2023 Interim Monitoring Report
December 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 31 December 2023 based on the 2023 valuation.

Following the completion of the 2023 valuation in December 2023, the Trustee is in the process of establishing an updated Financial Management Plan and monitoring framework for the Scheme. The new monitoring framework is expected to be launched with an effective date of 31 March 2024.

The purpose of the interim 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?

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 and will be in place again from 1 April 2024.

The interim monitoring does not allow for the expected increase in liabilities resulting from the benefit changes and uplift to accrued pensions that will be implemented in April 2024.

As indicated above new monitoring arrangements are expected to be introduced from 31 March 2024 as such this is expected to be the last report under this interim monitoring approach.

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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 December 2023 are more favourable than those on the March 2023 valuation date, but less favourable than those at the end of September.
- The interim monitoring of the Scheme shows a higher TP surplus and slightly lower future service contribution requirement when compared to the valuation date. The self-sufficiency deficit has also reduced since the valuation date.

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2023 INTERIM MONITORING REPORT - END DECEMBER 2023

Technical Provisions

£8.8bn Surplus

Valuation date (31/03/2023)	£7.4bn Surplus
Liability	£65.5bn
Pre-retirement discount rate	Gilts + 2.26%
Post-retirement discount rate	Gilts + 0.86%

Self-Sufficiency

£1.4bn Deficit

Valuation date	£5.1bn Deficit
Liability	£75.7bn
Discount rate	Gilts + 0.41%
Self-sufficiency VaR	£16.7bn

Assets

£74.3bn

Valuation date	£73.1bn
'Breakeven' discount rate	Gilts + 0.56% CPI + 1.57%

Future Service Contribution Requirement Pre-22 Benefit Structure

20.1%

Valuation date	20.6%

Future Service Contribution Requirement Post-22 Benefit Structure

16.0%

Valuation date	16.2%

Affordable Risk Capacity

£27 - £30bn

Valuation date	£27 - £30bn

IRMF - Actual Reliance

	31-Mar-23	31-Dec-23
Actual Reliance (£bn)	13.1	9.4
% of AffRC	47%	33%
RAG	Green	Green

IRMF - Target Reliance

	31-Mar-23	31-Dec-23
Target Reliance (£bn)	20.5	18.2
% of AffRC	73%	63%
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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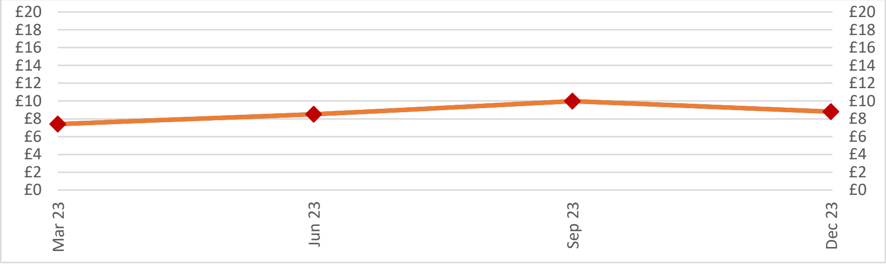
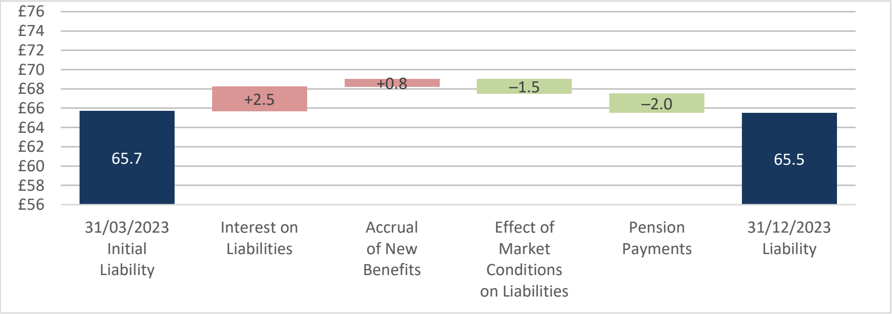
Technical Provisions

	31-Mar-23	31-Dec-23	Change
Assets £bn	73.1	74.3	+1.2
Liabilities £bn	65.7	65.5	-0.2
Surplus/(deficit) £bn	7.4	8.8	+1.4
Funded Status %	111%	113%	+2%

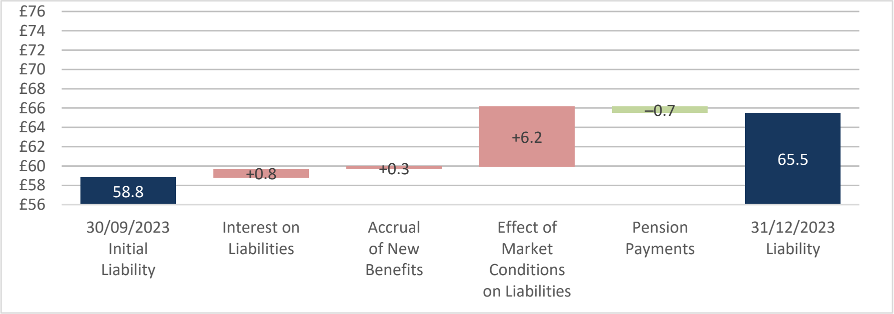
Technical Provisions surplus/(deficit) (£bn)



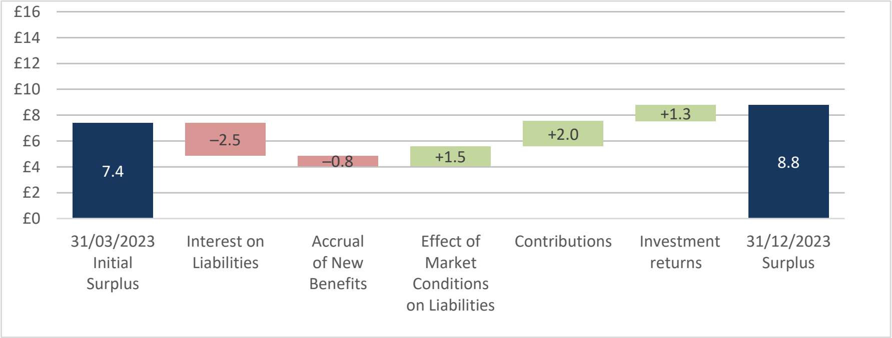
Liability change attribution (£bn) since the valuation date



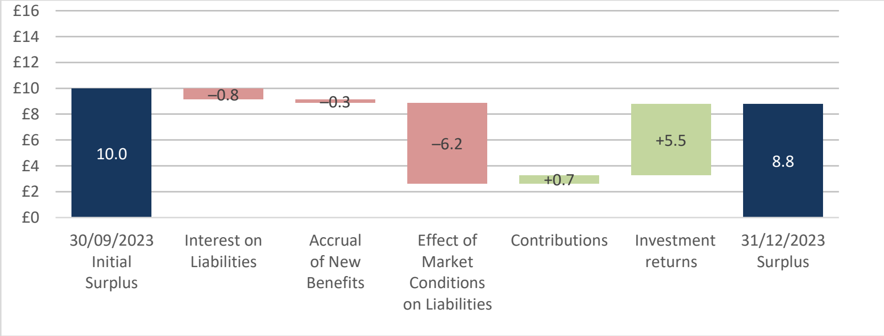
Liability change attribution (£bn) for the latest quarter - Q4 2023



Surplus change attribution (£bn) since the valuation date



Surplus change attribution (£bn) for the latest quarter - Q4 2023



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Technical Provisions - Assumptions

	31-Mar-23	31-Dec-23
CME Pre ret expected rtn vs Index-linked gilts *	ILG + 3.91%	ILG + 3.48%
CME Post ret expected rtn vs Index-linked gilts *	ILG + 1.15%	ILG + 0.92%
Pre-retirement discount rate	Gilts + 2.5%	Gilts + 2.26%
Post-retirement discount rate	Gilts + 0.9%	Gilts + 0.86%
Gilts (single equivalent) nominal	3.7%	4.0%
Assumed future CPI (single equivalent) **	3.0%	3.0%
Single equivalent discount rate (TP)	Gilts + 1.4%	Gilts + 1.3%
	CPI + 2.2%	CPI + 2.3%
Single equivalent discount rate (future service)	Gilts + 1.8%	Gilts + 1.7%
	CPI + 2.5%	CPI + 2.6%

* 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

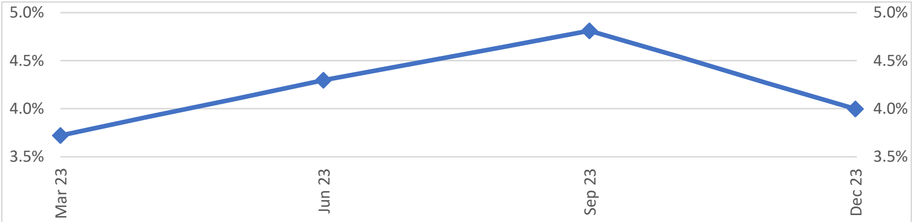
	31-Mar-23	31-Dec-23
Discount rate	Gilts + 0.5%	Gilts + 0.41%
Gilts (single equivalent) nominal	3.7%	4.0%
Market CPI (single equivalent) **	3.1%	2.9%
Single equivalent discount rate	CPI + 1.2%	CPI + 1.5%

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

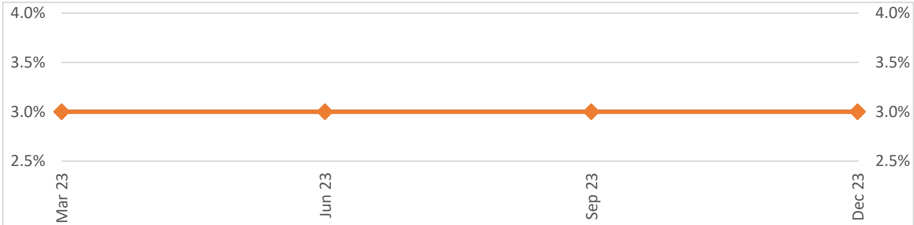
Affordable Risk Capacity

	31-Mar-23	31-Dec-23
Discount rate used to calculate the AffRC	Gilts + 0.70%	Gilts + 0.29%

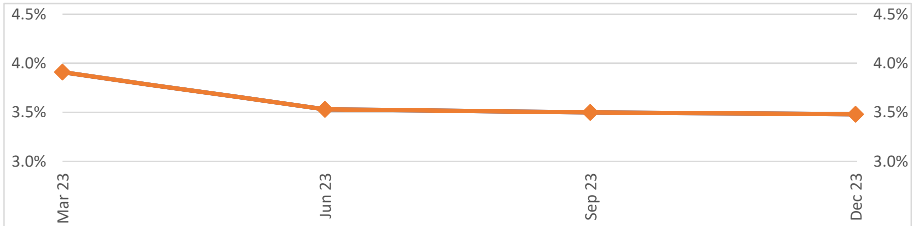
Gilts (single equivalent) nominal



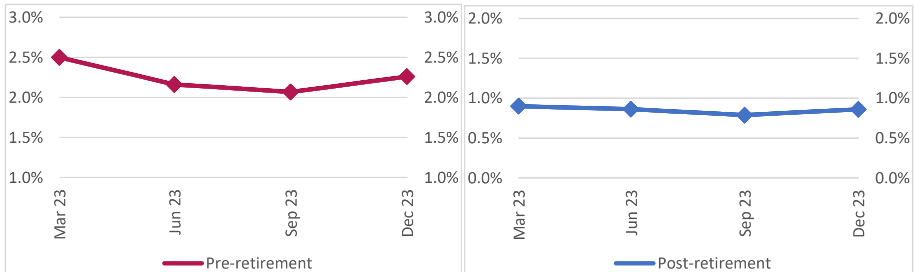
Assumed future CPI (single equivalent)



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



TP Discount rates (Gilts+)



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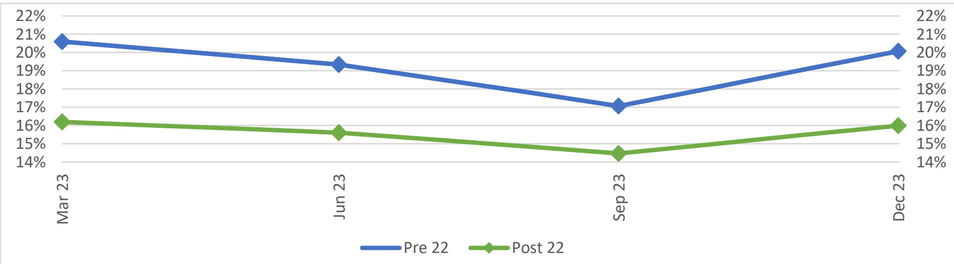
Future service contributions required

	Pre-22 benefits		Post-22 benefits	
	31-Mar-23	**31-Dec-23**	**31-Mar-23**	**31-Dec-23**
DB Future Service Cost	18.3%	17.8%	10.0%	9.8%
Expenses	0.5%	0.5%	0.5%	0.5%
Expected DC contributions [1]	1.8%	1.8%	5.7%	5.7%
Total	20.6%	20.1%	16.2%	16.0%

Note

1. Includes 0.1% subsidy.

Future service contributions required (including DC)



Sensitivity and Duration

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

Note

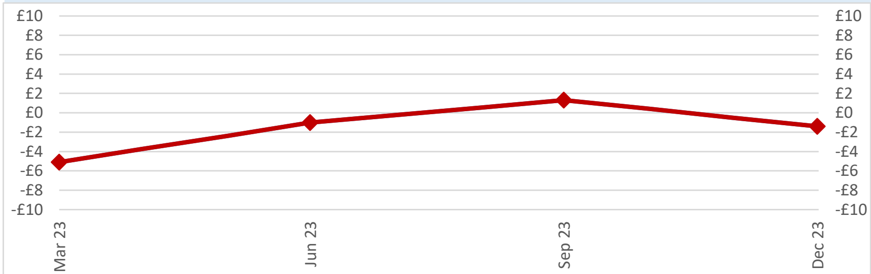
1. Sensitivity is the impact of a +0.1% change in the discount rates on the TP basis

Self-Sufficiency

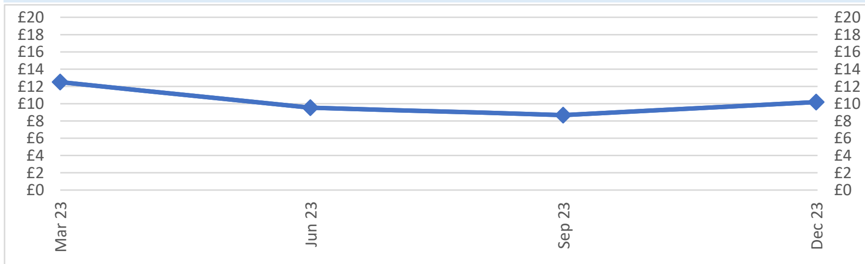
	31-Mar-23	**31-Dec-23**	**Change**
Assets £bn	73.1	74.3	+1.2
Liabilities £bn	78.2	75.7	-2.5
Surplus/(deficit) £bn	-5.1	-1.4	+3.7
Funded Status %	93%	98%	+5%

	31-Mar-23	**31-Dec-23**	**Change**
10% of pay for 30yrs £bn	28.1	28.7	+0.6

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

- Unipol/HEPI report finds accommodation costs swallow >99% of average student maintenance funding, raising questions over affordability of UK HE (Oct-23)
- Welsh and Scottish governments announce modest nominal terms cuts to respective HE budgets (Oct-23, Nov-23)
- USS confirms reduced contribution rates from Jan-24 (Dec-23) but TPS announces 5% increase in contribution rates to 28.68% of salary (Nov-23)
- ONS publishes data showing net immigration to UK up 65k to 672k in year to Jun-23, with students 65% of the total. However, data shows sharp fall in student visa issuance in latest quarter, suggesting potential issues for FY24 (Nov-23)
- Enroly international student recruitment platform reports 71% fall y/y in UK visa issuance for January intake (as of Nov-23), driven by India and Nigeria (Dec-23)
- Home Secretary announces Migration Advisory Committee review of UK Graduate visa route in aftermath of higher-than-expected net migration data (Dec-23)
- UCAS Sept-23 end-of-cycle data shows 2% y/y fall in international and domestic undergraduate acceptances to UK universities (Dec-23)

ACTIVITY LOG (Number of cases)

	QTD	YTD
• Non-survey DM notifications	4	16
• Of which:		
• intention to secure debt	0	1
• Quasi-security planned	0	2
• Open engagement cases	1	1
• Requests for clarification	0	22
• Complaints received	0	0
• Other feedback	4	13
Debt monitoring survey:	**2023**	**2022**
• Completed DM survey responses	246	283
• # in-scope HEIs exceeding thresholds	9	7
• In-scope cases requiring further measures	0	0

OPEN CASES	Issue raised	DATE FIRST REPORTED	CURRENT STATUS	PLANNED NEXT STEPS
Pre-92 HEI	Potential sale and lease-back transaction	Aug-23	Discussions ongoing as at end Dec-23	Agreement reached Jan-24

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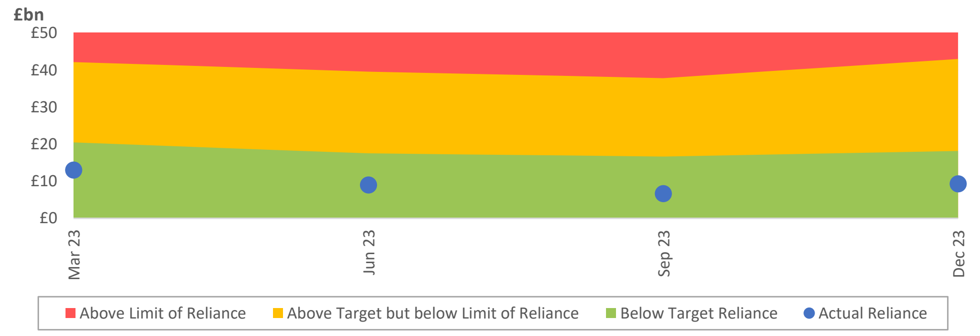
APPENDIX - IRMF RAG rating definitions

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