
New arrangements for issuing banknotes

In March 1996, the Bank announced a major restructuring of its regional activity, which will result in the closure of four of its five regional branches. Simultaneously, the Bank announced an expansion of its industrial and economic liaison role in the regions: agencies will continue to operate from each city where branches are closing, as well as from three new locations. The Bank's branches have hitherto played an important role in issuing, sorting and receiving notes, and this article describes some consequential changes to these arrangements.

Background

As well as printing its banknotes, the Bank is responsible for issuing them through the banking system and for taking them back and destroying them when they are no longer fit for circulation. Currently some 1,370 million new notes are printed each year, and a similar number withdrawn from circulation when they are no longer fit for use. The cost of producing banknotes in the year to end-February 1996 was £37.7 million, and of issuing, storing and redeeming them, £20.7 million.⁽¹⁾

For many years, the Bank has issued and redeemed notes primarily through the larger cash-handling banks and the Post Office—which together make up the Cash Services Group of the Association for Payment Clearing Services (APACS). These banks are, in effect, wholesalers, who take notes from the Bank (and return them) in bulk and provide banknote services for their own customers and for other banks and financial institutions.

The Bank has also played a role in recycling used notes to meet both seasonal demand and imbalances between the banks. Primarily, this has involved storing used notes for subsequent reissue, but since 1984 the Bank has also supplied certain banks with notes that are fit to be reissued from ATM machines, through a commercial sorting contract. The Bank's role in sorting for ATM fitness is small—supplying perhaps 10% to 15% of the total demand for ATM-fit notes, with the banks themselves producing the remainder.

All these arrangements have worked well for a number of years. But they give rise to significant public expenditure costs and in 1995 the Bank initiated a wide-ranging review in order to achieve more efficient arrangements for the processing, storage, distribution and collection of banknotes. This review was undertaken against a background of considerable change in the cash-handling industry in recent years—notably the creation by the larger banks of regional cash centres, a sharp rise in demand for ATM-fit notes, and

an associated expansion in the banks' own capacity to sort notes for reissue. To a considerable degree, therefore, there is now duplication between the commercial banks and the Bank in this area.

The review was carried out with the full co-operation of APACS and the relevant banks, and the Bank is very grateful to all who have readily contributed to the debate and are now working constructively and co-operatively on implementing the new arrangements.

The new arrangements

The main conclusion of the review was that substantial savings in public expenditure could be achieved from eliminating the duplication of functions between the Bank and the commercial banks. In particular, the banks will in future take over the main responsibility for storing, sorting and reissuing notes that are fit to be recirculated. Further, the Bank will in future conduct its core note distribution functions—the issue of new notes and the authentication and destruction of soiled notes—from just two sites, one in the South of England, split between the Bank's Head Office in London and its Printing Works at Debden in Essex,⁽²⁾ and one in the North, at Leeds.

The annual saving to the public sector from ceasing note functions at four Branches⁽³⁾ is in the region of £4 million. There may also be some savings for the banks.

Implementation

The Bank is working with APACS and the note-handling banks to ensure that the new arrangements are introduced smoothly, with no diminution in the service provided to the public. The Bank has been particularly concerned to ensure that those banks which are typically 'short' of notes can obtain supplies readily from those that are typically 'long' (eg those that take in cash from large retailers). In order to achieve this, the banks—under the guidance of APACS—have set up co-operative arrangements, under which note surpluses and deficits are matched. This arrangement was

(1) More statistics on the numbers of notes printed, and on costs, can be found in the Bank's *Annual Report*, available from the Bank's Public Enquiries Group (telephone 0171-601 4878).

(2) The precise distribution of note-issuing functions between Head Office and Debden is still under review.

(3) The Bank's branches at Birmingham, Bristol, Manchester and Newcastle will have closed by 31 October 1997.

introduced initially in the region covered by the Bank's Birmingham Branch and has been widened since to include the Manchester area. During the next few months, it will be extended to the rest of the country.

The Bank will continue to monitor closely the quality of notes in circulation, and is working with the banks to ensure that their sorting machines accurately verify genuine banknotes.