

MIDDLESBROUGH COUNCIL

Report of:	Director of Finance and Transformation (S151 Officer) – Andrew Humble
Relevant Executive Member:	Executive Member for Finance – Cllr. Nicky Walker
Submitted to:	Executive
Date:	16 July 2025
Title:	Proposed Changes to the Veritau Structure
Report for:	Decision
Status:	Public
Council Plan priority:	Delivering Best Value
Key decision:	Yes
Why:	Decision(s) will incur expenditure or savings above £250,000
Subject to call in?	Yes
Why:	Non-Urgent Executive report

Proposed decision(s)

That the Executive:

- a) Notes the Business Case for Veritau Public Sector Limited and the reasons for the changes in the Veritau structure and how these impact on the Council.
- b) Approves the Council membership of Veritau Public Sector Limited, a company limited by guarantee, and the novation of the existing contract.
- c) Approves the payment of a dividend from Veritau Tees Valley Limited sufficient to fund the Council's subscription to the new company.
- d) Approves a special resolution to wind up Veritau Tees Valley Limited once the Council's membership of the new company is confirmed.
- e) Delegates the approval for the Council to enter into all other necessary agreements to participate in the new company to the S151 Officer.
- f) Approves the appointment of a director to the Board of the new company and a senior officer to the members' committee to oversee its governance arrangements and performance.

Executive summary

This report seeks the Executive's approval to join a new company, limited by guarantee, for the provision of internal audit and counter fraud services, as per the attached business case at **Appendix 1**. Approval is also sought to an assignment of a contract for such services to the new company.

At present these services are provided by Veritau Tees Valley Limited (VTV), which is partly owned by the Council and part of the Veritau group of companies. Veritau is the current internal audit partner and adviser for the Council.

The current arrangement is mid-way through a ten-year contract for membership to VTV. This was approved by Executive in October 2019, started on 1 January 2020 and expires on 31 December 2029. The proposal is for these services to be provided in future by Veritau Public Sector Limited (VPS), a recently established company. There is no change in the level of audit services provided, the method of delivery, or the cost per annum, just the company delivering this to the Council.

The change in company provider is to allow continued compliance with Teckal requirements (provision under the Public Contract Regulations to not have to undertake a formal procurement exercise to award this work), but also to allow Veritau to grow their operations for the future with the admission of new members whilst remaining competitive.

Executive needs also to approve membership of the new company, VPS, whilst agreeing to the winding up of the old company VTV.

The new company has enhanced governance arrangements. The Council will appoint a senior officer to be a member of the VPS members' committee. The committee provides oversight of the governance and performance of VPS. As one of the initial members of VPS, the Council will also appoint a director to the VPS Board. The current director of VTV for Middlesbrough is the Director of Regeneration.

The service provision and monitoring of performance under the internal audit contract from Veritau will remain, under the remit of the Director of Finance and Transformation as Section 151 Officer, in line with current practice. VPS will also continue to report regularly to Audit Committee and LMT.

1. Purpose of this report and its contribution to the achievement of the Council Plan ambitions

- 1.1 This report seeks the Executive's approval to join a new company, limited by guarantee, for the provision of internal audit and counter fraud services, as per the attached business case at Appendix 1.
- 1.2 Executive is asked also to approve the payment of a dividend by VTV, which will fund Middlesbrough's subscription to VPS. The previous company will then be wound up, as the other member Redcar and Cleveland Borough Council has already moved over to the new arrangement. A Director from the Council will need to be appointed to VPS in a similar way to that already in place for governance purposes with VTV. A senior officer will also need to be appointed to the VPS members' committee.

Our ambitions	Summary of how this report will support delivery of these ambitions and the underpinning aims
A successful and ambitious town	The internal audit programme, established by Veritau for Middlesbrough each financial year, covers all directorates of the Council. The main aim of this work is to ensure that appropriate financial and other controls are in place within council systems to protect staff, other resources and minimise the level of fraud. As a result, this work indirectly contributes to all areas and ambitions within the Council Plan.
A healthy Place	
Safe and resilient communities	
Delivering best value	<p>Internal audit and counter fraud services are a key tool in giving management, particularly the S151 Officer, relevant assurances that systems, processes, and people in place within the Council deliver value for money in all aspects of the Council's operations.</p> <p>Regular reports on key areas of risk and financial value, allow Directors and Members to understand the standards of governance in place and whether any weaknesses exist and need to be addressed. Regular progress on internal audit and counter fraud work are received by both the Leadership Management Team and Audit Committee to give visibility to this work and any concerns raised.</p>

2. Recommendations

2.2 That the Executive:

- a) Notes the Business Case for Veritau Public Sector Limited and the reasons for the changes in the Veritau structure and how these impact on the Council.
- b) Approves the membership of Veritau Public Sector Limited, a company limited by guarantee, and the novation of the existing contract.
- c) Approves the payment of a dividend from Veritau Tees Valley Limited sufficient to fund the Council's subscription to the new company.
- d) Approves a special resolution to wind up Veritau Tees Valley Limited once the Council's membership of the new company is confirmed.
- e) Delegates the approval for the Council to enter into all other necessary agreements to participate in the new company to the S151 Officer.
- f) Approves the appointment of a director to the Board of the new company and a senior officer to the members' committee to oversee its governance arrangements and performance.

3. Rationale for the recommended decision(s)

3.1 The change in the structure of the company is necessary to allow new member local authorities to join Veritau going forward.

3.2 By the Council joining VPS for internal audit and counter fraud services, this will allow the previous provider VTV to be wound up. A similar decision has already been made by Redcar and Cleveland Borough Council; the other local authority who was a shareholder in VTV.

4. Background and relevant information

4.1 VTV operates as a Teckal company (in accordance with the Public Contracts Regulations 2024 – see para 4.7) and is currently owned by the Council, Redcar and Cleveland Borough Council (RCBC) and Veritau Limited. Veritau Limited is jointly owned by North Yorkshire Council (NYC) and the City of York Council (CYC) and was also a Teckal company.

4.2 VTV provides internal audit and counter fraud services to the Council, reporting the outcomes of this work to the Leadership Management Team and Audit Committee. The work of VTV therefore forms a key part of the Council's overall framework of governance, control, and risk management.

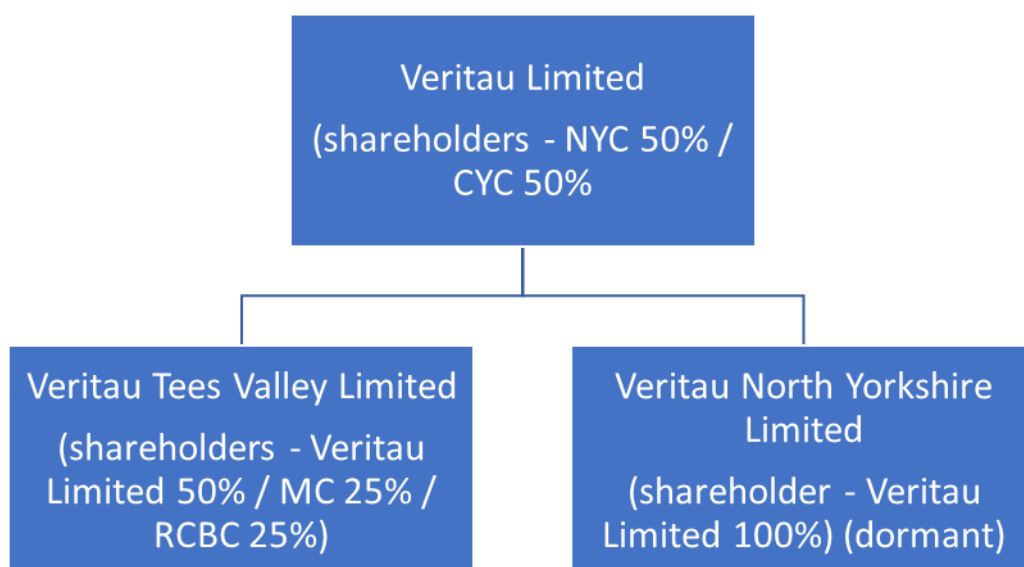
4.3 The business case for the establishment of VPS is attached as Appendix 1.

4.4 The proposal is to join a new Teckal compliant company, limited by guarantee, which will be jointly owned by the councils who buy services from it (once the Council joins VPS, its members will be NYC, CYC, RCBC, Leicester City Council, Cherwell District Council and Middlesbrough). The formation and operation of the new company will

provide a sustainable business model, enabling VPS to continue growing and allowing further member authorities to be admitted over time, as they buy services from VPS, whilst protecting its Teckal status.

Current Group Structure and Proposal for Restructure

- 4.5 Following the establishment of VL in 2009, the shared service model proved to be successful, resulting in several other local authorities expressing an interest in joining. A further joint venture company called Veritau North Yorkshire Limited (VNY) was established in 2012, which was co-owned by VL and five of the North Yorkshire district councils. Following local government reorganisation in North Yorkshire, VL purchased shares in VNY previously held by the district councils. VNY is therefore now a wholly owned subsidiary of VL, and the company is currently dormant.
- 4.6 Veritau Tees Valley (VTV) was formed as a second joint venture company in December 2019. The staff who were previously employed by Redcar and Cleveland Borough Council (as part of a shared service with the Council) were transferred to the company. It started trading on 1 January 2020.
- 4.7 Both VL and VTV were established as Teckal compliant companies. This enabled the local authority members of both companies to take advantage of the exemption contained in Regulation 12 of the Public Contract Regulations 2015, to award contracts without the requirement to undertake a public procurement exercise, providing certain conditions were satisfied throughout the life of any long-term contracts they have with the local authority members.
- 4.8 Until August 2024 and the creation of VPS, the Veritau group structure was as follows:



- 4.9 In addition to providing services to its four local authority members, the Veritau Group provided assurance services to over 700 clients. To comply with the Teckal exemption requirements, this commercial activity must account for less than 20% of the overall value of the services provided. This limit therefore restricted the growth opportunities for the Veritau group.

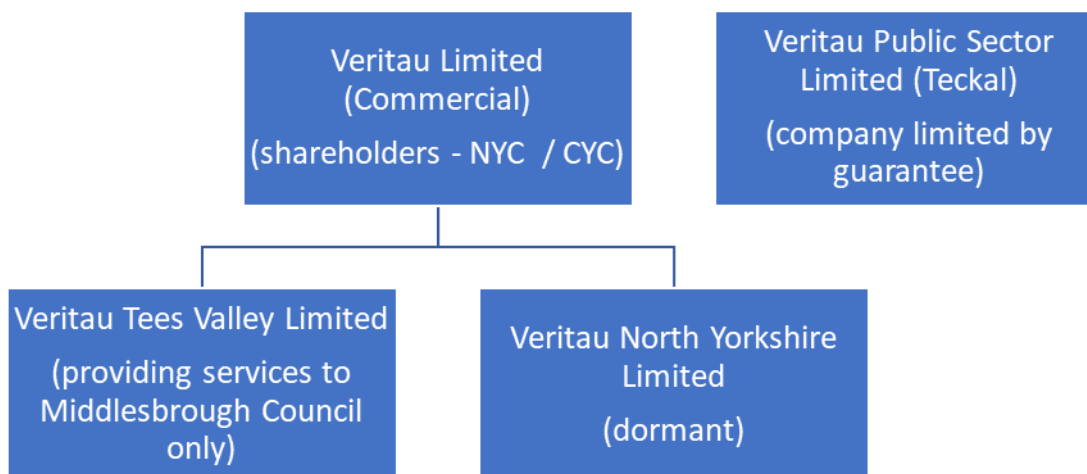
- 4.10 The shared services model also continues to attract interest from other councils. During 2024 two councils and one children's trust formally requested to join. However, the existing corporate structure for both VL and VTV did not allow new members to be easily admitted due to the need to issue additional shares, and the impact this has on existing shareholdings. Existing member councils cannot also easily leave.
- 4.11 The key drivers for change to the Veritau Group's current business model and corporate structure were therefore:
- g) To ensure Veritau could maintain its Teckal status, allowing it to continue delivering audit services to its current member councils, without being required to go through a public procurement process to deliver such services.
 - h) To ensure Veritau could continue to grow through the admission of new member councils and that the business remains competitive.

Veritau Public Services Limited

- 4.12 External legal advice was obtained and following a detailed evaluation of the different options, the decision was made to create VPS. This is a 'not for profit' company limited by guarantee and controlled by its member councils. It started operating on 1 August 2024.
- 4.13 The original proposal was that the four existing member authorities (CYC, NYC, MC and RCBC) were all invited to join VPS at the time the new company was established. The intention was that the existing contracts for the supply of assurance services were to be novated to VPS once individual councils agreed to join. There is no change to the core services offered by Veritau and all the service delivery arrangements and processes continue as before. Further member councils are expected to be admitted in the future. (In practice, what has happened prior to the Council joining is that two other local authorities, Leicester City Council – 1 August 2024 and Cherwell District Council – 1 November 2024, have already joined VPS).
- 4.14 The terms of membership of VPS are set out in the Members' agreement which will be adopted on approval to join the company. The agreement also includes certain reserved matters which require the unanimous or majority agreement of all the member councils. The company has also adopted articles of association, which includes details of the arrangements to appoint and remove directors and the arrangement for board meetings, including their frequency and quorum. Both have been reviewed by legal services and are acceptable to the Council.
- 4.15 Each member authority of VPS is required to pay a one-off subscription of £20,000 to join the new company to cover set-up costs, working capital and contingencies. VTV would pay a dividend to Middlesbrough and RCBC to fund each council's subscription.
- 4.16 The future liability of the Council and the other member authorities, otherwise known as the guarantee, would be capped at an agreed value of no more than £10. The guarantee is the maximum sum which would need to be paid by the member council to the company in the event of the company being wound up. If the Council or

one of the other local authorities ceased to be a member of VPS, the guarantee would continue to apply for one year after the date of exit.

- 4.17 As VPS is the sole employing organisation it has adopted the former Veritau HR policies, grading structure and pay and rewards scheme. It now has approximately 100 employees. It also recharges any payroll and overhead costs to VL at a market rate and would also charge VL a management fee for strategic leadership support.
- 4.18 To the extent that VPS makes a surplus in respect of any of its service provision (whether to VL or to its member councils), this would either be reinvested in its business operations or returned to its members in the form of a rebate.
- 4.19 VL has now become a commercial company, subject to the terms of the Procurement Act 2023, and limited by shares, providing services to non-local authority clients. All the existing commercial contracts remain with VL. The company continues to be owned by CYC and NYC as now. The existing staff and assets of both VL and VTV transferred to VPS on formation.
- 4.20 The intention is to start the process of winding up the dormant company VNY in the next six months. Once the Council approves joining VPS, it is also proposed to wind-up VTV over a similar timeframe.
- 4.21 The new corporate structure is now as follows. VTV will become dormant once the recommendations of this report are approved, and Middlesbrough formally joins VPS:



- 4.22 This corporate structure would satisfy the Teckal exemption within the Public Contract Regulations. A company limited by guarantee would also facilitate the admission and exit of member authorities which permits the future growth of VPS.

5. Ward Member Engagement if relevant and appropriate

5.1 Not relevant to this report as it relates to corporate financial management and governance issues.

6. Other potential alternative(s) and why these have not been recommended

6.1 Option 1 – Do Nothing – This is not considered to be viable as the Council's internal audit provider will not be allowed to grow its business, otherwise it would become Teckal non-compliant under the Procurement Act 2023. The Council would then need to re-procure the services currently provided by Veritau or bring the service in-house.

6.2 As such, the alternative option is not viable, and the proposal to join the new company, limited by guarantee, remains the most appropriate solution to ensure continued Teckal compliance and growth. This is the preferred route for both Veritau and the Council.

7. Impact(s) of the recommended decision(s)

Topic	Impact
Financial (including procurement and Social Value)	<p>The work of Veritau contributes to the effective management of the Council's financial risks and protects both staff and resources from potential fraud. The current cost of this contract is £0.252m per annum and rises annually with inflation.</p> <p>The payment of a dividend by VTV will provide the funding to enable the Council to pay the one-time subscription fee for admission to VPS.</p> <p>The recommendations contained in this report will ensure the Council is able to retain a cost-effective internal audit assurance service going forwards.</p>
Legal	<p>The Council will rely on its general trading powers in conjunction with its powers to carry out the activity in question. Both general trading powers require the authority to trade through a company. Section 95 of the Local Government Act 2003 enables relevant authorities 'to do for a commercial purpose anything which they are authorised to do for the purpose of carrying on any of their ordinary functions' (anything they are empowered to do in legislation).</p> <p>The section 95 power can be limited by order and authorities exercising it must have regard to guidance issued by the Secretary of State. Section 4 of the Localism Act 2011 enables the local authority to do for a commercial purpose anything that it is empowered to do under section 1</p>

	<p>(the general power of competence). The section 4 power is therefore wider than the section 95 power.</p> <p>The section 95 and section 4 trading powers prescribe which company structures may be used, one of which is a company limited by guarantee.</p> <p>The local authority must prepare a business case supporting the exercise of the section 95 power, which the authority must approve (Local Government (Best Value Authorities) (Power to Trade) (England) Order 2009). The business case attached at Appendix 1 fulfils this purpose.</p> <p>It is proposed that the new company will comply with the Teckal exemption as incorporated into the Procurement Act 2023, which enables a contracting authority to directly award contracts to a company it owns without undertaking a procurement exercise where the following criteria are satisfied:</p> <ul style="list-style-type: none"> • the contracting authority exercises the same amount of control over the company as it does over any of its internal departments. This will be governed through reserved matters in the company's Articles of Association, Members Agreement and corresponding Scheme of Delegation and the composition of the Board of Directors of the company which will contain a majority of member authority directors; and • more than 80% of the company's turnover is derived through activities performed for the contracting authority; and • there is no direct private capital participation in the company. <p>VPS has been set up and is operating in a way which will fulfil all three criteria. It is possible for the new company to admit new members provided it continues to satisfy the control and activities tests under Teckal. This is possible due to the company being limited by guarantee.</p> <p>The Procurement Act 2023 introduces slightly different tests for Teckal compared to the Public Contract Regulations 2015 (under the Act referred to as 'vertical arrangements') but in practice the control test contained in Schedule 2 of the Act is not fundamentally different from that currently contained under Reg 12(1) of the Public Contracts Regulations 2015.</p>
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	<p>There is a new component of the control test under the Procurement Act 2023, requiring that any controlling or member entity fulfils the requirement of 'parent undertaking' as defined under section 1162, Companies Act 2006.</p> <p>VPS's activities will be bound by the Public Contracts Regulations 2024. The company will therefore need (and has) its own Procurement and Contract Procedure Rules. It is proposed that where VPS requires the use of office accommodation it will enter appropriate commercial leasing or licencing agreements.</p> <p>VPS will also provide staff resources and strategic leadership services to Veritau Limited on an ongoing basis. Any services provided by VPS to VL would be charged at market rates (to ensure compliance with the Subsidy Control Act 2023) and would count towards the 20% Teckal limit.</p> <p>The proposal for VTV to declare a dividend to its shareholders is subject to shareholder's consent. Approval of the dividend by the Council is therefore required.</p> <p>The staff who were employed by VTV have transferred to VPS under the Transfer of Undertakings (Protection of Employment) Regulations 2006 (TUPE).</p>
Risk	There is minimal risk in joining VPS. The arrangements mirror those in place since 2020 with VTV and service provision and costs involved remaining at the current level.
Human Rights, Public Sector Equality Duty and Community Cohesion	There are no applicable issues to consider within this report.
Reducing Poverty	There are no applicable issues to consider within this report.
Climate Change / Environmental	There are no applicable issues to consider within this report.
Children and Young People Cared for by the Authority and Care Leavers	There are no applicable issues to consider within this report.
Data Protection	There are no applicable issues to consider within this report.

Actions to be taken to implement the recommended decision(s)

Action	Responsible Officer	Deadline
Resolution to wind up Veritau Tees Valley Limited (VTV), including payment of dividend to the Council.	Director of Finance and Transformation/Veritau Chief Executive	End of September 2025
Middlesbrough Council to formally join Veritau Public Sector Limited (VPS).	Director of Finance and Transformation	End of October 2025
Novation of the existing contract for internal audit and counter fraud services from VTV to VPS.	Head of Corporate Finance/Legal Services	End of October 2025

Appendices

1	Business Case – Veritau Public Sector Limited
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Background papers

Body	Report title	Date
Executive	Provision of the Internal Audit Service	8 October 2019
Audit Committee	Internal Audit and Counter Fraud Work Programmes – 2025/26	13 March 2025

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