



Is cash king? Examining the importance of cash for local economies and communities

May 2016

About Localis

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Localis is an independent think-tank, dedicated to issues related to local government and localism. Since our formation we have produced influential research on a variety of issues including the reform of public services, local government finance, planning, and community empowerment. Our work has directly influenced government policy and the wider policy debate.

Our philosophy

We believe that power should be exercised as close as possible to the people it serves. We are therefore dedicated to promoting a localist agenda and challenging the existing centralisation of power and responsibility. We seek to develop new ways of delivering local services that deliver better results at lower cost, and involve local communities to a greater degree.

What we do

Localis aims to provide a link between local government and key figures in business, academia, the third sector, parliament and the media. We aim to influence the debate on localism, providing innovative and fresh thinking on all areas that local government is concerned with. We have a broad events programme, including roundtable discussions, publication launches and an extensive party conference programme.

We also offer membership to both councils and corporate partners. Our members play a central role in contributing to our work, both by feeding directly into our research projects, and by attending and speaking at our public and private events. We also provide a bespoke consultancy and support service for local authorities and businesses alike.

Find out more

Please either email info@localis.org.uk or call 0207 340 2660 and we will be pleased to tell you more about the range of services which we offer. You can also sign up for updates or register your interest on our website.

Contents

| | |
|---|--------------|
| Executive Summary | 2-3 |
| Introduction | 4 |
| 1. How is cash used? | 5-8 |
| 2. Why is cash important? | 9-14 |
| 2.1 Importance for businesses | 9-10 |
| 2.2 Importance for communities | 10-14 |
| Case Study - The Swedish Experience | 15 |
| 3. What is the changing role of cash? | 16-21 |
| Case Study - Bank Closures in Glastonbury | 19 |
| 4. What are the future threats to cash? | 22-27 |
| 4.1 Are we moving towards a cashless society? | 22-23 |
| 4.2 What is the UK Government currently doing to support the availability of cash? | 23-25 |
| 4.3 What are the options available to policymakers if cash availability is significantly threatened in the future? | 25-26 |

Executive Summary

Cash has been a constant in human interaction for many centuries, so it can be hard to believe that its fundamental role in all our lives might be under threat. But recent years have seen an accelerated drive towards the use of new payment methods that could presage the end of the millennia-old dominance of cash and potentially lead to a so-called 'cashless society.' Given these emerging trends, this report provides a stock check to assess the extent to which cash remains important for local businesses and communities and how far new cashless technologies have taken root in the UK, and examines the options available to policymakers if the long-term availability of cash comes under threat.

As part of our research Localis has surveyed over 100 key local government stakeholders – including chief executives, leaders, cabinet members and chief finance officers, and the results show that cash remains vital for local businesses and communities:

- 80 percent of respondents said that cash was important or very important to the economic vitality of their local area.
- A third said that the reduction in the number of high street bank branches has created cash accessibility problems locally.
- Over a quarter of respondents said that local businesses had raised concerns with them about lack of access to cash locally.
- Such concerns were linked to the closure of bank branches in 85 percent of cases; high transaction costs for non-cash payments and the pressure to offer more non-cash payment methods in a half of cases and a reduction in the number of ATMs in a third.
- Three quarters of respondents said that local economic growth would suffer if access to cash was reduced in their area.

These findings underline the continued importance of cash, which is still used for the majority of retail payments with a half of retailers relying heavily on cash payments. There is also a significant demand for cash from the 1.6 million people in the UK who, according to the Payments Council, rely disproportionately on cash. This includes over a million people who are 'unbanked' and tend to come from disadvantaged backgrounds, as well as older people. Many of these people find it easier to budget using cash than with other payment methods.

Nevertheless, a range of new technologies pose a threat to their ability to access cash. With the growth in the use of online banking, the rate of bank branch closures reached 650 – a dozen per week – in 2015. This trend has particularly hit rural communities, with historic towns such as Glastonbury left without a single branch. While ATMs can help to plug the gap in terms of cash withdrawals, most do not currently allow people to access other banking services.

Taking trends towards new forms of payment into account, the Payments Council projects that the total volume of cash payments in the UK will fall by a quarter from 18 billion in 2015 to 13 billion in 2023. However, the value of cash payments is expected to remain stable, only decreasing by 5 percent from £257 billion in 2015 to £245 billion in 2024. These statistics tally with evidence from the Bank of England, which suggested that demand for cash is likely to remain substantial for the foreseeable future and the absolute amount of cash used for transactions is likely to remain resilient.

Despite this optimistic assessment, things can change swiftly. We examine the example of Sweden, which shows how quickly a country can move towards a cashless society, with the value of cash in circulation having declined by 17 percent from 2010-2014 in that country. In light of this, we recommend that policymakers should consider the following options if cash accessibility becomes a bigger problem in the future:

- The Bank of England could work with high-street banks, the ATM industry and local communities to encourage banks to leave a cash availability 'legacy' when they close a branch, in the form of a subsidised ATM, support the maintenance of banking services in community or private sector premises or the roll out of more 'Smart ATMs' that allow people to withdraw and deposit cash and access other banking services.
- The Government could provide financial support, for example using receipts from the existing bank levy, to support the work that the ATM industry is already doing (e.g. through LINK's financial inclusion scheme) to ensure that a sufficient number of free-to-use cash points are installed in remote and deprived areas.
- Local authorities could be given the power to use a one-off levy on the biggest out of town retailers (so-called 'Tesco tax') to generate money to invest in high street infrastructure. If councils were to take up this option, they could choose to spend some of this additional revenue for investing in the provision of ATMs – either directly or through granting them discretionary business rate reliefs – if the number of ATMs declines significantly.

Introduction

The earliest form of cash dates back to the seventh century BC when the Lydians used coins made of electrum as a form of payment in what is now modern-day Turkey.¹ Since then cash has become an absolutely indispensable element of life for countless generations across the world. Nevertheless, recent years have seen growing calls for policymakers to move away from a physical form of money.² Sweden, for example, has over the past decade made considerable strides towards abolishing cash altogether,³ although the country's central bank called in early 2016 for access to cash to become a legal right.⁴

This report will seek to address what role cash plays in the UK and consider how that might change in the future.

- Firstly, it will investigate how cash is used as a method of payment, as well as how people access cash.
- Secondly, it will assess the importance of cash for local economies and communities.
- Thirdly, it will look at the long-term challenges to cash caused by the rise of alternative payment methods and online banking and shopping, which have the potential to reduce the availability of cash.
- Finally, it will address the long-term future of cash. In so doing it will highlight possible options for policymakers if the availability of cash becomes a problem.

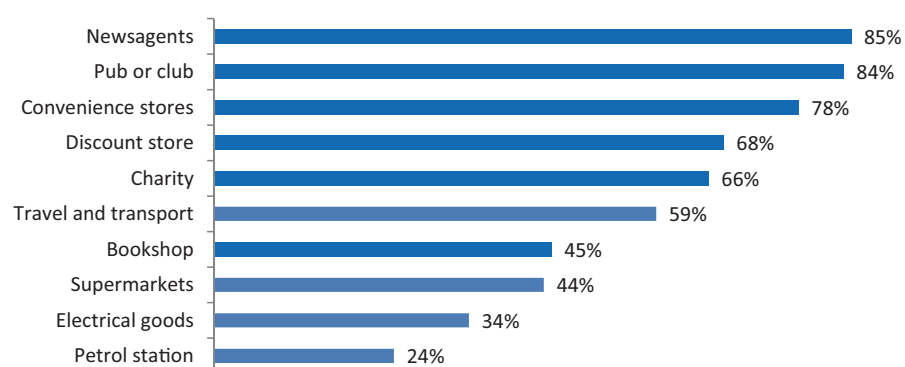
The following represents the findings of research carried out between August 2015 and May 2016 by the think-tank Localis on the role of cash in UK society. As part of the research, Localis surveyed over 100 key local government stakeholders. We also conducted a roundtable event attended by local government politicians and officials, representatives from the business and voluntary sectors, as well as industry representatives.

1.1 How is cash used?

In 2014 cash accounted for 52 percent of all payments made by consumers in the UK.⁵ Cash payments are predominately made for lower value spontaneous purchases in the retail, travel, and entertainment sectors typical to a high street environment. Research by the UK Payments Council, the body that represents the payments industry in the UK, has found that cash makes up a very high percentage of all consumer payments made in sectors typical to the high street (see figure 1).⁶

Despite the large number of payment methods available research has shown that cash is still prevalent as the main form of payment for consumers. A 2015 Populus Survey found that 99 percent of the 4,000 high street shoppers they surveyed used cash as a weekly form of payment. Of that number, 65 percent use cash as a form of payment either always or often.⁷

Figure 1: Percentage of all consumer payments in selected sectors made using cash (2014)

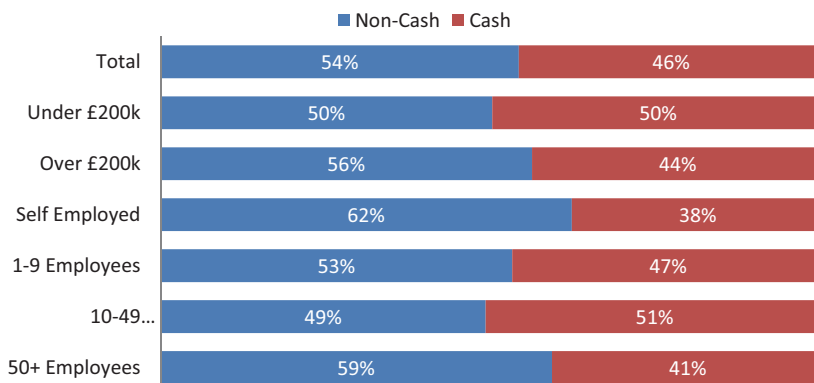


Source: Payments Council

Cash is also vital for high street businesses. The same polling by Populus of high street retailers revealed that 46 percent of turnover was generated by cash (see figure 2). The survey also found that 52 percent of high street retailers rely heavily on cash payments. This is especially true for smaller retailers as 60 percent of high street retailers with a turnover under £200,000 per year indicated that they rely heavily on cash payments – compared to 48 percent of those over £200k. 49 percent of high street businesses with a turnover under £200,000 per year also stated that they preferred customers to pay in cash (compared to 42 percent of those over £200k).⁸

- 1 http://www.britishmuseum.org/explore/themes/money/the_origins_of_coinage.aspx
- 2 <http://www.ft.com/cms/s/0/8ef4dcb0-ca6f-11e5-be0b-b7ece4e953a0.html>, <http://www.paecon.net/PAEReview/issue63/Andresen63.pdf>, <http://www.forbes.com/sites/rickungar/2015/05/14/the-cashless-society-contemplating-the-ultimate-surrender-to-government-control/#31ac05077025>
- 3 <http://www.ibtimes.com/sweden-shifts-toward-cashless-economy-despite-rising-risks-electronic-fraud-2240224>
- 4 <https://www.finextra.com/newsarticle/28635/swedish-central-bank-calls-halt-on-moves-to-a-cashless-economy>
- 5 Payments Council, UK Cash and Cash Machines 2015, p.6
- 6 Payments Council, UK Cash and Cash Machines 2015, p.12
- 7 Populus Survey 2015 The Value of Cash on the UK High Street
- 8 Populus Survey 2015 The Value of Cash on the UK High Street

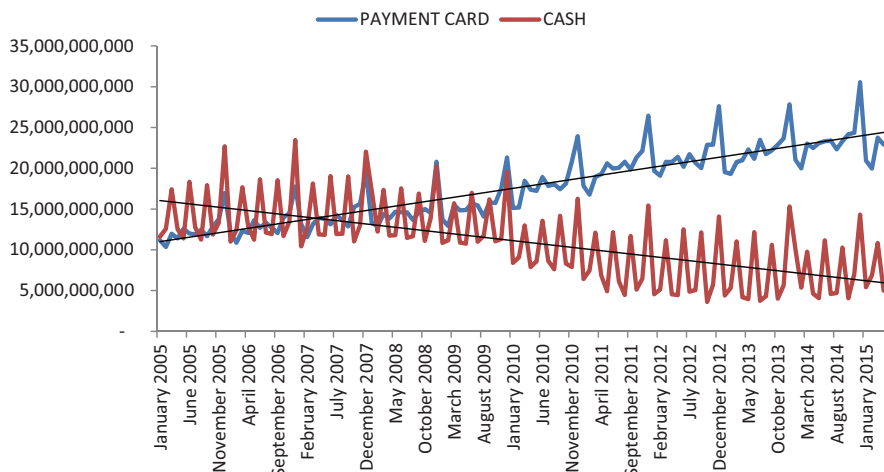
Figure 2: Roughly, what proportion of your turnover would you say is generated via cash sales compared with non-cash sales? (High street retailers)



Cash is clearly important for the high street, for both consumers and businesses alike. However, cash volumes in the UK are expected to steadily fall over the next five years and cash as a percentage of retail payments is falling fast. In 2004 the volume of cash in the UK was estimated to be £24 billion, this has fallen to £17 billion in 2015 and is forecast to fall to £14 billion by 2020.⁹ 2014 was the first year that cash did not account for more than half of all payments made in the UK – dropping 4 percent in a year.¹⁰ Cash as a percentage of all payments has steadily declined over the last decade, from 66 percent in 2004 and is predicted to fall to 31 percent by 2024.¹¹

When looking at the retail sector in particular, a more dramatic story is presented about the falling volumes of cash. From analysis of ONS data and UK Cards Association data, it is possible to see that from April 2007 payment cards have been the preferred method of payment for retail purchases (see figure 3). Lower volumes of cash, if not managed, will translate into lower demand and therefore less accessibility.

Figure 3: The volume of UK Retail Sales by Payment Type (2005-2015, £, not seasonally adjusted)



⁹ Payments Council, UK Cash and Cash Machines, 2015, p.11

¹⁰ <http://www.finextra.com/news/fullstory.aspx?newsitemid=27384>

¹¹ Payments Council, UK Cash and Cash Machines, 2015, p.16

1.2 How do people access cash?

The vast majority of consumer withdrawals of cash are via Automated Teller Machines (ATMs). In 2014, there were 2.8 billion cash withdrawals by ATM in the UK, compared with 245 million by debit card cashback and 108 million via counter withdrawals. While the volume of cash withdrawals via ATMs is set to decline by 1 percent per year to reach 2.5 billion withdrawals in 2024, the volume of debit card cashback withdrawals is set to fall by 30 percent over the next decade to 169 million transactions by 2024.

The value of cash withdrawals via ATMs has increased from 75 percent in 2004 to 85 percent in 2014. It is expected to continue to rise to 89 percent in 2024, as the volume of other methods of cash withdrawal decreases markedly.¹² For example, many supermarkets have reduced the promotion of their cashback service, choosing to only provide the service at the request of the customer. As a result debit card cashback volumes and values in 2014 both fell, compared with 2013 levels, by 9 percent to 245 million and £6.1 billion respectively.¹³ Therefore ATMs remain the predominant means of accessing cash in the UK.

1.3 What types of ATM are there?

The total number of ATMs had grown by a quarter over the last decade from 54,000 in 2004 to over 69,000 in 2014. Whilst the number of bank operated ATMs has remained stable, rising from 33,000 in 2004 to 34,000 in 2014, the number of independent ATMs has increased substantially from 22,000 in 2004 to 36,000 in 2014. This means that independent ATMs now make up a majority of cash machines in the UK (see figure 4).

Figure 4: Bank and Independently operated ATMs in UK (Thousands)

| | Bank operated | Independent | | | |
|------|---------------|-------------|-------------|-------|-------|
| | BBS | IAD | Total | BBS % | IAD % |
| 2004 | 32.7 | 21.7 | 54.4 | 60% | 40% |
| 2005 | 32.5 | 25.8 | 58.3 | 56% | 44% |
| 2006 | 33.5 | 27.0 | 60.5 | 55% | 45% |
| 2007 | 34.7 | 29.3 | 64.0 | 54% | 46% |
| 2008 | 35.6 | 28.3 | 63.9 | 56% | 44% |
| 2009 | 35.9 | 27.0 | 62.9 | 57% | 43% |
| 2010 | 36.0 | 27.1 | 63.1 | 57% | 43% |
| 2011 | 35.1 | 29.2 | 64.4 | 55% | 45% |
| 2012 | 34.7 | 31.4 | 66.1 | 52% | 48% |
| 2013 | 34.7 | 33.3 | 68.0 | 51% | 49% |
| 2014 | 33.9 | 35.5 | 69.4 | 49% | 51% |

Source: UK Cash and Cash Machines 2015 (Payments Council)

1.4 Free to use and pay to use ATMs

Independent ATM machines vary from being free to use (FTU) or pay to use (PTU). FTU ATMs earn revenue from the UK banks, set by LINK, and based on a cost recovery model - this is currently set at 28.9p per cash withdrawal. This 28.9p per cash withdrawal income from UK banks covers the costs of the ATM, cash provision, ATM repairs, data and processing costs and telecommunications. In many cases retailers would then look to receive a commission or share of any remaining revenue. If the ATM usage is low, then the ATM deployer may not be able to support the ATM costs using interchange alone. In cases where there is insufficient income to cover these overheads, the ATM deployer in conjunction with the client may decide to remove or charge a fee per withdrawal to enable

¹² Payments Council, UK Cash and Cash Machines, 2015, p.18

¹³ Ibid, p.32

the machine to remain active in the location. That fee replaces the interchange fee (both are not payable at the same time). The fee is usually £1.50 to £1.75 and covers the costs of which a percentage is shared with the retail host. Most FTU ATMs need to have transaction levels around eight times the volume of a PTU ATM to generate the same return – or 80-90 transactions per day.¹⁴

Figure 5: Number of FTU and PTU ATMs in the UK

| Year | Free-To-Use Number | | Pay-To-Use Number | | Total Number At Year End |
|------|--------------------|------------|-------------------|------------|-----------------------------|
| | At Year End | % of total | At Year End | % of total | |
| 2004 | 32729 | 60.15 | 21683 | 39.85 | 54412 |
| 2005 | 33675 | 57.78 | 24611 | 42.22 | 58286 |
| 2006 | 34834 | 57.61 | 25634 | 42.39 | 60468 |
| 2007 | 37865 | 59.18 | 26115 | 40.82 | 63980 |
| 2008 | 39240 | 61.42 | 24650 | 38.58 | 63890 |
| 2009 | 39981 | 63.55 | 22932 | 36.45 | 62913 |
| 2010 | 41451 | 65.65 | 21686 | 34.35 | 63137 |
| 2011 | 43838 | 68.1 | 20531 | 31.9 | 64369 |
| 2012 | 46069 | 69.66 | 20065 | 30.34 | 66134 |
| 2013 | 48012 | 70.64 | 19951 | 29.36 | 67963 |
| 2014 | 50506 | 72.79 | 18876 | 27.21 | 69382 |

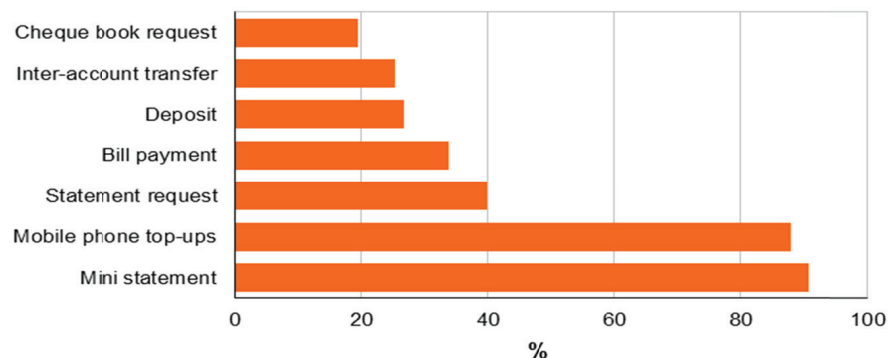
Source: Payments Council, UK Cash and Cash Machines, 2015, p.47

In 2004 the ratio of ATMs in the UK was 60 percent FTU to 40 percent PTU. Due to a substantial shift towards FTU ATMs, as a result of political pressure, and a slight decrease in the number of PTU ATMs, FTU ATMs represented nearly three quarters of the total number of ATMs by 2014 (see Figure 5).

1.5 'Smart ATMs'

Although ATMs are mainly used for withdrawing cash, some cash machines enable consumers to access other banking services, such as mini statements, mobile phone top-ups, bill payments, depositing cash and inter-account transfers. In this report we will refer to ATMs offering multiple banking services as 'Smart ATMs'. In 2014, nearly 90 percent of bank ATMs had facilities that allowed users to obtain mini statements and make mobile phone top-ups. However, approximately two-thirds or more did not have bill payment, cash deposit or inter-account transfer features (see Figure 6).¹⁵ The provision of banking services is also not widespread amongst independent ATMs.

Figure 6: Percentage of Bank and Banking Society (BBS) cash machines offering additional facilities in 2014



¹⁴ <http://www.frankfield.com/upload/docs/Independent%20ATM%20Deployers%202013%20Correspondence.pdf>

¹⁵ Payments Council, UK Cash and Cash Machines, 2015, p.22

2 Why cash is important?

Despite the challenges posed to cash by trends towards online banking, card payments and online shopping, which will be outlined in Chapter 3, cash remains important for local businesses and communities. This chapter will assess why the demand for cash is likely to remain high.

2.1 Importance for businesses

The high street is particularly reliant on cash. As shown in section 1.1, payments using cash represent about half of the turnover of high street retailers. Populus polling of 4,000 high street shoppers found that, in the event of their local high street ATM being absent, nearly half (47 percent) of high street consumers that were surveyed would have refrained from visiting the high street at all, instead opting to visit an alternative location where they can withdraw cash and shop at the same time. From the same survey 48 percent of high street retailers had noticed that shoppers tended to pay by card as a result of having no access to cash.

The burden of accepting payment cards as a payment method is also disproportionately higher for smaller businesses. Retailers pay a transactional cost to use debit and credit card machines which can be up to 50p. This can be disproportionately high as a percentage of the sale value for low value items and often retailers will add a charge to cover this cost. A significant number of purchases on the high street are low value transactions. It is not surprising therefore that a 2015 poll found that half of high street retailers surveyed had a minimum limit for card payments without a surcharge. However, a third of high street shoppers surveyed by Populus said they would not pay the additional charge in any instance¹⁶.

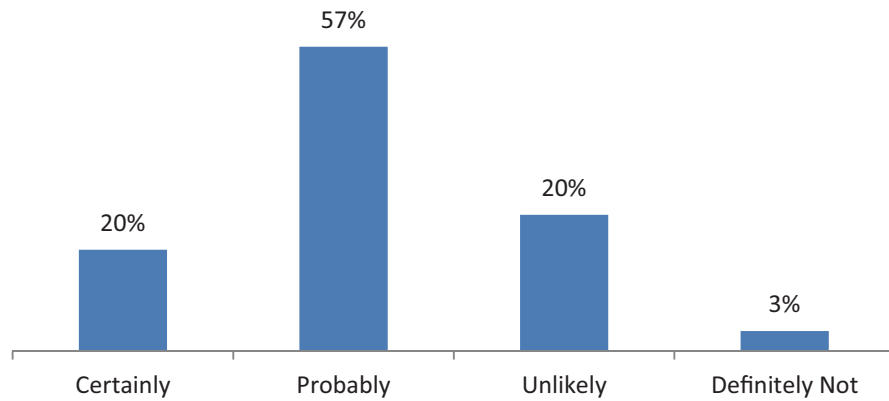
If shoppers are unable to access cash, and are unwilling to pay enforced surcharges, then the number of abandoned transactions (and therefore lost turnover) on high streets will inevitably increase. Of those local government leaders that we surveyed who had registered concerns from local businesses about access to cash, 48 percent stated that they had complaints from local businesses about the high transaction costs for a rising number of non-cash payments. Half also stated that they had complaints from local businesses about the pressure to offer more non-cash payment methods. If more consumers choose to pay by card due to reduced cash accessibility, then this could affect the viability of some small businesses. The 2015 Populus survey found that the average amount spent per year by high street retailers on offering non-cash services to customers is £3,545.

Our survey of local government leaders revealed that over 97 percent think that cash is at least moderately important and 80 percent said it was important or very important to the economic vitality of their high streets and other shopping areas. Only one respondent opined that they did not believe that cash was important to high street vitality. Three quarters of the local government leaders that we surveyed agreed that local economic growth would suffer if access to cash was reduced in their local authority area (see Figure 7).

At our roundtable event, a local government figure from East London told us that local people at a ward forum had told them that the lack of ATMs in their area to access cash from had made their local high street "weak." This has led to people using retailers further afield where cash is more readily accessible.

¹⁶ Populus Survey 2015 The Value of Cash on the UK High Street

Figure 7: Do you believe that local economic growth would suffer if access to cash was reduced in your local authority area?



According to a senior local government figure who attended our roundtable event, cash is also important for local street markets, where cash payments are the norm and are generally quicker than contactless ones. People often prefer to shop at markets as the price for certain products is cheaper than in supermarkets, therefore maintaining cash availability is vital to give people the choice to shop at local markets if they want to do so.

2.1.1 Rural economies

The availability of cash is particularly important for smaller villages and rural areas, where cash is more widely used and relied upon. At our roundtable event a senior County Council official told us that there is often an expectation that cash will be used when paying for goods and services in rural areas. A Cabinet Member told us that many shops in rural areas did not have the high speed connectivity needed to facilitate card payments and so rely upon cash as a form of payment.

2.2 Importance of cash for communities

It is not just businesses but also local communities that rely upon access to cash. Whilst most individuals use a variety of payment methods in their day-to-day lives, there are some people who rely disproportionately on cash. One London Borough Cabinet Member at our roundtable spoke of an “intensive demand for cash” amongst his residents. In 2014 the number of those who relied on cash for all of their day-to-day transactions was estimated by the Payments Council to be around 3.1 percent of all adults in the UK. Whilst this is a small percentage this is still around 1.6 million people.¹⁷

2.2.1 The 'unbanked'

Over a million people are unbanked, meaning that they do not have access to a bank account and so almost completely rely on cash being available in their local community.¹⁸ People who remain outside the banking system are significantly more disadvantaged than those on similar incomes who have moved into banking:

- 79 percent are social tenants;
- 89 percent are receiving state benefits;
- 83 percent have household income in the lowest income quintile;
- 43 percent report a disability or impairment of some kind;

¹⁷ Payments Council, UK Cash and Cash Machines, 2015, p.14

¹⁸ <https://policis.com/pdf/banking/HMT%20Newly%20banked%20and%20'unbanked'%20research%20final%20report%20090810.pdf>

- The 'unbanked' are around twice as likely as the newly banked to have a mobility impairment, physical disability, or a major health condition such as diabetes or heart disease;
- Those who are 'unbanked' are twice as likely to report problems with drug or alcohol dependency as those on similar incomes.¹⁹

The particular reliance upon cash for the 'unbanked' and the fact that they face more challenging circumstances than the rest of the population means that this cohort could face further marginalisation if their access to cash becomes restricted.

2.2.1.1 Post Office Card Account (POCA) holders

A survey by the Financial Inclusion Taskforce and the HM Treasury in 2010 revealed 71 percent of the 'unbanked' have a Post Office Card Account (POCA), leaving 29 percent with no account of any sort. A result of the 2003 Universal Banking Initiative, the POCA account is provided by the Post Office, with ATM access provided by the Bank of Ireland in Post Office Branches.²⁰ However, a survey by Toynbee Hall showed that POCA customers have the worst ATM access to their cash in the UK. POCA account holders can only use 4 percent of all ATMs in the UK as Bank of Ireland machines are outside of the LINK scheme.²¹ The survey noted that pensioners reliant on POCAs to obtain their benefits are likely to have a particularly difficult time accessing cash as 'the top 20 percent of output areas by pensioner concentration are on average nearly 4 miles from a Bank of Ireland ATM.'²² This is especially problematic as older people are by far the largest group of users of the POCA, with around 15 percent of households headed by someone over 75 having one, compared to a national average of 7 percent, while 40 percent of people who receive benefits into a POCA are pensioners.²³

Accessibility of cash for POCA account holders, who are often amongst the most vulnerable, has been made worse as the numbers of Post Offices in the UK have reduced from 19,000 in 1997 to around 11,500 in 2015.²⁴ Of those more than a third have been relocated from 'Main style Post Office Branches' with POCA ATM machines and withdrawal services to a 'Local style Post Office' which often consist of single counters housed within shops without POCA ATMs or a money withdrawal service.²⁵ Research carried out by the National Federation of Sub-Postmasters in 2013 found many Post Office branches and retail outlets were under serious threat. Responses to 743 questionnaires revealed just 17 percent of sub-postmasters said they could see a strong future for their business.²⁶ Compounded by not being provided access to online banking, a reduced Post Office ATM presence has a significant impact on POCA account holders.

A leading charity told us that there is a problem with the lack of free ATMs in areas where there are large numbers of people from disadvantaged backgrounds. There are 957 small communities in England and Wales with more than a quarter of residents that receive state benefits who live more than 1km away from a free-to-use ATM.²⁷ When presented with the increased costs in terms of time and inconvenience of getting to a distant free-to-use ATM, some people decide to use a nearby pay-to-use cash machine.²⁸

- 19 <https://policis.com/pdf/banking/HMT%20Newly%20banked%20and%20'unbanked'%20research%20final%20report%20090810.pdf>
- 20 http://www.link.co.uk/SiteCollectionDocuments/Toynbee_Hall_Executive_Summary.pdf
- 21 Analysis of data from the Payments Council
- 22 http://www.link.co.uk/SiteCollectionDocuments/Toynbee_Hall_Full_Report.pdf, p.4
- 23 Help the Aged (2006), *Losing the Post Office Card Account: How future changes may affect older people.*
- 24 <http://www.dailymail.co.uk/news/article-1383302/Royal-Mail-sell-spell-end-9-000-post-offices.html>
- 25 <http://corporate.postoffice.co.uk/modernising-post-office>
- 26 <http://www.bbc.co.uk/news/uk-22494919>

2.2.1.2 The 'unbanked' are less able to access digital services

At the same time, many people do not have access to online services owing to a lack of affordability or digital skills, low connectivity, illness or disability and would be left out as banking moves towards being more digitally focused. 16 percent of the population remain 'non-users' of the internet and therefore would be excluded from digital banking and other online services. There is a high degree of digital exclusion amongst those on the lowest incomes, and especially amongst the 'unbanked':

- 61 percent of the 'unbanked' have no landline telephone;
- 74 percent of the 'unbanked' use a pay-as-you-go mobile phone;
- 36 percent of the 'unbanked' has access to the internet; and 8 percent of the 'unbanked' are profoundly digitally excluded – having no landline, mobile phone, internet or broadband access.²⁹

This reinforces the importance of cash as a form of payment for these groups.

2.2.2 Universal Credit

Changes to welfare reform, in particular Universal Credit (UC), are also expected to have an impact on cash use in the coming years and could increase dependency and the need for good accessibility to cash. UC will replace six separate benefit payments which previously have been paid at different frequencies. This will be replaced by a single monthly electronic payment. This will mean, for example, that instead of being paid directly to a landlord, housing benefit will go straight to the recipient. As those from low income families often budget with cash it is likely that as the UC rollout continues, cash dependency will increase as recipients have to manage various payments across a month from one initial payment. There are also other exclusion issues with UC, for example, it can only be managed online, and can only be paid into a bank account – internet access and access to a bank account are things that many of those most vulnerable do not have. However, the DWP has said that it will allow people alternative access routes if required.³⁰

At our roundtable event, one Cabinet Member from a London Council said that their authority has already brought forward a Financial Inclusion strategy to help people with managing their own budgets. This involved engaging with credit unions, the financial services sector and post offices to provide such advice to people. Given that people on benefits are more likely to be reliant on cash and the fact that their reliance is likely to increase given the importance of budgeting for UC recipients, the availability of cash is likely to remain important for this cohort of people.

2.2.3 Those new to banking also rely on cash

It is not just people who are 'unbanked' that rely on cash; it is also the 'newly banked'. These are people who have opened a bank account in the last five years either as their first ever account or after having fallen out of banking for an extended period of time.³¹ Forty-three percent of the 'newly banked', rising to 53 percent for those on the lowest incomes, continue to manage their money through the use of cash alone.³² Resistance to electronic payment channels is primarily driven by fear of penalty charges and because it is easier, more immediate and more flexible to budget in cash. A Treasury survey of people new to banking published in 2010 found that, as a result of exposure to penalty charges, half were financially worse off as a result of using transactional banking facilities to manage their money.³³

27 http://www.link.co.uk/SiteCollectionDocuments/Toynbee_Hall_Full_Report.pdf, p.4

28 bid, p.19

29 Ipsos Mori, 2014. Media Literacy: Understanding Digital Capabilities

30 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/220177/universal-credit-wr2011-ia.pdf

31 This does not include those who opened an account when turning 18 years old, becoming a student or starting their first job.

32 <https://policis.com/pdf/banking/HMT%20Newly%20banked%20and%20'unbanked'%20research%20final%20report%20090810.pdf>

33 <https://policis.com/pdf/banking/HMT%20Newly%20banked%20and%20'unbanked'%20research%20final%20report%20090810.pdf>

2.2.3.1 Cash budgeting

Cash budgeting offers a high degree of transparency, security and flexibility that is not delivered by account-based money management. The Financial Inclusion Taskforce observed that, "Eight in ten of the newly banked who have maintained a cash budget have done so because 'with cash you know exactly where you are.'³⁴ This trend was also noticed by a Toynbee Hall report on financial exclusion which stated that:

While the people who took part in our qualitative research had their income paid into a bank account, relatively few made use of transactional banking facilities. They would rather withdraw the money from their account and use cash for essential spending. For some, this meant withdrawing small amounts of money from their account throughout their budgeting period. This enabled them to cover expenses as they arose, without running the risk of taking out more money than they needed and leaving themselves short at the end of their budgeting period.³⁵

Account-based money management on the other hand, can present significant risks and costs for those with low or unstable incomes. Account-based money management is less transparent and predictable, in terms of when payments are made and received into their account and, consequently, account holders can find themselves unclear about the amount of money they have left. The Financial Inclusion Taskforce study concluded that:

While banking brings clear benefits, there is also a relatively large body of low income consumers who are happy to operate in cash and/or comfortable with their existing POCA facilities. They are able to manage their finances effectively within that context and not only show little demand for banking services, but active resistance to banking. Replacing cash budgeting with account-based money management exposes people to a degree of risk and complexity which is not always off-set by the benefits of being banked.³⁶

One senior local government figure told us that people find it more challenging to budget when making card payments, as it is difficult to keep track of day-to-day spending. This puts people in greater risk of getting into debt.

34 <https://policis.com/pdf/banking/HMT%20Newly%20banked%20and%20'unbanked'%20research%20final%20report%20090810.pdf>

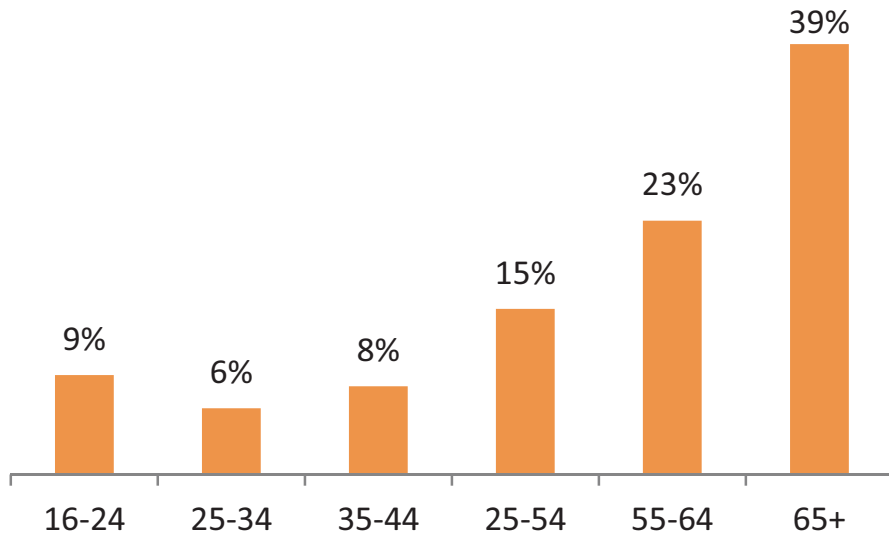
35 http://www.link.co.uk/SiteCollectionDocuments/Toynbee_Hall_Full_Report.pdf,

36 <https://policis.com/pdf/banking/HMT%20Newly%20banked%20and%20'unbanked'%20research%20final%20report%20090810.pdf>

2.2.4 Older people rely on cash

Of those 1.6 million people in the UK who rely on cash, nearly 40 percent are aged 65 or over and the average age of consumers reliant on cash is 57. Younger people are far less likely to rely on cash in making their day-to-day purchases (see figure 8).³⁷ Cash remains very important to them and the infrastructure they rely on, according to figures from local government and the charity sector that we interviewed. Older people often prefer to use cash for smaller payments, such as when buying a newspaper or a cup of coffee. Moreover, those aged over 75 are less likely to use card payments and more likely to use card to pay for groceries than those under 75.³⁸

Figure 8: Consumers reliant on cash by age 2014



A reduction in the amount of cash in circulation could have a significant impact on the elderly. Age UK have highlighted digital exclusion as being a particular problem for older people. Over two thirds of all digital exclusion is amongst those aged over 65 and this figure rises 82 percent for those over 55.³⁹ A campaigner for older people told us that if we continue to move towards a cashless society, this will shortly become a problem for older people as they struggled to adapt to using new payment methods. Lessons can be learned about this from Sweden, which has been leading the change towards a cashless society (see case study on page 15).

37 Payments Council, UK Cash and Cash Machines 2015, p.14

38 http://www.friendsprovidentfoundation.org/wp-content/uploads/2013/03/Age_UK_-_The_Way_We_Pay_-_Full_Report.pdf, p.16

39 <http://www.ageuk.org.uk/Documents/EN-GB/For-professionals/Research/Age%20UK%20Digital%20Inclusion%20Evidence%20Review%202013.pdf?dtrk=true>

Case Study: The Swedish Experience

Sweden has been leading the change towards becoming a cashless society and is ahead of other countries. Four out of five purchases are now made electronically, even homeless street magazine sellers only accept payment by card. There is, however, concern about how well Sweden's 1.8 million pensioners – out of a total population of 10m – will adapt. PRO is the largest association for older people in Sweden with membership of over 20 percent of the old-age population in Sweden.

PRO believes that a society without cash is a serious problem for their members. They fear that the technology required for society to go cashless excludes a large group of people – especially older people. For example, bus tickets can only be purchased by mobile phone or by card, and cash can not be used for admittance to public toilets. Five out of the six major Swedish banks operate cash free where possible and many shops require debit or credit cards for purchasing goods.⁴⁰

Older people however, are still reliant on cash. Only 50 percent of PRO's members regularly use cards for purchases and only 50 percent have access to the internet. 7 percent have no bank account at all and 80 percent of PRO's members rely on cash machines.

PRO neither can, nor wants, to stop the development, but wants to provide a clear message to the Swedish government to be aware of the consequences of a cashless society for old people. They argue that it is not a consumer driven development and suggest that there has to be cash in society as long as there are people who want to use it. They have issued the Swedish Government with four specific demands:

1. The ability to pay bills through the postal service must remain;
2. Access to cash must be guaranteed as long as there is a need;
3. Financial institutions should provide a rural cash delivery service for those who live far away from cash machines or banks;
4. Greater information and education about new forms of banking (such as telephone banking, direct debits and internet banking);
5. To help its members cope with the technological transition to a cashless society the PRO is running free familiarisation courses in how to use a computer or a smartphone.

These concerns have been heeded by the country's central bank. In a statement submitted to the Ministry of Finance's consultation on access to accounts with basic functions, the Riksbank called for the Swedish Parliament to introduce a legal duty on banks to provide cash service as a basic feature of payment accounts. The Riksbank argues that Sweden banks have reduced their cash handling services too fast, resulting in a lack of cash services in less populated areas in particular, but also for the public in general.⁴¹ It is not clear how the Swedish Government will react to this development.

⁴⁰ <https://www.kth.se/en/itm/nyheter-old/nyheter/niklas-arvidsson-i-bloomberg-tv-om-ett-kontantlost-sverige-1.516862>

⁴¹ <https://www.finextra.com/newsarticle/28635/swedish-central-bank-calls-halt-on-moves-to-a-cashless-economy>

3. What is changing the role of cash?

Having addressed how cash is used (Chapter 1) and its importance for local economies and communities (Chapter 2), the following chapter will address the emerging challenges to the availability and use of cash.

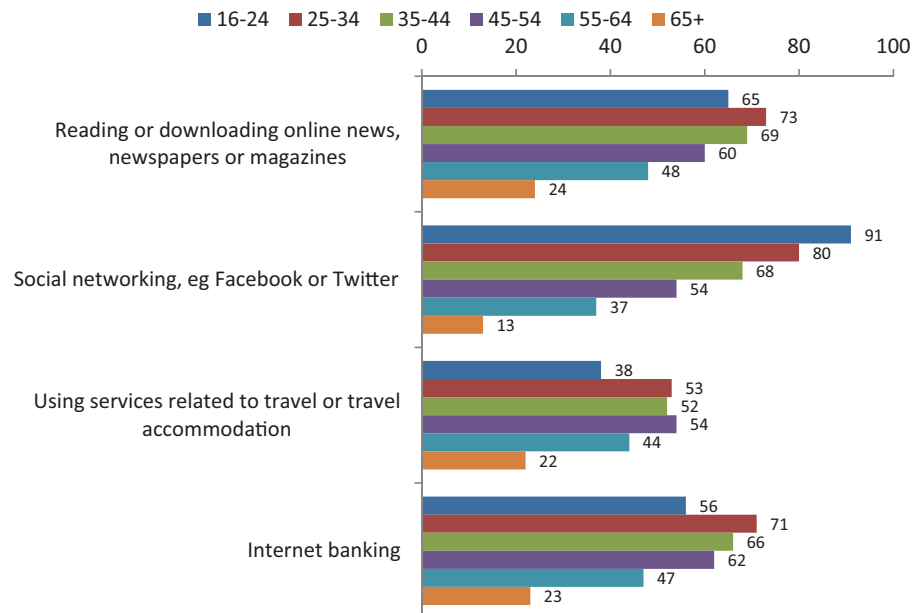
3.1 The impact of growth in on-line banking

A factor that has had an important impact on the role of cash in local economies is the growth of online banking. Online banking is fundamentally changing the way we manage our money and make payments. The ONS estimated that in 2007 only 30 percent of UK adults used online banking. By 2014 this figure had increased to 53 percent.⁴²

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With more and more people banking online in the UK, especially amongst those aged 16-64 (see figure 9), the demand for traditional bank services is reduced. With customers now performing billions of transactions remotely each year, this is having an effect on the number of high street branches, and as a result access to cashpoints and other financial services. Since 2010 the Royal Bank of Scotland has reported a decline in branch usage by 30 percent.⁴³ According to the consultancy firm CACI, current account customers visited their bank branch 427 million times last year, compared with 1.6 billion logins to accounts via mobile apps and computers. The number of branch visits is expected to fall to 268 million by 2020, while online banking via mobile apps and computers is set to increase to 2.8 billion.⁴⁴

Figure 9: UK Internet activities by age (2014, %)



Source: http://www.ons.gov.uk/ons/dcp171778_373584.pdf, p.5

42 http://www.ons.gov.uk/ons/dcp171778_373584.pdf, p.5

43 <http://news.sky.com/story/1401276/cable-warns-bank-bosses-on-branch-closures>

44 <http://www.ft.com/cms/s/0/a7d81bb0-e609-11e5-bc31-138df2ae9ee6.html#axzz42UUu1qcm>

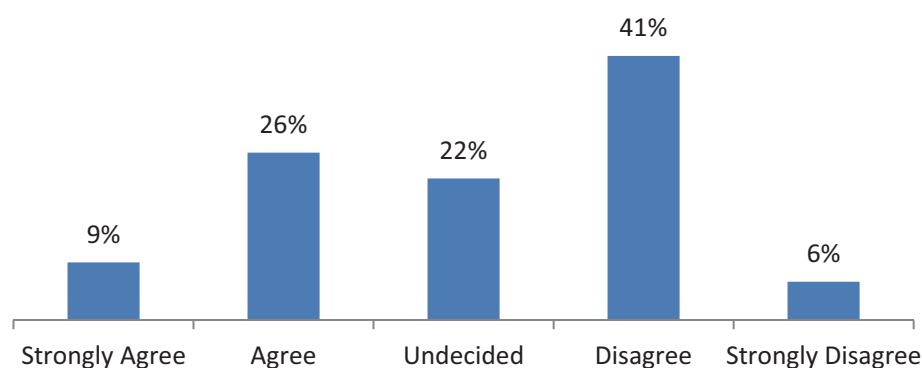
The British Bankers' Association has warned that further online banking technology adoption would lead to the closure of hundreds more branches, stating that "dramatic increases in the number of people banking on their smartphone means many banks are seeing a decline in the number of people coming through their branch doors."⁴⁵ Britain's biggest banks closed 650 bank branches in 2015 – more than 12 branches per week - compared with 500 in 2014 and 222 in 2013.⁴⁶ It has been reported that between 1990 and 2014, more than 46 percent of all bank and building society branches closed – a net loss of 8,289 branches.⁴⁷ Antony Jenkins, the former chief executive of Barclays, has warned that technology is an "unstoppable force" and that banking is reaching its "Uber moment" with technological advances leading to hundreds of branch closures and a possible halving of people employed in the sector.⁴⁸

The increasing number of online payments and transfers also reduce the amount of cash individuals carry and banks process. It is not unreasonable to imagine future banks being cashless. In Sweden, which is regarded as one of the most cash-free societies, many cashless banks are already operating – much to the disappointment of a bank robber in Stockholm in April 2013 who had to leave empty handed.⁴⁹

3.1.1 Effect of bank branch closures

Whilst various surveys, including our own, have shown that the closure of bank branches is currently a relatively localised problem, it is likely that as popularity of online banking continues to increase and more banking services are offered digitally, this will become a much more significant issue as it will reduce the need for brick and mortar banks. Over a quarter of high street retailers surveyed by Populus already believe that their customers have started shopping elsewhere, to enable them to bank and shop at the same time, and over a third of local government leaders we surveyed thought that a reduction in the number of high street bank branches has created cash accessibility problems in their local authority area (see figure 10).

Figure 10: Do you think the reduction in the number of high street bank branches has created cash accessibility problems in your local authority area?



⁴⁵ http://www.express.co.uk/news/uk/558353/Elderly-people-hit-hardest-plan-shut-500-bank-branches?_ga=1.126506957.1977939940.1441117185

⁴⁶ <http://www.mirror.co.uk/news/uk-news/britains-biggest-banks-closing-more-7076372>

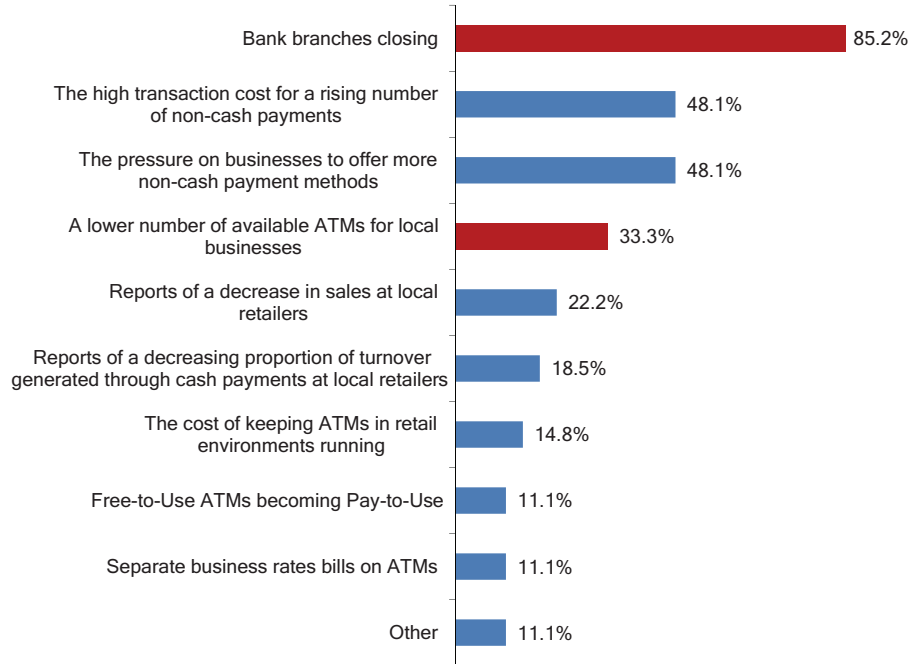
⁴⁷ http://www.communitybanking.org.uk/report_reduction_2014.htm

⁴⁸ <http://www.theguardian.com/business/2015/nov/25/banking-facing-uber-moment-says-former-barclays-boss>

⁴⁹ <http://www.thelocal.se/20130422/47484>

Of those local government leaders who indicated that they were aware of concerns from local businesses about the accessibility of cash, 85 percent indicated that the concerns were due to bank branches closing. A further third indicated that they had concerns that the number of local ATMs was falling (see figure 11).

Figure 11: If you have identified concerns from local businesses about the lack of access to cash in your local authority area, please identify from the list below the concerns from local businesses that you are aware of:



Rural areas are particularly challenged by the growing number of bank closures. It has been estimated that there are now 1,260 communities without a bank in the UK. In 2014 the Campaign for Community Banking Services reported that 479 bank branches closed and these included 124 which were the last banks in the community.⁵⁰ A Council Leader at our roundtable said that the closure of banks in rural areas presented a problem for businesses, as it meant that they had to go to a neighbouring town to access cash and do their banking. See the case study on the next page for an example of how bank closures have affected local businesses and people in Glastonbury.

In May 2015 the banking industry introduced a protocol on branch closures, which states that "where banks determine there is a continuing need for services, suitable alternative banking methods will be put in place before the branch is closed...Consideration will be given in particular to ensuring the continuity of small business relationship management, and enabling branch users to check balances, make cash withdrawals, and make cash and cheque deposits."⁵¹ Given the voluntary nature of this code and the fact that banks are free to suggest that a bank in a nearby town can provide these services to customers, it is open to question whether the protocol currently gives sufficient protection to communities affected by the closure of bank branches.

50 <http://www.communitybanking.org.uk/press12-01-15.htm>

51 <https://www.bba.org.uk/download-file/?f=eyJ1cmwiOiJodHRwczpcl1wvd3d3LmJiYS5vcmcuZWVicl3dwLWVnbmRlbnRcL3VwbG9hZHNcLzlwMTVcLzAzXC9BY2Nlc3MtdG8tQmFua2luZy1Qcm90b2NvbC5wZGYi>

ATMs have often plugged the gap in local areas where banks and Post Offices have withdrawn. One council leader we interviewed told us that "this is especially the case in smaller villages and towns in my area where banks and post offices have closed and low income areas in particular have disproportionately borne the brunt of these closures. For example, in a small town where the bank and Post Office have shut, a local shop with an ATM is an essential service as it is the only way for local businesses to deposit cash, get change or recycle cash."

Case Study: Bank Branch Closures in Glastonbury

Glastonbury, a town of 10,000 people with a surrounding area containing a further 10,000 residents was, in Spring 2016, left with no bank whatsoever, with the three remaining bank branches in the town closing within 12 weeks of each other. While the impact of this was mitigated by the installation of two new ATMs on the high street,⁵² residents and businesses will still have to travel 2.5 miles to Street, or further afield to Wells, in order to deposit cash and access other banking services. According to local MP James Heapey, this will be especially challenging for the town as it does not have particularly well developed public transport routes, serves a rural area with poor broadband and mobile signals, and has a large number of elderly and vulnerable customers who are either not mobile enough to travel elsewhere for their banking, and/or lack the confidence and skills needed to bank online.⁵³ Mr Heapey is exploring whether banking services could be provided through the local Post Office or a new community bank in the long-term. However, given the challenges involved with either of these options, he has also called on the banks to meet their responsibilities under the industry's protocol on branch closures.

3.2 The wider adoption of payment cards

Greater consumer adoption of cards as a method of payment and lowering costs of card terminal technologies has increased the number of retailers who can accept card payments, thereby reducing the need to carry cash day to day and continuing the migration away from cash and cheques. Overall, debit and credit cards now make up a 76 percent share of total retail sales in the UK, up from 52 percent in 2004.⁵⁴

A number of recent app-based technological innovations have improved business access to Chip and PIN readers. For example; PayPal Here, iZettle, SumUp and Payleven⁵⁵ allow small businesses with a smartphone or tablet to accept debit or credit card payments for little or no upfront costs, but instead charging them a percentage fee on transaction costs (around 1-4 percent).⁵⁶ Africa has also led the way in developing mobile payment technologies, which allow people who do not have bank accounts to pay for goods or services using their mobile phone.⁵⁷

⁵² <http://www.radstockcoop.co.uk/blog/glastonbury-gets-two-new-atms>

⁵³ http://www.jamesheapey.org.uk/sites/www.jamesheapey.org.uk/files/letter_to_bank_chief_execs.pdf

⁵⁴ http://www.theukcardsassociation.org.uk/news/Contactless_surgeJan2015.asp

⁵⁵ <http://www.mobiletransaction.org/paypal-here-review/>

⁵⁶ <https://www.paypal.com/uk/webapps/mpp/credit-card-reader>

⁵⁷ <http://www.economist.com/news/economic-and-financial-indicators/21618842-mobile-money-developing-countries>

Whilst adoption rates are elusive, the lowering access of card-reading technologies will play an important part in changing the role of cash in the local area, especially for small businesses. Where cash was traditionally the reserve for low value items, contactless technology on debit and credit cards is quickly establishing itself as a popular payment method, with some banks offering cash back incentives for payments made by contactless card.⁵⁸ According to the UK Cards Association, a record £2.32bn was spent in 2014 by consumers with contactless cards, with the average transaction worth £8.26.⁵⁹ This was a 255 percent increase on the previous year's figure of £653m and more than double the six previous years' spending combined. Nearly one in three card transactions in London in 2014 were contactless.⁶⁰

3.3 ATM taxation changes

In 2013 the Valuation Office Agency (VOA) created backdated rateable values for 12,196 ATMs across the country – such as those located in convenience stores and on petrol station forecourts – but not those operated by banks.⁶¹ This means that these ATMs are viewed as a wholly separate unit of assessment for rating purposes – significantly changing the tax regime facing ATMs. The charges are being back-dated to 2010 and the typical annual bill has been estimated to be around £6,000.⁶²

The Financial Times reported in February 2015 that UK supermarkets were facing £200 million of business rates on their in-store cash machines based on charges from 2010 to 2017.⁶³ And the Association of Convenience Stores has suggested that 15,000 retailers were "on the edge of profitability" and the changes would leave them with a difficult choice between removing the machine and laying off a part-time member of staff.⁶⁴ This may be particularly the case in rural communities.⁶⁵

An ATM industry representative at our roundtable predicted that the impact of these tax changes could make many thousands of FTU ATMs unviable, leading to some ATMs becoming PTU or being removed entirely. The Financial Inclusion Centre, an independent think-tank, said that this would be concerning because "charges for ATM withdrawals disproportionately hurt financially excluded, lower income households".⁶⁶

3.4 Online shopping

Another significant factor in driving changes to the role of cash in local economies is the movement to shopping online. The convenience of browsing and comparing a wide selection of products 24/7 offered by computers, smartphones and tablets is creating new forms of consumer behaviour and reducing reliance on cash as purchases have to be made by card. This has fundamentally transformed the way that people shop. According to the Office for National Statistics, 74 percent of adults had bought goods or services online in 2015 compared to only 53 percent of adults in 2008. The percentage of retail sales made online in April 2015 was 12 percent, compared to only 4 percent in 2008 (see figure 12).⁶⁷ The value of internet retail sales in a week alone averaged £734 million a week in May 2015.⁶⁸

The greatest impact of online shopping on the high street has been felt by the non-food sector – in particular books, music and video shops, electrical stores, department stores and fashion retailers. However grocery orders, once the preserve of supermarkets and high streets are also being made online more and more often.

58 <http://www.thisismoney.co.uk/money/saving/article-3266330/TSB-adds-125-cash-sweetener-5-paying-Classic-Plus-current-account.html>

59 http://www.theukcardsassociation.org.uk/news/Contactless_surgeJan2015.asp

60 <http://www.theguardian.com/money/2015/feb/12/contactless-card-payment-limit-rise>

61 www.ft.com/cms/s/0/e37686a8-ad51-11e4-a5c1-00144feab7de.html#cd=3&hl=en&cl=clnk&gl=uk

62 <http://www.telegraph.co.uk/news/shopping-and-consumer-news/11804515/Free-cash-machines-outside-shops-to-disappear-within-a-year.html>

63 <http://www.ft.com/cms/s/0/e37686a8-ad51-11e4-a5c1-00144feab7de.html?siteedition=uk#axzz3iml29X3l>

64 <http://www.telegraph.co.uk/news/shopping-and-consumer-news/11804515/Free-cash-machines-outside-shops-to-disappear-within-a-year.html>

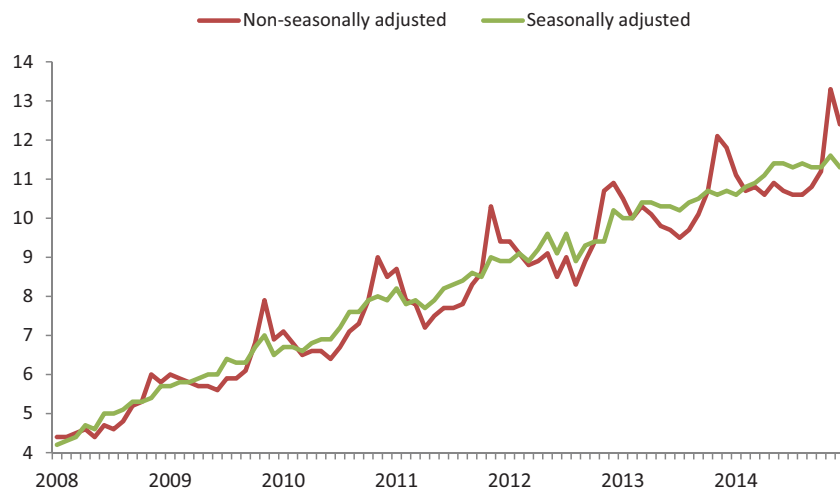
65 <http://www.ft.com/cms/s/0/e37686a8-ad51-11e4-a5c1-00144feab7de.html?siteedition=uk#axzz3iml29X3l>

66 http://www.theguardian.com/money/2015/aug/14/rates-rule-could-doom-free-atms-outside-shops?CMP=twl_gu

67 <http://www.ons.gov.uk/ons/rel/rdiit2/internet-access-households-and-individuals/2014/stb-ia-2014.html>

68 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/451376/BIS-15-359-consultation-on-devolving-sunday-trading-rules.pdf

Figure 12: The proportion of UK retail sales made online 2008-2015 (%)



Source: Office for National Statistics

This has meant that consumers are less and less likely to purchase higher value items locally resulting in a decrease in a demand for cash. Despite this, there is some evidence to suggest that online shopping can play a complimentary role to businesses on the high street, which have proved resilient to purchases of low value items. For example research commissioned by the Future High Street Forum⁶⁹ in 2014 found that “Click and Collect” offerings are pushing people back to high streets, however often items are paid for already online by card. This research also found that one in six UK SME e-retailers are planning to expand into physical high street stores as they increasingly feel the pressure from online competition for sales.

3.5 Out of town shopping centres

Another factor that has had an important role in changing consumer behaviour and therefore the role of cash in the high street, is the growth of out of town shopping centres and retail destinations in the past decades. Whilst development regulation and planning policy changed significantly in the mid-1990s to try and boost town centres and high streets, out of town shopping centres still dominate local areas. The percentage of retail sales channelled through town centres continues to fall from 51 percent in 2003 to 45 percent in 2013 and the share of retail sales and retail space out of town has also continued to increase.⁷⁰ Like online retail, it has reduced the demand and volume of cash on the high street.

3.6 Cashless councils

Many councils have moved to electronic payments for council services, as some sought to become 'cashless councils'. This has even extended to payments made at parking machines in some areas. There was disagreement among local government representatives we spoke to as to whether this was a positive or negative development; one argued that local authorities should recognise the importance of cash for particular customers who do not want to use electronic payment methods, others suggested that a move to electronic payments was feasible providing that people are assisted in the transitional phase. One Cabinet Member suggested that local authorities should provide such assistance in community hubs, where electronic payments could be made. Another said that local shops were keen to facilitate electronic payments for council services, as people often bought items in these shops when making payments that they would not have otherwise done so.

⁶⁹ University of Southampton, High Street Performance and Evolution (July 2014)

⁷⁰ University of Southampton, High Street Performance and Evolution (July 2014)

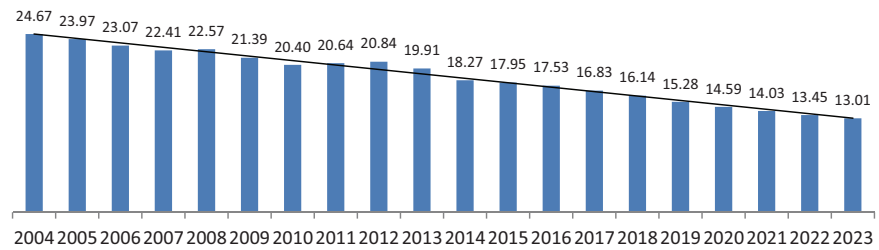
4 What are the future threats to cash (10yrs+)

Having addressed how cash is used (Chapter 1), the importance of cash for local businesses and communities (Chapter 2) and the emerging threats to cash (Chapter 3), the report will now address the future of cash and the options available to support the availability of cash if it significantly threatened in the future.

4.1 Are we moving towards a cashless society?

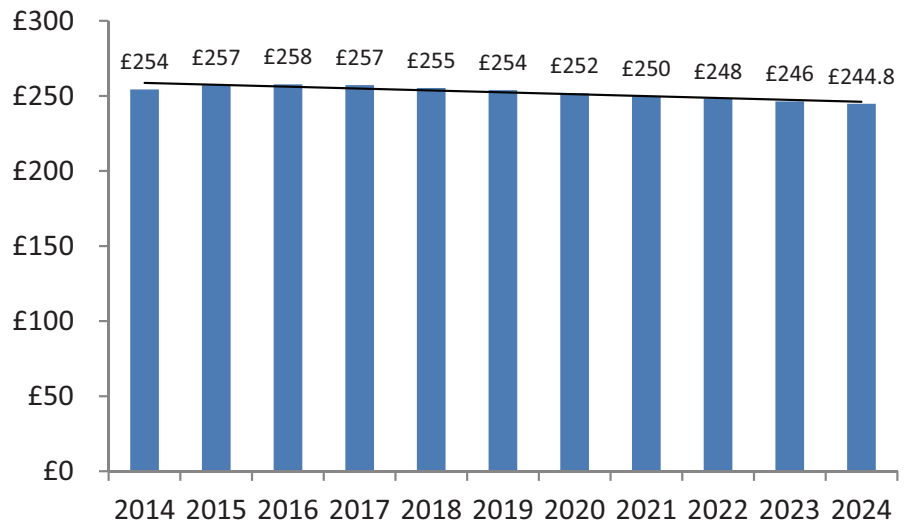
The UK Payments Council predicts that the volume of cash payments will decline from 17.95 billion in 2015 to 13 billion in 2023 (See figure 13). However, even though the volume of those cash payments is likely to decline, their value is expected to remain steady over the same period – declining very slightly by 4 percent from £254 billion in 2014 to £245 billion in 2024 (see figure 14).

Figure 13: Projected volume of cash payments in the UK (Billions)



Source: UK Cash and Cash Machines 2015 (Payments Council) p.8, 11

Figure 14: Projected value of cash payments in the UK (Billions)



Source: UK Cash and Cash Machines 2015 (Payment Council), p.17

The UK Payments Council statistics tally with evidence from the Bank of England, which suggested that the demand for cash is likely to remain substantial for the foreseeable future and the absolute amount of cash used for transactions is likely to remain resilient.

The availability of cash also appears to be secure over the short-to-medium term, with the total number of ATMs steadily increasing and the ratio of FTU to PTU also rising. Many retailers also offer cashback, meaning that people can access cash in shops even if they do not have easy access to a FTU ATM. Nevertheless, given the increasing use of new payment methods and decline in the number of bank branches, it is possible that the use and availability of cash may decline over the long-term.

We have seen with the example of Sweden, how quickly a country can move towards a cashless society. In Sweden the total value of notes and coins in circulation outside banks has declined by 17 percent from 95.8 SEK billions in 2010 to 79.6 SEK billions in 2014.⁷¹ Bills and coins now represent just 2 percent of Sweden's economy, compared to 7.7 percent in the United States and 10 percent in the euro area.⁷² In 2014 20 percent of payments in Swedish shops were made in cash, down from 39 percent in 2010, with Sweden citizens making 269 card payments per person per year on average – the highest of any country.⁷³

Even if we do not see such a transformation in the UK, small pockets of the country could face cash accessibility issues given the rate of decline in the number of bank branches open. People we spoke to from the local government and charity sector emphasised that rural and deprived areas are particularly at risk. To tackle this issue, attendees at our roundtable event suggested that banks, the ATM industry and central and local government stakeholders need to work together to ensure that local people and businesses are still able to access and deposit cash without having to travel long distances.

4.2 What is the UK Government currently doing to support the availability of cash in these areas?

Since 2006 the UK Government has provided non-financial assistance to LINK's Financial Inclusion Programme, which has resolved free cash access within 1,480 deprived areas through more than 900 new FTU ATMs.⁷⁴

In 2014 amid concerns of bank branch closures having a significant impact on villages and towns in the UK, Vince Cable, then Business Secretary, met with the chief executives of the largest UK high street banks to persuade them to commit to not close bank branches in order to prevent "large numbers of villages and small communities effectively being cut off."⁷⁵ However a consensus wasn't reached, and the number of bank branches looks set to continue to fall.

In an attempt to halt the decline in the accessibility of cash in local communities as bank branches shut, DCLG specifically urged local authorities to use discretionary rate relief to boost the numbers of independent (non-bank operated) cash machines on high streets. In October 2014 they wrote to local authority chief financial officers:

"Ministers would like to urge authorities to consider using their business rates local discounts powers to aid access to free-to-use cash machines. Recent reports have **highlighted the difficulties of obtaining cash in certain localities**. We would therefore like authorities to consider using their powers to provide relief to cash machines where there is a clear community benefit, such as where cash machine providers commit to introduce extra cash machines or reduce charges on existing machines. We would also like to remind authorities that, under business rates retention scheme, central government funds 50 percent of the cost of any local discount granted".

71 <https://www.bis.org/cpmi/publ/d135.pdf>, p.355

72 http://www.riksbank.se/Documents/Rapporter/Finansmarknaden/2014/rap_finansm_140829_eng.pdf, p.114

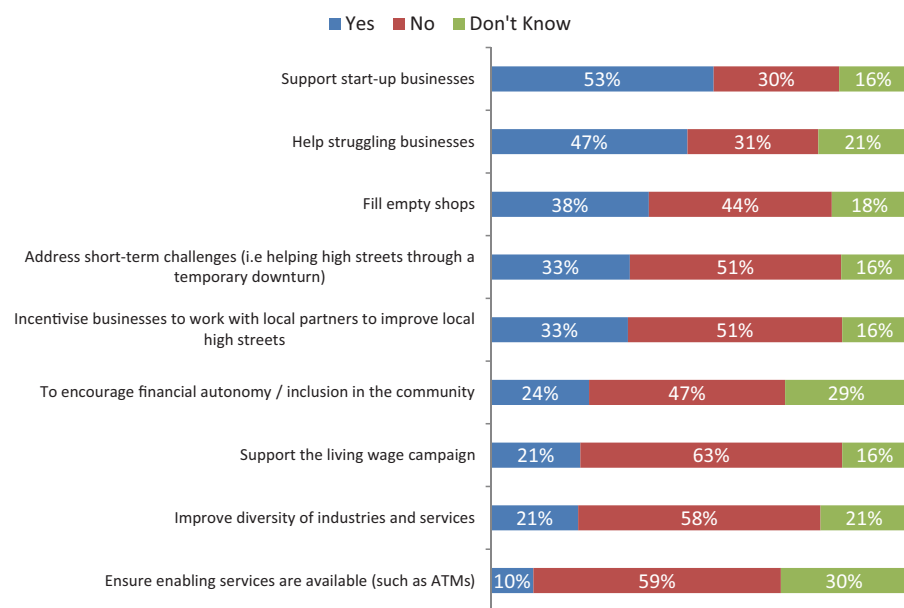
73 http://www.riksbank.se/Documents/Rapporter/POV/2015/2015_3/rap_pov_artikel_2_151120_eng.pdf, p.49-50

74 <http://www.link.co.uk/Media/NewsReleases>

75 <http://news.sky.com/story/1401276/cable-warns-bank-bosses-on-branch-closures>

However, it has been difficult to quantify how many local authorities have actually used this power. Challenged by Hilary Benn MP, the Shadow Secretary of State for Communities and Local Government, in January 2015 on this question, DCLG revealed that it does not collect or record how councils apply local discounts.⁷⁶ To try to get a clearer picture we asked over a hundred local government leaders if they had used discretionary rate relief to ensure enabling services such as ATMs were available. Only 10 percent said they had done so (see figure 15), despite over a third registering that local businesses in their area had complained about reduced access to cash and a fifth thinking that high streets in their area did not have enough cash access points. Nevertheless, given the financial pressures that local authorities are facing, many councils are unlikely to consider funding discretionary business rate relief for ATMs until cash availability becomes a serious problem.

Figure 15: Following the provisions of the Localism Act 2011 have you used discretionary business



4.2.1 Are 'Smart ATMs' an important way of supporting communities affected by bank branch closures?

One local government figure from a rural area suggested that there needs to be more 'Smart ATMs' that enable people to withdraw and deposit cash, as well as pay for services. This would help to enhance the impact that ATMs have when they are installed in response to bank branch closures, given that users would be able to use banking services without needing to travel to the nearest alternative branch.

In 2014 the number of bank cash machines offering deposit facilities was 27 percent.⁷⁷ The provision of banking services, including the depositing of cash, is not widespread amongst independent ATMs. Given that when a bank branch closes in a rural area, the bank's ATMs in the same locality will also be removed, it is important that more independent ATMs in these areas are able to offer a greater number of banking services.

⁷⁶ <http://www.parliament.uk/business/publications/written-questions-answers-statements/written-question/Commons/2015-01-15/220871/>

⁷⁷ Payments Council UK Cash and Cash Machines 2015, p.22
[written-question/Commons/2015-01-15/220871/](http://www.parliament.uk/business/publications/written-questions-answers-statements/written-question/Commons/2015-01-15/220871/)

In the March 2015 budget the Government announced that it "wants customers to be able to deposit as well as withdraw cash from intelligent cash machines, and is working with LINK and its members to explore how the required changes can be made to LINK Scheme Rules."⁷⁸ However, the Government has made no further announcements about this since March 2015 and it was reported at the time that the industry suggested there may be practical challenges in moving to 'Smart ATMs' at the same time as introducing new polymer bank notes.⁷⁹ Therefore it may be some time before these machines are widely available.

4.3 What options are available to policymakers if cash availability is significantly threatened in the future?

As this report has shown there are a number of possible threats to the availability of cash, including the closure of bank branches, threats to the economic viability of ATMs and a lack of accessibility to cash for people and businesses in rural and disadvantaged areas. We now set out some options available to policymakers if any of these problems become more significant in the future.

4.3.1 Closure of bank branches

If bank branches continue to close, as banks seek to reduce their physical presence and increase levels of telephone and online banking, it is clearly important that cash availability is maintained in the areas that are affected. This is particularly so for rural and less affluent communities, which are less able to use online banking due to the inaccessibility or cost of broadband and find it more difficult to access other bank branches due to the lack or cost of local transport options. So if the predictions outlined above about bank closures do prove true, we recommend that:

- The Bank of England works with high-street banks, the ATM industry and local communities to encourage banks to leave a cash availability 'legacy' when they close a branch.
 - For example, they could subsidise a FTU ATM for a number of years and/or commit to support the maintenance of banking services situated in community or commercial premises.
 - Banks should work with the Government and ATM industry to roll out more 'Smart ATMs' in areas where bank branches have closed.
- If most banks persistently fail to provide a cash availability 'legacy' and support the accessibility of other banking services when branches close, the Government should consider whether the voluntary Industrial Protocol on branch closures is fit for purpose and if statutory regulation is necessary as a last resort.

⁷⁸ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/416330/47881_Budget_2015_Web_Accessible.pdf, p.94

⁷⁹ <http://www.telegraph.co.uk/finance/budget/11480960/New-smart-ATMs-for-cash-deposits-planned-for-High-Street-unveiled-in-Budget.html>

4.3.2 Threats to ATMs

The ATM industry has warned that thousands of FTU ATMs may no longer be financially viable and be forced to close due to changes in the rateable values of ATMs. If these predictions prove to be correct, there could be a substantial impact upon the availability of cash for local communities and businesses in some areas, most particularly in remote and deprived areas. The following policy options should be considered if this occurs:

- Local councils and Local Enterprise Partnerships (and other interested bodies such as BIDs) should consider the availability of other sources of cash, including ATMs, in their economic strategies to ensure that they are supporting those retailers/street markets that continue to rely on cash.
- The Government could provide financial support, for example using receipts from the existing bank levy,⁸⁰ to support the work that the ATM industry is already doing (e.g. through LINK's financial inclusion scheme) to ensure that a sufficient number of FTU cash points are installed in remote and deprived areas across the UK.
- The Grimsey review of high streets recommended a one-off levy on the biggest out of town retailers (so-called 'Tesco tax') to generate money to invest in high street infrastructure. In the spirit of devolution, the Government could allow local authorities the power to levy such a tax. If councils were to take up this option, there are of course a wide range of possibilities for how the additional revenue generated by this tax could be spent. One of these would be to use some of it as a resource for investing in the provision of ATMs – either directly or through granting them discretionary business rate reliefs – if the number of ATMs declines significantly.

4.3.3 Supporting vulnerable groups that rely on cash

As shown in Chapter 2.2, there are a number of cohorts of people that particularly rely upon cash as a form of payment. Groups such as the 'unbanked' that are particularly reliant on cash are also more likely to be using council services. If cash availability becomes problematic, councils could consider taking the following steps to support such residents:

- Working with the ATM industry to assess whether community hubs, such as leisure centres, libraries, town halls and one-stop shops might be used as locations for ATMs. It is likely that in the coming years local authorities and parts of the local public sector will increasingly look to co-locate services in community hubs. Such hubs will therefore have a high number of visitors, so potentially providing the footfall necessary to ensure that an ATM achieves a sufficient number of transactions to be commercially viable.
- Using council facilities as places where people can be guided through the process of making electronic payments and acting as venues in which such payments can take place, while also providing information about the importance of budgeting and the particular role that cash can play in helping people to manage their personal finances.
- Mobile phones have been used as a way to support people from deprived backgrounds to make payments and access banking services. This has been particularly evident in Africa, but also numerous applications have been created to facilitate payments on mobile phones in the UK. In order to support this development: The Government should work with the payments industry and mobile phone companies to expand the use of entry-level mobile banking and payments for those without access to bank accounts.

⁸⁰ The bank levy, a permanent tax on banks' balance sheet equity and liabilities, was introduced by the Coalition Government from 1 January 2011. The rate at which it was set was initially 0.078 percent, but had risen to 0.21 percent by 2015. In the Summer 2015 Budget, the Conservative Government announced that it would reduce the rate to 0.1 percent by 2021, but the levy is still expected to raise £2.2 billion by 2020/21.



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