

STATES OF JERSEY



DRAFT CURRENCY NOTES (VARIATION OF MAXIMUM DENOMINATION No. 2) (JERSEY) REGULATIONS 201- (P.131/2011): COMMENTS OF THE CORPORATE SERVICES SCRUTINY PANEL (P.131/2011 Com.) – COMMENTS

**Presented to the States on 1st November 2011
by the Minister for Treasury and Resources**

STATES GREFFE

COMMENTS

Circulation

- Circulation is expected to be relatively limited – the focus has always been on the commemorative aspect of the note.
- Scotland has a £100 note – approximately 1.5% of their circulation is £100. This would equate to approximately £1 million in Jersey which is double the amount required for the project to break even (see also later comments on breaking even).
- Circulation in Jersey may be proportionally higher – there is still a significant minority of the workforce paid in cash for which the £100 note may be used.
- 100,000 notes, the minimum order, is expected to provide between 2 and 6 years of circulation (based on the original business case for the note) – this is a very reasonable level of stock for the Treasury to carry in circulation notes and corresponds to stock held for other denominations.
- In any case, there is no cost saving in ordering less notes – the order of 100,000 notes should be understood in the context of the standard order volumes our suppliers deal with, of 28 million notes. Jersey's order is very small in this context.

Risk of counterfeiting

- There is some reduction in high value notes in Euro and USD – but \$1000 is significantly higher value than the £100 note, so it is not appropriate to draw a direct comparison.
- The risk is very limited – criminal activity is focused on high volume circulation notes (such as Euros and Dollars) – the low number of Jersey £100 notes in circulation will mean it is not a viable target for fraud.
- In the UK, the £20 note is the most counterfeited note – not the £50 note or the Scottish £100 note.
- The proposed note would have a strong range of security features, making it difficult to copy.

Affordability

- Contrary to the comments of the Scrutiny Panel, the £100 note is not out of reach of most members of the public – £100 represents only 0.3% of the average income of Jersey residents (average weekly earnings £630 taken from Jersey in Figures).
- Coins will be available – but they are part of an ongoing programme of coin produced annually. The Jubilee coin is therefore part of normal business for Jersey in commemorative coin – the note is a unique way of marking this particular event.
- There has already been interest expressed in the £100 note from both locals and internationally – combined with the high importance that will be placed on the Jubilee in particular, the Treasury expects high interest in this note.

Collectors

- The collector interest in the 'D' series of notes last year was very high – even in the middle of the economic downturn.
- Dealers from as far afield as the US and Canada came to Jersey with substantial orders across the denominations. A significant number of notes were also taken by individual collectors locally.
- Overall, several thousand of even the highest denomination notes were taken in the first few weeks after the series was launched.
- It is expected that the occasion of the Jubilee, and the fact that this £100 note is expected to be the only commemorative note of its kind issued in Sterling, will further increase the collectability of the note.

Alternative – £20 note

- It is not simply a case of swapping a £100 note for a £20 note.
- There would be extra costs for re-design (e.g. engraving £20 instead of £100, and changing the corresponding lettering).
- Further, unless the note was to be exactly the same specification, it could not now be produced in time for the Jubilee. There is at least an 8 week lead time for engraving – given the current delivery date of April, an additional 8 weeks would mean that the note would not be available until after the Jubilee weekend.
- If the design specification were the same, our note supplier may be able to produce a £20 note in the same timeframe (although we have not been able to confirm this at such short notice from the Panel) – this would mean a commemorative £20 note that is significantly larger than the current £20 note and £50 note, which would not sit well in the current note series.

Timetable of delivery

- There has already been significant commitment from the group overseeing the design of the note, and the suppliers, in order to ensure that the note can be delivered in the tight timeframe available.
- The date of delivery will be ideal for launch of the note in the run-up to the main celebrations of the Jubilee – it will be available to Treasury at the latest by the end of April, with Jubilee celebrations focused on the beginning of June.

Cost

- In cash terms, as soon as 2,560 notes have been issued, the entire investment in the production of the note will have been recouped – thus within a very short period it is expected that the Currency Fund will be at least in as good a position in terms of income generating capital as it currently is.
- The break-even calculation provided to the Panel looks on earnings on the cash generated – this is a prudent way of looking at the payback of the investment, and is used for currency because it is repayable on demand and the cash received also creates a corresponding liability.

- In practice, given this is likely to be mainly a collector's note, the liability, which is non-interest bearing, will not crystallise. Therefore, the Currency Fund will have £100 in cash to invest in perpetuity for every £100 note in issue. As soon as more than 2,560 notes are issued, the Fund will therefore have more money than it currently does to invest, and from which to generate a return.
- The £256,000 is therefore not being 'spent', but rather invested in an income-generating asset – the Island's currency. In any case, there are clear restrictions in the Public Finances Law on the use of the Currency Fund – the Panel's suggestion that the money could be used to promote the Island in another way is therefore not achievable. The Fund can only be used for currency-related costs, or invested to generate returns.
- The break-even calculation provided to the Panel was based on very prudent estimates of both likely interest in the note (less than 5,000 notes) and long-term return (3.5%).
- The current investment strategy for the Currency Fund has an expected return of 4.3% – this would reduce the timeframe for breakeven to 24 years.
- If the number of notes issued to collectors falls in the middle of the estimated range – £1 million (10,000 notes) – this would reduce the payback period further to 8 years.
- Even on the lower return figure of 3.5%, an increase in issue to £1 million would result in a payback period of 10 years.

Commemoration

- One of the lead images in the touring exhibition of portraits of the Queen for the Jubilee is 'Equanimity', the holographic portrait commissioned by Jersey Heritage for the 800 years celebration.
- Jersey therefore has a great opportunity to promote the Island through association with 'Equanimity' by using the artwork in the design of the commemorative note.
- The focus on a banknote works particularly well because of the opportunity to use holography on the note, in the security strip, which will reference well the original artwork.
- The image of the £100 note will be used on other commemorative memorabilia which will promote the Island. Plans are already in progress for this.

Conclusion

- The £100 note is a fitting way to mark the occasion of Her Majesty the Queen's Diamond Jubilee – it marks the special relationship Jersey has with Her Majesty and enables the promotion of the Island through a unique collectable featuring a Jersey image of the Queen.
- The cash cost is relatively small and will be recouped in a very short timeframe – the expected interest in the note should result in increased income for the States from 2012 onwards.
- There are no other sensible options available at this stage – the £100 note cannot easily just be swapped for a £20 note.

- This note is a great opportunity for Jersey – Members are urged to recognise its value and support the proposition.

Statement under Standing Order 37A [Presentation of comment relating to a proposition]

The comments of the Corporate Services Scrutiny Panel were not presented until 31st October. The Minister for Treasury and Resources wishes to present comments in order for the Assembly to be in possession of all the relevant facts for the debate, and therefore has had no option but to present comments so close to the debate.