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

Executive Summary

This report provides the year-to-date financial position for the eleven - month period to February 2024, along with the results of the latest financial forecast. The financial forecast currently reports a year end breakeven position which has improved from the forecasted deficit position of £0.2m reported in January.

Whilst there is no significant movement in the overall reported net forecast position there is a significant reduction of £1.0m in forecasted expenditure offset by a corresponding reduction in income.

Key expenditure movements from the prior month are noted below:

- Training and recruitment costs have reduced by £0.3m with further reductions identified as a result of the impact of the ongoing recruitment freeze and a reduction in forecasted expenditure on wellbeing.
- Legal costs have reduced by £0.4m following budget holder instruction that some anticipated 2023/24 legal costs will now not be incurred in this financial year.
- Forecasted staff costs have increased marginally by £0.1m.
- Project capital expenditure is reduced by £0.4m representing reductions in forecasted 2023/24 expenditure across a number of projects.

The January management report noted an income risk to the ICO in that funding to cover the cost of living payment (£1.7m) and the additional costs pressures (£0.5m) in FOIA were not yet confirmed for 2023/24. DSIT have confirmed that budget cover is in place for the forecast position in this report, and the associated cash payments are currently being reviewed and going through the various approvals process, although these are likely to be received in April.

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 £88.9m reflecting an decrease of £1.0m since the last forecast as follows:

- £0.3m reduction in forecast fine income retention in line with latest expenditure forecasts.
- £0.7m reduction in the forecast use of Reserves in line with the latest expenditure forecasts. This brings the forecast use of Reserves below the £9.1m maximum approved by HMT for usage in 2023/24.

Year to date income is below budget by £0.6m due to:

- DP fee income acquisition being £0.6m below budget.
- Reserves drawdown is £1.1m behind budget reflecting timing differences against budget in the associated expenditure.
- Fine income retention income is £1.0m ahead of budget reflecting an increase against budget in the associated expenditure.

Expenditure

Full year expenditure is forecast to be £3.6m 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 remit guidance. Overspends are also occurring on revenue project spend, travel costs 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 £1.3m over budget.

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

Table 1 February Consolidated Management Accounts

February 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	60.3	£59.7	-£0.6		£67.2	£66.1	-£1.1
GRANT IN AID	7.0	£7.1	£0.1		£7.6	£9.8	£2.2
OTHER GOVERNMENT FUNDING	0.6	£0.6	£0.0		£0.6	£0.4	-£0.3
FINE RETENTION INCOME	2.5	£3.5	£1.0		£2.8	£3.7	£0.9
REGULATORY PIONEERS FUND	0.1	£0.1	£0.0		£0.1	£0.2	£0.0
DRAWDOWN FROM RESERVES	6.3	£5.2	-£1.1		£6.9	£8.5	£1.6
OTHER INCOME	0.0	£0.0	£0.0		£0.0	£0.1	£0.1
TOTAL INCOME	**£76.8**	**£76.2**	**-£0.6**		**£85.3**	**£88.9**	**£3.6**
OFFICE COSTS	£4.7	£4.6	£0.1		£5.2	£5.3	-£0.1
STAFF COSTS	£56.7	£62.6	-£5.9		£62.5	£68.3	-£5.8
TRAINING AND RECRUITMENT	£1.9	£0.8	£1.1		£2.0	£1.2	£0.8
IT COSTS	£5.5	£5.0	£0.5		£6.0	£5.7	£0.3
PROJECT SPEND	£0.6	£0.5	£0.1		£0.7	£1.6	-£0.9
COMMUNICATIONS	£0.4	£0.3	£0.1		£0.5	£0.4	£0.1
FINANCIAL COSTS	£0.4	£0.2	£0.2		£0.4	£0.3	£0.1
TRAVEL	£0.5	£0.7	-£0.2		£0.5	£0.7	-£0.2
LEGAL, PROFESSIONAL & OTHER	£3.3	£2.7	£0.6		£3.6	£3.9	-£0.3
TOTAL COSTS	**£74.0**	**£77.4**	**-£3.4**		**£81.3**	**£87.4**	**-£6.1**
Capital Spend	**£3.5**	**£1.3**	**£2.1**		**£4.0**	**£1.5**	**£2.5**
SURPLUS/(DEFICIT)	**-£0.7**	**-£2.6**	**-£1.9**		**-£0.0**	**-£0.0**	**-£0.0**

Income

DP Fee Income

The forecast of £66.1m is consistent with the forecast position presented in January reporting.

The acquisitions target of 183,000 set during the budget has been is reduced 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.

As noted in the executive summary, the GiA forecast had previously been increased 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. DSIT have confirmed the budget cover for this position and are working on the approvals of the associated cash payments.

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.

The drawdown of funding is in line with budget, however we are anticipating returning £0.3m 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, with the expected fine income to be retained being £3.7m.

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 £8.5m.

Expenditure

The end of year forecast position currently shows an overspend against budget totalling £3.6m, 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 £5.8m 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.
- We implemented a recruitment freeze and this has succeeded in avoiding further pressures, ensuring we met our turnover savings targets.

These pressures also explain the year to date overspend.

Non-Staff Costs

Non-staff costs forecast movements have an underspend of £2.2m, 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 action review of £0.9m in place of other budgeted capital projects.
- Legal, professional and other – (£0.3m overspend) with numerous increases and decreases underpinning this.
- Capital spend has reduced by £2.5m 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 – (£0.8m 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.