

Report of:	Strategic Director of Director of Finance Governance & Support
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Submitted to:	Executive, Tuesday 8 th October 2019
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Subject:	Provision of the Internal Audit Service
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Summary

Proposed decision(s)
That Executive approves the provision of internal audit services through the Veritau group and agrees to the creation of the new company and the Council’s 25% ownership of it at a cost of £20,000.

Report for:	Key decision:	Confidential:	Is the report urgent?
Decision	Yes	No.	No

Contribution to delivery of the 2018-22 Strategic Plan		
Business Imperatives	Physical Regeneration	Social Regeneration
By operating to an agreed programme of audits, the Internal Audit Service is aimed at assisting the Council in meeting its Business Imperative priorities and managing its risks. It identifies areas for improvement resulting in remedial action being taken where required. The work of Internal Audit is governed by the Accounts and Audit Regulations 2015 and the Public Sector Internal Audit Standards. In accordance with the Standards, the Audit and Assurance Manager is required to report to those charged with governance on the findings of audit work,	By operating to an agreed programme of audits, the Internal Audit Service is aimed at assisting the Council in meeting its Physical Regeneration priorities and managing its risks. It identifies areas for improvement resulting in remedial action being taken where required. The work of Internal Audit is governed by the Accounts and Audit Regulations 2015 and the Public Sector Internal Audit Standards. In accordance with the Standards, the Audit and Assurance Manager is required to report to those charged with governance on the findings	By operating to an agreed programme of audits, the Internal Audit Service is aimed at assisting the Council in meeting its Social Regeneration priorities and managing its risks. It identifies areas for improvement resulting in remedial action being taken where required. The work of Internal Audit is governed by the Accounts and Audit Regulations 2015 and the Public Sector Internal Audit Standards. In accordance with the Standards, the Audit and Assurance Manager is required to report to those charged with governance on the findings

provide an annual opinion on the Council's internal control environment and identify any issues relevant to the preparation of the Annual Governance Statement	of audit work, provide an annual opinion on the Council's internal control environment and identify any issues relevant to the preparation of the Annual Governance Statement	of audit work, provide an annual opinion on the Council's internal control environment and identify any issues relevant to the preparation of the Annual Governance Statement
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Ward(s) affected
None

What is the purpose of this report?

1. To consider and approve a new model for the delivery of the Council's Internal Audit Services.

Why does this report require a Member decision?

2. The new model involves the Council being a shareholder in a new company which will form the delivery vehicle for the new service.

Report Background

3. Internal audit is a statutory function and the Council is required to have arrangements for this activity under the Accounts and Audit Regulations 2015.
4. In April 2010 Middlesbrough Council and Redcar & Cleveland Council established a Shared Service arrangement for the provision of an Internal Audit service for both Local Authorities that allowed for the creation of a robust team that achieved increased operational efficiency and performance improvement, but at a reduced overall cost. This initial five-year arrangement, running through to March 2015, has since been initially extended to March 2018 and now further extended to March 2021.
5. Redcar and Cleveland is no longer able to provide this function for a number of reasons which are set out below and has been in discussion with Officers of Middlesbrough Council as to how an alternative service model could be provided.
6. A service level agreement for the provision of the internal audit services is in place between Middlesbrough Council and Redcar & Cleveland Council and includes several performance measures, with the current level of performance against each of these measures forming part of regular reports to both Local Authorities' Members through the relevant Governance/Audit committees. While performance metrics have shown no major concerns over the full term and the service has met externally recognised standards, the latest set of performance metrics show that productivity on planned Internal Audit days is down due to a number of new starters plus an instance of a long term absence.

7. Through almost ten years of this arrangement, the joint service has been faced with a range of challenges in maintaining a good level of productivity and well as the ability to attract, recruit and retain a good quality of Auditor. Due to the relatively small size of the team, any gap in recruitment and/or drop in productivity has a large impact on the overall outputs of the service.
8. The current Joint Audit & Assurance team, is comprised of 7 FTE's delivering circa. 1,560 internal audit days' worth of input across both Councils, with Middlesbrough Council receiving approximately 850 of those days. Middlesbrough Council contributes approximately £180,000 per annum towards the provision of this service.

Internal Audit – The Proposal

9. Veritau Limited was formed in 2009 by North Yorkshire County Council and City of York Council. The company was set up to share internal audit, counter fraud and information governance services between the councils (assurance services). The arrangement addressed a number of concerns around capacity for providing effective services in-house, and delivered a number of other advantages including economies of scale, increased flexibility in service provision and greater resilience.
10. The proposal is to TUPE transfer the Internal Audit team, currently employed by Redcar and Cleveland, to a new company, as part of the Veritau group.
11. The proposal, will be provided at the same cost to Middlesbrough Council as now, but will give stability and certainty to the provision and quality of the Internal Audit service, specifically it will address the following issues:
 - Reducing the length of time taken to complete an assignment by matching the complexity of work allocated to the expected skills of the post;
 - Improving the quality and depth of assignments completed and also the quality of report writing reducing the amount of change that has to be made at draft stage;
 - Building resilience into the team by increasing the number of supervisory assurance leads to support the Audit Manager;
 - Strengthening the delivery of the assurance workplan by a more equal distribution of workload and management responsibility across the respective leads;
 - Provide a structured career progression with promotion dependent on successful contribution in role;
 - As this does not look to reduce the number of staff within the team, critical skills will be retained;
 - Resilience can be built by bringing together skills, creating a larger pool of expertise to draw on thus creating capacity.
12. We will insist upon a clear Middlesbrough Council lead and a regular presence in Middlesbrough as part of the operating arrangements so that we retain the level of expertise and dedicated support we need.
13. The detail of the proposed arrangements is given at Appendix 1

What decision(s) are being asked for?

14. That Executive approves the provision of internal audit services through the Veritau group and agrees to the creation of the new company and the Council's 25% ownership of it at a cost of £20,000.

Why is this being recommended?

15. Internal audit is a necessary and statutory function of the Council. Redcar and Cleveland Council who are the current provider of the service cannot provide an effective service into the future. An alternative cost effective solution for the delivery of the service is needed.

Other potential decisions and why these have not been recommended

16. There are a number of potential options available to the Council.

i. Continue current arrangements.

17. This is not possible as Redcar and Cleveland have said they are no longer able to deliver an effective service.

ii. Bring the Service back to Middlesbrough Council.

18. For all of the economies of scale, capacity and service resilience reasons which make it very difficult for Redcar and Cleveland to provide the service across two Councils, the problems would be compounded if Middlesbrough tried to provide this service alone and would almost certainly quickly fail and be ineffective.

iii. Procure an Internal Audit Service from a Large Audit Firm

19. Redcar and Cleveland did some soft market-testing on this within the last two years. This would be possible but would be very expensive; and there are fewer firms in the market than was the case previously. It would effectively reduce the audit hours available to a third or a quarter of what is currently available. This level of hours would not allow for an acceptable level of internal audit provision for a Council of our size and complexity. There is no provision in the Council's budget to increase the cost of internal audit and it is not necessary.

iv. Join a larger shared service (Veritau)

20. This would however help to maximise these benefits and reduce the risks identified with the current arrangements as it would have the economies of scale, skilled workforce and resilience to provide the Council's requirements going forward, within the current budget which is available.

Impact(s) of recommended decision(s)

21. By Agreeing to the recommendations the executive is ensuring that the Council will have an effective statutory Internal Audit service from the 1 January 2020.

Legal

22. The Direct procurement of the service with tendering is made possible as the Company created will be a Teckal company as is Veritau. Detail regarding this is given at Appendix 2. The company will be established under Companies Act Legislation. The Council will need to nominate a Director of the newly formed company who will be responsible for agreeing the Company Direction and business plan of the company. It is expected that this will be the Council's section 151 officer, The Strategic Director of Finance Governance & Support. The Executive will have the role of shareholder committee of the new company on behalf of the Council. The Corporate Affairs and Audit Committee will monitor the progress and performance of internal audit and they current do with the TVAAS service.

Financial

23. Veritau operate on a daily charge out rate, which for 2019/20 is £255 per day. Based on the 2019/20 Audit Plan which requires, for internal audit assurance, a total of 850 audit days making an effective annual charge in 2019/20 of £216,750. The current budget is currently £180,000. Middlesbrough Council would therefore have a reduction in hours of 20%. Although this may seem significant is manageable. There are still enough hours to provide assurance for all of the key functions and systems which are required annually and the reduction in hours will mean a slightly longer rolling programme for other audits. It is anticipated that audits will be more efficient and completed in a shorter timescale than currently, which will provide some further mitigation against lost productive hours.
24. The creation of a Veritau – Tees Valley company, requires a capital injection to set it up of £20,000 each from Middlesbrough Council and Redcar & Cleveland Council, who would each have a 25% ownership of the company, with the 50% balance being held by the parent Veritau entity. Any trading profit from the group operations would be shared accordingly.
25. The annual cost of the service will be within the current budget of £180,000 per annum, which is the current Middlesbrough Council contribution to the TVAAS.
26. It is not anticipated that there will be any redundancy costs as a result of the TUPE transfer, but any costs would be shared 50 – 50 with Redcar and Cleveland Council.
27. The £20,000 investment will be funded from capacity in existing capital resources available to Finance Governance and Support.

Policy Framework

28. The recommendations in this report to not affect the policy framework.

Equality and Diversity

29. There are no direct implications arising from this report on equality and diversity.

Risk

30. Internal audit and assurance work is aimed at providing assurance that the key risks faced by the Council are being managed effectively and that appropriate safeguards are in place for public funds and assets. As such, internal audit work contributes to providing assurance on the mitigation controls for many of the risks included on the Council's risk registers, both strategic and directorate. Internal audit work particularly links into risk reference O8-054 which relates to having adequate governance processes in place.

Actions to be taken to implement the decision(s)

31. Redcar and Cleveland Council as the employer of the TVAAS staff will consult with staff and implement the TUPE transfer to the new Veritau Tees Valley Company. Finance and legal officers will work with Veritau to create the new company and shareholder agreement to be operational from 1 January 2020.

Appendices

Appendix 1 - Veritau Internal Audit Proposal

Appendix 2 - Teckal Companies

Background papers

32. No background papers were used in the preparation of this report.

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Veritau Internal Audit Proposal

Existing Arrangements

1. Redcar and Cleveland Borough Council and Middlesbrough Council have operated a shared service for internal audit and other assurance services since April 2010. The Tees Valley Audit and Assurance Service (TVAAS) currently provides internal audit, risk management and health and safety services to the two councils. Redcar and Cleveland acts as the lead authority for the shared service. 7 members of staff are currently employed within the shared service. The shared service also has access to serviced accommodation at both councils.
2. Whilst the shared service has been successful it has suffered from increasing recruitment and retention problems in recent years. This creates risks for the long-term resilience of the service and for the continuity of supply of assurance services to the two councils.
3. The councils have looked at options for securing the future of the service and have concluded that joining a larger shared service would mitigate those risks.

Benefits and Drivers for Change

4. There are a number of benefits with the shared service model. Joining a larger shared service would however help to maximise these benefits and reduce the risks identified with the current arrangements, as follows:
 - a) Increased security of service provision including resilience and capacity: the current shared service continues to experience problems filling vacancies in professional assurance roles. Joining a larger shared service will enable resource pressures to be spread and the risks to be more effectively managed. The larger service will be better placed to manage issues caused by staff vacancies and unexpected service demands. It will also give greater flexibility to respond to changing priorities, initiatives and new working practices dictated by professional standards. Reliance on key members of staff for the delivery of services has also been an issue and the new arrangement will improve the scope to manage succession planning and mitigate risks around service continuity.
 - b) Achievement of further economies of scale by sharing overheads and reducing unproductive time across a larger council base: for example, through reducing overall management overheads, using a single audit management IT system and combining procedures. The councils have already seen efficiency savings through the current shared service. Joining a larger shared service will enable further efficiency savings to be made for example through the development of common approaches to audits across multiple councils.

- c) Further developments in service delivery and quality by joining a large shared service with an established identity, and a vision and brand linked to the delivery of high quality assurance services.
- d) Greater staff satisfaction and retention as a result of enhanced career opportunities and the ability of staff to specialise and gain broader experience as part of a larger team.
- e) A greater opportunity to develop specialist knowledge within a larger shared service. It has not been possible to fully exploit this opportunity with the current shared service due to its size.
- f) A more innovative approach to service delivery which offers greater flexibility and choice for the two councils.

About Veritau

5. Veritau Limited was formed in 2009 by North Yorkshire County Council and City of York Council. The company was set up to share internal audit, counter fraud and information governance services between the councils (assurance services). The arrangement addressed a number of concerns around capacity for providing effective services in-house, and delivered a number of other advantages including economies of scale, increased flexibility in service provision and greater resilience.
6. Each council has a 50% share in the company. The two councils buy a mix of assurance services from Veritau. The services are provided on the basis of long-term service contracts.
7. In early 2012, a separate company - Veritau North Yorkshire Limited (VNY) - was formed to provide assurance services to a number of district councils in the North Yorkshire area. Veritau Limited holds a 50% share of VNY, and the remaining 50% is held equally by Hambleton District Council, Richmondshire District Council, Ryedale District Council, and Selby District Council. Each of these councils buys a mix of assurance services from VNY.
8. Veritau is led by its Chief Executive, Max Thomas, who has over 25 years of audit experience gained within the private and local government sectors, providing services to a range of clients. Max is currently the Head of Internal Audit for North Yorkshire County Council and City of York Council. He is also the Treasurer for the Local Authority Chief Auditors' Network and a member of the North Yorkshire Police Joint Independent Audit Committee.
9. The Chief Executive is supported by a deputy, Richard Smith, who has considerable experience of undertaking and managing internal audit and counter fraud work in the public sector. This encompasses a range of clients including local authorities, charitable companies, and other publicly funded bodies. Both Max and Richard, have been with Veritau since its inception.
10. Veritau provide an independent and impartial audit assurance service that is designed to help clients to manage their business and address those public sector service delivery challenges which have become more onerous with the combination of increasing demand, reduced resources, technological change and the ongoing redesign of services.
11. Veritau aim is to provide a range of services which are highly regarded, add

value for clients and are competitive in price. They do this by offering their service, which is comprised, in their own words, of the following:

- a. **Flexibility** - Rather than provide an 'off the shelf' service we will listen carefully to your requirements and develop a bespoke audit service designed to address your specific business and assurance needs. Our aim is to add value by helping you to optimise your resources and plan for the future rather than simply concentrating on past events;
 - b. **Experience** - Our auditors have extensive experience of assessing risks, reviewing controls and helping clients to make improvements. We provide audit assurance services to a range of public sector organisations including county, district and town councils, national park authorities, academies and housing trusts. We can therefore share best practice observations from across our extensive client base;
 - c. **Professionalism** - Our auditors are committed to providing a professional service which exceeds your expectations. They are all members of relevant audit and accountancy bodies. We also provide an ongoing programme of training and professional development;
 - d. **Quality** - Veritau has a proven track record when it comes to the quality of our work. We maintain a quality assurance programme which ensures audit assignments are conducted to relevant professional standards. Veritau is also recognised as an Investor in People;
 - e. **Independence** - We provide impartial and objective advice which is recognised and valued by our clients;
 - f. **Access to wider Veritau expertise** - You can benefit from the wider services that Veritau provides in house and through its various partnerships, including risk management, counter fraud and information governance services.
12. Veritau have an overall team cohort of circa. 58 employees operating across two business entities and five service specific teams.
 13. Whilst each company has its own board of directors, Veritau and VNY operate 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. The group employs approximately 60 members of staff and delivers a range of assurance services including internal audit, counter fraud, information governance and risk management. The majority of staff are now employed by Veritau Limited with VNY only directly employing 2 members of staff. The majority of the work carried out for the district councils is undertaken by Veritau employees, with costs recharged between the two companies. The group has been accredited as an Investor in People since June 2011.
 14. The Veritau member councils rely upon the Teckal exemption which enables them to procure services directly from the group without tendering. This has also enabled the councils to retain control over the delivery of services. Further information on Teckal companies is included in appendix 2.

15. Veritau is able to provide its member councils with flexibility around the level of supply. Veritau is able to manage any changes in demand whilst still maintaining professional standards and high levels of customer satisfaction. This has been possible because as a larger entity it has been able to adapt the level of service provision through:
- varying the numbers of employees engaged in service delivery across each client and targeting the mix of services most needed by the clients (for example to meet increases in demand for information governance and counter fraud services across a number of councils in recent years)
 - selling services to external clients to maintain and expand the overall size of the business - this has helped to ensure that the overall infrastructure needed to maintain high quality services can continue to be supported.
16. As a larger entity, the group has also been able to manage short term fluctuations in demand and resource pressures, for example, workload pressures caused by employee absences or requests for additional work. Veritau employees work across multiple sites and are moved around as needed to meet the demand for work.
17. The company model provides economies of scale across a range of areas, including:
- A low ratio of management and administration overheads to direct costs compared to smaller in-house teams.
 - Common IT audit, fraud and information governance management systems in use across all clients - the use of remote access means that systems can be accessed from any site.
 - Unified procedures in place for the delivery of services. This means that employees can undertake work interchangeably at all sites. It also means that changes in practice can be managed centrally - for example updates required to reflect changes in internal audit standards.
 - Common work programmes in use across clients where possible, which makes delivery of work more efficient.
18. Undertaking work across a number of organisations has also brought other benefits. For example auditors that have developed knowledge and expertise in a specific service area at one site are used to undertake work more effectively at other clients. Veritau is also able to support the sharing of knowledge and good practice across a number of clients where appropriate. A recent example includes the facilitation of meetings between clients using the same children's social care systems to share knowledge, experience and good practice.
19. Veritau has developed a strong and growing identity as a public sector assurance service provider. When first formed, the company inherited five contracts to provide internal audit services to external bodies. These organisations were all based in the North Yorkshire area. Veritau currently provides audit and fraud services to more than 20 public sector bodies.

Veritau is also often approached by other councils to undertake audit assignments, often of a complex or sensitive nature. In addition, the group provides a Data Protection Officer service to over 500 schools and other public sector organisations across the North of England.

20. The group has been shortlisted for a number of awards in recent years including by the Institute of Revenues, Ratings and Valuation (IRRV) for three consecutive years, the Public Finance Innovation awards and by the Information and Records Management Society (IRMS).
21. The group places a strong emphasis on being a good employer and uses the flexibility it has as a private entity to make it attractive to current and prospective staff. For example, the group:
 - Operates a performance related pay scheme which offers all employees an opportunity to earn additional pay as a reward for good performance.
 - Offers a high degree of flexibility around working patterns and home working.
 - Offers a choice of pension provision.
 - Supports employees to gain wider experience in different organisations and areas.
 - Invests a significant amount in training and development - professional training is a particular strength.

Detail of the Proposal

22. A new company, called Veritau Tees Valley Limited, will be established. The company will be jointly owned by Redcar and Cleveland Borough Council, Middlesbrough Council and Veritau Limited and shares will be allocated as follows:

Redcar and Cleveland Borough Council – 25%
Middlesbrough Council – 25%
Veritau Limited – 50%

23. Each shareholder will be required to make a capital contribution to the new company, to provide the company with its initial working capital. If the company was wound-up then the capital would be returned to the shareholders assuming there were no other outstanding debts. The contribution would be recorded as an investment in each council's accounts. The rationale for creating a separate company is to:
 - avoid the need for the two councils to have to purchase shares from the existing Veritau member councils (and for the existing member councils to have to undertake an exercise to value those shares)
 - enable the two councils to demonstrate sufficient control and influence over the new company to meet Teckal requirements
 - provide long-term resilience for the supply of assurance services
 - create an entity which is part of the wider Veritau brand

- create an entity which other neighbouring councils may wish to join in the future.
24. The new company will join the existing Veritau group companies in operating as a single business.
 25. The company's registered office will be at West Offices, Station Rise, York, YO1 6GA.
 26. Articles for the new company will be prepared in accordance with the Companies Act 2006. The Articles will be subject to approval by the shareholders.
 27. The board will consist of four directors, one appointed by each council and two appointed by Veritau Limited. The board will be responsible for strategic and policy decisions, and will meet at least four 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.
 28. The directors will be able to claim mileage and subsistence expenses in line with the rates payable to Veritau employees.
 29. 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 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.

Services within scope

30. The following services are considered to be in scope:
 - Middlesbrough Council – internal audit
 - Redcar and Cleveland Borough Council – internal audit and risk management
31. The new company will be responsible for providing these core services to the two councils from 1 January 2020.
32. There is no necessity for member councils to receive the same services from Veritau. Member councils will however be able to access the other services provided by Veritau if required, including counter fraud and information governance.

Staffing

33. Those members of staff currently undertaking internal audit activities will transfer to the new company on 1 January 2020. The transfer will be completed in accordance with the Transfer of Undertakings (Protection of Employment) Regulations (TUPE).
34. Any new staff recruited by the company after the date of transfer will be employed on Veritau's existing terms and conditions, and in accordance with the current pay and grading structure. Staff transferring from the existing shared service will have the option to transfer from their existing terms and conditions to those of Veritau. There will be no time limit placed on members of staff to exercise this option.
35. The new company will seek admitted body status to the Local Government Pension Scheme (administered by Middlesbrough Council).
36. Formal consultation will take place with members of staff and unions before the transfer takes place.

Governance Arrangements

37. As noted above, the board of directors will be responsible for strategic and policy decisions. The board will report on the company's performance to the Council's Executive committee. Operational decision making will be delegated to the Veritau management team. The specific responsibilities and authority for decision making will be set out in the Veritau scheme of delegation and operational procedure rules.
38. The company is likely to be classed as a 'small company' for the duration of the contract because its turnover, balance sheet value and number of employees would be below the current thresholds set out in the Companies Act. It would therefore only need to prepare abbreviated annual accounts for submission to Companies House. There would also be no requirement for these accounts to be audited. However, it is recognised that the shareholders would probably wish to elect for an audit to be undertaken. It is therefore proposed to appoint the current external auditors for the Veritau group, BHP LLP, as auditors for the new company.
39. The company would be funded from the public sector so its own procurement activities would be bound by the Public Contract Regulations.

Legal Agreements

40. A shareholders' agreement would be required to govern the operation of the 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 new members.
41. The other provisions covered by the shareholders' agreement would include:
 - shareholders' voting rights

- arrangements for allowing any future changes in the company's membership
 - arrangement for appointing and removing Directors
 - arrangements for board meetings, including their frequency and quorum
 - appointment of a company secretary
 - arrangements for resolving disputes
 - exit arrangements
 - the information which the company will be required to supply to each shareholder.
42. A service contract will specify the services to be delivered by the company 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 councils are able to 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.
43. If a council terminates its service contract with the company it cannot retain its shareholding in the company. Similarly if a council gives up its shareholding in the company, its service contract will also terminate.
44. Each council will also need to provide premise licences to cover the use of any serviced accommodation (see below).
45. Subject to agreement, any existing contracts held by TVAAS for the supply of assurance services to third parties will be novated to the new company.

Timetable

46. A detailed project timetable and implementation plan will be prepared. However, it is envisaged that the new arrangements will start operating from 1 January 2020. The staff will transfer to the new company on this date. The company will then be responsible for the delivery of the agreed assurance services to both Middlesbrough and Redcar and Cleveland Council's.

Client Arrangements

47. Each council will nominate a client officer to oversee the delivery of services under the service contract. This will be the Head of Financial Governance & Revenues.

Charging Arrangements

48. The annual fee for the core service will be based on the standard daily fee rate for Veritau member councils multiplied by the agreed level of service (ie the number of days required by each council). The annual level of service will be determined by the respective client officer prior to the start of each year. Each council will also be able to request additional work at any time

during the year. The fee for any additional work will be calculated with reference to the standard daily fee rate.

49. Profits will generally be reinvested into improving the quality of services.
50. The standard daily fee rate is applied to all Veritau member councils. A higher daily fee is charged to external clients. This is to ensure the company reflects the full economic cost of accommodation provided by its member councils and any other subsidised support, and is intended to avoid the risk of possible challenge due to State Aid Rules.
51. The standard daily fee rate will increase in line with the annual increase in the consumer price index (CPI).
52. The company will invoice for the provision of the core service quarterly in advance. Any additional work will be invoiced on completion.

Accounting, Banking and Insurance Arrangements

53. The company's financial transactions will be recorded using Veritau's existing financial processes and systems. Management accounts will be produced each month in the same format as the other Veritau group companies. HSBC plc provides banking facilities to the Veritau group. Current and high interest bank accounts will therefore be opened with HSBC to facilitate the new company's activities.
54. The new company will need to register for VAT before it commences trading. An application will be made for the new company to join the existing Veritau VAT group.
55. Jelf Insurance Brokers Limited arranges insurance cover for the Veritau group. The new company will require its own insurance cover for public and employers' liability, professional indemnity and directors' indemnity. Suitable cover will therefore be arranged through Jelf.

Serviced Accommodation

56. To enable the company to provide its services effectively each council will provide suitable serviced accommodation at no cost, similar to the office space currently used by TVAAS. The accommodation will include fixtures and fittings, IT equipment and other ancillary equipment.

Teckal Companies

A1. The Teckal exemption has now been incorporated into the Public Contracts Regulations 2015. Regulation 12(4) and (5) enables a number of contracting authorities to directly award contracts to a jointly owned company without undertaking a procurement exercise where the following criteria are satisfied:

- i. The contracting authority exercises jointly with other contracting authorities a control over the company which is similar to that which they exercise over their own departments. This includes the following:
 - The company board is made up of representatives of all participating contracting authorities;
 - Those contracting authorities are able to jointly exert decisive influence over the strategic objectives and significant decisions of the company; and
 - The company does not pursue any interest which are contrary to those of the controlling contracting authorities.
- ii. more than 80% of the activities of that legal person are carried out in the performance of tasks entrusted to it by the controlling contracting authorities or by other legal persons controlled by the same contracting authorities; and
- iii. there is no direct private capital participation in the company.

A2. Both Veritau and VNY are Teckal companies. The new arrangement from April 2018 would also comply with the Teckal requirements. The exercise of control will be determined through the shareholders agreement (and Articles) which will set out the composition of the board of directors of the company, and requirements for any significant decisions to be subject to unanimous agreement by the shareholders.

A3. In the event that the company wanted to provide services to contracting authorities other than the shareholding councils 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 exemption would not apply as the company would not be a company controlled by those bodies. However, contracting authorities are able to collaborate to provide a service without undertaking a procurement exercise. This exemption is known as the “Hamburg Principle” and is set out in regulation 12(7) of the Public Contracts Regulations 2015. In order for the collaboration to comply the following conditions must be fulfilled:

- the co-operation between the participating contracting authorities must have the aim of ensuring that public services they have to perform are provided with a view to achieving objectives they have in common; and
- the implementation of that co-operation is governed solely by considerations relating to the public interest; and
- the participating contracting authorities perform on the open market less than 20% of the activities concerned by the co-operation.

A4. The Hamburg Principle therefore provides the opportunity for other non-shareholding contracting authorities to share in the benefits of a Teckal arrangement and deliver future services in a partnership environment.