

Agenda

Meeting: Shareholder Committee

**Venue: Brierley Room, No.3 Racecourse Lane,
Northallerton DL7 8QZ**

Date: Wednesday 6 November 2019 at 4pm

Recording is allowed at County Council, committee and sub-committee meetings which are open to the public, please give due regard to the Council's protocol on audio/visual recording and photography at public meetings, a copy of which is available to download below. Anyone wishing to record is asked to contact, prior to the start of the meeting, the Officer whose details are at the foot of the first page of the Agenda. We ask that any recording is clearly visible to anyone at the meeting and that it is non-disruptive. <http://democracy.northyorks.gov.uk>

PLEASE NOTE: The Brierley Building (main County Hall building) is closed now until July 2020. All Committee meetings will be held in either No. 1 or No. 3 Racecourse Lane, Northallerton, DL7 8QZ. Please note the venue above for the location of this meeting. Please report to main reception which is located in No. 3 Racecourse Lane.

Business

1. Minutes of the meeting held on 10 September 2019 (Pages 5 to 8)
2. Declarations of Interest
3. Exclusion of the public from the meeting during consideration of each of the items of business listed in Column 1 of the following table on the grounds that they each involve the likely disclosure of exempt information as defined in the paragraph(s) specified in column 2 of Part 1 of Schedule 12A to the Local Government Act 1972 as amended by the Local Government (Access to information)(Variation) Order 2006:-

Item number on the agenda	Paragraph Number
7	3

Enquiries relating to this agenda please contact Melanie Carr on Tel: 01609 533849, or e-mail:
Melanie.Carr1@northyorks.gov.uk
Website: www.northyorks.gov.uk

4. Public Questions or Statements.

Members of the public may ask questions or make statements at this meeting if they have given notice to Patrick Duffy of Democratic and Scrutiny Services and supplied the text (*contact details below*) by midday on Wednesday 4 September 2019, three working days before the day of the meeting. Each speaker should limit themselves to 3 minutes on any item. Members of the public who have given notice will be invited to speak:-

- at this point in the meeting if their questions/statements relate to matters which are not otherwise on the Agenda (subject to an overall time limit of 30 minutes);
- when the relevant Agenda item is being considered if they wish to speak on a matter which is on the Agenda for this meeting.

If you are exercising your right to speak at this meeting, but do not wish to be recorded, please inform the Chairman who will instruct anyone who may be taking a recording to cease while you speak.

5. Veritau Business Case for Expansion - Report of the Director of Strategic Resources (Pages 9 to 14)

Recommendation: That the Shareholder Committee approves the creation of a new subsidiary company, Veritau Tees Valley Limited, to enable the expansion of the Veritau group.

6. Work Programme 2019/20 (Page 15 to 16)

Purpose of report: To consider and develop the Work Programme for the Shareholder Committee.

7. Private Minutes of the meeting held on 10 September 2019 (Page 17 to 18)

8. Other business which the Chair agrees should be considered as a matter of urgency because of special circumstances

Barry Khan
Assistant Chief Executive (Legal and Democratic Services)
County Hall, Northallerton
2 September 2019

NOTES:

Emergency Procedures for Meetings:

Fire

Details are provided at the venue.

Accident or Illness

First Aid treatment can be obtained by telephoning Extension 7575.

Shareholder Committee Membership

County Councillors (3)		
	<i>Councillors Names</i>	<i>Political Party</i>
1	LES, Carl	Conservative
2	DADD, Gareth	Conservative
3	MACKENZIE, Don	Conservative

North Yorkshire County Council

Shareholder Committee

Minutes of the meeting held on 10 September 2019 commencing at 1pm, at County Hall, Northallerton.

Present:-

Members:-

County Councillors Carl Les (Chairman), Gareth Dadd and Don Mackenzie

Officers:-

Michael Leah (Assistant Director, Strategic Resources), Barry Khan (Assistant Chief Executive Legal & Democratic Services), Gary Fielding (Corporate Director Strategic Resources) and Melanie Carr (Principal Democratic Services Officer)

Also In attendance: County Councillor Derek Bastiman

Copies of all documents considered are in the Minute Book

29. Minutes

Resolved -

That the Minutes of the meeting held on 28 May 2019, having been printed and circulated, be taken as read and confirmed and signed by the Chairman as a correct record.

30. Declarations of Interest

No interests were declared at the meeting:

31. Exclusion of the Public and Press

Resolved -

That the public and press be excluded from the meeting during consideration of the appendix to Agenda item 6 -, on the grounds that they involved the likely disclosure of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A to the Local Government Act 1972, as amended by the Local Government (Access to Information) Variation Order 2006.

32. Public Questions or Statements

There were no questions or statements from the public.

33. Brierley Group Annual Report 2018/19

Considered –

The report of the Director of Strategic Resources, providing an annual performance update on the work of the Brierley Group.

Michael Leah presented the report detailing the mixed performance of the Brierley Group through the financial year 2018/19. Members noted the shortfall in net PBIT and the main factors for that. In particular it was noted that whilst Yorwaste had struggled to compete, the other companies had all experienced some measure of success. In the case of Brierley Homes the financial loss as a result of running costs was accepted ahead of the sale of homes built at Thorpe Willoughby.

County Councillor Derek Bastiman expressed the view that the County council needed a more entrepreneurial vision and to identify more suitable properties to buy and more potential long lease tenants. Members agreed with his stance noted that a commercial mind set was a plus regardless of the environment each company found themselves in. Michael Leah confirmed all company leads were being challenged to reach both their financial and operational targets set, through the advocacy of an enterprising spirit.

In regards to a recent Notice of Motion at full Council, suggesting the use of Brierley Homes profit to provide additional social housing, members noted the decision of the Corporate & Partnerships Overview & Scrutiny Committee to reject the proposal. It was confirmed that County Councillor Derek Bastiman would formally report that decision to the Executive in October 2019.

Resolved –

That the Committee noted the annual update for 2018/19.

The Appendix in respect of the following item was considered in private and the public have no right of access. Minute No. 34 provides details of the public aspect of the reports and a public summary of the business conducted in private.

34. Brierley Group Quarter 1 Performance Report 2019/20

Considered -

The report of the Director of Strategic Resources providing a first quarter financial and performance update for 2019/20, for the companies that make up the Brierley Group.

Michael Leah, Assistant Director Strategic Resources introduced the report detailing the performance of the Brierley Group through the first quarter of the 2019/20 financial year.

The confidential Appendix to the report detailed the first quarter achievements and challenges, together with an overview of future areas of development, and as Members had a number of comments and questions relating to the information, they agreed to move into private session.

Resolved -

That the Committee accepted the first quarter update for 2019/20.

35. Work Programme

Members considered the Work Programme for the Committee for 2018/19 and agreed to receive the Brierley Group Q2 2019/20 Performance Report at the next meeting on 21 January 2020.

The meeting concluded at 1.30 pm

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North Yorkshire County Council

Shareholder Committee

6 November 2019

Creation of a Subsidiary Company – Requirement for Shareholder Approval

Report of the Corporate Director for Strategic Resources

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 variation of the articles of the company, adopting strategic objectives of the company and making significant decisions such as approving contracts over a certain value threshold. Other provisions covered by the shareholders' agreement will include:

- arrangements for allowing any future changes in the company's membership
- arrangements for appointing and removing Directors
- arrangements for board meetings, including their frequency
- 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 Recommendation

- 7.1 To approve the creation of a new subsidiary company, Veritau Tees Valley Limited, to enable the expansion of the Veritau group.

Max Thomas
Director of Veritau Limited & Head of Internal Audit
22 October 2019

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Shareholder Committee Work Programme

Meeting Date	Items of Business
23 April 2019	<ol style="list-style-type: none"> 1. Company Updates & 2019/20 Business Plans for the following companies: <ul style="list-style-type: none"> • Align Property Partners • First North Law • Yorwaste • Brierley Homes 2. Work Programme 2018/19
28 May 2019	<ol style="list-style-type: none"> 1. Company Updates & 2019/20 Business Plans for the following companies: <ul style="list-style-type: none"> • Veritau • NYES • NYnet 2. Work Programme 2019/20
10 September 2019	<ol style="list-style-type: none"> 1. Brierley Group 2018/19 Outturn Reports 2. Brierley Group Q1 2019/20 Performance Report 3. Work Programme 2019/20
6 November 2019	<ol style="list-style-type: none"> 1. Veritau Business Case for Expansion 2. Work Programme 2019/20
21 January 2020	<ol style="list-style-type: none"> 1. Brierley Group Q2 2019/20 Performance Report 2. Draft Work Programme 2020/21

To be considered at a future meeting: NYES Business Plan.