## Summary Funding Statement

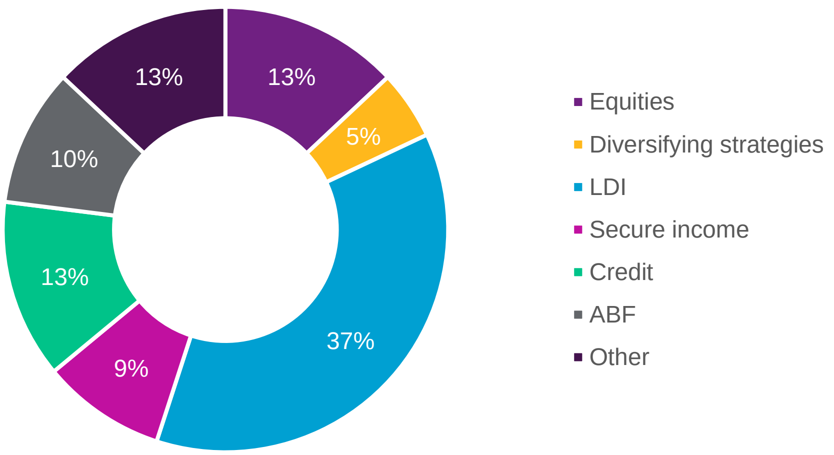
The Trustee is responsible for monitoring the Scheme's financial health and updating you each year. We hope that this statement will give you an understanding of how the Scheme is funded.

### How does the Scheme work?

The Scheme provides what is known as a defined benefit pension – that is, a pension that is calculated based on your salary and your length of service. The Company and the members previously paid contributions to the Scheme, until the Scheme was closed to active members on 31 May 2022. These contributions are invested in assets which are expected to provide income and to increase in value. The combination of contributions, investment income and growth, which is all held in a common fund, is expected to meet the cost of providing members' benefits.

### How are the Scheme's assets invested?

The assets of the Scheme were invested as shown in the chart below, as at 31 December 2023.




### What is the Scheme's funding target?

The funding target is to have enough money in the Scheme to pay for pensions, now and in the future. Every three years, the Scheme's Actuary carries out a detailed financial review of the Scheme, known as an actuarial valuation, to assess the extent to which the funding target is being met. This information allows the Trustee and the Company to discuss and agree the amount of contributions the Company will pay into the Scheme.  The most recent valuation was carried out as at 31 December 2022

### What is the Scheme's funding position?

The Scheme's funding position as at 31 December 2022 (ie the most recent actuarial valuation) and an updated position at 31 December 2023 are shown in the chart below. The funding level is calculated as the assets divided by the liabilities.  The shortfall, ie the difference between the assets and the liabilities, has reduced from £182 million at 31 December 2022 to £52 million at 31 December 2023.  The main reasons for the improvement in the funding position are the inclusion of the Asset Backed Funding (ABF) arrangement as an asset of the Scheme (valued at £92 million), the £23 million of contributions that the Company has paid and changes in market conditions.


Funding level 95% 82%

## Removal of the shortfall as at 31 December 2022

As part of the 2022 valuation the following plan was agreed to remove the £182 million shortfall and to cover the cost of running expenses:

- Contributions of £23.4 million, which were paid over the period to 31 October 2023
- Payments of £7.5 million a year from 1 November 2023 to 31 October 2038, increasing each year in line with inflation, are also payable. These payments are being made from what is known as an ABF arrangement. They are funded via a 15 year loan note that has been issued by the Company to the ABF

Based on the contributions and payments set out above, together with expected asset performance, it is expected that the shortfall will be eliminated by 31 October 2038.

For the funding update at 31 December 2023, and for all future funding updates, the value of the future ABF payments has been included as an asset of the Scheme.

## What would happen if Northumbrian Water did not continue to support the Scheme?

The Company is committed to supporting the Scheme. However, the Trustee is also required to calculate the funding position if the Scheme was wound up.

If the Scheme was wound up, its assets would be used to purchase policies from an insurance company to pay pensions. As at 31 December 2022, the Scheme Actuary estimated that it would cost £1,038 million to secure all the benefits in this way. As this was more than the value of the Scheme's assets at that time (£799 million) there would have been a shortfall of £239 million. The reason there is a larger shortfall, compared to the position shown above, is that this cost is an estimate of buying policies from an insurance company and such policies are relatively expensive. The £239 million shortfall at 31 December 2022 also does not allow for the value of the ABF as it had not been put in place at that time.

In the unexpected event that the Company were to become insolvent and unable to provide any further funding to the Scheme, the Pension Protection Fund (PPF) might be able to take over the Scheme and pay compensation to members.

The PPF aims to provide compensation to members of pension schemes if their employer becomes insolvent and the scheme does not have enough money to pay the benefits promised. The PPF does not provide full cover, but should a scheme get into difficulty, it aims to provide members with the majority of their pension. Further information and guidance is available on the PPF's website at www.ppf.co.uk. You can also contact the PPF by email at information@ppf.co.uk or by phone on 0345 600 2541.

## Payments to the Company

In accordance with legal requirements, we can also confirm that there have not been any payments to the Company out of Scheme funds since the last funding statement. The Pensions Regulator has not intervened in the funding of the Scheme or the benefits provided by it to date.

## Taskforce for Climate-Related Financial Disclosure (TCFD) reporting

The Scheme is now subject to climate change governance and reporting requirements. The Trustee has therefore published a TCFD report online for the year ending 31 December 2022. To access this report, which includes more information on our identification, assessment and management of climate change risk, please visit https://www.nwgpensions.co.uk/globalassets/pensions-pdfs/climate-related-financial-disclosure-report---year-ended-31-december-2022.pdf. Hard copies of this report are available on request by writing to Hymans Robertson (details below).

## Further information

Further information regarding the Scheme is available on request and for this and any other queries, you should contact the Scheme's administrator, Hymans Roberston, at one of the following:

Phone: 0141 227 9800

Email: nwps@hymans.co.uk

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