pay.uk

Annual Report and Financial Statements

Year ended 31 December 2019

Pay.UK Limited
Annual Report and
Financial Statements
Year ended 31 December 2019

Company Registration
No. 10872449
(A Company Limited by Guarantee)

Contents

Officers and Professional Advisers

(as at date of signing the Annual Report and Financial Statements)

Independent Chair

M Johnson

Directors

R Anderson – Independent Non-Executive [1,2,4]
C Ashton – Independent Non-Executive [2,3,7,8]
A Bradley – Independent Non-Executive [1,3,4,5]
T Fitzpatrick – Independent Non-Executive [1,2,4,8,9]
P Horlock – Chief Executive Officer [1,3,7,8]
M Hunt – Chief Operating Officer [3,7,8]
M Johnson – Independent Chair [1,2,3,5,6,7,9]
N Oestmann – Non-Executive [3]
J-Y Rotté-Geoffroy – Independent Non-Executive [3]
R Saunders – Non-Executive [3,7,9]
R Stansbury – Senior Independent Non-Executive [1,4,9]
P Wyman – Independent Non-Executive [5,6,7,8]

Key

[1] denotes member of Risk Committee

[2] denotes member of the Security Sub-Committee

[3] denotes member of the NPA Programme Committee

[4] denotes member of the Audit Committee

[5] denotes member of the Nomination Committee

[6] denotes member of the Remuneration Committee

[7] denotes member of the Finance Committee

[8] denotes member of the Managed Services Committee

[9] denotes member of the Legal, Governance & Standards Committee

Registered Office

2 Thomas More Square
London
E1W 1YN

Registered Number

10872449

Auditor

BDO LLP
150 Aldersgate Street
London
EC1A 4AB

Chair's Introduction

In 2017 I was appointed to establish and lead the Board of Pay.UK, to bring about the merger of the three retail payment systems and their service company, and to establish the new Board's governance over the continuation of the robust and resilient service of the retail payment systems, which combine to form a critical national infrastructure.

One of the first steps was the recognition by FMID of the new organisation as operationally ready to take over as the UK's retail payment system operator and the establishment of Pay.UK as the formal name for the new organisation in 2018. From this base we then sought to integrate the people and operations of four individual entities into one, fully-consolidated operating model. This was successfully achieved in 2019, with Pay.UK now the home for the people and services previously operating within Bacs, Faster Payments, the Cheque and Credit Clearing Company and UK Payments Administration.

In addition, last year saw the continuation of our programme to drive the evolution of retail payments in the UK and we have pressed ahead with the innovations we could deliver immediately. For example, we inherited a long-standing programme of change for cheques. We embraced the project and drove the completion of a new clearing process that is purpose-built and fit for end-user requirements in the twenty-first century. Now, images of cheques are electronically exchanged and cleared through the Image Clearing System.

With 257 million cheques processed in 2019, the new system also has a positive environmental impact, removing the need for transporting physical cheques.

Pay.UK has been tasked with delivering a world-leading payments system designed to meet rapidly changing end user needs in a fast-evolving technological landscape. It is a major undertaking and we are fully engaged in the next phase of this evolution. This is the delivery of the New Payments Architecture (NPA), envisaged by the Payments Strategy Forum's Blueprint for the Future of UK Payments, published at the end of 2017.

A review of our work to date on the NPA Programme took place last year, which highlighted the challenges in managing the NPA Programme in tandem with the work involved in the creation of Pay.UK. The review also detailed the significant progress that we had already made on a number of aspects of the NPA including Confirmation of Payee and Request to Pay, with more information on these new services appearing later on in this report.

We continue to fulfil our strategic objectives, and the Board is held accountable for that delivery by our Guarantors. I'm very pleased we have been successful in attracting a range of Guarantors, with 38 in place at the end of 2019. Pay.UK wants to develop this group further over the coming year with representatives from all areas of our complex payments ecosystem.

In the meantime, it would be impossible to ignore the challenges and disruption caused by the Covid-19 pandemic in 2020. Our colleagues and partners, from Guarantors to participants, service users, software suppliers, bureaux, our infrastructure provider and industry bodies have all been impacted, and we are all facing a number of different challenges that we did not anticipate. We are so fortunate to have the skills of our colleagues in maintaining so much throughout this period. People are at the heart of our business and we will continue to work hard to protect them and to ensure payments continue to run smoothly and quietly in the background.

Having successfully achieved the objectives I was tasked to deliver at the time of my appointment, the time is now right for me to hand the baton to a new Chair and I will complete my term of office at the end of this year. My Board colleague and Senior Independent Non-Executive Director, Rob Stansbury, has also decided not to seek a further term. We both hope that the Pay.UK Board will continue to drive the implementation phase of the NPA successfully.

Last but not least, I would like to thank all my colleagues on the Board for their hard work, dedication, enthusiasm and support over the last three years or so. I am very proud of what we have all achieved together.

Melanie Johnson
Chair

Last year saw the continuation of our programme to drive the evolution of retail payments in the UK.

CEO Report

2019 was an absorbing and constructive year for Pay.UK as operator of the UK's retail payment systems: the Bacs Payment System, the Faster Payment System and the Image Clearing System. The year saw significant internal changes for us whilst we continued to oversee the operation of our critically-important national payments infrastructure, enabling robust and resilient payment services.

As well as operating and safeguarding the core payments infrastructure, we have been tasked to deliver a new, shared retail payment infrastructure for the UK.

Last year we completed the process that culminated in our colleagues from the Bacs, Faster Payments and cheque payments subsidiary entities, as well as UK Payments Administration, transitioning to become direct employees of Pay.UK, supporting our business capacities and strategic objectives. We also successfully completed the migration of cheque processing from a paper-based system to the Image Clearing System, allowing us to finalise the full transition to our target operating model.

Successfully concluding this transition from four organisations into one, thereby creating a body able to meet the current and evolving payment needs of the UK was a key achievement for us. Even more importantly, it was achieved whilst we efficiently maintained operation of the systemically-important financial market infrastructure that we all rely on.

Last year it was important for us to secure our foundations to ensure that everyone in the organisation was clear on expectations, so that we all understand our respective roles in the evolution of the payments ecosystem.

The starting point for this was to define our mandate clearly. Pay.UK is a recognised payment systems operator and ensuring that the UK's payment systems remain robust and resilient is our key priority.

As well as operating and safeguarding the core payments infrastructure, we have been tasked to deliver a new, shared retail payment infrastructure for the UK. This is the New Payments Architecture - the NPA - that we are developing for the future benefit of participants and end users alike.

In 2019 we undertook a review and then a resulting reset of the NPA Programme. Whilst the review highlighted some of the excellent work achieved so far, it also drew out the huge challenges we faced initiating the NPA Programme at the same time as a complex migration of colleagues from four companies into one to create Pay.UK. Undoubtedly some of these changes have impacted the pace of our progress, but this investment of time is likely to yield better outcomes for everyone in the long run.

The standards and rules to assure the integrity of the country's payments infrastructure are also set by Pay.UK, along with those in the wider payments ecosystem. This is where we have contributed towards enabling and supporting the launch of both Confirmation of Payee and Request to Pay, helping to guard against some risks to the core payments infrastructure and providing opportunities to fix instances of customer detriments.

We also have a broader guardianship role that sees us guiding, rather than prescribing, what goes on in the wider payments market, further away from the core infrastructure. An example of our work in this space is our consideration of consumer protection issues in our payment systems, in response to concerns about losses from authorised push payment (APP) fraud. This guardianship role is also where we see an opportunity for the market to develop services and opportunities. If we see market failure or gaps, then we will seek to act as a market catalyst to support development.

Alongside all of this, engagement continues to be a significant aspect of our work. We have engaged with participants and stakeholders closely and we have worked hard at making sure our engagement is timely and relevant. Over the last 12 months, Melanie Johnson and I have met regularly with our participants on a one-to-one basis, to discuss the critical items on our respective agendas. The formation of the Strategic Participants Group (SPG) early in 2020 is now ensuring that this dialogue is able to have direct connection to the development of the NPA.

The spectre of Covid-19 has overshadowed 2020 so far. Whilst this report focuses on 2019, it is impossible to ignore the pandemic's impact on the UK and the payments market as a whole, as we reflect on our position and aspirations. We have continued to work closely with all of our stakeholders and sought ways to improve the quality of the conversation between us at this time.

Alongside our continuing operation of robust and resilient payment systems, the safety and well-being of our colleagues remains a key priority. Our colleagues ensure our ongoing ability to deliver and I'd like to take this opportunity to thank them for the diligence and commitment they continue to demonstrate, which is vital to Pay.UK and the economy as a whole.

Paul Horlock
CEO

Operations

Executive Summary

Payments are the lifeblood of the UK economy. Operating the country's retail payment systems as a systemic risk manager is our front-line, core function. By focusing on the delivery of a robust and resilient infrastructure, along with the standards and rules that enable interoperable, bank-to-bank payments, we are committed to maintaining the UK's position at the forefront of world-leading payment operations.

In 2019 the systems we manage saw payment transactions reach an all-time high, with businesses and individuals making 9.2 billion transactions with a combined value of £7.4 trillion. Whether paying by Direct Debit, cheque or Faster Payment, Pay.UK offers consumers and businesses a rich and varied choice of how to pay. Alongside this range of payments it is vital that end users have complete faith in the systems they use and, therefore, it is reassuring to see that confidence reflected in record-breaking figures for our operations.

2.4 billion Faster Payments processed through the Faster Payment System last year - a 19% increase on 2018 - with a value of £1.9 trillion. This is an annual volume and value record for the Faster Payment System, which was launched in May 2008.

In addition, volume and value transactions in the Bacs Payment System both showed small increases. In 2019 the system processed 6.5 billion Direct Debits and Direct Credits to a value of £5.0 trillion, which is an annual record.

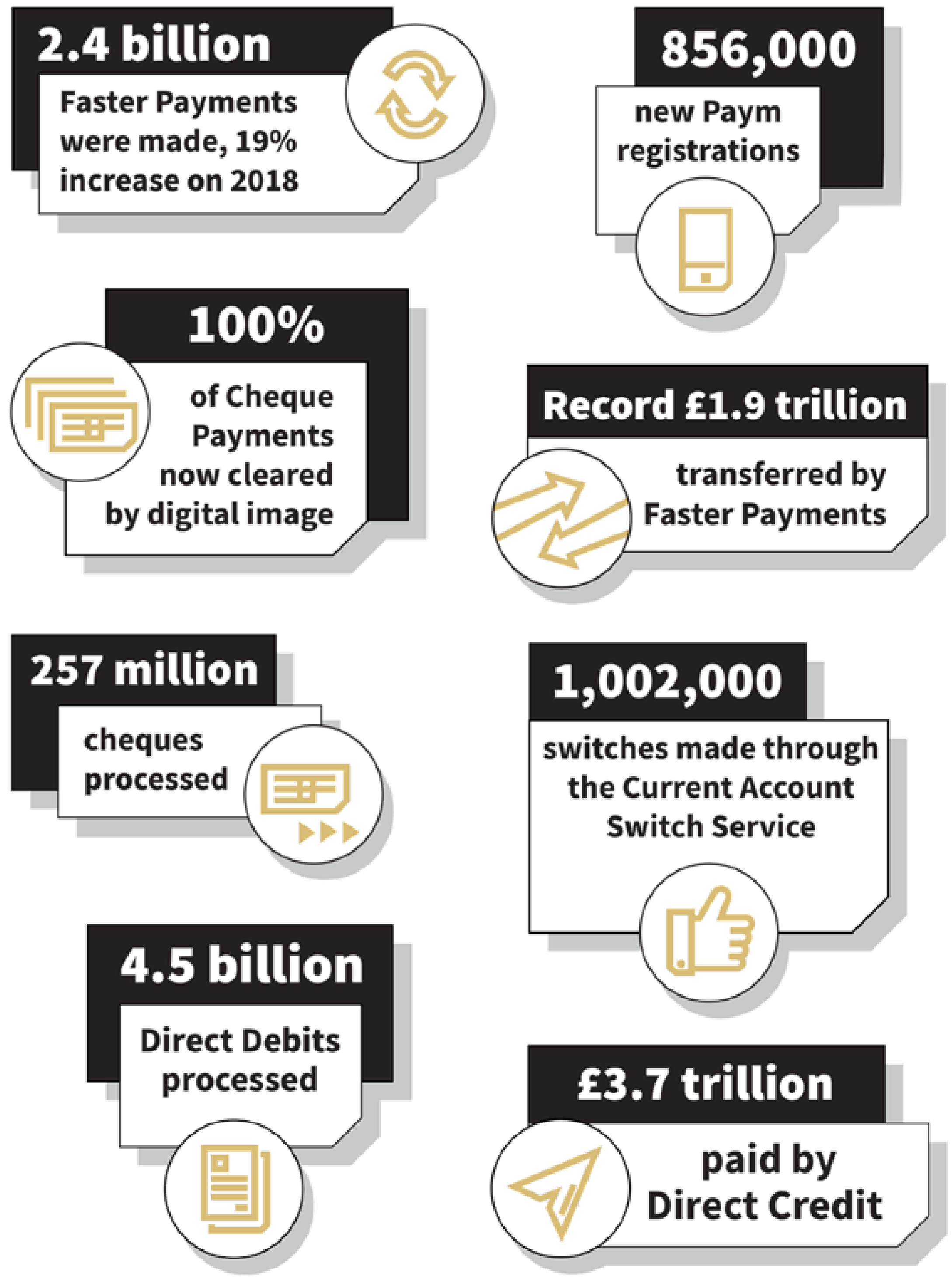
The number of cheques processed increased slightly year-on-year, totalling 257 million in 2019 (2018: 254 million). This is due to cheques now being cleared as images rather than as pieces of paper, with the result that more cheques are now cleared centrally rather than within banking groups. The migration of cheques from a paper-based to an image-based system was a challenging programme for the industry as a whole, but has served as valuable insight into the collaboration required for the development of the New Payments Architecture.

The completion of the cheque imaging project and the subsequent final transfer of Cheque and Credit Clearing Company colleagues into Pay.UK marked the end of our transition phase. Less than two years ago we were running as three separate payment systems. We have now brought all of the payment systems and their associated colleagues together into Pay.UK, achieving full consolidation.

In addition to managing the payment systems, a key role we carry out is that of 'assurance' – reviewing the effectiveness of our participants' internal controls relating to the payment systems, specifically those identified as critical or systemic to Pay.UK. Whilst our participants have a natural incentive to operate resiliently in the payment system, it is right that we work closely with them on this. In 2019 we undertook approximately 200 assurance reviews across the UK's payment systems and services. The team worked to identify risks and implement mitigating actions, with the support of participants, helping Pay.UK manage systemic risk.

Operating the country's retail payment systems as a systemic risk manager is our front-line, core function.

pay.uk Payments in 2019



Source: Pay.UK analysis of payment data - 1 Jan to 31 Dec 2019

Bacs Payment System

In 2019 Bacs welcomed three new participants – Atom, PayrNet and Modulr, bringing the total number of direct participants up to 26. Bacs processed 6.5 billion transactions worth just over £5 trillion during the year. In November 2019 a new daily record was set of 124 million Bacs Payment transactions – equating to 8 million payments for every hour that the processing window was open, or just over 133,000 payments each minute.

A record 4.5 billion Direct Debits were processed in 2019 by the Bacs Payment System, with a value of £1.3 trillion. Although the number of Direct Credits (used to pay salaries, pensions and benefits) decreased slightly, to 2 billion, the value of these payments showed a year-on-year increase, to £3.7 trillion - its highest total ever.

	2019	2018
Volume	**6.5** billion	**6.5** billion
Value	**£5.0** trillion	**£4.9** trillion

Faster Payment System

In 2019 the Faster Payment System experienced another year of growth. Seven participants were successfully on-boarded: four non-bank payment service providers (Spectrum Payment Services, PayrNet, Modulr and Revolut) and three challenger banks (Bó, N26 and LHV Pank). The Faster Payment System now has 34 directly connected participants. Pay.UK processed 2.4 billion Faster Payments in 2019, a 19% increase on the year before, with a value of £1.9 trillion. This is an annual volume and value record for the Faster Payment System.

	2019	2018
Volume	**2.4** billion	**2.0** billion
Value	**£1.9** trillion	**£1.7** trillion

Cheques and the Image Clearing System

In 2019 the cheque experienced a new chapter in its long and eventful history. After 360 years of being cleared as pieces of paper, the completion of the rollout of the Image Clearing System (ICS) saw all cheques being cleared as images.

At the start of 2019 two cheque clearing systems - paper and image - were running in parallel. In August the banking industry completed its migration to full usage of the ICS, which meant that the paper clearing system (PCS) could then be decommissioned.

With the PCS no longer in use and the need to exchange paper to settle no longer required, the system, at our request, had its designation under the Settlement Finality Directive revoked. This was confirmed by the Bank of England's Financial Market Infrastructure Directorate in October last year. Subsequently, having successfully completed the move to ICS, we formally integrated the cheques business into Pay.UK in November 2019. Although this was only an internal organisational change, it marked the final phase of our transition from three payment scheme companies into one, single, retail payments authority.

In 2019 we processed 257 million cheques for payment. We welcomed one new participant to the ICS in 2019 - Starling Bank. The ICS now has 20 direct participants.

	2019	2018
Value	**£391** billion	**£326** billion
Volume	**0.26** billion	**0.25** billion

Current Account Switch Service

The Current Account Switch Service provides a simple and stress-free way for consumers and businesses to move their current account. It acts as a reliable switch process where and when demand exists, rather than having responsibility for creating a demand for switching. Just over a million current accounts were switched in 2019, taking the total number of switches since the service's launch in September 2013 to 6.3 million.

Habib Bank, Zurich plc and Unity Trust Bank joined the Current Account Switch Service in 2019. This took the total to 49 participants covering 99% of the market, ensuring that the service offers an increasingly broad range of banks and building societies to choose from when considering switching.

Market research tells us that consumers and businesses are confident to use the service to switch accounts. The Current Account Switch Service also met all of its regulatory Key Performance Indicators in 2019. 99.2% of switches were completed within seven days and consumer satisfaction ratings averaged 92% across the year. The service also has a positive engagement rate, with 80% of consumers saying they are aware of it.

Paym

Paym, the UK's mobile payment service, provides end users with the ability to make a payment without needing the recipient's account number or sort code. Payment volumes increased year-on-year by 29%, totalling 9.1 million transactions, with a value of £1.4 billion. There were 856,000 registrations during the year (a year-on-year increase of 18.5%). This brought the total number of registrations to 5.5 million.

Research conducted during 2019 found that 79% of Paym users are totally and/or very satisfied with the service. Awareness of the service among non-users remains low, at 13%. Our participants will decide, as part of their own competitive offerings, whether to promote Paym further.

Authorised Push Payment Fraud Scams

On 26 July 2019, Pay.UK received a 'change request' from UK Finance on behalf of seven Faster Payment Service direct participants. This request proposed a change to the Faster Payment System rules, introducing a levy payable by participants on each transaction. This levy would finance a central fund that would be used to reimburse victims of APP fraud in a 'no-blame' scenario (where neither the customer nor their payment service provider is at fault).

As a result of receiving this change request, on 27 August we issued a Call for Information (CfI) to seek views, insights and information from those who would be affected by this change. Following analysis of responses to the CfI, we concluded that whilst everyone supported compensation for innocent victims of fraud, we could not proceed with the rule change due to a range of reasons, including that there was no industry consensus to finance a central fund for this purpose.

As a part of this decision, we proposed exploring whether other Faster Payment System rule changes could help in this scenario. The conclusion of our engagement on this topic was that the issue of consumer protection in the Faster Payment System should be explored further, without impacting ongoing work being carried out to improve the effectiveness of the existing Contingency Reimbursement Model.

It was also considered important that the industry should start to develop broader consumer protections in recognition of Open Banking changing the Faster Payment System use case. In light of all of this Pay.UK established a consumer protections project to focus on this topic, alongside UK Finance, with a working group consisting of participants and end users. The project is due to run throughout 2020.

Bulk Payment Redirection Service

The Bulk Payment Redirection Service (BPRS) offers an easy and cost-effective way to ensure payments continue to be received when a sort code and/or account number is changed. It uses the proven central redirection facility that was developed for the Current Account Switch Service.

The BPRS represents a step-change in increasing the ease with which organisations that are too large to use the Current Account Switch Service - such as local authorities, government departments and corporate Direct Debit service users - can switch their payment service provider. This helps to reduce stress, cost and improve efficiency. In 2019 implementations were completed for four different financial institutions.

CISA

The Cash ISA (CISA) Transfer Service automates the communication between the two financial organisations (new and old) involved in a Cash ISA transfer. The service was developed in response to the changing regulatory landscape relating to the speed of the transfer of Cash ISAs. By the end of 2019, the service included 53 live participants and had processed over 550,000 ISA transfers for the year.

Universal Trust Service Provider

Trading since May 2017, Universal Trust Service Provider (UTSP) provides cost-effective public key infrastructure solutions to banking and financial institutions in the UK wishing to join the Faster Payment System and the Bacs Payment System.

UTSP manages and stores digital certificates to ensure customer information remains secure. In 2019 it successfully helped 19 customers securely access the central infrastructure, with five more expected to join the service in 2020. UTSP had a 43% year-on-year increase in certificate users last year. It also broadened its service offering by providing certificates to Pay.UK overlay services, such as RtP.

Facilities Management

A Facilities Management (FM) organisation provides businesses with access to the Direct Debit payment method without the business having to be a service user itself. In 2018 the PSR issued Specific Direction 7 (SD7), which asked Pay.UK to address issues that had been reported to them regarding the lack of competition within the FM sector.

As a result Pay.UK implemented an accreditation process, and around 70 providers are now accredited through this process. During 2019 Pay.UK launched an industry-wide consultation to assess the effectiveness of the accreditation process and also to understand the issues relating to 'bundled products'.

Following analysis of the responses, and as a means of improving the effectiveness of the process, Pay.UK subsequently updated its documentation for commercial FM providers and sponsoring participants in early 2020.

Innovation through overlay services

During 2019 we saw significant progress in the development and delivery of two key market overlay services, Confirmation of Payee (CoP) and Request to Pay (RtP). In its guardianship role, Pay.UK is overseeing the development of the rules and standards that underpin these services and, in the case of CoP, is assisting participants and their organisations to coordinate their implementation. The services themselves are being developed through competitive markets to help drive a vibrant economy.

Confirmation of Payee rollout

In late 2018 Pay.UK published the rules and standards for CoP, an account name checking service designed to help reduce certain types of payment fraud.

Since then we have been supporting our participants to coordinate their implementation of CoP rules and standards as well as supporting their introduction of CoP into the market. This includes the six major banks that were initially mandated by the PSR to introduce CoP for all Faster Payment and CHAPS payments by 31 March 2020, although this deadline was extended until 30 June 2020 in light of the Covid-19 outbreak.

Request to Pay pilot testing

RtP is a set of rules and standards to enable the creation of a secure messaging service that can be overlaid on top of existing payments infrastructure. The service will mean that people, organisations and businesses will be able to 'request' payment for goods or services rather than send a bill.

Early in 2019 we commissioned research to test the RtP proposition with stakeholders. Over 70 service users and potential providers took part to consider the opportunities RtP could create. In addition, over 400 organisations participated in our open sandbox test environment to help refine the technical specifications, rules and standards.

In the autumn we conducted a successful pilot of the service where the full range of messages and potential responses were successfully tested using externally-built software. Although the Covid-19 outbreak delayed publication of the RtP framework, it was successfully launched at the end of May 2020.

The New Payments Architecture Programme

In 2016 the Payments Strategy Forum (PSF), a working group created by the PSR, put forward a vision of the UK's future payment operations. Their specific focus was on the infrastructure that businesses and people use to pay each other, pay bills and pay salaries.

These ideas were detailed in a report which recommended that, instead of running all the different retail payment operations from different companies and on different systems and standards, they should all be run by one single operator to make the systems more aligned, secure and interoperable – this led to the creation of Pay.UK.

The other significant proposal from the PSF related to the modernisation of our national retail payments infrastructure; referred to as the New Payments Architecture or NPA. A working group of industry experts and leaders from banks, building societies, fintechs and end users worked over a two-year period to consider the best approach and design for the NPA. Their conclusions were produced in a document called the '*Blueprint for the Future of UK Payments*'.

Pay.UK launched the NPA Programme to test and challenge the conclusions in the blueprint and then to implement a new clearing and settlement system to support the wider ecosystem in meeting the changing expectations of users.

Last year we reached some key milestones in our journey to design, create and operate the NPA, as well as taking great strides towards delivering early benefits to end users via two key overlay services, CoP and RtP.

Independent assurance review

In 2019, we commissioned an independent assurance review that examined the direction and approach of the NPA Programme. The conclusions from this report highlighted a number of key recommendations to further strengthen the programme's approach, which saw us:

- **Establish an NPA Directorate:** We restructured the NPA team and ways of operating to support future work
- **Align and baseline the programme foundations:** Initiating a reset plan to clarify and confirm the programme's business case
- **Agree the scope:** Seeking to identify an achievable programme scope with the industry, in detail and within realistic timelines.

In 2020 we will continue to progress the programme in these areas.

Engagement with NPA stakeholders

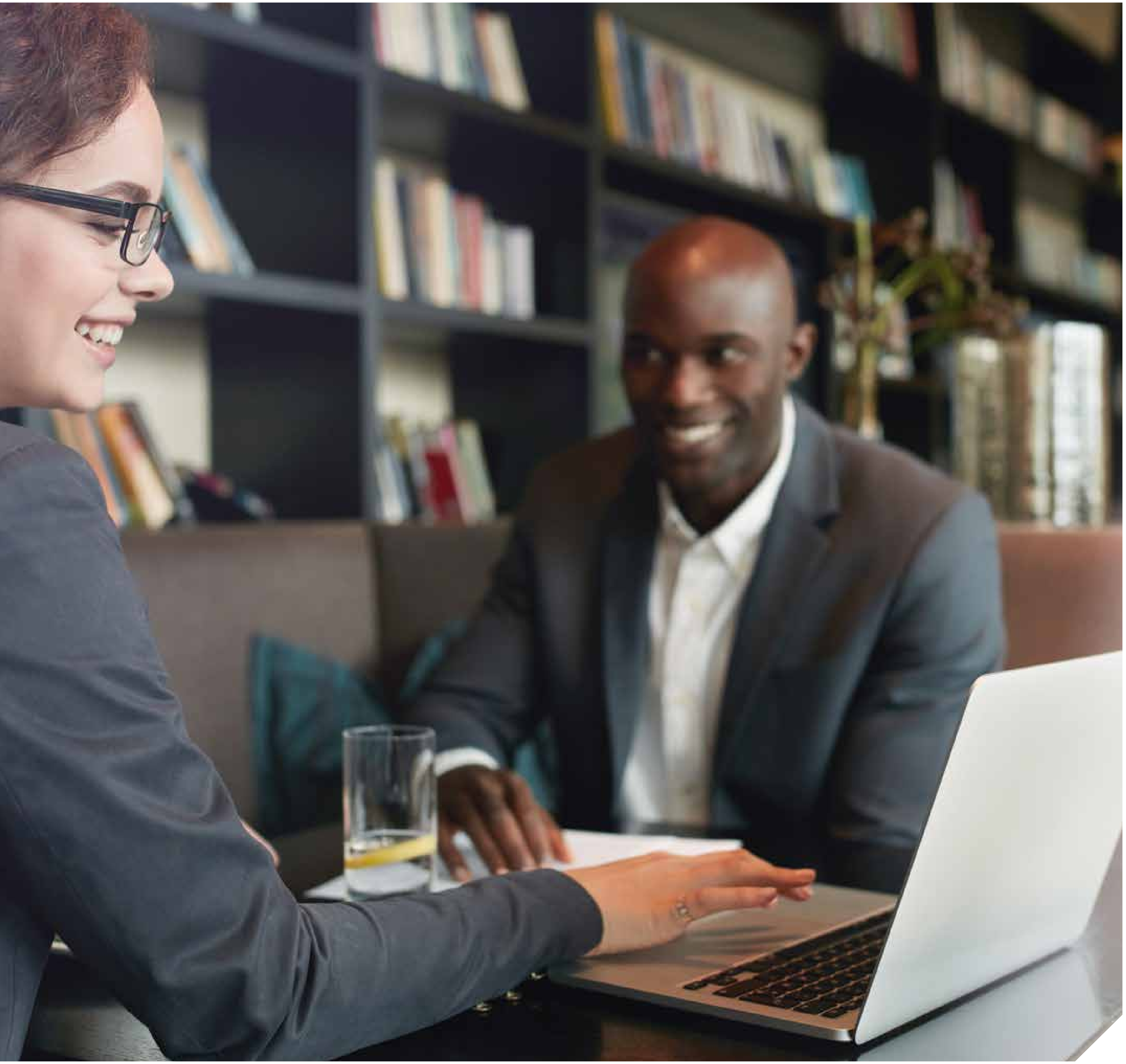
Seeking the views of, and involving, our stakeholders is vital to support our planning and to validate our recommendations in relation to the capacity for change across the payments sector. Our focus is on ensuring that our stakeholders, including current and future participants and end users, are engaged and are able to share advice, take important actions and embrace the opportunities the NPA offers.

In 2019 we identified the need for a new engagement body, to facilitate specific discussion around NPA delivery, especially building on participant experience of large-scale implementations. This resulted in the creation of the NPA Strategic Participant Group, which will report its conclusions and views regarding the NPA directly to the Pay.UK Board.

We issued two questionnaires during 2019. The first was issued to Faster Payment System participants to ascertain views on the transition approach and indicative timescales. We received an excellent response to the questionnaire with the results focused on maintaining robustness and resilience throughout the transition process.

Our second questionnaire concerned seeking feedback on the programme's scope. It has been more than two years since the PSF Blueprint was published and innovations such as CoP, RtP and Open Banking have changed, and will continue to change, the evolving payments ecosystem. Developments such as these need to be factored in and help inform the next stages of NPA Programme planning. As a result, we developed different models relating to the scale of the NPA - and issued a questionnaire to a range of participants across the Faster Payment System and Bacs Payment System to test and validate their preferences. We encouraged all participants to consider the needs of their customers and end users when completing their responses.

We received a good response to the questionnaire, which marked the start of a broader set of engagement activity. This is being fed into the programme's 2020 activities.



Pay.UK Engagement

Pay.UK is leading a fundamental evolution of UK retail payments and, as part of this work, it is vital that there is ongoing engagement and collaboration with all of our stakeholders. We continued our dialogue with the Bank of England and the PSR during the past year, keeping them fully up to date on our progress across a range of payment initiatives. Constant two-way dialogue with the wider payments industry is crucial to plugging into the rich source of expertise that our stakeholders possess – helping to ensure everyone is aligned with what we want to do, why we are doing it and, crucially, how we plan to do it.

Pay.UK has sought to undertake this engagement in a variety of scenarios and circumstances, to maximise our reach and provide as many opportunities for feedback and input from as wide a pool of consumers, organisations, businesses and charities - end users, in general - as possible.

Broadly speaking, in 2019 this engagement was split into two distinct elements: our engagement through the work of the advisory councils, forums and groups that we have established as part of Pay.UK's ongoing operations, alongside the engagement we have sought with a much wider spectrum of stakeholders through our regional roundtables and industry updates.

Constant two-way dialogue with the wider payments industry is crucial to plugging into the rich source of expertise that our stakeholders possess

Advisory Councils, Forums and Groups

Guarantors

Pay.UK's Guarantor community meets throughout the year in an ongoing programme of Guarantor events and as a group has the power to provide valuable input regarding Pay.UK's work to transform the way that payments are delivered in the UK. Being a Pay.UK Guarantor provides a recognised platform to assist Pay.UK in achieving its vision of becoming the country's leading retail payments authority, whilst providing the channel to ensure Pay.UK is held accountable for the continued fulfilment of its purpose and strategic objectives.

As part of the proceedings at the Annual General Meeting, Guarantors play an important governance role by voting on the various resolutions put to the meeting. These usually include the approval of the financial statements, appointment of the auditor, considering the re-appointment of Directors and agreeing amendments to the Company's Articles of Association.

At the start of the year, Pay.UK's Guarantor community consisted of 29 representatives. Over the course of 2019 an additional nine institutions signed up from across the wider payments ecosystem, bringing the total number to 38.

End User Advisory Council

EUAC is tasked with advising and challenging on the end user interest in the work that Pay.UK does. It has privileged, early insight into the thinking and proposals of Pay.UK, so is able to influence plans and ideas before they are exposed to wider groups of end users and their representatives. It also provides guidance and advice regarding how this wider engagement can and should be carried out. Ultimately, it wants to ensure that the UK has payment systems that better meet the needs of end users.

In 2019, the EUAC met five times, reviewing and discussing a number of key topics such as: the NPA; protection for consumers when using the Faster Payment System; CoP; RtP and the implementation of Pay.UK's end user engagement framework.

Also in 2019 the launch of an end user community event was held. This was an informal chance for payment system users to find out more about the work of the EUAC and how they could get involved in shaping the future of payment services. It also provided an opportunity for Pay.UK to build relationships as the founding step of establishing a 'User Community'. The event was attended by charities, consumer bodies and businesses – ranging from small start-ups to major multi-nationals. Since the event the User Community has become a valuable source of insight, providing feedback on key projects including the UK's future messaging standard and innovation, as well as helping to identify the challenges users face on a day-to-day basis.

A separate Annual Report concerning the work of the EUAC is available to download from the Pay.UK website.

Participant Advisory Council

PAC was formed in 2018 and operates as an advisory group. Its key objective is to help improve the collaborative nature of the payments industry by representing the interests of participants and advising Pay.UK on the impact of its decisions on them. It also assists Pay.UK as it seeks to find answers to participant challenges, ensuring an evidence-based approach to possible solutions.

The PAC met regularly in 2019 and had rich and valuable discussions on topics as varied as: enabling innovation in the market; the work of Pay.UK's Standards Authority; and Pay.UK's market catalyst decision-making framework.

A separate Annual Report concerning the work of the PAC is available to download from the Pay.UK website.

EUAC and PAC joined-up working

Also in 2019, the EUAC and the PAC held a joint session on strategy during the year. This was set in the context of Pay.UK Board's own strategic review and focused on what the set of possible 'end user worlds' might look like in 2030. Starting with some of the global trends in economic, social and digital environments, Pay.UK's advisory councils talked about what these might mean for end users and how their payments needs might change. The two councils are keen to continue to work together to develop this thinking as Pay.UK agrees its forward-looking strategy.

NPA Strategic Participant Group

The NPA Strategic Participant Group (SPG) was created to ensure that the NPA Programme receives advice based on participant experience of large implementations, and to make recommendations to the Pay.UK Board. The SPG is made up of participant members recommended by the UK Finance Payments, Products and Services Board (PPSB), and is co-chaired by a senior participant member and a Pay.UK Board Independent Non-Executive Director.

Pay.UK will continue to engage with and involve our stakeholder community through the SPG and other critical forums (particularly the EUAC) to keep the industry up to date on our progress with regard to the NPA Programme. Most importantly, this engagement will also help us gain vital feedback on key areas of focus as we progress.

Participant Engagement Forum

The Participant Engagement Forum (PEF) was created in September 2018 and is a successful channel that facilitates effective engagement between Pay.UK and its participants.

It provides a platform for participants to have an open dialogue with Pay.UK to clarify and challenge on a variety of matters, primarily focusing on operational issues that are principal areas of interest for participants. This includes standards, operations, stakeholder engagement and major projects such as the implementation of the NPA.

At the end of 2019 the PEF completed an engagement survey which confirmed that it was satisfied with its ongoing contribution and highlighted that its aim for 2020 was to explore the future direction of Pay.UK and the impact this will have on participants.

Affiliates Group

Pay.UK's Affiliates Group meets quarterly to discuss electronic payment-related topics and to encourage awareness of, and involvement in, payments issues such as strategy, product development and proposed changes to processes and rules.

Members of the Affiliates Group include corporate end users, indirect participants, software solution providers and consultants. Listening to their perspective is an important way for Pay.UK to ensure end users' views are taken into account, and developing the Group enables stakeholder feedback to be harnessed effectively within Pay.UK's governance structure.

Pay.UK is building on its successful Affiliates programme to develop an 'ecosystem community' so that it can capture and incorporate service user views into its planning. This will offer the opportunity to build closer relationships with stakeholders that have the potential to be commercial partners with Pay.UK.

As the first step towards this, an Affiliates recruitment drive is underway, focused on engaging stakeholders that have interests in our strategic priorities, including Innovation, ISO 20022 and delivery of the NPA.

NPA Advisory Groups

Pay.UK's Advisory Groups met regularly in 2019 to provide advice and insight on NPA capabilities to help support Pay.UK's decision-making process. Pay.UK fully recognises the value in drawing on expertise outside of Pay.UK, and the objectives of the Advisory Groups continue to develop to meet evolving requirements. In 2019, the following Advisory Groups met: RtP; CoP; Technical; and Testing.

Collaboration with the Bank of England on ISO 20022 payment messages

Since 2017, Pay.UK and the Bank of England have been working together on plans to adopt the ISO 20022 global messaging standard in the UK. Working collaboratively helps us to achieve our common objectives of supporting easier access to and wider interoperability between our payments systems, which will foster greater resilience, efficiency, innovation and competition in payments.

In 2019 we continued this work regarding the delivery of ISO 20022, by developing a clearer and more detailed joint view of the benefits that can be realised throughout the economy with the introduction of this global messaging standard. As ISO 20022 is a single, common language for all financial communications it allows participants and systems in different markets to communicate in a consistent message format using agreed terminology. We are committed to this continued collaboration with the Bank of England throughout 2020 and beyond regarding the implementation and ongoing maintenance of ISO 20022 in the UK.

Roundtables

In 2019 we organised a series of roundtable events that were held across the country, providing attendees with the opportunity to share their thoughts on the future of payments in the UK. Held in Manchester, Bristol, Newcastle and Leeds, these events welcomed attendees from local charities, payment system providers, fintechs, building societies and housing associations. Hearing from these diverse groups has helped us to identify the specific needs of the organisations they represent, providing a clearer picture of how Pay.UK can and will affect organisations across the country. The regional roundtables reinforced how important face-to-face engagement is, particularly outside London.

To build on the positive feedback received at the events hosted last year, the intentions for our 2020 programme are to work alongside partners, using their local networks to secure attendance and to help tailor content to meet the needs of local audiences. As a first step towards this, Pay.UK's Affiliates and Guarantors were sent a survey in February 2020 seeking their views on their priorities for the year ahead. However, at the time of writing the Covid-19 outbreak is impacting all of us. While our objectives remain unchanged, the pandemic will undoubtedly result in us utilising different and more diverse ways of engagement during the year.

Risk

Pay.UK is responsible for the systemic risk management of the UK's retail payment systems. Operationally, we continue to implement an Enterprise Risk Management Framework (ERMF), which supports our aim of embedding a robust and effective risk management culture within Pay.UK. We also follow a Risk and Control Self-Assessment process that is managed at business level and regularly reviewed and challenged by the risk team.

Pay.UK has an established governance framework and risk management plays a key part in enabling us to meet our strategic objectives. Therefore, we employ a 'tone from the top' approach, with our Board responsible for setting the risk appetite, entrusting the detailed oversight of risk management to the Risk Committee. The Risk Committee is ultimately responsible for overseeing the effectiveness of the ERMF. Our key risk focus continues to be the robustness, resilience and efficiency of the central infrastructure. Other key risk areas include cyber risk and delivery of the NPA Programme.

In 2019 we introduced early warning risk indicators to monitor the effectiveness of our controls across all risks, as well as developing a set of Risk Appetite Statements for Pay.UK. These are agreed by the Board and define the level of risk that we are prepared to accept as an organisation.

Monitoring emerging risks continues to be a key component of the ERMF, which supports our role as an ecosystem guardian and market catalyst. This monitoring was critical during the Covid-19 outbreak, when we needed to take the necessary steps to protect our workforce whilst maintaining the capability to deliver critically-important services to participants, end users and the UK economy.

Looking forward, as key elements of the ERMF start to mature we will further enhance the framework. We will be looking to review and enhance the risk appetite statements and develop the tools and guidance to help the business better manage its risks. We will also be looking to develop our Concentration Risk Dashboard and a Participant Risk Dashboard that will help us understand, monitor and manage systemic risk more effectively.

Strategic Report

Principal Activities & Business Review

As a recognised payment systems operator, Pay.UK ensures that the UK's retail payment systems remain robust and resilient. The Company sets the standards and rules to ensure the integrity of this core infrastructure, along with rules and standards in the wider payments ecosystem. As part of our broader guardianship role we guide what goes on in the outer layers of the payment ecosystem.

As well as operating and safeguarding the core payments infrastructure, we have been tasked to procure, deliver and manage a new, shared retail payment infrastructure for the UK - the NPA.

Throughout 2019 we have continued to focus on these two key areas: the operation of retail payment schemes and the development of the NPA.

Turnover for the year amounted to £125.9 million (2018: £71.4 million) and the profit after taxation was £11.8 million (2018: loss of £7.8 million). The significant movement in turnover reflects the fact that - although they had been in operation before last year - 2019 was the first full year of operations for the schemes as part of the Pay.UK group. This, in addition to an increased funding requirement due to capital build-up, and growth in both NPA activity and volume-driven expenses, led to the increase in turnover.

In terms of operational performance, 2019 saw the closure of the Paper Clearing System (PCS) for cheques and the full implementation of the Image Clearing System (ICS) in its stead. The introduction of the ICS has allowed the electronic clearing of cheques for the first time in the UK - a significant achievement. In 2019 the systems we manage saw payment transactions reach an all-time high, with businesses and individuals making 9.2 billion transactions with a combined value of £7.4 trillion. Whether paying by Direct Debit, cheque or Faster Payment, Pay.UK offers consumers and businesses a rich and varied choice of how to pay.

The NPA is the next generation infrastructure which will support the UK's shared retail payments. As well as being robust and resilient, the NPA will ensure payments are safe while also encouraging competitive innovation, and unlocking new business opportunities in everything from smarter uses of banking and payment data, through to new transactional services.

Throughout 2019 we have continued to focus on these two key areas: the operation of retail payment schemes and the development of the New Payments Architecture (NPA).

Section 172 (1) Statement

The Companies Act 2006 requires Directors to act in the way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole, and in so doing to have regard (amongst other matters) to the broader matters set out in section 172(1) (a) to (f) of the Companies Act 2006, such as the interests of key stakeholders. Section 172(1) has been in force a number of years, however in 2018, The Companies (Miscellaneous Reporting) Regulations 2018 introduced a specific requirement into the Act for Boards to make a statement, on how they have had regard to the matters in S172(1) in their financial statements.

Whilst not obliged to do so, the Board has decided to make voluntary disclosure in these financial statements under s172 in the interests of openness and transparency.

General confirmation of Directors' duties

Pay.UK's Board has an established governance framework for determining the matters within its remit and has approved Terms of Reference for the matters delegated to its Committees. The Delegation of Authority policy confirms those matters reserved to the Board and sets out the nature and extent of the authority formally delegated to its Committees and to the CEO. The roles of the Chair of the Company and the Senior Independent Director are also specified.

When making decisions, each Director ensures that they act in the way they consider, in good faith, would most likely promote the Company's success for the benefit of all users and in doing so have regard (among other matters) to:

Section 172(1) (A)

"The likely consequences of any decision in the long term":

The Directors understand Pay.UK's business and the environment in which it operates, including the challenges of delivering the NPA, an enabler of the future vision of retail payments in the UK.

The chapter on the NPA, illustrates the consideration given to Section 172(1) through the commissioning of an independent assurance review to challenge whether the NPA was being delivered in the best way possible.

Section 172(1) (B)

"The interests of the Company's employees":

The Directors recognise that Pay.UK's people are fundamental and core to its business and delivery of its strategic ambitions. Pay.UK's success depends on attracting, motivating and retaining the right people. We need talented people who can use their professional knowledge and experience to develop and grow with the company. We provide competitive salaries, substantial package benefits and a safe and friendly working environment and development opportunities. Engagement with colleagues is a key component in having due regard to their interests and in 2019, as part of the cultural change programme, an all colleague engagement survey was undertaken to understand what Pay.UK was doing well and which areas we need to focus more closely on. The results and ensuing actions will be received and progressed in 2020.

Section 172(1) (C)

"The need to foster the Company's business relationships with suppliers, customers and others":

During the year we continued to work closely with our main supplier, Vocalink, to ensure that we maintained the certainty, integrity and security of our payments services. We have been working hard throughout the year to engage with participants and end users to ensure that we plug into the rich source of expertise that our stakeholders possess. The chapter in the annual report entitled Engagement illustrates the activities we have undertaken with the Participant Engagement Forum, Guarantors, Affiliates Group, End User Advisory Council, Participant Advisory Council, NPA Advisory Groups, and the Industry Update Event in the autumn of 2019.

Section 172(1) (D)

"The impact of the Company's operations on the community and the environment":

Pay.UK consolidated its services during 2019 whilst continuing to undertake its key role as systemic risk manager and critical national infrastructure provider in overseeing the operation of the country's financial market payments infrastructure. Details of the significant consolidation activities are set out elsewhere in this report. Throughout these changes Pay.UK continued to ensure that a robust and resilient payment service was provided.

Section 172(1) (E)

"The desirability of the Company maintaining a reputation for high standards of business conduct":

Pay.UK prides itself on being open and transparent with regulators and participants in all the different fora we are involved in. We set the best in class standards and rules for the industry to follow and developed the Standards Authority, which is responsible for coordinating the standardisation activities of the UK's financial services on behalf of participants, the wider payments industry and other relevant stakeholders. An example of the work undertaken by the Standards Authority in 2019 was the consultation in response to the Authorised Push Payment fraud scams. A case study on this scam is discussed in the Operations chapter of the annual report.

Pay.UK has a Modern Slavery statement on its website that sets out the steps that the Group actively takes in order to prevent any incidents of Modern Slavery occurring in our business. These steps, along with others such as adherence to the Anti-Bribery policy, form part of the rigour that Pay.UK applies to the way in which it conducts business and how it maintains its reputation.

In addition Pay.UK has values in place that it actively pursues as part of its business and that underpin our interactions with our stakeholders and with colleagues that include integrity and professionalism so that we strive for excellence in everything we do and expect the same from our partners and suppliers.

Section 172(1) (F)

"The need to act fairly as between members of the Company":

Pay.UK is committed to acting in an open and transparent way with its Guarantor members.

Strategic Objectives

Pay.UK Limited was established with the purpose of supporting a vibrant UK economy through the provision of robust, resilient and collaborative retail payment services, for the benefit, and meeting the evolving needs, of all users.

To help us achieve our vision we adhere to several strategic objectives each of which is covered in more detail throughout the annual report:

Robust & Resilient: To maintain trust in the certainty, integrity and security of our payments services as operators of systemically important financial market infrastructures

End user focused: To ensure the continued relevance, competitiveness and usefulness of the services we provide as part of the UK payments ecosystem

Agile & Innovative: To act as a catalyst for change in the payments industry – realising opportunities, addressing threats, and supporting industry-wide initiatives

Accessible: To promote competition by supporting new entrants through comprehensive and consistent application and on-boarding processes

Efficient: To ensure that our payments services remain economically efficient and sustainable, while facilitating competition in both upstream and downstream services

Excellent People: To attract and retain talented leaders and people who can deliver on our culture, principles and values.

Risk Management Objectives and Policies

As systemic risk manager Pay.UK has objectives that support financial stability and a risk management framework that has been approved by the Board that ensures the mitigation and management of systemic risks.

During the year the enterprise risk management framework, which is used to identify, assess, manage and report risks, was recalibrated. Additional early warning risk indicators were introduced during the year to monitor the effectiveness of our controls across all risks, and a set of Risk Appetite Statements for Pay.UK were developed. The Company also continued to develop its key risk indicators and key performance indicators.

Risks are reported to and monitored by the Pay.UK Board's Risk Committee, which meets on a monthly basis and is chaired by an Independent Non-Executive Director. The key risk focus during 2019 was the robustness, resilience and efficiency of the central infrastructure, the transition and people risk associated with consolidating and integrating the acquired businesses, cyber-related risks and NPA Programme risks.

Robustness, resilience and efficiency of the central infrastructure

During the year we continued to work closely with our main suppliers in order to ensure that we maintained the certainty, integrity and security of our payments services.

Transition and people risk

Consolidating the UK's three retail payment schemes to become service lines within Pay.UK and bringing UKPA into Pay.UK brought potential risks of staff uncertainty and increased staff turnover which could impact the smooth transition of people and knowledge into Pay.UK. Mitigations included consulting with colleagues affected by the changes in a series of regular "town halls" and team meetings as well as undertaking a mapping exercise to ensure the smooth transfer of staff and knowledge across to the new business operating model to reduce these risks as far as possible.

The Target Operating Model (TOM2) was successfully implemented in the first half of the year and roles from the original business structures were transferred into the new operating model. Time was invested in ensuring the correct tone for Pay.UK's culture and the Executive worked with the Board and colleagues to agree the Company's values and behaviours.

Cyber related risks

Cyber is a significant risk during times of transformation and people intent on harming the business range from the relative novice through to those with sufficient skills and resources to exploit entire supply chains and compromise commercial products and services. A number of steps were taken to reduce the cyber threat during the year, including an awareness programme amongst colleagues and engagement with participants.

NPA Programme risks

Pay.UK is tasked with delivering the NPA - a new robust and resilient payments infrastructure that will enable safe, secure and efficient payments on a 24/7 basis, every day of the year.

A key risk to its success was that the resources and timings were not appropriate to deliver the NPA Programme. To mitigate this risk, an independent review was commissioned to ensure that the business was delivering its commitments in the best way possible. The review was completed in the summer and we began implementing the recommendations from the review during the second half of the year. A key recommendation related to increasing stakeholder engagement, particularly with regard to the programme's scope.

Financial Risk Management

The significant financial assets of the Company as at 31 December 2019 are cash and trade debtors, and financial liabilities comprise amounts owed to suppliers.

The key financial risk is that the proceeds from financial assets are insufficient to fund the obligations arising from liabilities as they fall due. The Directors consider liquidity/ cash flow as the key financial risk. This risk is mitigated by the routine monitoring of the key management information and the timely receipt of funds from industry participants.

Governance

A significant focus for the Company since its incorporation has been the embedding of a robust and resilient payment system operation, mindful of the need to foster innovation, competition and consumer protection. Executive and Non-Executive Directors from a diverse and broad range of backgrounds have been appointed to form the Company's Board. In addition, and to support the Board in its work, two separate advisory councils, operating in the interests of end users and participants, have been established to challenge and advise the Company on certain strategic and functional decisions.

The advisory councils and the Board reflect the diverse and dynamic nature of the UK's business, retail and domestic landscape and are crucial to ensuring the continued relevance and competitiveness of the services we manage.

In addition to the advisory councils, the business has also established a number of engagement groups to ensure that it is fully engaged with the key decision-makers and influencers in the industry. These include a CIO Forum and a PEF. At the end of 2019, a SPG was being formed with the specific aim of providing the NPA Programme Committee and the Board with views and recommendations from participants across the payments industry.

There were 17 formal Board meetings during the year. In addition, the following Board Committees met regularly, each with formal Terms of Reference and chaired by an Independent Non-Executive with relevant experience:

- Audit Committee
  – met eight times during the year
- Finance Committee
  – met 11 times during the year
- Managed Services Committee
  – met six times during the year
- New Payments Architecture (NPA) Programme Committee
  – met 11 times during the year
- Nominations Committee
  – met 12 times during the year
- Remuneration Committee
  – met two times during the year
- Risk Committee
  – met 11 times during the year
- Security Sub-Committee
  – met 11 times during the year
- Legal, Governance & Standards Committee
  – met 10 times during the year.

Board Evaluation

Independent Audit Limited was commissioned in 2019 to undertake a Board effectiveness review. There is no connection between Independent Audit Limited and Pay.UK, or its Directors.

A number of the recommendations made by Independent Audit Limited have been accepted by the Board and were being progressed during 2019 and 2020.

The Strategic Report was approved by the Board of Directors and signed on its behalf by:

Paul Horlock
Director
27 July 2020

Directors’ Report

The Directors present their report together with the financial statements of the Company for the year from 1 January to 31 December 2019. This Directors’ report has been prepared in accordance with the provisions applicable to companies entitled to the small companies exemptions.

Culture and Employee Engagement

During 2019 Pay.UK developed its ‘one culture’ change programme. The Directors set the cultural tone and Executives and colleagues worked to agree the Company’s values and behaviours to be demonstrated when delivering Pay.UK’s vision and strategy. By the summer of 2019 five values were introduced:

- Working well together
- Empowering people
- Championing end user outcomes
- Acting with integrity and professionalism
- Innovating through challenge.

Another part of the change programme included the Colleague Engagement Survey. This was launched towards the end of the year with the purpose of gaining insight into those aspects of the business that motivates and engages colleagues, as well as those areas that can frustrate and disengage them. Working Groups, incorporating all levels across the business, were established in early 2020 to review and discuss the survey’s findings and propose solutions.

Stakeholder Engagement

Stakeholder engagement during 2019 was undertaken through Pay.UK’s engagement through the work of the advisory councils, forums and groups that the Company established as part of its ongoing operations, as well as the wider engagement it sought with a much wider spectrum of stakeholders through regional roundtables and industry updates. The details of these important activities are captured in the Engagement chapter of this annual report.

Pay.UK Chair and Senior Independent Director

In May 2020 Melanie Johnson, the Chair of the Pay.UK Board and Rob Stansbury (Director and SID of the Pay.UK Board) announced that they will not be seeking a further period of appointment as directors of Pay.UK at the end of their current terms of office on 31 December 2020. During her time in office the Chair led the successful transformation of the retail payment systems, as envisaged by the Payment System Operator Delivery Group and the Company has also started to make progress shaping the delivery of the New Payments Architecture. At the time of writing this report an external independent search company has been appointed to support the Nominations Committee in its full and comprehensive search to identify suitable candidates.

Going Concern

The Board has reviewed the Company’s expenditure requirements and expected cash flows in the light of its financial strategy of setting a per payment tariff at a level that recovers its costs whilst building up appropriate reserves.

In the light of these funding arrangements, and having reviewed the funding model for 2020 and subsequent years’ expected cash flows, the Directors have formed a judgement that, at the time of approving the financial statements, there is a reasonable expectation that the Company has adequate resources, and is expected to continue in operational existence for a period of at least 12 months from the date of issue of the financial statements. Accordingly, they have adopted the going concern basis in preparing the report and accounts.

Covid-19

In light of the outbreak of the Covid-19 virus, in the first half of 2020 and the measures that the UK authorities have subsequently implemented to prevent the spread of this virus, the Directors have reviewed the adoption of the going concern basis of accounting in preparing the annual financial statements and have assessed that this has no material impact on the basis of preparation. This conclusion has been reached on the basis that:

- The Group has a 2020 budget in place agreed by it funding participants. This includes the ability to review the price per item in the event that volumes are lower than budget and a monthly forecasting process to review both costs and income
- Risk assessments and stress testing on the future financial performance of the Group
- The majority of the Group income is invoiced on a monthly basis and this continues to be received in 2020 via Direct Debit collection
- The Company holds cash assets from prior year under spend and capital funding to support its cash flow in the unlikely event of a delay in receipt of income
- Operations supporting the services have not been affected by the events of Covid-19.

Directors

The Directors who served during the period under review, and at the date of signing the Financial Statements were:

R Anderson – Independent Non-Executive

Richard is a former Chairman of the Institute of Risk Management and he was also a partner in PwC, where he led the Strategic Risk Services Group in Europe, Middle East and Africa. He then went on to work in a variety of risk consulting practices, including setting up his own. He is a non-executive director of Banking Competition Remedies Ltd, where he has recently been appointed Chair. Richard is an independent NED at Pay.UK. He chairs the Risk Committee and Security Sub-Committee, as well as sitting on the Audit Committee and since the beginning of 2020 the NPA Committee. He has also recently taken up the role of Co-Chair of the SPG which advises the Board. Until recently he was Chairman of the Cheque & Credit Clearing Company where he oversaw completion of the migration to ICS. He has broad experience across many industries as an auditor and risk consultant with a strong governance background.

C Ashton – Independent Non-Executive

Christine Ashton has a track record as a transformational CIO and innovative CTO. She is currently CEO at Cogventive and works as an advisor and operating partner to organisations by helping them to re-structure and build digital resilience. Prior to this role she was ‘CIO in Residence’ at SAP SE and also served as Global SVP Technology at Thomson Reuters driving a technology transformation and has held a series of key technology roles at companies in transition including BP, United Utilities and Transport for London during the London 2012 preparations.

A Bradley – Independent Non-Executive

Anna is an experienced Non-Executive Director and Chair. She has a background in regulation, policy and consumer advocacy across a variety of sectors. She is currently Chair of the Solicitors Regulation Authority and of the Zurich Financial Independent Governance Committee. Anna is Chair of Pay.UK’s End User Advisory Council.

T Fitzpatrick – Independent Non-Executive

Tim joined the Company from a senior advisory role at the Bank of England following the successful acquisition and integration of CHAPS Co in November 2017. Prior to joining the Bank of England, Tim undertook a variety of senior executive management roles including CEO of CHAPS Co, Chief Operating Officer and European Head of Payments & Cash Management of HSBC Global Payments and Cash Management, and HSBC London Regional Director. He currently has a number of advisory and non-executive roles in the financial services industry and previously gained audit management experience with PwC.

P Horlock – Chief Executive Officer

Prior to his appointment at Pay.UK, Paul joined Nationwide Building Society in 2010 with accountability for a full range of end-to-end payments services provided to the Society’s 15 million members. He has driven changes such as contactless cards, Paym, Apple Pay, Android Pay and Samsung Pay to deliver market-leading services in the evolving digital marketplace. Paul also led the set-up of the Open Banking Implementation Entity and chaired the ‘Design Hub’ at the PSF. Previously, Paul spent nine years with Barclays as Head of Global Payments Processing.

M Hunt – Chief Operating Officer

Matthew joined Pay.UK as COO in April 2018. He previously worked at the Bank of England from 2006, covering a variety of operational and payments leadership roles, most recently as COO for the Monetary Policy area. During his time at the Bank, Matthew was Head of Customer Banking Division with responsibility for banking, securities and gold custody services provided to the UK Government and other central banks. He also performed senior management roles, including running the RTGS payment system and banknote distribution. Prior to working at the Bank, Matthew was a business manager for UBS Investment Bank and a consultant with Accenture.

M Johnson – Independent Chair

Melanie was the Labour MP for Welwyn Hatfield from 1997 until 2005 and served in several ministerial posts as Economic Secretary at HM Treasury; at the former Department of Trade and Industry (now the Department of Business, Innovation and Skills) as Minister for Competition, Consumers and Markets; and latterly at the Department of Health as Minister for Public Health. Following her time in parliament, Melanie was Joint Chair of the Association of British Insurers' (ABI) consumer impact panel. She was appointed as the first non-industry Chair of The UK Cards Association in September 2009, leading the trade body for eight years, subsequently sitting on the Interim Management Board for the setting-up of the new integrated trade association, UK Finance.

N Oestmann – Non-Executive

Nathalie is Chief Operating Officer at Curve OS Ltd. Prior to Curve, Nathalie worked at IDEMIA as Senior Vice President of Global Innovation Strategy, Marketing, Partnerships and M&A for the Financial Institutions Business Unit. Nathalie was GM and Head of Samsung Pay Europe at Samsung Electronics from 2015 to 2017, and is credited with building the organisation and launching Samsung Pay across six European countries in 18 months. She has also worked for 15 years at American Express in a variety of roles.

J-Y Rotté-Geoffroy – Independent Non-Executive

Jean-Yves has led procurement for some of the world's biggest brands and has extensive experience in post-merger value creation. After working on the external sourcing of innovation at P&G in the 1990s he joined InBev in 2002 as procurement director and later became part of the AmBev executive leadership team based in São Paulo. He then became Chief Procurement Officer at Cadbury and from 2011 through 2017 has served as Group Chief Procurement Officer at GSK. Jean-Yves is Chair of Pay.UK's Participant Advisory Council.

R Saunders – Non-Executive

Russell is a career banker with over 30 years' experience, specialising in retail and commercial banking, payments, cash, operations, compliance, and strategic transformation. He is currently Managing Director of Payments Strategy for Lloyds Banking Group. Russell is the UK Board member for SWIFT, a member of the Bank of England RTGS Advisory Board and a strong advocate of customer-led innovation, being a pioneering member of the PSR's Payments Strategy Forum, leading the Financial Crime Working Group and a member of the Delivery Group.

R Stansbury – Senior Independent Non-Executive

Robert was the Independent Chair of the Payment System Operator Delivery Group. He has been a senior advisor at the Banking Standards Board since September 2015, and prior to that a senior advisor at the Prudential Regulation Authority (PRA) and Financial Services Authority (FSA). He is currently Independent Chair of State Street Trustees Limited.

P Wyman – Independent Non-Executive

Peter is an experienced Chairman and Non-Executive Director with a current portfolio of appointments in the private, public and third sectors which includes being Chairman of the Care Quality Commission and of Sir Richard Sutton Limited. He was previously a senior partner in PwC and President of the Institute of Chartered Accountants in England and Wales.

The Company made qualifying third party insurance provisions for the benefit of its Directors during the period and these remain in force at the date of this report.

Statement of Directors’ responsibilities

The Directors are responsible for preparing the financial statements in accordance with applicable law and regulations. Company law requires the Directors to prepare financial statements for each financial year. Under the law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;

- make judgements and estimates that are reasonable and prudent; and

- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company’s transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Statement as to disclosure of information to the auditor

Each of the persons who is a Director at the date of approval of this report confirms that:

- as far as the Director is aware, there is no relevant audit information of which the Company’s auditor is unaware; and

- the Director has taken all the steps that he/she ought to have taken as a Director to make himself/her self aware of any relevant audit information and to establish that the Company’s auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Auditor

BDO LLP will be recommended by the Directors for re-appointment by the Company at the Annual General Meeting.

Approved by the Board of Directors and signed on its behalf by:

Paul Horlock
Director
27 July 2020

Independent Auditor's Report to the members of Pay.UK Limited

Opinion

We have audited the financial statements of Pay.UK Limited ("the Parent Company") and its subsidiaries ("the Group") for the year ended 31 December 2019 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Company Statement of Financial Position, the Consolidated and Company Statement of Changes in Equity, the Consolidated Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102, The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2019 and of the Group's profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group or the Parent Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the Annual Report and Financial Statements, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report and Director's Report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion;

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the Financial Reporting Council's website at: https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the Parent Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Parent Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Parent Company and the Parent Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Leigh Treacy
(Senior Statutory Auditor)
For and on behalf of BDO LLP, statutory auditor
London

Date: 28 July 2020
BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2019

	Notes	2019 £'000	2018 £'000
Turnover	4	125,942	71,399
Administrative expenses		(111,757)	(85,677)
Operating profit/(loss)	5	14,185	(14,278)
Other income		-	4,981
Interest income	8	185	90
Interest expense	9	-	(29)
Profit/(loss) on ordinary activities before taxation		14,370	(9,236)
Tax on profit/(loss) on ordinary activities	10	(2,589)	1,426
Profit/(loss) for the financial year		11,781	(7,810)
Other comprehensive income/(loss) for the year:			
Actuarial losses on defined benefit pension scheme		(3,231)	(732)
Change in amount of defined benefit plan surplus that is not recoverable		3,231	732
Total comprehensive income/(loss) for the year		11,781	(7,810)

The notes on pages 45 to 69 form part of these financial statements.

Consolidated Statement of Financial Position

as at 31 December 2019

	Notes	2019 £'000	2018 £'000
Fixed Assets			
Tangible assets	11	559	740
Investments	12	-	-
		559	740
Current assets			
Debtors	13	14,466	20,697
Cash at bank		59,653	46,826
		74,119	67,523
Creditors: amounts falling due within one year	14	(56,319)	(58,905)
Net current assets		17,800	8,618
Total assets less current liabilities		18,359	9,358
Creditors: amounts falling due after more than one year	15	(9,730)	(12,510)
Total assets less total liabilities		8,629	(3,152)
Equity			
Called up share capital	16	-	-
Profit and loss account	17	4,152	(7,629)
Capital reserve	17	4,477	4,477
Total Equity		8,629	(3,152)

The financial statements were approved and authorised for issue by the Board and were signed on its behalf by

Paul Horlock
Director
Date: **27 July 2020**

Company Statement of Financial Position

as at 31 December 2019

	Notes	2019 £'000	2018 £'000
Fixed Assets			
Tangible assets	11	4	-
Investments	12	-	-
		4	-
Current assets			
Debtors	13	24,349	3,075
Cash at bank		28,703	8,502
		53,052	11,577
Creditors: amounts falling due within one year	14	(39,713)	(6,954)
Net current assets		13,339	4,623
Total assets less current liabilities		13,343	4,623
Creditors: amounts falling due after more than one year	15	(9,730)	(12,510)
Total assets less total liabilities		3,613	(7,887)
Equity			
Called up share capital	16	-	-
Profit and loss account	17	3,613	(7,887)
Capital reserve	17	-	-
Total Equity		3,613	(7,887)

The Company has elected to take the election in Section 408 of the Act, in order not to present the Company's Statement of Comprehensive income. The Company's profit for the year was £11,500k (2018: loss of £7,887k).

The financial statements were approved and authorised for issue by the board and were signed on its behalf by

Paul Horlock
Director
Date: **27 July 2020**

Consolidated Statement of Changes in Equity

as at 31 December 2019

	Profit and Loss Account £'000	Capital Reserve £'000	Called up Share Capital £'000	Total Equity £'000
Balance as at 1 January 2018	-	-	-	-
Reserves on acquisition	181	4,477	-	4,658
Loss for the financial year	(7,810)	-	-	(7,810)
Actuarial loss on pension scheme (net of tax)	(732)	-	-	(732)
Change in amount of defined benefit plan surplus that is not recoverable	732	-	-	732
Balance as at 31 December 2018	**(7,629)**	**4,477**	**-**	**(3,152)**
Profit for the financial year	11,781	-	-	11,781
Actuarial loss on pension scheme (net of tax)	(3,231)	-	-	(3,231)
Change in amount of defined benefit plan surplus that is not recoverable	3,231	-	-	3,231
Balance as at 31 December 2019	**4,152**	**4,477**	**-**	**8,629**

Company Statement of Changes in Equity

as at 31 December 2019

	Profit and Loss Account £'000	Capital Reserve £'000	Called up Share Capital £'000	Total Equity £'000
Balance as at 1 January 2018	-	-	-	-
Total comprehensive loss for the year	(7,887)	-	-	(7,887)
Balance as at 31 December 2018	**(7,887)**	-	-	**(7,887)**
Total comprehensive income for the year	11,500	-	-	11,500
Balance as at 31 December 2019	**3,613**	-	-	**3,613**

Consolidated Statement of Cash Flows

for the year ended 31 December 2019

	Notes	2019 £'000	2018 £'000
Cash generated/(utilised) from operating activities	18	13,332	(35,943)
Interest paid		-	(29)
Taxation paid		(38)	(46)
Net cash generated/(utilised) by operating activities		13,294	(36,018)
Investing activities			
Cash from acquisition of subsidiaries		-	68,160
Interest received		185	90
Purchase of fixed assets		(172)	(207)
Net cash inflow from investing activities		13	68,043
Financing activities			
Advance payments from participants payable within 1 year		-	1,390
Advance payments from participants payable after 1 year		-	12,510
Repayment of advance		(480)	-
Net cash (outflow)/inflow from financing activities		(480)	13,900
Net increase in cash and cash equivalents		12,827	45,925
Cash and cash equivalents at the beginning of the year		46,826	901
Cash and cash equivalents at the end of the year		59,653	46,826

Notes to the financial statements

Year ended 31 December 2019

1. General Information

Pay.UK Limited ("the Company") is a Company Limited by Guarantee, incorporated in United Kingdom under the Companies Act. Its registered office is 2 Thomas More Square, London E1W 1YN.

2. Accounting Policies

2.1 Basis of preparation of financial statements

The Group's financial statements have been prepared under the historical cost convention and in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland and the Companies Act 2006. The Group's functional and presentational currency is the pound sterling.

The preparation of Group financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the Group's accounting policies (see note 3).

Basis of consolidation
The Group financial statements consolidate the financial statements of Pay.UK Limited and all its subsidiary undertakings drawn up to 31 December each year. No profit and loss account is presented for Pay.UK Limited as permitted by section 408 of the Companies Act 2006.

Subsidiaries are consolidated from the date of their establishment or acquisition, being the date on which the Group obtains control and continue to be consolidated until the date that such control ceases. Control comprises the power to govern the financial and operating policies of the investee so as to obtain benefit from its activities.

The following principal accounting policies have been applied.

2.2 Going concern

The Board has reviewed the Company's expenditure requirements and expected cash flows in the light of its financial strategy of setting a per payment tariff at a level that recovers its costs whilst building up appropriate reserves.

In the light of these funding arrangements, and having reviewed the funding model for 2020 and subsequent years' expected cash flows, the Directors have formed a judgement that, at the time of approving the financial statements, there is a reasonable expectation that the Company has adequate resources, and is expected to continue in operational existence for a period of at least 12 months from the date of issue of the financial statements. Accordingly, they have adopted the going concern basis in preparing the report and accounts.

Covid-19

In light of the outbreak of the Covid-19 virus, in the first half of 2020 and the measures that the UK authorities have subsequently implemented to prevent the spread of this virus, the Directors have reviewed the adoption of the going concern basis of accounting in preparing the annual financial statements and have assessed that this has no material impact on the basis of preparation. This conclusion has been reached on the basis that:

- The Group has a 2020 budget in place agreed by its funding participants. This includes the ability to review the price per item in the event that volumes are lower than budget and a monthly forecasting process to review both costs and income.
- Risk assessments and stress testing on the future financial performance of the Group.
- The majority of the Group income is invoiced on a monthly basis and this continues to be received in 2020 via direct debit collection.
- The Company holds cash assets from prior year under spend and capital funding to support its cash flow in the unlikely event of a delay in receipt of income.
- Operations supporting the services have not been effected by the events of Covid-19.

2.3 Revenue

The Group has operational responsibility for the payment systems behind the clearing and settlement of automated payments and cheques; formerly provided by Bacs Payments Schemes Limited, (BPSL), Faster Payments Scheme Limited, (FPS), and Cheque & Credit Clearing Company Limited.

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured as the fair value of the consideration received, excluding discounts, rebates; value added tax and other sales taxes.

Managed services
The Group also provides several managed services, including Paym, through the Mobile Payments Service Company, and Current Account Switch Service and the Cash ISA Transfer Service managed by BPSL.

The subsidiary UTSP Limited offers a service to support connectivity to financial infrastructure and charges an initial fee and an ongoing monthly fee for this service.

The Group recognises revenue on the sales of services in the reporting period in which the services are rendered. Where payments for services are made in advance of the service being performed the Company defers this income and matches it in the period when the service is performed and the Company's obligations have been extinguished.

Other income
Industry participants have provided funds to the Company to enable it to incorporate and set up the requisite business capabilities to deliver the consolidation of different organisations into one payment system operator. These revenues are recognised as other income when these funds are used to finance the costs incurred to set up the Company.

Administrative services
The Group provides administrative services to third party organisations. The Group recognises revenue on the provision of services in the reporting period in which the services are rendered. Where payment for services is made in advance of the service being performed the Group defers this income and matches it in the period when the service is performed and the Company's obligations have been extinguished.

Sale of publications
The Group generates a small income stream from the sale of publications and other associated literature. Income is recognised on the sale to the customer.

Interest income
Interest income is recognised when the right to receive payment is established.

2.4 Tangible fixed assets

Tangible fixed assets are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical costs include the original purchase price, costs directly attributable to bringing the asset to its working condition for its intended use, dismantling and restoration costs and borrowing costs capitalised.

Depreciation is charged so as to allocate the cost of assets less their residual value over their estimated useful lives.

Leasehold property - straight line over the remainder of the lease, or the assets useful economic life if less
Fixtures and fittings - 10% - 20% straight line
Computer equipment - 20% - 33% straight line

2.5 Operating Leases

Leases that do not transfer all the risks and rewards of ownership are classified as operating leases. Payments under operating leases are charged to the profit and loss account on a straight-line basis over the period of the lease.

Incentives received to enter into an operating lease are credited to the profit and loss account, to reduce the lease expense, on a straight-line basis over the period of the lease.

The Group has taken advantage of the exemption in respect of lease incentives on leases in existence on the date of transition to FRS 102 (1 January 2014) and continues to credit such lease incentives to the profit and loss account over the period to the first review date on which the rent is adjusted to market rates.

2.6 Valuation of investments

Investments in subsidiaries are measured at cost less accumulated impairment.

2.7 Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours.

Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Statement of Cash Flows, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Company's cash management. As at 31 December 2019, and throughout the year, the Company had no overdraft facility (2018: £nil).

2.8 Financial instruments

Financial Assets
Basic financial assets, including trade debtors and other receivables, cash and bank balances, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of future receipts discounted at a market rate of interest.

At the end of each reporting period financial assets measured at amortised cost are assessed for objective evidence of impairment. If an asset is impaired the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in profit or loss.

Financial assets are derecognised when (a) the contractual rights to the cash flows from the asset expire or are settled, or (b) substantially all the risks and rewards of the ownership of the asset are transferred to another party or (c) control of the asset has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions.

Financial Liabilities
Basic financial liabilities, including trade and other payables that are classified as debt, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest.

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade payables are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

2.9 Employee benefits

The Group provides a range of benefits to employees, including discretionary and ad-hoc bonus arrangements, paid holiday arrangements and stakeholder pension plans.

Short term benefits
Short term benefits, including holiday pay and other similar non-monetary benefits, are recognised as an expense in the period in which the service is received. A liability is recognised to the extent of any unused holiday pay entitlement which is accrued at the Statement of Financial Position date and carried forward to future periods. This is measured at the undiscounted salary cost of the future holiday entitlement so accrued at the Statement of Financial Position date.

Annual bonus plan
The Group operates a discretionary annual bonus plan for some employees. An expense is recognised in the profit and loss account when the Group has a legal or constructive obligation to make payments under the plan as a result of past events and a reliable estimate of the obligation can be made.

Stakeholder pension plan
The Group operates a defined contribution stakeholder pension plan for its employees. A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. Once the contributions have been paid the Company has no further payment obligations. The contributions are recognised as an expense when they are due. Amounts not paid are shown in accruals in the balance sheet. The assets of the plan are held separately from the Company in independently administered funds. Contributions are also paid into private pension funds for those staff who have chosen not to join the stakeholder scheme.

Defined Benefit Pension Plan
The Group operated a defined benefit fund during the year.

UK Payments Administration Limited historically participated in the British Bankers' Association Pension Scheme for UK Payments Administration Limited former employees, a multi-employer defined benefit scheme. A defined benefit plan defines the pension benefit that the employee will receive on retirement, usually dependent upon several factors including age, length of service and remuneration. A defined benefit plan is a pension plan that is not a defined contribution plan.

The liability recognised in the balance sheet in respect of the defined benefit plan is the present value of the defined benefit obligation at the end of the reporting date less the fair value of the plan assets at the reporting date.

UK Payments Administration Limited does not recognise a defined benefit pension surplus because UK Payments Administration Limited does not have an unconditional right to obtain a refund of its share of any surplus in the Scheme, in accordance with the Scheme Rules.

The defined benefit obligation is calculated using the projected unit credit method. Annually/triennially the Company engages independent actuaries to calculate the obligation. The present value is determined by discounting the estimated future payments using market yields on high quality corporate bonds that are denominated in sterling and that have terms approximating the estimated period of the future payments ('discount rate').

The fair value of plan assets is measured in accordance with the FRS 102 fair value hierarchy and in accordance with the UK Payments Administration Limited's policy for similarly held assets. This includes the use of appropriate valuation techniques.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income. These amounts together with the return on plan assets, less amounts included in net interest, are disclosed as 'Actuarial gains/(losses) on net defined benefit liability'.

Notes to the financial statements
Year ended 31 December 2019

The cost of the defined benefit plan, recognised in profit or loss as employee costs, except where included in the cost of an asset, comprises:

(a) the increase in pension benefit liability arising from employee service during the period; and

(b) the cost of plan introductions, benefit changes, curtailments and settlements.

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. This cost is recognised in profit or loss as 'interest expense'.

This scheme is currently underfunded and both UKPA and the BBA make annual deficit repayment contributions to the fund. Under the current repayment plan UKPA is committed to contributing 65% of the annual deficit payments until 2018 thereon after the UKPA contributions will reduce to 55%.

Termination Benefits
The Company is committed, by legislation and/or contractual obligations, to make payments to employees when the Company terminates their employment. Such payments are termination benefits. Because termination benefits do not provide the Company with future economic benefits, the Company recognises these as an expense in the profit and loss account immediately. The Company will only recognise termination benefits as a liability and an expense when the Company is demonstrably committed either:

(a) To terminate the employment of an employee or group of employees before the normal retirement date; or
(b) To provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.

The Company measures termination benefits at a best estimate of the expenditure that would be required to settle the obligation at the balance sheet date. In the case of an offer made to encourage voluntary redundancy, the measurement of termination benefits shall be based on the number of employees expected to accept the offer. When termination benefits are due more than twelve months after the balance sheet date, the Company will measure these benefits at their discounted present value applying an appropriate discount rate.

2.10 Taxation

Taxation expense for the period comprises current and deferred tax recognised in the reporting period. Tax is recognised in the profit and loss account, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case tax is also recognised in other comprehensive income or directly in equity respectively.

Current Tax
Tax is recognised in the income statement, except that a charge attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the Company operates and generates income.

Deferred Tax
Deferred tax arises from timing differences that are differences between taxable profits and total comprehensive income as stated in the financial statements. These timing differences arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in financial statements.

Deferred tax is recognised, if material, on all timing differences at the reporting date except for certain exceptions. Unrelieved tax losses and other deferred tax assets are only recognised when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the period end and that are expected to apply to the reversal of the timing difference.

Deferred tax assets and liabilities are not discounted.

2.11 Provisions and contingencies

Provisions
Provisions for liabilities are recognised when the Group or a Company has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount of the obligation can be estimated reliably.

Provisions for assets are only recognised when the flow of future economic benefits to the Company is virtually certain.

Contingencies
Contingent liabilities are not recognised. Contingent liabilities arise as a result of past events when (i) it is not probable that there will be an outlay of resources or that the amount cannot be reliably measured at the reporting date or (ii) when the existence will be confirmed by the occurrence or non-occurrence of uncertain future events not wholly within the Company's control. Contingent liabilities are disclosed in the financial statements unless the probability of an outflow of resources is remote.

Contingent assets are not recognised. Contingent assets are disclosed in the financial statements when an inflow of economic benefits is probable.

2.12 Related party transactions

The Company has taken the exemption under Section 33.1A of FRS102 not to disclose related party transactions with wholly owned members of its Group.

3. Judgements in applying accounting policies and key sources of estimation uncertainty

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

a. Critical judgements in applying the entity's accounting policies

a i) Defined benefit pension scheme policy
UK Payments Administration Limited historically participated in the British Bankers' Association Pension Scheme, a multi-employer scheme. The Company accounts for this scheme as a defined benefit plan. The Directors have exercised their judgement, through information provided by the actuary, and have now concluded that they are able to obtain sufficient evidence regarding the Company's share of scheme assets and liabilities such that it is appropriate to use defined benefit accounting in accordance with the provisions of section 28 of FRS 102.

a ii) Transitional rules pertaining to leases
The Group has taken advantage of the exemption in respect of lease incentives for leases in existence at the date of transition to FRS 102 (see note 2.5).

b. Critical accounting estimates and assumptions

b i) Pension scheme and assumptions

Defined benefit pension scheme
The Group has an obligation to pay pension benefits to certain employees. The cost of these benefits and the present value of the obligation depend on a number of factors, including; life expectancy, salary increases, asset valuations, the underlying split of the multi-employer scheme and the discount rate on corporate bonds. Management estimates these factors in determining the net pension obligation on the balance sheet from reports produced by independent actuaries. The assumptions reflect historical experience and current trends. See note 19 for the disclosures relating to the defined benefit pension scheme.

Notes to the financial statements
Year ended 31 December 2019

b ii) Taxation
When required the Group establishes provisions based on reasonable estimates, for possible consequences of audit by the tax authorities.

Management estimation is required to determine the amount of deferred tax assets that can be recognised, based upon likely timing and level of future taxable profits together with an assessment of the effect of future tax planning strategies. Further details are contained in note 2.10.

b iii) Useful economic life of tangible assets
The annual depreciation charge for tangible assets is sensitive to changes in the estimated useful economic lives and residual value of the assets. The useful economic lives and residual values are re-assessed annually. They are amended when necessary to reflect current estimates, based on technological advancement, future investments, economic utilisation and the physical condition of the assets. See note 11 for the carrying amount of the property, plant and equipment, and note 2.4 for the useful economic lives for each class of assets.

b iv) Impairment of debtors
The Group makes an estimate of the recoverable value of trade and other debtors. When assessing impairment of trade and other debtors, management considers factors including the current credit rating of the debtor, the ageing profile of debtors and historical experience. See note 13 for the net carrying amount of the debtors.

4. Turnover

All turnover arising from the rendering of services to the payments industry during the year has arisen from UK based activities. Income from the sale of Standards and Publications during the year has derived from customers based both inside and outside of the UK.

Notes to the financial statements
Year ended 31 December 2019

5. Operating Profit

The Group operating profit/(loss) is stated after charging:

	2019	2018
	£'000	£'000
Fees payable to the Group's auditor for the audit of the Group's annual accounts	148	89
Fees payable to the Group's auditor for tax compliance fees	64	23
Depreciation	353	296
Defined contribution pension cost	1,855	935

Included within auditor's remuneration for audit services above is £52k (2018: £74k) payable to the auditor of the subsidiary entities.

6. Staff Costs

Group	2019	2018
	£'000	£'000
Employee costs during the year were:		
Wages and salaries	14,796	7,499
Social security costs	1,794	1,158
Cost of defined contribution pension scheme	1,855	935
	18,445	9,592
Average number of employees:		
Administrative	226	212

Notes to the financial statements
Year ended 31 December 2019

7. Directors' Remuneration

	2019	2018
	£'000	£'000
Directors' emoluments	1,321	1,224
Company contribution for defined contribution pension scheme	24	34
	1,345	1,258
Highest paid director	396	408

The Directors are of the opinion that there are no key management personnel who are not directors of the Company.

8. Interest Income

Group	2019	2018
	£'000	£'000
Bank interest income	185	90
	185	90

9. Interest Expense

Group	2019	2018
	£'000	£'000
Net Interest expense on post employment benefits	-	29
	-	29

10. Taxation

Group Analysis of tax charge/(credit) for the period	2019	2018
	£'000	£'000
Corporation Tax		
Current tax on profits for the year	1,068	19
Adjustments in respect of prior periods	11	(6)
Total current tax	1,079	13
Deferred Tax		
Origination and reversal of timing differences	1,494	(1,469)
Adjustments in respect of prior periods	16	(2)
Charge for the year	-	32
Total deferred tax	1,510	(1,439)
Taxation on profits on ordinary activities	2,589	(1,426)

Provision for deferred tax	2019	2018
	£'000	£'000
Short term timing differences	(6)	(2)
Losses and other deductions	-	(1,514)
Total current tax	(6)	(1,516)
Deferred Tax		
Provision at start of period	(1,516)	-
Deferred tax charge in the profit and loss account for the period	1,510	(1,439)
Difference in movement between balance sheet and profit and loss account for the period	-	(77)
Provision at end of period	(6)	(1,516)

Notes to the financial statements
Year ended 31 December 2019

Factors affecting the tax charge for the current year

The tax assessed for the year is higher than that resulting from applying the standard rate of corporation tax in the UK 19% (2018: 19%). The differences are explained below:

Group	2019	2018
	£'000	£'000
Profit/(loss) on ordinary activities before taxation	14,370	(9,236)
Tax on profit/(loss) on ordinary activities at standard corporation tax rate of 19% (2018: 19%)	2,730	(1,755)
Effects of:		
Expenses not deductible for tax purposes	6	112
Fixed asset differences	11	38
Adjustments to tax charge in respect of previous periods	12	(7)
Adjust closing deferred tax to average rate of 19%	(175)	(52)
Changes in unrecognised deferred tax	5	169
Other difference	-	69
Current tax charge for the year	2,589	(1,426)

There is a closing deferred tax asset in respect of losses carried forward and other timing differences of £6k (2018: £1,516k) at the corporation tax rate of 17%.

Notes to the financial statements

Year ended 31 December 2019

11. Tangible Fixed Assets

Group	Leasehold Property	Fixtures & Fittings	Computer Equipment	Total
	£'000	£'000	£'000	£'000
Cost				
At 1 January 2019	2,070	1,469	1,865	5,404
Additions	-	73	99	172
Disposals	-	-	(3)	(3)
At 31 December 2019	2,070	1,542	1,961	5,573
Depreciation				
At 1 January 2019	(1,702)	(1,286)	(1,676)	(4,664)
Charge for the year	(139)	(101)	(113)	(353)
Disposals	-	-	3	3
At 31 December 2019	(1,841)	(1,387)	(1,786)	(5,014)
Net Book Value				
At 31 December 2019	229	155	175	559
At 31 December 2018	368	183	189	740

Notes to the financial statements

Year ended 31 December 2019

Company	Computer Equipment	Total
	£'000	£'000
Cost		
At 1 January 2019	-	-
Additions	5	5
At 31 December 2019	5	5
Depreciation		
At 1 January 2019	-	-
Charge for the year	1	1
At 31 December 2019	1	1
Net Book Value		
At 31 December 2019	4	4
At 31 December 2018	-	-

12. Investments

Group

UK Payments Administration Limited and Lynchwood Nominees Limited, (on behalf of the BBA), each hold 5 shares in the BBA Pension Trustee.

Company	Investment in subsidiary companies
	£'000
Cost	
At 1 January 2019	-
Additions in the year	-
At 31 December 2019	-

Subsidiary undertakings

The following were a subsidiary undertaking of the Company

Name	Date of acquisition	Country of incorporation	Class of Shares	Holding	Principal Activity
Bacs Payment Schemes Limited	1 May 2018	England & Wales	Limited by Guarantee	100%	Switching Services
Cheque & Credit Clearing Company Limited	1 July 2018	England & Wales	Ordinary	100%	Inactive
Faster Payments Scheme Limited	1 May 2018	England & Wales	Limited by Guarantee	100%	Inactive
Mobile Payments Service Company Limited (indirect subsidiary through Faster Payments Scheme Limited)	1 May 2018	England & Wales	Limited by Guarantee	100%	Payments Services
UK Payments Administration Limited	1 July 2018	England & Wales	Ordinary	100%	Shared Services
UTSP Limited (indirect subsidiary through Faster Payments Scheme Limited)	1 May 2018	England & Wales	Ordinary	100%	Public Key Infrastructure Service

The registered office of all subsidiaries above is

2 Thomas More Square
London
E1W 1YN

Notes to the financial statements
Year ended 31 December 2019

The aggregate of the share capital and reserves as at 31 December 2019 and of the profit or loss for the year ended on that date for the subsidiary undertakings was as follows:

	Aggregate of share capital and reserves	Profit
	£'000	£'000
Bacs Payment Schemes Limited	1,944	-
Cheque & Credit Clearing Company Limited	-	-
Faster Payments Scheme Limited	2,533	-
Mobile Payments Service Company Limited	-	-
UK Payments Administration Limited	-	-
UTSP Limited	539	281
	5,016	281

13. Debtors: amounts falling due within one year

Group	2019	2018
	£'000	£'000
Trade debtors	477	9,815
VAT	-	1,815
Other debtors	88	121
Deferred tax	6	1,516
Prepayments and accrued income	13,895	7,430
	14,466	20,697

Company	2019	2018
	£'000	£'000
Trade debtors	247	50
Amounts owed by subsidiaries	13,131	-
Other debtors	72	-
Deferred tax	1	1,510
VAT	-	1,062
Prepayments and accrued income	10,898	453
	24,349	3,075

Notes to the financial statements
Year ended 31 December 2019

14. Creditors: amounts falling due within one year

Group	2019	2018
	£'000	£'000
Trade creditors	3,274	4,754
Corporation tax	1,068	20
Social security and other taxes	682	477
VAT	562	109
Other creditors	27	7
Accruals and deferred income	50,706	53,538
	56,319	58,905

Company	2019	2018
	£'000	£'000
Trade creditors	1,220	460
Amounts due to subsidiaries	553	-
Corporation tax	995	(5)
Social security and other taxes	680	111
VAT	589	-
Other creditors	27	2
Accruals and deferred income	35,649	6,386
	39,713	6,954

Notes to the financial statements
Year ended 31 December 2019

15. Creditors: amounts falling due in more than one year

Group	2019	2018
	£'000	£'000
Advances from participants	9,730	12,510
	9,730	12,510

Company	2019	2018
	£'000	£'000
Advances from participants	9,730	12,510
	9,730	12,510

During 2018, the Company received £13.9m of advance payments from participants for future services for Faster Payments, Bacs Direct Debit and Direct Credit, and cheque clearing services.

There will be an offset against future payments equal to 20% of the advance payment in December 2020, and then in each of the two following years for 30% and 40% respectively of the advanced payment.

16. Share capital

The Company was formed on 18 July 2017 as a private Company Limited by Guarantee. At the date of this report there are 38 Guarantors, whose guarantee in the event of winding up the Company was a sum not exceeding £1 each.

17. Capital reserve and accumulated profit

The capital reserves are capital contributions from previous members and participants. They, together with the accumulated profit, represent equity held by Pay.UK to run normal business operations and cover general business and credit risks based on the CPMI-IOSCO Principles for Financial Market Infrastructures. Pay.UK's capital plan envisages the build-up of £21m of capital by the end of 2021. This is referred to as risk capital in the internal management reporting. In addition, Pay.UK intends to build further capital in excess of this £21m of an additional £4m of capital.

18. Notes to the statement of cash flows

Group	2019	2018
	£'000	£'000
Cash Flow from operating activities		
Profit/(loss) for the financial year	11,781	(7,810)
Adjustments for		
Depreciation	353	296
Interest received	(185)	(90)
Interest paid	-	29
Taxation	2,589	(1,426)
Decrease/(increase) in debtors	4,721	(5,828)
(Decrease) in creditors	(2,927)	(21,114)
Pension escrow payment	(3,000)	-
Net cash generated/(utilised) by operating activities	13,332	(35,943)

19. Pension Commitments

Group

The British Bankers' Association and UK Payments Administration Ltd ("the Employers") operate a funded defined benefit pension arrangement called the British Bankers' Association Pension Scheme ("the Scheme"). The Scheme provides benefits to some employees based on their completed pensionable service and their final pensionable pay. The assets of the Scheme are held in a separate trustee administered fund. The Scheme does not invest directly in property occupied by the Company or in financial securities issued by the Company.

The funding plan is for the Scheme to hold assets equal to the value of the benefits earned by employees based on a set of assumptions used for funding the Scheme. The funding assumptions differ from the assumptions used to calculate the figures for these accounts, and therefore produce different results. If there is a shortfall against this funding plan, then the Employers and trustee agree on deficit contributions to meet this deficit over a period.

The most recent actuarial valuation of the Scheme was carried out as at 31 March 2018. As part of the valuation, the Employers agreed to pay contributions each February and August until August 2022 (or the date at which the funding shortfall on a solvency basis is calculated by the Scheme Actuary to have been eliminated, if earlier). The first payment was for £1,179,716 in August 2019, with subsequent payments increasing thereafter in line with RPI inflation + 0.5% pa (with a floor of 1% pa). These payments were shared between the Association and UK Payments Administration Limited in the ratio 45%: 55% during 2019 (same as in 2018). The next triennial valuation is due at 31 March 2021. In the meantime, the Employers are investigating the possibility of securing the Scheme's member benefits with an insurer (a pension buyout).

The Employers meet the costs of administration, investment management and any insurance premiums payable.

Calculations were carried out during the year based on updated membership data and were updated to the accounting date by an independent qualified actuary in accordance with FRS102, allowing for contributions, benefit payments made, and changes in market conditions. The results based on assumptions used for FRS102, are as follows.

Reconciliation of present value of plan liabilities	2019	2018
	£'000	£'000
At the beginning of the year	38,496	42,167
Benefits paid	(887)	(3,132)
Interest expense	1,066	1,015
Past service costs	-	169
Experience (gain) on defined benefit obligation	(5,653)	(1,457)
Changes to demographic assumptions	526	1,072
Changes to financial assumptions	3,178	(1,338)
At the end of the year	36,726	38,496

Reconciliation of present value of plan assets	2019	2018
	£'000	£'000
At the beginning of the year	38,496	47,117
Benefits paid	(887)	(3,132)
Employer contributions	1,286	1,298
Interest income	1,237	1,155
Return on plan assets excluding interest income	(5,180)	(2,455)
Surplus movement restricted	1,774	(5,487)
At the end of the year	36,726	38,496

Notes to the financial statements
Year ended 31 December 2019

Composition of plan assets	2019	2018
	£'000	£'000
Target return fund	-	7,064
Fixed bonds	26,004	21,680
Liability driven investment	12,166	14,219
Cash and other assets	2,269	1,020
Total plan assets	40,439	43,983

The amounts recognised in profit or loss is as follows:

	2019	2018
	£'000	£'000
Interest on liabilities	1,220	1,015
Interest on assets	(1,237)	(1,155)
Past service costs	-	169
Total costs recognised as an (income)/expense	(17)	29

	2019	2018
	£'000	£'000
Fair value of assets	40,439	43,983
Present value of funded obligations	(36,726)	(38,496)
Impact of asset ceiling	(3,713)	(5,487)
Closing defined benefit obligation	-	-

Notes to the financial statements
Year ended 31 December 2019

Amounts recognised in other comprehensive income over the year

	2019	2018
	£'000	£'000
Loss on scheme assets in excess of interest	5,180	2,455
Experience (gains) on liabilities	(5,653)	(1,457)
Losses from changes to demographic assumptions	526	1,072
Losses/(gains) from changes to financial assumptions	3,178	(1,338)
	3,231	732

Sensitivity of the value placed on liabilities

Approximate effect on liability	2019	2018
	£'000	£'000
Adjustment to assumptions		
Discount rate		
Plus 0.1%	(498)	(509)
Minus 0.1%	512	521
Inflation (RPI and CPI)		
Plus 0.1%	212	265
Minus 0.1%	(235)	(248)

Note that the above sensitivities are approximate and only show the likely effect of an assumption being adjusted whilst all other assumptions remain the same.

	2019	2018
	%	%
Discount rate	1.95	2.80
Retail price inflation (RPI)	3.20	3.60
Consumer price inflation (CPI)	2.20	2.60
Expected rate of salary increases	N/A	3.60

Post retirement mortality assumptions: 90% of S2NA tables with CMI 2017 projections using a long term improvement rate of 1.50% p.a. (2018: 90% of S2NA tables with CMI 2017 projections using a long term improvement rate of 1.50% p.a.)

Commutation: Members are assumed to take 25% of their pension as tax free cash.

20. Contingent Liability

The trustee of the defined pension scheme continues to undertake rectification work surrounding the accrual of certain benefits for members which may result in additional liabilities arising. Legal advice is being sought but the Directors and actuaries consider it too early to assess the likelihood of additional amounts becoming due to scheme members, and to quantify any financial impact on the scheme. It has not been considered appropriate therefore to make an allowance for these amounts within the scheme disclosures. As per the terms of the share purchase agreement between Pay.UK and UKPA's former shareholders, the 'selling' shareholders reconfirmed their commitment to continue to meet the Company's defined benefit pension scheme deficit contributions in line with their signed commitment letters. Accordingly any additional pension liability would be for the former shareholders to account for.

21. Commitments under operating leases

At 31 December 2019 the Company had future minimum lease payments under non-cancellable operating leases as follows:

Group	2019	2018
	£'000	£'000
Not later than 1 year	1,705	1,504
Later than 1 year and not later than 5 years	5,767	1,192
	7,472	2,696

Notes to the financial statements
Year ended 31 December 2019

The lease commitment on the first, second and third floor of 2 Thomas More Square is until 2024. However rental payments for the second and third floor are currently subject to a rent re-negotiation with the landlord (November 2019) and the outcome of the rent review has not been reflected in this disclosure as they are unknown and therefore unquantifiable. The rent charges under lease for the first floor are subject to negotiation in September 2021 and the outcome of the rent review has not been reflected in this disclosure as they are unknown and therefore unquantifiable.

At the date of this report the Company had no future minimum lease payments under non-cancellable operating leases.

22. Ultimate parent company

The Directors are of the opinion that there is no ultimate controlling party.

23. Business combinations

In April 2018 Pay.UK received a notification from the Bank of England (FMID) confirming that it deemed the Company ready to take control of the products and managed services of Bacs and FPS. Operational responsibility for Bacs and FPS then transferred to Pay.UK on 1 May 2018, occurring simultaneously with them both becoming subsidiary companies of Pay.UK.

Once the transactions were complete, the Pay.UK Board provided a 'Letter of Attestation' to FMID and the PSR, confirming it had taken over control and operational responsibility of both schemes.

On 1 July 2018 Cheque & Credit Clearing Company Limited (C&CCC), the Company responsible for the cheque paper and cheque image clearing systems, became a subsidiary of Pay.UK. Simultaneously, Pay.UK also acquired UK Payments Administration Limited (UKPA), the service company responsible for providing people, facilities and business services to the payments ecosystem.

With effect from 1 March 2019 the businesses of UK Payments Administration Ltd, Bacs Payment Schemes Ltd, Faster Payments Scheme Ltd and Cheque and Credit Clearing Company Ltd were novated to Pay.UK and consequently the staff were transferred to the new organisation, under a Transfer of Undertaking (Protection of Employment)Regulations 2006, more commonly referred to as TUPE. This is not expected to have an impact on the Group turnover and administrative expenses in future reporting periods.

The subsidiaries were acquired for £nil consideration.

	Book Value and Fair Value on acquisition
	£'000
Fixed Assets	
Tangible assets	829
Investments	-
	829
Current assets	
Debtors	13,383
Cash at bank	68,160
	81,543
Total Assets	82,372
Creditors: amounts falling due within one year	(77,714)
Net assets	4,658

Notes to the financial statements
Year ended 31 December 2019

24. Post Balance Sheet Events

Pension Scheme
In 2019 British Bankers' Association and UK Payments. Administration Limited commenced with a buyout of the British Bankers' Association Pension Scheme. Once complete this will allow the Scheme to be wound-up and therefore remove the Pension Scheme as shown in note 19 from the Companies' financial records.

The first stage of this transaction where a bulk annuity policy was purchased to cover all of the liabilities in the Scheme, the buy in, was completed on 31 March 2020. The Directors continue to work with the pension trustee to complete full buyout and this is anticipated to take at least a further 18 months and be completed by the end of 2021.

Conversion to loan
In July 2018 agreements were executed between Cheque and Credit Clearing Company Ltd and its former shareholders whereby unspent funds, in the form of deferred income relating to both the PCS and the ICS delivery programme would be, subject to certain criteria, converted to loan repayable to the former shareholders. This agreement along with the deferred income were transferred to Pay.UK Ltd on 1 March 2019. On the 17 January 2020 the criteria surrounding the conversion of the deferred income to a loan were met and £9.88m of the liability reported in accruals and deferred income within creditors of less than one year were reclassified as a loan repayable to the former shareholders. This loan is repayable upon achievement of certain performance criteria or at the latest by 31 October 2022.

Covid-19
With the outbreak of Covid-19, in the first half of 2020 and the measures that the UK authorities have subsequently implemented to control the spread of the virus, the Directors have made an assessment of the risks the Company and Group faces as a consequence of the virus. This is a non-adjusting post balance sheet event and as such does not impact the financial position of the Company as at 31 December 2019.

As disclosed in the Directors' Report and Basis of Preparation note, due to the nature of the Company and Group's funding profile as cost recovery businesses, their cash flows, and with the companies operating remotely since measures implemented by the UK authorities came into effect, the Directors are of the opinion that the events surrounding Covid-19 have no material impact on the Company or Group.

Pay.UK Limited
Report and Financial Statements
Year ended 31 December 2019

Company Registration No. 10872449
(A Company Limited by Guarantee)

Email enquiries@wearepay.uk

Telephone +44 (0)20 3217 8200

Address 2 Thomas More Square
London E1W 1YN

Web www.wearepay.uk