

FOOD STANDARDS SCOTLAND FINANCIAL PERFORMANCE UPDATE – August 2017**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 2017.

1.2 For the first quarter we are reporting a variance of 10% against actual spend for the period when compared to the Year to Date (YTD) resource budget of £3.6m. In addition to the YTD performance a full year forecast of £14.7m is being reported against the agreed budget of £15.3m, representing a projected 4% underspend against budget.

1.3 The Board is asked to:

- **Note** the financial information and the revised format reported as at 30 June 2017.
- **Note** the current review to utilise the forecast underspend.
- **Note** that work is continuing to develop an FSS Financial Strategy in line with Audit Scotland recommendations.

2 Background

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

2.2 The FSS resource budget is £15.3m (net). No Annually Managed Expenditure (AME) budget was allocated for 2017/18 but will be included in the transfers that take place at the Spring Budget Revision (SBR).

2.3 The Executive reports its financial performance against our six strategic objectives to provide an indication on how we are using our resources effectively, to deliver against the Strategy and Corporate Plan.

2.4 We have slightly revised the format of the financial performance report this year. The narrative is now upfront with the tables/charts in Annexes to make the report easier to read and understand.

3 Financial Performance Summary

3.1 Annex A provides the tables and charts that show the budget, forecast and actual amounts for the first quarter of 2017-18. The financial performance is based on both the original 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 at March 17. The actual spend for the quarter when compared to the budget profile was £379k under budget. The main categories impacting on this is underspend of £137k in Programme, with two budget lines Marketing and Strategic Communications making up the majority of this, and additional Income of £124k for Meat Hygiene Inspection Fees.

3.3 Following on from the FSS Budget 2017-18 paper that was presented to the Board in June and provided for information only, the Allocation of Resource Expenditure (Figure 2) gives additional detail behind the five budget lines in Figure 1. 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. As previously requested the last two years actual outturns have been included for comparison purposes.

3.4 The underspend of £78k in Marketing relates to changes in the profile of expenditure on two campaign activities and development of our new website where the majority of work is planned to take place from quarter two onwards. The majority of the £33k underspend within Strategic Communication is savings in the event management costs for the Royal Highland Show this year. The increase in inspection fees of £115k is primarily as a result of the difference between the assumptions made when income was forecast in February and setting the original charge out rate in April. Since then we have also, finalised business agreements with the meat industry; implemented new charge out rates for hygiene inspections; and completed a reconciliation of first quarter charging fees with actual inspection hours. As outlined later in this report, charge out rates for meat hygiene inspection are currently under review and it is anticipated this will reduce the YTD and income and that being forecast for the full year.

YTD Spend against Strategic Outcomes

3.5 At the end of the first quarter 21.5% of the FSS budget has been spent delivering the costed Corporate Plan as outlined in Figure 3 which is slightly behind an indicative average to date spend of around 25%. The initial spend is not as planned for Outcome 1 Food is Safe is not as planned. The main reason for this has been the delay in the work for the food safety campaigns both of which are allocated against this outcome.

3.6 As previously indicated in the inter sessional board paper, FSS Budget 2017-18, the two most significant shifts in budget allocation for this year are in Outcomes 3 and 6 where the variance from last year is a 2.6% reduction and 4.6% increase respectively.

3.7 The budget allocation for outcome 3 is reduced because SMT has approved less programme expenditure, such as directly funding and commissioning research and surveillance work. Instead, there is increased work underway which is not spending programme budget but is utilising existing staff resource already allocated to outcome 3. This work will progress the strategic direction on diet agreed by the Board by, for example, developing the Out of Home Strategy in collaboration with Scottish Government and NHS Health Scotland, and taking forward work on the reformulation of food and drink products. The increased budget allocation against outcome 6 mainly relates to staff costs being re-allocated here by some of branches. For example, in 16/17 some Operational Delivery staff costs were fully allocated to outcome 1 (Food is Safe) but due to the corporate plan objective on delivery of official controls, the Branch felt an allocation of some of its staff costs against outcome 6 better reflected the work of the team in relation to the delivery of the corporate plan.

Forecast Accuracy v Actual expenditure

3.8 Through our monthly budget monitoring work, 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 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.

3.9 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. Below is a high level overview which seeks to provide context to the Board and explain the drivers behind the YTD variances for each of the last three months.

April 17: (£92k) April's variance is mainly due to underspend with Admin (less travel and reduced spend on PPE clothing) and in Programme (reprofile of work for RHS and new website into following months).

May 17: £(56k) May's variance is mainly due to underspends within Admin (IT digital review delay) and Capital (delay in work for Operational Workflow System (OWS)) system due to contract negotiations) and increase in Income (new business agreements).

June 17: £(75k) June's variance is mainly due to underspends within Admin (reduction in legal costs for debt recovery, transfer of sample analysis costs and recovery of some vat costs) and increase in Income (Q1 reconciliation of meat inspection fees, new income for animal by products (ABP) work).

3.10 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. The monthly actual/forecast is broadly following the budget profile. The budget and actual performance for 2016/17 is provided to enable comparison between financial years.

Full Year Forecast

3.11 As per the updated forecast from July onwards there is a 4% forecast underspend against our agreed budget of £626k. There are underspends across all budget lines, with the reductions in Admin and Programme categories and increase in Income primarily contributing to this.

3.12 A reduction of the forecast legal fees for debt recovery and transfer of sample analysis costs to programme are the main areas within Admin savings. There are forecast savings for Programme relating to the shellfish official control programme of work following negotiation of new one year contracts as well as implementation of a new biotoxin risk assessment that has reduced monitoring at a significant number of sites.

3.13 Within Income the majority of the forecast increase relates to the meat hygiene inspection fees. The increase is made up of a number of parts: the implementation of new charge out rates that came into effect from May 2017, finalising of new business agreements which included increases in required hours across a number of plants, as well as additional hours requested by industry following finalising of business agreements. These potential increases in income have changed the initial charging assumptions that were made at the start of the year but see 4.2 below.

4 Risks, Issues and Highlights

4.1 A forecast variance of 4% at this stage doesn't provide any cause for concern and there has already been discussion by SMT and the Corporate Leadership Group (CLG) to consider options to effectively utilise the forecast underspend to deliver key elements of the Corporate Plan. During the budgeting process, the initial requirements were well in excess of our known budget so we had to therefore decide not to proceed with a range of activities anyway. There are a number of actions being taken forward on this and detailed as follows.

- Review of programme expenditure, and in particular projects previously approved where no budget was allocated in this financial year. We are also considering bringing forward planned work where it is sensible and possible to do so (e.g. IT development associated

with OWS) or new projects that have been highlighted to enable delivery of our strategic objectives.

- Continue with a review of any additional resource requirements to deliver priority work areas e.g. Brexit.
- We are aware of SG's intention to review its IT estate, particularly hardware, which is carried out on a three year rolling programme. We are currently reviewing the affordability of capital investment which would allow us to future proof against new IT developments and align with SG's refresh timetable.

4.2 In addition, we are reviewing the income relating to meat inspection fees. As the Board will be aware, the industry had raised concerns about the charges for this year and had asked us to freeze the rates to last year's rate pending a review. FSS was unable to give such an undertaking but gave a very clear commitment to industry that if there were material changes in the make-up of the charge out rates then we would undertake a further review. There has been a material change due to the additional delay in the introduction of Poultry Inspection Assistants (PIAs) at Coupar Angus so we are reviewing the impact that has on the rate, as well as other material changes to our direct costs associated with meat hygiene inspection. We expect that changes will be made to the charge out rate for 2017/18 and will be backdated resulting in refunds being provided to industry which will reduce our forecast income for the year.

4.3 We are continuing to progress with the development of an FSS long-term Financial Strategy (and associated workforce planning) in line with Audit Scotland's recommendations and expect this work to be finalised by the end of Quarter 3. This remains challenging given the nature of one-year budget settlements and uncertainty around resource requirements related to BREXIT and has been slightly delayed due to other work areas taking priority at the start of 17/18.

4.4 In future versions we plan to include further information on financial performance, headcount, debt and medium term financial planning.

5 Conclusions/Recommendations

5.1 The Board is asked to:

- **Note** the financial information and the revised format reported as at 30 June 2017.
- **Note** the current review to utilise the forecast underspend.
- **Note** that work is continuing to develop an FSS Financial Strategy in line with Audit Scotland recommendations.

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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 2017. The performance is based on comparing the actual spend for the first quarter with the budget profile which was originally set at the start of the financial year.

£'000	17/18 Budget	Budget Profile 17/18				Actual Spend 17/18				Var £'000	Var %
		Apr	May	June	YTD	Apr	May	June	YTD		
Staff	7,763	615	613	622	1,850	603	606	604	1,813	(37)	-2%
Administration	3,295	272	252	287	811	255	252	254	761	(50)	-6%
Programme	7,448	493	640	621	1,754	445	602	570	1,617	(137)	-8%
Capital	131	0	25	20	45	2	12	0	14	(31)	-69%
Income	(3,337)	(301)	(247)	(247)	(795)	(312)	(294)	(313)	(919)	(124)	16%
Total	15,300	1,079	1,283	1,303	3,665	993	1,178	1,115	3,286	(379)	-10%

Figure 1: Year-to-Date Performance

Figure 2 expands the budget lines in Figure 1 to provide detail of expenditure contributing to the totals. The table provides the variances for Q1 Budget v Actual for each element. Also provided is the Full Year Budget v Full Year Forecast as at the start of July 2017 with forecast variances.

Allocation of FSS Budget £'000		Q1 Budget	Q1 Actual	Variance Forecast v Actual	Comments	Full year Budget	Full year Forecast Outturn (July)	Variance Forecast v Budget	Comments	Actual 15/16	Actual 16/17
RDEL											
Staff Costs	Agency Staff	10	34	24		10	74	64		232	212
	Overtime	40	29	(11)		163	146	(17)		244	171
	Salaries, NIC, Pension	1,810	1,760	(50)		7,630	7,522	(108)		6,091	6,988
	Secondment Income	(10)	(10)	-		(40)	(40)	-		(40)	(40)
	Total	1,850	1,813	(37)	Delays in new staff joining FSS	7,763	7,702	(61)	Delays in recruitment of staff in a number of branches offset with additional interim staff appointments	6,527	7,331
Administration	Accommodation, maintenance, utilities	176	178	2		703	729	26		692	701
	Audit	9	10	1		81	73	(8)		90	98
	Legal, IT, Procurement, HR shared services	211	197	(14)		780	735	(45)		637	742
	Other office costs eg subscriptions, printing, conferences, IT consumables etc	58	56	(2)		281	250	(31)		383	391
	Pension Liability	56	53	(3)		222	220	(2)		262	376
	PPE Clothing, Laundry and other services	28	16	(12)		114	90	(24)		87	79
	Training	24	10	(14)		122	112	(10)		103	79
	Travel & Subsistence	111	109	(2)		442	433	(9)		459	432
	Total	673	629	(44)	Reduction in legal costs, training, PPE clothing and laundry	2,745	2,642	(103)	Reduced costs against a number of budget lines with legal cost savings and reduced subscriptions	2,713	2,898
Programme	Food Safety and Healthy Eating	5	3	(2)		50	50	-		922	83
	Food Incident and Investigation	15	1	(14)		100	117	17		-	-
	Marketing	173	95	(78)		714	714	-		547	987
	Other Programme costs	-	3	3		-	1	1		355	106
	Research and Development	67	62	(5)		597	578	(19)		473	955
	Scientific Work incl Official Controls	1,248	1,248	-		5,067	4,919	(148)		4,866	4,801
	Strategic Communications	179	146	(33)		395	389	(6)		34	373
	Testing and Surveillance	48	49	1		421	420	(1)		1,570	449
	Training and support to other orgs	19	14	(5)		104	173	69		-	-
	Total	1,754	1,617	(137)	Reprofiling of work relating to Marketing and Strategic Communications	7,448	7,361	(87)	Savings in shellfish official control programme of work	8,767	7,754
Income	Audit	(11)	(13)	(2)		(41)	(43)	(2)		(36)	(41)
	Fees OGDS	(69)	(76)	(7)		(436)	(462)	(26)		(315)	(319)
	Meat Hygiene Inspection Fees	(715)	(830)	(115)		(2,860)	(3,213)	(353)		(3,111)	(3,149)
	Total	(795)	(919)	(124)	New industry business agreements, charge out rate and Q1 reconciliation for meat inspection fees	(3,337)	(3,718)	(381)	New industry business agreements, new charge out rate, increase in hours required	(3,462)	(3,509)
R-FDEL											
Depreciation	Depreciation	138	132	(6)		550	544	(6)		473	529
	Total	138	132	(6)		550	544	(6)		473	529
CDEL											
	Furniture & Fittings - Additions	-	-	-		-	-	-		178	(4)
	AUC	45	14	(31)		131	145	14		111	93
	I.T - Additions	-	-	-		-	-	-		77	70
	Total	45	14	(31)	Delays in implementing new contract for OWS development	131	145	14	Increase due to additional costs for Scottish National database	366	159
Total Resource		3,665	3,286	(379)		15,300	14,676	(624)		15,384	15,162
AME	Pension Liabilities (AME)	-	-	-		0	568	568		575	562

Figure 2 – Allocation of resource expenditure

YTD Spend against Strategic Outcomes

Figure 3 provides an overview of the Q1 Budget v Actual spend in comparison to the full year budget allocated to each outcome. The % of budget spent at the end of the first quarter is shown to provide an indication of progress and performance in delivering the Corporate Plan.

Strategic Outcomes	FY 2017 -18	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	7,762	2,230	1,079	770	1,414	1,186	1,083
	Actual to June 17	1,812	838	185	153	210	226	200
Administration	Budget	3,295	837	492	445	461	544	516
	Actual to June 17	761	181	113	110	108	127	122
Programme	Budget	7,448	4,961	583	380	240	943	341
	Actual to June 17	1,617	1,190	70	58	18	207	74
Capital	Budget	131	58	8	0	8	8	50
	Actual to June 17	14	4	3	0	4	3	0
Income	Budget	(3,337)	(2,279)	(364)	0	(54)	(320)	(320)
	Actual to June 17	(606)	(127)	(120)	0	(120)	(120)	(119)
Total	Budget	15,300	7,069	1,495	1,595	1,522	2,155	1,464
	Actual to June 17	3,286	1,570	283	322	340	469	302
	% of budget spent	21.5%	22.2%	18.9%	20.2%	22.3%	21.8%	20.6%

Figure 3 – YTD Spend compared to Full Year Budget by Strategic Outcome

Forecast Accuracy v Actual Expenditure

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 yellow. 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-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	2017-18 FYF
Budget	1,079,046	1,282,591	1,302,827	1,168,843	1,272,146	1,385,627	1,285,078	1,307,347	1,263,332	1,288,101	1,363,777	1,301,286	15,300,000
April Forecast	1,084,120	1,279,036	1,312,237	1,176,485	1,274,513	1,366,512	1,292,603	1,312,271	1,260,414	1,264,751	1,340,443	1,233,501	15,196,887
May Forecast	992,744	1,234,197	1,238,136	1,161,742	1,312,179	1,331,372	1,283,465	1,299,715	1,256,239	1,243,824	1,317,413	1,207,766	14,878,792
June Forecast		1,178,222	1,190,354	1,153,761	1,273,024	1,330,257	1,299,182	1,268,043	1,239,914	1,241,324	1,289,367	1,392,621	14,848,814
July Forecast			1,115,299	1,116,990	1,223,363	1,328,235	1,307,881	1,251,325	1,168,392	1,253,491	1,312,895	1,427,614	14,676,450
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 2016/17 and 2017/18 financial years. It is important to point out that the Monthly Budget information provided uses the initial budget profiles in each year. The dotted line shows the updated forecast figures that are revised on a monthly basis.

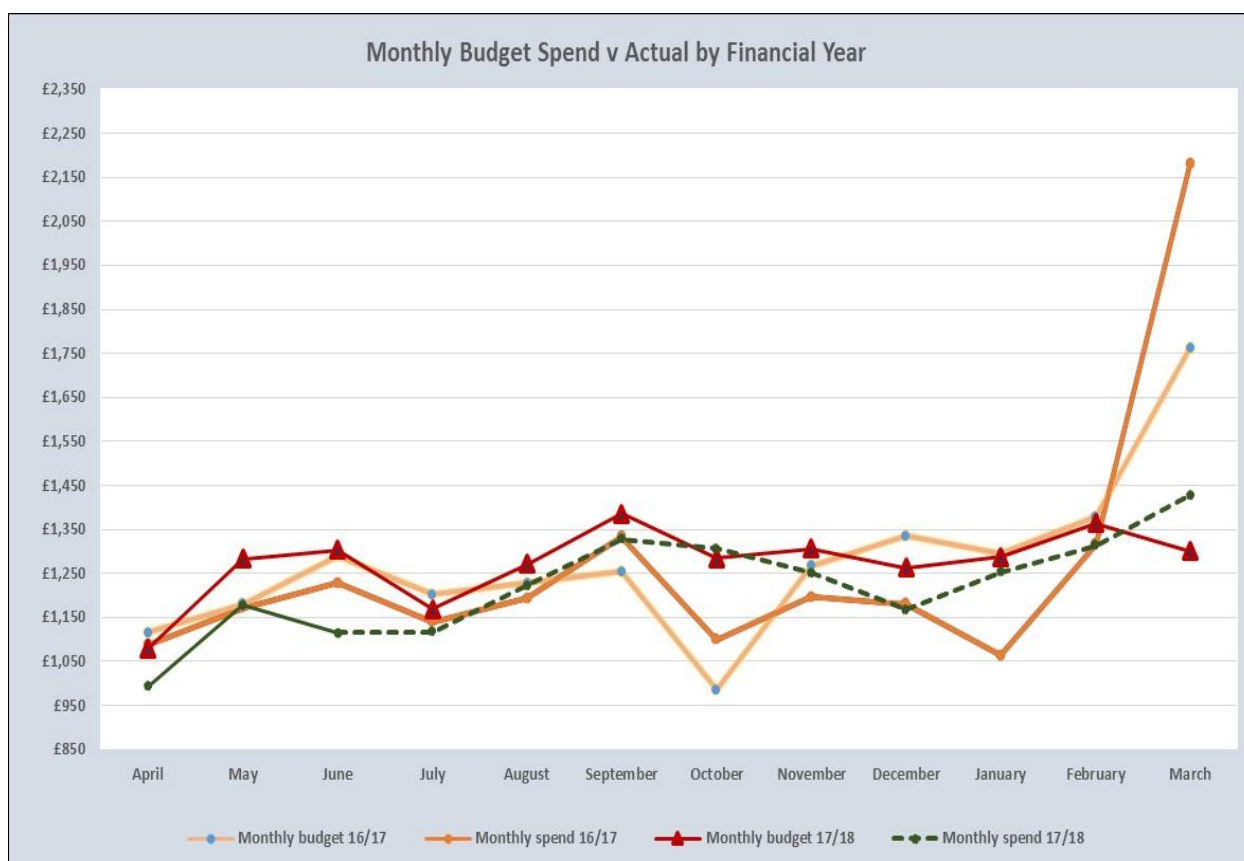


Figure 5 – Year on Year Comparison – monthly budget v actual