Monitoring of the 2020 Financial Management Plan
March 2023

Background

In between actuarial valuations, the Trustee monitors how the Scheme is progressing against its Financial Management Plan. This document provides details of the monitoring for the month end of March 2023.

The purpose of the monitoring is to indicate whether or not the Scheme's financial position is progressing as expected and whether it is appropriate to continue to fund the Scheme on the basis of the 2020 valuation. 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?

In the main body of the report, figures are calculated on the benefit changes which came in to effect from 1 April 2022 with the associated additional covenant support measures provided by our sponsoring employers.

The Trustee currently envisages confirming the technical provisions basis for consultation with UUK in respect of the 31 March 2023 valuation by mid-July. The Trustee will continue to provide a quarterly update of the financial development of the Scheme for monitoring purposes from the month end of June 2023 onwards, until the 2023 valuation Financial Management Plan has been established.

This document is published by the Trustee for information only and is not intended to be used as the basis for any decisions.

Monitoring of the 2020 Financial Management Plan
March 2023

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.
- The deficit recovery contributions are based on the recovery plan parameters shown. At a valuation, additional factors (including the views of the Pensions Regulator) would be considered which could result in a different recovery plan.
- 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 month to month, 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 and investment expectations at the end of March 2023 are slightly more favourable than those at the end of December 2022; the monitoring of the Scheme under the Financial Management Plan shows a higher surplus and a lower future service contribution requirement.
- Whilst we are still in the process of collecting and considering the evidence and advice in connection with the 2023 valuation, the guidance on future service contribution requirements issued with the quarter end December 2022 FMP monitoring report remains valid. In particular, stakeholders might want to plan for the 2023 valuation on the basis that the overall contribution rate required for the current level of benefits is unlikely to be in excess of 20% of payroll. Similarly, they might also want to plan on the basis that the rate that would be required for the pre-1 April 2022 benefit structure going forward is unlikely to be in excess of the current future service contribution requirement (25.2%).

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QUARTER END FMP MONITORING REPORT - END MARCH 2023

Figures allow for revised benefits from 1 April 2022 and implemented covenant support package

Monitoring results	**Valuation**	**Monitoring**	
	31-Mar-20	**31-Mar-23**	*Change*
Assets (£bn)	66.5	**73.7**	*+7.2*
Technical Provisions liabilities (£bn)	80.6	**66.1**	*-14.5*
Technical Provisions deficit (£bn)	14.1	**-7.6**	*-21.7*
Future service cost	25.2%	**17.5%**	*-7.7%*
Deficit recovery contribution	6.2%	**0.0%**	*-6.2%*

Monitoring metrics

Reliance Risk Metric — Green

Measures potential contribution required to reach self-sufficiency

4.4%

Valuation date 13.2%

Total contribution — Green

Remaining recovery period 0.25% outperformance	**17.5%**
10 year recovery period No outperformance	**17.5%**

Valuation date 31.4%

Covenant — Green

Measures strength of the sector

Unchanged

Valuation date Strong

Main drivers of change since 31 March 2020 valuation date

- The Scheme's asset value rose by £2.3bn over the quarter from £71.4bn at 31 December 2022 to £73.7bn at 31 March 2023. This remains lower than the peak value in late 2021 when it reached over £90bn, but higher than at the 2020 valuation date (£66.5bn).
- Since the 2020 valuation date, the Technical Provisions liability has decreased significantly on the monitoring basis to due to rising real gilt yields, partly offset by higher inflation expectations. Overall the £14.1bn Technical Provisions deficit on the valuation date has been eliminated on the monitoring basis and is now showing a surplus.
- The value of the Scheme's liabilities at the end of March were broadly similar to those at the end of December 2022 on the monitoring basis, but a rising asset value has improved the overall monitoring position. The surplus increased from £5.0bn at the end of December 2022 to £7.6bn at the end of March 2023 on the monitoring basis.
- The future service contribution requirement for current benefits has slightly decreased on the monitoring basis over the last quarter due to higher future expected returns being reflected in a higher pre-retirement discount rate. Higher inflation expectations have a reduced impact on the future service contribution requirement due to the 2.5% cap on annual inflationary increases from 1 April 2025 onwards.
- Both the Reliance Risk Metric and Total Contribution Metric have improved since the valuation date, from Amber to Green, to be substantially within Green.
- The future service contribution requirement at the end of March for the pre-1 April 2022 benefits, using the monitoring approach and a pre-retirement discount rate 0.25% lower, is 21.8%.

If the 2023 valuation reflects a significantly improved financial position relative to the 2020 valuation, as indicated by the monitoring, it may be possible to increase benefits, decrease contributions or do a combination of both.

Information is based on the monitoring approach, which is not intended to reflect the results that would be given by an actuarial valuation.

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Reliance Risk Metric

4.4%

Valuation date	13.2%
Affordable Risk Capacity (ARC)	£23 - 26bn
Valuation date	£30 - 33bn
Reliance Risk Metric:	Green

Total contribution

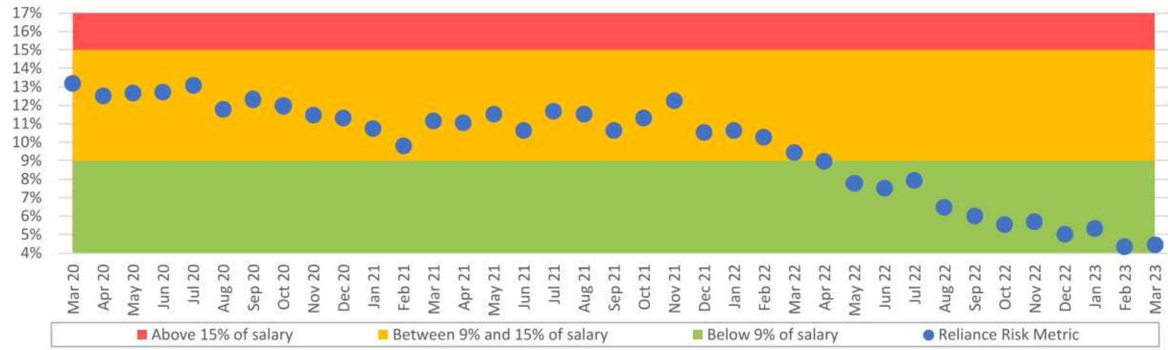
Remaining recovery period 0.25% outperformance	**17.5%**
10 year recovery period No outperformance	**17.5%**
Valuation date	31.4%
Total contribution:	Green

Covenant

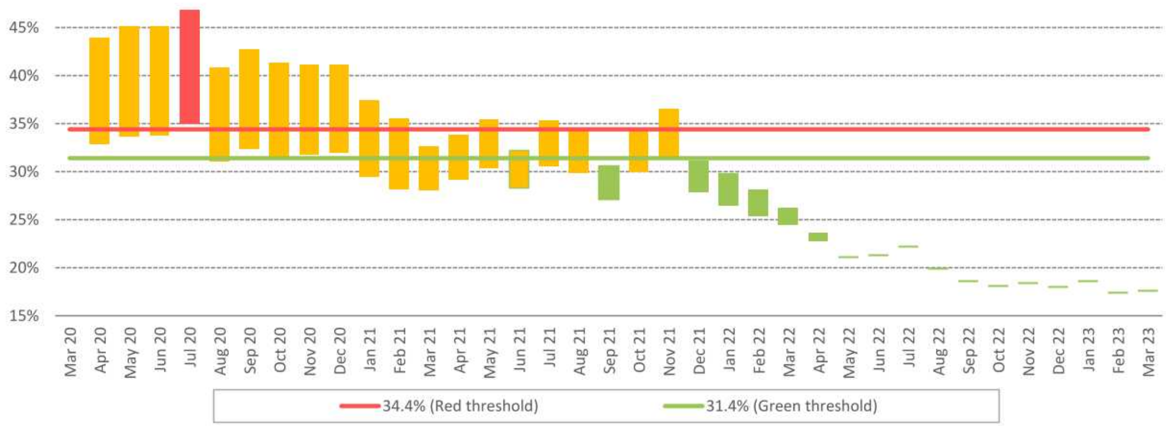
Unchanged

Valuation date	Strong
Covenant:	Green

Reliance Risk Metric (SS deficit + transition risk, as a % of salary over 30 years)



Total contribution (colour of bar shows RAG status)



The height of the bar shows the range in contribution requirements, with the lower end of the bar showing the contributions using DRCs based on the remaining recovery period with outperformance and the upper end using DRCs based on a 10-year recovery period with no outperformance.

Note: Affordable Risk Capacity is determined as the present value of 10% of eligible sector salaries over 30 years.
Liabilities at the valuation date included an allowance in the liabilities of £0.5bn for certain late retirement entitlements and short service members with less than two years' service who retain rights to cash transfer sums. This adjustment is included in the monitoring figures.
The DRC calculation is approximate and assumes an immediate change in contributions. The FSC has been adjusted approximately to allow for the agreed delayed implementation of the 2.5% pa pension increase cap. The actual DRC will increase to 6.3% when this is implemented.

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QUARTER END FMP MONITORING REPORT - END MARCH 2023

Quarterly covenant monitoring update

SUMMARY: The covenant remains Strong

HIGHLIGHTS/ LOWLIGHTS

- The 2023 valuation covenant assessment commenced in Q1 23, with Nous and PwC beginning their field work. Initial insights and views have been shared. Assessment to be finalised in Q2.

Sector insights and events:

- The UK government confirmed it will freeze undergraduate home tuition fees for the 2023/24 and 2024/25 academic years, for the sixth consecutive year, capped at £9,250. (Jan-23)
- Student data for the 21/22 academic year shows a 24% rise in students from non-EU countries and a 21% fall from EU countries, reflecting both the end of home fee eligibility for EU students and the introduction of the Graduate route visa scheme. (Jan-23)
- Latest ONS survey highlight the impact of cost of living crisis on university students. Government increased hardship funding to sector in January. (Feb-23)
- Windsor Framework agreement paves way for the UK to re-join EU Horizon research scheme (Feb-23)

ACTIVITY LOG (Number of cases)

	QTD	YTD
• Non-survey DM notifications	1	1
• Of which:		
• intention to secure debt	1	1
• Quasi-security planned	0	0
• Open engagement cases	1	1
• Requests for clarification	2	2
• Complaints received	0	0
• Other feedback	0	0

Debt monitoring survey:	**2022**	**2021**
• Completed DM survey responses	285	250
• # in-scope HEIs exceeding follow-up thresholds	9	N/A
• In-scope cases requiring further measures	0	N/A

OPEN CASES	Issue raised	DATE FIRST REPORTED	CURRENT STATUS	PLANNED NEXT STEPS	RAG
Institution A	Institution considering potential security over new-build facilities	25/5/2022	Discussions ongoing	Discussions to continue	G

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QUARTER END FMP MONITORING REPORT - END MARCH 2023

Figures allow for revised benefits from 1 April 2022 and implemented covenant support package

Technical Provisions Deficit

-£7.6bn

Valuation date (31/03/2020)	£14.1bn
Liability	£66.1bn
Pre-retirement discount rate	Gilts + 1.80%
Post-retirement discount rate	Gilts + 0.61%

Self-Sufficiency Deficit

£3.8bn

Valuation date	£35.5bn
Liability	£77.5bn
Discount rate	Gilts + 0.61%
Self-sufficiency VaR	£18.9bn

Reliance Risk Metric

4.4%

Valuation date	13.2%
Components:	
Self suff deficit + transition risk (£7bn)	£10.8bn
÷ Value of salary over 30 years	£244bn
Reliance Risk Metric:	Green

Future Service Contribution Requirement

17.5%

Valuation date (amount being paid)	25.2%

Deficit Recovery Contribution

Remaining recovery period 0.25% outperformance	**0.0%**
10 year recovery period No outperformance	**0.0%**
Valuation date (amount being paid)	6.2%

Total Contribution

Remaining recovery period 0.25% outperformance	**17.5%**
10 year recovery period No outperformance	**17.5%**
Valuation date (amount being paid)	31.4%
Total contribution:	Green

Assets

£73.7bn

Valuation date	£66.5bn
'Breakeven' discount rate	Gilts + 0.41% CPI + 1.09%

IRMF metrics

	31-Mar-20	31-Mar-23
Metric A	10.0	12.9
Metric B	-4.0	20.5
Metric C	40.6	72.2

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.
Liabilities at the valuation date included an allowance in the liabilities of £0.5bn for certain late retirement entitlements and short service members with less than two years' service who retain rights to cash transfer sums. This adjustment is included in the monitoring figures.
The DRC calculation is approximate and assumes an immediate change in contributions. The FSC has been adjusted approximately to allow for the agreed delayed implementation of the 2.5% pa pension increase cap. The actual DRC will increase to 6.3% when this is implemented.

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Technical Provisions - Assumptions

	31-Mar-20	31-Mar-23
FBB Pre ret expected rtn vs Gilts *	Gilts + 5.28%	Gilts + 4.00%
FBB Pre ret expected rtn vs Index-linked gilts *	ILG + 5.74%	ILG + 3.91%
Pre-retirement discount rate	Gilts + 2.75%	Gilts + 1.80%
Post-retirement discount rate	Gilts + 1%	Gilts + 0.61%
Gilts (single equivalent) nominal	0.7%	3.7%
CPI (single equivalent)	2.1%	3.1%
CPI with 2.5% cap (single equivalent)	1.7%	1.9%
Single equivalent discount rate	Gilts + 1.6%	Gilts + 1.0%
	CPI + 0.3%	CPI + 1.6%

* 30 yr expected return. 55% growth portfolio until February 2022 then VIS portfolio. Calculated on a deterministic basis allowing for an estimated rebalancing premium for monitoring purposes . At the 2020 valuation, the expected return calculated on a stochastic basis which allows for rebalancing was Gilts+5.9%.

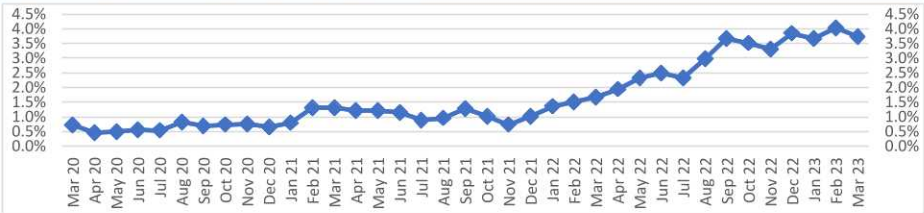
Self-sufficiency - Assumptions

	31-Mar-20	31-Mar-23
Discount rate	Gilts + 1%	Gilts + 0.61%
Gilts (single equivalent) nominal	0.7%	3.7%
CPI (single equivalent)	2.6%	3.6%
Single equivalent discount rate	CPI - 0.9%	CPI + 0.7%

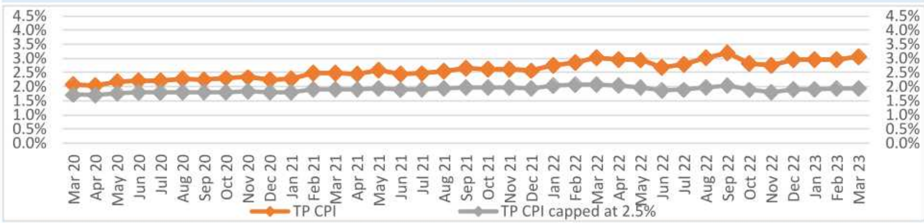
Affordable Risk Capacity

	31-Mar-20	31-Mar-23
Discount rate used to calculate the ARC	Gilts + 1.2%	Gilts + 0.74%

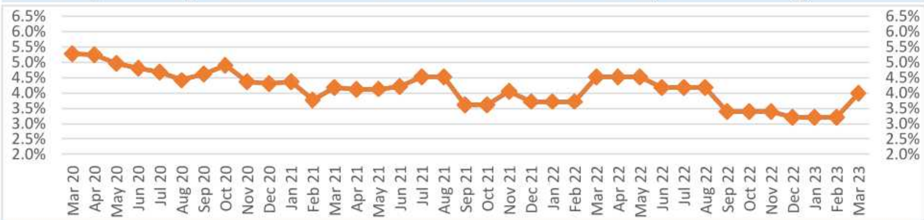
Gilts (single equivalent) nominal



TP CPI and CPI capped at 2.5% (single equivalents)



FBB expected pre-retirement return relative to 30 yr nominal gilts



Discount rates (Gilts+)

At 31 March 2020, an allowance for investment outperformance of 0.5% pa was made in calculating the future service contribution requirement and deficit recovery contributions. For monitoring subsequent dates, the allowance for investment outperformance is made in calculating the deficit recovery contribution and total contributions where indicated. Within the monitoring, the future service contribution requirement shown does not include outperformance. The outperformance allowance was reduced to 0.25% pa from 31 March 2021.

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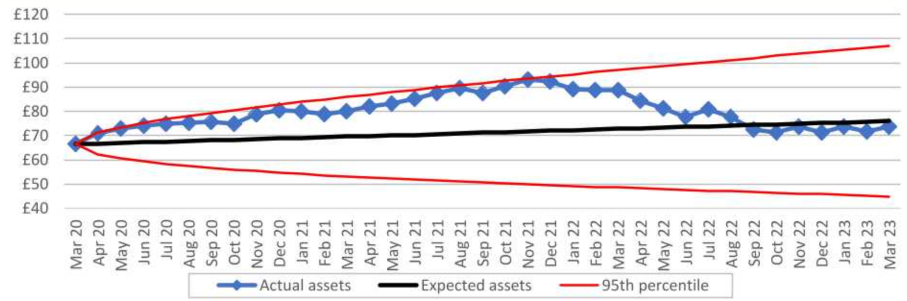
Technical Provisions

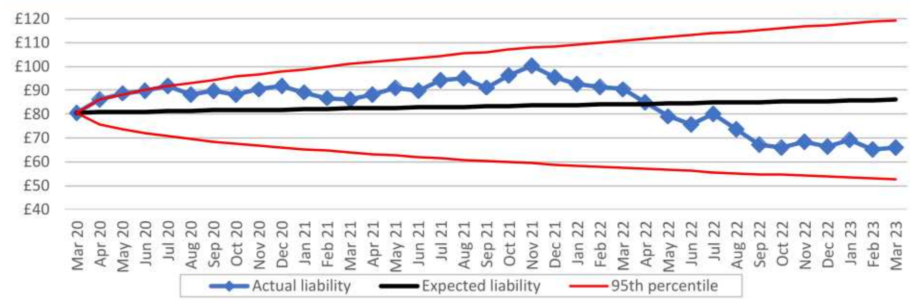
	31-Mar-20	31-Mar-23	Change
Assets £bn	66.5	73.7	+7.2
Liabilities £bn	80.6	66.1	-14.5
Deficit £bn	14.1	-7.6	-21.7
Funded Status %	83%	112%	+29%

Assets (£bn)

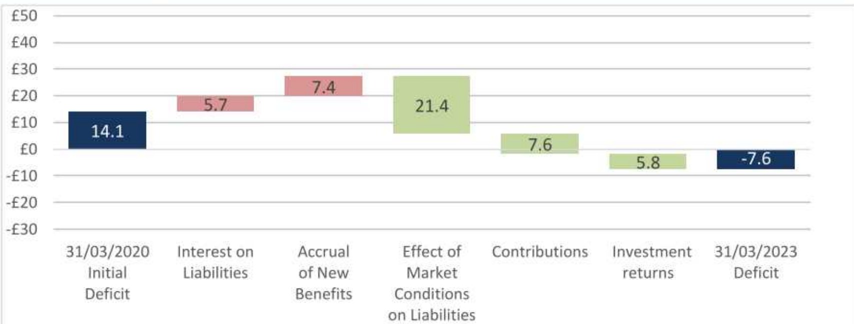


Liability change attribution (£bn) - 31 Mar 2020 to 31 Mar 2023

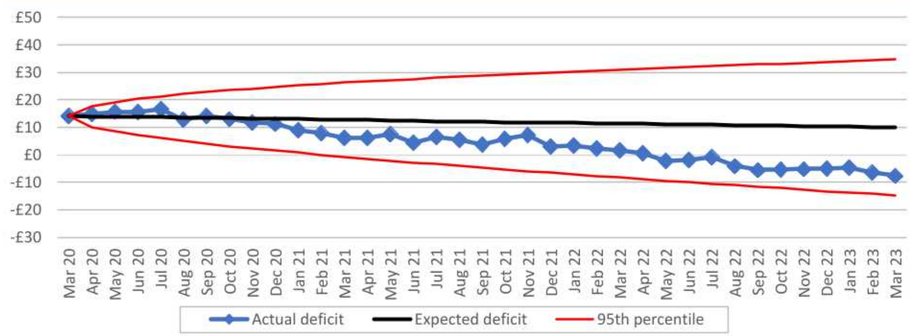
Liabilities (£bn)



Deficit change attribution (£bn) - 31 Mar 2020 to 31 Mar 2023



Technical Provisions Deficit (£bn)



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Future service contributions required

	31-Mar-20	31-Mar-23
DB Future Service Cost over next 12 months	19.5%	11.8%
Expenses	0.4%	0.4%
Expected DC conts over next 12 months [1]	5.3%	5.3%
Total [2]	25.2%	17.5%

Note

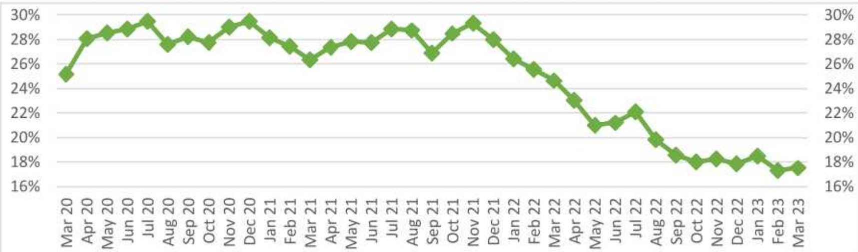
1. Includes 0.1% subsidy.
2. Excludes deficit contributions.

Self-Sufficiency

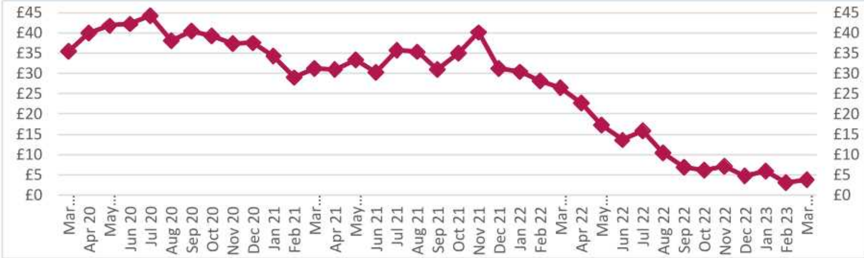
	31-Mar-20	31-Mar-23	Change
Assets £bn	66.5	73.7	+7.2
Liabilities £bn	102.0	77.5	-24.5
Deficit £bn	35.5	3.8	-31.7
Funded Status %	65%	95%	+30%

	31-Mar-20	31-Mar-23	Change
10% of pay for 30yrs £bn	31.4	24.3	-7.1

Future service contributions required (including DC)



Self-Sufficiency Deficit (£bn)



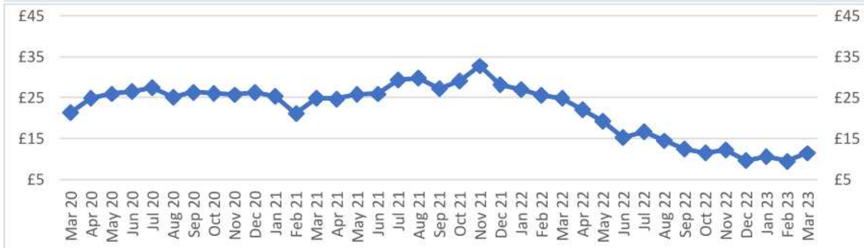
Sensitivity and Duration

	31-Mar-20	31-Mar-23
TP Sensitivity (£bn) [1]	-1.6	-1.1
TP Duration of scheme (years)	20	16

Note

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

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



At 31 March 2020, an allowance for investment outperformance of 0.5% pa was made in calculating the future service contribution requirement and deficit recovery contributions. For monitoring subsequent dates, the allowance for investment outperformance is made in calculating the deficit recovery contribution and total contributions where indicated. Within the monitoring, the future service contribution requirement shown does not include outperformance. The outperformance allowance was reduced to 0.25% pa from 31 March 2021.

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Placeholder

The stochastic analysis at the end of March for this page is expected to be available in the week commencing 29 May.

QUARTER END FMP MONITORING REPORT - END MARCH 2023

APPENDIX A - RAG rating definitions

Covenant

Green	No apparent deterioration since previous review
Amber	Potential deterioration due to emerging news and/or financial information
Red	Significant deterioration due to emerging news and/or financial information

Reliance Risk Metric

Self-sufficiency liability + asset transition risk - assets, expressed as a percentage of salary over 30 years

Green	Below 9% of salary (Approx £28bn at the valuation date - consistent with the position if we had been fully funded on a TP basis)
Amber	Between 9% and 15% of salary (Between £28bn and £47bn at the valuation date)
Red	Above 15% of salary (Above £47bn at the valuation date)

Total contribution

Sum of Future Service Contribution plus Deficit Recovery Contributions
With DRC calculated on:

- Calculation 1: Remaining term of the recovery period with outperformance (from March 2021 outperformance is set at 0.25% a year); and
- Calculation 2: A fixed recovery period of 10 years with no outperformance (which will lead to a higher figure than Calculation 1)

Green	If the total contribution requirement using DRC 2 is less than or equal to the total contribution payable (31.4%)
Amber	If the total contribution requirement using DRC 2 is greater than the total contribution payable (31.4%) and the total contribution requirement using DRC 1 is less than or equal to 34.4%
Red	If the total contribution requirement using DRC 1 is greater than or equal to 34.4%

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APPENDIX B - IRMF Metric definitions

Metric A

Affordable risk capacity less (self-sufficiency liability less Technical Provisions)

Green	Headroom > Asset transition and demographic risks
Amber	Asset transition risk < Headroom < Asset transition risk and demographic risks
Red	Headroom < Asset transition risk

Metric B

Affordable risk capacity less self-sufficiency deficit

Green	Headroom > Asset transition risk
Amber	0 < Headroom < Asset transition risk
Red	Headroom < 0

Metric C

Available risk capacity less self-sufficiency deficit

Green	Headroom > ‘Value at risk’
Amber	Asset transition risk and demographic risks < Headroom < ‘Value at risk’
Red	Headroom < Asset transition risk and demographic risks

Note

Affordable Risk Capacity represents the present value of 10% of salary over 30 years

Asset and demographic transition risk, and available risk capacity, have not been updated since the valuation date