



## North Yorkshire and York Shared Service



## BUSINESS CASE

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## **Business Case**

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## North Yorkshire and York Shared Service



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## **Executive Summary**

### **Background**

Local authorities are being encouraged to challenge traditional methods of service delivery in order to reduce waste and improve outcomes. There is a recognition that to achieve such improvements, authorities need to work more closely together so as to optimise economies of scale and maximise service efficiencies.

Since September 2007, City of York Council (CYC) and North Yorkshire County Council (NYCC) have been working in partnership to develop a shared service covering internal audit, fraud and information governance services. The objective is to deliver a number of significant benefits for both Councils, including greater resilience and capacity, increased flexibility to respond to changing priorities, improved efficiency and economies of scale, reduced reliance on key members of staff for service continuity and greater opportunity to develop in-house specialist skills. Development of the shared service also allows both Councils to demonstrate a positive response to the Government's efficiency and service transformation agenda, and provide a relatively discrete and low risk service area to fully assess the benefits of joint working.

Members initially approved a three phase strategic approach as follows;

- Phase I – short term management arrangement and development of business options for the long term organisational structure of the service;
- Phase II – implementation of the agreed structure and benefits realisation;
- Phase III – review, evaluation and appraisal of other shared service opportunities.

The Project Board initially developed an Outline Business Case which included consideration of the different options for the long term organisational structure for the shared service. Each of the options was assessed in detail against a series of predetermined criteria. One of the key determinants in the assessment process was the degree to which each Council would be able to exercise control and influence over the services in the future. Both Councils also wanted to retain sufficient and continuing access to the services concerned. It was also considered essential that the chosen option would represent a genuinely equal partnership between the Councils.

Members approved the recommendation that a company in which each Council has a 50% shareholding best served the interests of the two Councils. This option offered the required long-term resilience and would most likely achieve the expected efficiencies and economies of scale set out in the vision and objectives for the shared service. The company was also clearly perceived as an equal partnership between the two Councils, enabling both Councils to exercise the same degree of control and influence over future direction and development of the service. It also offered an appropriate structure to enable other local authorities and public sector bodies in the region to join in the shared venture in the future, if this was considered beneficial. Forming a company also represented a more innovative solution and was therefore most likely to inform the two Councils of the possible lessons from shared service working.

The Project Board's proposals include the following key elements:

- The scope of the project to be further extended to include all aspects of data management work at CYC;
- The identified services to be transferred from both Councils to the new shared service company from 1 April 2009;
- The company to be limited by shares with both Councils having equal shareholdings;
- A board of directors to comprise of Members and officers from both Councils together with two external directors to bring relevant expertise and independent challenge;
- The company to be called Veritau Limited (using a name suggested by staff);
- The primary objective of Veritau Limited will be to provide high quality services to the two Councils, with future external income generation limited to 10% of the shared service company's activities;
- The services to be provided to each Council will be specified in separate Service Agreements between Veritau Limited and each Council, with the core services under each Service Agreement covering the provision of internal audit, counter fraud and information governance services;
- Each Service Agreement between each Council and Veritau Limited to run for 10 years, with an option for each Council to extend its agreement for a further 5 years;
- Each Council to retain the right to terminate its Service Agreement by providing written notice;

- Each Council to nominate a client officer to oversee the delivery of services under its Service Agreement with Veritau Limited;
- A joint Shared Service Contract Board to formally monitor and report on the delivery of the service;
- The fee for the core services to be calculated on the basis of a single daily charge rate, multiplied by the level of service i.e. the number of days required by each Council. The daily rate for core services for each Council will be specified in its Service Agreement with Veritau Limited;
- The daily charge rate and service level in 2009/10 to be based on the existing budgets and resources available to each Council;
- Each Council to be able under its Service Agreement to request additional work. The fee for such additional work will be calculated on the basis of rates for additional work for the appropriate grade of staff which will be specified in the relevant Service Agreement;
- The rights and obligations of each Council as shareholder of Veritau Limited and the ongoing relationship between the Councils as shareholders will be dealt with in the Project Agreement;
- Each Council to provide serviced office accommodation and certain agreed support services to the shared service company;
- Staff currently employed in or carrying out the existing services to transfer to Veritau Limited in accordance with the Transfer of Undertakings (Protection of Employment) Regulations (TUPE);
- Veritau Limited to introduce its own terms and conditions and pay and grading structure for new staff employed after the date of transfer;
- The new proposed terms and conditions to be based on a competency framework and to incorporate performance related pay;
- Staff to be given the option of transferring from their existing terms and conditions to those of Veritau Limited;
- Veritau Limited to seek admitted body status to the Local Government Pension Scheme (administered by NYCC).

## **Business Case**

### **Purpose**

- 1 The purpose of this Business Case is to set out the strategic aims and objectives of the shared service, and the anticipated outcomes which the combined service is expected to deliver to both Councils. The Business Case also details the implications of implementing a company, wholly owned by both Councils, as the preferred long term organisational structure for the service.

### **Background**

- 2 The Government White Paper 'Strong and Prosperous Communities' encouraged local authorities to challenge traditional methods of service delivery in order to reduce waste, identify efficiencies and improve outcomes for local people. A strong message in the White Paper was that one of the means for local authorities to achieve such improvements would be through greater joint working to optimise economies of scale and maximise service efficiencies.
- 3 Officers from City of York Council (CYC) and North Yorkshire County Council (NYCC) commenced preliminary discussions in May 2007 to explore the potential benefits of collaboration and, in particular, the possibility of sharing certain back office finance and governance related functions. These discussions showed that there was a mutual desire to identify suitable options for greater joint working and a clear commitment to deliver greater efficiencies across both authorities. Officers identified audit, fraud and information governance services as suitable areas for early consideration.
- 4 A strategic business case was prepared for the development of a shared service solution covering the provision of audit and fraud services to both Councils. Data management and information governance services at NYCC were also included in the shared service as related and complimentary professional disciplines. The strategic business case set out the main drivers for change and the potential benefits of collaboration. However, as a number of models exist for shared service provision it was agreed that further work was required to fully understand the legal, financial and staffing implications of each model before any decisions could be made on the most appropriate way forward.

- 5 The strategic business case was presented to Members of both Councils in September 2007. Members approved the development of a shared service and agreed that a three phase strategic approach should be adopted, as follows:
  - (a) Phase I – short term management arrangement and development of business options for the long term organisational structure of the service;
  - (b) Phase II – implementation of the agreed service vehicle and benefits realisation;
  - (c) Phase III – review, evaluation and appraisal of other shared service opportunities.
- 6 Both Councils committed to the successful achievement of a long-term shared service which would add value and deliver benefits to both organisations, on an equal basis. It was also recognised that in developing the appropriate long term organisational structure, account would need to be taken of the respective aims and values of both organisations.
- 7 It was agreed that this would be treated as a pilot exercise so as to enable the benefits of such an approach to be properly assessed in a discrete, low risk service area for both authorities. This would enable both authorities to evaluate the risks and benefits of sharing back office functions before considering more high profile transactional and/or public facing services. It was anticipated that the experience gained would also help inform future collaboration in other service areas.
- 8 Members approved the creation of a Project Board to coordinate the development and implementation stages of the project, comprising the then Assistant Director Resources (Audit and Risk Management) – CYC, the Assistant Director (Central Finance) – NYCC and the then Audit and Fraud Manager – CYC.
- 9 The nature and scope of the interim shared management arrangements (phase I) were agreed and set out in the Interim Management – Terms of Reference. These arrangements commenced on 1 October 2007, with the Audit and Fraud Manager - CYC assuming overall management responsibility for the combined service. This provided management economies of scale whilst at the same time providing clear leadership and focus through the period of change. The two teams continued to operate from their existing office locations and staff retained their existing terms and conditions. Staff could however be deployed to work for either Council as necessary, although it was recognised that such flexible working arrangements would be limited at first.



- 10 An Outline Business Case (OBC) was prepared in February 2008. The OBC set out the aims and objectives of the project. The OBC also detailed the outcome of the options analysis for the future scope and direction of the project as well as the long term organisational structure of the service.
- 11 At this stage, several options existed in respect of the future scope, scale and direction of the project, as detailed below. These options were fully evaluated by the Project Board. The relevant staff groups at both Councils, together with local and regional representatives from Unison were also consulted.

### **Project Options**

- 12 **Option 1 (do nothing).** To abandon the current process of collaboration between the two Councils and revert to the service delivery arrangements which previously existed prior to 1 October 2007.
- 13 **Option 2 (do the minimum).** To abandon the current project to develop a long term shared service solution but explore limited collaboration where appropriate.
- 14 **Option 3 (to proceed but change the scope/direction of the project).** To change the scope and/or direction of the current process for developing a shared service solution between the two Councils by, for example, bringing in additional partners or changing the scope of services to be included.
- 15 **Option 4 (to proceed with the previously agreed scope/direction of the project).** To continue with the existing process to develop a long term shared service solution for the delivery of audit, fraud and information governance related services, as set out in the Strategic Business Case, which was presented to Members in September 2007.
- 16 Option 4 was recommended. Members at both Councils had approved in principle the decision to develop a long term shared service for the provision of audit, fraud and information governance services. This approach was considered the most likely to deliver the significant benefits of collaboration. These benefits could not easily be achieved by either Council continuing to operate in isolation. The problems caused by lack of capacity and resilience would not be addressed and the resource pressures on both Councils would only continue if changes to the existing service provision were not made.

- 17 Work had been undertaken to identify further potential partners, although it was recognised that having more than three in total could make the shared service unwieldy and significantly increase the risk that the project failed to deliver the anticipated outcomes. The existing interim joint working arrangements had confirmed the significant level of trust between the two Councils and the shared commitment to make the project a success. The existing joint working arrangement, which had commenced on 1 October 2007, had also confirmed that the potential efficiencies were achievable, for example, through improved resource allocation, the standardisation of IT applications and the sharing of best practice.
- 18 For the services concerned there is considered to be a close strategic fit between NYCC and CYC. The Councils provide many of the same services – including education, social care, highways, libraries and trading standards, and therefore the skills and knowledge are easily transferable. The main Council offices are geographically close and other partnership arrangements already exist or are being developed between the two Councils.
- 19 Discussions took place with other neighbouring local authorities to explore the possibility of wider collaboration in respect of audit, fraud and information governance related services. These discussions confirmed that there was a desire to develop opportunities for joint working in the future, including the possibility of sharing services in the medium to long term. However, it was not felt appropriate to extend the scope of the project to include any of the neighbouring Councils. Three of the seven North Yorkshire District/Borough Councils were already members of the North Yorkshire Audit Partnership (NYAP). Following the outcome of North Yorkshire County Council's failed bid for unitary status, two of the remaining District Councils were expected to join NYAP as from 1 April 2008. The two remaining District/Borough Councils in North Yorkshire both wished to retain their existing arrangements for audit provision in the short term. Durham County Council is subject to local government reorganisation, and the other neighbouring unitary councils do not offer the same degree of strategic and geographical fit. Stockton and Darlington Borough Councils are currently involved in developing a large scale shared service for corporate support services (finance, HR and IT). East Riding of Yorkshire and Middlesbrough Councils both have long term private sector strategic partners involved in the delivery of support services.

- 20 Discussions were also held with the NHS North Yorkshire Audit Service (NYAS) to explore the possibility of future joint working. NYAS is based at York District Hospital but provides audit services to York and Harrogate Hospital Trusts and the North Yorkshire and York PCT. There is therefore a close geographical fit between NYAS and the two Councils. Greater partnership working between local authorities and the NHS in the delivery of services to the public, and the introduction of Comprehensive Area Assessments from 2008/09 provides an opportunity to extend the provision internal audit across traditional boundaries. However, whilst there is a strong desire on both sides to investigate the opportunities for joint working, including the possible co-location of offices, sharing of staff and the development of integrated training programmes, it was not felt appropriate to consider changing the scope of the project at this stage to include NYAS due to the likely effect such an integration would have on project timescales. The development of joint working opportunities between the shared service partnership and NYAS would however be a priority in the medium term.
- 21 At this stage there were considered to be no advantages in significantly changing the scope of the project through the inclusion of additional services. However, whilst data management and information governance related services at CYC were initially excluded from the project, it was recognised that there would be a number of advantages if the scope was extended to include some or all these services. Such a change would clearly provide more consistency in terms of the services delivered to both Councils and would offer all the benefits of greater capacity and resilience in this area. It was therefore decided to keep this element of the project under review.
- 22 Seven possible long term organisational structures (delivery vehicles) for the shared service were identified in the OBC, as follows;
- 23 Option A - Joint Working Arrangement  
Formal agreement between the two Councils to collaborate in service delivery. Officer based decision making structure (primarily limited to operational issues). Staff would remain employed by their respective Councils. The agreement would provide an opportunity to share best practice and second staff between the Councils to meet peaks in workload or other demands.
- 24 Option B - Contract to Supply Services

Service provided by Council 'X' to the other under contract. Services delivered and managed within the decision-making framework of Council 'X'. Council 'Y' would need to undertake an EU compliant tender exercise to award the contract. It would also require a 'client' structure to monitor the delivery of the contract. Council 'X' would own assets and enter into contracts. Staff in Council 'Y' would be subject to a TUPE transfer to Council 'X'.

25 Option C – Joint Committee

Joint partnership agreement based on a Member Committee, which would be responsible for strategic decision making and policy setting. Operational decisions taken by joint management structure. Staff in Council 'Y' would be subject to a TUPE transfer to Council 'X' (acting as nominal lead authority). Council 'X' would also own all assets and enter into contracts.

26 Option D – Function Delegated by Council 'Y' to Council 'X'

Function formally delegated by one Council to the other, with the service delivered in accordance with a service level agreement (SLA). Council 'X' (acting as nominal lead authority) would be responsible for strategic decision making and policy setting, but with possible oversight by Member/officer Partnership Board. Council 'X' responsible for operational management. Staff in Council 'Y' would be subject to a TUPE transfer to Council 'X'. Council 'X' would also own all assets and enter into contracts.

27 Option E – Company Limited by Shares or Guarantee

Joint service outsourced to a company limited by shares or guarantee. The company would be wholly owned by the two Councils, with a board of directors responsible for strategic decision making and policy setting. Operational decisions would be taken by company management. Company able to own assets, enter into contracts and employ staff in its own right. Staff from both Councils would be subject to a TUPE transfer to the company. Both Councils would be able to receive dividends from the company.

28 Option F – Joint Venture Vehicle

Joint service outsourced to a company limited by shares (with ownership shared between the two Councils and a private sector partner). Board of directors responsible for strategic decision making and policy setting. Operational decisions would be taken by company management. Opportunities exist for external investment in the service. The Councils would need to undertake a joint EU compliant tender exercise to award the contract to the company. Staff from both Councils would be subject to a TUPE transfer to the company. Company able to own assets, enter into contracts and employ staff in its own right.

29 Option G – Fully Outsourced Service

Service provided by private sector company. Board of directors responsible for strategic decision making and policy setting. Operational decisions would be taken by company management. Opportunities exist for external investment in the service. The Councils would need to undertake a joint EU compliant tender exercise to award the contract to the company. Staff from both Councils would be subject to a TUPE transfer to the company. Company able to own assets, enter into contracts and employ staff in its own right.

30 The Project Board assessed each of the possible 'delivery vehicles' against a series of agreed key criteria linked to the vision and objectives of the shared service.

31 One of the key determinants used in the assessment process was the degree to which each Council would be able to exercise future control and influence over the services. It was also considered essential that the chosen option should represent a genuinely equal venture between the Councils. In addition, both Councils had expressed a wish to retain sufficient and continuing access to the services concerned. Options B and D required one or other Council to assume overall responsibility for operational management and decision making. In such circumstances it was considered unlikely that the partnership would be perceived as being equal. Options B and D were therefore discounted. Options F and G were similarly discounted because any private sector involvement would necessarily diminish the degree of control and influence each Council would have over the future direction of the service. The set up costs for options F and G were also likely to be high given the need to undertake a full EU compliant tender exercise and to establish client structures in both Councils. Further details of the initial options analysis are given in **Appendix 1**.

32 The initial assessment resulted in three preferred options being identified, as follows:

- Option A – joint working arrangement
- Option C – joint committee
- Option E – wholly owned company (limited by shares or guarantee)

The advantages and disadvantages of these three options were then subject to more detailed consideration.

- 33 Option E (a wholly owned company) was recommended as this option offered the required long-term resilience and would most likely achieve the expected efficiencies and economies of scale set out in the vision and objectives for the shared service. The company would also clearly represent an equal mechanism for participation by the two Councils thereby enabling both Councils to exercise the same degree of control and influence over future direction and development of the service. The company also offered an appropriate structure to enable other local authorities and public sector bodies in the region to join the partnership in the future. Forming a company also represented a more innovative solution and therefore offered the best opportunity for both Councils to learn the lessons of shared service working.
- 34 Further details on the results of the detailed options analysis are given in **Appendix 2**.
- 35 The Project Board proposed to use the OBC as the basis for developing a detailed Project Implementation Plan. This would enable the Project Board to refine and agree the appropriate governance structures and arrangements, and to fully address all the financial and staffing implications prior to final Member approval. It was proposed to follow the following timetable, with a final report being presented to Members, prior to implementation of the chosen option.

<i><b>Action</b></i>	<i><b>Date</b></i>
Prepare detailed Project Implementation Plan – which would include the following elements; <ul style="list-style-type: none"> <li>• Company formation</li> <li>• Governance arrangements</li> <li>• Client roles and reporting arrangements</li> <li>• Contract preparation</li> <li>• Charging arrangements</li> <li>• Cost allocation</li> <li>• Staffing</li> <li>• Accommodation, IT and support services</li> </ul>	April - August 2008
Prepare Change Management Programme	June - August 2008
Implement agreed structure, subject to final Member approval.	September - December 2008
Target go-live date	1 April 2009

- 36 The OBC was presented to Members of both Councils. Members agreed that:
- a) the scope and direction of the project should remain unchanged, ie to establish a formal shared service between CYC and NYCC covering audit, fraud and information governance related services;
  - b) officers should develop a detailed business case for the implementation of option E (the wholly owned company) as the preferred (in principle) long term organisational structure of the shared service;
  - c) work should proceed in accordance with the outline timetable, with a planned 'go-live' date of 1 April 2009.
- 37 It was agreed that officers would report back to Members before progressing to full implementation of the chosen option.

## **Project Scope**

- 38 Following the approval of the OBC, the scope of the project has remained unchanged except for the decision to include the transactional elements of data management work undertaken at CYC. The data management work at CYC involves the recording, distribution, monitoring and tracking of information requests to the Council (Freedom of Information requests and Data Protection Act – subject access enquiries), together with the administration of the Staff Warning Register and the central record of Regulation of Investigatory Powers Act (RIPA) authorisations. Members at CYC approved this change in the scope on 10 June 2008. It was also agreed that the responsibility for the ongoing development of the information governance policy framework at CYC and the provision of corporate advice would remain outside the shared service. In addition, the responsibility for responding to information requests would remain a directorate responsibility within the Council.
- 39 As noted in **paragraph 21** above, the scope of the project has continued to be kept under review, particularly in respect of data management and information governance. Whilst there is no necessity for both Councils to receive exactly the same services, it is recognised that there is a close synergy between internal audit and information governance. The Project Board also recognises the opportunity to further streamline existing processes and generate additional capacity for both organisations by including the remaining aspects of information governance policy work at CYC within the scope of the project.

- 40 It is therefore proposed to extend the scope of the project to include this element of work. This change would ensure that the services offered to both Councils are fully aligned. The proposal is also in line with the recent restructure of the Resources Directorate at CYC, which was approved by Members on 3 December 2008. Subject to Member approval, the post of Information Governance Manager (CYC) will now be included in the scope of the project.

### **Existing Service Arrangements**

- 41 All local authorities have a statutory requirement to make provision for internal audit in accordance with proper standards of professional practice, as set out in the CIPFA Code of Practice for Internal Audit in Local Government. Internal Audit is defined as an assurance function that provides an independent and objective opinion to the organisation on the effectiveness of the control environment. Local authorities also have a duty to protect public funds and to ensure that income and expenditure is not subject to possible fraud and error. As a consequence, both Councils need to ensure that there are robust counter fraud measures in place, designed to prevent, deter and detect possible fraudulent activity.
- 42 In addition, all local authorities are required to maintain policies and procedures to ensure compliance with data and information legislation (including the Data Protection and Freedom of Information Acts) and relevant best practice.
- 43 The audit, fraud and information governance services in both Councils deliver cost efficient services that are valued by management and other stakeholders. Both Council's teams operate to the same professional standards and follow similar working practices and procedures.
- 44 However, the services at both Councils face increasing challenges in the short to medium term. The scope of audit and fraud work is changing to reflect the increased importance local authorities place on developing and maintaining sound corporate governance arrangements. At the same time pressures on the availability of resources are growing. As a consequence, there is pressure on audit coverage, difficulties in responding to peaks in workload and problems with covering staff vacancies. Both authorities also experience difficulties with recruiting and retaining the necessary skilled and qualified staff.



## **Staffing Arrangements**

- 45 At CYC, the Internal Audit and Fraud teams are co-aligned within the Customer Service and Governance division of the Resources Directorate. As noted in **paragraph 40** above, it is also proposed to include the post of Information Governance Manager within the scope of the shared service project. Subject to Member approval, the combined CYC team would have an establishment of 17.5 full time equivalent staff.
- 46 At NYCC, the Internal Audit Service forms part of the Central Finance Service Unit, within the Finance and Central Services Directorate. The Internal Audit Service has responsibility for both internal audit and information governance matters. The team has 17.12 full time equivalent staff.
- 47 Both teams include one trainee auditor post in their establishment, with the trainees following a professional course of study provided by the Institute of Internal Auditors.
- 48 In addition, both Councils currently have the following training posts allocated to their Internal Audit teams:

### NYCC

- 1 x trainee accountant (CIPFA)
- 2 x trainee accounting technicians (AAT)

### CYC

- 1 x trainee accountant (CIPFA)

The staff in these training posts are undertaking professional finance qualifications (normally CIPFA or AAT) as part of each Council's corporate training programme. The trainees are expected to spend a period of time in audit, usually no more than 12 months.

- 49 The combined establishment, including professional training posts is therefore 38.62 full time equivalent staff. Copies of the structure charts for the two Council's existing services are given in **Appendix 3**.
- 50 As at 30 November 2008, there were the following temporary staff within the combined establishment:

### NYCC

- 1 x Data Management Assistant – to cover maternity leave

### CYC

2 x Fraud Investigators (12 month contracts) – to cover a secondment to another Council department and long term sickness.

- 51 As noted in **paragraph 9**, phase I of the shared service commenced on 1 October 2007. Following this, changes were made to the organisational structure at each Council to reflect the new management roles and responsibilities. The CYC Audit and Fraud Manager assumed overall responsibility for the management of the combined CYC and NYCC audit, fraud and information governance service, managing the deployment of resources and the development of associated systems and procedures necessary to support the delivery of services across both Councils. It was agreed that both Councils would also require a deputy manager, who would be responsible for day to day operational decision making, and be the first point of contact in the absence of the Audit and Fraud Manager. To reflect these changes it was necessary to amend the job description of the CYC Audit and Fraud Manager, taking account of the enhanced responsibilities associated with the new role. The other changes made to each establishment were as follows:

### NYCC

- Delete the vacant post of Chief Internal Auditor
- Create the post of Audit and Information Assurance Manager

### CYC

- Delete the post of Principal Auditor
  - Create the post of Deputy Audit and Fraud Manager
- 52 The CYC staff are based in a single office location, within the Resources Directorate at St Leonard's Place, York. The NYCC staff are based in a self contained office at 50 South Parade, Northallerton.

### **Services Provided**

- 53 The principal functions of the audit, fraud and information governance services at both Councils are broadly similar, and include;
- (a) providing assurance to Members, Chief Officers, other key stakeholders and the wider community on the effectiveness of the governance arrangements and internal controls at each Council;

- (b) providing advice and making recommendations to improve controls and/or address the poor or inappropriate use of each Council's resources;
  - (c) examining and evaluating the probity, legality and value for money of each Council's activities;
  - (d) acting as a visible deterrent against all fraudulent activity, corruption and other wrong doing;
  - (e) responding to and investigating any instances of suspected fraud or corruption;
  - (f) ensuring that the Councils are able to comply effectively with the legal requirements placed upon them by the Data Protection Act, the Freedom of Information Act, Regulation of Investigatory Powers Act, the Human Rights Act, the Computer Misuse Act and other relevant legislation.
- 54 In addition to these core functions, the Internal Audit Team at CYC is responsible for delivering a programme of value for money reviews and the Fraud Team is responsible for investigating all benefit related fraud, together with undertaking any financial investigations that may arise as a consequence.
- 55 With the exception of some minor tasks carried out at NYCC (duplicate payment testing, cheque count and cheque reconciliations) neither team undertakes duties outside the core functions listed above.

### **Costs of Providing the Existing Services**

- 56 The current budgets for the two Council's services have been analysed using 2008/09 information. Where appropriate the budgets have been allocated between client and contractor functions. Due to the different budget allocation processes used by the two Councils it has been decided to exclude support service and corporate recharges from this analysis. The budget information is therefore based on the direct costs and overheads for the services concerned. In any case, it is assumed that the majority of corporate recharges would in the future be charged against each Council's client function rather than the shared service itself. It is also assumed that there would be no significant change in the overall level of recharges across both Councils. Details of the individual service budgets are given in **Appendix 4**. The combined budget is shown for information.

- 57 NYCC currently obtain computer audit services from an external supplier, PriceWaterhouseCoopers (PWC). The contract with PWC commenced on 1 April 2008, and is for 3 years. There is an option to extend the contract for a further 2 years by mutual agreement.
- 58 Similarly, CYC incur external legal costs and other fees related to the investigation and prosecution of benefit fraudsters. These costs are generally incurred through existing corporate contracts.
- 59 The budgets relating to the professional trainees (see **paragraph 48** above) have been allocated to the client functions at both Councils.
- 60 Both audit teams also provide services to a small number of existing external customers. The income received from this work has been deducted to provide the following figures for total annual net expenditure for each service:

<b>Council</b>	<b>2008/09</b> <b>£</b>
North Yorkshire County Council	612,000
City of York Council	502,045
Combined service cost	1,114,045

- 61 The level of service being provided in 2008/09 is as follows<sup>1</sup>:

<b>Council/Service Area</b>	<b>Days</b>
NYCC – Internal Audit	1,879
NYCC – Information Governance	538
Sub – total (core establishment)	<u>2,417</u>
NYCC – Computer Audit	60
NYCC – Professional trainees	501
NYCC – External Customers / Other Chargeable work	472
NYCC Total	<u>3,450</u>
CYC – Internal Audit	1,195
CYC – Fraud	1,340
CYC – Information Governance	318
Sub – total (core establishment)	<u>2,853</u>

<sup>1</sup> After allowing for leave, sickness, training, management, administration and staff turnover.

CYC – Professional trainees	167
CYC - External Customers / Other Chargeable work	100
CYC Total	<u>3,120</u>

- 62 The current cost of a productive day based on the allocation of existing budgets to the contractor (see **Appendix 4**) is as follows<sup>2</sup>:

<b>Council</b>	<b>£</b>
North Yorkshire County Council - contractor	220.33
City of York Council - contractor	219.83
Combined daily cost	220.06

### Service Performance

- 63 The OBC contained details of financial and performance related baseline information. This included the latest comparable benchmarking information from CIPFA (based on data submitted for 2006/07), as follows:

	<b>NYCC</b>	<b>County Average</b>	<b>CYC</b>	<b>Unitary Average</b>
Audit days per £m gross turnover	3.53	2.79	4.29	4.08
% of staff in the team who are qualified	15%	34%	36%	29%
% of staff within the team – AAT qualified (or equivalent)	48%	28%	21%	23%
% of staff who are trainees	24%	12%	29%	17%

- 64 For 2007/08, the performance of each service against key performance targets was as follows:

	<b>NYCC</b>	<b>CYC</b>
Completion of the Audit Plan	93.5%	91.6%
% of High Priority Recommendations accepted and/or implemented	95.8%	100%
Customer Satisfaction <sup>3</sup>	99.3%	80.0%

<sup>2</sup> The cost per day excludes professional trainees and computer audit (NYCC).

	<b>NYCC</b>	<b>CYC</b>
Sickness (per FTE)	5.89 days	14.39 days <sup>4</sup>

### **Professional Standards**

- 65 To comply with International Auditing Standards, the external auditors are required to periodically review each Council's internal audit function. Both audit functions were reviewed by the Audit Commission during 2007. The review was intended to ascertain whether each team was complying with proper professional standards as set out in the CIPFA Code of Practice for Internal Audit in Local government. The Code of Practice sets out eleven standards (or principles) for the establishment of a professional service. The review was also intended to provide assurance to the Audit Commission that it could continue to place reliance on the work of internal audit. The results of these two reviews are summarised below;

#### NYCC

- 66 The Audit Commission concluded that the audit function was substantially compliant with ten of the eleven standards. The one exception was independence. A number of areas were identified where there was scope for improvement. Six recommendations for improvement were made. Work is progressing to implement all the agreed recommendations.

#### CYC

- 67 The Audit Commission concluded that the audit function met the requirements of all eleven standards. A number of areas were identified where there was scope to enhance the existing working arrangements. Four recommendations for improvement were made. Work is progressing to implement all the agreed recommendations.

### **Drivers for Change**

- 68 The drivers for change both national and local facing the two Councils are:

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<sup>3</sup> The basis for calculating performance is different between the two authorities. A standard method is currently being developed.

<sup>4</sup> Includes 6.91 days long term sick.

- (a) The transformational policy agenda. The Department for Communities and Local Government White Paper 'Strong and Prosperous Communities' encourages authorities to work collaboratively together, and with other public sector bodies to deliver efficiencies and value for money;
- (b) Comprehensive Area Assessment (CAA). The new CAA performance framework places an emphasis on organisational effectiveness, responsive services, partnering, increased efficiency, and joint commissioning. Effective partnership working is seen as vital to improving outcomes;
- (c) Comprehensive Spending Review (CSR07). The CSR07 has set an annual efficiency target of 3%. Councils are therefore expected to explore the scope for back office efficiencies by challenging existing methods of service delivery;
- (d) Local Government Reorganisation. Whilst North Yorkshire County Council's proposed bid for unitary status was not successful there remains a strong expectation from government that authorities in and around North Yorkshire will in future work more collaboratively;
- (e) Sub National Review. NYCC and CYC are members of the same regional group within the overall Yorkshire and Humberside regional strategy. The two Councils are therefore encouraged to work together to support regional priorities;
- (f) The need to build service resilience and capacity across both authorities to maintain an effective and professional audit and fraud function, in the face of problems in covering key staff vacancies and difficulties in being able to respond to changing priorities and increasing workload demands;
- (g) The need to retain skilled and experienced staff by creating greater critical mass and providing more opportunities for career development and specialism;
- (h) The need to make best use of the scarce professional audit expertise available (particularly in contract and IT audit), given that both authorities encounter difficulties in building sufficient capacity in-house, so as to avoid the reliance on expensive external providers;

- (i) The need to further enhance the professional standards of the audit and fraud services in both Councils so as to maintain and develop the effectiveness of the function and comply with legislative and regulatory requirements;
- (j) The need for both Councils to develop proper arrangements for succession planning and reduce the existing reliance on certain key staff for service continuity.

## **Benefits of Collaboration**

69 The key benefits of collaboration are:

- (a) Providing greater resilience and capacity. The combined team would be better placed to manage resource pressures, including staff vacancies and/or unexpected service demands;
- (b) Providing greater flexibility to respond to changing priorities, initiatives and/or new working methods;
- (c) Delivering efficiencies through sharing best practice, integrating processes and reducing duplication of effort;
- (d) Demonstrating a positive response to the government's efficiency and service transformation agenda;
- (e) Achieving economies of scale by sharing overheads and reducing unproductive time whilst maintaining or improving current levels of performance;
- (f) Enhancing the focus on service delivery, professionalism and quality such that the combined service is seen as a 'beacon of excellence';
- (g) Increasing the opportunities for staff to specialise and enhancing career opportunities, resulting in greater staff satisfaction and retention;
- (h) Providing greater opportunity to develop audit specialisms and reduce the reliance on bought-in services;
- (i) Providing a robust shared service model which offers greater opportunity for future collaboration with other Councils in the region, particularly the North Yorkshire districts, and which helps to develop the existing market place;
- (j) Improved succession planning arrangements and a reduced reliance on key members of staff for service continuity;



- (k) The ability of both Councils to develop common approaches to new and developing initiatives (for example, Comprehensive Area Assessments and joint Private Finance Initiative projects).
- 70 The development of a shared service therefore offers the opportunity to bring together related and complimentary professional disciplines across both Councils.

## **Vision and Objectives of the Shared Service Solution**

### **Vision**

- 71 To deliver a shared service solution which provides an efficient, effective and professional audit, information governance and fraud service which is both responsive to the needs of the two Councils and which is held in high esteem by all stakeholders.

### **Objectives**

- 72 The project aims to provide a shared service solution which supports this vision by focusing on a series of identifiable and measurable objectives. The Project Board has identified the following objectives for the future shared service.

To provide a service:

- (a) in which both Councils have an equal share in terms of control, direction and influence;
- (b) which has a clear identity and stated purpose;
- (c) which is affordable and which represents value for money;
- (d) which can provide continuity of service to both Councils in the long term, irrespective of short-term pressures and issues;
- (e) which enhances the professionalism and quality of audit and fraud related services provided to the two Councils through shared knowledge and best practice;
- (f) which shows leadership in the development and maintenance of a robust control framework in each Council as an essential element of each Council's governance arrangements;
- (g) which helps to maintain or improve the CAA Use of Resources score for both Councils;

- (h) which increases the operational capacity and resilience of the service so that it can more easily respond to resource pressures, including staff vacancies and/or unexpected service demands;
- (i) which is flexible and can respond promptly to changing service requirements and priorities;
- (j) which extends access to specialist audit and fraud services and other related disciplines to both Councils;
- (k) which reduces the need to use expensive agency staff and/or to buy-in specialist audit and fraud related services;
- (l) which delivers efficiencies and economies of scale which can then be reinvested in improved service delivery;
- (m) which improves investment in staff training and development;
- (n) which improves the opportunities for career progression for staff within the service;
- (o) which improves the recruitment and retention of professional staff within the service;
- (p) offers protection for existing staff pension arrangements;
- (q) which reduces the existing reliance on key members of staff for the continuity of the service;
- (r) which provides improved succession planning arrangements;
- (s) which continues to provide the opportunity for trainee staff from both Councils to gain relevant experience in audit and fraud related disciplines;
- (t) which generates income from selling audit and fraud related services to other public, voluntary and third sector bodies, where appropriate;
- (u) which can be expanded to provide additional professional support services to both Councils in the medium to long term, if required;
- (v) whose membership can change in the medium to long term to accept new partner bodies, including those in other public service areas (for example, housing and the NHS);

- (w) which provides an opportunity for both Councils to gain experience in sharing back office functions before considering more high profile transactional and/or public facing services.

## **Links to Corporate Objectives and Priorities**

- 73 The objectives of the shared service solution, as set out in **paragraph 72** above, link closely to a number of specific Objectives and Priorities in each Council's Corporate Plans.

### **North Yorkshire County Council**

- To continue to strengthen our partnership working;
- To continue to improve the efficiency and effectiveness of our business processes – by maximising the use of appropriate technology and increasing the efficiency of our back office functions (through, for example, engaging with partners to seek to maximise the use of shared services and premises).

### **City of York Council**

#### Direction Statements

- We want services to be provided by whoever can best meet the needs of our customers
- We will be an outward looking council, working across boundaries to benefit the people of York

#### Values

- Delivering what our customers want
- Providing strong leadership
- Supporting and developing people
- Encouraging improvement in everything we do

## **Project Arrangements**

### **Project Board Responsibilities:**

- 74 The Project Board has been responsible for:
- (a) developing the proposals and options for the delivery of the long term shared service as set out in the outline business case;
  - (b) developing the detailed business case and implementation plan for the preferred option;
  - (c) developing a change management programme to support the implementation process;
  - (d) overseeing the management and direction of the interim management arrangement, prior to the development of formal governance and reporting arrangements.
- 75 Finance, Legal and HR representatives have provided professional advice to the Board as required, to assist with the preparation of the full business case and the project implementation plan.
- 76 The Project Board has maintained a risk register and a lessons learned log throughout the duration of the project.
- 77 The Project Board has been supported in its work by an Integration Team, comprising staff representatives from both Councils. The Integration Team has been responsible for critically examining existing working practices and identifying areas for improvement, as well as coordinating the activities of various work streams involved in the redesign of working practices. The objectives of the integration work have been to streamline processes and adopt the appropriate best practice from either Council.

## **Detailed Proposals for the Long Term Structure of the Shared Service**

### **Company Formation**

- 78 As noted in **paragraph 36**, Members agreed that officers should develop a detailed business case for the implementation of a company, in which each Council has a 50% shareholding, as the preferred (in principle) long term organisational structure of the shared service.
- 79 As the timetable for implementing the agreed solution is limited, some of the preparatory work has already been undertaken to form a shell company. The company will be limited by shares, with a nominal share capital of 1,000 £1 shares. It is proposed that the issued share capital will consist of 2 shares, with each Council holding one share. The shares will be issued prior to the planned transfer date of 1 April 2009.

- 80 Draft Memorandum and Articles of Association for the company have been prepared. The Memorandum and Articles have been prepared in accordance with the Companies Act, and follow a standard format for this type of private company.
- 81 The company will be a regulated company under the terms of the Local Authorities (Companies) Order 1995. Regulated companies are those classed as either being 'controlled' or 'public sector influenced' by a local authority. The shared service company falls within the definition of a 'public sector influenced' company and must therefore comply with a number of specific governance and accountability rules, including;
- identifying the relevant local authorities on business documents;
  - limiting Directors' remuneration;
  - removing Directors who are disqualified as councillors;
  - prohibiting party political publicity;
  - requiring the provision of certain information to the local authority's Members, officers and auditors.
- 82 It is proposed that Veritau Limited will have a Board of Directors consisting of:
- The Executive Members for Corporate Services from both Councils;
  - The Corporate Director – Finance and Central Services (NYCC);
  - The Director of Resources (CYC);
  - The Head of Internal Audit;
  - Two external Directors, jointly nominated by the two Councils.

The external Directors will be expected to bring expertise in running a company, as well as appropriate external challenge. It is therefore expected that the two external directors will be business professionals with experience in partnership working and supporting innovation, preferably gained in the public or voluntary sector. The following nomination has been made for one of the positions:

- Helen Kemp-Taylor – Head of Internal Audit at York NHS Hospital Trust. York NHS Hospital Trust provides internal audit services to a number of local NHS bodies.

The remaining position is still to be determined.

- 83 It is proposed to limit the Directors remuneration to £1 pa, except for the external Directors who will receive remuneration commensurate with the input and expectations determined through service arrangement letters. The Directors will be entitled to claim mileage and subsistence expenses in line with the rates payable to the staff of Veritau Limited.
- 84 As the company is likely to be classed as a 'small company' for the duration of the contract it would only need to prepare abbreviated annual accounts for submission to Companies House. Similarly, the company would be exempt from audit as its turnover, balance sheet value and number of employees are likely to remain below the current thresholds. However, it is recognised that both Councils would probably wish to elect for an audit to be undertaken. The Company will therefore need to appoint external auditors. Quotations will be sought from at least three suitable firms to carry out this work. An indicative quotation has been obtained for this work of £4k pa.
- 85 Since April 2008, private limited companies have no longer been required to have a company secretary. However, as a 'public sector influenced' company it is felt appropriate that the shared service company should have a company secretary to act as a formal point of communication between the Board of Directors and the company's two shareholders, and be responsible for:
- organising and preparing the agendas for meetings of the Board and the annual general meeting (AGM);
  - maintaining the company's statutory books, including the registers of members, directors and secretaries;
  - ensuring that statutory returns are submitted to Companies House and other regulatory bodies;
  - contributing to meeting discussions;
  - liaising with the external auditors, and other regulators and advisers, if required.
- 86 It is proposed to appoint Scott Walters as the company secretary. Scott is the company secretary of NYnet Limited. He is a qualified Chartered Accountant and has experience both as an internal and external auditor, as well as significant experience of small business start-ups. It is also proposed to pay the company secretary remuneration commensurate with the duties and responsibilities set out in **paragraph 85** above.

- 87 In addition, it is proposed to use NYnet's offices at Roecliffe Business Park as the registered office for the company. This would enable the company secretary to more easily fulfil his duties as well as providing a suitably neutral location. NYnet has indicated that this arrangement would be acceptable and there would be no additional cost.
- 88 The staff were asked to put forward suggestions for naming the shared service company. A total of 45 names were suggested although some of these were found to be already in use. After careful consideration, the Project Board chose Veritau (being the Greek word for truth) as the proposed name. It was chosen because it offers the opportunity to create a recognisable brand image as well as having a meaning that relates to the core values of the services concerned, namely integrity, objectivity and independence.

### **Legal Implications**

- 89 Both Councils have the necessary legal powers to create a shared service company. However, any such arrangement must comply with the EU public procurement regime and the Public Contract Regulations 2006. Specific case law (including Teckal and Carbotermo SpA) has established that if a local authority wishes to award a contract to supply services, to a company set up by that local authority, then the authority does not need to carry out a competitive tender exercise before awarding such a contract provided that the following principles apply:
- the authority must exercise a similar degree of control over the company to that which it exercises over its own departments;
  - the exercise must be 'a power of decisive influence over both the strategic objects and significant decisions of the company';
  - the essential part of the company's activities must be carried out on behalf of the controlling authority. Any activities undertaken for bodies other than the controlling authority can be of no more than marginal significance.

The exemption also applies to companies controlled by more than one authority, providing the principles set out above are complied with.

- 90 With a view to demonstrating compliance with the Teckal principles, it is proposed that the provision of services to external customers will be limited to no more than 10% of the shared service company's total activities.

- 91 In the event that the company did want to provide services to bodies other than NYCC and CYC then it would be up to those organisations to consider, in accordance with their own procurement rules, whether to award a contract to the company. In such cases, the Teckal exception would not apply as Veritau Limited would not be a company controlled by those bodies and such bodies would not be therefore be in a position to exercise control over the company or require the company to carry out the essential part of its activities with them.
- 92 There are also restrictions on the ability of local authorities to undertake trading activities through such a company. A local authority can make a decision to carry out an activity or provide a service which it considers is likely to improve the economic, social or environmental well being of its area (Local Government Act 2000). The well being function is an “ordinary function” for the purpose of Section 95 of the Local Government Act 2003. Section 95 provides a general power to local authorities to undertake trading activities. This general power is limited to those authorities categorised as ‘fair’ or above for CPA purposes, and both NYCC and CYC therefore qualify. The general power is further regulated through the Local Government Power to Trade Order which specifies that before exercising the power, each authority must prepare a business case in support of the proposal and approve that business case. In the event that Members are minded to approve the recommendation to implement the shared service company, then this business case is considered to satisfy the requirements of the Local Government Power to Trade Order.
- 93 Section 95 also defines the type of company that an authority can use for trading activities. The Section states that the company must be a company regulated by Part V of the Local Government and Housing Act 1989, which limits the proposed structure to:
- companies limited by share;
  - companies limited by guarantee with or without share capital;
  - unlimited companies;
  - societies registered under the Industrial and Provident Societies Act.
- 94 The company would be funded from the public sector so its own procurement activities would be bound by the Public Contract Regulations.



- 95 The services to be provided to each Council will be specified in separate Service Agreements between Veritau Limited and each Council. CYC will need to authorise Veritau Limited to carry out functions relating to housing benefit and council tax benefit, using s70 of the Deregulation and Contracting Out Act 1994 and the Contracting Out (Functions of Local Authorities: Income-Related Benefits) Order 2002. The Council will then be able to authorise employees of the company to conduct investigations under s110A (3) to (7) of the Social Security Administration Act 1992.
- 96 The proposed transfer of staff will be regulated by the Transfer of Undertakings (Protection of Employment) Regulations 2006 which guarantee that there will be equivalence of terms and conditions of employment. In addition, because this is a public sector TUPE transfer there would also be equality of pensions involving a “buy in” to the North Yorkshire Pension Fund.
- 97 A formal Project Agreement is required to govern the rights and obligations of the Councils as shareholders in Veritau Limited and the ongoing relationships between both Councils and Veritau Limited as participants in the venture. The main issues which the Project Agreement will deal with are as follows:
- the shareholders’ voting rights;
  - the arrangements for allowing any future changes in the company’s membership;
  - the arrangement for appointing and removing Directors;
  - the arrangements for board meetings, including their frequency and quorum;
  - the appointment of the company secretary;
  - future profit sharing arrangements;
  - the arrangements for resolving disputes;
  - the exit arrangements for one or both shareholders;
  - the information which the company will be required to supply to each shareholder.
- 98 The Project Agreement will need to be signed by both Councils as well as by Veritau Limited.

- 99 It is proposed that the company will continue to use the existing office accommodation provided by each Council on a 'like for like' basis and that the cost of such accommodation will not be passed on to Veritau Limited but will continue to be met by each Council. To facilitate this arrangement, it is proposed that Veritau Limited will enter into Premises Licences with each Council rather than enter into formal property leases. Draft Premises Licences are being prepared with each Council on this basis. The draft Premises Licences provide for fully serviced accommodation, including furniture and fittings, IT equipment (networks, PCs, laptops and scanners), telephones, cleaning, heating, lighting etc at a "peppercorn" fee. It is proposed that Veritau Limited will retain responsibility and cost for supplying itself with miscellaneous portable office equipment directly associated with the provision of the service (eg cameras, shredders, tape machines etc).
- 100 A detailed review is being undertaken of the existing contracts used by both Councils to support the delivery of audit, fraud and information governance services. In most cases, it is considered desirable to arrange for the transfer of these contracts to the shared service company. However, in those cases where the contracts are used by other council departments then it is proposed to agree amendments with the suppliers, granting staff employed by the shared service company access to continue to use them. Negotiations are ongoing with the relevant suppliers to confirm that they would be willing to make the required changes. The main contracts currently used are detailed in the following table:

<b>Supplier</b>	<b>Contract Details</b>	<b>Proposed Action</b>
<b><u>NYCC</u></b>		
PriceWaterhouseCoopers	Contract to supply computer audit services.	To novate the existing contract to the shared service company.
Horwath Supplies      Software	Contract to supply the Galileo IT application – audit working paper system.	To terminate the existing contract and for a new contract to be arranged between the supplier and the shared service company.
<b><u>CYC</u></b>		
Horwath Supplies      Software	Contract to supply the Galileo IT application – audit working paper system.	To terminate the existing contract and for a new contract to be arranged between the supplier and the shared service

		company.
Intec Public Sector	Contract to supply the Incase IT application – fraud case management system.	To novate the existing contract to the shared service company.
Experian	Contract to provide credit search facilities.	To amend the existing contract so as to grant staff employed by the shared service company continued access to the facility.
AuditWare	Contract to supply the IDEA IT application – audit data interrogation software.	To novate the existing contract to the shared service company.

### **Service Contract Management Arrangements**

101 It is proposed that each Council will have a named client officer to oversee and monitor the delivery of the services under its Service Agreement with Veritau Limited, as follows:

- NYCC - the Assistant Director (Central Finance);
- CYC - the Assistant Director of Resources (Customer Service and Governance).

102 The client officer of each Council will manage that Council's Service Agreement with Veritau Limited in relation to the following matters:

- agreeing the annual work plans;
- approving modifications and variations to the agreed service;
- commissioning additional services, as required;
- authorising payments to the company;
- reviewing and updating the service specification throughout the period of the contract;
- setting minimum service performance standards;
- establishing appropriate performance monitoring and reporting arrangements;
- agreeing the standard daily charge rate and annual indexation factor;

- making suitable office accommodation available to the shared service company;
  - liaising with Veritau Limited regarding the future placement of professional finance trainees;
  - ensure that effective relationships are maintained between Veritau Limited and the key stakeholders in each Council (including the S151 Officer, Monitoring Officer, senior management, the Audit Committee and external auditors);
  - monitoring the quality of service, compliance with service levels and KPI's and instigating default procedures, if required;
  - monitoring the client side budgets.
- 103 Where possible, the two Councils will undertake joint contract monitoring. To facilitate this, the two client officers together with a representative from the shared service company will form the Shared Service Contract Board (SSCB). The Contract Board will meet on at least a quarterly basis. It is also proposed that the Contract Board will prepare an annual finance and performance report for each Council's Executive. The SSCB will assume responsibility for both the project risk register and the lessons learned log once services are transferred to Veritau Limited.
- 104 The Audit Committee at each Council will be responsible for overseeing the effectiveness of the services delivered by Veritau Limited as part of their wider responsibility for providing independent assurance on the adequacy of the control environment and associated counter fraud arrangements at each Council. It is proposed that both Audit Committees will continue to approve the annual audit plans and ensure that the resources made available for audit and counter fraud purposes are adequate. Both Council's Audit Terms of Reference will be reviewed and, if necessary updated to reflect the new service delivery arrangements. It is proposed that the chair of each Council's Audit Committee will be allowed to attend meetings of the company's Board of Directors as observers, and to receive copies of all agendas and minutes.
- 105 Veritau Limited's Board of Directors will be responsible for monitoring and ensuring business performance, as well as strategic decision making and policy development. Operational decisions will be taken by company management.

- 106 It is proposed that the company will prepare a three year Business Plan which will direct future strategy and service improvement. The Business Plan will translate the vision and objectives of the shared service into actions and quantifiable targets. The Business Plan for the financial year in which the company is formed must be prepared, agreed and will form part of the Project Agreement to be signed by each Council and the company. The Business Plan for every subsequent financial year will be prepared by the Board of Directors of Veritau Limited within 45 days of the end of the preceding financial year and must be approved by the shareholders. Delivery of the Business Plan will be monitored by the Shared Service Contract Board.
- 107 Work is ongoing to develop an appropriate policy framework for the company, including financial regulations and procedures, contract procedure rules and HR policies. It is proposed that the company's policies, together with any subsequent changes, will be formally approved by Board of Directors.

#### **Start Up Costs for both Councils**

- 108 A number of start up costs have been or are expected to be incurred by the two Councils. These costs relate to the preparation of the Business Case and the Project Implementation Plan. Costs have also been incurred in relation to the ongoing integration of systems and working practices, and to support the overall change management process.
- 109 A grant of £21.5k was provided by the former Yorkshire and Humberside Regional Centre of Excellence to support the project. In addition, NYCC and CYC both allocated £10k as part of the 2008/09 budget to cover one-off costs associated with the project.
- 110 Details of the actual and estimated start up costs are given in the following table:

	<b>Actual £</b>	<b>Committed £</b>	<b>Estimated £</b>	<b>Total £</b>
<b>Legal Fees</b>				
Walker Morris – review of legal implications (for CYC)		1,750		1,750
Mercer – actuarial valuation	1,700			1,700
Ward Hadaway – drafting NY pension fund admission agreement	268			268
<b>IT Integration Costs</b>				
Hardware	1,619			1,619

Galileo - configuration		5,950	1,500	7,450
Network / connectivity		3,600		3,600
Encryption software		150		150
Additional IDEA license			1,600	1,600
<b>Change Management</b>				
Staff workshops	1,188	500	500	2,188
<b>Accommodation Costs</b>				
Legal costs - to obtain agreement from Rushbond for use of existing CYC premises.			1,500	1,500
<b>Sundry Costs</b>				
Publications / conferences / training	453			453
Publicity and stationery			3,000	3,000
<b>Total Expenditure</b>	5,228	11,950	8,100	25,278

### Service Provision

- 111 It is proposed that both Councils will enter into separate Service Agreements with the shared service company. The two Agreements will be for the same duration and, as far as possible, contain identical terms and conditions.
- 112 It is proposed that each Agreement will be for 10 years, with an option for each Council to extend the Agreement for a further period of 5 years. Each agreement will also include an option for either Council to terminate the arrangement, subject to providing written notice. The notice period will be a minimum of 12 months.
- 113 A draft Service Agreement has been prepared, which specifies the service which will be provided by the shared service company to both Councils.
- 114 The company will provide each Council with the following core services for the duration of the period:
- Internal Audit
  - Counter Fraud
  - Information Governance

- 115 In addition, the company will provide other financial support services to either Council, on request. Any additional work will be charged at the standard daily rate for additional work specified in the Service Agreement.
- 116 Both Councils agree to the company having an exclusive right to supply the core services set out in **paragraph 114**, except in specified circumstances (for example, for specialist assignments where the company does not have the necessary technical skills, where the company has insufficient capacity to undertake the work in the required timescales, and/or where there is a potential conflict of interest).
- 117 Discussions are still ongoing with the two Council's existing external customers for audit services to determine whether they would agree to future services being provided by the shared service company. An approach will then have to be agreed with these external customers as to whether existing contracts should be novated to Veritau Limited or a new contract service agreement entered into between the external customer and Veritau Limited. Where new external customers wish to obtain services from Veritau Limited then it is proposed that Veritau will prepare a generic service agreement to be entered into with such customers.

### **Charging Arrangements**

- 118 It is proposed that the core services will be paid on the basis of an annual fixed fee, paid in 12 equal monthly instalments. With the exception of computer audit costs, the fixed fee will be calculated on the basis of a standard daily rate multiplied by an agreed number of days to reflect the volume of work required. The level of service in year 1 of the contract has been based on the existing resources which will be transferred to Veritau Limited at the commencement of the contract. Computer audit work undertaken by PWC on behalf of Veritau will be recharged at cost. However, there will be no charge to either Council for work undertaken by the professional trainees seconded to the company.
- 119 For 2009/10, the proposed daily fee rate will be £225. The fee is based on the existing budgets and resources available to each Council (plus inflation but excluding the cost of support service recharges – see **paragraph 127**). The fee represents an increase of 2.25% on the equivalent combined service cost for 2008/09 (see **paragraph 62**).

120 The total number of days available to each Council in 2009/10 is based on the existing staffing establishment (as detailed in **paragraphs 45 - 46**). The total number days to be supplied to NYCC by PWC for computer audit, as well as the days available to both Councils from the professional training posts, are shown for information. The number of productive days has been calculated after allowing for leave, sickness, training, management, administration and staff turnover. The net figures have been calculated after taking account of the time spent undertaking work for the existing external customers of each Council and for performing other chargeable work. The figure for total net days therefore represents the time available to provide the core services to each Council.

<b>Council/Service Area</b>	<b>Productive Days</b>	<b>Available Days (net days)</b>
NYCC – Internal Audit	2,356	1,884
NYCC – Information Governance	540	540
Sub – total (core establishment)	2,896	2,424
NYCC – Computer Audit	60	60
NYCC – Professional trainees	500	500
NYCC Total	3,456	2,984
CYC – Internal Audit	1,275	1,175
CYC – Fraud	1,360	1,360
CYC – Information Governance	318	318
Sub – total (core establishment)	2,953	2,853
CYC – Professional trainees	167	167
CYC Total	3,120	3,020

121 Subject to some minor adjustments, the proposed level of service in 2009/10 is equivalent to the service currently being provided in each area (see **paragraph 61**).

122 The total proposed charge for 2009/10, to each Council, based on this level of service is:

<b>Council</b>	<b>£</b>
North Yorkshire County Council	£545,400
North Yorkshire County Council – Computer Audit	£44,064



<b>Council</b>	<b>£</b>
City of York Council	£641,925
Combined	£1,231,389

123 In subsequent years, the annual fixed fee will be adjusted for any variation in the level of service required in accordance with each Service Agreement. The daily rate will be increased by an indexation factor, less any agreed adjustment to reflect target efficiency improvements which will be specified in each Service Agreement. For 2010/11 onwards, it is proposed to increase each Council's standard daily rate by a percentage equivalent to the estimated change in the local government pay award for that year, but adjusted for any difference between the estimated change in the local government pay award for the previous year and the actual change.

124 The relevant client officer at each Council will be able to commission additional work. The scope of any such work, and the associated fee, would be agreed in advance. The fee would take account of the staff mix required to undertake each assignment. The relevant charge rates are based on the average direct labour cost for each grade plus a 12% on-cost for management and other overheads. For 2009/10, the following charge rates are proposed:

<b>Staff Grade</b>	<b>Daily Rate</b>
	<b>£</b>
Trainee	128
Auditor/Fraud Investigator	183
Senior Auditor	220
Principal Auditor / Financial Investigator	365

In subsequent years, the charge rate will be increased in line with the agreed inflation factor (see **paragraph 123**).

### **Performance Management**

125 Contract monitoring arrangements are currently being developed by the client officers in both Councils. To ensure consistency and to avoid an unnecessary administrative overhead for the company, it is proposed that the monitoring systems operated by both Councils will be identical. The systems will involve regular performance reporting and incorporate a series of key performance targets designed to:

- be objective, transparent and easy to measure;

- deliver a realistic, challenging but achievable level of performance from the company;
- provide suitable incentives to exceed minimum standards of performance and/or to rectify problems in a timely fashion;
- provide suitable incentives for the company to innovate, secure efficiency gains and deliver value for money.

### Support Services

126 Discussions have taken place between officers at both Councils regarding the future provision of support services to the shared service company. It is proposed that each Council will provide support services in accordance with Service Level Agreements to be agreed between each Council and Veritau Limited. It is also proposed that the method for calculating any recharges will be identical to those currently used for internal departments. The support services will be provided as follows:

Support Service <sup>6</sup>	Provider
HR and payroll services	NYCC
Finance and accountancy (including insurance)	CYC
IT – to host the Galileo and Incase applications, and website	CYC
Legal services – to provide specific advice to the company	NYCC
Accommodation – support to client	NYCC / CYC depending on location

127 It is estimated that the cost of recharges for support services will add £6 per day to the proposed daily rate for 2009/10 (see **paragraph 119**). The net effect will however be nil because internal budgets will be adjusted to balance the charge.

128 The estimated costs for these support services have been included in the financial projections for year 1 of the contract – see **paragraph 130**. To avoid the risk of challenge as a consequence of the State Aid rules, the company will reflect the full economic costs of the support services provided by both councils in any contracts with third parties.

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<sup>6</sup> The shared service company will continue to use the support services of both Councils for audit, fraud and information governance related matters. For example, CYC Legal Services will continue to support the prosecution of benefit related offences committed against CYC.

- 129 Draft Service Level Agreements have been prepared for each of the support services. Discussions are currently ongoing with the relevant service managers to finalise these Service Level Agreements.

### **Financial Arrangements**

- 130 A draft company budget for 2009/10 has been prepared. The budget is based on the current net expenditure for the two combined services as detailed in **Appendix 4**, plus an allowance for inflation. Any additional costs associated with operating the company have also been included. A copy of the budget is attached at **Appendix 5** for information. It is proposed that the company will retain any future profits to provide for possible contingencies and to cover working capital requirements, up to a maximum of 2% of turnover. Any profits in excess of this would normally be returned to the two shareholders.
- 131 The company will require its own bank account. Subject to confirming the final details, it is proposed that the bank account is opened with HSBC plc, who currently provide banking facilities to CYC.
- 132 CYC will also make available ledger facilities to enable the company to record income and expenditure. Transactions relating to the company will be segregated from the Council's general ledger.
- 133 The company will require its own insurance cover for public and employers' liability, professional indemnity and directors' indemnity. Further clarification is being sought on the extent to which the company will require motor insurance and the most appropriate method of cover. An indicative quotation has been provided by Zurich Municipal at £4.6k plus IPT (excluding motor cover). Formal quotations will be obtained if Member approval is given to proceed.
- 134 The company will need to register for VAT before it commences trading. Once registered, the company will have to prepare and submit quarterly VAT returns. The services provided to the two Councils along with any other external customers will be treated as taxable supplies. As noted in **paragraph 118**, it is proposed that the company will invoice both Councils on a monthly basis for the services provided. The invoices will include VAT, which both Councils will in turn be able to recover. The company will be able to recover input VAT on its supplies and services.

- 135 A cash flow forecast has been prepared for 2009/10. The company's main cash outflows will be the monthly staff salaries, payments to HMRC in respect of PAYE/NI and VAT, pension contributions payable to the NY Pension Fund, and payments for supplies and services. The only cash inflows will be the receipt of fees from the two Councils and other external customers. There will be a small net cash flow advantage arising from the fact that the company will make quarterly payments of VAT to HMRC whereas the two Councils can recover input VAT on a monthly basis. The other cash movements will however largely mirror the existing cash flows experienced by the two Councils, and so there will be no overall change in the cash position. However, to avoid the company from experiencing significant negative cash flow both Councils need to pay the monthly service fee in advance of the date on which the company pays its staff salaries. A copy of the cash flow forecast is attached as **Appendix 6**, for information.
- 136 It is recognised that the company may at times have surplus funds to invest but may also require an overdraft facility to cover short term liquidity needs. As noted in **paragraph 131**, it is proposed that the company opens a bank account with HSBC plc. Discussions are ongoing to determine whether a 'sweep' facility can be arranged between the CYC bank account and the company's new bank account to enable any surplus funds to be invested alongside the Council's other balances. Such a facility would also enable the company to draw down funds as required to cover short term working capital needs. It is proposed that the overdraft facility would be limited to £60k with interest paid at 1% above the Bank of England base rate, calculated on a daily basis. Any interest charges would however be offset by the interest earned on surplus funds. The interest earned would be based on the average rate of return achieved by CYC, calculated on a monthly basis. A draft overdraft agreement, which would be between the company and CYC only, has been prepared.
- 137 A schedule of tangible assets to be transferred to the shared service company will be prepared by each Council. The only assets which it is proposed to transfer are those directly related to the provision of the service, for example, cameras, tape machines and shredders. It is anticipated that the total current value of the assets transferred by each Council will not exceed £1k.

### **Overall Cost Comparison**

- 138 A comparison between the current costs of the internal audit, fraud and information governance services of both Councils against the client and contractor costs under the new arrangements, is detailed in **Appendix 7**. It is anticipated that there will be no overall change in the cost of service provision for either Council.

### **Future Income Strategy / Market Analysis**

- 139 The two Councils currently provide services to the following external bodies:

#### NYCC

North York Moors National Park Authority  
Yorkshire Dales National Park Authority  
North Yorkshire Fire and Rescue Authority

#### CYC

York Museums Trust  
North Yorkshire Audit Partnership

- 140 As noted in **paragraph 117**, discussions are still ongoing with the external customers to determine whether they would agree to future services being provided by the shared service company.
- 141 The work for external customers currently accounts for approximately 3% of the total available resources available to the shared service (or approximately 4.7% of the total income). As noted in **paragraph 90**, it is proposed that the provision of services to external customers will be limited in the future to no more than 10% of the shared service company's total activities. The company's primary objective will be to provide a high quality and effective service to both Councils. However, the company will seek to provide services to other local authorities and public sector bodies in the region where it is possible to generate an appropriate level of profit and there is no potential conflict of interest. Work would not be undertaken where there was considered to be an unacceptable level of risk to either the company or the services provided to the two Councils. Where services are provided to third parties then these would be undertaken on a contractual basis.
- 142 Market analysis has been undertaken to identify potential customers in the North Yorkshire and York area. It is estimated that the level of externally generated income can be increased by 50% by the end of year 3 of the contract. It is proposed that any profits generated from external trading would be reinvested in the company.

### **Future Changes in Company Ownership**

143 The Project Agreement will contain detailed provision for circumstances in which shares in Veritau Limited may or must be transferred by either Council as shareholder. Detailed consideration will also need to be given to the consequences (if any) on the Service Agreements of a change in share ownership. Similarly consideration will need to be given to the implications of any termination of the Project Agreement on the Service Agreements and vice-versa. Further work needs to be carried out to establish what is required by the Councils in this regard and how this can be implemented.

### **Dispute Resolution and Exit Arrangements**

144 The Project Agreement will provide for a Dispute Resolution procedure in the event that there is serious disagreement between the Councils in their role as shareholders of Veritau Limited. The procedure to be followed may include escalation to Chief Officers and Members within appropriate timescales. The Project Agreement will also make provision for a Deadlock Procedure as a last resort to resolve any irreconcilable conflict, in the event that the Dispute Resolution procedure fails. Further work needs to be carried out to establish what is required by the two Councils in this regard and how such a procedure can best be implemented.

145 The Project Agreement will provide Exit Arrangements in the event that one or other Council wishes to terminate the partnership arrangement. It is envisaged that the exiting Council must provide a minimum of 12 months written notice to the company and the remaining Council. The Exit Arrangements will need to cover a number of issues including, for example:

- if one Council terminates its service agreement with the company it cannot retain its shareholding in the company;
- if a Council gives up its shareholding in the Company, its Service Agreement will also terminate;
- if one Council leaves the company, then the remaining shareholder shall be given first refusal over the departing Council's entire shareholding;

- if the remaining Council does not wish to buy the departing Council's entire shareholding, the remaining Council shall be entitled to obtain such part of the departing Council's shareholding as will enable the remaining Council to control the company. The remaining Council will also have the right to vet and approve any person to whom the departing Council wishes to transfer the whole or any part of its shareholding and no transfer shall take place without such approval;
- all assets and liabilities will remain in the Company and a valuation mechanism will be established to compensate the departing shareholder. In such an event, the total net value of the company will be apportioned in accordance with each shareholders ownership.

Once such principles have been discussed and agreed they will be enshrined in the Project Agreement.

### **Human Resource Implications**

- 146 It is proposed to transfer the existing services from both Councils to the new company on 1 April 2009. In accordance with the Transfer of Undertakings (Protection of Employment) Regulations 2006 (TUPE), all employees assigned to the transferring services will automatically transfer to the new company. From the date of transfer, the terms and conditions of employment, plus any existing collective agreements and relevant company policies relating to terms and conditions of employment, such as maternity and paternity leave, will automatically be taken over by the company as the new employer.
- 147 However, the four professional training posts (3 x NYCC and 1 x CYC – see **paragraph 48**) are excluded from the proposed transfer. The budgets for these posts will be retained by the respective client officers in each Council. Staff in these posts will instead be seconded to the shared service company for periods of up to 12 months.
- 148 Staff from both Councils, together with representatives from Unison and the GMB have been kept informed of progress with the development of the shared service. The Project Board has provided copies of all key documentation, minutes of meetings and information sheets to the staff and union representatives. Regular staff workshops have been held, and a weekly e-mail newsletter has also been circulated. A TUPE consultation timetable has been circulated to staff and the unions. Formal consultation with staff and the unions on the proposals commenced on 13 November 2008.

- 149 The proposed staffing structure for the shared service company is shown in **Appendix 8**. The main proposed change to the existing structures is to amalgamate the existing information governance functions into a single team. The new team will provide services to both Councils but be line managed by the Audit and Information Assurance Manager.
- 150 Although staff will transfer to the new company on their existing terms and conditions of employment, the company will require its own terms and conditions for any new staff employed after 1 April 2009. The Project Board has prepared a schedule of existing terms and conditions, together with the proposed new terms and conditions for the company. A copy of the schedule is attached at **Appendix 9**. The main changes which are proposed include:
- the introduction of a proactive and positive approach to performance management, clearly linking the appraisal process to organisational objectives and employee development;
  - the introduction of a competency framework which will be used to identify areas for individual staff development as well as setting standards of behaviour. Each post will have an associated competency profile;
  - incremental progression to be dependent on satisfactory performance against the agreed competency criteria for that particular post together with the achievement of appraisal objectives. Consideration will also be given to whether individual employees have been subject to any performance related issues, capability plans, or disciplinary warnings;
  - the introduction of performance related pay (PRP). This incentive payment will constitute a lump sum of 3% of the employee's basic annual salary (subject to a maximum cap), which will be paid to reward good performance against targets set in the appraisal, and good attendance through the year;
  - an overall reduction in annual leave entitlement.

The cost of PRP will be met by the reduction in overall annual leave entitlement (equivalent to an average 2 days) and improved productivity.

- 151 Work is progressing to identify and agree an appropriate benefits package for staff in the shared service company, similar to the benefits currently provided by both Councils (including for example, child care vouchers, bicycle loans and discounts from local retailers).



- 152 The company will need to prepare job descriptions for each post, and adopt its own Job Evaluation (JE) scheme and pay and grading structure. It is proposed to use one or more of the JE schemes currently operated by the two Councils. A review of the three existing schemes has been completed to determine which is the most appropriate for the needs of the company given the nature of the work undertaken. The unions are also currently being consulted on which scheme(s) to adopt. A proposed pay and grading structure has also been developed to reflect the different posts in the structure. The final pay and grading structure will need to reflect the outcome of the job evaluation exercise as well as being affordable within the context of the draft budget for 2009/10 (**see Appendix 5**).
- 153 Pension entitlement does not transfer under TUPE. An application has therefore been made to the North Yorkshire Pension Fund to grant the shared service company admitted body status to the Local Government Pension Scheme (LGPS). An actuarial review has been undertaken and a draft Admissions Agreement prepared. The actuarial valuation, using the full exposure approach, has set the employers pension contribution rate at 12%. This rate assumes that the scheme will continue to be open to new entrants. The rate will be reviewed as part of each triennial valuation. Subject to providing final details of the transferring staff it is expected that the company will obtain admitted body status by the proposed date of transfer. The company will also need to adopt its own pension discretions regarding early retirement. It is anticipated that these will be similar or identical to those currently used by both Councils.
- 154 Staff who transfer under TUPE will be allowed to adopt the company's own terms and conditions. This option will be available to all transferring staff from the date of transfer, and there will be no time limit placed on staff to elect to make this change.
- 155 The projected total establishment cost for the shared service in 2009/10 will be £1,174k. This cost assumes that all existing staff receive their expected increment, and that there is a 2.5% pay award. The cost of the professional training posts is excluded. The actual cost is however expected to be lower due to staff turnover, with any new staff being appointed on the lowest point of their respective grade range.

156 As noted in **paragraph 152**, a proposed new pay and grading structure has been developed. The new scheme will be used to determine the pay for all staff appointed after the date of transfer, as well as for those staff who elect to transfer from their existing terms and conditions. The scheme assumes that incremental progression will be dependent on satisfactory achievement of performance against agreed competency criteria. The scheme also includes performance related pay. At this stage it is not possible to predict how many of the transferring staff will elect to go onto the company's new terms and conditions.

157 As noted in **paragraph 107**, work is ongoing to develop an appropriate HR policy framework for the company. The policy framework will be based on the existing policies used by both Councils, although account is being taken of the relative small size of the new company. The framework will include policies on the following:

- Attendance
- Capability
- Disciplinary
- Grievance
- Recruitment and selection
- Learning and development
- E-mail and internet use
- Equalities
- Health and safety

## **Conclusion**

158 In preparing the Business Case, the Project Board has kept the scope of the project under review. The Project Board has also undertaken a further review to determine whether the preferred option of creating a company to deliver services to the two Councils, still best serves the interests of both Councils.

## **Scope**

- 159 There is a close synergy between the internal audit, counter fraud and information governance functions which are currently included in the shared service. There are considered to be no significant advantages in extending the scope of the project further to include additional service areas. Any such change might reduce the clear focus that the company will have on providing governance related services to the two Councils, as well as increasing the risk of delays in implementing the long term structure. It is therefore proposed to leave the scope of the project unchanged except to include the residual elements of data management work at CYC (see **paragraph 40**). This change reflects the outcome of the recent restructure at CYC and also ensures consistency in terms of the services to be delivered by Veritau Limited to both Councils.

### **Options**

- 160 The original assumptions used to assess the different structural options are considered to be still valid. In addition, no significant issues or additional costs have been identified during the preparation of the Business Case which would change the outcome of the initial assessment, as set out in **Appendix 2**.
- 161 The creation of a company in which both councils have an equal shareholding is still considered to offer the most appropriate basis for securing the required long-term resilience and for achieving the expected efficiencies and economies of scale. The proposed structure would also clearly be perceived as an equal partnership between the two Councils, with both able to exercise the same degree of control and influence. The set up costs will be fully met by the existing grant funding and one-off budget allocations. The ongoing service costs will remain within each Council's existing budgets. The Project board therefore recommends that the company should be implemented as the preferred long term structure for the shared service, in line with the timescales set out in the original Project Implementation Plan.