

The 2020/21 PPF Levy Determination

Alert | 08 January 2020



Introduction

On 16 December 2019, the PPF [published its final levy rules for the 2020/21 levy year](#).

Key points

- The levy estimate for 2020/21 will be £620 million.
- As 2020/21 marks the final year of the PPF's latest levy triennium, the PPF has sought to maintain stability in the levy rules so changes are minimal.
- Subject to certain conditions, an employer may request an adjustment to its insolvency risk calculation to reduce the impact of GMP equalisation. Requests should be made within 28 days of mean scores being published (expected to be early July 2020).
- [Guidance on Type A contingent assets](#) and, in particular, on guarantor strength reports (see below) has been revised with the aim of discouraging a “tick box” approach to the assessment of the guarantor.
- The PPF has also made a number of minor drafting changes to the levy rules and guidance which are intended to clarify how it expects the rules to operate.

Addressing the impact of GMP equalisation

In its levy consultation, the PPF sought views on the impact of GMP equalisation adjustments on PPF-specific model scores.

The PPF considers that, although taking account of GMP equalisation costs in accounts could theoretically lead to changes in the risk-based levy, movements in the degree of profit reported are very unlikely (in isolation) to have an impact. However, it acknowledges that, in certain circumstances (broadly, where GMP equalisation costs move an employer from profit to loss) there could be a significant impact on individual scheme levies. It has therefore decided to allow employers to request an adjustment to their insolvency risk calculation provided all of the following conditions apply:

- a specific amount can be identified in accounts used to calculate one or more monthly scores that solely relates to a GMP equalisation adjustment

- allowing the adjustment would result in the company being viewed as reporting a pre-tax profit rather than a loss
- allowing the adjustment would result in a change of mean score to a levy band with a lower levy rate.

The PPF “emphasise[s]” that this does not mark a general departure from its view that information as reported in accounts should be used in scoring. It intends to produce a simple form (and accompanying guidance) to help levy payers provide appropriate evidence. As noted above, requests should be made within 28 days of mean scores being published (expected to be in early July 2020).

Type A contingent assets – guarantor strength

Background

For a Type A contingent asset (parent or group company guarantee) to be recognised by the PPF, the contingent asset must:

- appear to the PPF to reduce the risk of compensation being payable in the event of an insolvency event occurring in respect of any employer in relation to the scheme, and
- broadly, provide a reduction to the risk of compensation being payable which is commensurate to the levy reduction secured

(together, “the Risk Reduction Test”).

In addition, the trustees are required to certify, on Exchange, a fixed cash sum that they are satisfied the guarantor(s) could meet in an insolvency situation if called upon to do so (“the Realisable Recovery”).

Guarantor strength report

A guarantor strength report (see our [Alert](#)) is required for Type A assets which generate a levy reduction of £100,000 or more. (Reports may be provided voluntarily for those below the threshold.)

Where a guarantor strength report that, in the PPF’s opinion is consistent with the contingent asset guidance, is obtained by the trustees before the deadline (1 April 2020), the Risk Reduction Test will be deemed to be met. However, for the levy year 2020/21 new exclusions apply. Like previous changes to the rules for Type A assets, these seem to be aimed at ensuring the guarantor will be able to fulfil the guarantee in the circumstances in which it is likely to be called upon. For example, the existence of a valid guarantor strength report will not preclude the PPF from considering a contingent asset on its own merits where the guarantor is a service company.

In addition, the PPF has revised its guidance with the aim of discouraging trustees from applying a “tick-box” approach to their assessment of the guarantor’s ability to meet the amount guaranteed. Instead, the PPF intends to promote reliance on the judgment of the professional adviser providing the report.

Guarantor-employers

The PPF has clarified that, when assessing the Realisable Recovery, trustees should consider whether the immediate insolvency of all other employers would be likely to precipitate the insolvency of the guarantor-employer itself. Where this applies, and the guarantee ranks commensurately with the section 75 employer debt, the Realisable Recovery should be reduced to reflect any consequent reduction in the anticipated recovery of the section 75 debt from the guarantor-employer.

Next steps

Trustees and employers who intend to put in place or retain contingent assets should start the process as soon as possible.

The deadline for certification / re-certification on Exchange is **midnight on 31 March 2020**. Hard copy documentation must be delivered to the PPF, as necessary, by **5pm on 1 April 2020**. (Please click [here](#) for the PPF's timeline.)

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