

Financial approach for 2019/20 and managing the short term financial consequences of Brexit

1 Purpose of the paper

- 1.1 The purpose of this paper is for discussion and to provide the Board with an overview of the process undertaken by the Executive with regards to our budget allocation for 19/20. The paper also seeks Board views on how to manage the short-term financial consequences of Brexit by discussing the likely scenarios we believe should be considered for planning purposes for the 19/20 financial year.
- 1.2 At the time of drafting the paper, our assumed resource budget of £15.6m has been allocated through our annual business planning round by 'rolling forward' budgetary commitments into 19/20. This has resulted in £13.9m of resource budget being allocated to deliver our statutory functions, as well as continued delivery across our Regulatory Strategy and Nutrition programmes but does not include any allocation for new work. In addition to the £13.9m have allocated an estimated requirement of £1.1m for our additional programme that was established to deal with Brexit preparedness.
- 1.3 We have also been informed by the Scottish Government that it is unlikely FSS will receive any additional resource to manage the impact Brexit will have on our work, which will inevitably have an impact not only on continued delivery of our strategy and corporate plan, but on our ability to be adequately prepared for Brexit in which ever form it may take.
- 1.4 The Board is asked to:
- **In the context of Brexit, discuss and provide a view** on the current approach to budgetary management made by the Executive for 2019/20.
 - **Agree** that the unallocated budget be prioritised for Brexit work, or if not, provide a view on allocation of this element of our budget including views on prioritisation of Phase 2 of our Regulatory Strategy ambitions.
 - **Agree** that the Chair should write to Ministers outlining both the short and long-term financial pressures faced by FSS in relation to Brexit.
 - **Note** the significant risks posed by the diversion of resources to Brexit and the consequential impact this may have on continued delivery of our statutory functions.
 - **Note** that following the Board discussion, its views and any decisions made will be taken into account when the Executive update the Financial Management Plan.

2 Strategic Aims

- 2.1 This work supports delivery of all Strategic Outcomes as well as our key programmes of work (Regulatory Strategy and Nutrition) and managing the consequential of Brexit.

3 Background

- 3.1 The Board will be aware of the annual approach the Executive complete each year to determine the best use and allocation of our resource budget. A similar approach has been undertaken this year, however due to the continued uncertainty of Brexit and resource being available to help manage the impact it will have across Government, it has been difficult to plan with any degree of certainty. As such, the Executive took the decision to 'roll forward' our budget commitments from the current financial year into 19/20 so we could ascertain what resource would be available for new work or to support delivery of Brexit consequentials.
- 3.2 In December, as part of the SG draft budget¹, we became aware that our resource allocation for 19/20 would be £15.6m. This reflects an increase of £0.3m from our original 18/19 allocation (£15.3m) and is a result of resource budget being transferred to FSS to offset the costs associated with the delivery of feed official controls from April 2019. This is against the backdrop of real-terms cuts to our budget year-on-year since April 2016 which is a cumulative cut of around 10%-12% in real terms over 4 years. Our existing budget allocation was developed on the basis of FSS operating within a EU based system. One way or another, that is going to change and these changes will be long term. There are expected to be significant new and ongoing costs to FSS of the functions repatriated from the EU – a material change from when the FSS budget was original constructed, yet with as yet, no additional budget to deliver them.
- 3.3 The Board will also be aware that during 18/19 our budget was increased by £0.885m following a successful bid for Brexit consequentials funding which resulted in a revised resource allocation of £16.2m. This funding was provided in-year on a one-off basis and did not guarantee any additional budget in future years. The additional budget largely offset the resource we had allocated to our Brexit programme, allowing funding to be allocated to support further delivery of our strategy and corporate plan. In fact for 18/19 our Brexit expenditure is estimated to have exceeded the additional allocation by £0.2m which has meant we've had less to spend on delivering our planned work for the year.
- 3.4 In November 2018, we were asked by SG to undertake a review to estimate the potential impact Brexit consequentials would have on resource demands across our broad range of functions and responsibilities. At that time we estimated that under a No Deal worst case scenario there would be an additional resource requirement of between £5.7-£6.5m: i.e. 37%-41% of our existing budget.
- 3.5 During January, it has become clear that despite providing these estimates to SG, so far there has been no additional budget available to FSS for Brexit consequentials for 2019/20 and beyond, and discussion is now required to understand the impact this has in terms of continuing to deliver our statutory functions and agreed strategy against the backdrop of Brexit and the financial pressures it is likely to cause in the absence of any new funding.

¹ <https://www.gov.scot/publications/scottish-budget-2019-20/pages/7/>

4 Discussion

- 4.1 It is important for the Board to understand and ultimately approve the planned allocation of resource across our 6 strategic outcomes (core activity) and key programmes and the high level allocation is shown in Annex A.
- 4.2 Our budget for delivering essential core activity has been allocated across the areas shown in Figure 1 as well as an indication on how the budget is directed across each of the six strategic outcomes. Our Staff budget has been allocated on the basis of all agreed posts being funded for the full financial year and a roll-forward of our Administration (running costs) budget has ensured ongoing costs can be met. Our programme budget allocation across core activity is largely based on continued obligations around the delivery of official controls (£4.9m); Local Authority enforcement delivery support & Food Crime/Incidents management (£0.25m); food safety research (£0.15m) and; Communications and Marketing (£0.1m).
- 4.3 Annex A also provides the Board with an overview of the budget allocated to our key programmes of work and the £1.1m that has been allocated to the additional work we've had to undertake to support Brexit preparedness despite receiving no additional resource from SG to support Brexit delivery.
- 4.4 Over and above the provisional allocation shown above, our budget planning round saw additional funding bids of circa £3.1m for new work to further support the delivery of our strategy and corporate plan. As it currently stands no new bids have been given approval by the Executive.
- 4.5 The bids for new work have been through a degree of prioritisation that will require further discussion by the Executive, and this is ongoing, however the intention is that this will support both the Executive and Board to make decisions on what may or may not be funded depending on the final financial position we find ourselves in.
- 4.6 As a result of this and the inevitable pressure Brexit will place on our existing budget allocation, the Executive have determined that for planning purposes, there are 3 likely scenarios which need to be considered. It is therefore important at this stage to discuss with these with the Board, as well as the wider impact each may have on our budget and any subsequent allocation that the Board agree. The Board may also wish to consider whether there is any scope to do anything over and above delivering our statutory obligations and our other key programmes of work, as well as doing what we must to deliver the consequential of Brexit, or whether we need to consider rolling back on areas where current financial commitments have been made to support delivery of Brexit and other strategic priorities determined by the Board.
- 4.7 The three scenarios to discuss are:

Scenario A – A no-deal Brexit

For this scenario, it is likely to mean that our organisational focus will have to be on dealing with all the consequences of No Deal. The Executive therefore

recommend to the Board that for this scenario, we would formally allocate the £13.9m that is already committed, the £1.1m required to support Brexit delivery and reserve the remainder from the £15.6m to deal with whatever flows from No Deal and that we cannot predict. We are having discussions with SG about the particular consequence of No Deal for FSS and still hope to secure additional resources for dealing with EU exit. If that happens then there may be some flexibility and we would seek to discuss priority areas of delivery with the Board. At the current time, we have estimated potential costs associated with a No Deal scenario to be approximately £6.5m

Scenario B – Some form of transition deal

This assumes a transition which essentially means that our Brexit programme will need to be delivered (including relevant elements of the Regulatory Strategy) but we will have some ability to make an assessment of what else we might be able to deliver given the longer timeframe for implementation. This is likely to be additional elements of our Regulatory Strategy and Nutrition programmes. That would then mean allocating resources against what capacity we had left and what the Board would see as strategic plan priorities. As per Scenario A there might be more scope to re-visit spending priorities if we secured additional funds for Brexit but at the current time the allocation for next year has yet again been frozen so it limits our options going forward. At the current time, we have estimated potential costs associated with a transition scenario to be approximately £5.7m.

Scenario C – Brexit doesn't occur

Whilst the UK Government continues to make clear that it intends to deliver Brexit on time and has no intention of extending Article 50, we consider that for planning purposes, we should nonetheless consider a scenario where Article 50 is extended, or Brexit doesn't occur. An extension of Article 50 may be more akin to Scenario B but would likely still require continued contingency planning for a no deal outcome. If Brexit doesn't go ahead at all then it would release around £1.1m that we have committed to Brexit for re-allocation – noting that the majority of this £1.1m is staff costs and therefore staff activity could be redirected to deliver other priorities.

- 4.8 What is clear though, under any of these scenarios, is that the balance of what is left after our ongoing obligations and commitments is around £0.6m and that doesn't take into account any new or additional pressures that may arise. Whilst we are looking at resource allocation and commitment through a Brexit lens, we also need to be acutely aware that even by putting Brexit to one side, our budget no longer has the flexibility it once had, as long as our allocation from SG remains flat lined and we will all be required to make some tough decisions going forward.
- 4.9 When considering the scenarios above it is also worth noting that other priorities within the Regulatory Strategy, agreed by the Board, have been moved to the right in the short-term whilst we deal with Brexit matters. As such, a number of workstreams have been moved into a Phase 2 category which outlines our longer term regulatory ambitions that are on hold until post EU exit. The workstreams

are outlined at Annex B and the Executive would welcome Board views on what they see as priorities should there be any spare resource capacity.

5 Identification of risks and issues

- 5.1 As part of our approach to managing risk, we have already identified that one of the main risks we face as an organisation is our budget being reduced or that it is insufficient due to new pressures, such as Brexit, or wider financial pressures across the Scottish administration. The impact of this risk materialising is broadly outlined within this paper and would ultimately result in the Board having to consider solely focussing on delivering out statutory requirements, or in the context of Brexit delivery, scale back on statutory obligations and strategic plan delivery through reprioritisation, all of which may ultimately have a detrimental impact on public health protection and consumers in Scotland.

6 European Union considerations

- 6.1 Whilst the UK Government's intention continues to be that the UK will leave the EU by the end of March, FSS will still need to commit resources to keeping up with developments on EU food and feed law, and notwithstanding the nature of the UK's future relationship with the EU, we will still need to invest effort into EU and indeed international matters that thus far, the EU has taken the lead on, e.g. on Codex, the international body for food safety standards. In summary, leaving the EU does not reduce or remove the need for us to be engaged with the EU.

7 Conclusion/Recommendations

- 7.1 Dealing with the consequential of Brexit and continued uncertainty about which scenario will materialise has made it more challenging for the Executive to allocate our limited resource to ensure we still meet our statutory functions, and deliver the Board's strategic priorities to protect public health. The proposed allocation allows continued delivery of these statutory functions and elements of our Regulatory Strategy and Nutrition programmes whilst allocating a provision for what we estimate will be required to continue to manage the impact of Brexit.
- 7.2 What is clear is that the work required to deliver Brexit consequential across our remit is key to protecting public health, as we'll be carrying out functions that previously were delivered by the EU and EC to ensure public health protection. As such, committing additional resource on Brexit isn't not directing it on public health, but it's new burden and without additional funding, will prevent us from spending it in other priority areas the Board has agreed through the strategy and corporate plan and will also put increased pressure on our ability to meet our statutory obligations.
- 7.3 The Board is asked to:
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Annex A – 2019/20 Provisional Budget Allocation

Budget and Strategic Outcomes Summary	Food is safe	Food is authentic	Consumers choose a healthier diet	Responsible food businesses flourish	FSS is a trusted organisation	FSS is efficient and effective	Total Core Activity	Brexit Work Programme	Diet & Nutrition Work Programme	Regulatory Strategy Work Programme	Total Work Programme	Total Budget Allocation
Staff	3,267,387	717,865	497,948	660,008	1,001,284	812,429	6,956,922	813,304	522,628	607,459	1,943,390	8,900,312
Administration	883,693	518,558	495,318	501,300	641,188	563,713	3,603,770	43,274	52,311	108,368	203,952	3,807,723
Programme	4,452,799	316,029	0	49,333	316,196	219,197	5,353,554	250,000	55,867	0	305,867	5,659,421
Capital	0	0	0	0	0	0	0	0	0	0	0	0
Income	(2,363,465)	(344,066)	0	(7,500)	(344,066)	(336,566)	(3,395,664)	0	0	0	0	(3,395,664)
Total Core Activities	6,240,414	1,208,386	993,266	1,203,142	1,614,602	1,258,773	12,518,583	1,106,578	630,805	715,826	2,453,209	14,971,792
% of budget allocated to strategic outcome	50%	10%	8%	10%	13%	10%						

Annex B – Regulatory Strategy Phase 2 Workstreams

4.1 – Enhanced Registration/Prior Approval

4.2 – Understanding and Enabling Business Compliance

4.3 – Regulated Private Assurance

4.4 – Food Hygiene Information Scheme Review

4.5 – Penalties and Sanctions

4.6 – Sustainable Funding

4.7 – Future Meat Controls

4.8 – Appeals and Complaints