Annex 2: Cost identification and allocation

Annex

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Overview

1. The Act requires that our regulatory costs for online safety must be covered by providers of regulated services through a fees regime.
2. Online safety regulatory costs include costs directly attributable to such activity (direct costs), plus a share of our costs that cannot be directly attributed to any regulatory sector (indirect costs). To ensure online safety fees meet the full cost of online safety regulation, they must cover both the direct costs of online safety regulation plus an appropriate share of indirect costs. The process of attributing costs (both direct costs and an appropriate share of indirect costs) to our regulatory sectors is referred to as cost allocation.
3. The same approach to cost identification and allocation is adopted across all our regulatory sectors to ensure there is no duplication of costs. As such, our approach to cost allocation set out in this Annex reflects the approach taken to cost allocation for other sectors that we regulate and is not subject to consultation.[1]

Identification of costs

4. Costs we may incur in discharging our regulatory duties may include:[2]

Cost type	Description
Staff	All staff costs related to ensuring that our online safety regulation is proportionate and evidence based. This includes staff working directly on online safety regulation such as policy specialists, economists, researchers and in-house legal team
ICT	Costs related to cyber and information security, tech support, hardware and software
Estate	Costs related to our offices, such as rent, utilities, office maintenance
Research & professional services	Costs related to undertaking research to fulfil our duties under the Act, including the engagement of external consultants to provide specialist technical advice and fees for external counsel and litigation support
Temp staff, training & recruitment	Costs related to hiring and training activities for all staff. Also includes costs of temporary staff and secondees to cover increased short-term resourcing needs for online safety
Travel and vehicles	Costs related to accommodation, subsistence and travel for staff when travelling for work purposes
Other	Miscellaneous and common costs such as those related to recruiting and training staff in finance, people and transformation team and strategic work that span across all our regulatory sectors

[1] Statement of Charging Principles, published 8 February 2005.
[2] The Office of Communications Annual Report and Accounts 1 April 2024 to 31 March 2025.

5. We divide our activities into projects, programmes of ongoing work and common costs. These are described in our annual plan of work[3] and may vary each year. Projects are one-off, separately identifiable projects that have been agreed upon for any year's activity. Programmes of work are ongoing in nature and form part of our day to-day regulatory activities.

Attribution of costs

6. Each item of cost recorded in our accounts is attributed to regulatory activities within our sectors including the online safety sector.
7. Direct costs of activities are recorded directly and indirect costs, such as common costs, are added by apportionment. Thus, allocated costs represent items of operating costs or capital expenditure which can be assigned wholly to a particular sector or activity by virtue of information in the accounting records. Apportioned costs are spread over each of the activities on a fair and equitable basis using standard cost apportionment methods.

Principles that we will apply when reporting and allocating costs

8. In common with other regulatory sectors that we regulate, the following principles will apply when allocating common costs:
   - i) **Objectivity:** Our approach to allocating costs is not intended to benefit any sector or activity.
   - ii) **Consistency:** We will take a consistent approach between budget and actual costs year to year.
   - iii) **Transparency:** We will annually publish our tariff tables, Plan of Work and annual reports so that providers have clarity on the amount of fees they will pay and the regulatory activities that we are undertaking. We expand on this principle further below.

Transparency

9. As set out in section 88(2) of the Act, we have a duty to be transparent about the relationship between meeting the cost of the exercise of our online safety functions and the amounts of the fees. We have explained how we have met this duty in paragraph 3.12 of chapter 3.
10. We have a duty to publish for each charging year statements relating to the income and expenditure for the online safety sector in the year. These statements will be included in our annual report and accounts which are audited by our auditors and the National Audit Office.
11. The underlying methodology and computer models used for cost allocation statements will be subject to an internal audit review. As part of this internal audit process, we will publish data, at the summary levels described in the business plan, on the costs of activities carried out, and on the allocation of these costs to the relevant regulatory sector (in this case, online safety) in our annual plan of work.

[3] Ofcom's Plan of Work 2025/26, published 28 March 2025.