

FOOD STANDARDS SCOTLAND FINANCIAL PERFORMANCE UPDATE – NOVEMBER 2016

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 October 2016.

1.2 As at the 31 October 2016 we are reporting a variance of 3% against actual spend for the period, compared to the Year to Date (YTD) budget originally profiled and set at the start of the current financial year. In addition to the YTD performance, a full year forecast of £15.08m is being reported against the agreed budget of £15.3m, representing a 1.4% variance.

1.3 The Board is asked to:

- **Note** the financial information reported as at 31 October 2016.
- **Note** that work is now being taken forward to develop an FSS Financial Strategy in line with Audit Scotland recommendations.
- **Note** the budget review and reallocation that has been undertaken by the Executive and detailed at Annex C.

2 Strategic Aims

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

3 Background

3.1 The Budget (Scotland) Act 2015 was passed by the Scottish Parliament on 24 February 2016 and received Royal Assent on 30 March 2016. This confirmed the 2016/17 financial provision for the Scottish Administration and certain bodies whose expenditure is payable out of the Scottish Consolidated Fund (SCF). The FSS resource budget of £15.3m (net) was confirmed as part of this provision.

3.2 The Executive is now reporting elements of its financial performance against the six agreed strategic objectives to provide an indication on how we are using our resources effectively, to deliver against the Strategy and Corporate Plan.

3.3 At the October Board a revised financial reporting schedule was agreed as per Annex B. The revised schedule seeks to ensure the Board are provided an update on financial performance quarterly (following the December meeting) within 6 weeks of the period closing, based on the current schedule of Board meetings.

4 Financial Performance Summary

Year-to-Date Performance

4.1 Figure 1 provides an overview of the financial performance of the organisation up to the 31 October 2016. As at the end of October, the actual spend when compared to the agreed budget profile was 3% under budget.

£'000	16/17 Budget	Budget Profile 16/17				Actual Spend 16/17				Var £'000	Var %
		Q 1	Q2	Oct	YTD	Q 1	Q2	Oct	YTD		
Staff	7,530	1,753	1,857	631	4,241	1,749	1,802	611	4,162	79	2%
Administration	3,182	833	810	260	1,903	786	856	253	1,895	8	0%
Programme	8,008	1,870	1,899	675	4,444	1,830	1,901	512	4,243	202	5%
Capital	100	0	0	0	0	0	0	86	86	-86	0%
Income	(3,520)	(868)	(878)	(287)	(2,033)	(877)	(890)	(357)	(2,124)	91	-4%
Total	15,300	3,588	3,688	1,279	8,555	3,488	3,669	1,105	8,262	294	3%

Figure 1: Year-to-Date Performance

4.2 In order to provide the Board a sense of how this translates into the operational level of FSS, the YTD performance is show at a Branch level at Figure 2.

Board	Staff			Administration			Programme			Capital			Income			Year To Date		
	Budget	Actual	Variance	Budget	Actual	Variance	Budget	Actual	Variance	Budget	Actual	Variance	Budget	Actual	Variance	Budget	Actual	Variance
	£ '000																	
Board	58	62	-4	31	12	19	0	0	0	0	0	0	0	0	0	89	74	15
Senior Management Team and Private Office	404	401	3	46	41	5	0	0	0	0	0	0	0	0	0	450	442	8
SSIA	41	40	1	0	2	-2	0	0	0	0	0	0	0	0	0	41	42	-1
Communications and Marketing	284	261	23	27	29	-2	845	591	254	0	60	-60	0	0	0	1,156	941	215
Corporate Services	412	443	-31	1,453	1,534	-81	0	0	0	0	5	-5	0	0	0	1,865	1,982	-117
Regulatory Policy	383	353	30	19	13	6	0	3	-3	0	0	0	0	0	0	402	369	33
Food Protection Science and Surveillance	240	217	23	10	13	-3	413	469	-56	0	0	0	0	0	0	663	699	-36
Nutrition Science & Policy	143	142	1	5	7	-2	61	80	-19	0	2	-2	0	0	0	209	231	-22
Operational Delivery	1,546	1,508	38	182	149	33	2,916	2,963	-47	0	0	0	(1,985)	(2,072)	87	2,659	2,548	111
Operations - Area 1	281	274	7	23	20	3	352	387	-35	0	0	0	(430)	(477)	47	226	204	22
Operations - Area 2	420	434	-14	35	28	7	552	600	-48	0	0	0	(792)	(831)	39	215	231	-16
Operations - Area 3	351	370	-19	29	26	3	219	241	-22	0	0	0	(363)	(390)	27	236	247	-11
Operations - Area 4	351	295	56	32	28	4	258	221	37	0	0	0	(379)	(359)	-20	262	185	77
Operations - Area 5			0		0	0	25	11	14	0	0	0	(7)	(3)	-4	18	8	10
Veterinary Management	119	101	18	39	22	17	0	9	-9	0	0	0	(22)	(27)	5	136	105	31
Enforcement Delivery	267	278	-11	25	38	-13	148	89	59	0	20	-20	0	0	0	440	425	15
Scottish Food Crime Unit	185	196	-11	38	20	18	61	39	22	0	0	0	0	0	0	284	255	29
Audit	159	159	0	28	14	14	0	0	0	0	0	0	(26)	(25)	-1	161	148	13
Total	4,241	4,161	80	1,903	1,894	9	4,444	4,243	201	0	87	-87	(2,033)	(2,124)	91	8,555	8,261	294

Figure 2: YTD Performance by Branch

4.3 The budget profile presented in Figures 1 and 2 are based on an assessment made by Branches prior to the start of the year. However through our monthly budget monitoring, 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 Figure 3.

Forecast Accuracy

4.4 The information presented in Figure 3, and through the monthly budget meetings with Branches, allows us to quickly identify material variances and drill down into further detail to understand the reasons behind them.

£000s	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16	Jan-17	Feb-17	Mar-17	2016-17 FYF
Budget	1,115,708	1,182,342	1,290,776	1,202,733	1,229,312	1,254,763	1,279,036	1,192,009	1,213,389	1,111,790	1,158,679	2,069,849	15,300,387
March Forecast	1,114,461	1,162,332	1,308,935	1,182,792	1,239,002	1,273,759	1,248,496	1,216,104	1,216,702	1,103,155	1,168,297	2,037,952	15,271,988
April Forecast	1,088,156	1,156,310	1,322,750	1,139,036	1,232,312	1,311,957	1,258,745	1,221,869	1,215,870	1,106,920	1,157,462	1,974,965	15,186,352
May Forecast		1,172,287	1,322,133	1,098,288	1,262,348	1,340,222	1,279,072	1,263,901	1,251,970	1,121,797	1,200,195	1,771,264	15,171,632
June Forecast			1,227,836	1,113,542	1,193,843	1,356,618	1,358,045	1,299,627	1,284,737	1,170,862	1,222,361	1,495,167	14,983,081
July Forecast				1,140,769	1,260,443	1,468,728	1,205,580	1,315,708	1,298,200	1,190,949	1,239,673	1,448,301	15,056,630
August Forecast					1,194,020	1,430,236	1,237,232	1,332,155	1,312,957	1,194,212	1,232,039	1,509,883	15,071,756
September Forecast						1,334,237	1,222,664	1,336,116	1,283,249	1,268,403	1,309,946	1,527,912	15,105,567
October Forecast							1,104,827	1,266,714	1,334,865	1,295,500	1,379,088	1,546,188	15,084,460
November Forecast													
December Forecast													
January Forecast													
February Forecast													
March Forecast													

Figure 3 – Full Year Forecast Waterfall

4.5 Below is a high level overview which seeks to provide context to the Board and explain the drivers behind the YTD variances between the most recent forecast and actual for the period.

- **September:** (£96k) favourable variance. September's variance is a combination of underspends in Programme, Admin, Staff budget lines and slight increase in Income in the month. The majority of underspend was in Programme activity with a value of £57k within two budget areas; Communications and Marketing of £35k for a few project for example with delay in development of the website interactive tools and publications and also within Food Protection Science and Surveillance of £24k relating to reduction in planned sampling with the co-ordinated sampling grants project. Some of this project expenditure has now been re-profiled into future months to reflect a revised project timeline. Underspend in Staff and Administration of £30k relate to; a small number of vacancies not being filled as expected in a number of branches; differences in maternity pay costs, and reduction in admin costs within field operations.
- **October:** (£118k) favourable variance. October's variance is again a combination of underspend in Programme, Admin and Staff budget lines with an increase in Income in the month of £29k. There was underspend of £62k in Programme activity in a number of areas for example in Operations due to reduced shellfish sampling, Feed Model Delivery, training for Local Authorities and Specialist Investigations as well as some projects in Communications and Marketing area that did not progress as planned in month due to work on on-going incidents. In addition, there was underspend of £18k for Admin primarily relating to the Operations area where planned expenditure is not taking place and £14k for Staffing as a result of delays in recruitment of three posts in Regulatory Policy which is now planned for January 17.
- In this month an element of resource expenditure was reclassified as capital mainly relating to spend on IT work/developments which have either be added as intangible assets to the asset register or categorised as an asset under development.

Spend against Strategic Outcomes

4.6 At the end of the period 54% of the budget has been spent in delivering the costed Corporate Plan which is slightly behind an indicative average year to date spend of around 58%.

Strategic Outcomes		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	7,531	3,891	974	702	788	927	249
	Actual to October 16	4,161	2,112	525	381	445	504	194
Administration	Budget	3,183	826	489	448	482	512	426
	Actual to October 16	1,895	455	298	278	293	302	269
Programme	Budget	8,007	6,352	268	955	78	354	0
	Actual to October 16	4,242	3,657	106	296	26	157	0
Capital	Budget	100	100	0	0	0	0	0
	Actual to October 16	88	16	16	13	16	16	11
Income	Budget	(3,520)	(3,471)	(7)	0	(7)	(35)	0
	Actual to October 16	(2,124)	(2,090)	(6)	0	(6)	(22)	0
Total	Budget	15,301	7,698	1,724	2,105	1,341	1,758	675
	Actual to October 16	8,262	4,150	939	968	774	957	474
		% of budget spent	54.0%	53.9%	54.5%	46.0%	57.7%	54.4%
								70.2%

Figure 4 – YTD Spend compared to Full Year Budget by Strategic Outcome

4.7 In Figure 5 the peak shown in March mainly relates to allocated budgetary commitments which were yet to be profiled across the financial year at the start of the year. This has been a key behaviour change taken forward by the Senior Management Team to improve financial planning and forecasting across the organisation following the further delegation of budgets to Branch Heads, through the FSS's scheme of financial delegation. As a result of this work, a more accurate re-profiling of the budget during the period is highlighted by the dark green dotted line in Figure 5.

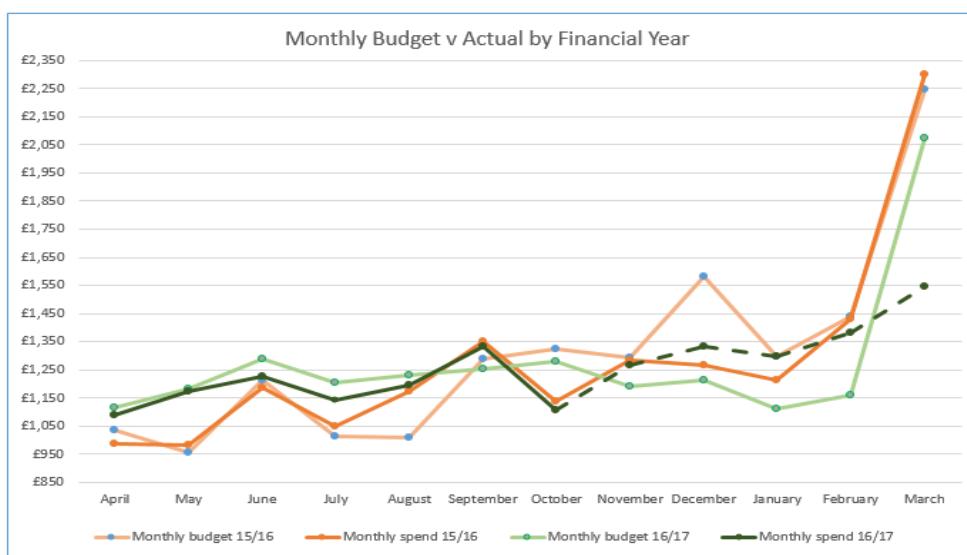


Figure 5 – Year on Year Comparison – monthly budget v actual

4.8 Whilst the report has focussed on the YTD performance, it is important not to lose sight of the full year projections being made to ensure we continue to operate within the budget provision allocated to FSS from the SCF. The full-year forecast graph at Figure 6 shows the FSS budget of £15.3m as a fixed red line and the full year forecast, as it changes each month, as a blue line.

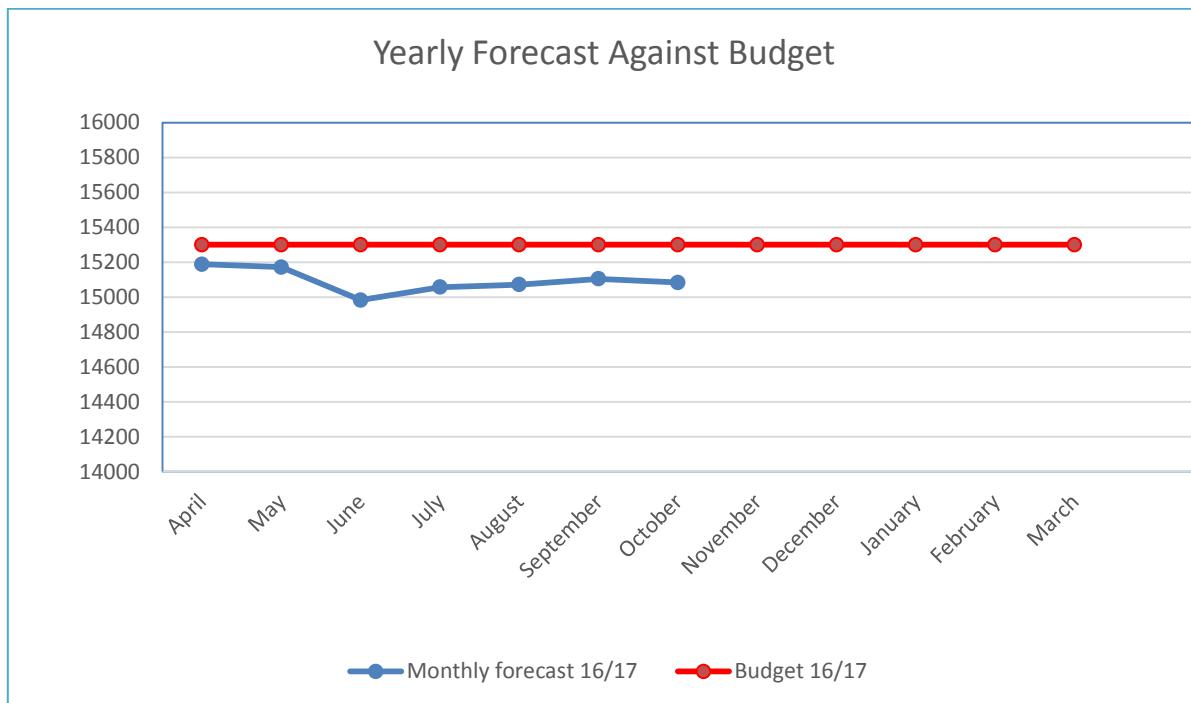


Figure 6 – Full Year Forecast from October 2016

4.9 As well as discussing the monthly returns and the reasons behind variances, the monthly finance discussions allow the full year forecast against the allocated budget to be discussed by Branches. This allows finance to identify and potential budgetary pressures and/or underspends any revise our full year forecast accordingly.

4.10 As can be seen in Figure 6, a decrease in the full year forecast from the original budget allocation of £15.3m to £15.08 is being reported. The full-year forecast as at the end of October reflects a slight increase in forecast expenditure of £13k from that reported in August, although this is a decrease from that forecast at the end September. The changes over the two months are briefly outlined below:

- An overall decrease in Programme spend of £27k is now being forecast. Reduced costs of £83k were forecast in September primarily with the transfer of £146k costs to capital offset with a number of increases/decreases on planned programme expenditure falling mainly in the Operations Directorate including additional costs relating to the use of contract Meat Hygiene Inspectors (CMHIs) and for the emergency exercise project. In October the programme forecast increased by £55k with further additional spend for CMHIs in Operations offset by savings in the Official Controls Chemical monitoring and depuration plants contracts. There was also some new project activity for Out of Home Marketing strategies, Feed Centralised Model Delivery Project and Specialist training on official controls.

- Forecast Staff costs have reduced by £29k primarily due to delay in filling vacancies within a number of branches across FSS and Administrative costs have increased by £38k due to various items of expenditure e.g. additional travel costs, revised depreciation charges based on capital spend, contributions for COSLA and the Scottish Cancer Prevention Network (SCPN).
- Increased income of £120k is forecast within Operations following some field operations restructuring and a delay in the introduction of poultry inspection assistants (PIAs) within one plant in Scotland.
- Increase in capital expenditure by £145k following reclassification of actual or planned resource expenditure mainly relating to IT costs.

5 Risks and Issues

5.1 A risk remains, relating to the timing and nature of the 2017/18 spending review. It is now our understanding that the spending review announcement is likely to be in December with a one year budget settlement now confirmed. This clearly poses a risk to FSS in terms of both finalising any spending plans for 17/18 and undertaking any detailed long-term financial planning. The Senior Management Team met in November to discuss long term financial strategies and planning around the framework of the FSS Corporate Plan. Action is now being taken to develop a FSS Financial Strategy (and associated workforce planning) in line with Audit Scotland's recommendations and shall be finalised by March 2017. FSS Officials continue to discuss 17/18 budget requirements with colleagues in Health Finance and are actively working to ensure our interests are factored into the wider budgetary discussions within the Health Finance portfolio.

5.2 The Executive have finalised a mid-year review of its forecast spend and budget allocation/priorities for the remainder of the year. This has resulted in reallocation of budget across the Branches/Cost Centres and will be reflected in revised letters of delegation, where appropriate. The changes to the budget profile as a result of this review are included at Annex C. This shows new budget allocation by branch and by strategic outcomes.

5.3 In addition to the mid-year review of forecast spend, work is now underway at a Branch level to finalise spending plans for the rest of the financial year and to identify any additional (or potential) uncommitted budget. This will also allow us to firm up our final spending plans in line with the Scottish Government's Spring Budget Revision timeline which completes in early January. The review will specifically look at contractually committed work yet to start, committed projects through budget and/or business case approval and any projects not currently committed but forecast. It is intended that any uncommitted money will then be managed centrally and new requirements prioritised by the Executive. This will allow us to provision for emerging work in a controlled manner and allow us to manage any potential liabilities, such as the inclusion of holiday pay in overtime calculations for relevant staff.

6 Conclusions/Recommendations

6.1 The Board is asked to:

- **Note** the financial information reported as at 31 October 2016.
- **Note** that work is now being taken forward to develop an FSS Financial Strategy in line with Audit Scotland recommendations.
- **Note** the budget review and reallocation that has been undertaken by the Executive and detailed at Annex C.

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30 November 2016

Annex A

Financial Chart Details – Explanatory NotesFigure 1: Year-to-Date Performance and Figure 2: YTD Performance by Branch

The performance is based on comparing the actual spend for the period with the budget profile which was originally set at the start of the financial year. This provides an indication of how close teams across the business are to their initial forecast for the period, for the categories of spend that are reported internally to Scottish Government (Staff, Administration, Programme, Capital & Income). Figure 2 provides this information at a Branch level to provide the Board with a sense of how the operation of the organisation aligns with budget and spend activity within FSS.

Figure 3 – Full Year Forecast Waterfall

As the original budget is profiled and fully allocated at the start of the year, changes can occur on a month-to-month basis that means the profiled spend will differ to the original plans of each Branch. Through our monthly budget monitoring, a revised forecast is discussed and agreed with each Branch.

The financial performance based on both the original budget figure and the updated forecast is reviewed on a monthly basis. Figure 3 shows this information in the form of a waterfall chart which identifies how close a given month's forecast value was to the actual outturn. Each row shows the total of the monthly forecast values submitted to Finance by Branch Heads. Once the actual outturn for the month is available this is shown in the yellow cell. 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.

Figure 4 – YTD Spend compared to Full Year Budget by Strategic Outcome

Figure 4 provides an overview of the YTD spend in comparison to the full year budget allocated to each outcome. The % of budget spent as at the end of the month is shown to provide an indication of progress and performance in delivering the costed Corporate Plan.

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

A comparison of the monthly budget v actual performance is provided at Figure 5 to provide the Board with an overview of relative performance between 2015/16 and 2016/17 financial years. It is important to point out that the information provided uses the initial budget profiles used in each year and not the updated forecast figures that are revised on a monthly basis.

Figure 6 – Full Year Forecast

The full-year forecast graph at Figure 7 shows the full year budget as a fixed red line and the full year forecast, as it changes each month, as a blue line.

Annex B – Schedule of Finance Reporting to the Board for the remainder of the financial year 2016/17

Board date	Papers to be issued by	Finance Month/Quarter End	Time lapse
14 December 2016	7 December 2016	October	6 weeks 2 days
15 February 2017	8 February 2017	December	6 weeks 4 days
17 May 2017	10 May 2017	March	6 weeks 4 days

Annex C Budget Authority and Budget Delegations

Revised Budget Allocation against Strategic Outcomes

	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	7,384	3,762	957	702	793	904	266
Admin	3,496	878	545	506	534	555	478
Programme	7,714	6,266	268	757	83	340	0
Capital	246	49	49	31	49	51	17
Income	(3,540)	(3,496)	(6)	0	(6)	(32)	0
Total	15,300	7,459	1,813	1,996	1,453	1,818	761

Budget Revisions by Branch

Financial Year 16/17 Revised Budgets

SUB DELGATED BUDGET HOLDER	BRANCH	COST CENTRE	RESOURCE ALLOCATION FULL YEAR BUDGET £'000					
			STAFF EXPENDITURE	ADMINISTRATION EXPENDITURE	PROGRAMME EXPENDITURE	CAPITAL EXPENDITURE	ADMINISTRATIVE INCOME	PROGRAMME INCOME
Karen McCallum-Smith	Board	313200	106	20	0	0	0	0
Karen McCallum-Smith	Senior Management Team	313201	450	69	0	0	0	0
Karen McCallum-Smith	Private Office	313202	243	4	0	0	0	0
Katherine Goodwin	Communications and Marketing	313203	461	45	1,171	60	0	0
Garry Mourian	Corporate Services	313204	795	2,779	0	105	0	0
Bill Adamson	Regulatory Policy	313205	625	32	17	0	0	0
Jacqui McElhiney	Food Protection Science and Surveillance	313206	429	27	893	0	0	0
Heather Peace	Nutrition Science and Policy	303207	269	14	313	2	0	0
Susan Pryde	Science Strategy & Information Analysis (Part of SMT Cost Centre)		76	7	50	0	0	0
Sandy McDougall	Operational Delivery	313208	237	109	2,400	0	0	(20)
Sandy McDougall	Operations Area 1	313209	552	44	781	0	0	(905)
Sandy McDougall	Operations Area 2	313210	839	66	956	0	0	(1,429)
Sandy McDougall	Operations Area 3	313211	744	66	494	0	0	(753)
Sandy McDougall	Operations Area 4	313212	295	28	221	0	0	(359)
Sandy McDougall	Operations Area 5	313213	0	0	11	0	0	(3)
Rita Botto	Veterinary Management	313214	101	22	9	0	0	(27)
Lorna Murray	Enforcement Delivery	313215	493	69	287	79	0	0
Ron McNaughton	Scottish Food Crime Unit	313216	393	57	111	0	0	
Marion McArthur	Audit	313217	276	38	0	0	0	(44)
			15,300	7,384	3,496	7,714	246	0 (3,540)