Monitoring of the 2023 Financial Management Plan
March 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 31 March 2024 based on the 2023 valuation.

Following the completion of the 2023 valuation, the Trustee has established an updated Financial Management Plan and monitoring framework for the Scheme. This is the first report that incorporates the updated monitoring framework.

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?

The March 2024 monitoring position allows for the expected increase in liabilities resulting from the benefit changes and uplift to accrued pensions that were implemented on 1 April 2024. This has increased the liability by around £1.2bn on the TP basis, which can be attributed £0.8bn for the uplift in benefits awarded in April 2024 and £0.4bn for replacing the 2.5% p.a. pension increase cap on post 2022 benefits with the 'soft cap' approach that preceded it.

The Capital Market Expectations (CME), as shown on page 5, have been updated for the proposed 2023 Valuation Investment Strategy. This includes restatement of the March 2023 returns on this basis for the purpose of deriving the updated discount rates for monitoring. The 2023 best estimate discount rates and results are as used in the 2023 valuation and provided in the technical provisions consultation.

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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.

- Overall market conditions at the end of March 2024 are more favourable than those at both the end of December 2023 and 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 slightly 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 MARCH 2024

Technical Provisions

£9.2bn Surplus

Valuation date (31/03/2023)	£7.4bn Surplus
Liability	£65.6bn
Pre-retirement discount rate	Gilts + 1.97%
Post-retirement discount rate	Gilts + 0.80%

Self-Sufficiency

£0.4bn Surplus

Valuation date	£5.1bn Deficit
Liability	£74.4bn
Discount rate	Gilts + 0.39%
Self-sufficiency VaR	£15.7bn

Assets

£74.8bn

Valuation date	£73.1bn
'Breakeven' discount rate	Gilts + 0.40% CPI + 1.71%

Future Service Contribution Requirement

19.4%

Valuation date	20.6%

Future Service Contribution Requirement

Current RAG	19.4% (Green)
Last quarter-end (Dec-23)	20.1% (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	31-Mar-24
Actual Reliance (£bn)	13.1	7.6
% of AffRC	47%	26%
RAG	Green	Green

IRMF - Target Reliance

	31-Mar-23	31-Mar-24
Target Reliance (£bn)	20.5	16.8
% of AffRC	73%	57%
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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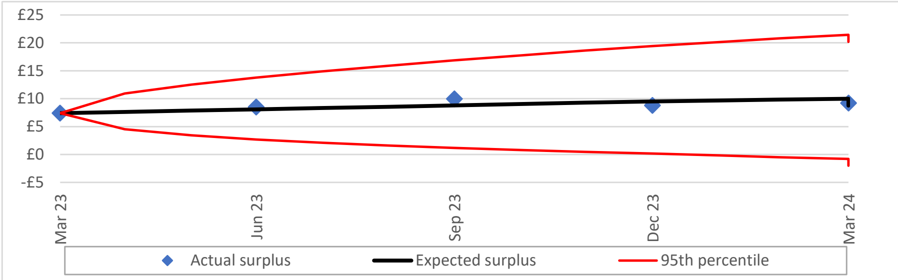
QUARTER END FMP MONITORING REPORT - END MARCH 2024

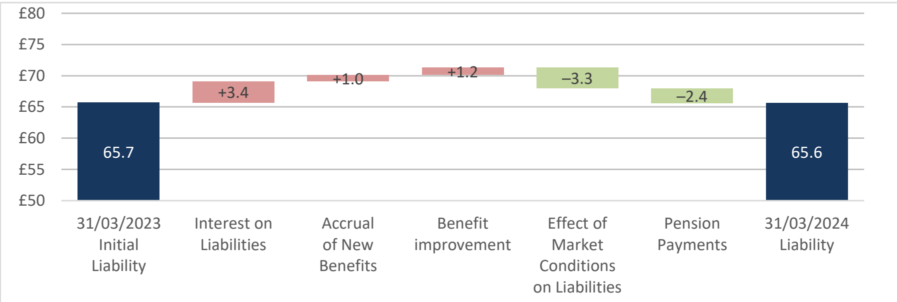
Technical Provisions

	31-Mar-23	31-Mar-24	Change
Assets £bn	73.1	74.8	+1.7
Liabilities £bn	65.7	65.6	-0.1
Surplus/(deficit) £bn	7.4	9.2	+1.8
Funded Status %	111%	114%	+3%

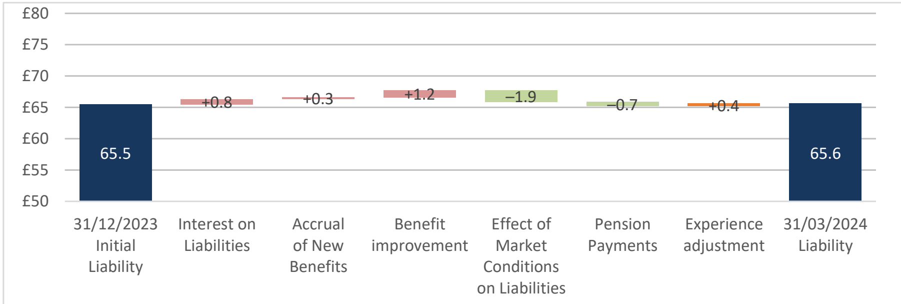
Technical Provisions surplus/(deficit) (£bn)



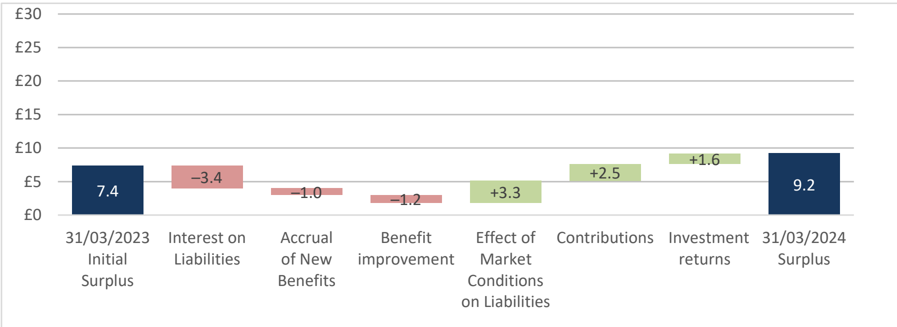
Liability change attribution (£bn) since the valuation date



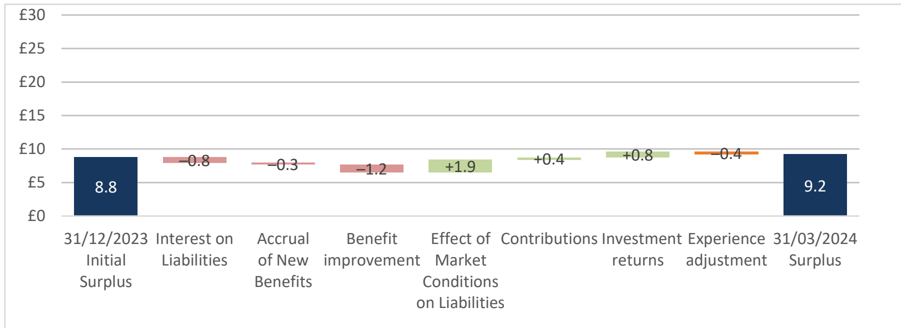
Liability change attribution (£bn) for the latest quarter - Q1 2024



Surplus change attribution (£bn) since the valuation date



Surplus change attribution (£bn) for the latest quarter - Q1 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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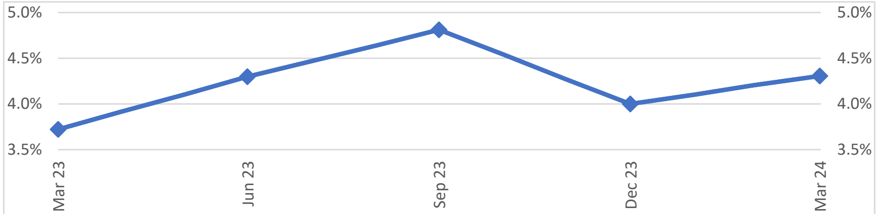
Market Gilts and CPI	31-Mar-23	31-Mar-24
Gilts, nominal (single equivalent)	3.72%	4.31%
Market implied CPI (single equivalent)	3.08%	2.96%

Technical Provisions - Assumptions	31-Mar-23	31-Mar-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 + 3.28%
Change since 31-Mar-23 relative to ILG (b)		-0.64%
Pre-retirement discount rate: Adjusted by (b) - (a)	Gilts + 2.50%	Gilts + 1.97%
CME Post ret expected rtn vs Index-linked gilts **	ILG + 1.08%	ILG + 0.87%
Change since 31-Mar-23 rel to ILG (c)		-0.21%
Post-retirement discount rate: Adjusted by (c) - (a)	Gilts + 0.90%	Gilts + 0.80%

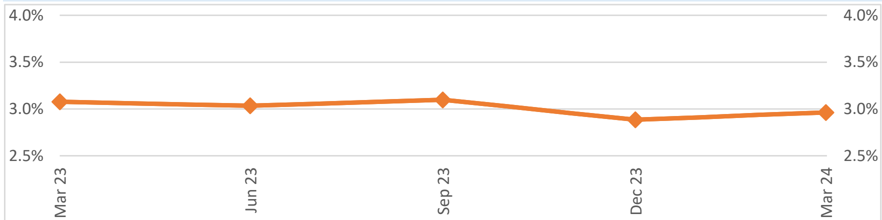
Single equivalent discount rates	31-Mar-23	31-Mar-24
Single equivalent discount rate (TP)	Gilts + 1.4%	Gilts + 1.2%
	CPI + 2.2%	CPI + 2.5%
Single equivalent discount rate (TP future service)	Gilts + 1.8%	Gilts + 1.5%
	CPI + 2.5%	CPI + 2.8%

* 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.

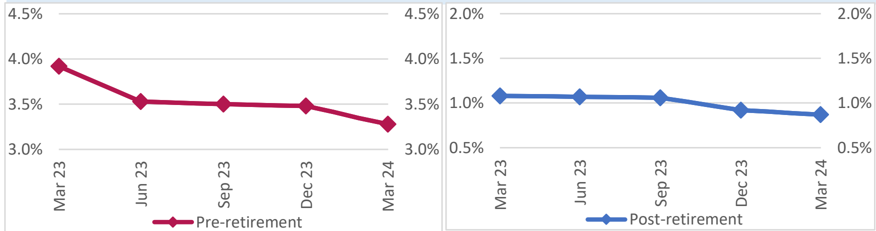
Gilts, nominal (single equivalent)



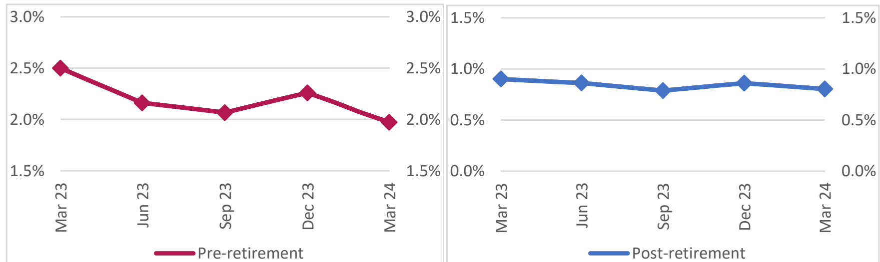
Market implied CPI (single equivalent)



CME expected return relative to index-linked gilts



TP Discount rates (Gilts+)



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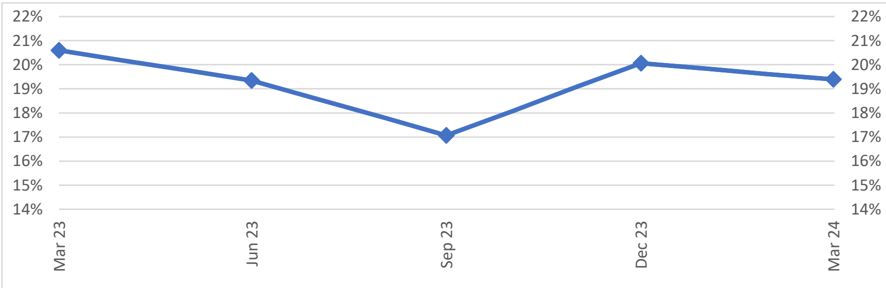
QUARTER END FMP MONITORING REPORT - END MARCH 2024

Future service contributions required

	31-Mar-23	31-Mar-24
DB Future Service contribution required	18.3%	17.1%
Expenses	0.5%	0.5%
Expected DC contributions [1]	1.8%	1.8%
Total	20.6%	19.4%

Note 1. Includes 0.1% subsidy.

Future service contributions required (including DC)



Sensitivity and Duration

	31-Mar-23	31-Mar-24
TP Sensitivity (£bn) [1]	-1.0	-1.0
TP Duration of scheme (years)	17.2	16.8

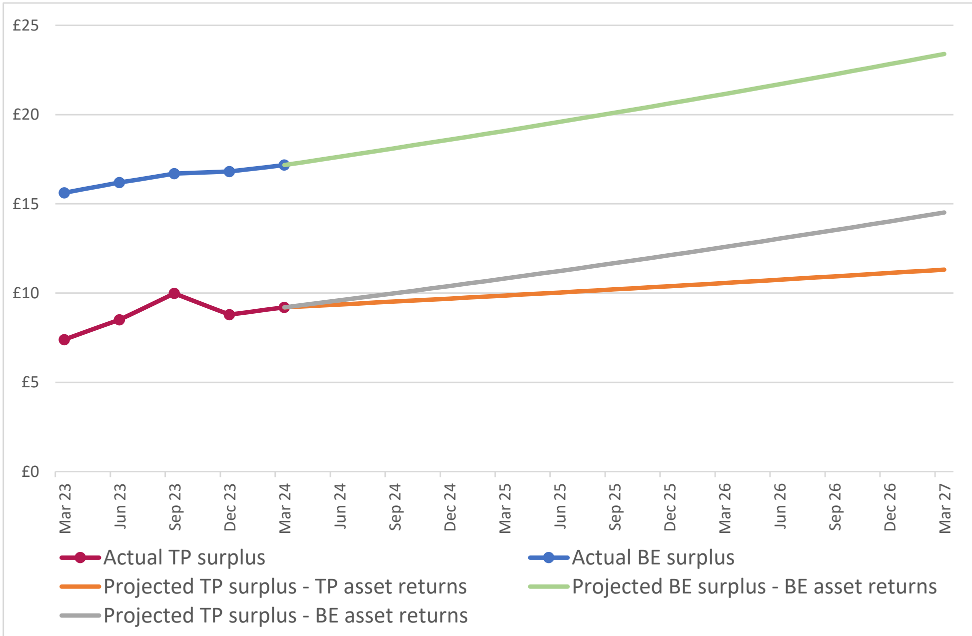
Note

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

Best Estimate basis

	31-Mar-23	31-Mar-24	Change
Pre-retirement discount rate	Gilts + 4.75%	Gilts + 4.22%	-0.53%
Post-retirement discount rate	Gilts + 1.20%	Gilts + 1.10%	-0.10%
Assets (£bn)	73.1	74.8	+1.7
Liabilities (BE) £bn	57.5	57.6	+0.1
Surplus/(deficit) (BE) £bn	15.6	17.2	+1.6
Future Service conts reqd (BE)	15.2%	14.4%	-0.8%
SE discount rate (liabilities)	Gilts + 2.3%	Gilts + 2.1%	-0.2%
SE discount rate (future service)	Gilts + 3.3%	Gilts + 2.9%	-0.4%

Projected funding position (£bn)



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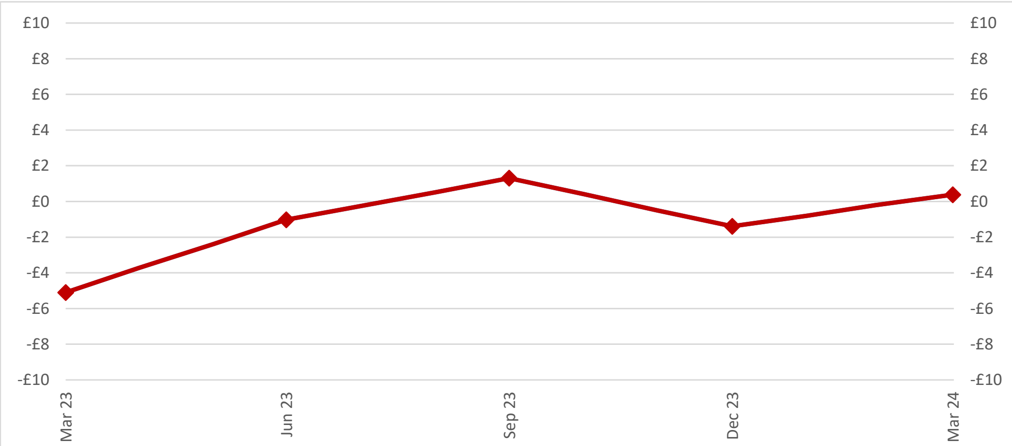
QUARTER END FMP MONITORING REPORT - END MARCH 2024

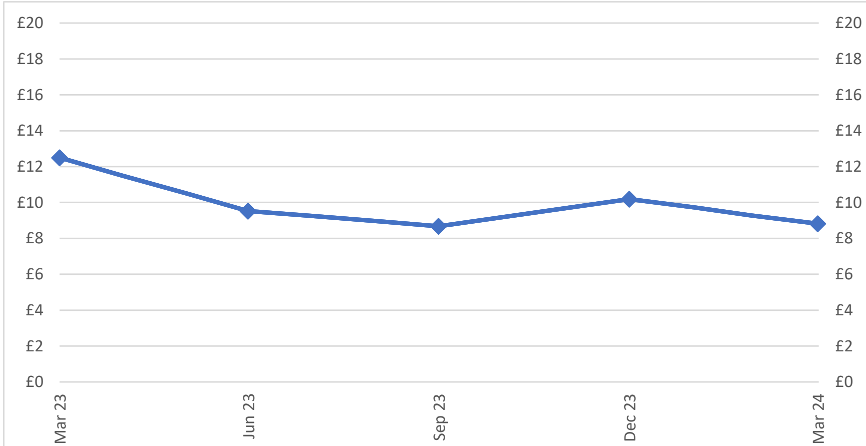
Self-Sufficiency

	31-Mar-23	31-Mar-24	Change
Discount rate	Gilts + 0.50%	Gilts + 0.39%	-0.11%
Assets £bn	73.1	74.8	+1.7
Liabilities £bn	78.2	74.4	-3.8
Surplus/(deficit), £bn	-5.1	0.4	+5.5
Funded Status %	93%	101%	+8%
Single equivalent discount rate	Mkt CPI + 1.2%	Mkt CPI + 1.7%	+0.5%

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	31-Mar-24	Change
Discount rate to calculate the AffRC	Gilts + 0.70%	Gilts + 0.28%	-0.42%
Affordable Risk Capacity, £bn	28.1	29.8	+1.7
Range: +/- 10%, £bn	25 - 31	27 - 33	

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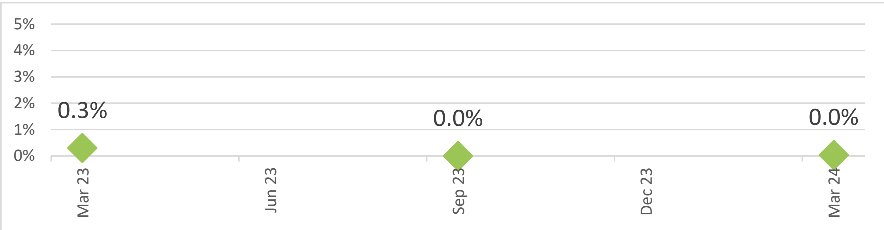
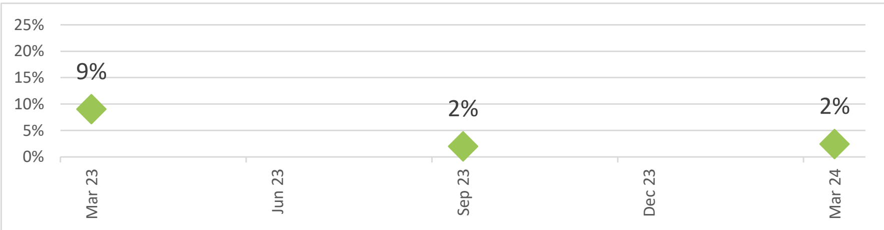
INVESTMENT RISK

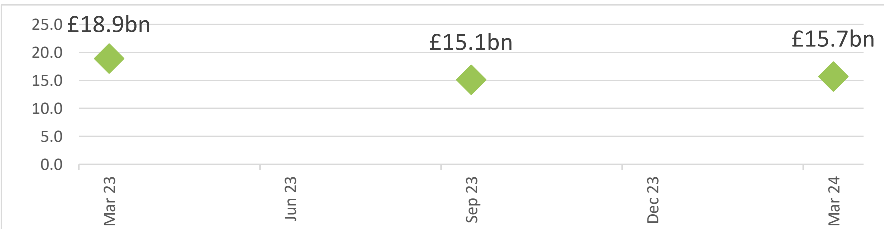
1. Probability of Actual Reliance exceeding Limit of Reliance in three years



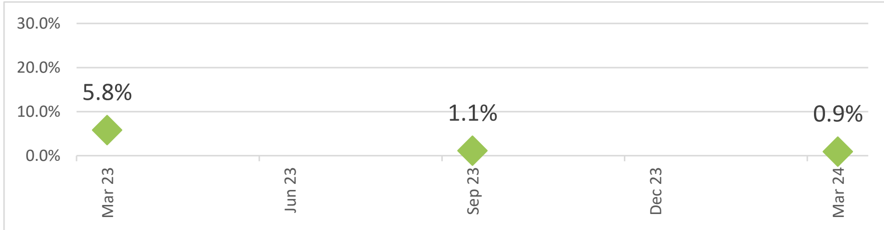
2. (a) Probability of Actual Reliance exceeding Affordable Risk Capacity in three years



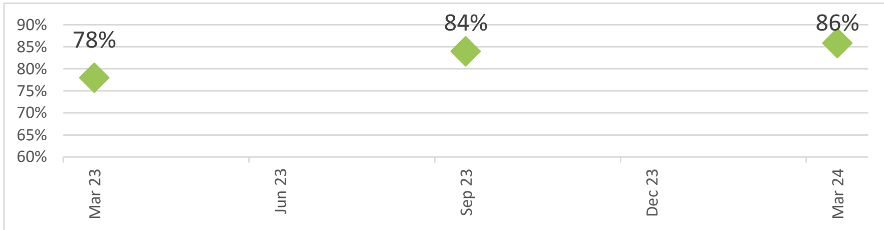
2. (b) Self-sufficiency funding deficit 1-year Value at Risk



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 proposed 2023 Valuation Investment Strategy with the exception of KRI 2b (SS VaR) which is based on the Implemented Portfolio.

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QUARTER END FMP MONITORING REPORT - END MARCH 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 well in excess of Scheme reliance on employers

KEY DEVELOPMENTS

- Multiple media articles in Jan-Mar period examining sustainability of funding model for UK HE and whether it can be "fixed", mostly without firm conclusions. PwC publishes UUK-commissioned report on financial sustainability of UK universities (Jan-24)
- The Sunday Times publishes an investigation of claims that UK universities offer easier entry to Int'l students than to UK students (Jan-24).
- University World News reports that Coventry University's FY23 financial statements state that FY24 income is expected to be c£85m below budget, primarily because of a more difficult int'l recruitment environment, and the risk of a financial covenant breach is elevated as a result (Jan-24)
- Int'l recruitment platform Enroly reports a slight improvement in UK Confirmation of Acceptance for Study (CAS) issuance (-36%y/y) in the period to Jan-24 compared to Nov-23 (-52%y/y) (Jan-24). ONS data shows UK student visa issuance down 5.5%y/y in 2023 (Mar-24).
- The Welsh government raises the cap on tuition fees Welsh universities can charge home undergraduates by £250 to £9,250/year (Feb-24)
- UCAS reports applications (by 31/1/24) for FY25 HE entry -0.3%y/y, driven by 10% fewer UK mature applicants. Applications by Int'l and UK 18y/o students were up 1% and 0.7% respectively, though the UK 18y/o participation rate was down slightly y/y (Feb-24)
- The Save the Student National Accommodation survey 2024 of 1,000 students claims that 40% of UK students have considered quitting university because of high accommodation rental costs (Feb-24)

ENGAGEMENT ACTIVITY (Not survey-related, # cases)	QTD	YTD
Notifications of intention to execute:		
• new secured debt	1	1
• new Quasi-security	0	0
Open engagement cases	2	2
Total engagement cases	5	5

DEBT MONITORING SURVEY	2023	2022
Response rate		
• All employers	75%	86%
• Pre-92 universities	98%	100%
• All HEIs	88%	94%
Average # metrics A-D exceeded per response	0.79	0.76
# in-scope employers:		
• above engagement thresholds	10	7
• requiring additional measures	0	0

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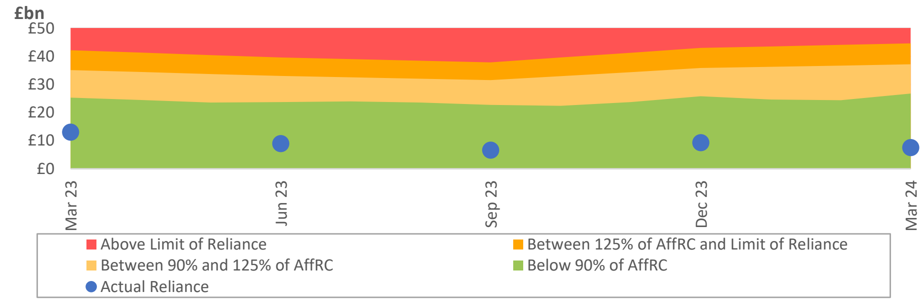
APPENDIX A - IRMF RAG rating definitions

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

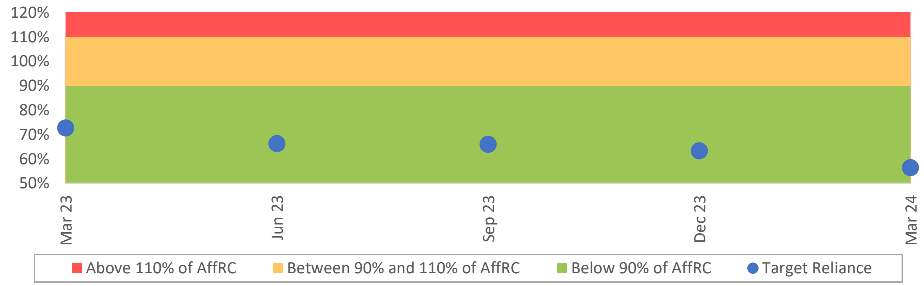


Target Reliance

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

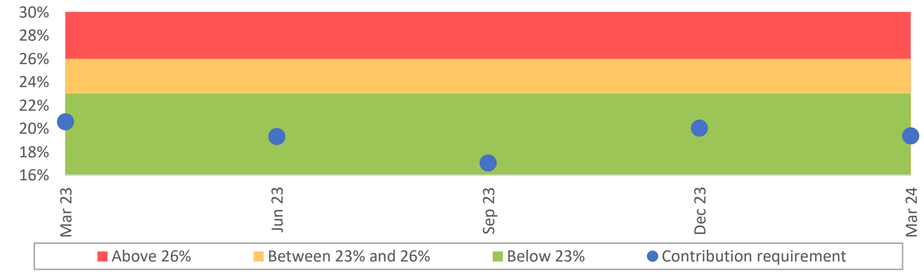


Contribution Metric

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