

# Finance Report Summary, Financial Year 2023-24 June 2023

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## Executive Summary

This report provides the June management accounts for 2023/24 which show a forecast end of year deficit of £3.4m driven by increased expenditure since budget, most significantly within Staff Costs and Legal Professional and Other Costs. This is partially offset by an increased forecast for Data Protection Fee Income.

### 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 forecast for DP Fee income has been revised upwards at Q1 to £68.9m. This is in relation to a more reflective tier split for the budgeted 189k new acquisitions resulting in a forecast increase of £0.3m. We have also forecast a further 40k acquisitions resulting in a forecast increase of £1.4m in relation to an anticipated government data sharing agreement which will allow greater targeting across Q3. There are some risks around our renewal rates and success rates from new acquisition campaigns in the current financial year which we need to monitor closely. DSIT will be publicly consulting on potential new fee models for the ICO later this financial year with any changes coming into effect during next financial year. These risks have been raised directly with DSIT.

The reserves forecast has also been increased to include a Data Controller study which was missed in the original budget. A full review of our Reserves funding position will take place during Q2 ahead of the supplementary review with DSIT as there are potential additional costs that can be funded from Reserves which directly align to our ICO25 transformation programme.

### Expenditure

Full year expenditure is forecast to be £5.4m overspent against the budget with £4.5m of this in relation to staff costs and £0.9m in relation to non-staff costs.

Staff Costs are overspending 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 £1.5m. 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 our budget, creating a further pressure of £0.9m. Both of these pressures will be reported to DSIT for funding consideration at the supplementary estimates process following the Q2 forecasts. A further staff cost pressure of £2.1m relates to a differing profile for recruitment than assumed in the budget. This will be reviewed across Q2 as we further prioritise our recruitment activity, and consider drawing down additional funding from Reserves as we recruit the necessary capacity and capability to deliver against our ICO 25 transformation.

Non Staff costs forecasts show an offset in a reduction in Capital and Project Costs as the project forecasts continue to be reviewed aligned to the deliverables. Other non-staff variances relate to a postage increase since the budget was set £0.1m, and pressures within Legal, Professional and Other of £0.8m. £0.2m of these relate to additional legal resources needed to support Freedom of Information appeals. This work is grant in aid funded and DSIT have been made aware of the mandatory need for additional resources and the associated funding pressure. Specific research and professional services budgets will be reviewed across Q2 to determine if any forecast reductions can be made as well as reviewing the nature of the expenditure aligned to our ICO25 deliverables to determine the appropriateness for drawing down additional reserves funding.

Year to date there are overspends in Staff Costs due to the profile of recruitment changing since the budget was set in December, and within Office Costs as Q2 invoices are showing in the actuals. Most of the other non-staff forecasts are underspending. Finance will be working with the business across Q2 to ensure that where possible forecasts are reduced, and profiled accurately, with actual expenditure being accurately reported by timely and accurate receipting of purchase orders.

More detail is provided below.

**Table 1 June Consolidated Management Accounts**

June Consolidated Management Accounts	Year To Date - June				Full Year		
	Budget	Actual	Variance		Budget	Forecast	Var
	£000's	£000's	£000's	%	£000's	£000's	£000's
DP FEE INCOME	£14,802	£14,721	-£81	-1%	£67,212	£68,910	£1,697
GRANT IN AID	£1,906	£1,906	£0	0%	£7,622	£7,622	£0
OTHER GOVERNMENT FUNDING	£161	£161	£0	0%	£643	£643	£0
FINE RETENTION INCOME	£692	£692	£0	0%	£2,768	£2,768	£0
REGULATORY PIONEERS FUND	£75	£0	-£75	-100%	£125	£125	£0
DRAWDOWN FROM RESERVES	£1,524	£1,524	£0		£6,937	£7,187	£250
<b>TOTAL INCOME</b>	<b>£19,159</b>	<b>£19,004</b>	<b>-£156</b>	<b>-1%</b>	<b>£85,308</b>	<b>£87,255</b>	<b>£1,947</b>
OFFICE COSTS	£1,288	£2,151	-£864	-67%	£5,176	£5,270	-£94
STAFF COSTS	£13,656	£15,544	-£1,889	-14%	£62,530	£67,011	-£4,480
TRAINING AND RECRUITMENT	£596	£339	£256	43%	£2,012	£2,012	£0
IT COSTS	£1,397	£679	£718	51%	£6,294	£6,294	£0
PROJECT SPEND	£60	-£23	£83	138%	£670	£1,150	-£480
COMMUNICATIONS	£175	£75	£99	57%	£471	£471	£0
FINANCIAL COSTS	£20	£23	-£4	-19%	£205	£205	£0
TRAVEL	£128	£165	-£37	-29%	£506	£520	-£15
LEGAL, PROFESSIONAL & OTHER	£1,159	£594	£565	49%	£3,458	£4,257	-£799
<b>TOTAL COSTS</b>	<b>£18,479</b>	<b>£19,549</b>	<b>-£1,071</b>	<b>-6%</b>	<b>£81,323</b>	<b>£87,190</b>	<b>-£5,867</b>
<b>Capital Spend</b>	<b>£543</b>	<b>£41</b>	<b>£501</b>	<b>92%</b>	<b>£3,985</b>	<b>£3,505</b>	<b>£480</b>
<b>SURPLUS/(DEFICIT)</b>	<b>£138</b>	<b>-£587</b>	<b>-£725</b>	<b>-527%</b>	<b>£0</b>	<b>-£3,440</b>	<b>-£3,440</b>

## Income

### DP Fee Income

Table 2 below sets out the forecast profile for DP Fees for the full financial year, at £68.9m alongside the actual income year to date. The forecast is based on renewals target of 89.5% for tier 1 and tier 2 organisations and 100% for tier 3 organisations (last year's revised target of 88.5%) (2021/22 90%) and new acquisitions target of 223,000 (last year's revised target 182,000). This uplift against prior year is a stretch target based on data sharing agreements anticipated to be in place to support additional targeted acquisitions work.

The renewal rate year to date for tier 1 and tier 2 organisations is 90.13% and 92.65% respectively, this equates to an additional £526k in revenue. Tier 3 organisations renewal rate YTD is 95.5%, lower than the 100% target with 73 organisations not having renewed so far this year, this equates to a reduction in revenue of £127k. The tier 3 activity is expected to increase with NOI activity planned.

Acquisitions activity YTD is 9,560 behind forecast, this equates to £350k less than budget YTD.

**Table 2 – DP Fee Income Reforecast profile for 2023/24**

<b>Month</b>	<b>Forecast £</b>	<b>Actual £</b>	<b>Year to date Forecast £</b>	<b>Year to date actual £</b>	<b>Variance £</b>
<b>April</b>	4,464,999	4,243,592	4,464,999	4,243,592	-221,407
<b>May</b>	5,322,850	5,000,628	9,787,849	9,244,220	-543,629
<b>June</b>	5,014,013	5,476,345	14,801,863	14,720,565	-81,298
<b>July</b>	5,344,111		20,145,973	14,720,565	-5,425,408
<b>August</b>	5,261,102		25,407,075	14,720,565	-10,686,510
<b>September</b>	5,352,943		30,760,018	14,720,565	-16,039,453
<b>October</b>	5,934,638		36,694,656	14,720,565	-21,974,091
<b>November</b>	6,564,574		43,259,230	14,720,565	-28,538,665
<b>December</b>	4,689,745		47,948,975	14,720,565	-33,228,410
<b>January</b>	7,155,628		55,104,603	14,720,565	-40,384,038
<b>February</b>	6,533,484		61,638,087	14,720,565	-46,917,522
<b>March</b>	7,271,424		68,909,511	14,720,565	-54,188,946

### 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. To note that, formal budget delegations remain outstanding from DSIT for this financial year, due to delays as a result of the machinery of government changes.

### 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 (£565K), and to support the transfer of the responsibility for maintenance and publishing of the Trusted List to the ICO under eIDAS (£78k). Both of these funding streams are ringfenced to these specific activities, and formal budget delegations remain outstanding from DSIT for this financial year, due to delays as a result of the machinery of government changes.

### 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 is in place from 2022/23, hence the addition of Fine Retention Income to the budgeted position to offset DP / PECR associated legal costs. This year the income retained forecast is £2,768k.

### **Full Year Forecast Expenditure against Budget**

The end of year forecast position currently shows an overspend against budget totalling £3.4m, including Capital. Most of this overspend is within Staff Costs and Legal & Professional Services costs, offset with an underspend in Capital for which more information is detailed below:

#### **Staff Costs**

Staff costs are forecast to be £4.5m over budget by year end. This is driven primarily by:

- Staff pay increase. When the budget was set, the expectation was an increase offer of 3%. The actual offer is likely to be close to 5% creating a cost pressure of £885k.
- Cost of living payment announced for all staff. The cost-of-living payment was not budgeted for at budget setting and it is expected that organisations find this within their own resource. This created a cost pressure of £1,490k.
- Staff recruitment has been outperforming assumptions set in the original budget, with many new staff members being recruited ahead of expectation leading to a further cost pressure.

### **Non-Staff Costs**

Non-staff costs are expected to be overspent vs budget by £908k. Non-staff variances mostly relate to Legal, profession and other costs (£799k). This is driven by:

- Research (£250k) for a Data Controller study.
- Legal Services - FOIA (£183k) for additional resource to reduce the backlog.
- Professional services (£183k) for an inward secondment in NiS.
- Legal and Profession (£125k) for unexpected increases in the DRCF costs.

### **Capital**

Capital spend is expected to be less than budgeted due to a reduction in the expected in year cost for the SME data essentials project.