Annual Report & Financial Statements 2020

Year ended 31 December 2020

pay.uk

Contents

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

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Overview

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Chair's introduction

I joined Pay.UK in 2020 at a crucial point in its evolution. The Board, under the leadership of my predecessor, Melanie Johnson, built solid foundations by successfully bringing together the existing retail interbank payment systems into a single entity. My task is to build on her work as we seek to modernise the payment systems and Pay.UK's role – strengthening robust and resilient operations as well as promoting competition and innovation.

Melanie has left a fine legacy. She and our former CEO, Paul Horlock[1], ensured that we have robust and resilient systems that have worked seamlessly throughout the pandemic as our operations shifted from our offices to the homes of our excellent team.

These are the services that we all rely upon for the payment of our utilities, bills and salaries; the services used by the government, businesses large and small, as well as families, all of which functioned smoothly throughout the pandemic. This reflects well on the professionalism of our people and their passion for payments. I am grateful to them for their commitment in the recent challenging times.

Changes in leadership in any business create an opportunity for reassessment. The Board and the Executive team, led by the interim CEO, Matthew Hunt, used this opportunity to prepare Pay.UK for the next stage in its evolution. I would like to thank Matthew for his leadership during this time. Alongside maintaining the critical national infrastructure, our focus since the third quarter of 2020 has been on a strategic refresh, rethinking Pay.UK's role in the ecosystem and progressing the implementation of the New Payments Architecture (NPA). Our new CEO, David Pitt, has a solid foundation to build upon.

Building on work started last summer, we are developing a new strategy for Pay.UK that will help drive forward the business and the ecosystem that we enable. Our original strategy was prepared in very different times. Technology is rapidly evolving. End user expectations around the safety and security of payments are higher. The opportunities to develop new services have increased. There are now many more payments and payments-related businesses within the ecosystem. Our new strategy will reflect these trends, recognising the enabling role that Pay.UK can and should play in the market. To realise this potential, we will continue to deliver robust and resilient payment system services and create more opportunities for competition and innovation by migrating our existing systems onto a new platform, the NPA. Pay.UK will also need to evolve its role within the ecosystem.

Given the changing payments landscape, we will need to go beyond the limitations of our role as a payment system operator to ensure that the retail interbank payment systems and services remain fit for purpose. This will require us to work with others to develop solutions to the challenges we all face. We are currently developing principles to determine those issues with which we should engage, and those where we should stand back. A practical example is consumer protection in the Faster Payment System where changes may be required to our legal framework to enable us to facilitate industry-wide solutions. We will explore this change in our positioning with stakeholders over the course of 2021.

Relationships with our stakeholders are key to the effective functioning of Pay.UK. We devote substantial time and resources to stakeholder engagement. We have formal and informal channels for engaging with participants. The open nature of these discussions allows us to maintain alignment with those who fund our operations and interact with our infrastructure. Nor should we lose sight of the interests of end-users: our End User Advisory Council is a vital part of our stakeholder engagement. It is not enough for our products and services to work for banks and other payment providers; they need to meet the needs of end users too.

A key part of our strategy will be the design and implementation of the NPA. This is a major programme for us and for the industry, and presents significant ecosystem-wide challenges. We need to be able to transfer billions of transactions from one system to another without disruption. The Board and the Executive are acutely conscious of the potential risks involved and we therefore welcome the consultation by the Payment Systems Regulator into de-risking the delivery of this project. The consultation is seeking views on changing the specification of the original project – looking at both the initial scope and the method of infrastructure procurement. I believe that this consultation has the potential to create a new consensus around the NPA that will help drive it forward.

Given the breadth and depth of the agenda facing us, we commissioned a review of our governance arrangements by PwC in Q4 2020 to ensure that they continue to be appropriate and guarantee efficient and effective oversight of Pay.UK. We received recommendations in Q1 2021, with implementation taking place over the course of the year.

I would characterise our work on strategy, our role in the ecosystem, the implementation of the NPA and governance as building on the work that has been done since the launch of Pay.UK. As I noted earlier, we are building on strong foundations, but we must press on with our work to ensure that Pay.UK continues to meet the needs of all of those who use interbank payments. The world in which we operate is evolving and so must we.

Mark Hoban
Chair
05 August 2021

1 Paul Horlock resigned in November 2020.

Chief Executive Officer's report

Payment systems matter. They are vital to the smooth functioning of our economy. They provide an accepted means of monetary exchange and are indispensable in the lives of individuals and the work of businesses, the third sector and government. Pay.UK provides a platform for a healthy economy, for innovation and for new ways of transacting payments, with real benefits for end users across the UK.

At Pay.UK we run the infrastructure and services necessary for the UK's interbank retail payments to function smoothly and safely. In addition, by defining the associated standards and rules for participation, we protect those who use the payments ecosystem.

With the support of the Bank of England and the Payment Systems Regulator, we formed Pay.UK by completing the merger of Bacs, Faster Payments, the Cheque and Credit Clearing Company and UK Payments Administration (UKPA) during 2019. We consolidated the merged organisation in 2020, embedding the changes and ensuring the continuing robustness and resilience of our critically important payment systems.

Last year the systems we manage saw payment transaction volumes reach an all-time high, with businesses and individuals making 9.5 billion transactions, up from 9.2 billion the year before. These transactions amounted to a total value of £7.2 trillion, equating to more than £19 billion going through our systems every single day of the year.

We are in a strong position financially, despite the impact of the pandemic on some of our volume-driven revenue streams, such as cheques and current account switching. We were able to make some substantive cost savings as economies from our merger started to crystallise. Our capital position was £40 million at the end of 2020, much higher than our £25 million target. This was partly due to conservative budgeting and good cost control, along with significant underspend as a result of Covid-19 impacting the ramp-up of the NPA programme and the release of legacy deferred income. This is a temporary position, but it is one that provides flexibility.

For more information about our financial position see page 64.

It is impossible to write about 2020 and not talk about the impact of Covid-19. The advent of the global pandemic caused us to re-evaluate and re-prioritise, resulting in a clear strategy to focus on the continued robust and resilient operation of the UK's retail payment systems, and the wellbeing of our colleagues. We quickly moved most of our team to remote working and focused on providing wellbeing and mental health support to help them deal with the impact of the pandemic. Our regular internal 'pulse' surveys helped us understand and react to colleagues' concerns, and our colleague charter ensured mutual respect for others when we were able to meet face-to-face.

I am very proud that we continued to run our part of the UK's critical national infrastructure seamlessly and effectively in 2020 throughout the pandemic. We were also able to support HM Government with its Covid-19 response, working with the wider industry to enable vital payments to the people and businesses that needed them.

For details about our Covid-19 response see page 27.

I would like to thank the previous Chair and CEO, Melanie Johnson and Paul Horlock, for their dedication and commitment in overseeing our strong operational performance and healthy balance sheet. With our new Chair, Mark Hoban, in place, we are building on the foundations they laid to meet our objectives, our responsibilities to our regulators and participants, and the needs of end users.

> "Pay.UK provides a platform for a healthy economy, for innovation and for new ways of transacting payments, with real benefits for end users across the UK.

When Mark and the Board asked me to take over as interim Chief Executive, I was delighted to lead this agenda before the new CEO, David Pitt joined us. I am now looking forward to working with David in driving Pay.UK forward.

In order to enable the next stage of our evolution, we restructured the organisation, adding the new key delivery roles of Chief Payments Officer and Chief Transformation Officer to our C-suite. We also created a Chief Services Officer role to bring together our support functions at this critical time.

Three years into our existence it is time to refresh our strategy, based on what we have learnt from our experiences of working with our stakeholders since we were established. We started this work in 2020 and it will complete in 2021. The Payment System Operator Delivery Group (PSODG), under the leadership of Rob Stansbury (who also served on our Board until the end of 2020), set the agenda for our initial strategy. I would like to thank Rob for his insightful contributions to both the PSODG and our Board.

We will announce our new strategy during 2021. It will set out Pay.UK's vision, purpose and strategic focus for the next five years and will seek to inspire confidence in our organisation. Importantly, it will also define how we will engage with the wider payments ecosystem, from our regulators and participants to the people and businesses that ultimately use our systems.

This covers our roles as a payment system operator, and as a catalyst for innovation and competition – including using our schemes to offer more choice to end users. Our strategy will include horizon scanning so we can understand and react to the impacts of factors such as cloud technology, consumer protections, and other evolving themes in this rapidly changing industry.

This new strategy will of course be central in determining our approach to delivering the NPA programme. The NPA has already achieved important work for our end users, such as Confirmation of Payee, Request to Pay, and the standards set in collaboration with the Bank of England for the implementation of richer data benefits via ISO 20022. But there is much more to do in order to enable the industry to deliver a wider set of benefits.

During 2020, the challenges we face in delivering this infrastructure became clearer. These risks were exacerbated by Covid-19 and its economic impact. Pay.UK has an ongoing dialogue with the payments ecosystem through consultations, industry forums and working groups. Through these, our participants made it clear to us that the pandemic was causing them to reconsider their priorities and the level of risk they were comfortable taking. Taken in consideration with our own view of risk, our Board felt it prudent to explore different ways to de-risk the NPA programme and we started a dialogue with the Payment Systems Regulator (PSR) accordingly.

The PSR has agreed that there is a need to reduce the risks of the NPA programme and has chosen to consult with the industry during 2021 on a number of options specific to the delivery of the NPA. We welcome this consultation, and the industry debate that will follow, to help decide the best way to deliver the NPA – a once-in-a-generation change to the retail payments system that will create a step change in the value that retail payments will bring to end users and the UK economy.

While there is currently significant uncertainty over the pandemic and the pace at which the recovery will proceed, it is clear that we have an important part to play in the year ahead as we continue to provide safe, robust and resilient payment systems – the platform on which we will build future innovation. I would like to thank my colleagues for their commitment during 2020, in particular for the support shown to me as interim CEO, and I know that together we will rise to meet the challenges of 2021 to benefit people and businesses, and help support economic recovery across the UK.

Matthew Hunt
Chief Strategy Officer, Deputy Chief Executive Officer
Interim CEO (November 2020 to July 2021)
05 August 2021

Payment systems matter. They are vital to the smooth functioning of our economy.

About us

Pay.UK is the recognised operator and standards body for the UK's retail interbank payment systems.

We provide the digital payments networks that the UK's banks, building societies, other payment providers and all of their customers use to make payments, ensuring they are secure, safe and simple to use.

We were created in July 2017 (as the New Payment System Operator) and embarked on a journey to form a single retail payments operator, in respect of our payment systems, designed to: deliver efficiency; safeguard the payments that run on our platforms; and enable innovation. In December 2017 we also adopted the Blueprint for the NPA – a plan to modernise the UK's national payments infrastructure proposed by the Payments Strategy Forum (PSF).

One of the PSF's key recommendations was for the UK to have one retail interbank payment system operator – us – working alongside the Bank of England's wholesale operations, CHAPS and the real-time gross settlement (RTGS) payment system.

We launched as Pay.UK in 2018, bringing the three national retail payment schemes together, into a single, consolidated operation. We are supervised by the Bank of England's Financial Market Infrastructure Directorate (FMID)[2] and regulated by the Payment Systems Regulator[3,4]. We also provide the Current Account Switch Service in accordance with the requirements of undertakings given to the Competition and Markets Authority (CMA)[5].

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2 The Bank of England, through its Financial Market Infrastructure Directorate (FMID), supervises Pay.UK as operator of the Bacs Payment System and the Faster Payment System on a macroprudential basis. These systems are designated by HM Treasury as recognised payment systems under the Banking Act 2009.

3 The PSR is the economic regulator of payment systems and the concurrent competition authority in relation to participation in payment systems. The Bacs Payment System, the Faster Payment System and ICS/Cheque and Credit are designated by HM Treasury as regulated payment systems under the Financial Services (Banking Reform) Act 2013 (FSBRA). The PSR regulates participants under FSBRA, including payment system operators, according to its statutory payment system objectives, which are: the competition objective, the innovation objective, and the service-user objective.

4 The Bank of England and the PSR coordinate their regulatory activity in respect of payment systems according to a statutory memorandum of understanding under FSBRA.

5 Following the CMA Retail Banking Market investigation, 2017.

Pay.UK in 2020

£3.7tr
paid by Direct Credit

£2.1tr
transferred by the Faster Payment System

4.5bn
Direct Debits processed

2.9bn
Faster Payments were made

£451m
Paym transfers

188m
cheques processed

277,500
new Paym registrations

5
new participants across our schemes

2
new services: Request to Pay and Confirmation of Payee

99.9%
average uptime across our systems

93%
stakeholder awareness

30%
increase in UTSP certificate users

SOURCE: Pay.UK Annual Summary of Payment Statistics 2020.

Vision and purpose

We have a clear vision to support a vibrant UK economy, enabled by excellent retail payment systems and built on a payments platform that enables connectivity, scale, and competition for the benefit of end users.

Our core purpose is to provide robust, resilient, collaborative retail payment system services, rules, and standards for the benefit of all retail payment users.

“Our core purpose is to provide robust, resilient, collaborative retail payment services, rules and standards for the benefit of all retail payment users.

Our strategic objectives, set in 2018, help us to achieve our vision and purpose. These objectives guide everything we do:

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

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

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

Accessible
We promote competition by supporting new entrants through comprehensive and consistent application and onboarding processes

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

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

Our Board[6]

The Pay.UK Board brings a wide range of knowledge and expertise to guide and deliver change successfully, while maintaining a focus on service delivery.

Mark Hoban
Chair

Richard Anderson
Independent
Non-Executive Director

Tim Fitzpatrick
Independent
Non-Executive Director

Lesley Titcomb
Independent
Non-Executive Director

David Pitt
Chief Executive Officer

Christine Ashton
Non-Executive Director

Marc Pettican
Non-Executive Director

Lars Trunin
Non-Executive Director

Matthew Hunt
Chief Strategy Officer,
Deputy Chief Executive Officer

Anna Bradley
Senior Independent Director

Jean-Yves Rotté-Geoffroy
Independent
Non-Executive Director

Peter Wyman
Independent
Non-Executive Director

6 As at date of signing the Annual Report and Financial Statements.

Strategic report

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Governance and risk

Directors' statement, section 172 of the Companies Act (2006)

Throughout the accounting period, the Directors have acted in a way that they consider, in good faith, to be most likely to promote the success of Pay.UK for the benefit of its members as a whole, and in doing so had regard (amongst other matters) to the broader matters set out in section 172(1) (a) to (f) of the Companies Act 2006.

Matters to which the Directors have had regard	Summary of activity
The likely consequence of any decision in the long term	With regard to our business and the environment in which we operate, the Directors are aware of the responsibility that they have to ensure that the decisions they make are for the benefit of the company and the wider payments ecosystem. We initiated a refresh of our corporate strategy for the next five years, which we will implement in 2021 and beyond. This work includes consideration of our engagement with the payments ecosystem and the challenges of delivering the NPA, an enabler of the future vision of retail interbank payments in the UK. The Directors' top priorities during 2020 were the seamless running of the critical national infrastructure and the long-term safety and wellbeing of our colleagues throughout the pandemic. We introduced appropriate measures to help achieve this, including a health and wellbeing programme led by the people team (page 39). This furnished our colleagues with the technology and equipment they needed to effectively and safely work from home, and ensured regular two-way communication across the organisation. For more information see the Culture and colleague engagement section see page 37. We engaged with our participants and the industry and sought their feedback, an example of which was our extensive consultation on standards, which resulted in the publication of the Next Generation Standard for UK Retail Payments. We also worked with the Payment Systems Regulator to mitigate delivery risks to the NPA programme. For more information see the NPA section on page 29.

Matters to which the Directors have had regard	Summary of activity
The interests of the company's employees	Attracting, retaining and developing talent sits at the heart of our people strategy. The Board is responsible for setting the culture of our organisation. As a key pillar of our strategic objectives ('excellent people'), the Directors took a keen interest in the development of our talent management framework, colleague wellbeing and our work on diversity and inclusion. This continues to help ensure that we celebrate and respect our differences, and recognise the value these differences bring to our lives and our work, creating a supportive and sustainable working environment. We recognise that our colleagues and the values-based culture we promote are fundamental to the success of our company – especially the wellbeing of colleagues during the pandemic (pages 37-41). We engaged with our colleagues through a number of channels throughout 2020, including our Colleague People Forum, our 'Getting to know. . .Pay.UK' series, and our pulse surveys. Our Social Committee helped keep colleagues connected during the remote working period and we established a network of mental health first aiders to support anyone with mental health concerns or impacted by the pandemic. The Board was kept aware of, and was fully supportive of, engagement with colleagues, including steps to ensure their wellbeing during the pandemic.

Directors' statement, section 172 of the Companies Act (2006) continued

Matters to which the Directors have had regard	Summary of activity
The need to foster the company's business relationships with suppliers, customers and others	We evidence the way we work with the payments ecosystem and wider stakeholders in the Engagement and NPA sections of this report (pages 29 and 33). In 2020 we continued to develop our relationships with suppliers, customers and other stakeholders through a number of existing and new initiatives, including public consultations, industry forums and working groups. In our Response to Covid-19 section (pages 27-28) we detail our collaboration as part of an industry taskforce to support additional government disbursements during the pandemic, along with our work to maintain the critical national infrastructure and support our participants and end users across the UK. We maintained our compliance with PSR General Direction 4 and our service user engagement helped inform the Board's decision making through regular updates, particularly with regard to specific work including the NPA. As the systemic risk manager for the payment systems we operate, understanding the risks we could be exposed to, including modern slavery and human trafficking, are extremely important considerations for our supply chains. Our Board remains committed to continuous implementation and improvement of systems and controls to ensure modern slavery is not taking place within any of our supply chains.
The impact of the company's operations on the community and the environment	Our Board is committed to upholding our corporate and social responsibilities. Our increasingly digital systems are reducing the industry's environmental impact. On a more local level we are working to promote sustainability and support our local community through our work with our partner charity, the First Love Foundation. Chosen by colleagues, the Foundation helps people facing crisis and tackles poverty in Tower Hamlets (page 40).

Matters to which the Directors have had regard	Summary of activity
The desirability of the company maintaining a reputation for high standards of business conduct	Our company values set the tone for the way we work, both within our organisation and as part of the wider payments ecosystem, led by our Directors. Given the increased focus on our internal values, in 2020 we introduced a mandatory performance objective for all colleagues as part of our annual review process. For more information on our standards within the organisation, see Our Culture and colleague engagement section on page 37. Our strategic objectives guide us in our work to provide secure, collaborative retail interbank payment services, rules and standards, for the benefit of all users. It is crucial that we are trusted and respected across the industry. Our approach to risk management balances the need to manage inherent threats while identifying opportunities to improve performance. Our policies such as our Ethical Code of Conduct and Anti-Bribery and Corruption help us maintain high standards of business conduct. Our compliance activities involve the enhancement of our internal policies to maintain these standards, enable effective monitoring, and provide constructive reporting to the Board. We set best-in-class standards and rules for the industry to follow and, through our Standards Authority, are responsible for coordinating the retail interbank payments standardisation activities on behalf of our participants, the wider payments industry and other relevant stakeholders (pages 19 and 34). We ensure our suppliers have adequate controls and risk management in place (page 16) and we hold our Executive to account alongside the Board and its Committees to comply with their legal and regulatory obligations (pages 20 and 46).
The need to act fairly as between members of the company	As a company limited by guarantee, Pay.UK has guarantor members rather than shareholders. Pay.UK is committed to acting in an open and transparent way with all its guarantor members, providing them with regular updates from Pay.UK and specific guarantor member events, including the Annual General Meeting (AGM) (page 34).

Risk and compliance

Pay.UK is accountable for the end-to-end risk management of the UK's interbank retail payment systems. We work to manage systemic risk that could arise from, and be spread by, those systems, promoting the safety and efficiency of the payments systems and supporting the stability of the broader financial system.

Risk management is an essential part of the way we support the effective delivery of our strategic objectives (page 10). It is also key to us fulfilling our role as a provider of payment system services that have a systemic importance to the UK economy and running critical national infrastructure.

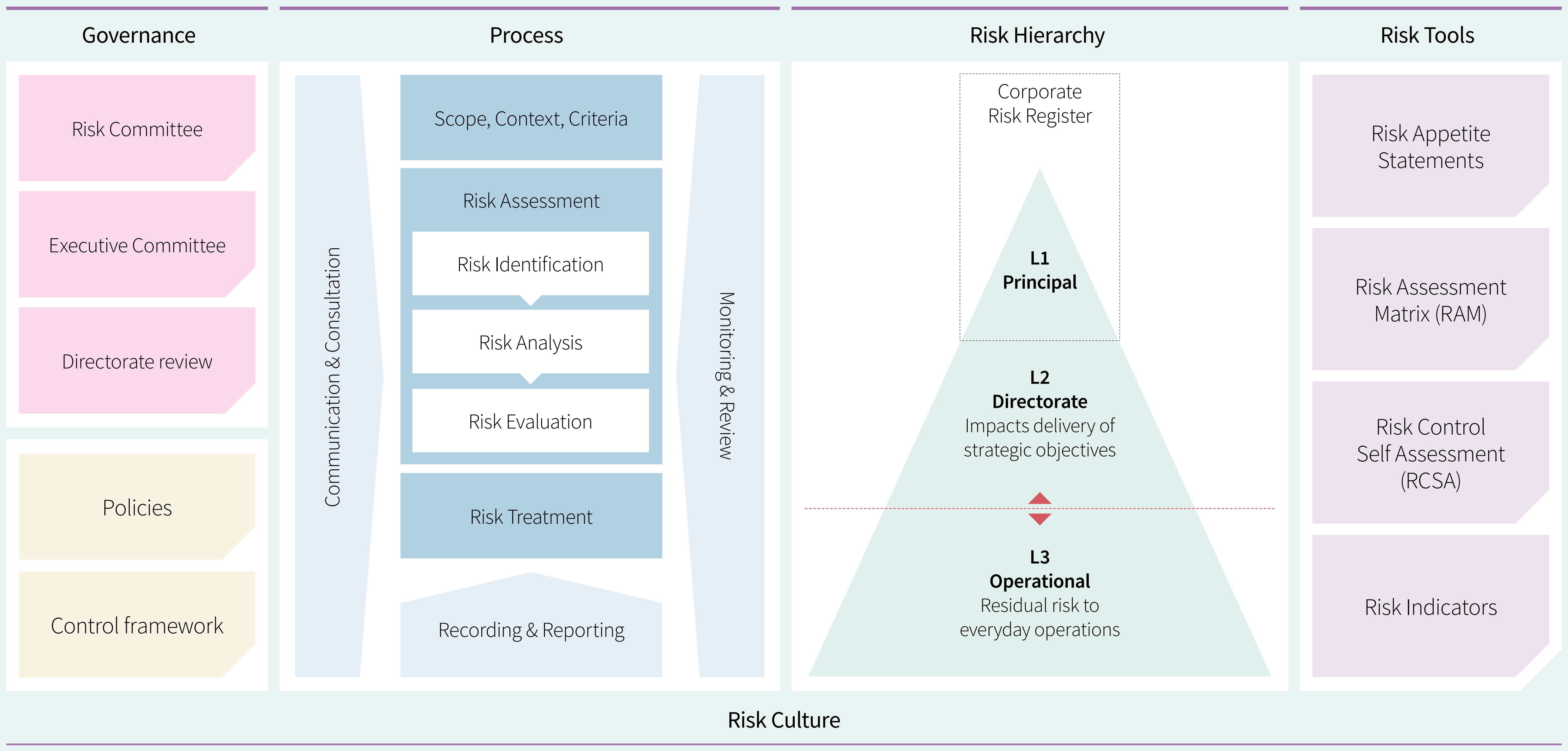
In 2020 our Risk team initiated an ongoing enhancement programme for our Enterprise Risk Management Framework (ERMF) to enable robust and effective risk management and control. This provided a consistent framework for identifying, analysing, monitoring, and reporting risks in a proactive, integrated, and visible way across the business. The framework supports our objective of embedding a risk management culture within Pay.UK, providing clear criteria and a route for the business to escalate risk, ensuring the right people have the right information at the right time.

Our ERMF meets the principles set out by the Financial Reporting Council in the UK Corporate Governance Code 2018 and is aligned to ISO 31000. The ERMF also takes into consideration that under the Banking Act 2009[7] we are required to have regard for the CPMI-IOSCO principles for financial market infrastructures in operating our recognised payment systems. Our ERMF supports all areas of Pay.UK as well as our work in the wider payments ecosystem and in our role as a market catalyst. It balances the need to manage inherent threats with identifying opportunities to improve performance through the careful acceptance of some risk. This enables early recognition of both threats and opportunities, allowing us to work collaboratively and proactively with participants, stakeholders and suppliers to mitigate any systemic threats.

We have an established governance framework within which risk management plays a key part. We employ a 'tone from the top' approach, with our Board responsible for setting our risk appetite statements, which we review annually. Our Risk Committee has detailed oversight of risk management and is responsible for overseeing the effectiveness of the ERMF.

7 Section 188 Banking Act 2009.

Enterprise Risk Management Framework



Our ERMF requires every part of the business to monitor, communicate, and report changes in the risk environment and the effectiveness of actions to manage identified risks on an ongoing basis. We operate a 'three lines of defence' model. Every part of the business has defined deliverables and reviews its own risk environment to:

- Identify risks to achieving those deliverables
- Assess the impact and likelihood of risks materialising
- Implement effective actions to enable Pay.UK to achieve its strategic objectives.

Our risk appetite statements

We have a zero/close-to-zero risk appetite towards payment service operations. Our priority is to ensure that service levels are maintained and are robust and resilient. We will not tolerate any degradation to confidentiality, integrity or availability of payment services and end user impact. This applies to any future service provision and operational performance of any new platforms, solutions or architecture.

We have a cautious risk appetite with regards to the delivery of our internal services (e.g. internal technology, enterprise change, Pay.UK facilities and Human Resources) and aim to ensure service provision at all times. However, we will tolerate minor disruption to service availability whilst maintaining the integrity and confidentiality of Pay.UK data.

In pursuit of our objectives we are willing to accept, in some circumstances, risks that may result in financial loss or exposure. This includes the potential that we will request participants to increase agreed funding levels. We will not pursue any additional income-generating or cost-saving initiatives unless there is a high level of certainty of the benefit to participants or end users.

We will not knowingly accept any material breach of a regulatory requirement, legislation and/or contractual obligation. We will strive to identify early any potential changes to contracts/regulations/legislation and prepare as necessary for timely compliance.

We want to be seen as the leading retail payments entity, trusted and respected across the industry as the UK's retail interbank payment system operator. While some short-term minor criticism is tolerable, we will not tolerate any avoidable negative impact to our reputation, our retail payment systems, stakeholder relationships and/or end users. We will actively monitor internal and external channels for any negative sentiment. We will not undertake anything which could be perceived by stakeholders to be inappropriate, unethical or inconsistent with our values.

Principal risks and emerging risk themes

Our principal and emerging risks are subject to continuous review and assessment to ensure that we can monitor and report on our risk profile within the parameters established through the Board-approved risk appetite statements. These risks stem from both our day-to-day operations and our position in the payments ecosystem.

Systemic risk

New risks can be introduced from anywhere within the payments ecosystem and our risk framework provides us with the ability to identify new risks and assess them for potential systemic nature and impact. This is particularly relevant with regard to the monitoring and mitigating of participant risk, concentration risk and emerging risk, which are highlighted through a series of reporting dashboards to our Executive Committee and Risk Committee.

- We closely monitor participant risk in a number of areas, including operational incidents and compliance with our rules and codes
- We monitor and review concentration risk within tolerance parameters and escalate through our governance process accordingly
- We identify emerging risk from numerous sources including horizon scanning and engagement with stakeholders and suppliers.

Our continuous ERMF development includes enhancing process, procedures and governance, to ensure that we continually view risk identification, assessment, monitoring and reporting through a systemic risk lens.

Operational risk

We are exposed to a range of operational risks through our role as part of the financial market infrastructure, and from our day-to-day operations. Our key risk focus continues to be the robustness, resilience and efficiency of the payments infrastructure. We have a critical dependency on an uninterrupted service provision. Through our operational risk management, we safeguard resilience and recovery through the oversight of our central infrastructure supplier, and our incident and change management processes.

We have a mature approach to business continuity. We will supplement this with an operational resilience framework, being developed during 2021 for full implementation in 2022.

To manage operational risk in respect of our internal business service provision, we implemented some key investment programmes in 2020:

- Investment in our IT infrastructure, with additional security controls to mitigate risks arising from the large increase in remote working
- Investment in a tertiary data centre to provide increased resilience for our internal operations, and to enable independent recovery in the event of disruption or loss to the primary and secondary infrastructure
- An independent review of our data governance framework, which recommended a programme of enhancements that we will prioritise for delivery from 2021.

Through a structured and formal business continuity process, we worked closely with our central infrastructure provider to ensure the continued robustness and resilience of the payment systems during the Covid-19 pandemic period.

Covid-19

In 2020, Covid-19 was the most significant factor affecting our risk profile, particularly its impact on colleague wellbeing. The pandemic was also considered to be one of the biggest emerging threats, and we anticipate a wide array of potential impacts from the financial downturn and the resulting economic uncertainty throughout 2021 and beyond.

Key risk considerations for Covid-19 in 2020:

- Colleague wellbeing, which includes the continuous review of critical deliverables to accommodate varying staffing resources and requirements in the event of higher-than-normal levels of sickness and any resulting reduction in capacity
- Provision of a safe and secure workplace for all colleagues in our office and their home workplaces, fully compliant with statutory obligations and which minimise the disruption to our operational work practices
- The long-term economic impact of Covid-19. This impacts a number of areas for both Pay.UK and the wider ecosystem, including payment volumes and income, participants (and their service providers), aggregators, Pay.UK's third-party suppliers, as well as the environmental and societal impacts.

Our risk appetite statements continued

Brexit

Throughout 2020 we identified, reviewed and managed the associated immediate risks of Brexit on our organisation on a weekly basis. There was no material impact to us; the longer-term risks associated with Brexit form part of our ongoing risk review process.

Cyber security

Cyber-attacks are a continuous threat. Operationally we work very closely with our central infrastructure provider to safeguard our cyber resilience. We achieve this by ensuring efficient strategic and tactical risk management of cyber security.

In 2020 we put in place a programme of enhancements for our internal IT infrastructure to respond to a changing risk profile. This programme ensures that we have sufficient capability to provide a secure and resilient IT service to meet our business requirements, and includes a new Pay.UK security strategy, aligned to both ISO 27001 and to the National Institute of Standards and Technology.

Regulatory and legal

As the operator of the UK's three interbank retail payment systems, it is vital for us to have ongoing and effective engagement with our regulatory stakeholders.

In 2020 we continued our proactive dialogue with FMID and the PSR, keeping them fully abreast of our progress across a range of payment initiatives, including our delivery of the NPA programme, in line with their core strategic requirements. Our Board and Executive leadership regularly engaged with their regulatory counterparts throughout the year, unimpeded by the move to remote working.

We also continued to ensure that we have the correct risk management controls in place to identify, analyse and respond to regulatory and legal requirements effectively and in a timely manner. A review of our legal compliance framework and a programme of enhancements is ongoing.

Delivery and change

Our key focus for delivery and change in 2020 lay with the NPA programme's development of the next generation infrastructure for UK retail payments. This covered both the execution of the programme of change, and the assessment of appropriate controls, to ensure we establish the necessary foundations to support wider industry adoption and migration.

Other areas of focus included:

- Ensuring the adequate control and management of strategically important suppliers
- Ensuring a coordinated and aligned architectural investment across: the Pay.UK enterprise; participants of the core and managed services; and for major projects (such as the NPA)
- Risks associated with a relatively small organisation like Pay.UK leading an industry-wide change programme like the NPA.

Financial

We focused our controls on key financial risks and performed a number of financial stress tests to model the effects of the Covid-19 pandemic and the resulting restriction on economic activities. The results of these tests helped to determine our strategic approach.

We completed an annual review of our financial recovery plan to increase Pay.UK's financial resilience and to ensure that it can credibly recover from a variety of stresses. As a result, we added a non-financial (pandemic) scenario to the plan.

Key financial risks in 2020:

- We suffer financial losses or do not optimise our balance sheet
- We have insufficient revenue streams and/or material unbudgeted expenditure leading to a financial deficit, compromising the effectiveness of our funding model and/or leading to liquidity stresses.

See our viability statement on page 43 for more information.

People

We continued to review the controls in place to mitigate the risk of inadequate or insufficient capability in our workforce, and the failure to attract, hire and retain talent, capability and experience. These controls include our equal opportunities policy, our learning and development policy, and we introduced a temporary home working policy and a professional studies policy.

We launched a project in 2020 to develop our diversity and inclusion strategy and we will be reporting on this as well as our first gender pay gap report in 2021. We also maintained our focus on colleague development, and professional and leadership skills, to drive organisational and individual performance with a view to implementing a People Transformation Programme in 2021. This will include the development of a talent and reward framework and HR information systems.

Standards

We set standards as a control of systemic risk and to ensure services operate within tolerances defined within the relevant rulebooks. We also focused on developing NPA standards within our Standards Framework, ensuring an effective architectural control regime for our core service rulebooks. This will continue to demonstrate that our services are operating within defined tolerances.

Architecture

We ensured coherence across our programmes, prioritising controls to mitigate our architectural risks and to maximise investments in our baseline services and payments architecture, in line with our strategic objectives – specifically, 'Robust & resilient'.

Strategy and KPIs

In 2020 we achieved our high-level strategic goals against the backdrop of Covid-19, adapting our operating model at short notice, with a number of significant changes in our leadership team. Alongside continual delivery of robust and resilient payment services, delivery of Request to Pay and Confirmation of Payee rules, standards, and operational support, we also redesigned our assurance process driving significant operational efficiencies for ourselves and our participants.

Our key performance indicators (KPIs) are linked to our strategic objectives and measure corporate activity, allowing us actively to manage our performance. Our Executive team reviews our KPIs on a monthly basis and our Board receives a quarterly view of our KPIs, ensuring it has sight of our performance, alongside any deviations.

As we move to implementing our new company strategy in 2021, we expect these KPIs to evolve.

Our KPIs and the strategic objectives they relate to

Strategic objective

Robust & resilient

Keeping payments flowing for the UK economy

What we measure

- Compliance against our regulatory obligations
- Performance of the payment systems and services we operate
- Risk controls through our Enterprise Risk Management Framework
- Serious data breaches.

How we performed

Our payment systems and services performed strongly throughout 2020.

Uptime

	2019	2020
Bacs Payment System	100%	> 99.99%
Faster Payment System	100%	100%
Image Clearing System	99.92%	99.89%

Strategic objective

End user focused

Ensuring that we meet the needs of our customers

What we measure

- What our customers think of us and our services.

How we performed

We issued our first stakeholder survey in Q4 of 2020.

- Overall stakeholder awareness is **93%**
- **84%** agree that we succeed in our role as a PSO
- **61%** believe that we are meeting the needs of end users.

The formation of the Strategic Participant Group (SPG) allowed us to understand our customers' needs with regards to the NPA.

Strategic objective

Agile & innovative

Responding to the changing industry around us

What we measure

- The overall status of the NPA programme.

How we performed

- The overall status of the NPA remained red throughout the year as we worked through ways to de-risk the programme with our regulators
- We delivered two new overlay services to benefit end users, Confirmation of Payee and Request to Pay. An increase in programme risks due to Covid-19 led us to engage with our regulators to define the best way forward for the industry and for the benefit of our customers
- We conducted a comprehensive industry consultation on the enhanced data elements for messaging standards (ISO 20022) for the NPA.

Strategic objective

Accessible

Our systems and services are available to a wider group of participants

What we measure

- We track the onboarding journey of new participants.

How we performed

We welcomed five new participants to our schemes in 2020.

Direct participants:

	2019	2020	Onboarded	Offboarded
Bacs Payment System	26	27	1	0
Faster Payment System	34	35	3	2
Image Clearing System	19	20	1	0

Strategic objective

Efficient

Driving value for our participants in everything we do

What we measure

We measure the effectiveness of our internal systems, including:

- Systems capacity
- Financial sustainability
- Governance.

How we performed

We over-performed against our capital raising targets and maintained service availability throughout the year. Total revenue was £5.9m lower than budget because of the impacts from the pandemic on payment volumes, however our costs were also lower by £25.8m compared to budget.

	2019		2020	
	Budget	Actuals	Budget	Actuals
Income	139.9	125.9	148.6	145.0
Cost (before tax)	127.4	111.8	130.1	106.7
Total equity*	Nil*	8.6	12	40

*The 2019 budget was to eradicate the prior year's capital deficit.

Strategic objective

Excellent people

Attracting and retaining talented colleagues

What we measure

- How engaged our colleagues feel
- How we perform against a number of industry benchmarks, i.e. attrition, gender split and sickness.

How we performed

- We implemented a number of initiatives throughout the year, drawn from our first colleague engagement survey, held at the end of 2019. We also implemented regular pulse surveys to track trends in colleague sentiment during the pandemic
- Our attrition and sickness levels continued to be below the UK average (ONS)
- **68%** employee engagement.

Strategy and KPIs continued

In Q3 2020 we started a programme to refresh our corporate strategy, which was based on the work of the PSODG. Having run our organisation for three years, and with a greater understanding of the challenges ahead, we began developing a new strategy to redefine our strategic goals for the next five years. Within this, we will set out how we will engage with the wider payments ecosystem and the stakeholders we serve.

We engaged the Executive and Board members to determine the direction of our new evidence-based corporate strategy, which we will publish in 2021. It will drive a step change in our ambition and our culture, delivering a positive impact for our end users, as well as the payment service providers of today and tomorrow. We will review our KPIs in line with our refreshed five-year strategy. In the second half of 2021, we will start to look at exactly what we need to do to implement this strategy.

Central to the work we do is the operation of the UK's retail payment systems for today's payments, and the development of the NPA for tomorrow's payments, on which others can build innovative payment solutions.

Today's payments

The core retail payment systems we operate include:

Bacs Payment System
Services include: Direct Credit, widely used to pay salaries, benefits and dividends directly into bank accounts; and Direct Debit, used by thousands of companies to automatically and securely collect payments from millions of people and organisations

Faster Payment System
Payments made through this system include: single immediate payments (typically made via online banking or on a smartphone); forward-dated payments (one-off payments set up by customers to be sent and received on a pre-arranged date); standing orders (a regular payment that pays a fixed amount to the same recipient on a regular date); and direct corporate access payments (a service for business customers that enables files of payment messages to be sent)

Image Clearing System
This enables images of cheques and credits to be exchanged between payment service providers for clearing and payment. The previous system (the Paper Clearing System), which closed in 2019, involved the cheques and credit slips being exchanged by physically transporting them around the country.

In addition, we run other payment-related services, including:

Current Account Switch Service
Which enables reliable current account switching from bank to bank

Paym
Which lets customers send money to someone just using their mobile phone number

Confirmation of Payee
A name-checking service that helps avoid payments being sent to the wrong account, while also helping to prevent certain types of fraud

Request to Pay
A secure messaging system to allow flexible settlement of bills and invoices.

Details about our operational performance in 2020 can be found in the Operations section on page 23.

Tomorrow's payments

Our role is not confined to the systems and services we run today; we must continue to evolve. We have a responsibility to provide world-class retail interbank payment systems and services that work in the best way for everyone who uses payments. We are focused on ensuring that payments remain safe, simple to access and full of choice for the people and businesses that use them. To achieve this, we need continuously to modernise our services, operations and infrastructure, keeping up-to-date with current end user detriments and future opportunities, and pioneering brand-new payment standards and systems.

As part of our risk and opportunity assessment to ensure we remain relevant, we conduct horizon scanning as a rolling programme. The topics that we focus on are sourced from global payment developments, UK regulatory developments and any adjacent technology advancements. This process is designed to ensure we have the insights, foresight and data to support our decision-making on matters that may result in us pivoting focus, or that could affect the future development of Pay.UK. Examples of key trends in 2020 include cryptocurrencies including central bank digital currencies, cloud capability and global fraud prevention.

Our responsibilities for innovation span our current schemes, and our NPA programme. Since 2017 we have been actively working alongside our participating banks, building societies and other payment providers, as well as with end users, to develop a new retail payments infrastructure for the UK.

The NPA will be a modern and robust clearing and settlement platform, with new standards of interoperability, capable of supporting increasing payment volumes well into the future. It will realise new payments opportunities, address emerging threats, unlock competition, and enable innovation. With end users firmly at the heart of our work we will ensure that the NPA meets their needs for protection, value, and service.

More information about the NPA is on page 29.

Review of the year

Operations

In 2020, Covid-19 impacted how people across the UK lived, worked and carried out their day-to-day activities, including the way they made and received payments. Our core retail payment systems saw new processing demands as the Government introduced the furlough scheme, supported UK businesses with grants and loans, and continued providing individuals with support in the form of benefits.

Despite the challenges brought on by the pandemic, we continued with the safe and secure delivery of robust retail payment operations in the UK with operational availability measured at more than 99.9%. While volumes went up (to 9.5 billion from 9.2 billion transactions in 2019), the total value of these transactions showed a slight year-on-year decrease, down to £7.2 trillion from £7.4 trillion.

The Faster Payment System set new volume and value records. In 2020, we processed 2.9 billion transactions, a 17% increase on 2019, with a value of £2.1 trillion.

In its fiftieth year, there was another new record for Direct Debit, with 4.5 billion transactions processed by the Bacs Payment System, a year-on-year increase of 1%.

The Image Clearing System processed 195 million items in 2020, including 188 million cheques. This was lower than forecast as some consumers switched away from cheques to other payment methods during the pandemic.

Our work to consolidate the assurance process added real value for our participants, strengthening the cohesive nature of our assurance team, and providing a clearer overview of assurance for our participants across all Pay.UK services. In 2020 we completed a major assurance review of our systems to make it easier for payment service providers to gain direct access to payments, as well as encouraging competition with a smooth, streamlined and simplified onboarding experience for new participants. The new assurance pack covers all three systems, giving participants and ourselves a definitive change from the old processes that were service-specific, adding value, and saving time for Pay.UK and our participants. We've had positive feedback throughout the process and we will be measuring the success of this programme in 2021.

Creating better outcomes for end users is at the core of what we do at Pay.UK. Our operations are robust and performing well and we have taken positive steps towards opening up access to payments for the benefit of everyone.

>99%
Operational availability

£7.2tr
Total value of transactions

Payment systems

Bacs Payment System

Bacs services include the automated payment methods Direct Credit and Direct Debit, and provides the managed services for the Cash ISA Transfer Service and the Current Account Switch Service.

2020 saw Direct Debit grow in volume terms, exceeding 4.5 billion transactions. Volumes remained high as end users continued to use this service to pay their household bills. Direct Debit values showed a year-on-year decrease of 11% as people adjusted their spending during the pandemic. The largest drops in these values came from business-to-business collections, tax collections and national insurance contributions.

Direct Credit volumes declined last year, with a fall of 89 million (4%) transactions when compared with 2019. Significant state benefit payments were amalgamated into a single Universal Credit, bringing the numbers down, while the Covid-19 lockdowns and resultant reduced business activity impacted business-to-business credit volumes. Direct Credit values were down in 2020 by 1% from 2019. Similarly, the biggest reduction was seen in business-to-business payments, as well as dividend payments, and Her Majesty's Revenue and Customs (HMRC) self-assessment and VAT refunds.

Total processing values across the two payment methods were also affected by Covid-related factors including breaks for larger payments such as mortgage holidays and credit card bills.

Direct Debits*

	2020	2019
Volume	4.5 billion	4.5 billion
Value (£)	1.2 trillion	1.3 trillion

Direct Credits*

	2020	2019
Volume	1.9 billion	2.0 billion
Value (£)	3.7 trillion	3.7 trillion

* SOURCE: Pay.UK analysis of payment data – 1 Jan to 31 Dec 2020.

Faster Payment System

In April 2020, our Board took a strategic decision to initiate an increase to the Faster Payment System transaction limit from £250,000 to £1 million[8], in response to industry appetite.

At Pay.UK we continuously seek to improve our payment systems for the benefit of end users. A transaction limit increase will permit individual payment service providers greater freedom in making their own competitive decisions about the amount their customers can send, within the bounds of the £1 million scheme limit. This increase will also help to develop parity with the transfer limits of other payment systems and provide PSPs with greater choice[9]. Once we have completed our testing and the regulatory approvals process (by Q3 2021), we will work with the industry to establish an implementation schedule for the increase.

By the end of 2020, the Faster Payment System had 35 directly connected participants. We welcomed two new joiners to the service in 2020 – SquareUp and Tandem Bank – with more joiners planned for 2021.

Although the Faster Payment System set new records for both volume and value in 2020, Covid-19 national restrictions began to impact transactions from the second quarter of the year. During this time, there were decreases in the number of standing orders and forward-dated payments, although these levelled off in the third quarter and we expect to see a return to normal once the economy begins to recover. There was however strong growth in single immediate payments (typically those made via online banking) throughout the year.

Faster Payments*

	2020	2019
Volume	2.9 billion	2.4 billion
Value (£)	2.1 trillion	1.9 trillion

8 The Faster Payment System transaction limit last increased in November 2015, to £250,000 from £100,000.

9 Subject to participant live proving and FMID non-objection.

Image Clearing System

2020 was our first complete year of cheques and credits being processed entirely by image and data.

We worked closely with our participants and our infrastructure supplier to embed the new system and establish a stable, resilient infrastructure across the industry. We also welcomed ClearBank as a new participant.

There was a strong uplift in remote deposit volumes (cheques paid in through mobile banking apps), a key feature of the new system. This partially offset the decline in cheque volumes as the effects of the pandemic added to the continued impact of migration to electronic payment methods and branch closures. The volumes of cheques and credits being processed through the Image Clearing System in 2020 were, on average, 25% lower across the final three quarters of the year than they were during Q1.

Image-cleared items including cheques*

	2020	2019
Volume	**0.2** billion	**0.26** billion
Value (£)	**258** billion	**391** billion

* SOURCE: Pay.UK analysis of payment data – 1 Jan to 31 Dec 2020.

Payment services

Current Account Switch Service

Consumers and businesses switched over 700,000 current accounts in 2020, taking the total number of switches to 7 million since the Current Account Switch Service (CASS) launched in September 2013. Forty-nine participating brands use the service, covering 99% of the market.

The service continued to meet the majority of its regulatory objectives in 2020 [10] and achieved designation by the PSR [11] for the fourth consecutive year. It continues to deliver against the CMA undertakings set in 2016 [12] and is supervised by Her Majesty's Treasury (HMT).

We began to see a significant reduction in switching numbers in the second quarter of 2020 compared to previous years due to the pandemic. We determined that the range of people who could benefit from switching may be growing and we therefore reformulated our marketing approach to target financially vulnerable consumers.

CASS regulatory key performance indicators in 2020

99.5% of switches were completed within seven days

79% of consumers say they are aware of the service

90%+ All advertising campaigns exceeded the 90% advertising reach target

92% Consumer satisfaction ratings across the year

Overlay services

In 2020 the NPA programme delivered Confirmation of Payee and Request to Pay for the benefit of end users.

See the New Payments Architecture section for more information on page 29.

Paym

2020 was a strong year for the Paym service, setting new records for both transaction volume and value, with £451 million transferred. Both service usage and availability remained robust throughout the year in spite of the pandemic.

The cumulative value sent across the Paym service since its launch amounts to £1.879 billion (a year-on-year increase of 35%). Payment volumes increased 14% year-on-year with a record 10.4m transactions in 2020. The number of registered users now totals nearly 5.8 million (an increase of 5% year-on-year).

The UK's mobile payment service has been operating since 2014, and provides end users with the ability to make a payment without needing the recipient's account number or sort code.

£451m Paym transfers

10.4m Paym transactions

Universal Trust Service Provider (UTSP)

Universal Trust Service Provider had a 30% year-on-year increase in certificate users in 2020 and broadened its offering by providing certificates to Pay.UK overlay services, such as Request to Pay.

Since it was introduced, UTSP has helped 20 customers securely access the central infrastructure, with four more expected to join in 2021. It provides cost-effective public key infrastructure services, a set of rules and policies enabling digital certification and encryption, to UK banks and financial institutions that want to join the Faster Payment System and the Bacs Payment System.

30% increase in UTSP certificate users

20 customers helped to securely access central infrastructure

10 HMT and the CMA granted us forbearance against the 'awareness' key performance indicator for the second half of 2020.

11 Under the Payment Accounts Regulations 2015 (PARS), the Payment Systems Regulator may designate a switching service as an 'alternative arrangement'. Where a payment service provider is a party to and compliant with the requirements of a designated alternative arrangement, it is relieved of other obligations under the PARS.

12 As part of the CMA Retail Banking market investigation.

Response to Covid-19

For the majority of 2020 the spectre of Covid-19 provided an ever-present backdrop to our work. Throughout this time, colleague wellbeing and running our critical national infrastructure continued to be our top priorities.

Our initial response to the pandemic and the national lockdowns focused on ensuring our entire workforce could work safely and effectively from home while maintaining services to our participants and end users. Our business continuity plans helped protect the critical national infrastructure. We coordinated our plans and actions with those of the wider sector, including UK Finance and the Cross-Market Business Continuity Group run by the Bank of England.

Throughout 2020 we remained fully prepared to take proportionate steps to ensure our continued capability to deliver the UK's critical payments services. Our emphasis on local business continuity plans and use of an Operational Resilience Matrix to support Pay.UK's critical decision-making, helped us ensure a robust service with no change for our end users during the pandemic.

Retail payments support for HM Government

In our role as a market catalyst, we worked with our central infrastructure provider, Vocalink, industry trade body UK Finance and a cross-section of UK banks to create a retail payments taskforce to support millions of additional government disbursements (through Universal Credit, the Coronavirus Job Retention Scheme and the Self-Employment Income Support Scheme). Our work enabled the secure distribution of a huge volume of payments for HMRC in a concentrated period, to people and businesses relying on extra financial support.

We also worked closely with HMRC to ensure that the system architecture of the Self-Employment Income Support Scheme and the second, and subsequent, Job Retention Scheme disbursements incorporated important payment overlay services.

Due to the increased risk of fraud created by these additional payment initiatives introduced at the start of the pandemic, we worked with the taskforce to put measures in place to disrupt this activity, leveraging our existing services. These included elements of the Confirmation of Payee name-checking service – to ensure the payments were going to the right people – and the Mule Insights Tactical Solution – which targets fraudsters by tracking stolen money across the banking network and identifying illegal ‘money mule’ accounts.

Enabling speed and a suite of measures in the fight against fraud for new and existing payments, the taskforce provided HMRC with the capability to validate claims and match grant applicants to accounts. This ensured payments reached the right individuals and businesses, and disrupted attempts by fraudsters to claim funds to which they were not entitled.

Direct Debit enhancements

Throughout the pandemic, we worked closely with the Bacs Payments Participant Committee to address emerging issues affecting participants’ use of the Bacs service during the pandemic. As a result we made enhancements to the Direct Debit service, including acceptance of scanned paper Direct Debit Instructions (DDIs), and best practice advice around collections, cancellations and reinstatements related to payment holidays.

Communications response

Our digital first approach allowed us to continue open and transparent engagement to meet service users’ needs. This helped our forums remain accessible and enabled new collaborative digital tools such as the Knowledge Hub.

For more information see the Engagement section on page 33.

We will continue to build on our digital programme during 2021.

New Payments Architecture

What is the New Payments Architecture?

The New Payments Architecture is the next generation payments platform. It will modernise the way payments happen, allowing people and businesses across the UK to transfer money to others whenever they need to, quickly, safely and cheaply. This means making payments, from paying salaries to settling bills, will become easier. Developed in collaboration with businesses from across the payments industry, with end user insight and supervised by our regulators, the NPA will be a cutting-edge, state-of-the-art payments processing platform. It will allow us to explore new technologies, unlock innovation and competition, and tackle existing problems in new ways for the benefit of people and businesses across the country.

The creation of the NPA will be one of the most significant developments in the payments industry. It is a major programme to change the way we process retail interbank payments. Delivering the NPA, together with the industry, will enable the UK to maintain its role as a global leader in retail interbank payments.

2020 overview

In 2020 we delivered two important 'overlay services' for the benefit of end users as part of the NPA programme: Confirmation of Payee and Request to Pay. We also launched our work on the next generation messaging standard for the NPA – ISO 20022.

The programme's focus is on innovating and delivering in the interests of end users, built on a foundation of robust and resilient operations. By designing the core of the NPA to focus on the central task of securely and efficiently clearing and settling payments, we are enabling fintechs, banks and other providers to innovate and develop competitive overlay services for end users that can link directly and indirectly to the clearing and settlement infrastructure. Overlay services will not necessarily be confined to a rigid, centrally-defined model and will have space to develop organically. Many of these end user deliverables will be provided directly by the market, with our role being to catalyse the market by developing rules and standards that can help innovation to thrive.

NPA programme principles

- Maintenance of a robust, resilient and scalable payments platform
- Adoption of global standards (ISO 20022)
- Development of a 'real-time payment capability'
- Ensure there are lower barriers to entry and flexibility of access options
- Deliver a safe and secure environment for all users
- Any efficiencies should benefit participants and users.

Confirmation of Payee

The launch of Confirmation of Payee was the first new strategic service delivered by the NPA programme. Confirmation of Payee is a name-checking service for UK-based payments, designed to help reduce misdirected payments and certain types of fraud. It gives payers greater assurance that their payments are being sent to the intended recipient and not accidentally or deliberately misdirected.

It was implemented at the end of June by a number of payment service providers (Phase 1). These included the six largest UK banks and building societies, which had been directed to do so by the PSR as one of the key measures in the industry's fight against Authorised Push Payment (APP) scams and misdirected payments.

A significant success, the service has received positive feedback from customers and the payments industry, enabling improvements in prevention and detection. Following its launch, more than a dozen other payment providers voluntarily signed up and implemented Confirmation of Payee, with more expected to sign up in 2021 during the current phase.

By the end of 2020 more than one million Confirmation of Payee checks were successfully being made each day, covering over 90% of applicable[13] Faster Payment volumes.

We are aiming for the reach of Confirmation of Payee to be as wide as possible to ensure that customers are paying the right payee and are protected from certain types of fraud. Building on the success of Phase 1, Pay.UK is now progressing a new phase of Confirmation of Payee (Phase 2) to expand the eligibility, such that all account holding payment providers can join the service, creating a ubiquitous capability.

We are working closely with the industry and the PSR to define the timeline for when this enhancement will be rolled out.

As a direct consequence of the implementation of Confirmation of Payee, we were able to help the UK Government respond positively to the Covid-19 crisis, alongside a cross-directorate rapid-response taskforce. Payment providers processed almost 4 million Confirmation of Payee requests during the initial implementation period (to the end of July) of HMRC's Covid-19 support disbursements (see page 28).

13 Applicable transactions are typically payments to a new beneficiary.

Request to Pay

In May 2020 we launched the rules and standards for the Request to Pay framework in close collaboration with the industry.

Request to Pay is an innovative and flexible way to settle bills between people, organisations and businesses. It is a standard messaging service that gives billers the ability to request a payment rather than sending an invoice, and gives customers different options to pay – in full, in part, ask for more time, communicate with the biller, or decline to pay – without changing their legal obligations.

Following the launch we onboarded one technical provider and one service provider planning to deliver services to other organisations as part of the Request to Pay ecosystem. More organisations are set to join the framework in 2021.

Request to Pay

As a result of consumer research in the first quarter of 2020, and consultation with organisations that will provide and use the Request to Pay service, we determined that we should implement an identifier or 'mark' to help users easily recognise organisations using Request to Pay. We worked in consultation with consumers, banks, fintechs and utility companies to gauge end user opinion on the design of the 'mark'.

New Payments Architecture continued

Next generation standard for UK retail payments

Launched at the beginning of the year as another key part of the NPA programme, our consultation on standards established the direction for the future of retail payments and enhanced data in the UK via ISO 20022. We worked with the Bank of England to set this industry standard and published the conclusions and next steps of our consultation 'Next Generation Standard for UK Retail Payments' in November. Our leadership on standards is helping us to energise the payments ecosystem in parallel with delivering the business transformation that the implementation of richer data benefits will bring.

Evolution of the NPA programme

During the year, it became clear that some of the challenges we face in delivering the NPA were also increasing the level of programme risks, and these were being exacerbated for both Pay.UK and our participants by the pandemic. Our view of risk, together with changing participant risk appetites, led us to open a dialogue with the PSR to explore different ways to de-risk the programme.

After carefully examining the options available under their existing directions, we made an application to the PSR to exempt us from the requirement to conduct a competitive procurement and allow us the option to directly negotiate with the existing infrastructure provider. Our application was based on the grounds of exceptional circumstances arising from the impact of the Covid-19 pandemic.

Although the PSR subsequently rejected this application, it agreed with the need to reduce the risks associated with the implementation of the NPA programme. It chose to seek industry views via a consultation in early 2021, which focused on a number of options specific to the delivery of the NPA, including its scope, procurement approach and phasing. We support the consultation and think the open and transparent industry debate that will follow will provide valuable insight towards establishing a clear and effective route to deliver the benefits of the NPA to our participants and end users, enabling us to mitigate risk, promote resilience and manage costs.

As part of our review of several aspects of the NPA programme, we engaged a core programme support partner to provide additional expertise and bandwidth to the Pay.UK team. With this support in place, work continues in preparation for the outcomes of the PSR's consultation, maintaining our focus on benefitting end users as quickly as possible, whilst minimising risk.

Strategic Participant Group

Membership

Senior representatives (at head of payments/accountable executive seniority) from 12 large, small, direct and indirect participant members nominated by the UK Finance Payments, Products and Services Board (PPSB).

Purpose

To ensure that the NPA programme receives advice based on participant experience of large implementations, and to make recommendations to the Pay.UK Board.

Fundamental to the success of the NPA programme is our engagement with ecosystem stakeholders. Alongside deeper engagement with Pay.UK's End User Advisory Council to ensure we effectively consider the needs of end users in the design of the NPA, we introduced a number of new initiatives to help deliver industry consensus and respond to the needs of our stakeholders. To complement our existing engagement through public consultations, industry forums and working groups, in March 2020 we established the NPA Strategic Participant Group in collaboration with UK Finance. Since its creation, the SPG has played a crucial role in driving forward our ability to engage with participants, who will of course transmit the benefits of NPA to their customers, our end users.

While 2020 has seen some early benefits for end users such as the launch of Confirmation of Payee and Request to Pay, we acknowledge that we are still in the early phase of delivering the full overarching market infrastructure. We are now working with support partners to deliver the foundational elements of the NPA, including business rules, system requirements and operational guidelines. The conclusion of the PSR consultation will enable us to deliver an industry plan around which our participants can schedule their development. Whilst we realise there is still a lot of work to do, energising and engaging the industry around the NPA in 2021 will be critical to the successful delivery of this important industry milestone. The year ahead offers us a unique opportunity to build the platform for the future successful delivery of a new retail payments infrastructure for the UK in collaboration with the wider industry.

Engagement

At Pay.UK we operate our payment systems for the benefit of all our users. We also know that many of our rules and standards are ubiquitous and require widespread interbank coordination. That means that our work needs to be inclusive of a broad spectrum of stakeholders and communities.

We actively seek to include our stakeholders across our Board, Advisory Councils, working groups, and Service Committees, as well as during our day-to-day operations. That includes participating banks, building societies, businesses, service users, fintechs, vendors, and consumers, as well as the government (including in its capacity as a major user of our services and systems). We also seek to invite our stakeholders' opinion on important payments themes and matters, such as the role of the Strategic Participant Group with the NPA. We seek involvement in consultations, sentiment surveys, our Knowledge Hub, scoping reviews and focus groups. In doing so we ensure that our payment systems work best for everyone who uses them.

The topic of payments is important to so many entities that we expect scrutiny and challenge within our conversations and agenda. Innovating through challenge is one of our core values and it serves to ensure we hear many views in order to find the best solutions for end users. We run webinars and speaking events to enable access to debates and emerging thinking. We also engage across a range of digital channels with a substantial and growing community of online followers and influencers.

The Covid-19 pandemic caused a shift in how we conducted our external outreach. We ran committees and meetings by video conference and implemented a new framework of digital events and webinars – 'digital first'.

In 2021 we expect to review and develop our engagement programme ensuring that we get optimal input from the various committees and forums that we run, as well as being transparent with our customers and listening to their needs. This is in line with the implementation of our new company strategy.

For more information see Response to Covid-19 on page 27.

Engagement continued

Guarantors

Pay.UK is a company limited by guarantee. We are owned by 42 guarantor members including banks, fintechs and payment service providers, an increase of four in 2020. The role of our guarantor members is to hold the Board to account for the continuing fulfilment of our purpose and strategic objectives.

We held our Annual General Meeting online for the first time in 2020, with 27 guarantors in attendance. We are recruiting more guarantors to ensure the group represents as broad a cross-section of our stakeholder base as possible.

Participant Advisory Council

During 2020 our Participant Advisory Council increasingly focused its activity on addressing the role Pay.UK should play in the payments ecosystem, enabling us to gain maximum value from the council's expert members.

A key additional component of the council's work during 2020 was working alongside the End User Advisory Council to consider future end user payment scenarios, which helped feed into the development of our future strategy.

Our Participant Advisory Council helps advise, comment, and make recommendations on issues that are likely to be of current or future significance to our participants. It also assists us in taking an evidence-based approach to participant challenges and any possible solutions.

End User Advisory Council

Our End User Advisory Council's role is to advise and support Pay.UK from an end user perspective, making sure it considers both risks and opportunities for everyone that uses our systems and services.

In 2020, the End User Advisory Council worked with Pay.UK to ensure continued focus on end users as the New Payments Architecture takes shape, looking at the scope and delivery methods of the NPA, the ways in which we engage with our stakeholders, and the core standards that will shape the next generation of interbank retail payments in the UK. The Council's important work included an advice note to the Pay.UK Board in August 2020 discussing potential implications for end users from Pay.UK's engagement with regulators on the delivery approach for the NPA.

These inputs, together with the Council's engagement outside our EUAC members, including Pay.UK's Participant Advisory Council to support our strategy refresh, HMT and the Payment Systems Regulator, have in the past year helped broaden our understanding of end users' needs and ensured that Pay.UK maintains and promotes a strong focus on end users.

Both of our advisory councils publish independent annual reports, available on the Pay.UK website:

End User Advisory Council

Participant Advisory Council

Participant Engagement Forum

Our response to Covid-19 was a particular focus for our Participant Engagement Forum during 2020. Close cooperation with our participants was essential as we worked alongside our infrastructure supplier to ensure the ongoing resilience of our payment systems, and as we worked to support the government rolling-out assistance payments.

The forum is a key channel for us to engage with direct participants of the Bacs Payment System, the Faster Payment System and the Image Clearing System in an open and transparent way. It allows us to benefit from our participants' insights, listen to their views, and reflect them in our work. The forum's agenda is wide-ranging and, over the last 12 months, has included specific focus on the NPA programme, operations, finance, legal, regulatory and policy items.

Affiliates group

During 2020 our Affiliates group helped shape the next generation standard for UK retail payments, examined service updates and rules changes, and acted as the pilot group for the launch of our Knowledge Hub.

The group discusses electronic payment-related topics and encourages 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, fintechs, software solution providers and consultants.

The group helps ensure that we give proper consideration to the views of the wider ecosystem during our decision making.

Standards Authority

In 2020 our Standards Authority engaged widely with the payments industry and beyond:

- We published our consultation 'Next Generation Standard for UK Retail Payments' (page 31) and received widespread industry support for our proposals and direction of travel
- We worked closely with the Bank of England, hosting a successful set of webinars to evidence our work on aligning the standards approach between the high-value and retail payment systems.

Engagement continued

- We initiated a new group, the Community of Developers, a technical forum for those implementing standards in their organisations
- We consulted and took advice from a range of forums, including the Industry Standards Coordination Committee and the Bank of England's Standards Advisory Panel, and our team worked with organisations such as the European Retail Payments Board, UK Finance, the European Committee for Standardisation, and the European Payments Council
- We participated in standards work for fintechs, API standards, SEPA and many more projects
- At a global level, we also hold key seats on ISO Committees for TC68 and the ISO 20022 Registration Management Group (which we currently chair) and its evaluation groups.

This engagement helps to ensure that Pay.UK, and the UK more widely, is at the forefront of any changes or innovations in the industry, while we proactively support and influence UK and European-level standardisation activities. We look forward to engaging with the industry in 2021 and beyond on how standards can enable network-wide benefits.

Compliance with PSR General Direction 4

The Payment Systems Regulator's directions apply to Pay.UK as an operator of regulated payment systems and in relation to those systems [14]. General Direction 4 (GD4) requires that, as an operator of a regulated interbank payment system, we must:

- Actively ensure that we take the views of each relevant service-user [15] into account in setting our strategy and in making decisions
- Communicate our strategy and decisions to service-users
- Publish a report on our engagement with service-users once a year.

The pandemic caused a shift in how we conducted our external engagement programmes. Stakeholder engagement and compliance with GD4, including stakeholder interests, remained a key consideration in all of our Board discussions and decision-making, and any resulting actions or resolutions.

To help us successfully meet our GD4 requirements we continued to seek the views of service users throughout the pandemic, mobilising a digital first approach to continue open and transparent engagement with our stakeholders.

We published our General Direction 4: Annual Compliance report in October 2020.

Stakeholder engagement survey

In November 2020 we launched our first annual survey to help understand the needs of our stakeholders, and to measure sentiment towards Pay.UK, our services and our stakeholder engagement within the retail payments ecosystem. We received responses from a broad cross-section of stakeholders on their priorities and their experiences of working with us.

Overall awareness of Pay.UK among those surveyed was over 90%, with a clear majority familiar with each of our services, systems and activities. Stakeholders overwhelmingly recognised our role and purpose as an organisation, in particular our role as a PSO (84%) and as a Standards Authority for payments (86%). Nearly two-thirds (61%) felt that we are meeting the needs of end users. In 2021 we will use the in-depth analysis to inform our stakeholder engagement KPIs.

Knowledge Hub

We launched our Knowledge Hub to our Affiliates group in November 2020 as part of our work to foster a community of innovation, helping to address the challenges that end users and the wider industry face.

Our Knowledge Hub is the first part of our Innovation Portal. It is a new collaborative platform designed to: share knowledge and intelligence; network; build partnerships; solve complex challenges; and create a shared vision of the trends set to shape the payments market.

Industry thought leadership

Our webinars enabled us to engage widely on a variety of payments topics. In 2020 our live online events included: Request to Pay; the Current Account Switch Service; the retail payments industry response to Covid-19; and how social distancing has changed the way we pay.

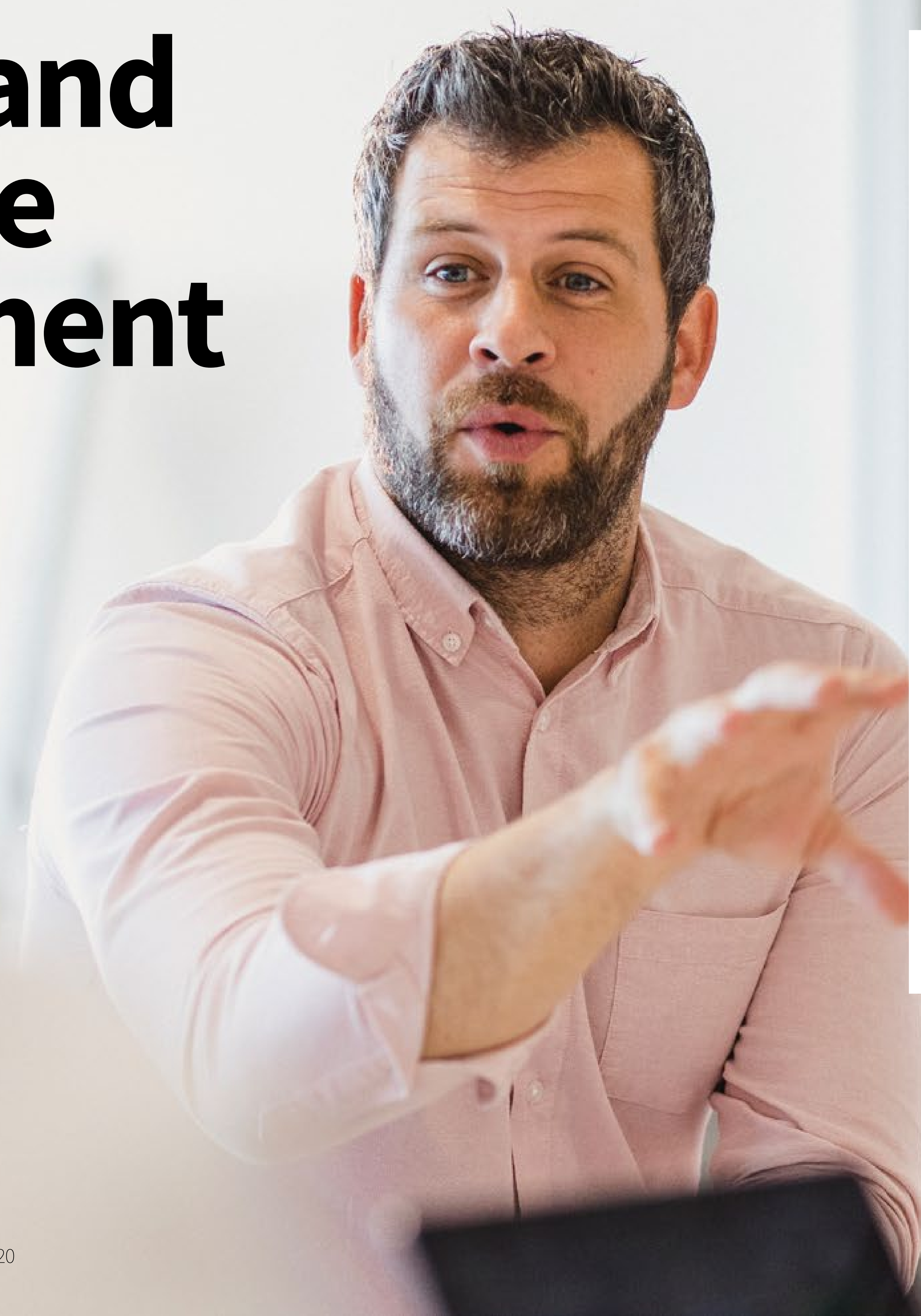
Our industry experts also spoke at many external events, including Sibos 2020, the Open Banking Expo, the Government Banking Services Conference, and UK Finance's Future of Finance Summit.

14 Section 54 FSBRA.

15 Service-user is a statutory term used in FSBRA.

Creating better outcomes for end users is at the core of what we do at Pay.UK.

Culture and colleague engagement



Our colleagues and the culture in which we work, at all levels across the organisation, are fundamental to our success as an operator of critical national infrastructure. Our workforce is bound together by a shared responsibility for ensuring people and businesses all over the UK can make the payments they need every day. We foster an inclusive, collegiate, and friendly environment for all colleagues, and we strive to make Pay.UK a great place to work.

Working well together

We collaborate to share ideas, knowledge and expertise both internally and externally. We trust and respect one another. We foster an inclusive and diverse working environment.

Empowering people

We have freedom to act, being accountable for our performance and learning from mistakes. We are trusted to deliver and make informed decisions. We celebrate success.

Championing end user outcomes

We are passionate about the end user experience. We are committed to delivering great service.

Acting with integrity and professionalism

As the retail payments authority, we are at the centre of a vibrant UK economy. We are the beating heart of all retail payments. We care deeply about the resilience of our systems and services. We strive for excellence in everything we do and expect the same from our partners and suppliers.

Innovating through challenge

We advance our thinking by challenging each other constructively and positively. We are curious whilst anticipating and responding to market needs. We pioneer change and innovation, together with our partners and suppliers for the benefit of end users.

Culture and colleague engagement
continued

We aim to conduct our business with the highest standards of integrity and honesty, and we expect our colleagues to maintain the same standards in everything they do whilst reflecting our values in their work and behaviour. We recognise success and celebrate the efforts and achievements of our colleagues – both from a leadership perspective and among peers. We encourage colleagues to report any behaviour that falls short of our business principles, where it would be in the public interest for this to be reported – known as whistleblowing. We want colleagues to be confident that they can raise any occurrence of possible wrongdoing, safe in the knowledge that we will take them seriously and treat any issues confidentially. Our whistleblowing policy is available to all colleagues.

Each business area has a dedicated 'People partner' and colleagues can also raise issues through the People team. We have a well-established support system for colleagues (that we reinforced through 2020) to help maintain wellbeing across the organisation.

Colleague People Forum

Forming a key part of our colleague engagement, our Colleague People Forum worked throughout 2020 to implement actions from our colleague engagement survey across our engagement pillars – organisational integrity, compelling leadership, realising potential, engaging managers and employee voice.

Culture and colleague engagement
continued

People function

2020 was an important year for our people function on many levels. In April 2020 we appointed a new Director of Human Resources. We also reshaped the People team, aligning resources to our strategic objectives, with a focus on talent management and operational excellence.

Establishing these foundations helped us to adapt to the pandemic. Our initial response focused on enabling colleagues to work safely and effectively from home. We delivered a comprehensive wellbeing programme to support our colleagues throughout the pandemic, including learning and development initiatives that focused on remote working, remote leadership and resilience, and mental health awareness. We trained our first cohort of 14 mental health first aiders to provide timely and ongoing support to all colleagues. The final quarter of the year saw us focus on the delivery of stress management and mindfulness training.

In 2020 our Covid-19 response also saw us:

- Provide equipment loans to support home schooling
- Signpost support for those financially impacted by Covid-19
- Adapt our company policies and benefits scheme to enable colleagues to purchase home fitness equipment
- Upgrade our cycle to work benefits
- Facilitate international working to enable colleagues to access family support.

We continued our talent management activities to retain and support colleagues across the organisation. This included bolstering our colleague proposition by reconfiguring our management and leadership programmes online, implementing an e-learning platform to enable colleagues to take control of their own development during this period of remote working, and introducing executive coaching as standard.

Pulse surveys

We launched a regular pulse survey to gauge colleagues' views on key areas of work during the pandemic. The ongoing, anonymous survey focuses on wellbeing, work, leadership and communications. It provides high-level insight into how colleagues are feeling, helping to measure the effectiveness of key initiatives such as our all-colleague calls and Covid-specific communications. It also helps managers understand more clearly where to focus support and information to ensure collaborative working throughout the organisation.

For more information on our actions during the pandemic, see the Covid-19 response section of the report on page 27.

Diversity and inclusion

In the summer of 2020 we took our first steps to define our approach to diversity and inclusion at Pay.UK. For us, diversity is the recognition of all the things that make us unique and different, and the acknowledgement of the immense value that these differences bring to our lives and our work. Inclusion ensures everyone feels heard and represented, with an equal opportunity to thrive, grow and succeed. This work supports our existing equal opportunities policy, which ensures equality in employment, training and career development for all colleagues, including those with protected characteristics.

Our inclusion stance is: "Irrespective of what makes us uniquely different, all colleagues should feel welcome, respected and able to bring their whole selves to Pay.UK. All our colleagues should have equal opportunity to thrive and unleash their potential."

In 2020 we started making the most of opportunities to celebrate diversity across the organisation, including company-wide initiatives on Black History Month, Hanukkah, Diwali and Bandi Chhor Divas.

In 2021, analysing the gap between where we are now on diversity and inclusion, and where we want to be as an organisation will help us take a strategic approach to our ongoing mission to attract and identify talented individuals to Pay.UK, as well as creating opportunities for under-represented groups.

Keeping colleagues connected

In March 2020 we reorganised our communications function to support our response to the Covid-19 pandemic and to support wellbeing and engagement for our colleagues. We established new internal channels for sharing business and wellbeing information, and new processes for gathering important insights and intelligence.

As part of our bid to foster an inclusive culture we place great emphasis on keeping colleagues connected. In 2020 we launched our blog channel – connections – initially with our Executive team to help create open and transparent communication with them directly. Throughout 2020, connections evolved to include wider teams, Board members and other guests.

Our communications internally focused on digitally connecting colleagues and we developed our channels accordingly. We published regular Covid-related updates on the latest government advice and information for colleagues on what was happening across our industry and beyond. We also introduced video updates from Board and Executive members to reassure and support colleagues, with regular Pay.UK-wide virtual meetings and communications to give colleagues an opportunity to connect.

Other initiatives included our 'Getting to know… Pay.UK' series, learning sessions hosted by colleagues across the organisation on business initiatives and projects. Our Executive team hosted a 'Getting to know… ExCo' series, designed to increase visibility, transparency and open dialogue at all levels across the organisation.

Our Social Committee continued to provide opportunities for colleagues to connect and socialise throughout the year, helping to break down silos and the physical barriers of remote working.

Environment

Our introduction of cheque automation through the Image Clearing System had a positive effect on the environment into 2020 and beyond. This change in our operating practices, through the decommissioning of the central infrastructure for paper cheque clearing, allows payment service providers to exchange cheques electronically, stopping the movement of vehicles travelling across the UK to physically exchange cheques.

Our office is based in Thomas More Square in London and the estate operates a zero waste to landfill policy. Our energy supplies are metered and we will report on these for the first time in 2021.

Pay.UK has assessed greenhouse gas emissions using the 'GHG Reporting Protocol – A Corporate Accounting and Reporting Standard' and in accordance with Defra's 'Environmental Reporting guidelines: including Streamlined Energy and Carbon Reporting requirements'.

Culture and colleague engagement
continued

	kWh	tCO2e
Electricity (scope 2, indirect energy emissions from generation of purchased energy)	498,792	126.3
Transport (scope 3, business travel in employee-owned vehicles)	6,293	1.6
Total	505,085	127.8
Intensity ratio [16]	1661.5	0.42056

Our annual energy consumption was 505,085 kWh. We generated total emissions of 127,849kgCO2e in the calendar year 2020. The majority of this was through imported grid electricity for operations at 2 Thomas More Square. As a tenant, Pay.UK does not have control of its electricity supplier, so we have included location-based emissions only for electricity, covering both associated scope 2 and 3 emissions. This data is based on quarterly meter readings Q1 2019-Q4 2020 for three floors of Pay.UK accommodation at 2 Thomas More Square [17].

Due to the pandemic, in 2020 the majority of our colleagues worked from home. During this time, we performed regular checks of the office floor plate to turn off non-essential equipment. Facilities and IT colleagues attended the office when necessary and we maintained continuous access for critical employees as needed. When restrictions allowed, we opened the office three days a week for those colleagues who could not reasonably work from home.

We are committed to developing policies and strategies that contribute to lower emissions, improve resource management and help promote sustainability. Our work in this field continues to evolve and we are focusing our efforts on optimising our office and home working environments in 2021 and increasing the sustainability of both our business and our operations.

16 Intensity Ratio – calculated by dividing kWh/tCO2e/kgCO2e by the number of FTE employees.

17 The conversion factors take into account both electricity generated (Scope 2) and transmission /distribution (Scope 3).

Community volunteering and fundraising

Our colleagues willingly go the extra mile to contribute to our local communities. Beyond giving something back to society, we believe that volunteering results in better teamwork, motivation, engagement and personal fulfilment for our employees.

In 2020 we partnered with a charity local to our office, based in the London Borough of Tower Hamlets. The First Love Foundation provides food, support and advice to individuals and families that are facing crisis in their lives. Our support made a real and positive difference, particularly as the charity saw an increase in people reaching out for help during the pandemic. We ran a sponsored Yoga Challenge and 'Match Your Miles' fundraising initiative that raised over £1,400. This provided families in need with free school meals during term time and helped those facing financial difficulty with food packages to feed their children during the summer holidays.

Our winter donation funded Christmas presents for 50 vulnerable families, with some colleagues able to volunteer in December to help wrap presents and create hamper packages.

In 2021 we are planning to use our core business knowledge and experience to further support the First Love Foundation's operation. This will form an important part of our developing corporate social responsibility strategy in the year ahead.

Colleague wellbeing and running our critical national infrastructure continued to be our top priorities throughout the pandemic.

Finance review

Financial performance in 2020 was strong with revenue rising 15% to £145.0m (2019: £125.9m).

We executed a full pension buy-in policy in March 2020 to secure pension benefits for members of the defined benefit scheme, backed by Aviva. We recorded funding of £3.7m from former members as other income, and a charge of £9.8m as a loss on settlement. Pension scheme-related credits to other comprehensive income for remeasurement (£2.4m) and for a previously unrecognised asset (£3.7m) had a net £nil impact on total comprehensive income for Pay.UK. Conversion from a buy-in to a full buy-out is in progress.

Our profit before tax rose 124% to £32.3m (2019: £14.4m), including the pension adjustments noted above. After tax and pension-related adjustments to other comprehensive income, our total equity rose to £40m (2019: £8.6m). This increase in total equity allowed us to meet the risk capital target of £21m, which is based on the CPMI-IOSCO Principles for Financial Market Infrastructures. Additional capital provides funds for future investment and a funding buffer to ensure that Pay.UK does not fall below the risk capital target.

Cash flow remained strong with £14m (2019: £13.3m) generated from operating activities net of tax payments of £7m (2019: £nil). Closing cash rose to £73.6m (2019: £59.7m).

£40m
Our capital position at the end of 2020

£32,336k
Profit before tax

Viability statement

Pay.UK has prepared these financial statements and accounts on a going concern basis (page 46). We have chosen to include this viability statement in accordance with the spirit of the UK Corporate Governance Code 2018.

The Board has assessed our current viability and confirms that the Directors have a reasonable expectation that we will be able to continue in operation and meet our liabilities as they fall due over the period to December 2023.

We have selected this timeframe on the basis that:

- It is within the period covered by the company's forecasted cash flows and capital resources
- It is within the company's five-year strategic planning horizon
- We are a not-for-profit company, limited by guarantee. We are funded through a cost recovery business model, which means that we set transaction payment tariffs to recover our costs. We calculate these tariffs using conservative estimates of forecast volumes and set them at the beginning of each year. We have flexibility to propose adjustments to tariffs during the year in consultation with our participants if required. We collect more than 95% of our revenues monthly via Direct Debit. We do not anticipate this model to change for at least the next three years
- We expect to repay the long-term debt held on the balance sheet within the next two years and it is backed by cash holdings.

The Directors are satisfied that this period is sufficient to enable a reasonable assessment of our viability.

Viability analysis

As part of our assessment of our viability, we use financial models to project cash flows and monitor financial risks and liquidity positions. We analyse forecast funding requirements and other key financial ratios to understand the resilience of the company and our business model against our principal risks. This analysis takes into account mitigating actions that we could realistically take to avoid or reduce the impact or occurrence of the underlying risks. In light of this the Directors believe Pay.UK is well placed to manage its business risks.

In making this statement the Directors considered our ability to withstand four severe but plausible scenarios based on these risks, in terms of the impact on our financial resources and on delivery of our key projects and operations, which materially impact the company's financial base considering specific areas of vulnerability, mainly long-term stresses that impact our capital base.

Scenario 1
Disintermediation – systemic/market-based and slow-burn

A new payment platform from a competitor or new technology draws customers and/or participants away from our services.

Risks
We have insufficient revenue streams and/or material unbudgeted expenditure leading to a financial deficit, compromising the effectiveness of our funding model and/or leading to liquidity stresses.

Scenario 2
Idiosyncratic and slow-burn

We suffer a personal data breach triggering an investigation by the Information Commissioner's Office leading to a substantial General Data Protection Regulation (GDPR) fine.

Risks
- We are unable to manage legal, contractual, and regulatory risk resulting in inefficiencies, enforcement, and legal action
- We suffer financial losses or do not optimise our balance sheet as a result of inadequate financial management or controls.

Scenario 3
Combined scenario

For the purpose of developing the combined scenario, we have amalgamated both the idiosyncratic and market-based stress events: The adoption of a new technology by participants to process real-time payments and a significant GDPR fine.

Risks
- We have insufficient revenue streams and/or material unbudgeted expenditure leading to a financial deficit, compromising the effectiveness of our funding model and/or leading to liquidity stresses
- We are unable to manage legal, contractual, and regulatory risk resulting in inefficiencies, enforcement, and legal action
- We suffer financial losses or do not optimise our balance sheet as a result of inadequate financial management or controls.

Scenario 4
Non-financial crisis

Restrictions on economic activities resulting from external events, such as a global health crisis caused by a pandemic.

Risks
We have insufficient revenue streams and/or material unbudgeted expenditure leading to a financial deficit, compromising the effectiveness of our funding model and/or leading to liquidity stresses.

On the basis of this robust assessment of these principal risks facing Pay.UK and, on the assumption that they are managed or mitigated in the ways disclosed, the Board's review of the other matters considered and reviewed during the year, and the results of the analysis undertaken and described above, the Board has a reasonable expectation that we will be able to continue in operation and meet our liabilities as they fall due over the period to December 2023.

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

Matthew Hunt
Chief Strategy Officer, Deputy Chief Executive Officer
05 August 2021

Directors' report

3

The Directors present their report together with the financial statements for the year from 1 January to 31 December 2020.

The Strategic Report (pages 12 to 44) includes a chapter that illustrates how the Directors have met their duty, under S172(1) of the Companies Act 2006, to promote the success of Pay.UK for the benefit of our participants and end users. This Directors' report has been prepared in accordance with the provisions in the Act applicable to large companies.

The Board of Directors are aware of their obligations and duties as set out in:

- The Companies Act 2006
- The Health and Safety at Work etc. Act 1974
- The Bribery Act 2010
- The Criminal Finances Act 2017
- The General Data Protection Regulations 2018
- Whistleblowing legislation as introduced under the Employment Rights Act 1996 and the Interest Disclosure Act 1998.

The Board received additional training on these obligations during 2020.

We are limited by guarantee, having no share capital, so there are no share disclosures in this report.

UK Corporate Governance Code 2018

While not obliged to do so, the Board has chosen to follow the spirit of the UK Corporate Governance Code 2018, which states that companies are required to disclose "in a manner that would enable shareholders to evaluate how the Principles have been applied". We apply these principles towards our guarantors.

The Board considers that in 2020 Pay.UK has complied with the spirit of the principles and provisions of the UK Corporate Governance Code 2018, as illustrated in this report.

Post balance sheet events

There are no post balance sheet events that require reporting.

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.

In the light of these funding arrangements, and having reviewed the funding model for 2021 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. This conclusion has been reached on the basis that:

- The group has a 2021 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
- As part of the price setting for 2021, we considered the ongoing impacts of Covid-19
- The capital build phase was completed a year early and capital levels held are in excess of that identified in the latest capital reassessment. This capital, along with cash assets from prior year underspend, support the group in the unlikely event of a delay in receipt of income and its cash flow
- The completion of risk assessments and stress testing on the future financial performance of the group. This included the identification of early-warning indicators and the availability of recovery options to the group
- The majority of the group income is invoiced on a monthly basis and this continues to be collected post year end, via Direct Debit collection, with no significant issues
- Resources remain operational despite the ongoing impact of Covid-19.

The viability statement on page 43 sets out a longer-term assessment than this going concern statement.

Other matters

In 2020 we began work on our strategic goals for the next five years – we need to evolve the systems and services we run today to meet the needs of our end users. This work includes innovation, working alongside the payments ecosystem to develop the NPA, helping us to modernise the UK's retail interbank payments. It also includes our broad programme of horizon scanning to understand external factors influencing payments and help ensure we have the right information to support our decision-making. We will publish and begin implementing our new strategy in 2021.

We worked with our Colleague People Forum throughout the year to implement actions arising from our first colleague engagement survey, held at the end of 2019. Due to the pandemic we planned the second colleague engagement survey for early 2021. During 2020 we launched a regular colleague pulse survey to understand views on key areas of work during this time, focusing on wellbeing, work, leadership and communications. This helped shape our approach to managing the way we work now and in the future, and supporting colleagues through the pandemic.

We developed a regular cascade of information to keep colleagues up to date while working remotely, including business and industry information, Covid-19 information and how it affects Pay.UK, as well as information about BAU events such as our performance cycle.

We assessed our greenhouse gas emissions using the 'GHG Reporting Protocol – A Corporate Accounting and Reporting Standard' and in accordance with Defra's 'Environmental Reporting guidelines: including Streamlined Energy and Carbon Reporting requirements'.

	kWh	tCO2e
Electricity (scope 2, indirect energy emissions from generation of purchased energy)	498,792	126.3
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We are committed to developing policies and strategies that contribute to lower emissions, improve resource management and help promote sustainability. Our work in this field continues to evolve and we are focusing our efforts on optimising our office and home working environments in 2021 and increasing the sustainability of both our business and our operations.

Pay.UK Chair, Senior Independent Director and CEO

The Chair is pivotal in creating the conditions for overall Board and individual Director effectiveness, setting clear expectations concerning the style and tone of Board discussions, ensuring the Board has effective decision-making processes and applies sufficient challenge to major proposals.

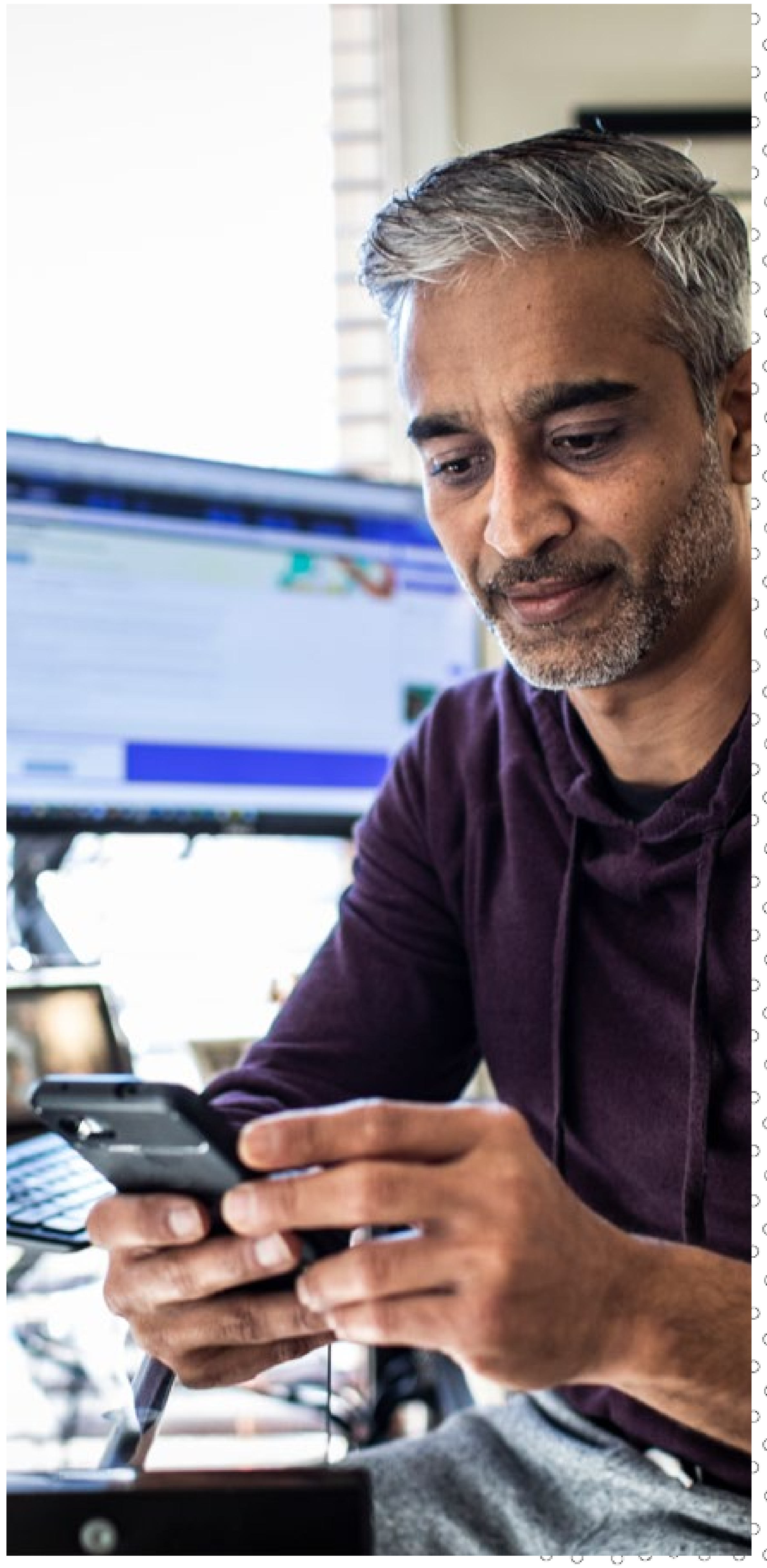
18 Intensity Ratio – calculated by dividing kWh/tCO2e/kgCO2e by the number of FTE employees.

19 The conversion factors take into account both electricity generated (Scope 2) and transmission /distribution (Scope 3).

The Senior Independent Director acts as a sounding board for the Chair, providing them with support in the delivery of their objectives and leading the evaluation of the Chair on behalf of the other Directors. The Senior Independent Director is also a point of Board contact for Pay.UK's guarantors.

Early in 2020 Melanie Johnson, Chair of the Pay.UK Board and Rob Stansbury (Director and Senior Independent Director of the Pay.UK Board) announced that they would not seek a further period of appointment as Directors of Pay.UK at the end of their terms of office. Melanie and Rob stood down on 30 October 2020 and 31 December 2020 respectively. The Nomination Committee's report on page 54 sets out the process that we followed for appointing the new Chair of the Pay.UK Board, Mark Hoban, who joined on 1 November 2020, and the Senior Independent Director Anna Bradley, who was appointed in January 2021.

In November 2020 the CEO, Paul Horlock, resigned and the Board appointed the Chief Operating Officer, Matthew Hunt, as interim CEO during the search for a permanent replacement.



Directors

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

Committees served on during the year
Key:

- A Audit
- Fi Finance
- LG AS Legal, Governance & Standards
- MS Managed Services
- N Nomination
- NPA NPA Programme
- Ri Risk
- EU AC End User Advisory Council
- PAC Participant Advisory Council
- Re Remuneration
- Denotes Committee Chair
- Denotes Committee Member
- Denotes Committee Attendee

Formal reporting for Audit, Nomination, Remuneration and Risk Committees can be found on pages 52 to 58.

Mark Hoban
Chair
Appointed 1 November 2020

N EU AC PAC Re

Mark joined Pay.UK as Chair in November 2020. He is Chair of Flood Re and of the Jersey Financial Services Commission and in addition he is a member of PwC's Advisory Council and Chair of the Financial Services Skills Commission. Mark's previous roles include Non-Executive Director of the London Stock Exchange and Chair of the International Regulatory Strategy Group. Previous roles include Member of Parliament for Fareham (2001-2015) and Financial Secretary to the Treasury (2010-2012).

David Pitt
Chief Executive Officer
Appointed 26 July 2021

A Re N EU AC PAC Ri Fi

David joined Pay.UK in July 2021. David has a strong and successful track record delivering high profile projects both in the UK and internationally, and leading organisations through periods of transformational change. Most recently he delivered a transformation strategy at the Government's Test, Trace and Containment operation where he was Chief Operating Officer, responsible for overseeing the end-to-end process to improve overall delivery across the UK. David was COO at esure leading the business through major transformational change prior to its sale. He has also held senior roles at RSA Insurance, including CEO, Greater China.

Matthew Hunt
Chief Strategy Officer,
Deputy Chief Executive Officer
Appointed 23 April 2018

Fi LG AS N NPA Ri EU AC PAC A Re

Matthew was appointed Chief Strategy Officer, Deputy Chief Executive Officer, in July 2021. Matthew was interim CEO from November 2020 to July 2021. He joined the organisation as Chief Operating Officer in April 2018. Matthew 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.

Directors

Committees served on during the year
Key:

- A Audit
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- N Nomination
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- PAC Participant Advisory Council
- Re Remuneration
- Denotes Committee Chair
- Denotes Committee Member
- Denotes Committee Attendee

Formal reporting for Audit, Nomination, Remuneration and Risk Committees can be found on pages 52 to 58.

Richard Anderson
Independent
Non-Executive Director
Appointed 12 April 2018

A Ri

Richard is a former Chair of the Institute of Risk Management and was also a partner in PwC, where he led the Strategic Risk Services Group in Europe, the Middle East and Africa. He then went on to work in a variety of risk consulting practices, including his own. He is Chair of Banking Competition Remedies Limited and is also Chair of Monavate Holdings Limited. Richard chairs the Risk Committee at Pay.UK and co-chairs the Strategic Participant Group.

Christine Ashton
Non-Executive Director
Appointed 7 March 2018

Fi MS NPA

Christine 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 served as Global SVP Technology at Thomson Reuters driving a technology transformation. She has also held a series of key technology roles at companies in transition including BP and United Utilities.

Anna Bradley
Senior Independent Director
Appointed 1 October 2017

A N NPA Ri EU AC PAC Re

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 Pay.UK's Senior Independent Director, Chair of the Remuneration Committee and Chair of Pay.UK's End User Advisory Council.

Tim Fitzpatrick
Independent
Non-Executive Director
Appointed 1 June 2018

A LG AS MS Ri

Tim joined Pay.UK 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 Chief Operating Officer and European Head of Payments & Cash Management of HSBC Global Payments and Cash Management. He currently has a number of advisory and Non-Executive roles in the financial services industry.

Marc Pettican
Non-Executive Director
Appointed 24 May 2021

Marc joined Barclays over two decades ago and has undertaken a succession of senior coverage, leadership and general management roles in Barclaycard covering small business through to global corporates. He has held his current role as President of Barclays Payments since October 2019, where he is responsible for all aspects of commercial activity, including Issuing, acquiring and the growing area of partnerships.

Jean-Yves Rotté-Geoffroy
Independent
Non-Executive Director
Appointed 7 March 2018

NPA PAC

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. Other roles included Group Chief Officer at GSK. Jean-Yves is Senior Adviser at Genpact and McKinsey and Chief Commercial Officer at DnaNudge.

Directors continued

Committees served on during the year
Key:

- A Audit
- Fi Finance
- LGAS Legal, Governance & Standards
- MS Managed Services
- N Nomination
- NPA NPA Programme
- Ri Risk
- EUAC End User Advisory Council
- PAC Participant Advisory Council
- Re Remuneration
- Denotes Committee Chair
- Denotes Committee Member
- Denotes Committee Attendee

Formal reporting for Audit, Nomination, Remuneration and Risk Committees can be found on pages 52 to 58.

Lesley Titcomb
Independent
Non-Executive Director
Appointed 1 January 2021

Ri

Lesley joined the Board in January 2021 as an Independent Non-Executive Director. Lesley is a qualified accountant and has a strong financial services and regulatory background, including the Pensions Regulator and the Financial Conduct Authority.

Lars Trunin
Non-Executive Director
Appointed 1 March 2021

Lars is the UK Product Manager at Wise (formerly TransferWise), responsible for the movement of GBP to and from the United Kingdom. Most recently, he led Wise's initiative to join the Bank of England's RTGS payment system as the first Non-Bank Payment Service Provider and as a direct settling participant of the Faster Payment System. Before Wise, Lars founded Raudwara, an Estonian publishing house, and has authored several bestselling books in Mathematics.

Peter Wyman
Independent
Non-Executive Director
Appointed 1 October 2017

Fi MS N Re

Peter is an experienced Chair and Non-Executive Director with a current portfolio of appointments in the private, public and third sectors, which includes being Chair 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.

Directors continued

Former Directors

This table relates to Directors who served during the year but were no longer in post at the time of signing the Annual report.

Director	Start date	End date
Melanie Johnson	01/09/2017	30/10/2020
Russell Saunders	01/10/2017	30/04/2021
Rob Stansbury	15/09/2017	31/12/2020
Paul Horlock	11/10/2017	16/11/2020
Nathalie Oestmann	01/11/2018	31/12/2020

We made qualifying third-party insurance provisions for the benefit of our Directors during the period and these remain in force at the date of this report.

The Board met on 12 occasions during the year. Details of the Directors who attended the meetings are shown in the table below.

Board membership and attendance*

Richard Anderson	12/12
Christine Ashton	11/12
Anna Bradley	11/12
Tim Fitzpatrick	12/12
Mark Hoban (Chair) (joined November 2020)	1/1
Paul Horlock (resigned November 2020)	12/12
Matthew Hunt	12/12
Melanie Johnson (Chair) (resigned October 2020)	11/11
Nathalie Oestmann (resigned December 2020)	12/12
Jean-Yves Rotté-Geoffroy	12/12
Russell Saunders (resigned April 2021)	11/12
Rob Stansbury (resigned December 2020)	9/12
Peter Wyman	11/12

*Member attendance versus eligible attendance.

In its governance of Pay.UK the Board has complied with the Bank of England Recognised Payment Systems Code of Practice[20].

During 2020 the Board regularly discussed Pay.UK's response to Covid-19 and steps to ensure that we could continue to provide a robust and resilient service, and that we prioritised and protected the wellbeing of colleagues.

20 This code of practice is published under section 189 of the Banking Act 2009.

The Board also focused on the development of the Pay.UK strategy and considered views expressed by our stakeholders with support from our Participant and End User Advisory Councils, and the Strategic Participant Group, as well as updates about our engagement with regulators. Stakeholders views ranged from digital identity to cost reductions, and contributed to decisions including the ongoing development of the NPA programme. Further details about our engagement are on page 33, and the NPA programme on page 29 of the Strategic Report.

The Directors engaged with employee interests throughout the year, including our concerted focus on colleague wellbeing during the pandemic, Diversity and Inclusion, and colleague opinions as expressed in our engagement survey and have taken this on board in their decision-making. See the Culture and colleague engagement section on page 37.

The Board approved Pay.UK's role in the payments ecosystem, as market catalyst, and the high-level principles and approach to be adopted. The Board also approved Pay.UK's risk appetite statements, the 2021 budget and its modern slavery statement.

Independent Audit conducted the Board's Effectiveness Review during the year. The findings highlighted the Boards areas of significant strength as well as areas for further development. There is no connection between Independent Audit and any individual Director.

Pay.UK Board Committees

Pay.UK Board Committee structure

Formal reporting for Audit, Nomination, Risk and Remuneration Committees can be found on pages 52 to 58.

- Audit
- Finance
- Legal, Governance, Assurance and Standards
- Managed Services
- Nomination
- NPA Programme
- Remuneration
- Risk

Audit Committee

The Boards Audit Committee met seven times in 2020. Tim Fitzpatrick chairs the Committee, which consists of at least three members. All Committee members are Independent Non-Executive Directors of Pay.UK, in accordance with the UK Corporate Governance Code 2018.

Audit Committee meetings are attended by the Director of Internal Audit and the Chief Executive Officer. The Chief Risk Officer also attends Committee meetings to ensure that discussions on the internal control environment are consistently understood by Risk and to contribute to discussions on risk management.

The external auditors attend Audit Committee meetings periodically, both as observers and to present their Annual Audit plan and Report, and to discuss significant matters identified. The Committee challenges our management as to the design and operational effectiveness of the internal control environment, including the pace of remediation of control weaknesses.

External audit

BDO LLP was reappointed as Pay.UK's external auditor at the 2020 Annual General Meeting.

The Committee places great importance on the quality, effectiveness and independence of the external audit process. The Committee approved and has since monitored BDO's execution of the external audit plan. It also discussed all significant matters identified in BDO's 2020 final audit report, including the key accounting judgements taken by management and management's responses to any audit findings.

The Committee is responsible for the implementation and monitoring of our policies on external audit, which are designed to maintain the objectivity and to safeguard the independence of the external auditor. These policies are reviewed annually.

The Committee's review of BDO's independence included examining written confirmation from BDO that they remained independent and objective within the context of applicable professional standards.

The Committee recognises that certain permissible non-audit services can be completed more cost effectively and efficiently by the incumbent auditor, given BDO's existing knowledge of Pay.UK. The Board has delegated its responsibility for authorising the purchase of non-audit services from the external auditor to the Audit Committee.

Details of the fees paid to BDO for the year ending 31 December 2020 can be found in note 5 of the financial statements on page 73. Pay.UK does not expect, in the ordinary course of business for non-audit fees, to exceed 70% of the total annual audit fees, unless exceptional circumstances existed. The Committee confirms that the non-audit work performed by BDO, which included tax compliance services, was properly assessed and authorised in accordance with Pay.UK's company policy.

The effectiveness of external audit is assessed continually using measures including a review of the quality and scope of the proposed external audit plan and progress against it; responsiveness to changes in our businesses; appropriate scepticism and challenge of management; and monitoring the independence, professionalism and transparency of the external audit.

Internal Audit

Internal Audit has no responsibility for operational business management, in order to reinforce its integrity and objectivity. The Committee annually approves the Internal Audit Charter from which Internal Audit derives its authority and responsibilities, including its access to the Chair and Committee members. The Director of Internal Audit maintains independence by reporting directly to the Chair of the Committee, and also has an additional matrix reporting line to the CEO. The Committee monitors and reviews the effectiveness of Internal Audit and ensures that it has the resources it needs.

The Board Audit Committee approves the annual internal audit plan, reviews internal audit reports and receives periodic reports from the Director of Internal Audit. It also reviews any major issues arising. Internal Audit undertakes audits on a risk-assessed basis and agrees appropriate findings with management and actions to improve internal controls, risk management and governance.

Internal Audit also actively undertakes business monitoring by engaging with internal stakeholders on a regular basis, including attending key Committee and management meetings, to understand changing business risks, trends and emerging issues. Internal Audit regularly reports insights, progress and the status of its work to the Committee.

Audit Committee membership and attendance*

Anna Bradley	5/7
Tim Fitzpatrick (Chair)	7/7
Rob Stansbury (resigned December 2020)	7/7
Richard Anderson	6/7

*Member attendance versus eligible attendance.

Nomination Committee

The key areas of focus for the Committee this year were the recruitment of a new Chair, Non-Executive Director, Independent Non-Executive Director, the appointment of the Senior Independent Director and our work on diversity and inclusion.

The Board's Nomination Committee met ten times in 2020. The Committee is chaired by the Pay.UK Chair and details of Committee membership and meeting attendance can be found on page 55 of this report.

The primary objectives of the Committee are to:

- Regularly review the structure, size and composition of the Board (including skills, knowledge, experience and diversity)
- Maintain a review of Pay.UK's leadership needs, both Executive and Non-Executive, with a view to ensuring our ability to compete effectively in the marketplace
- Identify and nominate candidates to fill Board vacancies as they arise.

Board appointments

The Committee oversaw a number of significant changes to the Board in 2020, including initiating the recruitment of the Pay.UK Chair and Senior Independent Director. Following a review of the balance of skills, knowledge, experience and diversity of the Board, it was agreed that, in the interests of Pay.UK and the continuity of its governance, to appoint a serving Independent Non-Executive Director as the Senior Independent Director, therefore recruiting externally for a new Chair and Independent Non-Executive Director. Following a tender process, the Committee engaged external agency Moloney Search to assist with these appointments. Other than its engagement for this appointment, Moloney Search has no disclosable connection to Pay.UK or any of our individual Directors.

The Committee ensured that the selection process for each role was rigorous and transparent, delegating authority to a panel, which unanimously agreed to nominate Mark Hoban as Independent Chair and Lesley Titcomb as Independent Non-Executive Director. The Board accepted the Committee's recommendations and appointed Mark Hoban from 1 November 2020 and Lesley Titcomb from 1 January 2021.

During the year Christine Ashton was appointed as a Non-Executive Director of Royal Bank of Scotland International Limited. In light of her additional responsibilities, the Committee recommended to the Board that Christine would transition from an Independent Non-Executive Director to the role of Non-Executive Director until the end of her term and that the role would continue to be remunerated due to the distinction between this role and the industry representative Non-Executive Director roles on the Board. The Board subsequently approved the Committee's recommendation.

With the new Pay.UK Chair in place the Committee oversaw the appointment of a Senior Independent Director. Its recommendation of Anna Bradley for the role was approved by the Board.

The process for extending an Independent Non-Executive Director's term of office was also considered, as well as the process for renewing the term of office of Non-Executive Directors representing major and smaller participants and challenger participants.

Following the completion of Nathalie Oestmann's term as a Non-Executive Director, the Committee began the process of recruiting a suitable replacement in the last quarter of the year. The Committee reflected on how this role would represent participants and end users of the rapidly developing payments industry and ensured that this was reflected in the role description. The recruitment process for the Non-Executive Director was initiated, with interview stages scheduled for 2021. In addition, the Committee recommended the re-appointment of a number of Directors to the Board at the 2020 AGM.

Diversity and inclusion

We began to define our approach to diversity and inclusion in Q3 2020, supporting our existing equal opportunities policy, which ensures equality in employment, training and career development for all colleagues, including those with protected characteristics. The Committee oversaw the diversity and inclusion programme to deliver a strategy supported by an external specialist organisation, Business in the Community (BITC). This included an update on the themes being raised for discussion by colleague focus groups, the success of the diversity calendar and the work of the Diversity and Inclusion Steering Group.

More information about diversity and inclusion is in our Culture and colleague engagement section on page 37.

Nomination Committee continued

Other matters

The Committee took the opportunity to conduct a thorough review of its Terms of Reference and has updated them to ensure that they are in line with the UK Corporate Governance Code 2018 and that they reflect the Bank of England Code of Practice and supervisory statement relating to the governance of recognised payment system operators and best practice.

In compliance with the Bank of England Code of Practice and supervisory statement relating to governance of recognised payment system operators, the Committee undertook a review of its performance at the end of the year and is assessing the results.

Nomination Committee membership and attendance*

Anna Bradley[21]	10/10
Mark Hoban (Chair) (joined November 2020)	2/2
Melanie Johnson (Chair) (resigned October 2020)	8/8
Rob Stansbury (resigned December 2020)	10/10
Peter Wyman	9/10

*Member attendance versus eligible attendance.

21 Anna Bradley did not take part in the discussions about her own appointment.

Remuneration Committee

The key focus of the Remuneration Committee was Executive pay and bonus, including reviewing performance, benchmarking, and the approach to reward adopted by our guarantors and participants.

The Committee met three times in 2020 and was chaired by Pay.UK's former Senior Independent Director Rob Stansbury. Anna Bradley became Chair of the Remuneration Committee when appointed as Pay.UK's Senior Independent Director in January 2021.

Membership of the Committee is made up entirely of Independent Non-Executive Directors of Pay.UK.

Matters considered in the year

The Committee discussed and agreed the resignation date and notice payment for the outgoing Pay.UK Chair.

Other matters

In compliance with the Bank of England Recognised Payment Systems Code of Practice 7.2(1) and 7.3 the Committee undertook a review of its performance. An analysis of the self-assessment indicated that, overall, the Committee was operating effectively with improvements in two areas identified.

At the end of the year the Committee revised its terms of reference to encapsulate the requirements of the UK Corporate Governance Code 2018 and the Bank of England Recognised Payment Systems Code of Practice.

Remuneration report

The Remuneration Committee determines the remuneration of our Board Directors and oversees Pay.UK's general remuneration policy. We take into account external benchmarking from the relevant sectors and advice from remuneration consultants Korn Ferry when determining policy and making remuneration decisions.

Our remuneration decisions are cognisant of our not-for-profit status, acknowledging our need to attract and retain talent; we take into consideration the economic environment and the impact on our participants and end users.

Our remuneration package comprises:

- Basic pensionable salary
- A non-contributory defined contribution pension scheme with a 12% employer contribution
- Additional 1.5% employer pension contribution for Additional Voluntary Contributions (AVCs)
- Competitive employee benefits including life assurance, private medical scheme and fitness subsidy
- Performance-related bonus for Executive management.

Our Independent Non-Executive Director remuneration is benchmarked against relevant sectors and fees did not increase during 2020.

We do not remunerate Non-Executive Directors who are industry members of our Board as they are remunerated by their own organisations.

There was no major change to the remuneration or benefits policy during 2020. In acknowledgment of the economic impact of the Covid-19 pandemic, we applied a 50% reduced salary increase budget and all Executive management agreed a pay freeze for the year ahead.

During 2021, the Board decided to move to a more transparent and comprehensive disclosure of Directors' remuneration for the 2020 Annual Report, in the spirit of the UK Corporate Governance Code 2018. For the year to 31 December 2020, we have disclosed the remuneration of all current Directors serving during the reporting period. For Directors who had left before we agreed the new disclosure policy, we have provided aggregated data as per the previous policy.

Remuneration report continued

Directors' remuneration for services during 2020

Name [22]	Remuneration (£)	Bonus (£)	Pension (£)	Pension allowance (£)	Other minor benefits [23] (£)	Total (£)
Matthew Hunt	253,349	52,000	10,510	21,464	3,025	340,348
Richard Anderson	73,257	–	–	–	–	73,257
Christine Ashton	73,257	–	–	–	–	73,257
Anna Bradley	73,257	–	–	–	–	73,257
Tim Fitzpatrick	73,257	–	–	–	–	73,257
Jean-Yves Rotté-Geoffroy	73,257	–	–	–	–	73,257
Peter Wyman	73,257	–	–	–	–	73,257
Mark Hoban [24]	38,974	–	–	–	–	38,974
Directors who left before the new disclosure policy was agreed [25]	557,843	–	7,083	30,500	2,313	597,738
Total	**1,289,706**	**52,000**	**17,593**	**51,964**	**5,338**	**1,416,601**

	Remuneration (£)	Bonus (£)	Pension (£)	Pension allowance (£)	Other minor benefits (£)	Total (£)
Highest paid Director	306,251	–	7,083	30,500	2,313	**346,147**

22 Nathalie Oestmann and Russell Saunders, as industry Board members, were remunerated by their own organisations and not Pay.UK Limited.

23 Other minor benefits include medical insurance, life assurance and fitness benefit.

24 Mark Hoban's service began on 1 November 2020 and salary is prorated.

25 Directors who left before the disclosure policy was agreed: Paul Horlock, Melanie Johnson, Rob Stansbury.

Considering Provision 40 of the UK Corporate Governance Code 2018, we intend to carry out a full review of our reward framework during 2021, including developing our policy on Executive and senior management remuneration. We will further develop this remuneration disclosure and also publish our first gender pay gap review in 2021.

Looking forward to 2021 the Board plans for the Remuneration Committee to support our people strategy, working closely with the HR Director.

Remuneration Committee membership and attendance*

Rob Stansbury (Chair) (resigned December 2020)	3/3
Anna Bradley	3/3
Mark Hoban (joined November 2020)	1/1
Melanie Johnson (resigned October 2020)	1/1
Peter Wyman	3/3

*Member attendance versus eligible attendance.
The CEO and Director of HR also attended the Committees meetings.

Risk Committee

The Risk Committee met eight times in 2020. The Committee is chaired by Richard Anderson and details of Committee membership and meeting attendance can be found on this page. The Board has delegated responsibility for overseeing the effectiveness of Pay.UK's risk management and internal control systems to the Committee.

Our approach to risk and risk management, together with detail on the principal risks faced, are explained within the Governance and risk section of this report on pages 13 to 21.

The Committee welcomed the new Chief Risk Officer (CRO), Helen Hunter-Jones, in January 2020.

During the year, the Committee focused on the enhancement of the Enterprise Risk Management Framework to ensure the organisation takes a more consistent approach to risk identification and assessment, along with embedding and strengthening our risk culture.

The Committee considered the identification, assessment, monitoring, management and mitigation of risks, particularly in light of the potential impact on Pay.UK's financial position and its ability to operate effectively due to the Covid-19 pandemic. The Committee reviewed the outputs of a financial modelling exercise, considering the impact of a second wave of economic restrictions due to the pandemic.

The Committee continued to monitor key risk areas for the business, particularly, but not limited to concentration risk in the ecosystem, systemic risk, the NPA and cyber security.

Committee activities during 2020 included:

- Considering proposals for the level of risk appetite, tolerance, and strategy, and reviewing the risk profile, current exposure, and future strategy against the risk appetite
- Reviewing risk assessment processes, parameters, and methodologies
- Reviewing the capability to identify and manage new risk types
- Reviewing management's responsiveness to the risk findings and recommendations
- Reviewing how risk mitigations and controls are tested
- Reviewing reports from the CRO, which included updates on significant risks facing Pay.UK, the control environment, emerging risks, and our risk profile and operational, regulatory and conduct risks
- Reviewing and recommending our risk policy for Board approval
- Reviewing and recommending our risk appetite for Board approval
- Reviewing and approving the Acceptable Use and IT Security policies
- Reviewing the PFMI IOSCO return
- Receiving risk and control updates from certain business units as part of a programme of strategic risk deep-dive reviews.

Our overall risk profile remained stable throughout 2020 and the Committee continued to review and oversee the strengthening of Pay.UK's risk profile and control environment.

The Committee works closely with the Audit Committee and their cross-membership promotes a good understanding of risks and issues, and efficient communication.

The Committee reviewed the progress made by the introduction of a number of security control enhancements including a tertiary data centre that will improve Pay.UK's cyber defences and recover critical, non-payment related, IT services in the event of a disaster and the robustness of the controls to support this on an ongoing basis.

In compliance with the Bank of England Code of Practice and supervisory statement relating to governance of recognised payment system operators, the Committee undertook a review of its performance at the end of the year and is assessing the results.

During 2020 it was agreed that oversight of legal, data protection and regulatory compliance would move from the Legal, Governance and Standards Committee to the Risk Committee in 2021. The Committee reviewed the Internal Control Framework based on the COSO integrated framework model and the Compliance Reporting Calendar.

The Risk Committee also had a Security Sub-Committee that met five times during 2020 and was responsible for ensuring the effective management and reporting of Pay.UK's security risks and security management. In 2021 the Sub-Committee is being merged into the main Risk Committee.

Risk Committee membership and attendance*

Richard Anderson (Chair)	8/8
Anna Bradley	8/8
Tim Fitzpatrick	8/8
Paul Horlock (resigned November 2020)	7/8
Melanie Johnson (resigned October 2020)	7/8
Rob Stansbury (resigned December 2020)	7/8

*Member attendance versus eligible attendance.

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 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
- 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, our financial position, enabling them to ensure that the financial statements comply with the requirements of 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.

Having considered the annual report and accounts as a whole, the Board is in agreement that it provides sufficient information for our guarantor members to assess our position, performance, business model and strategy.

We publish our financial statements on our website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the company's website is the responsibility of the Directors. The Directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Statement as to disclosure of information to the auditor

Each person 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
- The Director has taken all the steps that he/she ought to have taken as a Director to make himself/herself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

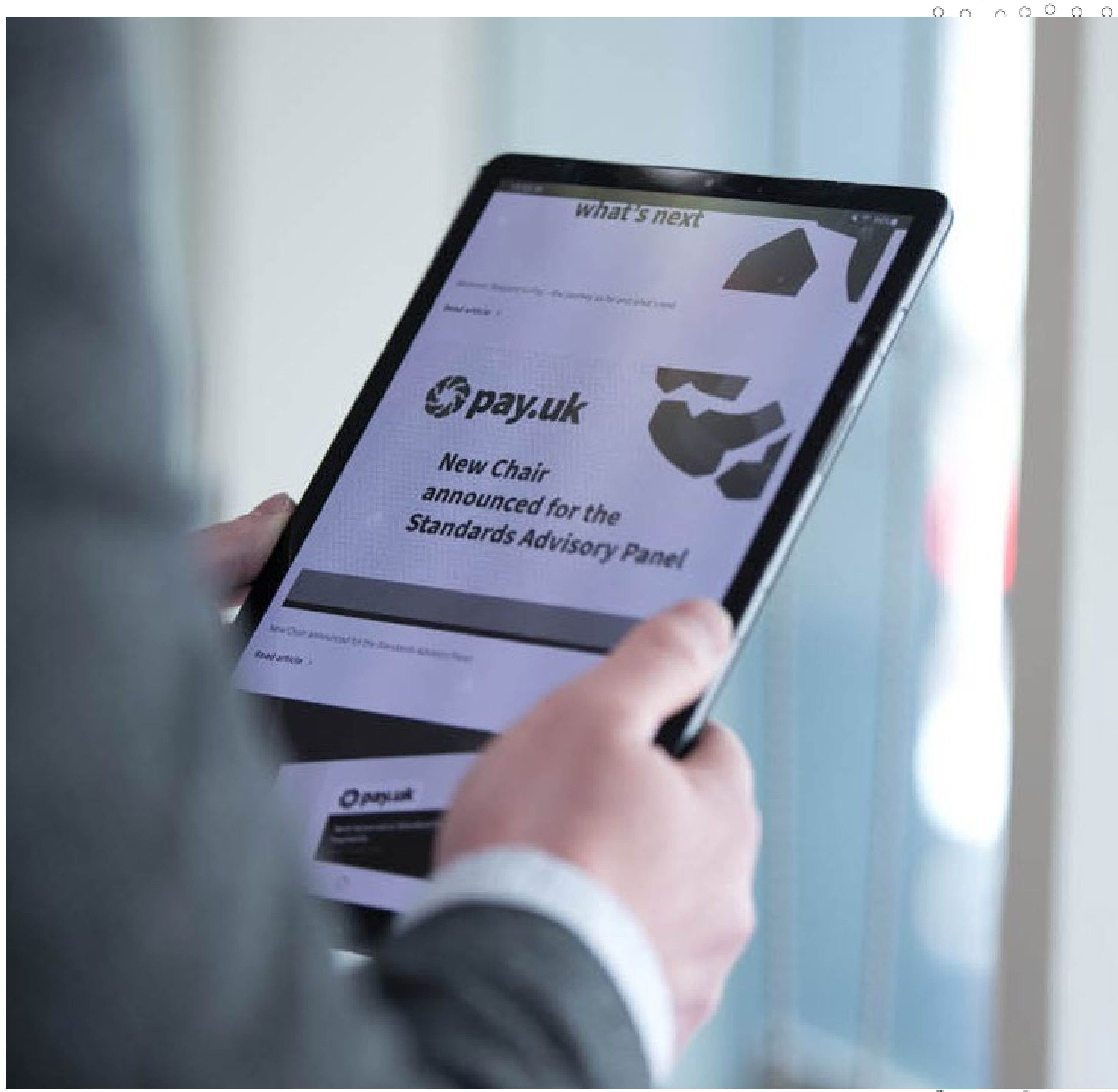
This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

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:

Matthew Hunt
Chief Strategy Officer, Deputy Chief Executive Officer
05 August 2021



Independent auditor's report to the members of Pay.UK Limited

Opinion on the financial statements

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 2020 and of the Group's profit for the year then ended;
- the financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Pay.UK limited (the 'Parent Company') and its subsidiaries (the 'Group') for the year ended 31 December 2020 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Company Statement of Financial Position, the Consolidated Statement of Changes in Equity, the 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).

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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remain independent of the Group and the Parent 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.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and Parent Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

Other information

The directors are responsible for the other information. The other information comprises the information included in the Annual Report 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. 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 course of 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 this gives rise to a material misstatement in the financial statements themselves. 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.

Other Companies Act 2006 reporting

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

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

In the light of the knowledge and understanding of the Group and Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report or the Directors' 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 Statement of Director's responsibilities, 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.

Extent to which the audit was capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We gained an understanding of the legal and regulatory framework applicable to the Company and the industry in which it operates, and considered the risk of acts by the Company which were contrary to applicable laws and regulations, including fraud. These included but were not limited to compliance with Companies Act 2006, requirements of the Payments Systems Regulator and United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).
- We discussed among the engagement team how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, we identified potential for fraud due to improper revenue recognition and management override of controls. Furthermore, we communicated relevant identified laws and regulations and potential fraud risks to all engagement team members and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.
- We focused on laws and regulations that could give rise to a material misstatement in the financial statements. Our tests included, but were not limited to:
  - agreement of the financial statement disclosures to underlying supporting documentation;
  - enquiries of management and review of key correspondence with the Payment Systems Regulator and the Bank of England; and
  - review of minutes of board meetings throughout the period.
- We also addressed the risk of management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

A further description of our responsibilities is available on the Financial Reporting Council's website at: 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, UK
05 August 2021

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Financial statements

4

Consolidated Statement of Comprehensive Income
For the year ended 31 December 2020

	Notes	2020 £'000	2019 £'000
Revenue	4	145,020	125,942
Administrative expenses		(106,687)	(111,757)
Other operating expenses	18	(9,831)	–
Other operating income	18	3,748	–
Operating Profit	5	32,250	14,185
Interest income	8	86	185
Profit on ordinary activities before taxation		32,336	14,370
Tax on profit on ordinary activities	9	(7,067)	(2,589)
Profit for the financial year		25,269	11,781
Other comprehensive income for the year:			
Actuarial profit/(losses) on defined benefit pension scheme	18	2,351	(3,231)
Change in amount of defined benefit plan surplus that is not recoverable		–	3,231
Changes in asset limit other than interest	18	3,732	–
Total comprehensive income for the year		**31,352**	**11,781**

The notes on pages 69 to 79 form part of these financial statements.

Consolidated Statement of Financial Position as at 31 December 2020

Company Registration No: 10872449

	Notes	2020 £'000	2019 £'000
Fixed Assets			
Tangible Assets	10	503	559
Investments	11	–	–
		503	559
Current assets			
Debtors	12	15,539	14,466
Cash at Bank		73,605	59,653
		89,144	74,119
Creditors: amounts falling due within one year	13	(44,106)	(56,319)
Net current assets		45,038	17,800
Total assets less current liabilities		45,541	18,359
Creditors: amounts falling due after more than one year	14	(5,560)	(9,730)
Total assets less total liabilities		**39,981**	**8,629**
Equity			
Called up share capital	15	–	–
Profit and loss account	16	35,504	4,152
Capital Reserve	16	4,477	4,477
Total Equity		**39,981**	**8,629**

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

Matthew Hunt
Chief Strategy Officer, Deputy Chief Executive Officer
05 August 2021

Company Statement of Financial Position as at 31 December 2020

Company Registration No: 10872449

	Notes	2020 £'000	2019 £'000
Fixed Assets			
Tangible Assets	10	95	4
Investments	11	–	–
		95	4
Current assets			
Debtors	12	26,269	24,349
Cash at Bank		46,531	28,703
		72,800	53,052
Creditors: amounts falling due within one year	13	(32,509)	(39,713)
Net current assets		40,291	13,339
Total assets less current liabilities		40,386	13,343
Creditors: amounts falling due after more than one year	14	(5,560)	(9,730)
Total assets less total liabilities		**34,826**	**3,613**
Equity			
Called up share capital	15	–	–
Profit and loss account	16	34,826	3,613
Capital Reserve	16	–	–
Total Equity		**34,826**	**3,613**

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 £31,213k (2019: £11,500k).

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

Matthew Hunt
Chief Strategy Officer, Deputy Chief Executive Officer
05 August 2021

Consolidated Statement of Changes in Equity as at 31 December 2020

	Profit and Loss Account £'000	Capital Reserve £'000	Called up Share Capital £'000	Total equity £'000
Balance as at 1 January 2019	(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**
Profit for the financial year	25,269	–	–	25,269
Actuarial profit on pension scheme (net of tax)	2,351	–	–	2,351
Changes in asset limit other than interest	3,732	–	–	3,732
Balance as at 31 December 2020	**35,504**	**4,477**	**–**	**39,981**

Company Statement of Changes in Equity as at 31 December 2020

	Profit and Loss Account £'000	Capital Reserve £'000	Called up Share Capital £'000	Total equity £'000
Balance as at 1 January 2019	(7,887)	–	–	(7,887)
Total comprehensive income for the year	11,500	–	–	11,500
Balance as at 31 December 2019	**3,613**	**–**	**–**	**3,613**
Total comprehensive income for the year	31,213	–	–	31,213
Balance as at 31 December 2020	**34,826**	**–**	**–**	**34,826**

Consolidated Statement of Cash Flows for the year ended 31 December 2020

	Notes	2020 £'000	2019 £'000
Cash generated from operating activities	17	21,063	13,332
Interest Paid		–	–
Taxation Paid		(7,046)	(38)
Net cash generated by operating activities		14,017	13,294
Investing activities			
Interest Received		87	185
Purchase of fixed assets		(152)	(172)
Net cash (outflow)/inflow from investing activities		(65)	13
Financing activities			
Repayment of advance		–	(480)
Net cash (outflow) from financing activities		–	(480)
Net increase in cash and cash equivalents		13,952	12,827
Cash and cash equivalents at the beginning of the year		59,653	46,826
Cash and cash equivalents at the end of the year		73,605	59,653

Notes to the Financial Statements

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 FRS102 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's 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.

In the light of these funding arrangements, and having reviewed the funding model for 2021 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. This conclusion has been reached on the basis that:

- The group has a 2021 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.
- As part of the price setting for 2021, we considered the ongoing impacts of Covid-19.
- The capital build phase was completed a year early and capital levels held are in excess of that identified in the latest capital reassessment. This capital, along with cash assets from prior year underspend, support the group in the unlikely event of a delay in receipt of income and its cash flow.
- The completion of risk assessments and stress testing on the future financial performance of the group. This included the identification of early-warning indicators and the availability of recovery options to the group.
- The majority of the group income is invoiced on a monthly basis and this continues to be collected post year end, via Direct Debit collection, with no significant issues.
- Resources remain operational despite the ongoing impact 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 the 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 provision 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.

Notes to the Financial Statements continued

Other operating income

Former shareholders in the UKPA subsidiary have provided funds to the group to allow the defined benefit pension plan to move to a pension scheme buy-in. These revenues are recognised as other operating income where these funds are used to finance the pension buy-in.

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.

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 asset's 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 FRS102 (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 2020, and throughout the year, the company had no overdraft facility (2019: £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.

Notes to the Financial Statements continued

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.

Defined benefit pension plan

The group operated a defined benefit fund through UK Payments Administration Limited during the year.

UK Payments Administration Limited historically participated in the British Bankers' Association (BBA) Pension Scheme for UKPA 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. The assets are represented by an insurance policy exactly matching the liability.

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. The company engages independent actuaries to calculate the obligation triennially. 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').

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'.

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'.

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

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.

Notes to the Financial Statements continued

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 FRS102.

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 FRS102 (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 18 for the disclosures relating to the defined benefit pension scheme.

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. Revenue

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 continued

5. Operating profit

The group operating profit is stated after charging:

	2020 £'000	2019 £'000
Fees payable to the Group's auditor for the audit of the Group's annual accounts	144	148
Fees payable to the Group's auditor for tax compliance fees	68	64
Depreciation	209	353
Operating lease rentals – land and buildings	2,050	1,325
– plant and machinery	21	127

Included within auditor's remuneration for audit services above is £50k (2019: £52k) payable to the auditor of the subsidiary entities.

6. Staff costs

Group and company	2020 £'000	2019 £'000
Employee costs during the year were:		
Wages and salaries	18,533	14,796
Social security costs	2,210	1,794
Cost of defined contribution pension scheme	2,090	1,855
	22,833	18,445
Average number of employees:		
Administrative	268	226

7. Directors' remuneration

	2020 £'000	2019 £'000
Directors' Emoluments	1,399	1,321
Company contribution for defined contribution pension scheme	18	24
	1,417	1,345
Highest paid Director	346	396

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

8. Interest income

Group	2020 £'000	2019 £'000
Bank Interest Income	86	185
	86	185

9. Taxation

Group Analysis of tax charge for the period	2020 £'000	2019 £'000
Corporation tax		
Current tax on profits for the year	7,307	1,068
Adjustments in respect of prior periods	(254)	11
Total current tax	7,053	1,079
Deferred tax		
Origination and reversal of timing differences	19	1,494
Adjustments in respect of prior periods	(2)	16
Effect of tax rate change on opening balance	(3)	–
Total deferred tax	14	1,510
Taxation on profits on ordinary activities	7,067	2,589

Provision for deferred tax

	2020 £'000	2019 £'000
Short term timing differences	(13)	(6)
Losses and other deductions	–	–
Total current tax	(13)	(6)
Deferred tax		
Provision at start of period	(6)	(1,516)
Deferred tax charge in the profit and loss account for the period	(7)	1,510
Difference in movement between balance sheet and profit and loss account for the period	–	–
Provision at end of period	(13)	(6)

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% (2019: 19%). The differences are explained below:

Group	2020 £'000	2019 £'000
Profit on ordinary activities before taxation	32,336	14,370
Tax on profit on ordinary activities at standard corporation tax rate of 19% (2019: 19%)	6,144	2,730
Effects of:		
Expenses not deductible for tax purposes	–	6
Fixed asset differences	5	11
Adjustment in respect of pension scheme	1,155	–
Adjustments to tax charge in respect of previous periods	(253)	12
Adjust closing deferred tax to average rate of 19%	(13)	(175)
Adjustment to tax charge in respect of previous periods – deferred tax	(22)	–
Changes in unrecognised deferred tax	30	5
Other difference	21	–
Current tax charge for the year	7,067	2,589

.The Finance Act 2016 had previously enacted provisions to reduce the main rate of UK corporation tax to 17% from 1 April 2020 and accordingly the deferred tax had previously been calculated at this rate. However, in the March 2020 Budget it was announced that the reduction will not occur and the Corporation Tax Rate will be held at 19%. The Provisional Collection of Taxes Act was used to substantively enact the revised 19% tax rate on 17 March 2020 and accordingly the deferred tax balances have been re-calculated to 19% at the year end.

The March 2021 Budget announced a further increase to the main rate of corporation tax to 25% from April 2023. This rate had not been substantively enacted at the balance sheet date and as a result deferred tax balances as at 31 March 2021 continue to be measured at 19%.

10. Tangible fixed assets

Group	Leasehold property £'000	Fixtures and fittings £'000	Computer equipment £'000	Total £'000
Cost				
At 1 January 2020	2,070	1,547	1,956	5,573
Additions	–	2	151	153
Disposals	–		–	–
At 31 December 2020	2,070	1,549	2,107	5,726
Depreciation				
At 1 January 2020	(1,841)	(1,387)	(1,786)	(5,014)
Charge for the year	(32)	(48)	(129)	(209)
Disposals	–	–	–	–
At 31 December 2020	(1,873)	(1,435)	(1,915)	(5,223)
Net book value				
At 31 December 2020	197	114	192	503
At 31 December 2019	229	155	175	559

Notes to the Financial Statements continued

Company	Fixtures and fittings £'000	Computer equipment £'000	Total £'000
Cost			
At 1 January 2020	5	–	5
Additions	2	131	133
At 31 December 2020	7	131	138
Depreciation			
At 1 January 2020	1	–	1
Charge for the year	3	39	42
At 31 December 2020	4	39	43
Net book value			
At 31 December 2020	3	92	95
At 31 December 2019	4	–	4

11. 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 2020	–
Additions in the year	–
At 31 December 2020	–

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.

The aggregate of the share capital and reserves as at 31 December 2020 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 £'000	Profit £'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	678	140
	5,155	140

Notes to the Financial Statements continued

12. Debtors: amounts falling due within one year

Group	2020 £'000	2019 £'000
Trade debtors	562	477
Other debtors	18	88
Deferred Tax	13	6
Prepayments and accrued income	14,946	13,895
	15,539	14,466

Company	2020 £'000	2019 £'000
Trade debtors	445	247
Amounts owed by subsidiaries	11,997	13,131
Other debtors	17	72
Deferred Tax	10	1
VAT	290	–
Prepayments and accrued income	13,510	10,898
	26,269	24,349

13. Creditors: amounts falling due within one year

Group	2020 £'000	2019 £'000
Trade creditors	6,169	3,274
Corporation Tax	1,111	1,068
Social security and other taxes	713	682
VAT	123	562
Other creditors	17	27
Accruals and deferred income	35,973	50,706
	44,106	56,319

Company	2020 £'000	2019 £'000
Trade creditors	3,461	1,220
Amounts due to subsidiaries	3,133	553
Corporation Tax	1,241	995
Social security and other taxes	713	680
VAT	–	589
Other creditors	17	27
Accruals and deferred income	23,944	35,649
	32,509	39,713

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

Group	2020 £'000	2019 £'000
Advances from participants	5,560	9,730
	5,560	9,730

Company	2020 £'000	2019 £'000
Advances from participants	5,560	9,730
	5,560	9,730

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 30% of the advance payment in December 2021, and then 40% of the advanced payment in December 2022.

15. 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 42 guarantors, whose guarantee in the event of winding up the company was a sum not exceeding £1 each.

Notes to the Financial Statements continued

16. 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 the company 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; this was achieved during 2020. This is referred to as risk capital in the internal management reporting. In addition, the company has built further capital in excess of this £21m.

17. Notes to the statement of cash flows

Group	**2020 £'000**	**2019 £'000**
Cash flow from operating activities		
Profit for the financial year	25,217	11,781
Adjustments for		
Depreciation	209	353
Interest Received	(87)	(185)
Taxation	7,082	2,589
(Increase)/decrease in debtors	(1,201)	4,721
(Decrease) in creditors	(16,291)	(2,927)
Defined Benefit cost recognised in statement of comprehensive income	9,830	–
Pension escrow payment	(3,696)	(3,000)
Net cash generated by operating activities	21,063	13,332

18. Pension commitments

Group

The British Bankers' Association and UK Payments Administration Limited ("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 were held in a separate trustee administered fund, up until the buy-in, when the assets were replaced with an insurance policy. The Scheme does not invest directly in property occupied by the Company or in financial securities issued by the Company.

The Scheme's Trustee executed a full buy-in policy in March 2020 to secure members' benefits with an insurer (Aviva Life and Pension UK Ltd) replacing the assets of the scheme, thus matching the liability under the pension. The employers paid contributions of £6,664k (Group contribution £3,696k) in 2020 to top up the Scheme's assets to purchase this policy, this is shown in other operating income. This contribution along with remeasurements and changes in asset limits shown in other comprehensive income for the year is offset in other operating expenses of £9,831k. A further contribution is expected to be payable in 2021 to finalise this transaction of £527k as part of the move to full buy-out. Additionally, a further £52k has been recognised as part of other operating income to reflect the deficit on the scheme. These funds are due from employers.

The Employers meet the costs of administration, investment management and any further insurance premiums payable until the buy-out.

Calculations 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.

The scheme assets and defined benefit obligation are as follows:	**2020 £'000**	**2019 £'000**
Present value of defined benefit obligation	39,244	36,726
Fair value of scheme assets	(39,192)	(40,439)
Deficit/(surplus)	52	(3,713)
Impact of asset ceiling	–	3,713
Net liability in statement of financial position	52	–

Expense recognised in profit or loss	**2020 £'000**	**2019 £'000**
Interest (income)	(1)	(17)
Past service cost	31	–
Losses on settlements	9,800	–
Total expense recognised in profit or loss	9,830	(17)

Amounts recognised outside profit or loss	**2020 £'000**	**2019 £'000**
Actuarial profit/(losses) on defined benefit pension scheme	(2,351)	3,231
Change in asset limit other than interest	(3,731)	–
Amount to recognise outside profit or loss	(6,082)	3,231

Scheme assets

	2020 £'000	**2019 £'000**
Bonds	–	26,004
Cash and Net Current (Liability)/Assets	(52)	2,269
Fixed interest gilts including leveraged funds	–	3,591
Aviva buy-in	39,244	–
Index linked gilts including leveraged funds	–	8,575
Total	39,192	40,439

Notes to the Financial Statements continued

Movement in the net balance sheet position	2020 £'000	2019 £'000
Expense/(credit) charged to profit and loss	9,830	(17)
Amount recognised outside of profit and loss	(6,082)	1,303
Employer contributions	(3,696)	(1,286)
Closing net liabilities/(asset)	52	–

Movement in present value of defined benefit obligation

	2020 £'000	2019 £'000
Opening defined benefit obligation	36,726	38,496
Interest on plan liabilities	758	1,066
Actuarial (gains)/losses due to:		
Experience on benefit obligation	(852)	(5,653)
Changes in financial assumptions	3,981	3,178
Changes in demographic assumptions	(196)	526
Benefit payments	(1,204)	(887)
Past service costs	31	–
Closing defined benefit obligation	39,244	36,726

Movement in fair value of scheme assets

	2020 £'000	2019 £'000
Opening fair value of scheme assets	40,439	43,983
Interest on scheme assets	778	1,237
Actual return on scheme assets less interest on scheme assets	5,283	(5,180)
Contributions by the employer	3,696	1,286
Benefit payments	(1,204)	(887)
Curtailments and settlements	(9,800)	–
Closing fair value of scheme assets	39,192	40,439

Movement in the impact of the asset ceiling

	2020 £'000	2019 £'000
Effect of asset ceiling at the start of the period	3,713	5,487
Interest on asset limit	18	154
Change in asset limit other than interest	(3,731)	(1,928)
Effect of asset ceiling at the end of the period	–	3,713

Significant actuarial assumptions

	2020 £'000	2019 £'000
Retail Price Inflation (% pa)	3.20%	3.20%
Consumer Price Inflation (% pa)	RPI less 1% pre 2030 and RPI less 0.1% post 2030	2.20%
Discount rate (% pa)	1.20%	1.95%
Pension increase rate (% pa)	Various	Various
Salary growth rate (% pa)	n/a	n/a
Life expectancy of male/female aged 60 at balance sheet date	28.1/30.2	28.1/30.1
Life expectancy of male/female aged 60 in 20 years' time	30/32.1	29.9/32
Weighted average duration	14	14

Notes to the Financial Statements continued

Sensitivity of obligations to alternative assumptions

	Increase 2020 £'000	Decrease 2020 £'000
Discount rate		
Effect on defined benefit obligation of a 0.1% change	(500)	600
Inflation		
Effect on defined benefit obligation of a 0.1% change	200	(200)
Life expectancy		
Effect on defined benefit obligation of a 1 year change	1,300	(1,300)

	Increase 2019 £'000	Decrease 2019 £'000
Discount rate		
Effect on defined benefit obligation of a 0.1% change	(498)	512
Inflation		
Effect on defined benefit obligation of a 0.1% change	212	(235)
Life expectancy		
Effect on defined benefit obligation of a 1 year change	1,200	(1,200)

19. Commitments under operating leases

Group

At 31 December 2020 the company had future minimum lease payments under non-cancellable operating leases as follows:

	2020 £'000	2019 £'000
Not later than 1 year	1,660	1,705
Later than 1 year and not later than 5 years	4,307	5,767
	5,967	7,472

The lease commitment on floors 1, 2 and 3 of 2 Thomas More Square is until 2024. However, rental payments for the second and third floors are currently subject to a rent renegotiation with the landlord and the outcome of the rent review has not been reflected in this disclosure as it is 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 it is unknown and therefore unquantifiable.

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

20. Ultimate parent company

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

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

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