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Some brief comments on the King's Speech

James VI & I was the first monarch to deliver the King's Speech himself, at the State Opening of Parliament in 1605, illustrated in the engraving above by Renold Elstracke**.** This occasion is remembered more for an attempt to blow him up. Despite this inauspicious start, the practice has prevailed.

Charles III, relaxed about the risk of Catholic plotters, delivered the King's Speech for the new Labour government yesterday. As usual, we comment on the nerdy aspects for investment capital.

The King's Speech had a strong commitment that securing economic growth will be a fundamental mission. This includes unlocking investment capital. Our comments three key proposals are below.

National Wealth Fund Bill

The establishment of a National Wealth Fund had already been announced last week. The details are here.

Investment will be through the existing UK Infrastructure Bank, chaired by Chris Grigg, the former CEO of British Land. £7.3 billion is being earmarked to be allocated for investment through the Infrastructure Bank. This is intended to unlock private sector investment and last week's announcement included supportive comments from several institutions.

The primary focus will be investment in decarbonisation. We will await further details and the bill.

Pension Schemes Bill

This was in some ways a bit of a surprise, in that there had been a manifesto commitment to "review the current state of the pensions and retirement savings landscape". This suggested a broader review rather than an immediate bill. However, it does sound as though the immediate bill will be moving forward the initiatives that had already been set in train by the previous government in respect of defined contribution (DC) pension reform. The legislation for this is already in place, so it is not wholly clear what the new bill will cover.

In terms of investment in illiquid assets, many of the challenges are operational. The Long-Term Asset Fund (LTAF) has been introduced specifically to facilitate investment by DC default funds in illiquid assets. We had, and still have, deep reservations about fixed notice periods as a feature of the LTAF and there are significant operational problems for LTAFs and other funds with notice periods being accessed through investment platforms.

Other than the DC changes in train, there are a number of related matters, the status of which is unclear:

- Further initiatives for the wider introduction of Collective Defined Contribution (CDC) pension schemes, particularly multi-employer schemes for whole industries;

- The future of defined benefit (DB) schemes. Their long-term decline was accelerated by the Liz Truss mini-budget in September 2022. There are outstanding matters left over from the previous government:

    - What happens to current surpluses in DB schemes. This was covered in a consultation that closed on 19th April. John drafted the response from the Association of Real Estate Funds (AREF) that suggested an approach that would enable sponsors ultimately to benefit from surpluses whilst also encouraging investment in the real economy and providing scheme members

with a greater buffer against market volatility would be to allow partial withdrawal of surpluses on an ongoing basis spread over time funded by investing current surpluses in higher returning illiquid assets.
    - A proposal that the Pension Protection Fund (PPF) act as a consolidator of DB schemes that are not able to transfer their liabilities to the insurance bulk annuity market. There have been recent changes that affect the insurers themselves, in the form of amendments to the Solvency Matching Adjustment rules. This is covered below.

Draft Audit Reform and Corporate Governance Bill

The speech announced a bill to strengthen audit and corporate governance. This had been started by the previous government and then nudged into the long grass. We understand that this will put the Financial Reporting Council (FRC) on a statutory footing through the establishment of the Audit, Reporting and Governance Authority (ARGA). Further details are on the FRC website here.

This is an important step forward. Although not an investment capital initiative per se, it is something that should give confidence to investors.

Other investment capital matters not mentioned

There are a couple of important areas not covered:

- As mentioned above, DB schemes are transferring their liabilities to life insurers in the bulk annuity market. The insurers invest in assets that they can include in the Matching Adjustment (MA) pool which receives a highly favourable regulatory capital treatment. A theoretically significant change in the MA rules to widen the eligible assets to include those for which the returns are highly predictable (HP) rather than fixed came into effect on 30th June. We covered this in our most recent newsletter (see here). We think that further work is needed if anyone is going to use these provisions;

- The issues for investment funds for retail investors that invest in illiquid assets has not been resolved. The FCA has been trying to decide its answer to liquidity mismatch in daily-traded authorised property funds since March 2017. An answer has been promised later this year. However:

    - We believe that the answer that they are still inclined towards is fixed notice periods as introduced for the LTAF. We do not believe that this is the right answer, although it might be in some circumstances;
    - There is an issue for Individual Savings Account (ISA) eligibility if mandatory notice periods are introduced. This is incompatible with investment through a Stocks and Shares ISA. HMRC's "solution" was to allow through an Innovative Finance ISA. We do not think that this works. Again this is a topic on which AREF has been lobbying. Others have pointed out that the ISA regime more generally is a bit of a dog's dinner after endemic tampering by

successive governments. A broad consolidation and simplification would be very beneficial.

We will be covering the various bills in our newsletter.

Other stuff

There are four other bills flagged in the King's Speech that will be significant for real estate investment:

- Planning and Infrastructure Bill
- English Devolution Bill
- Draft Leasehold and Commonhold Reform Bill
- Renters' Rights Bill

Others are better placed than us to comment on these.

18th July 2024