

Topic 1: Understand the features of legal tender

After completing this topic, you will be able to:

- define 'money';
- list and explain the characteristics of money;
- list and explain what makes money legal;
- explain what 'legal tender' is, including:
 - what amounts are legal tender; and
 - the position regarding Scottish and Northern Irish notes and coins; and
- explain what happens to old and damaged notes.

What is money?

We use money all of the time: we make payments with it, and we receive money as gifts, or as wages or salary.

Money can be defined as anything that is generally acceptable as a means of exchange, which at the same time acts as a measure and a store of value.

Let us look at this definition in detail.

- **A means of exchange**

We will exchange money for goods and the seller of the goods will take money in payment. For example, we exchange our labour for money and we are happy to take money in payment, because we can use that money to buy the things that we want.

- **A measure of value**

Money is a way of measuring the value of something. One pair of trainers, for example, might cost £75, while another pair of trainers costs £50. Because we can express the value of the trainers in terms of how much they cost, we know which pair is better or of greater value.

- **A store of value**

You might keep your money in a box at home; you can still spend it a year later. It has kept its value (although some prices may have risen) – that is, the £10 note that you have kept still has the value '£10'.



The Bank of England also issues banknotes in the following denominations, featuring the following people:

- a £5 note shows Elizabeth Fry, prison reformer (a new £5 note is to be launched in 2016 featuring Sir Winston Churchill, former Prime Minister);
- a £10 note shows Charles Darwin, scientist (a new £10 note is to be launched around 2017, featuring author Jane Austen);
- a £20 note shows Adam Smith, economist; and
- a £50 note shows Matthew Boulton and James Watt, leading figures of the Industrial Revolution.

The next Bank of England £5, £10 and £20 banknotes will be printed on polymer, a type of plastic that is cleaner, more secure and more durable than paper. Polymer notes can withstand a cycle in a washing machine. These notes are due to be released into circulation between 2016 and 2020.



Every banknote features the pledge 'I PROMISE TO PAY THE BEARER ON DEMAND THE SUM OF [amount]', signed by a chief cashier on behalf of the Governor and Company of the Bank of England. This promise is left over from the days when people could take their banknotes to the Bank of England and exchange them for gold to the same value.

Characteristics of money

In order that money can meet the definition of being 'money' (that is, that it can be a 'means of exchange', a 'measure of value' and a 'store of value'), it has to have certain characteristics.

It must be:

- easily recognised by everyone;
- accepted by people and shops;
- easy to carry around;
- available in different amounts (so that you can buy things of different value and get change);
- always worth the same amount; and
- hardwearing (so that it lasts a long time).

We will look at each of these by using the example of the money in England.

Easily recognised by everyone

For money to be useful as a medium of exchange, it has to be easily recognised by all who use it. In the UK, we have coins of all shapes, sizes and denominations, and we do not have to examine them each time we go shopping to know how much money we are handing over to the shop assistant. We know what our money looks like, and we can tell each coin's denomination by sight, weight, outline and feel.



If you put your hand in your pocket or purse and take out all of the coins, can you tell which one is which without looking at them, simply by their weight and feel?

Did you know?

Coins show the monarch's head in profile. When a monarch dies, the next king or queen is shown with their profile pointing in the opposite direction from the last.

So Queen Elizabeth II's father, King George VI, faced left, while she faces right.



It is the same with banknotes. We can also tell the denomination of each of our banknotes by the images on them and by their size.



Activity 1b

Without looking at them, describe the colour and characteristics of the following banknotes.

- a) A £5 note

b) A £10 note

c) A £20 note

Accepted by people and shops

We use our notes and coins to pay for goods in shops, and the law states that the notes and coins *have* to be accepted. There would be no point in having 'money' if we were to have to *persuade* each shop owner to accept it as payment for goods, or if that shop owner were to prefer to be paid in rice or beer.

In order for money to work, it has to be universally accepted by everyone and for everything. This is known as being 'legal tender'.



Easy to carry around

Our notes and coins are easy to carry around. Notes fit easily into a wallet or purse and so do coins, as long as you do not have too many. Coins are deliberately made small enough to be convenient: it would be no good if each coin were to be the size of a CD and the weight of a tin of beans, and if we were to need a small wheelbarrow to take our money to the shops.

Many of us leave coins at home, because they can become too heavy.



Activity 1c

Discuss what you do with your loose change.

- **Do you save it somewhere?**
- **Do you collect 20p coins and then swap them for notes at the bank?**

Available in different amounts

It is important that you can buy things of different value and get change. The range of notes and coins in the UK means that you can get change quite easily.



Activity 1d

Work out the change that you would expect to receive when paying the amounts listed in the table below. Then work out how that change might be given to you using the fewest notes and coins.

The first entry has been completed for you as an example.

Amount paid	Denomination paid	Change received	Denomination received
£2.50	1 x £5 note	£2.50	1 x £2 coin 1 x 50p coin
£3.94	4 x £1 coins		
£7.79	1 x £10 note		
£11.43	3 x £5 notes		
£14.27	1 x £20 note		
£36.21	2 x £20 notes		
£55.69	1 x £50 note 1 x £10 note		
£88.60	1 x £50 note 2 x £20 notes		

Always worth the same amount

When you save your money, you want it still to have the same value when you eventually decide to spend it. So each unit of money must be reasonably stable and able to hold its value. We will put money into a bank account knowing that it will have a similar value at the end of the month or year.

You must, however, take into account the fact that if you store your money for a very long time, its face value will remain the same, but the price of goods is likely to have gone up. This is called inflation.

Hardwearing

Notes and coins have to be hardwearing because they change hands thousands of times. Coins rattle around in piggy banks, purses and in trouser pockets; they are bagged up and taken to the bank, only to be paid out again. They get put in car park ticket machines, parking meters, supermarket tills and slot machines. Notes get folded, unfolded, fed into machines and dispensed from automatic teller machines (ATMs). Notes and coins are expensive to produce, so they have to last.



Activity 1e

Look at the coins in your pocket.

- **What dates do they have on them?**
- **Who in your class or group has the oldest coin?**

Did you know?

Coins do last a long time. Modern coins are made of metals that make them hardwearing. The Royal Mint says that the average life of a coin is 40 years.

Banknotes can, however, be accidentally damaged.



Have you ever left a note in the pocket of a pair of jeans?

Did you know?

If you damage a note, you can fill in a special form and, if it can confirm that the pieces of paper are actually a proper note, the Bank of England will replace the note.

The following table gives the statistics for damaged notes in 2015.

Reason	Number of notes	Value of notes '000s
Torn / part note	10,671	£1,871
Chewed / eaten	5,365	£128,000

Washed	1,801	£61
Contaminated	2,912	£8,653
Fire / flood damage	997	£543
Total	21,745	£11,256

Source: www.bankofengland.co.uk

Banknote destruction

The Bank of England withdraws banknotes if they are worn or torn and replaces them with new notes. The life of a note ranges from around one year for the £5 note to five or more years for the £50 note.

Note-sorting machines separate those notes that are too dirty or damaged for further circulation. Notes are shredded; the resultant material is then used as landfill or taken to an industrial incinerator for burning.

Did you know?

The Bank of England has supplied the following statistics for its destruction of banknotes between 2005 and 2015.

	£5	£10	£20	£50	Total
2005–06	97m	280m	265m	6m	648m
2006–07	135m	309m	273m	6m	723m
2007–08	189m	312m	526m	7m	1,034m

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2008–09	151m	304m	371m	4m	830m
2009–10	147m	293m	433m	8m	882m
2010–11	149m	300m	657m	7m	1,113m
2011–12	132m	295m	223m	17m	666m
2012–13	184m	246m	198m	217m	845m
2013–14	185m	281m	191m	37m	694m
2014–15	200m	235m	192m	35m	662m

Source: www.bankofengland.co.uk

Legal tender

Legal tender means that, by law, people must accept certain coins and banknotes in payment of a debt. It does not mean, however, that other forms of payment are illegal. If a form of money is generally accepted, it can be used.

In England, Wales, the Channel Islands and the Isle of Man, the £5, £10, £20 and £50 notes are legal tender for payment of any amount. They are not, however, legal tender in Scotland.



Circulating coins are legal tender throughout the UK for the following amounts:

- £5 – for any amount;
- £2 – for any amount;
- £1 – for any amount;
- 50p – for any amount not exceeding £10;
- 20p – for any amount not exceeding £10;
- 10p – for any amount not exceeding £5;
- 5p – for any amount not exceeding £5;
- 2p – for any amount not exceeding 20p; and
- 1p – for any amount not exceeding 20p.



Activity 1f

- a) **Suppose that Dale borrows £5 from Shabiya and offers to pay it back in 1p coins. Does the law say that Shabiya has to accept 500 x 1p coins?**
- b) **Suppose that Kim offers a bus driver a £20 note to pay for a £1.20 fare and the bus driver refuses to accept it. Is the bus driver within his legal rights to refuse?**

There is a difference between repaying a debt and paying for a service that you have not yet received. If you are repaying a debt, the person whom you are paying *has* to accept the money in whatever denomination you offer. If you are paying for a service that you have not yet received, the person whom you are paying does *not* have to accept payment in small denominations.

Forgery

Over time, many people have attempted to copy banknotes: it is, after all, like printing money. The Forgery and Counterfeiting Act 1981 makes it a criminal offence for any person, without the prior consent in writing of the Bank of England, to reproduce any Bank of England banknote or any part of a Bank of England banknote.

The Bank of England also owns the copyright in its banknotes.



What makes the banknote legal and acceptable?

It is important that banknotes have security features that are difficult to copy. This allows people to tell whether they have real banknotes or forgeries. It is important that people have confidence that their banknotes will be accepted in payment, otherwise the system of paper money cannot work.

HM Treasury (a government department) is responsible for defining which notes are 'legal tender' in the UK. The Bank of England has the following to say about what makes a banknote 'legal':

The term legal tender does not in itself govern the acceptability of banknotes in transactions. Whether or not notes have legal tender status is a matter of agreement between the parties involved. Legal tender has a very narrow meaning in relation to the settlement of a debt. If a debtor (the person who owes money) pays in legal tender the exact amount he owes under the terms of a contract, he has a good defence in law if he is subsequently sued for non-payment of the debt.

Source: www.bankofengland.co.uk/banknotes/Pages/about/faqs.aspx



Activity 1g

Visit www.bankofengland.co.uk and click on 'Banknotes', then 'Current banknotes'. Scroll to the bottom of the page and read the pdf booklet on security features entitled 'Take a closer look'.

a) *What are the seven features on £5 and £10 notes that help you to check that a note is real?*

b) *What extra security feature do £20 and £50 notes have?*

As mentioned above, all Bank of England notes are signed by the Chief Cashier and feature the pledge 'I PROMISE TO PAY THE BEARER ON DEMAND THE SUM OF [amount]'. The 'bearer' of a banknote is anyone who has it in their hand.

New banknote designs

New notes are issued and designed as new security features are introduced. At the time of writing, the most recent £20 note has a picture of Adam Smith. This was introduced in 2007. The previous £20 note was withdrawn from circulation in June 2010.

On 2 November 2011, the most current £50 note was launched featuring the images of Matthew Boulton and James Watt, leading figures of the Industrial Revolution. This is the first time that a banknote has images of two people instead of only one.

If new notes are to be introduced (for example, when the new £10 note featuring Jane Austen is launched in 2017), both the old and new notes are in circulation together while the old ones are gradually withdrawn through the note destruction system at which we looked above. This process takes around two to three years. Finally, the Bank of England will give between one and three months' notice that the old design is being withdrawn completely and will cease to be legal tender.

Even after it has been withdrawn, it is possible to get a replacement note of the new style through your own bank, by completing a form.

Did you know?

The last denomination to be withdrawn was the £1 note in 1988, when it was totally replaced by the £1 coin.

Scottish and Northern Irish banknotes

There are three banks in Scotland and four banks in Northern Ireland that are permitted to print and issue their own banknotes.

The three banks in Scotland that do so are:

- Bank of Scotland;
- Royal Bank of Scotland; and
- Clydesdale Bank.

The four banks in Northern Ireland that can do so are:

- Bank of Ireland;
- First Trust Bank (a trading name of Allied Irish Banks);
- Northern Bank; and
- Ulster Bank.

Scottish banknotes are 'legal currency' – that is, they are approved by the UK Parliament – but they are not 'legal tender' anywhere, not even in Scotland. In fact, there is no banknote that qualifies as 'legal tender' in Scotland; the only legal tender in Scotland is English coins (in the same denominations as previously described). It is because traders in Scotland accept the banknotes as payment that they can be considered money; they are also usually accepted in England and Wales – although people outside Scotland can be unfamiliar with the notes and so refuse to accept them. They are unlikely to be accepted outside the UK.

The value of a Scottish banknote is the same as its English equivalent, so a Scottish £5 note is worth the same as an English £5 note. They are issued in the same denominations as notes from the Bank of England – that is, £5, £10, £20 and £50 – although the Scottish banks also issue a £100 note.

Bank of Scotland has two series of banknote currently in circulation: the 'Bridges' series (each denomination depicting a different bridge in Scotland), and the 'Tercentenary' series (to commemorate the 300th anniversary of the founding of Bank of Scotland, with each denomination carrying a portrait of Sir Walter Scott on its front).

Royal Bank of Scotland banknotes feature on their fronts a picture of Lord Ilay, who played an important part in establishing Scottish banking, and who was also involved in the foundation of Royal Bank of Scotland. On the back of the notes, each denomination carries an image of a different Scottish castle.

Clydesdale Bank also has two series of banknote in circulation: the 'World Heritage' series and the 'Famous Scots' series.

Banknotes issued by banks in Northern Ireland have the same legal status as Scottish banknotes, although they are rarely seen outside Northern Ireland, and are often not accepted in England and Wales without some explanation.

Sterling banknotes from Northern Ireland should not be confused with the Irish pound (or punt), the former currency of the Republic of Ireland, which was replaced by the euro in 1999.

These seven Scottish and Northern Irish banks were given the right to issue their own banknotes in 1845, but legislation has been introduced to update and modernise the framework of rules that cover the issuance of banknotes.

The Banking Act 2009 and the Scottish and Northern Ireland Banknote Regulations 2009 now give the Bank of England responsibility for regulating the issue of banknotes. The rules contained in these two pieces of legislation are designed to ensure that holders of Scottish and Northern Irish banknotes receive a similar level of protection to that provided to holders of Bank of England banknotes. In other words, if any of the issuing banks were to fail (that is, to become insolvent), the value of the Scottish or Northern Irish banknotes would be guaranteed by the Bank of England. The rules came into force on 24 June 2011 and are called The Scottish and Northern Ireland Banknote Rules 2011. The rules also cover the destruction of banknotes.

Did you know?

Scottish banknotes in circulation total around £3.5bn in value.

Northern Irish banknotes in circulation total around £1.8bn in value.



Review questions

1. What does 'denomination' mean?
2. What is 'legal tender'?
3. Is legal tender the only form of money that you can use to buy things?
4. Can you list all of the characteristics of money?
5. Who makes the coins used in the UK?
6. What promise appears on all English banknotes?
7. Who issues English banknotes?
8. Who issues Scottish banknotes?
9. Name seven security features that appear on English banknotes.
10. What happens to worn banknotes?
11. What happens if the Bank of England decides that a design must be replaced?

Learning activities



Internet

Visit www.bankofengland.co.uk

- Find out how many banknotes the Bank of England has produced in the last three years.
- Look at the old designs of some banknotes. They are in the section marked 'Withdrawn banknotes', under 'Withdrawn banknotes reference guide'. Look at the old white £5 notes and the 10/- (that is, ten shilling) note, equivalent to 50p.
- Ask any of your older relatives if they remember £1 notes and 10/- notes.



Group

- Choose one historical character shown on the back of a banknote. Find out when that person lived and why they became famous.
- If you are in Scotland, find examples of banknotes from Bank of Scotland, Royal Bank of Scotland and Clydesdale Bank.



Individual

Visit http://en.wikipedia.org/wiki/Euro_banknotes and look at the seven different euro banknotes (from €5 to €500).

- What do you notice about the designs and where they come from?
- What special features are there for blind people?
- How can you tell which country within the euro area issued a particular banknote?



Key points for Topic 1

You should now understand:

- what is meant by 'money' and be able to explain all of the parts of the definition;
- the characteristics of money and be able to explain each one;
- the five features that make money legal and be able to explain each one;
- what 'legal tender' is, including the amounts of coins that are legal tender in England, why a bus driver can refuse a £20 note for a fare and why Scottish/Northern Irish notes are not legal tender in the UK, but are accepted in some shops;
- what happens to old and damaged notes;
- why the Bank of England might withdraw some note designs and replace them.