Finance Report Summary, Financial Year 2023/24 - October 2023

Executive Summary

This report provides the year to date actual expenditure as at the end of October, along with the results of the latest financial forecast review which was completed in October. This financial forecast reports a balanced end of year position. A review of both income and expenditure has taken place during October to inform this position.

Income

The budgeted income for the financial year is £85.3m, which includes Data Protection Fee Income £67.2m, Grant in Aid £7.6m, Other Government Funding £0.6m, Fine Retention Income £2.8m, Regulatory Pioneers funding of £0.1m. We also budgeted to drawdown from our Reserves £6.9m to cover specific costs in relation to ICO25 transformation.

The revised income forecast is £91.2m reflecting an increase of £5.9m from budget as follows:

- £1.1m increase in DP fee income which holds the acquisitions at 183,000 in line with budget, but increases the renewal rates expected across all three tiers in line with trends over the previous 12 months.
- £1.9m increase in GiA to reflect the increased resource forecast to support our Freedom of Information Act appeals £0.2m, as well as the one off cost of living payment announced by Cabinet Office for employees which was not budgeted and amounts to £1.7m.
- £0.9m increase in Fine Retention income to reflect the latest expenditure forecasts associated with this agreement.
- £2.0m increase in Reserves drawdown to reflect more of the one off Research and Professional Services costs associated with the delivery of both ICO25 and implementation of the DPDI Bill. The Reserves forecast increase also offsets some increases in Staff costs as we recruit to ensure that the ICO has the necessary capacity and capability to deliver our transformation and reform agenda. This objective was set out in the Reserves case, and whilst these are recurring costs, we are also working with DSIT on the new fee model for 2024/25 and these recurring costs have all been included in our longer term projections as part of this longer term funding review work.

Year to date income is below budget by £8.3m due to:

- £3.0m - GIA and Other government funding there are delays in formal budget delegations as a result of the machinery of government changes.
- £5.3m - Fine income retention and Reserves as Finance is working with the business to identify costs relating to achieving the goals of these funding streams.

Expenditure

Full year expenditure is forecast to be £6.0m overspent against the budget, predominantly as a result of Staff Costs for the one off cost of living payment and higher than budgeted for pay guidance. Whilst there are variances against non-staff costs forecasts, these mostly net off against one another.

Year to date expenditure is £3.8m over budget due to the same reasons as the forecast (see above).

The full position is outlined in Table 1, with more detailed information thereafter.

Table 1 October Consolidated Management Accounts

October Consolidated Management Accounts	Year To Date - October				Full Year		
ICO Consolidated	**Budget**	**Actual**	**Variance**		**Budget**	**Forecast**	**Var**
	£m	**£m**	**£m**		**£m**	**£m**	**£m**
DP FEE INCOME	£36.7	£36.3	-£0.4		£67.2	£68.3	£1.1
GRANT IN AID	£4.4	£1.8	-£2.6		£7.6	£9.5	£1.9
OTHER GOVERNMENT FUNDING	£0.4	£0.0	-£0.4		£0.6	£0.6	-£0.0
FINE RETENTION INCOME	£1.6	£0.0	-£1.6		£2.8	£3.7	£0.9
REGULATORY PIONEERS FUND	£0.1	£0.0	-£0.1		£0.1	£0.1	-£0.0
DRAWDOWN FROM RESERVES	£3.7	£0.0	-£3.7		£6.9	£8.9	£2.0
OTHER INCOME	£0.0	£0.5	£0.5		£0.0	£0.0	£0.0
TOTAL INCOME	**£47.0**	**£38.6**	**-£8.3**		**£85.3**	**£91.2**	**£5.9**
OFFICE COSTS	£3.0	£2.5	-£0.5		£5.2	£5.4	£0.2
STAFF COSTS	£33.5	£39.3	£5.8		£62.5	£68.0	£5.5
TRAINING AND RECRUITMENT	£1.3	£0.8	-£0.5		£2.0	£1.6	-£0.4
IT COSTS	£3.7	£3.6	-£0.0		£6.3	£6.3	£0.0
PROJECT SPEND	£0.4	£1.1	£0.7		£0.7	£1.4	£0.7
COMMUNICATIONS	£0.3	£0.2	-£0.2		£0.5	£0.5	£0.0
FINANCIAL COSTS	£0.0	£0.1	£0.1		£0.2	£0.2	£0.0
TRAVEL	£0.3	£0.4	£0.1		£0.5	£0.5	£0.0
LEGAL, PROFESSIONAL & OTHER	£2.1	£2.0	-£0.0		£3.5	£4.7	£1.2
TOTAL COSTS	**£44.7**	**£50.1**	**£5.4**		**£81.3**	**£88.8**	**£7.5**
Capital Spend	**£1.6**	**£0.0**	**-£1.6**		**£4.0**	**£2.5**	**-£1.5**
SURPLUS/(DEFICIT)	**£0.7**	**-£11.5**	**-£12.1**		**£0.0**	**£0.0**	**£0.0**

Income

DP Fee Income

The revised forecast of £68.3m is based on renewals target of 90.2% (budget 89.5%) for tier 1, 94.0% (budget 89.5%) for tier 2, and 97.3% (budget 100%) for tier 3 organisations. The revised forecast KPIs are based on the previous 12 month trends and allow for late renewals expected. There are also early renewals anticipated in the renewals forecast for 2024/25 and these are included in the forecast position.

The acquisitions target of 183,000 set during the budget has been held steady. The acquisitions campaign is approximately 27,000 behind at the end of August. There is a recognised risk against this forecast due to diminishing returns against the Companies House data. There are however opportunities in relation to a new government data sharing agreement being progressed, albeit the timing of this is not expected to be implemented until the end of the calendar year. This new data source would provide an opportunity to work with new data on organisations and businesses which we would anticipate improving the effectiveness of acquisitions campaigns in Q4 and beyond. There are further risk mitigations in place to aim to increase the acquisitions over the second half of the financial year, including we are utilising all of the open source data available and piloting some correspondence changes.

Grant in Aid

Grant in Aid funding is in place to fund our work supporting Freedom of Information (FOI), Network and Information Systems (NIS), Electronic Identification and Trust Services Regulations (eIDAS), the Investigatory Powers Act (IPA) and Adequacy Assessments.

Formal budget delegations remain outstanding from DSIT for this financial year, due to delays as a result of the machinery of government changes however we provide monthly reporting updates to DSIT aligned to our financial forecasts and actuals. The GiA drawdown is also behind this year as a result of changes in government, however this will be caught up in Q3 and explains nil year to date actuals.

As noted in the executive summary, we have increased the GiA forecast by £1.9m to reflect the overspends in relation to the one off cost of living payment to staff below SCS equivalent £1.7m and for additional resource required to address a FOI legal appeals backlog £0.2m.

Other Government Funding

Other government funding has been provided via Memorandum of Understanding letters to support the implementation of NIS Regulations in light of the increased focus on the security and resilience of digital service providers (£0.6m), and to support the transfer of the responsibility for maintenance and publishing of the Trusted List to the ICO under eIDAS (£0.1m). Both of these funding streams are ringfenced to these specific activities.

Formal budget delegations remain outstanding from DSIT for this financial year, due to delays as a result of the machinery of government changes. The drawdown of funding is also delayed but this will be caught up in Q3 and explains nil year to date actuals.

Fine Income Retention

Prior to 2022/23 financial year, the legal costs incurred in the imposition and recovery of the monetary penalties, which are imposed by the ICO on organisations who breach the DPA or PECR, were fully borne by the ICO. The ICO proposed to Government that the legal costs incurred should be recovered from monetary penalty income, ensuring that these costs are not funded by fee-paying organisations. A similar cost recovery model is in practice at other UK regulators. This was approved by Government and has been in place since 2022/23.

This year’s fine income retention forecast has been updated to reflect the latest expenditure forecasts for staff and non staff costs aligned to this agreement, increasing the expected fine income to be retained to £3.7m.

Year to date actuals are nil as Finance is working with the business to identify costs incurred relating to the imposition and recovery of the monetary penalties.

Reserves

The ICO has cash reserves available from prior years as our management agreement with DSIT allows us to retain certain surpluses at the end of any financial year. The management agreement allows the ICO to utilise these funds in future years with the necessary non-cash budget approval. The ICO submitted a business case to DSIT and HMT to utilise Reserves in 2023/24 up to £9.1m (£7.0m with a +/-30% optimism bias) which was approved in June 2023. This is to assist us in delivering the commitments within the ICO25 plan as well as implementing the DPDI bill.

As noted in the executive summary, the latest forecast for reserves drawdown is £8.9m to reflect more of the one-off Research and Professional Services costs associated with the delivery of both ICO25 and implementation of the DPDI Bill. The Reserves forecast increase also offsets some increases in Staff costs as we recruit to ensure that the ICO has the necessary capacity and capability to deliver our transformation and reform agenda.

Year to date actuals are nil as Finance is working with the business to identify costs incurred relating to delivering the commitments within the ICO25 plan as well as implementing the DPDI bill.

Expenditure

The end of year forecast position currently shows an overspend against budget totalling £6.0m, including Capital. The overspend is predominantly as a result of Staff Costs overspends as other forecast movements mostly offset one another.

Staff Costs

Staff Costs are forecast to overspend by £5.5m due to:

- the one off cost of living payment announced by Cabinet Office and payable to all staff below SCS on civil service pay. This has created an unbudgeted pressure of £1.7m for which we have requested additional GiA to cover
- the pay remit for 2023/24 was announced at 4.5% with an additional 0.5% for targeted increases. This is above the assumed 3% assumption allowed for in the budget, creating a further pressure of £1.0m.
- the remaining staff cost pressure relates to a differing profile for recruitment than assumed in the budget with more staff in post than was assumed in the budget.

These pressures also explain for year to date overspend.

To avoid further pressures, and ensure we can meet our turnover savings targets, we have put in place processes to further prioritise recruitment across the remainder of the financial year.

Non-Staff Costs

Non-staff costs forecast movements mostly net off, with an overspend of £0.5m, with the main movements outlined below:

- Office Costs – (£0.2m) increase in relation to some reactive maintenance to ensure our estates operate as needed, both of which arose after the budget was set. The variance is also affected by the increase in dilapidations forecast due to the implementation of our accommodation strategy as we adjust our footprint of office space across the UK.

- Training and Recruitment - £0.4m decrease in relation to reduced recruitment costs anticipated across the rest of the financial year as well as reductions in the executive costs anticipated at budget.

Training costs have been reduced to assist with the financial position. Greater scrutiny of recruitment is having an impact in prioritising roles and managing their deferment where possible.

- Projects – (£0.7m) increase as a result of budgeting ERP £0.2m as capital in error (offsets with Capital underspend), as well as prioritising a Regulatory Assurance review £0.5m instead of some other budgeted capital projects.
- Legal, Professional and Other – (£1.2m) overall net increase, with numerous increases and decreases underpinning this. The main increases creating the financial overspend are:
  - Research (£0.2m) for a Data Controller study offset by funding from reserves,
  - Legal Services - FOIA (£0.2m) for additional resource to reduce the backlog for which we have requested additional GiA to cover this,
  - Professional services (£0.2m) for an inward secondment in NiS,
  - Professional services (£0.1m) for DRCF costs missed from budget,
  - External legal costs (£0.5m) relating to enforcement activity

- Capital spend has reduced by £1.5m due to revised forecasts against projects of a capital nature, both in terms of reduced estimates and reprioritisation of activity. Of this, £0.2m relates to ERP Phase 2 was budgeted as Capital in error and is a revenue project as its cloud based software as a service.

  There is no year to date actual capital spend as Finance works with the business to identify capital spend within the other non-staff spend.