

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

1 Purpose of the paper

- 1.1 For information. The Board is asked to note the Quarter 2 Food Standards Scotland (FSS) financial performance report for the 2015/16 financial year.
- 1.2 At 30 of September 2015, FSS was forecasting an outturn of approximately £15.026m, which is an increase of £0.615m from the full year forecast presented to the Board at the end of Quarter 1 (as at 30 June 2015). Increased financial commitments have been made over the second quarter equalling approximately £1.5M. The forecast spend for 2015/16 still represents a 50% increase on the spend in 2014/15 (based on outturn of £10.8m).
- 1.3 At the end of Quarter 2 an underspend of approximately £0.67m 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 a knock on impact on the organisations ability to progress and commission planned projects.
- 1.4 Work to review the forecast outturn in more detail took place during Quarter 3 to finalise the FSS spending plans for the rest of the year. The forecast underspend was then reviewed by the Executive and a decision has been taken to return £0.2m to Scottish Government through the Spring Budget Revision which concluded on 8 January 2016. This change results in a revised budget for FSS of £15.5m for the remainder of the 2015/16 financial year. The return of budget is made to Finance Coordination in SG where it may be utilised elsewhere across Government. FSS is unable to carry forward any budget underspend into future financial years.
- 1.5 The Board is asked to:
 - **Note** the second financial report to the FSS Board
 - **Note and discuss** the on-going development of the financial performance report.
 - **Note** that financial reporting in 2016/17 will coincide with Board meetings with bi-monthly updates.

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 and covers Quarter 2 of the current financial year (July-September). 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. Now that there are two quarters worth of financial information to report to the Board, this report has 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.

4 Financial Performance Summary

- 4.1 The financial performance summary up to the end of Quarter 2 is provided below. Figure 1 presents the performance over the first 6 months of operations and compares the original profiled budget with actual spend for the period. The budget profile was revised at the mid-year point to reflect re-profiling activity across the allocated budget areas of Staff, Administration, Programme, Capital and Income.

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

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

Figure 1 – Financial Performance Summary to 30 September 2015

	Actual to 30 Sep 15	Profile to 30 Sep 15	Variance £	Variance %
Staff	3,073	2,915	(158)	(5%)
Administration	1,504	1,405	(99)	(7%)
Programme	3,782	3,411	(371)	(11%)
Capital	56	56	(0)	(0%)
Income	(1,679)	(1,678)	1	(0%)
FSS Total	6,737	6,110	(627)	(10%)

- 4.2 In addition to the financial performance summary above, Figure 2 gives an overview of the full year forecast as at 30 September and provides a direct comparison against the full year forecast as at 30 June. Overall, the forecast outturn for the financial year has increased by **£0.615m** over the second quarter however an under spend of **£0.674m** (4%) is currently forecast as at the end of quarter 2.

Figure 2 – Quarterly Full-Year Forecast Analysis

£000s	Full Year Forecast at Q2	Full Year Forecast at Q1	Variance £	Variance %	Full Year Budget	Variance £	Variance %
Staff	6,418	6,087	(331)	(5%)	6,016	(403)	(7%)
Admin (Non-Pay)	3,083	2,797	(286)	(10%)	3,534	451	13%
Programme Project Expenditure	8,794	8,902	108	1%	9,511	718	8%
Capital	156	56	(100)	(177%)	56	(100)	(179%)
Income	(3,426)	(3,431)	(5)	(0%)	(3,417)	8	0%
Total	15,026	14,411	(615)	(4%)	15,700	674	4%

Changes to Forecast

- 4.3 Forecast staff costs have increased between Quarter 1 and Quarter 2 by £0.331m, primarily due to the average salary costs for meat hygiene inspectors and Senior Civil Service staff being revised upwards to more accurately reflect the costs that were coming through from payroll. We have also accounted for the inclusion of the Food Crime Unit phase 1 staff requirements and new requirements in nutrition. Spend will also remain dependent on vacant posts being filled when branches are currently forecasting.
- 4.4 Temporary staff costs have also increased due to on-going recruitment of permanent administrative staff. Recruitment timescales have on average been around 28 weeks from start to finish, although changes have now been made to speed up that process.
- 4.5 At the time of writing, there are currently 22 vacancies (either new or existing posts) actively being recruited, with 23 vacancies filled (staff in post or agreed

start dates) since April 2015. These numbers have been factored into the staff forecast for the remainder of the year.

- 4.6 The headcount figures (full time equivalent) for permanent or fixed term members of staff has been provided in Table 1 below..

Table 1 – FSS Full Time Equivalent Staff

	June 2015	September 2015	March 2016 (Projected)
Full Time Equivalent Staff Numbers	145.9	142.7	173

- 4.7 Forecast administration spend (non-pay) for the year has increased over the quarter by £0.286m due to the inclusion of; costs relating to the provision of procurement shared services from Scottish Government, revision of the service charge relating to Pilgrim House; additional IT costs due to FSA/FSS transition work that continued into the current financial year; an increase in the training budget for FSS staff and; additional costs that were not accrued for when FSAS and FSA incurred costs for FSS (transfers).
- 4.8 As at 30 September, the programme budget full year forecast has decreased from £8.9m (as at the end of Quarter 1) to £8.8m. It is important to note that at the end of Quarter 1 the full year forecast was based on a hard commitment of £7.3m and a “soft” commitment £1.6m. The full year forecast presented at the end of Quarter 2 represents an increased programme commitment of approximately £1.5m.
- 4.9 This increased programme commitment for the remainder of the year is primarily due to planned projects coming online during the quarter as well as some new projects or areas of spend that have emerged during the same period. They have been outlined in brief below to provide the Board with an overview of the key drivers behind the increased spend.
- Nutrition research spend increased by **£0.02m** due to a project related to tracking attitudes to diet and health in Scotland.
 - Microbiological safety research spend increased by approximately **£0.2m** due to increasing the FSS contribution to a UK project looking at E-coli O157 shedding by cattle and increasing spend on a project that measures the impact of campylobacter interventions in Scotland.
 - Social science and consumer research spend has increased by **£0.05m** to undertake research to understand trends in chicken and pork consumption.
 - Spend across the range of Shellfish Official Controls undertaken by FSS has increased by **£0.03m** due to an increase in applications for classification of shellfish areas and depuration inspections.
 - Hallmark contract Meat Hygiene Inspector costs increased by **£0.2m** over the period due to changes in staffing requirements following a change in shift pattern at Coupar Angus and to provide staffing cover for permanent staff who have left/retired.

- A Food Incidents fighting fund of **£0.15m** has been included in the forecast spend to provide support to Local Authorities in dealing with the management of food incidents.
- Spend has increased by **£0.13m** in relation to healthy eating and food safety messaging work progressing as planned.
- Significant commitment has been agreed in relation to campaigns and media work which has increased the forecast spend in this area by **£0.62m**. This covers the 3 major campaigns planned by FSS on food labelling, festive food safety and healthy eating as well as progressing planned work on internal and external communications and stakeholder engagement. All of this is related to raising the profile of FSS to emphasise the separation from FSA.
- External consumer engagement work has also been agreed and has increased spend by approximately **£0.1m** through committing to work in relation to marketing segmentation and through development of a media training programme.

4.10 The increased spend has been offset slightly by reductions in spend elsewhere across the programme budget. Notably a provisional budget for developing and running an emergency exercise of £0.06m was returned following a decision to participate in other exercises over the current financial year, in lieu of a UK approach to incidents management being developed. This project is proposed to be included in the budget planning exercise for 2016/17.

4.11 As at the 30 September some potential project spend remains, having been bid for at the start of the financial year. This totals approximately £0.67m and will be reviewed during Quarter 3, along with any other emerging spend, in order to assess whether approval will be sought for this planned spend will take place.

4.12 The Capital forecast has increased by £0.1m and this planned expenditure relates to the development of the Operational Workflow System that is being used by FSS Operations for the recording of Official Controls activity in relation to meat hygiene inspection.

4.13 Forecast income from the delivery of official controls in approved meat establishments has remained relatively stable with a slight reduction of £5000 being forecast until the end of the financial year. This reduction primarily relates to changes made to how FSS manage the discount offered to low throughput establishments.

4.14 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	114,891	20,891	-	-	-	135,782
Senior Management Team	404,755	94,510	-	-	-	499,265
Private Office	225,111	2,076	-	-	-	227,187
Communications and Marketing	348,644	33,421	1,631,366	56,450	-	2,069,881
Corporate Services	707,370	2,472,846	-	-	-	3,180,216
Regulatory Policy	488,574	11,692	-	-	-	500,266
Food Safety Science and Surveillance	291,408	13,313	1,454,076	-	-	1,758,797
Nutrition Science and Policy	276,478	9,892	485,378	-	-	771,748
Operational Delivery	2,668,339	298,069	4,897,672	100,000	-3,425,570	4,538,510
Veterinary Management	150,591	50,677	-	-	-	201,268
Incidents, Intelligence & Delivery Assurance Delivery (includes Food Crime Unit and Audit)	742,146	75,896	325,257	-	-	1,143,299
TOTAL	6,418,309	3,083,283	8,793,749	156,450	-3,425,570	15,026,219

5 Identification of risks and issues

- 5.1 The delays in recruiting staff members remains a key risk and places additional pressure on the organisations ability to effectively utilise its full programme budget allocation for the year. Work is on-going with recruitment colleagues to streamline the process where possible to ensure key staff are recruited as quickly as possible. Based on our experience in 2015/16, recruitment for additional resource for diet and nutrition for 2016/17 has started.
- 5.2 There remains a potential pressure on the FSS budget relating to the on-going negotiations between Scottish Government and Food Standards Agency which are a legacy of the transfer to the Scottish Administration. Delays to these negotiations will have an impact on the FSS budget, primarily in relation to the pension liabilities of former meat hygiene inspection staff which are currently being forecast by FSS.

- 5.3 Discussions are also progressing with FSA on the transfer of fixed assets from FSA to FSS and a likely increase in the cost of capital will need to be understood and factored into any full year forecast during Quarter 3. Audit Scotland colleagues are also discussing the transfer of balances between the two organisations as part of their handover with National Audit Office.
- 5.4 Looking ahead to 2016/17, the UK administration outlined their spending plans through the Comprehensive Spending Review (CSR) which was announced in November and this provided clarity on the funding being made available to the Scottish Government through the block grant.
- 5.5 Scottish Governments Spending Review commenced in line with the CSR announcement and the Draft Budget was published on 16 December. Through this process it is clear that significant budget challenges lie ahead in Scotland. FSS officials have been involved in discussions with Central and Health Finance colleagues over this period, which has 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.
- 5.6 FSS is currently considering the impact of the SG draft budget and undertaking our annual budget and business planning round which will include a prioritisation exercise to ensure that the agreed budget is balanced and affordable, within the spending limits, whilst continuing to deliver the Strategic Outcomes of the FSS Corporate Plan.

6 Conclusions/Recommendations

6.1 The Board is asked to:

- **Note** the financial report to the FSS Board
- **Note and discuss** the on-going development of the financial performance report.
- **Note** that financial reporting in 2016/17 will coincide with Board meetings with bi-monthly updates.

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