Actuarial report as at 31 March 2023

Kingfisher Pension Scheme

Summary

This actuarial report is provided to the Trustee to illustrate the estimated development of the funding position from 31 March 2022 to 31 March 2023, for the Kingfisher Pension Scheme ("the Scheme").

The technical provisions (TP) funding level at the latest formal valuation was 106% and the surplus was £183m. Following a volatile year, I estimate that the TP funding level as at 31 March 2023 was 106% with a reduction in the surplus to £137m. The 2FO funding level increased from 101% as at 31 March 2022 to 102% as at 31 March 2023 (corresponding to a surplus of £49m as at 31 March 2023).

Over the last year gilt yields have increased markedly, which has significantly decreased the value of the liabilities. Due to the high level of hedging in place for the Scheme, assets have fallen by a similar amount and the funding level has remained broadly remained constant.

Lisa Deas FFA, Scheme Actuary
28 June 2023

SPV offsetting agreement

Note that given the strong funding position of the DB ('defined benefit') section at the last valuation, the Trustee and Company signed a memorandum of agreement that three years of the SPV ('special purpose vehicle') income would be utilised to offset DC ('defined contribution') company contributions (a further 28 months due as at 31 March 2023).

In principle, the future payments expected to be offset could be treated as a liability – of around £38m - due from the DB section to the DC section. However, we understand that the full value of the SPV will be included in the DB section of the accounts. Therefore we have taken a similar approach for the actuarial report.

This means that all figures include the full value of the SPV as we expect it to be appear in the Trustee accounts. The diversion of future SPV income to the DC section under the offsetting agreement will only be allowed for in the funding position as these payments are made.

Differences between this actuarial report and a full actuarial valuation

The data underlying the actuarial report is based on the membership data as at 31 March 2022, provided by the Scheme administrators at Hymans Robertson LLP. As such, the report does not capture any changes in individual members' data since the last valuation (other than noted below).

The Scheme has three annuity policies which are valued annually for the purpose of disclosure in the Scheme's financial statements. These valuations are prepared using membership data for the insured pensioners as at 31 March 2023, provided by the Scheme administrator. The actuarial report includes the latest valuation of these policies, therefore captures actual member experience for those members covered. The resulting insured asset and liability are equal therefore there is no net impact on the surplus/ deficit.

Details of the approach used in this actuarial report are given in the Appendix.

The figures in tables throughout this document may not add up due to rounding.

Estimated financial position

In determining the technical provisions, I have used the funding method and actuarial assumptions consistent with those set out in the Trustee's statement of funding principles dated 27 September 2022. The key assumptions are shown in the table below with a comparison to previous exercises:

Basis summary

Assumption (p.a.)	31 March 2023	
	Technical Provisions	2FO
Basis type	Gilts Curve	Gilts Curve
Discount rate: Adjustments to the yield curve	Pre 2030: 1% p.a. Post 2030: 0% p.a.	0%
Retail Prices Index (RPI)	Gilts implied RPI yield curve	
Consumer Prices Index (CPI)	RPI yield curve less 1% p.a. with step change to 0% p.a. post 2030	

Technical provisions

£m	31 March 2022	31 March 2023
Assets	3,506	2,404
Liabilities	3,323	2,267
Surplus/(deficit)	183	137
Funding level	106%	106%

2FO

£m	31 March 2022	31 March 2023
Assets	3,587	2,456
Liabilities	3,564	2,407
Surplus/(deficit)	23	49
Funding level	101%	102%

Sensitivities

The following table shows the change to the technical provisions financial position when varying key assumptions:

Assumption	Change to financial position (£m)	Resulting surplus/(deficit) (£m)
Increase margin over discount rate by 0.25% pa	64	201
Increase inflation assumption by 0.25% pa	(45)	92

*Please note, the above sensitivities allow for the change in value of the buy-ins but do not capture any movement in other asset values (e.g. changes in the value of the Scheme's LDI assets as a result of changes in inflation).

Market Indicators

	31 March 2022	31 March 2023
Market yields (p.a.)		
Fixed Interest gilts	1.74%	3.79%
Index linked gilts	-1.93%	0.34%
Implied Inflation	3.74%	3.44%
AA corporate bonds	2.73%	4.72%
Price indices		
FTSE All Share	4,188	4,158
FTSE 100	7,516	7,632

The assets as at 31 March 2022 are audited assets from the Trustee Report and Account and include net current assets. A minor adjustment was made to the audited asset figure for the annuity policies, where the value is set equal to the insured liabilities on final assumptions.

The assets as at 31 March 2023 are based on the asset allocation provided by Group Pensions and the valuation of the L&G, PIC and Aviva annuity policies as at 31 March 2023 from our report dated 25 April 2023. Net current assets are not included.

What's happened since the last formal actuarial valuation?

Change in assets

Assets		£m
Asset value as at **31 March 2022**	3,506	
Contributions paid in		4
Benefit payments		(109)
Return on assets		(997)
Actuarial gains/(losses)		0
Asset value as at **31 March 2023**	2,404	

The main reason for the decrease in asset value since the last valuation is a marked rise in fixed interest and index-linked gilt yields. The Scheme has a high degree of interest rate hedging in place through its Liability Driven Investment ('LDI') portfolio and pensioner annuity policies therefore these assets have fallen in value as yields have risen.

Note 'contributions' are the employer contributions that were paid under the previous schedule until August 2022. Contributions in respect of the SPV – prior to offsetting – come through under the 'return on assets' item.

Change in liabilities

Technical Provisions		£m
Liability value as at **31 March 2022**	3,322	
Cost of benefits accruing		0
Interest on liabilities		92
Changes in yields and inflation		(1,030)
Benefit payments		(109)
Actuarial (gains)/losses		(8)
Liability value as at **31 March 2023**	2,267	

Since the most recent actuarial valuation, yields on government bonds have increased by around 2.05% p.a. and expected price inflation has decreased by around 0.30% p.a. The combined effect of these movements has led to a significant decrease in the liabilities.

Funding position

The net effect of the changes in the assets and technical provisions is that I estimate the funding surplus has decreased from £183m at the most recent actuarial valuation to £137m at 31 March 2023 — equivalent to a funding level of 106% at both dates with the fall in the £ amount of the surplus reflecting that the size of the assets and liabilities are now lower.

Appendix: Scope, compliance, limitations, methodology and data

Scope

This actuarial report is addressed to the Trustee of the Kingfisher Pension Scheme ("the Kingfisher Pension Trustee Limited") to fulfil their statutory obligations and the requirement of the scheme's governing documents. The Trustee must make this report available to Kingfisher Plc ("the Company") within 7 days of receipt. Hymans Robertson LLP consent to this. It should not be used for any other purpose. It should not be released or otherwise disclosed to any third party except with Hymans Robertson LLP's prior written consent, in which case it is to be released in its entirety. Neither I nor Hymans Robertson LLP accept any liability to any third party unless we have expressly accepted such liability in writing.

This actuarial report has been commissioned by the Trustee in relation to their requirements under Section 224 of the Pensions Act 2004 and regulation 7 of the Occupational Pension Scheme (Scheme Funding) Regulations 2005 and is compliant with the provisions therein. The report is an update on the funding position of the scheme and must include an assessment of the changes in the scheme's assets and technical provisions since the actuarial valuation.

Compliance with professional standards

The method and assumptions used to calculate the updated funding position are consistent with those used in the latest formal actuarial valuation, although the financial assumptions have been updated to reflect known changes in market conditions. As such, the advice in this report is consistent with that provided for the last valuation.

This update complies with the following Technical Actuarial Standards (TASs): TAS 100 and TAS 300.

The following communications are also relevant to this actuarial report:

- Actuarial Valuation as at 31 March 2022 Scheme Funding Report dated 27 September 2022
- Statement of Funding Principle dated 27 September 2022
- Schedule of Contributions dated 27 September 2022
- Valuation of the L&G, PIC, and Aviva annuity policies as at 31 March 2023 dated 25 April 2023

Membership data

My calculations are based on the membership data provided for the most recent actuarial valuation (with the exception of the insured pensioner data which is as at 31 March 2023). Details on the quality of this data and a data summary can be found in the last formal actuarial valuation report (and in the latest annuity valuation report for the latter).

The data has been provided by the Trustee via the scheme administrator and I have relied on the accuracy of the information provided. I have no reason to doubt that the membership data provided is materially complete and correct.

Limitations of this model

In the short term, the typical main contributors to funding position volatility are movements in the value of assets held, liability changes due to yield movements, benefit changes and deficit contributions to the Scheme.

The accuracy of this type of actuarial report calculation is expected to decline over time. Differences between the position shown in this report and the position which a valuation would show can be significant, particularly if there have been volatile financial markets or material membership changes (these are more likely to occur in smaller schemes). It is not possible to fully assess the accuracy of this update without carrying out a full actuarial valuation.

If yield curves are not available at an actuarial report date this model uses approximate yield curves based on the movements in long-term gilt yields since the date of the last available yield curve. Some asset classes are not easily tracked by the benchmark indices used in this model which can lead to significant differences between actual and projected asset values.

The update allows for:

1 An asset value based on the value of the invested assets provided by Group Pensions as at 31 March 2023 .

2 The valuation of the L&G, PIC and Aviva annuity policies as at 31 March 2023 dated 25 April 2023.

3 Movements in liabilities as a result of changes in yields and hence inflation and discount rate assumptions.

4 Actual cash-flows to and from the Scheme supplied by the Scheme administrators where available.

5 Demographic experience in line with assumptions in the statement of funding principles dated 27 September 2022.

The update does not allow for:

1 Asset allocations differing from those assumed (other than when asset data is recalibrated based on available information).

2 The audited Scheme accounts as at 31 March 2023.

3 Variation between actual and expected demographic experience (e.g. early retirement or mortality).

4 I have not received details of any material benefit changes, bulk transfers or other financially significant events occurring over the period since the last actuarial valuation.

How liabilities are calculated

- The future benefits that are payable from the Scheme's ("cash-flows") were calculated on a specific set of assumptions at the last valuation date (shown below). Note that 'Active Past Service' relates to employed deferred members.
- These cash-flows were adjusted using available financial and Scheme information to produce estimated cash-flows at post valuation dates.
- The estimated cash-flows are discounted to produce the estimated liability value at a specific date.