

FOOD STANDARDS SCOTLAND FINANCIAL PERFORMANCE UPDATE – QUARTER THREE 2015/16

1 Purpose of the paper

- 1.1 For information. The Board is asked to note the Quarter 3 Food Standards Scotland (FSS) financial performance report for the 2015/16 financial year.
- 1.2 At 31 of December 2015, FSS was forecasting an outturn of approximately £15.155m, which is an increase of £0.129m from the full year forecast presented to the Board at the end of Quarter 2 (as at 30 September 2015).
- 1.3 At the end of Quarter 3 an underspend of approximately £0.545m is forecast. This is in part due to the significant delay in the FSS budget being confirmed prior to the start of the financial year and the on-going delays in recruiting permanent staff, which has also had an knock on impact on the organisations ability to progress and commission planned projects.
- 1.4 The Board were also made aware of changes to the FSS budget following the Scottish Government Spring Budget Revision in January 2016. FSS returned £0.2m to SG Central Finance which reduced the FSS 2015/16 budget to £15.5m.
- 1.5 The Board is asked to:
 - **Note** the third quarter financial report to the FSS Board
 - **Note** the subsequent changes to the FSS 15/16 budget following the Spring Budget Revision in January. Performance against the revised budget will be reported to the Board at the end of Quarter 4.
 - **Note** the on-going work relating to the 2016/17 budget and that the high-level budget provision, against Strategic Outcomes, will be presented as part of the FSS Strategy paper at the March Board meeting.

2 Background

- 2.1 This is the first budget of Food Standards Scotland and it enables FSS to carry out its functions in relation to food and feed safety and standards, diet and nutrition and any other related interests of consumers.
- 2.2 The budget for FSS is met from existing resources within the Scottish Consolidated Fund (SCF) and through income received from industry and other government departments in relation to the delivery of Official Controls in approved meat establishments.
- 2.3 FSS is classed as a directly funded external body which requires separate parliamentary approval from the Scottish Government portfolio and consequently the FSS budget is detailed separately in the Budget (Scotland)

Bill¹. Supporting information relating to the Budget Bill can be found on the Scottish Government website².

- 2.4 The Budget (Scotland) Act 2015 received Royal Assent on 11 March 2015 confirming the financial provision for the Scottish Administration and certain bodies whose expenditure is payable out of the SCF. The FSS resource budget of £15.7 million (net) was confirmed for 15/16 as part of this provision.

3 Discussion

- 3.1 This financial performance report to the Board covers Quarter 3 of the current financial year (October-December). The report has been developed to provide the Board with an overview of the financial performance over the period and to show how FSS plans to make use of its financial resources.
- 3.2 The report remains a work-in-progress and will continue to be developed over the remainder of the financial year. The Board should note that the Executive expects to forecast the full budget allocation for 16/17 rather than manage an “uncommitted” budget line. The report has also been revised to show any material changes to the budget allocation and a high level variance analysis of full-year forecasts between quarters.
- 3.3 The Board should also note the intention to present spend against Strategic Outcomes during 2016/17, once the Strategy has been agreed and implemented. Reports on financial performance to the Board will also be more frequent with bi-monthly reports to coincide with Board meetings and aligned to the relevant points in the financial year.
- 3.4 It was reported in January’s Financial Performance Update Paper (link³) that work to review the forecast outturn took place during Quarter 3 to finalise the FSS spending plans for the rest of the year. This resulted in a return of budget to the Scottish Government of £0.2m through the Spring Budget Revision and a revised budget for FSS of £15.5m for the remainder of the 2015/16 financial year. Forecast expenditure for Quarter 4 will be reported to the Board against the revised budget of £15.5m.
- 3.5 The Board were also made aware that the Scottish Government published their spending plans for 2016/17 through the Draft Budget (link⁴) on 16 December. This resulted in a net budget allocation of £15.3m (reduction of 2.5% from 15/16). Additionally, SG expect public bodies to deliver efficiency savings of 3% per annum (£459,000 for FSS based on a budget of £15.3m) over the period of the Spending Review and to report publicly on the action undertaken and the results achieved.

¹ <http://www.scottish.parliament.uk/parliamentarybusiness/Bills/85446.aspx>

² <http://www.gov.scot/Publications/2015/01/9549/0>

³ <http://www.foodstandards.gov.scot/sites/default/files/Board%20meeting%20-%202016%20January%2020-%20Financial%20Performance%20Report%20Quarter%202%20160107.pdf>

⁴ <http://www.gov.scot/Resource/0049/00491140.pdf>

4 Financial Performance Summary

- 4.1 The financial performance summary up to the end of Quarter 3 is provided below. Figure 1 presents the performance over 9 months of operations and compares the profiled budget with actual spend for the period. The budget profile was revised at the end of Quarter 2 to reflect re-profiling activity across the allocated budget areas of Staff, Administration, Programme, Capital and Income.

Figure 1 – Financial Performance Summary to 31 December 2015

£000s	Actual to 31 Dec 15	Profile to 31 Dec 15	Variance £	Variance %
Staff	4,666	4,706	40	1%
Administration	2,204	2,380	176	7%
Programme	6,107	6,027	(80)	(1%)
Capital	56	106	50	47%
Income	(2,570)	(2,563)	7	(0%)
FSS Total	10,463	10,655	192	2%

- 4.2 Actual staff costs were less in the quarter compared to the profiled spend due to vacancies not being filled as planned, with the majority being reprofiled into Quarter 4 based on recruitment timescales.
- 4.3 Administration costs were less than forecast up to end December 2015 due to the cash transfer with FSA (for FSS costs borne by FSA) being delayed until January 2016. In addition, the forecast costs for the provision of SG IT support have been reduced for the full year and this resulted in forecast costs for the period being less than planned.
- 4.4 Programme expenditure was higher than forecast during the period due to increase spend relating to the FSS Festive Food Safety campaign that was developed and run in December.
- 4.5 Capital expenditure was also reprofiled from Quarter 3 to Quarter 4 and relates to development work being undertaken on the FSS Operational Workflow system.
- 4.6 In addition to the financial performance summary above, Figure 2 gives an overview of the full year forecast as at 31 December and provides a direct comparison against the full year forecast as at 30 September. Overall, the forecast outturn for the financial year has increased by **£0.129m** over the third quarter however an under spend of **£0.545m** (3%) is currently forecast as at the end of quarter 3.

Figure 2 – Quarterly Full-Year Forecast Analysis

£000s	Full Year Forecast at Q3	Full Year Forecast at Q2	Variance £	Variance %	Full Year Budget	Variance £	Variance %
Staff	6,339	6,418	79	1%	6,016	(323)	(5%)
Admin (Non-Pay)	3,273	3,083	(190)	(6%)	3,534	261	7%
Programme Project Expenditure	8,859	8,794	(65)	(1%)	9,511	653	7%
Capital	100	156	56	36%	56	(44)	(79%)
Income	(3,416)	(3,426)	(10)	(0%)	(3,417)	(1)	(0%)
Total	15,155	15,026	(129)	(1%)	15,700	545	3%

Changes to Forecast

- 4.7 Forecast staff costs have decreased between Quarter 2 and Quarter 3 by £0.079m. This is primarily due to changes in profiled recruitment activity forecast for the rest of the financial year moving into the early part of 2016/17 and to new vacancies that have arisen during the quarter. In addition to this, agreement has also been reached with partner organisations where FSS are sharing the cost of a seconded member of staff. This 'income' also contributes to the reduction in forecast spend. This has been offset by making a provision for the buyout of existing terms and conditions following the decision to move FSS staff from their existing terms and conditions to Scottish Government Main.
- 4.8 Temporary staff costs have also increased slightly due to on-going recruitment of permanent administrative staff. These costs are forecast to reduce significantly following the permanent recruitment of staff during Quarter 4.
- 4.9 At the time of writing, there are currently 10 vacancies (either new or existing posts) actively being recruited, with 36 vacancies filled (staff in post or agreed start dates) since April 2015 through either permanent, fixed term or temporary appointments. These numbers have been factored into the staff forecast for the remainder of the year.
- 4.10 The headcount figures (full time equivalent) for permanent or fixed term members of staff has been provided in Table 1 below. At time of writing FSS were also employing 7 temporary members of staff through the Scottish Government contingent workers framework.

Table 1 – FSS Full Time Equivalent Staff

	June 2015	September 2015	December 2015	March 2016 (Projected)
Full Time Equivalent Staff Numbers	145.9	142.7	148.5	159.2

- 4.11 Forecast administration spend (non-pay) for the year has increased over the quarter by £0.19m. The main driver behind this has been an increase in the forecast cost of capital (£0.18m) following work that is underway with FSA on the transfer of fixed assets. There has also been some revisions across the FSS admin budget due to increased costs being forecast due to changes being

made to the office accommodation in March, reductions in SG IT support costs and SG Internal Audit costs for the year.

4.12 As at 31 December, the programme budget full year forecast has increased from £8.79m (as at the end of Quarter 2) to £8.86m. This increased commitment for the remainder of the year is primarily due to planned projects coming online or new project requirements emerging during the period. These areas have been summarised below to provide the Board with an overview of the key drivers behind the increased spend.

- Additional commitment has been agreed in relation to increasing the scope of the Festive Food Safety and Healthy Eating campaigns resulting in an increased forecast spend of **£0.12m**
- Forecast spend for the provision of Local Authority support has also increase by approximately **£0.1m** through agreement of projects including the review of Cross Contamination Guidance; the development of the Scottish National Database and; funding to support the recruitment and training of enforcement officers.

4.13 The total increase in forecast has been offset by some projects that are no longer planned to take place during the current financial year or where spend is now less than originally anticipated. These are outlined below:

- A project to look at factors affecting variations in campylobacter disease rates in Scotland has reduced by **£0.05m** due to the project being placed on hold while approval was given by an Ethical Council.
- Funding of **£0.06m** to support Local Authorities and Non Local Authority partners deliver FSS campaign messages was reduced and covered as part of the increase spend on campaign activity outlined above.
- Smaller savings totalling approximately **£0.04m** have also been realised across a number of communication and marketing activities in relation to social media promotion and segmentation work.

4.13 As at the 31 December some potential project spend remains, however work is on-going to ascertain whether it will proceed in the current financial year. This totals approximately £0.15m and will be reviewed during the remainder of Quarter 4, along with any other emerging work, in order to assess whether this planned spend will take place.

4.14 The Capital forecast has decreased by £0.056m as development work on the Operational Workflow System, that is being used by FSS Operations for the recording of Official Controls in relation to meat hygiene inspection, has been revised and now forms part of a new budget bid to allow the work to take place during 2016/17.

4.15 Forecast income from the delivery of official controls in approved meat establishments has remained relatively stable with a slight reduction of £10,000 being forecast until the end of the financial year. This reduction primarily relates to changes made in Business Agreements across areas to reflect an overall reduction in the level of service required by Food Business Operators. This

reduction has also been offset slightly by an increased forecast of samples being required as part of the MOU with Veterinary Medicines Directorate.

4.16 To provide the Board with an overview of how the FSS budget is currently forecast to be spent across the organisation, Table 2 presents a breakdown of the key components of the FSS budget apportioned to each Branch.

Table 2 – FSS Forecast Spend by Branch

Branch	Staff Cost (£)	Admin (Non Pay) Cost (£)	Programme (£)	Capital (£)	Income (£)	TOTAL (£)
Board	109,203	22,354	-	-	-	131,557
Senior Management Team	389,597	103,489	-	-	-	493,086
Private Office	220,886	2,495	-	-	-	223,381
Communications and Marketing	329,022	30,623	1,657,885	56,450	-	2,073,980
Corporate Services	721,715	2,622,035	-	-	-	3,343,750
Regulatory Policy	429,968	12,472	-	-	-	442,440
Food Safety Science and Surveillance	263,642	18,355	1,414,309	-	-	1,696,306
Nutrition Science and Policy	281,138	11,253	485,378	-	-	777,769
Operational Delivery	2,697,299	307,494	4,886,826	43,550	-3,415,949	4,519,220
Veterinary Management	158,448	39,672	-	-	-	198,120
Enforcement Delivery	532,678	77,839	264,273	-	-	874,790
Scottish Food Crime Unit	89,980	19,293	150,000	-	-	259,273
Audit	115,523	6,121	-	-	-	121,644
TOTAL	6,339,099	3,273,494	8,858,671	100,000	-3415,949	15,155,314

5 Identification of risks and issues

- 5.1 The delays in recruiting staff members remains an issue and places additional pressure on the organisations ability to effectively utilise its full programme budget allocation for the year.
- 5.2 Programme Slippage remains a risk and whilst most projects are progressing as planned, there is a small number that are yet to commence. They are scheduled to start in Quarter 4 and due to timing relating to procurement and other external factors, there is some risk that these projects do not start as planned and forecast spend is either reduced or not fully utilised. This will be reviewed over the final quarter.
- 5.3 There remains a potential pressure on the FSS budget relating to the outcome of the negotiation between Scottish Government and Food Standards Agency

which are a legacy of the transfer to the Scottish Administration, specifically in relation to the transfer of pension liabilities of former meat hygiene inspection staff. This liability has been included in FSS forecasts to date, however now that negotiations have concluded and a transfer agreed, FSS are currently working with the relevant pension authorities to understand the exact cost of pension liabilities for the current financial year.

- 5.4 Discussions continue with FSA on the transfer of fixed assets and an increase in the cost of capital has been estimated into the full year forecast as at the end of Quarter 3. The exact cost still needs to be confirmed so there remains a risk that the cost of capital will increase following the final transfer of assets that is agreed between the two organisations. Audit Scotland colleagues are also discussing the transfer of balances between the two organisations as part of their handover with National Audit Office.
- 5.5 FSS is currently finalising its spending plans for 2016/17 following the announcement of the SG draft budget and the conclusion of our annual budget and business planning round. This included an organisation wide prioritisation exercise to ensure that the agreed budget is balanced and affordable, within the spending limits, and ensures delivery of the Strategic Outcomes of the FSS Corporate Plan. The spending plans were agreed by the Senior Management Team in mid-February and have been presented, at a high level against each Strategic Outcome, in the draft FSS Strategy and Corporate Plan that will be discussed by the Board at its March meeting.

6 Forecast as at end of January 2016

- 6.1 Board Members are provided with a quarterly finance performance report at present until we fully develop our performance reporting for the forthcoming reporting (and financial) year. Due to this year's the board meeting schedule not fully aligning with the financial year quarters, FSS are conscious that there is a degree of lag in the board receiving financial information. As such, I have included an up to date forecast position at the end of January in Table 3. This reflects the full-year forecast against the revised budget of £15.5m, which results in a current forecast underspend of approximately £294K. There is still some potential spend that may reduce the current underspend further.

Table 3 – Forecast as at end of January 2016

£000s	Full Year Forecast at end Jan	Full Year Forecast at Q3	Variance £	Variance %	Full Year Budget	Variance £	Variance %
Staff	6,337	6,339	2	0%			
Admin (Non-Pay)	3,292	3,273	(18)	(1%)			
Programme Project Expenditure	8,885	8,859	(26)	(0%)			
Capital	100	100	-	-			
Income	(3,407)	(3,416)	(9)	(0%)			
Total	15,206	15,155	(51)	(0%)	15,500	294	2%

7 Conclusions/Recommendations

7.1 The Board is asked to:

- **Note** the third quarter financial report to the FSS Board
- **Note** the subsequent changes to the FSS 15/16 budget following the Spring Budget Revision in January. Performance against the revised budget will be reported to the Board at the end of Quarter 4.
- **Note** the on-going work relating to the 2016/17 budget and that the high-level budget provision, against Strategic Outcomes, will be presented as part of the FSS Strategy paper at the March Board meeting.

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