

**REPORT TO CABINET**  
**22 January 2013**

**Cabinet Member:** Councillor W Gareth Roberts

**Subject:** Gwynedd Consultancy Overspend

**Contact Officer:** Huw Williams , Head of Gwynedd Consultancy

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**Required decision**

- 1 In the light of concerns identified in this report, that work be commissioned from the Head of Finance into the arrangements for financial management in Gwynedd Consultancy, whilst at the same time, establishing, in conjunction with the Head of Service, the evidence behind what has happened in 2012/13 and the likely position for 2013/14.
- 2 To ask the Head of Finance to ensure that the report is available by the end of this financial year in order to ensure that we start 2013/14 on a sound footing.
- 3 In the light of the review's conclusions, and implementing any findings, that I then lead a second piece of work to establish a new sustainable business model for Gwynedd Consultancy which is responsive to the prevailing economic conditions.

This should not concentrate solely on financial considerations, but they must be in place if we are to give appropriate consideration to other elements which we may wish to support such as jobs.

**View of the local members**

*Not a local issue.*

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**Introduction**

1. As a result of a report submitted to the Cabinet on 20 November where concern was expressed regarding Gwynedd Consultancy's financial performance for this year and its sustainability for the future, it was agreed that I would report to the Cabinet after having had the opportunity

- to investigate the reasons behind the current problems.
2. For a business with turnover of £4.5m, the timetable was challenging bearing in mind that the Christmas holidays were upon us and I would like to thank the officers for their ready cooperation.
  3. Having discussed the matter with officers and given the matter further consideration, it was agreed that we should divide the work into the short and medium term and then the longer term.
  4. This report relates to the first part.
  5. Having looked at the situation it became obvious that establishing reasons for this year's problems and establishing the exact financial position would not be a simple process and this has raised questions regarding the service's business processes.
  6. As a result, I have agreed with the Cabinet Member for Finance (Councillor Peredur Jenkins) that I should make the above recommendations to the Cabinet.

#### **Reasons for making the recommendations**

7. First of all, I would like to emphasise that Gwynedd Consultancy is not a burden upon the Council. Despite the fact that it is unable to meet this year's financial target, over the years, they have made a positive contribution to the Council.
8. It could be argued of course that this could have been better if we had stronger financial control but I have not yet seen any evidence of this.
9. On average, Gwynedd Consultancy contributes around £507,000 annually towards the Council's central support costs which would otherwise fall upon other services.
10. Over the last 4 years they have made a total profit of £ 787,000 and considering the current economic climate this is to their credit.
11. They employ 98 professional employees in Gwynedd and have managed to keep an annual financial spend of £4.5m in the county which also has a beneficial impact on our communities.
12. They offer other less obvious benefits which arise from having an in house provision which is difficult to quantify but exists nevertheless.

13. The current position has been investigated and evidence has been sought to support the statements made as to what has gone wrong this year.
14. It soon became evident that the general problem was not a lack of work on the books but it has been suggested that the problem was the unevenness of that work, and as a result, there has been an increase in costs.
15. There is certainly an element of a lack of work in the second and third quarters of the year due to clients being slow to release work and this has contributed to the problem, but it should be noted at the moment that the service is overflowing with work in the final quarter and is unlikely to be able to undertake it all with the current staffing complement.
16. The consultancy is vibrant and vigorously pursues work, and in general is held in a positive light with clients who continue to come back to them year on year.
17. However, I am a little concerned with some elements which have come to light in investigating the 2012/13 position which suggests to me that we need to look deeper for evidence of secure financial control as I am concerned that there could be an element of a " wing and a prayer " in their financial management.
18. Carrying on with the current arrangements are not acceptable and we need to arrive at a position where factual evidence and financial management is based on an agreed level of acceptable risk being adopted in order to protect the Council in the longer term whilst at the same time protecting as far as possible the valuable jobs provided. This will be a core element of my considerations.
19. It is difficult to come to concrete conclusions based on the evidence currently available to me and as a result, this could lead to greater problems in the longer term.
20. There is little point in chastising and allocating blame amongst officers who are supportive and enthusiastic as it is likely that the situation has arisen from pressure to meet challenging financial targets and the resultant focus having shifted to finding work.
21. I make the above recommendations as I do not believe that the current situation is ideal nor acceptable but at the same time I believe that with help, the situation can be recovered.

22. Doing nothing is not an option.

23. Gwynedd Consultancy's future and the ambition of supporting local jobs is key. There is no indication of maladministration nor attempts to hide information and I have therefore come to the conclusion that this is an "honest" problem which deserves our help in order to find a solution.

### **Relevant considerations**

24. Establishing the probable 2013/14 position for Gwynedd Consultancy is essential in order to ensure that the Council has a budget on which it can rely, but it is also essential that there is substance to such a projection.

25. The Cabinet Member for Finance has noted that we already have a provision in the budget to recognise some element of the reduction in Gwynedd Consultancy income and he would prefer us to spend further time in order to get to the bottom of the situation rather than offer an answer in which we have little confidence.

### **Next steps and timetable**

26. Assuming that the Cabinet agrees I shall submit the Head of Finance's conclusions before the end of the financial year and shall report further on the longer term conclusions before the end of September 2013.

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### **Statutory Officers' Observations**

#### **Chief Executive:**

Obviously, appropriate financial management in the services is an important matter for the Cabinet and I welcome the Cabinet Member's wish to present the matter for the Cabinet's consideration. I agree with the recommendation to ask the Head of Finance to investigate the matter and to report back before the end of the financial year.

#### **Monitoring Officer:**

The report derives from the decision of the Cabinet on 20 November that there should be a formal report on measures to rationalise Gwynedd Consultancy'

department's ability to cope with the latest work projections. Although the report does not do so fully it offers a way forward. It is therefore a matter for the Cabinet to decide whether or not they are satisfied with the progress made and the proposals contained therein.

**Head of Finance:**

Based on the forecasts at the time, it was reported in the second quarter review that the Consultancy Service would show a net expenditure position of £58,000 by the end of the financial year, against an expected surplus target of (£452,000), which mean't an "overspend" position of £510,000. Significant work has been carried out by the Consultancy Department and with support from the Finance Department, to try and establish the reason for this position, and this work is continuing.

Although this picture could change of course with perhaps success in attracting more income sources and so forth, but for the time being it is estimated that the final position could show over-expenditure in the region of £600,000.

For the purpose of planning the 2013-14 budget it has been necessary to try and estimate the related position in terms of costs and income. Again, this picture could change significantly by the new financial year, but for the time being and for planning purposes, it has been estimated that the income target would be reduced by £250,000.

We will be working closely with the Consultancy Department over the next few months to review their financial and budgetary control arrangements with the intention of completing the work by the end of the current financial year

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**Appendices**