

FOOD STANDARDS SCOTLAND FINANCIAL PERFORMANCE UPDATE – February 2018

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 December 2017.

1.2 For the third quarter we are reporting a variance of 4% against actual spend for the period when compared to the Year to Date (YTD) resource budget of £10.7m. In addition to the YTD performance a full year forecast of £14.9m is being reported against the agreed budget of £15.3m, representing a projected 3% underspend against budget.

1.3 The Board is asked to:

- **Note** the financial information reported as at 31 December 2017.
- **Note** the steps being taken to utilise the forecast underspend.
- **Note** the work to develop a FSS Financial Management Plan in line with Audit Scotland recommendations **and consider** the content of the plan separate to the Financial Performance report.

2 Background

2.1 This work supports FSS Strategic Outcome 6: FSS is efficient and effective.

2.2 The FSS resource budget is £15.3m (net). We have requested an Annually Managed Expenditure (AME) budget of £568k for the current financial year to cover the Local Government Pension Scheme. We have also requested a transfer of resource budget to cover depreciation charge in year and to fund capital expenditure, £270k for each budget line. The amounts have been included in the full year forecast outturn figures in Figure 2.

2.3 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 Financial Performance Summary

3.1 Annex A provides the tables and charts that show the budget, forecast and actual amounts for the first three quarters of 2017-18. The financial performance is based on both the in year revised budget figure and the updated forecast that is reviewed on a monthly basis.

YTD Budget v Actual expenditure

3.2 The third quarter budget profile presented in the Year to Date Performance (Figure 1) is based on the in-year review carried out by Branches in October 17. The actual spend to the end of quarter three when compared to the revised budget profile was £451k under budget. The two main budget lines impacting on this underspend are a decrease in Programme expenditure of £242k and an increase in Income of 132k.

3.3 The Allocation of Resource Expenditure (Figure 2) gives additional detail behind the five budget lines in Figure 1. For each element, variances are reported comparing the year to date budget versus actual expenditure and full year budget versus forecast outturn, as well as explanation for any differences. The last two years actual outturns have been included for comparison purposes.

3.4 In the Programme budget line three business areas Communications and Marketing, Food Protection Science and Surveillance (FPSS) and Operational Delivery make up the majority of this underspend.

3.4.1 The underspend of £28k in Strategic Communications and £64k in Marketing relates to changes in the profile of number of projects namely: publications, consumer events, stakeholder communications and campaign activities. The work for these projects has been reprofiled to the last quarter of this year.

3.4.2 Within Testing and Surveillance there has been a delay in the Co-ordinated Food Sampling project activity and AMR survey where spend of £40k has been reprofiled into the last quarter.

3.4.3 There has been savings of £46k identified for various projects within Official Controls Delivery relating to the shellfish official control programme of work for example Biotxin and Ecoli testing.

3.5 The increase in income is primarily as a result of the quarterly reconciliation for actual meat inspection fees, inclusion of additional overtime hours worked in fees and delay of implementing Poultry Inspection Assistants (PIAs) on one plant. There has also been further income for animal welfare charges.

YTD Spend against Strategic Outcomes

3.6 At the end of the third quarter 67% of the FSS budget has been spent delivering the costed Corporate Plan as outlined in Figure 3 which is slightly behind an indicative average to date spend of around 75%. The spend was not as planned for Outcome 2, Food is Authentic, and Outcome 3, Consumers Choose a Healthier Diet, mainly relating to expenditure on programme.

3.7 There have been changes, delays or cancellations to project activity allocated under both Outcomes. Within Outcome 2 the Scottish Beef Origin Project value of £30k is no longer proceeding this year and there has been reprofiling of £30k into quarter 4 for the Co-ordinated Food Sampling grants. The reprofile of £40k of costs into the last quarter for delivery of the healthy eating campaign, reductions for costs for the Dietary Guidelines work and Acquisition of retail purchase data, total of £46k, are three examples of projects that have impacted on the spend to date under Outcome 3.

Forecast Accuracy v Actual expenditure

3.8 Through our monthly budget monitoring work, 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 the form of a waterfall chart (Figure 4). From the chart you can identify how close a given month's forecast value was to the actual outturn.

3.9 The information presented in Figure 4 allows us to quickly identify material variances and drill down into further detail to understand the reasons behind them. Below is a high level overview which seeks to provide context to the Board and explain the drivers behind the YTD variances for each of the last three months.

October 17: the overall monthly underspend of 20k was as a result of over/under spends in various budget lines with mainly increase in programme for funding a few new projects for Consumer forum food safety risks and Brexit consumer research. The increase was offset with increase in income for additional meat hygiene charging hours.

November 17: the monthly underspend of £79k was mainly due to decreases within programme for project activity profiled into later months for Menucal and delivery projects, Co-ordinated Food Sampling grants and activity relating to the Schools programme. There was also an increase in income for additional overtime hours not included in inspection fees forecast.

December 17: the monthly underspend of £116k was mainly due to savings/reprofiling in programme budgets for Shellfish official controls projects, and Beef origin and Horizon scanning projects as well as some decrease in admin for training and transfer of costs to capital. There was also some increase in income taking account of the reconciliation of quarterly charges with the actual invoices issued for meat hygiene inspections.

3.10 The Year on Year Comparison graph (Figure 5) shows the monthly budget allocation compared with the updated monthly forecast expenditure. The graph is updated with the actual monthly expenditure as it occurs and with revised forecasts (dotted line) to show the performance against the initial budget spend. The monthly actuals have broadly followed the budget profile with greater expenditure now forecast than budgeted for in the latter months of the year. The budget and actual performance for 2016/17 is provided to enable comparison between financial years.

Full Year Forecast

3.11 As per the forecast from January onwards there is now a 3% forecast underspend of £410k against our revised budget in October. There are two budget areas primarily contributing to this figure.

3.12 Firstly the programme budget is forecasting an underspend of £173k against budget for the year. This reduction relates mainly to projects within Marketing, Research & Development (Acquisition of retail data, Minced red meat survey), Testing & Surveillance (Scottish Beef Origin, Horizon scanning project). These projects have either been reduced in value, work delayed in year or not proceeding due to other priorities.

3.13 Secondly there is a forecast increase in income of £217k against budget for the year. Two elements make up this increase, increased meat hygiene inspection income, mainly due to delay in implementation of PIAs in one plant, and the quarterly reconciliation of actual invoiced charged. There are also increases in income of fees relating to work done for Other Government Departments.

Outstanding payments (debt recovery)

3.14 At the start of January the outstanding level of debt owed to FSS was £517k, where £281k of this debt (54%) is over the accepted 31 day payment term and £146k is over 61 days from date of invoice. There has been a decrease in the number of businesses (and therefore payments due) moving into the 'over 31 day' category. The number of customers that have outstanding invoices in the over 31 days has reduced which would suggest that more businesses are working towards paying invoices sooner.

3.15 There has been some success with debt collection. As a result of court action £53k has now been recovered from eight businesses with a further seven moving to simple or ordinary action depending on the value of the debt. Consideration is being given for Harper McLeod to issue 7-day letters to business with current outstanding invoices over 61 days.

3.16 A standard operating procedure has been developed to ensure relevant staff are aware of the debt recovery process. We shall continue to report updates in the finance performance report and to the Audit and Risk Committee (in relation to debt and significant losses).

4 Risks, Issues and Highlights

4.1 In October we undertook a reallocation of budget across Branches/Cost Centres which was reflected in revised letters of delegation. Figures 1 and 2 in Annex A now included the revised budget figures for quarter three and the remainder of the year. We continue to monitor the FSS forecast expenditure on a monthly basis.

4.2 We have made the decision to take forward a refresh of our desktop IT equipment. This potential area of spend was brought to the Board's attention in our last financial performance report. The capital investment of approx. £100k will enable us to have up-to-date IT kit and support the development/roll out of Scottish Government's (SG) refresh timetable when implemented.

4.3 We are looking at options to utilise the current forecast underspend. All branch heads are considering areas for further expenditure and whether any intended budget spend for 2018/19 can be brought forward to the current financial year.

Financial Management Plan

4.4 Work has progressed with the development of a FSS Financial Management Plan, following recommendations made by Audit Scotland during the audit of our annual report and accounts. The plan is attached at Annex B for the Board's information and comment. The plan outlines how we will seek to deliver the Corporate Plan and Strategy against a backdrop of challenging financial times. Given the likely continuation of one-year financial settlements from Scottish Government, it remains difficult to plan for the long term. The plan therefore is based on a set of assumptions that will be subject to change and as such, will mean that the plan will be reviewed on a regular (6 monthly) basis throughout the financial year(s) in question. The plan is also supported by a model that allows FSS finance to scenario plan and see the impact that changes on our budget settlement, or priorities, may have on the financial profile across the 5 categories of spend (Staff, Admin, Programme, Capital and Income).

4.5 The plan is based not only on the direct financial pressures that may impact our delivery but also other risks that may have an impact on our resources and how they need to be aligned in order to deliver organisational priorities. As a result, it is important that we ensure any short, medium or long term actions allow for flexibility so that we can adapt to the changing pressures in the most appropriate and efficient way.

4.6 The plan also looks at the likely FSS budget requirements and pressures over the life of the Strategy and Corporate Plan across the 5 budget categories, based on a variety of assumptions correct at the time of writing. Indicative savings options are also contained in the plan. These are not exhaustive and are provided to provide an indication only, of the measures FSS can or may have to take should budgetary pressures increase and significant savings are required to be found.

4.7 The plan presented at Annex B reflects the position as at the end of Q2 in 2017/18 and therefore needs to be updated to reflect the current position moving into 18/19. This work, pending any comments from the Board, will be undertaken following agreement of the 18/19 budget and confirmation of the 2018/19 budget allocation from SG.

2018/19 Budget

4.8 We have input to the budgeting round and timetable for the Budget Bill for 2018/19. The expectation is that we will receive a budget of £15.3m for 2018/19, the same as the current financial year. An AME budget was not included in the draft budget due to the SG timetable for returns. Our AME requirements will be agreed at the in-year Spring Budget Review (SBR).

Reporting

4.9 In future versions of this report we plan to include further information on financial performance, headcount and medium term financial planning as outlined in the Financial Performance targets section of the Financial Management Plan (Annex B).

5 Conclusions/Recommendations

5.1 The Board is asked to:

- **Note** the financial information reported as at 31 December 2017.
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Annex A Tables and Charts

YTD Budget v Actual expenditure

Figure 1 provides an overview of the financial performance of FSS up to the 31 December 2017. The performance is based on comparing the actual spend for the first quarter with the budget profile which was originally set at the start of the financial year.

£'000	Budget Profile 17/18 at Oct 17					Actual Spend 17/18					Var	
	17/18 Budget	Q1	Q2	Q3	YTD	Q1	Q2	Q3	YTD	£'000	Var %	
Staff	7,647	1,813	1,911	1,941	5,665	1,813	1,911	1,906	5,631	(35)	-1%	
Administration	3,328	761	798	821	2,380	761	798	790	2,350	(31)	-1%	
Programme	7,558	1,617	1,664	1,934	5,215	1,617	1,664	1,692	4,972	(242)	-5%	
Capital	146	14	11	50	75	14	11	39	64	(11)	-15%	
Income	(3,379)	(919)	(812)	(888)	(2,619)	(919)	(812)	(1,020)	(2,752)	(132)	5%	
Total	15,300	3,286	3,572	3,858	10,716	3,286	3,572	3,407	10,265	(451)	-4%	

Figure 1: Year-to-Date Performance

Figure 2 expands the budget lines in Figure 1 to provide detail of expenditure contributing to the totals. The table provides the variances for Q3 Budget v Actual for each element. Also provided is the Full Year Budget v Full Year Forecast as at the start of January 2018 with forecast variances.

Allocation of FSS Budget £'000		YTD Budget Q3	YTD Actual Q3	Variance Budget v Actual	Comments	Revised Budget - October 17	Full year Forecast Outturn (January)	Variance Forecast v Budget	Comments	Actual 15/16	Actual 16/17
RDEL											
Staff Costs	Agency Staff	108	110	2		117	129	12		232	212
	Overtime	107	97	(10)		141	138	(3)		244	171
	Salaries, NIC, Pension	5,463	5,436	(27)		7,403	7,328	(75)		6,091	6,988
	Secondment Income	(13)	(13)	-		(13)	(13)	-		(40)	(40)
	Total	5,665	5,630	(35)	Delays in recruiting permanent staff offset with increase in temporary appointments.	7,648	7,582	(66)	Under forecast due to staff leaving the organisation combined with delays in recruitment of staff has slightly been offset with temporary staff appointments.	6,527	7,331
Administration	Accommodation, maintenance, utilities	547	565	18		730	740	10		692	701
	Audit	25	27	2		100	109	9		90	98
	Legal, IT, Procurement, HR shared services	555	557	2		730	733	3		637	742
	Other office costs eg subscriptions, printing, conferences, IT consumables etc	274	245	(29)		447	367	(80)		383	391
	Pension Liability	161	161	-		215	215	-		262	376
	PPE Clothing, Laundry and other services	58	53	(5)		81	73	(8)		87	79
	Training	73	54	(19)		90	87	(3)		103	79
	Travel & Subsistence	310	310	-		434	433	(1)		459	432
	Total	2,003	1,972	(31)	Reductions for training, PPE services and in other office costs for reprofiling or transferring of IT costs to later months or capital. Increase for additional rate charges.	2,827	2,757	(70)	Forecast decrease mainly within other office costs for transfer of IT costs, reduction to support business planning etc. Also balance of unforecast budget allocated in this budget line.	2,713	2,898
Programme	Food Safety and Healthy Eating	45	18	(27)		80	63	(17)		922	83
	Food Incident and Investigation	66	22	(44)		209	213	4		-	-
	Marketing	462	398	(64)		805	771	(34)		547	987
	Other Programme costs	4	(2)	(6)		5	(2)	(7)		355	106
	Research and Development	293	315	22		653	604	(49)		473	955
	Official Controls Delivery	3,719	3,668	(51)		4,806	4,787	(19)		4,866	4,801
	Strategic Communications	256	228	(28)		385	366	(19)		34	373
	Testing and Surveillance	309	261	(48)		492	454	(38)		1,570	449
	Training and support to other orgs	60	64	4		124	129	5		-	-
	Total	5,214	4,972	(242)	Underspends in quarter and reprofiling of work to later months across number of budget lines. Underspends mainly within Official Controls work, Testing & Surveillance (Food Sampling grants, AMR survey) with reprofiling into Q4 relating to Marketing, Strategic Communications and Food Fraud prevention activities.	7,559	7,385	(174)	Reduction in forecast expenditure in number of budget lines with impacts relating to projects within Marketing, Research & Development (Acquisition of retail data, Minced red meat survey), Testing & Surveillance (Scottish Beef Origin, Horizon scanning project).	8,767	7,754
Income	Audit	(29)	(31)	(2)		(39)	(42)	(3)		(36)	(41)
	Fees OGDs	(221)	(250)	(29)		(286)	(344)	(58)		(315)	(319)
	Meat Hygiene Inspection Fees	(2,370)	(2,471)	(101)		(3,054)	(3,211)	(157)		(3,111)	(3,149)
	Total	(2,620)	(2,752)	(132)	Increased income due to quarterly reconciliation for actual meat inspection fees, inclusion of additional overtime hours worked in fees and delay of implementing PIAs on one plant. Animal welfare charges invoiced to OGDs.	(3,379)	(3,597)	(218)	Increased income due to quarterly reconciliation for actual meat inspection fees, inclusion of additional overtime hours worked in fees and non implementation of PIAs on one plant until rest of year. Also fees for OGDs increased relating to animal welfare charges.	(3,462)	(3,509)
R-FDEL	Depreciation	378	378	-		500	500	-		473	529
	Total	378	378	-	No variance	500	500	-	No variance	473	529
CDEL	Furniture & Fittings - Additions	-	-	-		-	-	-		178	(4)
	I.T - Additions	75	64	(11)		145	263	118		111	93
	AUC	-	-	-		-	-	-		77	70
	Total	75	64	(11)	Slight delay in commencing work for further development of OWS system.	145	263	118	Increase in forecast due to inclusion of equipment for new desktop IT equipment.	366	159
	Total Resource	10,715	10,264	(451)		15,300	14,890	(410)		15,384	15,162
AME	Pension Liabilities (AME)	-	-	-		568	568	-		575	562

Figure 2 – Allocation of resource expenditure

YTD Spend against Strategic Outcomes

Figure 3 provides an overview of the Q1 Budget v Actual spend in comparison to the full year budget allocated to each outcome. The % of budget spent at the end of the first quarter is shown to provide an indication of progress and performance in delivering the Corporate Plan.

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	7,648	3,501	765	704	871	956	851
	Actual to December 17	5,629	2,596	568	495	643	702	625
Administration	Budget	3,327	820	502	461	475	546	523
	Actual to December 17	2,351	593	356	332	335	369	366
Programme	Budget	7,558	4,958	596	481	189	989	345
	Actual to December 17	4,973	3,643	308	58	23	683	258
Capital	Budget	144	61	11	0	11	11	50
	Actual to December 17	64	26	6	0	6	7	19
Income	Budget	(3,377)	(2,364)	(331)	0	0	(341)	(341)
	Actual to December 17	(2,752)	(1,926)	(269)	0	(1)	(278)	(278)
Total	Budget	15,300	6,976	1,543	1,646	1,546	2,161	1,428
	Actual to December 17	10,265	4,932	969	885	1,006	1,483	990
	% of budget spent	67.1%	70.7%	62.8%	53.8%	65.1%	68.6%	69.3%

Figure 3 – YTD Spend compared to Full Year Budget by Strategic Outcome

Forecast Accuracy v Actual Expenditure

In Figure 4 the financial performance based on both the original budget figure and the updated forecast is reviewed on a monthly basis. Each row shows the total of the monthly forecast values submitted by Branch Heads. Once the actual outturn for the month is available this is shown in the cell highlighted in yellow. 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

£000s	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	2017-18 FYF
Budget	1,079,046	1,282,591	1,302,827	1,168,843	1,272,146	1,385,627	1,285,078	1,307,347	1,263,332	1,288,101	1,363,777	1,301,286	15,300,000
April Forecast	1,084,120	1,279,036	1,312,237	1,176,485	1,274,513	1,366,512	1,292,603	1,312,271	1,260,414	1,264,751	1,340,443	1,233,501	15,196,887
May Forecast	992,744	1,234,197	1,238,136	1,161,742	1,312,179	1,331,372	1,283,465	1,299,715	1,256,239	1,243,824	1,317,413	1,207,766	14,878,792
June Forecast		1,178,222	1,190,354	1,153,761	1,273,024	1,330,257	1,299,182	1,268,043	1,239,914	1,241,324	1,289,367	1,392,621	14,848,814
July Forecast			1,115,299	1,116,990	1,223,363	1,328,235	1,307,881	1,251,325	1,168,392	1,253,491	1,312,895	1,427,614	14,676,450
August Forecast				1,050,391	1,260,476	1,297,734	1,303,910	1,254,579	1,246,852	1,324,224	1,315,176	1,411,818	14,751,426
September Forecast					1,193,819	1,267,358	1,297,627	1,263,626	1,279,804	1,353,692	1,324,346	1,395,071	14,712,000
October Forecast						1,327,427	1,244,239	1,291,736	1,320,694	1,488,934	1,541,200	1,484,109	15,228,815
November Forecast							1,224,043	1,257,006	1,259,401	1,459,215	1,505,733	1,466,399	15,029,699
December Forecast								1,176,896	1,122,064	1,398,251	1,535,219	1,681,823	14,996,197
January Forecast									1,005,973	1,379,451	1,463,504	1,783,764	14,891,532
February Forecast													0
March Forecast													0
YTD Actual													0

Figure 4 – Full Year Forecast Waterfall

A comparison of the monthly budget v actual performance is provided at Figure 5 to give an overview of relative performance between 2016/17 and 2017/18 financial years. It is important to point out that the Monthly Budget information provided uses the initial budget profiles in each year. The dotted line shows the updated forecast figures that are revised on a monthly basis.

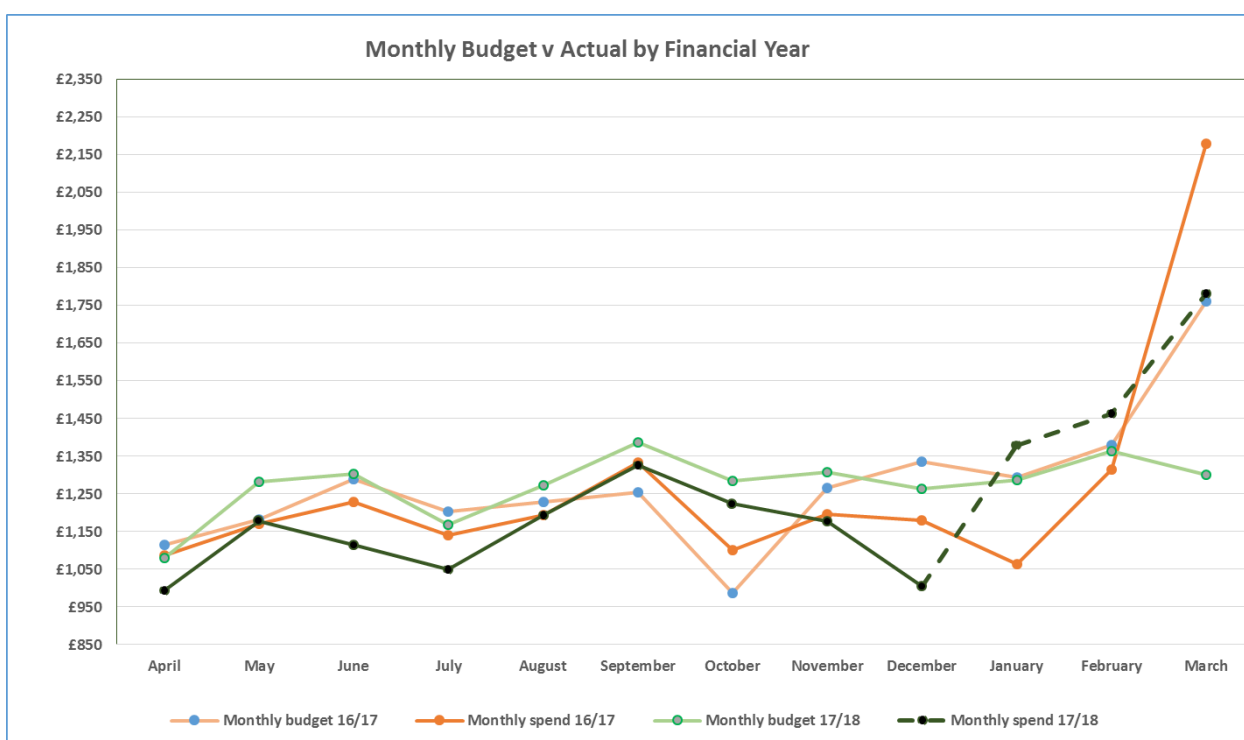


Figure 5 – Year on Year Comparison – monthly budget v actual