

FOOD STANDARDS SCOTLAND FINANCIAL PERFORMANCE UPDATE – MARCH 2017

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 January 2017.

1.2 As at the 31 January 2017 we are reporting a variance of 2% against actual spend for the period, compared to the revised Year to Date (YTD) budget notified in the December board paper. In addition to the YTD performance, a full year forecast of £14.96m is being reported against the agreed budget of £15.3m, representing a 2% variance.

1.3 The Board is asked to:

- **Note** the financial information reported as at 31 January 2017.
- **Note** on-going work to establish values of potential liabilities and provisions required in-year which will reduce the current forecast underspend.
- **Note** that work is continuing to develop an FSS Financial Strategy in line with Audit Scotland recommendations.

2 Strategic Aims

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

3 Background

3.1 The Budget (Scotland) Act 2015 was passed by the Scottish Parliament on 24 February 2016 and received Royal Assent on 30 March 2016. This confirmed the 2016/17 financial provision for the Scottish Administration and certain bodies whose expenditure is payable out of the Scottish Consolidated Fund (SCF). The FSS resource budget of £15.3m (net) was confirmed as part of this provision.

3.2 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.

3.3 The Board agreed a revised reporting schedule at its October meeting and the schedule for reporting for the remainder of the current financial year is at Annex B.

3.4 The charts and tables in this report now reflect the reallocation of budget across the Branches/Cost Centres notified at the December Board meeting.

4 Financial Performance Summary

Year-to-Date Performance

4.1 Figure 1 provides an overview of the financial performance of the organisation up to the 31 January 2017. As at the end of January, the actual spend when compared to the agreed revised budget profile was 2% under budget.

£'000	16/17 Revised Budget		Budget Profile Revised 16/17					Actual Spend 16/17					Var £'000	Var %
	16/17 Budget	Allocation	Q 1	Q 2	Q 3	Jan-17	YTD	Q 1	Q 2	Q 3	Jan-17	YTD		
Staff	7,530	7,384	1,753	1,857	1,807	641	6,058	1,749	1,802	1,854	621	6,026	32	0%
Administration	3,182	3,496	833	810	772	283	2,698	786	856	767	277	2,686	12	0%
Programme	8,008	7,714	1,870	1,899	1,801	658	6,228	1,830	1,901	1,692	540	5,963	266	3%
Capital	100	245	0	0	144	31	175	0	0	121	6	127	48	17%
Income	(3,520)	(3,539)	(868)	(878)	(936)	(318)	(3,000)	(877)	(890)	(954)	(381)	(3,102)	102	-1%
Total	15,300	15,300	3,588	3,688	3,588	1,295	12,159	3,488	3,669	3,480	1,064	11,700	459	2%

Figure 1: Year-to-Date Performance

4.2 In order to provide the Board a sense of how this translates into the operational level of FSS, the YTD performance is shown at a Branch level at Figure 2.

	Staff			Administration			Programme			Capital			Income			Year To Date		
	Budget	Actual	Variance	Budget	Actual	Variance	Budget	Actual	Variance	Budget	Actual	Variance	Budget	Actual	Variance	Budget	Actual	Variance
	£'000																	
Board	88	88	0	15	14	1	0	0	0	0	0	0	0	0	0	103	102	1
Senior Management Team and Private Office	576	573	3	56	69	-13	0	0	0	0	0	0	0	0	0	632	642	-10
SSIA	59	58	1	4	4	0	0	0	0	0	0	0	0	0	0	63	62	1
Communications and Marketing	380	384	-4	38	42	-4	928	800	128	60	60	0	0	0	0	1,406	1,286	120
Corporate Services	652	648	4	2,139	2,140	-1	0	0	0	55	5	50	0	0	0	2,846	2,793	53
Regulatory Policy	512	509	3	24	17	7	17	10	7	0	0	0	0	0	0	553	536	17
Food Protection Science and Surveillance	343	328	15	18	27	-9	708	691	17	0	0	0	0	0	0	1,069	1,046	23
Nutrition Science & Policy	216	207	9	12	10	2	210	193	17	2	2	0	0	0	0	440	412	28
Operational Delivery Total	2,179	2,191	-12	234	232	2	4,071	4,056	15	0	0	0	(2,936)	(3,042)	106	3,548	3,437	111
Veterinary Management	101	101	0	22	22	0	9	9	0	0	0	0	(27)	(27)	0	105	105	0
Enforcement Delivery	407	404	3	57	53	4	188	150	38	58	61	-3	0	0	0	710	668	42
Scottish Food Crime Unit	315	308	7	49	33	16	97	52	45	0	0	0	0	0	0	461	393	68
Audit	229	229	0	28	23	5	0	0	0	0	0	0	(36)	(34)	-2	221	218	3
Total	6,057	6,028	29	2,696	2,686	10	6,228	5,961	267	175	128	47	(2,999)	(3,103)	104	12,157	11,700	457

Figure 2: YTD Performance by Branch

4.3 The budget profile presented in Figures 1 and 2 are based on the revised assessment made by Branches in October. Through our monthly budget monitoring, 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 Figure 3.

Forecast Accuracy

4.4 The information presented in Figure 3, and through the monthly budget meetings with Branches, allows us to quickly identify material variances and drill down into further detail to understand the reasons behind them.

£000s	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16	Jan-17	Feb-17	Mar-17	2016-17 FYF
Budget	1,115,708	1,182,342	1,290,776	1,202,733	1,229,312	1,254,763	1,279,036	1,192,009	1,213,389	1,111,790	1,158,679	2,069,849	15,300,387
March Forecast	1,114,461	1,162,332	1,308,935	1,182,792	1,239,002	1,273,759	1,248,496	1,216,104	1,216,702	1,103,155	1,168,297	2,037,952	15,271,988
April Forecast	1,088,156	1,156,310	1,322,750	1,139,036	1,232,312	1,311,957	1,258,745	1,221,869	1,215,870	1,106,920	1,157,462	1,974,965	15,186,352
May Forecast		1,172,287	1,322,133	1,098,288	1,262,348	1,340,222	1,279,072	1,263,901	1,251,970	1,121,797	1,200,195	1,771,264	15,171,632
June Forecast			1,227,836	1,113,542	1,193,843	1,356,618	1,358,045	1,299,627	1,284,737	1,170,862	1,222,361	1,495,167	14,983,081
July Forecast				1,140,769	1,260,443	1,468,728	1,205,580	1,315,708	1,298,200	1,190,949	1,239,673	1,448,301	15,056,630
August Forecast					1,194,020	1,430,236	1,237,232	1,332,155	1,312,957	1,194,212	1,232,039	1,509,883	15,071,756
September Forecast						1,334,147	1,222,664	1,336,116	1,283,249	1,268,403	1,309,946	1,527,912	15,105,477
October Forecast							1,104,827	1,266,714	1,334,865	1,295,500	1,379,088	1,546,188	15,084,370
November Forecast								1,195,618	1,320,840	1,281,976	1,389,969	1,558,726	15,009,144
December Forecast									1,179,632	1,147,096	1,327,523	1,724,138	14,836,022
January Forecast										1,063,088	1,388,536	1,872,256	14,961,146
February Forecast													
March Forecast													

Figure 3 – Full Year Forecast Waterfall

4.5 Below is a high level overview which seeks to provide context to the Board and explain the drivers behind the YTD variances between the most recent forecast and actual for the period.

- November:** (£71k) favourable variance. November's variance mainly relates to underspend in the Programme budget line with a slight increase in income within the month. The underspend in Programme activity materialised across three Directorates amounting to £69k. Within Deputy Chief Executive (DCEO) area, £27k is attributable to Communications and Marketing and primarily relates to reprofiled spend into the following month to deliver our Festive Food Safety Campaign. Director Operations (DOPS) reported an underspend in month of £18.5K for training to deliver the centralised Feed Delivery Model project and in the Policy and Evidence Directorate (PEU), a £23.5k underspend relating to a reduction in planned sampling with the co-ordinated sampling grants project was reported, along with re-profiling of some spend in the Fish and Food Hygiene projects into future months.

December: (£141k) favourable variance. December's variance is a combination of underspend across Programme, Admin and Capital budget lines with an increase in income in month of £11k. There was underspend of £58k reported against Programme activity across the three Directorates. £23k was reported in DOPS due to reduced shellfish sampling taking place and a correction being made to a project line that reclassified an element of forecasted spend as Capital. Within the DCEO area, £15k was underspent across in the Communications and Marketing portfolio due to work not progressing as planned in month. In PEU, £20k of spend was reprofiled within the co-ordinated sampling grants project. In addition, there was underspend of £19k within Admin due to reduced travel costs and a reduction of internal audit costs relating to the revised audit plan. There was £50k underspend in Capital relating to two areas. Work on the Operations Workflow System (OWS) for £25k did not start in the month due to on-going procurement and contract activity taking longer than anticipated and also the purchase for the Food Incident management system (CLIO) was delayed until the following month.

January: (84k) favourable variance. January's mainly relates to underspend in the programme and capital budget lines where work has been re-profiled in to March. For capital (£22k), the purchase and implementation of the Food Incident management system (CLIO) was delayed due to time taken to get the contract finalised following an unsuccessful competitive tender exercise and this will now take place in March. Within Programme a number of small value re-profiling activity has taken place across Directorates with spend now forecast for March. The material change relates to Communications and Marketing who re-profiled £50K into March across three project lines for the development of new education projects, publications and consumer insight work.

Spend against Strategic Outcomes

4.6 At the end of the period 76.5% of the budget has been spent in delivering the costed Corporate Plan which is slightly behind an indicative average year to date spend of around 83%.

Strategic Outcomes		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	7,384	3,762	957	702	793	904	266
	Actual to January 17	6,027	3,068	764	553	641	719	282
Administration	Budget	3,496	878	545	506	534	555	478
	Actual to January 17	2,687	665	422	390	409	423	378
Programme	Budget	7,714	6,266	269	757	80	342	0
	Actual to January 17	5,962	5,066	150	487	41	217	0
Capital	Budget	245	49	48	31	49	51	17
	Actual to January 17	127	26	26	12	26	26	11
Income	Budget	-3,539	(3,496)	(6)	0	(6)	(31)	0
	Actual to January 17	-3,102	(3,063)	(6)	0	(6)	(27)	0
Total	Budget	15,300	7,459	1,813	1,996	1,450	1,821	761
	Actual to January 17	11,700	5,762	1,356	1,442	1,111	1,358	671
	% of budget spent	76.5%	77.2%	74.8%	72.2%	76.6%	74.6%	88.2%

Figure 4 – YTD Spend compared to Full Year Budget by Strategic Outcome

4.7 In Figure 5 the peak shown in March (monthly budget lines) relates to allocated budgetary commitments reviewed as part of the in-year budget review exercise. Financial planning and forecasting continues to improve across the organisation and the revised delegation of budgets, through the FSS’s scheme of financial delegation, were issued to Branch Heads during the last quarter. The updated forecast of expenditure, aligning to the re-profiling of the budget during the period, is highlighted by the dark green dotted line in Figure 5.

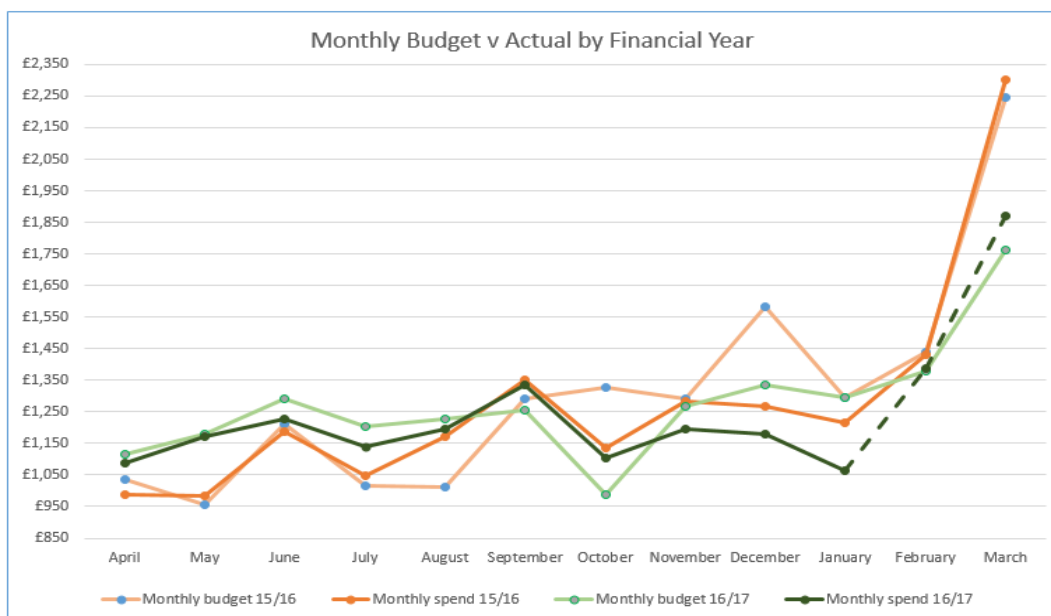


Figure 5 – Year on Year Comparison – monthly revised budget v actual

Full Year Forecast:

4.8 Whilst the report has focussed on the YTD performance, it is important not to lose sight of the full year projections being made to ensure we continue to operate within the budget provision allocated to FSS from the SCF. The full-year forecast graph at Figure 6 shows the FSS budget of £15.3m as a fixed red line and the full year forecast, as it changes each month, as a blue line.

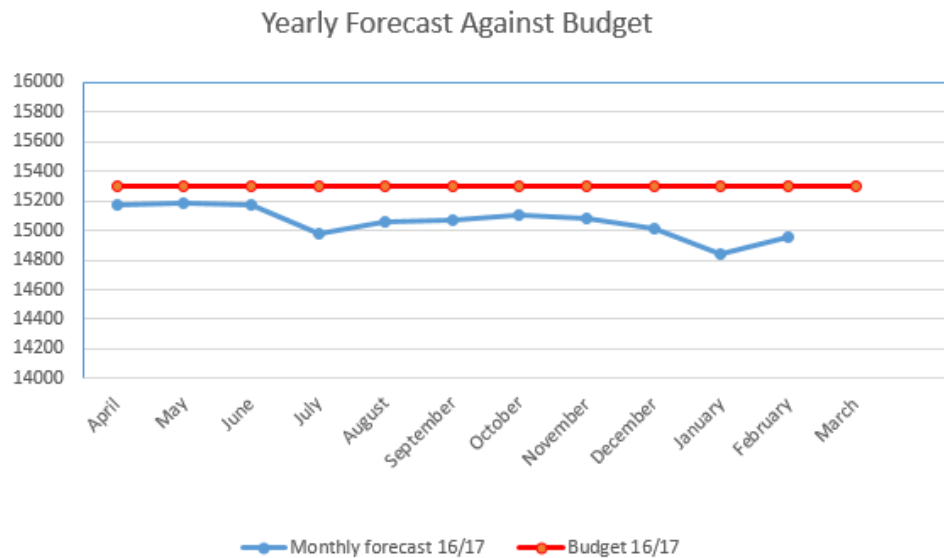


Figure 6 – Full Year Forecast from February 2017

4.9 As well as discussing the monthly returns and the reasons behind variances, these discussions allow the full year forecast against the allocated budget to be discussed by Branches. This allows finance to identify any potential budgetary pressures and/or underspends any revise our full year forecast accordingly.

4.10 As can be seen in Figure 6, a decrease in the full year forecast from the original budget allocation of £15.3m to £14.96m is being reported. The full-year forecast for February onwards reflects a decrease in forecast expenditure of £123k from that reported at end the end October. The material changes over the two months are briefly outlined below:

- Programme spend has decreased by £7k from the reported outturn as at the end of October. Reductions in planned activity across all business areas where programme activity is undertaken contribute to this reduced forecast. A forecast reduction is being reported in DOPS relating to £37k associated with the delay to training required prior to the implementation of the proposed feed official controls delivery model and the transfer of £22k from programme to capital associated with the procurement of the CLIO incident management system. There has also been a small reduction in costs associated with the use of contract Meat Hygiene Inspectors and reduced sampling activity being forecast across the official controls sampling contracts (£28k). Within PEU, some small project hand-backs have been offset by increases in other projects, however a delay to the commissioning of the 'Big Number Research' project has resulted in £30k forecast to be spent this year being handed back. These reductions in forecast out turn have largely been negated by increased levels of spend being forecast for the rest of the financial year following the agreement to re-run our Healthy Eating campaign in March (£100k) and the decision to bring forward spend from 17/18, related to the delivery of the Local Authority 'Annex 5' pilot in March (£25k).

- Forecast Staff costs have reduced by £100k, primarily due to delay in filling vacancies within a number of branches across FSS, as well as the removal of an Economist post from the Strategic Science and Information Analysis branch forecast due to a lack of Economist resource across Scottish Government. Additional contributions to staff costs for part-funded posts have also been revised in the updated forecast (e.g. Communications and Marketing education post). Forecast underspend has also been impacted by the release of an accrual for estimated overtime costs and reduction in the provision made for holiday pay entitlement on overtime payments. This has been offset slightly through increased costs relating to some extensions of temporary staff posts.
- Administrative costs have increased by £89k due to a provision being made for estimated legal costs, increased levels of Health and Safety training and equipment for the organisation, and additional budget required for increased procurement support relating to the tender of meat and shellfish official controls contracts. There has also been increased levels of spend in relation to recruitment, office equipment and continued subscriptions to service providers such as Citizen Space (for online consultations). This has been offset by some forecast reductions in travel and subsistence costs for the year (approx. £15K).
- Increased income of £94k within DOPS following reconciliation of income for Q3 based on estimated Business Agreement charges and actual costs incurred and Q3 adjustments to ensure EU minima compliance (impacted by exchange rates between the Pound and Euro).
- Decrease in forecast capital expenditure by £7k. This reflects a reduction of £50K in forecast spend on the Operational Workflow System development which has been offset by additional spend relating to the purchase of CLIO of £22K (incidents management system) and small value purchases of equipment for use by FSS Operations and additional IT assets within the office.

5 Risks and Issues

5.1 FSS has been allocated a one year budget of £15.3m as part of the Scottish Government's draft budget for 2017/18. Prior to confirmation of the budget, the draft budget allowed the Senior Management Team to commence a detailed review of branch business planning and budgeting proposals, as well as discussing long term financial strategies and achieving a balanced and affordable work plan that ensures delivery of the FSS Corporate Plan. Work continues to finalise spending plans for 17/18 and we are aiming for completion by the end of February. We are also progressing with the development of an FSS long-term Financial Strategy (and associated workforce planning) in line with Audit Scotland's recommendations and expect this work to be finalised by the end of March 2017. This remains challenging given the nature of one-year budget settlements and uncertainty around resource requirements related to BREXIT.

5.2 A review has taken place at a Branch level to finalise spending plans for the rest of the current financial year and to identify any additional (or potential) uncommitted budget. During the Scottish Government's Spring Budget Revision (SBR), we transferred an element of resource budget (£220k) to Capital in line with our forecasted expenditure for the year. Although we are forecasting an underspend of approximately £330K, budget was not returned during SBR due to potential liabilities and in-year provisions where values were not yet known. We are firming up cost estimates relating to the potential liabilities and provisions mentioned above e.g. legal expenses, payments due to Food Business Operators relating to EU minimum shortfall/Veterinary Medicines Directorate charges and the annual provision related to annual leave and flexi-time accruals.

Should these materialise and/or be agreed, expenditure will fall within the last two months of the year.

5.3 The on-going food incident relating last summer's e-coli outbreak continues to divert significant resource from business as usual and programme activity. This has had a major impact on our ability to progress work as we had planned, at the start of the current financial year. Given the nature of the incident, we anticipate the diversion of resource, to support work related to the incident, will continue to place pressure on the organisation and therefore have a direct impact on our ability to deliver projects and research that support our Corporate Plan ambitions, creating an associated financial risk against our ability to commission work in line with budgeted spending plans. On-going legal challenges also mean that we are having to make provision for those costs too.

6 Conclusions/Recommendations

6.1 The Board is asked to:

- **Note** the financial information reported as at 31 January 2017.
- **Note** on-going work to establish values of potential liabilities and provisions required in-year which will reduce the current forecast underspend.
- **Note** that work is continuing to develop an FSS Financial Strategy in line with Audit Scotland recommendations.

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23 February 2017

Annex A

Financial Chart Details – Explanatory NotesFigure 1: Year-to-Date Performance and Figure 2: YTD Performance by Branch

The performance is based on comparing the actual spend for the period with the budget profile which was originally set at the start of the financial year. This provides an indication of how close teams across the business are to their initial forecast for the period, for the categories of spend that are reported internally to Scottish Government (Staff, Administration, Programme, Capital & Income). Figure 2 provides this information at a Branch level to provide the Board with a sense of how the operation of the organisation aligns with budget and spend activity within FSS.

Figure 3 – Full Year Forecast Waterfall

As the original budget is profiled and fully allocated at the start of the year, changes can occur on a month-to-month basis that means the profiled spend will differ to the original plans of each Branch. Through our monthly budget monitoring, a revised forecast is discussed and agreed with each Branch.

The financial performance based on both the original budget figure and the updated forecast is reviewed on a monthly basis. Figure 3 shows this information in the form of a waterfall chart which identifies how close a given month's forecast value was to the actual outturn. Each row shows the total of the monthly forecast values submitted to Finance by Branch Heads. Once the actual outturn for the month is available this is shown in the yellow cell. 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.

Figure 4 – YTD Spend compared to Full Year Budget by Strategic Outcome

Figure 4 provides an overview of the YTD spend in comparison to the full year budget allocated to each outcome. The % of budget spend as at the end of the month is shown to provide an indication of progress and performance in delivering the costed Corporate Plan.

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

A comparison of the monthly budget v actual performance is provided at Figure 5 to provide the Board with an overview of relative performance between 2015/16 and 2016/17 financial years. It is important to point out that the information provided uses the initial budget profiles used in each year and not the updated forecast figures that are revised on a monthly basis.

Figure 6 – Full Year Forecast

The full-year forecast graph at Figure 7 shows the full year budget as a fixed red line and the full year forecast, as it changes each month, as a blue line.

Annex B – Schedule of Finance Reporting to the Board for the remainder of the financial year 2016/17

Board date	Papers to be issued by	Finance Month/Quarter End	Time lapse
17 May 2017	10 May 2017	March	6 weeks 4 days