

FOOD STANDARDS SCOTLAND FINANCIAL PERFORMANCE UPDATE – November 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 30th September 2019.

1.2 At the end of Q2 FSS is reporting a provisional outturn of £17.5m against the internally allocated resource budget of £18m, representing a projected 0.2% underspend against budget. This allocated resource budget has increased by £2.3m from the August Board paper and includes expenditure for preparing for EU Exit.

1.3 The Board is asked to:

- **Note** the financial information and expected end year position reported as at 30 September 2019.
- **Note** the approved budget of £16.3m, updated at the Autumn Budget Review (ABR), comprising resource and Annually Managed Expenditure (AME).
- **Note** additional funding of up to £3.5m to support the impact of Brexit on FSS remit and the internal budget allocation to date.

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 £16.3m. This comprises resource budget of £15.9m, which includes budget for the increase in employer pension contribution for this year, and AME of £350k. The AME budget provides for the FSS pension liability provision.

2.3 Additional funding of up to £3.5m has been given to FSS to manage the consequential impact that Brexit will have across the scope of its remit. To date £2.1m of budget has been allocated against this funding which incorporates the FSS Brexit work programme. This paper provides details of the allocation of the FSS resource budget between each of the three work programmes and the essential core activities.

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 is 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 quarterly budget profile presented in the Year to Date Performance (Figure 1) is based on the updated budget allocation and profile made by Branches in August 19. The actual spend for the last two quarters when compared to the budget profile was £523k under budget. The main budget categories contributing to this underspend are, Staff £365k and Admin £205k.

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 budget at end of quarter 2 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 delays in recruiting new staff into vacant posts.

Admin: less spend against budget in a number of areas including advertising, training, travel and subsistence, depreciation costs and reprofile of costs for support and maintenance for IT systems to later months.

YTD Spend against Strategic Outcomes

3.6 At the end of September, 47% of the FSS budget allocated to Core Activities as outlined in Figure 4 had been spent delivering the Corporate Plan, which is slightly under the 50% expected at the mid-year point. There is expected expenditure in most outcomes, with only outcome 2 Food is Authentic and outcome 5 FSS is a Trusted Organisation showing a greater underspend at the moment.

3.7 Within Staff there are some increased cost allocation of staffing costs to core activities from work programmes mainly within the first quarter. During the second quarter the actual outturn of the staff costs to the work programmes was more in line with the forecasts for these months.

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 identify quickly 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 £221k for each of the last three months.

July 19: the underspend of £29k was mainly due to decrease in Admin expenditure in various budget lines in Corporate Services e.g. depreciation costs, procurement costs and reprofile of expenditure on IT equipment and also in Communications & Marketing for less advertising costs, reduction of conference costs and the cost of publications.

August 19: the underspend of £96k mainly related to reprofile of Admin expenditure for the support and maintenance costs for the Operational Workflow System (OWS) and ArcGIS (Geographic Information System) and less spend in Personal Protective Equipment (PPE) and travel and subsistence costs.

September 19: the underspend of £96k was due to reductions in spend across all budget lines where underspend was greatest in Capital and Admin. In Admin there was less spend on travel and subsistence and reprofile of support and maintenance related IT costs. In Capital expenditure was less due to delays in starting work on the Scottish National

Database (SND) development and reprofile of costs for work on the Shellfish Hygiene System (SHS2).

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

3.11 As per the updated forecast from October the forecast expenditure of £17.6m is an underspend of £394k (0.2%) for the year against the budget of £18m allocated in August 19. The forecast expenditure has increased by £2.1m since the last report. 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.

3.12 In Figure 2b the Full Year budget and forecast columns give additional detail behind the budget lines including variances. There are under/over forecasts against each category area with underspend in Staff costs significantly impacting on the underspend.

3.13 The overall underspend in Core Activities is due to the reduced Staff costs is due to ongoing vacancies which has been offset by an increase in the Programme expenditure for delivery of official controls for shellfish sampling officers.

3.14 There is a forecast underspend for the Work Programmes against the initial budget allocation of £320k with variances against each individual work programme. The main differences are as follows:

Staff: decrease of £327k due to current forecast of less staff working on the work programmes impacted by ongoing vacancies and delays in recruitment of filling posts.

3.15 In the first two 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 As part of the Resource Spending Review 2019, FSS has received confirmation that the business case for new funding for 2020/21 and beyond to deliver its strategic objectives has been approved. The Senior Management Team (SMT) is developing a programme of work to take forward the restructure of the organisation to address the longer term capacity and capability issues that the organisation faces as a result of Brexit.

19/20 Budget

4.2 The approved FSS budget is now £16.3m. This figures does not include any of the additional budget of up to £3.5m that FSS has been given to deliver its Brexit programme of work. The final approved budget for Brexit and any other required transfers within our budget will take place at the Spring Budget Review (SBR) at the end of December 2019/start of 2020.

4.3 The FSS Brexit work programme budget was brought within the additional EU Exit budget provided in June. To date £2.1m of budget has been approved by SMT against the indicative budget of £3.5m.

4.4 It is not expected that the Brexit consequential budget for the current year will be fully utilised given the lateness of notification of budget and time pressures. FSS continues to plan for various options and to finalise the budget requirements. Any underspend will be handed back to Scottish Government as part of the SBR exercise.

Reporting

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

4.6 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 September. During the quarter a number of posts were vacant with some covered either by staff on fixed term appointments or interim workers. Eight interim workers were employed on a temporary basis at the end of September. There were thirty three vacancies at the end of the period, with one member of staff on maternity leave. Recruitment is progressing to fill these vacancies with some on a permanent basis.

4.7 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 91% 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.

4.8 There is a need to monitor efficiency savings in order to report against targets (3%) set by SG. Following comments made by the Board consideration is being given to the reporting of efficiencies and any related savings. Some discussion on this and best value assessment has taken place with Audit Scotland. Work continues in this area.

4.9 At the end of September the cash drawn down from the Scottish Government relating to the 2019/20 budget was £7.5m. The bank balance as of 30 September was £2.1m.

Outstanding payments (debt recovery)

4.10 At the start of October the level of outstanding debt over the accepted 31 day payment term was £159k with £93k of this amount over 61 days from date of invoice. The total debt over 31 days decreased by £130k (45%) compared to the previous quarter mainly as a result of implementing new procedures to deal with outstanding payments during the quarter.

4.11 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 the debt management contractor where required. Since the last Board report, FSS staff now contact any business that have debt over 31 days in the first week of the month. Where payment has not be received by the middle of the month then a 7-day letter is issued by our contractor. These further actions have resulted in a significant reduction in our outstanding debt in the quarter.

4.12 FSS continues to work with Harper Macleod to reduce the amount of outstanding debt. There are three businesses that are currently in liquidation. Harper Macleod is working with the liquidator to recover the outstanding debt from them with a total value of £32k. There is one businesses currently on a payment plan to reduce their older debt.

4.13 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 September 2019.
- **Note** the approved budget of £16.3m, updated at the Autumn Budget Review (ABR), comprising resource and Annually Managed Expenditure (AME).
- **Note** additional funding of up to £3.5m to support the impact of Brexit on FSS remit and the internal budget allocation to date.

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

£'000	18/19 Budget	Budget Profile 19/20			Actual Spend 19/20			Variance	Var %
		Q1	Q2	YTD	Q1	Q2	YTD		
Staff	10978	2431	2519	4950	2292	2293	4585	(365)	-7%
Administration	3959	976	920	1896	816	875	1691	(205)	-11%
Programme	6022	1450	1443	2894	1483	1535	3019	125	4%
Capital	450	57	133	190	94	38	132	(58)	-30%
Income	(3452)	(836)	(857)	(1693)	(857)	(857)	(1713)	(21)	1%
Total	17958	4079	4159	8237	3829	3885	7714	(523)	-6%

Figure 1: Year-to-Date Performance

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

Directorate / Branch	Revised Budget allocated	Forecast	£'000 Variance	% Variance	Actual Spend to Date	% of Budget Spent
	Sep-19	Oct-19				
FOOD STANDARDS SCOTLAND	17,958,080	17,563,912	(394,168)	-2%	7,714,341	43%
FSS CORE ACTIVITIES	13,706,706	13,633,212	(73,494)	-1%	6,463,300	47%
WORK PROGRAMMES	4,251,374	3,930,700	(320,674)	-8%	1,251,041	29%
Brexit	2,087,304	1,930,926	(156,379)	-7%	546,869	26%
Diet and Nutrition	849,109	745,056	(104,053)	-12%	251,074	30%
Reg Strategy	1,314,962	1,254,719	(60,243)	-5%	453,098	34%

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 2 and updated forecast for Q2 onwards.

Category	Allocation of Budget	YTD Budget Q2	YTD Actual Q2	Forecast Variance Budget to Actual	%	Explanation for variance	Revised Budget April 19	Full year Forecast	Variance Forecast v Budget	%	Explanation for variance
Staff	Core Activities	3,944,895	3,790,719	(154,176)	-4%		8,846,179	8,609,397	(236,782)	-3%	
	Brexit Work Programme	425,955	344,411	(81,544)	-19%		973,631	804,362	(169,269)	-17%	
	Nutrition and Dietary Health Work Programme	271,461	202,969	(68,492)	-25%		542,927	439,673	(103,254)	-19%	
	Regulatory Strategy Work Programme	307,800	247,268	(60,532)	-20%		615,593	560,984	(54,609)	-9%	
	Total	4,950,111	4,585,368	(364,743)	-7%	<i>Underspend as a number of vacant posts throughout the organisation not been filled by end of second quarter.</i>	10,978,330	10,414,416	(563,914)	-5%	<i>Overall budget increase by £1,462k in the quarter mainly relating to transfer of contractor costs from programme budget (core activities) and in Brexit work programme.</i>
Admin	Core Activities	1,792,307	1,605,914	(186,393)	-10%		3,723,326	3,674,980	(48,346)	-1%	
	Brexit Work Programme	21,618	26,418	4,800	22%		71,222	84,114	12,892	18%	
	Nutrition and Dietary Health Work Programme	28,014	14,019	(13,995)	-50%		56,300	55,501	(799)	-1%	
	Regulatory Strategy Work Programme	54,168	45,111	(9,057)	-17%		108,369	102,734	(5,635)	-5%	
	Total	1,896,107	1,691,462	(204,645)	-11%	<i>Underspend as reduction in costs across the business including travel & subsistence, training, procurement, IT supports costs.</i>	3,959,217	3,917,329	(41,888)	-1%	<i>Overall budget increase by £26k in Brexit work programme.</i>
Programme	Core Activities	2,600,133	2,735,267	135,134	5%		4,535,114	4,726,766	191,652	4%	
	Brexit Work Programme	153,836	155,790	1,954	1%		942,451	942,450	(1)	0%	
	Nutrition and Dietary Health Work Programme	41,928	34,092	(7,836)	-19%		249,882	249,882	0	0%	
	Regulatory Strategy Work Programme	97,962	93,488	(4,474)	-5%		295,000	295,000	-	0%	
	Total	2,893,859	3,018,637	124,778	4%	<i>Increase in costs mainly due to additional costs for official controls for shellfish eg sampling officers and biotoxin monitoring. Both of these projects under review.</i>	6,022,447	6,214,098	191,651	3%	<i>Overall budget increased in each of the work programmes. The budget with Core Activities was reduced by the transfer of the OV and MHI contractor budget to Staff. The reduction was offset by new budgets for a number of projects including £471k for Comms & Marketing projects.</i>
Capital	Core Activities	54,000	44,786	(9,214)	-17%		54,000	56,306	2,306	4%	
	Brexit Work Programme	20,250	20,250	-	0%		100,000	100,000	-	0%	<i>Further development of Scottish National Database.</i>
	Nutrition and Dietary Health Work Programme	-	-	-	0%		-	-	-	0%	
	Regulatory Strategy Work Programme	116,000	67,231	(48,769)	-42%		296,000	296,000	-	0%	<i>Development of the Shellfish Hygiene System (SHS2)</i>
	Total	190,250	132,267	(57,983)	-30%	<i>Delays in completing work relating to IT projects.</i>	450,000	452,306	2,306	1%	<i>Budget increase by £374k for IT projects.</i>
Income	Core Activities	(1,692,836)	(1,713,387)	(20,551)	1%		(3,451,913)	(3,434,238)	17,676	-1%	
	Brexit Work Programme	-	-	-	0%		-	-	-	0%	
	Nutrition and Dietary Health Work Programme	-	-	-	0%		-	-	-	0%	
	Regulatory Strategy Work Programme	-	-	-	0%		-	-	-	0%	
	Total	(1,692,836)	(1,713,387)	(20,551)	1%	<i>Increase in income for the delivery of official controls work.</i>	(3,451,913)	(3,434,238)	17,676	-1%	<i>No change to budget. Decrease in income forecast for delivery of official controls in plants.</i>
FSS TOTAL	8,237,491	7,714,347	(523,144)	-6%	<i>Overall underspend against budget where the impact on reduced spend on Staff and Admin has impacted the most during the last quarter.</i>	17,958,081	17,563,912	(394,169)	-2%	<i>Overall increase in budget allocation of £2.3m as well as increase in forecast spend by £2m.</i>	

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 yearly 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	8,846,179	4,383,531	891,697	543,311	750,320	1,246,102	1,031,219
	Actual	3,790,719	1,768,761	388,051	289,408	356,990	548,981	438,528
Administration	Budget	3,723,326	945,173	532,421	496,502	506,453	660,126	582,651
	Actual	1,605,914	377,860	236,180	224,889	225,927	286,339	254,719
Programme	Budget	4,535,060	3,284,947	385,251	10,167	187,649	549,598	117,448
	Actual	2,735,251	2,186,989	159,023	-7	54,910	231,648	102,688
Capital	Budget	54,000	27,000	0	0	0	0	27,000
	Actual	44,786	22,393	0	0	0	0	22,393
Income	Budget	(3,451,913)	(2,425,339)	(342,191)	-	-	(342,191)	(342,191)
	Actual	(1,713,387)	(1,204,665)	(169,574)	-	-	(169,574)	(169,574)
Total	Budget	13,706,652	6,215,311	1,467,178	1,049,980	1,444,422	2,113,634	1,416,127
	Actual	6,463,283	3,151,338	613,680	514,291	637,826	897,394	648,755
	% of budget spent	47.2%	50.7%	41.8%	49.0%	44.2%	42.5%	45.8%

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

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

FSS Forecast

£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				1,334,021	1,390,642	1,379,029	1,405,576	1,249,152	1,220,923	1,492,142	1,373,618	1,754,172	16,428,752
September Forecast					1,294,834	1,351,162	1,546,278	1,382,801	1,315,257	1,598,732	1,482,504	1,809,347	16,944,413
October Forecast						1,256,009	2,086,889	1,436,645	1,353,682	1,595,267	1,475,052	1,902,037	17,563,913
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.

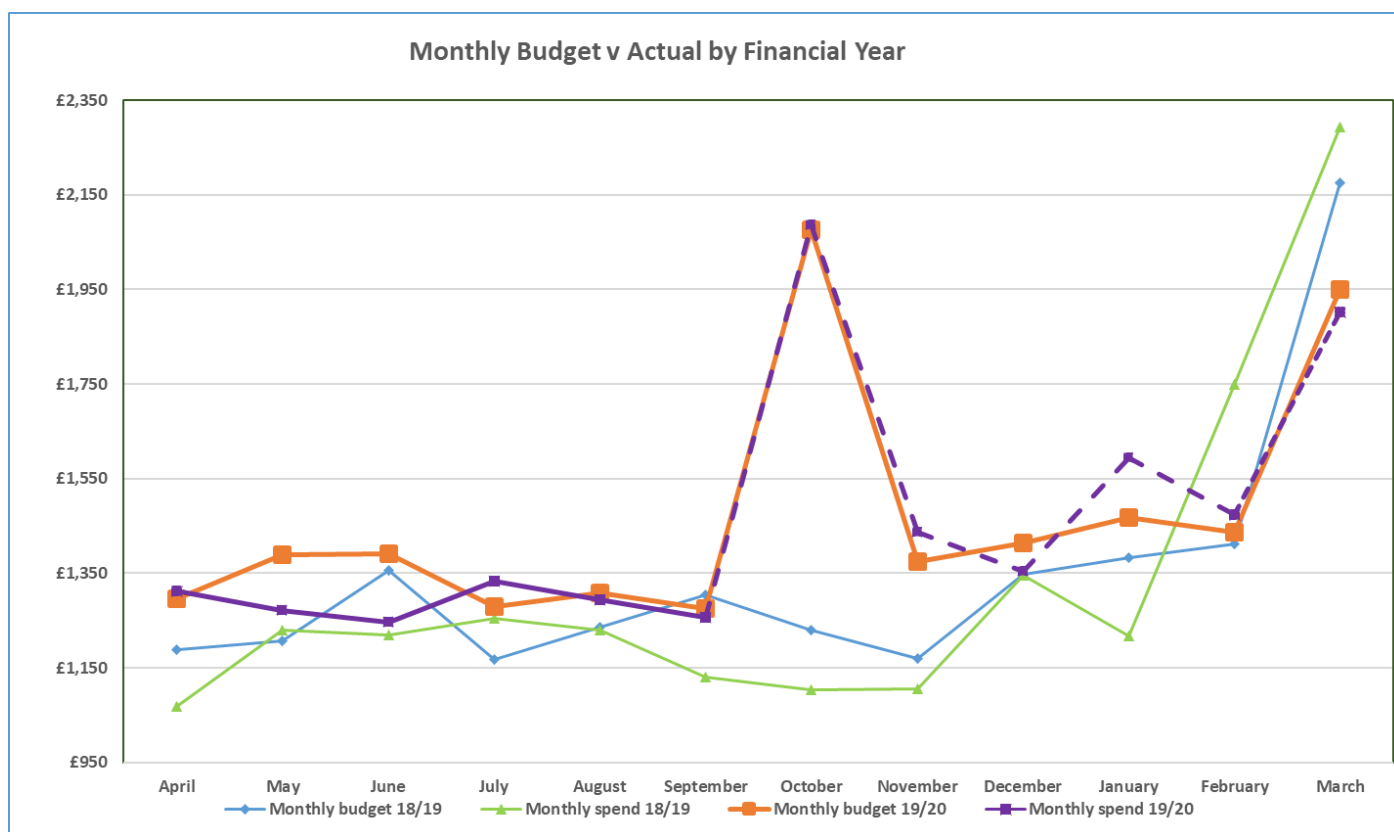


Figure 5 – Year on Year Comparison – monthly budget v actual

Description	Staff Complement
Budgeted Posts (FTE)	195
Total FTE (September)* 0.5 FTE for transferees	200
Vacancies September	33
Agreed Posts September onwards	233

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%
Jul-19	198	94%
Aug-19	181	94%
Sep-19	247	77%
Total to date	1290	91%

Figures 7 – Supplier Payments