PPF levy determination for 2017/18

Alert | 04 January 2017

Introduction

On 15 December 2016, the PPF confirmed its planned levy rules for 2017/18 which will remain largely unaltered for the third year of this triennium, making it business as usual for the certification / recertification of contingent assets and ABCs.

Key points

- The most significant change to the levy rules is that the PPF will allow employers to certify an adjustment to the figures in their accounts where the move to new UK accounting standard FRS 102 (or FRS 101) would otherwise cause an artificial movement in their levy rating.
- Unusually, the levy rules have been published provisionally to allow the PPF time to consult on a potential new approach for calculating risk-based levies for schemes with no sponsoring employer. However, the PPF has confirmed that there will be no other changes and encourages employers and trustees to take immediate action.
- The PPF has begun work on developing its levies for the next triennium (2018/19 – 2021/22) and intends to consult on its proposals in spring 2017.

Changes in accounting standards

In broad terms, the move to FRS 102 (and FRS 101 for subsidiaries of listed companies) changes how entities value certain assets and liabilities in their accounts.

In general, the PPF is satisfied that the new standard “offers a better view of a company’s financial health and renders different companies’ accounts more comparable”. Further, analysis indicates that its impact on PPF scores will be limited. The PPF has therefore decided to adopt the new assessment, rather than try to unpick its effects.

However, the same logic does not apply to trend variables (variables comparing this year’s accounts with those from three years earlier). In this case, the move to FRS 102 could lead to the inclusion or exclusion of new items in the relevant accounting line for the first time (eg the elimination of an exemption from accounting for pension deficits for employers in multi-employer schemes) which, in turn, could affect PPF scores.

In its consultation on levy changes (see our Alert), the PPF recognised that the “large and complex” and “not for profit” scorecards have trend variables which would be affected by the new accounting standard, and so proposed allowing employers on those scorecards to certify an adjustment to the figures in their accounts.

The PPF has now decided, for the levy year 2017-18, to allow adjustments to be certified for any of the scorecards with trend variables in order to ensure these calculations compare figures on the same accounting basis. Whether this ability to certify will be retained in future years will depend on take-up and the proportion of cases in which an adjustment results in a change in the levy due.

The PPF recommends that, before certifying, employers test whether submitting a certificate is likely to impact their Experian score sufficiently to lead to a different levy.

Other changes to the levy rules

The PPF proposed some relatively minor adjustments to the levy rules in the areas of:

- ultimate parent companies filing small accounts
- revised accounts – to address the situation where filed accounts are incorrect and new accounts are filed to replace them
- non-sterling exchange rates conversion.

The 2017/18 Policy Statement confirms these proposals and provides additional information on how they will be implemented.

Schemes with no substantive sponsor

In its consultation paper, the PPF highlighted its intention, if necessary, to put in place a rule to ensure that the levy is calculated appropriately for eligible schemes which cease to have a substantive sponsoring employer after a restructuring of the pension arrangements.

In such circumstances, the risk of insolvency is fundamentally related to the investment performance of the scheme and cannot be measured by considering the financial position of the shell company or special purpose vehicle which has become the scheme’s sponsoring employer.

At least initially, the PPF would intend any specific rule to apply in relation to new arrangements where there is an agreed framework for the scheme’s governance. However, in the PPF’s opinion, it remains unclear whether there is an immediate need for rules to give effect to such an approach. It has therefore decided to allow time for a consultation on this issue before it publishes the final levy determination for 2017/18.

Key dates

The main deadline for submission of information on the levy will be midnight on 31 March 2017. (Click here for a list of key PPF dates for the levy year 2017/18.)

In a change from last year, Experian will calculate scores for new guarantors (for Type A contingent assets) providing annual accounts are voluntarily submitted, or filed with one of the registries that Experian collect accounts from, by 31 March 2017 (ordinarily employer accounts must be filed one month before the measurement time to be used). This will allow the guarantor to be scored by Experian and to be taken into consideration for calculation of the levy, if accepted.

Next steps

As the only possible change to the provisional levy determination will be the introduction of a specific rule for schemes with no substantive sponsoring employer, there is nothing to stop trustees and employers acting on the levy rules now. If, in particular, the intention is to put in place (or retain) contingent assets, we recommend kicking off the process as soon as possible. For assistance, please speak to your usual Sackers' contact.

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