Monitoring of the 2023 Financial Management Plan
June 2024

Background

In between actuarial valuations, the Trustee monitors the financial position of the Scheme. This document provides details of the monitoring for the quarter ending 30 June 2024 based on the 2023 valuation. It follows the Financial Management Plan and monitoring framework which the Trustee has established for the Scheme.

The purpose of the monitoring is to indicate whether or not the Scheme's financial position is progressing as expected. It does not lead to any direct action from the Trustee other than potentially commissioning further analysis and advice.

Further, it should be noted that monitoring is not intended to answer the question: what are the contribution requirements if a valuation was undertaken at the monitoring date?

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June 2024

Differences between monitoring and actuarial valuation

The monitoring approach is not as thorough as that adopted at an actuarial valuation and hence does not give the same outcome as would be given by an actuarial valuation at the effective date. This is for a number of reasons, including:

- While monitoring updates the main financial assumptions, these and other assumptions do not go through the same level of assessment as would be the case for an actuarial valuation. For example, when setting the mortality assumption at a valuation we would undertake a full review of the Scheme's experience, as well as considering other relevant evidence. Further, the assumptions used for monitoring do not necessarily reflect the risk capacity and appetite of employers at that date. A valuation also involves a full review of the covenant provided by the employers whilst our monitoring seeks only to capture any change in the covenant that requires further investigation. In practice for an actuarial valuation the Trustee's Integrated Risk Management Framework would also potentially influence the choice of assumptions.
- An actuarial valuation would require consultation with UUK in relation to the assumptions used and the contributions payable; it is not possible to pre-judge the outcome of any such process.
- Any deficit recovery contributions needed would be based on additional factors, including the views of the Pensions Regulator.
- The calculations do not allow for new membership data, and contain some approximations relative to an actuarial valuation.

The monitoring position is relatively volatile from quarter to quarter, and in light of this the Trustee considers the overall history and trends since the valuation date rather than just the position at the monitoring date.

- Market conditions at the end of June 2024 were broadly similar to those at the end of March 2024, but more favourable to those on the March 2023 valuation date.
- The monitoring of the Scheme shows a higher TP surplus when compared to the valuation date, allowing for benefit improvements granted on 1 April 2024, and a lower future service contribution requirement. The self-sufficiency funding position has also improved since the valuation date and now shows a small surplus.

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QUARTER END FMP MONITORING REPORT - END JUNE 2024

Technical Provisions

£9.2bn Surplus

Valuation date (31/03/2023)	£7.4bn Surplus
Liability	£64.6bn
Pre-retirement discount rate	Gilts + 1.90%
Post-retirement discount rate	Gilts + 0.78%

Self-Sufficiency

£0.6bn Surplus

Valuation date	£5.1bn Deficit
Liability	£73.2bn
Discount rate	Gilts + 0.39%
Self-sufficiency VaR	£15.0bn

Assets

£73.8bn

Valuation date	£73.1bn
'Breakeven' discount rate	Gilts + 0.34% CPI + 1.88%

Future Service Contribution Requirement

18.7%

Valuation date	20.6%

Future Service Contribution Requirement

Current RAG	18.7% (Green)
Last quarter-end (Mar-24)	19.4% (Green)
Trigger if Red for two quarters	No

Investment Risk

The underlying Investment Risk metrics are all green

RAG Green

IRMF - Actual Reliance

	31-Mar-23	30-Jun-24
Actual Reliance (£bn)	13.1	7.4
% of AffRC	47%	26%
RAG	Green	Green

IRMF - Target Reliance

	31-Mar-23	30-Jun-24
Target Reliance (£bn)	20.5	16.5
% of AffRC	73%	58%
RAG	Green	Green

Covenant

Unchanged

Valuation date	Strong
Covenant:	Green

Note: Affordable Risk Capacity is determined as the present value of 10% of eligible sector salaries over 30 years. The 'Breakeven' discount rate is that at which the liability value equals the asset value.

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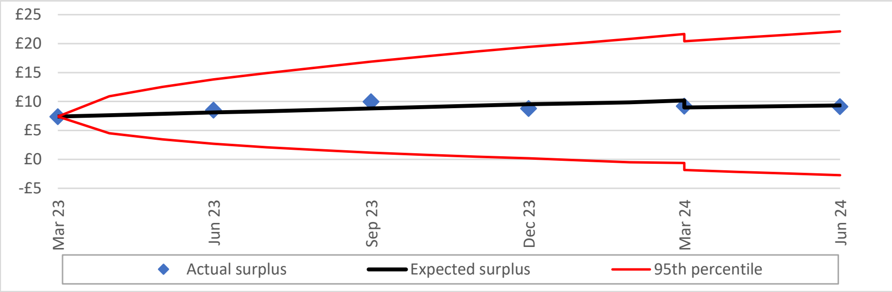
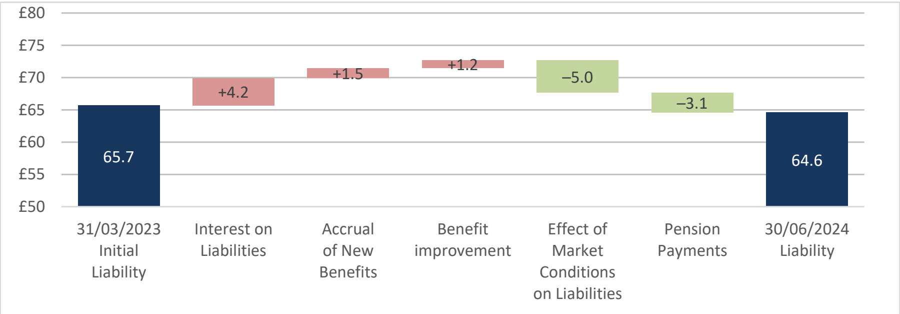
Technical Provisions

	31-Mar-23	30-Jun-24	Change
Assets £bn	73.1	73.8	+0.7
Liabilities £bn	65.7	64.6	-1.1
Surplus/(deficit) £bn	7.4	9.2	+1.8
Funded Status %	111%	114%	+3%

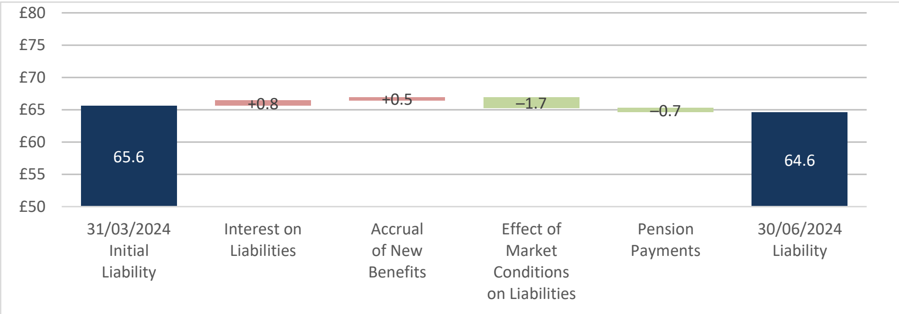
Technical Provisions surplus/(deficit) (£bn)



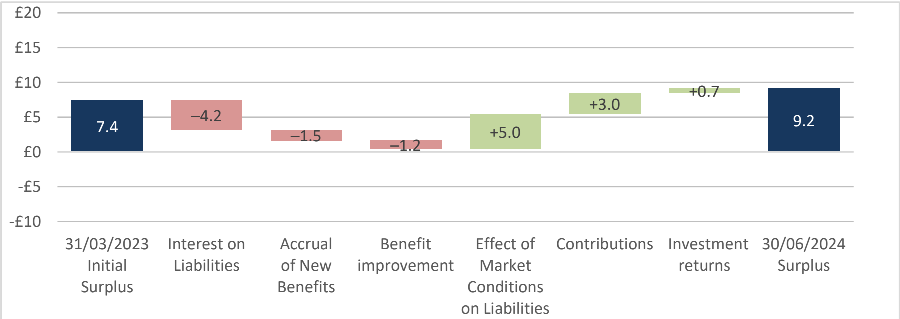
Liability change attribution (£bn) since the valuation date



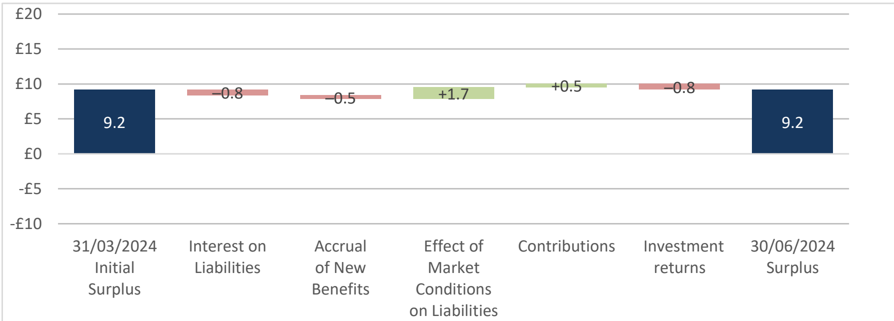
Liability change attribution (£bn) for the latest quarter - Q2 2024



Surplus change attribution (£bn) since the valuation date



Surplus change attribution (£bn) for the latest quarter - Q2 2024



The Benefit Improvement items in the attributions have been calculated as at 31 March 2024. The step in the cone chart as at this date reflects this.

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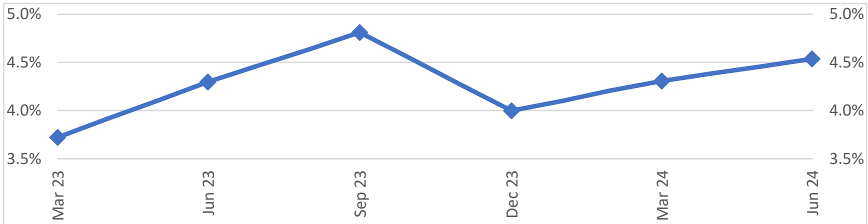
Market Gilts and CPI	31-Mar-23	30-Jun-24
Gilts, nominal (single equivalent)	3.72%	4.54%
Market implied CPI (single equivalent)	3.08%	2.97%

Technical Provisions - Assumptions	31-Mar-23	30-Jun-24
Assumed future TP CPI (single equivalent) *	3.0%	3.0%
Change in market implied CPI relative to TP CPI (a)		-0.11%
CME Pre ret expected rtn vs Index-linked gilts **	ILG + 3.92%	ILG + 3.21%
Change since 31-Mar-23 relative to ILG (b)		-0.71%
Pre-retirement discount rate: Adjusted by (b) - (a)	Gilts + 2.50%	Gilts + 1.90%
CME Post ret expected rtn vs Index-linked gilts **	ILG + 1.08%	ILG + 0.85%
Change since 31-Mar-23 rel to ILG (c)		-0.23%
Post-retirement discount rate: Adjusted by (c) - (a)	Gilts + 0.90%	Gilts + 0.78%

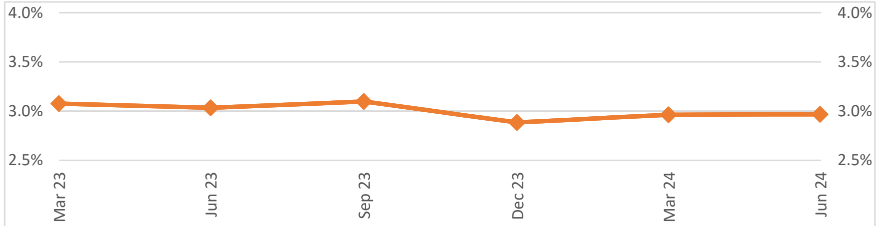
Single equivalent discount rates	31-Mar-23	30-Jun-24
Single equivalent discount rate (TP)	Gilts + 1.4%	Gilts + 1.2%
	CPI + 2.2%	CPI + 2.7%
Single equivalent discount rate (TP future service)	Gilts + 1.8%	Gilts + 1.4%
	CPI + 2.5%	CPI + 2.9%

* This is our forward view of expected inflation. We allow for known inflation and its effect on the Scheme's liabilities in the cashflows valued. Market CPI (also allowing for known inflation) is assumed for the self-sufficiency liability.
** 30 yr expected return VIS portfolio. Calculated on a deterministic basis allowing for an estimated rebalancing premium for monitoring purposes.

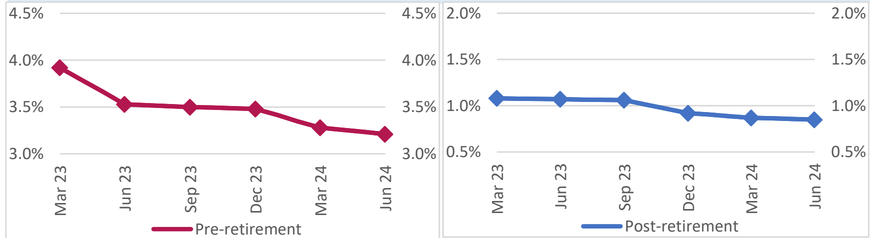
Gilts, nominal (single equivalent)



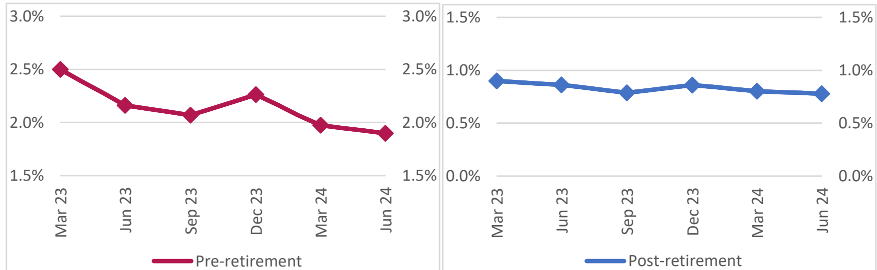
Market implied CPI (single equivalent)



CME expected return relative to index-linked gilts



TP Discount rates (Gilts+)



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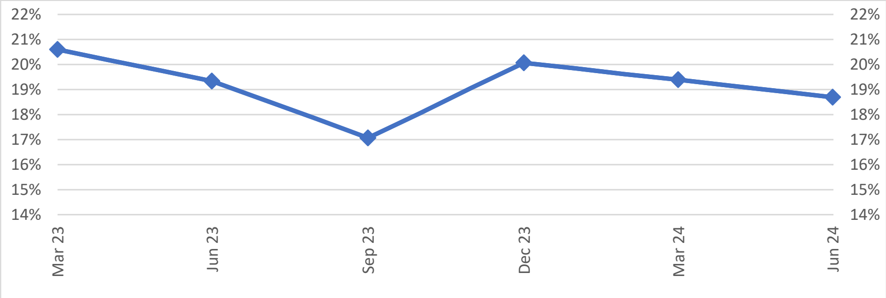
QUARTER END FMP MONITORING REPORT - END JUNE 2024

Future service contributions required

	31-Mar-23	30-Jun-24
DB Future Service contribution required	18.3%	16.4%
Expenses	0.5%	0.5%
Expected DC contributions [1]	1.8%	1.8%
Total	20.6%	18.7%

Note 1. Includes 0.1% subsidy.

Future service contributions required (including DC)



Sensitivity and Duration

	31-Mar-23	30-Jun-24
TP Sensitivity (£bn) [1]	-1.0	-1.0
TP Duration of scheme (years)	17.2	16.5

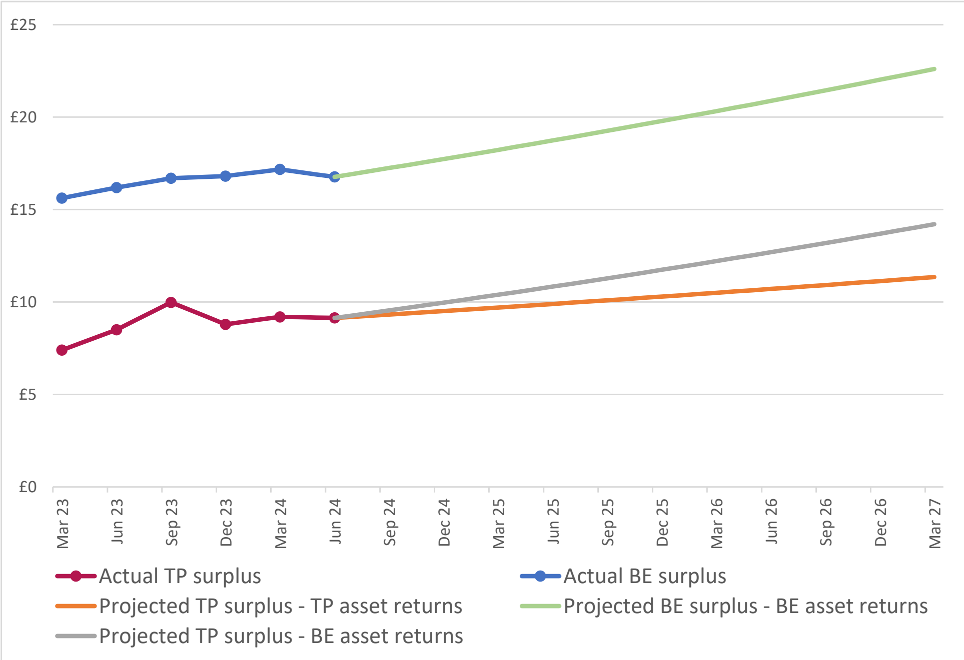
Note

1. Sensitivity is the impact of a +0.1% change in the TP discount rates

Best Estimate basis

	31-Mar-23	30-Jun-24	Change
Pre-retirement discount rate	Gilts + 4.75%	Gilts + 4.15%	-0.60%
Post-retirement discount rate	Gilts + 1.20%	Gilts + 1.08%	-0.12%
Assets (£bn)	73.1	73.8	+0.7
Liabilities (BE) £bn	57.5	57.0	-0.5
Surplus/(deficit) (BE) £bn	15.6	16.8	+1.2
Future Service conts reqd (BE)	15.2%	13.9%	-1.3%
SE discount rate (liabilities)	Gilts + 2.3%	Gilts + 2.0%	-0.3%
SE discount rate (future service)	Gilts + 3.3%	Gilts + 2.9%	-0.4%

Projected funding position (£bn)



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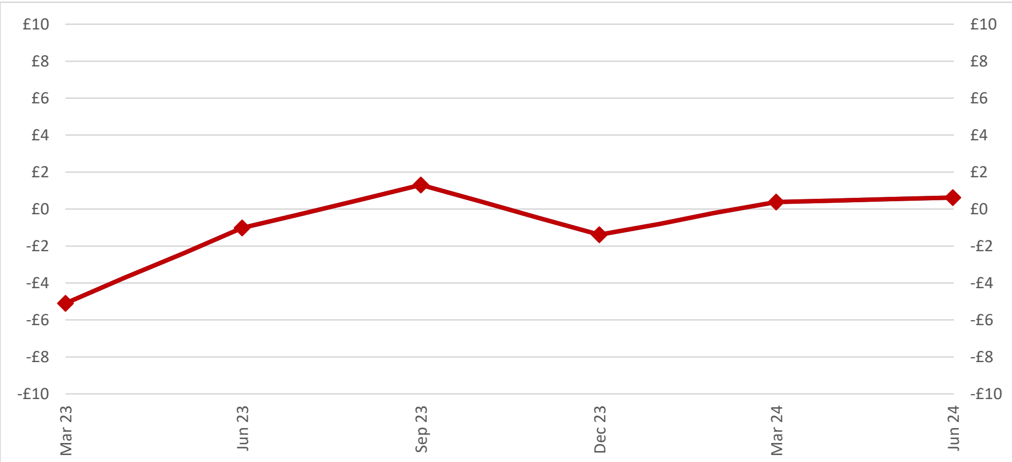
QUARTER END FMP MONITORING REPORT - END JUNE 2024

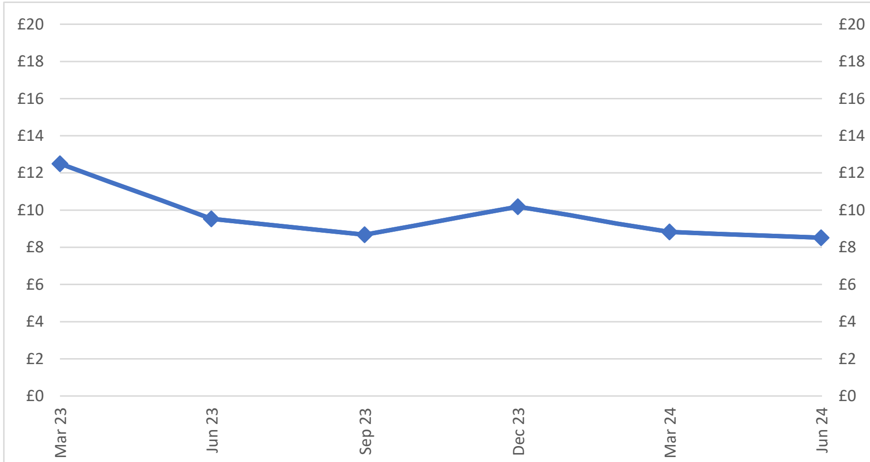
Self-Sufficiency

	31-Mar-23	30-Jun-24	Change
Discount rate	Gilts + 0.50%	Gilts + 0.39%	-0.11%
Assets £bn	73.1	73.8	+0.7
Liabilities £bn	78.2	73.2	-5.0
Surplus/(deficit), £bn	-5.1	0.6	+5.7
Funded Status %	93%	101%	+8%
Single equivalent discount rate	Mkt CPI + 1.2%	Mkt CPI + 1.9%	+0.7%

Self-Sufficiency surplus/(deficit) (£bn)



Gap between Self-Sufficiency and Technical Provisions (£bn)



Affordable Risk Capacity: Value of 10% of pay for 30yrs

	31-Mar-23	30-Jun-24	Change
Discount rate to calculate the AffRC	Gilts + 0.70%	Gilts + 0.33%	-0.37%
Affordable Risk Capacity, £bn	28.1	28.6	+0.5
Range: +/- 10%, £bn	25 - 31	26 - 31	

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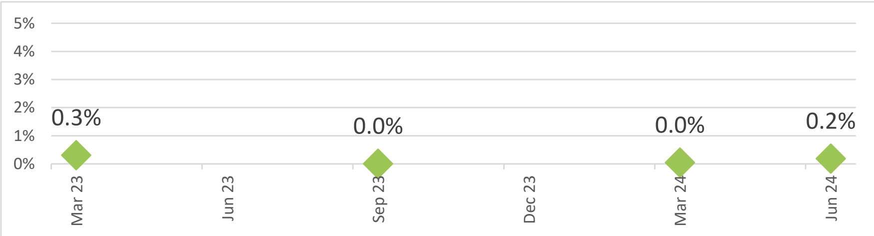
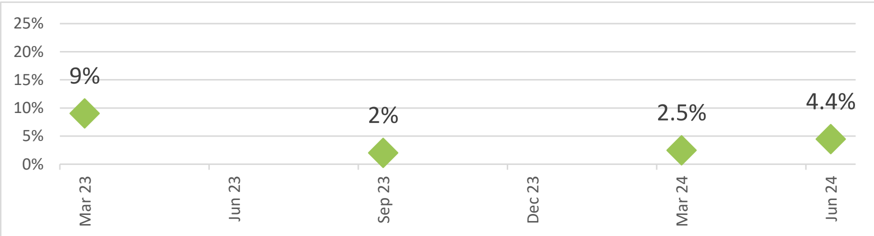
QUARTER END FMP MONITORING REPORT - END JUNE 2024

INVESTMENT RISK

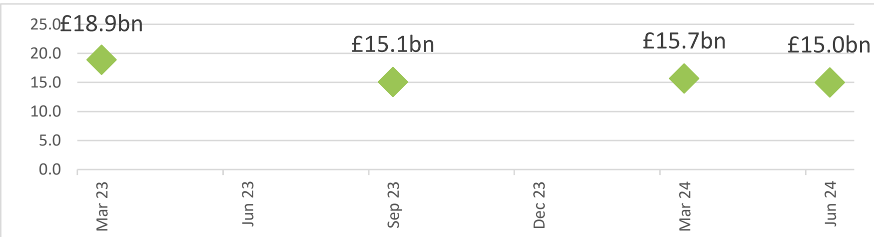
1. Probability of Actual Reliance exceeding Limit of Reliance in three years



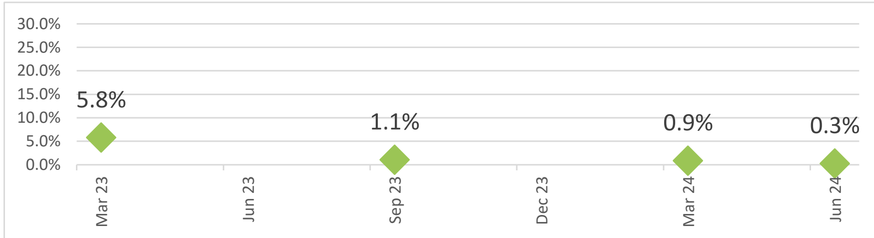
2. (a) Probability of Actual Reliance exceeding Affordable Risk Capacity in three years



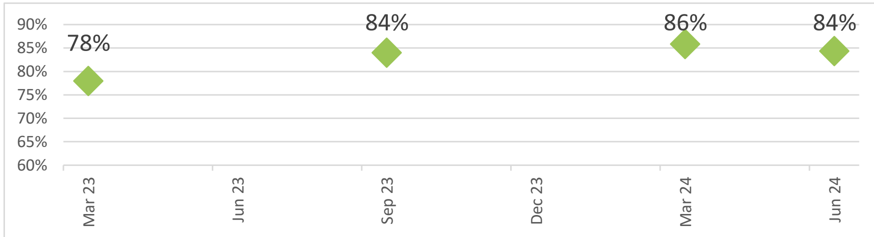
2. (b) Self-sufficiency funding deficit 1-year Value at Risk



3. (a) Probability of the contribution requirement exceeding 26% in three years



3. (b) Probability of TP full funding in 2032, allowing for contributions of 26% from 2026



Overall investment risk metric

The underlying Investment Risk metrics are all green

RAG	Green

Note: The colour of the diamond is the RAG status at each date. For the RAG definitions please see Appendix B.

Figures are based on the 2023 Valuation Investment Strategy and were not calculated at Jun 23 or Dec 23.

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QUARTER END FMP MONITORING REPORT - END JUNE 2024

Quarterly covenant monitoring update

SUMMARY The covenant remains Strong

Rationale:
- No indication of significant weakening of financial position of employers that contribute the majority of employer risk capacity
- Employer capacity to support risk remains in excess of Scheme reliance on employers

KEY DEVELOPMENTS

- The Migration Advisory Committee (MAC) report into the Graduate Route visa scheme recommended that the government maintains the two-year visa unaltered. It noted no evidence that the graduate route was being abused and that further restrictions on the route would not be prudent until there was more information available on the impact of recent additional restrictions on dependants' visas and increased visa fees, whose impact was already being felt (May-24).
- The OfS published its annual report for FY23 on the financial sustainability of higher education providers in England. It noted that strong balance sheets and liquidity meant that English universities' financial position was generally robust but that that financial performance was weaker than in the previous year and university forecasts anticipate further weakening in FY24. It suggested that university expectations for international student recruitment appeared in aggregate to be over-optimistic and consequently financial performance in FY24 may be weaker than reflected in the forecasts that it collected in Nov/Dec-23 (May-24).
- The PIE News noted that restrictions on international student numbers and study visas in Australia and Canada are leading to job cuts in universities, as they are in the UK (May-24). IDP Education, a corporate agent involved in international recruitment, told its investors that it was anticipating a 20-25% shrinkage in the global international education market over the next 12 months because of "restrictive policies" introduced in Australia, Canada and the UK and needed to make cuts to its operations in response (Jun-24).
- The FT flagged a report from HEPI noting a "cost of learning crisis" for English university students, with maximum available maintenance loan funding of around £10,000 p.a. being more than £8,000 p.a. below the typical annual student cost of living (May-24).

ENGAGEMENT ACTIVITY

ENGAGEMENT ACTIVITY (Not survey-related, # cases)	**QTD**	**YTD**
Notifications of intention to execute:		
• new *secured debt*	0	1
• new Quasi-security	0	0
Open engagement cases	1	1
Total engagement cases	2	7

DEBT MONITORING SURVEY

DEBT MONITORING SURVEY	**2024**	**2023**
Response rate		
• All employers	90%	75%
• Pre-92 universities	100%	98%
• All HEIs	97%	88%
Average # metrics A-D exceeded per response	1.12	0.79
# in-scope employers:		
• above engagement thresholds	14	10
• requiring additional measures	1	0

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QUARTER END FMP MONITORING REPORT - END JUNE 2024

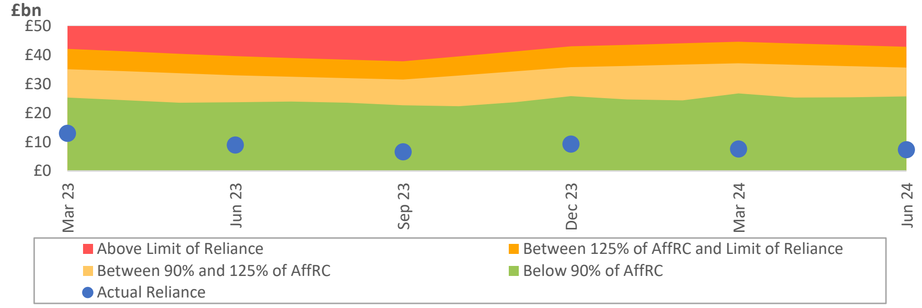
APPENDIX A - IRMF RAG rating definitions

Actual Reliance

Self-sufficiency liabilities + Transition Risk - Assets

Green	Less than or equal to 90% of Affordable Risk Capacity
Lower Amber	Between 90% and 125% of Affordable Risk Capacity
Upper Amber	Between 125% of Affordable Risk Capacity and Limit of Reliance
Red	Above Limit of Reliance (150% of Affordable Risk Capacity)

Actual Reliance

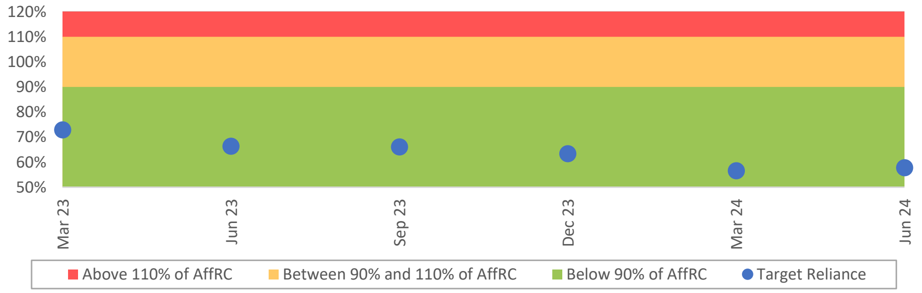


Target Reliance

Self-sufficiency liabilities + Transition Risk - Technical Provisions

Green	Less than or equal to 90% of Affordable Risk Capacity
Amber	Between 90% and 110% of Affordable Risk Capacity
Red	Above 110% of Affordable Risk Capacity

Target Reliance as % of Affordable Risk Capacity

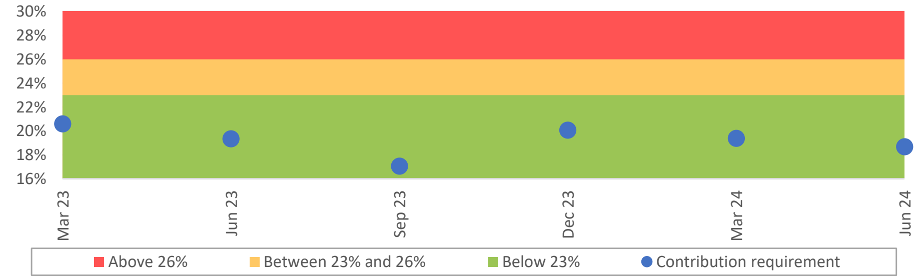


Contribution Metric

Green	If the total contribution requirement is less than or equal to 23% (i.e. the current contribution rate plus a margin)
Amber	If the total contribution requirement is between 23% and 26%
Red	If the total contribution requirement is greater than 26%

The metric will be deemed to have triggered if 'Red' for two consecutive quarter-ends

Contribution Metric



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APPENDIX B - Investment Risk RAG rating definitions

1. Probability of Actual Reliance exceeding Limit of Reliance in three years

Green	< 1%
Amber	1% - 5%
Red	> 5%

2. (a) Probability of Actual Reliance exceeding Affordable Risk Capacity in three years

Green	<10%
Amber	10% - 25%
Red	> 25%

2. (b) Self-sufficiency funding deficit 1-year Value at Risk

Green	< £20bn
Amber	£20bn - £25bn
Red	> £25bn

3. (a) Probability of the contribution requirement exceeding 26% in three years

Green	< 15%
Amber	15% - 30%
Red	> 30%

3. (b) Probability of TP full funding in 2032, allowing for contributions of 26% from 2026

Green	> 70%
Amber	60% - 70%
Red	< 60%

Overall Investment Risk Metric

Green	Where the underlying metrics are all green
Amber	Where at least one underlying metric is not green, but no underlying metrics have been red at two consecutive quarter ends
Red	Where at least one particular underlying metric has been red for two consecutive quarter ends