John Forbes
CONSULTING LLP

John Forbes MA FCA FRICS CTA

www.johnforbesconsulting.co.uk

Email: john.forbes@johnforbesconsulting.co.uk
Office: 0151 653 2860
Mobile: 07885 912399

Autumn Statement 2023 and related stuff
Commentary on the geeky bits

General

Jeremy Hunt presented his Autumn Statement on 22nd November. Others have commented on the economic forecasts and some of the more headline grabbing proposals in what may well be the last Autumn Statement before the next general election, although they may well try to string it out long enough to squeeze in another one.

We have commented on some of the more geeky bits that we think will particularly affect the real estate investment management industry.

Pension changes

Pension changes are a key element of the Autumn Statement, and as regular readers of our newsletters will know, a particular area of focus for us since the pension reform process started in 2013 and was set out in detail in the 2015 Budget. This is always a good excuse to include our favourite George Osborne photograph from the time.

HM Treasury has gathered together all the pension items together in *Autumn Statement Pensions Reform 2023,* which you can find here.

There is a lot of additional background information in *Trends in the Defined Contribution trust-based pensions market* which you can find here and the review of Master Trusts discussed below.

We set out our comments on the most important pensions proposals below.

Changes for Defined Contribution schemes

A number of announcements were made in the Autumn Statement on points that we have been covering:

- The government is launching a call for evidence for DC schemes on a lifetime provider model to simplify the pensions market by allowing individuals to move towards having one pension pot for life, and on a potential expanded role for Collective DC (CDC) schemes in future. Although there are differences of opinion on the matter, we believe that the introduction of multi-employer CDC schemes will be a game changer. We await the call for evidence;

- As we have covered over the years, there has been a ongoing but painfully slow consultation process as the Department for Work and Pensions (DWP) has introduced a regulatory obligation to focus on value-for-money rather than just cost for the schemes that they regulate (trust-based schemes). The reporting obligations came into effect from October this year. We have been strong supporters of this through the consultation and were delighted to be quoted in the final output. It is clear from the Autumn Statement that the government is keen to maintain momentum. An important next step is the extension of this to contract-based schemes regulated by the FCA. In parallel with the Autumn Statement, the FCA announced that it will consult on detailed rules for a new value for money (VFM) Framework for contract-based DC workplace pensions in spring next year. You can find the announcement here.

- The government published a review of the Master Trusts market, 5 years after the 2018 Master Trusts regulations came into force, *Evolving the regulatory approach to Master Trusts*. You can find it here. The Ministerial Foreword opens with the comment, "Master Trusts are the engines of growth in the pensions market in the UK". We hold the somewhat controversial view that they may be an obstacle. The largest Master Trusts already dominate the market. The DWP believes that there will be further consolidation. The focus on value for money (VFM) rather than just cost outlined above needs to be key in the Master Trusts too. In our view, there also needs to be a greater focus on transparency, particularly if the big players become increasingly dominant. The review includes a huge amount of background information and some quality graphs.

Options for Defined Benefit schemes

This document is the government response to the 'Options for defined benefit schemes' call for evidence run by the Department for Work and Pensions (DWP) from 11th to 5th September. You can find it here.

The consultation and this document cover three questions:

Should government do more to support DB schemes' ability to invest in productive finance? Our reaction to the original consultation was quoted in REACT News in September, "Not only has the horse bolted long ago, it is currently dying of old age out on the moors."

What is the evidence with respect to building and extracting surplus? As above.

What is the evidence with respect to the potential for public sector consolidation? The suggestion in practice is that the Pension Protection Fund (PPF) should act as a consolidator.

Local Government Pension Scheme

Proposals for consolidation of the Local Government Pension Scheme England and Wales (LGPS) first surfaced in May 2013. We have been commenting on the process since then. The driver for the original proposal was to achieve economies of scale and thus a reduction in running costs. In the 2015 Budget, it was announced that the then 89 LGPS schemes would be merged into 6 local "Sovereign Wealth Funds". This evolved somewhat and ultimately 8 pools were created. Progress in actual pooling of assets has been mixed.

On 11th July, as part of a package of measures to reform the pensions landscape, the government launched a consultation on proposals relating to the next steps for investments in the LGPS. The consultation closed on 2nd October. Along with the Autumn Statement, the government published its response to the consultation.

- On asset pooling, there are a few key points:
    - The suggestion that the number of pools might be reduced is deferred to the medium to long-term;
    - Deadlines for pooling assets in practice will apply to listed assets;
    - Changes to governance and decision making;
    - Improvements to transparency and accountability.

- LGPS investments and levelling up:
    - The government proposes to amend regulations to require funds to publish a plan on how they will invest at least 5% of their assets under management (AUM) in projects that support levelling up across the UK;
    - The government also proposes to require funds to report annually on their progress against their plan.

- Investment opportunities in private equity:
    - In the consultation, the government asked for views on whether funds should have an ambition to invest 10% of their funds into private equity;
    - Despite 84% of respondents opposing this, the government is proceeding.

- Improving the provision of investment consultancy services to the LGPS:
    - The government will bring forward amendments to the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 and associated guidance to implement requirements on LGPS funds that use investment consultants.

- There are a couple of technical changes on the LGPS definition of investments and Public sector equality duty.

Solvency II

The Autumn Statement included a comment that the Government will be introducing secondary legislation to give effect to the reforms announced in last year's Autumn Statement. As regular readers of our newsletter will be aware, this has been progressing over the last year, and on 28th September, the Bank of England Prudential Regulation Authority (PRA) published a consultation, *CP19/23 – Review of Solvency II: Reform of the Matching Adjustment*. We covered this in our previous newsletter, which you can find here.

Changes for retail investors in funds

There are two important areas of change for retail investors in funds, both of which have been festering for some time and which we have covered in our newsletter over recent years:

- Proposed changes to the ISA rules;
- Changes to the UK Retail Disclosure Framework.

These are discussed below.

ISA changes, LTAFs and property funds for retail investors

There are a number of changes to ISA rules. The change that is of most relevance for us is that the government will allow the permitted investments in the Innovative Finance ISA to be expanded from April 2024 to include:

- Long-Term Asset Funds (LTAFs);
- open-ended property funds with extended notice periods.

We have two major concerns about this:

- Innovative Finance ISAs are not widely used in practice. We are not convinced that investors will want to set up Innovative Finance ISAs to invest in LTAFs and property funds. This will, we suspect, be particularly problematic for investors investing via model portfolios where the investment is part of an allocation in a larger portfolio. A lot of ISA money is invested via IFA model portfolios, something that has grown year on year since the Retail Distribution Review (RDR), the legislation for which came into effect on 31st December 2012.

- As we have covered extensively in our newsletter, we do not believe that fixed notice periods are the only solution to the issue of liquidity mismatch in daily-traded open-ended property funds for retail investors. We believe that the introduction of a deferral mechanism is a better solution for many funds. We hope that the FCA will introduce notice periods as an option rather than an obligation for retail investors, with other liquidity tools also available.

UK Retail Disclosure Framework

Another hot potato.

Alongside the Autumn Statement, the government published a policy note and a near-final version of a statutory instrument to facilitate the replacement of the widely loathed EU Packaged Retail and Insurance-based Investment Products (PRIIPs) Regulation and create a new UK retail investor cost disclosure framework.

You can find the policy note here and the draft statutory instrument here.

The proposals give the FCA the powers to develop an alternative cost disclosure regime.

There has been a lot of very vocal opposition to the application of the PRIIPs cost disclosure rules to listed funds from the investment trust sector and managers of externally managed REITs. However, we think that there are more fundamental problems with the regime more generally so we hope that the chainsaw will be wielded across the board.

Technical comments on the draft statutory instrument need to be made by 10th January 2024.

REIT changes

Changes were announced in July and were covered in our newsletter in September, which you can find here. Depending on which change it is, it will take effect from Royal Assent of the Autumn Finance Bill 2023, apply to accounting periods ending on or after 1st April 2023, or are deemed to have always had effect.

Construction Industry Scheme

This is not really our thing, but we include it for completeness. The Autumn Statement included proposals to reform the Construction Industry Scheme (CIS). This had been preceded by a consultation. Alongside the Autumn Statement, the Government published the results of the consultation and the proposals to come into effect from April next year. You can find it here.

Promoters of tax avoidance schemes

Followers of Dan Neidle will be aware of the prevalence of egregious tax avoidance schemes in certain areas of the property investment world. The Autumn Statement included an announcement that the government is legislating in the Autumn Finance Bill 2023 to introduce tougher consequences for promoters of tax avoidance schemes.

Local Housing Allowance

The local housing allowance (LHA) rate, which has been frozen since 2020, has been restored to its 2020 level of the 30th percentile of market rents. When it was introduced in 2008, it was originally 50% of private market but was reduced in 2011 to the 30th percentile of market rents and then frozen in 2020.

The change will hopefully assist in unlocking further investment in this important area, not so much through the immediate uplift, but from the return to a long-term policy position. Long-term investors like long-term policy stability.

The Harrington Review of Foreign Direct Investment

Published alongside the Autumn Statement, the Harrington Review of Foreign Direct Investment sets out recommendations as to what the UK needs to do more in an increasingly competitive environment for investment.

The focus is on investment in real stuff such as manufacturing, but a joined up approach that boosts investment generally will have direct and indirect benefits beyond this.

The Review recommends that driving investment becomes a whole-of-government focus, requiring central government to be less siloed and risk averse, and more responsive to business priorities, in particular:

- Strategy: a strategic approach to investment that supports delivery of sustainable growth and long-term policy objectives, including in the five key growth sectors, and their enablers.
- Organisation: clear mechanisms and transparent accountability for addressing barriers to investment at both a national and sub-national level, to focus government on

securing the investment the UK needs. This needs to start at the highest level of government.
- Tools and approach: a shift from a reactive to proactive approach to engaging with business and investors, ensuring that the UK offer to investors competes with best-in-class competitor nations.

You can find the review here.

Local devolution

In its 2019 manifesto, the Conservative Party made a strong commitment to local devolution, which evolved into the "levelling-up" agenda. We are big supports of devolution, which we believe is key to unlocking local investment.

There are several updates to the devolution journey in the section of the Autumn Statement, *boosting growth and investment across the country.*

Earlier this year, in the Spring Budget, the government announced "Trailblazer" devolution deals for Greater Manchester and West Midlands Combined Authorities. The Government has now published a Memorandum of Understanding (MoU) that sets out the principles under which the single settlements with the MCAs will be agreed and implemented at the next Spending Review. You can find it here.

Other combined authorities with elected mayors to apply for devolved status with similar powers to Greater Manchester and West Midlands Combined Authorities. This is set out in a technical paper on Level 4 devolution framework, which you find here.

There are also local devolution deals for:

- Hull and East Yorkshire (see here);
- Greater Lincolnshire (see here)
- Lancashire (see here)
- Cornwall (Kernow) (see here)

The Department for Levelling Up, Housing and Communities will publish a Freeports Delivery Roadmap in December. We are a bit more sceptical about freeports.

Speeding up infrastructure delivery

Alongside the Autumn Statement, the Government published a policy paper, *Getting Great Britain building again: Speeding up infrastructure delivery.* You can find it here.

The paper covers short-term and longer-term proposals.

The short-term package covers four themes:

Theme 1: Speed - improving decision-making, making decisions faster and more consistent;

Theme 2: Certainty - creating more certainty for developers and investors;

Theme 3: Simplicity - minimising bureaucracy and the frequency of legal challenge;

Theme 4: Delivery - structuring incentives within the system to drive project delivery performance, and to discourage unnecessary delays.

The long-term proposals are for the next parliament, so you can speculate as to how likely it is that the current incumbents will be around to deliver this.

The policy paper has a timetable for bringing forward more detailed proposals through 2024.

Crown Estate modernisation

A bit niche, but the Autumn Statement included an announcement that the government will bring forward legislation to provide The Crown Estate with borrowing and wider investment powers as soon as parliamentary time allows.

Financial Reporting Council remit

Even more niche. The Financial Reporting Council (FRC) is responsible for the UK Corporate Governance Code and the Stewardship Code. Richard Moriarty, the new CEO of the FRC, has been sent a letter by The Rt Hon Kemi Badenoch MP, Secretary of State for Business & Trade. You can find it here. The letter expands the FRC's role to include that it should contribute to promoting the competitiveness and growth of the UK economy, embedding its growth duty across its work. The letter concludes with an apology that the Government has not been able to include establishment of the Audit, Reporting and Governance Authority in this legislative programme. We flagged this in our comments on the King's Speech.

John Forbes
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