

FOOD STANDARDS SCOTLAND FINANCIAL PERFORMANCE UPDATE – November 2017

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 September 2017.

1.2 For the second quarter we are reporting a variance of 8% against actual spend for the period when compared to the Year to Date (YTD) resource budget of £7.5m. In addition to the YTD performance a full year forecast of £15.2m is being reported against the agreed budget of £15.3m, representing a projected 0.6% underspend against budget.

1.3 The Board is asked to:

- **Note** the financial information reported as at 30 September 2017.
- **Note** the steps taken to utilise the forecast underspend as reported at the end of the first quarter.
- **Note** that work is continuing to develop an FSS Financial Strategy in line with Audit Scotland recommendations.

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). No Annually Managed Expenditure (AME) budget was allocated for 2017/18 but will be included in the transfers that take place at the Spring Budget Revision (SBR). We have requested a budget of £568k for the current financial year. Scottish Government is aware of the on-going requirement to cover the Local Government Pension Scheme.

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 two quarters of 2017-18. The financial performance is based on both the original 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 assessment made by Branches at March 17. The actual spend to the end of quarter two when compared to the budget profile was £634k under budget. Two budget lines are impacting on this underspend: a decrease in Programme expenditure of £276k and an increase in Income of £141k.

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 two business areas Communications and Marketing and Enforcement Delivery made up the majority of this underspend.

3.4.1 The underspend of £79k in Marketing relates to changes in the profile of expenditure on the healthy eating campaign and development of the FSS website. A number of projects contribute to the £52k underspend within Strategic Communications namely: publications, consumer events, seminars and stakeholder communications. The work for these projects has been moved in the last two quarters of this year.

3.4.2 There has been delay to some project activity within Enforcement Delivery including: primary production work, local authority training support and revision to the food law code of practice, all of which have been reprofiled to later in the year. In addition, the expenditure for the feed delivery model did not take place as the implementation of the model has now moved into 2018/19. Work is continuing to prepare for delivering the feed model at the start of the next financial year.

3.5 The increase in income is primarily as a result of the difference between the assumptions made when the income for inspection fees was forecast in February and the changes that have taken place since then. The changes during the period have included updated business agreements agreed with the meat industry; reconciliation of the second quarter charging fees with actual inspection hours and the implementation of the revised charge out rates for inspections. Following the calculation of the current forecast hours in business agreements with the revised charge out rates, an overall reduction in income now being forecast for the full year. This possibility was anticipated after Quarter 1.

YTD Spend against Strategic Outcomes

3.5 At the end of the second quarter 44.8% 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 50%. 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. There have been changes or delays to project activity under Outcome 2 namely the Scottish Beef Origin Project, Sampling grants as well as Food fraud and investigation work. The reprofile of delivery of the healthy eating campaign has 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.

July 17: the monthly underspend of £66k was mainly against Admin (less travel and reduced spend on training and computer equipment) and in Capital (delay in signing the new contract for development of the Operational Workflow System (OWS)). There was also additional income coming from Other Government Department for work carried out by

operations staff and slight increase in Programme relating to biotoxin and Ecoli monitoring costs.

August 17: the monthly underspend of £67k was mainly due to decreases within Admin spend (training, advertising and audit work) and project activity profiled into later months in Programme (strategic communications and marketing, local authority training and food fraud prevention).

September 17: the overspend of £60k in the month was mainly due to the income reduction following the reconciliation of the meat hygiene inspection fees with the new charging rates from May to September. This was offset with underspends within Admin (internal audit work not taking place with some increases in HR shared services and IT costs) and Programme (reprofiling of a number of projects into later in the year as well as some underspends against primary production and Living costs and Food survey project).

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 October onwards there is now a 0.6% forecast underspend of £70k against our agreed budget. Following the first quarter report there has been a decrease in the forecast underspend by £552k with three budget areas primarily contributing to this figure.

3.12 Firstly within the admin budget there has been an increase of £115k from the August board report and includes additional expenditure for subscriptions, conferences, advertising and work to support the review of business planning in FSS falling within the Other office costs budget line.

3.13 Secondly the programme forecast has increased by £197k from the first quarter report. The reduction in expenditure for the delivery of the Feed Model has been offset with an increase in project approvals for Nutrition (dietary guidelines, acquisition of retail data), Food Crime (fighting fund) and Communications (food safety campaign and consumer research on Brexit).

3.14 Thirdly there is a forecast decrease in income of £339k from that reported in the first quarter. Two elements make up this decrease, implementation of revised charging rates for meat hygiene inspection fees (based on current business agreements) and reduction in the grant of £162k for delivery of the Feed Model. This project is now delayed until the start of the next financial year.

Outstanding payments (debt recovery)

3.16 At the start of October the outstanding level of debt owed to FSS was £684k, where £529k of this debt is over the accepted 31 day payment term. There has been an increase in the number of businesses (and therefore payments due) moving into the 'over 31 day' category. This, we believe, is a result of the review in charge out rates with businesses awaiting the outcome that this change may have had on their invoiced amounts for the year to date. We anticipate that this debt level will reduce following implementation of the revised rates and the issue of all recalculated invoices and credit notes.

3.17 To give some insight into the overall debt levels, £438k is owed by just nine customers (totalling seventeen invoices with a value of over £10,000 per invoice). In early 2017, FSS appointed a debt recovery agent, Harper McLeod LLP, to assist with the recovery of debt over 61 days from date of the invoice being issued. To date there is £112k worth of debt being pursued by the company.

3.18 We have also recently finalised and published our debt recovery procedures on the FSS website. We shall continue to report on this matter 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 It is recognised that the current forecast variance of 0.6% on the budget is tight. Following discussions at SMT and the Corporate Leadership Group (CLG) meetings, decisions were made to provide additional funds for admin and project activity to deliver key elements of the Corporate Plan. As a result, and as mentioned at para 3.12 and 3.13 above, forecast expenditure in these budget areas have increased. We will continue to monitor the FSS forecast expenditure on a monthly basis. Branches are aware that any underspends on currently approved work are to be handed back to the centre and not to be reallocated to other work areas.

4.2 The review of income related to meat inspection fees was completed at the end of the last quarter. Following the material change due to the additional delay in the introduction of Poultry Inspection Assistants (PIAs) at Coupar Angus as well as other material changes to our direct costs associated with meat hygiene inspection, we reviewed the impact that had on the rate. The changes have now been made to the charge out rate for 2017/18 and revised calculations made for the year (including the backdate of the new rate to May). This has resulted in refunds provided to industry and subsequently reduced our forecast income for the year.

4.3 In addition, the project to deliver the centralised feed model is delayed until the next financial year due to delays in developing a draft SSI ready for consultation, and the timing required to go through the legislative process. As a result, the majority of the programme expenditure and all the income (grant) have been taken out of the forecast for the current year. A small amount of expenditure remains in place to take forward work (develop training, purchase equipment etc.) in preparation for the implementation of the model at the start of 2018/19.

4.4 We are aware of SG's intention to review its IT estate, particularly hardware, which is carried out on a three year rolling programme. We are currently reviewing the affordability of capital investment which would allow us to future proof against new IT developments and align with SG's refresh timetable.

Current work

4.5 Following completion of the second quarter of the financial year and the mid-year review of forecast spend and budget allocation/priorities for the remainder of the year, we will now undertake a reallocation of budget across Branches/Cost Centres. This will be reflected in revised letters of delegation, where appropriate. Any changes to the budget profile will be reported in the next Financial Performance update to the Board.

4.6 Work has progressed with the development of an FSS long-term Financial Strategy (and associated workforce planning) and papers are currently being reviewed by SMT. Different scenarios are being considered to take account of the challenge of one-year budget settlements and uncertainty around resource requirements related to BREXIT. The work is expected to be finalised by the end of Quarter 3 and will be presented to the Board in February along with budget and strategic plan priorities.

4.7 We await news from SG of the start of the budgeting round and timetable for the Budget Bill for 2018/19. Update on progress of budget submissions and any announcements from SG will inform our business planning for the next year and will be included in the next update to the Board.

4.6 In future versions we plan to include further information on financial performance, headcount and medium term financial planning.

5 Conclusions/Recommendations

5.1 The Board is asked to:

- **Note** the financial information reported as at 30 September 2017.
- **Note** the steps taken to utilise the forecast underspend as reported at the end of the first quarter.
- **Note** that work is continuing to develop an FSS Financial Strategy in line with Audit Scotland recommendations.

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Final Version

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 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				Actual Spend 17/18			Var	
	17/18 Budget	Q1	Q2	YTD	Q1	Q2	YTD	£'000	Var %
Staff	7,763	1,850	1,938 [✓]	3,788	1,813	1,912	3,725	(63)	-2%
Administration	3,295	811	817 [✓]	1,628	761	798	1,559	(69)	-4%
Programme	7,448	1,754	1,803 [✓]	3,557	1,617	1,664	3,281	(276)	-8%
Capital	131	45	65 [✓]	110	14	11	25	(85)	-77%
Income	(3,337)	(795)	(795) [✓]	(1,590)	(919)	(812)	(1,731)	(141)	9%
Total	15,300	3,665	3,828	7,493	3,286	3,573	6,859	(634)	-8%

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 Q2 Budget v Actual for each element. Also provided is the Full Year Budget v Full Year Forecast as at the start of October 2017 with forecast variances.

Allocation of FSS Budget £'000		YTD Budget Q2	YTD Actual Q2	Variance Budget v Actual	Comments	Full year Budget	Full year Forecast Outturn (October)	Variance Forecast v Budget	Comments	Actual 15/16	Actual 16/17
RDEL											
Staff Costs	Agency Staff	10	74	64		10	125	115		232	212
	Overtime	79	67	(12)		163	140	(23)		244	171
	Salaries, NIC, Pension	3,719	3,597	(122)		7,630	7,395	(235)		6,091	6,988
	Secondment Income	(20)	(13)	7		(40)	(13)	27		(40)	(40)
	Total	3,788	3,725	(63)	Delays in recruiting permanent staff offset with increase in temporary appointments.	7,763	7,647	(116)	Forecast spend has decreased by £55k from Q1 due to delays in recruitment of staff offset with additional interim staff appointments	6,527	7,331
Administration	Accommodation, maintenance, utilities	351	360	9		703	726	23		692	701
	Audit	18	16	(2)		81	100	19		90	98
	Legal, IT, Procurement, HR shared services	401	379	(22)		780	721	(59)		637	742
	Other office costs eg subscriptions, printing, conferences, IT consumables etc	142	179	37		281	392	111		383	391
	Pension Liability	110	108	(2)		222	213	(9)		262	376
	PPE Clothing, Laundry and other services	57	34	(23)		114	79	(35)		87	79
	Training	56	29	(27)		122	100	(22)		103	79
	Travel & Subsistence	218	199	(19)		442	426	(16)		459	432
	Total	1,353	1,304	(49)	Reduction in IT shared services and legal costs as well as for training, PPE clothing, laundry and T&S costs. Offset with increase in other office costs.	2,745	2,757	12	Forecast increased by £115k from last report mainly within other office costs for subscriptions, conferences, advertising and work to support business planning.	2,713	2,898
Programme	Food Safety and Healthy Eating	18	12	(6)		50	30	(20)		922	83
	Food Incident and Investigation	40	10	(30)		100	209	109		-	-
	Marketing	271	192	(79)		714	786	72		547	987
	Other Programme costs	-	(2)	(2)		-	-	-		355	106
	Research and Development	192	160	(32)		597	678	81		473	955
	Scientific Work incl Official Controls	2,599	2,566	(33)		5,067	4,803	(264)		4,866	4,801
	Strategic Communications	240	188	(52)		395	422	27		34	373
	Testing and Surveillance	146	141	(5)		421	497	76		1,570	449
	Training and support to other orgs	51	14	(37)		104	133	29		-	-
	Total	3,557	3,281	(276)	Reprofiling of work relating to Marketing and Strategic Communications, training and support to organisation, food fraud prevention.	7,448	7,558	110	Forecast increased by £197k from Q1 report. Reduction in expenditure for the delivery of the Feed Model has been offset with increase in project activity for Nutrition (dietary guidelines, acquisition of retail data), Food Crime (fighting fund) and Communications (food safety campaign and consumer research on brexit).	8,767	7,754
Income	Audit	(22)	(21)	1		(41)	(40)	1		(36)	(41)
	Fees OGDS	(138)	(166)	(28)		(436)	(296)	140		(315)	(319)
	Meat Hygiene Inspection Fees	(1,430)	(1,544)	(114)		(2,860)	(3,043)	(183)		(3,111)	(3,149)
	Total	(1,590)	(1,731)	(141)	New industry business agreements, quarterly reconciliation for meat inspection fees and implementation of new charging rates	(3,337)	(3,379)	(42)	Forecast decrease in income by £339k from last report. Made up primarily of two elements, implementation of new charging rates for inspection fees (based on current business agreements) and reduction in grant for delivery of the Feed Model	(3,462)	(3,509)
R-FDEL	Depreciation	275	255	(20)		550	500	(50)		473	529
	Total	275	255	(20)		550	500	(50)		473	529
CDEL	Furniture & Fittings - Additions	-	-	-		-	-	-		178	(4)
	AUC	110	25	(85)		131	145	14		111	93
	I.T - Additions	-	-	-		-	-	-		77	70
	Total	110	25	(85)	Delays in implementing new contract for OWS development	131	145	14	No change from previous quarter report	366	159
Total Resource		7,493	6,859	(634)		15,300	15,228	(72)		15,384	15,162
AME	Pension Liabilities (AME)	-	-	-		0	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	7,762	3,492	777	770	867	980	876
	Actual to September 17	3,725	1,718	378	321	428	466	414
Administration	Budget	3,295	837	492	445	461	544	516
	Actual to September 17	1,560	388	237	218	222	252	243
Programme	Budget	7,448	4,961	583	380	240	943	341
	Actual to September 17	3,280	2,484	162	39	9	428	158
Capital	Budget	132	58	8	0	8	8	50
	Actual to September 17	25	6	6	0	6	6	0
Income	Budget	(3,337)	(2,279)	(364)	0	(54)	(320)	(320)
	Actual to September 17	(1,731)	(1,207)	(168)	0	0	(178)	(178)
Total	Budget	15,300	7,069	1,496	1,595	1,522	2,155	1,463
	Actual to September 17	6,859	3,389	615	578	665	974	637
	% of budget spent	44.8%	47.9%	41.1%	36.2%	43.7%	45.2%	43.5%

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

Food Standards Scotland		Board Meeting 15 November 2017											FSS 17/11/11
£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													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 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.

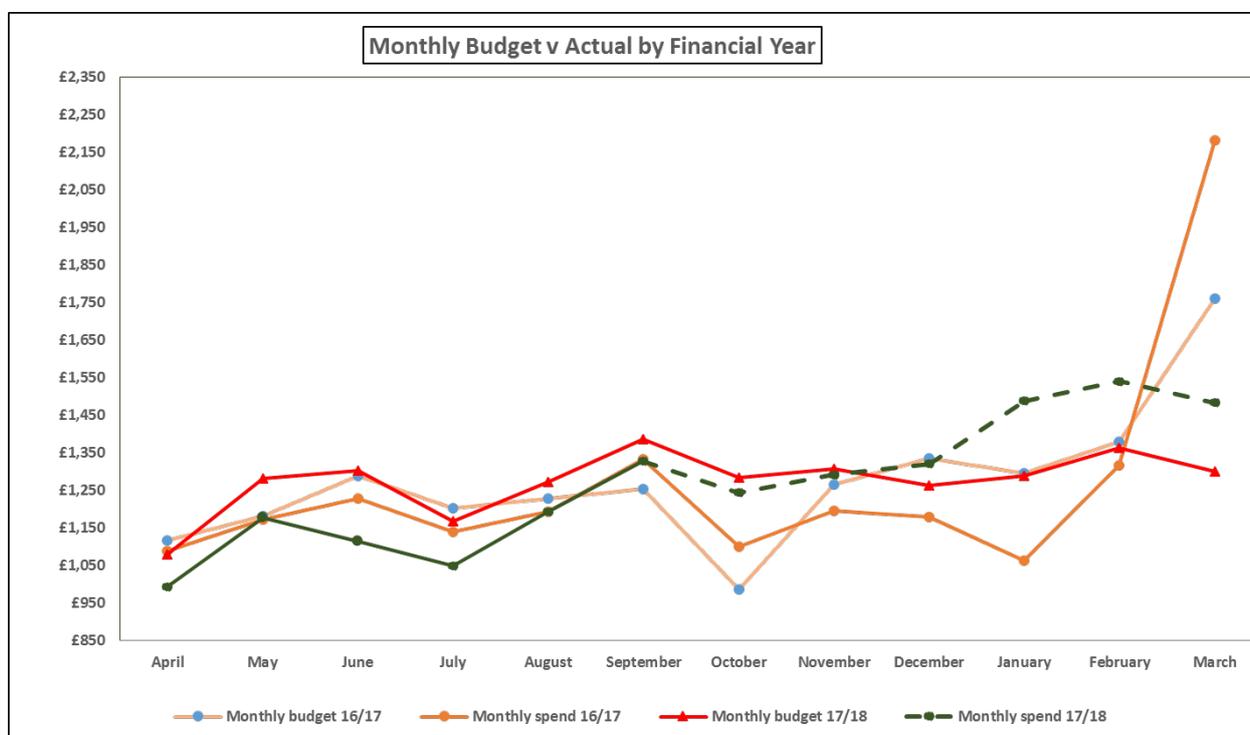


Figure 5 – Year on Year Comparison – monthly budget v actual