

VERITAU LIMITED

Creation of a subsidiary company – requirement for shareholder approval

1.0 Purpose

- 1.1 To seek shareholder approval for the expansion of Veritau through the creation of a subsidiary company.

2.0 Introduction

- 2.1 Veritau Limited was established in 2009 as a shared service company. The company is jointly owned by North Yorkshire County Council and the City of York Council. Veritau provides internal audit and other assurance services to the two councils.
- 2.2 Veritau expanded in 2012, with the creation of a subsidiary company, Veritau North Yorkshire Limited. Veritau North Yorkshire Limited is 50% owned by Veritau Limited with the remaining shares owned by four North Yorkshire district councils. As well as its member councils, the Veritau group provides services to a range of other public sector bodies, including North Yorkshire Fire and Rescue Service, Doncaster Children's Services Trust, Selby Housing Trust, 3 x National Park authorities, plus various housing associations, town councils and academy schools. The group operates as a single business under a uniform management structure below board level. The group has common policies, procedures and systems. It has also adopted a single brand image.
- 2.3 Since its creation, Veritau has been open to other local authorities joining the shared service providing any expansion is in the best interests of the group and its existing shareholders. Recently discussions have been taking place with a number of other councils about them possibly joining the group. The councils are Redcar and Cleveland Borough Council, Middlesbrough Council and Scarborough Borough Council.
- 2.4 To prevent any dilution in control for NYCC and CYC, any new member councils would need join the group by either becoming a member of Veritau North Yorkshire Limited (subject to the agreement of the existing shareholders of the company) or through the creation of a new subsidiary company (similar to Veritau North Yorkshire). The Veritau Limited shareholders' agreement requires the unanimous consent of both shareholders to any acquisition of shares in any company or business, the establishment of any subsidiaries or participation in any legal partnership or joint venture.

3.0 Benefits of Expansion

- 3.1 There are a number of advantages for Veritau and its shareholders in accepting additional council members, including:
 - greater efficiencies and cost savings through economies of scale;

- the ability to retain skilled and experienced staff by creating greater critical mass and providing more opportunities for career development and specialism;
- greater resilience and capacity resulting in increased security of supply for clients;
- more opportunities to develop specialist skills (for example data analytics and IT audit), resulting in added value for clients;
- an improved Teckal position (which in turn increases Veritau's ability to sell services to other external clients);
- an increased profile – being seen as the supplier of choice for assurance services in the region;
- the reduced risk that these councils and others might collaborate and create a potential rival service or join up with another existing partnership resulting in increased competition.

4.0 Background

4.1 Redcar and Cleveland Borough Council and Middlesbrough Council have operated a shared service for internal audit and other assurance services since 2011. Redcar and Cleveland acts as the lead authority for the shared service. There are 7 members of staff currently providing internal audit services to the two councils and the combined programme of work is approximately 1,560 days per annum. Whilst the shared service has been successful it is recognised that it is now too small to be fully effective. The councils have therefore been looking at options for securing the future of the internal audit service and have concluded that joining a larger shared service would be preferable.

4.2 When Veritau North Yorkshire (VNY) was established in 2012, five North Yorkshire district councils joined as member councils. One of those councils, Scarborough Borough Council subsequently opted to leave the shared service and to instead establish its own in-house team for internal audit and fraud services. The council therefore ceased to be a member of VNY in 2014. As a result of subsequent budget cuts this in-house team has now reduced in size and consists of 4 FTE posts including the Head of Internal Audit. The programme of work is approximately 500 days per annum. The Head of Internal Audit post is also now vacant. The council has recognised that the current arrangements are no longer sustainable and has therefore asked to be re-admitted to Veritau North Yorkshire.

5.0 Proposal

5.1 As noted above, discussions have been taking place with all the interested councils. Agreement has now been reached with Redcar and Cleveland Borough Council and Middlesbrough Council to transfer their existing internal audit service to the Veritau group. It is proposed to achieve this by creating a new company, Veritau Tees Valley Limited (VTV). The company will be jointly

owned by Redcar and Cleveland Borough Council, Middlesbrough Council and Veritau Limited. The shares will be allocated as follows:

Redcar and Cleveland Borough Council – 100 (25%)

Middlesbrough Council – 100 (25%)

Veritau Limited – 200 (50%)

- 5.2 Each shareholder will be required to make a capital contribution to the new company equivalent to £200 per share, to provide the company with its initial working capital. This represents an investment of £40k by Veritau Limited in the new company. The investment will come from reserves. The new company is expected to commence trading on 1 January 2020.
- 5.3 The new company will be shown as an investment in Veritau Limited's accounts. If the company was wound-up then the capital would be returned to the shareholders assuming there were no other outstanding debts. The new company will join the existing Veritau group companies in operating as a single business.
- 5.4 Whilst creating and operating a new company will result in some additional costs, this approach avoids any dilution in existing shareholder control. It also has the advantage that the rest of the group would be protected should the new entity experience financial or operational difficulties in the future. Any risk to Veritau Limited would therefore be limited to the value of the original investment and the existing group could continue trading.
- 5.5 Similarly, an outline agreement has been reached with Scarborough Borough Council (SBC) for internal audit and fraud services to be transferred to Veritau. This would be achieved by the council being re-admitted to Veritau North Yorkshire Limited. The readmission of SBC is a decision for the VNY shareholders. SBC will be asked to make a capital contribution to the company of £10k. This is to reflect the current value of the business.
- 5.6 The proposals have been agreed by the boards of both Veritau Limited and Veritau North Yorkshire Limited.

6.0 Other Details

- 6.1 The registered office of Veritau Limited is West Offices, Station Rise, York, YO1 6GA. Subject to the agreement of City of York Council, the registered office for the new company will be the same. Articles for the new company will be prepared in accordance with the Companies Act 2006.
- 6.2 The company will have a board consisting of four directors. Two of the directors will be appointed by Veritau Limited. The board will be responsible for strategic and policy decisions, and will meet a minimum of three times each year. Specific responsibilities will include agreeing the business plan, approving the annual budget and accounts, and monitoring the financial and operational performance of the company. The new company will not pay remuneration to the directors but

will reimburse reasonable travel and subsistence allowances in accordance with existing Veritau policies.

6.3 The new company will be regulated 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 new company falls within the definition of a 'public sector influenced' company and will therefore need to comply with a number of specific governance and accountability rules, including:

- identifying the relevant councils on business documents
- limiting directors' remuneration
- prohibiting party political publicity
- requiring the provision of certain information to the relevant councils and their auditors.

6.4 Those members of staff currently working for the three councils, and considered to be within scope, will transfer in accordance with the Transfer of Undertakings (Protection of Employment) Regulations 2006 (TUPE) and the Collective Redundancies and Transfer of Undertakings (Protection of Employment) (Amendment) Regulations 2013.

6.5 A shareholders' agreement will be required to govern the operation of the new company, the relationship between the company and its shareholders and between each individual shareholder. The agreement will identify those decisions which require the unanimous agreement of all the shareholders, for example the admission of any new members. The other provisions covered by the shareholders' agreement will include:

- shareholders' voting rights
- arrangements for allowing any future changes in the company's membership
- arrangements for appointing and removing Directors
- arrangements for board meetings, including their frequency and quorum
- arrangements for resolving disputes
- exit arrangements
- the information which each company will be required to supply to its shareholders.

6.6 A service contract will be required to specify the services to be delivered to each council. The length of the contract will be determined by each council but is expected to be 10 years plus possible extensions. This is in order to provide a degree of certainty to all parties and to recognise that this is a long-term partnership where the new member councils are able to help shape and direct

the future development of the shared service. Each council will however retain the right to terminate its service contract by giving 12 months written notice.

7.0 Recommendations

- 7.1 To approve the creation of a new subsidiary company, Veritau Tees Valley Limited, to enable the expansion of the Veritau group.
- 7.2 To approve the capital contribution of £40k required from Veritau Limited.