2023 Interim Monitoring Report
September 2023

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 September 2023.

While the 2023 valuation is ongoing, this interim monitoring has been carried out using the basis on which the Trustee proposed in the Technical Provisions consultation document, issued to UUK in July 2023. The consultation document puts forward a proposed methodology and assumptions in respect of the Technical Provisions of the 31 March 2023 valuation. The Trustee will put in place a new Financial Management Plan and associated monitoring once the 2023 valuation is completed.

The purpose of the interim monitoring is to indicate whether or not the Scheme's financial position is progressing as expected and to give an indication of post-valuation experience. 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, future service contribution requirements are calculated on two approaches; firstly on the current benefit structure following the changes which came into effect from 1 April 2022 and secondly on the structure that was in place prior to April 2022.

The interim monitoring does not allow for the expected increase in liabilities resulting from the benefit changes and uplift to accrued pensions recommended by the JNC on 30 October 2023 .

Quarterly updates of the financial development of the Scheme under this interim monitoring approach will continue to be provided until the 2023 valuation has been finalised and the Financial Management Plan has been established.

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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 September 2023 are more favourable than those at the end of June 2023 and on the March 2023 valuation date. The interim monitoring of the Scheme shows a higher TP surplus and a lower future service contribution requirement when compared to both March and June. The self-sufficiency basis also now shows a small surplus.

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2023 INTERIM MONITORING REPORT - END SEPTEMBER 2023

Technical Provisions

£10.0bn Surplus

Valuation date (31/03/2023)	£7.4bn Surplus
Liability	£58.8bn
Pre-retirement discount rate	Gilts + 2.07%
Post-retirement discount rate	Gilts + 0.79%

Self-Sufficiency

£1.3bn Surplus

Valuation date	£5.1bn Deficit
Liability	£67.5bn
Discount rate	Gilts + 0.45%
Self-sufficiency VaR	£15.1bn

Assets

£68.8bn

Valuation date	£73.1bn
'Breakeven' discount rate	Gilts + 0.20% CPI + 2.01%

Future Service Contribution Requirement Pre-22 Benefit Structure

17.1%

Valuation date	20.6%

Future Service Contribution Requirement Post-22 Benefit Structure

14.5%

Valuation date	16.2%

Affordable Risk Capacity

£24 - £27bn

Valuation date	£27 - £30bn

IRMF - Actual Reliance

	31-Mar-23	30-Sep-23
Actual Reliance (£bn)	13.1	6.7
% of AffRC	47%	27%
RAG	Green	Green

IRMF - Target Reliance

	31-Mar-23	30-Sep-23
Target Reliance (£bn)	20.5	16.7
% of AffRC	73%	66%
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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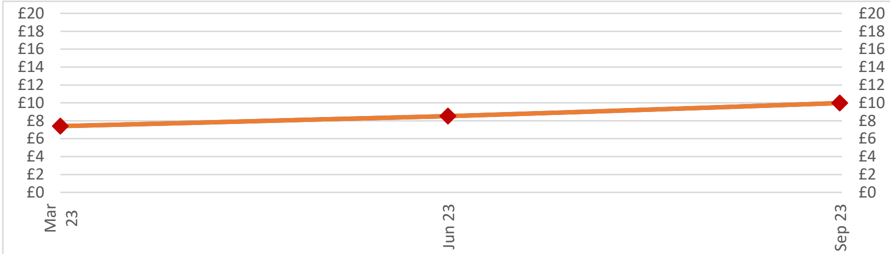
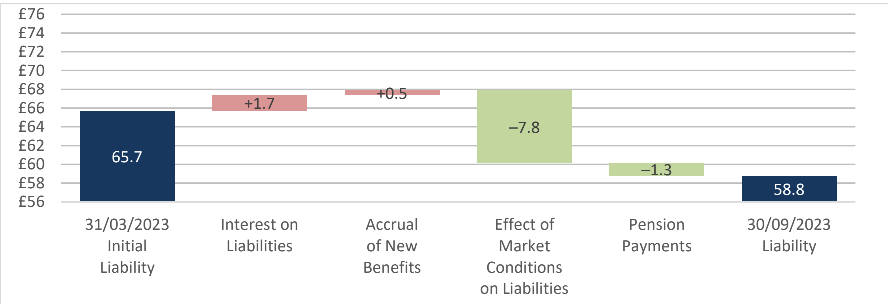
Technical Provisions

	31-Mar-23	30-Sep-23	Change
Assets £bn	73.1	68.8	-4.3
Liabilities £bn	65.7	58.8	-6.9
Surplus/(deficit) £bn	7.4	10.0	+2.6
Funded Status %	111%	117%	+6%

Technical Provisions surplus/(deficit) (£bn)

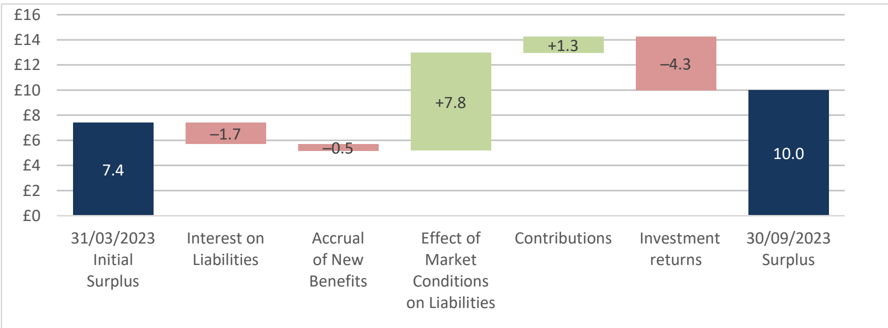


Liability change attribution (£bn) since the valuation date

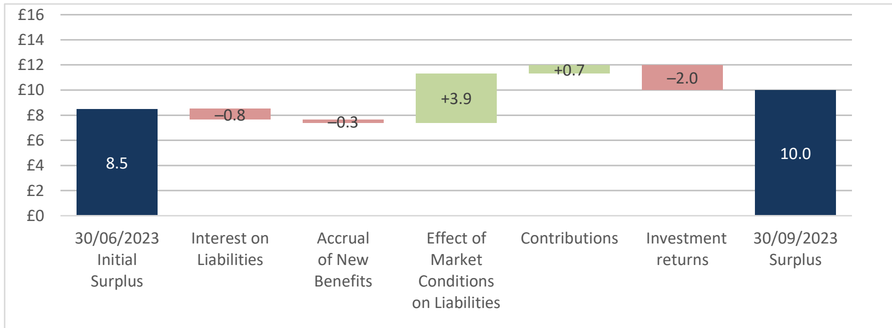


Liability change attribution (£bn) for the latest quarter - Q3 2023

Surplus change attribution (£bn) since the valuation date



Surplus change attribution (£bn) for the latest quarter - Q3 2023



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Technical Provisions - Assumptions

	31-Mar-23	30-Sep-23
CME Pre ret expected rtn vs Index-linked gilts *	ILG + 3.91%	ILG + 3.50%
CME Post ret expected rtn vs Index-linked gilts *	ILG + 1.15%	ILG + 1.06%
Pre-retirement discount rate	Gilts + 2.5%	Gilts + 2.07%
Post-retirement discount rate	Gilts + 0.9%	Gilts + 0.79%
Gilts (single equivalent) nominal	3.7%	4.8%
Assumed future CPI (single equivalent) **	3.0%	3.0%
Single equivalent discount rate (TP)	Gilts + 1.4%	Gilts + 1.2%
	CPI + 2.2%	CPI + 3.0%
Single equivalent discount rate (future service)	Gilts + 1.8%	Gilts + 1.6%
	CPI + 2.5%	CPI + 3.3%

* 30 yr expected return VIS portfolio. Calculated on a deterministic basis allowing for an estimated rebalancing premium for monitoring purposes.

** The inflation assumption is our forward view of expected inflation. We have allowed for known inflation and its effect on the Scheme's liabilities in the cashflows valued.

Self-sufficiency - Assumptions

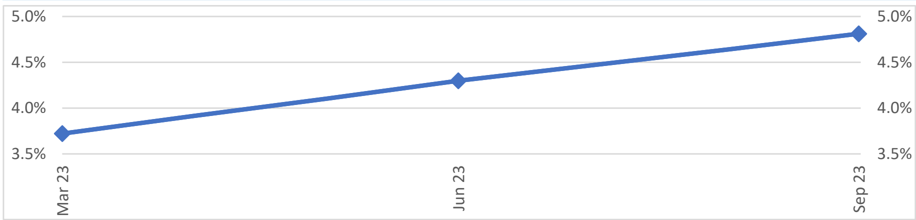
	31-Mar-23	30-Sep-23
Discount rate	Gilts + 0.5%	Gilts + 0.45%
Gilts (single equivalent) nominal	3.7%	4.8%
Market CPI (single equivalent) **	3.1%	3.1%
Single equivalent discount rate	CPI + 1.2%	CPI + 2.2%

** Forward view of expected inflation. We have allowed for known inflation and its effect on the Scheme's liabilities in the cashflows valued.

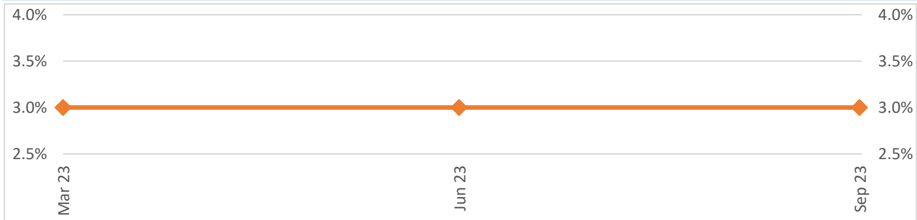
Affordable Risk Capacity

	31-Mar-23	30-Sep-23
Discount rate used to calculate the AffRC	Gilts + 0.70%	Gilts + 0.45%

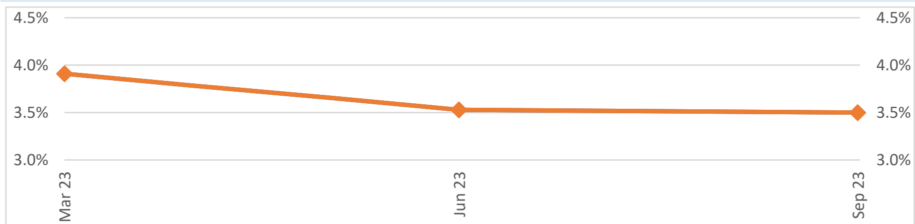
Gilts (single equivalent) nominal



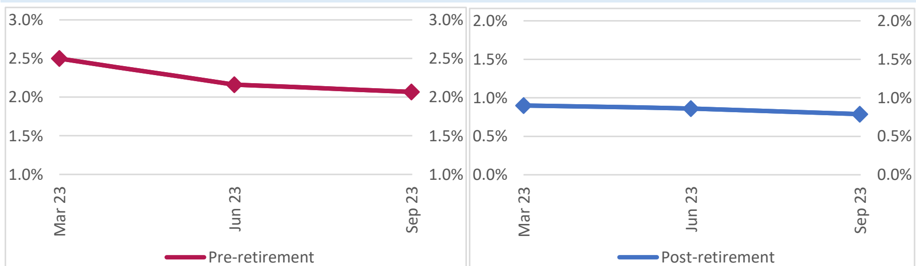
Assumed future CPI (single equivalent)



CME expected pre-retirement return relative to index-linked gilts



TP Discount rates (Gilts+)



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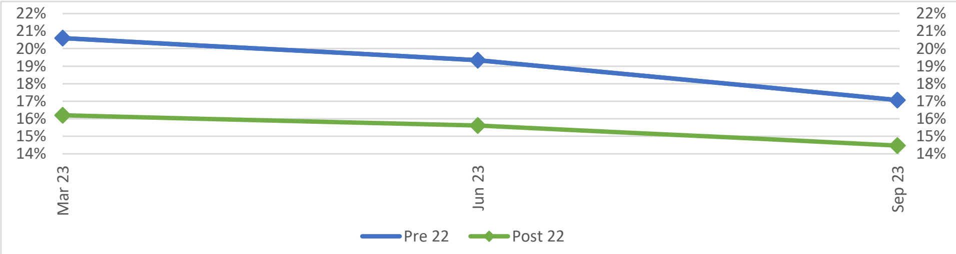
Future service contributions required

	Pre-22 benefits		Post-22 benefits	
	31-Mar-23	30-Sep-23	31-Mar-23	30-Sep-23
DB Future Service Cost	18.3%	14.8%	10.0%	8.3%
Expenses	0.5%	0.5%	0.5%	0.5%
Expected DC contributions [1]	1.8%	1.8%	5.7%	5.7%
Total	20.6%	17.1%	16.2%	14.5%

Note

1. Includes 0.1% subsidy.

Future service contributions required (including DC)



Sensitivity and Duration

	31-Mar-23	30-Sep-23
TP Sensitivity (£bn) [1]	-1.0	-0.8
TP Duration of scheme (years)	17.2	15.8

Note

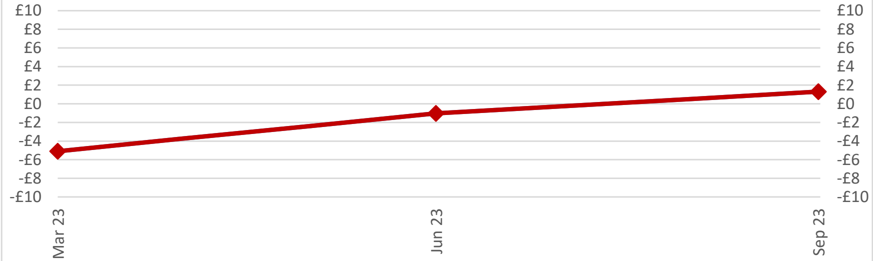
1. Sensitivity is the impact of a +0.1% change in the discount rates on the TP basis

Self-Sufficiency

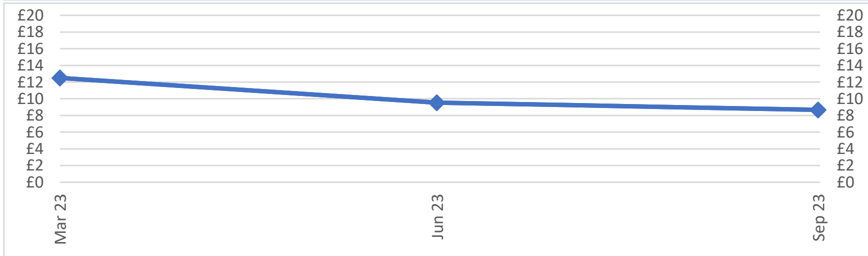
	31-Mar-23	30-Sep-23	Change
Assets £bn	73.1	68.8	-4.3
Liabilities £bn	78.2	67.5	-10.7
Surplus/(deficit) £bn	-5.1	1.3	+6.4
Funded Status %	93%	102%	+9%

	31-Mar-23	30-Sep-23	Change
10% of pay for 30yrs £bn	28.1	25.2	-2.9

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



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



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Quarterly covenant monitoring update

SUMMARY: The covenant remains Strong

HIGHLIGHTS/ LOWLIGHTS

- The USS 2023 Debt Monitoring survey was completed in August.

Sector insights and events:

- Canada considering cap on foreign students as housing shortage worsens (Sept-23).
- UCAS end of cycle data shows 2023 total UK undergrad acceptances -2% vs 2022 but +2% vs 2019. Non-EU international UG acceptances were -1% y/y but +24% vs 2019 (Sept-23).
- OfS released new Teaching Excellence Framework (TEF) ratings using a revised assessment methodology (Sept-23).
- Times Higher Education released its 2024 World University rankings with Oxford top ranked for the 9th year. 11 UK HEIs feature in the top 100 (+1 y/y) and 43 in the top 400 (-2 y/y). The rise in of Asian, in particular Chinese, universities was the main feature of the new rankings (Sept-23).

ACTIVITY LOG (Number of cases)

	QTD	YTD
• Non-survey DM notifications	1	3
• Of which:		
• intention to secure debt	0	0
• Quasi-security planned	1	3
• Open engagement cases	1	1
• Requests for clarification	19	22
• Complaints received	0	0
• Other feedback	5	5

Debt monitoring survey:	**2023**	**2022**
• Completed DM survey responses	246	283
• # in-scope HEIs exceeding follow-up thresholds	9	7
• In-scope cases requiring further measures	0	0

OPEN CASES	Issue raised	DATE FIRST REPORTED	CURRENT STATUS	PLANNED NEXT STEPS	RAG
Pre-92 HEI	Potential sale and lease-back transaction	Aug-23	Discussions ongoing	Follow up in November	

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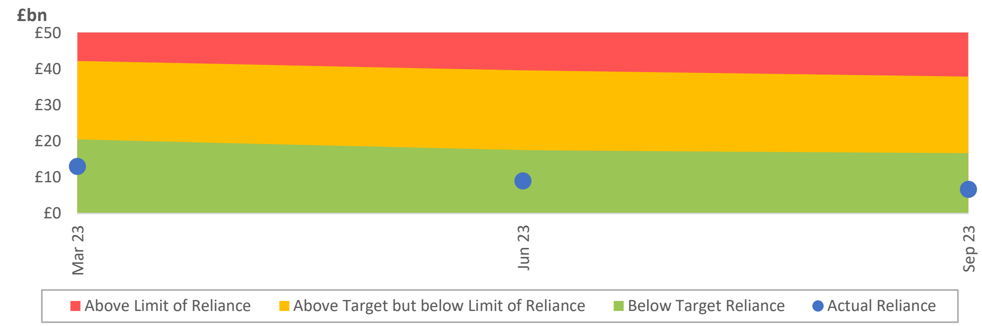
APPENDIX - IRMF RAG rating definitions

Actual Reliance

Self-sufficiency liabilities + Transition Risk - Assets

Green Actual Reliance < = Target Reliance
Amber Actual Reliance > Target Reliance
but < Limit of Reliance
Red Actual Reliance > = Limit of Reliance

Actual Reliance



Target Reliance

Self-sufficiency liabilities + Transition Risk - Technical Provisions

Green Target Reliance < or = 95% of Affordable Risk Capacity
Amber Target Reliance > 95% of Affordable Risk Capacity
but < 105% of Affordable Risk Capacity
Red Target Reliance > or = 105% of Affordable Risk Capacity

Target Reliance as % of Affordable Risk Capacity