

# Funding the Future

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Do you remember that very poor joke from Liam Byrne about the UK having run out of money? It cost Labour dear.

But now the Public Accounts Committee has noticed that money is disappearing in the UK. As they have observed in a report issued this morning, no one knows where UK notes and coin are and what they are being used for:

*In a report published today, Friday 4th December 2020, the Public Accounts Committee says oversight of the production and distribution of notes and coins is “unclear” and “fragmented” across responsible authorities, who have been “behind the curve” in ensuring access to cash for consumers and businesses, and are failing to understand or act on the clear dangers of hardship if the UK continues its “precipitous” move towards a cashless society.*

Their concern about an enforced move to a cashless society is real:

*The reduction in the number of facilities from which to obtain cash, and in the number of businesses that will accept cash, can have a negative impact on the lives of many people, including those in some rural areas, vulnerable and digitally excluded people. Responsibilities are spread across HM Treasury, the Financial Conduct Authority, the Payment Systems Regulator and the Bank of England but no one body is in overall charge of making sure that people and businesses have access to cash.*

I think that issue needs to be addressed but think this more significant:

*Conversely, demand for sterling notes has steadily increased, but the Bank of England does not “appear to have a convincing reason for why the demand for notes keeps increasing” or any real understanding of where approximately £50 billion of issued sterling notes are, or being used for: only that this increasing demand for cash notes in the face of their declining use is “a trend being seen with other major currencies”.*

They add:

*The Bank estimates that 20%-24% of issued notes are used or held for cash transactions. This leaves about £50 billion worth of issued bank notes that may be*

*being used overseas for transactions or savings, or held in the UK as unreported household savings or for use in the shadow economy. The Bank of England doesn't know. There are implications for public policy and the public purse if a material proportion of the large volume of banknotes whose whereabouts or use are unknown are being used for illegal purposes.*

As Meg Hiller MP noted:

*"£50 billion of sterling notes - or about three quarters of this precious and dwindling supply - is stashed somewhere but the Bank of England doesn't know where, who by or what for — and doesn't seem very curious. It needs to be more concerned about where the missing £50 billion is. Depending where it is and what it's being used for, that amount of money could have material implications for public policy and the public purse. The Bank needs to get a better handle on the national currency it controls."*

I agree. As I do with these recommendations:

**The Bank of England seems to lack curiosity about the huge volume of notes not used or held for day-to-day transactions.** The Bank estimates that 20%-24% of issued notes are used or held for cash transactions. This leaves about £50 billion worth of issued bank notes whose whereabouts or use is unknown. These notes may be being used overseas for transactions or savings, or held in the UK as unreported household savings or for use in the shadow economy. The Bank does not have any real understanding of what these notes are being used for though says that it is a trend being seen with other major currencies. During the COVID-19 pandemic there was a significant increase in the value of notes in circulation, which the Bank thinks is probably explained by people being more inclined to hoard cash in case they need it. There are implications for public policy and the public purse if a material proportion of the large volume of banknotes whose whereabouts or use are unknown are being used for illegal purposes.

**Recommendation:** The Bank, working with other public authorities such as HMRC, should take action to improve its understanding of the factors that are driving the increase in demand for notes, and also who is holding the approximately £50 billion worth of notes.

**The Bank of England's stock of notes seems high and it is not clear to us how the Bank decides upon what is an appropriate stock level.** The Bank holds stocks of notes well above its own policies for minimum levels of stocks. For example, at the end of July 2020, it held contingency stocks with a value of £30.4 billion, against its minimum guidance levels of £15.6 billion. We recognise that the Bank would not wish to risk running out of notes. However, we do not understand the Bank's rationale for holding such high levels of stocks. The Bank does accept that it needs to improve the transparency with which it takes decisions on printing notes.

**Recommendation:** The Bank should ensure that it properly records and evidences the judgements it makes about printing notes and its stock levels so that it can be properly held to account for the decisions it makes.

The shadow economy remains a real threat to the UK's ability to deliver fiscal stability. It undermines honest businesses. It creates cultures of mistrust. It harms social cohesion. All of those are big issues. The Bank of England needs to take them seriously.

As if to prove there are credible politicians in the U.K., the Public Accounts Committee has done good work here. I welcome it's findings and recommendations. The Bank of England must be required to act.