

## FOOD STANDARDS SCOTLAND FINANCIAL PERFORMANCE UPDATE – November 2018

### 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 September 2018.

1.2 For the second quarter we are reporting a variance of 4% against actual spend for the period when compared to the Year to Date (YTD) resource budget of £7.4m. In addition, the YTD performance a full year forecast of £15.36m is being reported against the agreed budget of £15.3m, representing a projected 1% overspend against budget.

1.3 The Board is asked to:

- **Note** the financial information reported as at 30 September 2018.

### 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 2018/19 but will be included in the transfers that take place at the Spring Budget Revision (SBR) in January 2019.

2.3 The paper provided 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 will report its financial performance for the core activities 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. The report on the budget and expenditure for the three work programmes will be 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 2018-19. 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 quarterly budget profile presented in the Year to Date Performance (Figure 1) is based on the assessment made by Branches at March 18. The actual spend at the end of the second quarter when compared to the budget profile was £332k under budget. The budget categories with the highest values contributing to the underspend are against Staff of £103k, Capital £141k and increased Income of £108k.

3.3 The Allocation of Resource Expenditure (Figure 2b) gives additional detail behind the five budget lines in Figure 1 and also includes the summary details of the budget and expenditure against the three work programmes. For each element, variances are reported comparing second quarter budget 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 staff costs due to delay in recruiting new posts with expectation that posts would be filled earlier than has happened. There are some resource issues within the SG HR shared services recruitment team which is hampering recruitment across SG and impacting on FSS. In addition, some new vacancies occurred during the second quarter as existing staff left to pursue other opportunities.

**Capital:** There are three projects contributing to the underspend against budget. Less work has been completed as part of the monthly programme of work to update the Operational Workflow System (OWS) due to reviewing requirements for new modules. There has also been a delay in the start of the development work for the new Shellfish Hygiene System (SHS2) and update to the Scottish National Database (SND). Work has been reprofiled into the second half of the year and we are working with the contractors to ensure work is delivered this year.

**Income:** The increase in income is mainly relating to the provision of additional Meat Hygiene Inspection (MHIs) fees as a result of increased hours requested at three plants.

### YTD Spend against Strategic Outcomes

3.5 At the end of the quarter 50.3% of the £12m budget allocated to core activities has been spent delivering the costed Corporate Plan as outlined in Figure 3. The spend was slightly greater for Outcome 3, Consumers Choose a Healthier Diet, Outcome 4 Responsible Food Businesses Flourish and Outcome 5 FSS is a Trusted Organisation than the other outcomes and was related to increases within Staff and Programme budget lines.

3.6 Within Staff there was increased cost allocation to core activities from work programmes due to the delay in implementing the projects within the programmes. The increase in the Programme category is related to additional spend for project activity within Communications and Marketing.

### Forecast Accuracy v Actual expenditure

3.7 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.

3.8 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 quarterly variances for each of the last three months.

**July 18:** the overall monthly underspend of 14k was due to changes in all the budget categories with reductions in Staff, Admin and Capital offset with increase in project activity within Programme amounting to £41k. An element of the advertising costs paid for campaign activity in March was moved into 18/19 as a prepayment and this increase was offset by reductions in Operations for the Sampling Officers project and delivery of Official controls work.

**August 18:** the monthly underspend of £79k was partly as a result of reductions in Programme of £28k within Operations relating to the shellfish biotoxin monitoring project and changes within the meat official controls work. In addition, there were also decreases in Capital spend and a £26k underspend in Staff as posts were not filled as planned.

**September 18:** the monthly underspend of £130k was mainly due to reductions in Programme and Capital. In Programme the changes within Operations relate to the shellfish Ecoli monitoring and sample officers projects as well as delays in the Efficacy of Recall project and reduced analysis costs. There was increased income of £23k for the supply of additional MHI staff in plants.

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 2017/18 is provided to enable comparison between financial years.

#### Full Year Forecast

3.10 As per the updated forecast from October the forecast expenditure of £15.36m is an underspend of £183k (1%) for the year against the budget of £15.54m allocated in March 18. In addition, this forecast is indicating a potential 1% overspend against our agreed resource budget by £65k. 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 gives additional detail behind the budget lines including variances. There are under/over forecasts against each category area and in Core Activities there is increased expenditure of £323k from the previous quarter with an overall increase in the forecast staff costs by £265k, additional admin costs of £119k offset by reductions in programme of £45k and increase in Income by £21k.

3.12 The increase in Staff costs are related to extensions of existing fixed term appointments and contingent workers, one new post in Operations Directorate and three new posts for the setup of the Programme Management Office to support the work programmes. The increase in Income was as a result of additional requirement for MHI staff in three businesses. The forecast updates are being actively monitored and reviewed on a month basis.

3.13 There is a forecast underspend for the Work Programmes against the initial budget allocation, with an increase of £339k from the first quarter. Although there are variances against each individual work programme it is Regulatory Strategy which has the greatest change with a reduction of £287k at the end of the period. This is made up as follows:

**Staff:** decrease of £280k due to staff working on core activities instead of work programmes and also adjusted profile of staff activity over the coming months being recorded against core activities. This has also been impacted by decisions to split Regulatory Strategy work into pre and post Brexit phases.

3.14 In the second quarter of the year staff initially allocated to work programmes have spent more time on core activities than planned. It is this actual spend as well as updated forecast which now includes new and extended posts that are responsible for the increase in forecast spend in core activities.

#### Outstanding payments (debt recovery)

3.15 At the start of October the outstanding level of debt owed to FSS was £429k, where £233k of this debt (52%) is over the accepted 31 day payment term with £103k of this amount over 61 days

from date of invoice. The amount of debt over 31 days has increase slightly by 2.6% in the period. This is mainly due to the value of the invoices raised during the quarter.

3.16 FSS continues to work with Harper Macleod to reduce the amount of outstanding debt. There are two businesses that are currently in liquidation and a third we believe is in liquidation as they has surrendered their licence. Harper Macleod are working with the receiver to recover the outstanding debt from them with a total value of £29.8k. Two businesses are on a payment plan to reduce their older debt; they pay current invoice and an agreed amount on their debt. There were four businesses that had moved to either simple or ordinary action with a combined debt value of £6.5k.

3.17 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).

## **4 Risks, Issues and Highlights**

4.1 We continue to monitor and provide additional support to staff as we embed our new approach to budgeting with the allocation of programme budgets.

4.2 The impact of Brexit continues to pose a risk with regards to budget management and resource allocation. We are in the process of reviewing and reprioritising our work for the remainder of the year.

4.3 The revised financial management plan to show the current position is currently being finalised following the mid-year review and will be circulated via correspondence prior to the Board meeting.

### 2018/19 Budget

4.4 The Autumn Budget Revision (ABR) confirmed the £885k allocation for the EU Exit consequential bid. The FSS resource budget going forward will therefore be £16.2M. The revised budget and allocation of expenditure will be reflected in the next quarter's report.

4.5 An AME budget was not included in the FSS budget due to the Scottish Government (SG) timetable for returns. We have requested an AME budget requirement of £600k. This budget and any other transfers within our budgets lines will take place at the SBR in January.

### Reporting

4.6 In previous reports we indicated that we would include further information on financial performance, headcount and medium term financial planning as outlined in the Financial Performance targets section of the Financial Management Plan. For this report the second quarter staff headcount information as well as supplier payment performance has been provided.

4.7 At the start of the year 181.8 posts were agreed and budgeted for as part of the business planning exercise for 2018/19. The Staff Compliment table (Figure 6) provides the posts that were filled at the end of September and gives an update to new posts approved for the remainder of the year. During the quarter a number of posts have been vacant and recruitment is currently taking place. There were eight vacancies at the end of the period and three members of staff on maternity leave during the quarter. Eight contingent workers were employed on a temporary basis at the end of the period.

4.8 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 our performance in this area over 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.

## 5 Conclusions/Recommendations

5.1 The Board is asked to:

- **Note** the financial information reported as at 30 September 2018.

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5 November 2018

## 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 September 2018. The performance is based on comparing the actual spend for the year with the budget profile as updated during the financial year.

£'000	18/19 Budget	Budget Profile 18/19			Actual Spend 18/19			Variance	Var %
		Q1	Q2	YTD	Q1	Q2	YTD		
Staff	8273	2072	2068	<b>4139</b>	2025	2011	<b>4036</b>	<b>(103)</b>	<b>-2%</b>
Administration	3671	884	849	<b>1733</b>	841	906	<b>1747</b>	<b>15</b>	<b>1%</b>
Programme	6624	1521	1528	<b>3049</b>	1499	1555	<b>3054</b>	<b>5</b>	<b>0%</b>
Capital	400	60	110	<b>170</b>	8	21	<b>29</b>	<b>(141)</b>	<b>-83%</b>
Income	(3420)	(784)	(843)	<b>(1627)</b>	(856)	(879)	<b>(1735)</b>	<b>(108)</b>	<b>7%</b>
<b>Total</b>	<b>15549</b>	<b>3753</b>	<b>3711</b>	<b>7464</b>	<b>3517</b>	<b>3614</b>	<b>7132</b>	<b>(332)</b>	<b>-4%</b>

Figure 1: Year-to-Date Performance

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

Directorate / Branch	Budget allocated Mar-18	Forecast Sep-18	£'000 Variance	% Variance	Actual Spend to Date	% of Budget Spent
<b>FOOD STANDARDS SCOTLAND</b>	15,548,880	15,365,893	(182,987)	-1%	7,131,554	46%
<b>FSS CORE ACTIVITIES</b>	11,978,539	12,482,542	504,003	4%	6,024,107	50%
<b>WORK PROGRAMMES</b>	3,570,340	2,883,351	(686,989)	-19%	1,107,447	31%
Brexit	887,059	960,404	73,345	8%	362,418	41%
Diet and Nutrition	1,139,661	1,009,234	(130,427)	-11%	444,953	39%
Reg Strategy	1,543,620	913,713	(629,907)	-41%	300,075	19%

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 2 and Full Year Budget v YTD Actual

Category	Allocation of Budget	YTD Budget Q2	YTD Actual Q2	Forecast Variance Budget to Actual	%	Explanation for variance	Budget March 18	Full year Forecast	Variance Forecast v Budget	%	Explanation for variance
Staff	Core Activities	3,068,351	3,462,044	393,693	13%	Additional staff costs allocated here due to delay in work programme activity.	6,131,858	6,782,687	650,829	11%	Significant increase in forecast as a result of additional staff costs due to delay in work programmes and extensions of staff contracts.
	Brexit Work Programme	343,132	229,784	(113,348)	-33%	Less costs due to staff working on ECA instead of WP.	686,263	593,630	(92,633)	-13%	Increase in underspend by £4k as less costs due to staff working on ECA instead of WP.
	Nutrition and Dietary Health Work Programme	252,565	145,703	(106,862)	-42%	Less costs due to staff working on ECA instead of WP.	505,130	386,292	(118,838)	-24%	Increase in underspend by £46k as less costs due to staff working on ECA instead of WP.
	Regulatory Strategy Work Programme	475,052	198,444	(276,608)	-58%	Less costs due to staff working on ECA instead of WP.	950,104	461,345	(488,759)	-51%	Increase in underspend by £280k as less costs due to staff working on ECA instead of WP.
	<b>Total</b>	4,139,100	4,035,975	(103,125)	-2%	Overall reduction as a number of vacant posts throughout the organisation not been filled by end of second quarter.	8,273,355	8,223,954	(49,401)	-1%	Overall reduction in forecast by £60k from previous quarter due to ongoing and new vacancies for positions in various branches.
Admin	Core Activities	1,624,140	1,684,062	59,922	4%	Increase due to backdated Vat payments for service charge for three years	3,428,329	3,449,328	20,999	1%	Increase by £117k from previous quarter mainly due to provision for disposal of IT assets, increase in depreciation and reconciliation for service charge for previous year.
	Brexit Work Programme	23,634	9,836	(13,798)	-58%	Underspend as admin costs reduced due to staff working on core activities.	52,296	43,274	(9,022)	-17%	Increase in underspend as admin costs reduced due to staff working on core activities.
	Nutrition and Dietary Health Work Programme	21,809	17,555	(4,254)	-20%	Underspend as admin costs reduced due to staff working on core activities and reprofile of costs for Menucal to later in the year.	59,781	52,311	(7,470)	-12%	Increase in underspend as admin costs reduced due to staff working on core activities.
	Regulatory Strategy Work Programme	62,944	35,831	(27,113)	-43%	Underspend as admin costs reduced due to staff working on core activities.	131,016	108,368	(22,648)	-17%	Increase in underspend as admin costs reduced due to staff working on core activities.
	<b>Total</b>	1,732,527	1,747,284	14,757	1%	Overspend to date for additional costs mainly within Corporate Services.	3,671,422	3,653,281	(18,141)	0%	Overall increase in forecast by £101k from previous quarter due to additional costs within corporate services.
Programme	Core Activities	2,600,078	2,583,924	(16,154)	-1%	Mainly due to reductions in costs in Shellfish for Sampling Officers, Biotoxin and E.coli sampling projects and changes within the meat official controls work.	5,244,333	5,157,453	(86,880)	-2%	Increase in underspend by £45k due to reductions in the Shellfish monitoring programme for Sampling Officers, Biotoxin and E.coli testing. These reductions were offset with the allocation of some advertising costs for campaign activity that was paid in 17/18 and then moved to current year as a prepayment. Adjusted SRUC cost and delays in Efficacy of Recalls project.
	Brexit Work Programme	63,870	122,798	58,928	92%	Increase due to transfer of legal costs for Brexit related work.	148,500	323,500	175,000	118%	No change from previous quarter
	Nutrition and Dietary Health Work Programme	246,250	281,695	35,445	14%	Increase due to expenditure on the Healthy Eating Campaign and the Out of Home project.	574,750	570,331	(4,419)	-1%	No change from previous quarter
	Regulatory Strategy Work Programme	138,665	65,801	(72,864)	-53%	Delays in two projects Food Law Code of Practice, Risk Matrix Model and implementation of Feed Delivery Model project postponed to following year.	656,250	214,000	(442,250)	-67%	Slight increase in spend by £4k
	<b>Total</b>	3,048,863	3,054,218	5,355	0%	Legal cost being transferred from CS Admin spend offset by refund of COV costs for FY 17/18 and LA Training cost profiled later in the year.	6,623,833	6,265,284	(358,549)	-5%	Increase in forecast underspend by £42k from previous quarter mainly due to reductions for projects sitting within the shellfish monitoring programme.
Capital	Core Activities	150,000	29,256	(120,744)	-80%	Less work completed for the Operations Workflow System (OWS) and delay in starting the development of the new Shellfish Hygiene System (SHS2).	350,000	355,256	5,256	2%	Slight increase of £5k for work for OWS.
	Brexit Work Programme	-	-	-	0%		-	-	-	0%	
	Nutrition and Dietary Health Work Programme	-	-	-	0%		-	-	-	0%	
	Regulatory Strategy Work Programme	20,000	-	(20,000)	-100%	Delay in starting work to enhance the Scottish National Database (SND) capability.	50,000	130,000	80,000	160%	No change from previous quarter
	<b>Total</b>	170,000	29,256	(140,744)	-83%	Delays in completing and starting work relating to three IT projects.	400,000	485,256	85,256	21%	Slight increase by £5k related to IT system.
Income	Core Activities	(1,626,658)	(1,735,178)	(108,520)	7%	Increased income for delivery of SLAs and contracts, audit inspections and official controls in cutting plants, delays in implementing PIAs and additional MHI fees for three plants in last quarter.	(3,175,981)	(3,262,182)	(86,201)	3%	Increased in income by £21k for delivery of SLAs and contracts with additional MHI fees for three plants in last quarter.
	Brexit Work Programme	-	-	-	0%		-	-	-	0%	
	Nutrition and Dietary Health Work Programme	-	-	-	0%		-	-	-	0%	
	Regulatory Strategy Work Programme	-	-	-	0%		(243,750)	-	243,750	-100%	No change from previous quarter
	<b>Total</b>	(1,626,658)	(1,735,178)	(108,520)	7%	Increase to date for the delivery of official controls work.	(3,419,731)	(3,262,182)	157,549	-5%	Increase in income for delivery of official controls in plants.
<b>FSS TOTAL</b>	<b>7,463,832</b>	<b>7,131,555</b>	<b>(332,277)</b>	<b>-4%</b>	<b>Overall underspend against budget where the impact on reduced spend on Staff and Capital with increased Income has impacted the most during the quarter.</b>	<b>15,548,879</b>	<b>15,365,593</b>	<b>(183,286)</b>	<b>-1%</b>		

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 full year budget allocated to each outcome.

Strategic Outcomes	FY 2018-19	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	6,131,858	2,930,827	620,690	477,477	520,452	867,834	714,578
	Actual	3,462,044	1,589,507	349,916	262,169	346,634	508,037	405,781
Administration	Budget	3,428,329	857,065	488,221	470,698	470,397	608,266	533,684
	Actual	1,684,062	417,938	238,198	232,884	230,366	302,491	262,184
Programme	Budget	5,244,306	3,985,935	434,729	0	87,325	522,659	213,659
	Actual	2,583,920	1,936,881	126,904	8,144	14,264	398,194	99,533
Capital	Budget	350,000	175,000	0	0	0	0	175,000
	Actual	29,256	14,628	0	0	0	0	14,628
Income	Budget	(3,175,981)	(2,235,556)	(313,475)	-	-	(313,475)	(313,475)
	Actual	(1,735,178)	(1,218,340)	(172,279)	-	-	(172,279)	(172,279)
Total	Budget	11,978,513	5,713,271	1,230,165	948,175	1,078,173	1,685,284	1,323,445
		6,024,103	2,740,614	542,739	503,198	591,264	1,036,443	609,846
	% of budget spent	50.3%	48.0%	44.1%	53.1%	54.8%	61.5%	46.1%

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 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

£000s	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	2018-19 FYF
Budget	1,188,460	1,208,158	1,356,289	1,168,574	1,237,158	1,305,291	1,231,922	1,169,887	1,235,415	1,332,973	1,355,884	1,758,917	15,548,929
April Forecast	1,196,531	1,250,182	1,387,142	1,236,375	1,256,528	1,329,819	1,230,923	1,143,304	1,188,637	1,263,321	1,296,520	1,720,001	15,499,284
May Forecast	1,067,878	1,283,687	1,397,669	1,250,744	1,284,171	1,387,537	1,266,437	1,222,361	1,187,435	1,198,952	1,227,584	1,591,428	15,365,881
June Forecast		1,230,112	1,282,096	1,222,065	1,280,312	1,369,264	1,278,613	1,202,205	1,166,321	1,176,184	1,214,050	1,823,553	15,312,653
July Forecast			1,219,447	1,268,429	1,263,690	1,421,028	1,347,447	1,245,530	1,259,588	1,234,850	1,229,228	1,594,966	15,382,194
August Forecast				1,254,593	1,308,456	1,411,081	1,340,358	1,296,076	1,300,197	1,277,606	1,247,484	1,631,098	15,584,390
September Forecast					1,229,157	1,260,817	1,317,772	1,286,154	1,305,662	1,287,876	1,286,954	1,652,709	15,399,136
October Forecast						1,130,496	1,322,859	1,278,327	1,340,360	1,268,366	1,301,395	1,723,032	15,366,027
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 2017/18 and 2018/19 financial years. It is important to point out that the Monthly Budget information provided uses the initial budget profiles in each year.

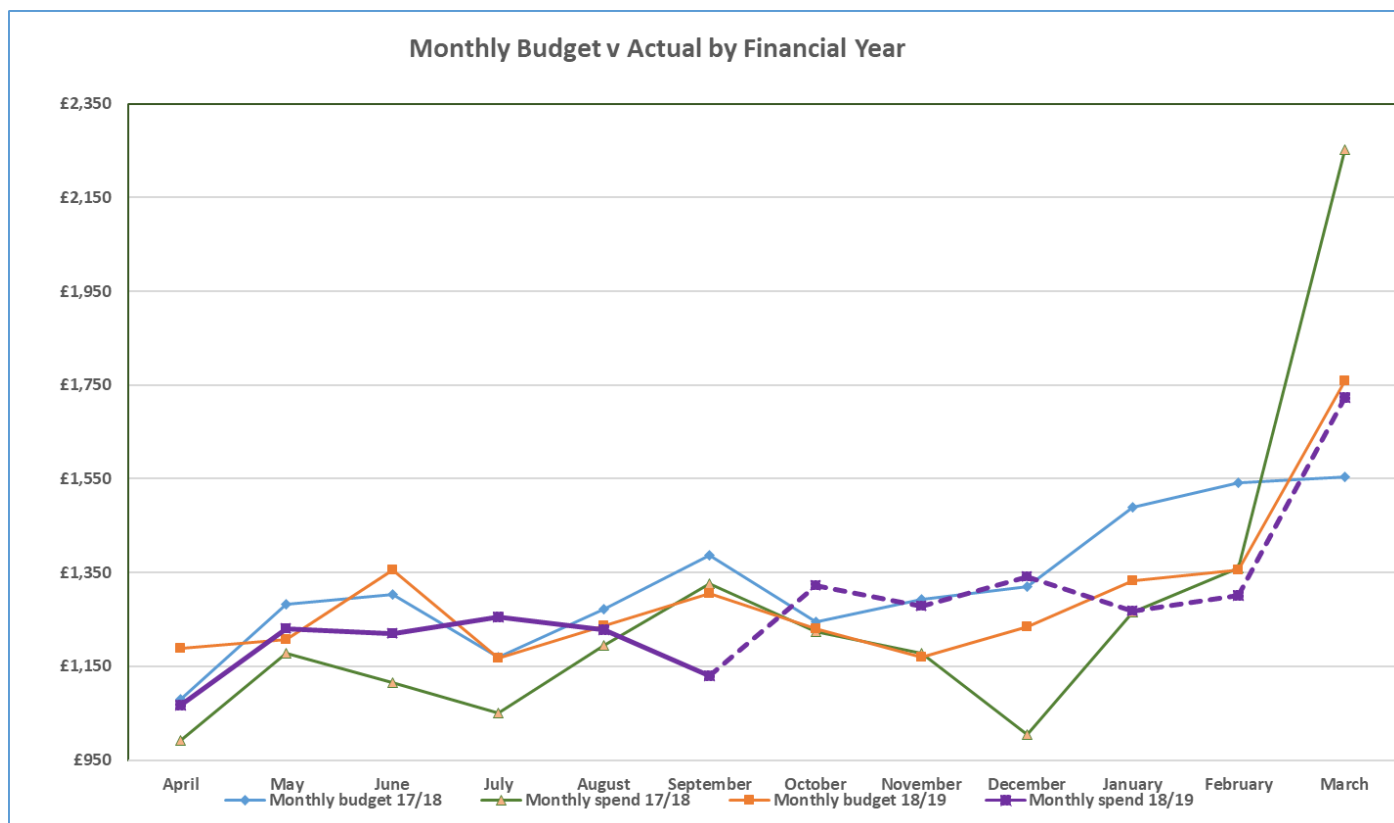


Figure 5 – Year on Year Comparison – monthly budget v actual

Description	Staff Complement
Budgeted Posts (FTE)	181.8
Total FTE (end September)	179.6
Agreed and Forecast Posts	187.2

Figure 6 – Staff Compliment

Month	Number of invoices	Percentage of Invoices Paid in Ten Days
Apr-18	177	75%
May-18	144	54%
Jun-18	126	82%
Jul-18	162	86%
Aug-18	139	97%
Sep-18	137	94%
Total to date	885	81%

Figures 7 – Supplier Payments