

**Pay. UK Limited****Minutes of a meeting of the Board of Directors held on 8 September 2021**

<b>Members</b>	<b>Attendees</b>
Mark Hoban (MGH), Pay.UK Chair	Dougie Belmore (DB), Chief Payments Officer
Richard Anderson (RA), Independent NED	Heather Butler (HB), Chief Administrative Officer
Christine Ashton (CA), NED	Sam Cope (SC), Senior Policy Manager
Anna Bradley (AB), Senior Independent NED	Michael Ellis (ME), Finance Director
Tim Fitzpatrick (TF), Independent NED	Tim Everest (TE), Chief Transformation Officer
Matthew Hunt (MH), CSO and Deputy CEO	Lisa Finch (LF), NPA Programme Director
Marc Pettican (MP), NED	Helen Hunter-Jones (HHJ), Chief Risk Officer
David Pitt (DP), CEO	Nora McCarthy (NM), Head of Transition
Jean-Yves Rotté-Geoffroy (JY), Independent NED	Martin Otley, (MO), Financial Planning & Analysis Senior Manager
Lesley Titcomb (LT), Independent NED	Sherree Schaefer (SS), HR Director
Lars Trunin (LTR), NED	Toby Sheldon (TS), Head of Communications
Peter Wyman (PW), Independent NED	Roy Whymark (RW), Head of Macprudential Regulation & Policy
	Carolyn Gibson (CG), Head of Corporate Governance
	Louise Rebeck (LR), Company Secretary & Special Projects
	David Gilbert (DG), Company Secretary

*\*Board members and attendees met using a hybrid meeting model with some attending in person and others joining remotely by video conference.*

**21/52 Opening Business**

MGH welcomed everyone to the meeting.

Quorum – The Chair noted that a quorum was present in accordance with the Company’s Articles of Association.

Conflicts of Interest –All directors present confirmed that they had no other direct or indirect interest in any way in the proposed transactions to be considered at the meeting which they were required by section 177 of the Companies Act 2006 and the Company’s Articles of Association to disclose.

Registers – The register of gifts and hospitality together with the Directors Conflicts of Interest register, which had been circulated separately, were considered.

Minutes & Action Log – The draft minutes of the Board meeting held on 14 July 2021, together with the minutes of a Committee of the Board meeting held on 5 August 2021 were **approved**.

Progress with the current open action items was noted.

### **21/53 Committee Reports**

The reports from the various Board Committees that had been circulated with the meeting papers were noted. RA drew the Board's attention to his recent meeting with FMID. [Redacted - commercially sensitive]

MGH drew attention to the report from the Finance Committee where Board approval for expenditure [Redacted - commercially sensitive] from the separate Development Funds held by Vocalink to assist with work regarding direct debit error recoveries in Faster Payments was **approved** with endorsement from the Finance Committee. PW confirmed that the proposal had the support of participants who were keen for the work to be carried out.

*DB, HB, ME, HHJ & TE joined the meeting*

### **21/54 CEO's Report**

DP presented his first report to the Board and commented on his first impressions and key priorities. He noted that the business was extremely busy and that an immediate focus was the creation of an enterprise-wide plan so that priorities could be established and resources allocated accordingly. Operationally, the three main payment services continued to deliver for participants, although a number of incidents at Vocalink were currently under investigation. Operational feedback from Vocalink continued to be good although it was taking longer than expected to receive root-cause analysis on incidents. This was being followed up.

DP noted that a separate strategy session had been arranged with the Board and that the revised strategy would help the business to identify and drive its prioritisation plans.

The introduction of hybrid working had been generally well received by colleagues and teams were currently experimenting with alternative ways of working given that 2TMS was now open. DP stressed that the existing controls regarding the return to the office would be maintained to protect colleagues and maintain a safe working environment. It was expected that teams would benefit from being able to physically work together again.

DP referred to his report that detailed the level of external engagement currently taking place and provided the Board with the initial feedback that he had received from those conversations. It was clear that there was some frustration as to the perceived lack of progress in some areas but also a continued willingness to work together to develop successful outcomes. It would be important for Pay.UK to be seen to be taking a clearer and stronger lead in those discussions than previously.

*DB, HB, ME, HHJ & TE left the meeting*

DP advised that he would be looking at the format and frequency of management meetings to ensure that they supported the current delivery requirements. He would also be looking to ensure that there was clear ownership within the business for specific issues, especially where these involved more than one directorate.

AB noted that the meeting pack was substantial and suggested that it would be appropriate for the Board to be asked to agree the strategic direction and key principles and for the CEO to then be entrusted to develop the principles as part of a discuss/decide model. MGH confirmed that such an approach would ensure that the Board was given the opportunity to engage and challenge key decisions at an early stage.

*SS, NM & RW joined the meeting*

### **21/55 Governance Review Update**

MH introduced the discussion, noting that the review landscape was complicated with a number of requests under way at the same time with differing objectives, requirements and timeframes.

SS noted the level of duplication between the various requests and how the Steering Committee sought to provide oversight of the numerous actions. NM reiterated that the initial PwC Board governance review had been expanded, at Pay.UK's request, to include the Executive. The work to address the findings of the governance review needed to be completed by the end of the year. SS highlighted that the project status was currently showing as Amber, given its reliance on the revised strategy – that had yet to be approved – to deliver certain aspects.

SS stressed that much of the work required under the various regulatory requests had previously been identified by the business and steps had already been taken to address them prior to the regulators' actions. She suggested that PwC would be invited to complete an assurance review at the end of the process to ensure that all elements had been identified and embedded successfully. PW expressed his concern as to the underlying assumptions that had shaped the regulators' requests. The way in which assurance was provided that governance processes were in place and were well thought through and effective would be crucial.

RA noted that one element of the work was a review of the existing Committee structure. It would be important as part of that assurance to ensure that the balance between Committee oversight and management delivery was carefully calibrated. It was for the executive to ensure that the work was embedded in the business rather than it simply being moved to an alternative forum.

After further discussion, it was agreed that the matter be brought back to the November Board.

**ACTION: MGH/DP**

*SS left the meeting*

### **21/56 FMID Update on Pay.UK's Priorities**

RW advised that FMID had provided an update to its Annual Risk Review letter (ARR) in July 2021. The letter had reviewed progress against the key risks that FMID had identified in its ARR of November 2020, setting out areas where Pay.UK had completed actions and those where further action was required. A response was required by the end of the year.

After further discussion, the Board **accepted** the revised Priorities and it was **agreed** that MGH issue a response to FMID noting that the Board had considered the letter and had agreed the actions set out within it. **ACTION: MGH**

*NM left the meeting*

*TE, LF & DS joined the meeting*

### **21/57 NPA Update**

DP commented on the size of the NPA meeting pack and confirmed that this would be addressed for future meetings.

TE advised that the Programme had put forward a number of decisions and recommendations for consideration by the Board. Material progress was being made on the Programme requirements and on the evidence that was required to support them. TE noted that the team

was working extremely hard to ensure that the deliverables were produced to keep the Programme on track.

RW noted that before the RFP could be released, the business required a non-object from FMID and also assurance from the PSR that it was satisfied as to both the funding model and the approach being taken to competition. Both regulators were expected to have concerns as to resources and capabilities which would need to be addressed. LT noted that the manner in which the Board itself sought and received the necessary assurances it was looking for would also be an important part of the overall assurance process.

LT queried how independent assurance on the competition aspects would be achieved. After discussion, it was agreed that the team would revert with alternative proposals as to how that could be achieved. **ACTION: DP**

TE commented on the progress made to date with embedding actions arising from the s.82 report, noting that the team had challenged itself on a number of outcomes where further work was required. He confirmed that a final report was required prior to the year end and a draft of this would be presented at the November Board meeting. **ACTION: DP**

LTR queried whether there would be ongoing monitoring of the embedded actions and TE confirmed that quarterly monitoring would be undertaken by the team as well as regular assessment against the key themes identified in the original report. LTR suggested that the changes should be visible to participants, given their increasing interest on delivery. TE noted that participants would become aware of the processes that were being put in place and these would also be covered as part of the participant engagement process.

PW reflected on the possible funding options for the NPA, noting that participants had already expressed a clear preference. It would be important to ensure that the regulators were aware of the strong views held by the industry as to their preferred way forward and that a way was found of ensuring that the regulators were given certainty that funding would be made available. DS reminded the Board that funding was one of the areas covered as part of the initial RFI stage.

TE noted that there had been no material change in overall participant sentiment since the last Board meeting. The future role of the SPG was considered and TE advised that three new sub groups had been established to focus on commercial issues, delivery and end users.

The Board considered the 'hot topics' report and challenged as to how the NPA team was confident of having sufficient resource and capacity in place at key times to deliver. TE conceded that the volume of governance was greater than the initial assumptions had suggested and that the overall resource plan was being revised. It was noted that the marketplace was very strong for talent and it would be important to develop a retention plan as well as using contacts to ensure that roles were filled in good time. TE advised that a revised capability proposal would be brought to the November Board for approval. **ACTION: DP**

The style and content of the RFP for the remaining bidders was considered. It was noted that there was no requirement to treat all parties the same and that the approach for potential suppliers could be different to that adopted for the incumbent. It was confirmed that the RFP should set out the various principles (such as connectivity requirements) rather than specific detail.

LF took the Board through the Capability Review, noting the steps that had been taken to respond to the various challenges from the PSR. It was expected that the final report from Deloitte would be received in time for the November Board meeting. LF confirmed that the Programme remained on course to embed the material actions by the end of the year and that no significant threats to the programme had been identified. LT noted the very technical language used in the proposed response and that it was very focussed on the regulators' recommendations rather than summarising all the work that had already been carried out to remedy the self-identified shortcomings. RW confirmed that the regulator would be looking for quality artefacts to support the statements made in the report on which they could then opine and make their own assessment.

The Board advised that further work was required to provide the necessary assurances that were sought and also to modify some of the responses to identify what had already been done, what was being done and what was still to be delivered to achieve the necessary capabilities. After further discussion, the Board advised that it was not in a position to approve the interim Capability Review as currently drafted and requested that this be revised and brought back to the November Board meeting for further deliberation. **ACTION: DP**

Referring to the procurement papers that had been circulated with the meeting pack, DS commented on each in turn. The Sourcing Strategy set out what was to be acquired and how engagement with the market would be carried out. The strategy focussed firstly on the construction of the RFP and then on its execution. The high-level Evaluation Strategy demonstrated how the procurement proposals fitted with the overall strategy.

Commenting on the procurement papers, MGH queried where the team had had to make significant judgement calls in reaching their conclusions. DS suggested that these included the funding mechanism, whether to design and build the solution in-house or whether to acquire it from the market – and if purchasing how to ensure that the overall package was broken down into distinct service bundles to ensure that these could be sourced/refreshed separately in the future if required. These constituted the significant strategic decisions in this set of documents. RA noted that there had also been discussions previously as to how transition risk could be safely and effectively managed.

With regard to the overall procurement approach, it was noted that the PSR had publically commented on the possibility of restarting the procurement as part of its consultation exercise, but that there had been no interest from other potential bidders.

MGH sought specific assurances on behalf of the Board from the procurement team before proceeding further. It was confirmed that in addition to management reviews and some second line involvement, the sourcing work had been reviewed by a separate KPMG team, as had the high-level evaluation strategy. MGH requested that future papers should include more detail on the assurance process that had been followed prior to submission. After further consideration, the procurement papers: Thematic Report on Capability; Sourcing Strategy; High Level Evaluation Strategy and Procurement Approach were **approved** by the Board.

It was agreed that the NPA Delegation and Escalation Framework required further work and would be brought back to the November meeting for consideration. **ACTION: DP**

MP and LTR provided feedback from the NED forum meetings that had been held with a subset of the SPG. Key messages reflected the desire for end users to be recognised at every stage of the Programme and also a reminder that it was ultimately the participants that were providing the

NPA funding. There had also been debate regarding the envisaged timelines and the lead-in times that participants required. It was also noted that participants were large, busy and complex organisations and their expertise should be leveraged wherever possible to help Pay.UK succeed. Concern had been expressed that if implementation took too long then what was ultimately delivered could already be out of date. The overall sense from the forum meetings was one of support but also a desire for the process to move forward.

DG reported that the Regulatory Engagement & Policy team had received a request from the PSR to share NPA-related Board papers with them. It was noted that the current policy was not to share Board papers with the PSR unless compelled to do so and therefore guidance was being sought from the Board as to how to proceed. MH advised that in addition to Board papers, the PSR was also seeking sight of management papers relating to the NPA. The Board commented that the PSR's request was seen as exceptional to their remit and not usual practice. However, in order to foster better relations, the request to provide NPA papers would be **accepted** with a number of caveats: that the PSR was able to assure the Board that it had the necessary procedures and protocols in place to ensure that the papers were ring-fenced and only had a very limited circulation within the PSR and were not shared more widely, that any requests for non-NPA related papers would need to be made through the agreed formal process, and that the PSR acknowledged that many of the NPA papers that were brought to the Board were for discussion and challenge and should not be seen as definitive statements of Pay.UK's position.

*TE, LF & DS left the meeting*

#### **21/58 PFMI Self-Assessment**

RW summarised the background to the self-assessment and commented on the process that had been followed to undertake the review, including consideration by both the Finance Committee and Risk Committee. The recommendation was for Principle 2, relating to Governance, to be downgraded to 'broadly observed' and for Principle 15, General Business Risk, to be upgraded to 'observed'. AB noted that the proposed changes to the ratings had been hotly debated at the Risk Committee and that the revised ratings reflected new assessments against a changed approach that were indicative of the changes in standards over time.

The Board accepted and **approved** the PFMI Self-Assessment and confirmed that this should be submitted to FMID and posted on the Pay.UK website in accordance with the requirements.

*RW left the meeting*

*SC joined the meeting*

#### **21/59 Response to PSR Consultation**

MGH congratulated SC on the quality of the paper that had been submitted, a sentiment echoed by the whole Board. The proposed response to the PSR's consultation document was **approved**.

*SC left the meeting*

*ME & MO joined the meeting*

#### **21/60 2022 Budget**

ME noted that initial spending estimates for 2022 had been shared with PEF in May 2021. Subsequent work by the team had focussed on pricing. ME advised that the biggest challenge remained the uncertainties as to the funding requirement for the NPA over and above the cost of the service lines.

MO took the Board through the funding bridge, noting that the Finance Committee had previously been through the various funding options in detail. It was noted that previous funding assumptions had been very cautious in nature, allowing capital to build up to support the balance sheet. It was now possible for some of that caution to be relaxed using a combination of participants' estimates and total regression analysis to reach a proposed position. Noting that Bacs was no longer part of the initial NPA scope, the proposal to continue to split the NPA costs equally between FPS and Bacs was debated. ME advised that further analysis would be required before any change to the percentages could be considered.

The expected consultancy costs for 2022 were queried and ME advised that a significant proportion of the figure related to support for the NPA. DP advised that he was looking at the NPA position and would ensure that value for money was achieved.

The expected benefits for the business and for participants from the renegotiation of the Vocalink costs and contract extensions were noted.

Commenting on the clear presentation, the Board supported and **approved** the 2022 Budget as presented.

At MGH's invitation, ME then provided the Board with a short summary of the work that had been undertaken in response to the challenges that had been put forward regarding the control framework. He noted that a compliance roadmap had been developed which would assist with the year-end processes as it became better embedded in the business. External resource was being used to revisit the existing controls and the processes relating to revenue/billing numbers following the year-end challenges from BDO. Acknowledging the update, RA stressed that the tone from the top would be an equally important factor.

### **21/61 Quarterly Tax Payment**

The Board approved the payment to settle the balance of the 2020 Corporation Tax liability [Redacted - commercially sensitive]

The Board further **approved** the delegation to the CEO, or in his absence the deputy CEO, to approve and authorise all future tax payments and statutory levies on behalf of the Board.

*ME & MO left the meeting*

*TS joined the meeting*

### **21/62 AGM**

TS updated the Board on the final preparations for the AGM that was due to immediately follow the Board meeting.

### **21/63 Any Other Business**

Meeting Arrangements – On behalf of the Board, MGH thanked TS, the Communications team and all who had been involved in the relocation of the day's Board meeting and AGM at such short notice as a result of premises issues at 2TMS the previous day.

Internet Explorer – MP advised that a number of participants had raised concerns regarding Microsoft's decision to retire IE11, given its use in a number of payment applications. DP confirmed that the matter was well known and was being discussed throughout the industry. He agreed to keep the Board advised of developments.

Bacs – LTR noted that some participants were concerned that with the focus on Faster Payments, the Bacs product would not be properly maintained and updated. DP confirmed that the situation was understood and that the industry would be kept informed. AB flagged that a shift of direct debit payments towards FPS from Bacs could lead to end user detriment if the direct debit guarantee were to be lost. The Board confirmed that the position would need careful handling to avoid unintended consequences.

There being no further business the Chair declared the meeting closed.

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Chair