



HM Treasury

Specification of the £1 coin: response to the consultation

March 2015



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ISBN 978-1-910337-82-0

PU1775

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1 Introduction

Background

1.1 At Budget 2014, the government announced its intention to introduce a new and highly secure £1 coin into circulation. The current £1 coin, first issued in 1983, is one of the oldest British coins in circulation. Over time, it has become increasingly vulnerable to counterfeiting. One in every thirty £1 coins is now a counterfeit, generating significant costs to industry, the general public, taxpayers and the wider society.

1.2 The UK takes a transparent and proactive approach to counterfeiting, and the government does not believe that the current rate is critically high (either in absolute terms or relative to levels in other economies). However, cash is central to the overall integrity of a currency, and the costs of a loss of confidence can be very large. It is therefore appropriate for the government to act cautiously and take the initiative in addressing any perceived weaknesses. Circulating coins do need to be periodically replaced and the costs of bringing in a new £1 coin would be much outweighed by the impact of a deterioration in confidence in our currency.

1.3 The government committed itself to arriving at a final specification that maximises the benefits to the UK as a whole, and to introducing the new coin in a way that is manageable for industry. As such, HM Treasury launched a ten-week public consultation on 12 September 2014. This focussed on the physical and material characteristics of the coin, as well as the arrangements for the transition (including timings of the introduction and the period of co-circulation with the existing coin).

1.4 This document summarises the responses received through the consultation process, and sets out the government's subsequent position.

Consultation questions

1.5 The consultation document asked for responses to the following set of specific questions:

1. Do you have any views in relation to the four key security features proposed at Budget 2014 (12-sided, bi-metallic, bi-colour and The Royal Mint's new anti-counterfeiting technology)?
2. (a) Is there a point within the specified diameter range which you consider to be optimal?
(b) Is there a point outside of the diameter specified range which you feel ought to be considered?
3. (a) Do you have any views on the government's preference for a nickel-brass outer and nickel-plated steel inner, or on the alternative composition specified?
(b) Is there a metallic composition other than that proposed which you feel ought to be considered?
4. Do you have any views on the relative merits of sharp or rounded corners?
5. Do you have a view on which feature of the thickness and weight of the coin should be specifically determined and, if so, what measurement should this take?

6. (a) Would you like to comment on any of the identified transition effects associated with introducing a new and highly secure £1 coin?
(b) Are there any other potential transition effects that you feel should be brought to the government's attention?
(c) Do you have any views on the equalities impacts of the proposals?
7. (a) Do you have any views on the proposed timing of the introduction of the new £1 coin in early 2017?
(b) Do you have any views on the expected period of co-circulation with the present £1 of six months?

1.6 The consultation also invited wider comments or observations, with prospective respondents encouraged to provide any supporting rationale and relevant data that might help to shape the decision making process.

Stakeholder engagement

1.7 Further to the request for written submissions through the consultation, HM Treasury, with the support of the Royal Mint, sought to identify and engage with potentially affected stakeholder groups. These engagement activities included:

- appearances at industry forums and conferences
- bi-lateral meetings with trades bodies and other key stakeholders upon request
- appearance at a Fulfilling Potential forum¹
- contact with over 200 organisations and/or individuals by email
- joined up engagement with the Bank of England (throughout its work on the scheduled transition to polymer banknotes)
- drawing attention to the consultation through publicity generated by The Royal Mint's competition to design the reverse – the 'tails' side – of the new coin

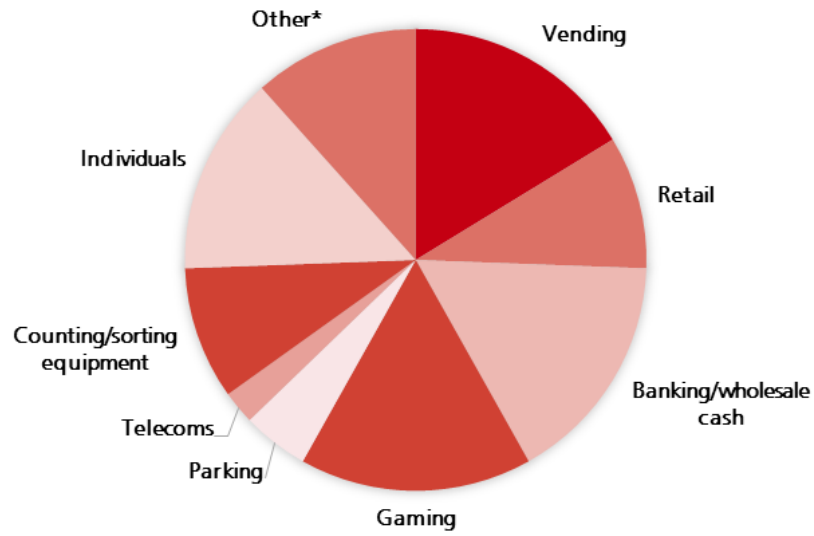
1.8 The government is grateful to all who responded to and engaged with the consultation.

Responses received

1.9 HM Treasury received a total of 43 written responses to the consultation. Chart 1.A provides a breakdown of respondents, by industry where applicable.

¹ The Fulfilling Potential forum brings together around 40 disability charities, including disabled people's user led organisations (DPULOs), and government, to discuss how disabled people around the country can have the best possible opportunities and live independent lives.

Chart 1.A: Breakdown of responses



*Submissions in the 'Other' category included manufacturers of coin lock mechanisms, other small businesses, and a group of schoolchildren which responded.

High level overview and 2 final specification

2.1 Overall, consultees were welcoming of HM Treasury's commitment to reinforce the integrity of the currency through modernising the £1 coin. The responses received covered a range of technical considerations, along with some more subjective personal feedback on the proposals.

2.2 In introducing a new high value coin, there are several priorities which HM Treasury considers in its capacity as the issuing authority, and which were applied during the review of feedback to the consultation. These include ensuring its security, managing the impact to industry, delivering taxpayer value and choosing a design that upholds the dignity of the UK coinage.

2.3 Neither the responses to the consultation nor further testing conducted by The Royal Mint provided compelling reason why the four key security features announced at Budget 2014 should not be incorporated into the final coin. Some concern was expressed in relation to the even-sided shape, namely that its non-constant diameter could impact the rolling behaviour of the coin (and thereby reduce its security through the automatic vending process). However, any key risks to its performance in this sense are mitigated through the introduction of some rounding of the otherwise flat edges and sharp corners.

2.4 Through the consultation, the government has developed a fuller understanding of the case for the new coin's maximum diameter being distinct from that of other UK circulating denominations (including the current £1 coin). Ensuring that it can be easily and uniquely recognised, sorted and exchanged delivers benefits both during and after the initial transition, and so the final specification allows for this.

2.5 Likewise, the government accepts the widely held concerns over the original preference for the use of steel in the inner of the coin. As these reservations have the potential to impact its security, a major driver of the decision to re-coin in the first instance, the government is satisfied that the use of ferrous material in this high value coin is not ideal, and sets out its intention that the final coin should comprise a homogeneous non-ferrous alternative.

2.6 As no consensus emerged on the thickness and weight, the decision here represented a trade-off in light of the fact that one impacts the other (holding fixed the other features of the coin). It is expected that the balance struck by the final specification will be helpful to businesses who need to handle, store and transport large volumes of cash on a daily basis.

2.7 The final specification of the coin is set out in full in Box 2.A.

Box 2.A: Final specification of the new £1 coin

Shape: 12-sided, with rounded edges ('radial chords') and corners

Diameter: Maximum (point-to-point) 23.5mm; minimum (edge-to-edge) 22.7mm

Metallic composition: Nickel-brass outer; nickel-plated homogeneous non-ferrous inner

Thickness: 2.8mm

Weight: 8.61g

Additional features: The Royal Mint's new anti-counterfeiting technology; milled edges²



2.8 There remain further decisions to be taken on the timings of the introduction and changeover. The government's preference remains to issue the new £1 coin in early 2017, and to mitigate avoidable costs and confusion associated with a lengthy period of co-circulation. HM Treasury and The Royal Mint will be working closely with the wholesale cash handling industry to address these issues.

² This relates to the raised edge of a coin, sometimes referred to as a rim. Originally designed and intended to show that none of the metal had been cut or shaved off, milled edges also have the benefit of enhancing the detection of the coin by touch.

3 Summary of responses

Question 1: Do you have any views in relation to the four key security features proposed at Budget 2014 (12-sided, bi-metallic, bi-colour and The Royal Mint's new anti-counterfeiting technology)?

3.1 Respondents mostly welcomed HM Treasury's commitment to modernise the £1 coin, and agreed that the four proposed features announced at Budget would help to achieve this.

3.2 Respondents provided a number of comments on the implications of the three overt security features (i.e. the shape, colour and bi-metallic composition). The vending and parking industries expressed a preference for a round coin, or for a coin with an odd number of sides. They were concerned that an even number of sides could mean that the sensors in validating mechanisms would be presented with a coin of varying diameter. This in turn might make for a need to widen the tolerance of these mechanisms to accommodate inconsistent readings, reducing their precision in detecting counterfeit coins. However, some responses argued that a rounding of the corners could mitigate this effect.

3.3 A manufacturer of coin lock mechanisms, such as those sometimes seen on supermarket trolleys and storage lockers, remarked that a change in shape alone would mean that much of the hardware currently deployed may need to be upgraded in order to ensure compatibility with the new coin.

3.4 However, many respondents felt less well placed to comment on The Royal Mint's anti-counterfeiting technology, and instead requested further information. A number of responses from the vending and gaming industries in particular expressed concerns that the government would mandate that businesses deploy the technology to detect the new security feature, at potentially high cost.

Government response:

3.5 The government was encouraged by the overall tone of the responses and the receptiveness of consultees to the importance of maintaining the integrity of the currency. At Budget 2014, it was felt that the four key security features proposed would help to achieve this through reinforcing the security of the £1 coin. The responses to this consultation suggest broad support for this, and as such it remains the government's intention that the new coin should include all four features.

3.6 The government acknowledges the concerns over the performance of a coin with a non-constant diameter through the automatic vending process. Testing conducted by The Royal Mint, in partnership with a number of respondents, confirmed that these reservations were well-grounded for a 12-sided coin with flat sides and sharp corners. However, the introduction of rounded edges ('radial chords') to the design led to a significant improvement in its rolling behaviour, to a level consistent with that required by existing equipment.

3.7 It is not expected that all industries will have the technology in place to detect The Royal Mint's new high security feature from the date of introduction. Technology has been developed for this to be detected at cash centre level, and the government supports any efforts on the part of operators to embed this into their existing processes. Meanwhile, good progress is being made to facilitate detection at the point of sale. It is expected that the new £1 coin will be in circulation for many years, and that the technology to detect this feature will be developed and adopted across the cash cycle over time. In terms of counterfeits, this will both prevent their entry into circulation, and allow for their more effective withdrawal.

3.8 The government acknowledges that a shaped coin may present a challenge to existing coin lock mechanisms configured to accept the current £1 coin only, and so will continue to engage with manufacturers in order to mitigate potential disruption. However, responses to the consultation indicate that the long lead-in time means that upgrading should be possible at a modest cost (and manufacturers may choose to offer this as a complementary or routine service). The consultation process also highlighted a number of alternative and innovative solutions currently in the marketplace for coin lock mechanisms, many of which have been driven by the retail and leisure sectors.

Question 2: (a) Is there a point within the specified diameter range which you consider to be optimal?

(b) Is there a point outside of the diameter specified range which you feel ought to be considered?

3.9 A number of respondents stressed the importance of the maximum diameter of the coin being distinct from that of other UK circulating coins. This would ensure that the new £1 coin can be easily recognised, sorted and exchanged (both by automated machines and manually). Consultation responses from the banking sector and cash handling industry also valued this distinction, and added that a diameter different to the existing coin would also be helpful to aid the segregation of the old and new coin during the changeover period.

3.10 Some respondents, especially within the retail sector, expressed reservations over a coin with a significantly larger diameter than the existing piece, on the basis that this would mean a greater requirement for storage capacity in order to hold a stock or float of the same value on site.

3.11 Manufacturers of coin accepting and validating machines typically favoured either no change to the existing diameter, or a size towards the lower end of the range that the government consulted on. However, their stronger concerns were around the metallic composition and rolling behaviour of the coin, the latter primarily a function of its shape rather than its size.

3.12 Some comments from individuals noted that a larger coin may improve the rate of detection of counterfeits at the point of sale, as the overt security features would effectively be magnified. This could be particularly valuable for the partially sighted.

Government response:

3.13 Based on the responses received, and the further analysis conducted by The Royal Mint, the government has concluded that the need for the new £1 coin to be uniquely identifiable within the range of UK denominations on an ongoing basis is critical. In addition, the ability of cash centres, as well as their customers (in the retail, banking and other industry sectors), to effectively segregate new and old coin during the period of transition will help to minimise the duration of the co-circulation period. This is important in managing the costs to many businesses.

3.14 In order to achieve optimal differentiation from both the current £1 coin (22.5mm) and the ten pence piece (24.5mm), the government has therefore decided that the maximum diameter of the new £1 coin, as measured from point to point, should be 23.5mm – the midpoint of the range consulted on. The minimum diameter, as measured from edge to edge, will be 22.7mm.

Question 3: (a) Do you have any views on the government's preference for a nickel-brass outer and nickel-plated steel inner, or on the alternative composition specified?

(b) Is there a metallic composition other than that proposed which you feel ought to be considered?

3.15 Responses on the metallic composition of the coin did not raise any objections in relation to the preference for a nickel-brass outer.

3.16 There was, however, wide consensus, led by the vending and parking industries, that the inner of a new bi-metallic £1 coin should not be composed from a steel substrate. Validating sensors in many vending machines rely on a reading of the electromagnetic signature (EMS) of the coins, and due to the greater variability in EMS readings for steel these would need to be set with a much wider tolerance window. This in turn would reduce the accuracy of the sensors and so and leave the coin more susceptible to a counterfeit threat. A further security concern was around the wider availability of steel as opposed to some alternative metal alloys, which could make it easier to source the correct materials to manufacture counterfeit coins.

3.17 One consultee from the gaming industry also commented that a non-magnetic core is preferred, so as not to risk damaging magnetic-equipped coin accepting and validating mechanisms.

3.18 A major vending machine manufacturer suggested in its response that the most secure options for the inner of the new coin are either a cupronickel alloy or a clad structure³ exhibiting a unique electromagnetic signature.

3.19 One response stressed that HM Treasury should be confident that there is no scope for nickel allergies to be irritated by the new coin.

Government response:

3.20 In light of respondents' views, the government will proceed with a coin featuring a nickel-brass outer. This will allow the coin to perform to the required level through the automatic vending process, as well as helping to deliver the desired appearance. In addition, it will allow The Royal Mint to recycle metal obtained from withdrawn £1 coins of the existing specification (which is constructed from a nickel-brass alloy), for use in the production of new stock.

3.21 On the other hand, the government is satisfied, on the basis of the responses received and further testing conducted by The Royal Mint, that the preference set out in the consultation, for a nickel-plated steel inner, could compromise the security of the coin to the extent that an alternative substrate must be considered. The lead option at this stage is to use a plated homogeneous non-ferrous alloy in this component of the coin.

3.22 The government has no reason to believe that the use of nickel plating, which would incorporate The Royal Mint's new high security feature and will help to achieve the desired colour contrast, presents a health concern to coin handlers. In response to concerns of an allergic response initially raised following the conversion of the five and ten pence coins from cupronickel to nickel-plated steel, independent tests concluded that there is no increased risk to people handling nickel-plated coins.

Question 4: Do you have any views on the relative merits of sharp or rounded corners?

3.23 Some operators of automated coin accepting and processing equipment suggested that rounded corners may have the benefit of smoothing the travel of the coin, although many

³ Clad metal structures comprise multiple layers of metal permanently bonded together into a single strip.

deferred to the judgment of manufacturers on this particular issue. Testing conducted by and with these manufacturers found that the incorporation of radial chords should reduce variability across a range of readings, including diameter and thickness, when the coin is in transit.

3.24 Responses from the vending industry set out that slightly rounded corners would limit the wear and tear on the internal carriage tubes and potentially decrease the likelihood of jamming in 'hopper' mechanisms, which control the dispensing of change.

3.25 User testing carried out as part of a report commissioned by The Royal Mint from the Royal National Institute of Blind People (RNIB) showed no significant difference in practice between the recognition of samples with rounded and sharp corners.

3.26 Some individuals who responded queried whether sharp corners would wear over the lifetime of a coin in any case, suggesting that it may therefore be logical for them to be rounded at the point and time of issue. This would also have the added benefit of reducing the chances of their wearing holes in clothing (for example trouser pockets).

Government response:

3.27 The desired rolling behaviour and security of the 12-sided coin will be guaranteed through the incorporation of radial chords. This introduces a natural rounding of the corners, which the responses suggest will have the added benefit of reducing the wear and tear on machinery and clothing. Although The Royal Mint is confident that a sharp-cornered coin would not have worn to an extent that led to unacceptable variation in sensor readings, any such effect is certainly lessened through a slight rounding at the point of issue.

3.28 Neither the radial chords nor rounded corners compromise the appearance of the new 12-sided coin, which resembles the old 'threepenny bit'.

Question 5: Do you have a view on which feature of the thickness and weight of the coin should be specifically determined and, if so, what measurement should this take?

3.29 Respondents in the vending industry, as well as manufacturers and operators of other coin accepting equipment, generally expressed a preference for a coin of the same or a lesser thickness to the existing £1 coin (3.15mm), in order to mitigate the potential need for upgrades to, or replacement of, the entry slots.

3.30 It was noted, meanwhile, that a heavier coin, would be likely to increase wear and tear through the internal carriage channels of automated coin accepting and dispensing machines. This would lead to increased maintenance costs over time.

3.31 Some respondents, primarily from the banking and the wholesale cash industry, expressed interest in the weight of the final coin in their capacity as users of coin counting and sorting machines that detect denominations purely on the basis of their weight. The extent of their concern varied depending on their plans for the segregation of old and new coinage over the course of the changeover period.

3.32 The view of many respondents in the retail sector was that the weight and thickness of the new coin should be no greater than the existing piece, in order to ensure ease of carriage and storage. This issue was also flagged by the parking industry, where widely dispersed Pay & Display machines already have to be regularly emptied owing to their low money box capacity.

Government response:

3.33 No clear consensus emerged from the consultation in terms of the preferred thickness and weight of the new coin. However a clear view did emerge across industry that neither should be greater than that of the existing £1 coin.

3.34 A characteristic of the existing £1 coin is its high edge thickness, relative to other denominations. This reflects its status as the namesake coin of the currency and makes it easier to identify. The government is keen to preserve this, and has concluded that an edge thickness of 2.8mm is the most appropriate – this lower than that of the current £1 coin (at 3.15mm), but remains noticeably greater than the next thickest coin (the £2, at 2.5mm). The slight reduction, meanwhile, should address concerns from consultees that a thicker and heavier coin would impact on storage and transport costs as well as machinery wear and tear.

3.35 As noted elsewhere in this document, there is a considerable benefit to facilitating differentiation of the new £1 coin from the old specification and other UK denominations, both for the transition period and beyond. The weight of the coin is a key parameter in this sense. By introducing a new coin that is 7% lighter than the existing piece, segregation on this basis will be made possible.

Question 6: (a) Would you like to comment on any of the identified transition effects associated with introducing a new and highly secure £1 coin?

(b) Are there any other potential transition effects that you feel should be brought to the government's attention?

(c) Do you have any views on the equalities impacts of the proposals?

3.36 Many vending machine operators commented that the precise cost of likely upgrades can be impacted by the prevailing weather – they are, for example, harder to implement when it is raining or snowing – and so the cost of the transition will be impacted by its timing.

3.37 Retailers, meanwhile, flagged that they will need to educate their workforce such that they are familiar with the new coin by the introduction date. One would assume that this could be a consideration for any business where staff are regularly handling physical currency, for example in retail and hospitality. Larger retailers also suggested that their supply chain models, whereby cash is distributed and managed internally, may need to be reviewed in order to facilitate the changeover.

3.38 The wholesale cash industry raised a series of important questions in relation to the management of the proactive replacement of old coin with new, namely:

- whether cash centre operators will be offered an 'off balance sheet' facility for new coin ordered and stored on site prior to issue (where normally they pay face value upon order), thereby alleviating a potentially significant cash flow impact
- the expected approach to detection of, and liability for, withdrawn counterfeits (in particular whether operators will be expected to adapt existing processes in order to increase authentication rates at a time where inflows will already be at greater-than-usual levels)
- where the liability for the logistics costs falls – at present, HM Treasury covers the cost of transportation for withdrawn coinage only

3.39 A number of businesses queried whether and what financial assistance or tax breaks would be made available in recognition of the costs they would incur as part of the changeover.

Government response:

3.40 With the coin targeted for introduction in 2017, there is a clear need for an ongoing dialogue with industry by government, to identify and overcome logistical challenges associated with the transition. To this end, the government will continue to engage with affected parties, both directly and through The Royal Mint.

3.41 We understand that there will be some short-term transition costs to industry, in particular to operators of equipment that may need to be upgraded. In the case of previous changes in the coinage, such costs have been borne by industry. The government intends to follow this precedent and so does not plan to provide compensation.

3.42 We are, however, taking a number of steps to help manage these costs. For instance, the final specification which this document confirms means that the need for a number of upgrades is mitigated, while providing a long lead will allow for effective and extensive planning ahead of the changeover. Individual businesses and the wider economy will also benefit from the reduced costs associated with a fall in the counterfeit rate, as well as from a currency in which there is widespread confidence.

3.43 The government acknowledges that the introduction of a new coin presents a challenge for any businesses employing large numbers of staff who handle and authenticate cash as a part of their day-to-day responsibilities. HM Treasury and The Royal Mint will look to support any necessary training through the provision of extensive support material, and will work closely with the Bank of England to ensure that messaging is closely aligned with that put out ahead as part of the introduction of polymer banknotes.

3.44 The government recognises that the existence of internal cash circulation models among larger businesses does present an additional challenge for the withdrawal of old £1 coins over the transition period. The Royal Mint will build on existing relationships with key stakeholders to identify potential solutions over the long lead time that will be provided.

3.45 Cash centres will play a key role in the transition, through the management of coin inflows and outflows. As such, the government and The Royal Mint are continuing to engage regularly and proactively with their operating companies. Decisions on the issues that have been identified through the consultation process which impact this industry specifically will be taken in due course, using as wide an evidence base as possible.

3.46 The consultation did not identify any negative equality issues in relation to the proposed new £1 coin, although it was noted at the Fulfilling Potential forum that the government and The Royal Mint should be proactive and comprehensive in offering support to the protected groups in lead up to and throughout the transition. This is in line with the government's intention.

Question 7: (a) Do you have any views on the proposed timing of the introduction of the new £1 coin in early 2017?

(b) Do you have any views on the expected period of co-circulation with the present £1 of six months?

3.47 On the basis of the responses received, there exists a strong consensus across a range of industries (including vending, retail and parking) that the government should avoid introducing the new coin during, or immediately following, busy trading periods such as Christmas, New Year and Easter, in order to minimise the disruption brought about by the change.

3.48 A trade body representing members of wholesale cash industry queried whether the introduction could be brought forward to the second half of 2016 to avoid issuing old specification coins prior to Christmas in the knowledge that they will be withdrawn only months later. They also thought such timing might complement the upgrade cycle of their primary equipment manufacturers.

3.49 A small number of respondents suggested aligning the introduction of the new £1 coin with one of the Bank of England's scheduled launches of the new polymer banknotes, i.e. the £5 note in late 2016 or the £10 note a year later.

3.50 Many businesses were keen to minimise the period of co-circulation with the old coin. The gaming industry, for example, highlighted the significant additional handling costs over this period. Meanwhile, a number of individuals who responded pointed to the increased scope for confusion the longer the co-circulation period lasts.

3.51 However, a number of consultees (including cash centre operators) suggested that a six-month changeover may be too ambitious, first to effect the necessary upgrades to coin accepting and processing equipment, and then to withdraw and replace all of the existing £1 coins currently in circulation.

Government response:

3.52 It remains the Government's intention to introduce the new £1 coin in early 2017. This would have the benefit of avoiding an initial issue during a busy trading period, as requested by respondents across many different industries. Bringing the introduction forward to the second half of 2016 could undermine this and would also risk disrupting the smooth introduction of the polymer £5 note.

3.53 The Government is not yet in a position to confirm the precise length of the co-circulation period, but notes that many businesses will incur added costs as long as the old and new coins remain in simultaneous use. Any final decision can only be made having obtained significant assurance around the capacity of cash centres to manage such a change, and so HM Treasury and The Royal Mint are working in collaboration with the industry to determine how quickly the changeover can be carried out. Further details on the introduction date and length of the co-circulation period will be confirmed in due course.

4 Continued engagement

Background

4.1 The consultation document published on 12 September 2014 made a commitment that, following confirmation of the final specification of the new £1 coin, close engagement with industry and other stakeholders would continue up until the planned 2017 introduction. The government intends to carry the project forward on this basis, building on the constructive dialogue that has been developed through the consultation process.

Industry readiness

4.2 Samples of the new £1 coin will be available from summer 2015. The Royal Mint will liaise directly with manufacturers to ensure that software and hardware upgrades can be developed and made available to customers and operators in a timely fashion, sufficiently in advance of the introduction of the new coin.

4.3 The Royal Mint will also use existing relationships with operators and trade associations to promote the importance of upgrading their equipment ahead of the initial issue date.

Wholesale cash industry

4.4 A working group has been set up to address the challenges faced by cash centres, the channels through which the vast majority of old coin will be withdrawn, and new coin introduced into circulation, during the changeover period. The membership comprises representatives from the industry, HM Treasury and Royal Mint officials.

4.5 There will be some overlap with The Royal Mint's work on industry readiness more broadly, as sorting and counting machines will need to be adequately upgraded to ensure compatibility with the new £1 coin. However, as noted in some of the consultation responses received from relevant stakeholders, there are also a number of outstanding questions around the management of the transition. We will work together with the industry to resolve these in the coming months.

Public education and communications

4.6 There are a number of potential synergies between the transitions to the new £1 coin and to polymer banknotes. HM Treasury, The Royal Mint and the Bank of England will seek to exploit these, for example by collaborating on the nature and timing of public-facing communication and educational material issued ahead of the respective launches.

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