

**Cabinet**

10 January 2012

Report of the Cabinet Member for Corporate Services

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## **Proposed Expansion of Veritau Limited**

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### **Summary**

- 1 This report seeks approval for the expansion of Veritau Limited to enable the company to provide internal audit services to a number of the North Yorkshire district councils from 1 April 2012.

### **Background**

- 2 Veritau Limited was originally formed on 19 January 2009. On 1 April 2009, the council and North Yorkshire County Council (NYCC) transferred their internal audit, counter fraud and information governance services to the new company. From this date, Veritau has been contracted to provide these services to the two councils together with a number of other public sector bodies. The company is wholly owned by the council and NYCC, with each holding 50% of the share capital.
- 3 Veritau currently employs approximately 35 staff, organised into five teams. In addition, both the council and NYCC are able to second staff to the company in support of their own professional training programmes (normally CIPFA or AAT). The company operates from two offices, one in York and the other at County Hall, Northallerton.
- 4 The North Yorkshire Audit Partnership (NYAP) was formed in February 1999. The partnership originally consisted of Scarborough Borough, Selby District and Ryedale District Councils. Richmondshire and Hambleton District Councils joined the partnership in May 2008. The partnership is based on a joint committee model with Ryedale District Council

acting as lead authority. The existing partnership agreement ends on 31 March 2012.

- 5 NYAP currently has 12 staff and provides internal audit and counter fraud services to the five partner councils. The staff are employed by Ryedale DC and the service is delivered via satellite offices at each council. The existing Head of Internal Audit for NYAP is expected to retire in March 2012.
- 6 The NYAP Directors approached Veritau in November 2009 to discuss potential options for future collaboration. These discussions showed that there was a high level of interest in the possibility of the existing services provided by NYAP being transferred to Veritau. Since that date, detailed plans have been developed to address the legal, financial, staffing and operational implications of any such transfer. Various options for the structure of the expanded business have also been considered, including increasing the number of shareholders in Veritau or establishing a subsidiary company. Details of the final proposals are set out below.

### **Drivers for Change**

- 7 The NYAP member councils are facing similar challenges to the council in terms of delivering internal audit and counter fraud services at a time of financial pressures and significant change. The main drivers for change are therefore the need to:
  - a) deliver further efficiencies and cost savings;
  - b) ensure future service resilience and capacity so as to be able to respond to changing priorities and increasing workload demands;
  - c) retain skilled and experienced staff by creating greater critical mass and providing more opportunities for career development and specialism;
  - d) make best use of the scarce professional audit expertise available (particularly in contract and IT audit);
  - e) establish an effective succession plan and to reduce the existing reliance on certain key staff for service continuity (particularly within NYAP).

## Proposal

- 8 It is proposed that the services currently provided by NYAP to the 5 district councils are transferred to Veritau on 1 April 2012. Veritau will form a subsidiary company called Veritau – North Yorkshire Limited (VNY) to deliver the transferring services. The subsidiary company will be limited by shares with Veritau holding 50% of the share capital and each district council holding 10%. The subsidiary company will have a board of directors comprising an officer from each district council and two directors appointed by Veritau.
- 9 Staff currently employed in providing the services would transfer to VNY in accordance with the Transfer of Undertakings (Protection of Employment) Regulations (TUPE).
- 10 Veritau will seek to ensure that the transferring staff are included in the Local Government Pension Scheme. Staff will also be given the option of transferring from their existing terms and conditions to those of VNY (which will be identical to those offered by Veritau).
- 11 The creation and future operating arrangements of VNY will be governed by a formal Shareholders Agreement. The Agreement will set out the rights and obligations of the shareholders and the ongoing relationship between each council and Veritau as participants in the venture. The services to be provided to each district council will be specified in separate Service Agreements, identical or similar to the existing Service Agreements which Veritau currently has with the council and NYCC. The length of the new Service Agreements would be coterminous with Veritau's existing Service Agreements.
- 12 Each district council will nominate a client officer to oversee the delivery of services under its Service Agreement with VNY. The annual fee for the core service will be calculated on the basis of an agreed daily fee rate, multiplied by the agreed level of service i.e. the number of days required by each district council. The daily fee rate will be same for each district council and the rate charged by Veritau to the council and NYCC. Each district council will however be able to request additional work under its Service Agreement. 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.

- 13 Each district council will provide serviced office accommodation on similar terms to the existing arrangements Veritau has with the council and NYCC.
- 14 Further details relating to the establishment of VNY and the associated legal, financial and human resource implications are detailed in the Business Case which is attached at **Annex 1**.
- 15 Section 95 of the Local Government Act 2003 provides a general power to local authorities to undertake trading activities. This general power is however subject to the requirements of 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 establish VNY, then this Business Case is considered to satisfy the requirements of the Local Government Power to Trade Order.

### **Benefits**

- 16 The key benefits of the proposal to the council and NYCC as shareholders in Veritau are that it will:
  - a) help achieve greater critical mass and hence provide scope to further improve the resilience and capacity of the existing services provided by Veritau;
  - b) deliver cost savings to the council and NYCC. These cost savings will be achieved by sharing overheads, reducing unproductive time and greater economies of scale;
  - c) allow access to a new market to sell audit related services;
  - d) further enhance the focus on service delivery, professionalism and quality;

- e) further increase the opportunity for staff to specialise as well as enhancing career opportunities, resulting in greater staff satisfaction and retention;
- f) further reduce reliance on key members of staff for service continuity;
- g) enable the council and NYCC to retain full control of Veritau (whilst offering the district councils influence over VNY);
- h) avoid the need for the council and NYCC to value their existing shareholding in Veritau and for the district councils to purchase a proportion of the shares;
- i) minimise any risk to the council's investment in Veritau should VNY encounter future financial or operational difficulties. Veritau could continue trading even if the wider 'partnership' failed;
- j) offer greater transparency since the different parts of the business will be trading as separate entities.

### **Timetable**

- 17 The North Yorkshire district councils have already obtained approval from their respective member decision making bodies to wind-up NYAP and to transfer their internal audit and counter fraud services to VNY on 1 April 2012. Approval to the proposed expansion of Veritau has also been given by NYCC's Executive (as one of Veritau's existing shareholders).
- 18 Details of the outline timetable necessary to establish VNY are set out below:

<b>Action</b>	<b>Target Date for Completion</b>
Formal consultation with NYAP staff to be completed	31/12/2011
Staffing establishment in VNY to be confirmed	15/1/2012
Pension admission agreement to be finalised	31/1/2012
Company formation and issue of share capital	31/1/2012
Appointment of directors to the board of VNY	31/1/2012
Legal agreements to be finalised	28/2/2012
Client officers to be appointed	28/2/2012
Business Plan (3 year) to be approved by board of VNY	15/3/2012
2012/13 budget to be approved by board of VNY	15/3/2012
Formal transfer of services and staff to VNY	1/4/2012

### **Consultation**

- 19 The Audit and Governance Committee has been consulted on the proposed expansion of Veritau. No issues were raised in respect of Veritau's ability to provide an effective internal audit service to the council as a result of the proposal.

### **Options**

- 20 Two options have been considered for the future structure of the expanded business as follows:
- a) the inclusion of the five district councils as shareholders in Veritau (option 1).
  - b) the creation of a subsidiary company (option 2).
- 21 Whilst being relatively simple to implement, option 1 was rejected because it would have left the council (and NYCC)

having less control and influence over Veritau. It would also have required the district councils to make a greater capital investment in the new venture which they would have found difficult to finance. Option 2 is recommended.

22 Members have three options to consider:

- a) as shareholders in Veritau to confirm the recommendation of the company's directors to proceed with the establishment of VNY and to use this subsidiary to provide services to the North Yorkshire district councils from 1 April 2012; or;
- b) request additional information from officers before making a final decision, or;
- c) to reject the proposal.

### **Analysis**

23 Not relevant for the purpose of the report.

### **Corporate Priorities**

24 This proposal helps to deliver efficiency savings by using innovative models of service delivery whilst helping to maintain the council's standards of governance.

### **Legal / Financial / Human Resource Implications**

25 See Business Case (attached at Annex 1)

### **Equalities Implications**

26 There are no equalities implications for the council arising from the proposed expansion of Veritau. Individual equality impact assessments will be prepared for the relevant services areas which will be delivered by the new subsidiary company.

### **Information Technology Implications**

27 The council currently provides IT support to Veritau including the hosting of the company's audit and fraud applications. It is proposed that the existing support arrangements are extended to incorporate VNY.

## **Other Implications**

28 There are no implications to this report in relation to:

- **Crime and Disorder**
- **Property**

## **Risk Management Assessment**

29 A detailed risk assessment was undertaken as part of the work to prepare the business case and to consider the different options for including the district councils in the expanded business. The Veritau Board of Directors has continued to monitor the identified risks and, where possible has taken mitigating action.

30 The proposed structure will minimise the risk to Veritau itself and hence the council's interest in the company should VNY encounter difficulties. Whilst there would be the potential for reputational damage to Veritau and its shareholders should VNY fail, any financial risk is considered to be low. Ryedale District Council is providing a guarantee to cover future pension liabilities in such an event. Veritau's exposure would be limited to the value of the initial investment (£10k) plus any inter company balances. The proposed model would allow Veritau to carry on relatively unhindered in the event of problems.

31 The proposed structure of the expanded business is also considered less likely to be subject to challenge under EU public procurement legislation (Teckal) compared to granting the district councils a minority shareholding in Veritau itself. The approach also offers a model for any further expansion of the company, for example to accommodate other future public sector 'partner' organisations.

## **Recommendation**

32 Members are asked to approve the expansion of Veritau through the creation of a subsidiary company, Veritau – North Yorkshire so as to enable internal audit services to be provided to the North Yorkshire district councils from 1 April 2012.



Reason: As shareholders in Veritau, to consider the expansion of the company so as to enable the provision of services to other local authorities in the region.

## Contact Details

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### Cabinet Member and Chief Officer Responsible for the report:

Councillor Julie Gunnell, Cabinet  
Member for Corporate Services

Ian Floyd, Director of Customer and  
Business Support Services

Report  
Approved



Date 14/12/11

### Specialist Implications Officers

Not applicable

**Wards Affected:** Not applicable

All



**For further information please contact the author of the report**

### Background Papers

NYAP Integration Report and Action Plans kept by Veritau Ltd at 2  
St Leonards Place.

### Annexes

Annex 1 – Veritau Limited, Business Case for Expansion