

**IMPLICATIONS OF THE EUROPEAN SINGLE CURRENCY**

Accountable Officer: P Timmins (Treasurer)

Author: Alex Colyer (Assistant Treasurer (Corporate Finance)) - MK252243

**1. Purpose**

1.1 To advise the Committee on the implications of the European single currency on the Council.

**2. Summary**

2.1 The UK might be using the new Euro notes and coins as early as the summer of 2003. This will have major implications for the Council. This paper sets out the background for the possible introduction of the Euro and the implications for the Council. In some areas preparation work is already well under way and it is expected that its financial systems will be able to cope, but in others the Council will need to address the implications and make more detailed plans. These will be the subject of later reports.

**3. Background**

3.1 On 4 January 1999 the Single European Currency was launched in 11 of the 15 countries comprising the European Union. Denmark, Sweden and the UK chose not to join whilst Greece did not meet the entry criteria.

3.2 The UK Government has stated that if the economic benefits are clear and unambiguous then it sees no bar to entry but any decision will only be made if supported by the Government, Parliament and the people, through a referendum. It has set five economic tests which have to be satisfied before any decision is taken:

- (a) the UK economy has achieved sustainable convergence with the economies of the economies of the single currency;
- (b) whether there is sufficient flexibility in the UK economy to adapt to change and any other unforeseen economic events;
- (c) whether joining the currency will create better conditions for businesses to invest long-term in the UK;
- (d) the impact on the UK financial services industry; and

(e) whether joining the currency would be good for employment.

- 3.3 The tests are very challenging and the Government has recognised that it will not be in a position to make a decision to join until after the next election. The earliest possible timetable, notwithstanding any political fallout from the European Parliamentary elections, might be as follows:

General Election May 2001; Referendum October 2001

UK Joins (Sterling fixed against the Euro) and the formal transition period begins January 2002

Issue of notes and coins (Dual currency period begins) January 2003

Euro only legal tender (Sterling withdrawn) early Summer 2003 (although a shorter changeover period is being proposed in some quarters)

- 3.4 This would be a much shorter transition than that followed by the rest of Europe. This recognises that the Euro already exists and that, therefore, parts of the UK economy are already dealing with the Euro; large businesses, the City and parts of the public sector. The UK will also be able to learn from others and use IT expertise from elsewhere.
- 3.5 The government, however, has also recognised that it will take a long time for the preparations for entry to be made and finalised. If the business community and the public sector were not in a position to deal with the Euro this would delay the UK's accession. To enable a real choice to be made, therefore, the Government is recommending organisations make arrangements for accession now. To assist in this process it has published its "National Changeover Plan" the implications of which, and the effect on the Council, are the subject of this report.

#### 4. **Issues and Choices**

- 4.1 The Euro is now a reality and the Council needs to make preparations for its wider use whether the UK joins or not. European suppliers are already seeking settlement in Euros and this trend will only increase as the currency becomes more accepted. To facilitate this the Council has opened a bank account denominated in Euros although, to date, there has little demand for its use.
- 4.2 Information is now arriving regularly with the Council and although there are no decisions which need to be taken yet there is a need for a single focus within the organisation to co-ordinate responses. The areas with direct concern for the Euro at present are Corporate Finance (with responsibility for financial systems and the Council's relationships with the banking world) and Economic Development (provision of advice to Small and Medium sized businesses). To respond to this need the Strategic Director (Resources), in consultation with other colleagues, has nominated the Assistant Treasurer (Corporate Finance) to be the Council's "Euro Co-ordinator". As the "project" develops this arrangement may need to be strengthened but it is expected that this will be sufficient at present.
- 4.3 The Council's corporate financial systems (accounting, paying suppliers and invoicing clients) already have "dual currency" capability and so could cope with the Euro today. The Council,

however, has plans to upgrade the software in early 2000 as part of the migration from the AS400 to UNIX hardware platform. This will be through a normal maintenance release which will include full Euro compatibility. The extra functionality revolves around the currency conversion process termed "triangulation". Through this process member currencies have to be converted to Euros before conversion into a third currency.

- 4.4 There will, of course, be major implications for the Council's other financial systems. For all new software being acquired as part of the year 2000 issue the Council has sought assurances, through contractual arrangements, which provide for the Euro. The efficacy of these assurances will only become clear when the full requirements on the systems becomes known. The Council's main cash receipting system is also ready to accept dual currencies now and as other systems, including parking meters and vending machines, are replaced this consideration will also need to be taken into account.
- 4.5 The Council will also face issues outside these areas. All new contracts have clauses which reflect the implications of the Euro and this process will need to be strengthened as more becomes known. It will need to decide on pricing policies (including tax and rent levels), update financial regulations and standing orders, and ensure that school text books and teaching materials are up to date.
- 4.6 The Treasury has found, in recent research, that many small and medium sized businesses will be likely to seek information from their local authority in preference to other sources, although local business support organisations will be the natural first call. Even so the Council's Economic Development will have to facilitate this requirement. The training requirement on Economic Development staff has already been noted and the offer of facilities from the Treasury will be taken up.

## 5. **Implications**

### 5.1 Environmental

None.

### 5.2 Equalities

None directly at present although information to the public will need to be addressed to prevent compounding social exclusion issues.

### 5.3 Financial

It is likely that the additional direct cost of acquiring software and hardware to support the Euro will not be on the scale of the year 2000 costs as most of the costs will be absorbed as part of normal upgrades to systems. There will, however, be indirect costs, mainly staff related, as the Council changes its accounting arrangements. These are not quantified at present but further reports will provide this information. The Treasury, however, expect that organisations will be able to absorb all costs by planning early and taking advantage of new technology such as e:commerce. The extent to which the Council can do this has yet to be tested and, in any case, the Council is already seeking ways of using technology to reduce costs.

5.4 Legal

The paper addresses the issues of prospective UK legislation.

5.5 Staff and Accommodation

None.

6. **Conclusions**

6.1 The Euro is a reality in Europe already and the Council needs to begin planning for implementation now as the timetable for UK membership is likely to be much shorter than for the rest of Europe. The UK might see actual notes and coin in issue as early as the summer of 2003.

6.2 The paper notes that the Council will have financial systems that can deal with the Euro by that time but describes the other issues that will need to be addressed by that time.

Background Papers: Outline National Changeover Plan - HM Treasury

Local Authority Preparations for the Euro - LGA Circular 177/99