Finance Report Summary, Financial Year 2023/24 – January 2024

Executive Summary

This report provides the year-to-date financial position for the ten-month period to January 2024, along with the results of the latest financial forecast. The financial forecast currently reports a year end deficit of £0.2m which has improved from the forecasted deficit position of £0.3m reported in December. Whilst there is no significant movement in the overall reported forecast position the key movements on individual lines from the prior month are noted below:

- Office costs have reduced by £0.3m largely reflecting a reduction in the forecasted dilapidations expenditure.
- Training and recruitment costs have reduced by £0.2m as a result of the impact of the ongoing recruitment freeze and a reduction in forecasted expenditure on leadership and management training.
- IT costs have reduced by £0.3m representing minor adjustments to forecasts across a number of software licences held by the ICO.
- Travel costs have increased by £0.2m in line with year to date actuals which have consistently reported above budget.
- DP fee income forecast is reduced by £0.8m due to a lower number of acquisitions now expected by end March.

The following risks are noted in the forecast position:

- Funding to cover the cost of living payment and the additional costs pressures of £0.5m in FOIA are not yet confirmed for 2023/24. We continue to work with DSIT regarding this position.

Income

The budgeted income for the financial year is £85.3m, which includes DP fee income £67.2m, GiA £7.6m, Other Government Funding £0.6m, Fine Retention Income £2.8m and 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 £89.7m reflecting an increase of £4.4m from budget as follows:

- £1.1m decrease in DP fee income predominantly due to lower acquisitions than budget.

- £2.2m increase in GiA to reflect the increased resource forecast to support our Freedom of Information Act appeals £0.5m, 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.
- £1.2m increase in fine retention income to reflect the latest expenditure forecasts associated with this agreement.
- £2.2m increase in Reserves drawdown to reflect 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 have recruited 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. The current forecast represents the maximum approved usage of £9.1m.
- £0.3m decrease in other government funding due to the proposed return of unutilised NIS ringfenced grant monies as the NIS legislative changes are not being progressed.
- £0.1m of sundry receipts such as the recovery of legal costs.

Year to date income is below budget by £0.1m due to:

- DP fee income acquisition being £0.6m below budget.
- Reserves drawdown is £0.4m behind budget reflecting timing differences against budget in the associated expenditure.
- Fine income retention income is £0.7m ahead of budget reflecting an increase against budget in the associated expenditure.

Expenditure

Full year expenditure is forecast to be £4.6m 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. Overspends are also occurring on project spend and legal costs. The overspends are partly offset by savings against budget on training and recruitment, IT costs and capital spend.

Year to date expenditure is £2.3m over budget.

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

Table 1 January Consolidated Management Accounts

January Consolidated Management Accounts	Year To Date				Full Year		
ICO Consolidated	Budget	Actual	Variance		Budget	Forecast	Var
	£m	£m	£m		£m	£m	£m
DP FEE INCOME	£54.1	£53.5	-£0.6		£67.2	£66.1	-£1.1
GRANT IN AID	£6.4	£6.6	£0.2		£7.6	£9.8	£2.2
OTHER GOVERNMENT FUNDING	£0.5	£0.5	£0.0		£0.6	£0.4	-£0.3
FINE RETENTION INCOME	£2.3	£3.0	£0.7		£2.8	£4.0	£1.2
REGULATORY PIONEERS FUND	£0.1	£0.1	£0.0		£0.1	£0.2	£0.0
DRAWDOWN FROM RESERVES	£5.6	£5.2	-£0.4		£6.9	£9.1	£2.2
OTHER INCOME	£0.0	£0.0	£0.0		£0.0	£0.1	£0.1
TOTAL INCOME	**£69.0**	**£69.0**	**-£0.1**		**£85.3**	**£89.7**	**£4.4**
OFFICE COSTS	£4.3	£4.5	-£0.2		£5.2	£5.3	-£0.2
STAFF COSTS	£50.9	£56.8	-£5.9		£62.5	£68.2	-£5.7
TRAINING AND RECRUITMENT	£1.7	£0.8	£0.9		£2.0	£1.5	£0.5
IT COSTS	£5.0	£4.5	£0.5		£6.0	£5.7	£0.3
PROJECT SPEND	£0.6	£0.1	£0.5		£0.7	£1.6	-£0.9
COMMUNICATIONS	£0.4	£0.2	£0.2		£0.5	£0.4	£0.1
FINANCIAL COSTS	£0.4	£0.2	£0.1		£0.4	£0.3	£0.1
TRAVEL	£0.4	£0.6	-£0.2		£0.5	£0.8	-£0.3
LEGAL, PROFESSIONAL & OTHER	£3.0	£2.8	£0.2		£3.6	£4.3	-£0.7
TOTAL COSTS	**£66.7**	**£70.5**	**-£3.8**		**£81.3**	**£88.0**	**-£6.7**
Capital Spend	**£3.0**	**£1.5**	**£1.5**		**£4.0**	**£1.9**	**£2.1**
SURPLUS/(DEFICIT)	**-£0.6**	**-£3.0**	**-£2.4**		**-£0.0**	**-£0.2**	**-£0.2**

Income

DP Fee Income

The forecast of £66.1m reflects a reduction in forecast from last month of £0.8m, predominantly to reflect the actual year to date, and revised performance expected for the remainder of the financial year.

Renewals are currently at 88.5% for Tier 1 (budget 89.5%), 92.7% Tier 2 (budget 89.5%) and 96.9% Tier 3 (budget 100%).

The acquisitions target of 183,000 set during the budget has been further reduced this month to 130,200. This is due to diminishing returns against the Companies House data which is the main source of data currently available to the ICO. There are opportunities in relation to a new government data sharing agreement being progressed, although we're not expecting to be able to pilot this until July next financial year. This new data source would provide an opportunity to work with new data on sole traders. Some sole traders will need to register, however, given their size, they may be less likely to need to register than the larger organisations on Companies House.

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.

As noted in the executive summary, we have increased the GiA forecast by £2.2m to reflect the overspends in relation to the one off cost of living payment to staff below SCS equivalent of £1.7m and for additional resource required to address a FOI legal appeals backlog of £0.5m.

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 (£0.5m), 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 in line with budget, however we are anticipating returning £0.2m of this ringfenced grant and this is reflected in the forecast position.

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 £4.0m.

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 maximum approved at £9.1m 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.

Expenditure

The end of year forecast position currently shows an overspend against budget totalling £4.6m, including capital. The overspend is predominantly as a result of staff costs overspends being partly offset by underspends across other budget lines.

Staff Costs

Staff costs are forecast to overspend by £5.7m due to:

- The one off cost of living payment announced by Cabinet Office and payable to all staff below SCS equivalent. This has created an un-budgeted 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.
- A differing profile for recruitment than assumed in the budget with more staff in post earlier than anticipated.
- To avoid further pressures and to ensure we can meet our turnover savings targets there is currently a recruitment freeze across the remainder of the financial year.

These pressures also explain the year to date overspend.

Non-Staff Costs

Non-staff costs forecast movements have an underspend of £1.0m, with the main variances outlined below:

- Projects – (£0.9m overspend) as a result of budgeting ERP £0.2m as capital in error (offsets with capital underspend), as well as prioritising a revenue regulatory assurance review of £0.9m in place of other budgeted capital projects.
- Legal, professional and other – (£0.7m overspend) 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 £2.1m due to revised forecasts against projects of a capital nature, both in terms of reduced estimates and reprioritisation of activity into revenue.

- Training and recruitment – (£0.5m underspend) in relation to reduced recruitment costs anticipated across the rest of the financial year with a recruitment freeze currently in place. Training costs have been reduced to assist with the financial position.