FOOD STANDARDS SCOTLAND
DRAFT FINANCIAL MANAGEMENT PLAN
2017/18-21

1. Ensuring Financial Sustainability Supports Delivery

This Financial Management Plan will outline how FSS seeks to deliver its Corporate Plan and Strategy against a backdrop of challenging financial times. The plan will also show how FSS will develop new financial targets which we will strive to meet whilst managing financial risks we might face throughout the life of the plan.

The plan will cover 4 general themes – Financial Sustainability, Financial Management, Governance and Transparency and Value For Money – which it believes are fundamental to ensuring it is best placed to deliver its corporate ambitions until 2021.

Not only are the financial times challenging, but the public sector also faces significant uncertainty associated with exiting the European Union and other constitutional reform.

FSS's plan will therefore be based on not only direct financial pressures that may impact our delivery but also other risks that may have an impact on our resources and how they need to be aligned in order to deliver organisational priorities. As a result, it is important that we ensure any short, medium or long term actions allow for flexibility so that we can adapt to the changing pressures in the most appropriate and efficient way. As such, the plan articulates what FSS might have to consider should any of the scenarios outlined within it materialise.

This financial plan must clearly integrate with and support the delivery of FSS's strategic outcomes. It will therefore underpin delivery of our range of portfolios, programme, project and business-as-usual activities that are supported by their own strategies and plans. Due to the importance of finance and financial sustainability across all of our work, particularly in these uncertain times, the range of strategies must be aligned with, and supported by, this plan. Such strategies include our Regulatory Strategy, Surveillance, Procurement, Digital, Estates and People. This financial plan should also be a key factor to be taken into consideration in our approach to strategic and operational risk management.

2. Executive Summary

The main points to draw out of the financial plan to 2021 are:

- **Forecast increase in staff costs of 4.7% (£383k)**

- **Forecast increase in admin/running costs of 3.3% (£110k)**

- **No increase in capital expenditure (unless funded from programme or additional capital budget)**

- **A reduction in Committed programme expenditure of £1.9m (£7.4m to £5.5m)**

- **Income assumed to remain flat, though any review of charging, service requirement and Brexit may have significant impact on income levels.**

- **Increases in income could be possible through full-cost recovery or charging for the delivery of other official controls**

- **Most likely budgetary scenario for FSS is a flat-lined budget of £15.3m with additional budget of £0.3m transferred to FSS for the delivery of feed official controls**

- **Greatest flexibility is in the programme budget, where expenditure may be redirected or scaled back, but this impacts on ability to deliver strategic objectives/priorities and would need to be carefully considered against that backdrop (and may also require changes in relevant staffing arrangements)**

- **FSS does not yet have an understanding of the potential impact on regulatory costs following an EU exit.**

3. About FSS

FSS was established on 1 April 2015 by the Food (Scotland) Act 2015 as the public sector food body for Scotland with three statutory objectives:

- to protect the public from risks to health which may arise in connection with the consumption of food;
- to improve the extent to which members of the public have diets which are conducive to good health; and
- to protect the other interests of consumers in relation to food

FSS's purpose, therefore, is consumer protection – making sure that food is safe to eat, ensuring consumers know what they are eating and improving nutrition. Putting consumers first is the value that is at the heart of FSS's vision, which is "***To create a food and drink environment in Scotland that benefits, protects and is trusted by consumers. "***

To deliver its purpose, it has the following specific functions:

- to develop and help others develop policies on food and animal feed
- to advise the Scottish Government, other authorities and the public on food and animal feed
- to keep the Scottish public and users of animal feed advised to help them make informed decisions about food and feed stuffs
- to monitor the performance of food enforcement authorities.

FSS ensures that information and advice on food safety and standards, nutrition and labelling is independent, consistent, evidence-based and consumer focused. It is a trusted source of advice for consumers.

FSS provides advice, information and assistance to the Scottish Ministers and other public bodies on food and animal feed matters, and develops, and assists the Scottish Ministers and others to develop, policies in those areas. It also ensures that Scottish Ministers' policy is fed into European Union policy making on the regulation of food and animal feed.

By delivering its functions effectively to achieve its statutory objectives, it aims to contribute to the Scottish Government's Purpose across a range of National Outcomes, in particular:

- We live longer, healthier lives.
- We have tackled the significant inequalities in Scottish society.
- Our children have the best start in life and are ready to succeed.
- We realise our full economic potential with more and better employment opportunities for our people.
- We live in a better Scotland that is the most attractive place for doing business in Europe
- We reduce the local and global environmental impact of our consumption and production

- Our public services are high quality, continually improving, efficient and responsive to local people's needs.

FSS's five-year strategy, underpinned by our Corporate Plan, outlines how FSS plans to achieve its vision to create a food and drink environment in Scotland that benefits, protects and is trusted by consumers. The Strategy sets out six strategic outcomes that will be the focus of what FSS will do up to 2021:

- Food is safe
- Food is authentic
- Consumers have healthier diets
- Responsible food businesses flourish
- FSS is a trusted organisation
- FSS is efficient and effective

4. Funding and Cost Model of FSS

FSS receives its budget on an annual basis and it is met from existing resources within the Scottish Consolidated Fund (SCF) and industry charges. As the budget is predominantly met by the SCF, FSS is required to submit a budget bid as part of the wider Scottish Government (SG) spending review process. This process allows SG to outline its spending plans for the financial year in question through the annual Budget (Scotland) Bill.

FSS is classed as a directly funded external body which requires separate parliamentary approval from the SG portfolio total, and consequently the budget is detailed separately in the Budget Bill. We are also subject to the Scottish Public Finance Manual (SPFM).

For the financial year 2017/18, FSS has a confirmed resource budget of £15.3 million (net) as part of the wider provision for the Scottish Administration. The net resource budget allows FSS to deliver its primary functions, however our operation costs exceed this amount by approximately £3.5 million. This funding gap is addressed by the income we receive from industry and other parts of Government through the charging for official controls.

FSS also has an Annually Managed Expenditure requirement to cover future pension liabilities that were transferred from the Food Standards Agency (FSA) in April 2015. This budget is separate from our resource budget (and limits) and is requested from the SG's Health finance team annually – during the SG's Spring Budget Revision (SBR) process.

The Financial Management Plan will therefore base any modelling or scenario planning on assumptions that our resource allocation from SG remains unchanged throughout the period and that income levels are the same as in 2017/18. This plan shall also be supported by detailed financial planning spreadsheets which can be adapted to reflect different scenarios, some of which are outlined later in this plan. Should any material changes become known through the budget planning processes, this document shall be updated.

Some significant elements incorporated into our forecast for 17/18 (and beyond) are:

- Revised income based on operational changes within the poultry sector of the Scottish meat industry and increased charge out rates.
- Development and implementation of a central model for feed official controls delivery during the latter part of the financial year (with an associated transfer of budget in-year)
- Estimated savings following a review of how we deliver other official controls delivery contracts
- SG pay awards – as per the public pay policy guidance

5. Expenditure

The FSS resource and operating expenditure can be broken down into 5 key elements and are presented in Table 1 along with the allocated budgets at the start of the 17/18 financial year.

Budget (1st April 2017)	**£'000**
Staff	7,763
Administration	3,295
Programme	7,448
Capital	0,131
Income (forecast)	-3,337

Table 1 – FSS Budget Allocation

The key assumptions made with regards to our breakdown of operating expenditure are:

Staff Costs

Staff costs have been budgeted based on the full establishment of agreed posts, plus any new posts approved by the Senior Management Team as part of the annual budget and business planning process for the 17/18 financial year (178 full time equivalents).

The costs shown in Table 2 for 17/18 reflect the position as at September 2017 and show forecast vacancies and factor in recruitment timescales – so the estimated costs reflect some form of vacancy assumption. Future years costs therefore reflect a vacancy assumption of 5% of the total estimated costs, assuming all posts are filled from the start of April in each financial year.

Where there are any existing vacancies, either at the start of the financial year or during, the staff cost forecast by the organisation will be based on assumptions around recruitment timelines and revised on a monthly basis at that time to allow for a greater degree of accuracy. This also allows staff costs expenditure to be monitored against the original budget set at the start of the year.

The staff costs are based on grade average costs for permanent and fixed-term staff which include the current employer's pension contributions for both the Principal Civil

Service Pension and Local Government Pension schemes, where contribution rates are set centrally.

Where known, overtime costs are estimated and secondment contributions are reflected. Our budget also includes staff costs related to the FSS Board and assumptions around the continuation of current secondments/loans, fixed term appointments and temporary staff requirements.

FSS is part of the Scottish Government Main (SGM) bargaining unit for pay settlements and is responsible for implementing the agreed settlement, when notified by SG.

As well as reflecting the inflationary increase on our pay bill, SG terms and conditions also provide for annual progression, in the form of pay scale increments which apply to all staff not subject to formal performance management procedures depending on when they start with the organisation. Pay progression stops when a staff member reaches the top of the pay scale.

For the purposes of the Plan, the increase has been applied from April each year, however current practice is that pay increases take place in August. There is some potential for this to change to April as part of the current SGM negotiations with unions.

Pay Costs	**17/18**	**18/19**	**19/20**	**20/21**
Baseline	**7397**	**7540**	**7730**	**7894**
Inflation on pay bill	1%	1%	1%	1%
Increase in Pay Bill	74	75	77	79
Annual Progression	69	115	87	25
Total Estimated pay costs	**£7,540**	**£7,730**	**£7,894**	**£7,998**
Vacancies	**-£342**	**-£387**	**-£395**	**-£400**
Loans/Secondment	147	179	179	179
Agency Staff	154	80	80	80
Overtime	151	163	163	163
Contribution staff costs	-73	-60	-60	-60
Board Costs	108	108	108	108
Total	**£7,685**	**£7,814**	**£7,970**	**£8,068**

Table 2 – FSS Staff Budget Forecast

Administration

Administration costs (in-year) have been updated to reflect the position as at September 2017 (Table 3), however for future years projections have been rolled forward based on the initial 17/18 budget allocation and known future changes. No assumptions have been made with regards to inflation or RPI/CPI increases, however where known, estimates have been made.

The estimated costs in relation to FSS accommodation (Pilgrim House) have been included, however it is not possible to provide accurate estimate of costs from 2019 onwards as this is when the first 5-year rent review is scheduled to take place. An increase in rent is anticipated, but will be subject to negotiation with the landlord and FSS (and appointed representatives) given the current economic climate in Aberdeen and the current occupancy levels of Pilgrim House. A modest increase in IT support costs year-on-year has also been forecast, however there is some potential for these costs to decrease should SG IT revise their rules on charging on a per-asset basis, or should FSS develop a solution which negates the need for official SCOTS devices to access FSS IT systems.

The level of financial provision within the Administration budget has been assumed to largely stay the same, although these assumptions will be revised through our financial forecasting, should we become aware of any material changes – either as a result of cost increases, a revision in the spend classification (from programme to admin) or where we can realise efficiency savings through the work we plan to do on implementing the SG's principles around achieving 'best value'.

Our liabilities and depreciation costs mainly cover pension liabilities that were transferred to FSS following our separation from the FSA in April 2015 and depreciation costs associated with our current assets. The depreciation costs have been estimated as accurately as possible and have been flat-lined for the purposes of this plan and will be revised if needed. Pension liabilities are subject to change depending on the contribution rates set by the scheme actuaries. These have been set until March 2020 and will again be reviewed should these be revised.

Administration Expenditure	**17/18 £'000**	**18/19**	**19/20**	**20/21**
Catering and Hospitality	10	10	10	10
Legal Costs	296	341	341	341
Other Office Costs	293	281	281	281
Information Technology/Management /Security	266	320	325	330
Suppliers and Services	252	225	225	225
Accommodation	726	698	698	698
Training	101	123	123	123
Auditors Remuneration	110	81	81	81
Transport, Travel and Subsistence	430	449	449	449
Liabilities and Depreciation	716	772	772	772
Total Expenditure	**3,200**	**3,300**	**3,305**	**3,310**

Table 3 – FSS Admin Budget Forecast

Programme

Programme budget allocations are shown in Table 4 below, based on approved and forecast activity, reflecting the position at September 2017. Programme budget is allocated and prioritised on an annual basis during our business planning and budgeting round and then subsequent bids/hand-backs are managed through our in-year budget management processes.

Current programme budget forecasts for future years are based on projects that are contractually committed, where we have a statutory obligation to deliver official controls or where project business cases have been approved in principle during annual budget rounds. This allocation is reviewed at the mid-year point and this was completed during October 2017. For the purposes of this plan however, the initial budget allocation has been shown for consistency throughout the plan. Depending on any budgetary scenarios materialising, the programme budget for FSS may reduce to manage any financial pressures, unless savings can be found from the other elements of the budget.

Programme Expenditure	**17/18 £'000**	**18/19**	**19/20**	**20/21**
Food Safety and Healthy Eating	50	0	0	0
Food Incidents and Investigation	100	90	90	90
Marketing	714	60	0	0
Research and Development	597	818	318	20
Scientific Work (including Official Controls)	5,067	5353	5330	5330
Strategic Communications	395	0	0	0
Testing and Surveillance	421	158	108	108
Training and Support to other Organisations	104	30	0	0
Total Expenditure	**7,448**	**6,512**	**5,846**	**5,547**

Table 4 – FSS Programme Budget Forecast

Capital

FSS does not typically undertake any significant capital investment projects due to the nature of our business. That is not to say FSS does not have any capital expenditure, as we manage several projects that result in spend being capitalised – such projects generally relate to the development of IT systems, small value spend on office equipment and fixtures and fittings for both our head office in Aberdeen, office space in SG estates and for our offices within Food Business Operators' premises.

Currently, this is funded through allocation of Resource budget at the start of each financial year (although the budget bid for may span financial years) based on the net Resource budget provided by SG via the Scottish Consolidated Fund.

During each financial year we have the opportunity to switch Resource budget to Capital at the Spring Budget Revision – this allows us to ensure the spend category is correct and revise budgets accordingly to account for any capital expenditure in year – whilst remaining within our overall resource limits.

Planned Capital expenditure during 17/18 financial year was primarily based on further development of the Operational Workflow System and implementing the Scottish National Database project. FSS is also looking to further develop its GIS capability to achieve our outcomes. A flat-line assumption has been made for future

Capital expenditure (Table 5), although some revisions to this forecast may be required depending on any accommodation changes and refreshes that we are obliged to complete as part of our lease obligations.

Going forward, there is also a likelihood that capital investment projects within FSS will increase in both quantity and value given the Corporate Plan priorities around developing and implementing a digital strategy that supports the efficient and effective delivery of FSS business – internally and externally.

Examples of projects in this area (and mentioned above) are the Operational Workflow System used to record all data in relation to the delivery of our official controls for meat hygiene inspection or the Scottish National Database which will provide a holistic overview of food law enforcement activity in Scotland. Depending on how projects like this develop over time, or should new requirements drive the need to review existing systems or develop new ones, then FSS may need to consider bidding for ring-fenced Capital budget resource from the Scottish Government and specifically the Health Finance portfolio. This will be a challenge given the present pressures the Capital budget is experiencing within the Health portfolio and wider Government and therefore, should any significant Capital investment be developed by FSS, it will need to be supported by a robust business case and project governance that can be submitted to SG finance for consideration.

Capital Expenditure	17/18 £'000	18/19	19/20	20/21
IT Development	131	100	100	100
Total Expenditure	**131**	**100**	**100**	**100**

Table 5 – FSS Capital Budget Forecast

Income

To comply with EC Regulation 882/2004, FSS provides a range of services, regulated and non-regulated, in approved meat establishments in Scotland. Some of these services are paid for by other Government Departments and others are charged to Food Business Operators (FBOs). As the result of transition from FSA to FSS agreement was reached with industry stakeholders to continue with a discount on the full costs of providing this service to industry. To comply with the requirements of the SPFM regarding full-cost recovery, approval by the Cabinet Secretary for Finance and Sustainable Growth to continue with partial cost recovery was agreed in February 2014.

With the discount system in place, there currently remains a shortfall between the costs for FSS of delivering meat official controls and the income received from FBOs for these services. This is effectively a subsidy of approximately £1.3m to the meat industry. During 2017/18 we completed a joint review (with industry) of how we charge for the delivery of meat hygiene inspection official controls. As part of this work, a set of principles were agreed which both parties shall work towards going forward. The review also concluded that the existing model for charging and discount application was fit for purpose and continued to meet the original principles outlined at the time the model was agreed and implemented. There is some financial risk to FSS in relation to income and the annual calculation of charge out rates, as should industry become more efficient, it is likely that our income will reduce as we shall not be able to charge for that time or include in hourly rate calculations. We will also need to understand the relationship between industry efficiency and our cost as we will continue to have staff obligations to meet in terms of cost.

The impact of Brexit on charging shall also be significant given the current requirement to charge being based on EU regulations. Whilst this will definitely impact on forecast income, it is not possible to quantify at this stage.

The income received from industry and Government for services provided by FSS is outlined below in Table 6:

Income	**17/18 £'000**	**18/19**	**19/20**	**20/21**
FBO Audits	-41	-41	-41	-41
Fees from Other Government Departments	-436	-436	-436	-436
Meat Hygiene Inspection Fees	-2,860	-2,860	-2,860	-2,860
Total Expenditure	**3,337**	**3,337**	**3,337**	**3,337**

Table 6 – FSS Income Forecast

6. Financial Performance and Targets

FSS currently reports on its financial performance to the Board on a quarterly basis and through the Performance Report contained within our Annual Report and Accounts. These reports outline how we seek to use our resources effectively to deliver against our 6 strategic outcomes. The financial performance reports to the Board can be found on the FSS website and cover:

- Year to Date v Actual Expenditure;
- Year to Date Expenditure against Strategic Outcomes;
- Forecast Accuracy v Actual Expenditure and;
- Review of the Full Year Forecast position against our allocated budget

Going forward, we will aim to provide more metrics against which we shall monitor our financial performance and it is proposed that these shall be contained within our quarterly report to the Board. Suggested financial targets are outlined below:

- Manage expenditure within each year (within 2%)
- Draw down cash allocation from SG in year and achieve a positive cash/bank balance targeted at 31 March each year.
- Operate within the resource limits set by SG
- Receive unqualified external audit opinion on the annual accounts for the year
- To pay all suppliers within SG 10 day payment targets
- To reduce levels of outstanding debt to zero where the debt is greater than 61 days (with a view to extending this to debt over 31 days)
- To achieve efficiency savings targets set by Scottish Government (3%)

7. Savings Options

There are a number of savings options that FSS could consider should additional pressure be placed on our budget, whether that is a result of a reduction in funding/income or due to FSS taking on additional responsibilities. Some of these options are outlined at a high level, below, against the different categories of spend.

The dependencies between some elements of the budget should be considered when making any decisions on realising savings options. For example, a reduction in programme budget may have an impact on our staff requirements or vice versa.

Savings options do not come without associated risk and these should be borne in mind when making any decisions on realising potential financial efficiencies.

There are also some overarching areas where FSS could look to make savings, or mitigate the impact of any financial pressure:

- Consideration could be given to percentage split between staff/other costs and manage within those parameters as a means to cap staff costs and not impact programme budget (50/50 split between Staff and Non-Staff for example).

- Review what other organisations are doing to realise efficiency savings through the implementation of the Scottish Government's Best Value Framework and undertake a bench-marking exercise to see where FSS learn from others.

- Undertake an organisational design review aligned with any potential move to a Portfolio and Programme based model of operating. This may realise savings across the FSS budget or allow for more to be done with the same.

<u>Staff</u>

- Voluntary redundancy could be considered (Compulsory redundancy is ruled out as SG policy is for no compulsory redundancies)

- Understanding the impact of the current age profile of meat inspectors and how that might impact on Programme spend associated with fully managed service contracts

- Restrictions on non-essential overtime (ring-fenced to delivery of official controls only for example)

- Default position of not backfilling like for like when vacancies arise, or do not backfill at all unless organisational priority. More robust scrutiny of backfill requests.

- Cease any non-essential loans and secondments – this may also mean a reduction in contributory costs FSS receive.

- Do not contribute funding to external posts linked to the business of FSS.

Administration

- Review the use of some shared services (Legal, HR and Procurement) with a view to bringing some work back in house or through other service providers.

- Review all running costs (e.g. non-essential travel, provision of internal lunches and hospitality) and seek to make savings where possible. Some areas have already delivered savings and do not tend to be high value.

- Develop and improve our internal financial reporting systems, guidance and procedures to ensure best value is achieved at all times.

- Implement a lease car scheme to reduce our on-going travel costs for high business mile users.

- Reduce budgets for learning and development, professional memberships etc.

- Investigate spend to save measures associated with our aspirations around becoming 'digital by default' in our service delivery and internal business.

Programme

Programme is the one area of the FSS budget allocation which has a reasonable degree of flexibility and there is a well-established process for reviewing this budget on a 6 monthly basis.

Programme budget is allocated and reviewed on an annual basis, as part of our business planning and budgeting round. This is the time when Branches within the origination submit bids for budget to allow them to commission projects which deliver the relevant elements of the FSS corporate plan and strategy. It is also when existing approved projects are reviewed to ascertain whether or not (and if required) savings can be realised, depending on contractual/political commitments and a review of priorities across the business. This approach allows new and emerging projects to be approved in principle and funding allocated accordingly.

This is therefore the main vehicle for realising any savings in this area. As can be seen above, the programme budget tapers off over future years based on the duration of approved projects. Wider organisational cost pressures can therefore be absorbed by reducing our programme activity, however this is likely to have a significant impact on our ability to commission work that delivers our strategic objectives or statutory obligations. As such we need to be careful when prioritising the work outlined for delivery in our strategic plan. Savings should therefore be sought from non-essential or non-statutory areas of spend in the first instance, as well as areas where annual approval tends to be given, but there is no contractual commitments in place.

Capital

FSS does not currently receive a Capital budget, however our future projections assume a continued level of investment in capital projects related to the development of our digital capability. Savings could be realised here by deciding not to continue investment in the on-going development of our FSS bespoke IT platforms (OWS, CLIO etc.).

Income

Given the nature of income, it is not possible to realise savings in the traditional sense. Income is required to offset our total cost of operation and bring it back in line with our net budget allocation from SG. The significant risk FSS face here is that income may reduce due to industry or FSS efficiency, while staff/contractor costs do not reduce as a result.
The sustainability of official controls therefore may need to consider impact more efficient operations has on the current fixed discount being provided to industry and whether that continues to be appropriate from a taxpayers perspective, given the current economic climate. Consideration may also need to be given to increasing income streams for other areas of work, either regulated or non-regulated, such as the delivery of shellfish official controls. This is covered by work that shall be undertaken as part of our Regulatory Strategy programme.

8. Savings Details

Going forward there will be a continued requirement for FSS to reach the 3% savings target which can then be reinvested in the delivery of our business. These savings will form part of the financial management plan for future years and will be outlined through the quarterly financial performance report to the Board and the annual report and accounts.

As our financial reporting systems become more effective, we are able to report details of evidence-based savings that have been achieved in-year. For 2016/17 we reported savings of £276,000 in our annual report and accounts. This did not quite reach the 3% SG target for efficiency savings, however work has continued during the current financial year to realise additional savings in line with this target, which can then be reinvested in other areas of delivery.

The 2016/17 savings were achieved by:

- Reducing our hotel and conference costs by securing rate reductions through our travel service provider.
- Reducing accommodation related costs for Pilgrim House.
- Achieving savings through the use of Procurement Frameworks and new contracts.
- Restructuring our Operational Delivery teams and achieving travel and subsistence reductions.
- Reducing overtime costs for meat inspection through more effective deployment of staff

- Reviewing our shellfish official controls monitoring programme and implementing changes.

9. Scenario Planning

As with any financial plan, there can be a number of different scenarios developed and identified to show the best, worst and most likely outcomes faced by FSS that would impact our financial position. Some of these scenarios have been outlined below however this list is not exhaustive. Along with the scenarios, we have also developed a spread sheet model which allows us to see the outcome of these scenarios materialising and the impact this would have on the our financial position, factoring in the known budgetary requirements as outlined above. These scenarios assume no change in the remit of FSS.

Some of the potential scenarios FSS could face are:

<u>Best Case/Desirable</u>

- The best case scenario is clearly an increase in resource budget, however from a realistic perspective it would be desirable for our budget to be rolled forward at £15.3m and the ring-fenced resource budget linked to the delivery of feed official controls is transferred to FSS (£0.3m). Over and above this, we would ideally be allocated an additional capital budget linked to our increased digital capability requirements which would reduce any pressure on transferring resource budget to meet capital spend requirements. .

<u>Most Likely</u>

- Our resource budget is rolled forward at £15.3m and the ring-fenced resource budget linked to the delivery of feed official controls is transferred to FSS (£0.3M).

<u>Worst Case</u>

- A 5/10/15% reduction on resource budget is applied to FSS (based on 17/18 budget allocation). Whilst 18/19 budgets are yet to be confirmed, it is unlikely FSS will see a reduction at these levels.
- 2017/18 out turn rolled forward into 2018/19 budget.
- EU exit increases the demand for regulatory oversight and the cost of official controls but there is no additional funding to match the increased demand.

10. Assets/Liabilities and Reserves

It is not envisaged that our assets will significantly change over the life of this plan. However some assumptions can be made with regards to our IT hardware as SG operates a 3-year refresh cycle which falls within the 17/18 financial year. No assumptions have been made within our existing financial profile within this plan, however it is our intention to complete a full desktop refresh during the year and this is now forecast to be spent in the current financial year. Any refresh will also have an impact on our depreciation/asset write-off forecasts and will need to be considered.

Other than IT related assets, the primary liability FSS has relates to the Local Government Pension Scheme that was transferred from FSA as part of the financial settlement between FSA and SG. As at the end of March 2017, this liability was approximately £11.1 million. Whilst this liability is underwritten by HM Treasury, consideration should be given as to how FSS can seek to reduce the pension deficit in a targeted way, in line with any actuarial assumptions, in order to mitigate any potential longer term impact on the organisation.

Our cash reserve was £2.1 million as at the end of March 2017. A plan is in place to ensure cash drawdowns are more targeted based on need, rather than simply drawing down our full cash allocation each year. This will still allow us to end each year with a positive cash balance at the end of March each year.

11. Demand

This plan assumes a stable demand is placed on the organisation and that there is no significant change in our statutory remit. This will of course be impacted by Brexit and whilst the likelihood of any change is unknown at present, the impact will be significant. This is especially the case when we consider the work that will need to be undertaken to accommodate inevitable changes to our strategic output and delivery of core activities. It also has the potential to fundamentally impact the nature of the change to our role and what it might be going forward - as well as any work required to enact the change being compressed over extremely short and challenging timescales.

We are aware of changing demands relating to the meat hygiene inspection service we provide. The most significant change we currently know about is the introduction of Poultry Inspection Assistants by certain Food Business Operators, which reduces the income we receive as we are no longer able to charge based on current service provision. Whilst this is likely to be offset due to a reduction in contractor costs, there may be some permanent staff costs associated with these plants which will need to be absorbed by FSS, unless they can be redeployed elsewhere and charged for accordingly. This reduction has been realised to an extent during the current financial year and will be fully realised in 18/19 through revised charge out rates. The projected figures for income do not yet reflect this change as our forecasted income will need to be revised in light of the final charge out rates which will be published by the start of March 2018.

In addition to this specific change, we are also working collaboratively with industry to deliver meat official controls in a more efficient manner. Whilst the aim of this is to reduce the cost of meat inspection, it does place some financial risk on FSS if we are unable to deploy staff should industry make these changes.

12. Funding Shortfalls

The main sources of any funding shortfalls would be the net resource budget we receive from the Scottish Consolidated Fund and income associated with the delivery of meat hygiene official controls inspection. This plan outlines how we would intend to deal with any shortfalls in funding.

The reduction of income poses one of the most significant risks here, as income is needed to balance the difference between our net funding from SG and the total operating costs of FSS. A reduction in income will primarily be as result of a reduction in demand for our ‘services’ which has been outlined above. Short of requesting additional funding from SG to address any gap, we may have to look at areas such as full-cost recovery, reduction of subsidy or charging for the delivery of other official controls. Any reduction in income may also necessitate the need to consider how we deliver official controls in this area and whether there are any viable options to redeploy our staff to deliver other key business requirements. This work forms part of the programme to deliver our Regulatory Strategy.

13. Risks

There are a number of risks to achieving financial stability, some of these are outlined below. Consideration should be given to developing a specific risk register on the longer term financial stability, however some of the higher level risks are captured on existing risk registers at the Strategic and Senior Management Team level.

- There are several significant risks around Brexit and the impact it has on the organisation and its financial sustainability.
- There is a risk around the continued application of 1-year financial settlements, due to SG’s continued approach on budget planning, reducing our ability to sufficiently plan for more than 1-2 years.
- There is a risk around the FSS budget being reduced significantly due to the allocation from SG being less than favourable, or other external pressures such as a reduction in income, resulting in our inability to undertake the full range of statutory functions or deliver the full range of the current strategy within our net budget settlement.
- There is a risk around the early realisation of pension liabilities that were inherited from FSA due to the age profile of MHI staff. This may result in significant pressure on FSS budgets should this liability need to be met in full.
- This is a risk that we lose or are unable to attract sufficiently qualified/experienced financial staff due to being unable to compete with private sector organisations/our location, resulting in a reduced ability to adequately managed our financial systems and operation.
- There is a risk that savings options detrimentally impact the operation of business due to dependencies between areas of spend, resulting in our inability to deliver our full range of functions and strategic outcomes.
- There is a risk that FSS absorbs more of the direct cost of employing MHIs due to the relationship between FSS/industry efficiency, our fixed staff costs and our inability to utilise this resource elsewhere, resulting in increased budgetary pressure through reduction of income.

14. Ownership and Review

This financial management plan is approved by the Board and delivered by the Executive.

In addition to the strategic ownership of this plan, all budget holders have a responsibility to ensure the sustainable, effective and transparent management of our resources. This is primarily governed by our internal financial scheme of delegation, which has been developed using SG principles and in conjunction with the SPFM.

This plan shall be reviewed on a 6 monthly basis, once in October following our mid-year budget review and once in March when we finalise our spending plans for the forthcoming financial year(s).

Garry Mournian
Head of Corporate Services
Food Standards Scotland
February 2018