

FOOD STANDARDS SCOTLAND FINANCIAL PERFORMANCE UPDATE – May 2018

1 Purpose of the paper

1.1 This paper is presented to the Board for information and reports on the financial performance of Food Standards Scotland (FSS) up to 31 March 2018.

1.2 For the fourth quarter we are reporting a provisional outturn of £15.2m against the agreed resource budget of £15.3m, representing a projected less than 1% underspend against budget.

1.3 The Board is asked to:

- **Note** the financial information reported as at 31 March 2018.

2 Background

2.1 This work supports FSS Strategic Outcome 6: FSS is efficient and effective.

2.2 The FSS resource budget is £15.3m (net). On completion of the Spring Budget Review (SBR) FSS was provided with an Annually Managed Expenditure (AME) budget of £568k to cover liabilities for the Local Government Pension Scheme (LGPS). The total approved budget for the financial year 2017/18 was £15.8m. In addition, the transfer of resource budget to cover depreciation charge in year and to fund capital expenditure, mentioned in the previous quarterly report, was approved at SBR.

2.3 The Executive reports its financial performance against our six strategic objectives to provide an indication on how we are using our resources effectively, to deliver against the Strategy and Corporate Plan.

3 Financial Performance Summary

3.1 Annex A provides the tables and charts that show the budget, forecast and actual amounts for the financial year 2017-18. The financial performance is based on both the in year revised budget figure and the updated forecast that is reviewed on a monthly basis.

Quarter and YTD Budget v Actual expenditure

3.2 The provisional outturn for 2017/18 presented in the Year to Date Performance (Figure 1) shows an underspend of £92k against the full year budget. There are various under/over spends across the budget lines and below are some details to explain the variances.

Staff: The underspend is primarily attributable to less salary costs as a result of vacant posts either not being filled or staff leaving during the year creating new vacancies. There were approx. ten vacant posts at the end of the year and some of the vacancies continue to be filled by interim agency staff.

Admin: Three budget lines made up the majority of the overspend Travel & Subsistence, Accommodation & Utilities and Pension Liability. There was additional travel and subsistence activity across all FSS business areas which increased the travel costs towards the end of the year. Within Accommodation the main increase related to the reconciliation of the service charge for the previous year and new drainage rates being charged for the

first time for Pilgrim House. In addition, a payment was made to reduce the pension liability for the LGPS.

Programme: There were a number of under/over expenditures against various programme areas. A few projects did not proceed or had reduced expenditure within Research & Development and Testing & Surveillance which were known during the year. These underspends were offset with additional spend in Training & Support to other Organisations (eg Emergency Exercise planning) and Marketing (mainly for campaign activity). Within the Official Controls area of work significant savings were made in year for delivering the official controls programme for shellfish.

Capital: The main increase in capital expenditure related to the purchase of IT equipment for the desktop refresh that will be rolled out across the organisation at the beginning of 2018/19.

Income: Additional Meat Hygiene Inspection fees accounted for the majority of the additional income during the year primarily relating to delays in implementing the Poultry Inspection Assistants (PIAs) at Coupar Angus which had originally been planned to take place at the start of 2017/18. There was also further income for work done on behalf of Other Government Departments.

3.3 Within Figure 1 the fourth quarter budget profile is based on the in-year review carried out by Branches in October 17. The actual spend in quarter four when compared to the revised budget profile was £360k over budget for the quarter. The main budget lines impacting on this overspend were an increase in Admin of £304k, Capital expenditure of £158k and an increase in Income of 104k in the quarter.

3.4 The Allocation of Resource Expenditure (Figure 2) gives additional detail and explanation behind the five budget lines in Figure 1 both for the quarter and year to date review. For each element, variances are reported comparing the quarter budget versus actual spend and full year budget versus provisional outturn, as well as explanation for any differences. The last two years actual outturns have been included for comparison purposes.

3.5 In the Admin line budget for the quarter three areas: Travel & Subsistence, Other Office costs and Pension Liability make up the majority of this overspend.

3.5.1 The overspend related to increase travel and subsistence costs across all FSS business areas in the quarter not included in the original budget profile.

3.5.2 Within Other office costs the main increase related to expenditure for the CODEX conference and additional subscription costs for the food incident branch.

3.5.3 A payment was made to LGPS to reduce the pension deficit balance that will be carried forward into 2018/19.

3.6 The increase in income is primarily as a result of the quarterly reconciliation for actual meat inspection fees and further delay of implementing the Poultry Inspection Assistants (PIAs) in one plant. There has also been further income for animal welfare charges.

3.7 The additional Capital expenditure related to the purchase of equipment for our desktop IT refresh which was highlighted in the quarterly Board report presented at the meeting on 27th March. In addition, there was an upgrade to new phones, iPads etc and other IT devices to

enable better mobile/remote working for FSS staff which is a key feature of the organisation and essential to organisational efficiency.

YTD Spend against Strategic Outcomes

3.8 At the end of the year 99.4% of the FSS budget has been spent delivering the costed Corporate Plan as outlined in Figure 3. The spend was slightly greater for Outcome 3, Consumers Choose a Healthier Diet, Outcome 5 FSS is a Trusted Organisation and Outcome 6 FSS is Efficient and Effective than originally planned and was related to expenditure on programme.

3.9 During the last quarter there were changes to project activity with associated additional costs allocated under these Outcomes. Additional funds were assigned to the Healthy Eating campaign development, Local Authority training and Emergency Exercise project that crossed all these Outcomes and meant that the overall expenditure against the Outcomes was greater than budget.

Forecast Accuracy v Actual expenditure

3.10 Through our monthly budget monitoring work, a revised forecast is discussed and agreed with each Branch. This is then reflected through an updated full-year-forecast, which is presented on a monthly basis in the form of a waterfall chart (Figure 4). From the chart you can identify how close a given month's forecast value was to the actual outturn.

3.11 The information presented in Figure 4 allows us to quickly identify material variances and drill down into further detail to understand the reasons behind them. Below is a high level overview which seeks to provide context to the Board and explain the drivers behind the YTD variances for each of the last three months.

January 18: the overall monthly underspend of 113k was mainly as a result of some savings or reprofiling of project activity within programme amounting to £84k. Some work streams in campaign activity came in less than budget and there were reductions in sampling costs for official controls under the shellfish monitoring programme. Other projects were slightly delayed and the related costs were moved into following months eg for promotional materials, sampling grants and food incident work.

February 18: the monthly underspend of £99k was mainly as a result of delays or savings on project activity within programme amounting to £64k. There were delays in a number of project activities within Communications and Marketing, reductions in costs within official controls both for the shellfish and meat delivery programmes of work as well as for the sampling grants project.

March 18: the monthly overspend was just slightly over the forecast for the month. However, there were under/over spends across all the budget lines with greater expenditure in Admin for corporate services expenditure across a number of areas e.g. for travel, conferences and equipment. This increase was offset with reductions in the other budget lines.

3.12 The Year on Year Comparison graph (Figure 5) shows the monthly budget allocation compared with the updated monthly forecast expenditure. The graph is updated with the actual monthly expenditure as it occurs and with revised forecasts (dotted line) to show the performance against the initial budget spend. The monthly actuals have differed from the budget profile with greater expenditure than budgeted for in the latter months of the year. Explanations for variances have been provided in the previous paragraphs. The budget and actual performance for 2016/17 is provided to enable comparison between financial years.

Outstanding payments (debt recovery)

3.13 At the start of April the outstanding level of debt owed to FSS was £409k, where £122k of this debt (30%) is over the accepted 31 day payment term and £137k is over 61 days from date of invoice. The amount of debt over 31 days has decreased by 25% in the period. This is mainly due to the reduced value of the invoices raised during March.

3.14 There are three businesses that are currently in liquidation and Harper Macleod are working with the receiver to recover the outstanding debt from them with a total value of £27k. FSS will continue to work with Harper Macleod to reduce the amount of outstanding debt and we have made good progress agreeing re-payment plans with some food businesses over the last quarter.

3.15 FSS will also continue to report updates in the finance performance report and to the Audit and Risk Committee (in relation to debt and significant losses).

4 Risks, Issues and Highlights

4.1 The financial management plan was reviewed by the Board at the meeting on 27th March. The plan reflected the position at the end of Q2 in 2017/18. There is an action to update the plan to show the current position now that we are in a new financial year. This will be taken forward and it is the intention to circulate the revised plan via correspondence once it is finalised.

2018/19 Budget

4.2 We received confirmation of a resource budget of £15.3m for 2018/19 via the 2018 Budget Bill, which whilst the same as the current financial year, it reflects a real-terms reduction of around £0.2m. An AME budget was not included in this budget due to the SG timetable for returns. Our AME requirements will be reviewed at the in-year Spring Budget Review (SBR).

Reporting

4.3 In future versions of this report we plan to revise it to highlight how we use our resources following the move to a programme based approach, as well as further information on financial performance, headcount and medium term financial planning as outlined in the Financial Performance targets section of the Financial Management Plan.

5 Conclusions/Recommendations

5.1 The Board is asked to:

- **Note** the financial information reported as at 31 March 2018

Elaine McLaughlin

Senior Finance Manager

Elaine.McLaughlin@fss.scot or 01224 285172

1 May 2018

Annex A Tables and Charts

YTD Budget v Actual expenditure

Figure 1 provides an overview of the financial performance of FSS up to the 31 March 2018. The performance is based on comparing the actual spend for the year with the budget profile as updated during the financial year.

£'000	Budget Profile 17/18 at Oct 17						Actual Spend 17/18					Var	
	17/18 Budget	Q1	Q2	Q3	Q4	YTD	Q1	Q2	Q3	Q4	YTD	£'000	Var %
Staff	7,647	1,813	1,911	1,941	1,981	7,646	1,813	1,911	1,906	1,892	7,523	(124)	-2%
Administration	3,328	761	798	821	948	3,328	761	798	790	1,252	3,602	273	8%
Programme	7,558	1,617	1,664	1,934	2,344	7,559	1,617	1,664	1,692	2,434	7,406	(152)	-2%
Capital	146	14	11	50	71	146	14	11	39	229	293	147	101%
Income	(3,379)	(919)	(812)	(888)	(760)	(3,379)	(919)	(812)	(1,020)	(864)	(3,616)	(236)	7%
Total	15,300	3,286	3,572	3,858	4,584	15,300	3,286	3,572	3,407	4,944	15,208	(92)	-1%

Figure 1: Year-to-Date Performance

Figure 2 expands the budget lines in Figure 1 to provide detail of expenditure contributing to the totals. The table provides the comparison of Budget v Actual for Quarter 4 and Full Year Budget v YTD Actual

Allocation of FSS Budget £'000		Budget Q4	Actual Q4	Variance Budget v Actual	Comments Q4 Budget v Actual expenditure	Revised Budget - October 17	Full year Provisional Outturn	Variance Outturn v Budget	Comments Provisional Outturn v Full Year Budget	Actual 15/16	Actual 16/17
RDEL											
Staff Costs	Agency Staff	9	31	22		125	142	17		232	212
	Overtime	34	39	5		141	136	(5)		244	171
	Salaries, NIC, Pension	1,938	1,822	(116)		7,394	7,258	(136)		6,091	6,988
	Secondment Income	-	-	-		(13)	(13)	-		(40)	(40)
	Total	1,981	1,892	(89)	Under quarterly forecast by £89k due to delays in recruiting permanent staff which was slightly offset with increase in temporary appointments.	7,647	7,523	(124)	Under budget due to vacant posts with staff leaving the organisation combined with delays in recruitment of staff.	6,527	7,331
Administrative											
	Accommodation, maintenance, utilities	186	192	6		726	757	31		692	701
	Audit	74	77	3		100	104	4		90	98
	Legal, IT, Procurement, HR shared services	173	145	(28)		721	701	(20)		637	742
	Other office costs eg subscriptions, printing, conferences, IT consumables etc	179	225	46		463	470	7		383	391
	Pension Liability	48	253	205		213	414	201		262	376
	PPE Clothing, Laundry and other services	23	16	(7)		79	69	(10)		87	79
	Training	17	47	30		100	101	1		103	79
	Travel & Subsistence	125	174	49		426	484	58		459	432
	Total	825	1,129	304	Over quarterly forecast by £304k primarily due to contribution to pension liability, also additional staff training, travel and conference expenditure in the latter end of the year.	2,828	3,100	272	Over budget with increased travel costs for FSS business, additional accommodation related expenditure (drainage rates and service reconciliation) and contribution to reduce pension deficit.	2,713	2,898
Programme											
	Food Safety and Healthy Eating	35	51	16		80	69	(11)		922	83
	Food Incident and Investigation	143	188	45		209	210	1		-	-
	Marketing	343	527	184		805	925	120		547	987
	Other Programme costs	1	7	6		5	5	-		355	106
	Research and Development	360	245	(115)		653	560	(93)		473	955
	Official Controls Delivery	1,087	964	(123)		4,806	4,632	(174)		4,866	4,801
	Strategic Communications	129	153	24		385	382	(3)		34	373
	Testing and Surveillance	182	180	(2)		492	441	(51)		1,570	449
	Training and support to other orgs	64	119	55		124	183	59		-	-
	Total	2,344	2,434	90	Over quarterly forecast by £90k with additional spend in Marketing (campaigns), Food Fraud Prevention activities, Testing & Surveillance (Emergency Exercise work) offset with underspends mainly within Research and Development and Official Controls work.	7,559	7,407	(152)	A number of projects did not proceed or had reduced expenditure within Research & Development and Testing & Surveillance which were known during the year. These underspends were offset with approved additional spend in Training & Support to Organisations (Emergency Exercise) and Marketing (mainly for campaign activity).	8,767	7,754
Income											
	Audit	(10)	(12)	(2)		(40)	(43)	(3)		(36)	(41)
	Fees OGDs	(65)	(107)	(42)		(296)	(356)	(60)		(315)	(319)
	Meat Hygiene Inspection Fees	(685)	(745)	(60)		(3,043)	(3,217)	(174)		(3,111)	(3,149)
	Total	(760)	(864)	(104)	Increased income of £104k due to quarterly reconciliation for actual meat inspection fees, inclusion of additional overtime hours worked in fees and delay of implementing PIAs on one plant. Animal welfare charges invoiced to OGDs.	(3,379)	(3,616)	(237)	Increased income due to quarterly reconciliation for actual meat inspection fees and non implementation of PIAs on one plant during the year. Also fees for OGDs increased for work done on their behalf.	(3,462)	(3,509)
R-FDEL											
	Depreciation	123	123	-		500	501	1		473	529
	Total	123	123	-	No variance	500	501	1	No variance	473	529
CDEL											
	Furniture & Fittings - Additions	-	-	-		-	-	-		178	(4)
	I.T - Additions	71	229	158		145	293	148		111	93
	AUC	-	-	-		-	-	-		77	70
	Total	71	229	158	Increase in spend in quarter of £158k for purchase of equipment for new desktop refresh and well as purchase of smaller IT devices.	145	293	148	Increase in expenditure for the purchase of equipment for new desktop refresh as well as purchase of new phones, iPads etc to enable mobile/remote working for FSS staff.	366	159
	Total Resource	4,584	4,943	359		15,300	15,208	(92)		15,384	15,162
AME	Pension Liabilities (AME)	-	-	-		568	568	-		575	562

Figure 2 – Allocation of resource expenditure

YTD Spend against Strategic Outcomes

Figure 3 provides an overview of the Budget v Actual spend in comparison to the full year budget allocated to each outcome.

Strategic Outcomes	FY 2017 -18	Total £'000	Food is Safe	Food is Authentic	Consumers Choose a Healthier Diet	Responsible Food Businesses Flourish	FSS is a Trusted Organisation	FSS is Efficient and Effective
Staff	Budget	7,648	3,501	765	704	871	956	851
	Actual to March 18	7,524	3,465	757	671	859	938	834
Administration	Budget	3,328	836	502	461	475	531	523
	Actual to March 18	3,601	888	547	504	518	574	570
Programme	Budget	7,558	4,958	596	481	189	989	345
	Actual to March 18	7,405	4,909	553	492	28	1,066	357
Capital	Budget	144	61	11	0	11	11	50
	Actual to March 18	294	139	8	0	8	8	131
Income	Budget	(3,378)	(2,364)	(331)	0	(1)	(341)	(341)
	Actual to March 18	(3,617)	(2,530)	(354)	0	(1)	(366)	(366)
Total	Budget	15,300	6,992	1,543	1,646	1,545	2,146	1,428
	Actual to March 18	15,208	6,871	1,511	1,668	1,412	2,220	1,526
	% of budget spent	99.4%	98.3%	97.9%	101.3%	91.4%	103.4%	106.9%

Figure 3 – YTD Spend compared to Full Year Budget by Strategic Outcome

Forecast Accuracy v Actual Expenditure

In Figure 4 the financial performance based on both the original budget figure and the updated forecast is reviewed on a monthly basis. Each row shows the total of the monthly forecast values submitted by Branch Heads. Once the actual outturn for the month is available this is shown in the cell highlighted in yellow. This in part explains the variance from the original budget set at the start of the financial year with the remainder being attributed to active re-profiling of spend across the budget lines

£000s	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	2017-18 FYF
Budget	1,079,046	1,282,591	1,302,827	1,168,843	1,272,146	1,385,627	1,285,078	1,307,347	1,263,332	1,288,101	1,363,777	1,301,286	15,300,000
April Forecast	1,084,120	1,279,036	1,312,237	1,176,485	1,274,513	1,366,512	1,292,603	1,312,271	1,260,414	1,264,751	1,340,443	1,233,501	15,196,887
May Forecast	992,744	1,234,197	1,238,136	1,161,742	1,312,179	1,331,372	1,283,465	1,299,715	1,256,239	1,243,824	1,317,413	1,207,766	14,878,792
June Forecast		1,178,222	1,190,354	1,153,761	1,273,024	1,330,257	1,299,182	1,268,043	1,239,914	1,241,324	1,289,367	1,392,621	14,848,814
July Forecast			1,115,299	1,116,990	1,223,363	1,328,235	1,307,881	1,251,325	1,168,392	1,253,491	1,312,895	1,427,614	14,676,450
August Forecast				1,050,391	1,260,476	1,297,734	1,303,910	1,254,579	1,246,852	1,324,224	1,315,176	1,411,818	14,751,426
September Forecast					1,193,819	1,267,358	1,297,627	1,263,626	1,279,804	1,353,692	1,324,346	1,395,071	14,712,000
October Forecast						1,327,427	1,244,239	1,291,736	1,320,694	1,488,934	1,541,200	1,484,109	15,228,815
November Forecast							1,224,043	1,257,006	1,259,401	1,459,215	1,505,733	1,466,399	15,029,699
December Forecast								1,176,896	1,122,064	1,398,251	1,535,219	1,681,823	14,996,197
January Forecast									1,005,973	1,379,451	1,463,504	1,783,764	14,891,532
February Forecast										1,266,298	1,458,025	1,845,042	14,834,179
March Forecast											1,359,888	2,316,047	15,206,401
YTD Actual												2,316,253	15,206,751

Figure 4 – Full Year Forecast Waterfall

A comparison of the monthly budget v actual performance is provided at Figure 5 to give an overview of relative performance between 2016/17 and 2017/18 financial years. It is important to point out that the Monthly Budget information provided uses the initial budget profiles in each year.

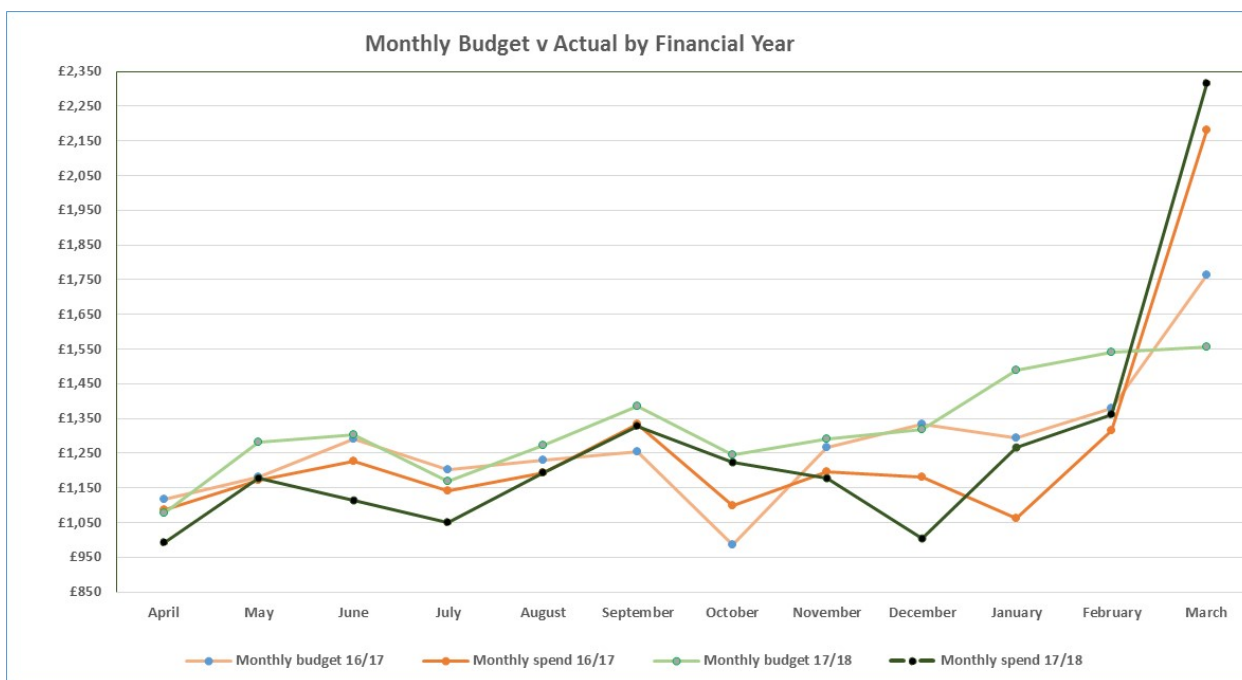


Figure 5 – Year on Year Comparison – monthly budget v actual