The Duni Limited Pension Scheme

Annual Funding Update
as at 5 April 2023

December 2023

INTRODUCTION

ADDRESSEE	The Trustees of the Duni Limited Pension Scheme ("the Trustees")
REPORT	Annual Funding Update
PURPOSE	To provide an indication of the funding position of the Duni Limited Pension Scheme ("the Scheme") between full valuations
DATE OF VALUATION	5 April 2023
SCHEME ACTUARY	Chris Atkin
GUIDANCE NOTES	This update is supplemental to and consistent with the full report on the actuarial valuation of the Scheme as at 5 April 2022 This report and the work involved comply with Technical Actuarial Standard 100 (version 2.0): Principles for Technical Actuarial Work and Technical Actuarial Standard 300: Pensions published by the Financial Reporting Council.

BACKGROUND

Legislation requires that a full actuarial valuation of the Scheme is carried out every three years. The last full valuation of the Scheme had an effective date of 5 April 2022 and was produced by Atkin Pensions.

As the Scheme has more than 100 members, the Trustees are also required to obtain an update on the funding position of the Scheme as at the anniversary of the valuation date in each year where a full valuation is not undertaken.

This update has been commissioned by the Trustees in accordance with the current legislation relating to scheme funding, in particular, the requirements under s224 of the Pensions Act 2004, the Occupational Pension Schemes (Scheme Funding) Regulations 2005 and The Pensions Regulator's Code of Practice (Funding Defined Benefits).

Additional Voluntary Contributions and any money purchase benefits have been excluded from the figures shown in this report.

Neither Atkin Pensions nor I accept any liability to any third party in respect of the contents of this update or for its use by the Trustees for any purpose other than that set out above. The only "users" of this document are the Trustees.

METHODOLOGY AND DATA

In carrying out this update, I have not carried out full liability calculations; I have instead estimated how the funding position may have moved from 5 April 2022 to 5 April 2023. This has involved investigating factors such as:

1. The change in the Scheme assets over the period, resulting from:
    - *The payment of contributions by Scheme members and the sponsoring employer*
    - *Benefit payments made from the Scheme as members retire, transfer etc*
    - *Expenses paid from the Scheme*
    - *Returns on the Scheme's assets*
2. The change in the estimated value of the Scheme liabilities, resulting from:
    - *Further benefit accrual for active members*
    - *Interest on the liabilities as benefits are closer to payment and there is less time for investment returns to be made*
    - *Benefit payments made from the Scheme as members retire, transfer etc*
    - *Actual changes in the relevant inflation indices over the year compared to that assumed*
    - *An allowance for any expense reserve to cover all future expenses of running the Scheme that are now payable by the Scheme*
    - *Any material events over the year such as a large number of deaths or leavers. Note that we do not believe there have been any material changes in the Scheme over the year which would impact our calculations. Please let us know if there is anything we are unaware of.*
3. Changes in investment conditions which impact the assumptions used in the liability valuation.

The current value of the Scheme's assets and the changes in the asset value over the year have been taken from the audited Scheme accounts for the year ending 5 April 2023. I have summarised the Scheme membership at the valuation date and dates of the subsequent funding updates in the table below:

	5 April 2023 update	5 April 2022
Active members	16	15
Deferred members	84	88
Pensioners	85	82
Total	**185**	**185**

Source: Audited Scheme accounts for 2022 and for 2023.

Note that due to the approximate methodology used for this update, if a full valuation was performed at 5 April 2023, there is scope for the results to differ from those shown in this report as more detailed calculations would be performed.

CHANGES TO ASSUMPTIONS

The assumptions used for this update are based on the method specified in the Trustees' Statement of Funding Principles drawn up in conjunction with the 5 April 2022 valuation. The main assumptions are shown in the table below.

In my opinion, the assumptions remain consistent with the financial assumptions used as at 5 April 2022 allowing for changes in market conditions over the period to 5 April 2023. It may be that different assumptions would have been used if a full actuarial valuation had been undertaken at this date, which would have involved discussions between the Trustees and the Company and a full review of the current Statement of Funding Principles.

	5 April 2023 update	5 April 2022 Actuarial valuation	Derivation (from Statement of Funding Principles)
Discount rate: (Pre and post retirement)	Gilt curve + 0.5% p.a. (single equivalent rate of 4.0%)	Gilt curve + 0.5% p.a. (single equivalent rate of 2.2%)	The discount rate was determined with reference to UK Government conventional gilt stocks, plus 0.5% per annum
RPI Inflation	Gilt inflation curve – 0.25% p.a. (single equivalent rate of 3.6%)	Gilt inflation curve – 0.25% p.a. (single equivalent rate of 3.5%)	Calculated using the Bank of England's published spot curve. This represents the assessment of future inflation used by investors in the pricing of index-linked bonds with a deduction of 0.25% for an inflation risk premium
Salary increases	RPI + 0.75% p.a.	RPI + 0.75% p.a.	Derived using the inflation assumption plus a margin of 0.75% p.a.
CPI Inflation Pre 2030 Post 2030	 RPI less 0.7% p.a. RPI inflation	 RPI less 0.7% p.a. RPI inflation	Derived using the RPI inflation assumption less a margin of 0.7% p.a. pre-2030 with no margin post-2030
Deferred increases (non-GMP)	CPI inflation	CPI inflation	Taken as the assumed rate of future CPI inflation
Pension increases: RPI max 5% CPI max 5% CPI max 3%	Based on the relevant inflation curve allowing for caps and collars using Black Scholes with an inflation volatility parameter of 1.75% p.a.		Taken as the assumed rate of future RPI inflation with statistical model allowance for the relevant caps and collars
Mortality	100% S3PA tables CMI_2021 [1.5%] long term trend		Based on the latest available research at the actuarial valuation with allowance for future mortality improvements
Retirement	All members are assumed to retire at the age from which unreduced benefits are payable		A prudent assumption
Cash commutation	75% of members take maximum allowance for cash commutation		When a member exchanges part of their pension for a lump sum, The Scheme experiences a reduction in their total liabilities
Future expense reserve	£350,000	Nil	At 5 April 2023, a capital reserve has been included to capture all expected future Scheme expenses

CHANGES IN MARKET CONDITIONS

Following the high level of market volatility after the 5 April 2022 actuarial valuation date and a large increase in gilt yields, there was a material improvement in the Scheme funding level. As a result, the Trustees in agreement with the Employer took the decision to de-risk the majority of the Scheme assets and invest them fixed interest and index linked government bonds the mixture broadly matching the fixed and index linked nature of the Scheme's liabilities. The improvement in funding level was allowed for in the 5 April 2022 actuarial valuation agreement.

RESULTS

ONGOING FUNDING POSITION

An estimate of the liabilities has been based on assumptions set out in the Statement of Funding Principles adopted by the Trustees. These assumptions are used to determine Technical Provisions which are intended to represent the amount of assets that the Trustees feel will be required in order for the Scheme to be able to continue to pay full benefits for all members of the Scheme. Technical Provisions do not represent the amount that would be required to secure the benefits with an insurance company.

£'000s	5 April 2023 actuarial update	5 April 2022 Formal valuation
Assets	17,654	17,664
Liabilities	13,372	18,429
Surplus / (Deficit)	4,282	(765)
Funding Level	**132%**	**96%**

Source: The formal actuarial valuation report produced by Atkin Pensions at 5 April 2022. Audited Scheme accounts at 5 April 2023 and liability calculations performed by Atkin Pensions at 5 April 2023.

An analysis of the key drivers behind the change in the Scheme's funding position is set out in the next page. Note that the funding position is sensitive to the assumptions used in the liability calculation. The approximate impact of changes to each of the key assumptions is set out in the latest funding valuation report.

Overall, the funding position is estimated to have materially improved since the 5 April 2022 actuarial valuation due primarily to a large increase in gilt yields (which drive the discount rate derivation) which have significantly decreased the liability valuation.

POSITION ON WIND UP

Detailed calculations of the potential cost of buying out benefits have not been carried out but, as at the date of the assessment, we expect the position to have materially improved since the valuation date due to the increase in bond yields.

CHANGES IN FUNDING POSITION

(£'millions)	Liabilities	Assets	Commentary
Start (5 April 2022)	18.4	17.7	Position at the date of the actuarial valuation
Benefit accrual	0.2	0.2	Benefit accrual over the period for active members compared to contributions received in respect of accrual
Interest on liabilities compared to investment returns	0.4	(0.4)	Investment returns are shown net of any expenses paid from the Scheme
Deficit contributions	-	0.5	Amount paid into the Scheme over the year in respect of deficit funding. Note this was in line with the agreed Recovery Plan
Benefit payments	(0.3)	(0.3)	Amount paid out of the Scheme over the year in respect of benefit payments to Scheme members
Change in assumptions	(6.2)	-	The large increase in the discount rate resulting in the value placed on the liabilities decreasing
Inclusion of capital expense reserve to cover all future Scheme expense	0.4	-	As the Scheme now pays all expenses of running the Scheme an upfront capital reserve has been included to capture all expected future Scheme running expenses
Experience adjustments	0.5	-	The impact of known pension increases over the year (before and after retirement) compared to the level assumed previously
End (5 April 2023)	13.0	17.7	Estimated funding position at 5 April 2023

NEXT STEPS

The funding position on updated financial assumptions has materially improved in the period to 5 April 2023. This material improvement was allowed for in the final agreement for the 5 April 2022 actuarial valuation. The Trustees will be undertaking a formal valuation at 5 April 2025 and the assumptions used for funding purposes and agreed contribution levels will be reviewed at that time.

The Trustees will need to issue a summary funding statement to Scheme members detailing the updated funding position as set out in this report. Please note that a copy of this update should be made available to the sponsoring employer within seven days of receipt by the Trustees.

Chris Atkin
Fellow of the Institute and Faculty of Actuaries
December 2023