



House of Commons
Scottish Affairs Committee

**Access to cash in
Scotland: Government
Response to the
Committee's Tenth
Report, Session 2017–19**

Second Special Report of Session 2019

*Ordered by the House of Commons
to be printed 29 October 2019*

The Scottish Affairs Committee

The Scottish Affairs Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of the Scotland Office (including (i) relations with the Scottish Parliament and (ii) administration and expenditure of the offices of the Advocate General for Scotland (but excluding individual cases and advice given within government by the Advocate General)).

Current membership

[Pete Wishart MP](#) (*Scottish National Party, Perth and North Perthshire*) (Chair)

[Deidre Brock MP](#) (*Scottish National Party, Edinburgh North and Leith*)

[David Duguid MP](#) (*Conservative, Banff and Buchan*)

[Hugh Gaffney MP](#) (*Labour, Coatbridge, Chryston and Bellshill*)

[Ged Killen MP](#) (*Labour (Co-op), Rutherglen and Hamilton West*)

[John Lamont MP](#) (*Conservative, Berwickshire, Roxburgh and Selkirk*)

[Paul Masterton MP](#) (*Conservative, East Renfrewshire*)

[Danielle Rowley MP](#) (*Labour, Midlothian*)

[Tommy Sheppard MP](#) (*Scottish National Party, Edinburgh East*)

[Jamie Stone MP](#) (*Liberal Democrat, Caithness, Sutherland and Easter Ross*)

[Ross Thomson MP](#) (*Conservative, Aberdeen South*)

Former members

[Christine Jardine MP](#) (*Liberal Democrat, Edinburgh West*) was also a Member of the Committee during this inquiry.

Powers

The Committee is one of the departmental select committees, the powers of which are set out in House of Commons Standing Orders, principally in SO No. 152. These are available on the internet via www.parliament.uk.

Publication

© Parliamentary Copyright House of Commons 2019. This publication may be reproduced under the terms of the Open Parliament Licence, which is published at www.parliament.uk/copyright.

Committee reports are published on the [Committee's website](#) and in print by Order of the House.

Committee staff

The current staff of the Committee are Bradley Albrow (Second Clerk), Zoë Grünewald (Media Officer), Robert McQuade (Committee Assistant), Ben Rayner (Committee Specialist), Abigail Samuels (Senior Committee Assistant) and Ben Williams (Clerk).

Contacts

All correspondence should be addressed to the Clerk of the Scottish Affairs Committee, House of Commons, London SW1A 0AA. The telephone number for general enquiries is 020 7219 8204; the Committee's email address is scotaffcom@parliament.uk.

You can follow the Committee on Twitter using [@CommonsScotAffs](#)

Second Special Report

The Scottish Affairs Committee published its Tenth Report of Session 2017–19, [Access to cash in Scotland](#), HC 1996, on 29 August 2019. The Government response to the Report was received on 28 October 2019, and is published as an appendix to this Report.

Appendix: Government Response

Introduction

The Government has noted the Committee's report and recommendations on the topic of access to cash in Scotland. The report highlighted key issues in this area. HM Treasury would like to thank the Committee for inviting John Glen MP, the Economic Secretary to the Treasury and City Minister, to present evidence as part of the inquiry and demonstrate the work taking place on this important topic.

The Government appreciates the significant role of cash in the daily lives of many people and businesses. Following a Call for Evidence on Cash and Digital Payments last year, the Government has made a clear commitment to support digital payments, whilst safeguarding access to cash for those who need it across the UK, including Scotland. The Government continues to engage with the regulators and industry in order to achieve this.

The Committee's report also comments on bank branch closures in Scotland. The Government recognises that the closure of bank branches can be disappointing for many people in a community. Though it is right that the Government does not intervene in these commercial decisions, and that banks have the flexibility to deliver services the way they choose, it is important that the impact of branch closures is understood, considered, and mitigated where possible so that all customers, wherever they live, continue to have access to over-the-counter banking services. Government cannot reverse the changes in the market and in customer behaviour; nor can it determine firms' commercial strategies in response to those changes. However, the Government will continue to work with the sector to maintain access to vital banking services and ensure that banks support communities across the UK when their local branches close.

This paper sets out the Government's response to each of the Committee's conclusions and recommendations to Government. The Committee's recommendations are in bold and the Government's response is in plain text. Paragraph numbers refer to those in the Committee's report.

Role of Cash in Society

We believe that there will continue to be a need for cash for the foreseeable future and welcome the Minister's agreement about its continued importance for society, particularly in Scotland. While we welcome a number of the individual initiatives that the Minister mentioned, which we will explore later in this Report, we believe there is a need for an overarching strategy to guarantee consumers access to cash. This is especially important in Scotland given the physical and digital connectivity challenges

it faces. We endorse the recommendations in the Access to Cash Review and recommend that the Government publish a strategy outlining the steps it will take to ensure Scottish consumers' continued access to cash. (Paragraph 11)

The Government welcomed the independent Access to Cash Review earlier this year and the contribution it has made to the debate on cash. The Review, chaired by Natalie Ceeney CBE, took a holistic approach to the issues affecting the access to, and use of, cash. The Government will continue to consider how the recommendations can support policy.

In March 2018, the Government conducted a Call for Evidence on Cash & Digital Payments in the New Economy. This sought to gather evidence on how changing preferences for cash and digital payments impact on different sectors, regions and demographics, including in Scotland. The responses highlighted that while digital payments are already prominent in our economy, and offer many benefits to people and businesses, cash remains one of the most popular ways of making payments in the UK.

As a result, in May 2019, the Government set out its strategic approach to the issues in this area by committing to support digital payments whilst safeguarding access to cash for those who need it. To support this, the Government announced the establishment of the Joint Authorities Cash Strategy (JACS) Group, which brings together the Payment Systems Regulator, Financial Conduct Authority and Bank of England. The Group is chaired by HM Treasury and aims to ensure that the regulatory oversight and activity supports an end-to-end cash infrastructure that remains resilient, cost effective, sustainable and can meet the needs of users across the UK.

The JACS Group will publish a public update later in the Autumn, which will cover four key areas of interest spanning the UK's end-to-end cash infrastructure: wholesale distribution, cash withdrawals, cash acceptance and cash usage.

In line with Committee's comments, it is important that people and businesses in Scotland have the appropriate digital connectivity to benefit from digital innovations around banking and payments. The £1.8 billion superfast programme, along with other commercial deployments and Government initiatives, has ensured that 96% of the UK, and 94% of Scotland, now has access to download speeds of at least 24 megabits per second (Mbps), which means that the UK compares well internationally for superfast broadband availability. The Government has introduced the Universal Service Obligation (USO) for those premises that do not have access to decent broadband (10 Mbps) and from March 2020, people will be able to request a USO connection. The Government is ambitious to go further and wants nationwide coverage of gigabit broadband networks as soon as possible. As part of this, the Government is committed to supporting deployment in the least commercial 20% of the UK and, in September, it announced that it would invest £5 billion of new money in these areas.

Mobile coverage is also improving. Scotland has 76% 4G indoor coverage from all four mobile network operators (compared to 77% for the whole of the UK), up from 57% in June 2017. Furthermore, 91% of the UK landmass is covered by a good 4G signal from at least one operator, up from 89% last year. However, the Government recognises that coverage needs to improve, particularly in rural areas. The Government is committed to extending

geographic mobile coverage even further to 95% of the UK; providing an uninterrupted mobile signal on all major roads; and ensuring the majority of the population have access to a 5G signal by 2027.

Scotland's ATM Network

Ensuring consumers still have free and reliable access to their cash is essential to a well-functioning and fair economy. We are concerned by the ATM closures that have been seen since the interchange reductions were introduced. We do not believe that the fourth interchange reduction should go ahead and call on the government to intervene to prevent further reductions if necessary at least until the government publishes a strategy outlining the steps it will take to ensure Scottish consumers' continued access to cash. We further recommend that the Payment Systems Regulator should publish a full assessment of the economic and social impact of any future interchange reduction before it can be implemented. (Paragraph 19)

The Government is committed to safeguarding access to cash and proud that Scotland and the rest of the UK has an extensive free-to-use ATM network. However, it is important to note that as consumers use digital products more to make and receive payments, the demand for cash and ATMs will continue to fall. While industry must have the flexibility to take such trends into account when making decisions on how best to provide their services, the Government expects commitment from industry to protect access to banking and cash for those who need it.

Industry statistics state that cash is being used in a decreasing proportion of UK transactions; falling from 60% of payments in 2008 to 28% in 2018. This is predicted to fall further, to an estimated 9%, by 2028. Correspondingly, the number of ATM transactions is declining, with volumes expected to be around 10% lower in 2019 compared with 2018.

As of June 2019, there were 48,500 free-to-use ATMs in the UK, which represented 78% of the total number of ATMs. Although this is less than the peak number of free-to-use ATMs, of 54,600 in 2017, this remains 21% higher than a decade ago. Furthermore, most ATMs are clustered together in areas of high demand and high footfall, particularly in retail centres and transport hubs. As of April 2019, 73% of all free-to-use machines were within 300 metres of the next, and 94% were within one kilometre of the next.

As noted in evidence to the Committee, LINK, the scheme that runs the UK's ATM network, saw the costs associated with the proliferation of urban ATMs as unsustainable. Therefore, in January 2018, LINK announced a series of cuts to the interchange fee, while taking steps to preserve the broad geographic spread of free-to-use ATMs. To support this, LINK put in place specific arrangements to protect remote free-to-use ATMs one kilometre or further from the next nearest free-to-use ATM or post office. Furthermore, they provide additional fees per transaction to fund ATMs in rural and deprived areas of the UK. LINK has responded to lower ATM transaction volumes by cancelling the third reduction of interchange fees due in January 2020 and putting on hold the fourth reduction that was due in January 2021.

More recently, since the Committee received evidence on this topic, LINK has announced Durness in Scotland as a pilot site to directly commission a new free-to-use ATM. In August 2019, LINK committed to protecting free access to cash on high streets—where

there are five or more qualifying retailers—that do not have a free-to-use ATM or a post office counter within one kilometre. In October 2019, LINK announced that £1 million would be made available to fund requests for new ATMs from local areas with poor access to cash.

The Government welcomes innovation by industry to support access to cash and created the Payment Systems Regulator (PSR) in 2015, who regulate LINK and are monitoring ATM market developments closely. As a result, the Government continues to engage closely with both industry and the PSR and does not currently plan to intervene on interchange fees.

In June 2019, the PSR initiated a Call for Views on the topic of interchange fees. Their report outlined the PSR's perspective on issues relating to interchange and invited stakeholders to comment on how changes to these fee structures might better promote their objective of maintaining the broad geographic spread of ATMs.

To date, the PSR has used its powers to hold LINK to account over their public commitments. In October 2019, the PSR announced that it will conduct a review of the mechanism by which it does this, providing an opportunity to reassess LINK's commitment and its related procedures, processes, policies and measures.

Introducing universal deposit-taking ATMs would provide a valuable service to businesses that have lost their bank branches while helping with the sustainability of the ATM network. *Given the lack of interest in the scheme to date, and LINK's view that a "central steering hand" is needed to get a scheme implemented, we recommend that the Government set up a working group with industry to introduce network-wide deposit-taking ATMs.* (Paragraph 33)

The Government supports industry's efforts to develop creative and innovative ways to maintain access to, and acceptance of, cash, as well as developing appropriate digital alternatives. The Government acknowledges that there is potential for universal deposit-taking ATMs to ease the burden of cash handling for SMEs and consumers.

As noted by the Committee, there is no specific law or regulation that prevents industry from taking forward deposit taking ATM solutions on a commercial basis. This is already a product that is technically viable and available within many UK bank branches.

The PSR and the Financial Conduct Authority (FCA) will continue to engage with industry on developments in cash deposit infrastructure, including on whether additional regulatory arrangements are needed to allow the market to realise benefits and to meet consumer needs. HM Treasury will continue to monitor and ensure the co-ordination of work on this topic through the Joint Authority Cash Strategy (JACS) Group.

Bank Branch Closures

We are disappointed that banks are continuing to close branches in Scotland and are concerned by the devastating impact closing bank branches can have on communities and small businesses. We believe that the Government has a role in ensuring communities continue to have access to banking services. *We recommend that the Government seek a commitment from banks that they will not close the last bank in*

town. If such a commitment is not forthcoming we believe the Government should consider further measures, including legislation, to ensure communities still have access to vital banking services. (Paragraph 43)

The Government recognises that the retail banking landscape in Scotland, and the rest of the UK, is rapidly changing. This has been beneficial to many, as more people and businesses opt for the convenience, security, and speed of digital payments and digital banking. According to UK Finance, two-thirds of UK adults used contactless payments, over 70% of UK adults used online banking and 48% used mobile banking in 2018.

It is vital that firms have the flexibility to respond to market trends and changes in customer behaviour, and decisions on a branch network must remain as commercial decisions for the banks themselves. Having this flexibility is what makes the UK's financial services sector one of the most competitive and productive in the world, and the Government wants to protect that.

As set out earlier in this response, the Government is enhancing access to digital payments and banking services through improvements in connectivity and mobile coverage. Despite these advances, the Government recognises that many people still value traditional methods of face-to-face banking and maintains that it is imperative that customers, wherever they live, and especially the most vulnerable, still have access to face-to-face banking services.

Though the Government does not specify how face-to-face banking services are delivered, it continues to encourage innovation and creativity from industry to ensure that everyone has appropriate access to financial services.

That is why the Government is in full support of the Access to Banking Standard, set out in more detail later in this document, which commits firms to work with customers and communities to minimise the impact of branch closures. It is also why the Government supports the Post Office Banking Framework, which allows 95% of business and 99% of personal banking customers to carry out their everyday banking at 11,500 post office branches across the UK. This marked the largest expansion of face-to-face banking in a generation. The Government also notes the recent commitments from Barclays and Nationwide to keep bank branches open in the medium-term.

While the concept of banking hubs has potential, the current plans for these hubs fall far short of what is needed as they do not offer enough services to be a realistic alternative to bank branches. We call on the banks to revisit the services offered in hubs and to commit to extending the pilot to a rural location in Scotland. We recommend that the Government is involved in the discussions between banks, so it can address any competition and regulatory barriers to providing an expanded service. (Paragraph 47)

The Government does not directly intervene in these commercial decisions, but will continue to actively engage with banks, building societies and other stakeholders on how they can think creatively to ensure that consumers can access a wide range of banking services, across the country, on a sustainable basis.

While banks must comply with competition law, there is no specific regulation that prevents them from sharing branches or other premises on a commercial basis. Indeed, the Committee notes the trial Business Banking Hubs currently being run by RBS, Lloyds Banking Group and Barclays.

The existence of a Post Office is often cited by banks who are closing branches as being an alternative way for customers to access banking services. While they do offer some services, by the Post Office's own admission they are not an alternative to a bank branch. However, if banks are expecting the Post Office to take on more of the services they used to offer to communities we believe they must properly support the Post Office in taking on these functions. (Paragraph 54)

We therefore recommend that the Government broker conversations between the Post Office and high street banks to ensure banks provide proper support and remuneration to the Post Office for taking over several of its functions. This could include: reviewing the level of remuneration subpostmasters receive for providing banking services, offering closed bank branches as possible sites for Post Offices, better promotion of Post Office services by banks and increase support for subpostmasters in identifying fraud. (Paragraph 55)

The Government is in full support of the Banking Framework agreement and the contribution it makes to financial inclusion across Scotland and the rest of the UK. In January 2017, Post Office Limited (POL) agreed a three-year, industry-wide agreement, known as the Banking Framework. This allows 95% of business and 99% of personal banking customers to carry out their everyday banking at 11,500 post offices across the UK. As a result of this, the POL network offers greatly improved access to everyday banking services, benefitting older and vulnerable customers, those in rural locations and small businesses in particular.

Since the Committee received evidence, the renegotiation of the commercial terms and service enhancements for Banking Framework 2 (BF2) has concluded and will take effect from January 2020. Under the new agreement, there will be a significant increase to the fees that POL will receive from the banks for processing transactions. POL's overall income through BF2 will only increase further as transaction volumes continue to grow and improved remuneration and cross-selling opportunities for postmasters can allow for investment in automation, training and security in post offices.

POL have already been providing new note counters to post office branches, capable of handling new polymer notes and identifying counterfeits. These are made available in partnership with the National Federation of Sub-Postmasters at a subsidised rate, helping speed up the transactions at the counter. In addition, they are investing in improved security in their branches, improving their cash in transit and cash centre services supporting every branch.

POL is also carrying out a comprehensive review of postmasters' remuneration from post office products, including for everyday banking services. On 1 August 2019, POL announced two interim measures as part of the pay review: increased rates that Postmasters receive for cash deposits through the renegotiated Banking Framework agreement were brought forward from October 2019 to August, and an increase in fixed remuneration for Community branches, which was also implemented from August.

The POL network is at its most stable for decades and the number of branches is now over 11,500. The 2018 'Entrustment of the Post Office' letter from UKGI on behalf of the Secretary of State for Business Energy and Industrial Strategy requires POL to maintain a network of at least 11,500 branches, and for this network to meet several minimum access requirements. This includes providing a minimum range of Services of General Economic Interest (SGEIs) within three miles of 99% of the UK population and within one mile of 90% of the UK population. An increase in fee income from BF2 will also help POL and its network to become more financially sustainable and reduce the reliance on government funding.

It is vital that more people are made aware of what post offices offer in terms of banking services. The Committee notes some of the work done by UK Finance and POL to raise awareness, which the Government welcomed. The Government also believes that continuing work to raise awareness of the Banking Framework should continue to be a key priority for industry and POL.

The Government also supports ongoing discussions between POL and the banks about how they can ensure the best possible service is offered to consumers. The Government recognises that there are significant opportunities for POL to continue to develop as a channel for cash access. Whilst the Government does not directly intervene in how firms provide these services, the Government expects commitment from industry to protect access to banking and cash for those who need it.

Throughout this inquiry, we have heard of deficiencies and frustrations from the public on the regulation of bank branch closures and believe the current system of regulation is failing the consumer. We repeat our previous recommendations for

- ***Consultation ahead of closure decisions being taken***
- ***Banks to publish impact assessments on the impact of closures on vulnerable groups***
- ***The publication of reports in individual closures programmes***

We are disappointed with the lack of progress made on these recommendations since our last Report. Furthermore, given the large number of former bank buildings in Scotland that are lying empty after their closures, we believe that Standard should be amended to require banks to consult with communities on possible reuse of these buildings as part of the closure process. (Paragraph 62)

We still believe that there is a case for statutory regulation of bank closures. Given the important role that both ATMs and bank branches play in access to cash we are unclear why there is statutory regulation for ATMs but not bank branch closures. We call on the Government to report back on their discussions with the LSB as soon as practicable. If discussions are not successful we recommend that the Government consult on introducing statutory regulation governing bank branch closures. (Paragraph 63)

The Government firmly believes that the impact of branch closures should be understood, considered, and mitigated where possible so that all customers, wherever they live, continue to have access to over-the-counter banking services. However, the Government has been clear that decisions around a bank's branch network are commercial and it would

be inappropriate for the Government to intervene in how banks provide their services. The Government, therefore, has no plans to consult on, or introduce, statutory regulation for bank branch provision.

The Government is in full support of the voluntary, industry-led, Access to Banking Standard, owned by UK Finance, which commits them to work with customers and communities to minimise the impact of branch closures. As noted in the Government's response to the Committee's previous inquiry into Royal Bank of Scotland branch closures, banks and building societies who have voluntarily participated in the Access to Banking Standard should do so genuinely and with the spirit of the agreement, not just the letter, in mind.

The agreement in 2017 built on recommendations proposed by the independent review of the previous Access to Banking protocol by Professor Russel Griggs OBE. This included giving responsibility of monitoring and enforcement of the Standard to the independent Lending Standards Board (LSB), ensuring that banks are held accountable for the way they treat their customers when a branch closes. It also included commitments for banks to engage more directly with their older or more vulnerable customers when a branch closes to help them better explore the alternatives available.

In September 2018, the LSB published their first summary report on the banks' application of the Access to Banking Standard, providing examples of good practice as well as recommendations where practices could be improved. They found that industry had approached the new Access to Banking Standard in a positive manner and overall compliance is good. UK Finance has been working with members to review the recommendations in the LSB's 2018 report. A second summary report on firms' adherence to the Access to Banking Standard is due for publication in due course.

In July 2019, the Economic Secretary to the Treasury, met David Pickering (former Chief Executive, LSB) and Peter Tyler (Director of Personal Banking, UK Finance), to emphasise the Government's support for the Standard, and to understand how decisions taken in relation to closures remain transparent and how the Standard is applied consistently.

UK Finance and the LSB have recently agreed on the minimum definition of an impacted customer. This will seek to ensure a more consistent approach to providing those impacted customers with information about where to access help and support in the event of a branch closure. The LSB has also committed to producing a guide, which will capture examples of good practice across both the branch network and at community level, recognising that this can often manifest itself in a local response to local conditions. This guide will be available by the end of the first quarter of 2020.

UK Cash Network

We welcome the Government response to the Access to Cash Review in the creation of JACS and the Minister's view on reforming cash infrastructure to make the system more efficient to buy time for wider reform of the system. We ask Government to update the Committee on the outcome of discussions between regulators and publish an action plan for how it will reduce the cost of the UK's cash infrastructure. (Paragraph 69)

The Committee may find it helpful to note that, since evidence was provided, the Economic Secretary to the Treasury and City Minister now has responsibility for the Royal Mint as well as cash and payments, having previously been under separate portfolios. This further supports oversight of both the retail and wholesale side of the cash infrastructure to achieve the Government's commitment to support digital payments while safeguarding access to cash for those who need it.

The Government also believes that industry innovations can play a key role in reducing costs associated with cash provision and acceptance and continues to engage proactively with industry on potential opportunities in this area. Similarly, the Economic Secretary has publicly called on industry to think about all people when they design new digital products and bring new innovations to the market.

As noted earlier in this document, the JACS Group will publish a public update later in the Autumn outlining how the members are ensuring comprehensive oversight of the end-to-end cash infrastructure. The Government supports the work of individual members of the JACS Group, including the Bank of England's work to develop a new system for wholesale cash distribution that will support the UK in an environment of declining cash volumes. The Bank's Wholesale Distribution Steering Group has stated that the system needs to be efficient, resilient and sustainable. The Committee may find it helpful to note that details of the work being overseen by the Bank in this area, including minutes of the Steering Group's meetings, are publicly available on the Bank's website.¹ The Government will provide a copy of the JACS Group's update to the Committee.

1 <https://www.bankofengland.co.uk/banknotes/wholesale-cash-distribution-in-the-future>