

FOOD STANDARDS SCOTLAND FINANCIAL PERFORMANCE UPDATE – August 2020

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 2020.

1.2 For the first quarter FSS is reporting a provisional outturn of £18.1m against the internally allocated resource budget of £18.2m, representing a projected 0.1% underspend against budget.

1.3 The balance of the Future Structure budget is being reviewed to determine what will be able to be spent in the current year, taking account of the lifting of recruitment restrictions and new work required to deliver our remit post the EU Exit transition period.

1.4 The Board is asked to:

- **Note** the financial information and expected end year position reported as at 30 June 2020.
- **Note** the review of the balance of the Future Structure budget and that the forecast will be updated in the next quarter to reflect the work planned for the remainder of the year.

2. Background

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

2.2 The total indicative FSS resource budget for 2020/21 is £20.6m. This comprises resource budget of £15.6m allocated in the Budget Bill 2020. In addition, we will receive up to £5m in the current financial year to manage the impact exiting the EU will have across the breadth of our work. The additional budget will be formally allocated by Scottish Government (SG) at the Spring Budget Review (SBR) that will take place towards the end of the calendar year. In the Budget Bill FSS was also provided with an Annual Managed Expenditure (AME) budget of £350k which will not be sufficient to meet the FSS pension liabilities. Further AME budget will be allocated at SBR following discussions with SG Health finance.

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.

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.

2.5 In the budget paper presented to the Board in June details were provided on the impact that Covid-19 had on the budget planning for this year and the areas where reduced spending was taking place, cancelled activity and also the intention to capture related expenditure. For the first quarter significant resource and effort was given to the organisation's response to Covid and this paper provides some details of the impact on the 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 2020-21. 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 in April 2020 with some budget reallocations made in June 2020. The actual spend for the quarter when compared to the budget profile was £623k under budget. The main budget categories contributing to this underspend are, Staff £22k, Admin £117k, Programme £370k and Capital of £76k. There was also an increase in income of £38k.

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 - £22k (1%) under budget

The under spend is mainly due to less salary costs due to the freeze in recruitment as a result of Covid and the forecast not taking account of staff on maternity leave. Some of the underspend has been offset with additional Covid related expenditure such as additional overtime costs for our field staff, secondment costs for staff on loan from other organisations to support delivery of official controls and well as costs for FSS staff on loan to SG where a decision is still to be given on the recovery of these costs.

Admin - £117k (18%) under budget

This underspend is mainly due to reduction in the travel, subsistence and accommodation costs as staff had to work from home as a result of Covid. There were also impacts on other areas of admin planning e.g. less training and conferences during the quarter. Again some underspend has been offset with Covid related costs with additional personal protective equipment (PPE) for our field staff, increased telephone conferencing costs for meetings for staff work at home, additional IT and office equipment for staff at home and further advertising costs to support online messaging work.

Programme - £370k (45%) under budget

At the start of the year a number of project expenditure was flat profiled over the year. As staff were prioritised to Covid related work the commencement of some projects were delayed including primary production, local authority engagement and capability development as well as project activity across the three work programmes. The expenditure for these have been re-profiled to later in the financial year. There was also reduced spend over the quarter for sample testing under the shellfish monitoring programme. There have been some Covid costs for social media campaigns and tracker surveys as well as additional locum costs for veterinary staff to delivery official controls in meat plants.

Capital - £76k (87%) under budget

Underspend was related to the impact of Covid during the first quarter and availability of staff to take forward project work for the Stakeholder Management Engagement System

(SMS) and three projects in the Regulatory Strategy programme. There is no detriment to delivery of these projects as work is planned to take place during the remainder of the year.

Income - £38k (5%) more than budget

This was due to additional hours worked above the quarterly forecast in a number of plants.

YTD Spend against Strategic Outcomes

3.5 At the end of June 21.6% of the FSS budget allocated to Core Activities, as outlined in Figure 4, had been spent delivering the Corporate Plan. This spend is slightly behind the estimated expenditure for the quarter, with only outcome 3 Consumers Choose a Healthier Diet reflecting spend in line with original forecast (25.7%).

Forecast Accuracy v Actual expenditure

3.6 Through the monthly budget monitoring work, a revised forecast is discussed and agreed with each Branch for all months for the remainder of the year. 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.

3.7 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. The work carried out in para 3.6 actively updates the monthly forecast and the actual expenditure is compared against these revised figures which takes place one month in arrears. 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 £463k for each of the last three months.

April 20¹: the underspend of £351k was mainly in Programme (£210k) due to delays in starting some project activity with related expenditure re-profiled for later in the year. There were also reduced costs for the month for example £26k less spend on biotoxin testing in the shellfish monitoring programme than forecast.

May 20: the underspend of £61k mainly in Programme (£29k) for reduced biotoxin testing in the shellfish monitoring programme and the Nutrition Segmentation project (£6k) expenditure re-profiled to later in the year. There was also a delay in work with the SMES project (£15k) in Capital as well as an increase in income across of £16k.

June 20: the underspend of £51k was mainly in Admin due to reduced travel, accommodation and other Admin costs (telephone and printing charges and computer equipment) as a result of Covid.

3.8 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 2019/20 is provided to enable comparison between financial years.

¹ Due to Covid and the delay in implementing our new structure, the budget for 20/21 was reset and only finalised at the end of April. This resulted in the initial budget allocation for April also becoming the forecast figure for the month. Hence the reason for the significant underspend in the month.

Full Year Forecast

3.9 As per the updated forecast from July expenditure of £18.1m shows a forecast underspend of £161k (1%) for the year against the budget of £18.2m allocated in March 20. 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.

3.10 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 £171k with a decrease in the forecast Admin costs by £83k, Programme by £100k and Capital by £13k offset by increases in Staff by £76k and increased income of £51k.

3.11 There is a forecast overspend for the Work Programmes against the initial budget allocation by £10k with variances against each individual work programme. The main differences are as follows:

Staff: increase of £28k due to current forecast for more staff working on the work programmes.

Admin: decrease of £12k mainly due to reduction in travel and subsistence costs due to Covid.

Programme: decrease of £5k mainly due to receiving larger credit for feed training carried out in 2019/20.

3.12 In the first quarter of the year staff initially allocated to work programmes have spent more time on core activities than planned due to Covid. The quarterly forecast was £420k and the actual costs were £333K

4. Risks, Issues and Highlights

4.1 FSS continues to manage the impact that the Covid pandemic has had and continues to have on the organisation. Planning is ongoing for the recovery to return to normal business when able to do so. The organisation is estimating costs of around £0.5m for Covid related activities although this could reduce if costs are recovered from SG for staff on loan to directorates.

4.3 There has been underspend against budget in the first quarter for business as usual and work programmes due to the reprioritisation of staff resources to Covid related activities. In some instances planned expenditure will not now take place eg travel and accommodation and in others expenditure has been reprofiled over the remaining nine months of this year. The underspend in the quarterly budget allocation has been offset to a degree with expenditure related to Covid work and has increased the forecast outturn for the year.

4.2 Work is underway to recruit staff under the future structures project and also look at recruitment that has been on hold since March as a result of Covid. We continue to record any under/over spend relating to Covid and this will inform future budget meetings with SG Health Finance Officials.

2020/21 Budget

4.3 FSS has been given additional resource budget of up to £5m by SG to fund work for EU Exit preparedness. The increase to the FSS budget and any other required changes to the budget allocation will take place at SBR and finalised at the start of 2020.

4.4 Any new budget allocations and their respective forecasts from the review of the future structure budget will be included as part of the next quarterly update.

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 248 posts were agreed and budgeted for as part of the business planning exercise for 2020/21. 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. Thirteen interim workers were employed on a temporary basis at the end of June. There were nineteen vacancies at the end of the period, with six member of staff on maternity leave. FSS has carried a number vacancies since the start of the year due to the freeze on recruitment. New interim recruitment guidance has been issued by SG which will enable the organisation to start recruiting these vacancies 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 84% 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. The Covid incident resulted in less staff available to process and approve invoices which increased the processing times during the quarter. All invoices have been paid within the standard 30 day contract terms.

4.8 At the end of June the cash drawn down from the Scottish Government relating to the 2020/21 budget was £3m. The bank balance as of 30 June was £1.1m.

Outstanding payments (debt recovery)

4.9 At the start of July the level of outstanding debt owed to FSS was £467k, where £125k of this debt (27%) was over the accepted 31 day payment term and £78k of this amount over 61 days from date of invoice (17%). The total debt over 31 days decreased by £117k (48%) compared to the previous quarter mainly as a result of the larger invoices outstanding at the end of the previous quarter being paid.

4.10 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. The level of service being provided by our contractor during the quarter has been significantly affected by issues such as court closures, pausing of simple court procedures, staffing and business closures due to Covid. Although Harper MacLeod continue to issue demand letters, they are unable to lodge significant claims with the court and smaller claims are currently still paused.

4.11 These issues are having an impact on our current debt management processes such as progressing our live actions and the commencement of new court actions. FSS are continuing to contact FBOs and have had some success with progressing payments but in other cases businesses are closed temporarily or staff on furlough, so the response rate has been expectedly quite low or none at all. These challenges have a resulting effect on our debt recovery rate.

4.12 FSS continues to work with Harper Macleod to reduce the amount of outstanding debt. There is one business that is currently in liquidation. Harper Macleod is working with the liquidator

to recover the outstanding debt from them with a total value of £3k. There are no businesses currently on a payment plan to reduce their older debt.

Best Value Assessment

4.13 Work is currently underway to develop a best value framework which includes a proposal for reporting of efficiencies and any related savings. An outline framework has been drafted and further review and update is still required. This work is ongoing and will be taken forward after the completion of the annual accounts for 2019/20.

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 2020.
- **Note** the review of the balance of the Future Structure budget and that the forecast will be updated in the next quarter to reflect the work planned for the remainder of the year.

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13 August 2020

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 2020. The performance is based on comparing the actual spend for the year with the budget profile as updated during the financial year.

£'000	20/21 Budget	Budget Profile 20/21			YTD	Actual Spend 20/21			YTD	Variance	Var %
		April	May	June		April	May	June			
Staff	12542	1030	1052	1025	3107	991	1072	1022	3085	(22)	-1%
Administration	3988	255	239	283	777	198	244	219	661	(117)	-15%
Programme	4740	403	391	389	1184	194	240	380	814	(370)	-31%
Capital	460	26	36	24	87	(13)	7	16	11	(76)	-87%
Income	(3461)	(257)	(290)	(280)	(828)	(264)	(331)	(270)	(866)	(38)	5%
Total	18270	1457	1429	1441	4327	1106	1232	1366	3704	(623)	-14%

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	Forecast	£'000 Variance	% Variance	Actual	% of Budget
	Jun-20	Jul-20			Spend to Date	Spent
FOOD STANDARDS SCOTLAND	18,270,112	18,109,262	(160,850)	-1%	3,703,998	20%
FSS CORE ACTIVITIES	15,554,920	15,383,651	(171,269)	-1%	3,355,255	22%
WORK PROGRAMMES	2,715,192	2,725,610	10,419	0%	348,743	13%
EU Exit	771,525	847,597	76,072	10%	143,818	19%
Diet and Nutrition	902,570	796,445	(106,124)	-12%	62,275	7%
Reg Strategy	1,041,097	1,081,568	40,471	4%	142,650	14%

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	Revised Budget June 20	Full year Forecast	Variance Forecast v Budget	%	Explanation for variance
Staff	Core Activities	2,713,077	2,752,227	39,150	1%	Increase due to more time being spent on ECA due to COVID.	10,909,687	10,986,178	76,491	1%	Increase in Agency staff and also more work in ECA rather than in the Work programme.
	EU Exit Work Programme	116,337	143,398	27,061	23%	Increase due to re-profiling of staff from ECA to WP, along with Agency costs being higher than profiled	551,025	637,481	86,456	16%	Staff moved from Core Activities, offset by more work undertaken in ECA due to COVID
	Nutrition and Dietary Health Work Programme	126,521	54,251	(72,269)	-57%	Decrease due to staff working on ECA due to COVID, along with delays in recruitment and forecast did not allow for Mat leave.	506,083	406,615	(99,468)	-20%	Decrease due to staff working on ECA due to COVID, along with delays in recruitment and forecast did not allow for Mat leave.
	Regulatory Strategy Work Programme	151,009	134,951	(16,058)	-11%	Decrease due to staff working on ECA due to COVID.	575,679	616,660	40,980	7%	Increase in Staff forecast for the year.
	Total	3,106,943	3,084,827	(22,116)	-1%	Delays in recruitment and forecast did not allow for Mat leave.	12,542,474	12,646,933	104,459	1%	Increase in the Staff/Agency staff not in initial forecast.
Admin	Core Activities	769,331	657,143	(112,188)	-15%	Lower depreciation costs and less T & S cost due to staff working from home.	3,865,138	3,782,048	(83,090)	-2%	Reduction in the depreciation cost.
	EU Exit Work Programme	-	420	420	0%		45,500	35,116	(10,384)	-23%	
	Nutrition and Dietary Health Work Programme	7,975	3,023	(4,952)	-62%		36,487	34,830	(1,656)	-5%	
	Regulatory Strategy Work Programme	-	159	159	0%		40,418	40,418	(0)	0%	
	Total	777,307	660,745	(116,562)	-15%	Reduction mainly due to updates to T & S do to travel restriction with COVID.	3,987,543	3,892,412	(95,131)	-2%	Reduction mainly due to updates to T & S do to travel restriction with COVID and reduction in the depreciation costs.
Programme	Core Activities	1,019,987	809,078	(210,909)	-21%	Reduction in the Cefas sampling costs cancellation of Aquaculture website, along with a reduction in Primary Production project and LA Capability Development. Also projects being reprofiled until later in FY.	4,070,260	3,970,497	(99,763)	-2%	
	EU Exit Work Programme	43,750	-	(43,750)	-100%		175,000	175,000	(0)	0%	
	Nutrition and Dietary Health Work Programme	90,000	5,000	(85,000)	-94%		360,000	355,000	(5,000)	-1%	
	Regulatory Strategy Work Programme	30,000	(509)	(30,509)	-102%		135,000	134,491	(509)	0%	
	Total	1,183,737	813,568	(370,169)	-31%	Work not going ahead and re-profiled until later in the year due to COVID.	4,740,260	4,634,988	(105,272)	-2%	Reduction in the Cefas sampling costs cancellation of Aquaculture website.
Capital	Core Activities	14,350	2,903	(11,447)	-80%		170,371	157,024	(13,347)	-8%	
	EU Exit Work Programme	-	-	-	0%		-	-	-	0%	
	Nutrition and Dietary Health Work Programme	-	-	-	0%		-	-	-	0%	
	Regulatory Strategy Work Programme	72,500	8,050	(64,450)	-89%		290,000	290,000	-	0%	
	Total	86,850	10,953	(75,897)	-87%	Underspend due to costs being re-profiled to later in the FY.	460,371	447,024	(13,347)	-3%	Underspend due to 2019/20 actual not being required along with laptop costs being moved to the Balance Sheet.
Income	Core Activities	(827,607)	(866,096)	(38,488)	5%		(3,460,535)	(3,512,095)	(51,560)	1%	
	EU Exit Work Programme	-	-	-	0%		-	-	-	0%	
	Nutrition and Dietary Health Work Programme	-	-	-	0%		-	-	-	0%	
	Regulatory Strategy Work Programme	-	-	-	0%		-	-	-	0%	
	Total	(827,607)	(866,096)	(38,488)	5%	More hours than forecast being worked across the Areas.	(3,460,535)	(3,512,095)	(51,560)	1%	More hours than forecast being worked across the Areas.
FSS TOTAL	4,327,230	3,703,998	(623,232)	-14%	This underspend is mainly due to reduction in T & S and the re-profiling of activities until later in 2020/21.	18,270,112	18,109,262	(160,850)	-1%	The overall underspend is made-up of reduction in sampling, depreciation and T & S cost, along with the cancellation of the Aquaculture website and moving laptop cost to Balance Sheet. This was offset by increase in Staff/Agency costs not initially forecast.	

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	10,909,687	5,702,979	1,034,111	561,110	759,793	1,538,652	1,313,042
	Actual	2,752,227	1,389,820	273,300	171,680	211,435	383,641	322,351
Administration	Budget	3,865,138	1,016,179	518,385	471,587	494,686	722,038	642,262
	Actual	657,143	156,861	95,060	94,773	89,017	118,073	103,360
Programme	Budget	4,070,260	3,180,325	430,831	5,000	281,000	152,501	20,603
	Actual	809,078	677,340	41,594	0	37,497	49,465	3,182
Capital	Budget	153,701	60,186	0	0	0	16,665	76,851
	Actual	2,903	1,451	0	0	0	0	1,451
Income	Budget	(3,460,535)	(2,422,375)	(346,054)	-	-	(346,054)	(346,054)
	Actual	(866,096)	(606,267)	(86,610)	-	-	(86,610)	(86,610)
Total	Budget	15,538,250	7,537,294	1,637,274	1,037,697	1,535,479	2,083,802	1,706,704
	Actual	3,355,255	1,619,205	323,343	266,453	337,949	464,570	343,734
	% of budget spent	21.6%	21.5%	19.7%	25.7%	22.0%	22.3%	20.1%

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.

£000s	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21	2020-21 FYF
Budget	1,457,080	1,428,913	1,457,062	1,526,458	1,507,333	1,507,923	1,534,486	1,509,895	1,514,691	1,508,396	1,569,109	1,748,767	18,270,113
April Forecast	1,457,080	1,428,913	1,457,062	1,526,458	1,507,333	1,507,923	1,534,486	1,509,895	1,514,691	1,508,396	1,569,109	1,748,767	18,270,113
May Forecast	1,084,486	1,346,658	1,545,151	1,632,348	1,531,861	1,604,518	1,567,271	1,488,737	1,470,043	1,409,256	1,490,106	1,735,983	17,906,420
May Forecast Upadte	1,106,236	1,293,073	1,466,713	1,581,479	1,544,233	1,613,106	1,605,524	1,549,349	1,515,139	1,460,423	1,538,966	1,813,467	18,087,709
June Forecast		1,231,915	1,416,708	1,576,018	1,554,561	1,651,567	1,626,678	1,573,022	1,531,003	1,494,142	1,553,716	1,829,215	18,144,783
July Forecast			1,365,846	1,531,120	1,447,347	1,641,873	1,632,837	1,589,840	1,560,292	1,527,583	1,589,292	1,885,079	18,109,262
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 2019/20 and 2020/21 financial years. It is important to point out that the Monthly Budget information provided uses the initial budget profiles in each year.

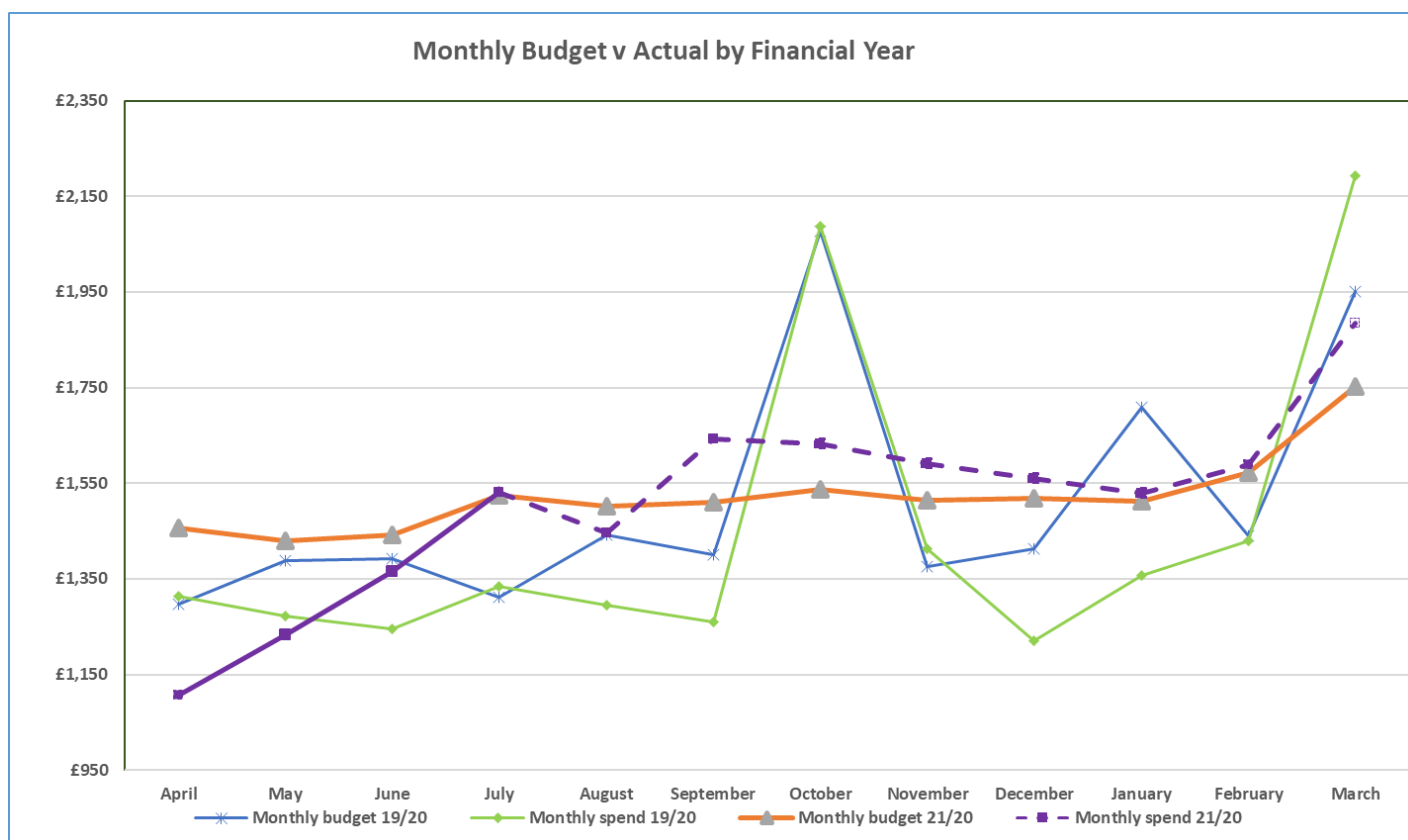


Figure 5 – Year on Year Comparison – monthly budget v actual

Description	Staff Complement
Budgeted Posts (FTE)	248
Total FTE (June)	229
Vacancies June	19

Figure 6 – Staff Complement

Month	Number of Invoices	Percentage of invoices paid in 10
Apr-20	309	92%
May-20	205	85%
Jun-20	203	75%
Total	717	84%

Figures 7 – Supplier Payments