City of Westminster

Cabinet Report

Meeting or Decision Maker:	**Cabinet**
Date:	20 February 2017
Classification:	For general release
Title:	Creation of a new subsidiary company to provide services to CityWest Homes Limited (CWH) and to investigate opportunities for economies and efficiency savings and/or income generation
Wards Affected:	All
Key Decision:	Approval of the creation of a new subsidiary company to provide services to CWH
Financial Summary:	Setting-up a new subsidiary under CityWest Homes will enable opportunities for efficiencies and income generation to be delivered. In order to assist in its sustainability and competitiveness as a business it will not seek to be admitted to the Local Government Pension Scheme (LGPS) allowing employer pension contributions to be significantly reduced. This is also one of the primary ways CityWest Homes can reduce costs and has been previously agreed as part of the 2015 – 2020 strategy.
Report of:	Barbara Brownlee, Director of Housing and Regeneration WCC / Jonathan Cowie, Chief Executive CityWest Homes

1. Executive Summary

1.1 In 2014, the Council commissioned an independent review of CWH, and the findings identified a number of opportunities to update its operating model and reduce cost. On this basis, the Council set CWH the target to deliver £5.2m of added value to the HRA and the Council by 2020.

1.2 The 2015-2020 CWH corporate strategy set out a proposal for the creation of a subsidiary operating company to provide increased value for money for both CWH and the Council. This was in principle approved by CWH Board, recognising a lot more work was required to finalise the new structure.

1.3 Section 3 of this report sets out the strategy development, governance and review processes which this proposal has already been through to date. Section 7 sets out the risk assessment and mitigations.

1.4 This report seeks authority from Cabinet to approve the establishment of a CWH subsidiary company to undertake provision of services to CWH and to exploit further opportunities to provide services to the Council and other public bodies.

1.5 This proposal also supports the focus on Civic Leadership and the Community Cohesion Strategy, with the planned expansion of the Council's Area Estate Management plans and the creation of the Hubs. This allows easier integration between the activities undertaken in a specific area and those services performed by CityWest on behalf of the Council.

1.6 The subsidiary company will be named CityWest Homes Services Limited (hereafter referred to as NewCo) and will enter into an arrangement with CWH for services. It will seek to implement processes to reduce cost for services required by CWH as well as generating income by undertaking limited trading activity (up to 20% of trading activity is permitted under Regulation 12 of the Public Contracts Regulations 2015 without the need for a procurement process).

1.7 It is proposed that the subsidiary will not be admitted to the LGPS. Instead it will offer a highly competitive auto-enrolment-compliant defined contribution based pension scheme to new employees. All other terms and conditions of employment will remain the same, and it is anticipated that by the end of 2017/18 up to 80 staff could be employed in the new company (out of c400) – 50 through a TUPE transfer in from the housing management provider Pinnacle (see paragraph 10.4), and a further 30 by way of replacing existing CWH staff as they leave the organisation through natural turnover.

2. Recommendations

2.1 That the Cabinet **gives consent** on behalf of Westminster City Council to the creation of a subsidiary company of CityWest Homes Limited and the Council, for the reasons set out in this report.

2.2 That the Cabinet **approves** the proposed shareholding split of 80% to the Council and 20% to CityWest Homes to be created in two classes of shares as described in Option 1 of the legal implications at 9.6 below

2.3 That delegated authority be given to the Executive Director of Growth Planning and Housing, in consultation with the Cabinet Member for Housing, to finalise all negotiations including the rights of each class of share to enable CityWest Homes Services Limited to be properly formed

3. Strategic Background

3.1 In 2014, the Council commissioned Altair, a specialist housing consultancy, to carry out an independent review of CityWest Homes (CWH). The findings (February 2015) discovered that CWH's service was good but the operating model was dated and the cost of service was high in comparison with other housing organisations. The recommendation was that CWH targets a 20% reduction in the wider costs to the HRA that CWH can control, rather than just the core operating costs. On this basis, the Council set CWH the target to deliver £5.2m of added value to the HRA and the Council by 2020.

3.2 CWH's strategy sets out its focus to drive up service quality whilst reducing costs. CWH will do this by becoming more efficient and cutting out waste and activities that do not add value to our residents. The key components of the transformation programme established to deliver the strategic objectives are outlined below:

- Multi-channel choice for customers to choose their preferred access channel from a range of options including telephony, online and app-based self-service, web-chat and face-to-face contact at a local office or surgery
- Consistent experience for customers to access similar levels of service across the channels which helps to promote natural migration towards the more accessible digital channels
- A Multichannel Customer Service Centre to manage 70% of all inbound contact delivering first call resolution to 75% of contacts
- Staff to provide a proactive and mobile face-to-face local offer
- CRM providing authenticated access enabling the capability for customers to self-serve with 90% of services available online through the CWH

website

3.3 Services are currently delivered across 19 villages by 6 estate offices, four area ‘hubs’, and two different providers (Pinnacle and CWH). This results in a fragmented and inconsistent service for customers. A key enabler to introduce an area wide Multichannel Customer Service Centre and specialist teams across Westminster will be to bring service provision under one company that is able to secure the best value for money for the Council, and residents. This will be achieved by a TUPE transfer of Catalyst and Pinnacle staff into a newly created subsidiary limited company, along with any future newly joining staff.

3.4 This proposal has already been reviewed and agreed in principle as a key element of the CWH Target Operating Model by:

- CWH Board (which includes 4 councillors) (September 2016)
- CWH Joint Consultative Committee (Union engagement forum)
- WCC EMT (January 2016, September 2016)
- WCC Housing EMT and Director of Housing and Regeneration (October 2016)
- Cabinet Members Tim Mitchell and Daniel Astaire (October / November 2016)
- Tri-borough Legal (October, with follow-on review November 2016)
- WCC Finance (January 2017)
- Specialist pension advice and input: WCC Director of Treasury and Pensions; Eversheds specialist legal; Barnet Waddingham, actuaries for WCC LGPS scheme; Jelf specialist pension advisors

4. Reasons for Decision to establish a subsidiary company

Reducing CWH’s operating costs

4.1 In order to maximise opportunities to provide value for money to the Council, CWH must find ways to reduce its net cost base through continued pursuit of efficiencies, obtaining supplies/services more economically and by generating additional revenue. CWH must continue to demonstrate that it provides the best solution for the Council’s requirements.

4.2 The setting up of a subsidiary company that can provide services to CWH and others will enable increased focus on commercial opportunities to reduce the combined net cost base, the development of new service capability and capacity as well as investigation and testing of approaches and systems for increasing efficiency and productivity.

4.3 Initially, resourcing of the subsidiary company will be achieved through secondments from CWH and agency staff (in line with current practice), but with the ability to recruit new employees as new services/increased requirements for services are identified it is expected that this would enable CWH to reduce reliance on use of agency staff (thereby providing an immediate ability for cost saving). Adopting this approach will enable the business of the subsidiary to develop progressively (rather than attempting to establish the full business in one “big bang” approach), with the potential in the future to either become, or lead to the establishment of, a fully trading entity owned by CWH jointly with the Council. With that in mind it is vital that the subsidiary is established on a basis which is able to demonstrate competitiveness in the market.

4.4 One of the base costs of CWH relates to the cost of pensions. Pension costs associated with the LGPS can be a significant inhibiting factor to the ability of local authority service companies to demonstrate they are cost competitive.

4.5 CWH is required to offer the LGPS to all staff by virtue of paragraph 21 of Schedule 2 of the LGPS Regulations 2013 which define CWH as a ‘Part 1 Scheme Employer’. The benefits to CWH of this position includes the attractiveness of the LGPS as part of the remuneration package which aids recruitment and retention, as well as also providing parity with Council colleagues. However it is a more expensive pension scheme than those generally offered across the private sector. Additionally, the costs of the LGPS are expected to continue increasing (see paragraph 8.7). Continuing to offer the LGPS as a benefit to all staff is therefore a barrier to reducing costs, and improving the competitiveness of CWH services (e.g. when benchmarked against other providers).

4.6 However, the new subsidiary would not be classified in the same way as CWH and would have the ability to offer different pension arrangements to new joiners even though the remaining terms and conditions offered would be the same as those for current CWH staff.

Growing commercial revenues by being more price competitive

4.7 The new subsidiary will initially only provide staff services to CWH. The reduced level of pension costs would mean that:

- the overall cost of the provision of services to the Council by CWH (utilising staff from the new subsidiary) would be expected to reduce over time as CWH staff leavers are replaced in the subsidiary (increasing the value for money of its solution);

- CWH would be able to deliver increased/additional services, including some currently provided by third party providers, thereby reducing overall costs for the Council by providing the current and increased services at a competitive cost.

Creating a return on the Council's investment in CWH

4.8 CWH was established in 2002 as a company limited by guarantee in common with most housing arms length management organisations (ALMOs) formed at the time. This company structure precludes making any dividend or profit distribution. Establishing a subsidiary company limited by share capital will enable it to make distributions to either CWH or the Council from distributable reserves. Setting up the subsidiary with a defined contribution pension scheme eliminates the risk of a pension liability on the balance sheet, which would otherwise prevent the company from making any distributions to shareholders. Given that CWH cannot make dividends back to the Council, because it is limited by guarantee, it is proposed that the Council takes a majority shareholding in the newly established limited company.

5. Background, including Policy Context

5.1 Setting up the subsidiary would enable CWH, whenever requiring to appoint new staff (or replacements for those leaving CWH), to consider requiring the subsidiary to provide the necessary resources. This would effectively enable CWH to close access to the LGPS to new employees. The replacement of the pension costs associated with the LGPS with those of a defined contribution alternative (which would still be appropriate and attractive to prospective employees) would generate cost savings for the services being provided.

5.2 It should be noted that CWH will not require existing staff to transfer to the subsidiary company and suffer detriment to their current terms and conditions. However, the approach identified does create an option for employees who want to opt out or have opted out of the LGPS scheme to move to a more affordable pension arrangement, which addresses feedback that some staff would welcome the option provided.

5.3 The actuaries (Barnett Waddingham) have reported that they anticipate further increases to CWH's LGPS contributions will be required following the next triennial valuation (effective from 1 April 2017). This is due to an increased level of prudence within the valuation assumptions and changes in market conditions. This is important to note because the implication is that the cost of providing a pension through the LGPS will continue to increase. The ability, through the establishment of a subsidiary, to move new staff to a lower cost pension scheme provides a means of mitigating this risk. CWH could not achieve this by itself; the scope for these savings can only be achieved through a different legal entity, such as a subsidiary limited company, as CWH cannot offer an alternative pension scheme.

5.4 Currently (2016/17) the employers contribution rate for CWH into the LGPS is 19.1% of salary. This comprises a basic rate of 12.3% plus a lump sum of £556,300, to reduce the funding deficit. In 2017/18 CWH will make a final contribution (on top of the basic contribution rate) of £29,400 which will bring CWH's share of the LGPS to a fully funded position. Whilst in other years this would reduce the future basic contribution rate to 12.3%, the actuary has advised that for 2017/18 going forward, the basic rate will increase to 16.6% to reflect their reduced assumption about take-up of the 50:50 option under the LGPS.

5.5 Therefore going forward CWH's employers contribution rate to the LGPS will be 16.6%. Moving to a money purchase defined contribution pension scheme has the potential to reduce base pension costs within the new company by at least 10%, assuming the employer contributions are around 6% (which is typical in comparator organisations).

5.6 By way of further clarification, the creation of a subsidiary with different employee terms and conditions is already an approach used within the public sector (e.g. Transport for London, RBKC, Barnet Homes).

6. Corporate Governance

6.1 The proposal would involve a subsidiary providing workforce services to CWH. This would support the delivery of lower cost services provided under CWH's management agreement with the Council, thereby generating savings to the Housing Revenue Account (HRA).

6.2 Such a subsidiary would be limited by shares with 80% owned by the Council and 20% owned by CWH. Corporate governance of the new subsidiary would follow the existing arrangements for CWH, ideally with a subset of existing CWH Board and WCC Executive Team members forming the board. The subsidiary company would not undertake or provide any other services outside the Council / CWH Management Agreement, or services undertaken for the Council, without further approval from the Council.

6.3 Under EU procurement law, the open advertising and tendering rules for public contracts do not apply where a public body obtains services from "in-house" sources. This is the so-called *Teckal* principle (now encapsulated in regulation 12 of the Public Contracts Regulations 2015). The proposed entity and structure provides a simple vehicle which would retain this 'Teckal' status. This point has been confirmed through the legal review performed by Eversheds.

6.4 CWH and NewCo would have a revenue/cost and service sharing agreement according to the resources and services provided by each other on a contractual basis.

7. Risk mitigation

7.1 The table below sets out the key risks, proposed mitigation and residual risk rating assessed for this proposal. It should be noted that due to the lead times required for the transition of Pinnacle staff, which is proposed to be completed by July, any significant delay may have the consequence of needing to push the process into the following year so as to avoid conflict with the busiest time of the year, operationally, for the business.

Risk	Main impact	Mitigation	Risk rating
Impact on reputation	CWH	Pro-active communications planning Support of Westminster Cabinet member and Director of Housing & Regeneration	
Delays as a result of union consultation	CWH	Further consultation will build on previous support expressed at Joint Consultative Committee (JCC).	
Need to assure compliance with all legal and regulatory requirements	CWH	Advice is being sought from Eversheds to ensure all requirements are met	
Two-tier workforce	CWH	All other employment conditions will remain the same with the exception of pensions. The substitute pension offered will be a high quality defined contribution alternative.	
Dilution of governance	CWH	Will fall under the same Board and Committee governance as CWH.	
Running two companies may increase costs, at least short term	CWH	The costs will be minimal and will be more than offset by the savings	
Impact on salary levels	CWH	Levels of pay will be the same for CWH and the subsidiary company. Pay principles will continue to apply across the entirety of CityWest Homes and the subsidiary company.	
Delay to approval from WCC to start the Newco will slow the wider CWH transformation and delay the savings plan significantly	CWH	Joint working between CWH and WCC to ensure the proposal is clear on the benefits, risks and way forward, and that the work required after approval is given is completed efficiently.	

Risk	Main impact	Mitigation	Risk rating
Possibility of breaching the Teckal limit	WCC	This will initially be low risk. It can be monitored and if foreseen to increase and exceed the 20% limit, further steps can be taken.	
Staff turnover not as forecast with the possibility of savings being delayed	CWH & WCC	The rate of attrition has been modelled at 10% which is lower than the current rate of 17% turnover per annum	
Reputational risk to WCC of being seen to cut employees' pension rights to achieve financial savings	WCC	The plans have been discussed with unions, follows feedback from CWH staff, will not affect existing CWH staff if they choose to stay in LGPS and Pinnacle TUPE staff will be no worse off.	

8. Financial Implications

Cost savings from defined contribution pension scheme

8.1 The budgeted cost for pensions of £2.023m for 16/17 for CWH is the second largest cost at 6% of budget to CWH. This is forecast to reduce to £1.938m in 2017/18 and £1.909m in 2018/19 and onward. This reflects CWH achieving 100% funding in 2017/18.

8.2 Barnett Waddingham have prepared a cost forecast based on 6% employer contributions to a defined contribution pension scheme and assuming a reasonable rate of staff turnover of 10% (assuming that when staff leave they are replaced by employees of NewCo). The cost forecast confirms that cost savings can be expected to materialise quite quickly. The current rate of voluntary staff turnover is around 17% (including CityWest Residential), which is expected to reduce over time as the organisation progresses through the transformation programme.

8.3 The existing LGPS baseline costs and the projected savings from a new defined contribution scheme are shown in the tables below.

Figures in £'000s	16/17 Fcst.	17/18 Est.	18/19 Est.	19/20 Est.	20/21 Est.
LGPS baseline	2,023	1,938	1,909	1,909	1,909

Figures in £'000s	16/17 Fcst.	17/18 Est.	18/19 Est.	19/20 Est.	20/21 Est.
LGPS contribution	2,023	1,743	1,544	1,393	1,256
Defined contribution	0	72	137	194	245
Total contribution	**2,023**	**1,815**	**1,681**	**1,586**	**1,501**
Potential saving	0	123	228	323	404
Assumed active LGPS members	377	339	305	275	248
Assumed staff turnover		10%	10%	10%	10%

8.4 The key sensitivity in respect of savings realisation is the rate of staff turnover because this determines how many people are hired onto the lower cost pension scheme.

8.5 CWH will always need to keep active members in the LGPS to avoid crystallising the deficit in the scheme. However, the scheme will be fully funded from a funding valuation perspective. Provided the scheme remains fully funded until the last member retires, the risk of a deficit crystallising is negligible.

8.6 CWH plans to begin appointing staff into NewCo from 1 April 2017, in order to maximise 2017/18 efficiencies. This will begin with the TUPE transfer of the Homeownership Westminster team (two staff coming from Catalyst), and all subsequent external appointments. On 5 June 2017 it is anticipated that c50 FTE will transfer in to the new company from Pinnacle.

Impact on LGPS contributions for CWH

8.7 At the time of the last triennial valuation in 2013, CWH agreed to provide additional contributions over the next 3 years to address its funding deficit in the LGPS. The additional contributions are being achieved by a lump sum contribution to the pension fund which will bring the fund to 100% funding level by 2017/18. The actuaries are currently estimating that whilst CWH will achieve full funding in 2017/18, the reduced take-up of the 50:50 option under the LGPS means that the basic employers contribution rate will increase from the current 12.3% to 16.6%.

Charging mechanism

8.8 NewCo would charge CWH a contractual rate for services. Any profits could be retained as reserves, or paid as dividends to shareholders.

Impact on the HRA and General Fund

8.9 The impact on the HRA of the new subsidiary is that savings from lower pension costs arising from the defined contribution pension scheme would partly or perhaps fully offset any increased costs in respect of LGPS pensions arising from the 2016 funding revaluation exercise. Under the proposal outlined savings would benefit CWH and consequently the HRA. Initially there would be no direct benefit to the General Fund, until Newco was able to pay dividends.

8.10 The overall savings associated with the pension costs will depend on staff attrition and numbers auto-enrolling.

It is proposed that initially all the shareholding will be 80% owned by the Council and 20% owned by CWH.

8.11 In line with the strategy, subject to the actuarial review and the agreed contribution rates the new arrangement would support the overall reductions in the management fee.

Growth from new revenue streams through the subsidiary

8.12 New commercial business would sit within the new subsidiary, and would also become a source for profits and therefore dividends. As stated above, Regulation 12 (still commonly referred to as the Teckal principle) limits the value of third party revenue that NewCo could generate by requiring no more than 20% of its total activities to be carried out for third parties (the intention being that the Teckal entity is undertaking the majority of its activities directly for its controlling body, being a public body).

8.13 Higher numbers of staff transferring to the subsidiary would mean the new subsidiary would be able to increase the services provided to CWH and so could grow third party revenue further (as the 20% Teckal limit would also grow). This would provide an opportunity for greater returns to the shareholders.

8.14 The new subsidiary arrangement would enable CWH to take on other services for the HRA or general fund and provide further opportunities for savings or shareholder value, particularly where similar LGPS costs are present.

Accounting and tax implications

8.15 The accounting implications of the decision to set up a subsidiary with a new defined contribution pension scheme are that:

- CWH and the Council would have to account for and disclose a shareholding in the subsidiary, the related party transactions, and potentially produce consolidated accounts
- A defined contribution pension scheme would need to be accounted for in NewCo
- Any dividends would need to be accounted for
- HRA costs will be reduced due to a reduction in the management fee charged by CWH to the HRA
- The savings will form part of the overall £5.2m annualised savings to be delivered by 2020/21

8.16 Advice will be sought from our auditors around any other accounting or audit considerations. The auditors will also be asked to provide a fee estimate for the new subsidiary.

8.17 Mazars, CWH's taxation advisor, have confirmed the subsidiary would be liable to pay corporation tax on its profits. Mazars are also providing accounting advice on the transfer pricing considerations so that an appropriate charging regime can be determined to minimise corporation tax as part of establishing the company.

8.18 In addition the advice from Mazars confirms there are no VAT issues based on a simple arrangement of charging costs within the VAT group.

8.19 As there are no anticipated changes in ownership, Mazars have confirmed there are unlikely to be any capital gains considerations.

Costs

8.20 The only incremental costs anticipated are a set-up cost of around £10-20k initially expected with annual costs for audit and tax of around £5k.

9. Legal Implications

9.1 Legal advice on the creation of NewCo and these implications have been provided by Shaun Jamieson, Gary Delderfield, Paul Pugh and Richard Franklin of Eversheds LLP

9.2 CWH will work with a third party pension provider to ensure that the new defined contribution scheme complies with auto-enrolment requirements.

9.3 Legal advice obtained from Eversheds indicated that CWH may be lawfully able to set-up a subsidiary without reference to the Council, but as 80% of the shareholding will be owned by the Council, approval by full Cabinet is therefore required under the financial regulations of the Council.

9.4 At this stage, it is envisaged that this company would only provide services and not own any significant assets (i.e. property). The services would initially be solely to support CWH but as its business and organisation develops it is anticipated that it will provide services to third parties. This will require careful monitoring to ensure that at an appropriate stage (and prior to the 20% level referred to above being exceeded) consideration is given to the establishment of a separate trading entity (which would not be subject to the same constraints but would, effectively, not be able to provide services to CWH or NewCo other than by competing successfully in a compliant EU procurement process).

9.5 Advice has been obtained from Eversheds regarding the detailed set-up of the subsidiary and associated 'arms-length' contract with CWH.

9.6 Eversheds have provided 2 options to achieve the desired 80/20 split of ownership whilst continuing to treat NewCo as a subsidiary of CWH. A third option is provided as an accompaniment to Options 1 and 2:

- **Option 1.** NewCo issues 2 classes of shares: "A" Shares (issued to the Council) and "B" Shares (issued to CWH).

  Strengths:

  Each class of share may have different rights attaching to them, including the option to include additional rights to B shares.

  Different rights could address the appointment of board members and voting rights at shareholder and board level on specific issues

  Can deliver the proportionate profit and asset distribution entitlements reflecting the 80/20 split.

  A simple solution, offering flexibility in the allocation of rights to the 2 share classes.

  Weaknesses

  Further work would be required to determine the different rights

- **Option 2.** NewCo issues 2 classes of shares; "A" shares which have all the equity rights attached, but without any voting or other rights, and "B" Shares with all the control such as voting rights and ability to appoint directors etc. but without any equity entitlement. Each class of shares is issued to both WCC and CWH, and apportioned between them as agreed between the parties. For example, this could involve an 80/20 in favour of the Council for the “A” (equity) shares and 80/20 in favour of CWH for the “B” (control) shares

Strengths:

80/20 equity rights are secured in favour of the Council

Very clear split of equity and control

Weaknesses:

A rigid system which does not allow any degree of flexibility.

- **Additional Option:**

  In conjunction with Option 1 and Option 2, CWH and the Council may agree to categorise certain decisions as “reserved matters” which require the consent of all parties or a particular party (i.e. the Council or CWH) as identified for any specific reserved matter. The reserved matters can be built into a shareholders agreement or they can be built into the Articles of Association. Typically reserved matters will be specific matters which the parties all agree will require unanimous consent or the consent of the minority shareholder where they would not ordinarily have the necessary rights. There are typical matters identified as reserved matters for joint venture type arrangements which can be considered or the parties can add or develop their own.

  This option provides further flexibility to enhance Options 1 and 2, whilst adding complexity.

9.7 Both Options 1 and 2 would be capable of achieving the purposes of the share split identified earlier in the report (regarding distribution of profits and asset control).

9.8 In either option NewCo would not be obliged to offer membership of LGPS.

10 Staff Implications

10.1 The new pension offer is expected to be an occupational pension scheme run by a Master Trust. This type of scheme is regulated by the Pensions Regulator, including the Master Trust Assurance Framework and also qualifies for Financial Services Compensation Scheme to enhance member protection. The new contribution levels will meet the Pension Quality Mark standard as set out by the Pension and Lifetime Savings Association. This is considered a ‘good’ scheme when compared across the wider employment market. All other conditions of employment will be exactly the same as the wider CWH offer, only the pension arrangements will differ, ensuring CWH remains an attractive place to work. The new scheme will apply to all new recruitments, irrespective of role or seniority.

10.2 New staff in NewCo will be auto enrolled in the new defined contribution pension scheme, which would still be competitive and attractive due to a lower contribution rate/cost (24% of existing CWH staff currently elect not to partake, primarily due to the cost of contributions). The opt out rate for the new scheme is expected to be 5% in line with norm data for comparable schemes, thereby improving the overall take-up by staff.

10.3 Since 2009, CWH staff have had different terms and conditions from WCC employees. The change in pension arrangements is seen as adding additional flexibility for current staff, as they could choose to opt into this scheme as it may be more affordable for them; and choice for new starters as they can choose the level of contribution they want to make (which they cannot do under LGPS) which is important in attracting high quality recruits. The LGPS rules offer only limited flexibility in terms of employee contributions.

10.4 In June 2017 when the Housing Management aspect of the Pinnacle contract comes in house, c50 FTE will transfer into the scheme. At a forecast potential 10% annual turnaround of staff, an additional 30-40 staff could have also joined under the new company by the end of 2017/18. This would mean within a year approximately a fifth of CWH and NewCo staff combined could be employed by the new company.

10.5 There are no staffing implications but there will be some administration costs in setting up the new pension scheme.

10.6 CWH will undertake an equalities impact assessment to ensure that no-one with protected characteristics would be adversely affected and result in potential reputational risk.

11 Customer Impact

11.1 Customers will not experience any impact on the service they receive, nor require any separate contact with this company as a separate entity.

11.2 Pension cost reductions will result in lower operating costs for CWH, and this will result in leaseholder service charges reducing accordingly.

11.3 As identified in section 5.1, this will result in lower HRA costs, therefore to the benefit of customers.

12 Consultation

12.1 Senior WCC staff have been briefed and fully support the proposed formation.

12.2 The concept of a subsidiary with varied pension arrangements was discussed with the unions in June 2014, January 2015 and October 2016 with no objections raised.

12.3 The CWH Board and its Remuneration, Employment and Diversity Committee (REDC) considered employee risks in a previous Board paper, and REDC will review the suitability of potential third party pension providers.

12.4 The CWH Board approved the concept as an integral part of the 2015-2020 strategy, and ratified the decision in September 2016.

If you have any queries about this Report or wish to inspect any of the Background Papers, please contact:

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