

FOOD STANDARDS SCOTLAND FINANCIAL PERFORMANCE UPDATE – MAY 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 March 2017.

1.2 As at the 31 March 2017 we are reporting a provisional outturn of £15.22m which is an increase of £262K from the full year forecast presented at the end of January 17. This represents a forecast underspend of £80K based on the 16/17 resource budget allocation of £15.3m and a variance of 0.5% against actual spend for the year, when compared to the revised Year to Date (YTD) resource budget notified in the December board paper.

1.3 The Board is asked to:

- **Note** the financial information reported as at 31 March 2017.
- **Note** that work is continuing to develop an FSS Financial Strategy in line with Audit Scotland recommendations.
- **Note** the discussions between FSS, Scottish Government, FSA and Audit Scotland with regards to the reporting of AME non-cash 'expenditure' relating to pension liabilities and how this should be reported by FSS in both our SG finance returns and the Annual Report and Accounts.

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 Following completion of the Spring Budget Revision (SBR) exercise the FSS budget was increased to £15.7m (net) and provided a budget of £400k for the provision of Annual Management Expenditure (AME) to cover pension liability non cash amounts. AME is spending that does not fall within Departmental Expenditure Limits (DEL). AME is generally less predictable than expenditure in DEL and is not subject to multi-year limits. It is set each year and contains those elements of expenditure that are not readily predictable, for example, pensions.

3.3 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.

3.4 The charts and tables in this report now reflect the reallocation of budget across the Branches/Cost Centres, as notified at the December Board meeting (reflecting Q3 re-profiling).

4 Financial Performance Summary

Year-to-Date Performance

4.1 Figure 1 provides an overview of the provisional financial performance of the organisation up to the 31 March 2017. As at the end of March, the actual spend when compared to the agreed revised budget profile was 0.5% under budget.

£'000	Budget Profile Revised 16/17							Actual Spend 16/17					Var £'000 Var %	
	16/17 Budget	16/17 Revised Budget Allocation	Q 1	Q 2	Q 3	Q 4	YTD	Q 1	Q 2	Q 3	Q 4	YTD		
Staff	7,530	7,384	1,753	1,857	1,807	1,967	7,384	1,749	1,802	1,854	1,925	7,330	54	0.73%
Administration	3,182	3,496	833	810	772	1,081	3,496	786	856	767	1,030	3,439	57	1.63%
Programme	8,008	7,714	1,870	1,899	1,801	2,144	7,714	1,830	1,901	1,692	2,347	7,770	-56	-0.72%
Capital	100	245	0	0	144	101	245	0	0	121	70	191	54	22.04%
Income	(3,520)	(3,539)	(868)	(878)	(936)	(857)	(3,539)	(877)	(890)	(954)	(787)	(3,508)	-31	0.88%
Total	15,300	15,300	3,588	3,688	3,588	4,436	15,300	3,488	3,669	3,480	4,585	15,222	79	0.51%

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	105	105	0	20	20	0	0	0	0	0	0	0	0	0	0	125	125	0
Senior Management Team	693	688	5	73	84	-11	0	0	0	0	0	0	0	0	0	766	772	-6
Senior Management Team	450	459	-9	69	79	-10	0	0	0	0	0	0	0	0	0	519	538	-19
Private Office	243	229	14	4	5	-1	0	0	0	0	0	0	0	0	0	247	234	13
SSIA	76	71	5	7	5	2	50	10	40	0	0	0	0	0	0	133	86	47
Communications and Marketing	462	465	-3	45	58	-13	1,171	1,315	-144	60	60	0	0	0	0	1,738	1,898	-160
Corporate Services	795	812	-17	2,777	2,701	76	0	0	0	105	17	88	0	0	0	3,677	3,530	147
Regulatory Policy	626	622	4	32	21	11	17	29	-12	0	0	0	0	0	0	675	672	3
Food Protection Science and	428	409	19	27	34	-7	893	899	-6	0	0	27	0	0	0	1,348	1,342	6
Nutrition Science & Policy	269	265	4	14	13	1	313	308	5	2	0	2	0	0	0	598	586	12
Operational Delivery Total	2,667	2,654	13	313	317	-4	4,863	4,805	58	0	10	-10	(3,467)	(3,439)	-28	4,376	4,347	29
Operational Delivery	237	239	-2	109	106	3	2,400	2,348	52	0	10	-10	(20)	(31)	11	2,726	2,672	54
Operations - Area 1	552	536	16	44	44	0	781	773	8	0	0	0	(905)	(923)	18	472	430	42
Operations - Area 2	839	843	-4	66	67	-1	956	954	2	0	0	0	(1,428)	(1,468)	40	433	396	37
Operations - Area 3	744	741	3	66	72	-6	494	498	-4	0	0	0	(752)	(656)	-96	552	655	-103
Operations - Area 4	295	295	0	28	28	0	221	221	0	0	0	0	(359)	(358)	-1	185	185	0
Operations - Area 5			0			0	11	11	0	0	0	0	(3)	(3)	0	8	8	0
Veterinary Management	101	101	0	22	22	0	9	9	0	0	0	0	(27)	(27)	0	105	105	0
Enforcement Delivery	493	489	4	69	74	-5	287	277	10	79	67	12	0	0	0	928	907	21
Scottish Food Crime Unit	393	374	19	57	61	-4	111	118	-7	0	36	-36	0	0	0	561	589	-28
Audit	275	276	-1	38	27	11	0	0	0	0	0	0	(43)	(40)	-3	270	263	7
Total	7,383	7,331	52	3,494	3,437	57	7,714	7,770	-56	246	190	56	(3,537)	(3,506)	-31	15,300	15,222	78

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											1,328,082	2,095,869	15,124,304
March Forecast												2,193,974	15,222,412

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.

February: (£61k) favourable variance. February's variance is a combination of underspend in Staff and Programme budget lines with increased income in the month of (£26k), offset by an increase in Capital expenditure of £16k for computer and office equipment. The underspend in programme of (£34k) was mainly in the Communications and Marketing branch within the Deputy Chief Executive (DCEO) area. Planned spend of (£50k) of various project expenditure (consumer insight and publications work and new education project) were moved to the following month which was offset with activity brought forward on the Healthy Eating campaign of £23k. Staff costs were less than forecast for the month (£21k) as a result of receiving a contribution from SG for a post in Communications and Marketing, reductions in the cost for investigator in Food Crime Unit and the delay in recruiting two posts within the Policy and Evidence Unit (PEU) Directorate.

March: £98k adverse variance. The overspend against forecast in March primarily relates to an increased spend against Staff and Admin budget lines, offset by reductions in the Capital and Programme budgets. There was a £69k increase in staff costs, of which £16k impacted across all business areas due the recalculation of the provision created for year-end annual leave/flexi-time accruals. In addition, within the overall DCEO budget, there was an additional £30k forecast which related to agency staff costs for new interim worker, provision made for a new overtime calculation (required due to changes in how this was calculated for 16/17) for office based staff, as well as treating an element of SG pay contribution (£5k), for a joint funded post, as a prepayment for staff costs and transferring the amount to 17/18. An increase of £23k within the PEU Directorate was made up of a number of items including a one-off lump sum Statutory Maternity Pay (SMP) payment made to a member of staff leaving FSS and going on maternity leave, increased overtime costs within the directorate as well as an agreed payment of a month's annual leave for member of staff on maternity leave. In Director of Operations (DOPS) a £14k increase was due to additional overtime costs relating to on-going incidents as well as slight increases of overtime and salary costs in the operational areas.

Increases in Admin costs of £60k were reported across various budget lines within the organisation, including staff training, personal protective equipment (PPE) and office equipment procurement, and travel and conference costs. However the main difference relates to a £49K loss on the disposal of assets relating to 15/16, which was offset by a reduction of £18K in previously forecast legal fees. Following an in-year review of the FSS asset register, there were some non-current assets relating to furniture items that had transferred from FSAS but had not moved to Pilgrim House. As these items were not fully depreciated, this led to the loss on disposal in the current year when removed from the asset register. Within the Capital budget (£23K), some costs previously included under this heading were reclassified and transferred to Programme. There was also a slight delay in the work for the Scottish National Database being reported, with £11K of costs transferred into 17/18. Within Programme there was a (£12k) underspend, offset by the capital transfer mentioned above, relating to projects across a number of branches (Food Sampling grants, Stakeholder event and Local Authority training in PEU directorate and Shellfish sampling and tricinella testing in DOPS).

Spend against Strategic Outcomes

4.6 At the end of the year the FSS budget has been spent delivering the costed Corporate Plan as outlined below.

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 March 17	7,330	3,722	931	687	777	868	345
Administration	Budget	3,496	878	545	506	534	555	478
	Actual to March 17	3,438	870	538	493	523	537	477
Programme	Budget	7,714	6,266	269	757	80	342	0
	Actual to March 17	7,770	6,254	267	794	84	371	0
Capital	Budget	245	49	48	31	49	51	17
	Actual to March 17	192	49	39	13	39	39	13
Income	Budget	-3,539	(3,495)	(6)	0	(6)	(32)	0
	Actual to March 17	-3,508	(3,466)	(6)	0	(6)	(30)	0
Total	Budget	15,300	7,460	1,813	1,996	1,450	1,820	761
	Actual to March 17	15,222	7,429	1,769	1,987	1,417	1,785	835
	% of budget spent	99.5%	99.6%	97.6%	99.5%	97.7%	98.1%	109.7%

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) related 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.

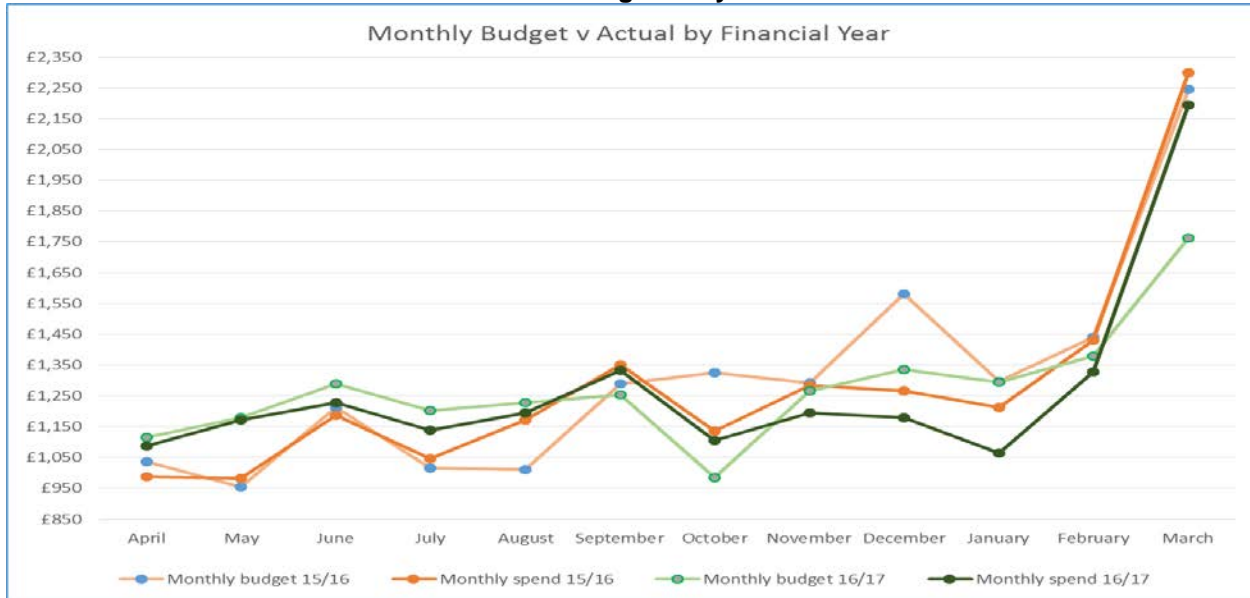


Figure 5 – Year on Year Comparison – monthly revised budget v actual

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 that were made to ensure we continue to operate within the resource 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.

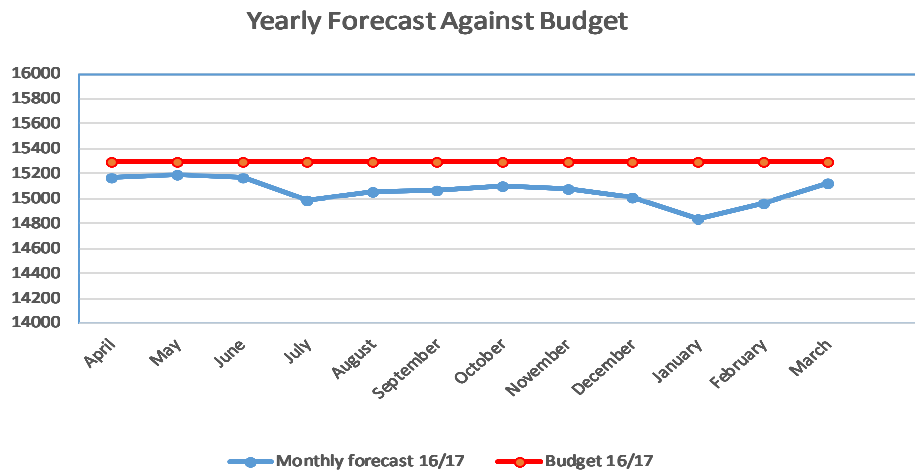


Figure 6 – Full Year Forecast March 2017

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, there was a decrease in the full year forecast, reported in February, from the original budget allocation of £15.3m to £15.12m. The provisional full-year forecast reflects an increase in forecast expenditure of £164k from that reported for the end January. The material changes since then are briefly outlined below:

- Programme forecast increased by £76K from the reported outturn as at the end of January. Project approval was given for the REHIS training in schools of £50K within DCEO, an additional £19K for COSLA and Memex renewals and £40K for REHIS enforcement officer training within DOPS. These increases were offset by reduction of £8K for Feed Delivery, £15K for the delivery of the Local Authority 'Annex 5' pilot in March (as only four Local Authorities accepted funds in year) and also reduction in costs for the Island vets of £9K - all were within the DOPS area.
- Forecast Staff costs decreased by £19K, primarily as a result of the SG contribution towards a post in Communications and Marketing, reductions in the costs for an investigator in the Food Crime Unit and a delay in starting two posts within PEU.
- Administrative costs forecast increased by £9K due to a provision being made for estimated legal and audit costs, computer equipment, furniture and costs related to running the staff survey in year exercise. This has been offset by £16K reduction in payroll charges from the Scottish Government HR Shared Service, as well as £6K reduction in training, travel and subsistence within DOPS.
- Reduced income of £121K against the DOPS forecast is being reported following payments made to Food Business Operators (FBOs), relating to the credit of EU minimum shortfall charges of approximately £140K, offset against income received for Annex B Animal Bi Products inspections carried out by FSS staff in 16/17.
- Decrease in forecast capital expenditure by £24k. This reflects a reduction of £50k in forecast spend on the Operational Workflow System development that was no longer taking place in year which has been offset by additional spend relating to the purchase of CLIO of £4K (incidents management system) and two virtual servers for hosting system use by FSS Operations.

5 Risks and Issues

5.1 FSS has been allocated a one year budget of £15.3m as part of the Scottish Government's budget for 2017/18¹ which received Royal Assent on 31 March 2017. Following a review of the branch business planning and budgeting proposals, the Senior Management Team have agreed the allocation of the FSS budget to deliver the FSS Corporate Plan. The high-level budget allocation, against each Strategic Outcome for the coming year is detailed at Annex B. The difference in the percentage allocations of the budget across outcomes compared to the last financial year is primarily as a result of the Operations budgets being allocated across five outcomes as opposed to only one last year (Food is Safe). This is intended to better reflect the delivery of work by these teams. Also within this Annex is a table with the budgets that have been delegated to each branch for 2017-18 and which will be used to monitor monthly forecast and actual expenditure.

5.2 We are currently working with Scottish Government finance, Food Standards Agency and Audit Scotland to clarify FSS AME non-cash requirements for 2016/17. Given the uncertainty around AME 'spend' in-year, we will not be able to finalise our AME requirements against the agreed budget that was set at the Spring Budget Revision, until receipt of the final FSS pension reports that relate to the liabilities inherited by FSS as part of the transition from FSA. We expect these reports in early May. We are also clarifying how this was reported to both SG and Audit Scotland in the 2015/16 annual report and accounts and budget returns for the year, given the late

¹ <http://www.parliament.scot/parliamentarybusiness/Bills/103199.aspx>

settlement agreement reached by SG and FSA, as this may need to be reflected in both our 2016/17 AME 'outturn' and annual report and accounts.

5.3 We are continuing to progress 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 early in 2017/18. This remains challenging given the nature of one-year budget settlements and uncertainty around resource requirements related to BREXIT and has been slightly delayed due to other work areas taking priority over the latter part of 16/17.

6 Conclusions/Recommendations

6.1 The Board is asked to:

- **Note** the financial information reported as at 31 March 2017.
- **Note** that work is continuing to develop an FSS Financial Strategy in line with Audit Scotland recommendations.
- **Note** the discussions between FSS, Scottish Government, FSA and Audit Scotland with regards to the reporting of AME non-cash 'expenditure' relating to pension liabilities and how this should be reported by FSS in both our SG finance returns and the Annual Report and Accounts.

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3 May 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 Budget Allocation and Budget Delegations 2017 -18

Budget Allocation against Strategic Outcomes

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	7,763	2,230	1,079	770	1,414	1,187	1,083
Administration	Budget	3,295	685	537	443	554	541	535
Programme	Budget	7,448	5,652	341	380	240	736	99
Capital	Budget	131	58	8	0	8	0	58
Income	Budget	(3,337)	(721)	(681)	0	(681)	(627)	(627)
Total	Budget	15,300	7,904	1,284	1,593	1,535	1,837	1,148
	% of budget allocated		51.7%	8.4%	10.4%	10.0%	12.0%	7.5%
	% of budget 2016-17		48.7%	11.9%	13.0%	9.5%	11.9%	5.0%

Budget Delegation by branch

Financial Year 17/18 Budget

SUB DELGATED BUDGET HOLDER	BRANCH	COST CENTRE	RESOURCE ALLOCATION FULL YEAR BUDGET £000						
			STAFF EXPENDITURE	ADMINISTRATION EXPENDITURE	PROGRAMME EXPENDITURE	CAPITAL EXPENDITURE	ADMINISTRATION INCOME	PROGRAMME INCOME	
Karen McCallum-Smith	Board	313200	108	13	0	0	0	0	
Karen McCallum-Smith	Senior Management Team	313201	380	78	0	0	0	0	
Karen McCallum-Smith	Private Office	313202	249	7	0	0	0	0	
Katherine Goodwin	Communications and Marketing	313203	504	67	1,053	0	0	0	
Garry Mourmian	Corporate Services	313204	856	2,389	0	100	0	0	
Bill Adamson	Regulatory Policy	313205	690	37	16	0	0	0	
Jacqui McElhiney	Food Protection Science and Surveillance	313206	445	36	788	0	0	0	
Heather Peace	Nutrition Science and Policy	303207	338	13	166	0	0	0	
Susan Pryde	Science Strategy & Information Analysis	(Part of SMT Cost Centre)	144	6	40	0	0	0	
Sandy McDougall	Operational Delivery	313208	287	98	2,327	0	0	(27)	
Sandy McDougall	Operations Area 1	313209	627	85	1,011	0	0	(1,057)	
Sandy McDougall	Operations Area 2	313210	962	103	755	0	0	(1,199)	
Sandy McDougall	Operations Area 3	313211	860	119	655	0	0	(850)	
Loma Murray	Enforcement Delivery	313215	514	78	538	31	0	(163)	
Ron McNaughton	Scottish Food Crime Unit	313216	519	122	100	0	0	0	
Marion McArthur	Audit	313217	280	42	0	0	0	(41)	
			15,300	7,763	3,295	7,448	131	0	(3,337)