

FOOD STANDARDS SCOTLAND FINANCIAL PERFORMANCE UPDATE – AUGUST 2016

1 Purpose of the paper

1.1 This paper is presented to the Board for information and reports on the financial performance of Food Standards Scotland (FSS) for the period 1 April – 31 July. The report follows a new format that has been developed following the work of the Board/Executive short life working group, established to review financial reporting to the Board.

1.2 As at the 31 July 2016 we are reporting a variance of 3% against actual spend to the end of the period, compared to the Year to Date (YTD) budget originally profiled and set at the start of the current financial year. In addition to the YTD performance, the current full year forecast of £15.06m is being reported against the agreed budget of £15.3m, representing a 1.6% variance.

1.3 The Board is asked to:

- **Note** the financial information reported as at 31 July 2016.
- **Agree** whether the information presented provides the required level of assurance to the Board on financial reporting and management in place within the organisation.
- **Note** for future reports that the explanatory narrative, regarding the financial charts presented, will be removed from the main body of the report and provided as an Annex.
- **Agree** to the trade-off between the Board being presented with the most up to date financial information and receiving the Board paper out with the usual timescales for issuing to Board members for review.

2 Strategic Aims

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

3 Background

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

2.2 As part of its annual business planning and budgeting round, our spending plans were agreed by the Senior Management Team in February 2016 and presented to the Board as part of their discussions relating to the approval of the FSS Strategy and Corporate Plan. Now that the six strategic objectives have been agreed by the Board, the Executive intend to report elements of its financial performance against these objectives to provide an indication on how we are using our resources effectively, to deliver against the Strategy and Corporate Plan.

2.3 During the first year of operation, a financial report to the Board was developed by the Executive which sought to provide a high level overview of the financial performance of the organisation. Whilst this report developed over time, it was agreed that due to the scheduling of

Board meetings and the end of the financial year quarters, the information presented was not timely enough to inform Board discussion or provide timely assurance.

2.4 A short-life working group comprising of both Executive and non-Executive members was established to discuss the nature, content and timeliness of financial reporting to the Board and following these discussions, a revised format was agreed – the main points of which are outlined below:

- The format would focus more on the YTD financial performance whilst still providing an insight into the full-year projections.
- The provision of a comparison against previous financial years was also discussed and agreed as this would provide Board members with an overview of relative performance on a year-to-year basis.
- Importantly, it was also agreed that whilst financial reports will still be provided quarterly, they will not be based on the financial year quarters. Instead, the month-end figures closest to the scheduled meeting will be presented, ensuring the Board receive the most up to date financial information possible. The non-Executive accepted that in order to receive timely information, there was a trade-off to be had in terms of:
 - The level of scrutiny on the figures the Executive could undertake due to the proximity of the month-end closure; and
 - The Board receiving report out with the usual timescales for issuing papers to Board members for review.

2.5 This financial report is the first time the revised format is being presented to the Board and feedback is welcomed in terms of content and detail, so that the Executive can continue to develop and improve the report in order to ensure the Board are fully informed and assured in relation to our financial performance.

4 Financial Performance Summary

Year-to-Date Performance

4.1 Figure 1 provides an overview of the financial performance of the organisation during the period 01 April – 31 July. The performance is based on comparing the actual spend for the period, shown monthly, with the budget profile which was originally set at the start of the financial year. This provides an indication of how closely teams across the business are to their initial forecast for the period, for the categories of spend that are reported internally to Scottish Government (Staff, Administration, Programme, Capital & Income). As at end of July, the actual spend when compared to the agreed budget profile was 3%.

Budget Profile 16/17							Actual Spend per month 16/17								
	16/17 Budget	April	May	June	July	YTD		April	May	June	July	YTD	Var £'000	Var %	
Staff	7,530	577	592	584	593	2,346		569	589	591	591	2,340	6	0%	
Administration	3,182	285	257	291	267	1,100		247	254	285	344	1,130	(30)	-3%	
Programme	8,008	530	640	700	630	2,500		544	644	642	541	2,371	129	5%	
Capital	100	0	0	0	0	0		0	0	0	0	0	0	0%	
Income	(3,520)	(276)	(308)	(284)	(287)	(1,155)		(272)	(315)	(290)	(336)	(1,213)	58	-5%	
Total	15,300	1,116	1,181	1,291	1,203	4,791		1,088	1,172	1,228	1,140	4,628	163	3%	

Figure 1: Year-to-Date Performance

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

	Staff			Administration			Programme			Capital			Income			Year To Date		
	Budget	Actual	Variance	Budget	Actual	Variance	Budget	Actual	Variance	Budget	Actual	Variance	Budget	Actual	Variance	Budget	Actual	Variance
	£ '000																	
Board	33	38	-5	14	7	7	0	0	0	0	0	0	0	0	0	47	45	2
Senior Management Team and Private Office	228	226	2	27	25	2	0	0	0	0	0	0	0	0	0	255	251	4
SSIA	23	22	1	0	1	-1	0	0	0	0	0	0	0	0	0	23	23	0
Communications and Marketing	160	144	16	18	21	-3	389	329	60	0	0	0	0	0	0	567	494	73
Corporate Services	233	248	-15	833	918	-85	0	0	0	0	0	0	0	0	0	1066	1166	-100
Regulatory Policy	204	199	5	10	7	3	0	0	0	0	0	0	0	0	0	214	206	8
Food Protection Science and Surveillance	118	116	2	5	7	-2	272	244	28	0	0	0	0	0	0	395	367	28
Nutrition Science & Policy	79	79	0	3	2	1	35	31	4	0	0	0	0	0	0	117	112	5
Operational Delivery	862	854	8	109	89	20	1719	1716	3	0	0	0	-1127	-1182	55	1563	1477	86
Veterinary Management	66	67	-1	21	13	8	0	5	-5	0	0	0	-13	-17	4	74	68	6
Enforcement Delivery	149	153	-4	15	22	-7	41	27	14	0	0	0	0	0	0	205	202	3
Scottish Food Crime Unit	102	103	-1	28	10	18	44	19	25	0	0	0	0	0	0	174	132	42
Audit	89	91	-2	17	8	9	0	0	0	0	0	0	-15	-14	-1	91	85	6
Total	2346	2340	6	1100	1130	-30	2500	2371	129	0	0	0	-1155	-1213	58	4791	4628	163

Figure 2: YTD Performance by Branch

4.3 As the original budget was profiled and fully allocated at the start of the year, changes can occur on a month-to-month basis that means the profiled spend will differ to the original plans of each Branch. It is important to point out that whilst the budget profile presented in Figures 1 and 2 are based on an assessment made by Branches prior to the start of the year, through our monthly budget monitoring, a revised forecast is discussed and agreed with each Branch. This is then reflected through an updated full-year-forecast, which is presented on a monthly basis in Figure 2.

Forecast Accuracy

4.3 At this stage, we can assess the financial performance based on both the original budget figure and the updated forecast which is reviewed on a monthly basis. Figure 2 shows this information in the form of a waterfall chart which identifies how close a given month's forecast value was to the actual outturn. Each row shows the total of the monthly forecast values submitted to Finance by Branch Heads. Once the actual outturn for the month is available this is shown in the yellow cell.

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

Figure 3 – Full Year Forecast Waterfall

4.4 The information presented in Figure 3 and through the monthly budget meetings also allows us to quickly identify material variances and drill down into further detail to understand the reasons behind them. Below is a high level overview which seeks to provide context to the Board and explain the drivers behind the YTD variances between the most recent forecast and actual for the period. 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.

- April** – £26K variance. The main driver behind the variance in April was primarily due to the overestimation of administration spend (mainly travel and subsistence and some accommodation related spend) being forecast across the organisation. As this is the first year administration budgets have been delegated to Branch Heads, finance staff worked with Branches to ensure administration spend in their area was accurately profiled over the remainder of the year.
- May** – (£16K) adverse variance. The slight increase in spend during May related to some Communications and Marketing work which took place earlier than originally planned. This was offset slightly by some small underspends across the project lines within Operational Delivery in relation to Official Control sampling.
- June** – £95K variance. The variance in June mainly related to Communications and Marketing programme spend which was forecast for June did not take place and has been re-profiled into future months. A small underspend also materialised within the Enforcement Delivery Branch's programme spend due to delays with the technical aspects of the Scottish National Database pilot. A slight increase in income was reported in relation to May's forecast which is reflected in June's figures. This was slightly offset by the agreed increase in Board members fees and actual overtime costs for staff who worked at FSS events (Taste of Grampian) in June, that was not originally forecast.
- July**: (£27K) adverse variance. July's variance can largely be attributed to an unforeseen pension liability relating to a former member of FSA in Scotland staff of £103K. This was raised by My Civil Service Pension (MyCSP) with Food Standards Agency and following discussion FSS agreed that it should settle the outstanding payment with MyCSP. This additional cost in July was offset by a small decrease in the actual cost relating to Official Control sampling officer costs and further re-profiling of programme activity by Communications and Marketing as they firm up the delivery of their Communications Strategy work over the remainder of the year. Additional re-profiling of programme costs by the Scottish Food Crime and Incidents Unit took place during July.

Spend against Strategic Outcomes

4.6 Now that the Board has agreed the FSS Strategy and Corporate Plan, we can now report on our spend in relation to the six strategic outcomes. Figure 4 provides an overview of the YTD spend in comparison to the full year budget allocated to each outcome. The % of budget spend as at the end of July is also shown to provide an indication of progress and performance in delivering the costed Corporate Plan which was agreed by the Board at its meeting in June.

		Strategic Outcomes						
		Total £'000	Food is Safe	Food is Authentic	Consumers Choose a Healthier Diet	Responsible food businesses flourish	FSS is a trusted organisation	FSS is efficient and effective
Staff	Budget	7,530	3,891	974	701	788	927	249
	Actual to July 16	2,340	1,191	291	213	250	285	110
Administration	Budget	3,182	826	489	448	482	511	426
	Actual to July 16	1,131	271	178	165	175	180	162
Programme	Budget	8,007	6,352	268	955	78	354	0
	Actual to July 16	2,372	2,075	52	152	10	83	0
Capital	Budget	100	100	0	0	0	0	0
	Actual to July 16	0	0	0	0	0	0	0
Income	Budget	(3,519)	(3,471)	(7)	0	(7)	(34)	0
	Actual to July 16	(1,214)	(1,193)	(4)	0	(4)	(13)	0
Total	Budget	15,300	7,698	1,724	2,104	1,341	1,758	675
	Actual to July 16	4,629	2,344	517	530	431	535	272
% of budget spent		30.3%	30.4%	30.0%	25.2%	32.1%	30.4%	40.3%

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

4.7 A comparison of the monthly budget v actual performance is provided at Figure 5 to provide the Board with an overview of relative performance between 2015/16 and 2016/17 financial years. It is important to point out that the information provided uses the initial budget profiles used in each year and not the updated forecast figures that are revised on a monthly basis. Figure 6 breaks this information down further by providing a comparison of the actual spend on a monthly basis, broken down by the respective budget lines (Staff, Administration, Programme, Capital and Income).

4.8 It is important to point out that the peak shown in March mainly relates to allocated budgetary commitments which were yet to be profiled across the financial year. This has been a key behaviour change taken forward by the Senior Management Team to improve financial planning and forecasting across the organisation following the further delegation of budgets to Branch Heads, through the FSS's scheme of financial delegation. As a result of this work, a more accurate re-profiling of the budget during the first quarter of 16/17, is highlighted by the dark green dotted line in Figure 5.

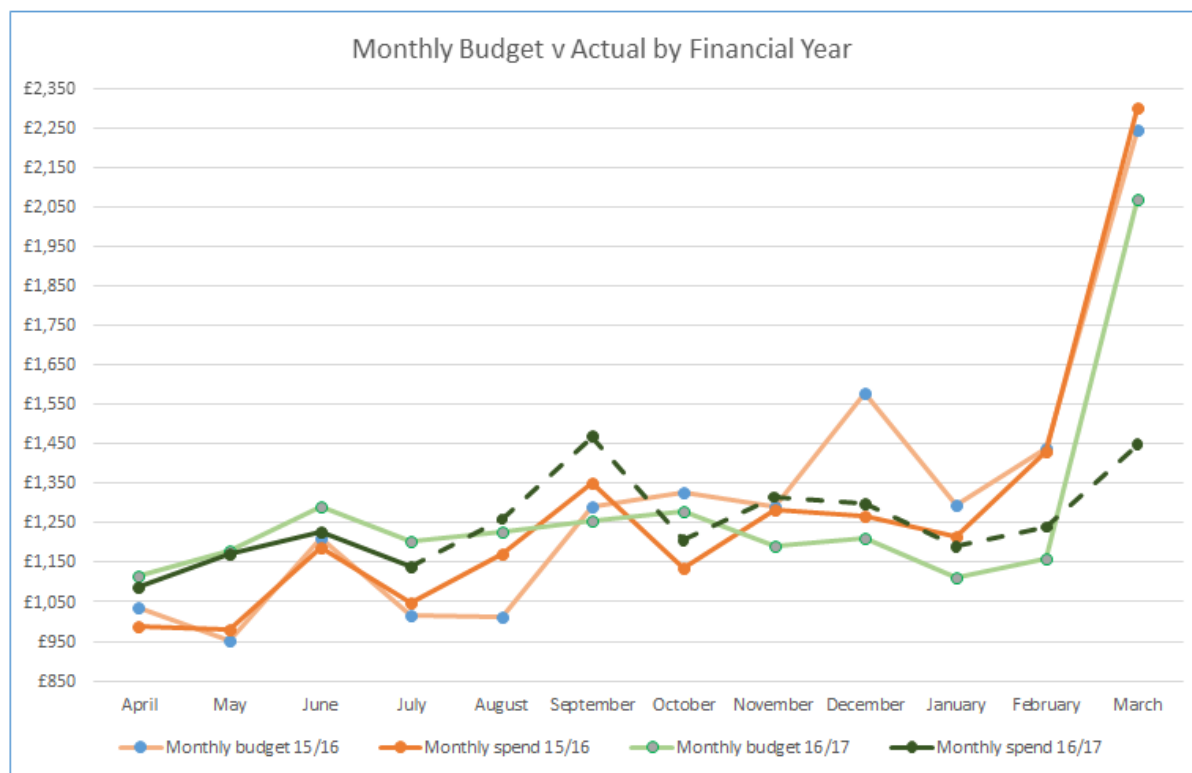


Figure 5 – Year on Year Comparison – monthly budget v actual

4.9 Figure 6 breaks the comparison down further by showing actual spend for the YTD split out by the budget lines of Staff, Administration, Programme, Capital and Income. Whilst this provides a comparison with the previous financial year, it can only be indicative given the fact that spend on an annual basis will vary depending on priorities, programme of activity and different projects being taken forward on a year to year basis. It is easier to offer a comparison with the Administration and Staffing lines, where there is an increase between 16/17 and 15/16. This can largely be attributed to the increase in permanent staff recruitment during the first year and the additional costs in relation to the legacy FSA pension liabilities that were transferred to FSS from the FSA at the end of 15/16.

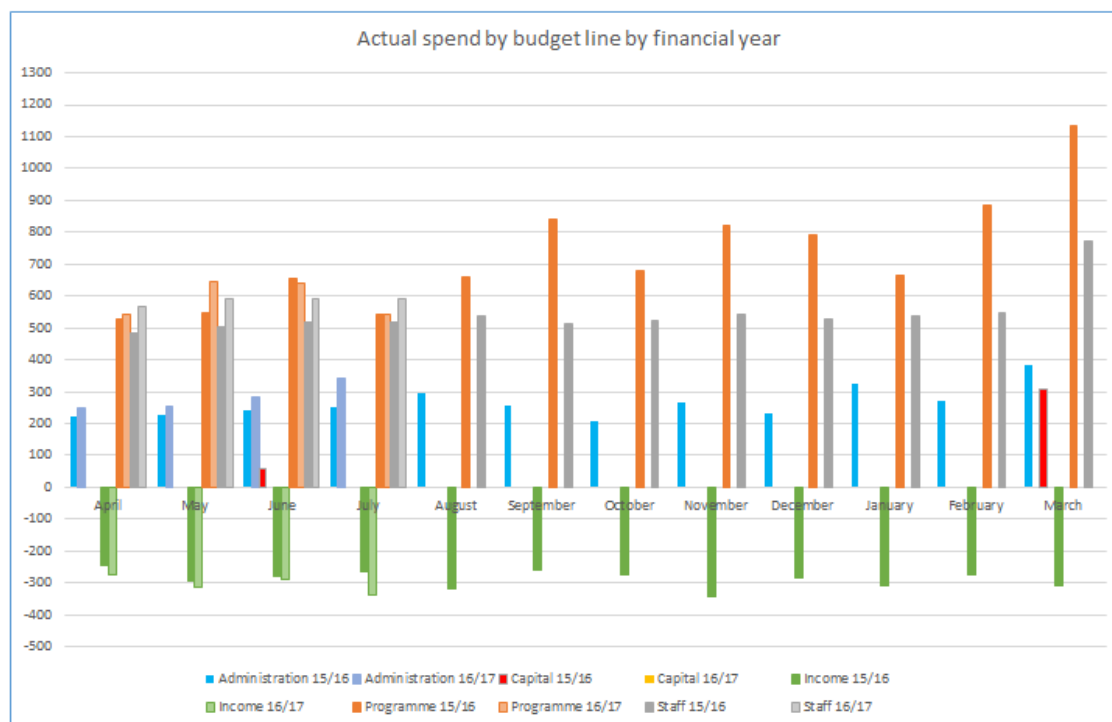


Figure 6 – Year on Year Comparison – by budget line

Full Year Forecast:

4.10 Whilst the report has focussed on the YTD performance, it is important not to lose sight of the full year projections being made to ensure we continue to operate within the budget provision allocated to FSS from the SCF. The full-year forecast graph at Figure 7 shows the full year budget of £15.3m as a fixed red line and the full year forecast, as it changes each month, as a blue line.

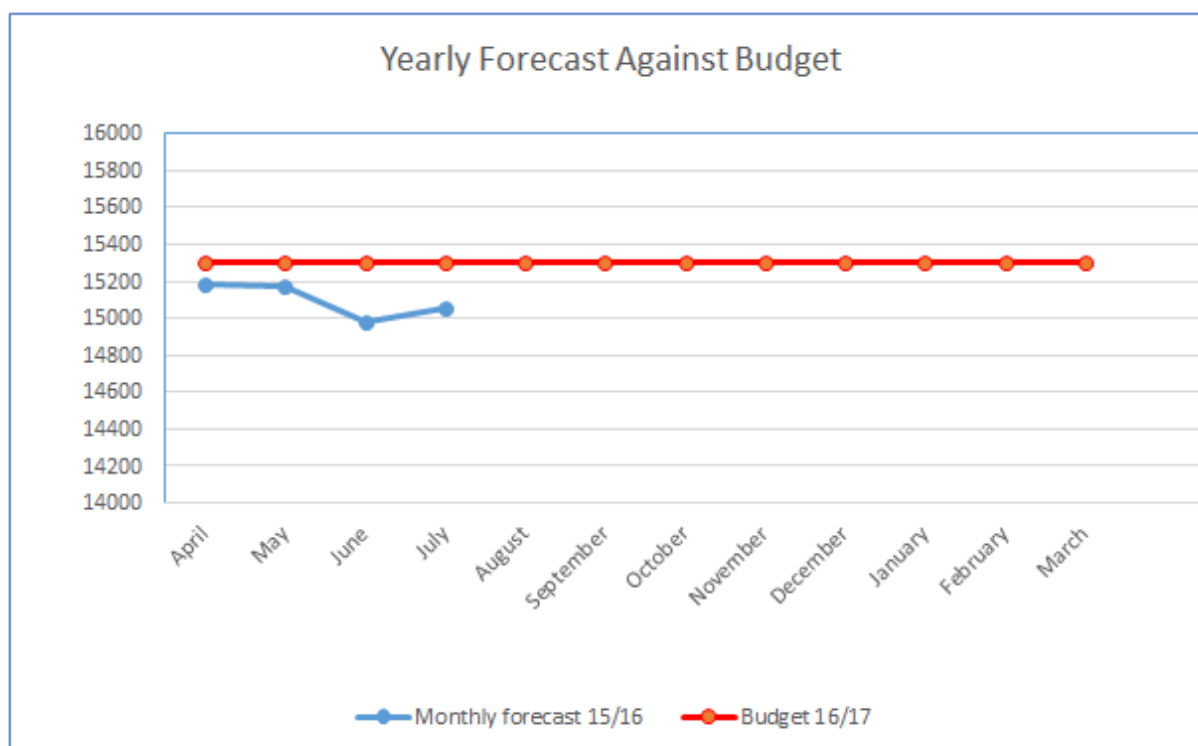


Figure 6 – Full Year Forecast as at end July 2016

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

4.12 As can be seen in Figure 5, the full year forecast has decreased from the original budget allocation of £15.3m to £15.06 as at 31 July 2016. While there have been various low level changes to the full year forecast, the reduction of £0.24m can largely be attributed to two material changes within the forecast staff costs and planned programme expenditure. These are briefly outlined below:

- Forecast staff costs for the year reduced by approx. £160K following a review of actual salary costs in April and May. The initial over forecast was as a result of working assumptions being made in relation to the increase in staff costs (specifically employers National Insurance contributions) related to the move to Scottish Government terms and condition. Vacancy levels and on-going recruitment contributed to the reduction in full year forecast, however this has been offset by a transfer of staff budget to the Science Strategy and Information Analysis Branch to account for the provision of additional analytical and economic resource within FSS.
- Programme spend forecast for the year has reduced by approximately £300K when compared to the original forecast at the start of the financial year of £8.0m. The reduction in forecast is due to potential projects within the Policy and Evidence Unit, that were identified at the start of the financial year, not being taken forward as planned (£175K). Following the decision to introduce Poultry Inspection Assistants at Coupar Angus, estimated costs in relation to the contractor Meat Hygiene Inspector have also reduced by approximately £105K in July. This decrease in programme spend has been offset to an estimated reduction in income of £95K as a direct result of the changes.
- As outlined at paragraph 4.4 (July variance), the reduction in programme and staffing costs forecast for the year have been offset by the increase in pension liability costs of £103K.

5 Risks and Issues

5.1 The Board are aware of the legacy pension liabilities transferred to FSS as part of the agreed transfer from FSA. Whilst this concluded towards the end of the financial year, costs related to reducing the deficit of the Local Government Pension Scheme (LGPS) liability were not known until after the start of the financial year, following receipt of the actuarial review of the scheme. This has added an additional pressure of approximately £60K to the administration forecast for the year, however this pressure has been managed through a review, and subsequent reduction of some corporate administration expenditure.

5.2 A risk also remains relating to the timing and nature of the 2017/18 spending review. It was originally assumed that following the SG elections in May, there was a possibility of a 3 year spending review being announced. Given the impact of the vote to leave the EU in June, it is now our understanding that the spending review announcement is likely to be later in the year, whilst SG assess the wider impact of the referendum result. A 1 year budget settlement is now expected, which now clearly poses a risk to FSS in terms of both finalising any spending plans for 17/18 and undertaking any detailed long-term financial planning. As a result of this, and linked to some of the recommendations made in Audit Scotland's independent auditors report, the Senior Management

Team will be meeting in September to discuss long term financial strategies and planning around the framework of the FSS Corporate Plan.

6 Conclusions/Recommendations

6.1 The Board is asked to:

- **Note** the financial information reported as at 31 July 2016.
- **Agree** whether the information presented provides the required level of assurance to the Board on financial reporting and management in place within the organisation.
- **Note** for future reports that the explanatory narrative, regarding the financial charts presented, will be removed from the main body of the report and provided as an Annex.
- **Agree** to the trade-off between the Board being presented with the most up to date financial information and receiving the Board paper out with the usual timescales for issuing to Board members for review.

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15 August 2016