Figure 5.3: Basic model for current cash distribution in the UK



5.14 The Mint delivers the coins on behalf of HM Treasury to cash centres across the UK from where it is further distributed to retail bank branches and large retailers. In the UK, approximately 80 per cent of coins circulate between citizens and retailers.

Figure 5.4: Basic model for coin distribution in the UK



APPROACH TO A UK CASH CHANGEOVER

5.15 To ensure close co-operation amongst all those involved in cash production, storage and distribution, the Government would establish a Cash Changeover Working Group (CCWG) to manage a cash changeover. The CCWG would replace the NCWG, whose initial preparatory role would have been fulfilled.

Role of the Cash Changeover Working Group

5.16 The CCWG would have a defined role with three clear objectives:

- to produce a cash changeover plan within six months of a referendum. The plan would define clear roles and responsibilities for all those involved in the cash changeover;
- to undertake a programme management audit role once the plan was finalised, ensuring key milestones were met, reporting progress, identifying issues and risks, as well as ensuring consistent and clear communication among those involved in the cash changeover; and
- to act as a forum for issue resolution.

Membership

5.17 It is proposed that the CCWG would include representatives of the following groups:

- Bank of England;
- HM Treasury;
- Royal Mint;

- Royal Mail;
- Association for Payment Clearing Services;
- cash-in-transit companies;
- British Retail Consortium; and
- Automatic Vending Association.

5.18 Representatives would need authority to deliver on behalf of their organisation. The membership is representative of key stakeholders in cash distribution in the UK and reflects the membership of the existing NCWG. However, other organisations would also play a significant role in delivering a successful cash changeover. In particular:

- retail banks;
- insurers;
- small- and medium-sized retailers;
- trade unions;
- consumer groups; and
- groups representing those who may experience particular difficulties during the cash changeover.

5.19 These groups would have an interest in some aspects of a cash changeover and their views would need to be reflected in a cash changeover plan. Insurers, in particular, could play a significant role in providing incentives to the frontloading and sub-frontloading processes. The banks would play a significant role in relation to the provision of credit for retailers.

5.20 The Bank would provide the Chairman, who would be responsible to an official in the Euro Changeover Secretariat (ECS) for ensuring the CCWG met its objectives.

Remit

5.21 The remit for the cash changeover plan would be specifically focused on the logistical aspects of a cash changeover: storage, frontloading and sub-frontloading of euro and withdrawal of sterling, including dehoarding campaigns. The remit for the CCWG would need to be finalised, after consultation with stakeholders, before a referendum, to allow sufficient time to deliver a cash changeover plan. Close co-operation between the Bank and the Mint would be essential.

5.22 The success of the CCWG would depend upon the continued support and flexibility of all players involved in cash distribution. Successful implementation of a cash changeover plan would require sufficient time from agreeing a plan to the start of the logistical process to deliver a successful E day. Under current planning assumptions that would be a minimum of eighteen months.

Outline possible timetable for a cash changeover

R	**Cash Changeover Working Group established**
6 months after R	**Publication of cash changeover plan**
9 months before E	**First dehoarding campaign**
6 months before E	**Bank branch frontloading requirements agreed**
4 months before E	**Frontloading process begins**
3 months before E	**Second dehoarding campaign**
E	**Euro becomes legal tender**
S	**Sterling ceases to be legal tender**

5.23 The exact details for the return of legacy currency would be for the CCWG to develop as part of the cash changeover plan. However, arrangements would be in place to allow the return of sterling cash after it ceased to be legal tender. In the euro area, central banks will accept returned legacy currency coins for a minimum of three years (2005) and returned legacy currency notes for a minimum of ten years (2012).

Example of how a changeover might work in the UK (5)

Mrs Tanner is careful with money and tries to save regularly. Although she has a savings account, she prefers to keep some cash at home in case of emergency.

Six weeks after E day, she remembers that she has £200 in notes, which she has given to her son-in-law, Bill, for safekeeping. Mrs Tanner has seen a poster at the pensioners' club she attends, explaining that sterling cash can still be used up to two months after E day. Even when sterling cash is withdrawn from circulation and is no longer legal tender, it will still be possible to exchange remaining sterling cash for euro.

Bill gives his mother-in-law a lift to the bank. Mrs Tanner decides to pay the £200 into her savings account, and is credited with the correct euro amount.

OTHER CASH ISSUES

Estimates of total UK requirements of notes and coins

5.24 The decisions on the total amount of euro notes and coins that the UK would need to produce would fall outside the remit of the CCWG. They would be decided by the Bank, in consultation with the ECB, for notes and the Mint, working closely with the Government, and subject to ECB approval, for coins. The current estimate of total notes is 2 billion. The previous estimate of a need for between 13 and 14.5 billion euro coins has been revised in light of evidence from the euro area and from a recent study on current coin levels in the UK. Although modelling work is continuing, initial results suggest that the UK would need around 10 billion coins.

ATMs

In the euro area, approximately 70 per cent of cash is distributed by ATMs. Retail banks are increasingly outsourcing the stocking of the 37,000 ATMs in the UK, rather than filling them from note stocks held at branches. There is a mixture of two and four cassette machines in the UK: newer ones have four cassettes. Simpler, single cassette machines, placed in retail outlets and entertainment venues, are also growing in number.

Example of how a changeover might work in the UK (6)

Four months before E day, Bill goes to the cashpoint to withdraw some cash. He inserts his usual ATM card, which he has used for the past year. After making a sterling withdrawal of £60, he requests a receipt for the transaction. The receipt shows the sterling amount, with the euro equivalent also displayed for information.

5.25 Further issues that would need to be considered in the delivery of a cash changeover, and which would rest outside the remit of the CCWG, would be the design and denominational mix of UK euro cash.

E day

5.26 Chapter 4 discussed the reasons why the preferred date for E day is 6 April. As explained, E day would mark two key events in a possible UK changeover to the euro:

- the introduction of euro cash as legal tender in the UK; and
- the date from which all non-cash transactions would have to be denominated in euro.

5.27 On balance, 6 April is optimal for the UK as a whole. Nonetheless, the date would have implications for a cash changeover because it would not mark the lowest point of cash demand in the UK. As a result, CIT capacity, as well as cash centre and retail bank storage space, would be lower than in the middle of February. Retail activity, especially cash purchases in the food retailing sector, would be also be higher.

5.28 If a UK E day coincided with the Easter shopping peak period it would give rise to specific challenges for retailers, CITs and others directly involved in cash distribution. The Government is nonetheless confident that these would be overcome, as they were on 1 January in the euro area, and that all stakeholders would work together to ensure a smooth and secure cash changeover.

Example of how a changeover might work in the UK (7)

In the days immediately following E day, Bill and Penny's customers continue to use up their sterling cash. Prices are now expressed in euro, although sterling equivalents are also shown for information. Bill and Penny give out change in euro. Some customers are confused about this, and Bill and Penny explain the process, using a conversion chart to help the customer think about the transaction in euro. Bill and Penny store the sterling notes and coins separately from euro notes and coins. Sterling notes and coins will be returned to their bank for withdrawal from circulation.

Buying or selling euro cash before E day

Euro cash would not be legal tender in the UK until E day. Euro cash would be treated as if it were a foreign currency. As a result, retail banks would accept euro notes but not euro coins at their branches, and would be likely to charge a handling fee for dealing with euro cash just as they do at present in foreign currency transactions. Retailers would be likely to adopt a similar approach.

NEXT STEPS

5.29 In developing the practical changeover preparations, HM Treasury will:

- consult extensively on the approach to a cash changeover;
- work with the Bank and other key stakeholders to examine possible solutions to regional cash storage issues; and
- work with the Mint and other stakeholders to finalise estimates of coin requirements for a cash changeover.

6 Communications

Timely and relevant information for business and citizens would be critical to the success of a UK changeover. A successful communication programme would require a co-ordinated effort across the public, private and voluntary sectors. The guiding principles for developing a communication strategy would be clarity, credibility, co-operation and accessibility.

This chapter provides an update on current planning for communications. It outlines the lessons from the euro area, key messages for business and citizens at the principal phases of a changeover, the ways in which a central information programme would ensure co-ordination of messages across the economy and how the needs of vulnerable groups would be met.

BACKGROUND

6.1 The need for information programmes with a separate focus for business and citizens was identified in the first outline National Changeover Plan. There would be an additional need for appropriately designed information for vulnerable groups – including older people, younger people, visually impaired people, those with other perceptual difficulties, and those with learning difficulties.

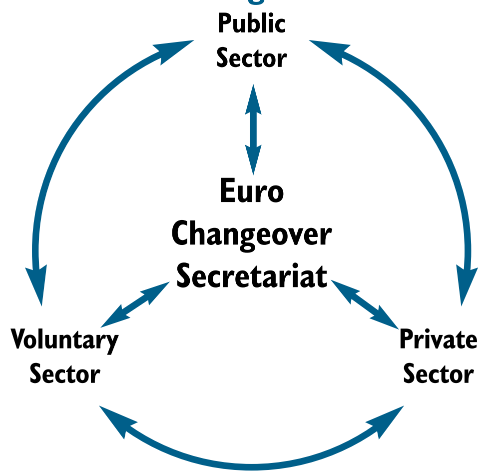
6.2 The second outline National Changeover Plan noted the size and complexity of the communication task that would be required and presented the following propositions:

- people assimilate information most effectively when it is communicated by those from whom they expect to receive it;
- information is most effectively communicated when it is reinforced from a variety of credible sources over a period of time; and
- the role of information multipliers to help reinforce the messages is vital.

LESSONS FROM THE EURO AREA

6.3 While there were a number of common elements, each euro area country adopted an approach appropriate to its needs and those of its citizens. Success was generally achieved through a strong and flexible government lead and active co-operation between the public, private and voluntary sectors. In all cases, an emphasis was placed on consulting widely.

Figure 6.1: Co-ordination in a changeover



6.4 All euro area countries prepared specific communication plans to meet the needs of the following groups:

- business, especially small- and medium-sized enterprises (SMEs), who received information covering the potential effects of the changeover on their business and encouraging timely preparation;
- citizens, where the main focus of activities was ahead of the introduction of euro cash; and
- vulnerable or harder-to-reach groups, who received information about the changeover through a range of delivery channels.

Communication in the euro area

6.5 In the euro area:

- information programmes were carefully timed, clear, consistent and co-ordinated. Emphasis was placed on the practical aspects of the changeover. Intensive public education did not start until close to the arrival of euro cash, as citizens tended not to focus on information until the need to act on it was imminent;
- a variety of different channels were used to convey information, including mass media and partners in the public, private and voluntary sectors. Some countries placed an emphasis on face-to-face communication;
- additional information was provided for vulnerable groups. Representative groups worked in conjunction with governments to communicate to these groups;
- a range of bodies across the public, private and voluntary sectors, including the European Commission (Commission) and the European Central Bank (ECB), played significant roles within the communication process;
- communication for business began before programmes for citizens. This was because of the longer lead times for preparation by business and the role of some sectors (for example, retailers) as information multipliers; and

- countries received some funding from the Commission as a contribution to the cost of financing communication.

Communication in the euro area

Advertising campaigns

Ireland used celebrities to endorse the campaign, including the footballer, Paul McGrath, and the pop group, Westlife.

Germany chose trusted figures, including Helmut Schmidt, former Federal Chancellor and co-publisher of the weekly magazine, 'Die Zeit', and Sabine Christiansen, presenter of a popular talkshow on German television.

Euro Bus

Spain used a specially equipped bus, the 'euro movil', to visit local communities. The focus was on small communities, or communities in rural areas.

Austria adopted a similar approach: a double-decker bus toured Austria for three months, providing information about the euro.

PROVISION OF INFORMATION DURING A CHANGEOVER

6.6 In developing a communication strategy, it would be necessary to adopt the following principles:

- **clarity** – simple messages about what changes would happen, when, and what people would need to do to prepare;
- **credibility** – messages supported by the overall changeover planning and endorsed or delivered by trusted communicators;
- **co-ordination** – key messages delivered to different audiences across the economy, from a variety of sources; and
- **accessibility** – information provided in a format that is as accessible to as many people as possible, taking full account of the needs of all citizens, including vulnerable groups.

6.7 The communication activities during a changeover would need to reflect the specific characteristics of the UK: the distribution, language and culture of the population; the size and complexity of the economy; and the proximity of the UK to the euro area.

The UK environment

There are around 25 million households in the UK, ranging from those living in densely populated conurbations, such as Greater London, to those living in sparsely populated rural areas such as the Scottish Highlands. The UK has devolved administrations in Scotland, Wales and Northern Ireland, each with different responsibilities.

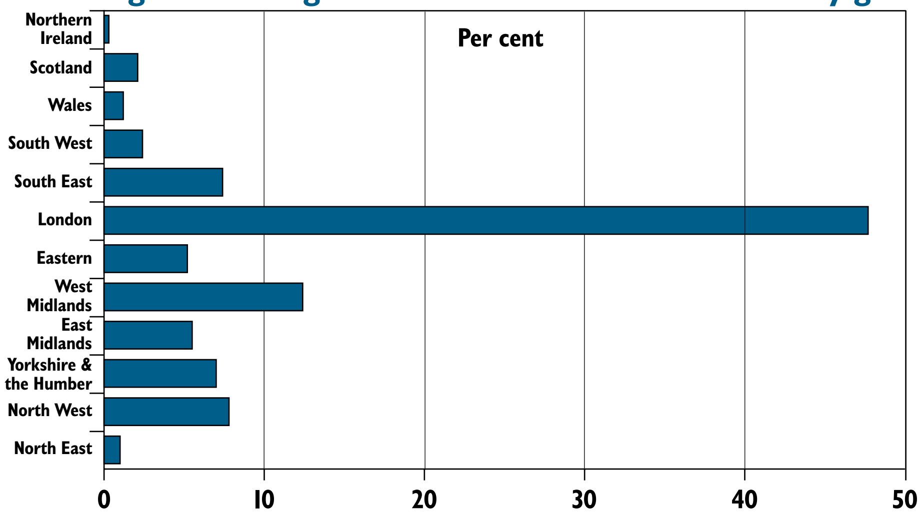
There are significant numbers of people in the UK for whom English is not their first language, and who would require access to materials in languages other than English.

There is no set number of languages for Government communication. In a changeover, the choice of languages would depend on the nature of the communication activity and target audience. As an example, the 2001 census form was translated into 28 languages:

Albanian	Greek	Somali
Arabic	Gujarati	Spanish
Bengali	Hindi	Swahili
Chinese	Italian	Turkish
Croatian	Japanese	Ulster Scots
Farsi	Polish	Urdu
French	Portuguese	Vietnamese
Gaelic (Irish)	Punjabi	Welsh
Gaelic (Scottish)	Russian	
German	Serbian	

Of the 4.5 million people in the UK who in 2001/02 described themselves as belonging to a minority ethnic group, around two million live in the London region.

Figure 6.2: Regional distribution of ethnic minority groups



There are around 3.8 million small businesses in the UK (defined as those businesses that have fewer than 50 employees), of which 2.6 million are sole traders (with no employees). Although 86 per cent of people aged over 16 have a debit card, the proportion is lower for younger and older age groups. In 2000/01, 58 per cent of families in Great Britain received a social security benefit or tax credit from the Government. There are around 9.4 million people in the UK over the age of sixty-five, of whom almost all receive a state pension.

Whereas in the euro area notes were not available before E day and coins only shortly before E day, many people in the UK have already used euro notes and coins. In 2001, there were 41.8 million visits by UK residents to the euro area. Some UK businesses, especially those that export to the euro area and those in the tourist industry, already accept payment in euro for goods and services. Businesses in some areas with close proximity to the euro area also accept euro, for example in Dover and parts of Northern Ireland. Although recent years have seen a rise in non-cash transactions (through credit and debit cards), cash is still the norm for small transactions, with nearly three-quarters of personal payments made by cash.

Source: 2001 Census, Social Trends 33 and the Small Business Service.

Figure 6.3: Key messages during the phases of a changeover

	Information for citizens	Information for business
Immediately after a referendum	• No immediate change to currency • Set out timetable	• No immediate change to currency • Set out timetable
In the approach to T	• Fixed exchange rate • No immediate change to currency • Reinforce timetable	• Fixed exchange rate • No immediate change to currency • Make limited preparations • Reinforce timetable
Around RT	• Consumer information to explain pace of change/choices RT to E • Preliminary dehoarding campaign • Reinforce timetable	• Business information to explain pace of change/choices RT to E • Step up preparations, including planning for a cash changeover • Reinforce timetable
In the approach to E day	• Familiarisation campaign • Date of E day • Main dehoarding campaign	• Familiarisation campaign • Date of E day • Make full preparations, especially for a cash changeover • Facilitate withdrawal of sterling
In the dual circulation period	• Using euro notes and coins • Date when sterling ceases to be legal tender	• Facilitate withdrawal of sterling • Date when sterling ceases to be legal tender

PHASES OF A UK INFORMATION PROGRAMME

6.8 The potential timing of specific communication programmes during the different phases of a changeover was set out in the second outline National Changeover Plan. Communicating in a changeover would involve more than a description of the physical features of the new notes and coins: it would require helping everyone to develop an understanding of equivalent euro values. Everyone would need to understand what changes would happen, when and what their role would be.

6.9 To support this, an ongoing communication programme would be required. Such a programme would use a variety of formats and channels, including local and national press, TV and radio, telephone helplines, leaflets, direct mail and face-to-face communication and training. The information programme would require more intense activity around the key dates of a changeover.

At a referendum

6.10 Whatever the outcome of a referendum on UK entry to EMU, information would be needed to inform business and citizens of the implications. In the event of a Yes result, information aimed at business and citizens would:

- confirm a changeover timetable in as much detail as possible;
- explain what would happen next;
- explain where, and how, people could obtain further information; and
- remind everyone the issue of euro notes and coins was not imminent.

In the approach to, and immediately after, joining EMU

6.11 The messages outlined above would remain important in the approach to joining EMU. In addition, the communication programme would:

- publicise the rate of entry;
- explain the rules for converting sterling to euro, and vice versa, including use of the fixed exchange rate to six significant figures and the rules on rounding converted amounts;
- explain the issues resulting from a permanently fixed exchange rate for UK business and citizens: and
- remind everyone the issue of euro notes and coins was not imminent.

In the approach to the start of a retail transition

6.12 The communication programme for business and citizens would:

- explain that, from this point, individual financial products might be converted from sterling to euro, and let people know from where to expect more detailed information about the timing and implications of this process. For example, if a citizen's bank account was to be converted, they should expect their bank to give them advance notice of when, and how, this change would be made as well as what would be different. This would apply to all financial products and services, such as savings and mortgage accounts, direct debits and standing orders;
- explain the rules for conversion of prices from sterling to euro. Vulnerable groups would be a key audience for this message, which could be delivered in partnership with voluntary sector organisations and consumer groups;
- explain dual display so business would be ready to introduce dual display from at least four months before E day, to act as information multipliers and answer enquiries from their customers

In the approach to E day

6.13 The communication programme for business and citizens would:

- publicise the date of E day;
- introduce the new currency and explain how it would be distributed, focusing on the physical appearance and main security features; and
- outline the procedures for withdrawing sterling notes and coins.

6.14 It might be necessary to run dehoarding exercises in the approach to E day, to facilitate a smooth cash changeover. An initial dehoarding exercise, encouraging people to keep sterling in circulation, could take place around nine months before E day. Such a campaign could remind people to check for coins at home they could use. Television and radio advertisements could be supplemented by posters and leaflets in venues where charity collecting boxes were placed. A further programme, about three months before E day, could aim to reduce the amount of sterling in the economy. A dehoarding exercise would need the close co-operation of banks, the Post Office and retailers, and could include:

- information aimed at reminding people of the value of loose coins they might be keeping at home;
- coin collectors, issued to encourage people to count accurately and value their stored sterling coins; and
- a focus on charities, an established channel for disposing of surplus small change through collection boxes.

The dual circulation period

6.15 The communication programme at this time would:

- explain how to exchange sterling cash. Retailers, in particular, would need to know the procedures for accepting, storing, sorting, and exchanging sterling notes and coins. Banks would have a key role in taking in sterling and crediting it directly to euro accounts if customers did not want to exchange it for euro cash;
- publicise the end date of the dual circulation period; and
- explain residual arrangements for exchanging sterling and/or completing sterling transactions after its withdrawal (for example, reassurance that sterling cheques dated before E day would remain valid for up to six months from the date of issue).

Example of how a changeover might work in the UK (8)

Just before RT, Penny hears a radio advertisement, announcing that over the coming months personal bank accounts will be converted from sterling to euro.

Next time she's in the bank, she picks up a leaflet, explaining that the bank will write to customers six weeks before account conversion, and that she will still be able to operate in sterling even though the base currency of her account will be in euro after conversion.

Confused by this, she rings the euro helpline, where an operator explains that she will still have the same bank account (and the same account number and sort code), all direct debits and standing orders will work as normal, she will be able to use her credit and debit cards in shops as normal to pay prices expressed in sterling, and she should continue to use her sterling chequebook until E day. The operator explains that, in general, the retail economy will not make the change to working in euro until E day, when euro cash is introduced.

Several weeks later, Penny receives a letter from her bank advising her that her personal account will be converted from sterling to euro in six weeks' time, giving the date on which the conversion will take place. Enclosed is a leaflet, 'Using you new euro bank account', with a website address and phone number for more information. There is an example of a bank statement for a converted account, showing clearly that although euro is now the base currency, her bank will continue to display sterling amounts for each transaction originated in sterling at least until E day.

Next time she visits her bank, while she waits in the queue for a cashier, she watches a video showing a customer performing a number of common financial transactions using a euro bank account: paying bills by cheque in sterling and euro, purchasing goods in a shop in sterling using a euro denominated debit card, and withdrawing sterling from a cashpoint using a euro demoninated cashcard.

At the end of the month, Penny's first euro account statement has sterling transactions displayed in euro, with the conversion rate shown, and the balance in both euro and sterling (for an example statement see Chapter 8).

CO-ORDINATING INFORMATION PROGRAMMES ACROSS THE ECONOMY

6.16 In the euro area, central information programmes were led by finance ministries as an integral part of managing a changeover. Co-ordination of a UK changeover would be achieved through a similar process, with a Government-led Communications Working Group (CWG). This would include representatives of pubic, private and voluntary sector organisations essential to successful communications during a changeover.

6.17 Supporting information would be provided from the most appropriate source. For example, in the euro area the ECB supplied information about the look and feel of the new currency, including security information to assist business in familiarisation and to aid in detection of forgeries.

Co-ordination in Ireland

In Ireland, a Public Relations and Media Group was formed with the Central Bank of Ireland, Forfás (the co-ordinating body for business information) and the Office of the Director of Consumer Affairs. The group met monthly, including with the advertising agencies, to discuss how the various programmes were progressing and to ensure that media activities did not clash. Non-governmental organisations (NGOs) were involved through a tendering process, and a wide range of organisations were awarded funding to undertake various information activities over the two years of the NGOs' programme.

6.18 In a changeover, the Euro Changeover Secretariat (ECS) would run a central public information programme. Features of this programme would include:

- a central concept and brand identity, to ensure that messages about a changeover could easily be identified and assimilated and were presented in a clear and consistent manner appropriate to the UK context;
- a programme of mass media advertising at key points in the timetable;
- targeted information for business; and
- materials adapted and/or tailored to the needs of vulnerable groups (see Chapter 7 for more on communicating with vulnerable groups).

Responsibilities of the Euro Changeover Secretariat

6.19 The ECS would:

- define the overall messages and phasing of information programmes to support the smooth implementation of the changeover plan;
- deliver the central communication programme;
- manage the Government's communication budget, and the allocation and distribution of funding to selected communication partners (for example, voluntary sector groups involved in provision of information to vulnerable groups);

- meet statutory requirements for the accessibility of Government communications, and build the needs of vulnerable groups into the central communication programme;
- measure the effectiveness of the communication programme and use this to inform revision of the programme; and
- work with public, private and voluntary sector organisations to ensure that communication across all sectors was properly planned and co-ordinated.

Responsibilities of individual organisations

6.20 It would be the responsibility of each individual organisation to undertake appropriate communication with their stakeholders about the implications of a changeover for their mutual transactions. To prepare, it is recommended that organisations should:

- identify key stakeholders and consider whether they need to be separated into discrete categories, depending on a need for information at different times and to differing levels of detail;
- audit current communication channels;
- identify key relationships and interdependencies with other organisations;
- identify the specific communication that would be required at different phases of a changeover;
- consider how to ensure that the needs of vulnerable groups were met; and
- consider how and when staff would receive information and training.

6.21 Representative bodies such as trade associations, professional bodies and certain voluntary sector organisations should be prepared to offer information, advice and support to their client groups as part of their normal service.

Information activities of the European Central Bank (ECB)

The ECB undertook an extensive programme of public and business communication in the euro area, supported by the activities of the national central banks.

Around 200 million leaflets, 'Getting ready for the euro – your guide to the euro banknotes and coins', were produced. Almost every household in the euro area received this leaflet. Television and press advertising was used in all euro area countries.

The main messages were:

- **appearance of notes and coins;**
- **security features of banknotes;**
- **denominations of notes and coins; and**
- **timing and method of the cash changeover.**

A Partnership Programme encouraged other organisations to use and adapt ECB materials to inform and educate their customers and staff.

Communication planning in the public sector

The Ministry of Defence (MoD) has developed a high-level communication strategy for a euro conversion programme aimed at meeting the information needs of its stakeholders. To a large extent, communication would be delivered via normal programme and business management channels, although specific means would include:

- **a euro programme website;**
- **articles in MoD and Service publications;**
- **internal communications briefs; and**
- **awareness courses.**

MoD envisages the need to facilitate access to general information materials for overseas service personnel. More detailed strategies would be developed to cover the specific target audiences affected in the various business areas. The timing and nature of communication would be linked to the Government's changeover timetable.

The Department for Education and Skills (DfES) has produced an internal Euro Contingency Communication Plan for England. The Plan sets out how DfES would contribute to a Government information programme. It forms part of the over-arching conversion strategy for the Department. The target stakeholders are learners of all ages. At each phase, it identifies:

- **key communication actions;**
- **target groups;**
- **responsibility for delivery;**
- **key delivery partners;**
- **timings and milestones; and**
- **external factors and risks that might influence the outcome or timing of actions.**

Examples of potential activities are:

- **changes to the curriculum and syllabus and associated materials for schools;**
- **euro training for teachers, lecturers and education managers;**
- **guidance for local education authorities;**
- **new euro modules for adults;**
- **online guidance for schools; and**
- **a possible Year of Europe.**

There are similar plans for other departments.

FINANCING OF COMMUNICATION PROGRAMMES

6.22 In the euro area, all countries had a budget for a central information programme, but, beyond this, the costs of communication were generally borne by the organisation that commissioned and carried out specific activities. Given the success of the euro area changeover, there is no reason for the UK to adopt a different approach. There would be a limited exception. Some funding would be available for partners experienced in communicating with vulnerable groups.

COMMUNICATING WITH VULNERABLE GROUPS

6.23 Government information material would need to take into account communication with vulnerable groups. This responsibility includes, but would not be limited to, meeting statutory duties for the provision of Government information materials, for example, providing such material in a range of appropriate languages.

6.24 As a general principle, citizens should not be expected to bear additional explicit or hidden charges to gain access to the information they need.

6.25 The adaptations of mainstream materials that would be considered as part of an information programme could include:

- printed materials in a range of languages;
- large print, Braille and audio formats of printed materials for the visually impaired;
- textphone facilities for telephone helplines;
- signed, subtitled or closed caption options for television information;
- ensuring that materials and information forming part of the mainstream programme were placed in the appropriate media and venues to reach specific vulnerable groups, for example, Post Offices to reach benefit claimants, or using radio advertising to reach people with visual impairments;
- the use of appropriate intermediaries to deliver face-to-face information, explaining and reinforcing the mainstream materials; and
- issuing materials for vulnerable groups in advance of those for citizens, and making them available for longer periods. Additional time might be required both to train intermediaries and for the target groups to assimilate the information.

6.26 For further details on supporting vulnerable groups see Chapter 7.

WORKING WITH OTHER MEMBER STATES

6.27 If the UK were to join EMU at the same time as another Member State, the UK would need to take account of their changeover process and public information programmes. In the euro area, Member States co-ordinated aspects of their communication programmes through the Commission. For example, the Eurobarometer surveys measured understanding and take up of euro denominated products and services across the euro area.

NEXT STEPS

6.28 In developing the practical changeover preparations, HM Treasury will:

- continue to consult on and develop the communication strategy;
- undertake further work on the specific needs of vulnerable groups, through a new working group; and
- work with stakeholders to ensure co-ordination across the communication plans of public, private and voluntary sector organisations.