FINANCIAL MANAGEMENT PLAN

2024-26

Paper number FSS 270704

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1. Financial Sustainability Supporting Delivery

This Financial Management Plan (FMP) outlines how FSS seeks to deliver its Strategy, 'Healthy, Safe, Sustainable: Driving Scotland's Food Future against a backdrop of challenging financial times. This plan has been prepared in line with the new 2024-26 FSS Corporate Plan to deliver the final two years of the FSS strategy.

The constraints affecting Scottish public finances due to the exceptionally challenging financial and economic climate has meant taking tough decisions on prioritising the work and deliverables for the organisation. The flatlined budget for 2024/25 (which is another year on year decrease in real terms) is giving significant constraints to enable the delivery of the FSS strategy.

FSS' plan will therefore be based on not only direct financial pressures that may impact our delivery but also other risks that may have an impact on our resources and how they need to be aligned to deliver organisational priorities. As a result, it is important that we ensure any short, medium or longer term actions allow for flexibility so that we can adapt to the changing pressures in the most appropriate and efficient way.

This financial plan must clearly integrate with and support the delivery of FSS' strategic outcomes. It will therefore underpin delivery of business-as-usual activities and our range of projects and programmes that are supported by their own strategies and plans. Due to the importance of finance and financial sustainability across all our work, particularly in these uncertain times, the range of strategies must be aligned with, and supported by this plan. Such strategies include our Surveillance, Procurement, Digital and People plans. This financial plan should also be a key factor to be taken into consideration in our approach to strategic and operational risk management.

The plan will cover 4 general themes – Financial Sustainability, Financial Management, Governance and Value for Money – which it believes are fundamental to ensuring it is best placed to deliver its corporate plan ambitions until 2026.

A long-term Financial Strategy will be drafted to align with the new FSS Strategy when the current one ends in 2026.

2. Executive Summary

The main assumptions within this plan is the expectation of a static budget allocation from Scottish Government (SG) over the next two financial years with income generated for the delivery of official controls in the meat plants in Scotland, to offset the cost of providing this service.

The main risks and issues are detailed further in the document but the key ones to highlight are the risks of the reduction in the FSS budget and that the pay award for next year is greater than expected. Both would impact on the ability to deliver the new corporate plan.

The main points to draw out of the plan are:

- FSS flat-lined resource budget of £22.6m for 2024/25. 1 year SG budgets mean 25/26 budget allocation is not known but likely to be the same, at best.
- Overall increase in staff costs circa £0.7m for current headcount, approved vacancies and SG secondments (290). This includes a vacancy assumption and equates to 80% of overall budget estimate.
- Small increase compared to previous year admin/running costs (£4.5m).
- Slight decrease compared to previous year programme expenditure (£5m).
- Increase in capital expenditure by £15k – development of FSS systems.
- Increase in income for industry and other government departments following increase in FSS costs for delivery of official controls.
- Further increases in income could be possible through full-cost recovery or charging for the delivery of other official controls.
- Greatest flexibility is in the programme budget, where expenditure may be redirected or scaled back, but this needs to be balanced against our ability to deliver strategic objectives/priorities and any decisions made from reprioritisation exercise.
- Plan does not include any further investment in SAFER and does not include any potential “invest to save” allocation from SG for this programme.
- Working with the assumptions detailed above, the 2024-25 budget will be over committed by around £0.2m for the start of the financial year. For comparison purposes the 2023-24 budget was over committed by £2.2 million.

Key Budget Figures to 2024-26

The FSS budget has been allocated against categories of spend based on a few assumptions. Inflation is steady at 3.2%, pay levels flatten out as SG pay award agreed at 3% increase for 2024/25 with a 2%[1] indicative pay increase for 2025/26. The basis of fixed costs remains constant with no changes planned for example with the lease for Pilgrim House, rates and utility costs and use of SG shared services.

A staff vacancy rate of 4% is assumed as less people leave due to positive pay rises and terms/conditions. A reduction for staff costs has been based on the average salary costs for permanent and approved posts only.

£'000	2021/22	2022/23	2023/24	2024/25	%*	2025/26	%*
Staff	15,436	16,687	17,395	18,324	81%	19,053	84%
Adminstration	4,508	4,574	4,399	4,429	20%	4,429	20%
Programme	5,584	5,968	5,012	5,024	22%	5,024	22%
Capital	244	369	119	134	1%	134	1%
Income	(4,979)	(4,889)	(4,378)	(5,026)	-22%	(5,026)	-22%
Total Spend/Budget estimate	20,793	22,709	22,547	**22,885**	101%	**23,614**	104%
FSS Budget	21,700	22,900	22,800	22,670		22,600	
Over commitment of budget				**(215)**		**(1,014)**	

* Percentage of category spend against total budget estimate/need

Allocation of budget with % split staff and non-staff at 70/30, 78/22, 85/15, these figures are net of income.

Budget Allocation £22.6m	Staff	Non - Staff
70/30	£15.82m	£6.78m
78/22	£17.62m	£4.97m
85/15	£19.21m	£3.39m

Restrictions faced by FSS

FSS is part of the SG Main (SGM) bargaining unit for pay settlements and staff are subject to SG Main terms and conditions. During 2023 a two-year pay award was agreed up to 31 March 2025. This provided a 10% increase on pay steps for staff in Bands A-C as well as pay progression for all eligible staff to move through the pay ranges. There was also a guarantee of no compulsory redundancies during this period.

In addition, with effect from 1 October 2024, contractual full time equivalent working hours will reduce from 37 hours to 35 hours without a reduction in pay. Once the

[1] Each additional 1% increase in the pay steps is estimated at £180k of additional pay cost. The actual cost will depend on the number of staff employed in the organisation.

contractual shorter working week is implemented, the current wellbeing hour pilot will come to an end.

Potential Budget Reduction

By way of scene setting if SG were to apply a budget reduction in the final year of this plan (2025/26), this would show in general terms below.

Budget Reduction from £22.6m	Value	Budget
10%	£2.3m	£20.3m
20%	£4.5m	£18.1m
30%	£6.8m	£15.8m

What does it mean for money and actions?

Any reduction is the FSS budget will put further pressures on an already constrained budget allocation which has now been flatlined for four years. Depending on the ask, actions that could be take forward include -

- review budget that had not been formally committed under contract e.g. in the process of being procured to discontinue the work.
- review existing contracts to see if there might be scope to scale back or postponed activity.
- review of temporary positions in the organisation and/or recruitments underway to end arrangements in place.

All the above would have their own risks and issues associated with any action that is taken forward.

3. FSS Strategy and Budget

FSS's purpose is public health protection – making sure that food is safe to eat, ensuring consumers know what they are eating, and improving diet and nutrition.

FSS's five-year strategy, underpinned by our recently revised Corporate Plan (2024-26), outlines how FSS aims to improve Scotland's diet, reduce food safety risks, and promote compliance; setting out our challenges in adapting to a changing food environment. The Strategy sets out five strategic outcomes that are the focus of what FSS will do up to 2026:

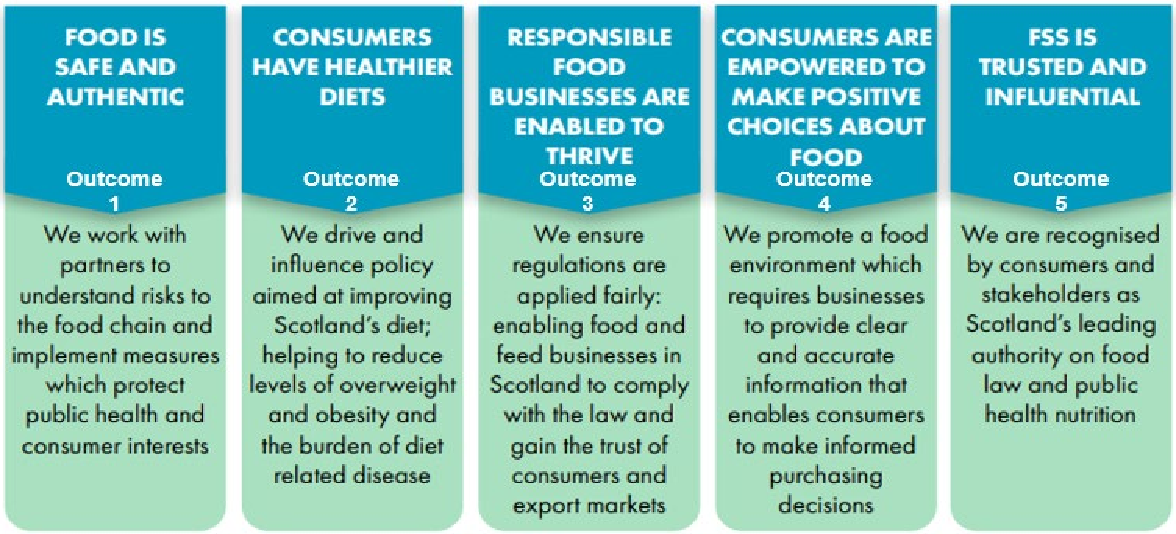
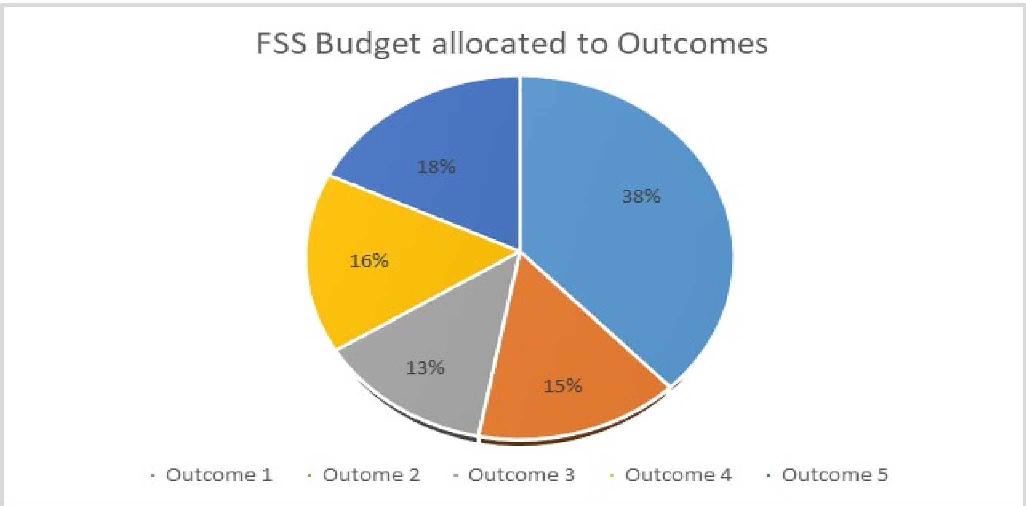


Figure 1: Our five strategic outcomes

The current allocation of spend is prioritised to deliver FSS strategic aims and fundamentally to protect consumers. A reduction in this spend will be to the detriment of consumer protection and would affect the organisation's ability to deliver its statutory functions.



% allocation of budget to outcome

This plan assumes a stable demand is placed on the organisation and that there is no significant change in our statutory remit. One area for demand led activity is the delivery of meat official controls to food business operators (FBOs) throughout Scotland. The number of FBOs and related throughput is the key consideration for our Operations team to manage and deliver service requirements which has a direct impact on the fees we charge, and the income received by FSS. This is explored in greater detail in the Uncertainty of Income section later in the plan (page 11).

Many policy costs are to provide Scottish resource to support agreed UK wide approaches in some areas, such as the development and operation of UK wide frameworks (each with different UKG departments). This is significant in our policy area since all our functions are fully devolved and are prescribed in law by virtue of the provisions of the Scotland Act 1998 and the Food Scotland Act 2015.

4. Funding and Cost Model

FSS receives its budget on an annual basis, and it is met from resources within the Scottish Consolidated Fund (SCF) and income from industry and other government departments. As the budget is predominantly met by the SCF, FSS is part of the wider SG spending review process. SG outlines its spending plans for each financial year through the annual Budget (Scotland) Bill.

FSS is classed as a directly funded external body which requires separate parliamentary approval from the SG portfolio, and consequently the budget is detailed separately in the Budget Bill under the Health and Social Care Portfolio.

For the current financial year 2024/25, FSS Resource budget is £22.6 million (net). Our gross costs exceed this amount by approximately £5 million. This funding gap is addressed by the income we receive from industry and other parts of Government through the charging for delivering official controls in meat plants across Scotland. FSS draws down cash from SG monthly in line with the yearly cash flow forecast.

FSS also has an Annually Managed Expenditure (AME) requirement to cover costs related to the pension liabilities that were transferred from the Food Standards Agency (FSA) in April 2015. This budget is separate from our resource budget (and limits) and is detailed in the budget bill. Both Resource and AME elements of the budget can be revised during the SG's Autumn and Spring Budget Revision processes.

The FMP will therefore base any modelling or scenario planning on assumptions that our resource allocation from SG remains unchanged and that our income is generated and paid throughout the period. This plan shall also be supported by detailed financial planning spreadsheets which can be adapted to reflect different scenarios, some of which are outlined later in this plan. Should any material changes become known through the budget planning processes, this document shall be updated.

5. Risks and Issues (scenario stress testing with mitigations)

There are several risks to achieving financial stability, some of these are outlined below. Some of the higher-level risks are captured on existing risk registers at the Strategic and Senior Leadership Team level.

- The budget allocation is no longer adequate to meet all of FSS' priority activities, noted in the Corporate Plan, which will impact on the successful delivery of the FSS strategy.

  Mitigation – 2024/26 Corporate Plan was written with a flatline budget position in mind and intended to be realistic in its delivery.

  Mitigation – FSS have in place a robust Risk Management process which ensure any strategic risks are discussed with Audit and Risk Committee (ARC) and Board. This will ensure visibility at Board level should this risk transpire.

- There is a risk that for 25/26 budget year and beyond staffing costs across the organisation organically increase as staff move up pay scales and pay rises continue.

  Mitigation – The CEO has challenged the Executive Management Team (EMT) to reduce its staffing headcount from 290 to 275 during the 24/25 financial year. This is being actively managed by the recently established FSS Recruitment panel.

- There is a risk around the continued application of 1-year financial settlements, due to SG's continued approach on budget planning, reducing our ability to sufficiently plan for more than 1-2 years.

  Mitigation – this has been raised with SG and unlikely to change. FSS working on the basis of a flatline budget for 2025/26.

- There is a risk around the FSS funding being reduced significantly due to wider SG budget pressures, resulting in our inability to undertake the full range of statutory functions or deliver the full range of the current strategy within our net budget settlement.

  Mitigation - see Budget Scenario Plan

- There is a risk that FSS absorbs more of the direct cost of employing MHIs and OVs due to our fixed staff costs and our inability to utilise this resource elsewhere, resulting in increased budgetary pressure through reduction of income.

Mitigation – FSS has established a Recruitment Panel which will have organisational oversight and grip of resources, finances and workforce planning.

Mitigation – FSS is exploring with SG the terms of a Voluntary Redundancy and/or Early Retirement Scheme

- There is a risk that we lose or are unable to attract sufficiently qualified/experienced staff due to being unable to compete with private sector organisations/our location, resulting in a reduced ability to adequately managed our systems and operations.

  Mitigation – The FSS 2023-26 People Strategy has employee experience including recruitment and retention as a key pillar. The EMT will have oversight of the strategy and consider where strategic input is required e.g. were sick absence to increase significantly. The FSS recruitment panel will consider the impact of when turnover too high.

Issue – Uncertainty of Income

The reduction of income poses one of the most significant risks to FSS, as income is needed to balance the difference between our net funding from SG and the total operating costs of the organisation. A reduction in income will be as result of external factors taking effect from the current cost of living crisis, a reduction in demand for our 'services' or through the non-payment of charges. Some examples would be more closures of meat plants and/or shorter working hours, resulting in less income to cover the costs we incur. This could result in -

- inability to undertake the full range of statutory functions.
- a funding pressure as we still need to pay staff but have insufficient income to do so and adds to our net staff costs.
- inability to deliver the full range of the current strategy within our net budget settlement.
- a review of the delivery official controls and what is feasible in current situation.
- consideration of viable options to redeploy staff to deliver other key business requirements.

This risk has now materialised into an issue as the budget for income is forecast to drop significantly for the current year due to all these factors coming into focus. Key actions that are in progress -

- dialogue continues with industry, ministers and SG.
- ministers to review discount options following correspondence with industry.

Budget Scenario Plan

Some of the potential budgetary scenarios FSS could face are:

Best Case/Desirable
The best-case scenario is an increase in resource budget, that takes into account the new business case to deliver public sector reform. Over and above this, additional capital budget linked to our increased digital capability requirements which would reduce any pressure on transferring resource budget to meet capital spend requirements.

Most Likely
We have been allocated a flat-lined resource budget of £22.6m in the budget bill for 2024/25. For the following year most likely our budget will be rolled forward at current value. This scenario materialising would have a significant impact on our ability to meet our statutory functions and deliver our strategic objectives.

Worst Case
A 10/20/30% reduction on the current allocated resource budget is applied to FSS (based on 24/25 budget allocation).

Budget Reduction from £22.6m	Value	Budget
10%	£2.3m	£20.3m
20%	£4.5m	£18.1m
30%	£6.8m	£15.8m

If a budget reduction were to materialise this would be reviewed by EMT where any changes would be subject to significant monitoring and scrutiny.

6. Expenditure

The FSS resource and operating expenditure can be broken down into 5 key elements and are presented in Table 1 along with the estimated budget spend for the current financial year. *The actual expenditure for the last three years has been provided in all tables as a benchmark of the budget expenditure for delivering the corporate plan from 2021-2024.*

£'000	2021/22	2022/23	2023/24	2024/25	2025/26	% variance from Y1 to Yr 5
Staff	15,436	16,687	17,395	18,324	19,053	23%
Adminstration	4,508	4,574	4,399	4,429	4,429	-2%
Programme	5,584	5,968	5,012	5,024	5,024	-10%
Capital	244	369	119	134	134	-45%
Income	(4,979)	(4,889)	(4,378)	(5,026)	(5,026)	1%
Total Spend/Budget estimate	20,793	22,709	22,547	**22,885**	**23,614**	14%
FSS Budget	21,700	22,900	22,800	22,670	22,600	
Over commitment of budget				**(215)**	**(1,014)**	

Table 1 – FSS Budget Allocation

The key assumptions made with regards to our breakdown of operating expenditure are detailed as follows. During 2023/24 some staff were taken on under fixed term appointments to begin work on delivering the FSS Digital Strategy. The posts have been retained over the current financial year with costs in the region of £165k included in the staff budget.

6.1 Staff Costs

Staff costs have been budgeted based on the staff complement known to be in post from 1 April, including approved vacancies and some staff seconded from SG (290 full time equivalents).

The costs shown in Table 2 for 2024/25 reflect the updated position following the announcement of the 2 years pay award agreed this financial year. It does not show unapproved vacancies and factor in recruitment timescales. The costing reflects a vacancy assumption of 4% which in the past has been approx. 5-7% of the total estimated costs, assuming all posts are filled from the start of April in each financial year.

£'000	2021/22	2022/23	2023/24	2024/25	2025/26	% variance from Y1 to Yr 5
Pay costs (salaries, NI, pension, allowances, on call)	13,633	15,528	15,953	17,758	18,369	35%
Agency Staff	1,118	495	740	746	200	-82%
Loans/Secondment	211	227	291	103	75	-64%
Board Costs	109	114	118	120	122	12%
Overtime	413	374	352	427	360	-13%
Apprenticeship Levy	39	44	47	48	52	33%
Contribution staff costs	-87	-95	-106	-115	-125	44%
Total Actual/Estimated staff costs	**15,436**	**16,687**	**17,395**	**18,324**	**19,053**	23%
FTE Numbers at 31 March	284.6	287.8	291.9	*275.0*	*275.0*	-3%

Table 2 – FSS Staff Budget Allocation

Where there are any existing vacancies which are approved, either at the start of the financial year or during, the staff cost forecast by the organisation will be based on assumptions around recruitment timelines and revised monthly at that time to allow for a greater degree of accuracy. This allows staff costs expenditure to be monitored against the original budget set at the start of the year.

The staff costs are based on grade average costs for permanent and any fixed-term staff which include the current employer's pension contributions for both the Principal Civil Service Pension and Local Government Pension schemes (LGPS), where contribution rates are set centrally. The contribution rates for the LGPS have been set until March 2026 and will be subject to a triennial review towards the end of 2025.

Where expected, overtime costs are estimated and contributions for secondment costs are included. Our budget also includes staff costs related to the FSS Board and assumptions around the continuation of current secondments/loans. A review is to take place to consider current fixed term appointments and temporary staff requirements against existing vacant posts.

SG Pay Awards

FSS is part of the SG Main (SGM) bargaining unit for pay settlements and is responsible for implementing the agreed settlement, when notified by SG.

As well as reflecting a percentage increase on our pay bill, SG terms and conditions also provide for annual progression, in the form of pay scale increments which apply to all staff not subject to formal performance management procedures depending on when they start with the organisation. Pay progression stops when a staff member reaches the top of the pay scale. This increase has been applied from April each year.

Assumptions have been revised following agreement and implementation of the 2023 to 2025 SG Main pay award. The increase on base salaries and all pay steps to the maxima of the pay scales will be implemented in two stages during 2024/25.

Details include -

- all pay steps at Band A to increase by £1,500 with effect from 1 April 2024 which provides increases of between 5% and 6.3%.
- a phased implementation for B1 to C3 with increases in April 2024 and January 2025
- all pay steps at B1 to C3 will increase by 2% with effect from 1 April 2024 and a further 1% with effect from 1 January 2025 - a total increase of 3% on 31 March 2024 pay range values.
- pay progression for eligible staff with effect from 1 April 2024.

The pay award for 2025-26 has not yet been announced. Any changes will be effective from 1 April 2025. We have assumed that the previous increases will not be maintained and have reflected an estimated a 2% increase and pay progression through pay bands for 2025/26 based on staff complement of 290.

Shorter working week
In addition to the multi-year pay award, with effect from 1 October 2024, contractual full time equivalent working hours will reduce from 37 hours to 35 hours without a reduction in pay. This will notionally increase the value of SG Main pay ranges by an additional 5.7%. Further information and guidance on this move will be issued in due course. Once the contractual shorter working week is implemented, the wellbeing hour pilot will come to an end.

6.2 Administration

Administration costs have been updated to reflect the current position for 2024/25 (Table 3), with future years projections rolled forward based on current year budget allocation. We have assumed that some of the administration costs will be subject to modest increases in line with current inflation levels or RPI/CPI increases, however where known, more accurate estimates have been made.

The level of financial provision within the Administration budget has been assumed to largely stay the same, although these assumptions will be revised through our financial forecasting, should we become aware of any material changes – either because of cost increases, a revision in the spend classification (from programme to admin) or where we can realise efficiency savings achieving ‘best value’.

£'000	2021/22	2022/23	2023/24	2024/25	2025/26	% variance from Y1 to Yr 5
Shared Services (ITECs, HR payroll, Procurement)	645	620	683	728	728	13%
Accommodation/Rates/Utilities/Insurance/Maintenance /Storage	794	784	869	870	900	13%
Legal Costs	332	518	465	397	397	20%
Transport, Travel and Subsistence, Conferences	270	493	452	450	450	67%
IT Systems Support	474	387	564	434	434	-8%
Depreciation	421	411	400	380	350	-17%
Advertising, Publications, Printing, Press Cuttings, Licensing agency	247	287	170	186	186	-25%
IT/Software Renewables/Telecoms/Consumables	256	207	221	252	252	-2%
Training & Recruitment	345	196	134	219	219	-37%
Subscriptions	129	131	125	182	182	41%
Internal Audit/Auditors Remuneration	108	91	109	93	93	-14%
PPE, Laundry	99	104	100	113	113	14%
Liabilities - Former LPFA and Board Members Pensions	221	178	28	30	30	-86%
Health & Safety, Occupational Health	24	23	27	30	30	25%
Other Office Costs (stationery, equipment, postage, banking, hospitality etc)	141	62	52	65	65	-54%
Total Actual/Estimated Expenditure	**4,506**	**4,492**	**4,399**	**4,429**	**4,429**	-2%

Table 3 – FSS Admin Budget Allocation

The estimated costs in relation to FSS accommodation (Pilgrim House) have been included, and an increase in costs from November 2024 onwards as this is when the next 5-year rent review is scheduled to take place. An increase in rent is due and will be subject to negotiation with the landlord and FSS (and appointed representatives).

FSS uses SG services for several key corporate responsibilities including IT, HR for payroll, procurement, internal audit and legal support. There has been an increase in some of the shared service costs e.g. procurement for additional resource and in other instances price increases e.g. internal audit we are having to absorb without consultation.

The quarterly cost varies for ITECs and HR payroll based on headcount and services used at the time. SG have indicated that the monthly IT user charge will increase for 2024/25. Charges are for core SCOTS Connect, mobile phones, ERDM, Mitel and Flexi services. There is some potential for these costs to decrease should FSS develop a solution which negates the need for official SCOTS devices to access FSS IT systems.

Our liabilities costs mainly cover pensions that were transferred to FSS from the FSA in April 2015. The amounts due are subject to change depending on the contribution rates set by the scheme actuaries and will be reviewed should these be revised. Depreciation costs are associated with our current assets such as IT systems, equipment and vehicles. The depreciation costs have been estimated as accurately as possible and have been flat lined for the purposes of this plan and will be revised if needed.

6.3 Programme

Programme budget allocations are shown in Table 4 below. Programme budget is allocated and prioritised on an annual basis during our business planning and budgeting round and then subsequent bids/hand-backs are managed through our in-year budget management processes.

£'000	2021/22	2022/23	2023/24	2024/25	2025/26	% variance from Y1 to Yr 5
Official Controls Delivery	2,841	2,813	2,968	3,154	3,154	11%
Training and Support to other organisations	606	927	525	557	557	-8%
Testing and Surveillance	594	863	511	490	490	-18%
Research and Development	555	438	477	309	309	-44%
Marketing and Strategic Communications	587	370	104	247	247	-58%
Food Safety and Healthy Eating	234	333	95	0	0	-100%
Diet & Nutrition	79	189	284	200	200	153%
Regulatory Strategy	35	-	0	0	0	-100%
Food Incidents and Investigation	32	28	41	59	59	84%
Others - Assessment centre	17	6	7	8	8	-53%
Total Actual/Estimated Expenditure	**5,580**	**5,967**	**5,012**	**5,024**	**5,024**	-10%

Table 4 – FSS Programme Budget Allocation

Current programme budget forecasts for future years consider projects that are contractually committed, where we have a statutory obligation to deliver official controls or where project business cases have been approved in principle during annual budget rounds.

For the purposes of this plan however, the initial budget allocation has been shown for consistency except for the delivery of the shellfish monitoring plan where there are planned increases within the agreement. Depending on any budgetary scenarios materialising, the programme budget for FSS may need to reduce to manage any financial pressures, unless savings can be found from the other elements of the budget.

6.4 Capital

FSS does not typically undertake any significant capital investment projects due to the nature of our business. FSS does have capital expenditure, as we manage a few projects that result in spend being capitalised. Such projects generally relate to the development of IT systems, purchase of IT equipment, small value spend on office equipment and fixtures and fittings for our head office in Aberdeen.

Currently, this is funded through allocation of Resource budget at the start of each financial year based on the net budget provided by SG.

During each financial year we have the opportunity to switch Resource budget to Capital at the Spring Budget Revision – this allows us to ensure the spend category is correct and revise budgets accordingly to account for any capital expenditure in year – whilst remaining within our overall resource limits.

Planned Capital expenditure for the 2024/25 financial year is primarily based on completing the development of the new shellfish system SMC (to replace the existing Shellfish Hygiene System) and the Scottish National Database (SND) which will provide a holistic overview of food law enforcement activity in Scotland. In addition, there will be spend incurred in replacing our existing IT equipment, mainly laptops, as equipment becomes out of date and no longer works.

£134k per annum has been budgeted for Capital expenditure (Table 5), although some revisions to this forecast may be required depending on any accommodation changes and refreshes that we are obliged to complete as part of our lease obligations.

£'000	2021/22	2022/23	2023/24	2024/25	2025/26	% variance from Y1 to Yr 5
IT Development (SND, SMC, Feed)	110	180	89	120	120	9%
IT equipment (laptops, monitors, docking stations, phones)	56	145	30	14	14	-75%
Vehicles	71	0	0	0	0	-100%
Office Equipment	7	0	0	0	0	-100%
Furniture and Fittings	0	22	0	0	0	0%
SEMS	0	15	0	0	0	0%
Total Actual/Estimated Expenditure	**244**	**362**	**119**	**134**	**134**	-45%

Table 5 – FSS Capital Budget Allocation

Going forward there is a likelihood that capital investment projects within FSS will continue given the Corporate Plan priorities around implementing a digital strategy that supports the efficient and effective delivery of FSS business – internally and externally. Example of a project in this area is the Operational Delivery IT system (ODITs) used to record all data in relation to the delivery of our official controls for meat hygiene inspection. This system is currently being developed in house by the Data & Digital team.

Depending on how projects like this develop over time, then FSS may need to consider bidding for ring-fenced Capital budget resource from the SG and specifically the Health Finance portfolio. This will be a challenge given the present pressures the Capital budget is experiencing within the Health portfolio and wider Government and therefore, should any significant Capital investment be developed by FSS, it will need to be supported by a robust business case and project governance that can be submitted to SG finance for consideration.

6.5 Income

To comply with EC Regulation 882/2004, FSS provides a range of services, regulated and non-regulated, in approved meat establishments in Scotland. Some of these services are paid for by other Government Departments and others are charged to Food Business Operators (FBOs). As the result of transition from FSA to FSS agreement was reached with industry stakeholders to continue with a discount on the full costs of providing this service to industry. To comply with the requirements of the SPFM regarding full-cost recovery, approval by the Cabinet Secretary for Finance and Sustainable Growth to continue with partial cost recovery was agreed in February 2014.

With the discount system in place, there currently remains a shortfall between the costs for FSS of delivering meat official controls and the income received from FBOs for these services. The maximum subsidy of approximately £1.3m was given to the meat industry which reduced when businesses no-longer continued to operate. In 2024/25 the discount being applied through the charging model is approximately £1.07m.

The income received from industry and government for services provided by FSS is outlined below in Table 6:

£'000	2021/22	2022/23	2023/24	2024/25	2025/26	% variance from Y1 to Yr 5
Meat Hygiene Inspection Fees	(3,461)	(3,819)	(3,857)	(4,517)	(4,517)	31%
Export Certification	(1,172)	(597)	(136)	(14)	(14)	-99%
Other income	(322)	(431)	(339)	(445)	(445)	38%
Audit work	(23)	(42)	(46)	(50)	(50)	117%
Total Actual/Estimated Income	**(4,978)**	**(4,889)**	**(4,378)**	**(5,026)**	**(5,026)**	1%

Table 6 – FSS Income Budget Allocation

There is some financial risk to FSS in relation to income and the annual calculation of charge out rates, as the current challenging economic times are having an impact on food businesses where a reduction in throughput is leading to reduction in demand for our services which in turn decreases the income that can be recovered from industry.

7. Assets/Liabilities

It is not envisaged that our assets will significantly change over the life of this plan. With regards to our IT hardware SG has operated in the past a 3-year refresh cycle. Capital investment took place in 2022/23 where older IT kit was replaced in year with related impact on our depreciation/asset write-off values. Were SG to indicate plans for refresh in 2025/26 then an increase in capital expenditure would need to be factored into budget planning.

Other than IT related assets, the primary liability FSS has relates to LGPS that was transferred from FSA as part of the financial settlement between FSA and SG for some current and former members of staff. At the end of March 2023, there was a fund surplus for the first time of £4.2m (restricted to £0.7m in the FSS accounts) which has moved from a £5.3m deficit from the previous year, based on the updated actuarial valuation. This was the first time that such a movement like this had taken place across this scheme. It is likely that the surplus position will remain in a similar situation going forward.

The LGPS movement from deficit to asset has hidden savings for FSS. At the triennial actuarial valuation review in 2022 because of the change to a fund surplus position the employer contribution for primary and secondary rates reduced from 19.6% to 9.3% from April 2023. In addition, the previous requirement for FSS to made additional payments to reduce the pension deficit position ceased as the fund is now in surplus. Together these give an indicative savings of around £200k - £250k for each year to 31 March 2026, when the next triennial review will take effect.

There is a risk to FSS if the position moves to a deficit in the future, then employer pension contributions would likely increase. Consideration will be required as to how FSS can seek to reduce the pension deficit in a targeted way, in line with any actuarial assumptions, to mitigate any potential longer-term impact on the organisation. Any change from a surplus to a liability will be underwritten by SG/HM Treasury.

Our cash in bank was £2.8 million as at the end of March 2024 to meet our current liabilities. A plan is in place to ensure cash drawdowns are targeted based on need, rather than simply drawing down our full cash allocation each year. This will still allow us to end each year with a positive cash balance at the end of March each year to ensure we can meet our obligations when they materialise.

8. Savings Options

There are several savings options that FSS could consider should additional pressure be placed on our budget because of a reduction in funding/income. Savings do not come without associated risk, and these should be borne in mind when making any decisions on realising potential financial efficiencies.

There are some overarching areas where FSS could look to make savings, or mitigate the impact of any financial pressure:

- Consideration could be given to percentage split between staff/other costs and manage within those parameters as a means to cap staff costs and not impact programme budget.
- Review what other organisations are doing to realise efficiency savings and undertake a bench-marking exercise to see where FSS could learn from others.

8.1 Staff

Consider some of the following areas.

- Voluntary redundancy could be considered (Compulsory redundancy is ruled out as SG policy is for no compulsory redundancies)
- Restrictions on non-essential overtime (ring-fenced to delivery of official controls only for example)
- Default position of not backfilling like for like when vacancies arise, or do not backfill at all unless organisational priority.
- Cease any non-essential loans and secondments – this may also mean a reduction in contributory costs FSS receive.
- Reduce staffing numbers to 275 FTE.

8.2 Administration

- Review the use of some shared services (legal, HR and procurement) with a view to bringing some work back in house or through other service providers.
- Review all running costs (e.g. non-essential travel, conferences, other office costs) and seek to make savings where possible. Some areas have already delivered savings and do not tend to be high value.
- Reduce budgets for learning and development, professional memberships, subscriptions etc.
- Investigate spend to save measures associated with our aspirations around becoming ‘digital by default’ in our service delivery and internal business.
- Consider centralisation of several budget lines (e.g, training, travel).
- Review all IT related expenditure across the organisation including systems support, software renewables, subscriptions, equipment and consumables to look to rationalise and streamline costs.

8.3 Programme

Programme is the one area of the FSS budget allocation which has a reasonable degree of flexibility and there is a well-established process for reviewing this budget on a 6 monthly basis. Programme budget is however primarily allocated and reviewed on an annual basis, as part of our business planning and budgeting round.

- This is the time when Branches submit bids for budget to allow them to commission projects which deliver the relevant elements of the FSS corporate plan and strategy.
- It is also when existing approved projects are reviewed to ascertain whether (and if required) savings can be realised, depending on contractual/political commitments and a review of priorities across the business.
- This approach allows new and emerging projects to be approved in principle and funding allocated accordingly.

This is therefore the main vehicle for realising any savings in this area. Wider organisational cost pressures can therefore be absorbed by reducing our programme activity; however, this is likely to have a significant impact on our ability to commission work that delivers our strategic objectives or statutory obligations. As such we need to be careful when prioritising the work outlined for delivery in our strategic plan.

- Savings should therefore be sought from non-essential or non-statutory areas of spend in the first instance, as well as areas where annual approval tends to be given, but there are no contractual commitments in place.

8.4 Capital

FSS does not currently receive a Capital budget, however our future projections assume a continued level of investment in capital projects related to the development of our digital capability. Savings could be realised here by deciding not to continue investment in the on-going development of FSS bespoke IT platforms e.g. ODITs, SND etc.

8.5 Income

Income is required to offset our total cost of operations and bring it back in line with our net budget allocation from SG. The significant risk FSS face here is that income may reduce due to reduction in demand for our services and business closures, while staff/contractor costs do not reduce as a result.

The sustainability of official controls therefore may need to consider the impact more efficient operations has on the current fixed discount being provided to industry and whether that continues to be appropriate from a taxpayer’s perspective, given the current economic climate. Consideration may also need to be given to increasing income streams for other areas of work, either regulated or non-regulated, such as the delivery of shellfish official controls. This is covered by work being undertaken as part of the SAFER programme.

9. Best Value

There is a requirement for FSS to demonstrate best value through continuous improvement in the way functions are delivered through focused review as well as deliver savings that can be achieved which can then be reinvested in our business. These will form part of the plan going forward and will be outlined through the quarterly financial performance report to the Finance and Business Committee (FBC) and in the annual report and accounts.

Examples of delivery of best value were achieved by:

- Use of SG and Crown Commercial Services (CCS) procurement frameworks for new contracts mainly for corporate service requirements (savings in time and costs from using call off arrangements)
- Invitation to Tenders (ITTs) for new contracts e.g. FSS website which enabled competitive bidding and identified savings/benefits.
- Centralised Admin team in FSS managing several functions for the organisation e.g. travel and accommodation bookings.
- Setup of Programme Management Office function in FSS to support delivery of programmes of work.
- Implementation of FSS Digital Strategy to support digital transformation opportunities.
- Development of the new SAFER programme with aim to deliver savings under the Public Service Reform initiative.
- SG Oracle Cloud programme for corporate systems – Finance and HR staff fully engaged in the development of the new SG systems for HR, Finance and Purchasing reviewing current processes, cleansing data and involved in user testing.

10. Governance and Financial Performance

FSS has adopted the three lines of defence governance model as its basis. This model is a useful way to ensure robust financial assurance provision across FSS.

The first line of defence is management assurance and applies to business units by means of letters of delegation and monthly finance discussions between finance and budget holders. This covers day to day financial management and application of internal controls.

The second line is at the corporate oversight level which is undertaken by the recently established EMT of monthly review of budgets against actual and forecast spend.

The third line is led at a strategic level by FBC as well as external and independent review of accounts by Deloitte on behalf of Audit Scotland. This brings independent, objective and a professional perspective to assurance on financial management.

To provide a little more context, internal management accounts are issued monthly to business areas providing detail of the actual and forecast expenditure against their allocated budget. In addition, a report is presented and discussed at the monthly EMT meetings with variance analysis as well as key reporting metrics for the organisation e.g. debt management. (Level's 1 and 2)

FSS reports on its financial performance to the FBC on a quarterly basis and to the Board through the Performance Report contained within our Annual Report and Accounts (ARA). These reports outline how we seek to use our resources effectively to deliver against our five strategic outcomes in the Strategy to March 2026 and include established programmes of work. The financial performance reports to FBC (Level 3) cover:

- Budget Profile Year to Date v Actual Expenditure.
- Year to Date Expenditure against Strategic Outcomes and Goals.
- Forecast Accuracy v Actual Expenditure.
- Review of the Full Year Forecast position against allocated budget.
- Percentage of suppliers paid within SG 10-day payment targets.
- Draw down cash allocation from SG in year and achieve a positive cash/bank balance targeted on 31 March each year.
- Report levels of outstanding debt where the debt is greater than 31 days (as well are over 61 days).

FSS is subject to the Scottish Public Finance Manual (SPFM) and produces an ARA at the end of each financial year. The ARA is audited by external auditors Deloitte LLP with their report presented to the ARC and FSS Board. (Level 3)

Financial targets are outlined as follows:

- To reduce levels of outstanding debt to zero where the debt is greater than 61 days (with a view to extending this to debt over 31 days).
- Receive an unqualified external audit opinion on the ARA for the year.

11. Ownership and Review

This FMP was approved by EMT and is now being presented to FBC for discussion and feedback. The intention from 2026 is to have a new FSS Strategy supported and aligned with refreshed Corporate, Finance and People Plans. This will enhance future workforce, business and financial planning.

In addition to the strategic ownership of this plan, all budget holders have a responsibility to ensure the sustainable, effective and transparent management of our resources. This is primarily governed by our internal financial scheme of delegation, which has been developed using SG principles and in conjunction with the SPFM.

This plan shall be reviewed on a yearly basis when we finalise our spending plans for the forthcoming financial year(s).