

2020/21 Budget Update

1 Purpose of the paper

- 1.1 The purpose of this paper is for discussion and to provide the Board with an update on our budget allocation as a result of developments since the Board discussed the 20/21 budget and the implications of the FSS Future Structure at their February meeting.
- 1.2 The Board is asked to:
 - **Note** that the Executive has progressed with the 20/21 budget allocation as outlined to the Board at its February meeting to fund essential core activity, Regulatory Strategy and Nutrition work programmes.
 - **Note** the additional budget to be provided by Scottish Government (SG) to fund work for EU Exit preparedness.
 - **Note** the associated impact COVID-19 has had on our budget allocation and plans for the year.
 - **Note** the risks and issues associated with the budget for 2020/21.

2 Strategic Aims

- 2.1 This work supports delivery of all Strategic Outcomes as well as our key programmes of work (EU Exit, Regulatory Strategy, Nutrition and Future Structures).

3 Background

Budget Planning and Future Structure

- 3.1 The indicative resource allocation for 2020/21 is £20.6m. This consists of £15.6m resource budget allocated in the Budget Bill 2020. In addition, we will receive up to £5.0m in the current financial year to manage the impact exiting the EU will have across the breadth of our remit. However, this budget will not be formally allocated by SG until the Spring Budget Review (SBR) that is likely to take place in January 2021. In the Budget Bill we were 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.
- 3.2 The resource budget will be used to deliver our statutory functions, Essential Core Activity (ECA), as well as continued delivery across our work programmes for EU Exit, Regulatory Strategy and Nutrition. The budget will also deliver the Future Structure programme to manage the impact exiting the EU will have on the organisation. We have internally allocated the resource budget for planning, monitoring and reporting purposes.
- 3.3 The future structure had been developed to ensure we have the capacity and capability to deal with the new and additional requirements we will be faced with post EU exit. The approach to implementing the structure was provided in the budget paper to the Board in February.

- 3.4 The Executive had completed the work to ensure new cost centres reflected the future structure and allocated the required resource to reflect the new areas of responsibility. As such, the budget exercise for the new structure had been finalised and the plan was to transition to the new structure on 1 April.
- 3.5 However, the plans for moving to the new structure were significantly interrupted by the Covid-19 incident in March when Pilgrim House closed and staff moved to working from home. Due to the significant impact that the incident was having on the organisation, reprioritisation of resource and the longer term consequences on workload for the organisation, the Executive took the decision to postpone the implementation of the new structure and instead remain with the existing cost centre structure for the start of 2020-21.

Impact of Covid-19 on Budget Planning and Future Structure

- 3.6 As a result of that decision and the developing situation with regards to Covid-19 a further budgeting exercise for 2020-21 took place during April to align with the existing structure. The forecast outturns for 2019/20 were initially rolled forward for each cost centre. The individual outturns were then subjected to thorough review, reprioritisation and challenge between Directors and Branch Heads, with adjustments made to take account of the staffing complement for the start of the new financial year as well as programme and capital bids under the new structure and across the breadth of the organisation.
- 3.7 Staff that had either been recruited into new posts or in temporary positions under the new Future Structure programme were aligned to the existing structure together with related admin, programme and capital expenditure. The budget allocations and expenditure will now be reported as part of core activity or under the EU Exit work programme going forward.
- 3.8 As the budget bids were reviewed and reprioritised this led to reduced spending in specific areas e.g. events and research projects where there was not the resource or capacity to progress this work (internally or externally) due to the ongoing situation with COVID-19. In addition, some work was cancelled e.g. Royal Highland Show and others delayed such as campaign activity from March brought forward into 2020-21 which then impacted on the plans to do a similar activity in the current year. The Admin budget was also affected with travel and subsistence expenditure revised with budget reduced to zero in first quarter and likely to the case for the second quarter as well.
- 3.9 We are in the process of capturing any expenditure that is being incurred throughout the organisation relating to Covid-19. The majority of costs as things stand have been incurred within Operational Delivery due to the fact that colleagues have been key to delivering official controls in in approved meat establishments.

4 Allocation of Budget

- 4.1 £18.2m out of the £20.6m resource budget has been internally allocated between Essential Core Activity, Work Programmes and Future Structure and is the basis for forecasting across FSS. This will be subject to ongoing review, particularly in

relation to the Future Structures work, and will form part of our usual monthly budget and forecasting updates.

- 4.2 A number of the new programme and capital bids will require to be taken forward via a procurement exercise carried out by SG procurement shared services who manage the procurement tenders for FSS. Work in ongoing to prioritise activities, together with existing contract renewals or extensions, to ensure that key projects are delivered within the timeframes required.
- 4.3 The main point to highlight is that we are in unusual times and what we can do with regards to spending our budget will depend on how rapidly we progress through the phases of the SG route map. There are also constraints on staff resource as some staff are seconded to SG to assist with workstreams to support the Covid response for Scotland. We expect the current situation to be in place until at least the end of September.

Essential Core Activity

- 4.4 The final in-year budget round took account of the further budget exercise and reprioritisation work carried out in April. The updated allocation of resource across our 6 strategic outcomes (core activity) as well as our key programmes and the high level allocation is shown in Annex A.
- 4.5 A budget of £15.7m for delivering essential core activity has been allocated to deliver our priorities. A high level summary of this budget allocation and percentage spend against each of the outcomes can be viewed in the following table where 43% of the budget is for delivery against Strategic Outcome 1 – Food is Safe.

Strategic Outcome	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	Total Essential Core Activities
Indicative budget	6,750,177	1,543,783	1,061,765	1,648,666	2,667,483	2,061,509	15,733,384
% budget allocation	43%	10%	7%	10%	17%	13%	

- 4.6 The Staff budget is based on 248.5 posts being funded during the financial year and Administration (running costs) budget has ensured ongoing costs across the business can be met. The programme budget allocation across core activity is largely based on continued obligations around the delivery of official controls (£3.2m); Local Authority enforcement delivery support & Food Crime/Incidents management (£0.3m); food safety research (£0.34m) and; Communications and Marketing (£0.13m).
- 4.7 As part of the budget planning round there were additional funding bids for new programme and capital projects amounting to £1.6m to further support the delivery of our strategy and corporate plan. These bids and any further project proposals that come forward will go through a process of prioritisation that will

require further discussion by the Executive. The intention is that this will support both the Executive and Board to make decisions on what may or may not be funded depending on the final financial position we find ourselves.

- 4.8 Work is underway to develop a new future strategy for FSS. As this work progresses our priorities may alter and funding could be required to support key activities for the new strategy. An overview of initial discussions on strategic and operational priorities were shared with the Board in February. Further development of the proposals have been on hold as the focus by the Executive has been to support the organisation through the Covid crisis. This work will now be able to get back on track as FSS proceeds to the recovery phase of the incident and a paper updating the Board on the Future Strategy will be discussed at the June meeting.

Programmes of work

- 4.9 The three programmes of work for EU Exit, Diet & Nutrition and Regulatory Strategy are continuing into the current financial year. The total budget for the programmes is £2.5m and Annex A provides the individual budget against each programme.
- 4.10 The Regulatory Strategy has been reviewed by the programme manager in terms of delivery, priority of work and resource requirements. A Transformation and Reprioritisation paper was submitted to the Regulatory Programme Board on 10 March 2020 at which time agreement was given to the organisational structure and approval to proceed with Tranche 1 of the revised regulatory strategy. The outline structure was included in the Board update in February. With regards to the Nutrition programme, we are in the process of drafting business cases that can be progressed to support the monitoring and surveillance workstreams. In relation to the Out of Home workstreams, following Ministerial agreement to proceed with this work we are now reviewing this position and are discussing the impact the COVID-19 situation is having on these policy areas with SG health and Public Health Scotland colleagues to determine how best to take this work forwards. The EU Exit programme has been much reduced in terms of staff resource with regards to preparedness as the focus this year is the transition from the programme-based approach to implementing the future structure in line with our EU Exit Readiness Plan.

Future Structures

- 4.11 A significant amount of the £5m budget for the future structure has been allocated for staff, programme, capital and administrative expenditure to deliver essential work for exiting the EU. £1.9m of budget has been allocated so far to essential core activity as well as a further £0.6m for the EU Exit work programme.
- 4.12 Within the staff budget sixteen posts have been filled either via permanent recruitment or on a temporary basis. These posts are in a number of areas including risk assessment, policy, operations, enforcement and food incidents. Funding for programme expenditure includes a number of scientific projects to support risk assessment, Local Authority capability and engagement, and well as

activity for the regulatory strategy programme. Capital expenditure will fund the development of a number of IT projects.

- 4.13 For reporting purposes going forward the expenditure relating to the future structures work will be part of essential core activity. The balance of the budget is being reviewed and updated to reflect what we can realistically expect to spend during the rest of the year given the current Covid situation and ongoing recruitment constraints.

5 Identification of risks and issues

- 5.1 The wider financial pressures across the Scottish administration is a risk and this is now particularly pressing as a result of Covid-19, as it is across the whole of the public sector. Due to the ongoing incident we are unlikely to realise the full costs of our EU Exit business case and the implementation of the future structure in the current year.
- 5.2 FSS has continued to engage with SG Health Finance officials to ensure that they are sighted on FSS's business, associated EU Exit pressures as well as the expenditure/impact of Covid is having on the organisation. SG are aware of the progress with the future structure project and that we will not spend the full £5m budget due to the current recruitment restrictions. We do not anticipate any issues here with regards to the phasing of costs for the project and subsequent budget allocation beyond the current year although that can't be guaranteed in the current climate. They are also aware of the additional costs related to Covid-19 and there have been discussions about repurposing some of the future structures budget to support the work here, should we require to do so.
- 5.3 There has been no update with regards to any additional funding for the ongoing increase in employer's pension contributions for the revaluation of the public sector pension schemes. If a similar scenario takes place this year, any increase in budget would take effect at the Autumn Budget Review.
- 5.4 The public sector pay policy for 2020/21 included a 3% increase on basic pay which was implemented in May salaries. The increase in basic pay and any pay progression as staff move up their pay grades had been taken into account in the budget allocation for this financial year.
- 5.5 There has been a different emphasis with SG HR shared services at the start of this new year with recruitment restrictions in place for all but essential staff. The freeze in March led to all non-essential recruitments that were underway being put on hold and no further recruitment has taken place except for essential front line staff. This has had a significant impact on the future structure programme as well as not being able to fill vacancies. A business case to recruit priority posts required to deliver EU Exit work was submitted to the SG recruitment hub and confirmation that we can now recruit these posts was given on 3 June. Dialogue continues with SG HR to find out whether there are any additional flexibilities that can be applied regarding any recruitment going forward.

5.6 The UK has left the EU and we are now in a Transition Period which runs until 31st December 2020. This will be another challenging year given the impact Covid-19 has had on government and the food sector.

6 Conclusion/Recommendations

6.1 The immediate focus for FSS is managing the impact that Covid-19 has had on the organisation and the work required for planning the recovery to return to normal business, as such as can be expected in the circumstances. The work for EU Exit is gaining momentum and we need to give significant input to this key area work in order to be prepared for the further challenges ahead. We are continuing with our future structure programme, including the recruitment of priority posts to enable us to deliver our priorities beyond transition from the EU.

6.2 The Board is asked to:

- **Note** that the Executive has progressed with the 20/21 budget allocation as outlined to the Board at its February meeting to fund essential core activity, Regulatory Strategy and Nutrition work programmes.
- **Note** the additional budget to be provided by Scottish Government (SG) to fund work for EU Exit preparedness.
- **Note** the associated impact COVID-19 has had on our budget allocation and plans for the year.
- **Note** the risks and issues associated with the budget for 2020/21.

For queries contact:
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3 June 2020

Annex A – 2020/21 Budget Allocation

Budget and Strategic Outcomes Summary	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	Total Budget Core Activity	Diet & Nutrition Work Programme	Regulatory Strategy Work Programme	Brexit Work Programme	Total Budget Work Programme	Total Budget Allocation 2020/21
Staff	5,448,744	1,179,204	570,115	1,003,337	1,569,873	1,317,414	11,088,688	506,083	575,679	372,025	1,453,787	12,542,475
Administration	1,121,191	526,868	471,587	503,168	661,051	581,274	3,865,139	36,487	40,418	45,500	122,405	3,987,544
Programme	2,547,553	163,703	0	122,100	755,051	481,313	4,069,720	360,000	135,000	175,000	670,000	4,739,720
Capital	55,062	20,062	20,062	20,062	27,562	27,562	170,371	0	290,000	0	290,000	460,371
Income	(2,422,374)	(346,053)	0	0	(346,053)	(346,053)	(3,460,534)	0	0	0	0	-3,460,534
Total Core Activities	6,750,177	1,543,783	1,061,765	1,648,666	2,667,483	2,061,509	15,733,384	902,570	1,041,097	592,525	2,536,192	18,269,576
% of budget allocated to strategic outcome	43%	10%	7%	10%	17%	13%						