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<b>PART B:</b>	<b>RECOMMENDATION TO COUNCIL</b>
<b>REPORT TO:</b>	<b>POLICY &amp; RESOURCES COMMITTEE</b>
<b>DATE:</b>	<b>23 NOVEMBER 2017</b>
<b>REPORT OF THE:</b>	<b>RESOURCES &amp; ENABLING SERVICES LEAD (s151) PETER JOHNSON</b>
<b>TITLE OF REPORT:</b>	<b>VERITAU MERGER</b>
<b>WARDS AFFECTED:</b>	<b>ALL</b>

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## **EXECUTIVE SUMMARY**

### **1.0 PURPOSE OF REPORT**

- 1.1 This report seeks approval for the merger of Veritau Ltd and Veritau North Yorkshire.

### **2.0 RECOMMENDATION**

- 2.1 That Full Council be recommended to approve in principle the proposed reorganisation of the companies as set out in this business case with the responsibility for approving any required resolutions and any related agreements on behalf of the Council as shareholder of VNY, delegated to the Monitoring Officer.

### **3.0 REASON FOR RECOMMENDATION**

- 3.1 The maintenance of two companies necessitates an increasingly complex recharge of costs between the two companies and additional overheads. To minimise these additional costs and resource pressures it is proposed that permission be sought from each of the Veritau and VNY Shareholders to convert the two businesses into a single trading company providing services to each of the six shareholders.

### **4.0 SIGNIFICANT RISKS**

- 4.1 There are no significant risks relating to this recommendation.

### **5.0 POLICY CONTEXT AND CONSULTATION**

- 5.1 Internal Audit, Counter Fraud and Information Governance work are essential to the Governance framework of the Council.

## **REPORT**

### **6.0 REPORT DETAILS**

#### **6.1 Introduction**

- 6.2 Veritau Limited<sup>1</sup> 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, which are set out below. Each council has a 50% share in the company.
- 6.3 The two councils buy a mix of assurance services from Veritau. The original contracts between the councils and Veritau Limited for the provision of services were for 10 years (with options to extend by a further five years) and are due to end on 31 March 2019.
- 6.4 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 50% of the shares in VNY, and the remaining 50% are 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, and the contracts are due to end on 31 March 2019 (with options to extend by a further five years).
- 6.5 Each company has its own board of directors. However, 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. VNY now only directly employs 2 audit staff. The majority of the work carried out for the district councils is undertaken by Veritau employees, necessitating an increasingly complex recharge of costs between the two companies. There are also overheads associated with maintaining two companies. For example separate accounting records are maintained and are individually audited, and insurances are required for each company in its own right. A significant element of management and administrative time is also spent on maintaining the companies as two separate entities. This increases the cost to the group as a whole, and diverts limited management resources away from overall development of the business.
- 6.6 To minimise these additional costs and resource pressures it is proposed that permission be sought from each of the Veritau and VNY Shareholders to convert the two businesses into a single trading company providing services to each of the six shareholders.
- 6.7 The Veritau group companies (Veritau) were formed for the primary purpose of delivering and enhancing assurance services provided to the shareholding councils. To fulfil this aim the councils relied upon the Teckal exemption which enabled them to procure those services directly from Veritau without tendering. This also enabled the councils to retain control over the delivery of services. The new arrangement would continue to comply with Teckal arrangements as set out in the Public

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<sup>1</sup> In the remainder of this business case references to Veritau, the company, or the group refers to Veritau Limited and Veritau North Yorkshire Limited collectively unless otherwise clear from the context.

Contracts Regulations 2015. Further information on Teckal companies is included in appendix A.

**6.8 Rationale for forming a shared service company**

6.9 Proposals for sharing assurance services between City of York Council and North Yorkshire County Council were first suggested in 2007. A number of options for the delivery of a shared service were explored and in 2009 the Executive at each council approved the formation of Veritau Limited, and the transfer of services and staff to the company.

6.10 There were a number of drivers for the change, and benefits in sharing services. These included the following.

- Increased security of service provision including resilience and capacity: the teams at both councils had experienced problems filling vacancies in professional assurance roles. Combining the services across a bigger team enabled resource pressures to be spread and the risks to be more effectively managed. The combined team is better placed to manage issues caused by staff vacancies and unexpected service demands. It also gives 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 had also been an issue and the new arrangement improved the scope to manage succession planning and mitigate risks around service continuity.
- Achievement of economies of scale by sharing overheads and reducing unproductive time: for example, through reducing overall management overheads, using a single audit management IT system and combining procedures. The councils recognised the need to improve the quality of services and making efficiency savings through sharing services and reinvesting this in the team was a way to achieve this. It also enabled effectiveness to be increased by sharing best practice and developing expertise which could be shared across sites for example through the development of common approaches to audits.
- Enhanced focus on service delivery and quality through the development of a dedicated professional services function with a separate identity, and a vision and brand linked to the delivery of high quality assurance services.
- 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.
- A greater opportunity to develop specialist knowledge within the company and reduce reliance on expensive bought-in services (for example IT audit). This was not possible within the smaller teams operated by each council.
- A more innovative approach, which could generate improvements by being given greater flexibility in managing services.

6.11 Seven options (organisational structures) were originally considered for the delivery of a shared service. Following a detailed option appraisal, it was determined that the formation of a company controlled by the councils was the preferred option as it achieved a number of key aims.

- It enabled each council to exercise a high degree of control and influence over the services in the future.
- By maintaining control, it enabled them to be satisfied that the company would continue to provide sufficient and continuing access to the services.
- It represented a genuinely equal partnership between the councils.

## **6.12 Creation of VNY**

6.13 Prior to April 2012, the current VNY shareholders received internal audit services from the North Yorkshire Audit Partnership (NYAP). The partnership was based on a joint committee model with Ryedale District Council acting as lead authority. The NYAP Directors approached Veritau in November 2009 to discuss potential options for future collaboration.

6.14 The drivers for change for the district councils were essentially the same as set out in the original business case for the formation for Veritau (for example allowing them to share expertise, manage capacity, and address staffing and continuity issues). For Veritau, it gave an opportunity to increase resilience and achieve greater economies of scale by increasing its operating base. In January 2012 the existing Veritau shareholders (North Yorkshire and York) approved the creation of a separate company (Veritau North Yorkshire) to be owned 50% by Veritau and 50% by the member district councils. Each district council also considered and approved a business case for joining VNY.

6.15 The rationale for creating a separate company, initially, was to:

- avoid the need for the two existing councils (CYC and NYCC) to value their existing shareholding in Veritau and for the district councils to purchase a proportion of the shares
- enable the district councils to have sufficient influence over VNY to meet Teckal requirements, given the relatively low level of shareholding that they would have within Veritau
- allow North Yorkshire County Council and City of York Council to minimise any risk to their investments in Veritau while the operational arrangements with the district councils was at an early stage.

### **Success of company model**

6.16 The company model for sharing services has achieved the aims set out in the original business case and has delivered the expected benefits, as set out below.

6.17 Veritau was one of the first shared assurance services partnerships nationally. As financial pressures on councils have continued to grow over the last eight years, many in-house internal audit teams have faced reductions in their resources. In some cases, to levels which threaten their ability to deliver a service which meets statutory requirements - particularly at smaller councils. Nationally, more local authorities are joining shared service arrangements as a way to manage this risk. This approach has also been replicated by central government which has established a single shared service for internal audit. Councils have also had their capacity to investigate fraud significantly reduced since the transfer of benefit investigation services to the DWP as part of the Single Fraud Investigation Service Initiative. In their 2016 Counter Fraud and Corruption Tracker, Cipfa reported that 10% of the public sector organisations they had surveyed (mainly local authorities) had no dedicated counter fraud resource.

- 6.18 Similar pressures faced by the shareholding councils have led to reductions in the level of service required from Veritau since it formed. For example, the level of service provided to NYCC and CYC by Veritau Limited has fallen by 25% since 2009, across the range of service areas. The company has been able to manage this reduction in demand whilst still maintaining professional standards and high levels of customer satisfaction. This is possible because as a larger entity it has been able to absorb the reductions 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)
  - selling services to external clients to maintain and expand the overall size of the business - this ensures that the overall infrastructure needed to maintain high quality services can continue to be supported.
- 6.19 As a larger entity, the group has also been able to manage short term fluctuations in demand and resource pressures. For example those 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.
- 6.20 The company model provides economies of scale across a range of areas. A number of examples are set out below.
- A low ratio of management and administration overheads to direct costs compared to smaller in-house teams.
  - Common IT audit and fraud management systems in use across all clients - the use of remote access means that systems can be accessed from any site.
  - Unified procedures are in place for the delivery of services as far as possible. 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 are used across clients where possible, which makes delivery of work more efficient.
- 6.21 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 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 practice.
- 6.22 Veritau has developed a strong and growing identity as a public sector assurance services 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 services to more than 20 public sector bodies, including work in the north west and the midlands.
- 6.23 In 2010, Veritau was awarded the Cliff Nicholson award for Excellence in Public Service Audit by Cipfa in recognition of its innovative approach to sharing services.

- 6.24 In 2016, Veritau was also a finalist for the Institute of Revenues Rating and Valuation's (IRRV) award for excellence in counter fraud work. This related to the group's focus on delivering savings for its clients through counter fraud work, and innovation in the use of technology for delivering work across a range of clients. The company was shortlisted for the award again in 2017, for its approach to training and developing counter fraud staff.
- 6.25 Recruitment and retention continues to be an issue across the range of Veritau services. As Teckal companies, pay structures are closely aligned to local government rates. This presents a challenge as pay rates in the wider private sector are often significantly higher for similar roles. To help address this, the company places a strong emphasis on being a good employer and uses the flexibility it has as a private company to make it attractive to current and prospective staff. For example:
- The group has been accredited as an investor in people since June 2011.
  - The company operates a performance related pay scheme which offers all employees an opportunity to earn additional pay as a reward for good performance.
  - The company offers a high degree of flexibility around working patterns and home working.
  - The client base and range of services offers staff the opportunity to gain wider experience in different organisations and areas.
  - The company invests a significant amount in training and development - professional training is a particular strength.
- 6.26 To address issues with recruiting qualified professional staff (one of the drivers for forming Veritau) the group has taken an innovative approach based on the recruitment and internal development of graduate trainees across each service area. Veritau makes a significant investment in professional training - an option not generally available to smaller in-house teams. Bringing in talented trainees on a regular basis helps to maintain a sufficient level of well trained professional staff able to meet the demand for services. As noted above, Veritau's approach to professional training has been recognised by the IRRV. It was shortlisted for the second time in 2017 for their Excellence in Counter Fraud award for its framework for training and developing counter fraud staff. A number of former trainees have progressed into senior roles in the company. And it is currently looking to expand routes for progression further by offering management development opportunities.
- 6.27 In addition to professional training, the company offers opportunities for staff to undertake training in specialist areas. Historically, reliance was placed on expensive bought in support to provide IT audit work at some clients. Over the last few years the company has targeted IT audit training internally and has been able to bring this work in-house. While retention of specialist staff is an issue (because they are attractive to other employers) the group is aiming to address this by increasing capacity and training. A specialist IT audit trainee was recently appointed and training is also being provided to four other employees.
- 6.28 Counter fraud is an area where the company has been particularly innovative. The counter fraud team inherited by Veritau from City of York Council in 2009 was principally a benefit fraud service. Since then the fraud team at Veritau has sought to diversify by broadening the range of investigations undertaken and transforming the service into a corporate fraud team. In its former role as a benefit fraud team, there was little scope to directly support councils through reducing losses - councils lost

subsidy on benefit fraud overpayments and in most cases, customers were unable to pay overpayments identified. Focussing on other types of fraud affecting councils has meant that the team can concentrate on cases which make real savings. The level of benefit fraud investigated fell steadily between 2011 and March 2016, when responsibility for investigation transferred to the DWP. The change in focus has resulted in year on year increases in real savings identified for clients as a result of counter fraud work. In 2016/17 over £600k of savings were recovered for the member councils. And demand for counter fraud services from external clients continues to grow.

### **Value for Money**

- 6.29 Charges for services to the member councils are based on a day rate - which is industry wide practice for this type of work. Rates have remained competitive since the creation of the company. In 2009/10 (the first year of operation) the rate charged was £225 per day. For 2017/18, the rate is £244 per day - an increase of only £19 per day (8.4%). Over the same period, CPI has risen by 19.7%.
- 6.30 In the latest benchmarking information available from Cipfa, the average cost of internal audit per chargeable day for the local authorities taking part in the exercise was £300<sup>2</sup>.

### **Continuation of services beyond March 2019**

- 6.31 Existing service contracts between Veritau and VNY and the shareholding councils are due to end on 31 March 2019. Each contract has an option for it to be extended by three years initially; with a further potential extension of two years (five years in total). The contracts require that the shareholding councils provide at least 12 months notice of their intention to continue to require services after 31 March 2019. Therefore separate to the decision sought in this business case each of the councils will also have to consider, before 31 March 2018, whether they wish to continue to buy assurance services through Veritau from April 2019.
- 6.32 One option would be to invoke the initial extension clauses now - that is to confirm each of the service agreements would continue for a further three years from April 2019 (ie until March 2022). However, a further decision would need to be made before March 2021 about whether to invoke the second extension for two years. A decision about whether to continue to provide services after the end of the second extension would then need to be made almost immediately after that second extension commenced.
- 6.33 The principal purpose of Veritau and VNY is to act as a vehicle for the long term sharing of assurance services between the member councils. This has proved a successful model to date, which has continued to provide value for money. If the councils want to continue with this arrangement in the longer term, then a second option would be to agree new long term service agreements (rather than invoking the extensions) to run from April 2018 (to coincide with the proposed company merger). This would provide a long term commitment to the operation of the shared service which is needed for it to continue to plan and develop the business strategically. It also removes the need for additional work to review the arrangements again formally in the short to medium term, in order to consider contract extensions. Separate consultation on options for agreeing new service contracts will be undertaken with the shareholders in the next few months.

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<sup>2</sup> Cipfa: benchmarking analysis - internal audit in local government (May 2015)

- 6.34 If the council no longer wished to continue to support the shared service using the Veritau model, then options would include the following.
- Bring the service in house. However, the problems originally sought to be addressed through the shared service will continue to exist. It would not be possible for the council to maintain the same level and quality of service without increasing cost.
  - Offer the services to the external market. This is likely to lead to a significant increase in cost and / or a significant reduction in quality of service. The quality of service and competitive rate offered through the arrangement with Veritau would be unsustainable in the longer term in a commercial arrangement. This option is also at odds with one of the key objectives set when Veritau was formed - for the shareholders to exercise a high degree of control and influence over the services.
  - Seek another vehicle for the delivery of a shared service. The options for delivery of the service remain broadly the same as when Veritau was created and the arguments for maintaining the company model remain valid. Changing the delivery model would pose a significant risk to the stability of current arrangements and is likely to result in significant costs in winding up, negotiating and creating a new vehicle with the other member councils.

**Proposal to merge Veritau Limited and VNY Limited**

- 6.35 Paragraph 6.15 sets out the reasons for creating a separate company (VNY) in 2012. Essentially this was to avoid a complex exercise in valuing Veritau Limited and requiring the purchase of shares by the new member councils (which would have represented a significant initial investment at the time); ensure the new members maintained sufficient control of the service in line with Teckal principles; and to provide a firebreak in case the new venture did not succeed. It also provided a level of reassurance to the staff transferring from the North Yorkshire Audit Partnership in that they could maintain a separate identity.
- 6.36 The current arrangement - operating Veritau and VNY as separate companies - has now been in place for over five years. And the provision of assurance services to the member district councils is well established as a long term commitment. However, the current arrangement is inefficient. Essentially Veritau operates as a single company, below board level. Terms and conditions, policies, procedures, and management arrangements are common across both companies. And VNY now only directly employs two audit staff. The majority of the work carried out for the district councils is undertaken by Veritau employees, necessitating an increasingly complex recharge of costs between the two companies. There are also overheads associated with maintaining two companies for example support for the operation of two sets of board meetings, separate financial accounting and audit arrangements, and separate insurance provision.
- 6.37 The original arguments for maintaining the provision of services through separate companies are now less relevant. The service to the district councils through VNY is well established so there is no longer a need for a firebreak. VNY has built up reserves in its own right. These would transfer to Veritau, obviating the need for additional investment from the district councils (see 6.44 below). And in practice, control over the existing (and a merged company) can be demonstrated through provisions in existing shareholders agreements (and any new agreement for a merged company) in addition to the level of share ownership.
- 6.38 Advantages to merging the companies into a single entity include the following.

- Operating one company will result in cash savings of >£10k pa in insurance, audit fees and support service costs. It will also reduce the significant management and administrative time spent supporting two companies (maintaining separate financial records, producing accounts, organising board meetings etc).
- The corporate structure would align with the existing operating arrangements.
- The new structure will demonstrate the shared commitment of all the member councils.
- It will strengthen the Teckal position by consolidating the value of services provided to the shareholders, reducing the risk that external work will exceed the 20% Teckal threshold<sup>3</sup>.
- It strengthens the financial position of the group - both companies financial position varies significantly from year to year due to pension fund valuations; combining reserves will help to offset the risk of significant increases in pension liabilities.
- It will help to present the business to prospective clients as the combined turnover and assets of the merged company would be greater.

### **The proposal**

6.39 It is proposed to convert Veritau Limited into a single trading company providing services to its six member councils (and other external clients).

6.40 This will necessitate NYCC and CYC transferring a degree of control in Veritau Limited to the VNY member councils. If the proposal is accepted by all of the Veritau and VNY shareholders (and by both boards) then it can be achieved by a rights issue with new shares being granted to the district councils. New service agreements may be agreed (and existing agreements cancelled) or existing agreements with the current VNY novated. This will depend on the member councils' preferences for the provision of services beyond April 2019 (see paragraph 30). Other agreements (for example those allowing the use of the shareholders' accommodation) would be novated. The remaining VNY employees would transfer to Veritau. The arrangements for determining the actual cost of the services provided to each council (ie the daily fee rate) and the current operating arrangements would remain unchanged.

6.41 It is proposed that the new shareholding of Veritau Limited would be as follows:

	Shareholding
City of York Council	37.5%
North Yorkshire County Council	37.5%
Hambleton District Council	6.25%
Richmondshire District Council	6.25%
Ryedale District Council	6.25%
Selby District Council	6.25%

6.42 The proposed shareholding above provides the district councils with a level of control and influence over the company's strategic management, whilst also recognising the fact that CYC and NYCC are the current and founder members of Veritau. The overall split would be 75/25 between existing and new members of Veritau Limited. The proposed shareholding is broadly in line with the proportion of total equity from

<sup>3</sup> The value of external work undertaken by Veritau Limited currently represents approximately 10% of the company's turnover. For the combined entity the value of external work will reduce to 7.8%.

each company that would be brought by each shareholder and is also broadly in line with the proportion of turnover from the VNY and Veritau shareholders<sup>4</sup>.

- 6.43 The change in shareholding in Veritau would be achieved by issuing additional shares to reflect the percentages above.
- 6.44 The assets and reserves of VNY will transfer to Veritau Limited following the reorganisation. Options for the transfer and whether to wind up or retain VNY limited as a dormant company are being discussed with professional advisors.
- 6.45 Following the transfer, Veritau Limited would have a reconstituted board consisting of two directors appointed each by NYCC and CYC, one director appointed by each district council and two executive directors. To keep the size of the board manageable and to ensure consistency the right of audit committee chairs to attend as observers would cease, as would the existing posts of independent non-executive directors for Veritau<sup>5</sup>.
- 6.46 Veritau Limited's Articles will be revised to reflect these changes and are currently being amended in accordance with the Companies Act 2006. The revised Articles shall be subject to approval by the shareholders.
- 6.47 It is proposed that Veritau Limited shall retain its current registered address of West Offices, Station Rise, York, YO1 6GA.
- 6.48 Conclusion of the merger will require renegotiation of current shareholders agreements, pension fund guarantees and other legal agreements. There will therefore be one-off legal costs associated with the changes. Total costs involved in administering the changes are expected to be in the region of £10k. These will be met by Veritau. An assessment of the affect on pension fund contributions for the merged company has already been undertaken. This indicates that there will be no significant change in pension fund contributions, which will continue to be met from the combined budgets of the merged company. HR advice on the merger has been sought, and no significant issues with the transfer of employees from VNY to Veritau Limited are anticipated.

#### **Timetable and decisions needed**

- 6.49 It is intended to complete the merger of the two companies at the end of the current financial year in March 2018.
- 6.50 The formal company decision making process will include the following.
- Consideration of a business case by each company's board, resulting in the boards issuing special written resolutions to the shareholders for approval of the changes required.
  - These need to be approved unanimously within 28 days beginning on the circulation date.

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<sup>4</sup> Total equity of the companies at the end 2016/17 was £213k for Veritau and £149k for VNY (note that Veritau is a 50% shareholder of VNY). In 2017/18 budgeted turnover relating to the member councils is £1,105k for NYCC and CYC (73%) and £410k (27%) for the district councils.

<sup>5</sup> There are no independent non-executive directors for VNY limited, and there is no provision for the attendance of audit committee chairs at the VNY board - this applies to Veritau only. The two independent director posts for Veritau were originally created to allow external support by company officers with experience of operating a business. The business is now well established and this support is no longer required. In practice, these posts have been vacant for a number of years.

- Once the resolutions have been passed the boards can proceed to deal with the outstanding matters and may ratify the decision to merge.

6.51 In order to achieve the March deadline, the process above will need to commence in December 2017. In practice, approval of the merger will need to be given by the relevant decision making body at each member council in advance of this commencing. This will ideally need to be completed by the end of November 2017.

## **7.0 IMPLICATIONS**

7.1 The following implications have been identified:

- a) Financial  
None
- b) Legal  
None
- c) Other (Equalities, Staffing, Planning, Health & Safety, Environmental, Crime & Disorder)  
None

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**Background Papers:**

N/A



**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.