

FOOD STANDARDS SCOTLAND FINANCIAL PERFORMANCE UPDATE – August 2019

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 30 June 2019.

1.2 For the first quarter FSS is reporting a provisional outturn of £15.5m against the agreed resource budget of £15.6m, representing a projected 0.7% underspend against budget.

1.3 The Board is asked to:

- **Note** the financial information and expected end year position reported as at 30 June 2019.
- **Note** the extra funding of £278k for employer pension contribution and additional funding of up to £3.5m to support the impact of Brexit on FSS remit. Due to timing these changes will be accounted for in the next quarterly report.

2 Background

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

2.2 The total FSS budget for 2019/20 is £16m. This comprises resource budget of £15.6m and Annually Managed Expenditure (AME) of £350k. The AME budget provides for the FSS pension liability provision. The expectation is that the full amount of the AME budget will be utilised.

2.3 This paper provides details of the allocation of the FSS resource budget between each of the three work programmes and the essential core activities. It has now been confirmed that FSS will be given an extra £278k to offset the increase in employer pension contribution for this year. In addition, SG have confirmed additional funding of up to £3.5m for FSS to manage the consequential impact Brexit will have across the scope of its remit. As these increases to the budget were only finalised in July, they are not reflected in the first quarter finance report as outwith the reporting period. As the Board is aware, while the funding is helpful in terms of alleviating some of the pressure this year, the longer term capacity and capability issues as a result of Brexit can only be addressed sufficiently once we know the longer term funding position.

2.4 The Executive reports its financial performance for the core activities against the six strategic objectives to provide an indication on the effective use of resources to deliver against the Strategy and the Corporate Plan. The report on the budget and expenditure for the three work programmes are included as part of the review of the total FSS budget.

3 Financial Performance Summary

3.1 Annex A provides the tables and charts that show the budget, forecast and actual amounts for the financial year 2019-20. The financial performance is based on both the revised budget figure and the updated forecast that is reviewed on a monthly basis.

YTD Budget v Actual expenditure

3.2 The monthly budget profile presented in the Year to Date Performance (Figure 1) is based on the assessment made by Branches at March 19. The actual spend for the quarter when

compared to the budget profile was £248k under budget. The main budget categories contributing to this underspend are, Staff £139k and Admin £159k.

3.3 The Allocation of Resource Expenditure (Figure 2b) gives additional detail behind the five budget lines in Figure 1 and also includes the quarterly summary details of the budget and expenditure against the three work programmes. For each element, variances are reported comparing quarterly budget versus actual expenditure and full year budget versus forecast outturn, as well as explanation for any differences.

3.4 Further detail of the quarterly underspend is as follows -

Staff: staff costs were less than expected mainly due to ongoing vacancies across the organisation as well as the provision made for the pay award being slightly higher than required for the quarter.

Admin: less spend against budget in a number of areas including advertising, training, travel and subsistence with reduced charges for procurement shared services and support for IT systems.

YTD Spend against Strategic Outcomes

3.6 At the end of June, 25% of the FSS budget allocated to Core Activities as outlined in Figure 4 had been spent delivering the Corporate Plan, which is as expected for the quarter and is fairly evenly spread across the outcomes, with only outcome 2 Food is Authentic slightly under spent.

3.7 Within Staff there are some increased cost allocation of staffing costs to core activities from work programmes. The budget allocations were made prior to the start of the year and due to uncertainty with the Brexit budget some projects and activities with staff resource were delayed pending outcome of negotiations.

Forecast Accuracy v Actual expenditure

3.8 Through the 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 quarterly variance of the actual expenditure against forecast of £105k for each of the last three months.

April 19: the overspend of £20k was mainly due increase in Capital expenditure for enhancements to the GIS project together with a slight increase in overtime and agency staff costs against the Staff forecast.

May 19: the overspend of £7k mainly related to increases in Capital expenditure for the Feed Model system and programme costs for the Official control sampling officers project offset with a reduction in Admin expenditure for training, advertising and IT support costs.

June 19: the underspend of £132k was mainly due to reductions in Staff costs for over accrual of pay award that was implemented in the month, less spend on travel and subsistence, advertising and a reduced quarterly depreciation charge within the Admin forecast together with reduced Capital expenditure for GIS and the Feed Model System.

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. Explanations for variances have been provided in the previous paragraphs. The budget and actual performance for 2018/19 is provided to enable comparison between financial years.

Full Year Forecast

3.10 As per the updated forecast from July the forecast expenditure of £15.6m is an underspend of £128k (0.7%) for the year against the budget of £15.6m allocated in March 19. The FSS budget and forecast summary (Figure 2a) shows the budget allocation to Core Activities and Work Programmes with the latest forecast expenditure and variances against the budget.

3.11 In Figure 2b the Full Year budget and forecast columns gives additional detail behind the budget lines including variances. There are under/over forecasts against each category area and in Core Activities there is reduced expenditure of £33k with an decrease in the forecast Admin costs by £109k offset by increases in Capital and reduced income of £24k.

3.12 The increase in Staff costs and decrease in Programme costs offset each other and relate to the termination of the contract for Official Veterinarians (OVs) and Meat Hygiene Inspectors (MHIs) and moving to an insourced model from mid-September.

3.13 There is a forecast underspend for the Work Programmes against the initial budget allocation by £88k with variances against each individual work programme. The main differences are as follows:

Staff: decrease of £352k due to current forecast of less staff working on the work programmes.

Programme: increase of £162k mainly for the Food Sampling Grants project.

Capital: increase by £100k for further development of the Scottish National Database.

3.14 In the first quarter of the year staff initially allocated to work programmes have spent more time on core activities than planned.

4 Risks, Issues and Highlights

4.1 The in-year risk is not being able to effectively utilise the Brexit consequential budget fully given time pressures. FSS continues to plan for various options but as the no-deal scenario is looking more likely and if materialises, then this will increase the risk and impact of not being able to spend the available budget.

4.2 The risk for future years is where financial commitments are made in year, specifically for Brexit, but have no guarantee of future funding. Discussions are now taking place directly with SG Health officials on the Resource Spending Review 2019. This review is seeking returns on spend proposals up to 2023-24 and FSS will submit an individual return, separate from the main Health Directorate, for consideration and challenge by SG.

19/20 Budget

4.3 FSS has been given additional resource budget of £278k as a contribution to offset the increase in employer pension contributions. This change will form part of the Autumn Budget Revision 2019-20 when changes to the Budget (Scotland) Act 2019 are expect to be finalised by

October. In addition, FSS has been given a budget of up to £3.5m to deliver the Brexit programme of work. The final budget for Brexit and any other required changes to the budget will take place at the Spring Budget Review at the start of 2020.

4.4 The Brexit work programme budget of £1.1m has been allocated to the new Brexit consequential budget. This has allowed these funds and any remaining unallocated budget from the net FSS budget allocation of £15.6m to be diverted to deliver key FSS priorities such as work on diet and nutrition, regulatory strategy and some core activities e.g. sanitary surveys. In all, an additional £1.4m of expenditure has been approved by SMT including £270k of Brexit consequential for such activities as recruiting for risk assessment/management resource and public analyst laboratory support. Work is continuing to refine our requirements for Brexit and the expectation is that further funds will be allocated over the next few months.

4.5 Some of the project expenditure that received SMT approval has been included in the full year forecast in this first quarter report where others have not. All new budget allocations and their respective forecasts will be included as part of the next quarterly update.

Reporting

4.6 Details are provided below on the financial performance over the quarter as outlined in the Financial Performance targets section of the Financial Management Plan.

4.7 At the start of the year 195 posts were agreed and budgeted for as part of the business planning exercise for 2019/20. The Staff Complement table (Figure 6) provides the posts that were filled at the end of June. During the quarter a number of posts were vacant with some covered either by staff on fixed term appointments or interim workers. Seven interim workers were employed on a temporary basis at the end of June. There were twenty two vacancies at the end of the period, with one member of staff on maternity leave. FSS has carried a number vacancies since the start of the year due to the uncertainty surrounding Brexit expenditure and ongoing budget discussions with SG. Now that this has been resolved recruitment is progressing to fill these vacancies with some on a permanent basis.

4.8 FSS, along with the whole of SG, has a target to pay all its supplier invoices within ten days of receipt. The Supplier Payments table (Figure 7) gives details of the performance in this area over the quarter. An average of 95% of the invoices have been paid within the ten day payment target during the quarter. Payment performance can be affected by a number of factors including staff available to process payments and also to approve the invoices for payment. All invoices have been paid with the standard 30 day contract terms.

4.9 There is a need to monitor efficiency savings in order to report against targets (3%) set by SG. There are currently no efficiency savings being reported due to the start of the new financial year. Any updates will be provided in the next quarterly report.

4.10 At the end of June the cash drawn down from the Scottish Government relating to the 2019/20 budget was £3.5m. The bank balance as of 30 June was £1.4m.

Outstanding payments (debt recovery)

4.11 At the start of July the level of outstanding debt over the accepted 31 day payment term was £289k with £178k of this amount over 61 days from date of invoice. The total debt over 31 days increased by £88k (44%) compared to the previous quarter mainly as a result of the increased value of invoices issued during the quarter. Between the Q1 debt review and this finance report £71k has been received from two companies for unpaid invoices.

4.12 FSS actively monitors outstanding payments and takes action with either reminder letters being issued to Food Business Operators (FBOs), senior management contacting them to discuss reasons for non-payment and then passing to debt management contractor where required. FSS is currently considering other potential measures with regards to dealing with FBOs that do not pay invoices within the FSS payment terms. The intention is to present a paper to the Board with alternative options that FSS could implement in the future.

4.13 FSS continues to work with Harper Macleod to reduce the amount of outstanding debt. There are four businesses that are currently in liquidation. Harper Macleod are working with the receiver to recover the outstanding debt from them with a total value of £32.3k. There are no businesses currently on a payment plan to reduce their older debt.

4.14 FSS will also continue to report updates in the finance performance report and to the Audit and Risk Committee (in relation to debt and significant losses).

5 Conclusions/Recommendations

5.1 The Board is asked to:

- **Note** the financial information and expected end year position reported as at 30 June 2019.
- **Note** the extra funding of £278k for employer pension contribution and additional funding of up to £3.5m to support the impact of Brexit on FSS remit. Due to timing these changes will be accounted for in the next quarterly report.

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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 30 June 2019. The performance is based on comparing the actual spend for the year with the budget profile as updated during the financial year.

£'000	19/20 Budget	Budget Profile 19/20				Actual Spend 19/20				Variance	Var %
		April	May	June	YTD	April	May	June	YTD		
Staff	9516	811	810	810	2431	766	768	758	2292	(139)	-6%
Administration	3934	287	357	332	976	279	263	276	817	(159)	-16%
Programme	5551	441	459	550	1450	488	472	524	1483	33	2%
Capital	76	19	19	19	57	45	38	11	94	37	65%
Income	(3452)	(261)	(256)	(319)	(836)	(265)	(269)	(323)	(857)	(21)	2%
Total	15625	1297	1389	1392	4079	1313	1272	1246	3831	(248)	-6%

Figure 1: Year-to-Date Performance

Figure 2 a provides a summary of the FSS budget and forecast including details for Core Activities and the Work Programmes.

Directorate / Branch	Budget allocated Mar-19	Forecast Jul-19	£'000 Variance	% Variance	Actual Spend to Date	% of Budget Spent
FOOD STANDARDS SCOTLAND	15,625,000	15,503,168	(121,832)	-1%	3,830,674	25%
FSS CORE ACTIVITIES	12,989,893	12,956,625	(33,268)	0%	3,263,727	25%
WORK PROGRAMMES	2,635,107	2,546,542	(88,565)	-3%	566,947	22%
Brexit	1,073,037	987,359	(85,678)	-8%	226,409	21%
Diet and Nutrition	662,109	585,777	(76,332)	-12%	126,732	19%
Reg Strategy	899,961	973,406	73,445	8%	213,805	24%

Figure 2a – FSS Budget and Forecast

Figure 2b expands the budget lines in Figure 1 to provide detail of expenditure contributing to the totals. The table provides the comparison of Budget v Actual for Quarter 1 and updated forecast for Q1 onwards.

Category	Allocation of Budget	YTD Budget Q1	YTD Actual Q1	Forecast Variance Budget to Actual	%	Explanation for variance	Budget March 19	Full year Forecast	Variance Forecast v Budget	%	Explanation for variance
Staff	Core Activities	1,940,074	1,899,612	(40,462)	130,941	Decrease mainly for the overall accrual of salary costs for the pay award implemented at the end of the first quarter. Also ongoing vacancies throughout the business.	7,577,820	8,595,210	1,017,390	12%	Significant increase in forecast primarily as a result of transfer costs from mid September of ex contract OV & MHI cost from programme to staff costs.
	Brexit Work Programme	201,417	158,811	(42,606)	-27%	Less costs due to staff working on ECA instead of WP.	779,763	581,636	(198,128)	-34%	Less costs due to staff working on ECA instead of WP.
	Nutrition and Dietary Health Work Programme	135,731	98,633	(37,098)	-38%	Less costs due to staff working on ECA instead of WP.	542,927	466,595	(76,332)	-16%	Less costs due to staff working on ECA instead of WP.
	Regulatory Strategy Work Programme	153,900	135,245	(18,655)	-14%	Less costs due to staff working on ECA instead of WP.	615,593	538,038	(77,555)	-14%	Less costs due to staff working on ECA instead of WP.
	Total	2,431,122	2,292,301	(138,821)	-6%	Overall reduction as a number of vacant posts throughout the organisation not been filled by end of quarter.	9,516,103	10,181,478	665,375	7%	Changes predominantly in Operations, and mostly in relation to the transfer of Hall Mark staff to FSS from mid-September
Admin	Core Activities	924,067	777,973	(146,094)	-19%	Various reductions in Corporate Services due to less costs than expected. Also removal of the £126k balance of the FSS unallocated budget assigned to Admin.	3,725,685	3,616,227	(109,458)	-3%	Various reductions in forecast across Corporate activities eg accommodation charges and business rates offset with increases for the transfer of the Hallmark contractor admin costs.
	Brexit Work Programme	10,809	5,099	(5,710)	-112%	Underspend as admin costs reduced due to staff working on core activities.	43,273	43,273	0	0%	No change
	Nutrition and Dietary Health Work Programme	14,007	7,975	(6,032)	-76%	Underspend as admin costs reduced due to staff working on core activities.	56,300	56,300	0	0%	No change
	Regulatory Strategy Work Programme	27,084	26,330	(754)	-3%	Minimum difference	108,369	109,369	1,000	1%	Minimum difference
	Total	975,967	817,377	(158,590)	-19%	Reduction in costs mainly within Corporate services	3,933,627	3,825,169	(108,458)	-3%	Overall reduction following changes in forecast for some corporate services activities.
Programme	Core Activities	1,339,090	1,400,823	61,733	4%	Mainly due to increase in shellfish sampling officer costs.	5,138,301	4,119,029	(1,019,272)	-25%	Programme costs reduced by transfer of OV and MHI contractor cost for the second half of year to Staff costs. This has been offset with some new projects included in forecast including one for Allergens, Wave tracker survey etc.
	Brexit Work Programme	62,499	62,499	-	0%	No change	250,000	262,450	12,450	5%	Increase for Brexit Omnibus additional waves
	Nutrition and Dietary Health Work Programme	23,773	20,124	(3,649)	-18%		62,882	62,882	0	0%	No change
	Regulatory Strategy Work Programme	25,000	-	(25,000)	100%	Delays in the Feed Delivery project and forecast spend has been moved to second quarter.	100,000	250,000	150,000	60%	Increase due to addition of the forecast for the Food Sampling Grants which has not been allocated a budget on the system.
	Total	1,450,362	1,483,446	33,084	2%	Increase in costs for delivery of official controls for the shellfish monitoring programme.	5,551,183	4,694,361	(856,822)	-18%	New projects added to forecast for Core Activities and WPs which has been offset by reduction in Operations due the termination of the Hallmark contract.
Capital	Core Activities	-	41,926	41,926	100%	New project for work on GIS enhancement project.	-	53,446	53,446	100%	Increase due to GIS Enhancement project and Stakeholder Management System.
	Brexit Work Programme	-	-	-	0%		-	100,000	100,000	0%	Increase due to inclusion of forecast for development of the Scottish National Database.
	Nutrition and Dietary Health Work Programme	-	-	-	0%		-	-	-	0%	
	Regulatory Strategy Work Programme	57,000	52,231	(4,769)	100%	Slight delay in starting work on further development of the Scottish National Database (SND).	76,000	76,000	-	0%	No change
	Total	57,000	94,157	37,157	39%	Increase for new IT project for GIS Enhancement.	76,000	229,446	153,446	67%	Some capital additions to the forecast as above which are pending internally allocated budgets.
Income	Core Activities	(835,758)	(856,608)	(20,850)	2%	Mainly increases in Areas 2 and 3 for as additional audits conducted and more hours worked than originally forecast.	(3,451,913)	(3,427,287)	24,627	-1%	Decrease in forecast due to delay in increase in applying new charge out rate.
	Brexit Work Programme	-	-	-	0%		-	-	-	0%	
	Nutrition and Dietary Health Work Programme	-	-	-	0%		-	-	-	0%	
	Regulatory Strategy Work Programme	-	-	-	0%		-	-	-	0%	
	Total	(835,758)	(856,608)	(20,850)	2%	Increase in the first quarter for delivery of official controls work.	(3,451,913)	(3,427,287)	24,627	-1%	Slight decrease due to delay in applying new charge out rate for second half of year.
FSS TOTAL	4,078,693	3,830,673	(248,020)	-6%	Underspend mainly as a result of reduced Staff and Admin expenditure in the quarter.	15,625,000	15,503,168	(121,832)	-1%	Underspend mainly due to overall decrease in Staff costs (excluding the Hallmark transfer) for ongoing vacancies. Various costs have been forecast for programme and capital projects which has not yet been allocated a budget.	

Figure 2b – Allocation of resource expenditure

Core Activities YTD Spend against Strategic Outcomes

Figure 3 provides an overview of the Budget v Actual spend in comparison to the full year budget allocated to each outcome.

Strategic Outcomes	FY 2019-20	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	7,577,820	3,528,307	773,761	543,311	750,320	1,098,502	883,619
	Actual	1,899,612	876,341	193,509	149,918	183,165	277,196	219,483
Administration	Budget	3,725,685	881,486	541,553	517,493	527,444	667,592	590,117
	Actual	777,973	174,587	114,478	114,812	111,300	139,927	122,870
Programme	Budget	5,138,249	3,934,169	483,100	0	172,649	322,665	225,665
	Actual	1,400,816	1,085,560	80,379	0	24,901	155,219	54,757
Capital	Budget	0	0	0	0	0	0	0
	Actual	41,926	20,963	0	0	0	0	20,963
Income	Budget	(3,451,913)	(2,425,339)	(342,191)	-	-	(342,191)	(342,191)
	Actual	(856,608)	(603,245)	(84,455)	-	-	(84,455)	(84,455)
Total	Budget	12,989,841	5,918,623	1,456,222	1,060,804	1,450,414	1,746,568	1,357,211
	Actual	3,263,720	1,554,207	303,912	264,730	319,365	487,888	333,619
	% of budget spent	25.1%	26.3%	20.9%	25.0%	22.0%	27.9%	24.6%

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 red, amber or green depending on level of forecast accuracy. 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-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	2019-20 FYF
Budget	1,296,873	1,389,363	1,392,447	1,279,554	1,308,056	1,274,787	1,277,838	1,230,664	1,271,006	1,212,724	1,222,195	1,469,482	15,624,990
April Forecast	1,293,087	1,325,908	1,368,866	1,292,386	1,231,224	1,199,202	1,204,632	1,117,952	1,112,728	1,052,978	1,059,835	1,236,028	14,494,825
May Forecast	1,312,774	1,263,210	1,395,633	1,321,983	1,237,577	1,210,959	1,207,080	1,093,953	1,085,104	1,152,303	1,091,098	1,237,678	14,609,352
June Forecast		1,270,066	1,378,372	1,328,543	1,280,812	1,243,143	1,236,394	1,132,901	1,102,051	1,181,931	1,114,394	1,276,009	14,857,388
July Forecast			1,246,337	1,362,789	1,377,026	1,306,942	1,340,704	1,219,236	1,137,673	1,295,017	1,218,405	1,414,701	15,503,168
August Forecast													0
September Forecast													0
October Forecast													0
November Forecast													0
December Forecast													0
January Forecast													0
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 2018/19 and 2019/20 financial years. It is important to point out that the Monthly Budget information provided uses the initial budget profiles in each year.

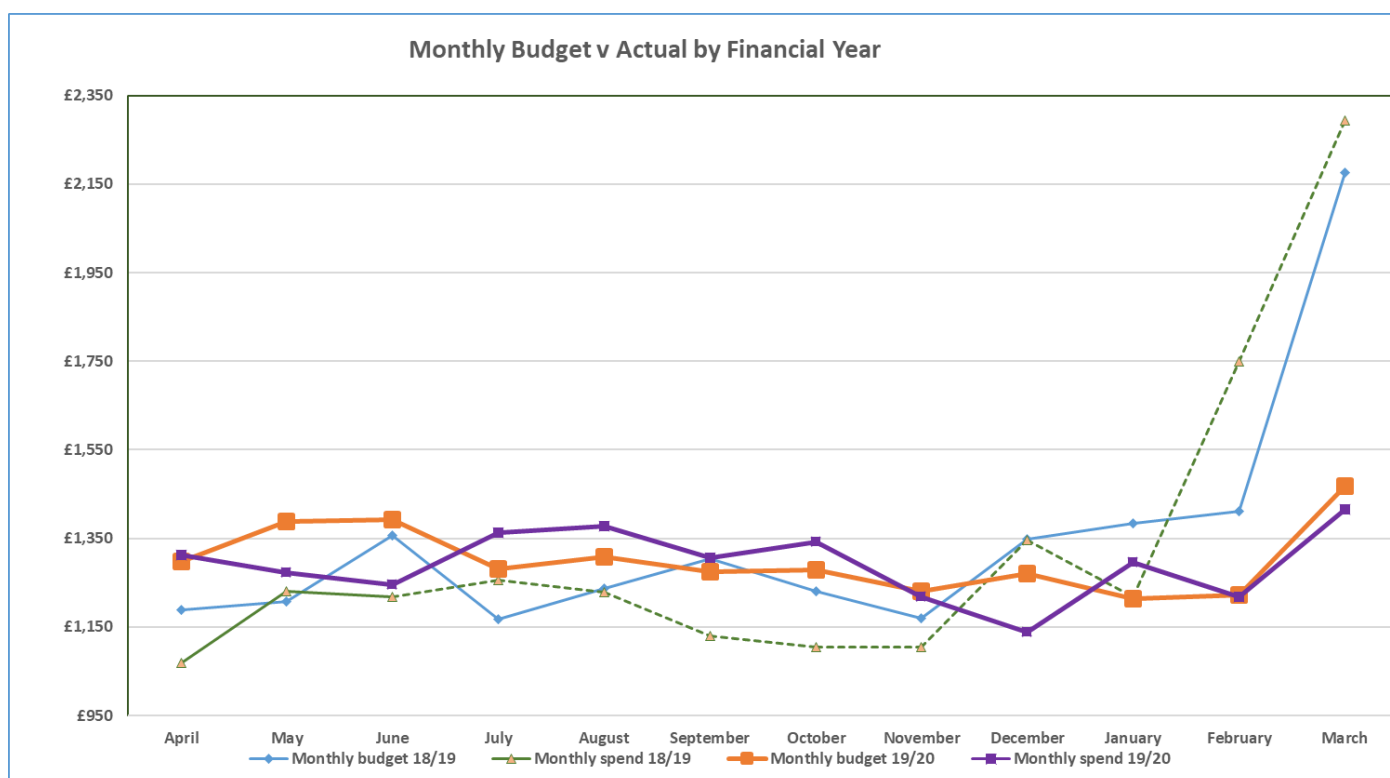


Figure 5 – Year on Year Comparison – monthly budget v actual

Description	Staff Complement
Budgeted Posts (FTE)	195
Total FTE (Jun)	181.8
Vacancies July	22.4
Agreed Posts July onwards	202.4

Figure 6 – Staff Complement

Month	Number of invoices	Percentage of Invoices Paid in Ten Days
Apr-19	278	95%
May-19	227	96%
Jun-19	159	93%
Total to date	664	95%

Figures 7 – Supplier Payments