2022 SUMMARY FUNDING STATEMENT

This statement brings you up to date on the Scheme's funding position.

Background

The Scheme is a 'defined benefit' pension arrangement. This means that your benefits are based on your salary and length of service in the Scheme. The Scheme has a pool of money to pay for these benefits as they become due; it does not hold assets separately for each individual member.

At least once every three years, the Scheme undergoes a thorough financial 'health check' called a valuation. When carrying out the valuation, the Scheme Actuary compares how much money the Scheme has (its 'assets') with how much it needs to be able to pay everyone the benefits they are entitled to (its 'liabilities'). If the Scheme's assets are higher than its liabilities, there is a 'surplus'; if they are lower, there is a 'shortfall' or 'deficit'.

As part of the valuation, the Trustee agrees a funding plan (the Statement of Funding Principles) with the Company, which aims to make sure there is enough money in the Scheme to pay for pensions now and into the future. This is why the Scheme relies on the Company's ongoing support.

In the years between valuations, we receive less formal, yearly updates from the Actuary on the Scheme's progress. These do not go into the same level of detail as a formal valuation, but they provide enough information for us to keep track of any changes in the Scheme's position and consider any action we might need to take.

At a glance

The table below includes:

- the figures from the 31 January 2020 update;
- the results of the latest valuation at 31 January 2021; and
- the latest figures from the 31 January 2022 update.

	UPDATE	**VALUATION**	**UPDATE**
	31 January 2020	**31 January 2021**	**31 January 2022**
Assets (A)	£213.2m	£221.2m	£237.1m
Liabilities (B)	£228.2m	£232.0m	£221.3m
Surplus / (Shortfall) (A-B)	(£15.0m)	(£10.8m)	£15.8m
Funding level (A/B)	93%	95%	107%

How the funding position has changed

We are encouraged to note the upward trend in the funding level over the last few years, in particular the Scheme's shift from shortfall into surplus since the valuation date.

This is mainly because of better than expected asset returns and the significant contributions the Company is paying (see right).

Company support

When a pension scheme valuation shows a shortfall, the Scheme's actuary recommends the contributions needed to bring it back to full funding – this is known as the 'recovery plan'. Over the period from 1 February 2020 to 31 January 2022, the Company paid £9 million a year into the Scheme. However, this year, we had a slightly unusual outcome – we prepared a recovery plan following the Scheme's 95% valuation result; however, by the time the valuation was approved and signed off, the January 2022 update had revealed the surplus.

Technically, this meant the recovery plan was no longer necessary. However, we agreed a new contribution plan to help the Scheme make progress towards its secondary goal (see right). The Company is now due to pay £1.5 million a year (in monthly contributions) to the Scheme until 30 April 2025.

If the Scheme reaches a 95% funding level against the secondary goal for three months running, the Company can pay ongoing contributions to a separate escrow account instead. (This means an account where the money would be held outside the Scheme in reserve, for it to draw on only if needed.)

If the Scheme reaches a secondary funding level of 101% for three months running, the Company may have the option to stop its contributions.

Secondary goal

The figures in our table show the Scheme's funding level on the 'ongoing' basis. This is normally the main measure in pension scheme valuations that is required by the Pensions Regulator, and estimates the funding level assuming the Scheme will continue into the future.

However, the Trustees have a 'secondary funding objective' – essentially, an additional funding goal – which is more cautious and means the Scheme is less likely to need Company contributions to help meet Scheme liabilities. For example, it allows for lower investment returns in future years, and includes a higher safety margin. So, if the Scheme reaches full funding in line with this secondary goal, it is in an even more secure position than on the | ongoing basis.

At 31 January 2021, the Scheme's funding level on this secondary basis was 87%.

Payment to the Company

We have to tell you whether there has been any payment made to the Company out of the Scheme's assets since the last summary funding statement – this has not been the case.

In certain circumstances the Pensions Regulator can:

- direct how the Scheme's liabilities must be calculated;
- set the period for removing any funding shortfall; and
- set the level of Company contributions to be paid.

None of these things have happened in the Scheme.

If the Scheme were to end

Even if funding is temporarily below target, benefits will still be paid in full while the Scheme is still running. However, as part of the valuation, the Actuary is required to look at what would happen if the Scheme started to 'wind up' – that is, to close down completely. This does not mean that the Trustee or Company are considering this step.

When pension schemes wind up, benefits may be secured with an insurance company. The cost of securing pensions in this way is considerably more expensive than if the scheme were to continue with the support of the employer. This is because insurers take a very cautious view of the future and need to make a profit; they will also take into account the future cost of running the Scheme. A scheme that aimed to cover this cost would be likely to have far more money than it actually needs to keep running normally.

If our Scheme had started to wind up on 31 January 2021, the Actuary estimated that it would need £296.1 million to secure members' benefits. This was £74.4 million more than the value of its assets on that date.

If the Scheme did not have enough assets to secure all benefits, the Company would have to make up the difference. If the Company is not there to pay for any shortfall (for example it had become insolvent), the Pension Protection Fund ('PPF') might be able to take over the Scheme and pay compensation to members. Further information is available at **www.ppf.co.uk**.