

## Financial Approach for 2025/26

### 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 Management Team (EMT) with regards to our budget allocation for 2025/26.
- 1.2 In December 2024, FSS was been allocated an administrative budget of £23.1m for the next financial year which includes (as detailed in the [Scottish Budget: 2025 to 2026](#)):
  - £22m of the fiscal resource budget,
  - non-cash (depreciation) budget of £0.7m,
  - £0.4m for Annually Managed Expenditure (AME).
- 1.3 Since the budget requirement return submission in November 2024, FSS has been in a continuous dialogue with DG Director-General Health & Social Care highlighting the estimated budgeting pressures in 2025-26 expenditure.
- 1.4 In March 2025, FSS received a letter of comfort from the Scottish Government acknowledging the identification of the core operating pressure of £2.5 million against the published budget.
- 1.5 An expenditure requirement of £25.2m net of income will be used to deliver the priorities for the organisation including our statutory functions for food and feed and Diet and Nutrition work as well as core business activities.
  - The Board is asked to:
  - **Discuss and provide a view** on the expenditure requirement for the resource budget made by EMT for 2025/26 in line with the Framework Document requirement in paragraph 3.8.
  - **Note** the risks and issues being considered as part of the final budget allocation for 2025/26.
  - **Agree** next steps and **confirm** it's position on the proposed £22.7m net allocation
  - **Note** the intention to work with SG health finance earlier this year for 2026/27 and the commitment to review the FSS 2025/26 financial position as part of the normal ABR and SBR budget revision process.
  - **To discuss** the merits of a more strategic review of scope and functions in paragraph 5.10.

### 2 Strategic aims

- 2.1 This work supports delivery of all the strategic outcomes and goals in our strategy to 2026 with the focus on the final year detailed in the new corporate plan for 2024-2026.

### 3 Background

- 3.1 The Board will be aware of the annual approach EMT complete each year to determine the best use and allocation of our resource budget. A similar approach is being undertaken this year.
- 3.2 We have not yet finalised budget planning for the year however can provide the initial overview of budget requirements.
- 3.3 Our baseline resource allocation for 2025/26 is £22.7m. This is the same resource budget that was allocated for 2022/23, 2023/24 and for 2024/25 and is a real terms cut in our budget by approx. £0.6m due to current inflation rates. Alongside the real terms cut is the pressure of increasing staff and non-staff costs which adds significantly to the funding pressures. FSS has also not been allocated any of the consequential from FSA's budget increase and we are still awaiting decisions on employers NICs which would add a further £300k pressure.
- 3.4 SG health finance colleagues have noted that in common with the overall Scottish Budget and wider public finances, the health and social care budget is set against continued and unprecedented financial challenge. Whilst the 2025-26 Scottish budget provides a funding uplift for the portfolio, health and social care services remain under severe pressure and the extent of challenges faced will not be addressed in a single budget or year. Against this backdrop, there is a need to continue to drive efficiency and effectiveness across government which of course includes public bodies.
- 3.5 SG colleagues have also recognised that we have a core operating pressure of £2.5 million identified against the published budget and are keen to work with FSS to further understand the issues raised and any opportunities to minimise the financial pressure in 2025-26 whilst also allowing FSS to fulfil its statutory duties.
- 3.6 Within the Government there is an Autumn and Spring Budget Review which is the normal process for making adjustments to address budget challenges and changes during the financial year. SG have therefore agreed that as part of the ABR and SBR process, FSS' financial position will be reviewed and the current £2.5m pressure will be considered. Correspondingly, FSS has agreed that we will continue to focus on improving our efficiency to ensure there is a tight control on expenditure.
- 3.7 In addition, FSS expects to receive additional non-recurring funding for the SAFER programme of £3.247m in 2025/26, £3.935m in 2026/27 and now £0.5m in 27/28 to address the on-going risks regarding public health, the economy, securing trade and the sustainability of Local Authorities delivery of food law, as well as to address the reputational risk to Scotland.

## 4 Discussion – Allocation of Budget

- 4.1 As budget work has not yet been finalised an overview of the indicative resource budget allocation across our key categories areas of expenditure is shown in Annex A. As part of the budget planning round in December and January, there were changes in the budget bids within spend categories available to support the delivery of our strategic priorities. The bids are currently going through discussion at the Strategy Forum review and a revision by the Executive Management Team. Consideration is being given to a staff/non staff cost split as a means of managing resources and then posts to be managed within those parameters.
- 4.2 The Staff budget allocation is on the basis of an average 306 full-time equivalent (FTEs) being filled during the year. At the beginning of the year FSS will carry 30 vacancies (equivalent of 21 FTEs). A 3% vacancy assumption has been built in based on the current level of vacancies and experience from previous years. We anticipate that the actual staff in post will likely be less than this during the forthcoming year if staff turnover reflects that of the last year.
- 4.3 The additional national insurance employer costs (NIC) of £0.3m has also been included in the staff cost calculations due to lack of published guidance and possible refunds from Scottish Government.
- 4.4 FSS is part of the SG Main (SGM) bargaining unit for pay settlements and is responsible for implementing the agreed settlement. The Public Sector Pay Policy for the next three years was published in January and will be negotiated with Trade Unions. FSS calculation of the staff salaries cost for 2025/26 is based on 3% increase during the year and totals to £19.9m (including salaries, NIC and pension contributions, excluding vacancy assumption overtime, on call and supplements costs).
- 4% pay increase from the 1st of April will cost £20.1m
  - 5% pay increase from the 1st of April will cost £20.3m
- 4.5 The Administration budget is looking to ensure that ongoing costs across the business can be met. These are the running costs for the business including those for Pilgrim House (e.g. rent, rates and utilities), shared service delivery (e.g. IT, HR, procurement and legal), health & safety, training as well as travel, subsistence and conference events. This also covers non cash elements for depreciation and external audit charges.
- 4.6 Shared service costs were not confirmed yet as the new Oracle Fusion system has replaced SEAS and eHR. The new system is based on staff Self Service assumption, therefore the cost of SG services ought to be reduced in the coming years.
- 4.7 The proposed Programme budget allocation across core activity is largely based on continued obligations around the delivery of official controls for food and feed;

Scottish Authorities enforcement delivery support & Food Crime/Incidents management and; Communications and Marketing.

- 4.8 In addition, our science and evidence work is delivered through the Food and Health Research Programme which includes projects already contracted with committed spend as well as new project ideas, all being assigned to one of seven research themes. This Programme also includes the majority of projects for Diet & Nutrition activity.
- 4.9 There is work underway to implement a programme of work for our Digital & Data strategy.
- 4.10 In addition, a review is ongoing for the delivery of the SAFER programme. This will be influenced by discussions with SG following the submission of the business case to deliver Public Sector Reform across Scotland.

## 5 Board Considerations

- 5.1 It is clear from the Operating Environment Paper that the proposed £22.7m allocation is insufficient for us to meet our statutory obligations. This raises a number of points for consideration by the Board, including its risk appetite with regards to the financial issue we now face.
- 5.2 The FSS Framework Document sets out the various obligations of the Board, the Accountable Officer and SG. The relevant paragraphs are:
- “3.4 The Board will assure itself that FSS has appropriate arrangements in place for corporate, business and workforce planning, risk and financial management, and reporting on its performance...”
  - “3.8 consider the Executive’s estimates of the cost of delivery as part of its decision making and use of evidence, and challenge any financial analysis;...”
  - “3.17 ensuring that financial considerations are made as clear as possible to the Board at all stages in reaching and executing decisions...”
  - “6. When setting budget proposals, the Scottish Government will liaise with FSS to identify its resource requirements. It will ultimately be for Scottish Ministers to determine the budget proposals to be submitted to Parliament...”

### The Board

- 5.3 The four main functions of the Board are “...to ensure that the body delivers its functions in accordance with Ministers’ policies and priorities; to provide strategic leadership; to ensure financial stewardship; and to hold the Chief Executive and senior management team to account...”. Ministers’ policies and priorities have not changed so at this point we must continue to deliver everything expected of us, but currently that includes a budget deficit of approx. £2.5m which we don’t have a formal allocation for. Absent the £2.5m then the only option left is a plan to reduce

our costs, but that would mean non delivery of statutory functions with the consequences clearly set out in the Operating Environment Paper. The Framework Document at para 3.4 is clear on the Board’s obligations here and at this stage, we have a commitment for review of our financial position through the ABR and SBR process. The risk for the Board therefore is whether you are prepared to operate on this basis. It is worth noting that the ABR and SBR process would in my view as the Accountable Officer count as “...*appropriate arrangements in place...for financial management*”. Appropriate arrangements also includes the monthly meeting with health finance as well as starting the process for 2026/27.

5.4 The next question relates to the budget allocation of £22.7m. If the Board is satisfied (as per paragraph 3.8 of the Framework Document) with the Executive’s estimate of the cost of delivery (£25.2m net) then it is clear that £22.7m is insufficient as an allocation as identified in the Operating Environment Paper. However, as paragraph 6 states “...*It will ultimately be for Scottish Ministers to determine the budget proposals to be submitted to Parliament..*” and at this stage, the allocation will not be changed. Noting the commitment from SG to work with FSS to review the in-year financial position, the Board is therefore asked to **decide** what action it wants to take in relation to the current budget allocation.

5.5 The next issue is consideration of the Risk Appetite. At the moment this is “*minimalist - generally when it comes to financial stewardship/overspend there is a high degree of caution*”. My view as Accountable Officer is that to move forward as proposed below, this means the Board would need to change it’s risk appetite to ‘open ie “ *Aim to undertake activities that have a high degree of value for money, the likelihood of success being a determining factor. These activities may potentially carry a large amount of residual risk.*” It is worth noting that our status as a NMO means that we have an entirely independent Non-Executive Board ie while the CEO attends every meeting as both CEO and AO I am **not** actually a Board member. By way of contrast for Health Boards there is a mix of executive and non-executives where usually the non- executives are willing to let the CEO and Finance Directors carry the risk. Obviously, as Accountable Officer I am directly accountable to the Scottish Parliament for the propriety, probity and integrity of FSS expenditure, while the Board’s responsibility is to ensure appropriate financial stewardship which includes being satisfied that overall resources are adequate for the obligations that we have.

**Are there consequences from changing the risk appetite?**

5.6 Obviously, the Board risk appetite sets the framework for the executive to operate within but that doesn’t mean moving the risk appetite would reduce or remove safeguards. Current financial arrangements include:

- A planning process that determines our budgetary requirement
- A forecasting and budget allocation process that is reviewed monthly and adjusted as necessary
- FBC oversight of expenditure
- A scheme of delegation which sets financial limits

- 5.7 The issue therefore is whether the Board is content for us to operate on a requirement of £30.2m gross while we have on-going discussion with SG health finance.

### **Accountable Officer Position**

- 5.8 As already explained the Framework Document sets out the constraints, freedoms and responsibilities that we have. Given what paragraph 3.8 states, my intention - subject to the Board's view - is that for planning purposes the Executive operates against a £30.2m gross budget, while also continuing to do what we can to ensure we are as efficient as possible and bare down on costs. The current financial management arrangements and reporting to FBC would continue and the CEO could also provide monthly updates to the chair of FBC on the financial planning, forecasting and budgetary position. This would ensure that there was an appropriate oversight and escalation mechanism for the Board.

Based on the above it is recommended that:

- I. the Board approves the plan to work to a budget requirement of £30.2m
  - II. the AO provides a monthly update to the chair of FBC to include forecast, budget and updates on progress with SG health finance
  - III. the Board agrees to change the risk appetite to "Open"
  - IV. The full Board is provided with an updated report at the September and December meetings
- 5.9 The proposals above would ensure that the Board is operating within the boundaries of the Framework Document; it ensures FSS can continue to meet its statutory obligations and it ensures the normal budgetary in year processes are optimised.

### **Future Years**

- 5.10 As already stated, there will be monthly and on-going dialogue with SG health finance including starting to look earlier at requirements for 2026/27. However, given we are just about to celebrate our tenth anniversary; we have had ten years' experience of effectively flat-cash settlements and there are continuing and ongoing pressures of work, much of which is generated externally. The Board may wish to consider whether there is merit in recommending to Ministers that there should be a review of FSS purpose and scope to help inform budgetary requirements for the next strategy period.

## **6 Identification of risks and issues**

- 6.1 As part of our approach to managing risk, we continue to identify one of the main risks we face as an organisation is our budget being reduced or being impacted by wider financial pressures across the Scottish administration due to the ongoing financial challenges in the public sector.

6.2 SG Health and Social Care Finance officials have continued to engage with FSS to ensure that its business and associated pressures are appropriately understood. Regular dialogue will continue with SG colleagues to ensure they are kept informed of pressures and issues faced by the organisation.

6.3 The figures in Annex A sets out the requirement estimate to meet our statutory obligations but there remains a risk that FSS would end up with an overspend if there was a failure of the ABR/SBR process. In my view that risk is low because while FSS is shown as a separate budget line, our allocation is from the overall health budget and in year transfer and adjustments are a legitimate means of financial management; the ABR/SBR is an established process that is used across Government annually and we have processes in place that can provide assurance to both the Board and SG.

## 7 Equality Impact Assessment and Fairer Scotland Duty

7.1 The budget is used to deliver the outcomes and goals in the FSS strategy and corporate plan. Both of these documents were finalised in 2021 and are published on our website. An Equality Impact Assessment (EQIA) and the review of the Fairer Scotland Duty was included in the Board paper at the time.

7.2 When the budget allocation is finalised the Equality Impact Assessment (EQIA) and Fairer Scotland Duty will be reviewed to determine where any further updates are required to either of these requirements.

## 8 Conclusion/Recommendations

8.1 The focus for FSS for the year ahead will be to deliver our core business as usual activities and the priorities identified in the new corporate plan including key programmes of work to meet the aims of our strategic plan.

8.2 The Board is asked to:

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- **Note** the risks and issues being considered as part of the final budget allocation for 2025/26.
- **Agree** next steps and **confirm** its position on the proposed £22.7m net allocation
- **Note** the intention to work with SG health finance earlier this year for 2026/27 and the commitment to review the FSS financial position as part of the normal ABR and SBR process.
- **To discuss** the merits of a more strategic review of scope and functions in paragraph 5.10.

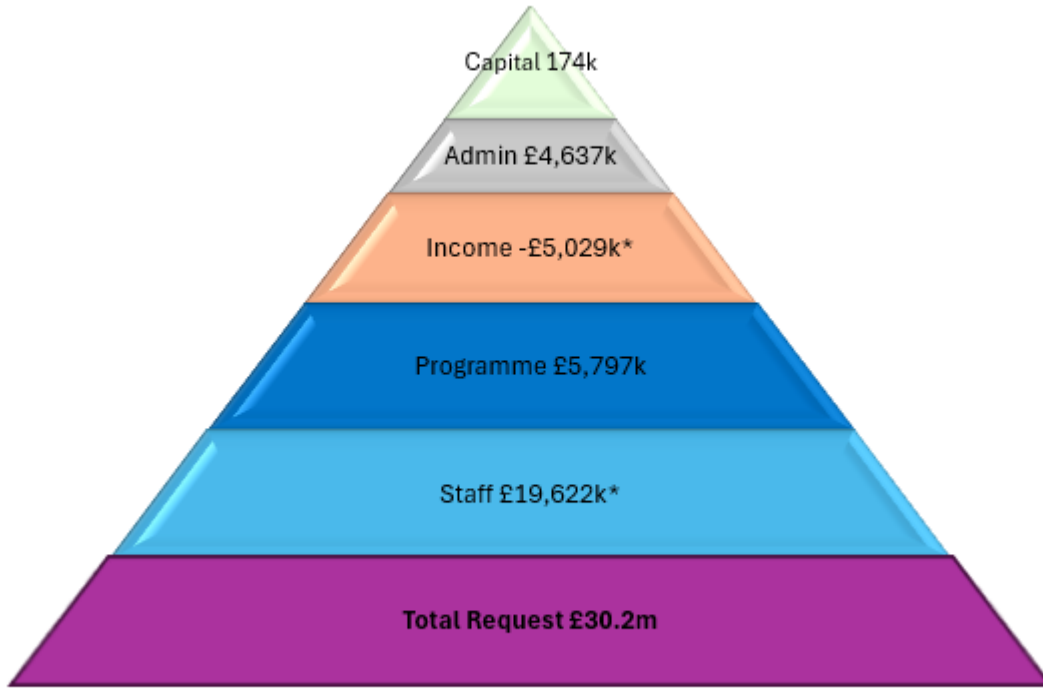
Please direct queries to:

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Annex A

FSS Indicative Budget Allocation 2025/6



\* Staff cost £20.2m reduced to £19.6m as 3% vacancy assumption included

\* Income estimate as per 2024/25, awaiting calculation for 2025/26