



CONSULTATION ON THE REMOVAL OF LOW VALUE COINS

10 May 2023



Introduction

Summary

The Treasury is considering the removal of 1p, 2p and 5p coins from general circulation at a date in the future (yet to be decided). From this date these coins (and their UK equivalent denominations) would cease to be legal tender on the Isle of Man. This would mean that from the agreed date members of the public could not use the 1p, 2p and 5p coins for day to day use, and retailers and institutions would not be required to accept them for payment. At the same date from which the coins cease to be legal tender, the Treasury proposes to introduce the concept of compulsory rounding in respect of all cash transactions. Rounding will not apply to digital transactions.

The Treasury is therefore seeking views from members of the public, retailers and financial institutions on the proposed changes to the Currency Act and the introduction of rounding.

Background

Manx and UK coins in circulation are governed by the Currency Act 1992. One of the strategic objectives of the Government in Our Island Plan is the aim of building a “strong and diverse economy” and, for many years, cash has been a fundamental part of our personal and commercial life. However, with advances in technology in society in general, there are now many more ways in which to pay for goods and services. Consequently, the demand for cash, and low value denominations in particular, has declined. Furthermore, the requirements and precautions taken during the recent Covid Pandemic have accelerated the decline in the use of cash.

Consultation

Comments are sought on both the principle, and the detail of the proposed changes.

Why your views matter

This consultation will help the Treasury to receive views from all sectors, and groups, and understand any issues that would need to be addressed in order to implement the future proposed change. Your views will help the Treasury to determine whether to withdraw any or all of these coins from circulation. Your views will also assist the Treasury, in the event this matter receives general support, to prepare a communication plan showing how the withdrawal of low value coins, and the introduction of rounding, would operate.



Responding to this consultation

Any comments or questions that are not otherwise submitted through the Isle of Man Government's Consultation Hub, should be submitted in writing to -

Policy & Legislation Office,
The Treasury
1 Floor, Government Office,
Bucks Road, Douglas
IM1 3PU

Or by email to: Treasuryconsultations@gov.im

The closing date for the receipt of comments is 28 June 2023.

Confidentiality

The information you send may be published in full or in a summary of responses.

When submitting your comments please indicate whether you are responding on behalf of an organisation (and if so which organisation) or on your own behalf.

Please let us know whether we can publish your comments in full (including your name or the name of the organisation you are representing), anonymously, or not at all (noting that if you select this option your response will only be part of a larger summary response document).

All information in responses, including personal information may be subject to publication or disclosure in accordance with the access to information regimes (these are primarily the Freedom of Information Act 2015 and the Data Protection Act 2018). An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding.

All responses submitted will be held within the Isle of Man Government's consultation hub and will be treated in accordance with the privacy policy.



Overview

Inflation has caused the purchasing power of 1p, 2p and 5p coins to diminish over the years to minimal levels. No Manx 1p and 2p coins have been minted since 2016. The primary reason for this is that the cost of minting these coins is more than their face value.

It is considered these coins are of little value individually, with essentially no goods or services priced at this level. Their primary function is to make change for larger transactions, and facilitate the exact settlement of bills.

Treasury observes that 1p, 2p and 5p coins are not actively circulated throughout the economy but saved by consumers who do not like using them for transactional purposes, while others have simply been lost. Whilst 1p, 2p and 5p coins are viewed as necessary in day to day transactions, Treasury accepts the work involved in counting and sorting such coins is time consuming for businesses and charities alike.

Since 1971 the number of Manx 1p, 2p and 5p coins that have been put into circulation is approximately 70 million with a monetary value of circa. £1.7 million. The volume and value of Manx 1p, 2p and 5p coins are shown in Table 1. Not all Manx coins would be returned as they will have been lost over the years. However, the volume of UK coins in circulation in the Island would outweigh this. It is anticipated the economic effect of removing these coins from circulation would be minimal. Removing 1p, 2p and 5p coins from circulation would, for retailers, save time (and cost) in counting, sorting and banking. Within the banking sector, once the transition has been completed, it would also eliminate subsequent transport costs to and from branches.

In the event there is general support for the withdrawal of the coins, people would be encouraged to return all Manx and UK 1p, 2p and 5p coins to the Treasury via banks and post offices by the agreed date. Rounding of cash transactions to the nearest '0p' or '10p' for final bills would take effect from the agreed date. Electronic transactions for total bills could continue to be priced between 0p and 10p.

The withdrawal of coins and the introduction of rounding may require an amendment to be made to the Currency Act 1992, and any related legislation.

Table 1: Volume and Value of 1p, 2p and 5p coins

	Penny	Two Pence	Five Pence	Total
No. of Coins	29,322,178	21,190,658	19,401,800	69,914,636
Value (£)	293,221.78	423,813.16	970,090.00	1,687,124.94

(Data as at 31/3/2018)



Further detail

Rounding

A number of countries worldwide have introduced rounding successfully. These include Argentina, Australia, Belgium, Brazil, Canada, Chile, Czech Republic, Finland, Hong Kong, Hungary, Republic of Ireland, Israel, Italy, Netherlands, New Zealand, Peru, Singapore, South Africa, Sweden, Switzerland, Turkey and Vietnam.

How rounding works

Where a total bill is being paid in cash, and the number of pence to be paid does not end in 0p or 10p, the amount of the final bill will be rounded to the nearest 0p or 10p:

- 1p, 2p, 3p and 4p would be rounded down to the next 10p.
- 5p, 6p, 7p, 8p and 9p would be rounded up to the next 10p. For example:

For anyone wishing to pay by cash, the total bill is rounded to the nearest 10p at the till to remove the need for 1p, 2p and 5p coins in the change. The price of individual goods or services will remain unchanged as only the total bill will be rounded. Non-cash transactions are not affected:

- *A total bill of £9.21, £9.22, £9.23 or £9.24 will be rounded down to £9.20*
- *A total bill of £9.25, £9.26, £9.27, £9.28 or £9.29 will be rounded up to £9.30*
- *Anyone who wishes to pay by card and has a total bill of £9.23 will be charged £9.23 on their card.*

The application of rounding will have little impact when a large bill is being paid, and will have the greater impact when a total bill consisting of a single item at a low price is being paid.

It is important to note that rounding only takes place on the total bill, not on individual prices. As such, prices do not need to be changed in advance, and existing price points (for example such as with items priced at 99p) can remain. There is therefore no need to operate a system of dual pricing.

Rounding will not apply to amounts being paid electronically, such as by debit, credit or store card, and will only apply at the point of sale for the purchase of a good or service by cash or for a transaction in a financial institution such as a bank if, for example, someone is paying a bill in cash at the counter. There has been a general increase in electronic payments as opposed to cash payments, and it is anticipated an elimination of the 1p, 2p and 5 coins and the introduction of rounding will result in greater use of card transactions.



Effects on Inflation and Commodity prices

The table below is based on the figures that were last available in 2019 –

Table 2

	Lowest Quartile	Second Quartile	Third Quartile	Fourth Quartile	All Households
Average Household Income	16,758	29,032	47,586	103,685	49,318
Average Household Spending	18,420	27,980	40,086	73,426	41,201
1, 2 and 5 pence removal cost*	29.16	58.32	58.32	58.32	58.32
% of Income	0.17%	0.20%	0.12%	0.06%	0.12%
% increase in Expenditure	0.16%	0.21%	0.15%	0.08%	0.14%

Source: Statistics branch, Cabinet Office

Based upon this analysis, the economic impact of removing 1, 2 or potentially 5 pence coins would be relatively negligible for most households. Even for the lowest quartile of income earners it only represented 0.17% of their income, and a 0.16% increase in their annual expenditure, which of course need not necessarily be incurred if persons are encouraged to move towards using cards. Most retailers now accept 'tap and go payments', which has reduced or eliminated issues around minimum card charges.

Other jurisdictions, such as Canada, New Zealand and Sweden, where the change has applied rounding to the final bill, and not to individual items, experienced an extremely small (if even noticeable) inflationary impact.

New Zealand hasn't noted any inflationary impact since it removed its 1 and 2 cent coins in 1989.

Canadian research shows that actually undertaking such an initiative could give a momentary boost to the economy as de-monetising these coins would put value back into the economy by giving the public an encouragement to stop hoarding change, and trade the coins for higher denominations.



Consultation

Comments are sought on both the principle and the detail of the proposed changes.

Question 1:

Do you agree that 1p, 2p and 5p coins no longer have any real purchasing power?

Yes/No

Question 2:

Do you agree that some or all of the following coins should be withdrawn from circulation?

1p only: **Yes/No**

2p only: **Yes/No**

1p and 2p only: **Yes/No**

1p, 2p and 5p coins: **Yes/No**

Question 3:

Do you agree with the proposal to introduce rounding?

Yes/No

Question 4:

If you answered no to any of the previous questions, what are your main concerns if any or all of the low value coins are removed and rounding is introduced?



Select your 3 main concerns only:

Area of concern	Please rank your top three main concerns
Inflation – will prices go up?	
VAT – how will it be applied to a bill or a refund?	
Benefit Payments	
Pension Payments	
Bank and/or Post Office Savings Accounts	
Left over coins after a date of change	
Cost of stamps/postage	
Bill payments	
Wages	
Charity donations	

Question 5:

If you have any ideas, observations, concerns or suggestions please enter them below: