

FOOD STANDARDS SCOTLAND FINANCIAL PERFORMANCE UPDATE – QUARTER FOUR 2015/16

1 Purpose of the paper

- 1.1 For information. The Board is asked to note the Quarter 4 Food Standards Scotland (FSS) financial performance report for the 2015/16 financial year.
- 1.2 At 31 of March 2016, FSS was forecasting a provisional outturn of **£15.4m**, which was an increase of **£0.26m** from the full year forecast presented to the Board at the end of Quarter 3 (as at 31 December 2015). This represents an underspend of approximately **£0.3m** based on the 15/16 budget allocation of **£15.7m** or an underspend of approximately **£0.1m** (1%) when compared to the forecast budget of **£15.5m** that was submitted as part of the Spring Budget Revision.
- 1.3 The Board is asked to:
 - **Note** the fourth quarter financial report to the FSS Board
 - **Note** the FSS 15/16 budget has remained at £15.7m following the Spring Budget Revision in January and subsequent decisions being taken by Scottish Government on materiality of budget transfers.
 - **Note** the development of a revised financial performance report for the Board and the intention to present this at the August Board meeting.

2 Strategic Aims

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

3 Background

- 3.1 This is the first budget of Food Standards Scotland and it enables FSS to carry out its functions in relation to food and feed safety and standards, diet and nutrition and any other related interests of consumers. The budget for FSS is met from existing resources within the Scottish Consolidated Fund (SCF) and through income received from industry and other government departments in relation to the delivery of Official Controls in approved meat establishments.
- 3.2 The Budget (Scotland) Act 2015 received Royal Assent on 11 March 2015 confirming the financial provision for the Scottish Administration and certain bodies whose expenditure is payable out of the SCF. The FSS resource budget of £15.7 million (net) was confirmed for 15/16 as part of this provision.
- 3.3 Following a review of forecast outturn during Quarter 3 to finalise the FSS spending plans for the rest of the year, a return of £0.2m was submitted to the Scottish Government through the Spring Budget Revision. The intended outcome of this return was a revised budget for FSS of £15.5m for the remainder of the 2015/16 financial year.

- 3.4 The Board is also aware that the Scottish Government published their spending plans for 2016/17 through the Draft Budget (link¹) on 16 December. This resulted in a net budget allocation of £15.3m (reduction of 2.5% from 15/16). Additionally, SG expect public bodies to deliver efficiency savings of 3% per annum (£459,000 for FSS based on a budget of £15.3m) over the period of the Spending Review and to report publicly on the action undertaken and the results achieved. FSS intend to present the move to SG Main terms and conditions as our main efficiency saving in year as this has been a cost increase that has been absorbed within the reduced budget. The Board will be kept informed of the efficiency savings realised throughout the year as part of the financial report to the Board.

4 Discussion

- 4.1 This financial performance report to the Board covers Quarter 4 of the financial year (December 15 – March 16) and includes the provisional outturn figure for the full financial year. The report has been developed to provide the Board with an overview of the financial performance over the period and to show how FSS has made use of its financial resources.
- 4.2 The current reporting format has been used throughout the first year of FSS's operation and during 16/17 a revised financial performance report for the Board will be developed by a Short Life Working Group, comprising of both Executive and non-Executive members. It is the intention to implement the new reporting format, covering the first quarter of the 16/17 financial year, in time for presenting to the August Board meeting.
- 4.3 Whilst the format of the report is still to be developed, the Board should note the intention to present spend against Strategic Outcomes during 2016/17. Reports on financial performance to the Board will also be more frequent than in 15/16 with bi-monthly reports to coincide with Board meetings and aligned to the relevant points in the financial year.
- 4.4 As part of the Scottish Government's Spring Budget Revision (SBR), FSS identified a forecast underspend of approximately £0.2m. This was submitted as a budget return to Scottish Government which would have resulted in a revised budget for FSS of £15.5m. During May 2016, FSS was informed by Scottish Government Finance that due to the level of materiality relating to budget transfers within wider Scottish Government, the FSS budget remained at £15.7m, but that the forecast underspend identified had been factored into the wider Government outturn figures should the additional budget be required elsewhere across Government.

¹ <http://www.gov.scot/Resource/0049/00491140.pdf>

5 Financial Performance Summary

- 5.1 The financial performance summary for 2015/16 is provided below. Figure 1 presents an overview of the performance over the year and compares the provisional outturn with the Full Year forecast for the period. The forecast profile was revised at the end of Quarter 3 to reflect re-profiling activity across the allocated budget areas of Staff, Administration, Programme, Capital and Income. Figure 1 also shows the Full Year budget allocated at the start of the financial year as an indication of the provisional budget allocation. Going forward, the budget allocation will be re-profiled quarterly should material changes between the budget lines occur.
- 5.2 Overall, the provisional outturn for the financial year is shown as **£15.4m** which reflects an increase in spend over the third quarter of approximately **£0.245m** when compared to the full year forecast at 31 December. Based on the retained budget of **£15.7m**, this represents an underspend of **£0.3m** (2%). A comparative variance has also been shown against the budget return that was submitted during the Spring Budget Revision in January (£0.1m and 1% underspend).

Figure 1 – Quarterly Full-Year Forecast Analysis

£000s	Full Year Forecast at Q4	Full Year Forecast at Q3	Variance £	Variance %	Full Year Budget	Variance £	Variance %	SBR Revised Budget	Variance £	Variance %
Staff	6,526	6,339	(187)	(3%)	6,016	(510)	(8%)			
Admin (Non-Pay)	3,200	3,273	73	2%	3,534	334	9%			
Programme Project Expenditure	8,900	8,859	(41)	(0%)	9,511	611	6%			
Capital	237	100	(137)	(137%)	56	(181)	(323%)			
Income	(3,462)	(3,416)	47	1%	(3,417)	45	1%			
Total	15,400	15,155	(245)	(2%)	15,700	300	2%	15,500	100	1%

Changes to Forecast

- 5.3 The provisional outturn staff costs for the year remained relatively stable when compared to the forecast at the end of Quarter 3. There was a slight increase in temporary staff costs that were not forecast in order to cover some administration staff vacancies that transpired over the period. The primary increase in staff costs, presented above, relates to a provision being made to cover a liability and an expense for accrued but unused annual leave flexi-time balances at the 31 March (**£0.177m**). This was considered higher than normal due to the change to Scottish Government Main terms and conditions, which resulted in staffs annual leave balances being revised from 1 April 2016 to align with the Scottish Government's annual leave year. The increase was reduced slightly through savings realised as a result of the buyout of FSS terms and conditions, following the move to Scottish Government Main pay bargaining, being less than forecast. Actual overtime hours worked across Operations was also lower than forecast for the period.
- 5.4 At the time of writing, there are currently 5 vacancies (either new or existing posts) actively being recruited, with 46 vacancies filled (staff in post or agreed start dates) since April 2015 through either permanent, fixed term or temporary appointments.

- 5.5 The headcount figures (full time equivalent) for permanent or fixed term members of staff has been provided in Table 1 below. At time of writing FSS were also employing 6 temporary members of staff through the Scottish Government contingent workers framework.

Table 1 – FSS Full Time Equivalent Staff

	June 2015	September 2015	December 2015	March 2016
Full Time Equivalent Staff Numbers	145.9	142.7	148.5	156.9

- 5.6 The provisional outturn in relation to Administration expenditure (non-pay) for the year was approximately £0.07 less than forecast at 31 December 2015. The main driver behind the reduction was the reclassification of administration spend to capital (**£0.137m**) relating to accommodation costs, IT equipment and equipment purchased to support the work of the Scottish Food Crime and Incident Unit. The reduction was offset by some small costs materialising during the quarter that had not been forecast (such as the online consultation tool – Citizen Space); an increase in IT spend due to the transfer of correct costs from Scottish Government relating to mobile communications and allocation of travel and subsistence costs, generated in the final two weeks of March, into the 2015/16 financial year. Following the transfer of fixed assets and pension liabilities from FSA to FSS final costs were
- 5.7 As at 31 March, the provisional outturn for the programme budget was **£8.9m**. The outturn costs for the year increased slightly (**£0.041m**) when compared to the forecast at the end of Quarter 3 as a result of the purchase of MenuCal (**£0.13m**). MenuCal is an online tool, developed by the Food Safety Authority of Ireland, and will be developed to assist Scottish food businesses identify and manage allergen information and calculate calories for their menus.
- 5.8 The increase in spend has been offset by some small projects that did take place as planned (an evaluation of the Hygiene and Healthy Eating in Primary Schools project) and where spend was less than originally anticipated (training relating to food incidents and investigation and Official Controls Sampling Officer funding). The Scottish National Database project did not progress as quickly as planned following an extended procurement period and discussions with the successful contractor regarding the scope of the project. This has been carried forward as part of the Branch's forecast programme spend in 2016/17.
- 5.9 The Capital budget's provisional outturn shows an increase of **£0.137m** compared to the forecast at the end of Quarter 3. The increase relates to the capitalisation of certain elements of administrative spend (highlighted in paragraph 4.10), capitalisation of programme spend linked to the purchase of equipment bought for the Scottish Food Crime and Incidents Unit and a small increase associated with the final costs of development work on the FSS Operational Workflow System, that was completed in March.
- 5.10 The provisional income received has increased by approximately **£0.047m** following the reconciliation of the final quarter invoices to Food Business

Operators which are based on actuals and take into account EU minima calculations. Additional income relating to work undertaken on behalf of Scottish Government/DEFRA for animal by product testing and income linked to the FSS role as an SQA Assessment Centre is also being reported that was not included in the Quarter 3 forecast.

5.11 To provide the Board with an overview of how the FSS budget has been spent across the organisation, Table 2 presents a breakdown of the key components of the FSS budget apportioned to each Branch.

Table 2 – FSS Forecast Spend by Branch

Branch	Staff Cost (£)	Admin (Non Pay) Cost (£)	Programme (£)	Capital (£)	Income (£)	TOTAL (£)
Board	104,972	18,197	-	-	-	<u>123,169</u>
Senior Management Team	391,945	105,212	-	-	-	<u>497,157</u>
Private Office	206,201	4,182	-	-	-	<u>210,383</u>
Communications and Marketing	345,742	37,461	1,661,639	56,450	-	<u>2,101,292</u>
Corporate Services	903,605	2,517,282	18,000	132,682	-	<u>3,572,569</u>
Regulatory Policy	428,817	15,549	-	-	-	<u>444,366</u>
Food Safety Science and Surveillance	267,764	23,989	1,432,174	-	-	<u>1,723,927</u>
Nutrition Science and Policy	279,935	12,327	615,378	-	-	<u>907,640</u>
Operational Delivery	2,686,423	288,358	4,831,930	47,880	-3,462,453	<u>4,392,138</u>
Veterinary Management	162,808	54,477	-	-	-	<u>217,285</u>
Enforcement Delivery	538,104	83,657	236,291	-	-	<u>858,052</u>
Scottish Food Crime Unit	80,272	25,753	104,409	-	-	<u>210,434</u>
Audit	129,465	13,797	-	-	-	<u>143,262</u>
TOTAL	<u>6,526,053</u>	<u>3,200,240</u>	<u>8,899,821</u>	<u>237,012</u>	<u>-3,462,453</u>	<u>15,400,673</u>

6 Risks and issues

6.1 The figures presented in this report show the provisional outturn for the year and as such are subject to change. Any potential changes will be identified during the audit of the first annual report and accounts for FSS and the actual outturn may therefore differ, should an material revisions be required. The fieldwork for the audit was delayed due to the late submission of the unaudited accounts to Audit Scotland, however this is now due to complete on the 03 June, with a revised timetable now in place which will see the annual report and accounts presented to the Board on 17 August 2016.

- 6.2 The Board will have noted the revised budget for the 2015/16 financial year as a result of the Scottish Government not implementing the return of £0.2m during the Spring Budget Revision, due to the level of materiality against the wider Health budget. In addition to this, as part of the Machinery of Government transfer between FSA and FSS a non-cash resource Annually Managed Expenditure² (AME) provision was included as part of the financial settlement of £0.35m. The AME provision that was transferred covers the interest payment relating to the ongoing Local Government Pension fund liability which was also transferred to FSS. The AME provision that was transferred has been included in the wider SG Supplementary Estimate however due to the timing of the transfer in 2015/16, the AME budget is not part of the SG budget and will not appear in the final FSS outturn statement or in the annual report and accounts. SG have confirmed that the AME outturn can be accommodated when reporting final outturn for the Scottish Administration but have advised that FSS should discuss with Audit Scotland how best to reflect the AME accounting within the accounts, noting the issues arising from the transfer from FSA.
- 6.3 FSS has finalised its spending plans for 2016/17 following the announcement of the SG draft budget and the conclusion of our annual budget and business planning round. The spending plans were agreed by the Senior Management Team in mid-February and were presented, at a high level against each Strategic Outcome, in the draft FSS Strategy and Corporate Plan that was discussed by the Board at its March meeting. Slightly revised figures will also be presented to the Board in June when discussing and agreeing the Corporate Plan.
- 6.4 Additional pressure has been placed on the 2016/17 budget following the delay of some small elements of project spend in 2015/16 which has carried over into 2016/17. This is currently not material and will be managed by Directors through the financial scheme of delegation that has been implemented. There is also some pressure on the administration budget following the transfer of the pension liabilities and early retirement costs from FSA which were slightly higher than anticipated. A full review of the full year forecast outturn will take place at the end of Quarter 1 and any mitigating action taken as required.
- 6.5 FSS is currently unable to undertake any detailed long term financial planning past 2016/17 due to the one-year budget settlement that was provided by Scottish Government at the last Spending Review. Initial work has begun to review the likely increases relating to staff costs and administration costs where certain assumptions can be made (increase in utility costs, rates etc.). Given the new Government are now in place, FSS will be liaising closely with both Health and Central Finance in Scottish Government to ensure our requirements are fed into the wider discussions on budget allocation post 2016/17. Timescales are unknown at this stage and officials will keep the Board updated with any developments as the year progresses.

² Annually Managed Expenditure is spending that does not fall within Departmental Expenditure Limits (DEL). AME is generally less predictable than expenditure in DEL and is not subject to multi-year limits. It is set each year and contains those elements of expenditure that are not readily predictable, for example NHS and Teachers' pensions. Taken from Scottish Public Finance Manual.

7 Conclusions/Recommendations

7.1 The Board is asked to:

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Garry Mournian
Head of Corporate Services
Garry.Mournian@fss.scot or 01224 285147

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