



Report Reference Number: A/19/11

To: Audit and Governance Committee
Date: 23 October 2019
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Lead Officer: Karen Iveson; Chief Finance Officer

Title: Admittance of Scarborough Borough Council to Veritau North Yorkshire

Recommendations:

It is recommended that Scarborough Borough Council be re-admitted to Veritau North Yorkshire, subject to obtaining the necessary shareholder approvals and the satisfactory conclusion of due diligence checks.

Reasons for recommendation

To improve the company's resilience and efficiency.

1. Introduction and background

- 1.1 This report seeks shareholder approval for the re-admittance of Scarborough Borough Council into Veritau North Yorkshire Ltd.
- 1.2 Veritau North Yorkshire (VNY) was established in 2012, as a subsidiary of Veritau Ltd. Veritau is wholly owned by North Yorkshire County Council and City of York Council. Veritau North Yorkshire was established with Veritau holding 50% shareholding and five North Yorkshire district councils equally sharing the remaining 50%.
- 1.3 In 2014, one of those councils, Scarborough Borough Council 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, with the remaining four districts again equally sharing 50% of the company shares.
- 1.4 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.

- 1.5 Given the original company structure, it is therefore proposed that Scarborough Borough Council is re-admitted as a member to Veritau North Yorkshire Limited.

2 The Report

- 2.1 The re-admittance of Scarborough Borough Council will impact on the current company share holdings. Subject to the agreement of the existing shareholders a share reorganisation would be undertaken to facilitate this. The new shareholding would be:

- Hambleton District Council – 10%
- Richmondshire District Council – 10%
- Ryedale District Council – 10%
- Scarborough Borough Council – 10%
- Selby District Council – 10%
- Veritau Limited – 50%

This is the same shareholding that existed when VNY was first established.

- 2.2 Scarborough Borough Council will be asked to make a capital contribution to the company of approximately £10k.
- 2.3 As a shareholder in the company, Scarborough Borough Council will be able to appoint a director to the board. In addition the existing company articles and shareholders' agreement will be reviewed and updated, if necessary, as part of the integration process.
- 2.4 Subject to approval, Scarborough Borough Council will transfer responsibility for internal audit and counter fraud services to VNY on 1 April 2020. Interim management support will be provided to the council during the transition period.
- 2.5 Those members of staff currently undertaking these services will transfer to the company on 1 April 2020. The transfer will be completed 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. VNY will complete a consultation exercise with those members of staff identified as being in scope and the relevant unions.
- 2.6 Scarborough Borough Council will be expected to enter into a long-term service contract with VNY. It is also expected that any existing contracts held

by Scarborough Borough Council for the supply of audit or fraud services to third parties will be novated to VNY.

2.7 Due diligence will also be undertaken although the information received to date does not indicate any potential problems.

3. Implications

3.1 The proposal complies with the relevant legal framework concerning Local Authority companies and trading.

3.2 There are no direct financial implications for the Council in approving the recommendations. Whilst the Council's shareholding in VNY will reduce, the company largely breaks-even and company dividends are not anticipated.

3.3 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;
- an improved Teckal¹ position (which in turn increases the company'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 ability for our partners to sell other traded services to the new councils;
- 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.

3.4 An alternative approach would be for Veritau to offer to supply services to Scarborough Borough Council on a contractual basis. However, any service is likely to be more limited in nature (for example the provision of management support or the completion of discrete packages of work). Any contract might also be relatively short providing less certainty to all parties. The 'Teckal' implications would also not be favourable and therefore this approach is not recommended.

¹ The Teckal exemption allows participating authorities to award contracts to jointly owned companies without the need for a procurement exercise subject to a number of conditions being satisfied. One of these conditions is that the value of external work should not exceed 20% of total activities.

4. Conclusion

- 4.1 Re-admitting Scarborough Borough Council into VNY would add resilience and further efficiency to our internal audit service.

5. Background Documents

None

6. Appendices

None

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