

Financial approach for 2020/21

1 Purpose of the paper

- 1.1 The purpose of this paper is for discussion and to provide the Board with an overview of the process undertaken by the Executive with regards to our budget allocation for 2020/21.
- 1.2 FSS has been allocated £16m for the next financial year which included £0.4m for Annually Managed Expenditure (AME). The resource budget of £15.6m will be allocated through our annual business planning round for 2020/21. This resource budget will be used to deliver our statutory functions, Essential Core Activity, as well as continued delivery across our Regulatory Strategy and Nutrition programmes as well as programme activity to manage the impact exiting the EU will have across the breadth of our remit.
- 1.3 In addition, we have also been informed by the Scottish Government (SG) that we will receive up to an additional £5.0m to manage the impact exiting the EU will have on our work for 2020/21. This budget will be managed separately as part of our Future Structures programme. We have internally allocated this additional budget for planning, monitoring and reporting purposes, however this budget is not expected to be formally allocated until the Spring Budget Review (SBR) that is likely to take place in January 2021.
- 1.4 The Board is asked to:
 - **Note** the indicative budget allocation of the resource budget made by the Executive for 2020/21.
 - **Note** the additional budget for EU Exit preparedness and the future structure programme of work and recruitment plan that is underway
 - **Note** the initial thoughts of the Executive on strategic and operational priorities at Annex B.
 - **Note** the risks and issues being considered as part of the final budget allocation for 2020/21.

2 Strategic Aims

- 2.1 This work supports delivery of all Strategic Outcomes as well as our key programmes of work (EU Exit, Regulatory Strategy, Nutrition and Future Structures).

3 Background

- 3.1 The Board will be aware of the annual approach the Executive undertakes each year to determine the best use and allocation of our resource budget. A similar approach is being undertaken this year. However, due to the delay in confirming the SG budget for 2020/21 and the continuing uncertainty around exiting the EU, it has been difficult to plan with any degree of certainty until recently. In addition, having secured extra budget to develop and deliver our Future Structures programme, the Executive has had to complete work to ensure new cost centres

reflect the future structure, allowing resource to be allocated accurately to reflect the new areas of responsibility where possible.

- 3.2 Our baseline resource allocation for 20/21 is £15.6m. This is less than the final 19/20 allocation (£15.9m), which was increased in year by £0.3m to offset the costs associated with an increase in employer pension contributions. There have been indications of a similar increase for these contributions for the coming financial year but as yet this has not been confirmed. The budget for FSS will be finalised when the Budget Bill is approved by Parliament.
- 3.3 In August 2019, a business case was submitted to SG to request additional funding and an increase in staff and non-staff resources to deal with the consequences of exiting the EU from 2020-21 and beyond. As part of the submission ongoing estimates were provided that outlined an additional resource requirement of around £7.6m per annum (i.e. 42% of our existing budget).
- 3.4 Ministers agreed to the approach taken in the business case, albeit with a requirement to phase our costs over 2 years and being cognisant of the uncertainty of the nature of the UK's exit at that time, and approved additional budget of £5m for 2020/21 being allocated to FSS. As highlighted above, this will not form part of the formal FSS budget allocation until SBR in January 2021.
- 3.5 A future structure for FSS has been developed to ensure we have the capacity and capability to deal with the new and additional requirements we will be faced with post EU exit, regardless of the nature of the UK's exit the end of December 2020 and our approach to implementing the structure is outlined at paragraph 4.5.

4 Allocation of Budget

Essential Core Activity

- 4.1 Due to the delay in confirming our budget and the work that is underway to develop and manage the transition into the future structure for FSS we are still in the process of completing the budgeting exercise for 2020-21. For the purposes of this paper the forecast outturn for 2019-20 has been taken forward and updated with known material changes to give an indicative allocation of resource across our 6 strategic outcomes (core activity) as well as our key programmes and the high level allocation is shown in Annex A. Once the budget has been confirmed and our in-year budget round has been completed then an update of the budget reflecting the accurate allocation will be available and be shared with the Board.
- 4.2 The budget of £13.1m for delivering essential core activity has been allocated across our budget category areas is shown in at Annex A and details how the budget is directed across each of the six strategic outcomes. A high level summary of the indicative budget allocation and percentage spend against each of the outcomes is shown in Table 1 where 45% of the budget is for delivery against Strategic Outcome 1 – Food is Safe.

| Strategic Outcome | 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 | Total Essential Core Activities |
|-------------------------|--------------|-------------------|-----------------------------------|--------------------------------------|-------------------------------|--------------------------------|---------------------------------|
| Indicative budget value | 5,915,000 | 1,438,000 | 1,016,000 | 1,410,000 | 1,941,000 | 1,396,000 | 13,116,000 |
| % budget allocation | 45% | 11% | 8% | 11% | 15% | 11% | |

- 4.3 The Staff budget has been allocated on the basis of all current filled posts (234) being funded for the full financial year and a roll-forward of our Administration (running costs) budget has ensured ongoing costs across the business can be met. The programme budget allocation across core activity is largely based on continued obligations around the delivery of official controls (£2.5m); Local Authority enforcement delivery support & Food Crime/Incidents management (£0.6m); food safety research (£0.15m) and; Communications and Marketing (£0.3m).
- 4.4 We expect that as part of the budget planning round there will be additional funding bids for new work to further support the delivery of our strategy and corporate plan. In addition, we will need to start thinking about the implications of the future strategy which could alter priorities as they are now. An overview of initial discussions on strategic and operational priorities is at Annex B which will be subject to further development by the Executive and discussion with the Board.
- 4.5 The bids for new work will go through a process of prioritisation that will require further discussion by the Executive. The intention is that this will support both the Executive and Board to make decisions on what may or may not be funded depending on the final financial position we find ourselves in.

Programmes of work

- 4.6 The intention is to continue with our three current programmes of work for EU Exit, Diet & Nutrition and Regulatory Strategy into the next financial year. The total indicative budget for the programmes is £2.6m and Annex A provides the individual budget against each programme.
- 4.7 The Regulatory Strategy programme is currently being reviewed by the programme manager in terms of delivery, priority of work and resource requirements. The organisational structure for Tranche 1 of the reprioritised programme is at Annex C. The results of the review will be presented to the Regulatory Strategy programme board in March. With regards to the Nutrition programme we are awaiting the Ministers decision on the Out of Home recommendations. The outcome of that decision will inform the programme resource requirement for the coming year. The EU Exit programme will be much reduced in terms of staff resource and general costs going forward, as the focus this year will be to transition from the programme-based approach to implementing the future structure in line with our EU Exit Readiness Plan.

Future Structures

- 4.8 Having secured the additional budget for 2020/21 to implement our future structure, work has progressed rapidly to develop principles around allocation and prioritisation of resource and associated recruitment to ensure we are 'match-fit' to deal with the implications of the UK exiting the EU. The resource secured not only covers additional staff but also programme, capital and administrative expenditure and the broad breakdown of the current budget allocation is shown at Annex D.

Costings

- 4.9 The business case made to SG estimated an additional Brexit cost of £7.5m for 2020/21, including £3.6m for Programme/Admin/Capital and £3.9m for 74 additional staff. On current proposals, the finalised agreed structure requires 80 new staff, at a total annual cost of £4.2m. This is in excess of the funding requested in the business case but at this stage is not seen as a cause for concern, not least because we'll need to consider the implications of any deal that UKG negotiate or No Deal if they fail to reach an agreement.
- 4.10 Given the agreed ceiling we will need to keep the total additional Brexit costs down to £5m in 2020/21, and this will depend upon phased recruitment as well as a review of the admin/capital costs. The forecast expenditure for the programme can be viewed in Annex D. It has been assumed that programme costs will remain as estimated from the business case at £1.4m, but as its unlikely that we will require the full amount of admin and capital costs estimated in the business case these have been reduced to £0.7m. The staff costs are estimated at £2.9m.

Recruitment

- 4.11 The future structures programme board agreed the following guiding principles for sequencing recruitment in a way that:
- Matches the priorities and demands created by the Brexit process, in particular as outlined in the FSS EU Exit Readiness Plan
 - Allows early realisation of benefits of increased complement
 - Does not hamper delivery of our business
 - Supports a smooth transition to the new structure
 - Recognises potential impacts and knock-on effects in the wider organisation.
 - Minimises uncertainty for staff
- 4.12 The programme board also agreed criteria for priority recruitment:
- Recruitment to a new Brexit-related role is justified at the point in time at which the role:
 - contributes directly and immediately to the strategic priorities of FSS and/or SG with relation to Brexit negotiations; and/or
 - contributes directly and immediately to readiness beyond transition.

- Sequencing should ensure a minimum of 60% capacity in each business area by October 2020.
- 4.13 Prioritisation has been informed by input from the FSS Corporate Leadership Group on priorities within their own business areas, and also by our internal planning assumptions for our EU exit programme. Based on current work across the breadth of our remit, it is clear the initial burdens will fall in the areas of Strategic Engagement, Policy and Science, followed by International Assurance and then technical operational preparations. This is because the initial focus will be on supporting SG input into the negotiations on the UK's future relationship with the EU, and finalising UK Frameworks and arrangements for risk assessment and risk management decision making.
- 4.14 Development of the indicative sequence agreed by the Programme Board was guided by the principles and EU exit priorities set out above, balanced with pragmatic considerations, for example, to address uncertainties caused by current Fixed Term Appointments (FTA) or temporary promotion arrangements, or to improve efficiency in the recruitment process. Given that we expect a high level of internal interest in promoted posts, we intend to group grades and recruit in hierarchical order where possible and without compromising the provision of any capacity or capability urgently needed.
- 4.15 The programme board has agreed the sequencing framework subject to necessary flexibility to respond to events. The approach takes into account the Brexit priorities, while taking a broadly hierarchical approach which has the following advantages:
- Leadership cohort in place early, to establish governance and culture and to be involved in strategy development
 - Opportunities grouped by grade, providing more clarity for staff
 - Reduces disruption caused by internal promotion
 - Potential for efficiencies in recruitment processes
- 4.16 The main risk of this approach is that we could have leaders in place, but not priority key staff at B and A grades. An analysis has shown that the sequence results in at least 60% capacity in each team by October 2020, and in many cases earlier than this. There is clear value in having the leadership cohort in place at an early stage. The confidence and stability that this should provide outweighs any disadvantages of this option, provided that flexibility can be applied to mitigate any impact on essential Brexit capacity and capability.
- 4.17 The framework also recognises that a number of posts have already been recruited, on a permanent or FTA basis, and that recruitment to certain posts needs to be brought forward, readiness priority or hierarchical considerations notwithstanding.
- 4.18 The objective of having all staff in place by the end of the year and within the indicative timescales set out is extremely challenging. It is possible that we will not have all staff in place as projected. The programme will, of course, aim to drive forward recruitment as planned, and will monitor and regularly review the

recruitment plan and projected costs. The focus of the programme will be on keeping the flow going, monitoring progress and the impact upon costs, and flexing accordingly.

5 Identification of risks and issues

- 5.1 As part of our approach to managing risk, we continue to identify one of the main risks we face as an organisation is our budget being reduced or that it is insufficient due to the Brexit requirements, or wider financial pressures across the Scottish administration. Whilst this risk has reduced to a degree for 20/21, we need to be mindful of this risk materialising in 21/22 when we will realise the full costs of our EU exit business case and the implementation of the future structure.
- 5.2 FSS has continued to engage with SG Health Finance officials to ensure that FSS's business and associated EU exit pressures are appropriately understood, which has also allowed confirmation of the anticipated level of resource required to manage the consequential impact of exiting the EU and in turn, FSS's overall preparedness.
- 5.3 A risk of the future structure recruitment is that we could have leaders in place but not key staff to actually deliver the programme of work, as noted at paragraph 4.13 above. A detailed recruitment plan has been developed and the actual phasing of the activity will be closely monitored and reviewed to ensure we get the right people in at the right time to mitigate any impact on essential Brexit capacity and capability.
- 5.4 We will continue to liaise with SG to check the budget position with regards to any additional funding for the ongoing increase in employers pension contributions. The increase in the current year was a result of the revaluation of public sector pension schemes with 50% funding being provided by the UK Government. If a similar scenario takes place in 2020/21 then any increase in budget would take effect at the Autumn Budget Review.
- 5.5 The staff costs in the budget allocation in Annex A reflects the current year's pay settlement. The public sector pay policy for 2020/21 anticipates a 3% increase on basic pay. This increase and any pay progression as staff movement up their pay grades will be taken into account as part of the budgeting exercise for the forthcoming year.
- 5.6 We continue to face ongoing issues with SG HR shared services which includes the provision of payroll and resourcing services for the organisation. The process for the recruitment of staff is time consuming and has led to delays in filling vacant posts which poses some risk to implementing our future structure. Issues have been escalated to SG and there is ongoing dialogue to seek improvements to the service being provided. In addition to this, we have appointed specific HR resource to support the future structures programme and act as a focal point with SG HR shared services. This is an area that is being actively monitored with regular updates provided to the Executive.

6 European Union considerations

- 6.1 The UK has left the EU and we are now in a Implementation Period which runs until 31st December 2020. This will be another challenging year that will be uncertain and complex and the nature of the UK's final relationship with the EU remains unclear. This means working simultaneously on issues of a possible deal, as well as not losing sight of key issues that dominated No Deal planning, specifically Export Health Certification and labelling.
- 6.2 FSS will still need to commit resources to keeping up with developments on EU food and feed law, and notwithstanding the nature of the UK's future relationship with the EU, we will still need to invest effort into EU and indeed international matters that thus far, the EU has taken the lead on, e.g. on Codex, the international body for food safety standards. In summary, leaving the EU does not reduce or remove the need for us to be engaged with the EU.

7 Conclusion/Recommendations

- 7.1 The focus for FSS for the year ahead will be to ensure the delivery of essential business activities including carrying out our statutory functions and our key programmes of work to meet the aims of our strategic plan. This will be at the same time as bringing into play a change programme to ensure that we can deliver our new responsibilities following the UK's exit from the EU.
- 7.2 A post-EU world will bring many new challenges for FSS as we lose access to some of the European-wide resources and functions we have relied on until now. Two prime examples are the new risk assessment function (because we won't have access to European Food Safety Authority) and an anticipated increase in food safety and food fraud incidents (because of potential disruption to food supply, exacerbated by the loss of RASSFs), all of which require resource from a variety of areas across FSS
- 7.3 The Board is asked to:
- **Note** the indicative budget allocation of the resource budget made by the Executive for 2020/21.
 - **Note** the additional budget for EU Exit preparedness and the future structure programme of work and recruitment plan that is underway
 - **Note** the initial thoughts of the Executive on strategic and operational priorities at Annex B.
 - **Note** the risks and issues being considered as part of the final budget allocation for 2020/21

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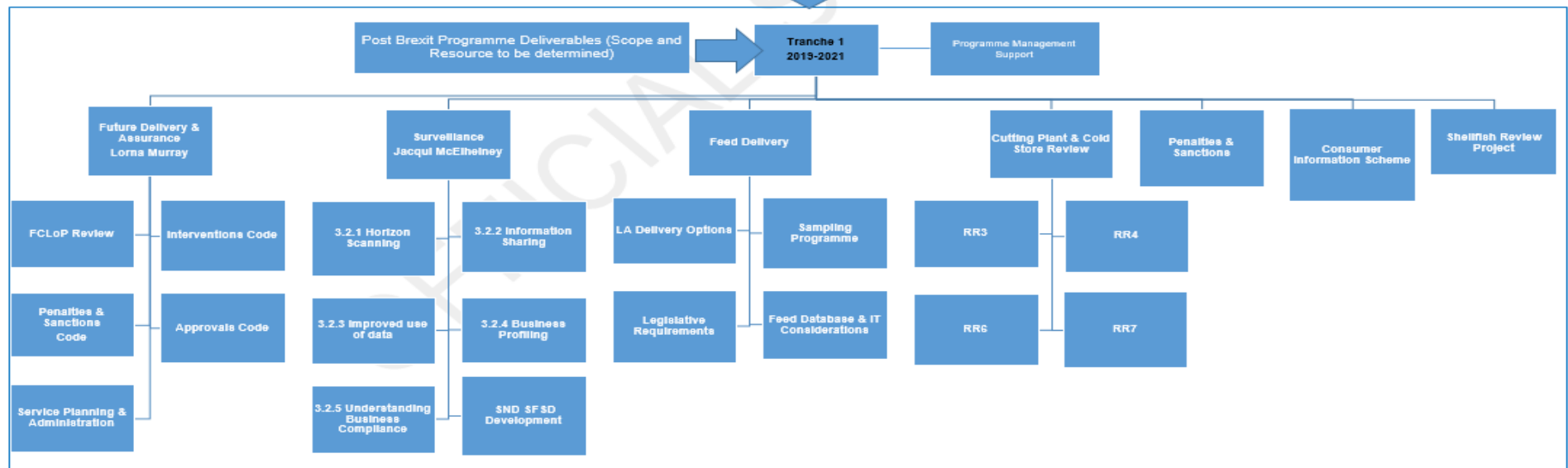
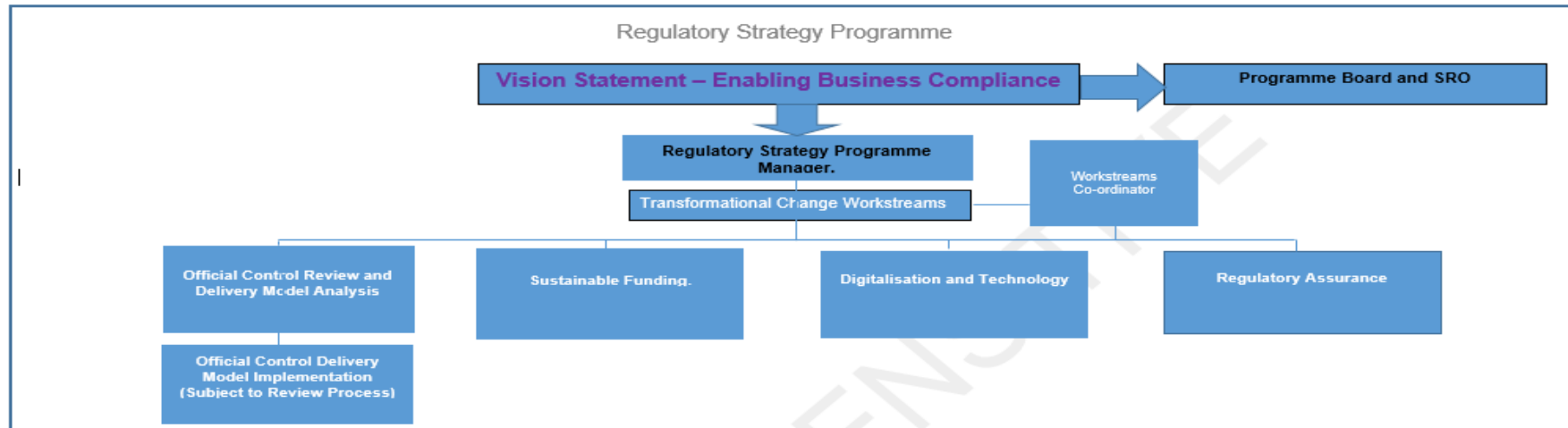
Annex A – 2020/21 Indicative High Level Budget Allocation

| Budget and Strategic Outcomes Summary | 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 | Total Core Activity | Brexit Work Programme | Diet & Nutrition Work Programme | Regulatory Strategy Work Programme | Total Work Programme | Total Budget Allocation |
|--|------------------|-------------------|-----------------------------------|--------------------------------------|-------------------------------|--------------------------------|---------------------|-----------------------|---------------------------------|------------------------------------|----------------------|-------------------------|
| Staff | 5,180,000 | 1,005,000 | 543,000 | 750,000 | 1,360,000 | 1,145,000 | 9,983,000 | 300,000 | 510,000 | 520,000 | 1,330,000 | 11,313,000 |
| Administration | 912,000 | 500,000 | 463,000 | 473,000 | 627,000 | 549,000 | 3,524,000 | 45,000 | 63,000 | 106,000 | 214,000 | 3,738,000 |
| Programme | 2,200,000 | 275,000 | 10,000 | 187,000 | 280,000 | 8,000 | 2,960,000 | 100,000 | 410,000 | 295,000 | 805,000 | 3,765,000 |
| Capital | 48,000 | 0 | 0 | 0 | 16,000 | 36,000 | 100,000 | 0 | 0 | 296,000 | 296,000 | 396,000 |
| Income | (2,425,000) | (342,000) | 0 | 0 | (342,000) | (342,000) | (3,451,000) | 0 | 0 | 0 | 0 | (3,451,000) |
| Total Core Activities | 5,915,000 | 1,438,000 | 1,016,000 | 1,410,000 | 1,941,000 | 1,396,000 | 13,116,000 | 445,000 | 983,000 | 1,217,000 | 2,645,000 | 15,761,000 |
| % of budget allocated to strategic outcome | | | | | | | | | | | | |
| | 45% | 11% | 8% | 11% | 15% | 11% | | | | | | |

Annex B – Overview of Strategic and Operational Priorities

| Strategic Priorities | Brexit and Regulatory Strategy are transformational | Operational Priorities | |
|---|--|--|--|
| <p>REVIEWING THE CURRENT DELIVERY MODEL. The sustainability of the current methods of delivery, in particular the LA model, is at risk and we need a model that is future proofed.</p> <p>NEW FSS STRATEGY – consolidating but ambitious too.</p> | <p>A regulator fit for the modern challenges of ensuring safe food. UPDATED REG STRATEGY, FLRS, SND the cornerstones; better consumer information the key outcome. New challenges too: internet shopping, CBD, allergens, sustainability and climate change</p> | <p>MACHINERY - Risk Analysis works efficiently and effectively with FSS a joint partner with FSA; Ways of working between two new directorates will be key.</p> | <p>Increased capacity brings a focus on new capabilities. Got to Work! With additional funding FSS needs to be efficient and effective and demonstrate the value of SG investment. Review of shared service provision</p> |
| <p>Being MATCH FIT and being seen to be MATCH FIT – this means contributing to SG efforts on Brexit and being ready ourselves for December 2020. FSS Re-structure and Strategy Programme is key.</p> | <p>But transformation has limited impact if FSS not recognised as fit for purpose and able to support government policy, especially around securing trade, and UK Frameworks and MoU in place.</p> | <p>DELIVERY Brexit, Reg Strat, Diet and Nutrition, allergens, LA relationships, horizon scanning and surveillance, data analytics, Lab Review, Ops Delivery transformation, incident management, food crime</p> | <p>- Need effective change delivery, supported by appropriate and proportionate governance. New governance structures are key.</p> |
| <p>HOLDING TRUE TO THE PURPOSE: continued Board and Exec commitment to TRANSPARENCY, INDEPENDENCE, SCIENCE AND EVIDENCE BASED</p> | <p>Be true to FSS purpose, function and method of operations. Brexit will bring additional focus and pressures to FSS and we need to be a confident organisation and that comes from strong ethos and values.</p> | <p>People – internal values, addressing staff survey results</p> | <p>All FSS staff have a stake- Staff survey focus on scores 60% or less. Re-invigorate staff forum, Better use of Head Office meetings, induction process for new staff; address Ops culture and staff engagement surveys</p> |

Annex C - Regulatory Strategy Programme Organisational Structure for Tranche 1



Annex D - Brexit related ongoing staff, non-staff costs and one-off setup costs

| Estimated Costs £000 | Category | 20/21 | 21/22 | 22/23 | 23/24 |
|---|-----------|--------------|--------------|--------------|--------------|
| Food and Feed Safety Risk Assessment and Risk Management functions* | | | | | |
| Risk Assessment Research Commissioning | Programme | 400 | 400 | 400 | 400 |
| Surveillance & Laboratory provision for food and feed safety | Programme | 500 | 500 | 500 | 500 |
| Additional/Revised legislative requirements | Programme | 195 | 195 | 195 | 195 |
| Enforcement functions* | | | | | |
| Import/Export controls – Local Authority Training | Programme | 200 | 200 | 200 | 200 |
| Incidents and Food Crime* | | | | | |
| Development of IT systems | Capital | 150 | 300 | 300 | 300 |
| Maintenance & hosting of IT systems | Admin | 30 | 30 | 30 | 30 |
| Food Crime activities | Programme | 100 | 100 | 100 | 100 |
| Corporate & Infrastructure support functions* | | | | | |
| Ongoing increase in administration costs | Admin | 150 | 300 | 300 | 300 |
| Ongoing costs for office accommodation (rent/utilities etc) | Admin | 100 | 300 | 300 | 300 |
| Additional requirements to service Corporate Functions, Senior Management and Shared Services | Admin | 150 | 500 | 500 | 500 |
| Sub-total non-staff costs | | 1,975 | 2,825 | 2,825 | 2,825 |
| Enhanced leadership cohort (SCS1 & C2) | Staff | 663 | 683 | 703 | 724 |
| All other additional staff (C1 – A4) | Staff | 2,162 | 3,334 | 3,435 | 3,536 |
| Sub-total staff costs | | 2,825 | 4,017 | 4,138 | 4,260 |
| Total Ongoing Costs | | 4,800 | 6,842 | 6,963 | 7,085 |
| Provision of office accommodation for new staff - fit out of new office space | | 100 | | | |
| IT equipment for new staff will be required to ensure ability to perform functions – one of cost | Capital | 100 | 0 | 0 | 0 |
| Total Yearly Cost | | 5,000 | 6,842 | 6,963 | 7,085 |