

Financial Approach for 2022/23

1 Purpose of the paper

- 1.1 The purpose of this paper is for discussion and to provide the Board with an overview of the process undertaken by the Executive with regards to our budget allocation for 2022/23.
- 1.2 FSS has been allocated £23m for the next financial year which includes £0.4m for Annually Managed Expenditure (AME) as detailed in the Scottish Budget 2022 to 2023. The resource and depreciation budget of £22.6m will be allocated through our annual business planning round for 2022/23. This budget will be used to deliver our statutory functions, continued delivery across our Regulatory Strategy and Nutrition programmes as well as Essential Core Activity.
- 1.3 The Board is asked to:
 - **Discuss and provide a view** on the indicative budget allocation of the resource budget made by the Executive for 2022/23.
 - **Note** the risks and issues being considered as part of the final budget allocation for 2022.23.

2 Strategic aims

- 2.1 This work supports delivery of all the strategic outcomes and goals in our strategy to 2026 with the focus on the first three years detailed in the published corporate plan. This includes our key programmes of work (Regulatory Strategy and Nutrition).

3 Background

- 3.1 The Board will be aware of the annual approach the Executive complete each year to determine the best use and allocation of our resource budget. A similar approach is being undertaken this year. Due to the impact that the ongoing Covid-19 pandemic is having on the organisation and delay in recruiting, we have not yet finalised budget planning for the year however can provide the initial overview of budget bids.
- 3.2 Our baseline resource allocation for 2022/23 is £22.6m. This is more than the final 2021/22 allocation of £21.6m, which included an overall increase of £6m for EU Exit preparedness and the delivery of the future structure programme of work.
- 3.3 The increase in budget for the next financial year was agreed in 2019 as part of the Business Case to deal with the consequences of exiting the EU from 2020-21 and beyond and provided for an increase in staff and non-staff resources. In the

submission best estimates and a reasonable case scenario were provided that outlined an additional resource requirement of around £7m per annum.

EU Exit /Changing Landscape

- 3.4 As a result of the draft Workforce Plan 2022-25 a new business case is currently with Scottish Government (SG) with the request for an additional £2.9m budget next year to fund a further 56 staff to deliver work as a result of EU Exit that was not planned for or expected in the original business case. The funding request is scoped under three main headings of Safeguarding Public Health, An Effective Safety Regime to Protect Scotland's Economy and Protecting the competence of Scottish Ministers. A meeting to discuss the proposal is scheduled to take place with SG Health Finance colleagues in March.
- 3.5 The business case has highlighted that there is considerable additional workload coming our way because of EU Exit and that while best endeavours were made before Brexit to establish the additional resource needed, it has subsequently come to light that significantly more than anticipated has and will be required for example risk assessment, Section 42 reports under Free Trade Agreements and the complexity of import/export requirements.
- 3.6 There will be a requirement to expand the organisation's headcount in future if FSS is to deliver on Ministerial expectations and particularly on our statutory duties. There is a submission being prepared for Ministers on Sustainable Funding. If this is given ministerial approval we will then discuss with the Board as we look to review and expand our income streams in future to wind down taxpayer subsidies to regulated businesses.
- 3.7 Any changes to our scope such as anything identified by the Good Food Nation Bill has not been included in our budget considerations so far. We are signalling to the SG and Bill team as well as the Parliamentary Committee that any new responsibilities for FSS would need to be coupled with additional resource from core SG and in our informal discussions with them so far they have acknowledged this.
- 3.8 Any further funding that is given to FSS following the review of the EU Exit business case, ministerial approval or further negotiations with SG will lead to a revision of our budget allocation at the Spring Budget Review (December 22/January 23) when the Budget Bill is approved by Parliament.

4 Discussion – Allocation of Budget

- 4.1 The new structure of the organisation was implemented in April 2021 and our budget allocation aligns with this structure as well as our strategy.
- 4.2 An overview of the indicative resource budget allocation across our key categories areas of expenditure is shown in the table at Annex A. As part of the budget planning round there has been a greater value of bids than budget available to

support the delivery of our strategy and corporate plan. The figures currently show over allocation of our agreed budget by £0.9m. We are aiming for a balance of a 80/20 budget split between staff/non-staff costs (net of income). In the current year we are sitting around 71% of staff expenditure (pay related costs) against budget. The bids are currently going through a degree of prioritisation that will require further discussion by the Executive. The intention is that this will support the Executive to make decisions on funding allocation depending on the final financial position we find ourselves in. This may then require further Board input.

- 4.3 In addition, further consideration is being given to the requirement to support the delivery of official controls for feed as we are now the central competent authority for this work. The delivery model and partnership working have been developed but as this is the first year of operation it will require review and refinement.
- 4.4 The indicative Staff budget allocation is on the basis on 330 posts being filled and therefore being funded for the full financial year. However, we know that the actual staff in post at the start of the year will be less than this due to vacancies and ongoing recruitment problems, and are looking to have a vacancy assumption in place. We are considering a 13% assumption based on the current level of vacancies in the organisation. The Administration (running costs) budget is looking to ensure that ongoing costs across the business can be met. As the organisation returns to some sort of normality after Covid there has been increased bids for training, conferences, travel and subsistence as previously home-based colleagues look to start to travel again for business.
- 4.5 The proposed programme budget allocation across core activity is largely based on continued obligations around the delivery of official controls including new feed law functions (£3.8m); Local Authority enforcement delivery support & Food Crime/Incidents management (£0.7m) and; Communications and Marketing (£0.3m). In addition, a new strategy has been agreed to manage FSS's research plans. The Food and Health Research Programme includes projects already contracted with committed spend as well as new project ideas, all being assigned to one of six research themes. An indicative £1.8m is being allocated to the programme. Further information on this will be shared with the Board later in the year as part of the Board paper on our Science Strategy.
- 4.6 The intention is to continue with our two current programmes of work Diet & Nutrition and Regulatory Strategy into the next financial year. Indicative budget allocations are £1.4m and £0.9m respectively with likely overall budget for the programmes at around £2.3m.
- 4.7 The Income for the year is estimated and not currently approved. The amount has been calculated using new charge out rates (still to be agreed) and the forecasted hours for planned business activity for the new financial year. The amount here will be revisited following approval of the charge out rates and review of business agreements.

- 4.8 Once our in-year budget round has been completed then an update of the budget allocation will be available and reflect the accurate allocation of the budget for next year. At that time this information will be shared with the Board. We will also be able to provide an indication on how the budget is directed across each of the five strategic outcomes.

5 Options appraisal [if required]

- 5.1 N/A

6 Identification of risks and issues

- 6.1 As part of our approach to managing risk, we continue to identify one of the main risks we face as an organisation is our budget being reduced or being impacted by wider financial pressures across the Scottish administration due to the ongoing pandemic.
- 6.2 SG Health Finance officials have continued to engage constructively with FSS to ensure that its business and associated EU exit pressures are appropriately understood. This has also allowed confirmation of the anticipated level of resource required for the coming year. Regular dialogue will continue with SG colleagues to ensure they are kept informed of pressures and issues faced by the organisation.
- 6.3 There is a risk is that some of the project activity within our Programme budget might not be spent due to procurement issues and delays. This puts us at risk of underspend with limited ability to deploy the underspend at short notice into other areas of priority. This is something that we will monitor closely during the year so we can identify any underspends early, including within the Research Programme, that could then be repurposed elsewhere.
- 6.4 The staff costs in the budget allocation in Figure 1 reflects a provisional 2% pay settlement and any pay progression as staff move up their pay grades. The public sector pay policy for 2022/23 is currently under review which will apply to all staff on SG Main terms and conditions (salaries have been frozen for staff in the senior civil service who are on different terms and conditions). The staff costs will need to be revised when the pay policy is confirmed and any reduction will be taken into account as part of the budgeting exercise for the forthcoming year.
- 6.5 Ongoing delays in recruitment continues to be an issue although some improvement has been made with the introduction of a new recruitment portal for managers and candidates. The main area of risk remains with Official Veterinarians (OV) recruitment as we mainly attract applications from overseas candidates. We are also aware of the Food Standards Agency's intention to move to an insourcing model.

7 Equality Impact Assessment and Fairer Scotland Duty

- 7.1 The budget is used to deliver the outcomes and goals in the FSS strategy and corporate plan. Both of these documents were finalised in 2021 and are published on our website. An Equality Impact Assessment (EQIA) and the review of the Fairer Scotland Duty was included in the Board paper at the time.
- 7.2 When the budget allocation is finalised the Equality Impact Assessment (EQIA) and Fairer Scotland Duty will be reviewed to determine where any further updates are required to either of these requirements.

8 Conclusion/Recommendations

- 8.1 The focus for FSS for the year ahead will be to ensure the delivery of essential business activities including carrying out our statutory functions and our two programmes of work to meet the aims of our strategic plan.
- 8.2 The Board is asked to:
- **Discuss and provide a view on** the indicative budget allocation of the resource budget made by the Executive for 2022/23.
 - **Note/Decide** the risks and issues being considered as part of the final budget allocation for 2022/23.

Please direct queries to:

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Annex A

FSS Indicative Budget Allocation 2022/23

Budget Category	Budget Allocation 2022/23
Staff	18,000,000
Admin	4,661,907
Programme	6,449,586
Capital	564,145
Gross Budget	29,675,637
Income	(6,200,000)
Net Budget	23,475,637