

Pay.UK Limited

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

Registered Office

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Annual Report and Financial Statements

2023

Pay.UK Annual Report and financial statements 2023



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

We provide the digital networks that make payments secure, safe and simple for the UK’s banks and building societies, payment providers and their customers.

Our purpose

Our purpose is to power payments, champion innovation and give the UK choice in how it pays. We enable individuals and organisations in the UK to transfer money to others whenever they need to, quickly, safely and cheaply.

Our vision

To be the smartest way to move money, now and in the future.

About us

As the recognised operator and standards body for the UK’s interbank retail payment systems, we are supervised by the Bank of England’s Financial Market Infrastructure Directorate (FMID) and regulated by the Payment Systems Regulator (PSR).

We provide the payments networks used by Bacs, Faster Payments and the Image Clearing System (ICS) and also operate the Current Account Switch Service (CASS), enabling billions of pounds of payments to be made safely and securely, every single day.

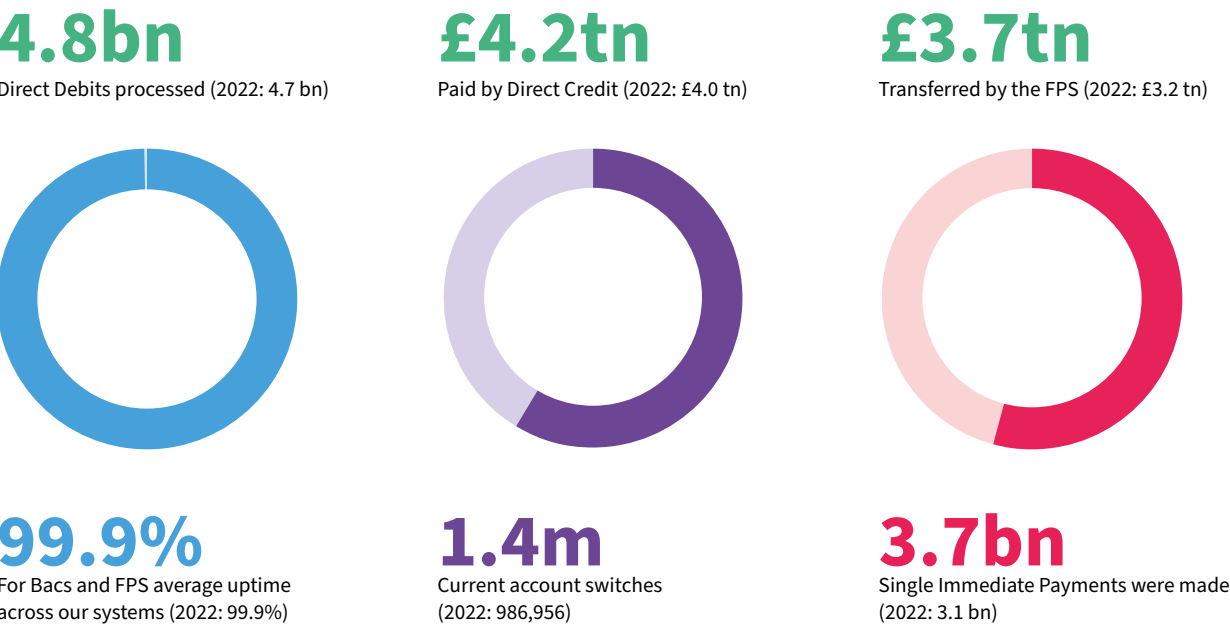
We combine technology, rules and standards to enable a powerful payments platform thereby reinforcing our position of leadership in the payments market. In our critical role supporting the UK economy, we continue to create common standards and a new platform that will drive future payments and opportunities for the industry.

By continuing to operate a robust, resilient, and cost-effective payments platform, we can deliver greater value for all users of the services we provide, from individuals and businesses through to banks and building societies.

Key highlights

- **Targets:** We met or exceeded all our targets around the operation of the national payment system infrastructure. See the ‘Our Performance’ section on pages 20 - 23 for more information.
- **Faster Payment System (FPS):** In October 2023, 408 million transactions were made using the FPS. This set a new record for monthly transaction volumes, having exceeded the 400 million volume mark for the first time.
- **Bacs Payment System:** In 2023, the Bacs Payment System handled a record-breaking total annual transaction volume of 6.78 billion (covering both Direct Debit and Direct Credit). This year-on-year annual volume growth also increased by 93 million (+1.39% from 2022).
- **Current Account Switch Service:** In Q4 2023, the number of service switching numbers reached a first-time peak of 433,701. This surpassed the previous record set in Q4 2022, which saw 376,107 account switches take place.
- **Strategy:** The development of our strategic roadmap has been crucial to identifying our strategic priorities in order to effectively implement and integrate our strategy. We made good progress against each of these priorities in 2023 and are well placed to deliver a number of innovative payments initiatives in 2024. See pages 14-17 for more information.
- **Confirmation of Payee (CoP):** In June 2023, we launched the Payer Name Verification service. This enhancement to CoP has expanded the stakeholder reach of the service, and broadened its scope by including Direct Debit.
- **New Payments Architecture (NPA):** We concluded our robust regulatory, business development, and vendor procurement processes early in the year and subsequently secured approval from our Board to submit the Vendor Contract Non-Objection (VCNO) to our regulators in April 2023. This procurement process was paused, following the Government’s decision to consider it as part of the National Payments Vision (NPV). See pages 24-25 for more information.

2023 Highlights



Our payment systems

At Pay.UK we provide the digital payments networks that the UK's financial institutions, and their customers, use to move money.

Our three core systems, the Bacs Payment System (Bacs), the Faster Payment System (FPS) and the Image Clearing System (ICS), are simple and secure. They give our customers and end users choice in how they pay in a way that best suits their needs.



Bacs Payment System

Bacs is an electronic system used to make direct payments between accounts.

One of the most popular payment methods in the UK, Bacs payments typically fall into two types. Bacs Direct Debit allows organisations, with consent, to take money from a payer's account for regular payments such as utility bills or phone bills. Direct Credit, meanwhile, allows a payer to transfer money directly to another account. This is the preferred method for organisational payroll operations and other business-to-business transactions.

Max payment

£20m

Value limit (Customer grade participant)

Speed

3 working days

Use cases

Bacs Direct Credits:

- Payroll
- Business-to-business
- Benefits payments.

Direct Debits:

- Utility bills
- Regular payments.

Faster Payment System

Faster payment enables payments to be made in near real time.

The electronic transfer allows quick and secure transactions to be made between UK bank accounts 24 hours a day with funds available to the recipient almost immediately.

Max payment

£1m

Organisations offering the service can set their own limits, which may be lower than those set by Pay.UK.

Speed

seconds
Normally posts to recipient within seconds

Use cases

- Online banking and mobile payments
- Bill payments
- Forward-dated payments
- Standing orders (recurring payments)
- Person-to-person, person-to-business, business-to-business and business-to-person transactions.

Image Clearing System

Image Clearing enables images of cheques to be exchanged for the purpose of clearing and payment.

First introduced in 2019, the ICS has significantly reduced the clearing process times of cheques, allowing payees to access the new funds more readily.

Max payment

Unlimited

Value limit

Organisations offering the service can set their own limits.

Speed

2 working days

Typically, if a customer pays in a cheque on a weekday (before their bank or building society's advertised cut-off time) they will be able to withdraw the funds by 23:59 on the next working day. Non-working days are Saturdays, Sundays and English bank/public holidays.

Use cases

- Utility bill payments
- Paying clubs, societies and charities
- Person-to-person
- Paying trade suppliers.

➤ Read more about our **PERFORMANCE** on pages 20 to 23

Chair's introduction



2023 saw record volumes for our two principal payment systems, Bacs and Faster Payments. Ongoing digitisation of payments and continued innovation in the payments ecosystem continue to drive forward our business.

Mark Hoban
Chair

Our payment systems underpin the UK economy and more households and businesses than ever use them for a greater number of their payment transactions. We continue to focus on maintaining a robust and resilient infrastructure as well as managing the risks in the payments ecosystem. That focus has continued through 2023.

Pay.UK has a unique role as an independent Payment Systems Operator (PSO). We set the rules and standards for all payments of businesses and banks wishing to access Bacs and Faster Payments, we are accountable to our customers and regulators for their robust and resilient operations and we have to maintain consumer confidence in our services.

An independent PSO ensures fair access to those who use our services whether they are large, long-established banks or the newest technology driven challenger. That perspective across the whole of the market places us in a unique position about how we develop the ecosystem to serve its best interests. For example, in 2023, we worked with regulators and stakeholders to lay the foundations for the next generation of Account to Account (A2A) transactions using Open Banking (OB).

Our accountability for robust and resilient operations requires us to work closely with Vocalink, our infrastructure provider, as well as with our customers so that consumers have confidence that when they initiate a payment it arrives in the right place at the right time. Given the increased complexity of our ecosystem, we have established a Payments Industry Resilience Forum (PIRF), which our Chief Risk Officer (CRO) co-chairs with an industry representative. PIRF enables stakeholders from across the ecosystem to work together to improve

resilience through sharing ideas and running various exercises to test co-ordination. It is a good example of how we use our position as a PSO to help lead the ecosystem and support its resilience.

A robust and resilient system helps maintain consumer confidence, but it is not enough in itself. Consumer confidence in our services can be eroded by other factors, such as fraud. Authorised Push Payment (APP) fraud does just that, which is why we are taking additional steps to help prevent and detect fraud. As a PSO, I believe we have a responsibility to play our part in this. CoP has given people confidence that when they make a payment it's going to the right bank account. Having originally being used by nine banks and payments businesses, in 2023 we rolled it out to an additional c45 Payment Service Providers (PSPs) totalling c100 PSPs using CoP by the end of 2023 and, by October this year, it will be in place for every payments provider, over 350 businesses. This strengthens protection across the market as a whole and tackles gaps in prevention that fraudsters could exploit. We will go further this year as we test new technology to identify patterns in fraudulent data as we seek to use whole of market information only we have access to. In October 2024, we will commence collecting data on the mandatory reimbursement of APP fraud by banks and other payments institutions.

In 2023, we celebrated the 10th Anniversary of the CASS, which was established to reduce the friction for households and small and medium-sized enterprises when they move their current account to a new provider. It is a vital cross-market initiative that promotes competition between banks and better consumer outcomes.

As an independent PSO, we have a unique position and role to help develop a robust and resilient ecosystem that promotes competition and innovation, but also gives consumer confidence in its use. If we are to continue offering world leading payments, we need to move to the next generation of infrastructure.

During 2023, we made further progress on procuring that infrastructure through the NPA programme and we made our final submission to our regulators in May 2023. The NPA is, however, one of a number of UK payments initiatives that is currently live, for example Central Bank Digital Currency (CBDC) and systemic payment stable coins and the Government's policy to protect access to cash. It is also taking place against a backdrop of global payment initiatives. This complex landscape risked causing confusion. We therefore supported the Government's announcement in December to develop a National Payments Vision (NPV) to provide clarity on the direction of payments to ourselves, regulators, payments businesses and consumers. We have consequently paused work on the NPA until its publication. We believe that our infrastructure does need to evolve so it remains robust and resilient, complies with international data standards, facilitates instant payments and offers inter-operability with cross-border payments systems and digital currencies. We look forward to the publication of the NPV later this year so that we can move to a world leading payments system.

In 2023, we asked a great deal of our Pay.UK colleagues as they responded to the rapid pace of change in the sector and, simultaneously, continued to run robust and resilient systems. I would like to thank David Pitt and his team for their work during this challenging period. Our people make a valuable contribution to the success of the UK economy through their support of the payments ecosystem.

Keeping pace with change has required us to strengthen our team. Last year, David McPhee was appointed Chief Policy and Engagement Officer (CPEO) to bring together our work on policy, industry engagement and our external communications so that our out-facing activities moved up a gear. As I mentioned in my introduction last year, two new Independent Non-Executives, Helen Crooks and Ajay Vij, joined the Board in January 2023. Both bring technology, data and outsourcing insights that are invaluable for the next stage of our development. We were also pleased to appoint Michael Ellis, our Chief Financial Officer (CFO), as an Executive Director to the Board in August. I am grateful to my Board colleagues for their support during the year. It is much appreciated.

Pay.UK continues to evolve as the ecosystem it both serves and leads evolves. I look forward to seeing the fruits in 2024 of the foundations laid in 2023 as we strive to deliver great outcomes for all who rely upon our payment services.

Mark Hoban
Chair

22 May 2024

➤ Read more about our **STRATEGY** on pages 14 to 17

➤ Read more about our **GOVERNANCE** on pages 51 to 81



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Chief Executive Officer's report



The world of payments never stands still and nor should it. It must be dynamic in a changing world. It must be responsive to the needs of customers, in their broadest sense, across the payments value chain; from the PSPs delivering the service to the end user. It must embrace the opportunities and manage the growing risks an of an ever-changing payments ecosystem.

David Pitt
Chief Executive Officer

In 2023, we saw that consumers continue to want safe, secure and fast payment options. They want convenient and guaranteed payment options, and they want choice and control. There are increased opportunities in the ecosystem that may enable this. We see how Account to Account in Retail (A2ART), with its enhanced speed, simplicity and security is gaining more traction in some geographies. There is growing attention on digital currency as the digitalisation of payments, accompanied by the decline in cash, continues its journey. Artificial Intelligence (AI) usage is growing, enabling enhanced processes and customer experiences. Big technology companies see the opportunity to have their slice of the payments pie and are vying for their place in the market.

These opportunities are not without their challenges. Competition and innovation are to be encouraged, but they can bring risks that we need to understand and guard against. At the forefront of these is the rising fraud levels, as criminals use technology to find more sophisticated ways of perpetrating their crimes. The effect, whilst financially significant, also leaves victims devastated.

In an evolving world of payments, the need for the right level of protection and control continues to drive a full legal and regulatory agenda. PSPs, many of whom are our customers, face the challenge of a demanding schedule of transformation where they need to implement extensive, often complicated, change in a limited window, and sometimes concurrently. Our regulators want to do the right thing by the ecosystem, and whilst mindful of the challenges, look to ensure that they regulate effectively and comprehensively.

This context is important because it provides a picture of the ecosystem in which we all operate. We fulfil our role as a PSO and systemic risk manager so that we can provide, protect and control, advise and support given our unique and impartial position. In 2023, I am satisfied that Pay.UK has performed this role well, balancing competing interests within the payments ecosystem effectively. There is further change on the horizon which we are facing into; which we will influence in the right way so that we deliver on our purpose – to power payments, champion innovation and give the UK choice in how it pays.

Strategy

Our strategy moves us forward to our vision - to be the smartest way to move money, now and in the future.

Our strategic priorities have shone the guiding light for our work and ensured we remain focused on our performance as a PSO platform leader. Our priorities are our performance as a PSO, platform leadership, product innovation, next-generation infrastructure and organisational excellence. We have made progress across these priorities. Our work on fraud falls squarely within our PSO performance and platform leadership priorities with initiatives in detection and prevention alongside reimbursement. The work we have done to date on the NPA, and the engagement we have begun on the NPV, deliver on our priority on the next generation infrastructure.

Chief Executive Officer's report continued

➤ Read more about our [STRATEGY](#) on pages 14 to 17

➤ Read more about our [GOVERNANCE](#) on pages 51 to 81

New Payments Architecture and the National Payments Vision

We continued the momentum on the NPA procurement process to select our preferred vendor through a robust, internally and externally assured process. We delivered against our agreed plan to arrive at our recommendation, meeting all the milestones and within budget. We worked effectively with the industry and our regulators throughout this process; as I have said many times, collaboration and winning together is important.

We submitted our vendor recommendation to both regulators in May 2023; both regulators spoke in positive terms about the quality and depth of our submissions. The PSR provided their approval, at the current time, FMID has not concluded its non-objection process and has not indicated when we are likely to receive this.

In July 2023, the Government commissioned Joe Garner to lead the Future of Payments review to set out to deliver world leading retail payments in the UK. Pay.UK contributed to this review as did the wider industry. Its key finding, shared towards the end of 2023, was the requirement for a NPV for the UK. The NPA, with the clearly established outcomes, will form part of this vision. We continue to work closely with His Majesty's Treasury (HMT) on this as we move into 2024.

The outcomes of the NPA will be key for the NPV as they still hold true. We must future proof our payment systems in the interests of robustness, resilience and scalability. We must maintain real-time capability while maintaining flexibility. We must create an environment that helps in the fight against fraud. We must deliver the global messaging standard ISO 20022, which will enable both interoperability and product innovation. We must create an environment ripe for innovation and reduce barriers to entry. We must drive efficiency and competition by lowering costs for everyone in the payments ecosystem.

Fraud

Fraud remains a huge problem for our customers and our end users. It is a concern that the numbers are rising. We have progressed our delivery of a programme of tools across fraud detection, prevention and reimbursement. I firmly see these all as part of the same solution. The sum of all of these is greater than its constituent parts as we continue with our determined effort to take on the fight against fraud.

To avoid fraud before the transaction takes place, CoP is our award-winning, name-checking overlay service for UK-based payments with the aim of reducing misdirected payments and certain types of push payment fraud. This has already been widely implemented, with over 100 organisations using it. The take up will increase significantly following a regulatory direction from the PSR to require approximately 400 PSPs to implement this by October 2024. Whilst not a 'silver bullet' in its own right, this plays a valuable role in reducing some fraudulent payments.

We want to help our customers to prevent fraudulent transactions as early as possible. In 2023, we worked with those customers who shared their data for a tailored model for a fraud prevention overlay Proof of Concept (POC). If successful, then this could help to control and reduce incidences of fraud.

We need to help our customers better respond and recover from a fraud event and enable our customers to better serve end users. We are working with the PSR on its reimbursement requirements in the industry, which create a minimum compensation standard for the industry. We are combining the APP reimbursement rules with our Faster Payment rules, and monitoring compliance of all in scope PSPs. The rules will come into effect in October 2024. We have been engaging extensively with the PSR and the industry to support this programme of change and industry readiness.

Payment operations

As a PSO running critical infrastructure, we have continued to manage the payments platform, delivering robust and resilient operations throughout the year. We delivered operational availability at more than 99.9% and processed 11.4 billion retail payments (2022: 10.8 billion) to a value of just under £9.3 trillion (2022: £8.8 trillion). This represented a volume rise of 5.6% and a value rise of 5.7% from 2022.

We set new annual records in both Bacs and Faster Payments systems. For Bacs, the total transaction volume reached 6.78 billion, up from 6.69 billion in 2022. In Faster Payments, we saw numbers up 14.3% to 4.5 billion payments (2022: 3.9 billion) worth around £3.7 trillion in 2023 (2022: £3.2 billion), exceeding the growth that we saw in the preceding year. For ICS the overall cheque transaction volumes in 2023 amounted to 112 million (2022: 131 million).

We welcomed three new customers to Faster Payments taking the number of directly connected customers to 45. There were no new customers for Bacs and ICS meaning connected customers remained at 31 for Bacs (2022: 31) and 20 for ICS (2022: 20).

Our central role is as a systemic risk manager; this is core to our strategic objective of PSO performance. We are accountable for the end-to-end risk management of the UK's interbank retail payment systems. In 2023, we have further matured our Enterprise Risk Management Framework (ERMF), reinforced our risk management procedures and further strengthened our depth of capacity and capability in the second line of defence risk management team. We have established an industry engagement forum, the PIRF, to focus on developments and challenges seen across the industry.

We introduced a new oversight structure with Vocalink, which we developed through the year and includes performance, operations, change and service planning. This structure includes a new Joint Executive Committee and sub committees. These are part of our governance structure, and updates are provided to the Board Risk Committee.

Regulatory engagement

We have continued our strong engagement with both of our primary regulators and HMT this year. This has enabled us to make sound progress across our strategic priorities that you will see set out in this report.

The Bank of England's FMID oversees our robust and resilient operation of Bacs and Faster Payments as part of its wider remit to improve the stability of payment systems and the wider financial system.

The PSR promotes competition and innovation in our systems to ensure that we operate and develop them in the interests of the people and businesses that use them.

It has been vital that we engage with both FMID and the PSR in an open and transparent way that enables us to support each other on our respective objectives. I thank HMT, FMID and the PSR for the ongoing support and counsel that they provide to us.

Industry engagement

Whilst Pay.UK is independent, operates with impartiality and an accountability to our Guarantors, it has always been vital that we engage well with our stakeholders and that we listen to the industry and to our end users. Our advisory councils, Industry Advisory Council (IAC) and the End User Advisory Council (EUAC) have been helpful in the counsel that they give us.

We have engaged with our customers across operational and working groups throughout the year. This collaboration is valuable, and we need to continue to collaborate in the coming year. I extend my thanks to senior peers who have attended the Strategic Participant Group (SPG), Customer Engagement Forum (CEF), Chief Technology Officer Forum and the PIRF in 2023.

Organisation and people

We can only deliver on our strategic priorities with the effort and attainment of our colleagues. This has remained unswerving in 2023. Their engagement is shown in the pleasing scores that we received in the 2023 Colleague Engagement Survey. We achieved an 83% overall engagement score, which is +1 above the 2022 score. The response rate was 85%, which is well above industry averages. We reached the 'Financial Services Norm' for the first time, and we have maintained above the Industry Norm. I am heartened by these results, which compare to the UK benchmarks where we see engagement scores falling. We are action planning for 2024.

We have progressed our inclusion agenda as we want to attract and retain the very best talent. Our Board and colleagues have been through our unconscious bias training 'In My Shoes' and we are taking forward our 'Women in Leadership' programme to develop female talent in senior roles. We have created a number of support groups ranging from those for new and expectant parents, to neurodiversity, disability and menopause.

We have made a number of excellent appointments to our Board and Executive Committee. It has been good to work with Helen Crooks and Ajay Vij as our new independent Non-Executive Directors bringing valuable expertise to our discussions. I was also pleased to welcome Michael Ellis, CFO as the second Executive Director to the Board. Finally, I thank David McPhee, who was appointed to our Executive team as CPEO building on his excellent work with our regulators to lead a joined up regulatory, policy and communications function in an important year ahead.

Looking ahead

In an evolving world, we had a solid and effective 2023. We have further embedded our strategic roadmap and delivered on our strategic priorities. We are actively engaged in many of the important discussions in payments – what the future world of payments should look like and how we will tackle the enduring problem of fraud. We are in for a busy year in a continued challenging environment, but the opportunity to make a real difference and drive for a better UK payments landscape is one that we will grab with both hands in collaboration with our colleagues, customers, regulators and industry.



David Pitt
Chief Executive Officer

22 May 2024

External environment

We exist in a fast-paced and constantly evolving industry. Customer demand, socio-economic trends and technological advancements have driven innovation within the payments space, giving rise to a plethora of new ways to pay.

End users have benefited immeasurably from modern digital payment methods. However, increasing demands for even faster, more convenient and more secure ways to pay that can mitigate current and future payment issues, such as fraud, continue to shape our work.

Payment methods across the value chain are constantly developing to cater to the requirements of individuals, businesses and organisations. Pressing demands of present and future use cases, advancing technological capabilities, and broader socio-economic trends influence the adoption and utilisation of both new and existing products.

Keeping end users’ needs at the core of payments

As the payments landscape evolves and new solutions and capabilities emerge, it is crucial for us that the needs of our end users remain a priority in everything we do. We strive to maintain a comprehensive understanding of what motivates consumers and businesses when making and/or receiving payments via our National Payments Tracker surveys. These underpin the development of our end user personas and the needs of nationally representative samples of UK consumers and Small and Medium-Sized Enterprises (SME) businesses.

At the end of 2023, the HMT published its Future of Payments Review, recommending the development of an NPV, and recognising that end users’ needs remain at the heart of the payments industry. We strongly advocate this viewpoint and continue to work closely with HMT and our regulators to understand what the NPV means for us and key aspects of our work.

We are further strengthening our understanding of our end users by continuing to engage with key end user organisations and making use of the expertise of our EUAC.

An infrastructure that faces the future

The rapid pace of technological change indicates that a shift in the payments’ ecosystem may be occurring, requiring innovative tools which enhances global trade to create the “network of the future”.

The foundation of global trade (and geopolitics) lies in interoperability, made possible by the harmonisation of standards and systems. This provides a significant opportunity for global commercial networks, such as the Society for Worldwide Interbank Financial Telecommunication (SWIFT), the multinational banks, the card networks, digital currencies and, not least, Big Tech firms, to enter the global trade market. In support of this, global financial institutions, who are under pressure from challenger banks, now consider the transfer of tokens and digital currencies between e-wallets, and fast and secure access to global networks, as the key to innovation and competition.

Much that can be done in the near-term before Real-Time Gross Settlement (RTGS) systems and commercial bank accounts can be considered as becoming obsolete. The development of a robust and resilient approach to the concept of payment tokenisation at system level will need careful consideration from central banks worldwide, and will potentially lead to the transformation in the responsibilities of the systemic risk manager. National instant payment systems that provide universal, secure, end-to-end reach across commercial bank accounts, are also likely to receive recognition of their ongoing systemic significance to global and geopolitical trade, in order to deliver national benefits. The importance of investing in infrastructure that caters to the needs of the future, must be kept in mind as the NPV takes shape.

Central Bank Digital Currency

In early 2023, the Bank of England and HMT published a consultation paper assessing the case for a retail CBDC, or digital pound, in the future in response to a digital economy and the declining use of cash.

Should a decision be taken to introduce a digital pound we would play our part in operationally supporting its introduction and its interoperation with commercial bank money.

Account-to-account retail payments and open banking

2023 was a year of significant international developments in A2A payments. A major new A2A system was introduced in the US, whilst the already established system in Brazil became the most popular payment method, beating cards. Significant progress was also made on the implementation of a new A2A system in the EU, as India attempted to take its highly successful domestic system to the global market. Utilising A2A payments offer a variety of benefits to end users, such as enhanced security, speed and simplicity. We continue to work as part of the Joint Regulatory Oversight Committee (JROC) strategic working group to develop and market test our A2A proposition for the UK. This proposition is directly aligned with the development of next generation infrastructure, facilitated by and in close collaboration with OB.

Industry activity:

Description

Beyond Big Tech, industry activity has focused on amassing interests in the most successful and, in some cases, critical third-party integrators, aggregators, concentrators, orchestrators and Banking as a Service (BaaS) providers.

What this means for Pay.UK

We are aware of the growing payments ecosystem which is bringing innovation e.g. generative AI tools, but also complexity. Whilst innovation is important, Pay.UK has a role to play in managing the risks associated with an expanding ecosystem and innovation.

Fraud:

Description

Financial fraud continues to remain a challenge for UK payments, with APP scams being the largest type of payment fraud. Typically, APP scams occur when individuals are deceived into transferring funds to a fraudster pretending to be a legitimate recipient, with vulnerable individuals a key target.

The Financial Services and Markets Act 2023 placed a statutory obligation on the PSR to introduce a reimbursement requirement for APP scam payments via the FPS, to reimburse victims of FPS APP fraud within five days of the notification of fraudulent activity.

What this means for Pay.UK

Fraud prevention sits at the heart of our strategy to enhance end user trust, attract greater volumes onto our platforms, and reduce costs for our customers.

Working closely with the PSR, UK Finance (UKF) and the wider industry, our fraud programme drives a robust response to fraud that supports the prevention and reimbursement of fraud. Our APP reimbursement activity, which will ensure our PSPs are compliant with FPS reimbursement rules, is a key element of our fraud programme.

Our CoP account namechecking service, which helps reduce misdirected payments, has to date been implemented by over 100 organisations, with more than 1.9 million checks being completed every day. Access to the CoP service will be extended to approximately 400 PSPs by October 2024 which will increase the provision of the service to end users.

Big Tech and AI: a systemic challenge and systemic enabler

Description

The past year has demonstrated the global nature of payments. Highlighted by the increasing influence of Big Tech firms on the wider payments ecosystem.

In 2023, the Financial Conduct Authority (FCA) called for evidence on data asymmetries, to better assess how Big Tech platforms may be strengthening their influence on the UK payments market, due to their exceptional capability to control end user access points, such as mobile operating systems, e-wallets, search engines, and social media platforms.

What this means for Pay.UK

We have improved our understanding of the current and potential impacts of Big Tech firms on the retail payments ecosystem. The publication of the Future of Payments Review and its recommendation to develop an NPV, will provide us with a unique opportunity to consider these potential impacts at a strategic level and propose solutions to mitigate any potential systemic risks.

Our business model

How we operate

Every day billions of pounds of payments move safely and securely through our infrastructure and services.

This means that we have a critical role supporting the UK economy. Our oversight of the technology, rules and standards, plus associated controls and policies, provides a powerful payments platform.

Key resources

Our platform

In 2023, we grew our volumes to an average of £26.2 billion per day (2022: £24.1 billion) continuing to make ours the most heavily used A2A payments platform in the UK.

Our people

The skills, knowledge and experience of our people are collectively a key component of our business. They continue to ensure we deliver a robust and resilient payment platform whilst using their expertise to innovate for the future.

Our stakeholders

A wide variety of organisations and individuals depend on our payments platform. We work closely with our customers, regulators, policymakers and wider ecosystem stakeholders, ensuring we proactively drive change whilst ensuring we adhere to the regulation within which we operate.

Financial capital

Pay.UK holds sufficient capital to cover general and credit risk based on the CPMI-IOSCO Principles for Financial Market Infrastructure (PFMI). Additional retained earnings arise due to timing differences between receipt of income and expenditure, providing funds to invest in our products and services.

Our technology and IT systems

Our internal IT strategy ensures we continue to maintain and enhance our technology and systems to fulfil effectively and efficiently our role and responsibilities.

Payments infrastructure (platform)

Working with our critical payments infrastructure provider Vocalink we oversee the UK's A2A interbank retail payments operations, ensuring that every payment processed is done so safely and securely whilst managing systemic risk.

In 2023, we continued to progress our NPA programme to deliver the next generation of our payments infrastructure. We paused the NPA programme at the end of 2023 following the publication of the HMT Future of Payments Review and central recommendation for the development of a NPV.



Our role

We launched as Pay.UK in 2018, bringing together the three national retail payment systems - Bacs, FPS and ICS – into a single, consolidated, not-for-profit operation. Our primary role is to ensure that payments – salaries, benefits, bills and online banking payments – flow safely and without interruption.

We recognise our responsibility of operational oversight of this national infrastructure, which processed nearly 40 million payments a day in 2023 alone. Our forward-looking approach sees us analyse the payments landscape and take necessary action to remove or reduce systemic risk so that our world-class systems remain secure, robust and resilient. We also work to promote and enhance the capabilities of our systems by driving competition and innovation in the market to improve access and to facilitate the development of new payment methods and technologies.

We strive to be trusted for our research and analysis, and reputed in the common standards we set for the industry. We engage with a variety of industry stakeholders, including PSPs and fintechs, and collaborate with the Bank of England's FMID and the PSR.

We support the Government's strategy in developing the NPV in their vision to simplify the payments landscape, to outline clear priorities for better alignment within the industry. With invaluable insight into the UK's payment landscape, we hope to work closely with the Government in establishing this plan for the future economy, allowing the UK to remain at the forefront of global payments.

Evolving payments

The UK payments ecosystem has undergone revolutionary change in recent decades. Factors including socio-economic trends, technological advancements, and a shifting regulatory landscape with higher public scrutiny have impacted the space, giving rise to a plethora of new ways to pay. While end users have benefitted immeasurably from these modern digital payment methods, there remains ever-increasing demand for even faster, more secure and more convenient ways to pay.

As market leader, we closely monitor the industry in which we operate and anticipate future change. This includes what's happening now, such as the expansion of OB, and upcoming developments, such as CBDC and demand for a viable alternative to cards for retail transactions. Adapting our products and services accordingly, we are able to offer the latest and safest solutions to our customers and end users that are fit for our contemporary and future economies.

Our stakeholders are at the heart of what we do



Value creation for stakeholders

Pay.UK colleagues

We inspire our colleagues, developing an empowering and inclusive culture and focusing on attracting, developing and retaining talent to support the delivery of our service.

Customers

We are focused on increasing customer satisfaction, by proactively responding to the evolving needs of our customers. We closely monitor and track customer satisfaction, understanding evolving end user needs and carrying out continual engagement with our customers. We aim to provide choice in the way our customers connect to our platform.

Regulators

FMID and the PSR are our two primary regulators and we continue to focus on the importance of our relationship with these two authorities. FMID focuses on the robust and resilient operation of Bacs and Faster Payments. The PSR focuses on promoting competition and innovation in our systems.

End users

Our end users benefit by us enhancing ecosystem access and innovation, enabling better use of data for others to innovate on our platform. We are evolving our platform to drive end user focused innovation.

Wider society

We oversee the UK's national retail payment systems: Bacs, including Direct Debit, FPS, and the ICS, the digital way to process cheques. The systems we operate and the services we manage, including the CASS, support the lives of millions of people and businesses, each and every day.

Operators and data

We work proactively with the central infrastructure provider, Vocalink, to continually enhance our platform. We deliver cost-efficient payment services, getting the best value from our suppliers and automating and enhancing processes that drive efficiencies, as well as driving platform value through the use of data.

Our strategy

➤ Read more about our **KPIs** on pages 18 to 19

Our foundation for the future 2021–26

Following the establishment of our five-year strategy in 2021 and the subsequent introduction of our strategic priorities, we have developed a roadmap of activities across these key areas: PSO Performance, Platform Leadership, Product Innovation, Next Generation Infrastructure and Organisational Excellence.

This proactive approach has now put us in an excellent position to deliver key initiatives in 2024, such as the extension of the CoP overlay service to all PSPs, and the development of our Authorised Push Payment reimbursement (APPR) framework to support the reimbursement of victims of APP scams.

Our purpose

To power payments, champion innovation and give the UK choice in how it pays

At the core of our operations lies the commitment to enable greater payment choice for individuals and businesses throughout the UK. Our platform is built upon strong and resilient operations, ensuring secure, efficient and cost-effective payment transactions. We promote competition and foster innovation to develop and implement payments initiatives, such as the strategic objectives targeted for delivery through the NPA, which we expect to be a critical enabler for the UK's NPV.

Our vision

To be the smartest way to move money, now and in the future

As the ever-changing payments landscape continues to present opportunities and challenges, we recognise the continuous need for improvement.

Underpinned by safe and secure operations, our platform is evolving to meet the needs of our end users, customers and regulators, in order to deliver simpler and more cost-effective payment solutions, now and in the future.

Our strategy

Our Key Performance Indicators (KPIs) serve as the primary method by which we evaluate our performance against the objectives we have established, and are directly aligned to our strategy.

The way in which these performance measures link to our strategic priorities may be viewed on pages 18 to 19.



Strategy in action

By continuing to be a strong platform leader, and actively contributing to the development of the payments' ecosystem, we can ensure our sustained growth, and further strengthen our role in the payments market.

Our strategy set against ecosystem context

- 

Complexity

Technology, new business models and new use cases are creating simplicity and better payment experiences for end users e.g. HM Revenue and Customs (HMRC) and OB

We have a role to play in managing the risks associated with an increasingly complex ecosystem
- 

Regulators

FMID focus on our ability to manage deeper into our ecosystem. PSR strategy expects us to deliver against a broader role. PSOs in other countries are increasing their rate of modernisation e.g. Brazil, India
- 

Competition

Significant opportunities to drive volume over our systems e.g. OB, spontaneous payments, Digital Pound

Threats to our existing volumes e.g. Big Tech, Digital Pound
- 

Customers

Want simplicity, lower costs and opportunities to innovate. Our platform needs to attract new customers who want to innovate on our systems
- 

End users

We need to ensure our ecosystem is innovating to meet end user needs and addressing harms e.g. APP fraud

To outpace the fraudsters, we will need to work together, with better collaboration and knowledge sharing. That's why Pay.UK is bringing the payments industry together to share data and resources. This announcement is a UK first and a major step in the right direction, made possible by Pay.UK's convening power at the heart of the payments system.

Pay.UK announced a pioneering collaboration with high street banks and PSPs to tackle fraud. Confirmed in June 2023 in pilot form, the project aimed to create a secure overlay service for banks, utilising predictive intelligence to proactively detect and prevent fraud.

Pay.UK signed contracts with industry partners, including Visa, Synectics Solutions, and Featurespace to test the potential benefits of the service before making a decision on next steps for development. Each partner participating in the pilot received historic Faster Payments transactional data from participating banks and PSPs under a pioneering data-sharing agreement. The selected suppliers will then build AI and machine learning models to identify suspicious activity and compare it to known fraudulent behaviours.

It is planned that the overlay will ultimately be offered to PSPs as a new product to help the fight against fraud, building on the work of CoP, another anti-fraud overlay tool that Pay.UK rolled out successfully in 2020.

Data security was critical to the project and Pay.UK worked closely with banks, PSPs, suppliers and a specialist legal counsel to ensure that all data was processed securely, legitimately and within a strict scope of use. Prior to the Government's decision to consider the NPA as part of the NPV it was intended that this service would be built into the NPA, a revolutionary, once-in-a-generation upgrade to the UK payments system that Pay.UK was developing to bring more choice, speed and security for everyone who sent and received money in the UK.

Looking into 2024:

- We have set up regular engagement forums with customers to develop our anti-fraud deliverables and mandated projects.
- We are developing further commercial information for our customers and the wider ecosystem to prioritise activities which seek to prevent fraud and protect end users.

Our strategy continued

Our strategic priorities



PSO performance

Definition

Our primary responsibility is to effectively manage and maintain the functionality of our payment systems and services, ensuring their resilience, security and dependability. We want our customers, end users and the wider payments community to place their trust in our ability to deliver on this commitment.

A critical element of ensuring the resilience of our services is the management of systemic risk, in a world that poses new and constantly emerging risks.

Why it matters:

We continue to enhance the resilience of our payment systems, and proactively manage systemic risk.

Key outcomes during the year:

- For Bacs and FPS average uptime was 99.9% (2022: 99.9%)
- CASS achieved peak switching of 433,701 in Q4 2023 (Q4 2022: 376,107)
- ISO27001 security certification obtained demonstrating commitment to information security.

Links to KPI

1

3



Platform leadership

Definition

Maintaining our relevance and position in the payments ecosystem is vital that we balance our primary responsibility as a PSO with our role as a platform leader.

We actively participate in market coordination by enhancing access to, and facilitating innovation on, our payment systems. We continue to actively lead discussion on industry-wide matters, such as fraud, and develop payment solutions for the benefit of end users.

Why it matters:

We actively encourage engagement in our systems and play a pivotal role in coordinating the industry on key issues, thereby creating an environment that fosters innovation on our platform.

Key outcomes during the year:

- Established our Fraud Programme to support the industry, delivery is on track
- Submitted our NPA procurement decision for regulatory approval as planned.

Links to KPI

2

4

5



Product innovation

Definition

We drive the progress and provision of products and services in collaboration with the wider payments ecosystem, and actively participate, where necessary. Instances of this include the creation of practical alternatives to card payments for retail transactions, the development of services to detect and prevent fraud, and the utilisation of the unique data we have at our disposal to add value to our products and services.

Why it matters:

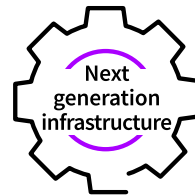
We deliver products designed to meet the needs of our end users.

Key outcomes during the year:

- Established CoP Expansion, Enhanced Fraud Data (EFD) and Fraud overlays, delivery is on track
- Positive regulatory and industry engagement on APP fraud reimbursement
- Continued working with JROC to develop and market test our A2A proposition.

Links to KPI

4



Next generation infrastructure

Definition

Our next generation infrastructure strategic priority comprises the current payments infrastructure and NPA, underpinned by rules and standards, data, and a commercial model. Together, these will allow us to continue to maintain a robust, resilient and scalable platform.

The NPA will also enable greater innovation and competition on our platform, leveraging the unique place we occupy in the payments ecosystem.

Why it matters:

We expect these components to be critical enablers for the UK's NPV.

Key outcomes during the year:

- Supported customer onboarding and change activities to enable access and ongoing use of our payment systems
- Delivered NPA non-object submission
- Completed a risk review of our ecosystem Rules and Standards.

Links to KPI

1

2

4



Organisational excellence

Definition

In order to deliver on each of our strategic priorities, and respond to the continued evolution of payments in the UK, we must ensure that we have the right people, capabilities and technology across the business. In response to this, we are committed to further developing our skills for the future and will continue to invest in new capability in the areas of risk, fraud and technology.

Why it matters:

Organisational excellence, in the form of our people, processes and tools, is another crucial enabler of our strategy.

Key outcomes during the year:

- Continued delivery of our IT strategy to improve business processes
- Developed Pay.UK's Environmental, Social and Governance (ESG) strategy and commitments
- Strategic roadmap and priorities agreed.

Links to KPI

2

6

Looking ahead

With a steady focus on our vision, we are now well placed to execute the 2024 activities set out in our roadmap. These will be delivered in line with our five strategic priorities, and will include the delivery of a number of regulatory initiatives under our fraud programme.

To do this effectively, we will continue to work with members of the payments ecosystem to ensure that our roadmap supports the needs of our customers, end users and regulators.

We will continue to assess the value of combined Faster Payment transaction data to improve fraud detection outcomes, and lay the foundations for the development of fraud overlay services.

We anticipate that this collaboration will also help us understand how we can support the development of the UK's NPV.



Key

1

Drive enduring resilience

2

Deliver value

3

Strengthen safety and security

4

Enhance access and innovation

5

Increase customer satisfaction

6

Inspire our colleagues

Key

1

Drive enduring resilience

2

Deliver value

3

Strengthen safety and security

4

Enhance access and innovation

5

Increase customer satisfaction

6

Inspire our colleagues

16

Pay.UK Annual Report and Financial Statements 2023

17

Key performance indicators

We continued to build on our vision and purpose in 2023, defining five strategic priorities which act as the foundation for building and developing our strategic roadmap.

We assessed our performance and tracked progress in delivering these priorities. We identified six measurable KPIs which we report against in 2023. These KPIs, and how we performed against them, are outlined below.

Our strategic KPIs

Our priorities drive benefits for end users and the economy, and current and future customers.

Drive enduring resilience

Maintaining the robustness and resilience of our core payment systems for the UK economy

What we measure:

- The performance and uptime of our payment systems
- How we track and manage incidents.

How we performed:

- Performance across our three core payment systems evidenced our commitment to drive enduring resilience with average uptime across Bacs, FPS, and ICS measured at 99.99% throughout 2023
- Control improvements in managing our key supplier delivered a substantial reduction in the number of incidents across our three core payment systems in 2023 (down 40% on the previous year). All incidents were addressed in a timely manner and there was no delay to payments or impacted end users
- Enhancements to our supplier management framework and processes strengthened oversight of our infrastructure provider in 2023 in preparation for compliance with the Bank of England's policy on outsourcing and TPRM
- We coordinated operational resilience exercises with our customers and suppliers to ensure we deliver our essential services in the event of disruption.

Looking to 2024

- Initiatives will be undertaken to further strengthen the resilience of our core payment services.

Links to strategy



Deliver value

Driving growth to increase value for our customers

What we measure:

- The total volumes across our platforms
- The effectiveness of our budget control.

How we performed:

- The trend of strong FPS growth continued in 2023 with a 14.3% increase in the volume of payments processed on last year, evidencing the continued demand for near real-time payments
- We saw modest growth (1.4%) in combined Bacs Direct Debit and Direct Credit volumes in 2023

Looking to 2024

- We will ensure we operate within business targets and to our agreed budget for 2024
- The decline in cheque volumes processed by the ICS service continued into 2023. Working with customers we will review the future of the service with a view to reducing operating costs for this declining product
- We will deliver a number of initiatives in 2024 to provide additional value to our customers, particularly around our fraud programme to more effectively minimise fraud across our platform.

Links to strategy



Strengthen safety and security

Identify and mitigate systemic risk across our platform and help reduce fraud

What we measure:

- Fraud rates across our platform
- The development of our risk management and culture.

How we performed:

- We continued to focus on supporting the industry in the fight against fraud by tracking the value of fraudulent payments processed by our three core payment systems
- We made progress with our fraud initiatives and are now positioned to expand our COP service to all PSPs in 2024 and to provide key components of the reimbursement framework for victims of APP scams. We developed a POC to explore the benefit of fraud overlay services
- We took steps to strengthen our risk management framework and processes and moved towards our target risk maturity level.

Looking to 2024

- We obtained the results of our fraud POC, which concluded in the first quarter of 2024, helping us assess the industry benefit of this potential service
- We will support the initiative to refund victims of APP reimbursement delivering key components of the APP reimbursement framework in 2024
- We are well placed to achieve our level 4 risk maturity target by the end of 2024.

Links to strategy



Enhance access and innovation

Responding to the changing payments ecosystem and making our systems and services available to a wider group of customers

What we measure:

- The number of new customers across our services
- Progress of the delivery of the NPA to plan and budget.

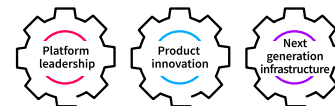
How we performed:

- We continued to promote access to our services and onboarded three new customers across our three core payment systems in 2023. We also saw an increase of customers using the Cash ISA Transfer and CASS.

Looking to 2024

- We will continue to work with our customers and key stakeholders to build consensus around the future of our Bacs Direct Debit and Direct Credit services, noting the critical role these play for UK business and in the lives of end users
- We will work closely with the industry to support the creation of the NPV for the UK and understand how the NPA can support the realisation of that vision
- We will support the Bank of England's RTGS upgrade in 2024 and ensure our settlement processes align with the new system.

Links to strategy



Increase customer satisfaction

Actively engage with our customers to understand their evolving needs

What we measure:

- What customers think of us, how we deliver our services and change agenda and how we execute our communications and engagement via capturing feedback, measuring sentiment from direct engagement and stakeholder surveys.

How we performed:

- We have established a new stakeholder engagement team to drive improvements in stakeholder engagement across Pay.UK
- The improvements take into consideration the needs of our stakeholders and ensures their views are considered in planning and prioritising future initiatives to support delivery against our strategic priorities
- We have refocused the priorities of our senior customer forums and advisory councils and are taking steps to ensure an improved dialogue between these groups and the Pay.UK Board.

Looking to 2024

- Enhancing our stakeholder engagement to support our decision making and delivery to improve customer satisfaction
- Focusing on improving strategic alignment by sharing our change roadmap with our customers
- Sharing our ongoing service user involvement in our decision making through the General Direction 4 (GD4) report (October 2024).

Links to strategy



Inspire our colleagues

Building and developing on our colleague engagement

What we measure:

- How engaged our colleagues feel
- Progress of colleague engagement focused initiatives.

How we performed:

- We delivered against all our colleague led action plans throughout 2023, and implemented new initiatives, including improved business strategy updates and long service recognition
- The overall engagement score increased by 1 point in 2023 (from 82 to 83) placing Pay.UK above industry norms for the second consecutive year and above financial services norms for the first time
- We achieved an overall response rate from our colleagues of 85% to the colleague engagement survey, which remains above the industry average.

Looking to 2024

- We will continue to focus on colleague engagement and have set ourselves a target to maintain an overall engagement score in line with industry average
- We will deliver on our colleague engagement action plans to ensure we address the feedback received in the 2023 survey
- We will implement a colleague forum to enable better exchange of information and representation of the employee voice across the organisation
- For more information on colleague engagement please see pages 44 - 49.

Links to strategy



Our performance

Introduction

In 2023, we performed well as a PSO continuing to deliver the expertise that is integral to the robust and resilient operation of our interbank retail payment systems.

Operational availability was measured at 99.9% (2022: 99.9%) and we saw volumes increase to 11.4 billion (2022: 10.8 billion). The total value of these transactions showed a year-on-year increase, from £8.8 trillion in 2022 to £9.3 trillion in 2023.

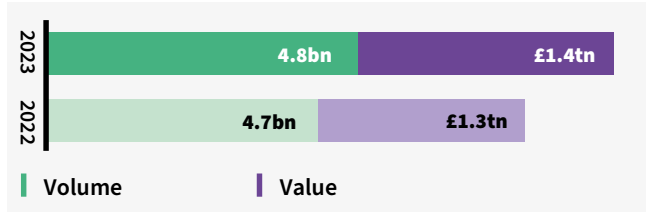
Payment systems and services

Bacs Payment System

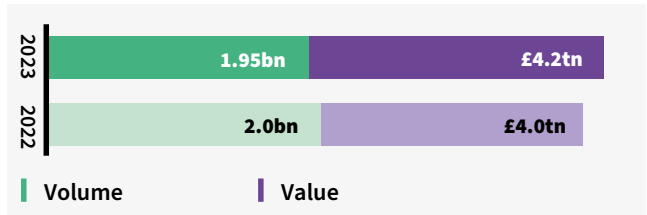
Our automated payment methods, Direct Debit and Direct Credit, are at the centre of the Bacs Payment System, along with managed services for the Cash ISA Transfer Service and the CASS.

Direct Debit continues to grow in volume, whilst Direct Credit volumes have reduced by 1.1% compared to 2022. There are a number of factors that have contributed to this decrease, such as the reduction of additional government payments, consolidation of benefit payments and the cost of living.

This graph shows the volume and value increase of Direct Debits.



This graph shows the value increase of Direct Credits.



Bacs Payment System strategy

This year, we launched a forward-thinking initiative to understand how the existing operation and delivery of our Bacs Payment System products and services could be adapted, in order to meet the future needs of our customers, end users and the payments ecosystem. To this end, we embraced new approaches to stakeholder engagement, and collaborated with our customers and the wider industry to understand how Bacs Payment System products and services can respond to their needs, now and in the future.

We plan to continue this collaboration with the industry in 2024, to provide us with further clarity and intelligence, with a focus on the future payments needs of our end users and a small number of non-customers.

Bacs Payment System record for 2023

The annual Bacs Payment System transactions was 6.78 billion covering both Direct Debit and Direct Credit. This was a new annual record for the system which reflected a year-on-year growth of +1.39% (an increase of 93 million transactions).

This was a new record for annual transactions, the highest ever month to date remains December 2022.

The growth in the Bacs Payment System is driven by the Direct Debit product, which saw a year-on-year increase of 2.5% (115.6 million transactions).

The growth in Direct Debit transactions comes from a variety of sectors:

- Utility bill payments using Direct Debit increased by 5 million
- Subscription payments using Direct Debit increased by 17 million
- The payment of insurance premiums using Direct Debit rose by 17 million.

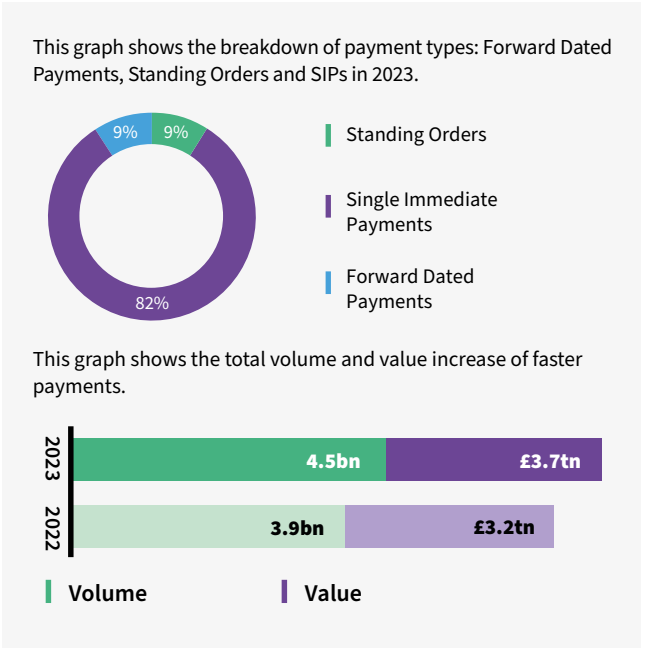
Faster Payment System

The overall volumes of Standing Orders have remained unchanged since 2021, with approximately 33 million transactions processed each month. In 2023, Standing Order volumes were 394 million (2022: 394 million). There has been an 8% decrease in Forward Dated Payments compared to last year, resulting in a total of 408 million transactions (2022: 446 million).

We continue to see strong growth in Single Immediate Payments (SIPs) (typically those made online and via mobile banking channels), which increased by 19% compared to the previous year, resulting in 3.7 billion payments being made in 2023 (2022: 3.1 billion).

A total of 45 customers have directly connected to the FPS (2022: 42 directly connected customers), having welcomed three new customers in 2023 (2022: four new joiners). SumUp joined in June 2023, with Adyen and HBL Bank UK joining in the November 2023.

We plan to onboard additional customers in 2024, and will continue to work closely with the Bank of England's RTGS renewal programme (RT2), to ensure effective onboarding for prospective customers looking to join the FPS.



Faster Payment System record for 2023

In 2023, the FPS processed a total annual transaction volume of 4.5 billion (2022: 3.9 billion), which is an annual record. The year-on-year growth from 2022 was 14.3% (an increase of 564 million in annual transaction volume).

Furthermore, in October 2023, there were 408 million FPS transactions, which exceeded the 400 million volume mark for the first time, and broke the monthly transaction volume record.

The growth in the FPS is driven by its SIP product. SIP is the highest growth product across all of our payment products, and this year, we witnessed a year-on-year increase of 19% for SIP transactions.

Other FPS products delivered a reduced year-on-year growth rate. Long-term forecast predicts SIP to overtake Direct Debit as our highest monthly volume payment product, by the end of 2025.

Image Clearing System

In collaboration with our customers we commenced a strategic review of the ICS, and will continue this work during 2024, to focus on the future of the service, including with a view to reducing operating costs.

The decline for the year in cheque volumes followed the general trend, which resulted in the end of year total number of cheque processed being 112 million, evidencing the continued decline in cheque usage.

The value threshold for mobile cheque deposits is at the discretion of our customers offering this remote deposit service, as there is no Pay.UK system limit. The changing method of paying in cheques is highlighted by the slight reduction in over the counter collection, with an increase in Remote Deposit Capture (RDC) methods.

At the end of 2023, the ICS retained a total of 20 settlement customers.

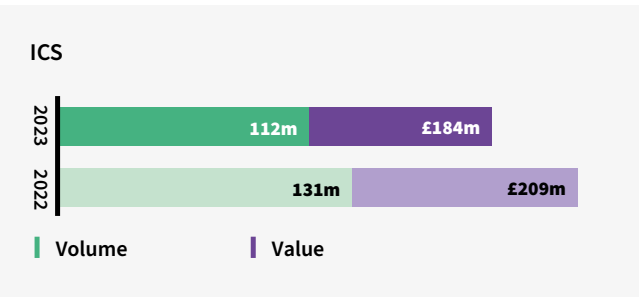


Image Clearing System strategy

With consideration to the anticipated year-on-year decline in the use of cheques, our ICS customers requested that we undertake a strategic review of the ICS with a view to reducing operating costs.

This strategic piece of work has commenced, and we are collaborating with customers on potential options on the future of the ICS, and will continue to do so throughout 2024. We have also been leading an industry data analysis workstream, looking at cheque and credit use cases, end user segmentation, and the course of volumes in the long term, to better inform strategic decision making. The outputs of this work will support the future options for the ICS.

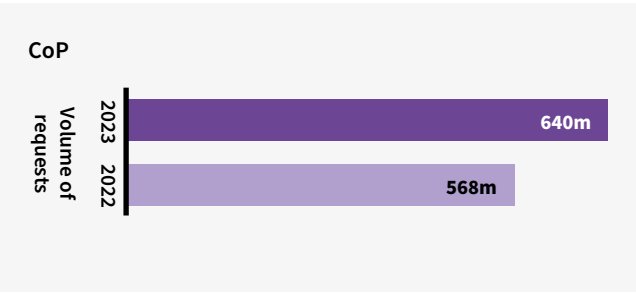
Confirmation of Payee

CoP is our award-winning, name-checking overlay service for UK-based payments, and is designed to help ensure payments are made to the correct account in the first instance and to reduce certain types of push payment fraud. It gives payers greater assurance that their payments are being sent to the intended recipient and not accidentally or deliberately misdirected.

Since its launch in 2020, CoP has become a utility service which customers expect to see when making an initial payment to a new account. More than 100 organisations have implemented CoP, with over 1.8 million CoP checks completed, every day.

Recognising its importance as an anti-fraud tool and the value of its offering, the PSR issued Specific Direction 17 (SD17), in October 2022, which finalised plans to formally direct around 400 PSPs to implement CoP by October 2024.

We have already onboarded 30 organisations, who were mandated to implement CoP by October 2023.



Introduction of Payer Name Verification and changes to Confirmation of Payee rules and standards

As part of the CoP service, we introduced Payer Name Verification in June 2023. This enables payers to check the name of an account prior to setting up a Bacs Direct Debit. This development has extended the use of CoP and this also helps to reduce Direct Debit fraud when setting up a new Direct Debit Instruction (DDI), and lowers the risk of Direct Debit indemnity claims.

In 2023, we implemented changes to the CoP rules and standards and will introduce new onboarding requirements in 2024. This will allow technical solution providers to participate directly in an aggregation capacity, supporting organisations to implement the service by October 2024, as part of the PSR's SD17.

To enable these organisations to participate in the service, we will further implement our own directory, which will support CoP, and future proof other product developments. Until implementation in mid-2024, we will continue to provide operational and technical improvements to our current processes for the whole CoP community.

Our performance continued

Request to Pay

Request to Pay (RtP) is a standard messaging service that gives billers the ability to request a payment rather than sending an invoice. The service also gives end users different payment options (payment in full, in part, ask for more time, communicate with the biller, or decline to pay) without changing their legal obligations. As a result, RtP can be particularly beneficial to those end users who are considered financially vulnerable. These benefits of these flexible payment options are being increasingly recognised across the wider payments community.

Technical service providers and PSPs are now part of the RtP ecosystem and we continue to work in consultation with consumers, banks, fintechs and utility companies on changes to the service, to encourage more customers to utilise the service.

Request to Pay proposition changes

In 2023, following engagement with our advisory council EUAC, we commissioned research which was conducted by a third-party. Together with engagement with our customers, the proposition was revised to include the following changes:

- Amending the optionality for billers (three of the five options are now non-mandatory)
- Allowing non-regulated organisations to become a repository provider.

We continue to engage with our customers, and the wider ecosystem. Currently, our focus is on raising awareness of the RtP service amongst our stakeholders, and planning for the implementation of a POC.

For more information about customer engagement please see pages 44 - 49.

Current Account Switch Service

CASS 10-year anniversary and record year for switches

The CASS delivered a robust performance in 2023, reaching record-breaking switching volumes and exceeding KPIs¹, while continuing to satisfy regulatory objectives.

In September 2023, the CASS celebrated its 10-year anniversary, proudly serving 53 participating brands (2022: 48 participating brands), covering 99% of the market (2022: 99%).

Consumers and businesses switched more than 1.4 million current accounts in 2023 (2022: over 986,000), taking the total number of switches to 10.2 million. By comparison, the previous 12 months (1 January 2022 to 31 December 2022) saw 986,956 switches, marking a 48% increase. The service has also successfully redirected more than 145 million payments since inception in September 2013.

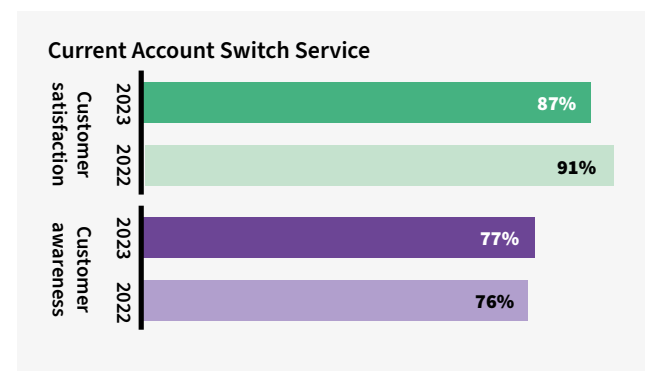
In Q4 2023, service switching numbers continued to increase with as many as 433,701 account switches (Q4 2022: 376,107), the highest level ever recorded. November was also the most popular month for switching accounts setting a service record with 162,637 switches. The service also achieved both its customer awareness KPIs and its seven-day switch completion rate.

Overall customer awareness of the CASS in 2023 increased to 77% (2022: 76%), and 99.4% of all switches were completed within seven days (2022: 98.6%). These outcomes are higher than the CASS KPI target of 75% and 99%, respectively.

¹ KPIs set by the CMA

Two large scale advertising campaigns were run in 2023, with both exceeding the 90%+ reach target (2022: 90%+). The marketing approach focused on raising awareness of the service amongst the adult population, using tailored messaging to target specific demographics, such as the 18-24 year-old population, SMEs and financially vulnerable people.

For the seventh consecutive year, the PSR confirmed that the CASS continued to meet the criteria for designation as an alternative switching scheme. The service continues to deliver against the Competition and Markets Authority (CMA) undertakings set in 2016 and is supervised by HMT.

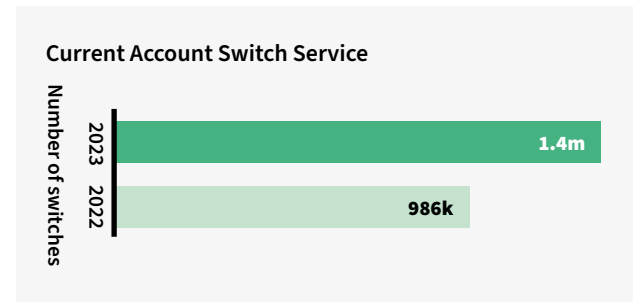
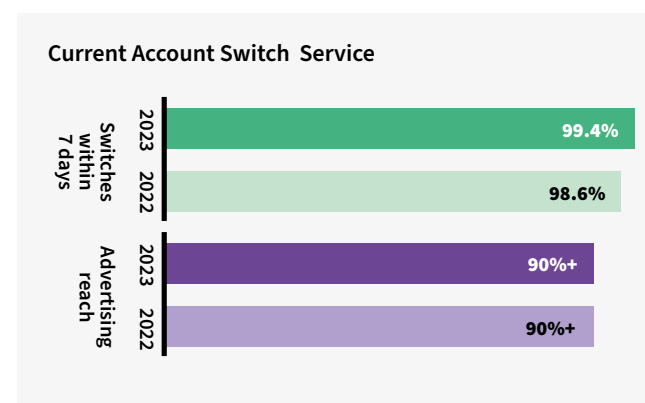


This year we saw a small dip in customers satisfaction. To resolve this we undertook some detailed research to understand the reasons behind these results. Previous Pay.UK research has revealed that customers' satisfaction with the service is influenced by their whole experience of the switching journey. This includes key elements which are outside the direct control of the switching service. This year, we developed our research methodology to help us understand in more detail satisfaction levels at the four stages of the end-to-end current account journey.

These are a) account search and selection; b) account application; c) account opening and activation; and d) the process of switching. In this understanding of the journey, only the last stage is within the control of the service.

When considering the other stages, it appears that the search and selection stage has been an area of frustration with consistently lower levels of satisfaction.

We shall continue to consider what we can do to influence improvements in users' overall switching experience.



Cash ISA transfer service

The Cash ISA transfer service automates the communication between two financial organisations (new and old) involved in a Cash ISA transfer.

In total 83 participating brands (2022: 77 brands) use the electronic Cash ISA transfer service, covering 90% of ISA transfer volume across the payments industry (2022: 93%).

Consumers transferred over 669,000 ISAs in 2023 (2022: 555,000), taking the total number of transfers to just over 6.7 million (2022: just over 6 million) since the service launched in October 2012.

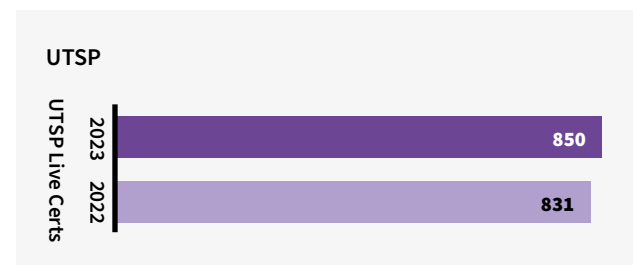
The service continues to perform strongly against the 15 working day industry Service Level Agreement (SLA), achieving an average completion time of 6.5 days (2022: 6 days).

Universal Trust Service Provider Limited (Public Key Infrastructure Trust service)

Universal Trust Service Provider (UTSP) provides cost-effective Public Key Infrastructure (PKI) services to UK banks and financial institutions interested in joining the FPS and the Bacs Payment System. These services include the provision of a comprehensive framework of rules and policies that enable digital certification and encryption.

In 2023, there was a 2.29% year-on-year increase in the number of certificates.

Since its implementation UTSP has successfully facilitated secure access to the central infrastructure for 28 customers and continued to provide certificates to our overlay services, such as RtP.



APP fraud reimbursement

In 2023, the PSR announced the introduction of a new reimbursement requirement for APP fraud, issuing its final policy statement on reimbursement requirements in December 2023.

The new requirement, which will come into effect in October 2024, which aims to maintain consistent minimum standards to compensate victims of APP fraud within FPS. To meet this regulatory obligation, we aim to combine APP reimbursement rules with our FPS rules, whilst monitoring compliance of all in-scope PSPs, as part of the implementation.

We also aim to build a new directory, to enable the delivery of the CoP and the Enhanced Fraud Data Application Programming Interface (API) service. The directory will be made available to PSPs, and will enable sending and receiving banks to share data attributes to help them identify high risk payments.

We have also been working with three leading fraud prevention suppliers, who have been building tailored models for the Fraud Prevention POC. The POC trial concluded in March 2024, and the next stage is to design the live service.

Implementation of RT2

In 2023, the Bank of England announced the renewal of its RTGS service (RT2), which was scheduled to go operational in Summer 2024. To achieve this, the Bank of England will change the standards used for settlement messaging, to and from its RTGS service, and will alter access to the tools that support it. These tools include the Bacs Payment System, the FPS and the ICS, to which we are required to make a mandatory change, to accommodate RT2.

A technical change to our messaging capability is also required to support our settlements, which will migrate from non-payment messages (such as MT298) to the required ISO 20022 equivalent format.

Alongside all Bank of England account holders, in 2024, we will migrate from the current Enquiry Link Browse (ELB) interface to the new Bank of England Real Time Interface (BERTI).

The BERTI delivers additional functionality for payments operations and allows the completion of both manual and failed payments, in order to settle scenarios without the support of the Bank of England. This approach moves towards a self-serve model, whilst retaining the cap management model we have today, but with extended operating hours of 22/7. These extended operating hours will allow Bank of England participants, via our Payments Operations team, to manage all of their accounts, including their Prefunding Accounts (PFA) via BERTI 22 hours a day, 7 days a week. This will remove the need for the current out-of-hours processes.

New payments architecture

What is the New Payments Architecture?

The NPA seeks to upgrade to the UK’s payment system. Enhancing the capabilities of the system will unlock substantial benefits for our customers, end users, and the UK economy. These include enhanced security, reduced costs, and new market opportunities for the financial services sector through facilitating the creation of new payment products and services.

Next-generation infrastructure

Central to our strategic vision to be the smartest way to move money, now and in the future, has been our activity in developing a next generation infrastructure. This work ensures our systems are underpinned by the right infrastructure, rules and standards and commercial models. We are developing our platform whilst contributing to the NPV, in order to achieve these strategic objectives.

The NPA is a programme to upgrade the UK’s payment system, creating an innovative platform that can accommodate future demand in an evolving payments landscape.

The NPV meanwhile, is as a result of the Future of Payments Review, led by Joe Garner. His report recognised that whilst there are multiple positive initiatives in payments, they would benefit from being developed under a joined-up vision for payments in the UK.

Our strategic objectives

With support and input from our customers we defined six strategic objectives for the NPA programme to measure success and to guide the ultimate design of the platform and its products, propositions and services.

1 A robust, resilient and scalable payments platform New technology can further enhance our resilience and help manage systemic risk across a changing ecosystem. The evolution of payments, especially the rising volumes and frequency of smaller value payments, directs our focus to solutions that offer greater scalability.	2 Adoption of the ISO 20022 messaging standard ISO 20022 is an open and global standard for payments messaging. It creates a common language and model for payments data across the globe. This will enable new capability for example, tracking and tracing payments, which will support the development of new services for end user benefit.
3 Development of a real-time payment capability This will create more choice for those who make and receive payments by supporting, for example, real-time consumer-to-business payments.	4 Lower barriers to entry The next generation payment platform will deliver more connectivity options for customers, an automated and single settlement account model, and an on demand testing environment. The platform will not only reduce barriers to entry, but will also make enhancements and future developments quicker and simpler.
5 A safe and secure environment for all users We will replace our current identity management solution and provide enhanced connectivity options. We will also ensure the new platform is equipped to support customers in combatting fraud and financial crime.	6 Efficiencies will benefit customers and end users The next generation platform will enable operational efficiencies and cost savings.

The objectives set out above are aligned to the targets and outcomes our regulators set.

Achievements in 2023

Following the significant progress made on the programme in 2022, we sustained momentum into 2023. We concluded our robust regulatory, business development, and vendor procurement processes early in the year and subsequently secured approval from our Board to submit the Vendor Contract Non-Objection to our regulators in April. As we awaited the outcome of our submission, the programme continued to progress at pace. To maintain momentum we hit various milestones including the launch of the first phase of the testing strategy for adopting ISO 20022 messaging standards, Self Validation Testing (SVT), and the finalisation of the industry migration plan.

We further engaged in routine activity to keep the industry up to date with these latest developments and next steps of the programme. Notably, this was achieved through our customer industry stakeholder groups and through external speaking events at both a national and international level. We continued to host our ‘Getting to Know’ webinar series to share knowledge on key aspects of the programme, including SVT, settlements, and migration, and we released further iterations of documentation to support customer readiness of the robust, resilient and scalable payments system. These included the Customer Technical Specification, Messaging Standards and an Industry Migration plan to ensure customers had the appropriate level of detail required to mobilise their internal programmes to support the NPA.

More information on how we have engaged the industry is available within the ‘Stakeholder Engagement’ section on pages 37 - 40.

Having secured regulatory approval from the PSR in July, our activity then focused on our continued engagement with customers and working towards securing the financial commitment of customers in signing the contract to fund the NPA. To this end, we made significant progress negotiating a contract that had acceptable terms for both us and our customers and developed a prospectus to provide valuable background information for our customers in support of the contracts.

At the time of writing, the procurement process is paused awaiting further regulatory approval. Given the delays to the NPA following the Government’s decision to consider it as part of its NPV, we cannot currently make further progress on the NPA and therefore reduced the shape and size of the programme, heading into 2024.

Activity into 2024

Published in late 2023, the Government’s Future of Payments Review, led by Joe Garner, recommended the development of a NPVS to simplify the payments landscape. The vision and strategy will dictate high-level outcomes on relative priorities, so regulators and the industry can become more aligned in their delivery.

This presents us with a unique opportunity to leverage our role as a Payment System Operator (PSO) to contribute and influence the development of this strategy for the benefit of our stakeholders, customers and end users, in line with the goals that we share with the Government and our regulators. To this end, the achievements on the NPA to date have afforded us the opportunity to acutely understand our customers, the wider industry and the future payments landscape. We will use this knowledge and understanding to effectively contribute to, and influence, the NPV.

In addition, reflecting that FPS will now be operational for longer than originally expected, the PSR requested that we provide it with information that it will use to inform its approach to investment in the current FPS system. Further information is available on the PSR website (www.psr.org.uk). A similar, and parallel, request was also made by FMID. We expect this information to be provided to our regulators by the end of June 2024.



Finance review



Revenue increased by 12% to £173.7 million in 2023 (2022: £154.5 million) as transaction volumes grew in Faster Payments by 14.3% and Bacs by 1.4%. This volume growth allowed us to reduce the per transaction cost to our customers of our core services.

Michael Ellis
Chief Financial Officer

Revenue is principally derived from per-transaction charges for the payment systems we operate with small incremental revenue streams from ancillary services.

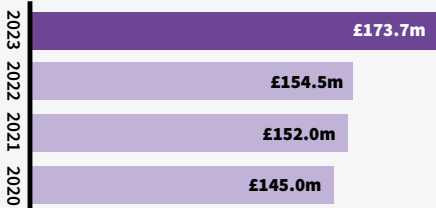
Costs rose by 15% to £176.9 million in the year (2022: £153.9 million). This increase was principally driven by increased investment in the NPA programme, higher central infrastructure costs charged by Vocalink, investment in marketing to support increased CASS activity and investment in people to support the delivery of our strategic priorities. These investments resulted in a loss for the year of £894k which was planned and funded using retained earnings from prior years.

Net assets decreased by 2% to £51.5 million (2022: £52.4 million). Our financial resilience continues to meet the requirements of the CPMI-IOSCO Principles for Financial Market Infrastructure as set out in our viability statement on pages 35 - 36. We ended the year with headroom over capital requirements of £25.5 million, which provides room for further investment in our strategic priorities such as the Next Generation infrastructure and fraud prevention.

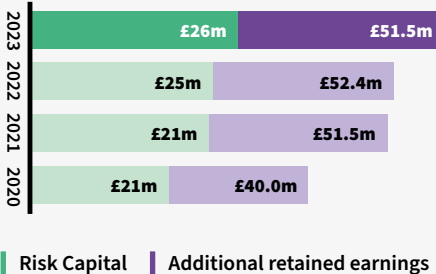
As noted on page 46, this year, we set out our goal of net zero by 2040 with a number of initiatives to achieve the target. Given the nature of the assets and liabilities that we currently hold, we do not consider that these initiatives materially impact the Financial Statements at this time.

Following the Autumn Statement in November 2023 and the publication of 'The Future of Payments Review', we paused work on our NPA programme (see pages 24 - 25) whilst we await the publication of the NPV. We continue to work with HMT and our regulators on the next steps for Pay.UK.

Revenue 2020 to 2023



Capital growth 2020 to 2023



Financial risk management objectives and policies

The Group's activities expose it to financial risks. This exposure is limited and therefore not managed using derivatives.

Capital risk management

Our Minimum Capital Requirement is determined under CPMI-IOSCO Principles and is reviewed annually at the beginning of each year. We are required to hold sufficient capital to cover six months of operating expenses, in the form of high-quality liquid assets, to absorb significant financial shocks, whilst continuing to deliver uninterrupted critical payment services. We reviewed the capital position early in 2024 and increased our risk capital to £27 million (2022: £26 million) and our additional retained earnings to £7 million (2022: £6 million) giving us total capital reserves of £34 million (2022: £32 million).

Credit risk

The Group's principal financial assets are cash held in bank accounts, trade and other receivables, and debt securities. The Group's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables. An allowance for impairment is made where there is an identified loss event, which, based on previous experience, provides evidence of a reduction in the recoverability of cash flows.

The credit risk on liquid funds is considered to be low as the counterparties are Tier 1 UK banks and the UK Treasury with high credit ratings assigned by international credit-rating agencies.

The Group has no significant concentration of credit risk, with exposure spread over several counterparties.

Liquidity risk

In maintaining liquidity, Pay.UK ensures sufficient funds are available for ongoing projects and future developments. The Company sets pricing for its services annually in advance to ensure the costs to operate those services are recovered and that funding is available to underpin the strategic priorities.

Further details regarding financial risks can be found in Note 21 of the Financial Statements.

Michael Ellis
Chief Financial Officer

22 May 2024

Read more about our [VIABILITY STATEMENT](#) on pages 35 to 36

Risk and compliance

Our risk management framework

As an operator of systemically important payment systems and services that are central to the UK economy, our approach to risk management is fundamentally systemic. This has emerged as a common theme in all of our practices, particularly in the development of policies, the establishment of our rules and standards, the way we interact with our customers, and the ongoing management of our payment systems and managed services.

We manage risks that have the potential to impact both our central infrastructure and the broader ecosystem of our customers. Disruption in both of these spheres could impact the ability of end users to make and receive payments, and potentially affect the financial stability of the UK economy.

To achieve our strategic objectives, we operate a clearly defined risk management process to identify, assess and respond to the risks faced by our business. These processes are in line with industry standards and are executed through collaboration and challenge across our three lines of defence.

Risk Management Framework

Risk Appetite

Risk Management Processes

Identification

Risks are identified through risk detection activities.

Analysis

Risks are analysed to understand the likelihood of the risk materialising and the impact of the risk if it does.

Evaluation

Risks are evaluated against Pay.UK's risk appetite and a course of action is agreed.

Treatment

Mitigation actions are agreed and carried out, taking into account the strength of the control environment.

Monitoring and Reporting



Risk appetite

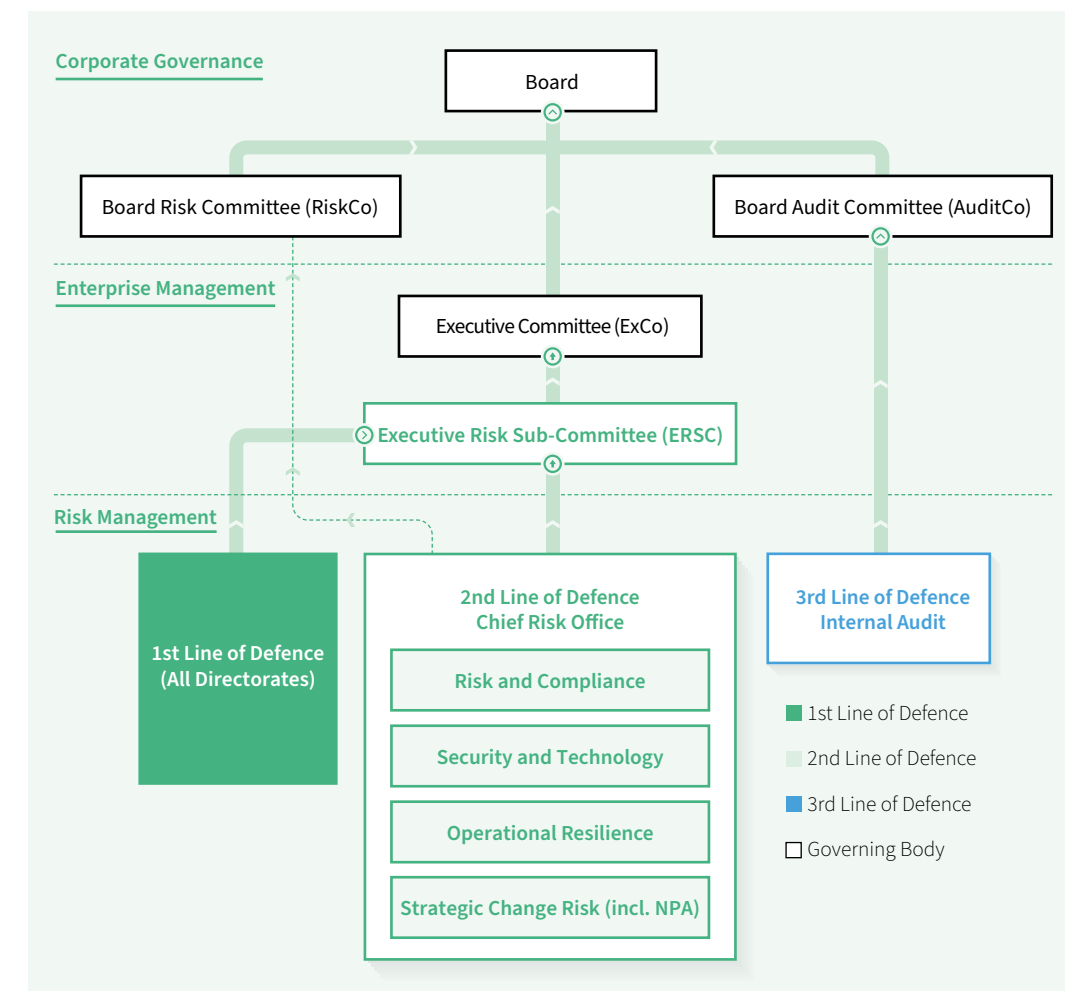
The Board sets our risk appetite across our risk categories, supported by established qualitative risk appetite statements and corresponding quantitative risk appetite metrics, to reflect our role as a systemic risk manager. Our aim is to evaluate the level of risk in relation to our risk appetite, enabling us to direct our mitigation efforts, effectively. The Board and Risk Committee review the principal risks, alongside the Executive Risk Sub-Committee (ERSC). Our risk management process ensures that any risks outside of our risk appetite are prioritised for mitigation.

Risk appetite statements

We are responsible for the robust and resilient delivery of the UK's interbank payment systems. To effectively achieve this, we diligently monitor the market, and beyond, for new and emerging risks, and proactively work to mitigate systemic risk to the wider payments' ecosystem.

Our priority is to ensure the uninterrupted maintenance of service levels, and this commitment extends to any future service provisions and operational performance of any new platforms, solutions or architecture. To ensure that we maximise the value delivered to our stakeholders, throughout the product development process, we allocate additional capital to facilitate product innovation, generate income, create value, and save costs. To achieve our strategic goals, we have implemented robust and efficient governance and operational controls to effectively manage any strategic risks that may hinder our ability to achieve these goals. We are committed to upholding all regulatory requirements, legislation and/or contractual obligations, and will not tolerate any material breaches. We also strive to identify any potential changes to contracts, regulations, or legislation in order to ensure timely compliance.

As the recognised operator and standards body for the UK's interbank payment systems, it is crucial that we are trusted and respected across the payments industry and the wider ecosystem. We are committed to avoiding any actions that could be perceived by stakeholders as inappropriate, unethical or contradictory to our values.



Risk and compliance continued

Risk culture The Board is committed to fostering a culture that ensures the effective management of risk throughout the entire risk management process. We expect the conduct of our colleagues to meet the highest standards of integrity. Behaviours and attitudes, such as accountability, transparency and awareness, are embedded in our risk governance. Our risk governance process reinforces and facilitates appropriate ownership, escalation and management of existing, and new and emerging, risks.		Risk governance Our overall corporate governance arrangements support our three lines of defence model. This establishes a clear organisational structure and sets out the allocation of responsibilities for risk management, as shown below. We continue to evolve our ERMF, including our approach to systemic risk management. To support this, we invest heavily in expanding our risk management capacity and capability across our first and second lines of defence. This helps to enhance collaboration across the business and improve our reporting to senior committees for more informed decision making.	
1 Payment system availability and integrity			
Our payment systems have inherent availability and integrity risks. These risks are present throughout our payment systems, including critical third parties and our customers, and extend further to our end users. New payment technologies can mitigate existing risks, whilst introducing new ones.		Potential impacts A systemic breakdown in our payment systems could lead to unexpected service interruptions and/or data integrity incidents. This could ultimately lead to payment processing disruption, and could systemically impact our end users, the UK financial sector and the broader economy.	Mitigating actions - We understand our span of control across our payment systems and identify and manage risks in the payments ecosystem - We set standards to control systemic risk and to ensure services operate within the tolerances defined in the relevant rulebooks - We maintain close collaboration with critical third parties (such as Vocalink), customers and other stakeholders in the payment system to manage and oversee systemic risks.
Oversight: Executive team	Change from 2022 	Link to strategic goals - Drive enduring resilience - Strengthen safety and security.	
2 Understanding and meeting regulatory expectations			
As the recognised operator of the UK's interbank retail payment systems, we are regulated by FMID and the PSR and are required to meet their regulatory expectations. FMID's role is to protect and enhance financial stability in the UK. The PSR's role is to ensure the UK benefits from world-leading payment systems by encouraging innovation and competition.		Potential impacts - Failure to meet regulatory expectations and comply with relevant requirements will weaken the confidence of our regulators in our ability to perform as a PSO - A lack of confidence will result in increased regulatory scrutiny, business disruption caused by external investigations/reviews, and strategic changes for Pay.UK - Failure to influence regulatory decisions can lead to unexpected requirements that affect our business.	Mitigating actions - Our dedicated regulatory team is responsible for monitoring, assessing and advising on regulatory developments and confidence. The team provides regular updates to the Executive team and Board - We have proactive and transparent dialogue with our regulators at working and senior levels. Our Board and Executive team regularly engage with their regulatory counterparts - Through our platform leadership role, we strive to stay well informed about every aspect of our payment systems and wider ecosystem and aim to act promptly to respond to developments - We have a strategic roadmap that we use to manage regulators' expectations and influence their decisions.
Oversight: Board and Executive team	Change from 2022 	Link to strategic goals - Drive enduring resilience - Strengthen safety and security - Enhance access and innovation.	
3 Market competition risk			
Failure to keep up with shifting customer needs could, over time, result in our payment systems and products becoming less attractive to customers, compared to alternatives.		Potential impacts - Threat to our volumes arising from alternative payment systems and new entrants - Lower adoption of our products and services - Key products become unappealing due to changing customer demands. This could result in increased pricing for our remaining customers - End user detriments introduced into the payments' ecosystem, due to unidentified conduct and compliance risks.	Mitigating actions - We are investing in new and innovative solutions to meet the evolving needs of our customers and end user demands, in a compliant manner - We proactively manage our products, such as CoP, on an ongoing basis, monitoring volume and usage trends, understanding changing end user needs, and driving change where required - Our deep insights programme monitors our competition landscape - A New Enhanced Product Development (NEPD) process has been implemented. This will ensure products are well designed, robustly tested and, ultimately, meet end user needs.
Oversight: Executive team	Change from 2022 	Link to strategic goals - Deliver value - Enhance access and innovation - Increase customer satisfaction.	
4 End user fraud			
High levels of fraud undermine end user and customer confidence in our platform.		Potential impacts - Growing levels of end user fraud - Loss of confidence in our ability to perform as a PSO from all our stakeholders, including customers and regulators - Lower adoption of Pay.UK products and services, and loss of existing customers - Increased regulatory scrutiny.	Mitigating actions - We have put in place a dedicated fraud team and programme of work - Our Fraud Prevention Overlay POC is progressing and will be implemented by the end of 2024 - We have completed an Enhanced Fraud Data POC with UKF. Results showed a 20% improvement in the fraud identification rate. We developed the initial standards and data model. We defined the solution and we have started the work to deliver the production version - For APP reimbursement, we will deliver the policy in Q3 2024 - CoP has reduced APP fraud and is now being expanded to approximately 400 PSPs - Testing is being carried out with the industry for two additional fraud solutions, alongside the development of a way to implement a fair and consistent reimbursement policy and process.
Oversight: Executive team	Change from 2022 	Link to strategic goals - Strengthen safety and security - Deliver value - Increase customer satisfaction.	

Risk Change from 2022 Key

 Increased Risk

 Reduced Risk

 No change

Risk and compliance continued

5 Security

Information and data security are key elements in ensuring our operations, customers and supply chain are safe from cyber and information security threats, including hostile actors and insiders.

Oversight:

Executive team

Change from 2022



Link to strategic goals

- Strengthen safety and security
- Driving enduring resilience.

Potential impacts

- Loss of availability, integrity, and confidentiality of data by the exploitation of vulnerabilities
- Financial advantage by threat actors, and/or disruption to the UK economy
- Regulatory sanctions and loss of confidence in us as a PSO and operator of national infrastructure.

Mitigating actions

- We mitigate risk through our information and Security Management System (SMS)
- We were certified to ISO 27001 in 2023, which is subject to ongoing audit
- We ensure that our critical third parties are effectively monitored and audited to ensure the appropriate protection of our information assets, in accordance with our risk appetite
- We ensure our operations are secure and confirm with our customers that they comply with security aspects of the payment systems' codes of conduct.

6 People and Culture

We are unable to attract, hire and retain best-in-class talent, capability and experience which undermines our capability to deliver our strategy and adequately fulfil our regulated responsibilities.

Oversight:

Executive team

Change from 2022



Link to strategic goals

- Inspire our colleagues.

Potential impacts

- Poor culture, levels of engagement, wellbeing and uncompetitive remuneration may result in recruitment and resourcing issues
- Lack of resources, particularly SMEs, may impact our ability to deliver against our strategic objectives and regulatory obligations.

Mitigating actions

- We offer unique employment opportunities through our role as the operator of the UK's interbank payment systems
- We benchmark our employment packages to ensure they are competitive and attractive, and have effective strategies in place to ensure employee remuneration and retention
- We have an established talent and succession framework to track our key capabilities, and track and monitor development actions
- We have a strong Employee Value Proposition (EVP).

7 New Payments Architecture programme delivery

The NPA programme, which will deliver the next-generation retail payment system for the UK, may encounter challenges with design, procurement, build, implementation and transition.*

*The above risk materialised in Q4 2023 following the publication of the Future of Payments Review, and the delivery of the NPA programme has been paused. Please refer to pages 24 - 25 for further information.

Oversight:

Executive team

Change from 2022



Link to strategic goals

- Deliver value
- Enhance access and innovation
- Increase customer satisfaction.

Potential impacts

- Like all complex IT programmes, the NPA programme has the potential for cost overruns, delays and reduced uptake
- Failure of the NPA programme to deliver expected benefits could lead to loss of confidence from stakeholders (including customers and regulators)
- Failure to deliver the NPA programme could undermine our ability to compete in the market, and lead to long-term, end user detriment.

Mitigating actions

- We have a robust NPA governance structure and integrated programme plan (scope, schedule, resourcing and budget)
- We have a customer commitment strategy and framework
- We have a sourcing strategy, an evaluation strategy, a procurement approach, and a Request for Proposal (RFP) process
- We have stakeholder engagement forums, such as the SPG, the three SPG sub-groups (commercial, end user and propositions) and other customer engagement industry forums.

8 Payment system rules management

Our payment system rules and standards that govern the use of our payment infrastructure, may no longer be adequate for their intended purpose, or customers may fail to comply with our rules and standards. This may result in the emergence of a potential systemic risk to the payments ecosystem.

Oversight:

Executive team

Change from 2022



Link to strategic goals

- Drive enduring resilience
- Strengthen safety and security.

Potential impacts

- If payment system rules are not fit for purpose, the payment systems' availability, security and integrity could become disrupted, leading to widespread end user detriment and loss of stakeholder confidence
- Customer failure to comply with our rules, codes and procedures may lead to material customer breaches that have a detrimental effect on the secure operation of our payment systems.

Mitigating actions

- We have a Rules & Standards Management Framework
- Our Critical Third Party (CTP) Aggregator project, and Rules and Controls Simplification (RACS) projects have been put in place to strengthen control effectiveness to our rules
- We have controls in place where prolonged rule breaches will result in a series of escalation measures, which could result in the suspension of customers in order to protect the wider system
- We maintain visibility of any non-compliance through regular risk-based assurance of our customers' systems and processes
- We have implemented a Cloud Code of Conduct to strengthen the rules from a systemic risk perspective.

9 Financial resilience

A material increase in future costs arising from unanticipated events, customer volumes not growing as projected, or a failure in the forecasting process.

Oversight:

Executive team

Change from 2022



Link to strategic goals

- Drive enduring resilience
- Drive value.

Potential impacts

- We are unable to meet the minimum capital requirements within the Committee on Payments and Market Infrastructures (CPMI) - International Organisation of Securities Commissions (IOSCO) framework required by regulators, due to a material increase in future costs and/or lower than forecast revenue
- Pricing for core services may need to be reset mid-year in order to increase the capital reserves.

Mitigating actions

- In 2023 we had a capital reserve of £32 million (2022: £31 million). This was comprised of £26 million (2022: £25 million) of risk capital and £6 million (2022: £6 million) of additional retained earnings. These amounts are reviewed annually. In March 2024 we increased our capital reserve to £34 million by increasing our risk capital to £27 million and our retained earnings to £7 million
- We have a set of financial controls in place to detect liquidity and funding issues
- We have performed stress-testing as part of our recovery plan work with a range of triggers and mitigations
- We are funded by our customers and are able to adjust the pricing of our services in order to offset the effects of increased costs or reduced volumes.

Risk Change from 2022 Key



Increased Risk



Reduced Risk



No change

Risk and compliance continued

10 Environmental, Social and Governance (ESG)		
We are unable to proactively implement and communicate our ESG exposures, risks and strategies to measure the sustainability, ethics and social impact of our business.		
Oversight: Executive team		
Change from 2022	Link to strategic goals	
NEW	- Increase customer satisfaction - Inspire our colleagues.	Potential impacts - Loss of confidence from stakeholders (including customers and regulators) - Failure to meet regulatory expectations and comply with relevant requirements could lead to reputational and / or financial damage - Inability to attract talent. Mitigating actions - We have a Corporate Social Responsibility Accreditation (CSRA) framework in place, which is overseen by the ESG Working Group - We are assessing our ESG exposures and measuring the sustainability, ethics and social impact of our business. We have published our ESG strategy and are developing an ESG policy. The ESG strategy includes a commitment to net-zero emissions by 2040, or sooner - We remain committed to working towards closing our pay and bonus gaps. From 2024, we will develop targets on Diversity and Inclusion (D&I), in line with the FCA's D&I targets.

Emerging risks

We remain vigilant against new and emerging risks, with particular focus on systemic risks to our payment systems. We utilise deep insight reviews and stress testing exercises to assess the risk landscape, and to help us identify emerging risks that are within our direct control, and those that are not.

Through the New and Emerging Risk Forum, enterprise-wide emerging risks are raised and assessed for systemic impact, and are validated and reported to the ERSC for review, prioritisation and approval.

The discussion and review of emerging risks includes horizon scanning activities around potential uncertainties that are not sufficiently defined or developed. This enables an informed assessment to be made on their potential impact to Pay.UK, and whether they pose a threat or opportunity. Some examples of emerging risk themes from 2023 include the use of generative technology, such as AI, or changes in existing technology used within our payment systems, geo-political changes, and customer outsourcing concentration risks.

2023 achievements

With a view to enhancing the effective management of our risks and controls, we:

- Reinforced our risk management procedures and strengthened the skills and capabilities of our second line of defence risk management teams
- Further matured our ERMF, which included the introduction of a TPMF in alignment to the Bank of England's regulatory requirements
- Established a PIRF to focus on key issues, concerns and challenges faced by members of the payments ecosystem, in advance of the March 2025 regulatory deadline.

We additionally evolved our operational resilience procedures, by:

- Providing clearer criteria for defining Important Business Services (IBS)
- Introducing more extreme but plausible scenario testing, involving members from the payments' ecosystem
- Enhancing dependency mapping for greater oversight of any associated vulnerabilities.

In August 2023, we also obtained ISO 27001 certification, which demonstrates our commitment to meeting international standards for our information SMS.

2024 risk management plan

Our work in 2024 will continue to evolve, with a particular emphasis on reinforcing our operational and directorate level risk management processes, whilst aligning initiatives and enhancements with our strategic priorities. This will enable us to operate effectively and proactively as a systemic risk manager, in our role as a PSO. We plan to:

- Implement an integrated risk management system to improve our risk management analytics capabilities
- Further mature our risk management processes across all strategic initiatives, aligning assurance activities across our three lines of defence
- Strengthen the risk management skills and capabilities across our first line of defence, to drive enhanced maturity of the ERMF, across the organisation. This will include an enhanced programme of risk management training, delivered throughout the year
- Continue to guide the industry in developing payments resilience solutions and approaches to ensure we are in a strong position to respond to any major incidents.

Viability statement

We have prepared these financial statements and accounts on a going-concern basis (See Note 2.2).

The Board has assessed our current viability and confirms that the Directors have a reasonable expectation that the Group will be able to continue in operation and meet our liabilities as they fall due over the three-year period commencing on 1 January 2024.

We have selected this timeframe on the basis that:

- It is within the planning horizon used for the evaluation of risk and strategic planning
- Pay.UK is funded primarily through a cost-recovery business model, which means that the Group sets transaction payment tariffs to recover its costs in full. The tariffs are calculated using estimates of forecast volumes and are set at the beginning of each year. The Group has the flexibility to adjust the tariffs during the year in consultation with its customers if required. This model is not anticipated to change for at least the next three years.

The Directors are satisfied that this period is sufficient to enable a reasonable assessment of the viability of the Group to be made.

Our analysis

The Group has a strong liquidity position, with £94.6 million of cash and short-term debt instruments as of 31 December 2023 (2022: £91.0 million).

Our Minimum Capital Requirement is determined with reference to CPMI-IOSCO Principles. Under our annual review, we must hold six months of operating expenses, in the form of high-quality liquid assets, to absorb significant financial shocks whilst continuing to deliver critical payment services uninterrupted. Therefore, our business is managed so that we hold sufficient risk capital to meet this requirement at all times. Our risk capital for 2023 was £26m (2022: £25m). This was increased to £27m in March 2024.

As part of our assessment of our viability, we used financial models to project cash flows and monitor risk capital and liquidity positions. We analyse forecast funding requirements and other key financial ratios to understand the resilience of our business model against our principal risks. This analysis takes account of the mitigating actions that we could realistically take to avoid or reduce the impact or occurrence of the underlying risks. It also considers other sources of funding or actions such as increases in our pricing, reduction of expenses or deferral of significant projects. 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 severe but plausible downside scenarios covering the impact on our financial resources, the delivery of our key projects and our risk capital.

As part of our assessment, we identified other areas of risk, as explained in our principal risks on pages 28 to 34. However, we do not consider these materially significant to our financial position.

Based on our modelling, with appropriate mitigating actions for our severe scenario, Pay.UK is forecast to have sufficient liquidity to continue trading and meet its capital and liquidity requirements.

On the basis of this assessment of the principal risks facing the Group and, on the assumption, that they are managed or mitigated in the ways disclosed, the Board has a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the three-year period.

Risk Change from 2022 Key

 Increased Risk

 Reduced Risk

 No change

Viability statement continued

Scenarios and sensitivities

Our base case scenario assumes a resumption of activities in our key infrastructure project following the publication of the NPV (See principal risks on pages 28 to 34). We have also modelled alternative scenarios and considered the impact of those on our business.

Further sensitivities approved through our Risk Committee have been considered and the impacts summarised below.

1. Cyber attack

Linked to principal risks: No.4 and No.5

A Critical Infrastructure (CI) provider has undetected security vulnerabilities, which are identified and exploited by a ‘bad actor’ either state-sponsored or an international organised crime network working independently or ‘contracting’ for an ‘unfriendly’ state.

Impact: Reduction in revenue/increase in costs of £11.7m and will be mitigated by recovery of the cost through our pricing in the following financial year.

2. Aggregator technological/outage failure

Linked to principal risk: No.5

A major FPS aggregator, contributing a significant amount of Pay.UK volume, implementing changes to its internal IT systems that support payment processing suffers a technology systems failure, due to inadequate IT change management processes and procedures.

The technology systems failure would manifest itself as a significant technology outage impacting the aggregator’s ability to process financial transactions from the large Pay.UK participants using the aggregator’s services.

Impact: Reduction in revenue/increase in costs of £10.2m and will be mitigated by recovery of the cost through our pricing in the following financial year.

3. Cloud provider resilience – shared customer use of Cloud Service Provider (CSP) regions

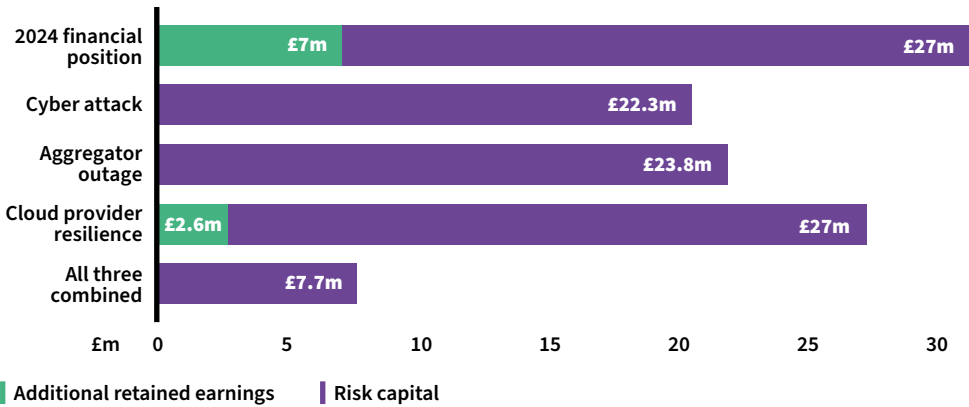
Linked to principal risk: No.5

Systemically important customers all operating from the same CSP region. Multiple Availability Zones (AZs) across several regions have started to fail with the potential for an outage to last up to 10 days. This scenario results in a significant impact to the normal volume of payments.

Impact: Reduction in revenue/increase in costs of £4.4m and will be mitigated by recovery of the cost through our pricing in the following financial year.

The graph below illustrates the impact of each of the three scenarios on our financial position if they were to take place in the next 12 months without any mitigating action being taken to recover the lost revenue and offset the increased costs.

Impact on additional retained earnings and risk capital



For each of the risks identified above, we believe that our business is resilient if they were to be crystallised individually or in aggregate with sufficient risk capital and retained earnings being in place. Further details of these risks and mitigating actions are included within the ‘Risk and Compliance’ section on pages 28 to 34.

Stakeholder engagement

Active engagement with our stakeholders via a broad range of communication channels, using a collaborative approach, provides us with invaluable insight that informs our decision making.

In 2023 we established a Policy and Engagement directorate. The team, led by our CPEO, seeks to deliver engagement activity that generates effective and insightful exchanges with our stakeholders across the spectrum of our work, including business-as-usual operations and our change agenda.

Industry engagement highlights

Enhancing engagement

Committed to the continuous improvement of our stakeholder engagement, in late 2023 we completed a review of our external engagement approach. This provided us with valuable feedback on the effectiveness of our current engagement as well as suggested improvements. We will be working on improvements throughout 2024 as we work to be even more collaborative, timely, and transparent in our engagement.

Stakeholder events

In July, we hosted an industry breakfast with over 50 stakeholders from across our ecosystem to provide an update on the key strategic priorities that guide our delivery. The Annual General Meeting (AGM), held during the same month, provided an opportunity for our Guarantors, including banks, fintechs and PSPs, to meet with the Board as a collective body. The 22 Guarantor attendees were able to hear about our organisational progress and ask questions directly to our Directors and management.

Engagement on the NPA programme

In H1 2023, we reviewed our NPA Committee and industry engagement working group structure. This included the creation of the Legal Working Group (LWG) forum where customers’ legal representatives and Pay.UK legal representatives met to discuss the development of the Pay.UK customer contract.

In March 2023, we established the User Interest Group (UIG) to negotiate on the Pay.UK customer contract. We invited our FPS customers under one legal representative, allowing for large efficiencies of resource and detailed discussions on the NPA customer contract. Customers shared feedback on commercials in May and we used this to complete the drafting of the contract. Feedback from customers has not only shaped our work on NPA planning, but also our approach to continued engagement throughout the programme and our thinking on the NPV.

Compliance with PSR GD4

In line with GD4 requirements to make transparent decisions and to consider end user interests in our decision-making processes, we published our GD4 Annual Compliance report in October 2023, which is available on our website <https://wearepay.uk>.

Advisory councils and working groups

End User Advisory Council

The EUAC meets quarterly to provide informed advice to Pay.UK on current and potential strategic deliverables. The advice is provided from the perspective of end users, including those with specific needs, and those in circumstances that make them vulnerable. Membership is based on independent and individual representation of end user interests and includes private and not for profit users, SMEs, large corporates and the Government Banking Service (GBS).

In 2023, EUAC provided valuable input on the proposal for a Pay.UK rule change for RtP. Its advice included the need for further research, a benefit case for banks and a mandate from the PSR to implement the options. Acting on the advice of the Council, and the results of the research, we revised the rule change later in the year.

For more information about RtP and this rule change please see page 22.

In Q2 2023, the Council helped us identify the key end user outcomes for our strategic roadmap, priorities for the year ahead and how we could most effectively work with the market. With EUAC we discussed the Bacs product strategy and considered the impacts, and benefits, of creating Bacs equivalent outcomes on a next generation platform. The Council was keen to ensure that different end user groups were engaged in the NPA ‘Have your say’ sessions and included in the consultation carried out in Q2 2023. Most recently, we asked EUAC to share its views on the future of OB and A2ART. Having listened to the advice that research should be carried out with end users, to establish the obstacles and benefits at the appropriate stages of this work, this will be factored into all surveys and requests for engagement.

Industry Advisory Council

The IAC held meetings in May and September 2023 with quarterly meetings thereafter. Membership includes organisations with whom we have commercial relationships, as well as partners and suppliers, and looks at the medium and long-term evolution of the wider payments ecosystem (beyond Pay.UK’s direct customers). This year it has provided insight on a range of topics including the future of switching services, sustainability in payments, our consumer omnibus survey and stakeholder survey, A2ART and JROC, and the Government published Future of Payments Review. EUAC members were also invited to give feedback for the report and recommendations to be provided to the Government in Autumn 2023.

Customer Engagement Forum

The CEF continues to receive regular updates regarding operational matters such as finance, risk, technology, payments and business development. Meetings are held quarterly and membership includes direct customers of Bacs, FPS and the ICS. CEF provides direct customers with the opportunity to provide feedback at a senior level.

During the year we provided updates on our systemic risk programme, Third-Party Management Framework (TPMF) enhancements and rules and standards across the ecosystem. We also shared output from the Fraud Overlay POC. Customers were updated on key aspects of our work including the target closure date for Paym, progress of the Bacs bureau inspection process, onboarding smaller customers to CoP, A2A, the results of the customer engagement survey and the future of ICS.

Stakeholder engagement continued

Strategic Participant Group

The SPG enables stakeholders to share expertise, support and challenge within the process of delivering our key strategic deliverables and major change programmes.

The group is co-chaired by a Pay.UK executive, in conjunction with an industry representative co-chair.

SPG's initial remit was to consider the NPA programme, this has now evolved to incorporate all areas of strategic change, including the fraud programme and our strategic deliverables in response to the NPV.

Regulatory engagement

We continue to work closely with our two primary regulators - the Bank of England's FMID and the PSR. As the macroprudential regulator, the Bank of England focuses on the robustness and resilience of the UK's Financial Market Infrastructures (FMIs) (including payment systems). The Bank of England seeks assurance that we are effectively delivering our role as the systemic risk manager and are proactively identifying, assessing, and mitigating risks across our ecosystem to minimise the likelihood and impact of disruption. As the economic regulator, the PSR focuses on ensuring our work supports its objectives of promoting competition, innovation and the needs of users the businesses and individuals. It is important that we work closely with both FMID and the PSR to ensure that we manage and develop our payment systems in alignment with their respective expectations.

Throughout 2023 we continued our dialogue with the Bank of England and the PSR through regular meetings, reporting, and complying with regulatory requirements. With regards to the Bank of England, we continued to make progress in delivering adherence to its requirements relating to operational resilience and outsourcing and third-party risk management. Meanwhile, we worked closely with the PSR on how our industry can collectively reduce and mitigate fraud through the development of detection and prevention tools such as CoP and EFD and work to support the introduction of APP reimbursement. We have also continued to explore ways in which we can support competition and innovation through A2ART, such as Variable Recurring Payments (VRPs), and have been working with the PSR's new Supervision and Compliance Monitoring Team offering input into discussions on the mechanics of the future supervisory regime. We also engaged with both regulators on the NPA Programme.

In addition to our primary regulators, we work with the CMA on our CASS, and with HMT on overarching regulatory requirements, including where legislation has been required, such as APP reimbursement. Following the Autumn Statement and the publication of the Future of Payments Review, we continued to work closely with HMT and our regulators to support the development and delivery of the NPV.

Supplier management

Third Party Management Framework

Pay.UK's TPMF was implemented in 2021 and has enabled us to classify and manage suppliers according to their risk and spend profile.

In response to the increased focus on outsourced arrangements, our TPMF capability has been uplifted to reflect the increased exposure to Critical Third-Parties. The core objective of our TPMF is to ensure Pay.UK not only manages our suppliers in an appropriate way, ensuring the safety and efficiency of the payment systems, and that Pay.UK complies with the Bank of England's Outsourcing and Third-Party Risk Management (TPRM) Supervisory Statement: recognised PSOs and specified service providers, which came into effect in February 2024.

Third Party Risk Management

Outsourcing and TPRM have become key areas of focus for financial services organisations and is a strategic priority for businesses generally.

The regulatory landscape is expanding significantly to drive new and increased levels of activity and scrutiny in TPRM.

More than ever before companies are using third-parties to deliver technology-driven services to customers, migrating to cloud-based solutions and transforming their businesses.

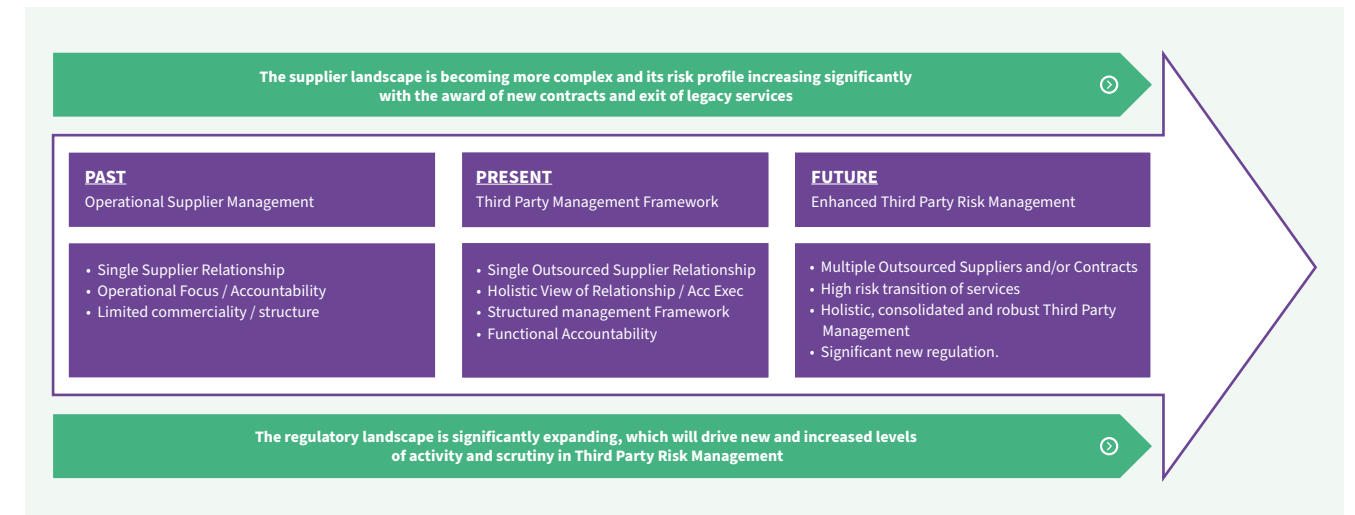
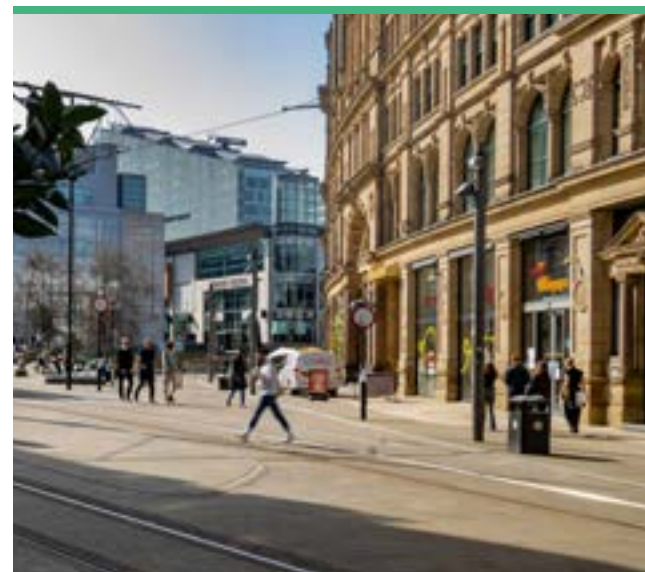
During 2023 a gap analysis was carried out of the current suite of suppliers against the new regulatory framework, to ensure full compliance.

Vocalink, the provider of the payments platform over which all interbank retail payments are made, is a Tier 1 supplier. An enhanced governance framework has been put in place to ensure the appropriate level of scrutiny on the ongoing performance of this service. The objectives of the framework are to provide effective oversight from regular review and dialogue across all aspects of supplier performance. The framework encourages more strategic dialogue in key areas of risk, security and technology.

We take a proportionate approach to the analysis and management of risks associated with our supply chain. This proportionate approach also focuses strongly on delivering value for money outcomes, in an ethical and sustainable manner, whilst also developing relationships which facilitate strong commercial, delivery focused outcomes.

As part of its requirements the Bank stipulated that responsibility for third party risk and outsourcing is to be assigned to an accountable person, either a Board member and/or a senior executive. These responsibilities encompass the Recognised Payment System Operators (RPSO's) or Specified Service Providers (SSP's) overall TPRM framework, policy, and systems and controls relating to outsourcing. The Risk Committee considered the request and in September 2023 recommended one of its own members, Ajay Vij, to the Board as the Third Party Risk sponsor. The Board approved the recommendation.

As sponsor Ajay has been briefed on the TPRM independent assurance review carried out by KPMG and has engaged with the Procurement & Supply Chain Director to ensure that the Board is aligned with the development and delivery of the TPRM end to end framework and operating model.



The outcome of this uplift has been a new and improved end to end TPRM that operates through each supplier lifecycle. This includes robust risk assessment and due diligence during supplier onboarding, enhanced risk and performance management controls and upfront exit planning for off-boarding. The framework has been underpinned by a new policy, enhanced governance, newly embedded processes and tooling, all of which has been implemented in Q1 2024, in line with the regulations.

TPRM has been closely aligned with our ERMF, and our wider Operational Resilience obligations, to ensure full alignment and delivery of the Bank of England's requirements.

The Bank of England's Supervisory Statement (SS) on Outsourcing and TPRM details the expectations around how Recognised Payment System Operators (RPSOs) and Specified Service Provider (SSPs) approach outsourcing and TPRM, and how these regulatory requirements should be met.

Pay.UK has identified, assessed and measured the risks associated with our third-parties to ensure they are within the Board approved risk appetite. This includes critical third-parties' use of fourth parties (i.e. the wider supply chain).

We will continue to embed our enhanced supplier management during the remainder of 2024 and beyond.

Definition of Outsourcing and Critical Third Parties

The regulation provides the following definitions and must be applied to 'suppliers' of goods and services to Pay.UK that are categorised as Outsourcers or Critical Third Parties.

Pay.UK should understand the risks to the end to end flow of payments across the payment system and demonstrate effective governance and be able to set, monitor and enforce standards.

Outsourcing: an arrangement of any form between an RPSO or SSP, and a third-party, whether a supervised entity or not, by which that third-party provides a product, performs a service, a process, an activity or a business function, whether directly or by sub-outsourcing, which would otherwise be undertaken by the RPSO or SSP itself.

Critical Third-Party: those where the continuous, secure and efficient delivery of their services to RPSOs or SSPs is critical to the operation of the RPSO or SSP. This is irrespective of whether the relationship is an outsourced or non-outsourced arrangement. The relevant services are of such importance that a weakness, or failure, of the services would pose a risk to the continuity of service provided by the RPSO or SSP, and could threaten the safety and efficiency of payment systems.

Third-Party: organisations, whether supervised entities or not, that have entered into business relationships or contracts with an RPSO or SSP to provide products, services, processes, activities or business functions, whether in whole or in part, including providers of utilities and other services. Third-party suppliers are managed under our internal processes.

Stakeholder engagement continued



Current Account Switch Service

Foreword by Helen Parker, Independent member and Interim Chair of the Switching Services Customer Committee (SSCC)

Many financial pressures and challenges faced society in 2023, most notably those of inflation and higher interest rates. Despite (or perhaps because of) the unfavourable economic climate, the CASS delivered strong results and reached record switching volumes, with nearly 1.5 million consumers and small businesses switching their accounts. These record volumes are undoubtedly in part prompted by the array of switching incentives on offer from banks and building societies. But they were also driven by an increased awareness of the service facilitated by our marketing activities.

In a year of milestones, CASS also marked its 10th anniversary in September and welcomed its 50th brand to offer the service to its customers. We continued to invest our efforts into research and knowledge-sharing, and into fostering strong relationships with a wide range of stakeholders to ensure that the service can effectively address the needs of our key consumer and small business groups.

As 2023 drew to a close, key representatives from the SSCC, the governing body for the service, came to the end of their tenure. On behalf of the Committee, I would particularly like to thank Jo Kenrick, the outgoing chair of the SSCC, for the time, guidance and expertise that she has given to the Committee and service over the last six years.

Strategic thinking and convening

In 2023, the CASS continued to make significant progress against its strategic priorities. Committed to ensuring that the service remains as effective as possible for end users, we hold an annual strategy day for our stakeholder groups, including banks and building societies, and consumer and trade organisations, to gain insight into the market and end user needs. This year, our stakeholder groups engaged in detailed discussions and a roundtable debate on the topic of evolving needs of specific end-user groups to inform future development of the service.

Key findings included the importance of tailoring our communications not only to increase awareness of the service, but also to highlight the potential benefits of switching current accounts. We further acknowledge the challenge of adapting to an ever-evolving current account market.

As new payment types and additional services and products associated with current accounts continue to emerge in tandem with end user preferences, CASS must expand its scope to incorporate these features and offer a more comprehensive customer-centric service. In this regard, we have identified an opportunity to explore the use of the increasingly-popular CoP product in conjunction with the service.

In order to deepen our insight into the issues highlighted at the strategy day, we initiated three research projects later in the year that focused on: SMEs; younger adults aged 18-24; and financially vulnerable people. The projects focused on understanding the wider market context, the evolving financial and banking behaviours of these different groups, and the various factors that impact their decision-making around switching. The insights from these projects will help to inform the evolution of the service and its marketing.

Looking into 2024

Looking into 2024, we shall focus our work on key themes identified in our annual strategy day, looking for new opportunities to improve end user outcomes. This will include continuing with investigations into the application of CoP within the switching journey and using learnings from our research to support our understanding as to how we can better communicate with these groups to further improve awareness and appeal of the service.

Customer engagement and marketing

According to our research, consumers are most likely to consider switching their current account at the beginning of the year and in Autumn. With this in mind, we launched a large-scale marketing campaign in January 2023 using TV, radio, cinema and outdoor advertising, as well as targeted digital advertising. Aimed at UK adults, the campaign likened a current account to other everyday items that people might hold on to for too long to highlight the inertia that exists around personal finance and banking. The comparison sought to encourage people to consider whether their current account was still the one best suited to their needs and, if not, to remind them that ‘maybe it’s time to switch’.

Our second campaign ran from August to November. Mindful of the numerous media platforms our audiences interact with, we again employed various broadcast media channels for the campaign, this time with even newer platforms, including TikTok and game-streaming platform Twitch, to extend our reach.

Recognising that the CASS social media channels are an increasingly important source of information for our audiences, we continued to work with social media influencers and creators throughout the year. With them, we worked to share original content on our channels and provide information about the service, the benefits of switching, and why people might want to consider it.

Section 172 statement

Throughout the accounting period, the Board of Directors of Pay.UK has individually and collectively fulfilled their obligations as set out in section 172 of the Companies Act (2006), as summarised below and evidenced throughout these financial statements:

The Directors of Pay.UK 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 to the broad range of interests of our stakeholders including:

- The likely consequence of any decision in the long term
- The interests of the Company’s employees
- The need to foster the Company’s business relationships with suppliers, customers and others
- The impact of the Company’s operations on the community and the environment
- The desirability of the Company maintaining a reputation for high standards of business conduct
- The need to act fairly as between members of the Company.

In this section, you will find examples of how we have considered our stakeholders when making decisions during the year. The considerations of our stakeholder groups are integral to our decision making.

1. End users and customers:

Board considerations: 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, including our end users and customers.

In May 2023 we held a Board Strategy Day where the Board approved a refresh of Pay.UK’s strategic priorities and roadmap to enable us to deliver on our strategic vision and to provide clarity on our plans until 2030 in terms of capability, capacity and funding. In addition to which the need to balance the requirements of our end users, customers, people and regulators was also considered. Throughout 2023 we have focused on delivering our strategy.

This work has continued as we reviewed progress and considered what further developments were needed to incorporate into our programme of work for 2024 and beyond.

More information regarding Pay.UK’s strategy can be found on pages 14 to 17.

Risk management: A full Principal Risk refresh was conducted in Q1 2023, with a focus on enhancing the mitigation activities to ensure risks remain within appetite. We now have in a regular cadence of reporting the Principal Risks to the Risk Committee on a quarterly basis. The Risk Committee agenda items are aligned to, and a section of the Committee’s time is dedicated to our Principal Risks, such as Security and Resilience for both Pay.UK and our infrastructure provider, who also

attends these meetings. Emerging risks are also reported and discussed at each Risk Committee meeting.

Our approach to risk management balances the need to manage inherent threats whilst identifying opportunities to improve performance. Our policies, such as our Code of Conduct and Anti-Bribery and Corruption, help us maintain high standards of business conduct. Our compliance activities involve the continued enhancement of our internal policies to maintain these standards, enable effective monitoring, and providing constructive reporting to the Board.

We set best-in-class standards and rules for the industry to follow and, through our Standards Authority, and are responsible for coordinating the interbank retail payments standardisation activities on behalf of our customers, the wider payments industry and other relevant stakeholders.

Engagement: A new CPEO role, and directorate, was established with the appointment made effective from 1 June 2023, to develop engagement across all parts of our ecosystem.

Work commenced on developing a single External Engagement Strategy and Communication Plan. During 2023, the Industry Engagement team conducted a detailed appraisal of Pay.UK’s external engagement activity. Outputs from the annual stakeholder survey, together with in-depth stakeholder interviews, resulted in us redefining our engagement activities as follows:

- **Coordination and planning:** centralising ownership of committee meetings and 1-2-1 bi-laterals; management of forward agendas and meeting timetables
- **Advise and challenge:** creating a centre of excellence, providing best practice for stakeholder engagement; ensuring a consistent approach for all our stakeholders
- **Leading strategic engagement:** centralised management of agenda, briefings, write-ups and content
- **Analysis, reporting and sharing insights:** improved reporting at all levels, including improved sharing of insights, aimed at supporting discussions and decisions that impact our stakeholders

Further information on our Stakeholder Engagement may be found on pages 37 to 40.

Annual General Meeting: As a Company limited by Guarantee, Pay.UK has Guarantors rather than shareholders. There are currently 40 Guarantors, drawn from a broad range of banks, fintechs and PSPs.

The 2023 AGM was well attended by our Guarantors and all resolutions proposed were passed. These included the Guarantors reviewing the 2022 Annual Report and Financial Statements, the reappointment of all of Pay.UK’s Directors, the re-appointment of BDO LLP as external auditor of the Company until the conclusion of the 2024 AGM and authorising the Directors to determine the auditors remuneration.

Section 172 statement continued

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 AGM.

Annual report and financial statements: Whilst Pay.UK has a statutory obligation to provide certain information in the Annual Report, we also look to enhance the sharing of information throughout the year through the content made available on our website.

2. Regulators

Board considerations: Regular industry engagement took place throughout the period, either formally through one of our formal engagement channels or informally through industry round tables or one-to-one meetings with senior members of the payments industry. We maintained a constant dialogue with our two regulators, FMD and PSR, throughout the year.

More information about how we have engaged with our two primary regulators can be found on page 38.

3. Suppliers:

Board considerations: We ensure our suppliers have adequate controls and risk management in place and we hold our Executive to account alongside the Board and its committees to comply with our legal and regulatory obligations.

In February 2023 the Bank of England published its supervisory statement on outsourcing and third-party risk management with the deadline for Pay.UK to be compliant with the regulation by 9 February 2024. In November 2023 the Board approved the TPRM and Procurement Policy and the Criticality assessment, both of which were required to be approved as part of meeting these regulations.

The Board also approved the Risk Committee's recommendation that Ajay Vij be the Board sponsor for Third-Party Risk. Please see page 38 for further information.

Risk Management: 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 the continuous implementation and improvement of systems and controls to ensure modern slavery is not taking place within any of our supply chains. In July, the Board approved our Modern Slavery Statement.

Engagement: In 2023, we continued to develop our relationships with suppliers, customers and other stakeholders through a number of existing and new initiatives, industry forums and working groups.

Further information may be found on pages 37 to 40.

4. Colleagues:

Board considerations: At the start of 2023 we appointed two new INEDs, which enhanced the diversity of thought on the Board, specifically in relation to data and analytics, transformation and implementation. These appointments further supported a wider diversity across our board membership.

One of our commitments, as part of the 'race at work' charter, is to run unconscious bias training for colleagues that focuses on racial awareness, known as 'In My Shoes'. This training was attended by members of the Board.

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 ('inspire our people'), the Directors continued to support development of our talent management and reward frameworks, colleague wellbeing and our work on D&I. 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. Board member Lesley Titcomb was appointed as the Board representative to enhance consideration of colleague matters.

Values: 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. Our values continue to be reflected in the performance objectives that are set for all colleagues as part of the annual review process.

Internal engagement: We continued to engage with our colleagues through a number of channels throughout the year, including our Colleague People Forum, our 'Getting to know...Pay.UK' series, and our pulse surveys. As employee engagement survey results form part of our corporate KPIs, we closely monitor the activity we undertake to enhance them. Our most notable results included:

- 93% positive views on Pay.UK
- 83% engagement score (increase from 82% in 2022, 5% above the UK norm and above the financial services norm and the UK norm).

The Board was kept aware of, and was fully supportive of, engagement with colleagues.

Equality, Diversity and Inclusion (EDI): We continued to implement our inclusion strategy across the organisation in 2023, making progress on delivering our key objectives. Our various initiatives included launching our unconscious bias training, 'In My Shoes', and our 'Women in leadership' programme focused on developing female talent in senior roles. We also worked with Women in Payments to encourage membership

and attendance at the annual symposium to inform and inspire our current and future female leaders.

In July, we held our first inclusion month, dedicated to an inclusive working environment, in which we hosted a number of events and awareness for colleagues. We launched our recruitment charter and our 'race action' plan and signed a disability-confident charter as part of the initiative. We further held colleague lunchtime events to mark, and educate others on, key celebrations, including for Diwali, Ramadan and Black History month.

Health and safety: In 2023, we reported no injuries, disease or dangerous occurrences applicable under regulatory requirements (RIDDOR). We also had no raised issues with risk controls in our annual fire and general risk arrangement review, nor as part of our annual sharing of safety documentation with our landlord.

Menopause policy and support group: In 2023, we continued to develop our Menopause Support Group and its associated activity to further build on the support for our colleagues going through the menopause and help educate colleagues who want to know more. Throughout the year we hosted quarterly sessions in which the support group came together to share their experiences of the menopause and recommendations to help each other.

In September 2023 the Board received a presentation on our ESG Strategy, which highlighted areas that are already well developed and also where further work was required.



5. Community and environment

Board considerations: 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. We are very proud of the work that we do to support our local community and further details can be found on pages 44 to 49.

The Board approved a high-level strategy and roadmap for our ESG ambitions in September 2023 which go beyond regulatory compliance. This strategy commits us to achieving net zero emissions by 2040, or before. While an ambitious objective, we have already made significant progress in mapping out key work to undertake between 2023 and 2025, and setting intermediate targets in line with our operational milestones

Community and philanthropy: Over 2023, we supported our colleagues in raising over £30,000 for various causes, including the Kent, Sussex and Surrey Air Ambulance Service, Limehouse Laces FC, and the Whitechapel Mission through both fundraising and donations from our colleagues and matching from Pay.UK.

In September 2023, a team of our colleagues, along with family and friends, took on the Thames Bridges Trek to raise money for the Kent Surrey and Sussex Air Ambulance charity.

Adherence to Green House Gas (GHG) reporting protocol: In 2023, we further reduced our Scope 2 emissions, despite more colleagues returning to the office following the pandemic. This significant achievement is owed to our long-standing hybrid working approach as well as our continued focus on operational efficiencies.

Further information on the activities undertaken can be seen in the 'ESG' section (pages 44 to 49).

Environmental, social and governance report

In 2023 we matured our Corporate Social Responsibility (CSR) strategy to one that better matches our ambition as an organisation and the expectations of our stakeholders and colleagues. This refined approach, known as ESG, more accurately reflects our company values and allows us to closely monitor our sustainability, whilst also making positive contributions to society.

Our values

Our organisational values shape our culture, behaviour, and decision-making processes. For ESG specifically, these values set a clear framework for our stakeholders to see what we stand for as well as the expectations that we set for ourselves in terms of conduct and performance.

Progress against our ESG approach

In 2023, we built on the work from the previous year in auditing our ESG related activities. To this end we conducted a comprehensive gap analysis to evaluate the expectations of our stakeholders relative to our size and ambition, and our position relative to our industry. We were subsequently able to identify areas where we can have the most impact, as well as areas where we are able to go beyond regulatory compliance and opportunities for improvement. We have since built these into a high-level strategy and roadmap for our ESG ambitions as we work to be a platform leader to effect real change.



Environmental

Carbon emissions – journey to net zero

Our journey to target-setting on carbon emissions and resource use.

Adherence to Green House Gases reporting protocol

Scope 1 and 2 emissions, comparing 2022 and 2023.

Reducing our impact

The initiatives we undertook in 2023 to reduce the impact of our operations.

Recycling initiatives

A zero-waste-to-landfill estate supported through our footprint with dual zone bins, for dry recycling and other waste, to enable efficient processing by our waste management supplier.

➤ Read more on page 46



Social

Community and philanthropy

In 2023, we supported our colleagues in raising over £26,676 for various causes.

‘Giving something back’ days

We accommodate, and actively encourage, our colleagues to take paid leave each year to spend time volunteering for a cause close to them.

Employee engagement

How we built on the success of our 2022 employee engagement survey and worked towards even further improvement in 2023.

Lesley Titcomb, was appointed our Board director with responsibility for employee engagement.

Health and safety policy update

How we maintain a safe working environment for our colleagues.

Menopause policy and support group

The development our menopause support group and its associated activity in 2023.

Living wage employer

Recognition of our commitment to equal pay and minimum wage requirements.

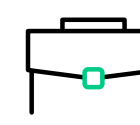
Wellbeing

How we promote wellbeing among colleagues to encourage an active and healthy lifestyle.

In my shoes

Our unconscious bias training programme to support racial awareness as part of the ‘race at work’ charter.

➤ Read more on pages 47 to 48



Governance

Diversity

Progress on the delivery of our inclusion strategy across the organisation in 2023.

Speaking up

How we promote a culture of openness, transparency and trust, and try to resolve concerns before they escalate.

Human rights and modern slavery

Our commitment to a zero-tolerance approach to modern slavery and human trafficking.

Data privacy and security

How we protect our operations, customers and supply chain safe from cyber and information security threats.

Gender pay gap

Findings of our third gender pay gap report.

➤ Read more on page 49

Environmental

We have been measuring our environmental impacts since 2020. The CSR-A accreditation process we undertook in 2022 enabled a more thorough assessment and gap analysis regarding our environmental performance and impacts. We also recognise that environmental impact extends to our supply chain and we continue to monitor our suppliers in this respect, including the largest, Vocalink, a Mastercard company, that has well-developed ESG policies and practice.

Adherence to GHG reporting protocol

We continue to monitor greenhouse gas emissions using the GHG Protocol Corporate Accounting and Reporting Standard and in accordance with Defra’s Environmental Reporting Guidelines including Streamlined Energy and Carbon Reporting requirements. In 2023 we further reduced our Scope 2 emissions, despite more colleagues returning to the office following the pandemic. This significant achievement is owing to our long-standing hybrid working approach as well as our continued focus on operational efficiencies.

Scope	2023		2022	
	kWh	tCO ₂ e	kWh	tCO ₂ e
Fuel (Scope 1, consumption of stationary or mobile fuels)	0	0	0	0
Electricity (Scope 2, indirect energy emissions from generation of purchased energy)	272,591	56.4	303,471	64.1
Transport (Scope 3, business travel in employee-owned vehicles)	18,488	4.5	6,713	1.7
Total	291,079	60.9	310,184	65.7
Intensity ratio (gross total/Average Full-Time Equivalent)	874.1	0.18297	901.7	0.1913

In 2023 our annual energy consumption was 291,079kWh (2022: 310,184kWh). We generated total emissions of 60,929kg CO₂e in the calendar year 2023, which is 7.2% lower than 2022 (2022: 65,709kg). The 2023 consumption is comprised of imported grid electricity for operations at 2 Thomas More Square and business travel in employee owned vehicles.

There are no sources of Scope 1 emissions for Pay.UK. Scope 1 emissions are generated where stationary fuels (e.g. natural gas) for buildings or mobile fuels (e.g. petrol in company owned vehicles) are consumed. Pay.UK does not consume stationary or mobile operational fuels.

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 monthly meter readings for calendar year 2023 for three floors of Pay.UK accommodation at 2 Thomas More Square.

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 increasing the sustainability of both our business and our operations in 2024; optimising our office and home working environments as we do so.

Carbon emissions – journey to net zero

In September 2023, the Board approved our ESG strategy that committed us to achieving net zero emissions by 2040 or before. While an ambitious objective, we are making significant progress in mapping out key work to undertake between 2023 and 2025, and setting intermediate targets in line with our operational milestones. We are setting further targets to reduce use of resources including water, fossil fuels, energy, and waste generation.

Reducing our impact

As part of our commitment to reducing our impact on the environment, we have continued to implement various initiatives, including:

- Increasing use of plant-based products in colleague kitchen areas to reduce non-recyclable, non-compostable waste from plastic products, and reduce energy and water consumption from dishwashers
- Decommissioning of redundant catering kitchen, reducing our electricity demand from lighting and AC general power. It also reduces our potential for food waste creation
- Recycling a portion of our used coffee grounds from our on-site coffee machines through colleague home composting
- Enhancing meeting room heating and cooling functionality with new control hardware and software to reduce energy consumption
- Adding more Framery meeting pods, one of the most sustainable on the market, to reduce the need to build additional offices and the associated construction and maintenance resources
- Continued desk-sharing to reduce energy demand for desktop IT solutions
- Consolidating our kitchen food deliveries to twice per week to reduce transport impacts.

Recycling initiatives

We operate in a zero-waste-to-landfill estate provided by waste management firm, Bywaters. We further support this practice through our footprint with dual zone bins, for dry recycling and other waste, to enable efficient processing by our supplier.

Social

Community and philanthropy

Over the course of 2023, our colleagues raised over £26,676 for various causes, including the Kent, Sussex and Surrey Air Ambulance Service, Limehouse Laces FC, and the Whitechapel Mission, through both fundraising activities and donations from our colleagues and Pay.UK.

- In September 2023, a team of our colleagues, with friends and family, took on the Thames Bridges Trek to raise money for the Kent Surrey and Sussex Air Ambulance charity. We also held a number of events throughout the year to support fundraising efforts, including a bake sale, bottle tombola and quiz night. Pay.UK raised £30,400 for the charity. Our Christmas party raffle raised £1,167 for Age UK (east London branch). We chose the charity following a colleague survey which revealed a preference for our philanthropic work to support the elderly.
- We donated 16 boxes of clothing and toiletries, provided by colleagues, to the Whitechapel Mission over Christmas.

‘Giving something back’ days

We accommodate, and actively encourage, our colleagues to take paid leave each year to spend time volunteering for a cause of their choice. In 2023, colleagues volunteered on 16 occasions, giving over 90 hours of their time.

Employee engagement

With our employee engagement survey results consistently increasing year on year from 2022, we began the new year braced for the challenge of maintaining and improving our scores. Our activity in 2023 was shaped by analysis of survey data from the previous year which had identified three opportunities across the organisation for us to introduce positive change:

- Compelling leadership
- Organisational integrity
- Change

As our employee engagement survey results form part of our corporate KPIs, we closely monitor the activity we undertake to enhance them. This allows us to assess the impact of any changes we introduce and identify any further actions we need to take. We conducted a Pulse questionnaire survey of our employee experience in July, achieving a 72% response rate. The results showed we were on track and demonstrated progress in our focus areas.

To support our colleague engagement, the Board appointed Lesley Titcomb as our Board member responsible for ensuring our colleagues are represented in the boardroom.

Since agreeing to be our ‘Director responsible for the employee’ in January 2023 Lesley has developed the role by ensuring there is an effective feedback loop between the Board and the workforce, providing the Board with a better line of sight to colleagues across the business.

‘Lunch with Lesley’ sessions, give colleagues an opportunity to chat with Lesley and to understand the role of the Board and how the Directors support the business in delivering our strategy. These sessions also provide colleagues an opportunity to discuss working life experiences at Pay.UK.

By the end of 2023 we had completed all our high-level action plans and were pleased to achieve another improvement on our engagement scores across most categories, with the highest scores lying in line management, views on Pay.UK, and working life.

Our most notable results of the full survey in October-November 2023 included:

- 93% positive views on Pay.UK
- 83% engagement score (increase from 82% in 2022, 5% above UK norm, and 1% above the Financial Services norm)
- Response rate of 85%.

As we look to 2024, we seek to maintain our engagement levels, while focusing on the areas where there is room for improvement. We have already established an Action on Colleague Engagement (ACE) group to support us in developing action plans for the year ahead.

Health and safety policy update

In 2023 we reported no injuries, disease or dangerous occurrences applicable under regulatory requirements RIDDOR. We also had no raised issues with risk controls in our annual fire and general risk arrangement review, nor as part of our annual sharing of safety documentation with our landlord.

As part of our continued efforts to improve best practice, in 2023 we introduced a health and safety forum. Comprising colleagues from across the organisation, we asked the forum to review our safety statistical and assurance information and suggest any potential improvements. Having now gathered the data and insight from the review, we will look to share these findings, and any consequential action, with the rest of the organisation in April 2024. We also continued to invest in specialist display screen equipment to support our colleagues work safely when working remotely.



Over 90 hours of volunteered time.

Social continued

Wellbeing

We continually promote our wellbeing channel to offer colleagues information and signpost events on various wellbeing themes including getting active, financial wellbeing and mindfulness, and food and nutrition, such as:

Menopause policy and support group

In addition to our Menopause Support Group and its associated activity, we arranged for an external nutritionist to visit and lead a session on menopausal nutrition, providing insight into how hormones and nutrition work together for World Menopause Day in October. Further to our efforts to become a more inclusive employer, we have stocked the women's toilets with supplies, such as perfumes and spray deodorant and fans, for those who experience hot flushes so they can freshen up.

Neurodiversity and disability support group

In 2023, we set up a dedicated working group to support colleagues, a safe space to share experiences and actively look to where we can make improvements. During our Neurodiversity and Disability month we hosted a keynote speaker event titled 'disabled by society' as well as having a colleague-led education session on neurodiversity.

Further, in honour of International Men's Health Month (aka Movember), we invited a keynote Speaker into the office to discuss their journey with Prostate Cancer.

Living wage employer

We continue to comply with all equal pay and minimum wage requirements and meet all the requirements for living wage. We will apply for formal living wage accreditation in the coming year. We expect our Supply Chain to also adhere to these requirements.

In my shoes

One of our commitments as part of the 'race at work' charter is to run unconscious bias training for colleagues that focuses on racial awareness, known as 'In My Shoes'. During 2023 we initially offered the training to our People team, D&I committee, our Executive committee, and Board. We have now extended this training to all colleagues, and have received positive feedback on the thought-provoking and insightful conversations it enables.

The training has accelerated our inclusive culture into one of understanding by providing colleagues with the tools to promote our values and support their peers. No doubt contributing to our inclusive culture achievement in the colleague engagement survey this year, we will continue to run the training throughout 2024.



Governance

Diversity

We continued to implement our inclusion strategy in 2023, making progress on delivering our key objectives. Various initiatives included launching our unconscious bias training, 'In My Shoes', and our 'Women in leadership - EmpowHer' programme focused on developing female talent in senior roles. We also worked with Women in Payments supporting their annual symposium to inform and inspire our current and future female leaders.

We set up a number of colleague working groups, including our Expecting Parents Network, the group provides awareness on related topics, and proved instrumental in updating our maternity and paternity handbook. We also set up our Neurodiversity and Disability working groups, which provided support to colleagues through blogs and the intranet. We offered tools and training to our colleagues to be proactive by promoting awareness through our Skillsoft platform, supporting key events such as Pride month in July, showcasing our diversity channels, and providing colleagues with updates on our intranet pages signposting useful resources such as events.

In July we held our first inclusion month, dedicated to an inclusive working environment, and hosted a number of events for colleagues. We also launched our recruitment charter and our 'race action' plan and signed a disability-confident charter. We further held colleague lunchtime events to mark, and educate others on, key celebrations, including for Diwali, Ramadan and Black History month.

Speaking up

We are committed at all times to conducting our business with the highest standards of integrity and honesty. We promote a culture of openness, transparency and trust, and try to resolve concerns before they escalate. We encourage all colleagues to speak up if they think something is wrong, illegal, unethical or have concerns about our conduct or our relationships with third parties. All concerns raised are treated confidentially, sensitively, fairly, promptly and consistently. We also provide 'active bystander' training to enable colleagues to develop the skills and confidence to identify, call out and challenge unacceptable behaviours that do not align with our values. This helps nurture our 'safe-to-speak' culture.

Human rights and modern slavery

Pay.UK is subject to laws and regulations and other assumed obligations that it must abide by, including matters that go beyond our products or services such as environmental, social, governance, sustainability, D&I and human rights. We have a zero-tolerance approach to modern slavery and human trafficking and are committed to ensuring that there is no modern slavery or human trafficking taking place in our business or supply chain.

Annually, we review our measures and controls and publish a Modern Slavery Statement on our website (<https://wearepay.uk>), which sets out the steps we have undertaken to prevent and detect any incidents of modern slavery occurring within our business or supply chain.

Data privacy and security

Information and data security are key elements in ensuring our operations, customers and supply chain are safe from cyber and information security threats, including hostile actors and insiders. We ensure our operations are secure and confirm with our customers that they comply with security aspects of the payment systems' codes of conduct. Furthermore, we were certified to ISO 27001 in 2023.

Gender pay gap

Our 2023 report reflects progress in closing our median pay gap. Now in our third year reporting on our pay gaps, we continue to use insights to inform improvements to our policies, procedures and practices, ranging from recruitment and onboarding to promotion and development. This year we also introduced quarterly pay audits which not only allow us to track pay movements more regularly, but serve to provide assurance that gaps are a result of the structural inequality within our organisation rather than pay inequality.

We have also improved our diversity at Board level as well as across some of our senior job families.

We will now focus on our longer-term action plans to tackle structural gaps at all levels. This includes targeting early career stages to encourage more females into our industry and into low-represented subjects such as technology, data and architecture. During 2023 we also adopted the FCA's D&I targets and look forward to reporting on our actions and progress.

Our 2023 gender pay gap report can be found on the Pay.UK website at <https://www.wearepay.uk>.

The strategic report was approved by the Board of Directors and signed on its behalf by:



David Pitt
Chief Executive Officer

22 May 2024

83%

Employee engagement

66%

We aim to continue our diversity data collection with the aim of reaching 66% by 2025

Governance

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Chair's introduction to governance



On behalf of the Board, I am pleased to introduce the Governance Report, covering the work of the Board and the Committees for the year.

Mark Hoban
Chair

The Nomination Committee's work has significantly evolved the skills, experience, diversity and culture of the Board, all of which supports the delivery of our strategy. The stability of Board membership throughout the year, has helped create a positive culture around the Board table; and ensured constructive challenge and engaged contributions from all members. The Committee's understanding of executive and senior management development and capability has also been considered, to ensure there is alignment of skills across all areas of the business.

The work of the Risk Committee has built upon last year's strong foundations, with the risk maturity profile of the business moving towards level four. A strong risk culture is becoming more embedded across the business, which has supported the evolution of general ecosystem risk management, particularly in areas such as operational resilience and the establishment of our third-party risk management framework.

Considerable progress has been made in ensuring we engage with our stakeholders, of all sizes and across the payments landscape. This is particularly true as the teams worked closely with customers covering the various initiatives and programmes. Of note is the work the business carried out in respect of the NPA, working collaboratively with customers, in advance of our NPA submission to the Bank of England's FMID.

There is breadth and depth to our customer and other stakeholder engagement and, with the appointment in 2023 of our Chief Policy and Engagement Officer, there is an opportunity to make this dialogue more impactful and insightful as well as focused with strong feedback loops.

Since the initial independent governance review completed in 2021, and the follow up review in 2022, the business has continued to progress and embed sound governance practices. As reported last year, the key areas highlighted for the work of the Board and committees have been enhanced through the clear focused approach to resolving the areas considered to require specific actions. Management has supported this work, with actions completed and now embedded within the reporting and governance structure of the business.

A focused self-assessment exercise was completed in 2023, which recognised the improvements already made, and concluded more work, in some key areas would be beneficial. Using a clear set of actions, this work will be progressed throughout the year, to continue to embed sound governance practices across the business.

The remainder of this report sets out in more detail the activities of the Board and its committees, the key achievements and the priorities for the year ahead.

Mark Hoban
Chair

22 May 2024

Board of Directors



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Mark Hoban

Independent Chair

Appointment to the Board
Mark was appointed Chair of Pay.UK in November 2020. He is also Chair of the Nomination Committee and a member of the Remuneration Committee.

Skills and qualifications
Mark Hoban is an experienced chair working in the financial services and charity sectors. He has gained extensive experience across a portfolio of chair roles that operate at the nexus of business, public policy and regulation.

Mark is a Fellow of the Institute of Chartered Accountants.

Relevant past experience
He has recently retired as Chair of Flood Re and the Jersey Financial Services Commission.

Mark was the Member of Parliament for Fareham between 2001 and 2015 and was a minister in the UK's coalition government between 2010 and 2013.

External appointments
He currently chairs the Financial Services Skills Commission, he is a member of PwC's Advisory Council and a member of the Bank of England's Enforcement Decision Making Committee. Mark has recently become Chair of the Cardinal Hume Centre.



David Pitt

Chief Executive Officer

Appointment to the Board
David joined Pay.UK in July 2021 and was appointed to the Board upon joining.

Skills and qualifications
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.

Relevant past experience
Prior to Pay.UK, David was Chief Operating Officer at the Government's Test, Trace and Containment operation responsible for the delivery of a transformation strategy and overseeing the end-to-end process to improve overall delivery across the UK. Prior to this he was also as Chief Operating Officer at esure Group, leading the business through major transformational change prior to its sale. David has also held senior roles at RSA Insurance, including CEO, Greater China.

External appointments
None.



Michael Ellis

Executive Director
Chief Financial Officer

Appointment to the Board
Michael Ellis joined Pay.UK as Director of Finance in April 2021 and was appointed to the Board as CFO in August 2023.

Skills and qualifications
Michael is an experienced commercial finance professional and has extensive experience in the payments industry, including having worked at Vocalink for over 13 years, latterly as CFO.

He was Chief Financial Officer at Vocalink during its acquisition by Mastercard and subsequent integration.

Michael has broad experience within finance, including in the fields of strategy, mergers and acquisitions, finance transformation, planning, financial reporting, tax, and treasury.

He is a Chartered Accountant.

Relevant past experience
Prior to working in payments Michael gained experience in professional practice, logistics and transport.

External appointments
None.

Committees served on during the year

Committee Chair

A

Audit

N

Nomination

R

Risk

Re

Remuneration



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N

Anna Bradley

Senior Independent Director

Appointment to the Board
Anna joined the Board in October 2017, and was appointed Senior Independent Executive Director (SID) in 2021. She is also Chair of the Remuneration Committee, a member of the Nomination Committee and Chairs the End User Advisory Council.

Skills and qualifications
Anna is an experienced director and Chair. She has a background in regulation, policy and consumer advocacy across a variety of sectors. She has particular interest and expertise in consumer and end user outcomes in regulated markets.

Anna holds an MBA from Warwick University.

Relevant past experience
Wide and deep experience of Board governance in financial services, infrastructure and professional services, and senior executive roles at Which? and the Financial Services Authority.

External appointments
Anna is currently the Chair of the Solicitors Regulation Authority (SRA) and Chair of Scottish Widows Independent Governance Committee.



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A

Diane Côté

Independent Non-Executive Director

Appointment to the Board
Diane joined the Board in January 2022 and was appointed as Chair of the Risk Committee and a member of the Audit Committee upon appointment.

Skills and qualifications
Diane is a Chartered Professional Accountant (CA - CPA).

Relevant past experience
She has held senior positions in FTSE 100 companies such as Aviva plc, Standard Life plc, most latterly as Chief Risk Officer for London Stock Exchange Group where she also chaired its Foundation, and its diversity and inclusion executive committee. Diane has also chaired TheCityUK Cyber Security and Resilience Advisory Board and was a member of the European Central Bank (ECB) market infrastructure resilience advisory committee.

External appointments
Diane is a director and member of the Audit Committee, Risk Committee and US Risk Committee Société Générale Group, Chair of La Nuova Musica, she is Board Trustee of the Shaw Trust and independent director of X-Forces Enterprise.



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Helen Crooks

Independent Non-Executive Director

Appointment to the Board
Helen Crooks joined the Pay.UK Board in January 2023.

Skills and qualifications
Helen is an experienced data and digital leader and holds a BSc in Mathematics and Sociology.

Relevant past experience
Her previous roles include Chief Data Officer at Ofgem and executive roles at Tesco and Lloyds of London. She featured in the DataIQ100 power Titan list from 2017-2020, and was recognised with the DataIQ lifetime achievement award, in 2022. She also previously chaired the London Market Data Steering Board.

External appointments
Helen chairs the External Advisory Group for the UK Parliament Digital Transformation Programme, is a Non-Executive Advisor for Parliament Digital Services, advisor on data strategy to consultancies Practicus and Anmut and a member of the Strategic Advisory Board for Energy Demand Observatory and Laboratory (EDOL).

Board of Directors continued



Marc Pettican

Non-Executive Director

Appointment to the Board
Marc Pettican was appointed the Pay.UK Board in May 2021.

Skills and qualifications
With over 20 years in the payments arena, Marc Pettican has seen significant development in technology and innovation across the industry, and has often been a driving force in shaping new propositions for Barclays’ corporate portfolio (NFC, EMV, Data Security, eCommerce, Virtual Payments).

Relevant past experience
Since joining Barclays over 30 years ago, Marc has extensive experience in acquiring payment gateways, data security and commercial payments. He has undertaken a succession of senior coverage, leadership and general management roles, covering small businesses through to global corporates.

Since October 2022, Marc has held the position of Head of Barclaycard Payments, overseeing the end-to-end payments business, spanning issuing and acquiring for small businesses to large multinational corporates.

Advisory Board Member, Commercial Payments International until 2022.

External appointments
None.



A N Re

Lesley Titcomb

Independent Non-Executive Director

Appointment to the Board
Lesley joined the Pay.UK Board in January 2021 as an INED. Lesley is a member of the Audit, Nomination and Remuneration Committees.

Skills and qualifications
Lesley is a Chartered Accountant and has a strong financial services and regulatory background, including the Pensions Regulator and the FCA.

Relevant past experience
Chief Operating Officer of the FCA, Chief Executive of the Pensions Regulator.

External appointments
Currently, Lesley is Chair of the Market Harborough Building Society, an Independent Non-Executive Director of the National Bank of Kuwait (International Plc) and a Governor of the University of Hertfordshire.

Lesley has recently been appointed as Chair of the debt advice charity StepChange, where she has been a trustee for five years.



Lars Trunin

Non-Executive Director

Appointment to the Board
Lars joined the Pay.UK Board in March 2021.

Skills and qualifications
Lars is a Board Director at Wise Payments Ltd and TINV Europe AS. As Director of Product for Europe and the UK at Wise, formerly TransferWise, he leads teams focused on helping over 10 million people around the world move their money internationally as quickly, inexpensively and conveniently, as possible.

He holds an MBA from Saïd Business School, University of Oxford.

Relevant past experience
Lars spearheaded the initiative of Wise joining the Bank of England’s RTGS system as the first Non-Bank PSP, and as a direct customer of the FPS.

Before Wise, Lars founded Raudwara, an Estonian publishing house, authored several bestselling books in mathematics, and worked with the Walt Disney Company in Kenya, Nigeria, and South Africa.

Lars was also a member of the Banking Stakeholder Group, European Banking Authority.

External appointments
None.

Committees served on during the year

Committee Chair

A Audit

N Nomination

R Risk

Re Remuneration



R

Ajay Vij

Independent Non-Executive Director

Appointment to the Board
Ajay Vij was appointed to the Pay.UK Board in January 2023.

Skills and qualifications
Ajay specialises in digital transformation and scaling global technology services in financial services. He holds an MBA from London Business School.

Relevant past experience
Ajay has built his career with technology service integration firms, including Infosys, IBM Global Business Services and Avanade.

External appointments
He is currently UKI and Strategic Industries Head, Google Cloud EMEA. Previously Ajay was Vice President for Strategic Industries for Google Cloud EMEA.



A R

Peter Wyman

Independent Non-Executive Director

Appointment to the Board
Peter was appointed to the Pay.UK Board in October 2017. Peter is Chair of the Audit Committee and member of the Risk Committee.

Skills and qualifications
Peter is an experienced Chair and NED with a current portfolio of appointments in the private, public and third sectors.

Peter is a Chartered Accountant.

Relevant past experience
Peter was previously a senior partner in PwC, Chair of the Care Quality Commission, Treasurer of Bath University and a NED at Companies House.

External appointments
Peter was recently appointed as the first Independent Chair of the Board of the Institute of Chartered Accountants in England and Wales. Other roles include the Chair of NHS Blood and Transplant and Sir Richard Sutton Limited. He is also a Deputy Lieutenant of Somerset.



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Corporate governance report continued

Key responsibilities

Chair	- Leading the Board in determining the strategy - Leadership of the Board, promoting open and constructive discussion with all Directors - The effectiveness of the Board - Setting the Board’s agenda, ensuring it aligns with the Company’s strategic goals.
Chief executive officer	- The day-to-day management of the Company - Leading the Executive team - Developing the strategic goals, approved by the Board and leading Executive management in delivering these within the agreed risk appetite approved by the Board - Promoting the Company’s values, purpose and culture.
Senior independent director	- Providing a sounding board for the Chair and supporting him in his leadership - Leading the Chair’s performance appraisal by the Directors and serving as an intermediary for the other Directors with the Chair if necessary - Director responsible for ensuring the end user voice is heard in the Boardroom.
Non-executive directors	- Contributing to the development of the strategy and constructive oversight of its execution - Providing support and challenge to the executive management - Monitoring executive management’s progress against agreed performance criteria.
Executive management	- Assisting the CEO in the running of the business - Implementing the strategic goals, operational plans, business processes and monitoring business performance - Overseeing the assessment and management of risk within the business and wider payments ecosystem.

Board attendance

The following table sets out the attendance record of the Directors at the scheduled Board meetings held during the year. Additional meetings were held to provide the Board with updates on key elements of the NPA programme. The Board also participated in a number of subject matter deep dives and training sessions.

Board member	Eligible meetings	Meetings attended
Anna Bradley	7	7
Diane Côté	7	7
Helen Crooks	7	7
Michael Ellis ¹	2	2
Mark Hoban	7	7
Marc Pettican	7	7
David Pitt ²	7	6
Lesley Titcomb	7	7
Lars Trunin	7	7
Ajay Vij	7	7
Peter Wyman	7	7

¹ Michael Ellis was appointed to the Board on 3 August 2023.

² David Pitt was away on compassionate leave.

Key activities and discussions in 2023

Strategy	- Held a Board Strategy Day at which the redefined strategic priorities and strategic roadmap were approved - Discussed the strategic initiatives for Bacs, ICS and Data and received an update on the strategic roadmap later in the year - Received regular governance updates, covering key topics of strategy, stakeholder engagement, people and risk management.
NPA	- Approved the submission to the Bank of England’s FMID for the Company’s proposed supplier for the NPA - Held a session to ensure the Board was familiar with the artefacts and details of the technical design, vendor evaluation and delivery approach of the NPA programme - Additional meetings were held to receive updates on the NPA programme - Regular updates were received on customer engagement, commercials and progress of the NPA programme against plan - The Chair of the SPG attended a number of Board meetings to provide first hand customer feedback on the programme.
Financial	- Received regular updates from the CFO on financial matters such as company performance, funding, pricing and capital management - Approved an adjustment to the 2023 budget - Approved the Risk Capital and Financial Recovery plan - Approved the 2022 Annual Report and Financial Statements - Approved the reappointment of BDO as the Company’s Auditor - Approved the Investment policy - Approved the provision of parent company guarantees for both Faster Payments Scheme Ltd and Cheque and Credit Clearing Company Ltd - Approved and ratified the Company’s Directors and Officer (D&O) insurance renewal - Approved the Capital and Liquidity policy - Approved the 2024 Budget.
Controls and governance	- Agreed the proposed Board Effectiveness Maturity Framework and Success Factors as the means by which the effective governance of the business would be measured - Approved the Modern Slavery Statement and the Modern Slavery Policy - Approved the Conflicts of Interest policy - Approved the Information Security Strategy - Approved the Terms of Reference for the Board, Remuneration, Nomination, Risk and Audit Committees - Approved the Delegation of Authority policy.
People and employee engagement	- Approved the Gender Pay Gap Report - Participated in ‘in my shoes’ training as part company-wide roll out - Discussed the results of the annual Colleague Engagement Survey - Received a presentation from a newly qualified company apprentice - Lesley Titcomb attended the Colleague Strategy Day and updated the Board on colleague engagement - Lesley also provided feedback following her ‘Lunch with Lesley’ sessions with a number of employees.
Sustainability	- Received a presentation on the development of the Company’s ESG strategy and planned implementation - Discussions were held regarding the Company’s premises including its environmental credentials.

Corporate governance report continued

Regulatory
- Considered the Bank of England’s Annual Risk Review letter in conjunction with the Bank’s attendance at the May Board meeting - Discussed the role of Pay.UK in conjunction with the regulatory landscape.
Risk
- Approved the BAU Operational Resilience Self-Assessment - Approved the Risk Appetite Statements - Approved the Risk Committee’s recommendation regarding a Board sponsor for Third Party Risk - Approved the PFMI self-assessment - Approved the ERMF - Approved the Risk Appetite Statements - Approved the TPRM and Procurement Policy - Approved the TPRM criticality assessment - Deep dive session was held to understand the development of the ERMF, concentration risk and TPRM - Discussed the principal risks of the business.

Board performance evaluation

The Board undertakes a formal evaluation of its performance, and that of each Director, on an annual basis. Such evaluations are conducted in accordance with the principles set out in the Code and include consideration of the skills, composition and performance of the Board, its Committees and individual Directors. Having carried out performance evaluations over the prior two years, facilitated by PwC (externally facilitated) it was considered appropriate to complete an internally facilitated evaluation, with a question set coming from the Chair, to ascertain progress to date and where focus was most needed in the year ahead, including: the Board’s oversight of strategy, external stakeholder engagement and risk management. A schedule of actions has been taken forward to address this work, with the key recommendations highlighted below.	PwC has been engaged by the Company during the prior year, to provide advice and consultancy services, covering a number of business areas. The questions covered the areas, previously identified by PwC, where the work of the Board needed to be focused, to support the development of the business as a whole. Supplementary questions were also asked in relation to the work of the Committees. Overall, the work of the Board continued to support the further development of governance effectiveness, and recognised where improvements would be beneficial.
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Findings	Key actions planned in 2024
The strategy is well understood internally. This understanding could be improved externally, which would support improved stakeholder feedback on refining the strategy and prioritisation of initiatives.	The business will continue to focus on Pay.UK’s evolution, to be more relevant to our stakeholders in light of market dynamics and technology innovation.
The business has further to go in maturing its engagement strategy and to feed back stakeholder sentiment into the Board. More time is needed on strategic rather than tactical engagement to consider elevating customer engagement appropriately.	A review of our external stakeholder engagement was completed during the year, together with a planned engagement approach and reporting. This will be embedded during 2024.
A good risk management framework was now in place and significant progress had been made in understanding operational risks and improved management of them.	Further work was needed to assess risks of strategic initiatives and the change initiatives that result in both planning and execution.

Board oversight of operations (Vocalink)

As part of the development of third party management, a revised oversight structure was initiated at the end of 2022 between Pay.UK and Vocalink and further developed during the year. This structure provides oversight across key areas, such as : performance, operations, change and service planning. These focused meetings report to a joint executive committee, which reports into the Board’s Risk Committee, from which reports are received by the Board.

Further information on our TPMF may be found on page 38.

Directors’ responsibility statement

The Directors are responsible for preparing the Strategic Report, the Directors’ Report, Annual Report and 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 Group and Parent Company and of the profit or loss of the Group 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 accounting estimates that are reasonable and prudent.
- State whether applicable UK-adopted international accounting standards have been followed, and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

The Directors are responsible for safeguarding the assets of the Group and Parent Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are also responsible for keeping adequate accounting records that are sufficient to show and explain the Group’s and Parent Company’s transactions and disclose with reasonable accuracy, at any time, the financial position, of the Group and Parent Company enabling them to ensure that the financial statements and the Directors’ Remuneration Report comply with the requirements of the Companies Act 2006.

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.

Directors’ confirmation

The Directors consider that the Annual Report, taken as a whole, is fair balanced and responsible and provides the information necessary for guarantors to assess the Group’s and Parent Company’s position, performance, business model and strategy.

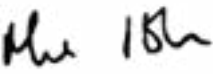
Each of the Directors, whose names and functions are listed in the Corporate Governance Report in this Annual Report, confirms that, to the best of their knowledge:

- The Group and Parent Company financial statements, which have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), give a true and fair view of the assets, liabilities and financial position of the Group and Parent Company, and of the profit of the Group; and
- The Strategic Report includes a fair review of the development and performance of the business and the position of the Group and Parent Company, together with a description of the principal risks and uncertainties that it faces.

In the case of each Director in office at the date the Directors’ Report is approved:

- As far as the Director is aware, there is no relevant audit information of which the company’s auditor is unaware, and
- The Director has taken all the steps that he/she ought to have taken as a Director to make himself/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.



Mark Hoban
Chair

22 May 2024

Directors’ report

Principal activities

Pay.UK is the recognised operator and standards body for the UK’s interbank retail payment systems. The activities that make up this work remain unchanged from the prior year.

Guarantors

Pay.UK is a company limited by guarantee. One Guarantor (Kikapay Limited) ceased trading early 2024 and so we have 40 Guarantor members including banks, fintechs and PSPs. The role of our Guarantor members is to hold the Board to account for the continuing fulfilment of our purpose and strategic objectives. In July 2023, we held our AGM as a hybrid meeting, with Board members attending in person and Guarantors attending by video conference. There were 24 Guarantors in attendance.

Articles of Association

The Articles of Association were last approved by Guarantors at the Company’s 2021 AGM. Any amendments to the Articles of Association may only be made by a special resolution at a general meeting of Guarantors.

2024 Annual General Meeting

The Company’s AGM is a key date for the Board as it provides the Directors an opportunity to meet with our Guarantors.

The 2024 AGM will be held on 26 June 2024 virtually. BDO LLP will be recommended by the Directors for re-appointment as independent auditors by the Directors at the AGM. BDO has indicated their willingness to continue in office.

Directors

The names and biographical details of the Directors who served on the Board and Board committees during the year, including changes that have occurred during the year and up to the date of this report, are shown in the corporate governance report and are incorporated into the Directors’ Report by reference.

Appointment and retirement of directors

The Company’s Articles of Association, the Code, the Companies Act 2006 and related legislation govern the appointment and retirement of Directors.

Directors may be appointed by ordinary resolution of the Company or by the Board. In addition to any powers of removal conferred by the Companies Act 2006, the Directors, or any committee authorised by the Directors, may terminate the appointment of any Executive Director.

In accordance with the Code and the Company’s Articles of Association, all Directors are subject to election by Guarantors at the first AGM following their appointment, and subject to annual re-election thereafter.

Each Director of the Board will be standing for re-election and the 2024 Notice of AGM sets out the reasons why the Board believes each Director should be re-elected.

Directors’ powers

Subject to relevant company law and the Company’s Articles of Association, the Directors may exercise all powers of the Company.

Strategic report

Pages 7 to 80 of this Annual Report comprise the Strategic report, Governance and Directors’ report and the Remuneration report. These reports have been written and presented in accordance with English Law and the liabilities of the Directors in connection with this report shall be subject to the limitations and restrictions provided accordingly.

The Directors are required to provide a Management Report, containing a fair review of the business and a description of the principal risks and uncertainties facing the Company. These disclosures may be found in the Strategic report on pages 7 to 49.

The Directors acknowledge they are responsible for the Company’s internal control and risk management systems and for reviewing their effectiveness. Details of this review process may be found on pages 28 to 34.

The Strategic report on pages 7 to 49 provide a description of the Company’s activities relating to our employees, their involvement with the Company, including information on some of our key policies and how these have been implemented during the year. Information covering our sustainability performance is included on page 46.

Information summarising how the Directors have had regard to the need to foster the Company’s business relationships with suppliers, customers and others, and the effect of that regard, including on the principal decisions taken by the Company during the financial year, is included in the s172 statement on pages 41 to 43.

Corporate Governance statement

The Corporate Governance Report, which may be found in pages 56 to 61, is incorporated by reference into this Directors’ Report and includes details of our compliance with the Code and how the Company has applied the main Principles. The Corporate Governance Report also includes a description of the Group Diversity and Inclusion Policy, which incorporates Board diversity.

Insurance

Directors’ and officers’ liability insurance was maintained by the Company throughout 2023 and to the date of this report. Qualifying indemnity provisions are in place for the benefit of the Directors. Pay.UK made qualifying third-party insurance provisions for the benefit of our Directors during the period and these remain in force as at the date of this report.

Financing

The Company finances its operations through a mixture of in-year income, retained earnings and advances from the funding customers. The Company does not trade in financial instruments.

Financial reporting

The Annual Report and Financial Statements is intended to provide a balanced and clear assessment of the Company’s past performance, present position and future prospects. The Company’s results for the year are shown in the Consolidated statement of comprehensive income on page 86. A statement by the Directors on their responsibility for preparing the financial statements is given on page 61.

Going concern

As a consequence of the work undertaken to support the Viability Statement, which may be found on pages 35 to 36, the Directors have continued to adopt the going concern basis in preparing the financial statements (see Note 2.2 in the financial statements).

Auditors and disclosure of information to auditors

The Directors who held office at the date of approval of this Directors’ report have confirmed their acknowledgement of their responsibilities in respect of disclosure of relevant audit information to the Company’s auditors on page 61.

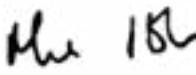
Political donations

In compliance with the Articles of Association, the Company did not make any political donations during the year (2022: £nil).

Events after the reporting year

Since the start of 2023 there have been no material subsequent events.

By order of the Board.



Mark Hoban
Chair

22 May 2024



Audit Committee report



On behalf of the Board, I am pleased to present the Audit Committee report for 2023. This report sets out the activities of the Committee during 2023 and the Committee's priorities for the year ahead. Through its work, the Committee continued to support the Board in the development of the Company's internal control environment, as well as ensuring the integrity and quality of external financial reporting.

Peter Wyman

Chair of the Audit Committee

2023 saw the further development of internal controls, aligned with improvements in the assurance provided by the three lines of defence model implemented by the business.

The ongoing capture of themes identified from Internal Audit findings has also supported improvements to the continued embedding of the risk framework and robustness of risk records; the application of the change framework and programme/project management disciplines in change initiatives; and issues relating to IT application access controls, where the application is not directly managed by IT. The Committee provided feedback on internal audit reports, which enabled a clearer link between the potential risks and the severity of control ratings from internal audits.

The Committee also supported improvements to the Internal Audit function, as part of the second year review of their three year strategy, and following an External Quality Assessment from which the team received the highest rating of 'generally conform to standards'. The Internal Audit function's strategy is to drive efficiency in their ways of working, deliver data driven assurance and further enhance insights for the business; in 2023 a new audit system, embedding automated controls and audit progress tracking (Ways of Working) was implemented; piloting data analytics (Data Driven Assurance); and established greater alignment with second line (Enhanced Insights) – all in line with an independently assessed NextGen Model. The 2023 internal audit plan was structured to focus on activity that has been integral to achieving the strategic objectives, to keep a focus on key controls and to provide audit, review and real-time support.

In 2023, management worked with the Company's external auditors, BDO, to provide evidence of the robustness of financial reporting controls, which included: challenging management on how existing systems of controls could be improved, including with a roadmap for the Auditors to have confidence be able to place reliance on controls in certain captions of the financial statements.

Following the Board's decision to invest surplus funds in financial instruments, the Committee was charged with the responsibility of creating and enforcing robust controls to govern its operations. The Investment Committee was established to monitor these controls and report its findings to the Committee on a quarterly basis.

The Committee continues to collaborate with colleagues from the Risk Committee to reduce duplication of discussion on specific topics (refer to 'Joint meetings of the Audit Committee and the Risk Committee' section below). This joint forum has continued to prove effective and three meetings were held during 2023.

The continued improvement in the work and effectiveness of the Committee is always in mind and, as a result, a number of improvements to enhance the effectiveness of Committee meetings (refer to 'Committee effectiveness' section below) were implemented.

This report sets out the activities of the Committee during 2023 and the Committee's priorities for the year ahead. In 2023, the Committee continued to focus on the core aspects of governance within the Group. Primarily, this was the enhancement of the Company's internal controls frameworks, which included the alignment and coordination of assurance across the three lines of defence.

Peter Wyman

Chair of the Audit Committee

22 May 2024

Role of the Committee

The Board has delegated responsibility to the Committee for oversight of the Group's financial reporting, to ensure that the external auditor is effective in its role and to ensure the integrity of Pay. UK's internal audit and external audit functions to provide independent assurance over the internal control framework.

The Committee operates under Terms of Reference that are reviewed and updated on an annual basis to ensure maximum effectiveness of the Committee. These Terms of Reference are approved by the Board. The Terms of Reference follow the Code and the Chartered Governance Institute standard, whilst also incorporating some elements specific to Pay.UK, ensuring the Committee is appropriately aligned to support the work of the Board and the refreshed strategy.

Committee membership and attendance

During the year, the Committee met six times, to cover the planned work of the Committee and any ad hoc topics requiring attention.

As previously noted, all Committee members are INEDs of Pay.UK. Peter Wyman was appointed Chair, with effect from 1 January 2022 and is joined by members Diane Côté, Lesley Titcomb and Helen Crooks.

The Chairs of the Audit and Risk Committee each sit on both Committees, ensuring that no issues fall between these two fora or are duplicated. The respective Committee Chairs have the discretion to agree the most appropriate Committee to fulfil any obligation or to call a Joint Audit and Risk Committees meeting in the event there is a perceived overlap of responsibilities.

Meetings are attended by the Chief Executive Officer, Chief Financial Officer and the Chief Internal Auditor. The Chief Risk Officer also attends Committee meetings to support discussions on the internal control environment and to contribute to discussions on risk management. The External Auditors attend Committee meetings periodically, both as observers and to present their Annual Audit Plan and Report, and to discuss any significant matters identified.

Key responsibilities:

The Committee is responsible for ensuring the integrity of Pay.UK's internal and external audit functions to provide independent assurance over the internal control environment. The Committee is also responsible for monitoring the integrity of the annual Financial Statements of the Company, including any other formal statements relating to its financial performance, and to review and report to the Board on significant financial reporting issues and judgements that contain statements having regard to matters communicated to it by the Auditor.

2023 key achievements:

In addition to its routine work of reviewing and considering internal audit findings and providing guidance, challenge and counsel to management, the Committee also oversaw:

- Delivery of 2022 Annual Report and Financial Statements
- Continued attendance of responsible executives at meetings to answer questions relating to any audit findings
- Continued collaboration with colleagues from the Risk Committee to reduce duplication of discussion on specific topics, by holding joint meetings (refer to 'Joint meetings of the Audit Committee and the Risk Committee' section below)
- The establishment of an Investment Committee, reporting to the Audit Committee, which reported on investment controls and funds management.

Areas of focus in 2024

- Approval of the 2023 external audit plan
- Approval of the 2024 internal audit plan
- Approval of a new Provision of Non-Audit Services Policy
- Monitor performance against 2024 budget
- Review of 2025 budget to be set for the following financial year
- Consider ongoing effectiveness of the internal control environment.

Audit Committee report continued

Membership of the Committee, and attendance for scheduled meetings during the year ended 31 December 2023, was as follows:

Audit Committee Member	Appointed to the Committee	Eligible meetings	Meetings attended
Peter Wyman (Chair)	1 January 2022	6	6
Diane Côté	1 January 2022	6	6
Helen Crooks	1 January 2023	6	6
Lesley Titcomb	1 January 2022	6	6

Members did not have any personal interests in the matters decided by the Committee.

Under provisions of the Code, the Committee should have at least one member with recent and relevant financial experience and competence in accounting and/or auditing, and the Committee as a whole should have competence relevant to the sector in which the Company operates. The Board considers that the members of the Committee collectively have such relevant experience with which to satisfy this requirement.

Financial reporting

- Approved the going concern assessment basis of preparation for the Pay.UK Ltd Group Financial Statements
- Approved the going concern assessment, viability statement and BDO’s Letter of Representation
- Recommended the draft 2022 Annual Report and Financial Statements to the Board for approval
- Approved the key accounting policies
- Provided oversight of Pay.UK’s monthly management accounts to ensure that Pay.UK remained on track against its annual budget
- Reviewed the 2022 Annual Report and Financial Statements and the Audit Committee Report in the Annual Report.

External audit

- Approved the Engagement Letter and approved the 2022 audit fee proposal
- Recommended for Board approval the re-appointment of BDO until the conclusion of the 2024 Pay.UK AGM
- Approved the 2024 external audit fees.

Internal audit

- Approved the 2023 Internal Audit plan
- Approved the 2023 Internal Audit KPIs
- Approved the Internal Audit Charter and noted the independence declaration, EQA results and annual audit opinion
- Approved the 2024 annual Internal Audit plan in principle
- Considered the effectiveness of the internal control function.

Governance

- Reviewed the Committee’s Terms of Reference and recommended these to the Board for approval
- Reviewed the non-audit work carried out by BDO
- Recommended the statement confirming the Annual Report and Financial Statements was fair, balanced, and understandable
- Recommended for Board approval the Capital and Liquidity Policy
- Discussed the Committee’s annual performance relative to Board Effectiveness Review
- Together with the Risk Committee reviewed and recommended Pay.UK’s Recovery Plan and Risk Capital Update for Board approval (refer to ‘Audit and Risk Committee’ section below).

Viability and going concern

- Recommended the Going Concern and Viability Statements to the Board.

Committee effectiveness:

As part of the Board Effectiveness Review, conducted in October 2023, the work of the Committee was considered. Feedback was sought from all Board members as to the Committee’s remit, and how it performed in providing the right level of assurance to the Board on the provision of financial information which support strategic decision making and the effectiveness of internal controls.

The responses confirmed the Board considered the Committee to be effective in its remit, and was supportive in the development of the internal audit capabilities and monitoring controls. This positive feedback was achieved by the solid framework and set of practices and controls, established within the business, which are overseen by the Committee.

External audit

The Committee is responsible for managing the relationship with and the performance of the Auditors, which includes making recommendations in respect of their appointment or reappointment.

Whilst Pay.UK is not a Public Interest Entity (PIE), in the interest of good governance Pay.UK has adopted a policy of mandatory tender at least every 10 years and to rotate auditors at least every 20 years. The last audit tender undertaken was concluded in 2018 and BDO was appointed as the Company’s statutory auditor with effect from the 2017 financial year. David Gonnelli of BDO is the Senior Statutory Auditor and was appointed to this role with effect from the 2023 financial year.

In line with the Audit Committee minimum standard guidance issued in May 2023, our tender process will aim for greater market diversity to ensure there is fair choice amongst suitable auditors.

The Committee places great importance on the quality, technical competence and independence of the external audit process. The Committee approved, and has since monitored, the effectiveness of BDO’s execution of the external audit plan. It also discussed all significant matters identified in BDO’s 2023 final audit report, including the accounting judgements taken by management and management’s responses to any audit findings.

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.

External audit effectiveness

The effectiveness of the 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.

Key to the Audit Committee’s oversight of the external audit is an assessment of the effectiveness of the audit process. To support this assessment the Committee and other members of the business, involved in the external audit process, were asked to participate in a questionnaire, seeking input covering the scope of the audit, engagement of the audit team and overall output.

In carrying out our assessment, we consider the auditor’s mind-set and culture; skills, character and knowledge; quality control; and judgement, including the robustness and perceptiveness of BDO in handling areas of complexity, responding to questions from the Audit Committee, and in their commentary on the systems of internal control.

As part of this exercise, the Audit Committee considered the transparency of the report published by the Financial Reporting Council (FRC) in July 2023 and the actions taken by BDO to address the findings raised.

Having considered the above assessment, the Committee continues to be satisfied with the work of BDO and will be recommending their reappointment to the Board to be put before Guarantors at the 2024 AGM.

Audit and non-audit fees

The Committee keeps under review the audit fees to ensure these remain appropriate for the size and scale of the work required. The fee for the 2023 audit is £330,000 (2022: £172,000). Details of the fees paid to BDO for the year ending 31 December 2023 may be found in Note 5 of the Financial Statements on page 96.

The Company is not subject to external restrictions in terms of the non-audit work that is provided by the external auditors. For good governance management has chosen to implement a Provision of Non-Audit Service Policy, which was approved by the Committee in March 2024. Decisions and reporting against this policy will be regularly reviewed by the Committee.

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 responsibility for authorising the purchase of non-audit services from the Auditor to the Audit Committee. The Committee has however pre-approved di minimis levels of non-audit services to management.

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.

Internal audit

In order to reinforce its integrity and objectivity, the Internal Audit function has no responsibility for operational management of the business. The Chief Internal Auditor maintains independence by reporting directly to the Chair of the Committee, and also has an additional administrative reporting line to the CEO. The Committee monitors and reviews the effectiveness of Internal Audit and ensures that it has the resources required to carry out its responsibilities.

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 Audit Committee approves the annual internal audit plan, reviews internal audit reports and receives periodic reports from the Chief Internal Auditor. It also

Audit Committee report continued

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.

The Internal Audit team 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.

Financial reporting and significant judgements

The Committee is responsible for monitoring the integrity of the Financial Statements including significant accounting policies and key areas of audit judgements. In undertaking this review the following accounting policies and judgements were discussed and debated with management and the External Auditors.

Areas	Audit committee review	Conclusions
Going Concern and Viability assessment	The group used the most recent projections and other qualitative considerations in evaluating whether the going concern basis of preparation continue to be appropriate. The assessment included detailed review of the Group's liquidity and regulatory capital positions over the period which we consider to be reasonable and sustainable. The period also aligns to both FRC and FRS 102 requirements. The review was combined with the viability assessment as detailed on pages 35 to 36. The assessment takes into consideration several pessimistic scenarios that could possibly occur over the period. Our going concern assessment has been through a thorough process involving detailed review by management, the Audit Committee, and the Board, in line with our governance process. Further, the process and related assumptions used were reviewed and challenged by our external auditors, BDO.	The Audit Committee considered and recommended to the Board that the going concern basis of accounting be adopted and the disclosures prepared by management form part of Note 2.2 to the consolidated financial statements.
Revenue Recognition	The Audit Committee considered papers presented by Management covering matters related to the appropriateness of the revenue recognition for each major income stream. The Audit Committee was also provided with the results of the service auditors' report and reviewed how management addressed any exceptions that were identified. We also understood the level of scrutiny and challenge that is in place to ensure the completeness and accuracy of the volumes that are used to derive the revenue that is recorded within the financial statements.	The Audit Committee reviewed the key accounting policies, the results of the service auditor report as well as management's assessment of these reports and considered the conclusions reasonable.

Areas	Audit committee review	Conclusions
Fraud Risk Assessment in financial reporting	The Audit Committee was presented with management's assessment of fraud within financial reporting covering key areas where fraud could be manifested. These include areas of estimates, unusual transactions, complex related parties and manual journals. The fraud triangle was utilised to understand factors that could influence management to commit fraud. The assessment considered both the likelihood and the magnitude were any individual risks or combination of risks were to be crystallised.	The Audit Committee reviewed management's assessment of fraud and concluded that the considerations made were reasonable. Further, no incidents of fraud were identified from these procedures and the results were supported by findings from our external auditors, BDO.
Governance over accounting policy and judgements	In preparation of the Annual Report, management undertake an assessment on whether there are any critical judgements or estimates in the financial statements and present a paper to the Audit Committee on the findings. The following areas were considered: - Deferred taxes - Fair value of Money Market funds - Depreciation - Provision for liabilities. The results showed that none of these areas resulted in a material impact on the financial statements.	The Audit Committee considered the evidence to support the disclosure and concluded that there were no material impacts resulting from judgements or estimates made in Note 2.

Joint meetings of Audit Committee and the Risk Committee

As previously agreed, joint meetings of the Audit Committee and the Risk Committee were held at specific times of the year. These meetings help to avoid potential duplication of reporting and discussion of items, covered in some way by both committees and to ensure clear outcomes and approvals are achieved, where necessary.

During 2023 three joint meetings were held. These meetings are co-Chaired by the Chair of the Audit Committee and the Chair of the Risk Committee respectively.

2023 annual report and financial statements

Following discussions with the Auditors, and the conclusions set out in the table above, the Committee was satisfied that the Financial Statements dealt appropriately with each of the areas of significant judgement. BDO also reported to the Committee on any misstatements that they had found in the course of their work and confirmed that no material amounts remained unadjusted.

In accordance with the Code, the Committee reviewed the Annual Report and Financial Statements and was able to recommend that the Board approved it on the basis that it considered the Annual Report and Financial Statements, taken as a whole, to be fair, balanced and understandable, and provided the information necessary for Guarantors and all stakeholders to assess the Company's performance, business model and strategy.

Nomination Committee report



The Nomination Committee seeks to ensure that the Board and its committees have the skills required to deliver our strategy and objectives in the longer term, and to identify the potential skills and experience that may be required, as part of succession planning.

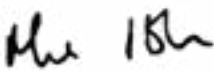
Mark Hoban
Chair of the Nomination Committee

The Committee’s focus during the year was therefore the composition of the Board and ensuring a strong team with a diverse range of perspectives, skills, experience and capabilities. During 2023, the Committee considered the re-appointment of directors whose terms would come to an end in December 2023. The Committee is mindful that the Code indicates that directors should not serve for more than nine years and those directors who have served over six years should undergo a rigorous review. The Committee recommended to the Board the re-appointment of Anna Bradley, Mark Hoban and Lesley Titcomb for a further term.

As part of its oversight of the composition, size and structure of the Board, the Committee considered whether a third NED should be appointed, as allowed for by the Articles, alongside Marc Pettican and Lars Trunin. The Committee felt that whilst this position should be filled in due course, an appointment at this stage would disrupt the smooth functioning of the Board, given the critical business activities underway.

During 2023, the Committee also considered the appointment of an additional Executive Director to support the CEO and provide additional executive capacity. The Committee recommended the appointment of Michael Ellis as Executive Director.

The Board approved all the Committee’s recommendations for appointments.



Mark Hoban
Chair

22 May 2024

Role of the Committee

The Committee is chaired by the Chair of the Board and is composed of INEDs.

The Committee regularly reviews the structure, size and composition (including the skills, knowledge, experience and diversity) of the Board to ensure it remains effective and suited to the Company’s strategic priorities.

The skills map, created in 2021 as part of the governance review, was refreshed and used by the Committee to inform the requirements for the appointment and re-election of Directors.

The Committee operates under Terms of Reference to ensure that its work remains appropriate. Revised Terms of Reference were approved by the Board during the year and will inform the work of the Committee for 2024.

Committee membership and attendance

Membership of the Committee, and attendance for scheduled meetings during the year ended 31 December 2023, was as follows:

Nomination Committee Member	Appointed to the Committee	Eligible meetings	Meetings attended
Mark Hoban (Chair)	1 November 2020	5	5
Anna Bradley	8 May 2019	5	5
Lesley Titcomb	1 January 2023	5	5

All members are independent and recuse themselves at times from decision making when matters are in respect of recommendations being made to the Board, covering appointment and reappointment to the Board.

The CEO and the CPCO are also invited to attend meetings and make a valuable contribution to discussions.

Activities of the Committee in 2023

The Committee oversaw the review of Executive skills and capabilities and agreed that the outcomes of the review would be linked to individual executives’ development plans. The Committee’s work has supported the appointment to key positions in senior management and organisational changes within the Executive that supported initiatives to develop talent internally.

The Nomination Committee reviewed the membership of the Board committees and agreed these would remain unchanged.

Updates on the progress of the People Strategy were received by the Committee. Members supported the proposal to extend the work to embed this strategy, enabling the skills and capabilities to be further developed, which would support the delivery of the Company’s strategic initiatives.

The Committee discussed the identification and development of talent within the organisation in particular and how these supported succession planning, in particular for the Executive.

In 2014, the CMA mandated the governance of CASS should include independent non-bank or building society members and representatives of relevant consumer groups and intermediaries, such as price-comparison websites. All three independent members, including the Chair, were scheduled to step down from the SSCC at the end of 2023. As a result, the Nomination Committee discussed the most appropriate way to support the recruitment process, ensuring continued independence and alignment of CASS and Pay.UK strategies.

In 2022, the Participant Advisory Council (PAC) was disbanded and replaced by the IAC later in the year. During 2023, the Committee oversaw the recruitment of the Chair of IAC and supported the recommendation from the Executive for the appointment of Lorraine Brady.

During the year, the Committee considered the role of Company Secretary and agreed this appointment would go to further the development of corporate governance across the business, ensuring seamless linkage between all business areas and executives in the development and delivery of a mature embedded governance framework. The Board approved the Committee’s recommendation to appoint a Company Secretary.

The Committee met five times during the year to complete its work, both formally and on other occasions, to participate in ad-hoc discussions and candidate selection interviews.

Key responsibilities:

- Review of the structure, size and composition, including skills, knowledge, experience and diversity of the Board
- Identify and nominate candidates to fill Board vacancies
- Keep under review the leadership needs of the organisation, both Executive and Non-Executive.

2023 key achievements:

- Recommended the appointment of a second Executive Director to the Board
- Recommended the appointment of the Company Secretary
- Considered the industry co-chair of the Industry Advisory Committee.

Areas of focus in 2024

- Succession planning at both Board and Executive level
- Talent management
- Progressing the D&I agenda across the business.

Committee effectiveness

A Board Effectiveness Review was carried out in October 2023 where Board members were asked to consider the role of the Committee and its effectiveness in its remit and if it furthered the maturity of governance framework across the business. Feedback was also sought on how the development of the Committee’s work could enhance the delivery of the Company’s strategy.

The responses highlighted that the Board considered the Committee to be effective in its remit, and that its focus on ensuring diversity of experience, capabilities and gender at both Board and executive levels supported the functioning of the Board and the delivery of Pay.UK’s strategy.

The Committee discussed and considered the feedback from the Effectiveness Review when reviewing its Terms of Reference in 2023 and evaluating its own performance. Following this review, the Committee confirmed that the Terms of Reference remained appropriate.

Nomination Committee report continued

Chair's performance evaluation

Anna Bradley, as Senior Independent Director (SID), led the annual appraisal of the Chair's performance. Anna gathered feedback from Board members, senior management and stakeholders who have engaged with the Chair during the year. The feedback was discussed between Anna and Mark and the outcome of the appraisal was discussed by the Board as a whole.

Diversity and Inclusion

The Committee acknowledges the benefits of diversity when searching for candidates for the Board, the Executive Committee and other appointments, following the principles of the Group's D&I policy (which is available to view on the Group's website). The Board considers that diversity, in all its forms, enables the sharing of each individual's unique perspective, which promotes inclusivity and supports good decision making. Accordingly, all Board appointments are made on merit against a set of objective criteria informed by the skills and experience required for each role.

The Committee spent time reviewing the D&I metrics within the business in particular how to improve the collection of D&I data by emphasising its value to colleagues in progressing this important element of the employee make up.

The aim of the Committee is to ensure the Board is well balanced and meets the needs of the business in developing and implementing the strategy, supported by Directors who have the relevant diversity of skill, experience and perspective. The Committee is also mindful of the need to ensure a wider cultural diversity across the Board and the business more generally.

Director induction

Upon appointment, all new Directors receive a tailored induction programme, meeting all other Board members and Executive management who provide operational and background information to aid the Directors' understanding of the work of the Company and a wider understanding of the payments ecosystem.

Helen Crooks and Ajay Vij joined the Board in January 2023 bringing considerable data and analytics, and technology outsourcing knowledge and experience. Their appointments bring deep knowledge and fresh perspectives to the Board.

Upon appointment, both Helen and Ajay participated in a tailored induction programme, which was designed to provide a thorough understanding of the business and Pay.UK's role in the wider context of the ecosystem. The induction programme included strategy and a deep dive into the NPA programme. Each new Director was provided with information comprising a broad range of key information, including past Board and committee papers, meeting minutes, details of operational and financial performance, explanations of risks and their management, as well as key policies.

Upon appointment, Helen joined the Audit and Remuneration Committees and Ajay joined the Risk Committee. Additional time with the Chairs of each of those Committees was scheduled to cover key issues.



Risk Committee report



Pay.UK has an important role to play in the rapidly-evolving UK payments ecosystem; we all recognise the need to continually improve and adapt so we can effectively identify and manage the risks to the resilience and adequacy of our payment ecosystem.

Diane Côté
Chair of the Risk Committee

The Risk Committee has a key role to play in overseeing the effectiveness of Pay.UK's risk framework.

A key priority for the Committee is to support the development of a strong risk culture within the business. Moreover, the Committee is responsible for monitoring the level of management (first Line of defence) risk awareness and risk management accountability and the effectiveness of the second Line of defence (Risk and Compliance).

To support the Committee's work, the CRO reports to the Committee at each meeting on the risk profile of Pay.UK in addition to all the projects' risks and the Enterprise Risk Management enhancements. This report also supports the Committee's discussions on principal and emerging risks, mitigating actions and controls.

In March 2023, the Committee received an overview of the risk maturity framework, which was developed to benchmark Pay.UK's risk maturity against industry best practice. Following this exercise, a plan was developed to set out the work needed to achieve the desired level of maturity by the end of 2024 as set by the Board. Maturity target updates are reviewed at each Committee meeting.

A review was commissioned from EY at the end of 2023 to ensure an independent assessment of progress made to date and to complement the work already completed. This external review considered the effectiveness of our risk framework, including how risk exposures were being reported, challenged and mitigated through our ERMF. The independent assessors were asked to review Pay.UK's risk maturity, our effectiveness as a systemic risk manager, including how well we understand our ecosystem and our ability to identify, assess and mitigate both emerging and existing risks. The results of this independent review confirmed the positive evolution of Pay.UK's ability to identify, monitor and manage the risks to its payment ecosystem. It also reiterated the maturity target that was reached by the end of 2023 and the roadmap for the Board target by the end of 2024.

The Committee welcomes the regular updates from both first and second lines of defence, which provide insight into the continued operational resilience work within the business. Considerable work has taken place in 2023 on resilience in both first and second lines of defence functions. The Committee considered the development and implementation of the Business Continuity/Incident Management Response plan and reviewed and approved the Resilience policy.

In February 2023, the Bank of England published its supervisory statement on outsourcing and TPRM. The Committee received updates on the work undertaken to ensure Pay.UK's compliance with the regulation by the deadline of 9 February 2024. The Committee has also reviewed and challenged the policy and framework developed to provide a structured approach to analysing, mitigating and managing risks associated with Pay.UK's Outsourcers and Critical Third Parties (CTPs). This work of the Committee is particularly important for Pay.UK as it outsources all its payment operations to a third party (Vocalink). As a result, representatives from Vocalink were present to discuss the agenda item covering resilience at each meeting of the Committee during 2023.

The Committee regularly receives an update on security that it challenges and discusses. This includes the work to ensure that Pay.UK has a framework of policies, processes and procedures in place, and embedded, to enable it to manage its information security risks. The Committee was pleased to be advised in September that Pay.UK had formally received its ISO27001 certification.

Diane Côté
Chair of the Risk Committee

22 May 2024

Risk Committee report continued

Role of the committee

The three key aspects to the role of the Risk Committee are to advise the Board on risk appetite limits and overall risk matters, to oversee the effectiveness of the ERMF, including its second line of defence and to review and challenge the adequacy of risk management within the Pay.UK Group. It ensures there is a focus on managing risks within risk appetite as defined by the Board, and that it has oversight of Pay.UK’s risk profile.

The Risk Committee has a particularly important role given Pay.UK’s role as a systemic risk manager overseeing the continual and effective identification, assessment and mitigation of both existing and emerging risks to the payments ecosystem.

The Risk Committee ensures that emerging risk is identified and assessed as part of systemic risk management.

The Committee supports the Board in determining the nature and extent of the principal risks Pay.UK is willing to take in order to achieve its long-term strategic objectives.

When significant decisions are being made by the Board, the Risk Committee will review, discuss and support the Board in its decision making.

The responsibility and authority of the Committee cover the activities of the Pay.UK Group as a whole.

Committee membership and attendance

The Committee is chaired by Diane Côté and is composed of INEDs.

The Committee’s revised Terms of Reference were approved by the Board during the year and will inform the work of the Committee for 2024.

Membership of the Committee, and attendance for scheduled meetings during the year ended 31 December 2023, was as follows:

Risk Committee member	Appointed to the Committee	Eligible meetings	Meetings attended
Diane Côté (Chair)	12 January 2022	6	6
Peter Wyman	1 January 2022	6	6
Ajay Vij	1 January 2023	6	6

All members who served on the Committee during the year are considered to be independent and did not have any personal interest in the matters decided by the Committee.

The Board is satisfied that each member of the Committee has the skills and experience necessary for the Committee to effectively discharge its responsibilities. The Chairs of the Risk and Audit Committees each sit on both Committees, ensuring that no issues fall between these two fora or are duplicated. The respective Committee Chairs have the discretion to agree the most appropriate Committee to fulfil any obligation or to call a Joint Audit and Risk Committee meeting in the event there is a perceived overlap of responsibilities.

The CEO, CFO, CRO, CTO and CIA regularly attend meetings of the Committee. Vocalink Executives and senior management also attend to provide updates on the risks related to the payment systems and services it manages on behalf of Pay.UK.

The CRO meets with the Chair regularly throughout the year.

Chief Risk Officer

The CRO, Lisa Mellor, reports to the CEO. She also reports to the Chair of the Risk Committee to maintain the objectivity of the Risk and Compliance function. The Committee oversees the performance of the CRO and, overall, the effectiveness of the Risk and Compliance function.

During the past year, Lisa has implemented initiatives to improve the efficiency and effectiveness of Pay.UK’s risk management and its work with stakeholders to discuss and share best practice.

Committee effectiveness

As part of the wider Board evaluation, members were asked to consider the work of the Committee and how it had been effective in its remit, including if members considered they were fully informed as to the development of risk management within the business. At its meeting in November, the Committee considered the responses and was pleased to see all feedback was positive regarding the Committee’s role in developing the management of systemic risk, ensuring the Company’s role as a systemic risk manager was well understood, managed and continued to be developed. Responses confirmed the Committee provided the Board with oversight and advice on systemic and critical risk, overseeing the development of a strong risk culture.

The Committee agreed to sustain its efforts in the consideration of current and emerging risk identification.

Activities

Key responsibilities:

- Oversight of the Company’s current risk exposure, overall risk appetite, tolerance and strategy, and the principal and emerging risks the Company is willing to take in order to achieve its long-term strategic objectives
- Provide oversight and advice to the Board on the company’s role as systemic risk manager.

2023 key achievements:

- Oversight of the coverage of risks across the payments ecosystem and the expected level of resilience of a systemically important payment infrastructure
- Oversight of the effectiveness of third-party risk management and the introduction of the changes needed to comply with Bank of England’s outsourcing and TPRM regulation, the deadline for Pay.UK to be compliant with the regulation was 9 February 2024
- Review and challenge of the ERMF
- Review and challenge of the Risk Appetite Statements
- Review and challenge of the TPRM and Procurement Policy
- Review and challenge of the Third-Party Criticality Assessment
- Continued monitoring and assessment of our performance as a systemic risk manager
- Oversight of risk with a particular focus on a range of principal and emerging risks including supplier availability, integrity and security, Payment System Resilience and ESG
- Maturity and embedding of the ERMF
- Review and monitoring of Pay.UK’s Operational Resilience
- Continued focus on cyber security
- Oversight of the effectiveness of TPRM
- Oversight of the risks related to strategic programmes such as NPA
- Review and challenge of the updated risk appetite framework
- Oversight of the management and monitoring of risks outside or approaching appetite
- Oversight of emerging risks and related management responses
- Review of the Company’s wider role as a systemic payment infrastructure risk manager.

Areas of focus in 2024

- Oversight of increasing risk maturity across the organisation including the further embedding of the risk culture
- Review and challenge of management’s assessment of strategic risks and risks arising from change and strategic initiatives.

Activities of the Committee in 2023

The Committee establishes formal agendas covering all responsibilities set out in its Terms of Reference. During the year, the Committee discharged these responsibilities with the following activities:

- Monitored and assessed Pay.UK’s performance as a systemic risk manager
- Reviewed and challenged management’s assessment of improvements made to improve systemic risk management
- Provided robust reviews of principal risks and of emerging risks
- Reviewed and challenged management’s assessment of Pay.UK’s risk profile and management’s mitigating actions
- Review and challenge of Pay.UK’s Operational Resilience
- Overseen organisational changes to ensure Pay.UK has the capacity and sufficient skills across the first and second lines to effectively manage the range of risks within our ecosystem
- Monitored the cyber security framework and enhancement programme
- Monitored risk mitigation activities, including the delivery of actions, to manage risks within risk appetite
- Reviewed, challenged and recommended to the Board the ERMF
- Monitored compliance with Pay.UK’s risk management procedures
- Reviewed, challenged and recommended to the Board the Company’s Risk Appetite Statement
- Review and challenge of the quarterly risk refresh ensuring our principal risks included risks to the wider payments ecosystem
- Challenge of the emerging risks identified by management
- Oversight of the design and implementation of the TRPM framework updated to enable compliance with regulation.

Remuneration Committee report



The Committee works to ensure a proper balance between paying colleagues fairly for fulfilling their role and attracting and retaining the best people. In doing so, and as a key aspect of the Committee’s work, meetings have considered the overall remuneration for Directors and Executives, ensuring the right and proportionate outcomes for these senior members of the Company and aligning these outcomes for all colleagues across the business.

Anna Bradley
Chair of the Remuneration Committee

The Pay Policy was established in 2021 and is now in full operation. Taken together with pay policies and practices, this framework supports the development of our strategy and promotes long-term sustainable success.

In reviewing Director and Executive remuneration, the Committee took a detailed look at market conditions, including the continuing inflationary and cost of living pressures. The Committee engaged the services of Korn Ferry, a reward specialist, to advise it in its work. Pay.UK was benchmarked against a number of sectors, including financial services. The outcome of this review was a recommendation that salaries be increased by 5.5% (2022: 5.0%) with effect from 1 January 2024. This increase was applied to all eligible colleagues across the Company.

Bonus arrangements are determined on both Company and individual performance, with measures tracking against agreed corporate targets, linked to KPIs.

The Committee reviewed and challenged the six draft KPIs for 2023, to ensure the right level of stretch. Having agreed a set of corporate KPIs the Committee received updates throughout the year on Company performance against these targets.

In January 2024, the Committee considered Pay.UK’s performance against these goals, to determine the outcomes against the set targets.

The Committee agreed that, whilst some targets had not been fully met, these results were not always within either the Company’s or management’s influence and therefore applied an element of discretion in proposing the final outcome. As a result of the Committee’s deliberations, it was agreed the 2023 organisational bonus should be paid at 90% (2022: 100%).

The 2023 performance of the CEO, David Pitt, was reviewed in early 2024 against the KPIs set for the Long Term Incentive Plan (LTIP). The Committee considered that, in line with the overall performance of the business, and the external challenges presented during the year, the 2023 outcome should be 90% (2022: 100%). This is the second of a three-year performance period, with the final outcome being reported in the 2024 Annual Report.

The Committee also spent considerable time considering the fee structure for all those who support the work of Pay.UK, by giving up their time in attending and, in some cases, chairing the work of our advisory councils and other service-based committees, as independent members.

Benchmark data was used to review the legacy fee structure, against the INED Remuneration Guidelines. Following this work, these guidelines have been revised to bring them closer to the fee arrangements across the market and to address inflationary pressures.

Time was also spent discussing the gender pay gap, the ways this gap manifests within the organisation and the wider industry context. It was recognised that this is a long-term project, with more to do to bring about the right level of change.

The Committee carries out its responsibilities through the regular review of pay policies, ensuring procedures in respect of salaries, emoluments and conditions of service, are conducive to attracting and retaining the best talent for the Company.

The Committee remains confident that the Pay Policy continues to effectively support the Company’s short and long-term strategic objectives and promotes management and stakeholders’ expectations.

Anna Bradley
Chair of the Remuneration Committee

22 May 2024

Role of the Committee

The Remuneration Committee has responsibility for determining the policy for Directors’ remuneration and setting remuneration, for the Company’s Chair, Executive Directors and senior management (the Executive team). The Board is responsible for determining the remuneration of the Independent Non-Executive Directors, following a recommendation from the Remuneration Committee.

Performance-related pay is a key component of our reward structure for all employees and, as such, setting stretching targets is a critical focus area for the Committee. Every year, the Committee undertakes a rigorous exercise to ensure that our targets are sufficiently stretching, taking into consideration our own strategic aspirations.

The Committee is able to exercise its judgement and discretion to determine remuneration awards taking Company performance and wider circumstances into consideration.

Committee membership and attendance

Membership of the Committee, and attendance for scheduled and ad hoc meetings during the year ended 31 December 2023, was as follows:

Remuneration Committee member	Appointed to the Committee	Eligible meetings	Meetings attended
Anna Bradley (Chair)	8 May 2019	5	5
Mark Hoban	1 November 2020	5	5
Lesley Titcomb	1 January 2023	5	5
Helen Crooks	1 January 2023	5	5

Key responsibilities:

- Determine the policy for Directors’ remuneration and set remuneration for the Company’s Chair, Executive Directors and the Executive team
- Review workforce remuneration and related policies
- Have oversight of pay gaps based on gender.

2023 key achievements:

- Reviewed and agreed the corporate measure and targets linked to corporate performance in 2023 that reflect Pay.UK’s strategic objectives and open and transparent pay for performance philosophy
- Reviewed the CEO’s performance review and fully supported the Chair’s assessment
- Agreed the corporate performance bonus for 2022 be paid in full
- Benchmarking and review of Chair and INED fees, to support discussions in respect of appointments and re-appointments.

Areas of focus in 2024

- Review of the pay structures and reward arrangements to ensure strong alignment between driving performance and motivating and retaining top talent
- Consider the use of long-term incentives, to retain key senior management
- Consider retention linked to the skills required to deliver the strategy, in particular in the area of remuneration for innovator and technology skills in support of developing strategies
- Oversee and monitor the action plans to close our pay and bonus gaps
- Review and challenge the targets to be developed on D&I in line with the FCA’s D&I targets
- Reviewing Pay.UK’s Gender Pay Gap report.

Remuneration Committee report continued

All members are independent and recuse themselves at times from decision making when matters are in respect of recommendations being made to the Board, covering INED fees.

Activities of the Committee in 2023

Annual pay review

At its meeting in November, the Committee discussed the proposal for a 5.5% general pay increase applicable to all colleagues for the 2024 financial year. The proposal also included a 5.5% increase to all salary bands in the Pay Policy to ensure Pay.UK remained competitive in the employment market. Committee also agreed to provide an element of levelling up, to address any legacy pay disparities and to focus on special catch up increases to recognise professional development and capability development within role.

The Committee considered the recently released inflation figures and agreed that it was important to review these and benchmark data in comparable sectors, against the proposed pay increase. The proposed 5.5% was close to the Korn Ferry average for banking services (6%) and the Committee agreed the 2024 general pay award of 5.5% effective from 1 January 2024. The use of additional available pay budget for special catch up increases and the increase of Pay.UK salary bands by 5.5% were also agreed.

Gender pay gap

The Committee was provided with detailed analysis on the Company’s gender pay position and was updated on the Company’s 2023 gender pay gap disclosure requirement. The Committee reviewed Pay.UK’s third gender pay gap report, observing that the median pay gap had been closed slightly, Pay.UK continued to benchmark favourably against the private sector and financial and insurance sector ONS data and that fewer females in senior roles led to a significant bonus gap.

The Committee recognised that slow progress in closing the gap was being seen across the industry and UK-wide and that a rapid significant shift in the gender pay gap was not realistic or expected and that longer-term actions were required to support a structural shift in recruitment and developmental support to make real progress in this area. The Committee recommended the Gender Pay Gap report to the Board for approval. Details of this report may be found on our website at www.wearepay.uk.

Committee effectiveness

As part of the Board Effectiveness Review, conducted in October 2023, the work of the Committee was considered. Feedback was sought from all Board members as to the Committee’s remit, and how it had performed in providing the right level of information and recommendations to the Board on the performance and reward of Directors and the Pay Policy more generally.

The responses confirmed the Board considered the Committee to be effective in its remit, and were positive in the effectiveness of the Committee, commenting that there was now an established forward workplan and cycle of meetings. Further work was requested to improve incentive alignment so that strategic decisions and choices by the business were unencumbered from individual incentive plans in the future, to drive long-term performance, whilst remunerating management for effective and accountable risk management.

It was recognised that retention linked to skills to deliver the strategy was a critical area of focus and that it may be necessary for the Committee to consider how the business approached positioning and remuneration for innovator and technology skills in support of developing strategies.

These recommendations will be taken forward for the Committee to consider during 2024.

Director emoluments continued:

Name	Remuneration		Total remuneration	
	2023 £’000	2022 £’000	2023 £’000	2022 £’000
Non-Executive Directors				
Anna Bradley	81	73	81	73
Diane Côté	81	73	81	73
Helen Crooks	73	–	73	–
Mark Hoban	177	160	177	160
John Mountain ¹	–	–	–	–
Marc Pettican ¹	–	–	–	–
Jean-Yves Rotté-Geoffroy	–	64	–	64
Lesley Titcomb	77	73	77	73
Lars Trunin ¹	–	–	–	–
Ajay Vij	73	–	73	–
Peter Wyman	81	73	81	73
Total	643	516	643	516

¹ The role of NED is unpaid

Executive directors

Bonus

The Committee reviewed the performance of the business and in line with the performance of the Company against KPIs, the Executive Directors’ bonus was approved at 90% (2022: 100%).

Chief Executive Officer

The CEO role profile was re-evaluated and updated, taking into account the size and complexity of the role. The Committee considered this updated role profile in considering the CEO’s remuneration and against relevant industry benchmark data. It was therefore agreed that a revised base salary of £435,000 p.a. (2022: £359,000) should apply, with effect from 1 September 2023.

Long Term Incentive Plan

David Pitt was granted a cash LTIP award in 2022, which covers a three-year performance period, which at the end of this time, if the performance is not achieved, no payment will be made.

The Committee reviewed the CEO’s performance, for the period covering the financial year, January to December 2023, at its meeting in January 2024. The Committee noted that a precondition of the approval of the CEO’s LTIP was that payment systems operations remained robust and resilient, throughout the year. This had been achieved during 2023. The Committee therefore considered David’s performance during the year, noting that he had delivered all that had been asked of him, with one exception. It was agreed the progress made in respect of our stakeholder engagement, had not advanced as had been envisaged. It was also agreed that other external circumstances, outside of his control, had resulted in one key element of performance not being met, which the Committee considered this should not be an influencing

factor in the measurement of David’s overall performance. Therefore, in line with Company performance, the LTIP accrual was confirmed at 90% (2022: 100%).

A review encompassing the entire three-year period covered by the LTIP will be carried out in early 2025, and will be reported in the 2024 Remuneration Committee Report.

The Committee agreed a further LTIP would be granted, in 2024 to cover the performance period 2024–2026, with a recommendation that the criteria aligned with the Company’s strategic priorities. It was also required the results took into consideration the industry benchmark data provided by Korn Ferry.

As in the prior award, malus and clawback conditions will be incorporated into the 2024 LTIP grant and will remain in place for two years from determination of payment. These cover circumstances which would lead the Committee to question the basis upon which payment was made.

Chief Financial Officer

The benchmark data was reviewed against the Executive’s remuneration. The Committee agreed that, given the revised scope of the CFO’s responsibilities since his appointment in 2021, and his additional role as a Board Director, Michael’s remuneration be uplifted to £280,000 p.a. (£210,000) with effect from 1 September 2023.

The Committee also considered that Michael Ellis had provided a steady influence across the business during the CEO’s absence in early 2023 and approved a special bonus payment of £10,000 to reflect the additional work and responsibility he had taken on during this time.

Directors’ remuneration for the year ended 31 December 2023

Name	Remuneration		Bonus		Pension		Pension allowance		Other benefits ¹		Total remuneration	
	2023 £’000	2022 £’000	2023 £’000	2022 £’000	2023 £’000	2022 £’000	2023 £’000	2022 £’000	2023 £’000	2022 £’000	2023 £’000	2022 £’000
Executive Directors												
David Pitt	396	359	134	135	–	–	48	43	1	–	579	537
Michael Ellis ²	112	–	25	–	10	–	6	–	1	–	154	–
Matthew Hunt ³	–	411	–	36	–	4	–	35	–	2	–	488
Total	508	770	159	171	10	4	54	78	2	2	733	1,025

	Remuneration	Bonus	Pension	Pension Allowance	Other minor benefits	Total remuneration
Highest-paid Director	396	134	–	48	1	579

¹ Other benefits include life insurance, private medical insurance, additional medical benefits and fitness subsidy
² Michael Ellis joined the Board on the 3 August 2023 with emoluments prorated accordingly
³ Matthew Hunt stepped down from the Board and left the Company on the 1 August 2022

Remuneration Committee report continued

Independent Non-Executive Director fees

The Committee spent time during the year in reviewing the policy for Independent Directors, including the Chair, Committee Chairs and other Independent Directors.

The Committee requested that Korn Ferry provide benchmark data for the roles of Chair and INEDs recognising that Pay.UK does not fit neatly into any of the categories for which benchmark data is available and therefore there was no exact comparators. However, the Committee considered the size and complexity of Pay.UK's business, Pay.UK's role as a regulated PSO and the multiplicity of stakeholders when looking at the data from other sectors.

The Chair

The Policy states that the remuneration for the Chair will be set on appointment and reviewed on re-appointment.

The Committee agreed that the Chair's remuneration should not be out of kilter with the benchmark data available and should be appropriate for a second term. Having considered the Chair's contribution, level of commitment and performance since appointment, the Committee concluded the Chair's fee should be increased to £210,000 p.a. (2022: £160,000 p.a.) with effect from 1 September 2023, set for the remainder of the three year term.

Independent Non-Executive Directors

Based on the available market data, the Committee recommended that a Committee Chair and SID fee of £10,000 p.a. should be set, in recognition of the additional work and responsibilities taken on, in addition to Board membership. It was also agreed that the where a SID and Committee Chair role was combined, the single fee of £10,000 would be applied. The Board approved the Committee's recommendation.

The Committee discussed the impact of remuneration on Pay.UK's ability to find candidates to fill the role of INED. The INED remuneration was considered against benchmark data and it was noted that the time commitment for Pay.UK INEDs was higher than that generally required from other companies. It was also noted that INED remuneration had remained at the same level for some years and it was an appropriate time to restructure the level of fees payable, to help retain and attract INEDs who would drive noticeable change in the organisation.

The Committee recommended to the Board that INED remuneration be increased to £75,000 p.a. (2022: £72,500) effective from 1 January 2024.

It was also proposed that the Independent Non-Executive Guidelines should be revised to provide an annual increase, in line with the all-colleague general pay increases with effect from January 2025. The Board approved the Committee's proposal.

The role of NED continues to be unpaid, as individuals fulfilling this role are remunerated by their own organisations.

Advisory committees

The Committee also considered it an appropriate time to align these Non-Executive remuneration guidelines, across all other committees, where independent members were appointed. In particular, this included both the EUAC and the SSCC.

The Committee discussed the EUAC members' fees noting that these had not been increased since the Council was formed in 2018 and agreed an increase should be implemented to reflect inflation, to £6,000 p.a. (2023: £5,000 p.a.), with effect from 1 January 2024.

In doing so, the Committee agreed it was therefore appropriate to align fees to all independent committee members, including to the SSCC and approved the new fee category for chairing a Committee as £10,000 p.a. and an increase of remuneration for the independent members of the SSCC in line with that of EUAC members, which was therefore approved to be £6,000 p.a.(2022: £5,000 p.a.) with effect from 1 January 2024.

Pay policy

The pay policy, which forms the basis of our reward framework comprises the following elements and applies to all colleagues across Pay.UK:

- Basic pensionable pay
- A non-contributory group personal pension scheme with a 12% employer contribution
- Additional 1.5% employer contribution matched to employee Additional Voluntary Contributions (AVCs)
- Competitive employee benefits including, but not limited to, life assurance, private medical scheme, death-in-service provision, additional medical benefits, and a fitness subsidy
- Employee performance-related bonus scheme, paying between 5% and up to 20% for a 'meets performance' rating
- Performance-related bonus for Executive and senior management, paying up to 20% for a 'meets performance' rating
- A multiplier of between 125% and 150% of target bonuses may be applied for 'exceeds' or 'substantially exceeds' performance ratings



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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 2023 and of the Group's loss 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 2023 which comprise Consolidated statement of comprehensive income, Consolidated statement of financial position, Company statement of financial position, Consolidated statement of changes in equity, Company statement of changes in equity, Consolidated statement of cash flows and notes to the financial statements, including a summary of significant accounting policies/ material accounting information. 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 are 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 or 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 the 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.

Independent auditor’s report

to the members of Pay.UK Limited

Responsibilities of Directors

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

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

Auditor’s responsibilities for the audit of the financial statements

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

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:

Non-compliance with laws and regulations

Based on:

- Our understanding of the Group and the industry in which it operates;
- Discussion with management, internal audit, legal counsel and those charged with governance; and
- Obtaining and understanding of the Group’s policies and procedures regarding compliance with laws and regulations; and
- we considered the significant laws and regulations to be the applicable accounting framework, UK tax legislation, Payment Systems Regulator regulations, Bank of England regulations.

The Group is also subject to laws and regulations where the consequence of non-compliance could have a material effect on the amount or disclosures in the financial statements, for example through the imposition of fines or litigations. We identified such laws and regulations to be the health and safety legislation and employment law.

Our procedures in respect of the above included:

- Review of minutes of meeting of those charged with governance for any instances of non-compliance with laws and regulations;
- Review of correspondence with tax authorities for any instances of non-compliance with laws and regulations;
- Review of financial statement disclosures and agreeing to supporting documentation; and
- Review of legal expenditure accounts to understand the nature of expenditure incurred.

Fraud

We assessed the susceptibility of the financial statements to material misstatement, including fraud. Our risk assessment procedures included:

- Enquiry with management and those charged with governance regarding any known or suspected instances of fraud;
- Obtaining an understanding of the Group’s policies and procedures relating to:
 - Detecting and responding to the risks of fraud; and
 - Internal controls established to mitigate risks related to fraud.
- Review of minutes of meeting of those charged with governance for any known or suspected instances of fraud;
- Discussion amongst the engagement team and internal forensics specialists as to how and where fraud might occur in the financial statements;
- Performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud; and
- Considering remuneration incentive schemes and performance targets and the related financial statement areas impacted by these.

Based on our risk assessment, we considered the areas most susceptible to fraud to be manual journal entry processing.

Our procedures in respect of the above included:

- Use of our data analytics tool to assist us in identifying anomalies and performing analysis on general ledger postings;
- Testing a sample of journal entries throughout the year, which met a defined risk criteria, by agreeing to supporting documentation;
- A critical review of the consolidation and, in particular, manual or late journals posted at consolidated level;
- Evaluating findings from evaluation of design and implementation of IT general controls and their potential impact on risk of material misstatement;
- Assessing estimates and judgements made by management for bias, if any; and
- Review of any significant transactions outside the normal course of business.

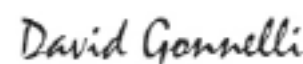
We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members who were all deemed to have appropriate competence and capabilities and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

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: <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor’s report.

Use of our report

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



David Gonnelli

(Senior Statutory Auditor)

For and on behalf of BDO LLP, Statutory Auditor
London, UK

22 May 2024

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

Consolidated statement of comprehensive income

For the year ended 31 December 2023

	Notes	2023 £'000	2022 £'000
Turnover	4	173,716	154,469
Administrative expenses		(176,959)	(153,854)
Operating (loss)/profit	5	(3,243)	615
Other Income	4	510	-
Finance income (net)	8	1,891	261
(Loss)/Profit on ordinary activities before taxation		(842)	876
Tax credit/(charge)	9	(52)	(17)
(Loss)/Profit for the financial year, being total comprehensive income		(894)	859

All activities are derived from continuing activities. The notes on pages 91 to 106 form an integral part of these consolidated financial statements.

Consolidated statement of financial position

As at 31 December 2023

	Notes	2023 £'000	2022 £'000
Fixed Assets			
Tangible Assets	10	583	714
		583	714
Current Assets			
Debtors	12	23,125	20,017
Debt Securities	13	28,878	-
Investments	14	1,580	-
Cash at Bank	14	64,169	90,993
		117,752	111,010
Creditors: amounts falling due within one year	15	(64,779)	(56,859)
Net current assets		52,973	54,151
Total assets less current liabilities		53,556	54,865
Creditors: amounts falling due after more than one year	16	(1,136)	(1,591)
Provision for liabilities	17	(920)	(880)
Total assets less total liabilities		51,500	52,394
Equity			
Called up share capital	18	-	-
Profit and loss account	19	47,023	47,917
Capital Reserve	19	4,477	4,477
Total Equity		51,500	52,394

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



David Pitt
Chief Executive Officer

Date: 22 May 2024

Company Registration No: 10872449

Company statement of financial position

As at 31 December 2023

	Notes	2023 £'000	2022 £'000
Fixed Assets			
Tangible Assets	10	475	542
Investments	11	-	-
		475	542
Current Assets			
Debtors	12	21,604	21,352
Debt Securities	13	28,878	-
Investments	14	1,580	-
Cash at Bank	14	47,372	56,743
		99,434	78,095
Creditors: amounts falling due within one year	15	(54,246)	(30,984)
Net current assets		45,188	47,111
Total assets less current liabilities		45,663	47,653
Creditors: amounts falling due after more than one year	16	(1,136)	(1,591)
Total assets less total liabilities		44,527	46,062
Equity			
Called up share capital	18	-	-
Profit and loss account	19	44,527	46,062
Total Equity		45,527	46,062

As permitted by s408 of the Companies Act 2006, no separate statement of comprehensive income is presented in respect of the parent Company. The Company's loss for the year was £1,535k (2022: Profit £266k).

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



David Pitt
Chief Executive Officer

Date: 22 May 2024

Company Registration No: 10872449

Consolidated statement of changes in equity

As at 31 December 2023

	Profit and Loss Account £'000	Capital Reserve £'000	Called up Share Capital £'000	Total Equity £'000
Balance as at 1 January 2022	47,058	4,477	-	51,535
Profit for the financial year	859	-	-	859
Balance as at 31 December 2022	47,917	4,477	-	52,394
Loss for the financial year	(894)	-	-	(894)
Balance as at 31 December 2023	47,023	4,477	-	51,500

Company statement of changes in equity

as at 31 December 2023

	Profit and Loss Account £'000	Capital Reserve £'000	Called up Share Capital £'000	Total Equity £'000
Balance as at 1 January 2022	45,796	-	-	45,796
Profit for the financial year	266	-	-	266
Balance as at 31 December 2022	46,062	-	-	46,062
Loss for the financial year	(1,535)	-	-	(1,535)
Balance as at 31 December 2023	44,527	-	-	44,527

Consolidated statement of cash flows

For the year ended 31 December 2023

	Notes	2023 £'000	2022 £'000
Cash generated from operating activities	20	1,484	7,284
Taxation received/(paid)		465	(2,108)
Net cash inflow from operating activities		1,949	5,176
Investing activities			
Interest received		1,849	262
Purchase of fixed assets		(246)	(647)
Purchase of Debt Securities		(39,330)	-
Disposal of Debt Securities		10,534	-
Net cash (outflow) from investing activities		(27,193)	(385)
Net (decrease)/increase in cash and cash equivalents		(25,244)	4,791
Cash and cash equivalents at the beginning of the year		90,993	86,202
Cash and cash equivalents at the end of the year		65,749	90,993

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, modified to include certain items at fair value, and in accordance with Financial Reporting Standard 102 (FRS 102) issued by the FRC and the Companies Act 2006. The Group's functional and presentational currency is the pound sterling.

The principal activities of the Group and the nature of the Group's operations are set out in the Strategic and Directors' Reports.

Pay.UK Limited meets the definition of a qualifying entity under FRS 102 and has therefore taken advantage of the disclosure exemptions available to it in respect of its separate financial statements, which are presented alongside the consolidated financial statements. Exemptions have been taken in relation to:

- The requirements of Section 7 Statement of Cash Flows and paragraph 3.17(d); and
- The requirements of paragraphs 11.42, 11.44, 11.45, 11.47, 11.48(a)(iii), 11.48(b), 11.48(c), 12.26, 12.27, 12.29(a), 12.29(b), 12.29A and 12.30.

For the year ended 31 December 2023 the following subsidiaries of the Company were entitled to exemption from audit under Section 479C of the Companies Act 2006 relating to subsidiary companies.

Subsidiary Name	Companies House Registration Number
Cheque and Credit Clearing Company Limited	01962903
Faster Payments Scheme Limited	07751778
Mobile Payments Service Company Limited	08653992

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 continues 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.

During the year, there was no change in the composition of the entities consolidated in the Group.

The following principal accounting policies have been applied.

2.2 Going concern

The Group has used the most recent Board-approved financial plans as the basis of its assessment in evaluating whether adopting the going concern basis of accounting is appropriate. This assessment included a detailed review of the forecast liquidity position, regulatory capital considerations and expected cash flows in the light of its financial strategy of setting a per payment tariff at a level that recovers its costs.

The assessment considered pessimistic scenarios that could possibly occur. Appropriate consideration has been given to the principal risks and uncertainties that could impact future performance and the most relevant regulatory requirements. The assessment of the going concern basis of preparation has been subject to a thorough process involving analysis and discussion by management, the Risk Committee, the Audit Committee and the Board, in line with our governance processes.

Having reviewed the funding model for 2024 and longer-term viability of the business (see pages 35 - 36), 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, but not limited to, 12 months from the date the Financial Statements are authorised for issue.

The Audit Committee considered and recommended to the Board the adoption of the going concern basis in preparing the accounts. This conclusion has been reached on the basis that:

- The Group has a 2024 budget in place agreed by the Board and shared with customers prior to the year end. This includes the ability to review the price per item in year in the event that volumes are lower than budget, and a monthly forecasting process to review both costs and income.
- The capital was reviewed in line with the requirements of the general business and credit risks within the CPMI-IOSCO Principles for Financial Market Infrastructure. This, 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, reverse stress testing and scenario analysis on critical projects on the future financial performance of the Group. This modelling covers area such as the NPV, cyber-attack and third-party system failures. The results of these assessments did not give rise to material uncertainty in going concern.
- The majority of the Group income is volume based and these remain consistent and in line with expectations during, and following, the year end. Income is invoiced on a monthly basis and this continues to be collected post year end, via Direct Debit collection, with no significant issues.

Notes to the financial statements

continued

2. Accounting policies (continued)

2.3 Effect of climate risk on accounting estimates

The Group has set a strategic goal of achieving Net Zero by 2040, which has been stated on page 46. The Group has also outlined the measures it will take to reduce its impact on the environment. The Group assess that the current exposure to climate-related risks is low due to the short-term nature of significant assets and liabilities. Therefore, any impact is insignificant, as the economic conditions are unlikely to change significantly during the period in which these assets and liabilities will be realised or settled. However, the Group acknowledges that the risks associated with climate change are continuously evolving, and the ultimate impact of these risks on the business operations is uncertain. Therefore, The Group has included the potential impacts of such risks as a new emerging risk on page 34 of the Risk and Compliance report.

2.4 Revenue

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.

Payment systems

The Group has operational responsibility for the payment systems behind the clearing and settlement of automated payments (Bacs and Faster Payments) and cheques. Customers are charged a fee for each transaction that is processed through our networks.

Managed services

The Group provides several managed services, the CASS and the Cash ISA transfer service. Revenue is recognised based on the number of accounts switched during the period. UTSP offers a service to support connectivity to financial infrastructure and charges an ongoing monthly fee for this service. Revenue is recognised for ongoing access to the service.

The Group also provides administrative services to third-party organisations. Revenue is recognised when the service is completed. 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.

Interest income

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Other income - R&D Credit

As part of the R&D Expenditure Credit (RDEC) scheme, the Group recognises the tax credit it receives from its R&D activities for expenses already incurred in accordance with FRS 102.24. Income is recognised in the period the credit becomes receivable.

2.5 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

Residual value represents the estimated amount which would currently be obtained from disposal of an asset, after deducting estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

2.6 Intangible assets - research and development

Research expenditure is written off as incurred. Development expenditure is also written off, except where the directors are satisfied with the technical, commercial and financial viability of individual projects. In such cases, the identifiable expenditure is capitalised as an intangible asset and amortised over the period during which the Group is expected to benefit. During 2023, the Group recognised research and development costs of £44.7 million (2022: £34.4 million) as expenses in the period. No expenses were capitalised, as the criteria for capitalisation were not met.

2. Accounting policies (continued)

2.7 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 lease term.

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

2.8 Impairment of non-financial assets

An asset is impaired where there is objective evidence that, as a result of one or more events that occurred after initial recognition, the estimated recoverable value of the asset has been reduced. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use.

2.9 Valuation of investments

Investments in subsidiaries are measured at cost less accumulated impairment.

2.10 Cash

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 48 hours.

2.11 Financial instruments

Financial assets and liabilities

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument.

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

All financial assets and liabilities are initially measured at transaction price (including transaction costs), except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value (which is normally the transaction price excluding transaction costs), unless the arrangement constitutes a financing transaction. If an arrangement constitutes a financing transaction, the financial asset or financial liability is measured at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

Financial assets and liabilities are only offset in the balance sheet when, and only when, there exists a legally enforceable right to set off the recognised amounts and the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Debt instruments, such as Treasury Bills (Note 13), which comply with all of the conditions of paragraph 11.9 of FRS 102, are classified as 'basic'. For debt instruments that do not meet the conditions of FRS 102.11.9, it is considered whether the debt instrument is consistent with the principle in paragraph 11.9A of FRS 102 in order to determine whether it can be classified as basic. Instruments classified as 'basic' financial instruments are subsequently measured at amortised cost using the effective interest method.

Although the money market funds (Note 21) meet the definition of basic debt, given the nature of the fund being a group of short-term debt instruments, these are measured at fair value through profit or loss in accordance with FRS 102.11.14(B)(ii).

Financial assets are derecognised when, and only when, (a) the contractual rights to the cash flows from the financial asset expire or are settled, (b) the Group transfers to another party substantially all of the risks and rewards of ownership of the financial asset, or (c) the Group, despite having retained some, but not all, significant risks and rewards of ownership, has transferred control of the asset to another party.

Financial liabilities are derecognised only when the obligation specified in the contract is discharged, is cancelled or expires.

Financial assets

For financial assets carried at amortised cost, the amount of an impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost less impairment, the impairment loss is the difference between the asset's carrying amount and the best estimate of the amount that would be received for the asset if it were to be sold at the reporting date.

Where indicators exist for a decrease in impairment loss, and the decrease can be related objectively to an event occurring after the impairment was recognised, the prior impairment loss is tested to determine reversal. An impairment loss is reversed on an individual impaired financial asset to the extent that the revised recoverable value does not lead to a revised carrying amount higher than the carrying value had no impairment been recognised.

Fair value measurement

For all financial instruments held by the Group, being Money Market Funds and Treasury Bills, the fair value is a quoted price for an identical asset in an active market.

Notes to the financial statements

continued

2. Accounting policies (continued)

2.12 Employee benefits

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

Short-term benefits

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

Annual bonus plan

The Group operates a discretionary annual bonus plan for all 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.

Termination benefits

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

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

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

Additional incentives

During the year, the Company operated a cash based LTIP. An expense will be recognised in the profit and loss account when the Company 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.

2.13 Taxation

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

Current tax

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

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

Deferred tax

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

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

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

Deferred tax assets and liabilities are not discounted.

2. Accounting policies (continued)

2.14 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.

2.15 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

In the application of the Group’s accounting policies, which are described in Note 2.1 to 2.15, the Directors are required to make judgements (other than those involving estimations) that have a significant impact on the amounts recognised and to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources.

The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis.

Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

For the current financial year, the Directors have reviewed its policies and concluded that there are no critical accounting judgements or key sources of estimation uncertainty that have a significant impact on the financial statements.

4. Turnover and Revenue

All turnover arising from the rendering of services to the payments industry during the year has arisen from UK-based activities.

	2023 £’000	2022 £’000
Payment systems	146,281	128,874
Managed services	19,646	17,425
Income from Other Services	7,789	8,170
Turnover	173,716	154,469
Interest Income (Note 8)	1,849	261
Other Income (R&D credit)	510	-
Total Revenue	176,075	154,730

In 2023, we received refunds relating to our investment activities in initiatives that qualify under the RDEC scheme.

Notes to the financial statements

continued

5. Operating loss/profit

The Group operating loss/profit is stated after charging:

	2023 £'000	2022 £'000
Fees payable to the Group's auditor for the audit of the Group's annual accounts	330	172
Fees payable to the Group's auditor for tax compliance fees	41	27
Depreciation	377	396
Operating lease rentals – land and buildings	1,567	557
– plant and machinery	33	22

Included within Auditor's remuneration for audit services above is £59k (2022: £46k) payable for audit of the subsidiary entities.

6. Staff costs

Group and Company	2023 £'000	2022 £'000
Employee costs during the year were:		
Wages and salaries	33,240	30,676
Social security costs	3,949	3,858
Cost of defined contribution pension scheme	4,519	3,310
Other staff cost	1,166	1,228
	42,874	39,072
Average number of employees:		
Administrative	357	344

7. Directors' remuneration

	2023 £'000	2022 £'000
Directors' emoluments	1,366	1,436
Compensation for Loss of Office	-	100
Company contribution for defined contribution pension scheme	10	4
	1,376	1,540
Highest paid Director	579	537

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

8. Finance income (net)

Group and Company	2023 £'000	2022 £'000
Interest receivable and similar income	1,849	261
Gains on financial assets measured at fair value through profit or loss	81	-
Net unwinding of discounts on provisions (see Note 17)	(39)	-
	1,891	261

9. Taxation

Group

Analysis of tax credit charge for the period	2023 £'000	2022 £'000
Corporation tax		
Current tax on profits for the year	197	180
Adjustments in respect of prior periods	(154)	(180)
Total current tax	43	-
Deferred tax		
Origination and reversal of timing differences	(89)	14
Adjustments in respect of prior periods	98	(2)
Effect of tax rate change on opening balance	-	5
Total deferred tax	9	17
Taxation on profits on ordinary activities	52	17

Provision for deferred tax	2023 £'000	2022 £'000
Short-term timing differences	-	(59)
Fixed asset timing differences	20	70
Total deferred tax	20	11
Deferred tax		
Provision at start of period	11	(6)
Deferred tax charge in the profit and loss account for the period	9	17
Provision at end of period	20	11

Factors affecting the tax charge for the current year

The tax assessed for the year is lower than that resulting from applying the standard rate of corporation tax in the UK 23.5% (2022: 19%). The differences are explained below:

Group	2023 £'000	2022 £'000
(Loss)/Profit on ordinary activities before taxation	(842)	876
Tax on loss/profit on ordinary activities at standard corporation tax rate of 23.5% (2022: 19%)	(198)	166
Effects of:		
Losses eliminated	5	-
Fixed asset differences	(1)	(12)
Adjustments to tax charge in respect of previous periods	(154)	(180)
Income not taxable in determining taxable profit	(116)	-
Adjustment to tax charge in respect of previous periods – deferred tax	99	(2)
Changes in unrecognised deferred tax	448	40
Remeasurement of deferred tax for changes in tax rates	(32)	5
Expenses not deductible for tax purposes	1	-
Current tax (credit)/charge for the year	52	17

An increase in the UK corporation rate from 19% to 25% (effective 1 April 2023) was substantively enacted on 24 May 2021. As such, deferred tax has been calculated by reference to 25% based on the forecast reversals of the related temporary differences. The Group's effective tax rate is Nil (2022: 2.0%) and lower than the corporation tax rate, primarily due to the impact of R&D Claim and adjustments in respect of previous years.

Notes to the financial statements

continued

10. Tangible fixed assets

Group	Leasehold property £'000	Fixtures and fittings £'000	Computer equipment £'000	Total £'000
Cost				
At 1 January 2023	2,049	1,751	2,824	6,624
Additions	-	84	162	246
At 31 December 2023	2,049	1,835	2,986	6,870
Depreciation				
At 1 January 2023	(1,917)	(1,556)	(2,437)	(5,910)
Charge for the year	(66)	(75)	(236)	(377)
At 31 December 2023	(1,983)	(1,631)	(2,673)	(6,287)
Net book value				
At 31 December 2023	66	204	313	583
At 31 December 2022	132	195	387	714

Company	Fixtures and fittings £'000	Computer equipment £'000	Total £'000
Cost			
At 1 January 2023	209	827	1,036
Additions	84	162	246
At 31 December 2023	293	989	1,282
Depreciation			
At 1 January 2023	(50)	(444)	(494)
Charge for the year	(55)	(258)	(313)
At 31 December 2023	(105)	(702)	(807)
Net book value			
At 31 December 2023	188	287	475
At 31 December 2022	159	383	542

11. Investments

Company	Investment in subsidiary companies £'000
Cost	
At 1 January 2023	-
Additions in the year	-
At 31 December 2023	-

Subsidiary undertakings

The following were subsidiary undertakings of the Company and at the reporting date have all been included in the consolidation:

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 ¹
Cheque & Credit Clearing Company Limited	1 July 2018	England & Wales	Ordinary	100%	Inactive ²
Faster Payments Scheme Limited	1 May 2018	England & Wales	Limited by Guarantee	100%	Inactive ²
Mobile Payments Service Company Limited	1 May 2018	England & Wales	Limited by Guarantee	100%	Payments Services ²
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.

¹ There are active plans to transfer the activities of Bacs Payments Scheme Limited to the Company.

² These entities ceased to trade. Their assets and liabilities are expected to be hived up to the Company imminently.

	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	2,495	641
	6,972	641

Notes to the financial statements

continued

12. Debtors

Group	2023 £'000	2022 £'000
Trade debtors	1,149	1,863
Other debtors	1,855	2,100
Corporation tax	21	-
Prepayments and accrued income	20,100	16,054
	23,125	20,017

Company	2023 £'000	2022 £'000
Trade debtors	966	1,573
Amounts owed by subsidiaries	2,243	4,556
Other debtors (i)	1,695	2,099
Deferred Tax	-	25
Prepayments and accrued income (ii)	16,700	13,099
	21,604	21,352

(i) Other debtors (Group and Company) includes £1,136k (2022: £1,591k) falling due after more than one year. This relates to receivables due from customers and has an equal and opposite offset in creditors due in more than one year.

(ii) Prepayment arise in the ordinary course of business.

13. Debt securities

	Cost £'000	Discount £'000	Amortised cost £'000
At 1 January	-	-	-
Acquisitions	40,125	(795)	39,330
Disposals and releases	(10,875)	107	(10,768)
Amortisation of discount on live assets	-	316	316
As at 31 December 2023	29,250	(372)	28,878
Fair value of instruments			28,883

The fair values of the debt securities are all traded in active markets, and were determined with reference to the quoted market price at the reporting date.

14. Cash and cash equivalents and Current Asset Investments

Cash and cash equivalents are comprised of:

Group	2023 £'000	2022 £'000
Cash at bank and in hand	64,169	90,993
Investments (Money Market Funds)	1,580	-

Cash at bank decreased during the year as £28.8m was placed into low-risk debt securities in order to generate additional returns. See Note 13 and Note 21 for further details.

Company	2023 £'000	2022 £'000
Cash at bank and in hand	47,372	56,743
Investments (Money Market Funds)	1,580	-

The fair value of money market funds is all traded in active markets and was determined with reference to the quoted market price at the reporting date (Note 21).

At 31 December 2023, total cash and cash equivalents included cash amounting to £26m (2022: £25m), which was ring-fenced to support the Group's Risk Capital and was therefore not available for immediate use by the Group to support day-to-day working capital.

15. Creditors: amounts falling due within one year

Group	2023 £'000	2022 £'000
Trade creditors	7,842	335
Corporation Tax	197	172
Social security and other taxes	350	1,116
VAT	879	843
Other creditors	727	602
Deferred Tax	20	11
Accruals and deferred income (i)	54,764	53,780
	64,779	56,859

Company	2023 £'000	2022 £'000
Trade creditors	6,853	43
Amounts due to subsidiaries	20,354	-
Corporation Tax	-	30
Social security and other taxes	350	1,116
VAT	37	87
Other creditors	498	602
Accruals and deferred income (i)	26,154	29,106
	54,246	30,984

Notes to the financial statements

continued

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

Group and Company	2023 £'000	2022 £'000
Contract incentive(ii)	1,136	1,591
	1,136	1,591

- (i) Accruals mainly include cost for services utilised in the ordinary course of business where invoices have not been received or processed at the reporting date. Deferred income arises mainly from three managed services that the Group operates, namely the CASS, Cash ISA transfers and the ICS. Funds collected under these services are due to the customers to the extent these funds are not utilised for designated services.
- (ii) The contract incentive defers the payment of amounts due to a third party provider over a set period of time for the provision of their services in line with contractual arrangements.

17. Provision for liabilities group

	2023 £'000	2022 £'000
At 1 January	880	858
Unwinding of discount	58	57
Adjustments for change in discount	(18)	(35)
	920	880

Provision for liabilities relates to estimated cost of reinstating the leasehold premises to the original state at the commencement of the lease. The cost is unwinding to 31 December 2024 in line with the expiry of the lease when we expect to incur these costs.

18. 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 40 guarantors, whose guarantee in the event of winding up the Company was a sum not exceeding £1 each.

19. 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.

20. Notes to the statement of cash flows

Group	2023 £'000	2022 £'000
Cash flow from operating activities		
(Loss)/profit for the financial year	(894)	859
Adjustments for		
Depreciation	377	396
Other Income (R&D credit)	(510)	-
Other expenses	6	-
Finance income (Note 8)	(1,891)	(261)
Taxation	52	17
Decrease(increase) in debtors	(3,542)	497
Increase in creditors	7,886	5,776
Net cash generated from operating activities	1,484	7,284

21. Financial instruments

The carrying values of the Group's financial assets and liabilities are summarised by category below:

Group

	Level in the fair value hierarchy	2023 £'000	2022 £'000
Financial assets:			
Money market funds	Level 1	1,580	-
Financial assets measured at amortised cost:			
Debt securities (see Note 13)	Level 2	28,878	-
Cash at bank	-	64,169	90,993
Trade debtors	-	1,149	1,863
Other debtors	-	1,862	2,100
		97,638	94,956
Financial liabilities:			
Trade creditors		7,843	335
Other creditors		727	602
		8,570	937

Fair value measurements of financial instruments are presented through use of a three-level fair value hierarchy that prioritises the valuation techniques used in fair value calculations.

- Level 1:** quoted prices in active markets for identical assets or liabilities
- Level 2:** inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3:** inputs for the asset or liability are not based on observable market data.

The Group's income, expenses and gains and losses in respect of financial instruments are summarised below:

	2023 £'000	2022 £'000
Interest income		
Total interest income for financial assets at amortised cost	1,849	261
	1,849	261
Fair value gains		
Financial assets measured at fair value through profit or loss	81	-
	81	-
Impairment losses		
On financial assets measured at amortised cost	16	-
	16	-

Notes to the financial statements

continued

21. Financial instruments (continued)

Financial risk management objectives

The Investment Committee monitors and approves investment decisions in accordance with its Terms of Reference. The Investment Committee reports its activities to the Audit Committee quarterly (at a minimum). The Audit Committee operates under delegated authority from the Board.

Pay.UK monitors and manages the financial risks relating to the operations of the Group through internal reports which analyses exposures by degree and magnitude of risks. These risks include:

1. Market risk (such as interest rate risk)
2. Credit risk
3. Liquidity risk
4. Capital Risk.

The use of financial instruments is governed by the Group’s policies approved by the Investment and the Audit Committee, which provide written principles on foreign exchange risk, interest rate risk, credit risk, other financial instruments, and the investment of excess liquidity. Compliance with policies and exposure limits is reviewed by the Investment Committee and the Audit Committee on a continuous basis. Pay.UK does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

Pay.UK’s finance function reports monthly to the Group’s Investment Committee, an executive body that monitors risks and policies implemented to mitigate risk exposures related to financial instruments. The Investment Committee subsequently reports to the Audit Committee and the Board.

Market risk

The Group’s only exposure to market risk is through its investment in short-dated Treasury Bills, which exposes it primarily to the financial risks of changes in interest rates. The volatility of market values in this market is considered low. The Group does not have any material exposure to foreign exchange, equity, commodity or credit spread.

Interest rate risk

The sensitivity analyses below have been determined based on the exposure to interest rates for financial instruments at the reporting date. The analysis is prepared assuming the carrying amount at balance sheet date was outstanding for the whole year.

A 75 basis points increase is used when reporting interest rate risk internally to key management personnel and represents management’s assessment of the reasonably possible change in interest rates. If interest rates had been 75 basis points higher, all instruments disposed immediately, and all other variables were held constant, the Group’s:

- profit for the year ended 31 December 2023 would decrease by £56k (2022: Nil). This is mainly attributable to the Group’s exposure to duration risk related to interest rates on its Debt Securities; and
- other equity reserves would have been unaffected.

The Group’s sensitivity to interest rates has increased during the current period mainly due to the increase investment in Treasury Bills.

Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties as a means of mitigating the risk of financial loss from defaults and more than 90% of customers settle through direct debit. Individual investments are to be made in high quality investment grade fixed income securities, defined by Moody’s as A3 or above, or A- as defined by Fitch and S&P. These instruments tend to be UK Gilts or Treasury Bills.

For the avoidance of concentration risk, we hold no more than 20% of the portfolio in a single Gilt or T-Bill issue and no more than 5% in a bond issued by a single corporate entity.

Trade debtors consist of a large number of customers, spread across Tier 1 banks, Challenger Banks and FinTech firms. Ongoing credit evaluation is performed on the financial condition of accounts receivable. The Group credit risk exposure predominantly relates to Tier 1 Banks in the UK.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

Credit rating (S&P)	2023 £000	2022 £000
AA	29,585	-
A	873	-
	30,458	-

There was no impairment recognised.

21. Financial instruments (continued)

Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has established an appropriate liquidity risk management framework for the management of the Group’s short-, medium- and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities.

Liquidity risk management

The amounts to be provided in the contractual maturity analysis are contractual, undiscounted cash flows. These amounts will differ from the amounts disclosed in the balance sheet for financial assets and liabilities which are typically discounted amounts and as a result of captions being merged.

At 31 December 2023	Less than 1 month £000	1–3 months £000	3 months to 1 year £000	1–5 years £000	Contractual cashflow £000	Carrying amount £000
Assets						
Cash and cash equivalents	65,749	-	-	-	65,749	65,749
Debt securities	6,500	6,500	16,250	-	29,250	28,878
Trade debtor	425	725	-	-	1,149	1,149
Other debtors	104	167	-	-	271	271
Contract incentive	38	76	341	1,136	1,591	1,591
	72,816	7,300	16,591	1,136	97,843	97,471
Liabilities						
Trade creditors	6,804	1,039	-	-	7,843	7,843
Accruals (excl. accruals for bonuses, salaries/wages and deferred income) ¹	-	30,187	-	-	30,187	30,187
Other creditors	272	-	-	-	272	272
Contract incentive (Note 16) ²	38	76	341	1,136	1,591	1,591
	7,114	31,302	341	1,136	39,893	39,893

At 31 December 2022	Less than 1 month £000	1–3 months £000	3 months to 1 year £000	1–5 years £000	Contractual cashflow £000	Carrying amount £000
Assets						
Cash and cash equivalents	90,993	-	-	-	90,993	90,993
Debt securities	-	-	-	-	-	-
Trade debtor	635	1,228	-	-	1,863	1,863
Other debtors	48	6			54	54
Contract incentive	38	76	341	1,591	2,046	2,046
	91,714	1,310	341	1,591	94,956	94,956
Liabilities						
Trade creditors	335	-	-	-	335	335
Accruals (excl. accruals for bonuses, salaries/wages and deferred income)	-	17,820	-	-	17,820	17,820
Other creditors	602	-	-	-	602	602
Contract incentive (Note 16) ²	38	76	341	1,591	2046	2,046
	975	17,896	341	1,591	20,803	20,803

1. Includes planned payment of £17 million to participants of the Managed Services.

2. Contract incentive is not settled in cash.

Notes to the financial statements

continued

21. Financial instruments (continued)

Capital risk management

Our Minimum Capital Requirement is determined with reference to CPMI-IOSCO Principles. Under our annual review, we must hold six months operating expenses, in the form of high-quality liquid assets, to absorb significant financial shocks, whilst continuing to deliver critical payment services uninterrupted. Therefore, the business is managed so that sufficient regulatory capital is held to meet this requirement at all times. Our regulatory capital/risk capital for 2023 is £26m (2022: £25m).

22. Financial commitments

At 31 December 2023, the Company had future minimum lease payments under non-cancellable operating leases as follows:

	2023 £'000	2022 £'000
Not later than 1 year	1,474	1,715
Later than 1 year and not later than 5 years	6	1,467
	1,480	3,182

The lease commitment on floors 1, 2 and 3 of 2 Thomas More Square is to 2024. The terms under the rent review on all three floors was finalised at the end of 2022, providing certainty on these commitments until the end of the lease.

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

23. Ultimate parent company

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

Glossary

Acronym	Term	Acronym	Term
A2A	Account to Account	FMI	Financial Market Infrastructure
A2ART	Account to Account in Retail	FMID	Financial Market Infrastructure Directorate
ACE	Action on Colleague Engagement	FRC	Financial Reporting Council
AI	Artificial Intelligence	FRS	Financial Reporting Standard
AVCs	Additional Voluntary Contributions	GBS	Government Banking Service
AGM	Annual General Meeting	GD4	General Direction 4
API	Application Programming Interface	GHG	Green House Gas
APP	Authorised Push Payment	HMT	His Majesty's Treasury
APPR	Authorised Push Payment Reimbursement	HMRC	HM Revenue and Customs
BaaS	Banking as a Service	ICS	Image Clearing System
Bacs	Bacs Payment System	IBS	Important Business Services
BERTI	Bank of England Real Time Interface	INED	Independent Non-Executive Director
CASS	Current Account Switch Service	IAC	Industry Advisory Council
CBDC	Central Bank Digital Currency	ISO	International Organisation for Standardisation
CEF	Customer Engagement Forum	ISO 20022	International Organisation for Standardisation 20022
CMA	Competition and Markets Authority	JROC	Joint Regulatory Oversight Committee
CoP	Confirmation of Payee	KPIs	Key Performance Indicators
CPMI-IOSCO	CPMI-IOSCO Principles for Financial Market Infrastructures	LTIP	Long Term Incentive Plan
CSP	Cloud Service Provider	LWG	Legal Working Group
CSR	Corporate Social Responsibility	NEPD	New Enhanced Product Development
CSRA	Corporate Social Responsibility Accreditation	NPA	New Payments Architecture
CTP	Critical Third Party	NPV	National Payments Vision
DDI	Direct Debit Instruction	NPVS	National Payments Vision and Strategy
D&I	Diversity and Inclusion	NEDs	Non-Executive Director
ECB	European Central Bank	OB	Opening Banking
EDI	Equality, Diversity and Inclusion	PAC	Participant Advisory Council
EFD	Enhanced Fraud Data	PIRF	Payments Industry Resilience Forum
ELB	Enquiry Link Browse	PSP	Payment Service Provider
ESG	Environmental, Social and Governance	PSO	Payment System Operator
EUAC	End User Advisory Council	PSR	Payment Systems Regulator
ERMF	Enterprise Risk Management Framework	PFMI	Principles for Financial Market Infrastructures
EVP	Employee Value Proposition	POC	Proof of Concept
FPS	Faster Payment System	PKI	Public Key Infrastructure
FCA	Financial Conduct Authority		

Glossary continued

Acronym	Term
RACS	Rules and Controls Simplification
RDC	Remote Deposit Capture
RDEC	R&D Expenditure Scheme
RIDDOR	Reporting of Injuries, Diseases and Dangerous Occurrences Regulations
RTGS	Real-Time Gross Settlement
RtP	Request to Pay
RFP	Request for Proposal
SMS	Security Management System
SID	Senior Independent Director
SIP	Single Immediate Payment
SLA	Service Level Agreement
SVT	Self Validation Testing
SIP	Single Immediate Payment
SME	Small and Medium-Sized Enterprise
SPG	Strategic Participant Group
SRA	Solicitors Regulation Authority
SSCC	Switching Services Customer Committee
SWIFT	Society for Worldwide Interbank Financial Telecommunication
TPMF	Third-Party Management Framework
UIG	User Interest Group
UKF	UK Finance
UTSP	Universal Trust Service Provider
VCNO	Vendor Contract Non-Objection



The production of this report supports the work of the Woodland Trust, the UK’s leading woodland conservation charity. Each tree planted will grow into a vital carbon store, helping to reduce environmental impact as well as creating natural havens for wildlife and people.