

FOOD STANDARDS SCOTLAND FINANCIAL PERFORMANCE UPDATE – OCTOBER 2016

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 August 2016.

1.2 As at the 31 August 2016 we are reporting a variance of 3% against actual spend for the period, compared to the Year to Date (YTD) budget originally profiled and set at the start of the current financial year. In addition to the YTD performance, a full year forecast of £15.07m is being reported against the agreed budget of £15.3m, representing a 1.5% variance.

1.3 The Board is asked to:

- **Note** the financial information reported as at 31 August 2016.
- **Note** and agree the proposed schedule for reporting finance performance to the Board (Annex B).

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 is now reporting elements of its financial performance against the six agreed strategic objectives to provide an indication on how we are using our resources effectively, to deliver against the Strategy and Corporate Plan.

3.3 As agreed at the August Board meeting, the paper has been revised slightly to remove explanatory text from the main body of the report and this is now provided at Annex A.

3.4 At the August Board meeting, the paper presented information on financial performance up to end July 2016. The Board also discussed the frequency and timeliness of reporting financial performance, accepting there was a trade-off between timeliness and the ability of the Executive to fully scrutinise and analyse the financial information prior to being presented to the Board. As such, and due to the timings associated with the FSS month end closure and production of the October Board papers, this update reports on performance up to the end of August. A revised financial reporting schedule is provided for the Board's information and agreement at Annex B. The revised schedule seeks to ensure the Board are provided an update on financial performance quarterly (following the December meeting which will report up to end October 2016) within 6 weeks of the period closing, based on the current schedule of Board meetings.

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 August 2016. As at the end of August, the actual spend when compared to the agreed budget profile was 3% under budget.

£'000	Budget Profile 16/17					Actual Spend 16/17					Var £'000	Var %
	16/17 Budget	Q 1	July	Aug	YTD	Q 1	July	Aug	YTD			
Staff	7,530	1,753	593	629	2,975	1,749	591	605	2,945	30	1%	
Administration	3,182	833	267	273	1,373	786	344	256	1,386	-13	-1%	
Programme	8,008	1,870	630	629	3,129	1,830	541	598	2,969	160	5%	
Capital	100	0	0	0	0	0	0	0	0	0	0%	
Income	(3,520)	(868)	(287)	(302)	(1,457)	(877)	(336)	(265)	(1,478)	21	-1%	
Total	15,300	3,588	1,203	1,229	6,020	3,488	1,140	1,194	5,822	198	3%	

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	42	48	-6	20	11	9	0	0	0	0	0	0	0	0	0	0	61	59	2
Senior Management Team and Private Office	286	289	-3	32	27	5	0	0	0	0	0	0	0	0	0	0	318	314	4
SSIA	29	28	1	0	2	-2	0	0	0	0	0	0	0	0	0	0	29	30	-1
Communications and Marketing	202	186	16	21	22	-1	510	387	123	0	0	0	0	0	0	0	733	595	138
Corporate Services	294	308	-14	1,046	1,130	-84	0	0	0	0	0	0	0	0	0	0	1,340	1,438	-98
Regulatory Policy	263	250	13	13	9	4	0	0	0	0	0	0	0	0	0	0	276	259	17
Food Protection Science and Surveillance	158	148	10	7	9	-2	315	316	-1	0	0	0	0	0	0	0	480	473	7
Nutrition Science & Policy	101	100	1	3	3	0	44	48	-4	0	0	0	0	0	0	0	148	151	-3
Operational Delivery	1,086	1,068	18	132	110	22	2,139	2,140	-1	0	0	0	(1,422)	(1,438)	16	1,935	1,879	56	
Veterinary Management	84	84	0	29	16	13	0	7	-7	0	0	0	(16)	(22)	6	97	85	12	
Enforcement Delivery	188	195	-7	18	25	-7	72	33	39	0	0	0	0	0	0	278	253	25	
Scottish Food Crime Unit	130	130	0	30	13	17	51	39	12	0	0	0	0	0	0	211	182	29	
Audit	112	114	-2	21	8	13	0	0	0	0	0	0	(19)	(18)	-1	114	104	10	
Total	2,975	2,948	27	1,372	1,385	-13	3,131	2,970	161	0	0	0	(1,457)	(1,478)	21	6,020	5,822	198	

Figure 2: YTD Performance by Branch

4.3 The budget profile presented in Figures 1 and 2 are based on an assessment made by Branches prior to the start of the year. However 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													
October Forecast													
November Forecast													
December Forecast													
January Forecast													
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.

- August:** (£66K) favourable variance. August's variance is a combination of a number of elements. There was underspend in Programme activity mainly within the Communications and Marketing area where some projects did not progress as planned in month and expenditure has now been reprofiled into future months to reflect a revised project timeline. There were also dropped accruals relating to FY 15/16 of £16k in Enforcement and Food Crime Branches following confirmation that expenditure was over accrued in these areas. In addition, there was underspend in Staff and Administration relating to; a small number of vacancies not being filled as expected; actual overtime hours reducing in Operations and a re-profile of training activity in Operations and Food Crime branches.

Spend against Strategic Outcomes

4.6 At the end of the period 38% 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 42%.

		Strategic Outcomes						
		Total £'000	Food is Safe	Food is Authentic	Consumers Choose a Healthier Diet	Responsible food businesses	FSS is a trusted organisation	FSS is efficient and effective
Staff	Budget	7,530	3,891	974	701	788	927	249
	Actual to August 16	2,945	1,494	369	270	315	359	138
Administration	Budget	3,182	826	489	448	482	511	426
	Actual to August 16	1,386	332	218	203	215	220	198
Programme	Budget	8,007	6,352	268	955	78	354	0
	Actual to August 16	2,970	2,595	67	190	16	102	0
Capital	Budget	100	100	0	0	0	0	0
	Actual to August 16	0	0	0	0	0	0	0
Income	Budget	(3,519)	(3,471)	(7)	0	(7)	(34)	0
	Actual to August 16	(1,478)	(1,453)	(4)	0	(4)	(17)	0
Total	Budget	15,300	7,698	1,724	2,104	1,341	1,758	675
	Actual to August 16	5,823	2,968	650	663	542	664	336
	% of budget spent	38.1%	38.6%	37.7%	31.5%	40.4%	37.8%	49.8%

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

4.7 In Figure 5 the peak shown in March mainly relates to allocated budgetary commitments which were yet to be profiled across the financial year at the start of the year. This has been a key behaviour change taken forward by the Senior Management Team to improve financial planning and forecasting across the organisation following the further delegation of budgets to Branch Heads, through the FSS's scheme of financial delegation. As a result of this work, a more accurate re-profiling of the budget during the period, is highlighted by the dark green dotted line in Figure 5.

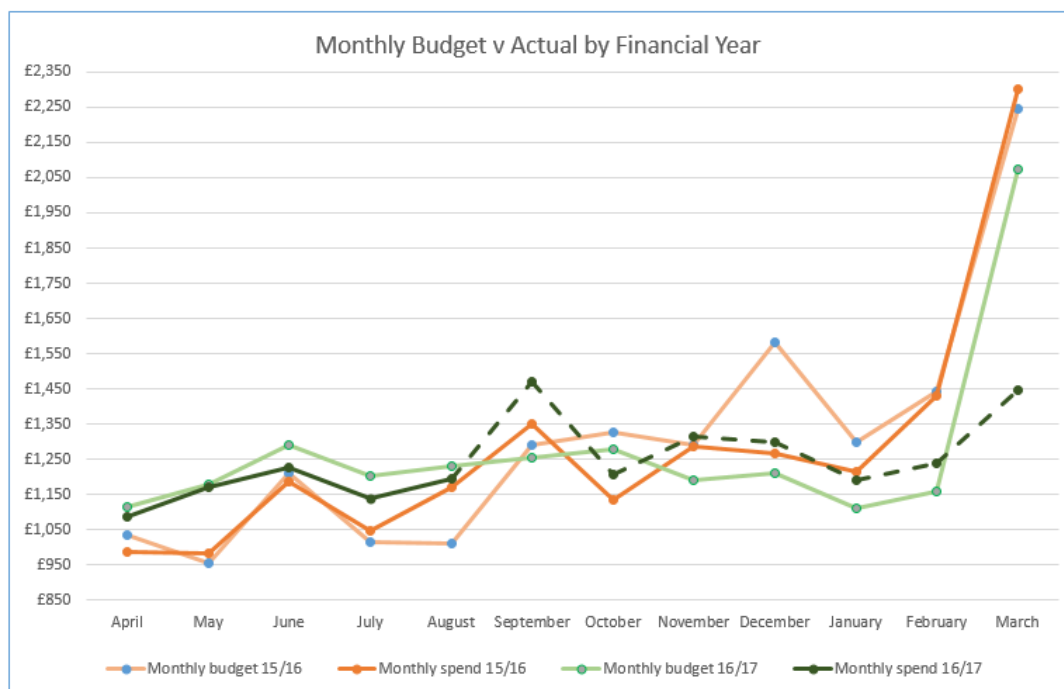


Figure 5 – Year on Year Comparison – monthly budget v actual

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.

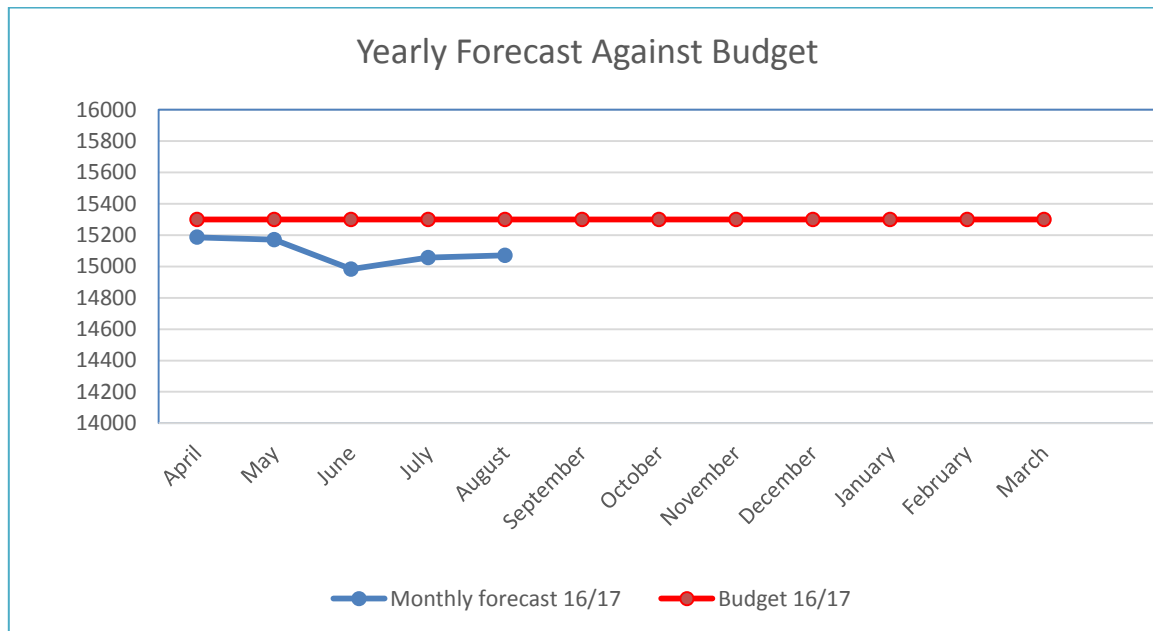


Figure 6 – Full Year Forecast as at end August 2016

4.9 As well as discussing the monthly returns and the reasons behind variances, the monthly finance discussions allow the full year forecast against the allocated budget to be discussed by Branches. This allows finance to identify and 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 £15.07 is being reported. The full-year forecast as at the end of August reflects a slight increase in forecast expenditure of £15K, from the full-year forecast reported as at the end of July. This is briefly outlined below:

- Increase in Programme spend by £11K is mainly attributed to the Operational Delivery Branch as a result of a forecast increase in the use of contract Meat Hygiene Inspectors. This has been offset by savings in the Official Controls Sampling Officers contract. This has been reprofiled to better reflect the spend profile and also lower sampling levels in winter months.
- Forecast Staff and Administrative costs for the year reduced by approx. £17K, primarily due to delay in filling vacancies within the Operational Delivery Branch.
- Reduced income of £21k in Operational Delivery following a revision to the forecast to reflect the agreed Scottish Government Service Level Agreement in place for regulatory work.

5 Risks and Issues

5.1 A risk remains, relating to the timing and nature of the 2017/18 spending review. It was originally assumed that following the SG elections in May, there was a possibility of a 3 year spending review being announced. Given the impact of the vote to leave the EU in June, it is now our understanding that the spending review announcement is likely to be later in the year, whilst SG assess the wider impact of the referendum result. A 1 year budget settlement is now expected, which now clearly poses a risk to FSS in terms of both finalising any spending plans for 17/18 and undertaking any detailed long-term financial planning. As a result of this, and linked to some of the recommendations made in Audit Scotland's independent auditors report, the Senior Management Team will be meeting in November to discuss long term financial strategies and planning around the framework of the FSS Corporate Plan. FSS Officials have discussed 17/18 budget requirements with colleagues in Health Finance and are actively working to ensure our interests are factored into the wider budgetary discussions within the Health Finance portfolio.

5.2 Following the closure of the second quarter of the financial year (end September), the Executive will undertake a mid-year review of its forecast spend and budget allocation/priorities for the remainder of the year. This will result in reallocation of budget across the Branches/Cost Centres and will be reflected in revised letters of delegation, where appropriate. Any changes to the budget profile made as a result of this review shall be reported in the Finance Performance Update paper at the December Board meeting.

6 Conclusions/Recommendations

6.1 The Board is asked to:

- **Note** the financial information reported as at 31 August 2016.
- **Note and agree** the proposed schedule for reporting finance performance to the Board.
- **Note** the budget review and reallocation that will be undertaken by the Executive following the closure of quarter 2 and reported to the Board at its December meeting.

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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
19 October 2016	12 October 2016	August	7 weeks
14 December 2016	7 December 2016	October	6 weeks 2 days
15 February 2017	8 February 2017	December	6 weeks 4 days
17 May 2017	10 May 2017	March	6 weeks 4 days