

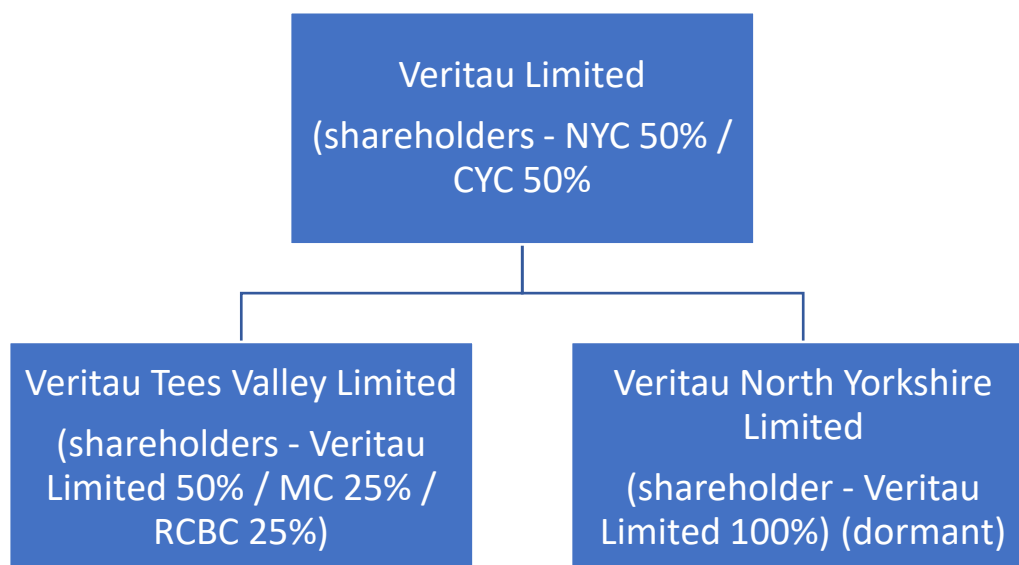
APPENDIX 1**Business Case****Background**

- 1 Veritau Limited was established in 2009 by North Yorkshire County Council (NYCC) and the City of York Council (CYC) as a shared service for internal audit, counter fraud and information governance services (the core services). The company was jointly owned with each council holding 50% of the share capital. The existing in-house teams were transferred to the company, and it started trading on 1 April 2009.
- 2 The shared service model proved to be successful, and a number of other councils therefore expressed an interest in joining Veritau. In February 2012, the company established a joint venture company called Veritau North Yorkshire Limited (VNY). Until local government reorganisation in North Yorkshire in 2023, VNY was owned by Veritau Limited and 5 of the North Yorkshire district / borough councils.
- 3 Following local government reorganisation in 2023, Veritau Limited purchased the shares in VNY previously held by the North Yorkshire district / borough councils. Since then, VNY has been a wholly owned subsidiary of Veritau Limited and dormant. The shares in Veritau Limited previously held by NYCC were also transferred to North Yorkshire Council (NYC) as part of LGR.
- 4 A second joint venture company called Veritau Tees Valley Limited (VTV) was formed in December 2019. Ownership of the company is as follows:

Shareholding

Middlesbrough Council (MC)	25%
Redcar & Cleveland Borough Council (RCBC)	25%
Veritau Limited	50%

- 5 Veritau Limited, Veritau North Yorkshire Limited and Veritau Tees Valley Limited were established as Teckal companies. This enabled the member councils to take advantage of the exemptions contained in the Public Contracts Regulations to award long-term contracts to the companies for the supply of services without the requirement to undertake a public procurement exercise, providing certain conditions were satisfied (see paragraph 9 below). Until August 2024, Veritau Limited and VTV operated as a single business entity and together formed the Veritau group. The structure was as follows:



- 6 The shared service model has continued to attract interest from other councils. As a result, discussions have been held with a number of councils about the possibility of them joining Veritau as full members. During 2024, two councils and one children's trust¹ formally requested to join. However, the existing corporate structure did not allow new member councils to be easily admitted due to the need to issue additional shares, and the impact this had on existing shareholdings. The two councils were Leicester City Council and Cherwell District Council. Further details about these councils are provided below.
- 7 In addition to providing assurance services to its member councils, Veritau also developed a commercial offering and now provides services to a number of other public sector clients, principally councils and schools. These clients include the York and North Yorkshire Combined Authority, Birmingham Children's Trust, Bradford Children and Families Trust and a significant number of schools. Services are also provided to a few charities and national sports' governing bodies. This expansion coincided with a reduction in the value of services provided to some of the member councils, due to the need to deliver budget savings. The commercial work has enabled Veritau to maintain operating capacity, avoid the need for redundancies, deliver further economies of scale and generate profits. The profits have also enabled Veritau to deliver a lower cost service to its member councils.

¹ The request from the children's trust is still being considered.

Delivering value

- 8 Veritau delivers both tangible and non-tangible benefits to its member councils through:
- economies of scale resulting in lower unit costs – the costs to each member council would be much higher for an equivalent quality of service if delivered in-house or if the service was fully outsourced
 - increased efficiencies and flexibility – standard working practices ensure there is less duplication of effort and best practice is more easily shared
 - improved access to specialist resources (for example data analytics, risk management and counter fraud specialists) which would not otherwise be available to a small in-house team
 - increased resilience and the ability to accommodate changes in workload because of the larger pool of staff available
 - improved service continuity and less reliance on key members of staff for service delivery. The opportunities offered for career progression and development also make it easier to recruit and retain staff compared to small in-house teams
 - the ability to invest in new technologies and working practices
 - greater depth of knowledge and expertise – staff have more insight due to the experience gained through working for multiple clients. This improves the overall quality of the services being provided.

Teckal exemption

- 9 The Teckal exemption was originally set out in the Public Contracts Regulations 2015. The Procurement Act 2023, which replaced the Public Contracts Regulations in February 2025, contains equivalent provisions. To benefit from the Teckal exemption, contracting authorities must be satisfied that the specific tests set out in the Procurement Act 2023² are met before the award of contracts. These conditions must continue to be met throughout the period of the contracts. The tests require that:
- the contracting authority on its own or jointly with other contracting authorities exercises control over the company
 - more than 80% of the activities undertaken by the company are for the benefit of the contracting authorities or for other organisations controlled by the same contracting authorities
 - no other person or organisation exerts a decisive influence over

² Schedule 2, Part 1, Paragraph 2 of the Procurement Act 2023

- the activities of the company (either directly or indirectly)
- no shares in the company are held by a person or organisation which is not a public authority
- each contracting authority is represented on the board or equivalent decision-making body
- the company does not undertake any activities which are contrary to the interests of one or more of the contracting authorities

Governance arrangements

- 10 The governance arrangements for Veritau Limited were set out in the company's articles and a shareholders' agreement. These were drafted to reflect local authority control and the Teckal provisions. The shareholders' agreement included a number of provisions including the appointment of directors and the chair, the frequency of board meetings, and the requirement to prepare an annual business plan and budget. The agreement also included a number of reserved matters which required the unanimous consent of both councils as shareholders. These reserved matters included any proposed changes to the company's name, the articles, the establishment of any subsidiaries, the admission of any new shareholders and any changes to the authorised or issued share capital.
- 11 Similar governance arrangements remain in place for VTV. The VTV board of directors currently comprises:

Name	Position
Phil Winstanley	Director of Finance - RCBC
Richard Horniman	Director of Regeneration - MC
Max Thomas	Chief Executive
Richard Smith	Deputy Chief Executive

Operating context

- 12 In terms of its commercial offering, Veritau is in competition with a number of established providers of internal audit and information governance services. These include large and medium sized accountancy firms and smaller specialist providers. There is generally less competition for counter fraud services.
- 13 As noted in paragraph 6 above, discussions have also been ongoing with a number of other councils about the possibility of them joining Veritau. This reflects the changing landscape of provision in local government with councils moving away from having in-house internal audit and counter fraud teams to more partnership working

and other forms of collaboration. A number of shared services now exist, and this is increasingly seen as the preferred model because it helps to address capacity issues, delivers economies of scale and provides access to technical expertise. The difficulties faced by councils in retaining qualified and experienced staff in recent years has accelerated the move away from having standalone in-house teams.

- 14 Successful shared services include the South West Audit Partnership (SWAP), the Southern Audit Partnership and Orbis. However, there are also a number of smaller regional partnerships. As happened in the NHS, our expectation is that the larger shared services will increasingly come to dominate the market.
- 15 The difficulties faced by councils in resourcing the provision of assurance services has already created a number of opportunities for Veritau. This trend is expected to continue, particularly following the Government's recent decision to embark on wholesale reorganisation in local government. However, the emergence of other shared services is also potentially a threat because it increases competition. The need to further grow the number of member councils is therefore seen as a priority for the long-term success of Veritau.

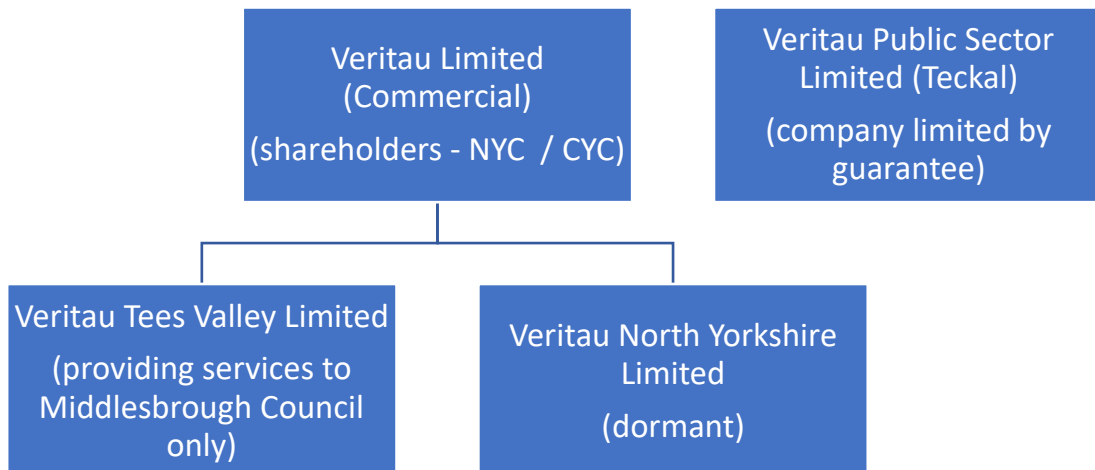
Drivers for change

- 16 The two key drivers for change have been the need to ensure that:
 - the Veritau operating model remains Teckal compliant. The commercial service offer is well developed and Veritau has gained a good reputation in the local government and education sectors. Continued growth is therefore expected, which will deliver further economies of scale and profits which can then be reinvested into the development of services. In addition to delivering shareholder value, the success of the business also helps to attract and retain talent due to the career opportunities that are created. At the same time, the value of work undertaken for the existing member councils may further reduce in the future due to the need to deliver budget savings. Adopting a different operating model was therefore seen as necessary to ensure continued Teckal compliance.
 - the Veritau model remains sustainable in the long-term. Being able to admit new councils as full members supports this objective. Linked to this was the request made by the two councils to join Veritau.

Veritau Public Sector Limited

- 17 External legal advice was obtained and following a detailed evaluation of the different options, the decision was made to create a new standalone Teckal company called Veritau Public Sector Limited (VPS). VPS is a 'not for profit' company limited by guarantee and jointly controlled by its member councils. It started operating on 1 August 2024 and its founder members were North Yorkshire Council, City of York Council, Redcar & Cleveland Borough Council and Leicester City Council. Cherwell District Council joined VPS on 1 November 2024. Each member was required to pay a one-off subscription of £20k (see paragraph 31 below).
- 18 Middlesbrough Council, as a shareholder in Veritau Tees Valley Limited, was invited to join VPS at the time the new company was established. However, the Council could not progress the required approvals at the time due other commitments. Instead, the Council has continued to receive services through Veritau Tees Valley Limited.
- 19 The existing contracts for the supply of assurance services to the member councils were novated to the new company. There has been no change to the core services offered and all the existing service delivery arrangements and processes have continued as before. Each council can still decide which services to receive from Veritau, although to remain as a member of VPS, a council must receive at least one of the three core services.
- 20 Veritau Limited has remained as a company limited by shares, jointly owned by North Yorkshire Council and City of York Council. All the existing commercial contracts held by Veritau Limited have also remained with the company. Veritau Limited is now operating as a standalone non-Teckal company providing services on a commercial basis.

- 21 The new corporate structure is now:



- 22 The primary purpose of VPS is to provide high quality but cost-effective services to its member councils. The company's values and objectives therefore remain unchanged. Veritau Limited as the commercial company now has an additional focus on business development, growth and profitability.
- 23 The intention is to start the process of winding-up the dormant company, Veritau North Yorkshire Limited (VNY) in the next 6 months. Subject to Middlesbrough Council obtaining the necessary approvals to join VPS, it is proposed to also wind-up Veritau Tees Valley Limited (VTV).
- 24 VTV currently has distributable reserves of approximately £116k. As part of the winding-up process, it is proposed that VTV will pay the remaining distributable reserves as a dividend to the existing shareholders. Middlesbrough Council and Redcar & Cleveland Borough Council will therefore each receive a dividend of approximately £25k (after the costs of winding-up the company). The payment of any dividend is however a reserved matter so would require the approval of the shareholders. The dividend will cover the cost of the initial subscription to join VPS.
- 25 VPS has become the sole employing organisation and has adopted the former Veritau HR policies, grading structure and pay and rewards scheme. The employees of both Veritau Limited and Veritau Tees Valley were subject to a TUPE transfer to VPS on 1 August 2024. Any new staff who have been recruited since then are now employed by VPS.
- 26 VPS now has approximately 100 employees, with a mix of professional and support staff, as well as a number of trainees.

- 27 As part of the establishment of the company, VPS obtained admitted body status to the North Yorkshire Pension Scheme (NYPF). The employees of VTV who were members of the Teesside Pension Fund were also transferred into the NYPF as this simplified the administrative arrangements. VTV is no longer a member of the Teesside Pension Fund. The member councils have each provided suitable guarantees to the NYPF to cover potential future pension liabilities.
- 28 VPS provides staff resources to Veritau Limited on a secondment basis with the charges calculated on a market rate basis³. VPS also charges Veritau Limited a management fee to reflect ongoing management and leadership support. Veritau Limited aims to make a profit from its trading activities. If VPS makes a surplus this will be reinvested into the business or returned to the member councils in the form of a rebate.
- 29 The terms of membership of VPS are set out in a Members' Agreement. The Members' Agreement also includes certain reserved matters which require either the unanimous or majority agreement of all the member councils. The company has also adopted articles of association, which include details of the arrangements to appoint and remove directors and the arrangement for board meetings including their frequency and quorum.
- 30 The future liability of the member councils, otherwise known as the guarantee, has been capped at an agreed value of no more than £10. The guarantee is the maximum sum which will need to be paid by each member council in the event of the company being wound up. If a council ceases to be a member of VPS, the guarantee continues to apply for one year after the date of exit.
- 31 As noted above, each member council has been required to pay a one-off subscription of £20k to join VPS. This subscription is intended to cover initial set-up costs and to provide the company with working capital. The subscription could be increased in future years for other councils wishing to join the company. Assuming Middlesbrough Council joins VPS, the company will then have total reserves of £120k. This is considered sufficient to cover future contingencies. There will be no external financing or any requirement for the member councils to provide additional loans to VPS.
- 32 VPS has a member oversight committee, and each member council

³ The market rate includes all payroll and overhead costs plus a notional allowance to cover accommodation costs and future contingencies. The market rate also includes a profit element to avoid any risk of subsidy.

can appoint a representative to the committee. The terms of reference for the committee are set out in the Members' Agreement, and its purpose is to ensure that the member councils can exert appropriate control over VPS to satisfy the Teckal requirements. VPS also has a board of directors. The board exercises strategic leadership of the company in accordance with the requirements of the members. Arrangements are in place for appointing directors to represent the interests of all VPS members and ensure an appropriate mix of skills and knowledge on the board.

- 33 Directors appointed by each member council will not receive any remuneration but are entitled to claim reimbursement for travel expenses incurred in attending meetings. Two executive directors have also been appointed who are employed by the company. These directors act as the company's Chief Executive and Deputy Chief Executive.
- 34 The specific responsibilities and powers of the member oversight committee are defined in the Members' Agreement but include approving the annual budget, financial statements and business plan, and receiving the annual report. The member oversight committee is also tasked with ensuring the company's priorities remain aligned with those of the member councils. Responsibility for operational decision-making rests with the company's management team, as set out in a scheme of delegation.
- 35 The annual service fees continue to be based on a standard daily fee rate payable by all the member councils, but taking account of the actual service levels required. Each council can also request additional work at any time during the year, the fee being calculated with reference to the standard daily fee rate.
- 36 The service contract specifies the actual mix of services to be delivered to each council. The length of the contract is also determined by each council but is expected to be 10 years plus possible extensions. This is necessary to provide a degree of certainty to all parties and to recognise that this is intended to be a long-term partnership where the councils are able to help shape and direct the future development of Veritau services.
- 37 Details of the annual VPS budget and business plan, and copies of the annual audited accounts and annual report will also be made available to each member council. Each member council can also request additional finance and performance related information to present to shareholder committees or the equivalent.

- 38 The registered office for VPS is West Offices, Station Rise, York, YO1 6GA. Each member council is also expected to provide serviced accommodation to VPS on terms equivalent to their own in-house departments. This is the same arrangement that existed before the creation of VPS. Any existing leases or licences to occupy have been novated from Veritau Limited to VPS.
- 39 The new company is exempt from the need to have its accounts audited due to the value of its assets and annual turnover. However, to ensure transparency, the member councils have appointed Veritau's existing external auditors, BHP LLP as the auditors for the new company.
- 40 The total savings achieved from winding-up VNY and VTV will be approximately £10k pa plus administrative time. This saving offsets the costs of establishing and operating the new company.
- 41 The projected fee income of VPS in 2025/26, is:

	£k	%
NYC	1,759	42.3
CYC	695	16.7
Middlesbrough Council (MC)	266	6.4
RCBC	233	5.6
Leicester City Council	264 ⁴	6.4
Cherwell District Council	160	3.8
Management fee to Veritau Limited	34	0.8
Staff recharge to Veritau Limited	750	18.0
Total	4,161	100.0

- 42 VPS continues to obtain the majority of support services, for example HR, legal and payroll, from its member councils. Veritau Limited separately obtains support services as required, for example the company continues to work closely with North Yorkshire Education Services and pay annual fees to NYC for marketing and other support.
- 43 Many of the existing contracts for the supply of goods and services were novated from Veritau Limited to VPS unless they related principally to commercial activities, for example the hosting and maintenance costs of the website and client portal.
- 44 VPS has arranged appropriate insurance cover, opened new bank accounts and registered for VAT. Xero is used as the company's accounting system.

⁴ This is expected to increase due to other services being transferred into VPS.

Admission of new councils

- 45 As noted above, two new councils, Leicester City Council and Cherwell District Council have joined VPS.
- 46 Leicester City Council was in a shared service with Leicestershire County Council for internal audit but decided to end that arrangement. The Council joined VPS on 1 August 2024, and two members of staff were subject to a TUPE transfer.
- 47 Cherwell District Council had been in a shared service with Oxfordshire County Council for a number of years. This arrangement covered various services including internal audit and counter fraud, but it ended in early 2024. The Council joined VPS on 1 November 2024. There was no TUPE transfer.
- 48 As with previous transfers, staff who are transferred to Veritau have the option to move across to Veritau terms and conditions. Any new staff recruited after the date of transfer are employed on Veritau's existing terms and conditions, and in accordance with the current pay and grading structure.
- 49 The aim is to continue to expand the number of member councils although each potential admission will be assessed to ensure it is beneficial to Veritau's long-term goals and objectives. In practice, the aim will be to admit no more than 20 members to ensure that VPS can continue to retain its business focus and satisfy the Teckal control test.

Legal Implications

- 50 To establish the new company structure, the member councils have relied on their general trading powers as set out in Section 95 of the Local Government Act 2003 and Section 4 of the Localism Act 2011. Section 95 of the Local Government Act 2003 allows relevant authorities to undertake any commercial activities which they would otherwise be authorised to undertake for the purpose of performing their ordinary functions.
- 51 Section 4 of the Localism Act 2011 confers a general power on local authorities to undertake any commercial activities which they would be authorised to do in the exercise of their general power of competence. Where a local authority relies on these general trading powers then they must do so through a company.
- 52 The Section 95 and Section 4 general trading powers also prescribe

which company structures may be used. These include companies limited by shares and by guarantee.

- 53 Each local authority must also 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). This business case is deemed to satisfy that requirement.
- 54 External legal advice was obtained which confirmed that the new corporate structure satisfied the Teckal tests as set out in the Public Contracts Regulations 2015, and the Procurement Act 2023.
- 55 The procurement activities of both companies are also covered by the Procurement Act 2023. In addition, as wholly owned local authority trading companies they are also covered by the provisions of the Freedom of Information Act 2000.
- 56 VPS has been established in a way that will enable its member councils to take advantage of the Teckal provisions and to award contracts to the company without the need to go through a procurement process. However, it will be for each member council to satisfy themselves that the Teckal provisions apply.