

FOOD STANDARDS SCOTLAND FINANCIAL PERFORMANCE UPDATE – February 2020

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 31st December 2019.

1.2 At the end of Q3 FSS was reporting a provisional outturn of £17.8m against the internally allocated resource budget of £18m, representing a projected 0.1% underspend against budget.

1.3 The Board is asked to:

- **Note** the financial information and expected end year position reported as at 31 December 2019.
- **Note** the approved budget of £16.3m, updated at the Autumn Budget Review (ABR), comprising resource and Annually Managed Expenditure (AME).

2. Background

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

2.2 The total approved FSS budget for 2019/20 is £16.3m. This comprises resource budget of £15.9m, which includes budget for the increase in employer pension contribution for this year, and AME of £350k. The AME budget provides for the FSS pension liability provision.

2.3 Additional funding of up to £2.3m has been requested as part of the Spring Budget Review (SBR) to manage the consequential impact that Brexit will have across the scope of its remit. To date £2.1m of budget has been allocated against this funding which incorporates the FSS Brexit work programme. This paper provides details of the allocation of the FSS resource budget between each of the three work programmes and the essential core activities.

2.4 The Executive reports its financial performance for the core activities against the six strategic objectives to provide an indication on the effective use of resources to deliver against the Strategy and the Corporate Plan. The report on the budget and expenditure for the three work programmes is included as part of the review of the total FSS budget.

3. Financial Performance Summary

3.1 Annex A provides the tables and charts that show the budget, forecast and actual amounts for the financial year 2019-20. The financial performance is based on both the revised budget figure and the updated forecast that is reviewed on a monthly basis.

YTD Budget v Actual expenditure

3.2 The quarterly budget profile presented in the Year to Date Performance (Figure 1) is based on the updated budget allocation and profile provided by Branches in August 19. The actual spend for the last three quarters when compared to the budget profile was £666k under budget. The main budget categories contributing to this underspend are, Staff £501k, Admin £183k and Programme £31k. There was an overspend in Capital of £58k. There was also an increase in income of £9k.

3.3 The Allocation of Resource Expenditure (Figure 2b) gives additional detail behind the five budget lines in Figure 1 and also includes the quarterly summary details of the budget and expenditure against the three work programmes. For each element, variances are reported comparing budget at end of Quarter 3 versus actual expenditure and full year budget versus forecast outturn, as well as explanation for any differences.

3.4 Further detail of the quarterly underspend is as follows -

Staff: less actual spend than what was budgeted for mainly due to the expected staffing levels set in April not being met due to ongoing vacancies across the organisation as well as delays in recruiting new staff into vacant posts. (see paragraph 4.6)

Admin: less actual spend against budget in a number of areas including advertising, training, travel and subsistence, depreciation costs and reprofiling of costs for support and maintenance for IT systems to later months.

Programme: reduction in actual spend as the Allergens and the Feed sampling projects delayed with their related costs moved into the last quarter of the year, £10k of the Allergens project will be moved to 2020/21. The reduction was offset with additional legal costs for the Brexit work programme.

Capital: increased spend due to additional costs for contract licences and irrecoverable VAT for the Operational Workflow System (OWS).

YTD Spend against Strategic Outcomes

3.5 At the end of December, 71% of the FSS budget allocated to Core Activities as outlined in Figure 4 had been spent delivering the Corporate Plan, which is slightly under the 73% expected at this point in the year. There is expected expenditure in most outcomes, with outcome 2 Food is Authentic, outcome 4 Responsible Food Business flourish and outcome 5 FSS is a Trusted Organisation showing a greater underspend at the moment. This is mainly due to recruitment being delayed for ongoing vacancies and spend being profiled to later in the year.

3.6 Within Staff there are some increased cost allocation of staffing costs to core activities from work programmes mainly within the first quarter. During the second and third quarter the actual outturn of the staff costs to the work programmes was more in line with the forecasts for these months.

Forecast Accuracy v Actual expenditure

3.7 Through the 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.

3.8 The information presented in Figure 4 allows us to identify quickly 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 quarterly variance of the actual expenditure against forecast of £201k for each of the last three months.

October 19: the overspend of £1k was due to an increase in the cost of the Shellfish Hygiene System SHS2 project being offset with underspend in staff due to delays in recruiting staff and reprofiling of spend to next quarter for advertising and IT systems.

November 19: the underspend of £76k mainly relates to underspends in Programme for official controls work, projects under Comms & Marketing and the delay in the allergens project within the Regulatory Strategy programme. There was also less spend in Admin for various budget lines including advertising and social media as well underspend in Capital for the OWS project. These reductions were offset with a notable increase in expenditure in Staff due to a payment of backdated employer contributions for the Local Government Pension Scheme (LGPS).

December 19: the underspend of £125k in Programme was due to reduction in expenditure as well as reprofiling of expenditure into Q4 for the Sanitary Surveys project within the shellfish monitoring programme. There were also reductions due to delays in starting the Allergens and Feed Sampling projects.

3.9 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. Explanations for variances have been provided in the previous paragraphs. The budget and actual performance for 2018/19 is provided to enable comparison between financial years.

Full Year Forecast

3.10 As per the updated forecast from January the forecast expenditure of £17.8m is an underspend of £211k (1%) for the year against the budget of £18m allocated in August 19. The forecast expenditure has increased by £0.2m since the last report. The FSS budget and forecast summary (Figure 2a) shows the budget allocation to Core Activities and Work Programmes with the latest forecast expenditure and variances against the budget.

3.11 In Figure 2b the Full Year budget and forecast columns give additional detail behind the budget lines including variances. There are under/over forecasts against each category area with underspend in Staff costs significantly impacting on the underspend.

3.12 The overall overspend in Core Activities is partially due to an increase in the Programme expenditure for delivery of official controls for shellfish sampling officers.

3.13 There is a forecast underspend for the Work Programmes against the budget allocation of £313k with variances against each individual work programme. The main differences are as follows:

Staff: decrease of £372k due to less staff working on the work programmes than what had been profiled at the start of the year due to the Brexit uncertainty resulting in staff moving back to business as usual, along with ongoing vacancies and delays in recruitment. The decrease is offset by an overspend in Programme due to additional legal costs and two new projects not previously forecast.

4. Risks, Issues and Highlights

4.1 The current approved budget for FSS is £16.3m which includes an AME budget of £350k. At the Spring Budget Review in December FSS requested a final budget of £2.3m for EU Exit Consequentials as well as an additional AME budget of £300k to cover the LGPS liability provision. Once approved the total budget for FSS will be £18.9m for 2019/20. SG Health Finance will inform us when the revision to the Budget Act 2019 is in place.

4.2 FSS has challenged the costs from Scottish Government Legal Department and at the time of writing this paper we have had confirmation that this cost will be reduced resulting in an increase to the underspend.

20/21 Budget

4.3 As set out in the proposed Scottish Budget 2020-2021 FSS has been allocated £15.6m resource and 0.4m AME budget for the next financial year. This excludes the additional budget approved as a result of the EU Exit consequential business case and SG Health officials have indicated this will be allocated at the Spring Budget Review. This will be explained in more detail in the paper Financial approach for 2020/21.

4.4 The Senior Management Team (SMT) has developed a programme of work to take forward the restructure of the organisation to address the longer term capacity and capability issues that the organisation faces as a result of Brexit. An overview is also provided in the paper - Financial approach for 2020/21. Work will continue to develop the business planning and budget allocation for this year and an updated will be provided to the Board at the next meeting.

Reporting

4.5 Details are provided below on the financial performance over the quarter as outlined in the Financial Performance targets section of the Financial Management Plan.

4.6 At the start of the year 195 posts were agreed and budgeted for as part of the business planning exercise for 2019/20, this was increased due to the staff transferred in through the TUPE exercise during quarter 2. The Staff Complement table (Figure 6) provides the posts that were filled at the end of December. During the quarter a number of posts were vacant with some covered either by staff on fixed term appointments or interim workers. Thirteen interim workers were employed on a temporary basis at the end of December. There were twenty eight vacancies at the end of the period, with two member of staff on maternity leave. Recruitment is progressing to fill these vacancies with some on a permanent basis.

4.7 FSS, along with the whole of SG, has a target to pay all its supplier invoices within ten days of receipt. The Supplier Payments table (Figure 7) gives details of the performance in this area over the quarter. An average of 97.7% of the invoices have been paid within the ten day payment target during the quarter. Payment performance can be affected by a number of factors including staff available to process payments and also to approve the invoices for payment. All invoices have been paid with the standard 30 day contract terms.

4.8 There is a need to monitor efficiency savings in order to report against targets (3%) set by SG. Following comments made by the Board consideration is being given to the reporting of efficiencies and any related savings. Some discussion around best value assessment has taken place with Audit Scotland and our financial accountant is taking forward the work to develop a framework that will be used by FSS.

4.9 At the end of December the cash drawn down from the Scottish Government relating to the 2019/20 budget was £11m. The bank balance as of 31 December was £1.1m.

Outstanding payments (debt recovery)

4.10 At the end of December the level of outstanding debt over the accepted 31 day payment term was £142k with £80k of this amount over 61 days from date of invoice. The total debt over 31 days decreased by £17k (11%) compared to the previous quarter and a reduction of 42% from this level at the end of December 2018 when it stood at £201k. This is mainly as a result of

implementing new procedures to deal with outstanding payments during the quarter, along with businesses in liquidation being written off.

4.11 FSS actively monitors outstanding payments and takes action with either reminder letters being issued to Food Business Operators (FBOs), senior management contacting them to discuss reasons for non-payment and then passing to the debt management contractor where required. FSS staff now contact any business that have debt over 31 days in the first week of the month. Where payment has not be received by the middle of the month then a 7-day letter is issued by our contractor. These further actions have resulted in a continued reduction in our outstanding debt in the quarter.

4.12 FSS continues to work with Harper Macleod to reduce the amount of outstanding debt. There is one businesses currently in liquidation. Harper Macleod is working with the liquidator to recover the outstanding debt from them with a total value of £3k. There is one businesses currently on a payment plan to reduce their older debt.

4.13 FSS will also continue to report updates in the finance performance report and to the Audit and Risk Committee (in relation to debt and significant losses).

5. Conclusions/Recommendations

5.1 The Board is asked to:

- **Note** the financial information and expected end year position reported as at 31 December 2019.
- **Note** the approved budget of £16.3m, updated at the Autumn Budget Review (ABR), comprising resource and Annually Managed Expenditure (AME).

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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 31 December 2019. The performance is based on comparing the actual spend for the year with the budget profile as updated during the financial year.

£'000	19/20 Budget	Budget Profile 19/20				Actual Spend 19/20				Variance	Var %
		Q1	Q2	Q3	YTD	Q1	Q2	Q3	YTD		
Staff	10978	2431	2519	3024	7974	2292	2293	2887	7472	(501)	-6%
Administration	3959	976	920	971	2868	816	879	990	2685	(183)	-6%
Programme	6028	1450	1443	1664	4558	1483	1535	1508	4527	(31)	-1%
Capital	450	57	133	90	280	94	38	206	339	58	21%
Income	(3452)	(836)	(857)	(882)	(2575)	(857)	(857)	(871)	(2584)	(9)	0%
Total	17964	4079	4159	4867	13104	3829	3889	4720	12438	(666)	-5%

Figure 1: Year-to-Date Performance

Figure 2a provides a summary of the FSS budget and forecast including details for Core Activities and the Work Programmes.

Directorate / Branch	Revised Budget allocated Sep-19	Forecast Jan-20	£'000 Variance	% Variance	Actual Spend to Date	% of Budget Spent
FOOD STANDARDS SCOTLAND	17,964,080	17,753,493	(210,587)	-1%	12,438,445	69%
FSS CORE ACTIVITIES	13,712,706	13,815,263	102,558	1%	9,768,257	71%
WORK PROGRAMMES	4,251,374	3,938,229	(313,145)	-7%	2,670,187	63%
Brexit	2,087,304	2,031,299	(56,005)	-3%	1,514,116	73%
Diet and Nutrition	849,109	691,001	(158,107)	-19%	379,991	45%
Reg Strategy	1,314,962	1,215,929	(99,033)	-8%	776,080	59%

Figure 2a – FSS Budget and Forecast

Figure 2b expands the budget lines in Figure 1 to provide detail of expenditure contributing to the totals. The table provides the comparison of Budget v Actual for Quarter 3 and updated forecast for Q3 onwards.

Category	Allocation of Budget	YTD Budget Q3	YTD Actual Q3	Forecast Variance Budget to Actual	%	Explanation for variance	Revised Budget September 19	Full year Forecast	Variance Forecast v Budget	%	Explanation for variance
Staff	Core Activities	6,404,942	6,244,477	(160,465)	-3%		8,846,179	8,591,536	(254,643)	-3%	
	Brexit Work Programme	699,790	569,130	(130,660)	-19%		973,631	835,710	(137,921)	-14%	
	Nutrition and Dietary Health Work Programme	407,192	297,406	(109,786)	-27%		542,927	405,196	(137,731)	-25%	
	Regulatory Strategy Work Programme	461,700	361,457	(100,243)	-22%		615,593	519,552	(96,041)	-16%	
	Total	7,973,623	7,472,468	(501,155)	-6%	Underspend as a number of vacant posts throughout the organisation not been filled by end of third quarter.	10,978,330	10,351,994	(626,336)	-6%	Underspend is mainly due to ongoing vacancies across the organisation along with delays in recruiting new staff.
Admin	Core Activities	2,683,915	2,549,826	(134,089)	-5%		3,723,326	3,775,579	52,253	1%	
	Brexit Work Programme	60,376	41,549	(18,827)	-31%		71,222	89,471	18,249	26%	
	Nutrition and Dietary Health Work Programme	42,021	21,215	(20,806)	-50%		56,300	47,780	(8,520)	-15%	
	Regulatory Strategy Work Programme	81,252	72,069	(9,183)	-11%		108,369	105,376	(2,993)	-3%	
	Total	2,867,564	2,684,659	(182,905)	-6%	Underspend due to branches reprofiling spend to later in the year along with other costs being under budget	3,959,217	4,018,206	58,989	1%	Increase spend due to additional legal costs, increase in IT System Support and rent charges
Programme	Core Activities	3,484,918	3,469,798	(15,120)	0%		4,541,114	4,744,197	203,083	4%	
	Brexit Work Programme	827,356	849,287	21,931	3%		942,451	1,006,119	63,668	7%	
	Nutrition and Dietary Health Work Programme	62,882	61,371	(1,511)	-2%		249,882	238,025	(11,857)	-5%	
	Regulatory Strategy Work Programme	182,834	146,258	(36,576)	-20%		295,000	295,000	(0)	0%	
	Total	4,557,990	4,526,714	(31,276)	-1%	Overall underspend due to project reprofiled to next quarter (Allergens & Feed sampling projects. There was an increase spend in Brexit due to increase in legal costs.	6,028,447	6,283,341	254,894	4%	Overall increase in forecast - Core increase forecast for Sampling Officers; Brexit increase due to additional legal costs and two new projects. This was offset by an underspend in Nutrition & Dietary Health WP due to projects not going ahead.
Capital	Core Activities	54,000	88,192	34,192	63%		54,000	144,502	90,502	168%	
	Brexit Work Programme	20,250	54,150	33,900	167%		100,000	100,000	-	0%	
	Nutrition and Dietary Health Work Programme	-	-	-	0%		-	-	-	0%	
	Regulatory Strategy Work Programme	206,000	196,297	(9,703)	-5%		296,000	296,000	0	0%	
	Total	280,250	338,639	58,389	21%	Overall over spend is due to additional Civic Contract Licence along with work budgeted for later in the year being undertaken in Q3. This is offset by increase in cost of work undertaken by CEFAS.	450,000	540,502	90,502	20%	New spend for Civic Contract Licences and VAT being non recoverable
Income	Core Activities	(2,574,953)	(2,584,036)	(9,083)	0%		(3,451,913)	(3,440,550)	11,363	0%	
	Brexit Work Programme	-	-	-	0%		-	-	-	0%	
	Nutrition and Dietary Health Work Programme	-	-	-	0%		-	-	-	0%	
	Regulatory Strategy Work Programme	-	-	-	0%		-	-	-	0%	
	Total	(2,574,953)	(2,584,036)	(9,083)	0%	Slight increase in income for the delivery of official controls work.	(3,451,913)	(3,440,550)	11,363	0%	No change. Slight reduction from the forecasted income to end of Q3
FSS TOTAL		13,104,475	12,438,444	(666,031)	-5%		17,964,081	17,753,493	(210,588)	-1%	

Figure 2b – Allocation of resource expenditure

Core Activities YTD Spend against Strategic Outcomes

Figure 3 provides an overview of the Budget v Actual spend in comparison to the yearly budget allocated to each outcome.

Strategic Outcomes	FY 2019-20	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	8,846,179	4,383,531	891,697	543,311	750,320	1,246,102	1,031,219
	Actual	6,244,477	3,070,958	636,555	431,521	526,066	868,309	711,069
Administration	Budget	3,723,326	945,173	532,421	496,502	506,453	660,126	582,651
	Actual	2,549,826	626,769	368,514	352,270	348,682	449,956	403,634
Programme	Budget	4,541,114	3,289,165	385,869	10,167	187,667	550,198	118,048
	Actual	3,469,798	2,754,069	218,448	1,827	108,761	277,181	109,513
Capital	Budget	54,000	27,000	0	0	0	0	27,000
	Actual	88,192	36,380	0	0	0	15,437	36,375
Income	Budget	(3,451,913)	(2,425,339)	(342,191)	-	-	(342,191)	(342,191)
	Actual	(2,584,036)	(1,814,492)	(256,515)	-	-	(256,515)	(256,515)
Total	Budget	13,712,706	6,219,529	1,467,796	1,049,980	1,444,440	2,114,234	1,416,727
	Actual	9,768,257	4,673,683	967,002	785,618	983,509	1,354,368	1,004,076
	% of budget spent	71.2%	75.1%	65.9%	74.8%	68.1%	64.1%	70.9%

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

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 red, amber or green depending on level of forecast accuracy. 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.

FSS Forecast													
£000s	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	2019-20 FYF
Budget	1,296,873	1,389,363	1,392,447	1,279,554	1,308,056	1,274,787	1,277,838	1,230,664	1,271,006	1,212,724	1,222,195	1,469,482	15,624,990
April Forecast	1,293,087	1,325,908	1,368,866	1,292,386	1,231,224	1,199,202	1,204,632	1,117,952	1,112,728	1,052,978	1,059,835	1,236,028	14,494,825
May Forecast	1,312,774	1,263,210	1,395,633	1,321,983	1,237,577	1,210,959	1,207,080	1,093,953	1,085,104	1,152,303	1,091,098	1,237,678	14,609,352
June Forecast		1,270,066	1,378,372	1,328,543	1,280,812	1,243,143	1,236,394	1,132,901	1,102,051	1,181,931	1,114,394	1,276,009	14,857,388
July Forecast			1,246,337	1,362,789	1,377,026	1,306,942	1,340,704	1,219,236	1,137,673	1,295,017	1,218,405	1,414,701	15,503,168
August Forecast				1,334,021	1,390,642	1,379,029	1,405,576	1,249,152	1,220,923	1,492,142	1,373,618	1,754,172	16,428,752
September Forecast					1,294,825	1,351,162	1,546,278	1,382,801	1,315,257	1,598,732	1,482,504	1,809,347	16,944,404
October Forecast						1,259,704	2,086,889	1,436,645	1,353,682	1,595,267	1,475,052	1,902,037	17,567,598
November Forecast							2,088,024	1,488,708	1,380,266	1,589,856	1,532,315	1,875,008	17,672,205
December Forecast								1,412,316	1,345,458	1,665,958	1,609,584	1,959,870	17,799,237
January Forecast									1,220,077	1,751,417	1,611,636	1,951,996	17,753,494
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 2018/19 and 2019/20 financial years. It is important to point out that the Monthly Budget information provided uses the initial budget profiles in each year.

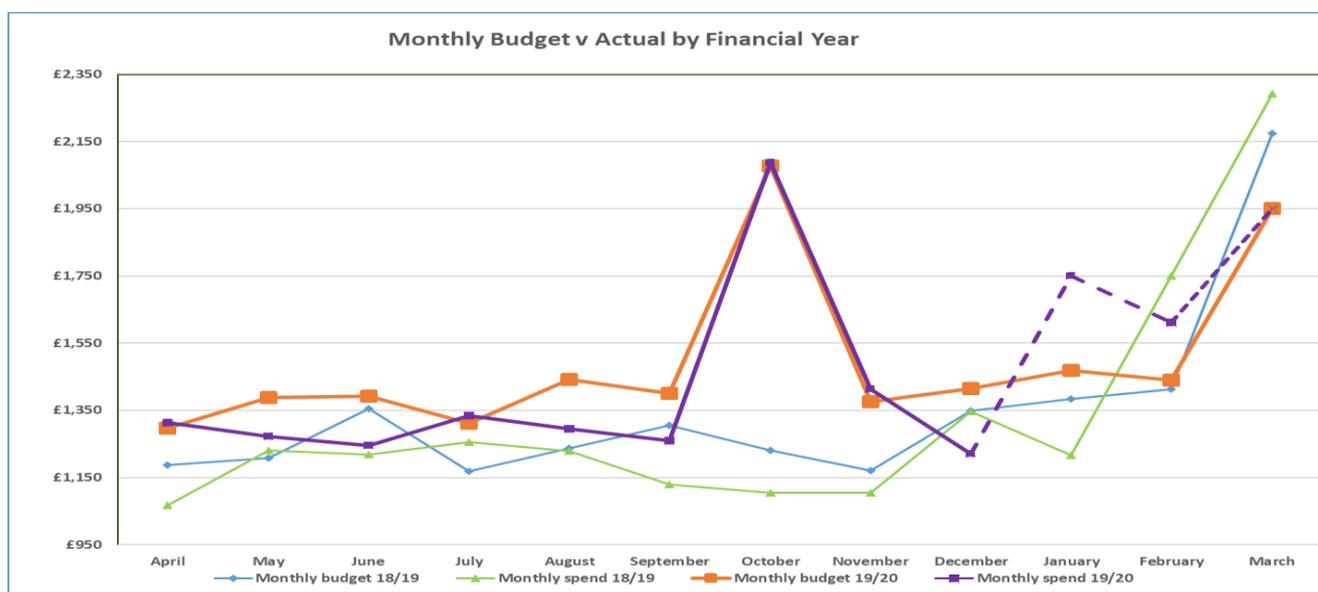


Figure 5 – Year on Year Comparison – monthly budget v actual

Description	Staff Complement
Budgeted Posts (FTE)	195
Total FTE (end December)	234
Vacancies (end December)	28
Agreed Posts January onwards	262

Figure 6 – Staff Complement

Month	Number of invoices	Percentage of Invoices Paid in Ten Days
Apr-19	278	95%
May-19	227	96%
Jun-19	159	93%
Jul-19	198	94%
Aug-19	181	94%
Sep-19	247	77%
Oct-19	291	97%
Nov-19	263	97%
Dec-19	283	99%
Total to date	2127	94%

Figures 7 – Supplier Payments