

PENSION PROTECTION LEVY – CONSULTATION DOCUMENT

Introduction

This response represents the views of the Scottish Charity Finance Directors' Group (SCFDG). The SCFDG was launched in 1994 to provide a forum for those working in and concerned with all financial management aspects of charities and other voluntary organisations in Scotland. There are now over 140 members throughout Scotland with a variety of interests.

Pension Protection Fund Levy – Issues for Charities

The Pension Protection Levy Consultation Document issued in July 2005 by the Pension Protection Fund raises a number of issues of serious concern to charities :-

- 1) the financial position of Defined Benefit (DB) schemes has already been considerably weakened by the Government's abolition of the recovery of tax credits on investment income. This has had a compound effect on charities which depend on income from investments in endowment funds and reserves to assist with the funding of their charitable activities, resulting in a 5-year period of declining income which has only recently levelled out.
- 2) it is unjustifiable for the levy to be funded entirely by DB schemes, with no contribution at all from Government, which is still benefiting each year from the changes in 1) above. To ask charities to pay what is effectively a form of taxation which will principally benefit employees in the private sector, where schemes are historically more likely to become insolvent, is to impose an additional burden which will divert further resources away from charitable activities, which are of benefit to many of the poorest and most disadvantaged in communities locally, nationally and internationally, in order to benefit the employees of a few companies which have failed to ensure that their schemes were adequately funded. To propose to treat charities in the same way as purely commercial organisations is to fail to understand the fundamental difference in the risk profiles of the two sectors. Charities with DB schemes tend to be the larger ones which have been operating for many years and have longer planning horizons than companies which are by necessity driven by short-term commercial considerations. As a result larger charities are likely to be financially more stable and conservative than many companies, but it does not appear from the consultation document that this structural difference can be fully reflected in the calculation of the PPF Levy. Perhaps a separate PPF Levy for the charity sector would be a more equitable solution to spread the lower level of risk of a charity DB scheme failing?
- 3) the switch in 2006/07 to a risk-based levy for 80% of the PPF could cause problems for charities, as the employers' insolvency risk is to be assessed by a commercial credit rating agency (Dun & Bradstreet). As the accounts of charities are presented in a different way from those of companies, there could be difficulties in ensuring that charities are correctly assessed. This may not be a major issue as few charities carry significant debt on their Balance Sheets compared with companies, and so may be assessed as having a low risk of insolvency within 12 months. However, as the Charities SORPs of 2000 and 2005 allow charities to exclude inalienable or heritage assets from their Balance Sheets, these may therefore not be directly comparable with companies and so may lead to difficulties in accurately assessing the insolvency risk for charities.